

# **SOUTH KESTEVEN DISTRICT COUNCIL**

## **4 Year Medium Term Financial Plan (MTFP)** **(2009/10 to 2012/13)**

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## **WHAT IS THE MTFP?**

The Medium Term Financial Plan (MTFP) brings together the Council's financial position for both the General Fund and the Housing Revenue Account and demonstrates how revenue and capital financial resources are organised in order to deliver the Council's priorities. The Plan is reviewed each year in order to take into account the final outturn position for the year just ended (2008/09) and to reflect emerging national and local issues that will impact in the short to medium term. It is also reviewed each March prior to delivery of the Annual Budget and will evolve and develop in response to Council priorities, national issues and the economic climate.

This 4 year Plan covers the remainder of the current year (2009/10) and incorporates the last year (2010/11) of the Government's current 3 year Comprehensive Spending Review (CSR07) and the first two years of the next Comprehensive Spending Review (CSR10). It also acknowledges that in a global recession and during a period of deflation and relatively low interest rates, financial forecasting beyond 2010/11 is difficult. This heightens uncertainty surrounding future grant settlements and the impact of uncontrollable elements of the Council's budget.

The Plan is important for residents, stakeholders and partners because it provides them with an overview and understanding of the Council's financial position over the short to medium term. In addition, it provides important information on the Council's approach to delivering savings and efficiencies. This in turn provides members of the local community with details of expected outcomes from value for money work so that they can become more engaged.

This Plan consolidates projections and emerging themes for the Council over the four 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
- ❖ Sustainable Communities Strategy
- ❖ Asset Management Plan
- ❖ Treasury Management Strategy
- ❖ Fees and Charges Strategy
- ❖ ICT Strategy
- ❖ Fleet Management Strategy
- ❖ Debt Management Strategy
- ❖ People Strategy
- ❖ Value for Money Strategy
- ❖ Financial Regulations
- ❖ Carbon Management Plan

## **WHAT KEY FACTORS & RISKS INFLUENCE THE COUNCIL'S MTFP?**

The following are relevant to the Council:

- There is uncertainty over the Government's spending and funding plans for the public sector and local government. Whilst the current 3 year timeline for grant settlements provides greater security for the public sector in the short to medium term, there is likely to be a significant real terms reduction in government funding from 2011/12 in order to pay for increasing public sector borrowing. This will be reflected in the next Comprehensive Spending Review (CSR10). Some prominent bodies including the Institute of Fiscal Studies have forecast significant cuts in government funding for the 3 years from 2011/12 – up to 10%. In addition all Councils will also need to find an extra £5bn in efficiency savings from 2010/11 – on top of the £30bn already planned.
- The last 12-15 months has seen unprecedented times for the world financial markets and banking sector and this has impacted on the Council's Treasury Management Strategy. The TM strategy has been updated to reflect this uncertainty and promote a risk adverse approach. The strategy will be further reviewed during the current financial year to ensure the Council optimises risk and reward.
- The economy is experiencing a period of deflation but is forecast to return to an inflationary position during 2010. The Government's target for inflation measured as the Consumer Price Index (CPI) and public sector pay increase remains at 2%. As at June 2009, the RPI and CPI was -1.6% and +1.8% respectively. In addition, many public sector bodies have external contracts where annual reviews are linked to the Retail Price Index (RPI) and in a period of deflation these will come under increasing pressure to negotiate a reduction in costs.
- 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. As at June 2009, the Bank Rate was 0.5%; the lowest level on record. In addition, 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 will need to be well positioned to respond to rising unemployment in the community and support this by ensuring services are adequately resourced to deal with increasing workloads (e.g. increase in benefit applications and homelessness applications). In addition, some income

streams are suffering which is placing a greater financial burden on the Authority.

- Although no specific guidance has been published the Government expects to see Council Tax increases significantly below the capping level of 5%.
- 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 Local Area Agreements (LAA's) being put on a statutory footing and a specific duty to cooperate placed on named partners. The Government also expects Councils to work closer with the third sector due to the loss of voluntary donations/investment income and more people needing help and support.
- From 2009, Comprehensive Area Assessments (CAA) replaced Comprehensive Performance Assessments (CPA). This marks a significant change to the current assessment regime and looks 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 is also 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.
- In terms of delivering Value for Money, the Council will need to ensure that it has robust plans in place to meet the 3% or 4% (from 2010/11) per annum annual cashable efficiency savings target. 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.
- The Housing minister has recently announced the outcome of the review of Council housing finance arrangements. A consultation paper is now expected seeking views on the key proposals. These include the abolishment of the current housing subsidy system offset by a national adjustment of the housing debt between housing authorities. Other changes include the retention of rental income and any housing sale capital receipts. It is too early to speculate on the financial implications of these proposals for this Council but the outcome of the review will be incorporated into the budget setting process and the HRA business plan.
- 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

(effective from April 2009) and asset management/transfer proposals.

- The Council will face continuing pressure on those income and expenditure budget headings that are driven by external economic factors, including:
  - Utility and fuel costs
  - Salary growth
  - Fees and charges income
  - External contracts
  - Business and drainage rates payable by the Authority
  - Borrowing costs
  - Investment income
  
- The recession is placing additional pressure on some front line services (e.g. housing and council tax benefits) where residents are affected by unemployment, repossessions and managing increasing amounts of debt.

### **DEVELOPING THE MTFP – HOW THE COUNCIL WILL RESPOND POSITIVELY TO THE KEY ISSUES AND RISKS IDENTIFIED**

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 global credit crunch, economic downturn and increasing demand for service improvements. Against this background, the Council will ensure that revenue and capital resources are carefully targeted at Council priorities by:

- Continuing to improve and strengthen its financial planning and budgeting processes to ensure that the authority is prepared for the significant reduction, in real terms, of Government funding.
- Developing and maintaining sustainable revenue and capital budgets over the period covered by this plan.
- Actively managing aspects of the budget that consists of large amounts of uncontrollable costs in order to ensure the Council can deliver its efficiencies and maintain a balanced budget.
- Ensuring that management processes increasingly cover zero based and priority based budgeting, invest to save projects, sensitivity analysis of high/low spending areas and benchmarking/use of comparatives. We will also include comparisons of transaction/unit costs for high spending and priority areas although this requires some development.
- Carefully reviewing its assumptions about pay and non-pay inflation over the next 3 years.
- Carefully reviewing the level of future increases in Council Tax.

- Amending its treasury management strategy in order to respond positively to the changing economic climate.
- Annually reviewing the level of reserves and balances to ensure that they are sufficient to meet the Council's needs and priorities over the medium term
- Continuing to review the approach to setting fees and charges in order to ascertain the true cost of providing services.
- Continuing to embed the Council's approach to Value for Money across the organisation in order to support the ongoing search for efficiency gains and deliver the Government's annual 3% cashable savings target within the LAA. This increases to 4% from 2010/11.
- Regularly reviewing the Council's Asset Management Plan in order to ensure the use of assets is maximised and reflects the delivery of the Council's priorities.
- Incorporating the climate change and energy efficiency agenda into service planning and identifying the resources needed to deliver this together the financial benefits arising from this agenda.
- Ensuring that the development and delivery of the annual budget is actively supported by Members fully utilising policy development groups and scrutiny that is underpinned by regular training. Also, by the Management Team assuming collective responsibility and ensuring regular consultation with stakeholders and key partners.
- Strengthening 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. In particular, developing a greater understanding of the resources available to partners and how these can be used to deliver agreed priorities.
- Maximising the opportunity to secure Government and/or external funding to underpin partnership working within the revised LAA arena.
- Maximising 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.
- Ensuring that future investment in key services is balanced and clear demonstration of customer improvements is identified.
- Carefully managing the financial modelling and forecasting of the Housing Revenue Account over the short to medium term, having regard to both the updated HRA business plan and the outcome of the stock condition survey.

## General Fund Revenue Budget

Appendix A shows the 5 year Money Plan, i.e. the movement in budgets and funding over a 5 year period (2008/09 – 2012/13) and includes the outturn for 2008/09 (pre-audit) and the period covered by this Strategy.

The approved budget for 2009/10 and indicative budgets for 2010/11 and 2011/12 formed part of the Annual Budget & Council Tax Report to Council in March 2009. This includes the last year (2010/11) of the Government's current 3 year grant settlement contained within CSR07. The grant settlement for the next 3 years (CSR10) has yet to be announced so revised assumptions have been made about the level of Government funding for 2011/12 and 2012/13 – the last 2 years covered by this Plan.

### Sensitivity Analysis

Within the revenue budget there are a number of income and expenditure headings which are influenced by external factors which will have a direct impact on the budget provision. In light of the current recession and recent forecasts of Government borrowing and spending, some of the assumptions included in the March Budget report have been revised.

### **2009/10 (current year) – revised assumptions and financial implications.**

Since the March Budget Report, the following areas have been materially affected by the continuing economic downturn and other key factors:

Budget Area	Budget Implications +/-	Comments
Building Control & Development Control	Forecast reduced income -£150K	Continuation of downward trend of income resulting from economic climate
Land Charges	Forecast reduced income -£30K	Continuation of downward trend of income resulting from economic climate
Leisure Centres Business Rates and management fee	-£580K	£180K funded from capacity reserve – Report to Council 18th June 2009. A further £400K is required in the current financial year to meet

		the costs of the remainder of the business rates and management fee.
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**3 years from April 2010/11 - the following is a summary of the key areas and new/revised assumptions.**

Government Grants

In January 2008 the Government confirmed the amount of formula grant for SKDC for the 3 year period 2008/09 to 2010/11. The assessment from 2011/12 is based on the Government's most recent forecast of public spending and funding and linked to the level of public debt.

CSR07			CSR10	
Year 1	Year 2	Year 3	Year 1	Year 2
Final settlement 2008/09 £m	Final Settlement 2009/10 £m	Provisional Settlement 2010/11 £m	Indicative Settlement 2011/12 £m	Indicative Settlement 2012/13 £m
9.881	10.025	10.147	9.640 – 5% reduction  9.132 – 10% reduction	9.640 9.132  Assume standstill position

As the above table illustrates, from 2011/12 the Council is anticipating a significant real terms reduction in Government funding as explained above. This could be as much as 10% (£1.015m); realistically however, the view is that, in addition to other pressures to improve and develop local services plus the increased efficiency savings target (4%), this would be extremely damaging for local authorities and the development of local communities. Therefore the financial modelling has been developed of a likely 5% reduction in grant from 2011/12.

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 2009/10 and 2010/11, SKDC will receive £49k and £75k respectively for community cohesion and £23k in each year for climate change. No announcement has been made for 2011/12.

In addition, the authority will continue to receive specific grants, for example in respect of housing benefit administration, homelessness, concessionary fares (see below) and housing and planning delivery. No Local Authority Business Growth Incentive (LABGI) grant has been assumed in any of the future budgets.

### Concessionary Fares

On 1<sup>st</sup> April 2008 a new national scheme was introduced with pass holders able to travel off-peak free of charge on local bus services within England. Within Lincolnshire, a county wide partnership has been established but overall responsibility for administering concessionary travel and its associated costs remains with individual authorities.

To improve efficiency and effectiveness, the Department for Transport (DfT) has decided to consult on a range of options regarding the administrative arrangements (not the overall funding). Any change is likely to be featured in the next Comprehensive Spending Review (CSR10) and take effect from April 2011.

In terms of the funding implications, this could impact on both revenue support (RSG) grant and specific grant funding. It is suggested that based on best and worst case scenario and excluding specific grant funding (£379k in 2008/09), the Council could lose between £500k and £1.3m in RSG from 2011/12. The position will need to be carefully monitored during the summer/autumn of 2009. In terms of this MTFP, it would be prudent to adopt a mid-way position and provide for a real terms reduction in grant funding of £900k from 2011/12.

### Council Tax

A maximum increase of 3% per annum in council tax income has been assumed throughout the 3 year period plus an annual increase of 1.1% in the council tax base, i.e. net increase in the number of properties. As a guide and using 2009/10, every 1% increase in council tax generates an additional £61k for the Council. Accordingly, the table below sets out an indicative budget requirement to be funded from Council Tax (excluding Parish Precepts).

2009/10 Actual £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
6.087	6.337	6.597	6.867
Annual Increase	£250K	£260K	£270K
% Increase (3% CTax increase + 1.1% increase in base)	4.1%	4.1%	4.1%

### Fees and Charges

The current Fees and Charges Strategy was updated and approved in 2008/09 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 risky and volatile area that will need to be kept under close scrutiny.

Fees and charges represent a significant and important income stream for the Council (£5.5m in 2009/10). During the next 3 years, the Council expects income to continue to be adversely affected by rising unemployment, recession and economic downturn. Some key areas of income such as development control and building control continue to show a downward forecast in 2009/10 and careful monitoring will need to continue to enable correct action to be implemented. At the time of compiling the MTFP there are national discussions regarding the fees and charges in respect of land charges which could have a negative impact. However at the present time this cannot be quantified.

### 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 £1M in 2008/09), having regard to use of reserves, asset sales, capital programme commitments and the latest economic projections but significantly lower returns are expected from 2009/10 (budgeted income £132k).

The sensitivity of the General Fund to changes in interest rates is linked more markedly to investment rather than to the portfolio of borrowing due to its variable nature. Interest rates assumed over the next 4 years, including the current year, are as follows (based on information supplied by the Council's advisors):

	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Interest Rate</b>	1.0	1.5	2.5	4.5

### 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 (HPDG) etc. However in respect of the latter it must be borne in mind that the grant is based on housing market expansion and this will be strongly affected by the economic downturn.

### Salaries inflation forecast

The three year budget forecast has been based on an inflationary increase of 2% for 2010/11; 2% for 2011/12; and 3% for 2012/13. In light of the current RPI and inflation forecasts these increases will need to be reviewed downwards. The actual amount of increase will depend on the national pay settlement. An increase of 1% will result in an additional £140K 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 an inflation increase of 1% for 2010/11 and 2% for each of the following two years. An increase of 1% will result in an additional £10K per annum.

### Utilities and Fuel

The price of oil continues to be volatile which makes budgeting for this expenditure heading extremely difficult. Projections have been based on an increase of 10% for each of the 3 years of the budget. An increase of 1% will result in an additional £20K per annum.

### 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 5%. An increase of 1% will result in an additional annual cost of £6k. However, in respect of business rates the Council will no longer benefit from the business rate savings in respect of the leisure centres as a result of the Trust not in operation. This will have a significant impact on the 2010/11 budgets (and going forward) of approximately £400K per annum. Furthermore a revaluation of rateable values is anticipated which will impact from April 2010.

### Pensions

Following a 'Triennial' Review of the Pension Fund as at March 2007, the contribution rate in 2009/10 remained at 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. Future contribution rates are likely to increase from April 2010 as a result of the continuing economic downturn and lower returns from investments. The precise impact will not be clear until the next triennial revaluation due in March 2010. It is anticipated that the pension reserve will be used to financially contribute towards any increase in employer contribution rates and one-off costs of early retirements.

### 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 revised Debt Management Policy has been approved to ensure and maintain a consistent approach to debt management across the key income recovery services. This will be a key area for review given the current economic climate.

#### Staff Turnover/Vacancy Factor

In line with recent policy, throughout the period covered by this Strategy, a workforce efficiency target of 2% of the overall salary budget has been provided. This is in the region of £250k per annum. However if this target was increased to 3% to reflect a recruitment lag in the process then a further £100K per annum can be identified.

#### 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, including the revised target from 2010 of 4%. It will also focus on areas of spending where the Council has real control over budgets.

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.

#### Public Protection Shared Service

An outline business case has been prepared on a proposal to develop a shared service approach to delivering Environmental Health and Trading Standards services across the county from April 2010. The total annual expenditure on these services across Lincolnshire is £9.5m. The business case is focused on achieving 3 over-arching objectives: improve services to business; improve services to the public; and make efficiency savings.

The case considers a range of options that develop the seven district services, plus trading standards, from where they are now, into a fully integrated PPS service. As at July 2009, detailed information on costs and savings are not available so it is difficult to assess the extent to which efficiency savings may be realised.

#### Choice Based Lettings (CBL)

In line with the Government's strategy from 2010/11, the additional cost of developing a sub-regional approach with Peterborough City

Council and South Holland District Council is being reviewed. At the time of compiling the MTFP no decision has been taken in respect of the future service delivery proposals. However should there be an additional on-going financial implication in respect of a partnership arrangement then this will need to be considered within the context of the current budget pressures.

#### Fleet Management Strategy

The strategy makes provision for a targeted reduction £186k over 5 years in annual running costs, principally arising from the change in the fleet of pool cars. It is proposed to offset these savings against expenditure on carbon management initiatives.

#### Civil Parking Enforcement (CPE)

At the time of compiling the MTFP, work is continuing with Lincolnshire partners to progress the business model for the introduction of civil parking enforcement (targeted for implementation during 2010). There are a number of outstanding issues that will have a financial impact on the Council that will need to be resolved. These include:

- The arrangements for the distribution of any deficits arising from the Lincolnshire scheme
- The payback arrangements for the set up costs
- The administration model in respect of the fines issued
- The impact on car parking charges for off-street

Discussions are continuing and the outcome of the proposals will need to be considered to assess the financial impact on the Council.

#### Leisure Centres – Financial considerations

It is now confirmed that the Leisure Trust will not be in operation in respect of the leisure centre facilities and so the financial savings in respect of business rates and the associated management fee will no longer be achievable. Potentially this will put an additional financial burden on the Council of potentially in the region of approximately £800K per annum. This has not been included in the indicative base budgets for 2010/11 (and beyond) so will need to be included in the budgets. In the meantime the Council will review its options in respect of leisure management delivery including a local Industrial and Provident Society (IPS model).

### **Summary Budget Position**

- Despite on-going cost pressures and lower than expected income from fees and charges, a balanced budget has been achieved for the current year – 2009/10. The forecast budget position for the next 3 years is set out below, incorporating the issues and assumptions included above and in the financial model. This reveals a significant General Fund budget gap from 2010/11 that will need to be closed.

<b>GENERAL FUND BUDGET SUMMARY</b>	<b>2010/11 Indicative Base £'000s</b>	<b>2011/12 Indicative Base £'000s</b>	<b>2012/13 Indicative Base £'000s</b>
<b>Net Budget Requirement per March Budget Report (2012/13 = 2011/12 + 2%)</b>	<b>16,581</b>	<b>16,952</b>	<b>17,291</b>
Revenue Support Grant (RSG) (5%)	(10,147)	(9,640)	(9,640)
Adjustment for Concessionary Travel element of RSG (mid range)	0	900	900
Net loss of Specific Concessionary Fares Grant	0	400	400
Council Tax (3% increase + 1.1% base increase)	(6,337)	(6,597)	(6867)
Adjustment for inflation on pay costs (1% increase)	(70)	(70)	70
Adjustment for inflation on non-pay costs	0	(50)	(50)
Reduction in income from Building & Development Control	50	50	50
Reduction in other income	50	50	50
Impact of Proposed Public Protection Shared Service	(100)	(200)	(200)
CBL – development of sub-regional approach	70	70	70
Leisure centres – business rates and management fee	800	810	820
<b>BUDGET DEFICIT (SURPLUS)</b>	<b>897</b>	<b>2675</b>	<b>2894</b>
<b>Increase in Deficit</b>		<b>1778</b>	<b>219</b>

It is clear from the above table that the Council is potentially facing a significant budget shortfall from 2010/11 onwards based on the assumptions given in the MTFP. It is also clear that there is a high level of uncertainty with respect of the key areas of finance (particularly the grant settlement) which results in a wide range of varying financial scenarios. However the Council is well placed to respond to the challenges of meeting the projected budget shortfalls and will pro-actively undertake work to ensure a balanced and sustainable budget is presented in March 2010.

The best case scenario would be that the grant settlement for the 3 year grant settlement period (CSR10) is in line with inflation (or frozen at the 2010/11 level) and that the concessionary fares administration is retained at district level. However it is unlikely that this scenario will materialise at this time.

The worst case scenario is that the grant settlement is reduced by 10% (and not the 5% quoted above). This would add a further £500K to the forecast deficit figures thereby increasing it to £3.175m and £3.394m (2011/12 and 2012/13 respectively).

#### Planning ahead

Robust plans will need to be developed during the current year in order to ensure the Council can deliver a balanced and sustainable budget for 2010/11. The Council has underspent on its revenue budgets for the last few years which would suggest that there is scope within the budget setting process to ensure budgets are accurately set in order to deliver the service objectives and the Council priorities. The list below includes a range of options the Council will need to consider in order to close the forecast budget deficit.

1. Fundamental budget reviews (revenue and capital) – ensuring the allocation of resources is based on priority needs and output delivery linked to customer expectations. The complete alignment of services to demonstrate their underpinning contribution to the Council priority themes. This review will be supported by community consultation (where appropriate)
2. The development and support of proactive budget management by service areas (underpinned by central Finance support).
3. Further roll-out and implementation of zero based budgeting in key service areas (high expenditure services)
4. The removal of non-specific contingency budgets and provisions from the revenue budgets. Fully costed (supported by business case) initiatives to be financed from revenue reserves

5. Reviewing and challenging staff vacancies prior to the recruitment process to ensure it is fully aligned to the Council's priorities. Consideration of fixed term appointments where appropriate.
6. Increase of salary vacancy factor from 2% to 3% by delaying recruitment (in non-service critical areas). This will generate savings of over £100K (based on current spending levels).
7. Detailed analysis of over and under-spending between years to understand the reason for significant variances. In particular, budgets that have tended to underspend in recent years.
8. Lean systems thinking – the Council is committed to the continuation of reviewing service processes in order to remove system waste and duplication thus improving the efficiency of the service and improving the customer experience. Introduction of efficiency outcomes (linked to financial savings) should be considered as part of all system reviews.
9. Efficiency review – Further development and delivery of an efficiency plan in order to meet the NI179 target. This will deliver £900k in efficiency savings and will ensure that the limited resources are being used to the best effect. Service 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).
10. Determining the financial separation of fixed and variable costs and the relationship between the costs of front line services and back office support functions. This information can be used to assist with the review of service subsidy levels, service reduction and alternative service delivery options.
11. Ensure grant opportunities are identified and incorporated into base budgets for future years thus avoiding the need to build the additional expenditure into the base budgets.
12. Review of indirect taxation opportunities (i.e. service user pays) through fees and charges review
13. Lincolnshire Improvement and Efficiency Programme – the various work-streams will be evaluated to examine the level of efficiencies that may be achieved, e.g. joint procurement.
14. Income generation/optimisation, e.g. by reviewing the level of fees and charges in non-discretionary areas.
15. In-house provided services – the Council provides a number of frontline services together with a number of support services. All services will continue to be benchmarked to evaluate value for money and identify potential for efficiencies through market testing, where appropriate.
16. Overheads – an examination of the Council's overhead base to establish value for money and opportunities for achieving efficiencies.

17. Asset disposal and property management – with a view to generating greater investment income and reducing revenue-running costs (and releasing capital receipts to support the investment programme). The Council asset portfolio should be fundamentally reviewed to identify:
- Contribution towards the priority themes
  - The operational costs of holding the asset
  - The maximisation of the income stream (or specified subsidy level)
  - The future use of the asset
  - Investment or surplus asset categorisation

This review should underpin and support the Council's asset management plan

### **Capital Budget**

Appendix B sets out the 5 Year Money Plan, i.e. the Capital Programme over a 5 year period (2008/09 – 2012/13) and includes the outturn for 2008/09 (pre-audit) and the period covered by this Strategy. The Programme will be reviewed in September 2009. This needs to be considered in conjunction with the Council's Corporate Plan priorities, Capital Strategy and Treasury Management Strategy that are aligned to the 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 delivering 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 at least 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 (two priority projects being Grantham Growth and Bourne Core Area), fleet procurement (particularly waste management vehicles) and refurbishing/improving the Council's housing stock. Investment in the total programme is between £8m and £9m per annum.

The capital programme for the General Fund is heavily reliant on useable capital receipts to fund the investment required to deliver its main aims and strategic priorities. The balance of funding is covered by capital grants (for example 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, particularly whole life costings and the corresponding reduction in investment income as a result of a reduction in capital resources 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, robust budget monitoring will be undertaken by the Council's Capital Assets Management Group in order to ensure that capital projects are delivered to the agreed timescale and within budget.

### **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 annually alongside the General Fund and certain elements of the process are carried out simultaneously.

Future annual budgets will need to take account of the outcome of the review of the business plan and the extent to which tenant aspirations can be afforded with the level of resources that can be provided by the HRA. 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 2023/24. This will need to take account of the results of the full stock condition survey that will be completed during 2009/10. The results of the stock condition survey will determine where limited resources will need to be targeted and having regard to the level of investment

required it will be important to ensure that tenants are fully consulted on issues relating to affordability.

The Housing minister has recently announced the outcome of the review of Council housing finance arrangements. A consultation paper has now been issued seeking views on the key proposals. These include the abolishment of the current housing subsidy system offset by a national adjustment of the housing debt between housing authorities. Other changes include the retention of rental income and any housing sale capital receipts. It is too early to speculate on the financial implications of these proposals for this Council but the outcome of the review will be incorporated into the budget setting process and the HRA business plan.

In order to enhance system effectiveness and efficiency and thereby improve tenant experience, a number of service processes are being reviewed as part of the Council's commitment to service improvement. In addition, many of the initiatives outlined to ensure a balanced General Fund budget will be applied to the HRA in order to ensure it breaks even year on year. This will help to release resources so they may be re-directed at priority areas.

Appendix C sets out the 5 Year Money Plan, i.e. the HRA over a 4 year period (2008/09 – 2012/13) and includes the outturn for 2008/09 (pre-audit) and the period covered by this Plan. This shows that a series of on-going deficits of between £1m and £2m per year has been replaced from 2010/11, with a near break even position. The HRA working balance will be maintained at £5.0m from March 2012 and the balance on the Major Repairs Reserve will reduce to less than £2m by March 2013. 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. 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 2008/9 together with a review during the preparation of the budgets for 2009/10.

The financial risks have been identified and an assessment of the estimated exposure and possible mitigation has been made in the context of the Council's overall approach to risk management and internal financial controls. This information has been used to determine the optimum level of reserve holdings needed to meet the requirements of a working balance and contingency. The conclusion of this risk assessment is that, currently, it is deemed prudent that General Fund reserves are maintained above 5% at £1.5m (8.5% of 2009/10 net operating expenditure) and that the Housing Revenue Account balance is maintained at 5.0m (21.9% of 2009/10 total expenditure).

The total reserves held as at 31<sup>st</sup> March 2009 is £25.3m as follows:

General Fund Reserves	£7.8m
Capital Reserves	£5.9m
Housing Revenue Account	£11.6m

Details of the level of reserves and current estimated movements on reserves from 2009/10 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 protocol for the use of each reserve has also been developed.

In summary, the levels of reserves and balances recommended within this strategy 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 and particularly in the current economic and financial climate 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.

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.

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

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