



“SUSTAIN AND BUILD”

**MEDIUM TERM
FINANCIAL STRATEGY**

**UTTLESFORD
DISTRICT COUNCIL**

2009/10 – 2013/14

ADOPTED FEBRUARY 2009

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I INTRODUCTION

1. This Medium Term Financial Strategy (MTFS) complements the Council's Corporate Plan and sets out a clear framework for our financial decision making.
2. The Corporate Plan makes clear what the Council's priorities are, and the MTFS sets out how the financial management process will contribute to delivering these priorities.
3. The MTFS has been produced at a challenging time for the Council's finances. The Council has a balanced budget and reserves are at a minimum safe level – but there is little room for manoeuvre. New sources of income and cost savings will be required in future to maintain financial stability. At a time when Government funding is increasing by only 0.5% per year, the Government expects us to keep annual Council Tax increases to within 5% and the Council is committed to achieving this. At the same time, expectations on the Council to provide effective services have never been higher.
4. Exposure to the Icelandic banking crisis means that the Council may have to write off up to £2.3 million during the life of this MTFS. The Council is reliant on the Government enacting special regulations to defer the accounting of any such write off and / or regulations enabling the write off over many years. At the present time, all that exists is a proposed regulation to defer write offs until 2010/11.
5. The MTFS includes a forward look over the next 5 years, to anticipate the additional money we will need to spend, and the level of savings we will need to make to keep Council Tax affordable. By anticipating financial pressures now, we can plan at an early stage to meet the challenges ahead in a way that ensures financial resources are targeted to the Council's highest priorities.
6. The MTFS will be annually revised to reflect the most up to date issues, priorities and pressures faced by the Council.
7. Further information on any aspect of the Council's finances can be obtained from the Council's website at the following address:

<http://www.uttlesford.gov.uk/main.cfm?Type=YCFIN&MenuId=287>

Alternatively, please contact:

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II FINANCIAL MANAGEMENT PRINCIPLES

8. The Council has a duty to the public for responsible use of their money. The Council shall conduct its financial affairs in a responsible manner, but in a way that encourages innovation, achieves improvement and facilitates partnership.
9. The following principles underpin the Council's financial management arrangements:
 - The Council will conduct its financial management with integrity, probity and in accordance with the standards and expectations of a publicly funded body.
 - The Council will ensure that its published financial information is transparent, reliable and understandable.
 - The Council will ensure that budgets are aligned to the Corporate Plan and based on prudent and realistic estimates.
 - The Council will maintain sound financial controls as set out in Financial Regulations, and at all times will have regard to advice from the Section 151 Officer and Monitoring Officer.
 - The Council will base its decision making upon complete, reliable and timely financial information, and an evaluation of the financial and risk implications.
 - The Council will hold its managers accountable for remaining within their budgets, but will empower managers to take the business decisions necessary to do so.
 - The Council will work with partners in the public, private and voluntary sectors to maximise resources available to deliver corporate priorities.
 - Before committing to additional expenditure, the Council will ensure that additional funding and/or savings are identified to meet the extra costs. The Council will not commit to ongoing spending from incomes of a one-off nature.
 - The Council will secure value for money and have regard to environmental considerations in the procurement of supplies and services. To encourage better procurement practice there will be no inflationary increases in budgets for supplies and services (except when there is a contractual obligation to apply indexation).
 - The Council will maximise its income and will increase its fees and charges annually by at least the rate of inflation except where legal requirements, contractual obligations, market forces or other special circumstances would render this inappropriate.
 - The Council will maintain balances and reserves to enable it to respond effectively to unexpected events and opportunities, and sufficient to meet all known future liabilities. An exception to this will be the Landsbanki issue, as detailed on page 17.
 - The Council will try to identify savings to support budgetary pressures, not use reserves; however, use of reserves may be made to fund one-off items or to alleviate budget pressures within the context of an overall plan to achieve a balanced budget.

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- The Council will maintain a policy that defines the minimum safe contingency level of balances. If, for unavoidable reasons, balances fall below the minimum safe level, the Council will replenish balances back to that level as soon as opportunities allow.
 - The Council will operate its capital programme, borrowing and investments in accordance with the CIPFA Prudential Code. The revenue impact of the Capital Programme will be included in the revenue budget.
 - The MTFS will be revised and re-approved by the Council on an annual basis.



III CORPORATE PLAN

10. The MTFs complements the Corporate Plan as a means of ensuring that the Council's finances are aligned with its priorities. Below is a summary of the action taken and planned to allocate financial resources to the priorities.

FINANCE: Effectively managing our finances and operating a decreasing budget so as to achieve a Use of Resources score of "2" by 2011

- Continually improving financial management and ensuring the Council remains financially sound
- Delivering effective and sustainable procurement and asset management
- Increasing the emphasis on demonstrable value for money

- Actions:
- Invested in strengthening the capacity of the Council's financial management arrangements
 - Working with partner organization to establish better procurement and asset management
 - Secured funding from Improvement East to facilitate change and improvements necessary to achieve better Use of Resources scores

PARTNERSHIPS: Working to deliver effective and co-ordinated services with partners and others, at reduced cost while helping those in hardship

- Actively seeking opportunities for delivering services in partnership, with or by third parties and/or devolving service provision and developing shared service provision
- Actively leading Uttlesford Futures, our local strategic partnership and contributing to the delivery of the local area agreement
- Working in partnership to improve the prosperity, safety, health and well-being of our communities, particularly to meet the needs of people affected by the current recession
- Improving access to affordable sport, leisure and cultural activities

- Actions:
- Joining a partnership with Colchester and Braintree councils to manage the car parking service
 - Operating the Tourist Information Centre in partnership with Saffron Walden Town Council
 - Maintaining financial support for citizens advice bureaux
 - Investing in the capacity of the Council's Benefits service
 - Formed a partnership for delivering HR services with Essex County Council

PEOPLE: Consulting and engaging fairly with staff and customers, and helping those in hardship

- Encouraging community participation through effective consultation and engagement
- Developing the customer service centre and improving access to services
- Maintaining a high level of corporate governance and standards
- Developing and maintaining a motivated and high performing workforce
- Further embedding the principles of equalities and good health and safety practice throughout the work of the Council

- Actions:
- Carried out a public consultation exercise including public meetings to inform the strategic direction of the Council and its priorities
 - Invested in providing better access to services including improved website and customer service centres
 - Improved internal communications including a Staff Survey
 - Achieved Equalities Standard Level 2 and established plans to improve to Level 3 by end of 2009

ENVIRONMENT: Protecting and enhancing the environment

- Continuing opposition of further expansion of Stansted Airport
- Managing development and delivering affordable housing for local people
- Developing sustainable communities by protecting and encouraging local facilities
- Developing energy efficiency policies to reduce our carbon footprint and assist with fighting fuel poverty
- Improving environmental management and enforcement against environmental crime
- Minimising waste, maximizing recycling

- Actions:
- Funding allocated to present the Council's case in the Stansted G2 enquiry
 - Invested in developing recycling services including the pilot of a kitchen caddy waste service
 - Achieved the 6th highest recycling and composting rate nationally and significantly reduced our waste to landfill and total waste arising.
 - Invested in Strategic Housing Market Assessment partnership and water cycle study as part of evidence base for the Housing Strategy and LDF Core Strategy

Resource Requirements

11. Delivery of Corporate Priorities requires non-financial resources to be effectively deployed in addition to alignment of budgets. The resource requirements necessary to ensure this include the following:

- A staffing level and skills base sufficient to deliver the Corporate Plan Actions.
- Back office and professional support.
- IT infrastructure and software that supports business needs and enables efficiency and effective service delivery, with business continuity plans in place.
- Adequate physical resources and premises, including council offices and depot facilities, maintained and equipped to an appropriate standard and contingency plans in place in case of temporary incapacity.
- Effective working relationships with key partners to ensure that synergies and economies of scale are realised and the Council's vision of joined up local access to local services can be delivered.

IV GENERAL FUND

12. The General Fund covers all services except the provision of council housing (see section VI below). This includes a range of services that the Council has a **statutory duty** to provide (such as Housing Benefits, Refuse Collection, Planning Control and collecting Council Tax) and services where the Council has **discretionary powers** (such as Leisure Centres, Car Parks and Community Services).
13. Gross expenditure (such as salaries, supplies, services and payments made to other parties e.g. Benefits) is offset by income collected i.e. fees, charges and specific government grants, to produce a "Net Budget Requirement". This is met from two principal sources: the Local Government Finance Settlement from Central Government (comprising Revenue Support Grant and a distribution from the National Non-Domestic Rates Pool) and Council Tax.
14. A summary of the 2009/10 General Fund budget is shown below.

| | £m | £m |
|-------------------------------------|---------|----------------|
| <u>Expenditure on services</u> | | |
| Employee costs | 8.544 | |
| Premises costs | 1.148 | |
| Transport costs | 0.725 | |
| Supplies & Services | 5.283 | |
| Transfer Payments (mainly Benefits) | 13.756 | |
| Total service expenditure | | 29.456 |
| <u>Income received by services</u> | | |
| Specific grants (mainly Benefits) | -14.149 | |
| Recharges to public bodies | -1.382 | |
| Fees & charges | -4.405 | |
| Total service income | | -19.936 |
| Net service expenditure | | 9.520 |
| Transfers to HRA | | -1.152 |
| Capital Financing costs | | 0.366 |
| Investment income | | -0.106 |
| Pension Fund costs | | 0.529 |
| Transfers from reserves | | -0.387 |
| NET BUDGET REQUIREMENT | | 8.770 |
| <u>Funded by:</u> | | |
| Local Government Finance Settlement | | 4.086 |
| Collection Fund Balance | | 0.045 |
| Council Tax | | 4.639 |
| TOTAL FUNDING | | 8.770 |

Local Government Finance Settlement

15. The table below shows the Council's share of the settlement since 2007/08:

| | 2007/08 £m | 2008/09 £m | 2009/10 £m | 2010/11 £m (provisional) |
|------------------------|---------------|---------------|---------------|--------------------------------|
| Revenue Support Grant | 0.573 | 0.497 | 0.766 | Split not available |
| NNDR Pool | 3.415 | 3.568 | 3.320 | |
| Total | 3.988 | 4.065 | 4.086 | 4.106 |
| Increase on prior year | 1.7% | 1.9% | 0.5% | 0.5% |

16. The table shows sustained below-inflation increases in central government funding. This means that if services are to be maintained at their existing levels, a disproportionate burden falls upon the Council Taxpayer, resulting in Council Tax increases above the prevailing rate of inflation.

Council Tax

17. The following table shows the amount of Council Tax income since 2007/08:

| | 2007/08 | 2008/09 | 2009/10 |
|--|--------------|--------------|--------------|
| Total Council Tax income (£m) | 4.093 | 4.360 | 4.638 |
| Taxbase (Band D equivalent properties) | 31,455 | 31,914 | 32,373 |
| Uttlesford DC Band D equivalent (£) | 130.14 | 136.62 | 143.28 |
| Increase on prior year | 2.05% | 4.979% | 4.875% |

18. Due to public and government pressure to keep future Council Tax increases to a minimum, and the need to balance this with public and government demands on council services, the Council will ensure that annual increases are between the level of inflation (Consumer Prices Index (CPI), currently 3.1%) and 5% (the highest level likely to be permissible under the Government's capping regime). The MTFS assumes an annual increase of 4.9%.

Forecast Financial Position

19. The MTFS forecasts the Council's financial position for the duration of the Corporate Plan i.e. 3 years, to anticipate the additional money that it has to spend, and what this means for the level of Council Tax. Fourth and fifth years have been added to the model to highlight additional financial pressure in those years.

20. The forecast allows the Council to predict whether savings may be necessary to balance its budget and to keep Council Tax increases to a reasonable level. The assumptions used to construct the model are summarised below.

21. **Base budget plus inflation:** the Council's base budget for 2009/10 has been rolled forward to subsequent years, adding inflation assumptions for each year as follows:

| | |
|----------------|---|
| Salary costs: | Pay award assumed to be 2.5% per year Incremental progression – assumed 1% increase in pay costs per year. Pensions costs for existing staff – an annual increase equivalent to an additional 0.8%, based upon the increases in 2009/10 and 2010/11 required by the Pension Fund actuary. |
| Non-pay costs: | Supplies and services (where contracts in place) – assumed that contractual indexation will apply at the rate of 3.1% per year (in line with December 2008 CPI) Supplies and services (where no contracts in place) – assumed no inflation due to improvements in procurement practice. Utilities costs and fuel – although to an extent prices have started to stabilise and reduce, the potential for volatility remains so a 10% increase has been factored into the projections. Housing Benefits – assumed average 4.5% increase in expenditure due to increasing rents and council tax, and a further 10% increase in expenditure due to increased caseload. Stansted Airport G2 – budget provision removed with effect from 2010/11. |
| Income: | Housing benefits grant – assumed an increase commensurate with benefits expenditure (as above) Other fees and charges – default position will be an increase in line with CPI (currently 3.1%) but in recognition that this will not be possible in all cases, an average rise of 2% has been assumed. If shortfalls in income emerge due to external factors e.g. reduction in planning fees due to fewer planning applications, it is assumed that cost savings within that service area will be identified so that overall effect is neutral. |
| Other items | Recharges and apportionments to Housing Revenue Account to continue at same level as in 2009/10 pending detailed review of allocation methodology Investment income is based on cashflow projections and assumes that the sum deposited with Landsbanki will not become available for reinvestment. An average interest rate of 1.25% has been assumed. Capital financing costs represent the lease costs, borrowing costs and statutory accounting adjustments the Council is required to make in line with the approved capital programme. |

Pension fund deficit figures for 2009/10 and 2010/11 are in line with the Essex Pension Fund's published funding strategy. From 2011/12 an increase in contribution equivalent to 7% of basic pay has been forecasted by the pension fund actuary.

Pension fund added years & financial strain figures are the known commitments arising from earlier redundancy and early retirement decisions made by the Council. The capitalisation approval illustrates the effect of the 2008/09 approval issued by DCLG; in practice the expenditure and associated credit will be transacted through the 2008/09 accounts.

Transfers to the General Fund Working Balance are based on the amount necessary to ensure that the Working Balance is maintained at the minimum safe contingency level defined in the MTFS.

Transfers from the Budget Equalization reserve are based on the amount necessary to ensure a balanced budget in 2009/10 and 2010/11. The 2011/12 figure is the forecasted residual balance of that reserve.

22. Funding available. Prudent estimates made as follows:

| | |
|-------------------------------------|--|
| Local Government Finance Settlement | 2009/10 and 2010/11 figures are in accordance with the published settlement. An increase of 0.5% per year is assumed for subsequent years. |
| Collection Fund balance: | Assumed reducing balance due to anticipated reduction in collectability of Council Tax. |
| Council Tax: | Assumed 1% increase in taxbase, and 4.9% increase in Council Tax level per year. This is purely indicative and the actual Council Tax increase will be determined annually based upon the Council's circumstances and service demands that exist at that time. |

23. In conjunction with these assumptions, forecasts take into account financial pressures arising as a result of wider economic problems impacting locally and upon the Council's finances. These are outside of the Council's control. Examples include reductions in investment income, land charges income and specific government grants, and increases in waste collection and energy costs. The most significant factor is that the Local Government Finance Settlement will not provide sufficient funding to cover inflationary pressures such as pay awards and contractual price increases. For 2009/10, it has been estimated that additional financial pressures of around £1.3m have arisen and will increase in subsequent years.

24. The following is a Summary Table of the 5 year financial model, based on the above assumptions.

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|--------------|--------------|---------------|---------------|---------------|
| | Budget | Forecast | Forecast | Forecast | Forecast |
| | £m | £m | £m | £m | £m |
| Gross Service Expenditure | 31.395 | 33.708 | 36.832 | 40.368 | 44.376 |
| Income | -21.875 | -24.010 | -26.731 | -29.842 | -33.403 |
| Net Service Expenditure | 9.520 | 9.698 | 10.101 | 10.526 | 10.973 |
| Recharge to HRA | -0.885 | -0.885 | -0.885 | -0.885 | -0.885 |
| Contribution towards overheads by HRA | -0.267 | -0.267 | -0.267 | -0.267 | -0.267 |
| Investment income | -0.106 | -0.106 | -0.106 | -0.106 | -0.106 |
| Capital financing costs | 0.322 | 0.432 | 0.442 | 0.436 | 0.431 |
| Pension Fund Deficit | 0.421 | 0.420 | 0.947 | 0.965 | 0.984 |
| Pension Fund Added Years / Financial Strain | 0.108 | 0.108 | 0.108 | 0.108 | 0.108 |
| Transfer to General Fund Working Balance | 0.000 | 0.091 | 0.128 | 0.133 | 0.152 |
| Transfer from Budget Equalization Reserve | -0.344 | -0.202 | -0.635 | -0.247 | -0.071 |
| NET BUDGET REQUIREMENT | 8.770 | 9.291 | 9.833 | 10.664 | 11.320 |
| Funding available | | | | | |
| Local Government Finance Settlement | 4.086 | 4.106 | 4.127 | 4.147 | 4.168 |
| Collection Fund balance | 0.046 | 0.020 | 0.000 | 0.000 | 0.000 |
| Council Tax | 4.638 | 4.914 | 5.207 | 5.516 | 5.845 |
| TOTAL FUNDING AVAILABLE | 8.770 | 9.041 | 9.333 | 9.664 | 10.013 |
| Savings target | 0.000 | 0.250 | 0.500 | 1.000 | 1.307 |

25. By law the Council is required to produce a balanced budget each year. Based on the projections shown above the Council will be required to make savings (or generate additional income) to balance its budget in the coming years.

26. The forecast also shows that no new expenditure can be approved unless this is funded by additional income or by reductions elsewhere in the Council's budget.

27. The required level of savings will be achieved through a combination of following:

- Transferring assets and services to Town/Parish councils.
- Working with partner organizations to increase financial contributions and/or reduce costs relating to refuse & recycling services.
- Implementing shared services delivery arrangements with other local authorities, possibly in partnership with the private sector
- Outsourcing services
- Ensuring that the Building Control and Land Charges services break even, as statutorily required
- Better asset management and assets rationalization
- Efficiency savings through improved working practice
- Procurement savings
- Generating additional income through use of fees and charges and external funding sources
- Vacancy management
- Service reductions in lower priority areas

28. The MTFS is a framework document and as such does not determine the approval of new expenditure nor set out specific proposals for the level of savings required. However the Council's approach to these areas is discussed further below.

Approach to Growth and Savings

29. The Council will seek to safeguard those services that it considers to be highest priority as stated in the Corporate Plan.
30. The Council may make savings in priority areas only if there is no significant adverse impact to quality and level of service provision. For example, the Council may find a more efficient means of delivering the service, or partnership funding may be secured. Otherwise, the Council will not make savings that result in diminution in service quality in these areas unless there is absolutely no alternative e.g. inability to balance the budget.
31. The Council acknowledges the need to provide statutory services, and in many cases these will be consistent with Corporate Plan priorities. Where the link between the need to provide a statutory service and Corporate Plan priorities is not as strong, the Council will provide a level of service consistent with affordability. Efficiency gains and partnership working will be explored as means of providing statutory services to an acceptable level at a lower cost. In some circumstances, the Council will consider reducing the level of service in order to make savings and redirect resources to the Council's highest priorities.
32. Subject to the above, unavoidable and essential growth items will be funded by the making of savings from elsewhere within the Council budget, or the generation of additional income. The Council will manage its budget as a corporate whole, if necessary transferring money from one activity to another if this is what is necessary to match limited resources to the highest priorities.
33. In ordinary circumstances the Council will not use reserves to fund any ongoing expenditure. In exceptional circumstances, the Council may use reserves for one-off items or to alleviate budget pressures within the context of an overall plan to achieve a balanced budget but will ensure that reserves are replenished as discussed in Section V.
34. The following criteria will be used to assess where there is greatest scope for savings:
 - Whether the service is statutory or discretionary
 - Degree of correlation between the service and corporate priorities
 - Whether savings can be achieved without incurring one-off costs e.g. redundancy
 - Value for money reviews including where applicable review of transaction costs and unit cost and how these compare to other councils and the quality of services provided.

V THE USE OF RESERVES

35. All reserves and provisions will fall under the following categories:

- Working Balance
- Budget Equalization Reserve
- Earmarked reserves
- Provisions.

Working Balance

36. The Working Balance will be maintained at least at the minimum level necessary to provide a safe level of contingency. The basis for this will be the advice provided by the Chief Finance Officer (CFO), under Section 25 of the Local Government Act 2003. This legislation requires the CFO to advise the Council on the adequacy of reserves and balances as part of the annual budget setting process, and for the Council to take account of this advice when setting the budget. There are no prescriptive guidelines available to CFOs on what constitutes a minimum safe level of balances; this is very much down to the professional judgement of the CFO. The CFO will base his advice on consideration of the following factors:

- An amount necessary to cover a 2% overrun in gross expenditure (equivalent to £0.609m in 2009/10)
- An amount necessary to cover a 2% shortfall in expected gross income (equivalent to £0.424m in 2009/10)
- Whether an additional amount is necessary to cover specific risk items (variable).

37. Based on the above formula, the minimum safe contingency level is assessed to increase in proportion to increases in the Council's expenditure and income, as shown in the table below.

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|--------------------------------|---------|---------|---------|---------|---------|
| Minimum safe contingency level | £1.085m | £1.176m | £1.303m | £1.437m | £1.588m |

38. Despite the existence of the Working Balance, the Council will explore all possible means of meeting unforeseen costs from economies, savings and earmarked reserves before using the Working Balance.

39. If use of the Working Balance proves to be unavoidable, the Council will ensure that replenishment of the Working Balance back to a minimum safe level will be a priority when setting the subsequent financial year's budget, on the basis of the CFO's Section 25 advice.

Budget Equalization Reserve

40. The Council accepts the principle that it is not desirable to draw upon reserves as a device to set a balanced in-year budget, and will work towards achieving this goal.
41. However, as a consequence of the wider economic issues and additional financial pressures referred to in section IV, strategic solutions are required to deliver the level of savings necessary to balance the budget. The nature of strategic solutions, such as setting up partnership arrangements and outsourcing contracts, is that they can take years to establish and for tangible savings to result.
42. Meanwhile, the level of savings needed cannot be achieved by trimming budgets or cutting services without seriously affecting the capacity of the council. Accordingly therefore, within the context of a plan to restore the Council's budget to an in-year balanced position, use of a Budget Equalization Reserve will be required.
43. The Budget Equalization Reserve is to be established in late 2008/09 by means of the following:
 - Reallocation of the PFI reserve of £1.1m. This reserve, originally set up to offset the declining amount of PFI government grant, is no longer needed because some years ago the Government converted to paying a fixed annual amount of grant.
 - Applying the 2008/09 capitalisation approval received has the effect of treating £0.6m of pensions costs as capital expenditure instead of revenue. This enables a transfer of £0.6m to be made from the General Fund to reserves. Of this, £0.4m will be allocated to the Budget Equalization Reserve, and £0.2m to the Change Management reserve.
44. Accordingly the Budget Equalization Reserve begins 2009/10 with an opening balance of £1.5m. This will be drawn upon during the life of the MTFs on a phased basis while strategic solutions and other measures to improve the in-year budget position are implemented.

Earmarked reserves

45. Earmarked reserves are established for items of future expenditure that the Council knows it will be incurring, but no formal commitment exists and the precise amount and timing is not known.
46. The principal earmarked reserves held by the Council relate to the following:
 - Planning Development – for costs associated with major planning issues
 - Change Management – to enable the Council to secure the capacity and expertise necessary to deliver strategic solutions.

Provisions

47. A provision is created for those items of future expenditure where the amount and timing is known with reasonable certainty, and a formal commitment exists. The Council will maintain provisions for known liabilities, such as those arising from legal claims against the Council, and contractual obligations to make top up payments to the Pension Fund. The Council will keep all such provisions under continuous review to ensure that they are sufficient to meet known future obligations. An exception to this will be the Landsbanki issue, as detailed below.

Landsbanki

48. The Council is owed £2.335m by the failed Icelandic bank Landsbanki. At the time of producing this MTFS, there was no reliable information available about the prospects of recovering this sum, or the timetable for determining this. Draft accounting guidance issued by CIPFA requires any impairment in the value of the investment to be written off to revenue balances. The Government has issued a special regulation enabling the effect of such a write off to be deferred until the 2010/11 financial year. No other support is forthcoming and the Government has indicated that it is unlikely to offer any further dispensation to the affected councils.

49. If nothing changes, the worst case scenario Council will be required to write off £2.335m to revenue balances in 2010/11. This is clearly unaffordable as it would require a sum of £1.3m in addition to the entire General Fund Working Balance to be found, over and above the pressures and savings target already identified. It would also leave the Council with no contingency reserves which would be an unacceptable position.

50. The Local Government Association is continuing to lobby the Government on behalf of the affected Councils and the outcomes of this are not yet known. As mentioned above, there is no reliable information about the prospects of recovery. Because of the potentially profound implications for the 116 affected councils, it is reasonable to assume that despite the current stated position, it is possible that Government support or dispensation will be forthcoming.

51. Due to the significant uncertainty surrounding this issue, it is considered premature to make what would in practice be a potentially disabling provision within the MTFS.

52. The situation will be kept under close review and the MTFS revised as necessary based upon the latest information available. Meanwhile, in the event of favourable revenue budget variances arising, opportunities will be taken to divert funds to a Landsbanki liability provision, to minimize the potential impact arising in 2010/11.

53. The following is a summary of the forecasted balances on the Council's reserves and provisions during the period covered by the MTF5.

| £m | Actual Balance 31.3.08 | 2008/09 Transfers to (-) / from General Fund | 2008/09 Transfers between reserves | Forecast Balance 31.3.09 | Forecast Balance 31.3.10 | Forecast Balance 31.3.11 | Forecast Balance 31.3.12 | Forecast Balance 31.3.13 | Forecast Balance 31.3.13 |
|------------------------------|------------------------------|--|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <u>General Fund reserves</u> | | | | | | | | | |
| Working Balance | 1.061 | 0.035 | - | 1.096 | 1.096 | 1.176 | 1.303 | 1.437 | 1.588 |
| Leisure PFI | 1.102 | | -1.102 | - | - | - | - | - | - |
| Change Management | - | 0.200 | - | 0.200 | 0.100 | - | - | - | - |
| Budget Equalization | - | 0.397 | 1.102 | 1.499 | 1.155 | 0.953 | 0.318 | 0.071 | - |
| Planning Development | - | 0.150 | - | 0.150 | - | - | - | - | - |
| Housing Needs Survey | 0.044 | -0.044 | - | - | - | - | - | - | - |
| Energy Efficiency | 0.015 | -0.015 | - | - | - | - | - | - | - |
| Total Reserves | 2.222 | 0.723 | - | 2.945 | 2.351 | 2.129 | 1.621 | 1.508 | 1.588 |
| <u>Provisions</u> | | | | | | | | | |
| Legal Claims | - | 0.100 | - | 0.100 | - | - | - | - | - |
| Pension Fund | - | 0.540 | - | 0.540 | 0.394 | 0.248 | 0.102 | - | - |
| Total Provisions | - | 0.640 | - | 0.640 | 0.394 | 0.248 | 0.102 | - | - |

VI HOUSING REVENUE ACCOUNT

54. The Council has a legal obligation to keep council housing finances separate from the General Fund, in an account known as the "Housing Revenue Account" (HRA). The Council must make sure that the provision of Council Housing is not subsidised from Council Tax, as there is a legal requirement to ensure that the HRA maintains a balanced budget. The HRA is chiefly funded by rents from council tenants. A summary of the HRA budget and four year forecast is shown below.

| | 2009/10 £m | 2010/11 £m | 2011/12 £m | 2012/13 £m |
|---|----------------|----------------|----------------|----------------|
| Dwelling Rents | -11.461 | -12.035 | -12.637 | -13.269 |
| Garage Rents | -0.208 | -0.218 | -0.229 | -0.240 |
| Other Rents | -0.006 | -0.006 | -0.006 | -0.006 |
| Charges for services & facilities | -0.488 | -0.512 | -0.538 | -0.565 |
| Contributions towards expenditure | -0.103 | -0.108 | -0.113 | -0.119 |
| Total Income | -12.266 | -12.879 | -13.523 | -14.199 |
| Housing Repairs | 1.842 | 1.885 | 1.929 | 1.973 |
| Supervision & management | 2.664 | 2.797 | 2.937 | 3.084 |
| Rents, rates & property charges | 0.030 | 0.032 | 0.033 | 0.035 |
| Negative Housing Subsidy | 5.469 | 5.742 | 6.030 | 6.331 |
| Depreciation | 2.178 | 2.287 | 2.401 | 2.520 |
| Total Expenditure | 12.183 | 12.743 | 13.330 | 13.943 |
| In-year operating surplus(-) / deficit | -0.083 | -0.136 | -0.193 | -0.256 |
| Corporate & democratic core | 0.267 | 0.267 | 0.267 | 0.267 |
| HRA Pensions Deficit | 0.103 | 0.108 | 0.200 | 0.210 |
| Investment income | -0.017 | -0.017 | -0.017 | -0.017 |
| Transfer from Major Repairs Reserve | -0.248 | -0.248 | -0.248 | -0.248 |
| In year surplus(-) / deficit | 0.022 | -0.026 | 0.009 | -0.044 |
| Working Balance brought forward | 0.304 | 0.282 | 0.308 | 0.299 |
| In-year movement | -0.022 | 0.026 | -0.009 | 0.044 |
| Working Balance carried forward | 0.282 | 0.308 | 0.299 | 0.343 |
| Target level of Working Balance | 0.496 | 0.520 | 0.545 | 0.571 |

55. The HRA has a Working Balance, which operates under similar principles to the General Fund contingency reserves, and represents the minimum level of balances necessary to provide a safe level of contingency. The target minimum Working Balance is based on the following:

- An amount necessary to cover a 2% overrun in gross expenditure (equivalent to approximately £0.25m in 2009/10)
- An amount necessary to cover a 2% shortfall in expected gross income (equivalent to approximately £0.25m in 2009/10)
- Whether an additional amount is necessary to cover specific risk items (variable).

-
56. Projections show that the forecast level of HRA Working Balance will be below the minimum safe contingency level for the period of the MTFs. However, because income is forecasted to increase at a slightly faster rate than expenditure, the in-year position is forecasted to improve such that by 2010/11, the Working Balance starts to be replenished. Projections show that by 2013/14, the Working Balance will be above the minimum safe level.
57. Under normal circumstances, the Council would take more urgent action to restore the Working Balance to a minimum safe level; realistically, this would entail cutting services to tenants. However, there are four areas of work to be completed during 2009/10 which would have a bearing on these decisions, and as such, it is felt premature to take action. The areas are:
- The Government's review of the housing finance system, which may affect the level of negative housing subsidy
 - A review of the recharges made from the General Fund to the HRA
 - A review the contribution made by the HRA towards corporate overheads
 - A review of the financial arrangements relating to operation of the depot and repairs staff.
58. In 2009/10, a stock options appraisal will be commenced to examine the merits of alternative delivery methods for the provision of social housing. Although at the present time, low interest rates and an unstable banking system mean that there is unlikely to be a strong financial case for a stock transfer, it is possible that by the time the appraisal is concluded, economic factors will have improved, and/or alternative delivery models will be identified. Meanwhile, financial management of the HRA will be robust to ensure that progress continues to be made towards replenishing the Working Balance to a safe level.
59. The Chief Finance Officer has personal statutory responsibility for ensuring that the HRA remains solvent and will invoke these powers if necessary to ensure that an HRA deficit does not arise.

VII CAPITAL PROGRAMME

60. The Council operates a Capital Programme of investments in its assets and information technology, as well as grants to other organisations. A summary of the current programme is shown in the table below.

| | 2009/10 | 2010/11 | 2011/12 |
|------------------------------------|---------------|---------------|---------------|
| | £m | £m | £m |
| Community Committee (non-HRA) | 0.220 | 0.180 | 0.150 |
| Community Committee (HRA) | 1.886 | 1.906 | 1.930 |
| Environment Committee | 1.013 | 0.423 | 0.165 |
| Finance & Administration Committee | 0.526 | 0.431 | 0.020 |
| TOTAL | 3.645 | 2.940 | 2.265 |
| <u>Funded by</u> | | | |
| External Funding | -0.056 | -0.056 | -0.056 |
| Capital Receipts | -1.303 | -0.178 | -0.179 |
| Major Repairs Allowance | -1.886 | -1.906 | -1.930 |
| Borrowing | -0.400 | -0.800 | -0.100 |
| TOTAL | -3.645 | -2.940 | -2.265 |

61. The purpose of the capital programme is to support service improvements. Examples of this include improving the quality of council housing accommodation through the Decent Homes Standard programme, Disabled Facilities Grants, and improving street cleanliness by purchasing sweeping vehicles.
62. Capital expenditure is financed by capital receipts (proceeds from the sale of Council assets), external funding, and borrowing. The Prudential Code empowers the Council to take out additional borrowing as necessary to finance the Capital Programme, as long as the costs of borrowing are affordable.
63. The amount of capital receipts available is reducing. As a result, the capital programme will start to rely upon borrowing. The ensuing capital financing costs have been estimated and included in the financial projections within the MTFS.
64. A major development activity for the Council is to produce a new Capital Strategy and Asset Management Plan. The Council is working with Essex County Council to secure the requisite capacity and expertise to lead on this area of work. It is envisaged that a Corporate Assets Strategy Working Group will be established that will vet proposed new schemes prior to member approval, and monitor progress on approved schemes. Proposed new schemes shall be judged against criteria including links with Council priorities, options appraisals, revenue implications, value for money and risk assessments. All proposed schemes will be scrutinised to ensure that a measurable service improvement will result from the capital expenditure and that revenue implications are affordable.
65. For these reasons, a strategic review of the capital programme is also needed, to ensure that capital expenditure is sustainable, affordable and aligned to Corporate Plan priorities.
66. It is expected that the review will conclude that financing costs relating to new capital projects will have to be funded from existing service budgets, to avoid unsustainable increases in costs.

VIII USE OF RESOURCES ASSESSMENT

67. The Council undergoes an annual Use of Resources inspection, carried out by the Audit Commission. This has formed part of the Comprehensive Performance Assessment (CPA) arrangements. A revised inspection will form part of Comprehensive Area Assessment (CAA) from 2009 (see below).
68. The inspection is a thorough review of the Council's corporate governance arrangements. Until 2008, the inspection criteria were grouped under five themes:
- Financial reporting - including the preparation of the accounts of the Council and the way these are presented to the public
 - Financial management - including how the financial management is integrated with strategy to support council priorities
 - Financial standing - including the strength of the Council's financial position
 - Internal control - including how effectively the Council maintains proper stewardship and control of its finances
 - Value for money - including an assessment of how well the Council balances the costs and quality of its services.
69. The following table is a summary of the outcomes from the 2008 and 2007 inspections:

| Key line of enquiry | 2008 | 2007 |
|--|-------------|-------------|
| Financial reporting | 1 | 1 |
| The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers. | 1 | 1 |
| The Council promotes external accountability. | 2 | 2 |
| Financial management | 1 | 1 |
| The Council's medium term financial strategy/plan, budgets and capital programme are soundly based and designed to deliver its corporate priorities. | 1 | 1 |
| The organisation manages performance against budgets. | 1 | 1 |
| The Council manages its asset base. | 1 | 1 |
| Financial standing | 1 | 1 |
| The Council manages its spending within the available resources. | 1 | 1 |
| Internal control | 2 | 2 |
| The Council manages its significant business risks. | 2 | 2 |
| The Council has arrangements in place to maintain a sound system of internal control. | 1 | 1 |
| The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business. | 2 | 2 |
| Value for money | 2 | 2 |
| The Council currently achieves good value for money. | 2 | 2 |
| The Council manages and improves value for money. | 1 | 1 |
| Overall Audit Commission assessment | 1 | 1 |

"1" = "below minimum requirements", "2" = "only at minimum requirements"

70. The Use of Resources inspection is changing for 2009, which will make comparison with earlier inspection outcomes difficult. Key Lines of Enquiry (KLOE) have changed and in some cases expanded. The following shows how the new KLOE are grouped into 3 main themes:

| Theme | KLOE |
|------------------------|---|
| Managing Finances | Financial planning Costs, performance and efficiency Financial reporting |
| Governing the Business | Procurement Data quality & performance management Corporate governance Risk management |
| Managing Resources | Natural resources & environmental issues* Strategic asset management* Workforce planning |

*not to be scored in 2009

71. Each KLOE will receive a score on the 1 to 4 scale with the score for each theme being based on an average of the KLOE scores under that theme (some KLOEs carry more weight in order to determine .5 rounding decisions). The overall score for the authority will be an average of the theme scores.
72. The extent and depth of the inspection and evidence required to demonstrate performance is not fully clear yet, but early indications are that this will be a sterner test, making it extremely difficult to improve from a score of “1” quickly.
73. Issues underpinning all KLOE are the corporate policy framework, effectiveness of partnership arrangements, the degree to which good practice is embedded throughout the authority, equality and diversity and value for money.
74. The 2009 assessment will be based upon evidenced performance as at 31 March 2009. Given lack of capacity there is insufficient time before 31 March to demonstrate improvements in some KLOE. The Council does not have the capacity to manage at a corporate level many of the themes covered in the KLOE, or to co-ordinate the production of evidence and the inspection process generally. It is unlikely that the Council’s overall score will be improved in the 2009 inspection. However, it is realistic to expect that within the overall result, scores for some individual KLOE will improve.
75. A funding bid has been approved by Improvement East to provide the Council with additional capacity to achieve improvements in corporate arrangements, and as a consequence, improved Use of Resources scores. Improvement East has a target to ensure that all councils in their region achieve a score of at least “2” by 2011. Clearly the Council would wish to achieve this position before 2011 but that is challenging given the breadth and depth of the assessment and lack of corporate capacity in some areas.

IX ACTION PLAN

76. The following is a summary of the actions to be taken during 2009/10, together with the lead officer for each.

| | Action | Intended Outcome | Lead Officer(s) |
|---|---|---|----------------------------|
| 1 | Investigate opportunities for shared services, outsourcing and partnership working | Clarity about how the MTFS savings are to be met and progress made towards implementing strategic solutions | Strategic Management Board |
| 2 | Investigate opportunities for transfer of assets and/or services to Town/Parish Councils | Safeguarding valuable services through partnership working at a reduced cost for UDC | Strategic Management Board |
| 3 | Use of Resources Improvement Plan | Demonstrate progress in KLOE scores with a view to achieving an overall score of "2" by 2011. | Chief Executive |
| 4 | Look for opportunities to replenish reserves and establish provision for Landsbanki liability | Surplus funds diverted to increase reserves, to increase flexibility to invest in service improvements and safeguard the Council's financial stability | Chief Finance Officer |
| 5 | Develop corporate approach to asset management (subject to securing additional capacity) | Corporate Working Group established to manage the Capital Programme. New Capital Strategy and Asset Management Plan. Rationalisation of assets and reduced costs. | Director of Operations |
| 6 | Develop corporate approach to procurement (subject to securing additional capacity) | Improved value for money, streamlined purchasing process and faster payments to suppliers. Successful implementation of purchasing module and purchasing cards | Chief Finance Officer |
| 7 | Budget training for Members | All Members have a current understanding of the Council's financial situation and their role in financial decision making | Chief Finance Officer |
| 8 | Budget training for Managers | Improved budget planning and budgetary control by Service Managers | Chief Finance Officer |

| | Action | Intended Outcome | Lead Officer(s) |
|----|---|---|-------------------------|
| 9 | Update Financial Regulations | Regulations provide clear guidance and proportionate control and meet the current business needs of the Council | Chief Finance Officer |
| 10 | Implement Rolling Budget approach in place of Revised Budget | Budgets are updated as soon as circumstances change, so that actuals and budget are always reported on a consistent basis enabling meaningful conclusions to be drawn | Chief Finance Officer |
| 11 | Improved monthly budgetary control process | Systematic update of forecasted outturn provided by budget holder, captured in finance system and reported to Members | Chief Finance Officer |
| 12 | Review of coding hierarchy and chart of accounts within the Finance System | Rationalisation and simplification of coding system to provide greater transparency of costs and reliable financial monitoring reports | Chief Finance Officer |
| 13 | Review of Building Control and Land Charges services to ensure that statutory requirement to break even is achieved | No subsidy of Building Control and Land Charges services by General Fund | Director of Development |
| 14 | Examine methodology of allocating costs between General Fund and Housing Revenue Account | Legal requirement to ensure that costs are apportioned on a fair basis is met with predictability of costs and income for General Fund and HRA | Chief Finance Officer |
| 15 | Review of budgeting and accounting arrangements for the depot and housing repairs team | Reliable and robust budget and financial monitoring within the HRA | Chief Finance Officer |
| 16 | Introduce formal Section 151 monitoring of key financial processes | A systematic monthly check to ensure that key financial controls are operating and financial information is reliable | Chief Finance Officer |
| 17 | Improve frequency of feeder systems reconciliations | Financial information is reliable and historical discrepancies do not accrue | Chief Finance Officer |

X EQUALITIES IMPACT ASSESSMENT

Title of document/policy /etc being assessed: Medium Term Financial Strategy.

1 What is the aim and objective or purpose of the policy?

The purpose of the strategy is to create a clear framework for all Council financial decision-making. The medium term financial strategy sets out how the financial management process will contribute to delivering corporate priorities. Other objectives include meeting our legislative financial obligations and to ensure that council priorities and finances are aligned.

2 Who will be affected by it

Service users, Council Tax payers, the Council and staff will all benefit from stable finances.

3 Who implements the policy

The Council is responsible for implementing the medium term financial strategy with lead responsibility for advising the Council resting with the Chief Finance Officer.

4 What outcomes do you want to achieve from this policy, and for whom?

To ensure that the Council manages its budget appropriately and in line with changing priorities and circumstances.

5a How does the current policy meet needs around race, gender, disability, age, religion, or sexual orientation? Please comment on this below.

No specific groups are referred to in this document and none of the information within the document will have a differential impact on any group.

5b Does the document contain a 'strap line' offering alternative formats or languages? **If not, please ensure it does.**

Yes, this is on the contents page.

5c Also, please comment on any **specific issues which may result in discrimination of service provision** to any of the groups below (please extend boxes if necessary)

| Issue assessed | Page/ ref no: | Issues and comments |
|--------------------|------------------|--|
| Race | | Racial groups are not referred to in this document and none of the information within the document will have a differential impact on racial groups. |
| Gender | | Gender groups are not referred to in this document and none of the information within the document will have a differential impact on gender groups. |
| Disability | | Disabled People are not referred to in this document and none of the information within the document will have a differential impact on Disabled People. |
| Religion/Faith | | Faith groups are not referred to in this document and none of the information within the document will have a differential impact on faith groups. |
| Age | | Age groups are not referred to in this document and none of the information within the document will have a differential impact on age groups. |
| Sexual Orientation | | Sexual Orientation groups are not referred to in this document and none of the information within the document will have a differential impact on sexual orientation groups. |

6 Are there any obvious barriers to accessing the service e.g. language, physical access?

No

7a Do you think improvements could be made? No

7b If so, please use the **FULL EQUALITY IMPACT ASSESSMENT CHECKLIST**, and draw up an ACTION PLAN to address these.

Not applicable

8 How does the Service monitor both Service Use and Complaints, in relation to race, gender, disability, age, sexual orientation and religion/belief?

The purpose of monitoring is to ascertain whether certain 'groups' of people are being adversely affected, or whether any groups' needs are not being met by our service provision. It is recognised that it can be difficult to collect information on the above categories, and in particular, on sexual orientation and religion/belief. It is suggested that an opportunity is given to provide information in all fields, and an explanation be given that information will aid improvements in those areas of service provision.

Not applicable

9 **If you are not currently monitoring, both Service Use and Complaints please CONTINUE on the FULL EQUALITY IMPACT ASSESSMENT CHECKLIST.** Service user monitoring **should** be taking place, in sufficient areas of service provision to facilitate service. Please therefore review whether this is an area/policy where it would be useful, and provide evidence on the Full Equality Impact Assessment checklist of the review and reasons for the decision reached

10 Do we receive any feedback from managers, frontline staff or voluntary/community organisations? No

11 If so, please evidence any subsequent action taken

| What was the issue | How was this addressed | Who was responsible | When |
|--------------------|------------------------|---------------------|------|
| | | | |

12 Please detail any research/models of best practice which may inform our view? Not applicable

Please follow the flow chart below, signing and dating to complete this part of the process.

