

SOUTH KESTEVEN DISTRICT COUNCIL

3 Year Medium Term Financial Plan **(2008/09 to 2010/11)**

Contents

Executive Summary and Key Themes

Introduction

National & Local Context

Key Aims

Revenue Budget

Capital Budget

Housing Revenue Account

Reserves & Balances

Risk Analysis

Appendices:

- A 4 Year Revenue Money Plan (incorporating 3 Year forecast)**
- B 4 Year Summary Capital Money Plan (incorporating 3 Year forecast)**
- C 4 Year Summary HRA Money Plan**
- D Schedule of Reserves**
- E Movement in Reserves**
- F Risk Assessment**

Executive Summary

The Medium Term Financial Plan (MTFP) brings together the Council's financial position and demonstrates how the revenue and capital financial resources are organised in order to deliver the Council's priorities. The Plan will be reviewed each year in order to take into account the year end position for the year just ended and to reflect emerging national and local issues that will impact on the medium term financial planning.

At the present time the Council is in a relatively strong financial position and has good financial management arrangements in place. However, these will need to be strengthened in order to respond positively to the challenges presented by the growing economic downturn and increasing demand for service improvements. Revenue and capital resources will need to continue to be carefully targeted at Council priorities. Against this background, the key messages emerging from this plan are:

- Linking with the Corporate Plan, Priority Plans and other key strategies are crucial.
- The national and local context plays an important part in shaping the way the Council manages its resources and money.
- A sustainable and balanced revenue budget will need to be maintained over the period covered by this plan.
- The Government expects to see annual Council Tax increases below 5% and will not hesitate in using its capping powers.
- A sustainable capital strategy will need to be maintained and kept under regular review in order to deliver the Council's capital programme.
- The financial viability of the Housing Revenue Account will need to be carefully managed over the next 3-5 years
- The current and projected level of reserves and balances are sufficient to meet the Council's needs and priorities over the next 3 years but the position will need to be reviewed annually.
- The current approach to setting fees and charges are being reviewed in light of the recent Audit Commission publication entitled "Positively Charged".
- The Council's approach to Value for Money will continue to be embedded across the organisation and will support the ongoing search for efficiency gains and deliver the Government's annual 3% cashable savings target within the LAA (Local Area Agreement).
- It is important to effectively manage the key risks and pressures identified in this plan as an integral part of the Council's corporate risk management process.
- The current economic climate will have a negative impact on the Council's projected investment interest forecast and will

- impact on fixed term contracts linked to inflationary RPI (retail price index), business rates, utility rates and salary forecasts.
- The Council's Asset Management Plan will need to be regularly reviewed in order to ensure the use of assets is maximised and reflects the delivery of the Council's priorities.
 - The Climate Change and energy efficiency agenda will need to be incorporated into service planning and identification of resources needed to deliver this will be necessary.

Key Themes

In order to support the Council's vision and priorities the MTFP is underpinned by a number of key themes:

- 1** The Corporate Plan will be used to drive the allocation of resources. This will ensure that Council priorities are delivered without exposure to unnecessary risks by targeting the use of resources linked to corporate risk. Linkages with other key strategies such as People Strategy, ICT strategy and Treasury Management Strategy are also important.
- 2** The Council's resources (financial and otherwise) are managed effectively to provide efficiency, value for money, customer satisfaction and sustainable investment.
- 3** A sustainable Revenue Budget will be maintained, having regard to prudent estimates of government funding and opportunities for external funding.
- 4** A sustainable Capital Strategy will be maintained to support deliverable medium term capital programmes, having regard to asset utilisation and improved Treasury Management performance.
- 5** The long term financial planning of the Housing Revenue Account (HRA) will be undertaken to reflect both the updated HRA business plan and the outcome of the stock condition survey. Opportunities for securing the long term financial sustainability of both the revenue and capital budget will be identified and incorporated into HRA service planning.
- 6** The development and delivery of the annual budget will be supported by Members fully utilising policy development groups and scrutiny and underpinned by regular training. At officer level, the Management Teams will assume collective responsibility and there will be regular consultation with stakeholders and key partners.
- 7** Management processes will increasingly cover zero based and priority based budgeting, invest to save projects, sensitivity analysis of high/low spending areas and benchmarking/use of comparatives.

- 8 The General Fund working balance will continue to be maintained between 10% and 15% of net expenditure. This will provide adequate cover for any unanticipated expenditure or loss of income that may occur over the course of each financial year.
- 9 The Council budget consists of large amounts of uncontrollable costs which are related to both mandatory spending and levels of expenditure not directly under the control of the Council. These spending areas will need to be actively managed in order to ensure the Council can deliver its efficiencies and maintain a balanced budget.

Summary of Key Financial Issues

- Continuing pressure on budget headings that are driven by external economic factors such as:
 - Utility and fuel costs
 - Salary growth
 - Fees and charges income
 - External contracts
 - Business and drainage rates payable by the Authority
- The financial modelling and forecasting of the Housing Revenue Account will need to be fundamentally reviewed to prevent the Account being in a deficit position in the short term.
- Future investment in key services will need to be balanced and clear demonstration of customer improvements will need to be identified.
- The Value for Money (VFM) agenda will need to be embedded throughout the organisation in response to the national grant settlement and the local area VFM target.

Introduction

The ability to deliver and sustain South Kesteven District Council's Vision and Corporate Plan is dependent upon having the required resources to do so. The purpose of this plan is to translate the Council's strategic direction, core values and priority outcomes into financial terms whereupon, good financial management remains key to its delivery.

In recent years, the Council has developed a more strategic forward looking approach to budgeting underpinned by a more robust planning process, demonstrating the direction of resources towards priority services. Accordingly, this updated plan develops this approach and sets out the Medium Term Financial plan for the three year period commencing 2008/09. A three period is in line with the Government's 2007 Comprehensive Spending Review (CSR07) and 3 year grant settlements. It also acknowledges that financial forecasting beyond 3 years is difficult due to current adverse economic conditions and the volatility of interest rates and financial markets, etc. The position will be updated annually and will evolve and develop in response to the Council's priorities, national issues and the economic climate.

Against this challenging background, the Council has managed its financial resources prudently over many years and as a result is well placed to continue to deliver local priorities into the future.

The plan consolidates projections and emerging themes for the Council over the three year period. More specifically, in terms of the overarching policy and financial framework, it takes account of each of the following:

- ❖ Corporate Plan
- ❖ Capital Strategy
- ❖ Asset Management Plan
- ❖ Treasury Management Strategy
- ❖ Fees and Charges Strategy
- ❖ ICT Strategy
- ❖ Debt Management Strategy
- ❖ People Strategy
- ❖ Housing Revenue Account Business Plan
- ❖ Efficiency Strategy
- ❖ Financial Regulations
- ❖ The role of key partners and stakeholders in shaping this Plan

This plan has been reviewed to take account of the financial outturn position for 2007/8 and the approved Revenue and Capital Budgets for 2008/09.

Key Aims

In summary, the key aims of the MTFP are to:

- Identify the resources to deliver the Council's strategic priorities - all key decisions of the Council should relate back to the Corporate Plan and other related strategies
- Provide cost effective services, which demonstrate value for money – delivered through an agreed programme of efficiencies.
- Enable the Council to continually improve services through targeted investment to the priorities underpinned by financial prudence.
- Deliver a balanced sustainable budget in the longer term – by ensuring:
 - Opportunities and threats to both deliver priorities and manage the financial position are identified – so the Council always knows what it is facing
 - Expenditure does not exceed income and there is capacity for improvement and investment.
 - Proper and prudent financial parameters are placed on current and future spending plans - to ensure that the Council stays on track
- Continually improve the financial framework in order to provide a basis for sound financial management and control.

National and Local Context

Wider context - the following key elements are relevant to South Kesteven:

- The Government's spending and funding plans for the public sector and local government as set out in CSR07. This covers a 3 year timeline and in terms of Government funding provides greater security for the public sector in the short to medium term.
- Forecast inflation – despite rising costs and the growing risk of recession, the Government's target for inflation measured as the Consumer Price Index (CPI) and public sector pay increase remains at 2%. As at May 2008, the year on year increase in CPI was 3.3% so the Government has accepted that this may not be achieved over the period of the CSR07. Moreover, as at July 2008 many large employers are dealing with pay demands well in excess of the 2% threshold. In addition, many public sector bodies have external contracts where annual price increases are linked to the Retail Price Index (RPI) and these will come under increasing pressure. As a result, the Council will need to carefully review its assumptions about pay and non-pay inflation over the next 3 years.

- Forecast interest rates for borrowing and investment - Interest rates are of particular importance to the Council, in that they affect its performance on investments and borrowing.
- Although no specific guidance has been published the Government expects to see Council Tax increases below 5% in each of the three years of the CSR and this will be reflected in the grant settlement.
- The White Paper, 'Strong and Prosperous Communities' published in 2006 recommended that official recognition be given to the role of authorities in convening local partnerships, with LAAs being put on a statutory footing and a specific duty to cooperate placed on named partners.
- From 2009, Comprehensive Area Assessments (CAA) will replace Comprehensive Performance Assessments (CPA). This marks a significant change to the current assessment regime and will look at the public services in an area delivered by councils and their partners including private and voluntary sectors rather than focussing on services provided by local authorities. More importantly, it also aims to be more relevant to local people by focusing on issues that are important to their community, e.g. crime, community cohesion, a sustainable environment (e.g. climate change and energy efficiency) or public health issues.
- The Housing Green Paper published in July 2007 looks at policy initiatives such as localisation and increased influence of tenants in managing their homes. The paper also cautiously mentions the self-financing option for the HRA and the potential benefits and risks of a wider reform of the current HRA subsidy system.
- A recent white paper 'Communities in control: real people, real power' seeks to give people more say over their lives and in doing so give more power to local people and communities in a number of ways. These range from participatory budgeting, duty to promote democracy, duty to involve (coming into effect April 2009) and asset management/transfer proposals.

Local context – against this background, South Kesteven as a growing district and in common with most other authorities will face increasing resource challenges in the coming years and therefore, as an integral part of the budget process, the Council will be required to:

- Continue to improve and strengthen its financial planning and budgeting processes to ensure that the authority is prepared for the reduction, in real terms, of Government funding – 1% increase on average across all authorities compared with CPI and RPI both running in excess of 3%. This may affect the

continued improvement in the delivery of some Council services.

- Deliver savings and efficiencies to maintain reserves and balances at an adequate level and/or cover any projected budget gap that might emerge.
- In terms of delivering Value for Money, ensure that the authority has robust plans in place to meet the 3% per annum annual cashable efficiency savings target. This is an increase on the current regime, where a target of 2.5% has been set, with only half being cashable. There will not be a mandatory value for money target for each individual council, instead, efficiency savings across local government as a whole will be measured and monitored based on local value for money indicators. Targets will only exist where they are negotiated as one of the new LAA targets.
- Strengthen the way the authority operates through partnerships ensuring these work effectively and deliver positive outcomes in line with the revised performance framework for the LAA.
- Keep track of Government plans to continue to mainstream specific grants into Revenue Support Grant and Area Based Grant in order to address the consequences for resource/budget management.
- Review the impact of reduced funding from Local Authority Business Growth Incentive (LABGI) scheme over the period of CSR07 and consider the introduction of supplementary business rates for single tier authorities on local funding streams.
- Maximise the opportunity to secure Government and/or external funding to underpin partnership working within the revised LAA arena.
- Capitalise on the benefits of being an active member of the Lincolnshire Shared Services Partnership where the guiding principle of the partnership is one of local choice, but made in the context of maximising efficiency through standardisation of service specification where appropriate, e.g. procurement.
- Maintain flexibility in order to respond to a changing local government environment in response to rapid change, national constraints, new Government regulation and direction, etc.

Revenue Budget

Appendix A shows the 4 year Money Plan, i.e. the movement in budgets and funding over a 4 year period (2007/08 – 2010/11) and includes the outturn for 2007/08 (pre-audit) and the period covered by this plan.

Indicative budgets for the next 3 years are based on the following key assumptions:

Sensitivity Analysis

Within the revenue budget there are a number of expenditure headings which are influenced by external influences which will have a direct impact on the budget provision for the three year period. These expenditure items can be classified between controllable and uncontrollable. These headings are summarised as:

Salaries growth forecast

The three year budget forecast has been based on an inflationary increase of 2.5%. An increase of 0.5% will result in an additional £65K per annum (assuming a constant number of FTE's)

Maintenance Contracts

The grounds maintenance contract is annually increased (in accordance with the contract) in line with Retail Price Index. The budget has been based on annual inflation increase of 3%. An increase of 1% will result in an additional £10K per annum.

Utilities and Fuel

Currently there is significant growth in costs under both of these headings and the three year budget has been based on a forecast of an average increase of 3.5%. Should this increase to an average maximum of 12% an additional budget of £65K will be necessary.

Rates

These can be classified between non-domestic rates and drainage rates. In respect of drainage rates the budget forecast is based on an annual increase of 4%. An increase of 1% will result in an additional annual cost of £6K. However in respect of business rates the Council will benefit from the business rate savings in respect of the leisure centres following the implementation of Leisure Trust. This saving has been incorporated into the budget forecast for 2009/10 and 2010/11. The increase in RPI which will affect the business rates payable in respect of other assets which could result in an additional £30K per annum.

Fees and Charges

Fees and charges represent a significant and important income stream for the Council (£6.3m in 2007/08). At the time of compiling the MTFP the annual forecast in respect of the key areas of fees and charges income is £600K less than the 2008/09 budgeted income. The key areas contributing to the reduced forecast is in respect of car parking income, development control and building control. These areas will need to be closely monitored during the course of the year in order to mitigate the impact of the potential reduction in income.

Heading	2009/10 £'000	2010/11 £'000
Salaries	65	75
Maintenance Contract	10	20
Utilities and Fuel	65	90
Rates	36	50
Reduced Fees and charges income	590	650
Potential total future budget pressure	<u>766</u>	<u>885</u>

The Council has set an indicative budget for the three year period taking into consideration the three year grant settlement and an indicative Council Tax increase. The potential additional cost identified above will therefore need to be found from existing budget expenditure items in order to provide a balanced budget. The Council will not be able to utilise reserves and balances as this will not give longer term financial sustainability.

Council Tax

A maximum increase of 5% per annum in council tax income has been assumed throughout the 3 year period plus an annual increase of 1.40% in the council tax base, i.e. net increase in the number of properties. As a guide and using 2008/09, every 1% increase in council tax generates an additional £58k for the Council. Accordingly, the table¹ below sets out an indicative budget requirement to be funded from Council Tax (including Parish Precepts).

2007/8 Actual £m	2008/9 Budget £m	2009/10 Estimate £m	2010/11 Estimate £m
6.499	7.072	7.509	7.971
Annual Increase		£437K	£462K

Government Grants

In January 2008 the Government confirmed the amount of formula grant (Revenue Support and NDR) for SKDC in 2008/09 which had been announced in CSR07. It also specified the grant payable in the next 2 years.

¹ Assumes a maximum of 5% tax increase and 1.4% increase in tax base

Final settlement 2007/8 £m	Provisional Settlement 2008/9 £m	Provisional Settlement 2009/10 £m	Provisional Settlement 2010/11 £m
9.626	9.881	10.025	10.147
Annual Increase	255K	144K	122k

This shows a grant increase over the three year period of 1.45% and 1.2% respectively.

As part of CSR07 and the development of the new framework for Local Area Agreements (LAA), the Government has mainstreamed over £4bn of funding into the new *Area Based Grant (ABG)* over the 3 year period. The difference between ABG and formula grant is that ABG is allocated according to specific policy criteria rather than general formulae. For 2008/09, SKDC will receive £26k and in 2009/10 and 2010/11, £49k and £75k respectively.

The authority will continue to receive specific grants, for example in respect of housing benefit administration, concessionary fares, housing and planning delivery (currently awaiting details of allocation) and Local Authority Business Growth Incentive (LABGI). However it is known that there will be no allocation for 2008/09 as the scheme is being recalculated on a reduced amount basis.

Inflation - Pay & Prices

- A provision of 2.5% per year is included for staff pay increases. The actual amount of increase will depend on the national pay settlement.
- A provision of 3% has been included for non-pay, although for certain budgets, the increase will be less than 3%
- A number of the Council's contractual commitments are linked to the RPI; any significant movement by April of each year will result in an inflationary pressure where this is above 3%, e.g. *energy costs*. As at July 2008, fuel/utility costs are rising sharply (up to 20%) – the impact on contracts for gas and electricity and new contracts will need to be carefully considered

Pensions

Following a 'Triennial' Review of the Pension Fund as at March 2007, the contribution rate in 2008/09 is 21.2% of payroll. This takes account of the latest actuarial review and the effects of the changes in the pension scheme together with demographic changes. Based on the most recent triennial survey the contribution rates over the period of the MTFP have been assumed to continue at a similar level but will be reviewed at the next triennial revaluation due in March 2010. A pension reserve has been established to cover any significant increase in the contribution rate and one-off costs of early retirements not budgeted elsewhere.

Fees and Charges

The current Fees and Charges Strategy approved in 2006/07 is being revised and updated to include the findings and recommendations of the recent Audit Commission publication entitled "Positively Charged". In terms of the MTFP and longer term financial planning, whilst prudent assumptions about demand have been made, this is a potentially risky and volatile area that will need to be kept under close scrutiny.

Net Investment Income

This has been an important source of income for supporting the Council's service expenditure. The Council will continue to maximise income from investments (over £900k in 2007/08), having regard to use of reserves, asset sales, capital programme commitments and the latest economic projections.

The sensitivity of the General Fund to changes in interest rates is linked more markedly to investment rather than to the portfolio of borrowing – longer term borrowing tends to be on fixed rates. As an indication, a change in interest rates of +/- 0.5% would have an estimated impact of approximately £k in 2008/09. Interest rates assumed within the period of the MTFP are as follows:

	2008/09 %	2009/10 %	2010/11 %
Interest Rate	5.25	5.0	4.75

Debt Management

The Council is committed to reducing levels of debt and a more proactive approach to debt management and recovery action has been introduced, particularly in relation to aged debts. A Debt Management Policy has been compiled to ensure and consist approach to debt management across the key income recovery services.

Concessionary Fares

On 1st April 2008 a new national schemes was introduced with pass holders able to travel free of charge on local bus services within England. Each single pass holder journey will be paid for by the district in which the passenger gets on the bus. The Government has allocated additional resources as part of the grant settlement but as this is a new scheme it is not clear whether this will be sufficient to meet the actual costs incurred by the Council. Therefore the position will need to be kept under regular review. The grant award in respect of concessionary fares for the three year period is

	2008/09 £k	2009/10 £k	2010/11 £k
Grant	379	387	398
Annual Increase		2.1%	2.8%

Staff Turnover/Vacancy Factor

In line with recent policy, throughout the period covered by this Strategy, a vacancy/turnover rate of between 1.5% and 2% of the overall salary budget has been provided - £250k per annum.

External Funding Opportunities

The Council is committed to maximising the opportunity to secure additional Government and/or external funding to meet its corporate plan priorities and objectives. This includes S106 monies; housing and planning delivery grant etc.

Savings and Efficiencies

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 continue to be embedded across the organisation. A Value for Money Strategy was approved by Cabinet in November 2007 and this will support the ongoing search for efficiency gains and deliver the Government's 3% cashable target for CSR07. It will also focus on areas of spending where the Council has real control over budgets.

In light of the potential financial pressures and expenditure constraints, all options will 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 work-streams should be evaluated to examine the level of efficiencies that may be achieved.
- Income generation/optimisation, e.g. by reviewing the level of fees and charges in non-discretionary areas.
- Business process re-engineering - with a particular emphasis on joined up working and the use of appropriate technology and to create new ways of working in the Council.
- Value for money reviews - to ensure that the limited resources are being used to the best effect, services reviews will be aimed at demonstrating that services are delivering an optimum balance between relatively low costs (economy), high productivity (efficiency), and successful outcomes (effectiveness).
- In-house provided services – the Council provides a number of frontline services together with a number of support services. All services will be benchmarked to evaluate value

for money and identify potential for efficiencies through market testing, where appropriate.

- Overheads – an examination of the Council’s overhead base to establish value for money and opportunities for achieving efficiencies.
- Asset disposal - with a view to generating greater investment income and reducing revenue-running costs (and releasing capital receipts to support the investment programme).
- Budget reviews – by ongoing fundamental budget reviews, challenging the allocation of resources based on priority, needs and output delivery and through active budget management.
- Sponsorship options – for example advertising.
- Formal Market Testing – The Council is committed to ensuring its service offer value for money for the customer and has identified services which, over a period of time, will be tested in the market place in terms of value and quality of service provision.

The Council has a successful track record in delivering savings and efficiencies and is committed to continuing to embed the culture of value for money throughout the organisation to ensure that this continues. The savings targets that have been assumed within the MTFP will contribute towards the efficiency target set in respect of the LAA.

Capital Budget

Appendix B sets out the 4 Year Money Plan, i.e. the Capital Programme over a 4 year period (2007/08 – 2010/11) and includes the outturn for 2007/08 (pre-audit) and the period covered by this Strategy. The Programme will be reviewed in September 2008. This needs to be considered in conjunction with the Council’s Corporate Plan and key priorities. Also, the Capital Strategy and Treasury Management Strategy that were reviewed and updated during 2006/07 and fully addresses the new system of capital finance controls set out in the Prudential Code for Capital Finance in Local Authorities (the Code). The Code 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.

The Council is committed to enhancing its capital programme and the Prudential Code will be used to ensure the decisions made with regard to borrowing and investment reflect affordability, sustainability and value for money. Where appropriate, external advisors will again be used to assist in such reviews and this will involve consideration of the following issues:

- Balancing investment income against new borrowing
- 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 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 is reviewed annually to provide a forward 3 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. Over the next 3-5 years, the Council will invest significantly in town centre development, disabled facilities grants, waste management and refurbishing/improving the Council's housing stock. Investment in the total programme is c£10m per annum

The capital programme for the General Fund is heavily reliant on useable capital receipts and prudential borrowing to fund the investment required to deliver its main aims and strategic priorities. The balance of funding is covered by capital grants (principally disabled facilities) and direct revenue financing. In the long term this package of investment may not be sustainable and other sources of funding may need to be sought to fund capital expenditure, including maximising the potential of asset sales, i.e. property and land that are not fully utilised or are surplus to requirements. In this connection, the Council has also reviewed its Asset Management Plan alongside the Capital Strategy on the basis of ensuring that financial returns for future investment in Council priorities are optimised for the benefit of the community.

The revenue implications of all capital schemes, including the corresponding reduction in investment income as a result of a reduction in capital resources, additional revenue running costs of any new assets and the cost of any unsupported borrowing have been taken account of and included within the MTFP.

The Capital Strategy will need to be kept under review to ensure it remains 'fit for purpose'. Over the period of the MTFP, more emphasis will be given to Member led capital monitoring in order to ensure that decisions made about capital spending are robust and sustainable for the Council.

Housing Revenue Account (HRA)

The HRA is a statutory ring-fenced account that relates to costs and income in respect of the Council's housing stock. The HRA budget and rent setting process is undertaken alongside the General Fund and certain elements of the process are carried out simultaneously.

Following a ballot of Council House Tenants the Council subsequently decided to retain the Council's Housing Stock and officers have been reviewing the Council's Housing Revenue Account business plan and developing proposals for the HRA's longer term sustainability, including achievement of the decent homes standard.

A review of the HRA and subsidy system has been announced by the Government and a report is expected in spring/summer 2009. In the meantime, it will be necessary to keep the position under review as part of the rolling 30 year business plan for the HRA.

At the time of writing the MTFP the Council is awaiting the updated business forecast model in respect of the HRA which will require the Council to take urgent action in order to ensure the financial stability of the HRA in both the short and medium term. In the interim, the financial viability of the HRA will be managed and maintained within government guidelines, including the target to achieve rent convergence by 2016/17. This will need to take account of the results of the full stock condition survey that will be undertaken during 2008/09.

Appendix C sets out the 4 Year Money Plan, i.e. the HRA over a 4 year period (2007/08 – 2010/11) and includes the outturn for 2007/08 (pre-audit) and the period covered by this Plan. This shows that with on-going deficits of between £1m and £2m per year, the HRA working balance will reduce to £6.9m by March 2011 and the balance on the Major Repairs Reserve will reduce to £475k by March 2011. This position will need to be closely monitored.

Reserves and Balances

The minimum prudent level of reserves that the Council should maintain is a matter of judgement. It is the Council's safety net for unforeseen circumstances and must last the lifetime of the Council unless contributions are made from future year's revenue budgets. CIPFA guidance does not set a statutory minimum level but it is up to local authorities themselves, taking into account all the relevant local circumstances, to make a professional judgement on what the appropriate level of reserves and balances should be.

Reserves can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoids 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.

A schedule of reserves and the purposes for which they are held is attached at Appendix D. 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 2007/8 together with a review during the preparation of the budgets for 2008/9.

The total reserves held as at 31st March 2008 is £28.8m as follows:

General Fund Reserves	£7.5m
Capital Reserves	£7.2m
Housing Revenue Account	£14.1m

Details of the level of reserves and current estimated movements on reserves from 2008/09 are contained in Appendix E. The level of individual reserves has been reviewed to take account of potential future use and particularly those, which are earmarked for specific purposes. A clear policy for the use of each reserve has also been developed.

In summary, the levels of reserves and balances recommended within this plan are believed to be sufficient to meet all of the Council's obligations and have been based on a detailed risk assessment. However, the position will be reviewed annually.

Risk Analysis

Inevitably, there are risks associated with the assumptions for both capital and revenue. In order to mitigate such risks, prudent assumptions have been made where appropriate. It will be necessary to review this Strategy annually to take account of the financial implications of new developments and changing circumstances and the consequential impact on medium and long term financial projections. In year budget monitoring is also crucial and the current approach is being improved and strengthened to include year end forecasting.

The Council 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 incorporates a risk assessment to be completed as part of the service planning process. This is regularly reviewed during the course of the year and quarterly assurance statements are signed off by both Corporate Heads and Service Managers.

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.

A summary of the key risks and pressures facing the Council is set out in Appendix F. These will managed as an integral part of the Council's core risk management process.