

ESSENTIAL REFERENCE PAPER B

Planning assumptions for August 2012 MTFP update

Factor		2013/14	2014/15	2015/16	2016/17
Council tax increase		Nil	2.5%	2.5%	2.5%
Pay settlement	1	1%	1%	2.5%	2.5%
Pay allowance for "drift" arising from regradings, increments and local award	2	0.75%	0.75	0.75%	0.75%
Members allowances	3	IRP	IRP	IRP	IRP
Return on investments	4	0.8%	1.0%	1.7%	2.3%%
Price inflation	5	2.0 %	3.2%	2.7%	2.7%
Economic growth	6	2.3%	2.8%	3.1%	3.0%
Council tax base	7	0.25%	0.25%	0.30%	0.30%
Pension Contributions	8	nil	nil	+1%	+1% (2% compound)
Council tax collection rate	9	98.65%	98.65%	98.75%	98.75%
Vacancy rate	10	3%	3%	3%	3%

Notes

1. Based pay restraint ceilings to 2011/15; then OBR March 2012 table 1.1 Average earnings 2015/16 4.5% and 2015/16 4.5% minus 2%.
2. Based on historical trend
3. Subject to IRP recommendations and Council decisions.
4. As OBR table 4.3 (March 2012) – "Market short term interest rates". This rate will be applied to funds other than fixed term deposits as August 2012.
5. As OBR table 4.3 (March 2012) "GDP deflator"
6. As OBR table 4.3 (March 2012) – "Real GDP"
7. At trend rate and excludes impact of council tax support scheme and policy changes in respect of empty property discounts.
8. Pending triennial review results November 2013;
9. Assumes continued collection rate fall off to 2013/14. Rate for 2012/13 set at 98.75%.

10. Pay bill to be calculated at 97% of full establishment.

ESSENTIAL REFERENCE PAPER C

THE FINANCIAL STRATEGY 2013/14 to 2016/17

What is it and why is it important?

The medium term financial strategy is a statement of the objectives and principles that underpin the Council's approach to managing its finances looking ahead over a period of three years or more. It sets out the framework within which the Medium Term Financial Plan is developed and reviewed.

The strategy is important because the council must ensure that its plans for services are affordable and sustainable in the light of the resources it can reasonably expect to be available. Included in those resources is income from council tax. The future is inherently uncertain and the strategy considers that uncertainty and how the council can mitigate the risks.

Business rates retention and local council tax support being introduced from April 2013/14 transfer risks (as well as opportunities) from central to local government. In the medium term the pace and strength of economic recovery, which have proven below the governments expectations in the last twelve months, indicate a longer period of spending restraint. In this context the proposed strategy is to maximise the Council's financial resilience.

What outcomes is the strategy designed to achieve?

The objectives of the strategy are

- To ensure the Council is well placed to meet uncertainty about the level of funding that the government will be able to provide acknowledging that such funding will be constrained.
- To ensure that tax payers, service users, partner agencies and Council employees are aware of the funding issues faced by the council and are given the opportunity to help shape the Council's planning.
- To ensure that funding is available to meet the highest priority future revenue and capital needs of the Council as they arise
- To maximise the effective use of resources by annual review of the Council's resources corporately and by redirecting

funding to higher priority areas as identified in the Corporate Plan and service plans.

- To ensure funding is available for priority service improvements.
- To inform service planning and ensure that the immediate and future financial implications of all decisions are taken into account in a timely manner and in the context of the Council's overall financial situation.
- To minimise volatility of council tax and taking one year with the next ensure that increases are within any limits set by the government, at least consistent with, and ideally lower than, those of similarly placed authorities
- To manage risks including keeping adequate reserves to ensure so far as is reasonably possible that service delivery is not disturbed by calls on funding from short term unforeseeable events
- To achieve value for money from all spending
- To be aware of and take up funding opportunities where these are consistent with the Council's objectives and where the obligations taken on are manageable by the council and commensurate with the sums received
- To achieve efficiency in the use of resources including invest to save opportunities by taking into consideration relevant life cycle costs
- To secure, maintain and renew a stock of physical assets consistent with the Council's corporate priorities as detailed in the Asset Management Strategy
- To ensure the Financial Strategy and all the Council's other strategies are consistent.

What principles underpin the strategy?

The principles underlying the strategy are those of sustainability, transparency and consistency as evidenced by :

- The Council will adopt a prudent approach to assumptions and forecasts of its income and spending including assessment of:
 - The resources available to it from government and other external sources
 - Changes in in-put prices both generally - including pay - and specific price changes where these have significant impact on individual services by means of indexation clauses in contracts

- interest rates and the growth of the wider economy so far as these affect the Council's ability to generate income from charges
 - the council tax base and rates of council tax collection and of other incomes.
 - investment returns and other factors as advised by the scheme's actuary, such as longevity, affecting pension costs
 - its ability to generate cashable efficiency gains
 - exposure to VAT and other tax liabilities
 - exposure to uninsured risks
- The council will establish spending plans consistent with its forecast of income other than where existing reserves are planned to be used
- The council will not commit to ongoing spending from incomes of a one off nature without a clear exit strategy in the absence of alternative funding
- The council will limit its borrowing by reference to CIPFA's prudential code and will make a prudent provision for repayment in accordance with that code.
- The council has adopted and will keep under review a policy on the level of reserves to ensure adequate but not excessive reserves.
- The council has adopted and will review a charging policy that is fair in terms of
 - different service users,
 - the call on the tax payer as against the service user
 - competition with other providers
- The council will maintain sound financial management practices set out in Financial Regulations and Financial Procedure Rules
- The Council will maintain the accounts in accordance with relevant codes of accounting practice and in particular CIPFA's BVACOP and financial planning will be consistent with those requirements.
- The strategy will be reviewed annually.

Reserves Policy

Why is a policy on reserves needed?

- 1 A policy is needed to satisfy statutory requirements (Sections 32 and 43 of the Local Government Finance Act 1992) in connection with the calculation of the budget requirement when setting the council tax. The Local Government Act 2003 also requires the chief finance officer to review and report on the adequacy of reserves when a council sets its budget. The same Act empowers the government to set minimum levels of reserves in the event an authority fails to act prudently.
- 2 More generally, an agreed policy on reserves assists in medium term planning. The Chartered Institute of Public Finance and Accountancy issued guidance on reserves and balances in February 2003 and November 2008; this policy is consistent with that guidance.
- 3 The format of the accounts introduced by the application of International Financial Reporting Standards gives more prominence to the movement of and balances held in reserves which are a key indicator of an organisation's financial health and resilience.

What are reserves?

- 4 Reserves are the accumulated surplus of income over expenditure on an accruals rather than cash basis of accounting. There can be, and usually is, a difference between the total of reserves and accumulated cash balances.
- 5 Reserves can be usable or unusable. Usable reserves represent resources that are available to meet future liabilities. Unusable reserves are those which arise from accounting regulations – capital revaluations and pensions for example – and which relate to transactions which by statute cannot be put to or taken from the general reserve.
- 6 Accounting conventions differentiate between reserves and provisions; provisions being amounts charged to the income and expenditure accounts in respect of liabilities likely to be incurred from past events and where a reliable estimate of the liability is possible but where the timing and/or precise value of that liability is uncertain.

The reserves to be held and principles to assess the adequacy of balances.

7 The Council will hold two types of reserve

- General reserves – by way of a working balance to manage cash flows and limit the need for temporary borrowing and to provide a contingency for unforeseeable events and emergency spending;
- Earmarked reserves – reserves set aside for a defined purpose to meet known or predicted future liabilities.

8 The Council will adopt a risk based approach in considering the adequacy of individual reserves and the aggregate of all reserves. In reviewing reserves both immediate and the medium term requirements and risks will be considered; in general the longer the planning time frame the greater uncertainty to be applied to assumptions.

The general reserves:

9 The Council will maintain:-

- a general reserve fund balance adequate to meet the needs of an in year working balance and as a second level of contingency; plus
- a general reserve adequate to provide a reasonable level of contingency and manage differences between the timing of any significant charges to the income and expenditure account and MTFP assumptions .

10 There is no single formula by which all relevant considerations can be captured to work out any minimum, optimum or maximum level of general reserves or reserves in aggregate. Set out below are a minimum and maximum assessment that might be expected to apply in “normal” times. In the event that the general reserve is likely to fall outside of these boundaries the Council will give consideration to the need for any corrective action.

11 Subject to the risk considerations set out below, the aggregate balance on these reserves, less the amount held in respect of the Building Control Account, should normally not be expected to fall below £3m. This minimum acknowledges the Council’s exposure to variable interest rates, the degree to which services are bought in by contract, the dependency on income streams with an in year degree of uncertainty, the absence of any specific insurance reserve, risks

associated with all regulatory services, the recent track record of spending within budget, plus the potential for error in any financial forecast. Since this minimum balance was set in 2010 the Council has accepted some additional risk in its treasury activity by placing a proportion of its investments for longer (4 years) to achieve an improved investment return. These and other factors will vary over time and so may cause the minimum level to vary.

12 In terms of a maximum level of reserve the maximum should not be expected to exceed the sum of:

- (a) 40% of the budget requirement at the start of the year of account
- (b) 2.5% of total assets in the last audited financial statements
- (c) The sum of future planned withdrawals and/or contributions to the general reserve in the last approved MTFP
- (d) Less any sum held as an insurance reserve

Note: at 31 March 2012 the above limit was as follows;

(a) 40% of £9.329m (2012/13) =

£ 3.732m

(b) 2.5% of £142.18m (31/3 2011) =

£ 3.553m

(d) Final accounts 31 March 2010

-£ 0.010m

Total

£7.285m

The actual net aggregate balance March 2012 £7.691m

13 The primary risks to be considered are the assumptions used to underpin the budget and medium term financial strategy and the judgement of the risk that those assumptions may prove to be wrong and the potential impact of variance from the assumption. The key assumptions to be considered are:-

- the potential volatility of government general and specific grants
- inflation and interest rates
- amount and timing of capital receipts
- delivery of planned efficiency and other savings
- expected growth in activity from demand led or discretionary expansion of services
- new partnerships and major capital schemes
- current and future availability of alternative sources of funding

Earmarked Reserves

14 Earmarked reserves will be established only for well defined specific purposes and generally will be expected to be used within the period of the MTFP.

15 Where specific reserves are established to meet defined risks of indeterminate duration the need for and balance on the reserve will be reviewed and likelihood and impact assessment will be reassessed as part of the Council's strategic risk management processes.

16 At 31 March 2012 earmarked reserves totalled £3.360m.

Reporting of reserves

17 As a minimum, the annual budget report and the final accounts report will set out opening balances, expected or actual transfers to and from reserves together with closing balances. The Director of Internal Services as S151 officer will comment on the adequacy of reserves in those reports.

18 During the year the adequacy of reserves will be reviewed as part of the health check monitoring in the light of any significant budget variances. If the balance on general reserves appears likely to move outside of the minimum/maximum boundary the need for corrective action will be considered in the next planned health check report or earlier if the Council's S151 officer so requires.

Governance arrangements in respect of reserves

- 19 Arrangements for the governance of the use of general and earmarked reserves will be set out in Financial Regulations. Planned contributions to and withdrawals from specific reserves will be set out in the MTFP approved by the Council.
- 20 The Council has delegated approval of the Final Accounts to the Audit Committee and as a result prior arrangements by which the Executive might approve at any time the establishment of an earmarked reserve and appropriations thereto from unused approved budgets have been revoked given that the full Council will no longer be able to ratify or amend those decisions. Such transactions now require the prior consent of full Council.