

Medium Term Financial Strategy

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Medium Term Financial Strategy

Introduction

The ability to deliver, and to continue to deliver South Kesteven District Council's Vision and Corporate Plan in the future is dependent upon having the required resources to do so. Good financial management remains key to the Council.

At its meeting of 10th July 2006 the Cabinet approved the development of a more strategic forward looking approach to budgeting with a more robust three year planning process, demonstrating the direction of resources towards priority services.

This document sets out the medium term financial strategy for South Kesteven District Council for the five year period 2007/8 to 20011/12, and updates the existing strategy.

This strategy has been reviewed to take account of the financial outturn position for 2006/7.

South Kesteven has managed its financial resources prudently over many years and as a result is well placed to deliver community priorities into the future. Other documents which should be read in conjunction with this strategy are: the Capital Strategy; the Asset Management Plan; the Treasury Management Strategy, the Fees and Charges Strategy, the Annual Efficiency Statement and the Financial Regulations.

This strategy identifies a number of fundamental principles, which may be summarised as:

- **Principle 1 - The Community Strategy, Corporate Plan and Annual Performance Plan drive the allocation of resources.** All key decisions of the Council should relate back to the approved priorities of the Council. The Council has adopted a four point prioritisation process:
 - Category A – priority areas for stepped improvement
 - Category B – priority areas for incremental improvement
 - Category M – priority areas for maintained performance
 - Category Z – priority areas for managed dis-investment
- **Principle 2 - Manage financial resources to achieve Efficiency and Value For Money, whilst maintaining a balance between quality and cost effectiveness**
- **Principle 3 - Maintain flexibility to respond to a changing local government environment**
- **Principle 4 - Maintain a sustainable Revenue Budget**

- **Principle 5 – Maintain a prudent approach when making estimates of external funding from Government**
- **Principle 6 - Identify and seek opportunities for external funding whilst maintaining prudent estimates of realisable funding**
- **Principle 7 - Manage the Council's Assets, Reserves, Balances and Receipts to optimise financial returns for future investment in the Council's priorities for the benefit of the Community**
- **Principle 8 - Maintain a robust Capital Strategy to support deliverable medium term capital programmes**
- **Principle 9 - Improve Treasury Management performance**
- **Principle 10 - Balance the need to meet local taxation demands with Community aspirations and ability of local taxpayers to meet them**
- **Principle 11 - Maintain a robust Fees and Charges Strategy**
- **Principle 12 - Manage the impact of the introduction of Local Area Agreements**
- **Principle 13 - Deliver the priorities of the Council without exposing the Council to unnecessary risks by targeting the use of resources linked to corporate risk**
- **Principle 14 - Manage the financial viability of the Housing Revenue Account (HRA) and seek opportunities for investment funding without exposing the council to unnecessary risks.**

Principle 1 – The Community Strategy, Corporate Plan and Annual Performance Plan drive the allocation of resources

All key decisions of the Council should relate back to the Community Strategy, Corporate Plan and Annual Performance Plan that reflect the approved priorities of the Council. The Council has adopted a four-point prioritisation process as follows:

- Category A – priority areas for stepped improvement
- Category B – priority areas for incremental improvement
- Category M – priority areas for maintained performance
- Category Z – priority areas for managed dis-investment

The Council undertook a consultation process in 2004 to identify priorities this resulted in the setting of Council priorities based on the above categories. The Council has since undertaken an annual review to ensure they remain fit for purpose. The review

incorporates a “¹Gateway Review” process, whereby, progress towards achieving outcomes and the effectiveness of the individual plans are reviewed.

The Council’s Capital and Revenue budgets should be allocated taking account of the four-point prioritisation process. The Capital Strategy and service planning templates have been developed to enable effective allocation of resources according to priorities.

Category A – Priorities for stepped improvement

Category A priorities are those areas identified for “stepped improvement”, as a result of responding to a major national or local priorities. Following the annual review of the four year priorities the Council’s Category A priorities are proposed as follows:

- Bourne and Grantham Town Centres
- Communications
- Customer Service
- Effective use of resources
- Grantham Growth point
- Recycling

Category B – Priorities for incremental improvement

Category B priorities are those identified for “incremental improvement”. A list of the category B priorities is appended to this Strategy at appendix 1.

Category M – Priorities for maintained performance

Category M priorities are areas of the Council’s operation that have been identified to be “maintained” at the current level of performance or to ensure that a statutorily defined level of service is achieved. Category M priorities are summarised at appendix 2.

Category Z – Service areas identified for managed dis-investment

The Council recognises that the resources available to it are finite and that there is a need to prioritise service investment into those areas that have been identified as either a category A,B or M. To enable this to be achieved the Council has identified service areas for a managed dis-investment, with a policy to re-invest these savings into the priority areas. A list of category Z services is appended to this strategy at appendix 3. To enable the forward

¹ Gateway review involves the service manager, Cabinet Members, members of the Management Board, and Scrutiny Panel members

plans to be achievable it is essential that the category Z savings are managed out within the identified timescales, in the event that this is not possible, alternative proposals will need to be identified and approved by members as part of the prioritisation process.

The savings within non-priority areas identified in October 2004 are included within appendix 3. During 2006/7 the council achieved 76% of its target for category Z savings equivalent to £347k which has been reinvested into priority services.

Principle 2 - Manage financial resources to achieve efficiency and “Value for Money”

To ensure that available resources are used to best effect, the Council is continuing to develop its Corporate and Service Planning approach. This approach includes the following.

Delegation of Budget Management

Budget management has been delegated to individual service managers with effect from 1st April 2007. This process has been supported by appropriate training and internal controls. The training for service managers will be ongoing to further develop their skills. This approach has been adopted to enable responsibility and accountability for delivering services within agreed resource levels to be placed at the heart of service delivery and to achieve improved outcomes for service users.

It is important that Service Managers take a medium term view of their service and in so doing, bid for appropriate and realistic levels of funding by presenting robust service plans and any additional requests for funding will be supported by valid business cases. Once the service budget has been approved, Service Managers will need to operate within the approved budget and utilise virement sparingly but effectively to provide the flexibility to deliver service outcomes efficiently.

Benchmarking and identifying efficiency gains

In response to the efficiency agenda and to ensure Value for Money is achieved, the Council is developing a robust benchmarking approach which will need to be embedded across the organisation. This will support the ongoing search for efficiency gains.

The aim of the local efficiency agenda is to ensure that resources available to local government are used in the optimum way to

deliver better public services according to local priorities. All local authorities are expected to achieve the following targets:

- Total efficiency gains equal to at least 2.5% of their 2004/5 baseline expenditure by the end of 2005/6 and 5% by the end of 2006/7 and 7.5% by end of 2007/8
- Cashable efficiency gains equal to at least 1.25% of their 2004/5 baseline expenditure by the end of 2005/6, 2.5% by the end of 2006/7 and 3.75% by end of 2007/8.

The Council's Annual Efficiency Statement, which sets out the annual efficiency target together with the detail of how the target will be achieved is produced in April each year and submitted to the Department of Communities and Local Government (formerly the Office of the Deputy Prime Minister). The Council's revised forecast for the three years 2005/6 to 2007/8 is £1,087,000 efficiency gains of which £543,500 is cashable².

All services are currently subject to a review, as part of the service planning and budget development process, in terms of costs, performance and quality. Policy development and scrutiny mechanisms are also in place, these include: Policy development groups; scrutiny panel, internal audit, external audit, and Governance & Audit Committee and "Gateway Reviews" of individual service plans.

The Chancellor of the Exchequer announced, in his pre-budget statement in December 2006, that the public sector efficiency target will be 3% with effect from 2008/9. It is currently proposed that this will be cashable but further information is expected in the Autumn as part of the comprehensive spending review 2007 (CSR07) and subsequent Grant Settlement announcements.

Establishing the baseline for efficiency savings – As part of the CSR07 submission to the Settlement Working Group, the Local Government Association (LGA) produced a paper reflecting the concerns of the majority of local authority treasurers that the 3% cashable target for CSR would equate nationally to over £5bn over the period, by seemingly applying this percentage to a much larger base than had been used for Spending Review 2004. In particular, the LGA expressed concern that the 3% cashable target should only apply to areas of spending where councils have real control over budgets. Often large amounts of spending are tied up in external contracts or other mandatory spending. Based on 2007/8 General

² Cashable – result of a direct financial saving or benefit, with money released that can be spent elsewhere or recycled within a service to deliver better results

Fund expenditure estimates the level of spending not directly controllable by the Council is around £6.1m.

a. External Contracts - The Council has some long term contracts. It will be difficult to deliver efficiencies on these, particularly where they are indexed linked to RPI. The value of these contracts within the General Fund is £1.3m.

In addition, software provider licences and support agreements is a substantial area of expenditure. The scale of the ongoing licensing commitments is being evaluated and an update will be provided to members [this has not been taken into account in the assumptions used in this paper]

b. Drainage Board Levies – £546k, this is mandatory expenditure.

c. Business Rates - £887k

d. Concessionary Travel – Mandatory spending currently estimated at £420k but early estimates are that this will increase substantially, possibly to £840k per annum following the introduction of the national scheme in April 2008.

e. External Audit Fee – Annual audit and inspection fee for 2006/7 £106k.

f. Fuel – The Council spend on fuel was £425k. in 2006/7.

g. Utilities – whilst the Council does seek competitive prices for energy costs, the estimate for utilities costs is £361k for 2008/9.

h. Capital charges – the capital charges included within the total service costs are £1,850k for 2008/9

If the 3% cashable target for CSR07 applies to the net cost of services, then the efficiency target effectively becomes 4.6% of costs directly controllable by the Council, as there are barriers to negotiating 3% cashable savings on this type of expenditure. The efficiency target is estimated to be £528k based on net service costs of £17.610m.

During the last financial year service managers were asked to identify a 5% efficiency target as part of the service planning approach. It is proposed that in the future efficiency gains are stepped to take account of priorities and value for money analysis but should target to achieve an overall efficiency of 5%.

Opportunities for future efficiencies – In light of the potential financial pressures and expenditure constraints all options should be considered for generating efficiencies from the areas of expenditure

which are potentially within the Council's direct control. The options for delivering efficiencies include:

- Lincolnshire Shared Services – the various workstreams should be evaluated to examine the level of efficiencies that may be achieved.
- In-house provided services – the Council provides a number of frontline services together with a number of support services. All services should be benchmarked to evaluate value for money and identify potential for efficiencies through market testing
- Overheads – an examination of the Council's overhead base to establish value for money and opportunities for achieving efficiencies.

Principle 3 - Maintain flexibility to respond to a changing local government environment

The Medium Term Financial Strategy is and will continue to be influenced by changing national and regional policies. A degree of flexibility needs to be allowed in allocating resources outside the annual budget process. This principle should be established in response to rapid change, national constraints, new Government regulation and direction. The risk and uncertainty of managing the Council needs to be counter-balanced with some spare capacity and contingent resources. The section on Managing the Council's Assets, Reserves and Balances also addresses with this issue.

"Horizon scanning" should be ongoing particularly in light of the CRS07. The CSR07 will be a zero based review across the whole of government. Whilst there have been a number of spending reviews this is the first comprehensive review in ten years. It is likely that Local Government will maintain a real terms neutral position. However, in terms of district councils it is likely that this will result in a decrease in real terms, as districts do not deliver the highest priorities identified by government such as Education and Adult Social Services. Themes being considered as part of the CSR07 include: the review of the level of balances and reserves; asset management and surplus assets; and efficiency and shared services.

In 2003/4 the Council set up a capacity building a priority setting reserve. Also, to enable the Council to optimise gains from specific initiatives within the changing environment, the budget for 2007/8 has made provision for an "Invest to Save" budget in the Council's overall revenue budget. This enable the flexibility to target resources where there is an opportunity to invest some revenue

funding to make efficiency gains for the future or save in the longer term. Access to the "Invest to Save" budget is by submission of a business case.

Principle 4 - Maintain a sustainable Revenue Budget

This strategy addresses the issues relating to the resource requirement to deliver the Council's Corporate Plan and Annual Performance Plan. The strategy makes more active use of resources to meet the vision of the Council and Government requirements over the next five years.

When closing the Accounts for 2005/6 the Council adopted an accounting policy of maintaining a General Fund working balance of between 4% to 5% of gross turnover or between 10% - 15% of net expenditure to provide adequate cover for any unanticipated expenditure or loss of income that may occur over the course of the financial year. This has been maintained in 2006/7.

The Council has previously identified a desire to move towards adopting zero based budgeting principles. This will be done on an incremental basis, by introducing activity based costing, incorporating value for money benchmarking into service planning and requiring the demonstration of a sound business case to support requests for funding.

Whilst there is a need to consider the longer term forecast of the impact of corporate demands it is essential that this is also reviewed annually as part of the budget setting process. The following corporate demands have been identified for 2008/9:

- **Overall inflation** based on consumer Price Index 2.4% (June 2007) (Retail Price Index 4.4% June 2007).
- **Energy costs** are likely to fall sharply during the last six months of 2007. The Council has fixed price contracts for gas and electricity and new contracts will be rigorously negotiated.
 - The Gas contract is for 2 years with Scottish and Southern power and expires 30 November 2007
- The current 3 year **pay settlement** came to an end at the end of 2006/7. Negotiations commenced in autumn 2006 and are still ongoing. The Chancellor has urged that public sector pay settlements are kept low. For the purposes of budgeting the council has provided a local settlement of 2% for 2007/8 and it is proposed that the CPI rate be used for future budgeting purposes.

- The Actuary is undertaking a '**Triennial' Review of the Pension Fund** and the report is due in December 2007. The early alert schedule received from the Actuary shows the likely need for a contribution rate of 21.7% (an increase of 0.3%) to take account of the effects of the changes of the pension scheme together with demographic changes.
- The **Leisure Contract** is due to expire in March 2008. The council is currently re-tendering this Contract. The evaluation of the tenders is due to take place in autumn 2007 and the outcome from this process will need to be addressed in the service planning process for 2008/9.
- There has been an increase in take-up and use of the **free bus pass**. In addition, the scheme will be extended on a national basis from April 2008. Regulations are currently being developed by Government and the impact of these is currently being evaluated. The council will have to bear set up costs which are estimated at £150k. The estimated increase in cost of the enhanced scheme may be up to 100%, a further £420k. It is proposed that there will be Government set up grant currently estimated at £36k plus an additional amount of grant included within the Formula Grant calculation towards the cost of operating the scheme. However it is unclear how much this will be. The Government's national budget is £212m to be distributed between the 291 Travel Concession Authorities.
- **Housing Benefit Administration Grant. The introduction of Local Housing Allowance** - the Department of Work and Pensions has announced a 5% cut in expenditure per annum in real terms for the 3 year period 2008/9 to 2010/11 resulting in a 5% per annum reduction in Benefit Administration Subsidy, with an estimated loss of £37.3k subsidy per annum. In addition, a recommendation from the Lyons review is for councils to encourage greater take up of benefit by eligible groups, creating a further budget pressure. The private sector rent rebate will be replaced by the Local Housing Allowance from 1st April 2008. The council has received notification of the announcement of £102k grant award set up costs, receivable over two financial years 2007/8 to 2008/9.

The district has one of the fastest growing populations in the country, and Grantham has been identified as a potential growth point, which should be reflected in the Tax Base (although this will be partly reflected in relatively lower Formula Grant). The Council has agreed to a review of the assumptions used to assess the Tax Base and Collection fund as follows:

- The estimated number of properties (in Band D terms) expected to be added for the period of the budget
- The collection rate assumptions
- The balance on the Collection Fund

Although the financial benefit from the above actions may not be major, it will enable the resource base to be increased in a sustainable way.

Following a ballot of Council House Tenants and the Council's subsequent decision to retain the Council's Housing Stock, officers are reviewing the Council's Housing Revenue Account business plan and developing proposals for the HRA's longer term sustainability, these will be considered by members in due course.

Principle 5 – Maintain a prudent approach when making estimates of external funding from Government

In 2003/4, the Council benefited from the methodology changes for the distribution of formula grant. In 2004/5 further changes to the grant system caused further difficulties in assessing the grant settlement. On a like for like basis the general level of grant received was a 2.3% increase; below the rate of general inflation. For 2005/6 the formula was more consistent than in the previous 2 years, although the capping criteria was harsher.

In 2006/7, the Government introduced a new system to distribute grant to local authorities – Under the new system the distribution of grant is determined by four elements known as the 4 block grant distribution system. The previous system involving the use of Formula Spending Share has been removed. The four elements are the Relative Needs Formulae (RNF); a Relative Resource Amount; a central allocation (an amount per head) and a floor damping scheme. The Council's formula grant for 2006/7 was £9.27m, this was an increase of 3.3% on 2005/6 on a like for like basis. The settlement provided for new money for the extension of concessionary travel from half to free fares for the over 60s and qualifying disabled. The funding was included in the level of formula grant received and cannot be separately identified.

Following the 2006 budget announcement of the introduction of free national bus travel during off peak times for the qualifying group referred to above with effect from April 2008, it is unclear at this stage how this scheme will be administered and how this will impact on the level of grant settlement in future years, therefore, the Council has agreed to ask officers to keep this under review until the outcome is known.

Also in 2006/7 the Government for the first time provided an 'indicative allocation' for more than one year ahead. The indicative allocation for 2007/8 was £9.626m, this was later confirmed. The Government has confirmed that, with its next comprehensive spending review (CSR07), it intends to move to announcing figures for 3 financial years as part of future years' grant settlements, starting with an announcement in 2008/9. Whilst this will enable more robust forward planning of the MTFS, as referred to in the text associated with principle 3 above, it is likely that future settlements for districts will result in a decrease in real terms, as a result of the CSR07. An announcement on formula grant is due in December 2007.

Taking account of the forgoing the assessment of future levels of government grant is always difficult although the table below sets out potential position for SKDC over the next four years (assumes inflation at 2.4% based on CPI wef 2009/10).

Final settlement 2006/7 £m	Final settlement 2007/8 £m	Assumed settlement 2008/9 £m	Assumed settlement 2009/10 £m	Assumed settlement 20010/11 £m	Assumed settlement 20011/12 £m
9.272	9.626	9.626	9.857	10.093	10.336

Sir Michael Lyons undertook a review of the function and funding of Local Government. The final report was published in spring 2007. It is likely the CRS07 and grant settlement may address some of the recommendations, although Government has already indicated it will not implement the recommendations in their entirety.

Specific grants - Specific grants are to be reviewed as part of the CSR07. The level of specific grant received by the council in 2007/8 totalled £1.799m, broken down as follows:

Specific Grants payable to SKDC in 2007/8	
Description	£'000
Housing benefit administration grant	745
Planning delivery grant 1 st Tranche	28
Smoke free legislation implementation grant	52
Waste performance and efficiency grant	109
Local Authority Business Growth Initiative grant	865
Total Specific Grants	£1,799

Principle 6 -Identify and seek opportunities for external funding whilst maintaining prudent estimates of realisable funding

This continues the strategy 4 of the Council's previous MTFS – "The Council must continue to find new sources of funding for its activity." This strategy was adopted in light of the fact that Government funding continues to be 'top-sliced' for specific projects. The council's policy is that if a specific scheme links with the Council's priorities then bids should be submitted.

The secured use of section 106 agreements have and continue to help develop community assets with less reliance upon the Council's own resources. It is essential that a database of section 106 agreements is maintained and managed to ensure that the community benefits are realised in line with the agreements made.

Examples of the council's previous successful access to additional external funding include:

- DEFRA funding to support the development of the Council's recycling priority
- Planning Delivery Grant for improved performance in line with the Council's category B priority at that time

The Council, along with other Lincolnshire Districts and the County Council have entered into a Public Service Agreement (round 2) and may receive performance reward grant if it can demonstrate achieving 'stretch' targets in line with the PSA. Service Managers will need to ensure the achievement of these targets is built into their service plans.

The medium term financial issues arising from additional funding streams are:

- If commitments are made that extend beyond the period or amount of grant funding and appropriate exit strategy or sustainability plan is put in place
- When integrating various funding streams into their programme delivery, Service Managers need to be clear about:
 - The use and timespan of that funding; and
 - The outputs and outcomes required as a result of receiving that funding

A review of the current position relating to Performance Grants, Challenge Funding and Partnership contributions will be undertaken during the remainder of the current financial year.

Principle 7 - Manage the Council's Assets, Reserves, Balances and Receipts to optimise financial returns for future investment in the Council's priorities for the benefit of the community

The Council has reviewed its Asset Management Plan, Capital Strategy and Treasury Management Strategies during 2006/7. These reviews have been undertaken on the basis of ensuring that financial returns for future investment in Council priorities are optimised for the benefit of the community.

The Asset Management Plan is the core document identifying those assets either not being fully utilised or those that are surplus to requirements. The Capital and Asset Management Performance Group evaluate operational issues arising from the AMP and feeds them back to the Management Board and Cabinet.

Reserves can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- A means of building up funds often referred to as earmarked reserves to meet known or predicted liabilities.

Whilst it is primarily the responsibility of the council and its section 151 officer to maintain a sound financial position, external auditors have a responsibility to review the arrangements in place to ensure that financial standing is soundly based. In the course of their duties external auditors review and report on the level of reserves taking into account their local knowledge of the council's financial performance over a period of time. The Annual Audit Letter and Use of Resources Assessment identified that "comparatively levels of reserves and balances are high and are in need of review to ensure they remain appropriate under current circumstances". It is also likely that a theme of the CSR07 will be a review of balances and reserves, asset management and surplus assets.

A schedule of reserves and the purposes for which they are held is attached at appendix 4. A review of the level of balances and reserves was undertaken as part of the closure of accounts and preparation of Annual Statement of Accounts for 2005/6 and 2006/7 together with a review during the preparation of the budgets for

2007/8. The balance of reserves as at 31st March 2007 was as follows:

General Fund Reserves	£9.3m
Capital Reserves	£4.7m
Housing Revenue Account	£15.5m

Details of the level of reserves and current estimated movements on reserves for 2007/8 are contained in Appendix 5 [to be circulated at the meeting]. The level of individual reserves was reviewed to take account of potential future use and particularly those, which are earmarked for specific purposes.

During the remainder of the financial year the Council will develop a clear protocol for the use of each reserve which will build on the attached schedule by:

- Identifying how and when the reserve can be used (based on the above rationale)
- Further develop procedures for the reserve's management and control
- Further develop a process and timescale for the ongoing review of each reserve to ensure continuing relevance and adequacy.

Principle 8 - Maintain a robust Capital Strategy to support a deliverable medium term capital programme

The Council's Capital Strategy was reviewed during 2006/7. The new strategy covers the period 2007/8. The new strategy fully addresses the new system of capital finance controls set out in the Prudential Code for Capital Finance in Local Authorities (the code).

The professional code of practice sets out a framework for self-regulation of capital spending, in effect allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. The Code allows the council to determine the appropriate level of capital investment to properly deliver quality public services, subject to affordability.

To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators. These indicators are mandatory, but can be supplemented with local indicators if this aids the interpretation and many will cover three years forward. The indicators cover capital expenditure, affordability, prudence, external debt and treasury management. A

copy of the prudential indicators for 2007/8 is attached at appendix 6. The indicators are purely for internal use by the council and are not to be used as comparators between councils, as any comparisons will be meaningless. The indicators should not be taken individually, but rather there will be benefit from ongoing monitoring of trends over time and year on year changes.

In addition, the revised Capital Strategy sets out the Council's approach to capital investment and has resulted in the development of a medium term capital programme which will be reviewed to provide a forward five-year view. All capital schemes are appraised and scored when developing the medium term capital programme, however, it is essential that the process is flexible enough to deal with emerging or urgent schemes.

The Capital Strategy will need to be kept under review to ensure it remains 'fit for purpose'.

Principle 9 - Improve Treasury Management Performance

Treasury Management is the management of cash and working capital, including both short term cash and long term funds. The Council has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

The Council has currently maintained a flexible approach to debt redemption and borrowing. Regular reports will be presented to the Governance & Audit Committee on performance.

Treasury Management is an important element within the value for money assessment. The Council has been repaying debts for a number of years and is left with a low level of debt but at 'relatively' high interest rates. If this is repaid early the Council will pay a premium for doing so, hence the current policy of repaying on maturity.

Given that the Council is looking to enhance its capital programme, the Prudential Code will be used to ensure the decisions made with regard to borrowing reflect affordability, sustainability and value for money. This will involve consideration of the following issues:

- Balancing investment income against new borrowing, ie it may be cheaper to bring back investments to fund new capital expenditure
- Leasing versus buying outright

- Ensuring that the balance of investment between General Fund and Housing Revenue Account is well defined and analysis of the impact of changes of debt and investment structure on both funds.

The current investment strategy is relatively cautious, and whilst it is respected that the Council will wish to be risk averse with regard to capital investment, there are opportunities to grow the returns from investments without undue risk.

The existing strategy should be widened to include alternative options available. The development of the strategy will also require the development of a longer-term Capital Programme, and a clearer link to the budget process so that resource base can be updated to include the best estimate of investment returns.

To develop the Treasury Management function the Council has engaged external advisors who:

- Have completed an overview of the Council's financial position with regard to its strategy and objectives, including an analysis of the Council's Consolidated Balance Sheet and relationship of borrowing to the Capital Financing Requirement. An examination of future year's forecasts and the implications for the debt and investment portfolios has also be undertaken and fed into an annual review of the Council's Treasury Management Strategy
- Undertake Interest Rate Forecasting and Economic Advice
- Undertake an analysis of the variable debt portfolio with reference to its structure and volatility
- Undertake a review of debt structuring
- Provide technical advice
- Assist with the annual treasury management report and stewardship statement
- Provide advice, assistance and recommendations relating to CIPFA Code of Practice and the Prudential code
- Review the Council's investment strategy to ensure compliance with Investment Guidance from the Department of Communities and Local Government

Principle 10 – Balance the need to meet local taxation demands with Community aspirations and ability of local taxpayers to meet them

The Council currently has the 2nd lowest council tax in Lincolnshire. Historically the council has been a low spend low tax authority. The Council is committed to achieving high quality and high performing services. The Corporate Plan currently in development acknowledges the need to spend more in order to improve the Council's status as a service deliverer and enabler.

With Government grant likely to reduce in real terms and spending already at a low level, the Government policy to keep tax increases from year to year at a modest level (5% for 2006/7) means that the Council is working from a relatively low resource base, therefore, all potential income streams need to be considered. In keeping with recent years it is likely that the level of Council Tax increase acceptable to Government will need to be limited to an increase of less than 5% taking account of the current capping regime. The table³ below sets out an indicative SKDC and Special Expenses budget requirement to be funded from Council Tax.

2006/7 £m	2007/8 £m	2008/9 £m	2009/10 £m	2010/11 £m	2011/12 £m
5.144	5.464	5.791	6.138	6.514	6.907

Principle 11 - Maintain a robust Fees and Charges Strategy

The Council approved a revised fees and charges strategy in 2006/7 to address both discretionary and mandatory fees over a rolling three year period. The Fees and Charges strategy should be read in conjunction with this strategy.

The strategy reviews income options taking into account the impact on service users' in terms of affordability and accessibility and requires the benchmarking of charges to ensure that a robust strategy is maintained. The fees and charges strategy should be read in conjunction with the schedule of charges, contained in the budget book. The schedule includes the date of revision, and the basis of calculation and takes account of the Local Government Act 2003, which permits Council's to charge for further areas. In addition, the strategy will need to address the final outcome of the Lyons Review in relation to the ability to raise local income.

³ Assumes a maximum of 5% tax increase and 1% increase in taxbase

Principle 12 – Manage the impact of the introduction of Local Area Agreements

SKDC and other Lincolnshire Councils were in the final phase of the first round of Local Area Agreements (LAAs). The Local Area Agreement was negotiated and agreed to the end of 2006/7.. It is essential that the impact of the introduction of LAAs is fully understood and managed to enable the funding outcomes to be incorporated into future revisions of the MTFS.

Principle 13 – Deliver the priorities of the Council without exposing the Council to unnecessary risks by targeting the use of resources linked to an assessment of corporate risk

SKDC is enhancing its approach to managing risk both at a strategic and operational level. Mechanisms are currently in place to manage strategic risks through a regular ongoing review of the Strategic Risk Register by the Management Board. In addition, the service planning template incorporates a risk assessment to be completed by Service Managers. Further work is ongoing to embed risk management across the authority, with the creation of an operational risk group.

There is a need to ensure that the Council is not exposed to unnecessary risks by adopting a policy of targeting the use of resources linked to an assessment of corporate risk and ensuring that appropriate mechanisms are in place to monitor the effectiveness of this approach and ensure that it is being embedded. The mechanisms will include a greater emphasis on risk assessment in the preparation of requests for resources through the service planning and budget process.

Principle 14 – Manage the financial viability of the Housing Revenue Account (HRA) and seek opportunities for investment funding without exposing the council to unnecessary risks

The Council produces a 30 year business plan for the HRA, this is currently under review.

The MTFS will need to take account of the outcome of the review of the business plan to establish the extent of tenant aspirations that can be afforded with the level of resources that can be provided by the HRA.

In the interim, the financial viability of the HRA should be managed and maintained within government guidelines.

Appendix 1 – Category B Priorities for incremental improvement

- Local Neighbourhoods
- Housing Management
- Public Assets
- Climate Change

Appendix 2 – Category M priorities for maintained performance or statutorily defined level

- Arts centres
- Business Rates
- Care Services
- Car parks
- Emergency Planning
- Enforcement services
- Internal services
- Leisure
- Licensing
- Markets
- Parks
- Public Conveniences
- Public Transport (statutory requirements)

Appendix 3 – Category Z projected annual savings

Projected Category Z savings

Service	Proposal	2007/8 £k estimate	2008/9 £k estimate	2009/10 £k estimate	2010/11 £k estimate	2011/12 £k estimate
Travel vouchers	Restrict eligibility for new applicants	0	200	0	0	0
Rural routes	Terminate subsidy on rural routes	0	36	0	0	0
Discretionary rate relief	Develop new scheme	0	5	0	0	0
Business support grants	Terminate current scheme but create new scheme encouraging inward investment	38	0	0	0	0
Grants to Arts, Leisure & Housing orgs	Terminate current scheme but create new scheme established under vulnerable persons priority	0	0	0	0	0
Historic Building Grants	Terminate schemes	0	0	0	0	0
LCC recreation grants	Reduce contribution to 16.6% and max budget of £25k with no funding to schemes not supported by LCC	0	0	0	0	0
Archaeology services	Reduce contract to meet only statutory obligations Continue to provide TIC at Grantham & Stamford but curtail investment in strategic tourism development	0	0	0	0	0
Tourism		0	0	0	0	0
Annual sub total		38	241	0	0	0
Parish council election exes	Re-charge Parish election exes to parish councils in years of election	6	0	0	0	0
Sub total		44	241	0	0	0
Revised Z savings estimate		44	241	0	0	0

The above projections do not show the amounts which have been saved through managed dis-investment in previous years as these have now been re-invested into priority areas in line with the Council's prioritisation process.

Appendix 4 –Schedule of Reserves

Category of earmarked reserve	Rationale
Insurance Reserve (Revenue)	A high level of 'Self-insurance' is a mechanism used by the Council to reduce external premiums. Sums are held in this earmarked reserve to meet potential and contingent liabilities.
Pension Reserve (Revenue)	<p>Former Employees – This reserve provides for matching added years payments in respect of former employees. The Council does not currently operate a policy for added years and this reserve will reduce over time.</p> <p>Current Employees – This reserve is used to finance the capital costs of early retirement decisions taken by the Council and to help protect the Council from large changes in Council Tax resulting from unanticipated rises in the employer's contribution rate following the triennial valuation</p>
Building Control (Revenue)	Annual surpluses from the chargeable element of Building control activities are set aside in this reserve and it is then used to finance service improvements and offset any future deficits
Stock Option Ballot Reserve (Revenue)	This reserve was set up to offset any abortive costs arising from the ballot of Tenants, to protect the General Fund from any impact. The abortive costs of the LSVT were offset against it during the preparation of the Statement of Accounts. The remaining balance has been transferred to the capacity reserve and the reserve closed as part of the Closure of Accounts process.
Capacity building, priority setting and service improvement reserve (Revenue)	This reserve has been created to finance stepped improvements required for delivery of the Council's priority services and support the creation of additional corporate capacity.
Major Repairs Reserve (Capital)	This is the mechanism whereby the Council is required to account for the resources provided through the Major Repairs Allowance, which is provided through Housing Revenue Account Subsidy and is available to fund capital expenditure on HRA assets.
General Fund (Capital reserve)	This reserve is earmarked to finance the Council's future capital programme

Balances	
Housing Revenue Account (HRA)	The HRA is maintained in accordance with the Local Government and Housing Act 1989 which sets out the framework for "ring-fencing" the HRA. The account has to be self financing and there is a legal prohibition on cross subsidy to or from the General Fund
General Fund	Council has approved the policy of maintaining a General Fund working balance of between 4% to 5% of gross turnover or between 10% - 15% of net expenditure to provide adequate cover for any unanticipated expenditure or loss of income that may occur over the course of the financial year
Collection Fund	The balance on the Collection Fund is available for financing the expenditure of Lincolnshire County Council, Lincolnshire Police Authority and SKDC

Appendix 5 – Movements in Reserves

	Balance as at 31 March 2007 £'000	Transfer to Reserve in year £'000	Transfer from Reserve in year £'000	Balance as at 31 March 2008 £'000	Movement on Reserve in year £'000	Balance as at 31 March 2009 £'000	Movement on Reserve in year £'000	Balance as at 31 March 2010 £'000	Movement on Reserve in year £'000	Balance as at 31 March 2011 £'000	Movement on Reserve in year £'000	Balance as at 31 March 2012 £'000
General Fund												
Capital Reserve												
General Fund Capital Reserve	2,249	-	(2,249)	-	-	-	-	-	-	-	-	-
Revenue Reserves												
Insurance Reserve	500	-	-	500	-	500	-	500	-	500	-	500
Pensions Reserve - Former Employees	392	-	(65)	327	(65)	262	(65)	197	(65)	132	(65)	67
- Current Employees	1,502	-	-	1,502	-	1,502	-	1,502	-	1,502	-	1,502
Building Control	276	-	(35)	241	(35)	206	(35)	171	(35)	136	(35)	101
Capacity Building, Priority Setting and Service Improvements	1,557	-	(476)	1,081	(288)	793	(532)	261	(261)	0	0	0
	4,227	-	(576)	3,651	(388)	3,263	(632)	2,631	(361)	2,270	(100)	2,170
Working Balance	2,824	-	(865)	1,959	-	1,959	-	1,959	-	1,959	-	1,959
Total General Fund Reserves	9,300	-	(3,690)	5,610	(388)	5,222	(632)	4,590	(361)	4,229	(100)	4,129
Net Movement in General Fund Specific Reserves			(3,690)		(388)		(632)		(361)		(100)	
Housing Revenue Account(HRA)												
Capital Reserve												
Major Repairs Reserve	7,643	3,477	(7,490)	3,630	(2,378)	1,252	(220)	1,032	(220)	812	(220)	592
Working Balance												
Housing Revenue Account	7,863	-	(456)	7,407	25	7,432	538	7,970	-	7,970	-	7,970
Total HRA Reserves	15,506	3,477	(7,946)	11,037	(2,353)	8,684	318	9,002	(220)	8,782	(220)	8,562
Other Capital Reserves												
Useable Capital Receipts Reserve	4,757	1,675	(2,700)	3,732	500	4,232	(1,696)	2,536	(1,696)	840	(840)	-
Total Other Capital Reserves	4,757	1,675	(2,700)	3,732	500	4,232	(1,696)	2,536	(1,696)	840	(840)	-
Total Reserves	29,563	5,152	(14,336)	20,379	(2,241)	18,138	(2,010)	16,128	(2,277)	13,851	(1,160)	12,691

Appendix 6 – Prudential Indicators –

Budget and Rent Setting Report and Treasury Management Strategy Report 2007/08 – England – HRA Authorities

Executive Summary

Capital Expenditure - The projected capital expenditure is expected to be:

Capital expenditure	2006/07 Revised £'000	2007/08 Estimated £'000	2008/09 Estimated £'000	2009/10 Estimated £'000
Non HRA	6,611	4,925	2,170	2,170
HRA	7,432	6,020	5,878	5,916
Total	14,043	10,945	8,048	8,086

Debt Requirement - Part of the capital expenditure programme will be financed directly (through Government Grants, capital receipts etc.), leaving a residue which will increase the Council's external borrowing requirement (its Capital Financing Requirement – CFR). The General Fund CFR is reduced each year by a statutory revenue charge for the repayment of debt (there is no requirement for an HRA charge).

Capital Financing Requirement	2006/07 Revised £'000	2007/08 Estimated £'000	2008/09 Estimated £'000	2009/10 Estimated £'000
Non HRA	5,361	7,141	8,790	10,373
HRA	2,159	2,159	2,159	2,159
Total	7,520	9,300	10,949	12,532

Against this borrowing need (the CFR), the Council's expected external debt position for each year (the Operational Boundary), and the maximum amount it could borrow (the Authorised Limit) are:

	2006/07 Revised £'000	2007/08 Estimated £'000	2008/09 Estimated £'000	2009/10 Estimated £'000
Authorised limit	15,000	17,000	18,000	20,000
Operational boundary	8,000	11,000	12,000	14,000

The impact of the new schemes being approved as part of this budgetary cycle on Council Tax and housing rents are expected to be:

Incremental impact of capital investment decisions (£) on:	2006/07 Revised	2007/08 Estimated	2008/09 Estimated	2009/10 Estimated
Band D Council Tax	0	£1.02	£2.95	£4.78
Housing rents levels	*	*	*	*

* A full stock condition survey will be undertaken during 2007/08 following which the outcome will be reflected in the revised Capital Programme. The indicators will be calculated following the revision of the Programme.

Investments – The resources applied to finance the capital spend above is one of the elements which influence the overall resources of the Council. The expected position of Council's year-end resources (balances, capital receipts, etc.) is shown below supplemented with the expected cash flow position to provide an overall estimate of the year-end investment position. The prudential indicator limiting longer-term investments is also shown.

	2006/07 Revised £'000	2007/08 Estimated £'000	2008/09 Estimated £'000	2009/10 Estimated £'000
Total resources	21,433	19,587	17,346	15,336
Working Capital	(1,020)	(1,520)	(1,520)	(1,520)
Total Investments	20,413	18,067	15,826	13,816
Principal sums invested > 364 days	£m 11	£m 9	£m 7	

Affordability Prudential Indicators

1. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council's finances. The Council is asked to approve the following indicators:
2. **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2006/07 Revised %	2007/08 Estimated %	2008/09 Estimated %	2009/10 Estimated %
Non-HRA	(3.69%)	(1.78%)	0.58%	2.21%
HRA	(2.43%)	(1.53%)	(1.03%)	(0.76%)

3. The estimates of financing costs include current commitments and the proposals in this budget report.
4. **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with **new schemes** introduced to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published over a three year period.

5. Incremental impact of capital investment decisions on the Band D Council Tax

	Proposed Budget 2007/08 £	Forward Projection 2008/09 £	Forward Projection 2009/10 £
Council Tax - Band D	£1.02	£2.95	£4.78

6. Estimates of the incremental impact of capital investment decisions on Housing Rent levels – Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

7. Incremental impact of capital investment decisions Housing Rent levels

	Proposed Budget 2007/08 £	Forward Projection 2008/09 £	Forward Projection 2009/10 £
Weekly Housing Rent levels	*	*	*

** A full stock condition survey will be undertaken during 2007/08 following which the outcome will be reflected in the revised Capital Programme. The indicators will be calculated following the revision of the Programme.*

8. This indicator shows the revenue impact on any newly approved schemes, although any discrete impact will be constrained by rent controls.

Extract from Treasury Management Strategy 2007/08 – 2009/10

Performance Indicators

25. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate
- Investments – External fund managers - returns 110% above 7 day compounded LIBID.

The results of these indicators will be reported in the Treasury Annual Report for 2006/07.