

EAST HERTS COUNCIL

EXECUTIVE - 6 SEPTEMBER 2011

REPORT BY THE EXECUTIVE MEMBER
FOR RESOURCES AND INTERNAL SUPPORT

FINANCIAL STRATEGY 2011; MEDIUM TERM FINANCIAL PLAN TO
2015/16 AND APPLICATION OF THE NEW HOMES BONUS

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- To review the Council's Financial Strategy and the Medium Term Financial Plan (MTFP) including the assumptions used to update the Plan since its approval by the Council in February 2011.
- The review to take into account
 - Recommendations on the use of the New Homes Bonus
 - The Government's announcements in respect of localisation of business rates and council tax benefit

<u>RECOMMENDATION TO COUNCIL:</u> that	
(A)	the amended Financial Strategy including the Policy on Reserves be approved;
(B)	the revised MTFP assumptions at Essential Reference Paper 'E' be approved as a basis for future planning with the intention that actions be identified in the 2012/13 budget round to ensure spending proposals remain within forecast funding over the period to 2015/16, including where appropriate, any short term application of reserves;
(C)	the New Homes Bonus be applied as set out at paragraph 2.7 and detailed in Essential Reference Paper 'F' and Officers be instructed to work up a detailed scheme of community grants in accordance with the outline set out therein, subject to the approval of the Executive Member for Resources and Internal Support;

	<i>(Note - The above recommendations are subject to the Executive's consideration of any views and recommendation from the meeting of Corporate Business Scrutiny Committee 23 August 2011.)</i>
<u>FOR DECISION BY THE EXECUTIVE:</u> that	
(D)	The government's proposals in respect of the localisation of business rates and council tax benefit be noted.

1.0 Background

- 1.1 The Council first adopted a Financial Strategy statement distinct from its Medium Term Financial Plan (MTFP) in July 2009 and this was up dated in 2010. It is timely to review that strategy at the start of the coming budget round in the context of the governments plans for public expenditure and local authority funding in particular.
- 1.2 The Council's policy in respect of reserves was incorporated into the Financial Strategy 2010 and this is reviewed in this report.
- 1.3 The MTFP is in part based on a series of assumptions about future costs and other factors which determine future incomes and expenditure. This report sets out these planning assumptions for the coming budget round.

2.0 Report

Financial Strategy and policy in respect of reserves

- 2.1 The Financial Strategy adopted last year remains relevant and only minor changes are proposed to reflect the continued uncertainty about government grants to which the Council needs to and is responding. **Essential Reference Paper 'B'** is a marked up copy highlighting where changes are proposed. The key change is to emphasise that "resilience" is the centre piece of financial planning and so of a higher priority than service improvement.
- 2.2 It is good practice to have in one document a statement of the Council's general policy on reserves to guide individual decisions

on the establishment and use of reserves. **Essential Reference Paper 'C'** is a statement of such policy which is largely unchanged from 2010. At 31 March 2011 the general reserves were close to but not in excess of the ceiling at which an automatic review would be triggered. The implication for the coming budget round is that there should be no further net addition to general reserves and there is scope for some prudent short term use of the reserves but not to seek to run them down to the minimum.

- 2.3 As set out in the attached policy there is no prescribed minimum or other levels of reserves nor any prescriptive guidance from which to derive figures. It is for each authority having regard to the advice of its chief finance officer to make their own judgement based on all the relevant local circumstances. The unusual uncertainties over funding, the prospects for the wider and local economy, escalating costs of pensions, and environmental factors all point to reserves currently being retained above minimum levels. A new factor in the current assessment of the level of reserves is the use of structured deposits as part of treasury management which by putting money on deposit for longer periods exposes the Council to additional risks (and which were accepted by revision of the lending policy).
- 2.4 In any considering the policy with regard to the level of reserves to be held comparison with other authorities is one benchmark. There is a wide dispersion of the levels of revenue reserves held by Councils - **Essential Reference Paper 'D1'**. The Council's total revenue reserves (both general and earmarked) of £10.3m at March 2011 placed the Council in the upper quartile (based on 2010 returns) of district councils.

MTFP

- 2.5 The Financial Strategy emphasises the importance the Council attaches to sustainability, transparency and prudence. **Essential Reference Paper 'E'** sets out what is proposed for key assumptions as the MTFP is refreshed.
- 2.6 In addition to the issues addressed in the reference paper a major assumption is that about government grants. As with many Councils, the assumptions made at this stage last year about the pace of reduction in grant proved optimistic. This year the coming year's (2012/13) provisional settlement for formula grant is available from announcements already made.

- 2.7 There is a reasonable basis on which to estimate future entitlement to the new homes bonus but not the impact of top slicing formula grant to pay for it. The Executive is requested to seek Council's approval that this income stream be applied as set out at **Essential Reference Paper 'F'**.
- 2.8 The government's plans for business rates (**Essential Reference Paper 'G'**) are out for consultation and potentially significant. Proposals to introduce a local council tax benefit scheme to deliver a 10% cost reduction in the cost of benefits is not yet outlined.
- 2.9 At this stage the MTFP for 2013/14 and beyond will assume
- a level of receipt of new homes bonus based on the 2011/12 and 2012/13 gross receipts but future formula grant will be based on a claw back loss of 50% of this sum.
 - A neutral impact from the changes to business rates
 - A neutral impact from the changes to council tax benefit
- 2.10 It is proposed to retain the council tax assumption at nil for 2012/13 with a potential increase of 2.5% in later years pending further information from the government on future funding arrangements. As the MTFP is updated later in the process a further judgement will be made on the scope to extend the council tax freeze in the light of emerging certainty about the government's intentions for business rates and council tax benefit.
- 2.11 In addition to the uncertainties about future government support the second factor with similar significance is the future course of interest rates now that the reserve to manage volatility of this income stream has been used. The MTFP assumes investment based on short term interest rates as set out in the Office of Budget Responsibility's March 2011 report. The balancing of the MTFP is susceptible to volatility dependent on these assumptions. Each 0.5% variation in returns from the assumptions made is worth £300k to £350k in gained or lost projected income. With the likely elimination of the interest equalisation reserve in 2010/11 a key consideration will be the risks associated with any use of other reserves to support the budget until rates increase.
- 2.12 The Consolidated Budget Report in February setting the 2011/12 budget and MTFP drew attention to the exhaustion of capital receipts and the reliance on borrowing/running down cash to fund

the capital programme. Discussions about the relocalisation of business rates include suggestions that growth in the yield from business rates might be used to underpin borrowing and this may provide scope for a slightly more ambitious programme in later years. For the purposes of future planning a ceiling of £1m is proposed but with provision to add additional schemes with a financial pay back of the sum invested within 5 years.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Office for Budget Responsibility Fiscal Outlook March 2011

Bank of England Inflation Report May 2011

MPC Minutes of Meeting 8th and 9th June 2011 ^{**} *to be updated as further minutes become available*

Local Government England Financial Statistics 2011

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ESSENTIAL REFERENCE PAPER 'A'

<p>Contribution to the Council's Corporate Priorities/ Objectives <i>(delete as appropriate):</i></p>	<p>Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i></p> <p>The Proposed Financial Strategy is designed to promote good financial planning and budgeting. Publication of the Strategy enhances public accountability by setting a framework against which individual decisions can be judged. Similarly, publication of a policy with regard to reserves and early scrutiny of financial planning assumptions enhance both the robustness of the financial planning process and public accountability.</p> <p>Leading the way, working together <i>Deliver responsible community leadership that engages with our partners and the public.</i></p> <p>Publication of the information in this report allows partners and the wider community to be fully aware of the basis on which the Council is undertaking its financial planning.</p>
<p>Consultation:</p>	
<p>Legal:</p>	<p>The Council must set a balanced budget. The recommendations in this report support that outcome.</p>
<p>Financial:</p>	<p>This recommendations in this report do not commit resources nor do they impact on income.</p>
<p>Human Resource:</p>	<p>The planning assumption of vacancy saving does not represent a performance target however it will require active management of vacancies as they arise. Proposals in the current MTFP require reductions in staffing subject to consultation in accordance with HR policies</p>
<p>Risk Management:</p>	<p>Financial planning assumptions may turn out to be wrong. The aim is to achieve a prudent balance and consistency of assumptions.</p> <p>The policy with regard to reserves provides resources to be drawn on should there be an unforeseen event incurring costs or loss of income which cannot otherwise be met without unacceptable consequences for the provision of services.</p>