



**MEDIUM TERM  
FINANCIAL STRATEGY**

**UTTLESFORD  
DISTRICT COUNCIL**

**2011/12 – 2015/16**

**FEBRUARY 2011**

## CONTENTS

|     |                                 |    |
|-----|---------------------------------|----|
| I   | INTRODUCTION                    | 3  |
| II  | FINANCIAL MANAGEMENT PRINCIPLES | 4  |
| III | CORPORATE PLAN                  | 6  |
| IV  | GENERAL FUND                    | 9  |
| V   | THE USE OF RESERVES             | 16 |
| VI  | HOUSING REVENUE ACCOUNT         | 19 |
| VII | CAPITAL PROGRAMME               | 21 |
| IX  | ACTION PLAN                     | 22 |

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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 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.
4. The MTFS has been produced at a challenging time for the Council's finances. Government funding is to be cut by almost 28% during 2011/12 and 2012/13. The Council will probably not know its level of Government funding from 2013/14 until late 2012. 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.
5. The MTFS will be revised every six months to reflect the most up to date issues, priorities and pressures faced by the Council.
6. Further information on any aspect of the Council's finances can be obtained from the Council's website at the following address:

[www.uttlesford.gov.uk/finance](http://www.uttlesford.gov.uk/finance)

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## II FINANCIAL MANAGEMENT PRINCIPLES

7. 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.
8. 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.
  - 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.

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### III CORPORATE PLAN

9. The MTF5 complements the Corporate Plan as a means of ensuring that the Council's finances are aligned with its priorities. Below are examples of the actions taken and planned to allocate financial resources to the priorities. Please see the Corporate Plan for further information.

**FINANCE: Effectively managing our finances in economically challenging times**

- 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

Key Actions: • Improved the External Auditor's Value for Money assessment with only one qualified item for 2009/10 instead of four for 2008/09.

- Made progress on implementing the Procurement Strategy and developing a new asset register and asset management plan
- Established Strategic Solutions Workstreams and made substantial progress towards the MTF5 savings target when setting the 2011/12 budget.

**PARTNERSHIPS: Working to deliver effective and co-ordinated services with partners and others at reduced cost**

- Implementing the partnerships and service devolutions set up and identified in the MTF5. Continuing to seek further 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
- Encouraging business opportunities through the work of Uttlesford Futures

Key Actions: • Transferred community assets to Saffron Walden Town Council

- Agreed to set up a Revenues & Benefits partnership with Harlow District Council
- Allocated funds to facilitate the operation of new community centres

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**PEOPLE: Supporting our communities, consulting and engaging fairly with staff and customers**

- Encouraging citizenship to develop further the Big Society in Uttlesford
- Encouraging community participation through effective consultation and engagement
- 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 throughout the work of the Council and our community
- Active engagement in good health and safety practice at work and with the community
- Supporting every child matters through the work of Uttlesford Futures
- Improving the health of our communities through the work of Uttlesford Futures

- Key Actions:
- Established the Citizens Panel and carried out consultation on the Council's priorities
  - Decided to implement a Cabinet system of decision making
  - Maintained funding for voluntary organizations despite challenging financial settlement from the Government

**ENVIRONMENT: Protecting and enhancing the environment and keeping communities together**

- Working with the owners of Stansted Airport so as to ensure the greatest economic and social benefits commensurate with securing an overall environmental improvement
- Managing development and delivering affordable housing for local people
- Developing sustainable communities by protecting and encouraging local facilities
- Preparing for enactment of the Localism Bill
- Delivering on our energy efficiency policies to reduce our carbon footprint and assist with fighting fuel poverty, and widening their scope to include our use of natural resources overall.
- Improving environmental management and enforcement against environmental crime
- Minimising waste by promoting re-use and maximising recycling
- Protecting the environment through the work of Uttlesford Futures

- Actions:
- Maintained funds for dealing with major planning issues, investing some funds in planning service improvements
  - Allocated funds to develop Sheltered Housing site and bring empty properties into use
  - Continued to reduce costs of refuse collection & recycling while ensuring continued strong performance and customer satisfaction

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## Resource Requirements

10. 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

11. 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).
12. 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.
13. A summary of the 2011/12 General Fund budget is shown below.

|                                     | £m      | £m             |
|-------------------------------------|---------|----------------|
| <u>Expenditure on services</u>      |         |                |
| Employee costs                      | 8.195   |                |
| Premises costs                      | 0.801   |                |
| Transport costs                     | 0.712   |                |
| Supplies & Services                 | 4.383   |                |
| Transfer Payments (mainly Benefits) | 18.271  |                |
| <b>Total service expenditure</b>    |         | <b>32.362</b>  |
| <u>Income received by services</u>  |         |                |
| Specific grants (mainly Benefits)   | -18.636 |                |
| External funding                    | -1.344  |                |
| Fees & charges                      | -3.980  |                |
| <b>Total service income</b>         |         | <b>-23.959</b> |
| <b>Net service expenditure</b>      |         | <b>8.403</b>   |
| Transfers to HRA                    |         | -1.173         |
| Capital Financing costs             |         | 0.834          |
| Investment income                   |         | -0.085         |
| Pension Fund costs                  |         | 0.465          |
| Council Tax Freeze Grant            |         | -0.123         |
| Transfers from reserves             |         | -0.171         |
| <b>NET BUDGET REQUIREMENT</b>       |         | <b>8.150</b>   |
| <u>Funded by:</u>                   |         |                |
| Local Government Finance Settlement |         | 3.187          |
| Collection Fund Balance             |         | 0.042          |
| Council Tax                         |         | 4.921          |
| <b>TOTAL FUNDING</b>                |         | <b>8.150</b>   |

## Local Government Finance Settlement

14. The table below shows the Council's share of the settlement since 2010/11:

|                        | <b>2010/11<br/>(adjusted)<br/>£m</b> | <b>2011/12<br/>(provisional)<br/>£m</b> | <b>2012/13<br/>(provisional)<br/>£m</b> |
|------------------------|--------------------------------------|---|---|
| <b>Total</b>           | <b>3.826</b>                         | <b>3.187</b>                            | <b>2.771</b>                            |
| Decrease on prior year |                                      | -16.7%                                  | -13.1%                                  |

15. No details of the settlement beyond 2012/13 are known at the present time. The MTFS assumes that the provisional figures for 2011/12 and 2012/13 will be confirmed, and that there will be a further 5% reduction over the two years 2013/14 to 2014/15, with no further reduction in 2015/16.

## Council Tax

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

|   | <b>2007/08</b> | <b>2008/09</b> | <b>2009/10</b> | <b>2010/11</b> | <b>2011/12</b> |
|---|----------------|----------------|----------------|----------------|----------------|
| <b>Total Council Tax<br/>income (£m)</b>  | <b>4.093</b>   | <b>4.360</b>   | <b>4.638</b>   | <b>4.853</b>   | <b>4.921</b>   |
| Taxbase (Band D<br>equivalent properties) | 31,455         | 31,914         | 32,373         | 32,922         | 33,381         |
| Uttlesford DC Band D<br>equivalent (£)    | 130.14         | 136.62         | 143.28         | 147.42         | 147.42         |
| Increase on prior year                    | 2.05%          | 4.979%         | 4.875%         | 2.9%           | 0%             |

17. 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 MTFS assumes an annual increase of 2.5% from 2012/13.

18. The MTFS assumes an annual increase in the taxbase of 1%.

## Forecast Financial Position

19. The MTFS forecasts the Council's financial position for the duration of the Corporate Plan i.e. 5 years, to anticipate the additional money that it has to spend, and what this means for the level of Council Tax.

20. The forecast allows the Council to predict the level of savings 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.

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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 nil in 2010/11. For 2011/12 and 2012/13, assumed that the pay award will be £250 for staff earning below £21,000. 1% assumed in 2013/14, 2.5% in 2014/15 and 2% in 2015/16.

Incremental progression – contractual entitlements have been built into the budget model at an average 0.5% of the paybill each year.

Non-pay costs: Supplies and services (where contracts in place) – assumed that contractual indexation will apply at the rate of 3.5% in 2012/13 and 3% per year thereafter.

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 an average annual 5% increase has been factored into the projections.

Housing Benefits – assumed average 3% annual increase in rents, and 2% increase in caseload

Rent Rebates - assumed average 5% annual increase in rents, and 1% increase in caseload

Council Tax Benefit – assumed annual Council Tax increase of 2.5%, and annual caseload increase of 2%.

Income: Housing benefits grant – assumed an increase commensurate with benefits expenditure (as above), with a reimbursement rate of 98%.

Other fees and charges – default position will be an increase in line with CPI (currently 3.7%) but in recognition that this will not be possible in all cases, an average rise of 2% has been assumed from 2012/13.

Other items Investment income is based on cashflow projections and assumes that the Bank of England Base Rate will increase steadily from its present 0.5% to 3% by 2014, in line with latest projections from the Council's investment advisers, Arlingclose. It is assumed that the sum deposited with Landsbanki will not become available for reinvestment.

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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 2011/12 to 2013/14 are in line with the anticipated Essex Pension Fund's funding strategy, to be confirmed in March 2011. Modest increases in contributions are assumed for 2014/15 to 2015/16.

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 MTF5.

**22. Funding available.** Prudent estimates made as follows:

|                                     |  |
|-------------------------------------|--|
| Local Government Finance Settlement | 2011/12 and 2012/13 figures in accordance with the published provisional settlement. A reduction of 5% is assumed to phase in during the 2 years 2013/14 and 2014/15, with no subsequent change in 2015/16.  |
| Collection Fund balance:            | Assumed that the balance will reduce to zero by 2014/15.   |
| Council Tax:                        | Assumed 1% increase in taxbase, and 2.5% 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 building control and land charges income.

24. The following is a Summary Table of the 5 year financial model, based on the above assumptions. The table shows a gap between the Council's income and expenditure which rises to just under £1m by 2014/15. This represents good progress compared with previous forecasts that showed a gap of around £2m.

|                                      | 2010/11       | 2011/12       | 2012/13       | 2013/14       | 2014/15       | 2015/16       |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                      | Budget        | Draft Budget  | Forecast      | Forecast      | Forecast      | Forecast      |
|                                      | £m            | £m            | £m            | £m            | £m            | £m            |
| Gross Service Expenditure            | 32.801        | 32.361        | 33.430        | 34.667        | 36.083        | 37.604        |
| Gross Service Income                 | -23.584       | -23.958       | -24.991       | -26.076       | -27.216       | -28.414       |
| <b>NET SERVICE EXPENDITURE</b>       | <b>9.217</b>  | <b>8.403</b>  | <b>8.439</b>  | <b>8.590</b>  | <b>8.867</b>  | <b>9.190</b>  |
| Recharge to HRA                      | -1.197        | -1.173        | -1.160        | -1.140        | -1.120        | -1.100        |
| Investment Income                    | -0.072        | -0.085        | -0.175        | -0.202        | -0.202        | -0.202        |
| Capital Financing                    | 0.844         | 0.834         | 1.030         | 1.071         | 1.046         | 1.046         |
| Pension Fund                         | 0.465         | 0.465         | 0.485         | 0.505         | 0.525         | 0.545         |
| Council Tax Freeze Grant             | 0.000         | -0.123        | -0.123        | -0.123        | -0.123        | 0.000         |
| <b>NET OPERATING EXPENDITURE</b>     | <b>9.257</b>  | <b>8.321</b>  | <b>8.496</b>  | <b>8.701</b>  | <b>8.993</b>  | <b>9.479</b>  |
| <u>Transfers to/from(-) reserves</u> |               |               |               |               |               |               |
| Working Balance                      | 0.085         | 0.000         | 0.000         | 0.043         | 0.050         | 0.051         |
| Elections reserve                    | 0.030         | -0.060        | 0.020         | 0.020         | 0.020         | -0.060        |
| Licensing                            | 0.000         | -0.055        | -0.053        | -0.034        | 0.000         | 0.000         |
| Waste                                | 0.000         | 0.118         | 0.000         | 0.000         | 0.000         | 0.000         |
| Homelessness                         | 0.000         | 0.020         | 0.020         | 0.020         | 0.020         | 0.020         |
| Change management                    | -0.107        | -0.076        | 0.000         | 0.000         | 0.000         | 0.000         |
| Budget Equalization Reserve          | -0.300        | -0.118        | -0.090        | -0.012        | 0.000         | 0.000         |
| <b>NET BUDGET REQUIREMENT</b>        | <b>8.965</b>  | <b>8.150</b>  | <b>8.393</b>  | <b>8.739</b>  | <b>9.083</b>  | <b>9.490</b>  |
| <u>Funding Available</u>             |               |               |               |               |               |               |
| Local Government Finance Settlement  | -4.106        | -3.187        | -2.771        | -2.701        | -2.634        | -2.634        |
| Area Based Grant                     | -0.029        | 0.000         | 0.000         | 0.000         | 0.000         | 0.000         |
| Council Tax                          | -4.853        | -4.921        | -5.094        | -5.274        | -5.460        | -5.652        |
| Collection Fund Balance              | 0.023         | -0.042        | -0.028        | -0.014        | 0.000         | 0.000         |
| <b>TOTAL FUNDING AVAILABLE</b>       | <b>-8.965</b> | <b>-8.150</b> | <b>-7.893</b> | <b>-7.989</b> | <b>-8.094</b> | <b>-8.286</b> |
| <b>MINIMUM SAVINGS TARGET</b>        | <b>0.000</b>  | <b>0.000</b>  | <b>0.500</b>  | <b>0.750</b>  | <b>0.989</b>  | <b>1.204</b>  |

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 predominantly through the implementation of the "Strategic Solutions" workstreams, established in 2010.

28. The table overleaf is an illustration of how Strategic Solutions will be used in combination to deliver the required level of savings. All figures are indicative at this stage and subject to change. The specific examples given are also illustrative and do not indicate any pre-determination of outcomes or exclusion of other areas for review. Confirmed savings adjusted for in the 2011/12 budget are shaded.

## Strategic Solutions Programme

| Workstream                          | Description  | Examples                           | Indicative target saving (£000) |              |              |              |              |
|-------------------------------------|--|------------------------------------|---------------------------------|--------------|--------------|--------------|--------------|
|                                     |  |                                    | 2011/12                         | 2012/13      | 2013/14      | 2014/15      | 2015/16      |
| Workstream 1:                       | Joining with other local authorities to deliver services in partnership and share costs or outsource to the private sector | Revenues and Benefits              | 0                               | 100          | 200          | 200          | 200          |
| Shared Services                     |  | Planning                           | 0                               | 50           | 100          | 100          | 100          |
|                                     |  | Shared Depot                       | 0                               | 0            | 10           | 20           | 20           |
|                                     |  | ICT                                | 0                               | 0            | 20           | 40           | 40           |
|                                     |  | Internal Audit                     | 0                               | 10           | 10           | 10           | 10           |
|                                     |  | Legal                              | 0                               | 5            | 10           | 10           | 10           |
|                                     |  | Finance                            | 0                               | 15           | 30           | 30           | 30           |
|                                     |  | <b>Workstream Total</b>            |                                 | <b>0</b>     | <b>180</b>   | <b>380</b>   | <b>410</b>   |
| Workstream 2:                       | Transferring services and assets to town/parish councils with UDC funding provided on a reducing basis                     | TIC                                | 10                              | 10           | 10           | 10           | 10           |
| Devolution                          |  | Toilets Dunmow                     | 12                              | 12           | 12           | 12           | 12           |
|                                     |  | Toilets SW                         | 4                               | 4            | 4            | 4            | 4            |
|                                     |  | Community assets SWTC              | 10                              | 29           | 43           | 58           | 58           |
|                                     |  | Museum                             | 30                              | 60           | 80           | 120          | 160          |
|                                     |  | <b>Workstream Total</b>            |                                 | <b>66</b>    | <b>115</b>   | <b>149</b>   | <b>204</b>   |
| Workstream 3:                       | Maximising revenue from council assets   | Car park tariff                    | 0                               | 80           | 120          | 160          | 160          |
|                                     |  | Reduce subsidy of Building Control | 51                              | 51           | 51           | 51           | 51           |
| Income Generation                   |  | Reduce subsidy of Pest Control     | 0                               | 8            | 13           | 17           | 17           |
|                                     |  | Concessionary Travel               | 0                               | 30           | 30           | 30           | 30           |
|                                     |  | Renting out accommodation          | 0                               | 15           | 25           | 25           | 25           |
|                                     | <b>Workstream Total</b>  |                                    | <b>51</b>                       | <b>184</b>   | <b>239</b>   | <b>283</b>   | <b>283</b>   |
| Workstream 4:                       | Stopping providing services or reducing contributions  | Supaloos                           | 71                              | 80           | 80           | 80           | 80           |
| Service Reduction                   |  | Gt Dunmow office sale              | 22                              | 22           | 22           | 22           | 22           |
|                                     |  | Toilets Felsted                    | 1                               | 1            | 1            | 1            | 1            |
|                                     |  | Solid Waste                        | 16                              | 16           | 16           | 16           | 16           |
|                                     |  | <b>Workstream Total</b>            |                                 | <b>110</b>   | <b>119</b>   | <b>119</b>   | <b>119</b>   |
| Workstream 5:                       | Ensuring that overheads are proportionate to the current business needs and size of the Council                            | Senior management structure        | 94                              | 94           | 94           | 94           | 94           |
|                                     |  | Procurement                        | 0                               | 20           | 30           | 40           | 50           |
|                                     |  | Asset Management                   | 0                               | 0            | 15           | 30           | 40           |
| Efficiency savings                  |  | ICT (R&B)                          | 39                              | 80           | 80           | 80           | 80           |
|                                     |  | Printroom (R&B)                    | 11                              | 21           | 21           | 21           | 21           |
|                                     |  | Finance (R&B)                      | 24                              | 24           | 24           | 24           | 24           |
|                                     |  | Legal (R&B)                        | 19                              | 34           | 34           | 34           | 34           |
|                                     |  | CSC (R&B)                          | 28                              | 63           | 63           | 63           | 63           |
|                                     |  | Mailroom (R&B)                     | 6                               | 11           | 11           | 11           | 11           |
|                                     |  | Building Control                   | 0                               | 10           | 21           | 32           | 32           |
|                                     |  | Budget Slack                       | 63                              | 70           | 70           | 70           | 70           |
|                                     |  | Allowances                         | 0                               | 125          | 190          | 235          | 250          |
|                                     |  | Service Efficiency                 | 0                               | 30           | 30           | 30           | 30           |
|                                     |  | Waste ZBB                          | 266                             | 266          | 266          | 266          | 266          |
|                                     |  | Credit cards                       | 0                               | 28           | 28           | 28           | 28           |
|                                     | <b>Workstream Total</b>  |                                    | <b>550</b>                      | <b>876</b>   | <b>977</b>   | <b>1058</b>  | <b>1093</b>  |
| <b>TOTAL FORECAST SAVING £000</b>   |  |                                    | <b>777</b>                      | <b>1,474</b> | <b>1,864</b> | <b>2,074</b> | <b>2,149</b> |
| 2011/12 SAVINGS ACHIEVED £000       |  |                                    | 777                             | 777          | 777          | 777          | 777          |
| NEW SAVINGS TARGET £000             |  |                                    | 0                               | 500          | 750          | 989          | 1,204        |
| CUMULATIVE SAVINGS REQUIREMENT £000 |  |                                    | 777                             | 1,277        | 1,527        | 1,766        | 1,981        |

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29. The MTFSS 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**

30. The Council will seek to safeguard those services that it considers to be highest priority as stated in the Corporate Plan.

31. 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.

32. 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.

33. 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.

34. 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.

35. 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
- 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.

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## V THE USE OF RESERVES

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

- Working Balance
- Budget Equalization Reserve
- Earmarked reserves

### Working Balance

37. 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 Assistant Chief Executive – Finance (ACE-F), under Section 25 of the Local Government Act 2003. This legislation requires the ACE-F 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 on what constitutes a minimum safe level of balances; this is very much down to the professional judgement of the ACE-F. The ACE-F will base his advice on consideration of the following factors:

- An amount necessary to cover a 2% overrun in gross expenditure (equivalent to c. £0.7m in 2011/12)
- An amount necessary to cover a 2% shortfall in expected gross income (equivalent to c. £0.4m in 2011/12)
- Whether an additional amount is necessary to cover specific risk items (variable).

38. 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.

|                                | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|--------------------------------|---------|---------|---------|---------|---------|
| Minimum safe contingency level | £1.130m | £1.177m | £1.225m | £1.275m | £1.327m |

39. 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.

40. 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 ACE-F's Section 25 advice.



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## **Budget Equalization Reserve**

41. 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.
42. 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.
43. 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.
44. Accordingly the Budget Equalization Reserve begins 2011/12 with an opening balance of £1.2m. 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:
  - Landsbanki Contingency – to absorb the reduction in the value of the deposit placed in the failed Icelandic bank, Landsbanki. At time of preparing this MTFS it is estimated that the amount to be written off in 2010/11 is approximately £1.2m.
  - Planning Development – for costs associated with major planning issues such as the Stansted G2 inquiry. The reserve can also be used to bring about improvements in planning performance.
  - Change Management – to enable the Council to secure the capacity and expertise necessary to deliver strategic solutions.
  - Waste Management – to ensure adequate contingency in a service where costs and income are prone to fluctuation. The reserve can also be used to invest in service improvements.

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

| £m                           | Actual<br>Balance<br>31.3.10 | Forecast<br>Balance<br>31.3.11 | Forecast<br>Balance<br>31.3.12 | Forecast<br>Balance<br>31.3.13 | Forecast<br>Balance<br>31.3.14 | Forecast<br>Balance<br>31.3.15 | Forecast<br>Balance<br>31.3.16 |
|------------------------------|------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <u>General Fund reserves</u> |                              |                                |                                |                                |                                |                                |                                |
| Working Balance              | 1.096                        | 1.181                          | 1.181                          | 1.181                          | 1.225                          | 1.275                          | 1.327                          |
| Change Management            | 0.547                        | 0.131*                         | 0.055*                         | 0.055*                         | 0.055*                         | 0.055*                         | 0.055*                         |
| Planning Development         | 0.770                        | 0.268                          | 0.268                          | 0.268                          | -                              | -                              | -                              |
| Landsbanki Contingency       | 1.162                        | -                              | -                              | -                              | -                              | -                              | -                              |
| Energy Efficiency            | 0.092                        | -                              | -                              | -                              | -                              | -                              | -                              |
| Waste Management             | 0.282                        | 0.282                          | 0.400                          | 0.400                          | 0.400                          | 0.400                          | 0.400                          |
| Homelessness                 | -                            | -                              | 0.020                          | 0.040                          | 0.060                          | 0.080                          | 0.100                          |
| Housing Benefits             | 0.100                        | 0.120                          | 0.120                          | 0.120                          | 0.120                          | 0.120                          | 0.120                          |
| Licensing                    | 0.138                        | 0.142                          | 0.087                          | 0.034                          | -                              | -                              | -                              |
| Elections                    | 0.032                        | 0.062                          | 0.002                          | 0.022                          | 0.042                          | 0.062                          | 0.002                          |
| Business Development         | 0.042                        | 0.042                          | 0.042                          | 0.042                          | 0.042                          | 0.042                          | 0.042                          |
| Budget Equalization          | 1.499                        | 1.215                          | 1.097                          | 1.007                          | 0.996                          | 0.996                          | 0.996                          |
| <b>Total Reserves</b>        | <b>5.760</b>                 | <b>3.443*</b>                  | <b>3.272*</b>                  | <b>3.169*</b>                  | <b>2.940*</b>                  | <b>3.030*</b>                  | <b>3.042*</b>                  |

\*excludes forecasted 2010/11 underspend of £0.584m

## VI HOUSING REVENUE ACCOUNT

48. 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 is below.

|                            | £000    | £000           |
|----------------------------|---------|----------------|
| Dwelling rents             | -12,067 |                |
| Other income               | -807    |                |
| <b>Total income</b>        |         | <b>-12,874</b> |
| Negative housing subsidy   | 5,199   |                |
| Depreciation               | 2,226   |                |
| Recharge from General Fund | 1,172   |                |
| Housing repairs            | 1,826   |                |
| Capital investment         | 500     |                |
| Sheltered housing          | 382     |                |
| Other services             | 1,585   |                |
| <b>Total expenditure</b>   |         | <b>12,890</b>  |
| Net reserves transfers     |         | <b>85</b>      |
| <b>In year deficit</b>     |         | <b>101</b>     |

49. In 2010 the Government confirmed its intention to implement a major reform of housing finance which will see the abolition of the housing subsidy mechanism and a redistribution of local authority housing debt. The effect of this on UDC is not known at the present time, although the consultation indicates that councils would commence the new system in a financially neutral position. This major uncertainty makes medium and longer term financial planning for the HRA difficult. Outcomes are expected some time in 2011, so the next MTFS update will evaluate the issues for the HRA.

50. 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 £0.26m in 2011/12)
- An amount necessary to cover a 2% shortfall in expected gross income (equivalent to approximately £0.26m in 2011/12)
- Whether an additional amount is necessary to cover specific risk items (variable).

This gives a target minimum Working Balance for 2011/12 of £0.515m. Projections show that the forecast level of HRA Working Balance in 2011/12 will be above the minimum safe contingency level. Opportunities will therefore be sought to make revenue contributions to capital works and to increase the level of programmed maintenance.

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51. Longer term challenges are faced by the HRA in relation to maintaining the condition of the housing stock and the Decent Homes Standard. Challenges also exist in the form of hard to let vacant dwellings and higher than ideal levels of void rent. These issues need to be addressed in the MTFS once clarity over the reform of the housing finance system is available.
  52. The Council is obliged to keep under review 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 during the period covered by the MTFS, 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.
  53. The Assistant Chief Executive – Finance 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

54. 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, together with an indicative programme for the next five years:

|                               | 2011/12      | 2012/13       | 2013/14      | 2014/15      | 2015/16      |
|-------------------------------|--------------|---------------|--------------|--------------|--------------|
|                               | £000         | £000          | £000         | £000         | £000         |
| Community & Housing (non-HRA) | 1,277        | 410           | 310          | 310          | 310          |
| Community & Housing (HRA)     | 2,511        | 92,025        | 2,070        | 2,120        | 2,170        |
| Environment                   | 539          | 3,460         | 420          | 140          | 60           |
| Finance & Administration      | 595          | 120           | 120          | 120          | 20           |
| <b>TOTAL</b>                  | <b>4,922</b> | <b>96,015</b> | <b>2,920</b> | <b>2,690</b> | <b>2,560</b> |
| <u>Funded by</u>              |              |               |              |              |              |
| External Funding              | 942          | 160           | 60           | 60           | 60           |
| Capital Receipts              | 250          | 200           | 200          | 200          | 200          |
| Major Repairs Allowance       | 2,011        | -             | -            | -            | -            |
| Revenue contribution          | 500          | 2,025         | 2,070        | 2,120        | 2,170        |
| Use of cash deposits          | 1,219        | 825           | -            | -            | -            |
| External Borrowing            | -            | 92,805        | 590          | 310          | 130          |
| <b>TOTAL</b>                  | <b>4,922</b> | <b>96,015</b> | <b>2,920</b> | <b>2,690</b> | <b>2,560</b> |

55. 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. Major items programmed for 2012/13 include replacing the refuse collection fleet and establishing new depot facilities.
56. The table above includes an illustrative sum of £90m relating to the expected requirement to make a significant payment to HM Treasury as part of the HRA reform proposals. The actual amount, timing and financing of this payment will be the subject of reports to Members in 2011 once the details are known.
57. 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.
58. The amount of capital receipts available is reducing. As a result, the capital programme will start to rely upon use of cash deposits and borrowing. The ensuing capital financing costs have been estimated and included in the financial projections within the MTFS.
59. The Capital Officer Working Group 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.

## IX ACTION PLAN

60. The following shows the progress made against the MTFS Action Plan for 2010/11. Following this is the MTFS Action Plan for 2011/12.

### ACTION PLAN 2010/11

|   | <b>Action</b>                              | <b>Intended Outcome</b>   | <b>Lead Officer(s)</b>              | <b>Progress as at 28 January 2011</b>   |
|---|--|---|-------------------------------------|---|
| 1 | Implement Strategic Solutions Workstreams  | Clarity about how the MTFS savings are to be met and progress made towards implementing strategic solutions | Strategic Management Board          | A Corporate Team has been established to implement the workstreams. Good progress has been made with £777,000 of confirmed savings for 2011/12.   |
| 2 | Use of Resources Improvement Plan          | Consolidate overall score of "2", and address individual KLOE scores of "1"                                 | Strategic Management Board          | We received informal feedback that the score of 2 had been consolidated with some improvements and that the scores of 1 had been addressed. The Use of Resources scheme was abolished before scores were formally confirmed. The Value For Money opinion for 2009/10 was improved with only one qualification (Asset Management) compared with four qualifications for 2008/09. |
| 3 | Implement Procurement Strategy Action Plan | Corporate arrangements are developed and targets set for savings and improvement                            | Assistant Chief Executive - Finance | The Council withdrew from the Braintree Procurement Hub and recruited a new Procurement Manager in 2010. Good progress has been made on implementing the Procurement Strategy. A report will be submitted to the Finance & Administration Committee in March.   |
| 4 | Implement Asset Management Action Plan     | Corporate arrangements are developed and targets set for savings and improvement                            | Assistant Chief Executive - Finance | The emphasis has been on developing a reliable asset register and a new asset management plan. These will be submitted to the Finance & Administration Committee in March.  |

|   | <b>Action</b>  | <b>Intended Outcome</b>   | <b>Lead Officer(s)</b>              | <b>Progress as at 28 January 2011</b>  |
|---|--|---|-------------------------------------|--|
| 5 | Budget training for Members and Budget Holders   | Improved understanding of the Council's financial position and processes and better budget planning and budget monitoring | Assistant Chief Executive - Finance | All budget holders received training in September 2010. Some Members received training in November 2010. Additional sessions were cancelled and will now be run after the May 2011 election. |
| 6 | Pricing & Concessions Policy   | A consistent approach to pricing and concessions is adopted for 2011/12   | Assistant Chief Executive - Finance | A new policy was adopted and has been implemented for 2011/12.   |
| 7 | Review of budgeting and accounting arrangements for the depot and housing repairs team | Reliable and robust budget and financial monitoring within the HRA  | Assistant Chief Executive - Finance | This has not been fully implemented due to time being diverted to respond to the Government's housing finance reform proposals.  |

#### **ACTION PLAN 2011/12**

|   | <b>Action</b>                             | <b>Intended Outcome</b>  | <b>Lead Officer(s)</b>              |
|---|---|--|-------------------------------------|
| 1 | Implement Strategic Solutions Workstreams | Clarity about how the MTFS savings are to be met and progress made towards implementing strategic solutions            | Strategic Management Board          |
| 2 | Asset management                          | Secure appropriate capacity and capability and implement the Asset Management Plan                                     | Assistant Chief Executive - Finance |
| 3 | Procurement                               | Continue with the implementation of the Procurement strategy   | Assistant Chief Executive - Finance |
| 4 | Extend Zero Based Budgeting               | Following the progress made with Waste budgets for 2011/12, carry out similar reviews of other services including HRA. | Assistant Chief Executive - Finance |
| 5 | Member training                           | Members understand UDC budgets and the environment in which they have to be managed.                                   | Assistant Chief Executive - Finance |
| 6 | Cabinet system                            | Realign budgets to new portfolios and develop new financial reports as necessary.                                      | Assistant Chief Executive - Finance |