Finance & Audit Scrutiny Panel

Town Hall, Colchester
27 January 2009 at 6:00pm

The Finance and Audit Scrutiny Panel deals with
the review of service areas and associated budgets, and monitors the financial performance of the Council, and the operational performance of the Council. The panel scrutinises the Council's audit arrangements, including the annual audit letter and audit plans, and Portfolio Holder 'Service' decisions reviewed under the Call in procedure.

Information for Members of the Public

Access to information and meetings

You have the right to attend all meetings of the Council, its Committees and Cabinet. You also have the right to see the agenda, which is usually published 5 working days before the meeting, and minutes once they are published. Dates of the meetings are available at www.colchester.gov.uk or from Democratic Services.

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The Council values contributions from members of the public. Under the Council's Have Your Say! policy you can ask questions or express a view to meetings, with the exception of Standards Committee meetings. If you wish to speak at a meeting or wish to find out more, please pick up the leaflet called "Have Your Say" at Council offices and at www.colchester.gov.uk.

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There is wheelchair access to the Town Hall from West Stockwell Street. There is an induction loop in all the meeting rooms. If you need help with reading or understanding this document please take it to Angel Court Council offices, High Street, Colchester or telephone (01206) 282222 or textphone 18001 followed by the full number that you wish to call, and we will try to provide a reading service, translation or other formats you may need.

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Terms of Reference

Finance and Audit Scrutiny Panel

- To review all existing service plans and associated budget provisions against options for alternative levels of service provision and the corporate policies of the Council, and make recommendations to the Cabinet

- To have an overview of the Council's internal and external audit arrangements and in particular with regard to the annual audit plan, the audit work programme and progress reports, and to make recommendations to the Cabinet

- To monitor the operational and financial performance of the Council, and to make recommendations to the Cabinet in relation to operational performance, financial outturns, revenue and capital expenditure monitors

- To scrutinise the Audit Commission's annual audit letter

- To scrutinise progress made on best value action plans

- To scrutinise executive 'service' decisions made by Portfolio Holders and officers taking key decisions which have been made but not implemented referred to the Panel through the call-in procedure

    The panel may a) confirm the decision, which may then be implemented immediately, b) refer the decision back to the decision taker for further consideration setting out in writing the nature of its concerns, or c) refer the matter to full Council in the event that the Panel considers the decision to be contrary to the Policy Framework of the Council or contrary to, or not wholly in accordance with the Budget.

COLCHESTER BOROUGH COUNCIL
FINANCE & AUDIT SCRUTINY PANEL
27 January 2009 at 6:00pm

Members

Chairman	:	Councillor Sue Lissimore.
Deputy Chairman	:	Councillor Dennis Willetts.
		Councillors Kevin Bentley, John Bouckley, Martin Goss, Dave Harris, Jackie Maclean, Jon Manning, Nigel Offen, Gerard Oxford and Laura Sykes.
Substitute Members	:	All members of the Council who are not Cabinet members or members of this Panel.

Agenda - Part A

(open to the public including the media)

Members of the public may wish to note that Agenda items 1 to 5 are normally brief and items 6 to 9 are standard items for which there may be no business to consider.

Pages

1. Welcome and Announcements

(a) The Chairman to welcome members of the public and Councillors and to remind all speakers of the requirement for microphones to be used at all times.

(b) At the Chairman's discretion, to announce information on:

- action in the event of an emergency;
- mobile phones switched to off or to silent;
- location of toilets;
- introduction of members of the meeting.

2. Substitutions

Members may arrange for a substitute councillor to attend a meeting on their behalf, subject to prior notice being given. The attendance of substitute councillors must be recorded.

3. Urgent Items

To announce any items not on the agenda which the Chairman has agreed to consider because they are urgent and to give reasons for the urgency.

4. Declarations of Interest

Continued Over ...

The Chairman to invite Councillors to declare individually any personal interests they may have in the items on the agenda.

If the personal interest arises because of a Councillor's membership of or position of control or management on:

- any body to which the Councillor has been appointed or nominated by the Council; or
- another public body

then the interest need only be declared if the Councillor intends to speak on that item.

If a Councillor declares a personal interest they must also consider whether they have a prejudicial interest. If they have a prejudicial interest they must leave the room for that item.

If a Councillor wishes to make representations on an item on which they have a prejudicial interest they may do so if members of the public are allowed to make representations. In such circumstances a Councillor must leave the room immediately once they have finished speaking.

An interest is considered to be prejudicial if a member of the public with knowledge of the relevant facts would reasonably regard it as so significant that it is likely to prejudice the Councillor's judgement of the public interest.

Councillors should consult paragraph 7 of the Meetings General Procedure Rules for further guidance.

5. Minutes

To confirm as a correct record the minutes of the meetings held on 20 January 2009, 27 January 2009 and 29 January 2009 will be confirmed at the meeting of the 24 February 2009.

6. Have Your Say!

(a) The Chairman to invite members of the public to indicate if they wish to speak or present a petition at this meeting – either on an item on the agenda or on a general matter not on this agenda. You should indicate your wish to speak at this point if your name has not been noted by Council staff.

(b) The Chairman to invite contributions from members of the public who wish to Have Your Say! on a general matter not on this agenda.

7. Items requested by members of the Panel and other Members

Continued Over ...

(a) To evaluate requests by members of the Panel for an item relevant to the Panel's functions to be considered.

(b) To evaluate requests by other members of the Council for an item relevant to the Panel's functions to be considered.

8. Referred items under the Call in Procedure

To consider any Portfolio Holder decisions, taken under the Call in Procedure.
The panel may a) confirm the decision, which may then be implemented immediately, b) confirm the decision back to the decision taker for further consideration setting out in writing the nature of its concerns, or c) refer the matter to full Council in the event that the panel considers the decision to be contrary to the Policy Framework of the Council or contrary to, or not wholly in accordance with the Budget.

9. Decisions taken under special urgency provisions

To consider any Portfolio Holder decisions taken under the special urgency provisions.

10. 2009-10 Revenue Budget and Medium Term Financial Forecast **1 - 81**

See report from the Scrutiny Officer.

11. Treasury Management Strategy **82 - 97**

See report from the Head of Resource Management.

12. Housing Revenue Account Estimates 2009-10 **98 - 112**

See report from the Scrutiny Officer.

13. Exclusion of the public

In accordance with Section 100A(4) of the Local Government Act 1972 and in accordance with The Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000 (as amended) to exclude the public, including the press, from the meeting so that any items containing exempt information (for example confidential personal, financial or legal advice), in Part B of this agenda (printed on yellow paper) can be decided. (Exempt information is defined in Section 100I and Schedule 12A of the Local Government Act 1972).

Finance and Audt Scrutiny Panel

Item 10

27 January 2009

Report of	**Scrutiny Officer**	**Author**	**Robert Judd** **Tel: 282274**
Title	**2009/10 Revenue Budget and Medium Term Financial Forecast**		
Wards affected	All		

This report provides an update on the 2009/10 Revenue Budget and Medium Term Financial Forecast

1. Action Required

1.1 To review and note the attached Cabinet report on the 2009/10 Revenue Budget that forms the decision to be taken by the Cabinet on the 28 January 2009, referring any comments to tomorrow's Cabinet meeting for further consideration.

2. Reason for Action

2.1 The Panel may at the Cabinet's request scrutinise decisions to be taken by the Cabinet, and report any concerns or points for further consideration back to the Cabinet prior to the decision being taken.

	Cabinet			**Item**
	28 January 2009			
Report of	**Head of Resource Management**	**Author**	**Charles Warboys** **Sean Plummer** **☏ 282350** **☏ 282347**	
Title	**2009/10 Revenue Budget and Medium Term Financial Forecast**			
Wards affected	n/a			

This report requests Cabinet to recommend to Council:

- **The 2009/10 Revenue Budget**
- **Colchester's element of the Council Tax for 2009/10**
- **The Medium Term Financial Forecast**
- **The Prudential Indicators and Treasury Management Strategy and Annual Investment Strategy**

1. Decisions Required

1.1 To note that the outturn for the current financial year is forecast to be overall in line with the approved Revenue Budget and that the position is being carefully monitored. (paragraph 3.4.).

1.2 To approve the cost pressures, growth items and saving / increased income options identified during the budget forecast process as set out at Appendices B, C and D.

1.3 To consider and recommend to Council the 2009/10 Revenue Budget requirement of £24,432k (paragraph 7.1) and the underlying detailed budgets set out in the Background Papers.

1.4 To agree that Revenue Balances for the financial year 2009/10 be set at a minimum of £1,700k and that £484k be applied to finance items in the 2009/10 revenue budget.

1.5 To agree the following releases (paragraph 11.12):-

- £661k from the Capital Expenditure Reserve in 2009/10 to meet costs including accommodation, the community stadium and ICT Strategy.
- £663k to be financed from the Renewals and Repairs Fund for specific projects
- £100k from the insurance provision
- £60k from the S106 monitoring reserve
- £221k from the Regeneration Reserve to support delivery of the Renaissance Programme and provide support towards cost pressures

1.6 To agree and recommend to Council that £100k of Revenue Balances be earmarked for potential unplanned expenditure within the guidelines set out at paragraph 12.3.

1.7 To agree and recommend to Council that Colchester's element of the Council Tax for 2009/10 be set at £171.00 for Band D properties which is an increase of £4.59 per annum (2.76%) (paragraph 13.2).

1.8 To note that the formal resolution from Cabinet to Council will include the Parish, Police, Fire and County Council elements and any change arising from the formal Revenue Support Grant Settlement announcement in early February. This will be prepared in consultation with the Leader of the Council.

1.9 To note the Medium Term Financial Forecast for the financial years 2010/11 and 2011/12 (paragraph 14.6).

1.10 To note the comments made on the robustness of budget estimates at paragraph 16.

1.11. To agree and recommend to Council the Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy (paragraph 17.7).

2. Background Information and Summary

2.1 The 2009/10 Revenue Budget and the Capital Programme have been prepared in accordance with a process and timetable agreed at Cabinet and endorsed by the Strategic Overview and Scrutiny Panel (Appendix A).

Delivering a Balanced Budget for 2009/10

2.2. The Revenue Budget for 2009/10 has been prepared against a background of meeting the Council's new Strategic Plan objectives whilst facing significant financial pressures from the economic slowdown. Every effort has been made to produce a budget that not only funds the delivery of high quality services and shifts resources for investment in priority areas but keeps the increase in Council Tax below the level of inflation (RPI). This has been very difficult, however, a high level of savings has been found and includes areas such as:

- Negotiation and challenge of costs to deliver savings
- Taking steps to mitigate cost pressures through cost savings measures
- Minimising the impact and cost of redundancies through redeployment and managing vacant posts
- Carrying out detailed budget reviews of specific areas to shift resources to maintain and also invest in services to deliver priorities
- Using reserves in a managed and prudent way .

Council Tax

2.3. It is proposed to increase the Council's element of the Council Tax by 2.76% in 2009/10. This is below the current level of inflation (RPI =3% at November) and also below the increase in state pensions (5%). The Government has stated that it expects authorities to increase Council Tax by less than 5%. Colchester's increase is therefore well within this level.

2.4. A 2.76% increase in Colchester's element of the Council Tax equates to less than 9p per week for a Band D property. This is a modest increase when considered alongside £3.8m of cost pressures and areas of growth/investment set out in Appendices B & C respectively.

2.5. Further information on the budget is provided in the following paragraphs.

3. Current Year's Financial Position

3.1 In order to inform the 2009/10 budget process and forecast level of reserves it is useful to first review the current year's financial position. Revenue budgets are monitored on a monthly basis with regular reports to Senior Management Team and the Finance and Audit Scrutiny Panel (FASP). A considerable amount of work has been undertaken to determine a reasonable forecast of the year-end position.

3.2 The current position is showing that the forecast outturn is, overall, in line with the budget. This represents a significant achievement given the pressures faced this year from forecast reduced income of circa £1m.

3.3. There remains some outstanding risks to the forecast and the position continues to be monitored and FASP on 24 February 2009 will receive a report setting out a detailed position.

3.4 **Cabinet is asked to note that the forecast outturn position for the current year is anticipated to be on budget and that the position will continue to be monitored.**

4. 2009/10 Revenue Cost Pressures

4.1 Appendix B sets out revenue cost pressures, over the 2009/10 base, of £3,186k which have been identified during the budget process. This includes an inflation allowance, impact of the economic downturn on income (mainly planning, building control, land charges and car parks) and the impact of higher energy costs

4.2 The cost pressures have mostly been previously considered by Cabinet, however, provision has now been included to reflect changes to inflationary assumptions (including pay and energy), an increase to the expected shortfall of planning and building control income and other impacts of the economic downturn such as the impact on the property market.

4.3 **Cabinet is asked to approve inclusion within the 2009/10 Revenue Budget of the cost pressures set out at Appendix B.**

5. 2009/10 Revenue Growth

5.1. Appendix C sets out growth items totalling £631k which have been identified during the budget process. These items will assist in enabling the Council to deliver its Strategic Plan objectives and include costs funded through Government grants and the use of Council reserves.

5.2. The main changes to report since the last Cabinet paper are the inclusion of £210k towards increasing recycling rates and £5k towards providing additional resources to support welfare rights.

5.3. **Cabinet is asked to approve inclusion within the 2009/10 Revenue Budget of the growth items as set out at Appendix C.**

6. 2009/10 Revenue Saving/Increased Income

6.1 Appendix D sets out savings/increased income totalling £2,489k The appendix provides an analysis of the risks to delivering the savings and steps taken or planned to mitigate these risks.

6.2. There are some changes to the report since Cabinet met on 3 December 2008. These include the continued identification of savings to mitigate the impact of reduced income, specifically within Environmental and Protective Services, steps to mitigate increased grounds maintenance costs and also proposed savings identified from specific service reviews including cultural services.

6.3. There will be some one-off costs required to deliver all the budget savings. A sum of £120k has therefore been included within the budget.

6.4 **Cabinet is asked to approve inclusion of the savings/increased income items set out at Appendix D within the 2009/10 Revenue Budget.**

7. Summary Total Expenditure Requirement

7.1 Should Cabinet approve the items detailed above, the total expenditure requirement for 2009/10 is as follows:

	£'000
2009/10 Budget	**23,998**
Less: 2008/09 one-off items	(894)
Cost Pressures (as per Appendix B)	3,186
Revenue Growth (as per Appendix C)	631
Savings/Increased Income (net of one off costs) (as per Appendix D)	(2,489)
Forecast Budget 09/10	**24,432**

Note:
Detailed service group expenditure is available in the Background Papers. A summary of service group expenditure is attached at Appendix E.

7.2 **Cabinet is asked to agree and recommend to Council the net revenue expenditure requirement for 2009/10 and the underlying detailed budgets set out in the Background Papers.**

8. Revenue Support Grant

8.1 The provisional Revenue Support Grant Settlement was announced in Parliament in November 2008. Our provisional grant settlement is £12,681k, which is in line with the announcement of the 3 year figures provided as part of the Comprehensive Spending Review 2007 (CSR 07).

8.2 The settlement represents an increase of £296k (2.4%) in cash terms on 2008/09 The three-year figures announced provide for a reducing increase in 10/11 as shown below:-

	Grant	Increase	
	£'000	£'000	%
09/10	12,681	296	2.4
10/11	12,911	230	1.8

8.3. The Settlement is provisional and subject to consultation. Traditionally, there has been very little change between the provisional and actual Settlement. Any marginal change to the Council's grant entitlement will be reflected in the final budget recommendation to Council.

9. Council Tax

9.1 As part of the formal budget setting process, the Council is required to determine each year, as at 15 January, the estimated surplus or deficit arising from the Council Tax Collection Fund as at 31 March.

9.2 Whilst the collection rate continues to be close to our target of 99.5% there has been an increase in the level of write offs, including prior years, and the growth in the number of properties seen in recent years has fallen meaning that it is anticipated there will be a no surplus or deficit at the year end. The MTFF had previously assumed that Colchester's share of the then anticipated surplus would be £60k and therefore this has impacted on the overall budget position.

10. Revenue Balances

10.1 The Local Government Act 2003 places a specific duty on the Chief Financial Officer to report on the adequacy of the proposed financial reserves of an Authority when the budget is being considered. This section and section 11 address this requirement.

10.2. Cabinet, at its meeting on 3 December 2008, considered a report setting out the outcome of a risk management analysis in respect of the Council's Revenue Balances. Cabinet agreed with the analysis conclusion that Revenue Balances should be maintained at a minimum of £1.7m and that the situation would be reviewed based the implications and details of items such as the grant settlement, budget savings and other variables. Based on the assumptions built into the budget it is considered prudent to maintain the recommended minimum level at £1.7m.

10.3. The cost pressures and growth items set out in the following table and included within the appendices to this report include a number of likely one-off cost which are recommended to be funded from general balances. It is important to note that £386k is planned to be added to balances from 08/09 budgets meaning that £98k is being used from existing balances.

	Cost in 08/09 £'000	*Note / Additional Requirements*
Potential one-off costs to deliver budget options	120	See para 6.4
One off costs to support recycling initiatives	100	See Growth items (Appendix C)
One of costs related to HPDG c/f from 08/09	140	See Growth items (Appendix C)
Contribution carried forward re: service review post	46	See cost pressures (Appendix B)
General contribution towards potential one-off costs including empty rates charges and commercial rental shortfall etc	78	
Total	**484**	

10.4 In considering the level at which Revenue Balances should be set for 2009/10, Cabinet should note the financial position the Council is likely to face in the medium term both through the levels of future Government funding and the incremental pension burden highlighted in the Medium Term Financial Forecast.

10.5 The forecast position in respect of Revenue Balances as at 31 March 2009 is set out at Appendix F and shows balances at £1,847k as compared with a recommended minimum balance of £1,700k as set out in the agreed Risk Management Analysis. Taking account of the medium term position detailed above, Cabinet is recommended to approve that balances are retained at a minimum level of £1,700k and release £484k to assist in funding the 2009/10 Revenue Budget.

10.6 **Cabinet is recommended to approve Revenue Balances for the financial year 2009/10 at a minimum of £1,700k and that £484k be applied to finance items in the 2009/10 Revenue Budget.**

11. Reserves and Provisions

11.1. Cabinet at its meeting on 3 December 2008 considered the Council's earmarked reserves. As part of the budget process a review was undertaken into the level and appropriateness of earmarked reserves and provisions for 2009/10. The review concluded that the reserves and provisions detailed were broadly appropriate and at an adequate level, however, it was stated that a further review would be done as part of this final report. The proposed budget includes a number of releases from reserves, including some changes to those already proposed.

11.2. The proposed use of reserves and provisions should be viewed in the context of additional contributions made to reserves during the year. These have included:-

- £250k contribution to the Repairs and Renewals Reserve
- A contribution of £130k to the Regeneration Reserve
- £100k contribution to the capital expenditure reserve for opportunity purchases.

Capital Expenditure Reserve (CER) – release of £661k

Accommodation

11.3. Cabinet considered releasing sums within the Capital Expenditure Reserve to mitigate the incremental cost impact of the accommodation portfolio changes decided in 2003/04. The release required to mitigate the impact for 2008/09 was £400k. It was agreed that this would be phased out from next year and for 2009/10 £205k is proposed with no further use from 2010/11 onwards which is reflected in the MTFF

Community Stadium

11.4. The Council agreed that an approach to minimise the revenue pressure is to fund the annual MRP cost by identifying new capital receipts in the period of the borrowing. This then allows a release of revenue funds within the capital expenditure reserve in the same way as the accommodation project. For 2009/10 the use of the reserve remains at £300k.

ICT Strategy

11.5. The Council agreed the ICT Strategy within the capital programme. As the strategy has been developed there are some items that should properly be charged to revenue. These include £35k of cost pressures shown at Appendix C and a previously agreed use of £26k. In total £51k is proposed.

Opportunity purchases

11.6. £100k was transferred to the CER as part of the allocation of the 2007/08 outturn surplus to fund opportunity purchases. This budget remains uncommitted and it is therefore proposed that given the budget pressures faced for 2009/10 that the capital programme be changed by this amount and £100k be released from the capital expenditure reserve.

Renewals and Repairs Fund – release of £663k

11.7 Cabinet noted on 6 December that the estimated balance at 31 March 2009 on the Renewals and Repairs Fund stood at £2,931k and that the 2009/10 expenditure programme would be considered at this meeting. Appendix G sets out the recommended programme totalling £663 k. The releases include £603k in respect of the 5-year building maintenance programme. The programme has been based on in-depth condition surveys of all Council building assets. The programme will continue to be developed over the coming year and will again be considered as part of the budget strategy for 2010/11.

Regeneration Reserve – release of £221k

11.8. The additional items shown at Appendix C include £166k in respect of resources within the Renaissance Delivery Unit to maintain the role of this team. It is recommended that for 2009/10 that this cost continues to be funded from the Regeneration Reserve.

11.9. In addition it is also proposed that a further £55k from the reserve be used to support the budget. The balance on this reserve after this contribution is still expected to be sufficient to fund the additional regeneration resources for 2010/11.

S106 Monitoring Reserve – release of £60k

11.10. This reserve was set up to provide funds to support the future monitoring of Section 106 agreements. Within the last budget report to Cabinet it was proposed to use £30k to support the 2009/10 budget. However, given that the costs involved in monitoring are higher than this a contribution of £60k is now proposed. This reserve will still last for at least the next 3 years if used in a similar way.

Insurance Provision – release of £100k

11.11. During the tender process this year we were able to include subsidence cover for all the properties with our external insurers where as before we covered all subsidence costs from the provision. We have some run-off claims for properties that suffered structural problems prior to 1st August 2008 but everything after that is covered. Other issues have also been considered and in summary it would be possible to offer up £100k from the provision without an undue level of risk

11.12 **Cabinet is recommended to agree release of**

- **£661k from the Capital Expenditure Reserve in 2009/10**
- **£663k from the Renewals and Repairs Fund as set out at Appendix G**
- **£221k from the Regeneration Reserve.**
- **£60k is released from S106 monitoring reserve towards the costs of carrying out this function**
- **Release of £100k from the insurance provision**

12. Contingency Provision

12.1 The Council's Constitution requires that any spending from Revenue Balances not specifically approved at the time the annual budget is set, must be considered and approved by full Council. This procedure could prove restrictive particularly if additional spending is urgent.

12.2 It is recommended that £100k of Revenue Balances be specifically earmarked for potential items of unplanned expenditure. It should be noted that if this sum was used during the year it may take revenue balances below the recommended level of £1,700k and the Council would need to consider steps to reinstate balances at a later date.

12.3 **Cabinet is asked to agree and recommend to Council that £100k of Revenue Balances be specifically earmarked for potential items of unplanned expenditure which are:**

- **The result of new statutory requirements or**
- **An opportunity purchase which meets an objective of the Strategic Plan or**
- **Is considered urgent, cannot await the next budget cycle and cannot be funded from existing budgets**

Authorisation being delegated to the Leader of the Council.

13. Summary of Position

13.1 Summary of the Revenue Budget position is as follows:

	£'000
Revenue expenditure requirement for 2009/10 (para 7.1).	24,432
Release from Capital Expenditure Reserve (para 11.3 to 11.6)	(661)
Release of General Reserve (para 10.3)	(484)
Release of Regeneration Reserve (para 11.8 and 11.9)	(221)
Release of S106 monitoring reserve (para 11.10)	(60)
Release of insurance provision (para 11.11)	(100)
Budget Requirement	**22,906**
Funded by:	
Revenue Support Grant (para 8.1)	12,681
Collection Fund Surplus (para 9.2)	0
Council Tax Payers requirement (before Parish element) see below*	10,225
Total Funding	**22,906**

Council Tax*	
Council Tax Payers requirement (before Parish element)	10,225
Council Tax Base – Band D Properties	59,797.8
Council Tax at Band D	**171.00**

13.2 **Cabinet is asked to agree and recommend to Council Colchester's element of the Council Tax for 2009/10 at £171.00 per Band D property, which is an annual increase of £4.59 (2.76%), noting that the formal resolution to Council will include Parish, Police, Fire and County Council precepts and any minor change arising from the formal Revenue Support Grant announcement.**

14. Medium Term Financial Forecast – 2009/10 to 2011/12

14.1 This Council, in common with most other local authorities, faces an ongoing difficult position in the medium term due to a range of pressures including increased statutory pension payments and potential revenue implications of strategic priorities.

14.2 The Government three-year grant settlement has provided some certainty over future grant levels and aids longer term planning. However, 2010/11 is the last year of the CSR07 and therefore making assumptions for 2011/12 and beyond is difficult and can only be indicative at this stage. The Council already considers the longer term financial impact of its decisions and as part of the budget process consideration has been given throughout to the impact of costs pressures, savings and risks over the next three years.

14.3. The Medium Term Financial Forecast (MTFF) is attached at Appendix H with the key assumptions and savings required shown. This shows that the Council will continue to face the need to bridge a budget gap of circa £1.5m over the next two years from April 2010, with 2010/11 likely to be in the region of £1.2m. In the 2009/10 budget savings of £2.5m have been found. This is significantly higher than previous years which have been in the region of £1.3m. Whilst we will continue to look for other areas of savings and efficiencies it will be increasingly hard to balance budgets without considering variations to current services.

14.4. This year's budget process has included reviews of all service areas, with more detailed reviews of cultural services and sport and leisure and this process will continue for other areas over the life of the MTFF including housing services which has already started.

14.5. The Council is also continuing with a number of measures to improve how staff work and deliver efficiencies as part the accommodation and flexible working review.

14.6 **Cabinet is asked to note the medium term financial position forecast for the Council.**

15. Capital Programme

15.1 No changes to the capital programme are proposed at this stage other than other than the proposal set out at paragraph 11.6 in respect of opportunity purchases. Cabinet will consider the capital programme at the next meeting in March when consideration will be given to further releases. All revenue implications of the programme, including those in respect of Council's decisions in respect of the Purchase of Rowan House and revised cost projections for the FS:NS project have been included within the revenue budget.

16. Robustness of Estimates

16.1 The Local Government Act 2003 placed a specific duty on the Chief Financial Officer to report on the robustness of estimates in the budget proposals of an Authority when the budget is being considered. This section addresses this requirement.

16.2 As set out in this paper a rigorous process and timetable has been followed throughout the budget setting activity this year involving the Cabinet, Leadership Team, Finance and Audit Scrutiny Panel, Senior Management Team and budget holders. All key assumptions used have been reviewed and scrutinised as part of this process. The result of this process has been a budget which is, in my view, challenging but deliverable.

16.3. The impact of the economic climate on the Council is significant. This includes income from areas such as planning and car parks, falling interest rates affecting investment returns, the property market affecting capital receipts and also the impact felt by local residents which puts greater pressure on essential services such as accessing benefits. Whilst I consider that reasonable assumptions have been made to account for these and other areas there remains a degree of risk with the key areas being:-

- Uncertainty over how long the impact of the economic downturn will be felt.
- The combined impact of falling interest rates and negative cashflow factors such as reduced levels or delays to securing capital receipts on the net interest budget.
- The ability to deliver all savings included within the budget, including corporate targets such as those for salaries.
- Actual levels of grants received from Government, specifically Housing and Planning Delivery Grant (HPDG) and the new LABGI (Local Authority Business Growth Incentive Scheme)
- Any variation to payments in respect of concessionary fares
- Meeting income levels in particular in respect of planning, leisure and car parking.

16.4. These risks will be managed during 2009/10 by regular targeted monitoring and review at Senior Management Team and Finance and Audit Scrutiny Panel. The Revenue Balance Risk Analysis considered these areas in establishing a minimum level of required balance of £1.7m and it is currently forecast that uncommitted balances will be higher than this at the end of March 2009.

16.5 Delivery of the budget will continue to require financial discipline led by SMT in terms of the corporate budget initiatives and by budget holders, ensuring expenditure is not incurred without adequate available budget. Budget managers will continue to be supported through training and advice to enable them to do this.

16.6. Regular updates on forecast expenditure will also be important to ensure the budget is managed within the expenditure constraints set out.

16.7 **Cabinet is asked to note the comments on the robustness of budget estimates.**

17. Prudential Code Indicators

17.1. The aims of the Prudential Code are to assist local authorities to ensure that:
- Capital expenditure plans are affordable
- All external borrowing is at a prudent and sustainable level
- Treasury management decisions are taken in accordance with good practice
- The authority is accountable in taking decisions by providing a clear and transparent framework.
- The framework is consistent with and supports local strategic and asset management planning and proper option appraisal.

17.2. The prudential indicators are designed to support and record decision making in relation to capital expenditure plans, external debt and treasury management. Estimating capital expenditure for the forthcoming financial year and the following two financial years is the starting point of the calculation of prudential indicators. The Council has made reasonable estimates of both HRA and non-HRA total capital expenditure.

17.3 In agreeing the Council's revenue budget and capital programme there is a requirement to approve the prudential indicators for the coming year.

17.4 The recommended Prudential Indicators for 2009/10 are set out in the background paper with relevant commentary.

17.5 One of the key requirements of the Code is that the Council agrees a number of prudential indicators which set out the limits to which the Council may borrow and the implications of borrowing. The main assumptions used in setting these indicators are that:

- Further capital expenditure has been agreed in respect of the Firstsite:newsite project (subject to certain conditions) to be financed through borrowing.
- Further borrowing may also be required and has been allowed for in respect of the cremators scheme (circa £0.5m).
- No further borrowing in respect of the Decent Homes programme is currently planned, however, a potential borrowing requirement of £1m has been identified in respect of the upgrading of communal aerial system in the Council's housing stock with the financing costs recovered through service charges.
- The revenue and capital budget proposals set out in this report will be agreed.
- That treasury management decisions will be carried out in line with the Treasury Management Strategy.

17.6 Council is also required to annually approve the Treasury Management Strategy and Annual Investment Strategy that underpins the setting of some of the prudential indicators, the Council's capital programme and revenue budget for net interest earnings. This has been subject to detailed review by the Finance and Audit Scrutiny Panel in light of the impact of the credit crunch on financial markets and more specifically the issue of credit risk following the Icelandic bank situation.

17.7 **Cabinet is asked to agree and recommend to Council the Prudential Indicators, the Treasury Management Strategy and Annual Investment Strategy as set out at Appendix I.**

18. Strategic Plan References

18.1. The budget forecasting process has been underpinned by the Strategic Plan. The objectives of the Strategic Plan have informed all stages of the budget setting process. The proposed budget will enable the Council to deliver the services and priorities set out in the Strategic Plan which is subject to a separate report on this agenda.

19. Financial Implications

19.1 As set out in the report.

20. Publicity Considerations

20.1 Arrangements will be made to publish the approved tax levels in the local press and to produce the Council Tax Information Leaflet for distribution with the Council Tax bills. These will be in accordance with the legal requirements.

21. Human Rights Implications

21.1 None

22. Community Safety Implications

22.1 None

23. Health and Safety Implications

23.1 None

24. Risk Management Implications

24.1 Risk management has been used throughout the budget process and specific consideration has been given to the Council's current risk profile when allocating resources. This will be reflected in the corporate risk register.

25. Consultation

25.1 The budget will be scrutinised by Finance and Audit Scrutiny Panel on 27 January 2009. The statutory consultation with NNDR ratepayers took place on 7 January 2009 and notes of the meeting are provided at Appendix J.

25.2 The budget proposals have been underpinned by the proposed new Strategic Plan which has been subject to consultation as outlined in the separate report on this agenda.

Background Papers
Detailed Service Group Expenditure Papers
Report to FASP 27th January 2009 - Treasury Management Strategy and Annual Investment Strategy and Prudential Indicators
Budget reports to Cabinet – 3 December 2008

2009/10 Budget Timetable	
Budget Strategy April – July 2008	
April – May (SMT)	Update MTFF /Budget Strategy Review cost pressures, growth and risks Consider approach to budget
May - June 08	Service budget summaries considered by Leadership team
Cabinet –9 July 08	• Report on updated budget strategy / MTFF • Timetable approved • Approach to consultation outlined
SOSP – 26 August 08 (changed to 8 September 08)	Review Cabinet report
Detailed Budget preparation and Budget Setting Consultation	
Management Team regular sessions on progress / budget options	Review progress on efficiencies
Leadership Team (July / August)	• Review outcomes of budget reviews and agree and carry out further detailed work
Cabinet – 10 September 08	• Budget Update • Review of capital resources / programme
Cabinet – 22 October 08	Budget Update (if required)
Cabinet – 3 December 08	• Budget update • Reserves and balances • Grant settlement
FASP – 27 January 09	Review budget position
Cabinet – 28 January 09	Revenue and Capital budgets recommended to Council
Council – 18 February 09	Budget agreed / capital programme agreed / Council Tax set

APPENDIX B

2009/10 Revenue Cost pressures

Heads of Service/Portfolio Holders have been asked to contain cost pressures within existing budget allocations wherever possible. The following are specific areas where budget allocations have been increased. Changes since the report to Cabinet on 3 December 2008 are highlighted.

	Previous Forecast £'000	Updated Forecast £'000	Comment
Inflationary pressure	1,135	1,190	Net inflation impact, including an allowance for pay and prices and an increase in fees and charges. The provision includes an allowance for increased costs in respect of energy, fuel and other changes.
Incremental pension contributions	148	96	The triennial review of the pension fund has shown a significant deficit due to market conditions and increased life expectancy. This financial pressure is one being felt by all local authorities and other organisations.
Minimum Revenue Provision (Commutation adjustment)	100	102	Increase in calculated figure based on statutory criteria.
Concessionary Fares	0	100	Provisional allowance based on take up of scheme / changes in operating hours. Now assumed will not be required due to negotiation on ongoing cost of scheme (see Appendix D – Savings).
Equality and diversity	15	15	Cabinet agreed to allocate £15k from the 2007/08 outturn position and this therefore needs to be included in the 2009/10 budget forecast.
Community Project Capacity	15	15	Funded through external income.
Planning income	500	683	Reduced income due to falling number of planning applications. Savings proposed to offset some of impact.
Building Control income	30	271	Reduced income forecast
Car Park Income	300	300	
Land charges income	100	100	

	Previous Forecast	Updated Forecast	
	£'000	**£'000**	**Comment**
Reduced rental income and ongoing NNDR costs (impact of economic downturn)		170	Estimated reduced rental from commercial properties and ongoing cost of empty rates within regeneration sites and as a result of delays in securing capital receipts.
Reduced Government grant for benefits administration		40	Benefit admin. grant reduced by Government.
Support to ICT strategy		35	Includes final year costs for channel migration post and support for the Council's website.
Support for on-going service reviews (continuation of previous review of planning, protection and licensing services)		46	Retaining learning from reviews of other service areas to support ongoing service reviews.
General Fund / HRA impact / misc. technical changes		23	Impact of changes in charges between General Fund and Housing Revenue Account (HRA) and other technical changes.
Total	**2,343**	**3,186**	

Appendix C

2009/10 Revenue Growth items

The following adjustments for growth items have been included within the current budget allocations. Changes since the report to Cabinet on 5 December 2007 are highlighted.

Area	***Amount in previous Forecast £'000***	***New Items / Change in Forecast £'000***	***Comment***
Street Wardens	80	80	Funding in this financial year has been reallocated to enable two new street wardens to be introduced. This cost represents the full year impact of this decision.
Planning, Protection and Licensing review.	80	30	Remaining one-off costs of review including IT development and training. Figure reduced by £50k reflecting a post no longer required at this stage given economic slowdown.
Costs funded through HPDG and other grants received in 08/09		140	Decisions have been made during the year to allocate some grant income received this year to meet costs in 09/10. This growth item will therefore be funded through these grants via use of balances.
Renaissance programme staff resources (Head of Service, PA, project support and communication staff resources).		166	Costs related to Renaissance Delivery Unit to enable staff to continue to focus on delivery of the regeneration projects. Regeneration Reserve to be used to fund these costs.
Welfare Rights		5	Contribution to increased welfare rights service in addition to other resources shifted within the Community Partnerships area.
Steps to increase recycling		210	Additional resources to support promotion of recycling and increased recycling services to flats within the Borough.
	160	631	

APPENDIX D

Summary of Savings / Increased Income

	Total
Service specific savings	£'000
Corporate Management	213
Executive Management Team	132
Resource Management	537
Life Opportunities	194
Environmental & Protective Services	623
Strategic Policy and Regeneration	260
Street Services	55
Customer Service Centre	10
Total Service Savings	**2,024**
Energy Saving through LACM (Local Authority Carbon Management)	200
LABGI	50
Housing and Planning Delivery Grant	250
Area Based Grant	22
Increase in Concessionary fares grant	13
Interest / Minimum Revenue Provision	50
Less: Provision for one-off costs	(120)
Total Service Savings	**2,489**

Note: the budget also includes the continuation of corporate savings targets in respect of salaries, procurement and income.

The following pages set out detailed delivery plans for all specific proposals.

Work Area: Resource Management
Who: Charles Warboys
Saving (£): £537,000

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Statutory Accounting - restructure of finance managers' roles (£8k)	Finance Manager post replaced with Financial Accountant at lower grade.	N/a as post appointed to.	n/a	Monthly budget monitoring
IT & control - Further extension of overpayment recovery service to Maldon DC (£19k)	Continued communication with Maldon DC.	Maldon withdraw from arrangement	Maldon have committed until the end of June and are a happy with service provided and have already extended arrangement on more than one occasion	Regular meeting with Maldon DC.
Concessionary fares (£510k) In the current year the Council has negotiated an agreement with other local authorities in the Essex area and the bus operators with regard to the cost of the new national scheme and this is expected to be continued into next year.	On-going negotiations on the arrangements that will apply for 09/10,	Negotiations fail and we have to fund the scheme at previous levels. This is not considered to be likely.	Negotiations have been positive so far and a saving of c£400k has been secured for 08/09.	Continued involvement with negotiations and monitoring usage of scheme during year.

Work Area: Corporate Management

Who: John Gilbert

Saving (£): £213,000

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
No elections in 09/10 (£80k)	n/a	n/a	n/a	n/a
Streamlining administrative support (£27k)	Reduction of work requirement Release of resource	Ability to redeploy staff in good time to ensure cost savings are achieved. Expected process efficiencies are achieved without losing controls. Operational resilience if critical individuals are sick or absent.	Work flow management Supporting staff in redeployment Cross training in key activities	Performance management Monthly financial monitoring
Members Expenses (£15k)	The saving was anticipated as a consequence of two of the Portfolio Holders agreeing to forfeit half of their Cabinet Member Special Responsibility Allowance and the loss of one Panel Chairman position (Innovations Panel).	Change in approach to the number of portfolio holders, which is within the authority of the Administration. There is a risk to delivery in that three extra Special Responsibility Allowances have become payable due to the appointments to the Planning and Licensing Committees and the change in Chairman of the Finance and Audit Panel	This could be achieved in part through a reduction in the value of travel and subsistence claims submitted by Members.	Via financial reporting of expenses.

Work Area: Corporate Management

Who: John Gilbert

Saving (£): £213,000

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Strategic HR – Reduce management consultancy provision (£3k)	Reduced demand for consultancy support following development in 08/09 of key changes.	Demand for new initiatives requiring outside support	Demand management and access to Essex Strategic HR partnership.	Via work plans and budget control
Civic Offices - NNDR rebate for 07/08 carried into 08/09 (£6k)	Monitoring of NNDR assessments	Increases in NNDR above expectation included in budget	Financial management of other cost lines to cover any shortfall	Monthly via finance reports
Courier (£18k)	Reduce to 3 editions per year	Costs of paper and print exceeding expectations	Continual review of content and format	Monthly via finance reports
Print (£26k)	Alphaprint have sourced their own machines. Contract to be ended in 2008/9 with recurring saving from Apr 2009	Action completed	n/a	Monthly via finance reports
Functions income (£12k)	TH business plan includes opportunity to grow contribution as facilities improve.	Plan originally included this for 2010/11 Economic environment Delays to facilities enhancements	Review business plan	Business plan Financial monitoring Project progress monitoring
Corp. Facilities Mgmt - restructure planned for 2009 to deliver future business growth including delivery of the Town Hall business plan (£16k)	Staffing restructure undertaken. Recruitment to new structure being completed 08/09	Impact of flexible working on staffing establishment not included in the service budget.	Ensure service budget is changed at appropriate time when service definition completed.	Monthly via financial reports

Work Area: Corporate Management				
Who: John Gilbert				
Saving (£): £213,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Civic Fund (£5k)	Usage of Mayoral car reduced in 2008/09, carried forward to 2009/10	Depends on mayoral usage and civic commitments	Review on ongoing basis	Monthly via financial reports
Service development and new Legal Service income by provision of service to external parties (£5k)	Build on existing business relationships – already in course	Business demand and partnership working	Develop business relationships with wider parties	Monthly via financial reports

Work Area: Life Opportunities

Who: Gareth Mitchell

Saving (£): £194,000

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Community Partnerships - unbudgeted external funding for community project worker capacity (£14k)	n/a	Potential for external funding to cease	Effective partnership working	n/a
Parks and Recreation – reductions in expenditure and additional income across the service (£100k)	Implement fees and charges and budget changes as part of the core service management process by end March 2009. Agree revised budgets with relevant contractors by end March 2009. Communicate changes to any relevant customers.	Income targets not achievable due to economic downturn. Potential inflationary pressure on grounds maintenance contract	Management action to reduce expenditure in year in line with income/inflation levels	Monthly budget monitoring
Sport and Leisure – reductions in expenditure and additional income opportunities across the sport and leisure business (£80k)	Implement fees and charges and budget changes as part of the core service management process by end March 2009	Income targets not achievable due to economic downturn Potential inflationary pressure on energy costs	Management action to reduce expenditure in year in line with income/inflation levels	Monthly budget monitoring

Work Area: Environmental and Protective Services				
Who: Roger Bailey				
Saving (£): £623,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Ongoing impact of review of Environmental and Protective Services (£75k)	Establishment of professional support unit underway, with a reduction in post numbers	If voluntary redeployments are not achieved.		Ongoing monitoring by Head of Service responsible for implementation
Delete countryside post (shared post with Braintree) (£20k)	Contract for post finishes in July.	None envisaged	n/a	n/a
Museums - further saving from joint working (£20k)	General efficiencies			Monthly budget monitoring
Freezing vacant posts / redeployment (£300k)	Posts already held vacant. Redeployments underway –some in place	Redeployments fail	Alternative redeployments already being sought	Monitored monthly through standard performance monitoring system
Crematorium – forecast increased income (net of additional costs (£60k)	Charges agreed	Income figures not achieved		Monthly budget monitoring
Savings within planning and building control linked to downturn in workload (£40k)	General efficiencies already identified and removed from budget			Monthly budget monitoring
Savings within Museum Service (£41k)	As above			Monthly budget monitoring
General savings across whole service group (£67k)	As above	Exceptional circumstances – major planning enquiry; emergency weather situation; etc	Compensating efficiencies will be sought	Monthly budget monitoring

Work Area: Strategic Policy and Regeneration

Who: Lindsay Barker

Saving (£): £260,000

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Festival saving (£55K)	Saving to be made from April 09. Will leave £25K contribution towards any festival activity.	Will be reliant on coordination and delivery by partners as minimal resource left in the service to contribute. Unknown impact of reduction on 2020 funding for festival.	Have already explored contributing to ECC festival coordination to extend activity in Colchester.	Through the Cultural services manager
Enterprise - Deletion of IT/web budget (£10k)	Full payment for 'grant finder' made during 2007/2008 and no further payments are due. Saving to be made from April 2009.	No risks identified as payment in full already made for the required service.	N/A	SLA in place with Grantfinder
Arts - freeze grants to Mercury Theatre and Arts Centre (£15k)	Will apply to funding from April 09. Organisations informed Jan 09	Will have an impact on the budget setting of these organisations	Notice of this proposed saving has been given to allow them to prepare their budgets	Through the SLA arrangements for these organisations
Project & Support - Deletion of Admin Support Assistant (£20k)	Saving to be made from April 09 as post currently vacant.	Lack of capacity in group support	Group support has been reviewed and reorganised to ensure all key tasks are covered	Through the group support coordinator
Arts Development (£80K)	Deletion of whole service including two posts (one vacant and one occupied) and	As this is the deletion of a service the main risks relate to the termination of contracts and the	Management of the termination and communication issues in place	Through the Head of Service

Work Area: Strategic Policy and Regeneration

Who: Lindsay Barker

Saving (£): £260,000

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
	notification to any third parties who have received funding and may assume funding in 2009/10. Due to statutory redundancy timing the service will cease from May 2009.	communication with partners.		
Tourism Manager (merger of post with vacant Economic Development post) (£35k)	Restructure the roles to create one post with a set of merged priorities. Enterprise Coordinator post currently vacant so only one applicant for the new role. Saving to be made from April 2009.	Reduced capacity in both Tourism and Enterprise activity.	Effective management of the change and clear agreement of priorities should help to mitigate.	Through the Head of Service and Enterprise Manager
Reduced marketing budget (£15k)	The restructuring above should lead to some capacity to pool marketing resources and make more effective use of the minimal marketing resources across the council	A reduction in the ability to market Colchester and its offering to residents and visitors and to attract business investment.	Will have to work through the marketing coordination group to more effectively target the use of resources to the priority areas.	Through the Enterprise Manager (also chair of the marketing coordination group)

Work Area: Strategic Policy and Regeneration				
Who: Lindsay Barker				
Saving (£): £260,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Review of Visitor Information Centre (£30k)	Review to commence 12 Jan due to report end March 2009. Has a target savings level for 2009/10 of £30K	Timescales for the review are challenging	The chance to link into the work around the Public Service Village will help to provide opportunities	Head of Service and Tourism and VIC Manager to coordinate the review

Work Area: Street

Who: Matthew Young

Saving (£): £55,000

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Creation and operation of the Braintree, Colchester and Uttlesford Parking Partnership (£25k)	• Financial details to be finalised for Partnership – February 2009 • All three authorities to sign final agreement – March 2009 • Joint working commences – April 2009	• Actual financial figures do not match the budget figures supplied for 2009/10 and savings are not forthcoming • Not all authorities sign agreement so joint working cannot commence	Meeting with three authorities to finalise figures – January 2009 Each authority to work with Members to understand and mitigate concerns	Monthly budget monitoring to ensure savings for all three authorities being achieved
Review of CCTV (£30k)	Removal of one Monitoring Centre Operator post	None – vacant posts exists to be deleted	N/A	N/A

Work Area: EMT				
Who: Adrian Pritchard				
Saving (£): £132,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Reduced support to 2020 (£15K)	Delivered through deletion of vacant post and reassignment of work	None	n/a	On-going budget management.
Delete post supporting project work with Braintree (£50k)	Contract terminated	n/a	n/a	n/a
Removal of Executive Director post and impact of reduced contribution from Regional Cities East (£67k)				

Work Area: CSC				
Who: Leonie Rathbone				
Saving (£): £10,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Replacement of QAS (quick address system) with solution using other existing technology which has been cleansed, updated and developed (LLPG) (£10k)	The task has been completed as at December 08. The £10k saving will be effective for 09/10 and ongoing	Minimal as fully tested and works in live environment.	Reinstate the QAS system if needed	Ongoing

Work Area: Technical Items / Non-Service Specific areas

Who: Charles Warboys and Senior Management Team

Saving (£): £572k

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Energy Savings through LACM programme (£200k)	Delivery of LACM Strategy and Implementation Plan (SIP)	Delays in implementation. Plans do not deliver the level of financial saving forecast.	Provision has been made in the budget for increased energy costs. Some of the increase is not known and therefore potentially there may be a saving of energy budgets.	Energy budgets will be closely monitored during the year. Monitoring of LACM SIP.
Net Interest costs / MRP (Minimum Revenue Provision) (£50k)	Ensure we maximise interest earnings and minimise interest costs in accordance with the agreed Policy and Strategy. Review liabilities for MRP under revised guidance.	Impact of falling interest rates on investments. Impact of interest rates movements on planned borrowing activities Impact on cashflow of economic slowdown.	Taking expert advice on timing of investment / borrowing decisions. Using specialist advice to support review of MRP policy / liabilities.	Budget monitoring of interest budget.

Work Area: Technical Items / Non-Service Specific areas				
Who: Charles Warboys and Senior Management Team				
Saving (£): £572k				
Changes to Government Grants:- LABGI (£50k) HPDG (£250k) ABG (£22k) Concessionary fares (£13k)	Await announcement of grants (note: ABG and concessionary fares already confirmed)	Grants are lower than budgeted.	The ABG grant has been confirmed. LABGI estimate based on indications provided within consultation paper. HPDG grant in 08/09 was over £900k and whilst the level for 09/10 is likely to be lower it is considered that £250k is a reasonable estimate.	Grants will be notified during 209/10 and will be reported as part of normal budget monitoring reports to FASP.

Budget Analysis – Appendix E

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth	Total Savings	Detailed 09/10 Budgets
	£	£	£	£	£	£
Corporate & Democratic Core	322,900	0	7,076	0	0	329,976
Executive Management Team	905,300	-20,000	13,887	0	-132,000	767,187
Corporate Management	6,569,500	-45,000	390,138	0	-251,000	6,663,638
Customer Services	1,065,200	0	56,938	0	-10,000	1,112,138
Env. & Protective Services	2,388,800	-223,000	1,084,412	50,000	-628,500	2,671,712
Life Opportunities	5,773,000	0	464,805	5,000	-338,000	5,904,805
Resource Management	2,282,600	-59,000	428,405	0	-550,000	2,102,005
Strategic Policy & Regen.	2,910,600	-329,000	55,953	286,000	-260,000	2,663,553
Street Services	2,316,000	-3,000	497,986	210,000	-67,500	2,953,486
Total Services	**24,533,900**	**-679,000**	**2,999,739**	**551,000**	**-2,237,000**	**25,168,500**
Technical Items						
Pay Savings	-515,000	0	0	0	0	-515,000
Procurement	-93,400	0	0	0	0	-93,400
Advertising	-70,000	0	0	0	0	-70,000
LABGI	0	0	0	0	-50,000	-50,000
HPDG	0	0	0	0	-250,000	-250,000
ABG	0	0	0	0	-22,500	-22,500
Grants to Parish councils	201,900	0	0	0	0	201,900
CLIA (net interest)	-299,000	0	10,000	0	-50,000	-339,000
Min Revenue Provision	447,400	0	102,000	0	0	549,400
Pensions	2,101,200	0	96,400	0	0	2,197,600
Redundancy Provision	165,000	-165,000	0	0	120,000	120,000
ECC Second Homes	-124,000	0	-20,000	0	0	-144,000
Heritage Reserve	22,000	0	-10,000	0	0	12,000
Contribution to capital	0	0	0	80,000	0	80,000
Regeneration Reserve	50,000	-50,000	0	0	0	0
GF/HRA adjustments	-2,421,200	0	8,000	0	0	-2,413,200
Total Below the Line	-535,100	-215,000	186,400	80,000	-252,500	-736,200
Total incl Below the line	**23,998,800**	**-894,000**	**3,186,139**	**631,000**	**-2,489,500**	**24,432,300**
Funded by:-						
General Reserve	-607,000	607,000	-46,000	-140,000	-297,600	-483,600
Capital Expenditure Reserve	-751,000	30,000	159,800	0	-100,000	-661,200
Regeneration Reserve	-278,000	278,000	-55,000	-166,000	0	-221,000
Other Reserves - S.106	-30,000	0	0	0	-30,000	-60,000
Insurance	0	0	0	0	-100,000	-100,000
Government Grant (RSG / NNDR)	-12,385,000	0	0	0	-296,000	-12,681,000
Council Tax	-9,812,800	0	0	0	-412,200	-10,225,000
Collection fund Transfer	-135,000	0	134,500	0	0	-500
Total	**-23,998,800**	**915,000**	**-81,200**	**-306,000**	**-200,000**	**-24,432,300**

Appendix F

General Fund Balances
Current Position

	£'000	£'000
Balance as at 31 March 2008 (As per Statement of Accounts)		3,347
Movement on balances during 2008/09:		
• Financing carry forwards		(250)
• Funds released in 07/08 to carry forward to 08/09		(213)
• Supporting 2008/09 budget:-		
Items included in 2008/09 budget	(607)	
New emerging pressures	(325)	
		(932)
• Further changes to balances agreed by Cabinet / Strategy Portfolio Holder		(7)
• 2008/09 net budget (forecast to be on budget)		0
• Carry forward Of HPDG grant to meet costs in 2009/10		140
• Carry forward of provision for service review		46
• Carry forward saving on insurance contract through accounting change		200
Projected Balances as at 31 March 2009		**2,331**
Less anticipated support to 2009/10 budget		(484)
		1,847
Proposed minimum balance		**1,700**
Potential headroom as at 31 March 2009 (if 8/09 outturn is delivered on budget)		**147**

Note:

- This forecast is on the basis that there are no further calls on balances during the remainder of the year and that the current year's outturn is delivered on budget.

- The projected balance at 31 March 2009 reflects the level of balances retained when the 2008/09 budget was approved because of the difficult medium term position. A proposal is made within the main report (paragraph 10.6) to use £484k from balances to support the 2009/10 budget. This includes £386k in respect of budgets carried forward from 08/09.

APPENDIX G

Renewals and Repairs 2009/10 Releases

Scheme	Requested Value of Release
Various	
Building Maintenance Programme	603,000
Life Opportunities(all Colchester Leisureworld)	
Pool water filters	20,000
Pipework and valves	20,000
Building Management System	20,000
Total	**663,000**

Medium Term Financial Forecast 2009/10 to 2011/12	2009/10 £'000	2010/11 £'000	2011/12 £'000
Base Budget	23,998	24,432	25,234
Remove one-off items	(894)	(21)	
Cost Pressures	3,186	1,063	850
Growth Items	631	(170)	0
Savings	(2,489)	(70)	22
Forecast Base Budget	**24,432**	**25,234**	**26,106**
Government Grant	(12,681)	(12,911)	(12,911)
Council Tax	(10,225)	(10,613)	(11,324)
Collection Fund Surplus	0	0	(10)
Use of Reserves	(1,526)	(526)	(360)
Total Funding	**(24,432)**	**(24,050)**	**(24,605)**
Budget (surplus) / gap (cumulative)	**(0)**	**1,184**	**1,501**
Annual increase		**1,185**	**317**

Key Assumptions

Inflation - Average 2.9%

Gov't Grant – Increase in line with 3 year settlement. As an initial assessment, the grant for 2011/12 assumed to be at a cash standstill.

Council Tax – 2.76% increase + 1% increase in tax base assumed for 10/11 and 11/12

Pensions forecast in-line with Actuarial review for 09/10 & 10/11. Next review will impact in 11/12 and a planning assumption of £250k has been assumed.

Cost Pressures			
General Inflation	740	740	740
Net Inflationary pressures (pay, energy etc)	450		
Pensions	96	154	250
MRP (Minimum Revenue Provision)	102	13	10
Concessionary Fares (change in operating hours / usage)	100		
Core Strategy Examination		150	(150)
Best Value Surveys		15	
Equality and diversity	15		
PCT - Community Health	15		
Income pressures:-			
Car Park Income	300		
Planning Income	683		
Building Control Income	271		
Land charges Income	100		
Impact of commercial property market slowdown on rental income and empty rates costs	170		
Reduction in benefits admin grant	40		
Service Review Post (funded through c/f from 08/09)	46		
ICT related costs (including website)	35	(9)	
GF / HRA impact / misc changes	23		
Total	**3,186**	**1,063**	**850**

Growth Items			
Planning, Protection & Licensing (P, P & L) Review **(incl. one-off)**	30	70	
Renaissance Team – Resources	166		
Street Wardens	80		
HPDG c/f	140	(140)	
Welfare Rights	5		
Recycling	210	(100)	
Total	**631**	**(170)**	**0**

Savings / additional Income			
Service savings			
Corporate Management	213	(80)	
Executive Management Team	132		
Resource Management	537		
Life Opportunities	194		
Environmental & Protective Services	623	15	
Strategic Policy and Regeneration	260		
Street Services	55		
Customer Service Centre	10		
Corporate Savings / Technical Items			
Energy Saving through LACM	200		
LABGI	50		
Housing and Planning Delivery Grant	250		
Area Based Grant	22		(22)
Increase in Concessionary fares grant	13	15	
Interest / MRP	50		
less redundancy provision	(120)	120	
Total	**2,489**	**70**	**(22)**

Use of Reserves			
Balances (General)	98		
Balances re items c/f from 08/09	386		
S106 monitoring reserve	60	60	60
Regeneration Reserve	221	166	
Insurance Provision	100		
Capital Expenditure Reserve:-			
Accommodation	205	0	0
Community Stadium	300	300	300
ICT Strategy	56		
Opportunity purchases	100		
Total	**1,526**	**526**	**360**

Addressing the Budget Gap
The MTFF shows a budget gap of circa £1.5m over the next two years. This is an increase on the previous situation reflecting the increased pressures on the Council's budgets and some of the one-off savings used to balance the budget.
There is no doubt that the current economic climate has impacted on the Council's budget proposals for 09/10 and is likely to continue having an impact during next year and beyond.

Risk Areas / Comments

The key risk areas to the forecast are:-

Ref	Risk / Area of uncertainty	
1	*White paper – Strong and prosperous communities*	The White Paper set out a number of important financial issues for the Council. This includes responding to the proposals concerning communities, neighbourhoods and place-shaping and the impact of the new performance management framework and proposals around efficiency. The latter includes ambitious targets for efficiency savings (3% cashable savings over the next three years) and involving greater collaboration and partnership working.
2	*Government Grant and the Comprehensive Spending Review 07 (CSR07)*	Details of the CSR07 were announced in 2007 alongside a 3-year grant settlement. The grant Settlement for the last 2 years in this period (09/10 and 10/11) shows an increase of 2.4% and 1.8% respectively. Our housing target to achieve is 17,100 by 2021 and we are currently the highest district housing producer in the region on an annual basis. This requires a grant settlement that allows us the funding needed to provide basic services. The reducing Settlement will continue to place pressures on Council budgets.
3	*Pensions*	An allowance has been built in for increases in pensions costs based on the results of the recent actuarial review and therefore are fixed for the period of the MTFF until 2010/11. However, an updated review will be undertaken that will inform the cost for 2011/12 onwards. The recent and ongoing economic downturn is likely to impact on the pension fund and therefore whilst an increased allowance has been made for this will need to be reviewed closer to the time when we may have more reliable estimates.
4	*Concessionary Fares*	The budget for 2009/10 includes a net saving of circa £400k reflecting negotiations with bus operating companies. The service is demand led and therefore costs are uncertain and there remains a risk that with grant details already fixed we may face a funding shortfall.
5	*Fees and charges*	As has been seen in the past few years we have experienced pressures arising from changes in income levels. In 2008/09 we are experiencing significant shortfalls in income in respect of planning and building control fees and car park revenue (on and off street). This has been considered as part of the 2009/10 budget but remains a risk that we will monitor next year.
6	*Inflation*	An allowance for general inflation has been built into the 09/10 forecast and MTFF, and specific increases allowed for items such as energy. Currently, economic indicators

Ref	Risk / Area of uncertainty	
		point to reducing inflation (RPI), however, not all the Council's costs are directly linked to RPI and therefore we will continue to monitor the impact of inflation on all Council costs
7	*Use of reserves*	The budget update includes proposals to use reserves to meet certain one-off costs. The forecast position on general balances makes assumptions regarding the current year's outturn.
8	*Legislation*	There may be new legislation over the life of the MTFF for which any available funding may not cover costs.
9	*Government grants and partnership funding*	The Council's budget has changed over recent years with a greater emphasis on funding from both partner organisations and Government bodies. These funding streams can rarely be guaranteed and can therefore add to our cost pressures. This year's budget includes funding in respect of HPDG and the LABGI scheme. It is likely that there will be changes to some of these or other funding sources over the life of the MTFF and as the position becomes clearer the budget forecasts will need to be adjusted.
10	*Impact of renaissance programme e.g. car park closure and staff resources*	As the renaissance programme progresses there will be an impact on income from car park income due to temporary and permanent closure of certain car parks and also the introduction of park and ride. We are currently using the Regeneration Reserve to meet some staffing costs to provide increased capacity to deliver the renaissance programme. The budget forecast includes funding for 2009/10 to ensure that the team can continue work and this has also been allowed for in the 2010/11 forecast.
11	*ICT strategy – change programme*	The ICT strategy was updated in 2007 and it is likely that there will continue to be a number of financial implications arising from changes. This may result in some costs in the short-term leading to longer term savings. This continues to be examined as part of detailed budget proposals.
12	*Property review*	A review of our assets was carried out and a 5-year Building Repairs and Maintenance Plan produced. There will continue to be financial implications arising from this for both the revenue budget and capital programme and these will be continue to be considered in detail by the council's Property Forum and included in the on-going updates of the MTFF.
13	*Impact of growth in the Borough and demand for services*	A number of Local Authority services are directly impacted by the increase of population in the Borough, such as waste services, planning, benefits etc. As part of the budget it will be necessary to consider whether there is a need for additional resources in these or other areas in order to maintain levels of service. A further area of risk is any increase in the demands for Council services arising from the impact on residents of the economic environment.
14	*Delivery of 09/10 budget savings*	The 2009/10 budget sets some challenging targets for savings including those in respect of procurement and

Ref	Risk / Area of uncertainty	
		salaries.
15	*Net Interest earnings*	The budget is influenced by a number of factors including interest rates and cashflow movements. The treasury management strategy highlights the outlook for interest rates in the medium-term which points to unprecedented low levels during next year and potentially into 2010/11. Whilst it may be possible to provide some financial protection from the impact of these low rates, it is likely that there will be significant pressures on budgets during the medium term.

All these issues will remain as risks to be managed over the course of the MTFF.

Appendix J

NNDR Ratepayers Meeting
7 January 2009

Present:
Cllr Paul Smith. Portfolio Holder for Business and Resources
Nigel Myers, Enterprise Manager
Sean Plummer, Finance Manager

Representatives from:-

- Chamber of Commerce
- Colchester Retail Business Association (Corba)
- Federation of Small Business (FSB)

Notes of Meeting

The meeting started with a presentation of the Council's finances, budget process, budget position and medium term outlook. In addition, commentary was provided on a number of issues raised in advance by the FSB.

Issues Raised / Questions

- Comments were made that recent car park campaigns had been successful, however, needed to continue such steps to ensure affordable access to Colchester shops.
- In respect of proposed increase in recycling queries whether it was the best possible time to do this given falling prices paid for recyclables
- It was explained that schemes such as Supplementary Business Rates and workplace parking levy were matters to be decided by Essex County Coucil, however, it was stated by the business representatives that now was certainly not the time to impose further charges on local businesses.
- In respect of LABGI it was explained that the Government's proposed new scheme distributed grant in a different way with an allocation on an area basis.
- Congratulations to the Council were given on take up rates for small business rate relief and the impact of the targeted promotion of this support.
- Comments were made on whether it would be possible to pay local SMEs quicker to help them with cashflow especially during the difficult economic climate.
- It was also important to ensure that the Council promotes good news stories
- In general, those present welcomed the support they received from the Council and said that they felt that it was better than some other authorities and that the Council needed to continue to support local business.

COLCHESTER	**Cabinet**			**Item**
	28 January 2009			
Report of	**Head of Resource Management**	**Author**	**Charles Warboys** **Sean Plummer** **☏ 282350** **☏ 282347**	
Title	**2009/10 Revenue Budget and Medium Term Financial Forecast**			
Wards affected	n/a			

This report requests Cabinet to recommend to Council:

- **The 2009/10 Revenue Budget**
- **Colchester's element of the Council Tax for 2009/10**
- **The Medium Term Financial Forecast**
- **The Prudential Indicators and Treasury Management Strategy and Annual Investment Strategy**

1. Decisions Required

1.1 To note that the outturn for the current financial year is forecast to be overall in line with the approved Revenue Budget and that the position is being carefully monitored. (paragraph 3.4.).

1.2 To approve the cost pressures, growth items and saving / increased income options identified during the budget forecast process as set out at Appendices B, C and D.

1.3 To consider and recommend to Council the 2009/10 Revenue Budget requirement of £24,432k (paragraph 7.1) and the underlying detailed budgets set out in the Background Papers.

1.4 To agree that Revenue Balances for the financial year 2009/10 be set at a minimum of £1,700k and that £484k be applied to finance items in the 2009/10 revenue budget.

1.5 To agree the following releases (paragraph 11.12):-

- £661k from the Capital Expenditure Reserve in 2009/10 to meet costs including accommodation, the community stadium and ICT Strategy.
- £663k to be financed from the Renewals and Repairs Fund for specific projects
- £100k from the insurance provision
- £60k from the S106 monitoring reserve
- £221k from the Regeneration Reserve to support delivery of the Renaissance Programme and provide support towards cost pressures

1.6 To agree and recommend to Council that £100k of Revenue Balances be earmarked for potential unplanned expenditure within the guidelines set out at paragraph 12.3.

1.7 To agree and recommend to Council that Colchester's element of the Council Tax for 2009/10 be set at £171.00 for Band D properties which is an increase of £4.59 per annum (2.76%) (paragraph 13.2).

1.8 To note that the formal resolution from Cabinet to Council will include the Parish, Police, Fire and County Council elements and any change arising from the formal Revenue Support Grant Settlement announcement in early February. This will be prepared in consultation with the Leader of the Council.

1.9 To note the Medium Term Financial Forecast for the financial years 2010/11 and 2011/12 (paragraph 14.6).

1.10 To note the comments made on the robustness of budget estimates at paragraph 16.

1.11. To agree and recommend to Council the Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy (paragraph 17.7).

2. Background Information and Summary

2.1 The 2009/10 Revenue Budget and the Capital Programme have been prepared in accordance with a process and timetable agreed at Cabinet and endorsed by the Strategic Overview and Scrutiny Panel (Appendix A).

Delivering a Balanced Budget for 2009/10

2.2. The Revenue Budget for 2009/10 has been prepared against a background of meeting the Council's new Strategic Plan objectives whilst facing significant financial pressures from the economic slowdown. Every effort has been made to produce a budget that not only funds the delivery of high quality services and shifts resources for investment in priority areas but keeps the increase in Council Tax below the level of inflation (RPI). This has been very difficult, however, a high level of savings has been found and includes areas such as:

- Negotiation and challenge of costs to deliver savings
- Taking steps to mitigate cost pressures through cost savings measures
- Minimising the impact and cost of redundancies through redeployment and managing vacant posts
- Carrying out detailed budget reviews of specific areas to shift resources to maintain and also invest in services to deliver priorities
- Using reserves in a managed and prudent way .

Council Tax

2.3. It is proposed to increase the Council's element of the Council Tax by 2.76% in 2009/10. This is below the current level of inflation (RPI =3% at November) and also below the increase in state pensions (5%). The Government has stated that it expects authorities to increase Council Tax by less than 5%. Colchester's increase is therefore well within this level.

2.4. A 2.76% increase in Colchester's element of the Council Tax equates to less than 9p per week for a Band D property. This is a modest increase when considered alongside £3.8m of cost pressures and areas of growth/investment set out in Appendices B & C respectively.

2.5. Further information on the budget is provided in the following paragraphs.

3. Current Year's Financial Position

3.1 In order to inform the 2009/10 budget process and forecast level of reserves it is useful to first review the current year's financial position. Revenue budgets are monitored on a monthly basis with regular reports to Senior Management Team and the Finance and Audit Scrutiny Panel (FASP). A considerable amount of work has been undertaken to determine a reasonable forecast of the year-end position.

3.2 The current position is showing that the forecast outturn is, overall, in line with the budget. This represents a significant achievement given the pressures faced this year from forecast reduced income of circa £1m.

3.3. There remains some outstanding risks to the forecast and the position continues to be monitored and FASP on 24 February 2009 will receive a report setting out a detailed position.

3.4 **Cabinet is asked to note that the forecast outturn position for the current year is anticipated to be on budget and that the position will continue to be monitored.**

4. 2009/10 Revenue Cost Pressures

4.1 Appendix B sets out revenue cost pressures, over the 2009/10 base, of £3,186k which have been identified during the budget process. This includes an inflation allowance, impact of the economic downturn on income (mainly planning, building control, land charges and car parks) and the impact of higher energy costs

4.2 The cost pressures have mostly been previously considered by Cabinet, however, provision has now been included to reflect changes to inflationary assumptions (including pay and energy), an increase to the expected shortfall of planning and building control income and other impacts of the economic downturn such as the impact on the property market.

4.3 **Cabinet is asked to approve inclusion within the 2009/10 Revenue Budget of the cost pressures set out at Appendix B.**

5. 2009/10 Revenue Growth

5.1. Appendix C sets out growth items totalling £631k which have been identified during the budget process. These items will assist in enabling the Council to deliver its Strategic Plan objectives and include costs funded through Government grants and the use of Council reserves.

5.2. The main changes to report since the last Cabinet paper are the inclusion of £210k towards increasing recycling rates and £5k towards providing additional resources to support welfare rights.

5.3. **Cabinet is asked to approve inclusion within the 2009/10 Revenue Budget of the growth items as set out at Appendix C.**

6. 2009/10 Revenue Saving/Increased Income

6.1 Appendix D sets out savings/increased income totalling £2,489k The appendix provides an analysis of the risks to delivering the savings and steps taken or planned to mitigate these risks.

6.2. There are some changes to the report since Cabinet met on 3 December 2008. These include the continued identification of savings to mitigate the impact of reduced income, specifically within Environmental and Protective Services, steps to mitigate increased grounds maintenance costs and also proposed savings identified from specific service reviews including cultural services.

6.3. There will be some one-off costs required to deliver all the budget savings. A sum of £120k has therefore been included within the budget.

6.4 **Cabinet is asked to approve inclusion of the savings/increased income items set out at Appendix D within the 2009/10 Revenue Budget.**

7. Summary Total Expenditure Requirement

7.1 Should Cabinet approve the items detailed above, the total expenditure requirement for 2009/10 is as follows:

	£'000
2009/10 Budget	**23,998**
Less: 2008/09 one-off items	(894)
Cost Pressures (as per Appendix B)	3,186
Revenue Growth (as per Appendix C)	631
Savings/Increased Income (net of one off costs) (as per Appendix D)	(2,489)
Forecast Budget 09/10	**24,432**

Note:
Detailed service group expenditure is available in the Background Papers. A summary of service group expenditure is attached at Appendix E.

7.2 **Cabinet is asked to agree and recommend to Council the net revenue expenditure requirement for 2009/10 and the underlying detailed budgets set out in the Background Papers.**

8. Revenue Support Grant

8.1 The provisional Revenue Support Grant Settlement was announced in Parliament in November 2008. Our provisional grant settlement is £12,681k, which is in line with the announcement of the 3 year figures provided as part of the Comprehensive Spending Review 2007 (CSR 07).

8.2 The settlement represents an increase of £296k (2.4%) in cash terms on 2008/09 The three-year figures announced provide for a reducing increase in 10/11 as shown below:-

	Grant	Increase	
	£'000	£'000	%
09/10	12,681	296	2.4
10/11	12,911	230	1.8

8.3. The Settlement is provisional and subject to consultation. Traditionally, there has been very little change between the provisional and actual Settlement. Any marginal change to the Council's grant entitlement will be reflected in the final budget recommendation to Council.

9. Council Tax

9.1 As part of the formal budget setting process, the Council is required to determine each year, as at 15 January, the estimated surplus or deficit arising from the Council Tax Collection Fund as at 31 March.

9.2 Whilst the collection rate continues to be close to our target of 99.5% there has been an increase in the level of write offs, including prior years, and the growth in the number of properties seen in recent years has fallen meaning that it is anticipated there will be a no surplus or deficit at the year end. The MTFF had previously assumed that Colchester's share of the then anticipated surplus would be £60k and therefore this has impacted on the overall budget position.

10. Revenue Balances

10.1 The Local Government Act 2003 places a specific duty on the Chief Financial Officer to report on the adequacy of the proposed financial reserves of an Authority when the budget is being considered. This section and section 11 address this requirement.

10.2. Cabinet, at its meeting on 3 December 2008, considered a report setting out the outcome of a risk management analysis in respect of the Council's Revenue Balances. Cabinet agreed with the analysis conclusion that Revenue Balances should be maintained at a minimum of £1.7m and that the situation would be reviewed based the implications and details of items such as the grant settlement, budget savings and other variables. Based on the assumptions built into the budget it is considered prudent to maintain the recommended minimum level at £1.7m.

10.3. The cost pressures and growth items set out in the following table and included within the appendices to this report include a number of likely one-off cost which are recommended to be funded from general balances. It is important to note that £386k is planned to be added to balances from 08/09 budgets meaning that £98k is being used from existing balances.

	Cost in 08/09 £'000	*Note / Additional Requirements*
Potential one-off costs to deliver budget options	120	See para 6.4
One off costs to support recycling initiatives	100	See Growth items (Appendix C)
One of costs related to HPDG c/f from 08/09	140	See Growth items (Appendix C)
Contribution carried forward re: service review post	46	See cost pressures (Appendix B)
General contribution towards potential one-off costs including empty rates charges and commercial rental shortfall etc	78	
Total	**484**	

10.4 In considering the level at which Revenue Balances should be set for 2009/10, Cabinet should note the financial position the Council is likely to face in the medium term both through the levels of future Government funding and the incremental pension burden highlighted in the Medium Term Financial Forecast.

10.5 The forecast position in respect of Revenue Balances as at 31 March 2009 is set out at Appendix F and shows balances at £1,847k as compared with a recommended minimum balance of £1,700k as set out in the agreed Risk Management Analysis. Taking account of the medium term position detailed above, Cabinet is recommended to approve that balances are retained at a minimum level of £1,700k and release £484k to assist in funding the 2009/10 Revenue Budget.

10.6 **Cabinet is recommended to approve Revenue Balances for the financial year 2009/10 at a minimum of £1,700k and that £484k be applied to finance items in the 2009/10 Revenue Budget.**

11. Reserves and Provisions

11.1. Cabinet at its meeting on 3 December 2008 considered the Council's earmarked reserves. As part of the budget process a review was undertaken into the level and appropriateness of earmarked reserves and provisions for 2009/10. The review concluded that the reserves and provisions detailed were broadly appropriate and at an adequate level, however, it was stated that a further review would be done as part of this final report. The proposed budget includes a number of releases from reserves, including some changes to those already proposed.

11.2. The proposed use of reserves and provisions should be viewed in the context of additional contributions made to reserves during the year. These have included:-

- £250k contribution to the Repairs and Renewals Reserve
- A contribution of £130k to the Regeneration Reserve
- £100k contribution to the capital expenditure reserve for opportunity purchases.

Capital Expenditure Reserve (CER) – release of £661k

Accommodation

11.3. Cabinet considered releasing sums within the Capital Expenditure Reserve to mitigate the incremental cost impact of the accommodation portfolio changes decided in 2003/04. The release required to mitigate the impact for 2008/09 was £400k. It was agreed that this would be phased out from next year and for 2009/10 £205k is proposed with no further use from 2010/11 onwards which is reflected in the MTFF

Community Stadium

11.4. The Council agreed that an approach to minimise the revenue pressure is to fund the annual MRP cost by identifying new capital receipts in the period of the borrowing. This then allows a release of revenue funds within the capital expenditure reserve in the same way as the accommodation project. For 2009/10 the use of the reserve remains at £300k.

ICT Strategy

11.5. The Council agreed the ICT Strategy within the capital programme. As the strategy has been developed there are some items that should properly be charged to revenue.

These include £35k of cost pressures shown at Appendix C and a previously agreed use of £26k. In total £51k is proposed.

Opportunity purchases

11.6. £100k was transferred to the CER as part of the allocation of the 2007/08 outturn surplus to fund opportunity purchases. This budget remains uncommitted and it is therefore proposed that given the budget pressures faced for 2009/10 that the capital programme be changed by this amount and £100k be released from the capital expenditure reserve.

Renewals and Repairs Fund – release of £663k

11.7 Cabinet noted on 6 December that the estimated balance at 31 March 2009 on the Renewals and Repairs Fund stood at £2,931k and that the 2009/10 expenditure programme would be considered at this meeting. Appendix G sets out the recommended programme totalling £663k. The releases include £603k in respect of the 5-year building maintenance programme. The programme has been based on in-depth condition surveys of all Council building assets. The programme will continue to be developed over the coming year and will again be considered as part of the budget strategy for 2010/11.

Regeneration Reserve – release of £221k

11.8. The additional items shown at Appendix C include £166k in respect of resources within the Renaissance Delivery Unit to maintain the role of this team. It is recommended that for 2009/10 that this cost continues to be funded from the Regeneration Reserve.

11.9. In addition it is also proposed that a further £55k from the reserve be used to support the budget. The balance on this reserve after this contribution is still expected to be sufficient to fund the additional regeneration resources for 2010/11.

S106 Monitoring Reserve – release of £60k

11.10. This reserve was set up to provide funds to support the future monitoring of Section 106 agreements. Within the last budget report to Cabinet it was proposed to use £30k to support the 2009/10 budget. However, given that the costs involved in monitoring are higher than this a contribution of £60k is now proposed. This reserve will still last for at least the next 3 years if used in a similar way.

Insurance Provision – release of £100k

11.11. During the tender process this year we were able to include subsidence cover for all the properties with our external insurers where as before we covered all subsidence costs from the provision. We have some run-off claims for properties that suffered structural problems prior to 1st August 2008 but everything after that is covered. Other issues have also been considered and in summary it would be possible to offer up £100k from the provision without an undue level of risk

11.12 **Cabinet is recommended to agree release of**

- **£661k from the Capital Expenditure Reserve in 2009/10**
- **£663k from the Renewals and Repairs Fund as set out at Appendix G**
- **£221k from the Regeneration Reserve.**
- **£60k is released from S106 monitoring reserve towards the costs of carrying out this function**
- **Release of £100k from the insurance provision**

12. Contingency Provision

12.1 The Council's Constitution requires that any spending from Revenue Balances not specifically approved at the time the annual budget is set, must be considered and approved by full Council. This procedure could prove restrictive particularly if additional spending is urgent.

12.2 It is recommended that £100k of Revenue Balances be specifically earmarked for potential items of unplanned expenditure. It should be noted that if this sum was used during the year it may take revenue balances below the recommended level of £1,700k and the Council would need to consider steps to reinstate balances at a later date.

12.3 **Cabinet is asked to agree and recommend to Council that £100k of Revenue Balances be specifically earmarked for potential items of unplanned expenditure which are:**

- **The result of new statutory requirements or**
- **An opportunity purchase which meets an objective of the Strategic Plan or**
- **Is considered urgent, cannot await the next budget cycle and cannot be funded from existing budgets**

Authorisation being delegated to the Leader of the Council.

13. Summary of Position

13.1 Summary of the Revenue Budget position is as follows:

	£'000
Revenue expenditure requirement for 2009/10 (para 7.1).	24,432
Release from Capital Expenditure Reserve (para 11.3 to 11.6)	(661)
Release of General Reserve (para 10.3)	(484)
Release of Regeneration Reserve (para 11.8 and 11.9)	(221)
Release of S106 monitoring reserve (para 11.10)	(60)
Release of insurance provision (para 11.11)	(100)
Budget Requirement	**22,906**
Funded by:	
Revenue Support Grant (para 8.1)	12,681
Collection Fund Surplus (para 9.2)	0
Council Tax Payers requirement (before Parish element) see below*	10,225
Total Funding	**22,906**

Council Tax*	
Council Tax Payers requirement (before Parish element)	10,225
Council Tax Base – Band D Properties	59,797.8
Council Tax at Band D	**171.00**

13.2 **Cabinet is asked to agree and recommend to Council Colchester's element of the Council Tax for 2009/10 at £171.00 per Band D property, which is an annual increase of £4.59 (2.76%), noting that the formal resolution to Council will include Parish, Police, Fire and County Council precepts and any minor change arising from the formal Revenue Support Grant announcement.**

14. Medium Term Financial Forecast – 2009/10 to 2011/12

14.1 This Council, in common with most other local authorities, faces an ongoing difficult position in the medium term due to a range of pressures including increased statutory pension payments and potential revenue implications of strategic priorities.

14.2 The Government three-year grant settlement has provided some certainty over future grant levels and aids longer term planning. However, 2010/11 is the last year of the CSR07 and therefore making assumptions for 2011/12 and beyond is difficult and can only be indicative at this stage. The Council already considers the longer term financial impact of its decisions and as part of the budget process consideration has been given throughout to the impact of costs pressures, savings and risks over the next three years.

14.3. The Medium Term Financial Forecast (MTFF) is attached at Appendix H with the key assumptions and savings required shown. This shows that the Council will continue to face the need to bridge a budget gap of circa £1.5m over the next two years from April 2010, with 2010/11 likely to be in the region of £1.2m. In the 2009/10 budget savings of £2.5m have been found. This is significantly higher than previous years which have been in the region of £1.3m. Whilst we will continue to look for other areas of savings and efficiencies it will be increasingly hard to balance budgets without considering variations to current services.

14.4. This year's budget process has included reviews of all service areas, with more detailed reviews of cultural services and sport and leisure and this process will continue for other areas over the life of the MTFF including housing services which has already started.

14.5. The Council is also continuing with a number of measures to improve how staff work and deliver efficiencies as part the accommodation and flexible working review.

14.6 **Cabinet is asked to note the medium term financial position forecast for the Council.**

15. Capital Programme

15.1 No changes to the capital programme are proposed at this stage other than other than the proposal set out at paragraph 11.6 in respect of opportunity purchases. Cabinet will consider the capital programme at the next meeting in March when consideration will be given to further releases. All revenue implications of the programme, including those in respect of Council's decisions in respect of the Purchase of Rowan House and revised cost projections for the FS:NS project have been included within the revenue budget.

16. Robustness of Estimates

16.1 The Local Government Act 2003 placed a specific duty on the Chief Financial Officer to report on the robustness of estimates in the budget proposals of an Authority when the budget is being considered. This section addresses this requirement.

16.2 As set out in this paper a rigorous process and timetable has been followed throughout the budget setting activity this year involving the Cabinet, Leadership Team, Finance and Audit Scrutiny Panel, Senior Management Team and budget holders. All key assumptions used have been reviewed and scrutinised as part of this process. The result of this process has been a budget which is, in my view, challenging but deliverable.

16.3. The impact of the economic climate on the Council is significant. This includes income from areas such as planning and car parks, falling interest rates affecting investment returns, the property market affecting capital receipts and also the impact felt by local residents which puts greater pressure on essential services such as accessing benefits. Whilst I consider that reasonable assumptions have been made to account for these and other areas there remains a degree of risk with the key areas being:-

- Uncertainty over how long the impact of the economic downturn will be felt.
- The combined impact of falling interest rates and negative cashflow factors such as reduced levels or delays to securing capital receipts on the net interest budget.
- The ability to deliver all savings included within the budget, including corporate targets such as those for salaries.
- Actual levels of grants received from Government, specifically Housing and Planning Delivery Grant (HPDG) and the new LABGI (Local Authority Business Growth Incentive Scheme)
- Any variation to payments in respect of concessionary fares
- Meeting income levels in particular in respect of planning, leisure and car parking.

16.4. These risks will be managed during 2009/10 by regular targeted monitoring and review at Senior Management Team and Finance and Audit Scrutiny Panel. The Revenue Balance Risk Analysis considered these areas in establishing a minimum level of required balance of £1.7m and it is currently forecast that uncommitted balances will be higher than this at the end of March 2009.

16.5 Delivery of the budget will continue to require financial discipline led by SMT in terms of the corporate budget initiatives and by budget holders, ensuring expenditure is not incurred without adequate available budget. Budget managers will continue to be supported through training and advice to enable them to do this.

16.6. Regular updates on forecast expenditure will also be important to ensure the budget is managed within the expenditure constraints set out.

16.7 **Cabinet is asked to note the comments on the robustness of budget estimates.**

17. Prudential Code Indicators

17.1. The aims of the Prudential Code are to assist local authorities to ensure that:

- Capital expenditure plans are affordable
- All external borrowing is at a prudent and sustainable level
- Treasury management decisions are taken in accordance with good practice
- The authority is accountable in taking decisions by providing a clear and transparent framework.
- The framework is consistent with and supports local strategic and asset management planning and proper option appraisal.

17.2. The prudential indicators are designed to support and record decision making in relation to capital expenditure plans, external debt and treasury management. Estimating capital expenditure for the forthcoming financial year and the following two financial years is the starting point of the calculation of prudential indicators. The Council has made reasonable estimates of both HRA and non-HRA total capital expenditure.

17.3 In agreeing the Council’s revenue budget and capital programme there is a requirement to approve the prudential indicators for the coming year.

17.4 The recommended Prudential Indicators for 2009/10 are set out in the background paper with relevant commentary.

17.5 One of the key requirements of the Code is that the Council agrees a number of prudential indicators which set out the limits to which the Council may borrow and the implications of borrowing. The main assumptions used in setting these indicators are that:

- Further capital expenditure has been agreed in respect of the Firstsite:newsite project (subject to certain conditions) to be financed through borrowing.
- Further borrowing may also be required and has been allowed for in respect of the cremators scheme (circa £0.5m).
- No further borrowing in respect of the Decent Homes programme is currently planned, however, a potential borrowing requirement of £1m has been identified in respect of the upgrading of communal aerial system in the Council's housing stock with the financing costs recovered through service charges.
- The revenue and capital budget proposals set out in this report will be agreed.
- That treasury management decisions will be carried out in line with the Treasury Management Strategy.

17.6 Council is also required to annually approve the Treasury Management Strategy and Annual Investment Strategy that underpins the setting of some of the prudential indicators, the Council's capital programme and revenue budget for net interest earnings. This has been subject to detailed review by the Finance and Audit Scrutiny Panel in light of the impact of the credit crunch on financial markets and more specifically the issue of credit risk following the Icelandic bank situation.

17.7 **Cabinet is asked to agree and recommend to Council the Prudential Indicators, the Treasury Management Strategy and Annual Investment Strategy as set out at Appendix I.**

18. Strategic Plan References

18.1. The budget forecasting process has been underpinned by the Strategic Plan. The objectives of the Strategic Plan have informed all stages of the budget setting process. The proposed budget will enable the Council to deliver the services and priorities set out in the Strategic Plan which is subject to a separate report on this agenda.

19. Financial Implications

19.1 As set out in the report.

20. Publicity Considerations

20.1 Arrangements will be made to publish the approved tax levels in the local press and to produce the Council Tax Information Leaflet for distribution with the Council Tax bills. These will be in accordance with the legal requirements.

21. Human Rights Implications

21.1 None

22. **Community Safety Implications**

22.1 None

23. Health and Safety Implications

23.1 None

24. Risk Management Implications

24.1 Risk management has been used throughout the budget process and specific consideration has been given to the Council's current risk profile when allocating resources. This will be reflected in the corporate risk register.

25. Consultation

25.1 The budget will be scrutinised by Finance and Audit Scrutiny Panel on 27 January 2009. The statutory consultation with NNDR ratepayers took place on 7 January 2009 and notes of the meeting are provided at Appendix J.

25.2 The budget proposals have been underpinned by the proposed new Strategic Plan which has been subject to consultation as outlined in the separate report on this agenda.

Background Papers
Detailed Service Group Expenditure Papers
Report to FASP 27th January 2009 - Treasury Management Strategy and Annual Investment Strategy and Prudential Indicators
Budget reports to Cabinet – 3 December 2008

2009/10 Budget Timetable	
Budget Strategy April – July 2008	
April – May (SMT)	Update MTFF /Budget Strategy Review cost pressures, growth and risks Consider approach to budget
May - June 08	Service budget summaries considered by Leadership team
Cabinet –9 July 08	• Report on updated budget strategy / MTFF • Timetable approved • Approach to consultation outlined
SOSP – 26 August 08 (changed to 8 September 08)	Review Cabinet report
Detailed Budget preparation and Budget Setting Consultation	
Management Team regular sessions on progress / budget options	Review progress on efficiencies
Leadership Team (July / August)	• Review outcomes of budget reviews and agree and carry out further detailed work
Cabinet – 10 September 08	• Budget Update • Review of capital resources / programme
Cabinet – 22 October 08	Budget Update (if required)
Cabinet – 3 December 08	• Budget update • Reserves and balances • Grant settlement
FASP – 27 January 09	Review budget position
Cabinet – 28 January 09	Revenue and Capital budgets recommended to Council
Council – 18 February 09	Budget agreed / capital programme agreed / Council Tax set

APPENDIX B

2009/10 Revenue Cost pressures

Heads of Service/Portfolio Holders have been asked to contain cost pressures within existing budget allocations wherever possible. The following are specific areas where budget allocations have been increased. Changes since the report to Cabinet on 3 December 2008 are highlighted.

	Previous Forecast £'000	Updated Forecast £'000	Comment
Inflationary pressure	1,135	1,190	Net inflation impact, including an allowance for pay and prices and an increase in fees and charges. The provision includes an allowance for increased costs in respect of energy, fuel and other changes.
Incremental pension contributions	148	96	The triennial review of the pension fund has shown a significant deficit due to market conditions and increased life expectancy. This financial pressure is one being felt by all local authorities and other organisations.
Minimum Revenue Provision (Commutation adjustment)	100	102	Increase in calculated figure based on statutory criteria.
Concessionary Fares	0	100	Provisional allowance based on take up of scheme / changes in operating hours. Now assumed will not be required due to negotiation on ongoing cost of scheme (see Appendix D – Savings).
Equality and diversity	15	15	Cabinet agreed to allocate £15k from the 2007/08 outturn position and this therefore needs to be included in the 2009/10 budget forecast.
Community Project Capacity	15	15	Funded through external income.
Planning income	500	683	Reduced income due to falling number of planning applications. Savings proposed to offset some of impact.
Building Control income	30	271	Reduced income forecast
Car Park Income	300	300	
Land charges income	100	100	

	Previous Forecast	Updated Forecast	
	£'000	**£'000**	**Comment**
Reduced rental income and ongoing NNDR costs (impact of economic downturn)		170	Estimated reduced rental from commercial properties and ongoing cost of empty rates within regeneration sites and as a result of delays in securing capital receipts.
Reduced Government grant for benefits administration		40	Benefit admin. grant reduced by Government.
Support to ICT strategy		35	Includes final year costs for channel migration post and support for the Council's website.
Support for on-going service reviews (continuation of previous review of planning, protection and licensing services)		46	Retaining learning from reviews of other service areas to support ongoing service reviews.
General Fund / HRA impact / misc. technical changes		23	Impact of changes in charges between General Fund and Housing Revenue Account (HRA) and other technical changes.
Total	**2,343**	**3,186**	

Appendix C

2009/10 Revenue Growth items

The following adjustments for growth items have been included within the current budget allocations. Changes since the report to Cabinet on 5 December 2007 are highlighted.

Area	***Amount in previous Forecast £'000***	***New Items / Change in Forecast £'000***	***Comment***
Street Wardens	80	80	Funding in this financial year has been reallocated to enable two new street wardens to be introduced. This cost represents the full year impact of this decision.
Planning, Protection and Licensing review.	80	30	Remaining one-off costs of review including IT development and training. Figure reduced by £50k reflecting a post no longer required at this stage given economic slowdown.
Costs funded through HPDG and other grants received in 08/09		140	Decisions have been made during the year to allocate some grant income received this year to meet costs in 09/10. This growth item will therefore be funded through these grants via use of balances.
Renaissance programme staff resources (Head of Service, PA, project support and communication staff resources).		166	Costs related to Renaissance Delivery Unit to enable staff to continue to focus on delivery of the regeneration projects. Regeneration Reserve to be used to fund these costs.
Welfare Rights		5	Contribution to increased welfare rights service in addition to other resources shifted within the Community Partnerships area.
Steps to increase recycling		210	Additional resources to support promotion of recycling and increased recycling services to flats within the Borough.
	160	631	

APPENDIX D

Summary of Savings / Increased Income

	Total
Service specific savings	£'000
Corporate Management	213
Executive Management Team	132
Resource Management	537
Life Opportunities	194
Environmental & Protective Services	623
Strategic Policy and Regeneration	260
Street Services	55
Customer Service Centre	10
Total Service Savings	**2,024**
Energy Saving through LACM (Local Authority Carbon Management)	200
LABGI	50
Housing and Planning Delivery Grant	250
Area Based Grant	22
Increase in Concessionary fares grant	13
Interest / Minimum Revenue Provision	50
Less: Provision for one-off costs	(120)
Total Service Savings	**2,489**

Note: the budget also includes the continuation of corporate savings targets in respect of salaries, procurement and income.

The following pages set out detailed delivery plans for all specific proposals.

Work Area: Resource Management				
Who: Charles Warboys				
Saving (£): £537,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Statutory Accounting - restructure of finance managers' roles (£8k)	Finance Manager post replaced with Financial Accountant at lower grade.	N/a as post appointed to.	n/a	Monthly budget monitoring
IT & control - Further extension of overpayment recovery service to Maldon DC (£19k)	Continued communication with Maldon DC.	Maldon withdraw from arrangement	Maldon have committed until the end of June and are a happy with service provided and have already extended arrangement on more than one occasion	Regular meeting with Maldon DC.
Concessionary fares (£510k) In the current year the Council has negotiated an agreement with other local authorities in the Essex area and the bus operators with regard to the cost of the new national scheme and this is expected to be continued into next year.	On-going negotiations on the arrangements that will apply for 09/10,	Negotiations fail and we have to fund the scheme at previous levels. This is not considered to be likely.	Negotiations have been positive so far and a saving of c£400k has been secured for 08/09.	Continued involvement with negotiations and monitoring usage of scheme during year.

Work Area: Corporate Management				
Who: John Gilbert				
Saving (£): £213,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
No elections in 09/10 (£80k)	n/a	n/a	n/a	n/a
Streamlining administrative support (£27k)	Reduction of work requirement Release of resource	Ability to redeploy staff in good time to ensure cost savings are achieved. Expected process efficiencies are achieved without losing controls. Operational resilience if critical individuals are sick or absent.	Work flow management Supporting staff in redeployment Cross training in key activities	Performance management Monthly financial monitoring
Members Expenses (£15k)	The saving was anticipated as a consequence of two of the Portfolio Holders agreeing to forfeit half of their Cabinet Member Special Responsibility Allowance and the loss of one Panel Chairman position (Innovations Panel).	Change in approach to the number of portfolio holders, which is within the authority of the Administration. There is a risk to delivery in that three extra Special Responsibility Allowances have become payable due to the appointments to the Planning and Licensing Committees and the change in Chairman of the Finance and Audit Panel	This could be achieved in part through a reduction in the value of travel and subsistence claims submitted by Members.	Via financial reporting of expenses.

Work Area: Corporate Management

Who: John Gilbert

Saving (£): £213,000

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Strategic HR – Reduce management consultancy provision (£3k)	Reduced demand for consultancy support following development in 08/09 of key changes.	Demand for new initiatives requiring outside support	Demand management and access to Essex Strategic HR partnership.	Via work plans and budget control
Civic Offices - NNDR rebate for 07/08 carried into 08/09 (£6k)	Monitoring of NNDR assessments	Increases in NNDR above expectation included in budget	Financial management of other cost lines to cover any shortfall	Monthly via finance reports
Courier (£18k)	Reduce to 3 editions per year	Costs of paper and print exceeding expectations	Continual review of content and format	Monthly via finance reports
Print (£26k)	Alphaprint have sourced their own machines. Contract to be ended in 2008/9 with recurring saving from Apr 2009	Action completed	n/a	Monthly via finance reports
Functions income (£12k)	TH business plan includes opportunity to grow contribution as facilities improve.	Plan originally included this for 2010/11 Economic environment Delays to facilities enhancements	Review business plan	Business plan Financial monitoring Project progress monitoring
Corp. Facilities Mgmt - restructure planned for 2009 to deliver future business growth including delivery of the Town Hall business plan (£16k)	Staffing restructure undertaken. Recruitment to new structure being completed 08/09	Impact of flexible working on staffing establishment not included in the service budget.	Ensure service budget is changed at appropriate time when service definition completed.	Monthly via financial reports

Work Area: Corporate Management				
Who: John Gilbert				
Saving (£): £213,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Civic Fund (£5k)	Usage of Mayoral car reduced in 2008/09, carried forward to 2009/10	Depends on mayoral usage and civic commitments	Review on ongoing basis	Monthly via financial reports
Service development and new Legal Service income by provision of service to external parties (£5k)	Build on existing business relationships – already in course	Business demand and partnership working	Develop business relationships with wider parties	Monthly via financial reports

Work Area: Life Opportunities
Who: Gareth Mitchell
Saving (£): £194,000

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Community Partnerships - unbudgeted external funding for community project worker capacity (£14k)	n/a	Potential for external funding to cease	Effective partnership working	n/a
Parks and Recreation – reductions in expenditure and additional income across the service (£100k)	Implement fees and charges and budget changes as part of the core service management process by end March 2009. Agree revised budgets with relevant contractors by end March 2009. Communicate changes to any relevant customers.	Income targets not achievable due to economic downturn. Potential inflationary pressure on grounds maintenance contract	Management action to reduce expenditure in year in line with income/inflation levels	Monthly budget monitoring
Sport and Leisure – reductions in expenditure and additional income opportunities across the sport and leisure business (£80k)	Implement fees and charges and budget changes as part of the core service management process by end March 2009	Income targets not achievable due to economic downturn Potential inflationary pressure on energy costs	Management action to reduce expenditure in year in line with income/inflation levels	Monthly budget monitoring

Work Area: Environmental and Protective Services				
Who: Roger Bailey				
Saving (£): £623,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Ongoing impact of review of Environmental and Protective Services (£75k)	Establishment of professional support unit underway, with a reduction in post numbers	If voluntary redeployments are not achieved.		Ongoing monitoring by Head of Service responsible for implementation
Delete countryside post (shared post with Braintree) (£20k)	Contract for post finishes in July.	None envisaged	n/a	n/a
Museums - further saving from joint working (£20k)	General efficiencies			Monthly budget monitoring
Freezing vacant posts / redeployment (£300k)	Posts already held vacant. Redeployments underway –some in place	Redeployments fail	Alternative redeployments already being sought	Monitored monthly through standard performance monitoring system
Crematorium – forecast increased income (net of additional costs (£60k)	Charges agreed	Income figures not achieved		Monthly budget monitoring
Savings within planning and building control linked to downturn in workload (£40k)	General efficiencies already identified and removed from budget			Monthly budget monitoring
Savings within Museum Service (£41k)	As above			Monthly budget monitoring
General savings across whole service group (£67k)	As above	Exceptional circumstances – major planning enquiry; emergency weather situation; etc	Compensating efficiencies will be sought	Monthly budget monitoring

Work Area: Strategic Policy and Regeneration				
Who: Lindsay Barker				
Saving (£): £260,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Festival saving (£55K)	Saving to be made from April 09. Will leave £25K contribution towards any festival activity.	Will be reliant on coordination and delivery by partners as minimal resource left in the service to contribute. Unknown impact of reduction on 2020 funding for festival.	Have already explored contributing to ECC festival coordination to extend activity in Colchester.	Through the Cultural services manager
Enterprise - Deletion of IT/web budget (£10k)	Full payment for 'grant finder' made during 2007/2008 and no further payments are due. Saving to be made from April 2009.	No risks identified as payment in full already made for the required service.	N/A	SLA in place with Grantfinder
Arts - freeze grants to Mercury Theatre and Arts Centre (£15k)	Will apply to funding from April 09. Organisations informed Jan 09	Will have an impact on the budget setting of these organisations	Notice of this proposed saving has been given to allow them to prepare their budgets	Through the SLA arrangements for these organisations
Project & Support - Deletion of Admin Support Assistant (£20k)	Saving to be made from April 09 as post currently vacant.	Lack of capacity in group support	Group support has been reviewed and reorganised to ensure all key tasks are covered	Through the group support coordinator
Arts Development (£80K)	Deletion of whole service including two posts (one vacant and one occupied) and	As this is the deletion of a service the main risks relate to the termination of contracts and the	Management of the termination and communication issues in place	Through the Head of Service

Work Area: Strategic Policy and Regeneration

Who: Lindsay Barker

Saving (£): £260,000

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
	notification to any third parties who have received funding and may assume funding in 2009/10. Due to statutory redundancy timing the service will cease from May 2009.	communication with partners.		
Tourism Manager (merger of post with vacant Economic Development post) (£35k)	Restructure the roles to create one post with a set of merged priorities. Enterprise Coordinator post currently vacant so only one applicant for the new role. Saving to be made from April 2009.	Reduced capacity in both Tourism and Enterprise activity.	Effective management of the change and clear agreement of priorities should help to mitigate.	Through the Head of Service and Enterprise Manager
Reduced marketing budget (£15k)	The restructuring above should lead to some capacity to pool marketing resources and make more effective use of the minimal marketing resources across the council	A reduction in the ability to market Colchester and its offering to residents and visitors and to attract business investment.	Will have to work through the marketing coordination group to more effectively target the use of resources to the priority areas.	Through the Enterprise Manager (also chair of the marketing coordination group)

Work Area: Strategic Policy and Regeneration				
Who: Lindsay Barker				
Saving (£): £260,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Review of Visitor Information Centre (£30k)	Review to commence 12 Jan due to report end March 2009. Has a target savings level for 2009/10 of £30K	Timescales for the review are challenging	The chance to link into the work around the Public Service Village will help to provide opportunities	Head of Service and Tourism and VIC Manager to coordinate the review

Work Area: Street				
Who: Matthew Young				
Saving (£): £55,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Creation and operation of the Braintree, Colchester and Uttlesford Parking Partnership (£25k)	• Financial details to be finalised for Partnership – February 2009 • All three authorities to sign final agreement – March 2009 • Joint working commences – April 2009	• Actual financial figures do not match the budget figures supplied for 2009/10 and savings are not forthcoming • Not all authorities sign agreement so joint working cannot commence	Meeting with three authorities to finalise figures – January 2009 Each authority to work with Members to understand and mitigate concerns	Monthly budget monitoring to ensure savings for all three authorities being achieved
Review of CCTV (£30k)	Removal of one Monitoring Centre Operator post	None – vacant posts exists to be deleted	N/A	N/A

Work Area: EMT				
Who: Adrian Pritchard				
Saving (£): £132,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Reduced support to 2020 (£15K)	Delivered through deletion of vacant post and reassignment of work	None	n/a	On-going budget management.
Delete post supporting project work with Braintree (£50k)	Contract terminated	n/a	n/a	n/a
Removal of Executive Director post and impact of reduced contribution from Regional Cities East (£67k)				

Work Area: CSC				
Who: Leonie Rathbone				
Saving (£): £10,000				
Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Replacement of QAS (quick address system) with solution using other existing technology which has been cleansed, updated and developed (LLPG) (£10k)	The task has been completed as at December 08. The £10k saving will be effective for 09/10 and ongoing	Minimal as fully tested and works in live environment.	Reinstate the QAS system if needed	Ongoing

Work Area: Technical Items / Non-Service Specific areas

Who: Charles Warboys and Senior Management Team

Saving (£): £572k

Outline of work	*Specific Tasks and Timetable*	*Risks to delivery*	*Mitigating action*	*Monitoring arrangements*
Energy Savings through LACM programme (£200k)	Delivery of LACM Strategy and Implementation Plan (SIP)	Delays in implementation. Plans do not deliver the level of financial saving forecast.	Provision has been made in the budget for increased energy costs. Some of the increase is not known and therefore potentially there may be a saving of energy budgets.	Energy budgets will be closely monitored during the year. Monitoring of LACM SIP.
Net Interest costs / MRP (Minimum Revenue Provision) (£50k)	Ensure we maximise interest earnings and minimise interest costs in accordance with the agreed Policy and Strategy. Review liabilities for MRP under revised guidance.	Impact of falling interest rates on investments. Impact of interest rates movements on planned borrowing activities Impact on cashflow of economic slowdown.	Taking expert advice on timing of investment / borrowing decisions. Using specialist advice to support review of MRP policy / liabilities.	Budget monitoring of interest budget.

Work Area: Technical Items / Non-Service Specific areas				
Who: Charles Warboys and Senior Management Team				
Saving (£): £572k				
Changes to Government Grants:- LABGI (£50k) HPDG (£250k) ABG (£22k) Concessionary fares (£13k)	Await announcement of grants (note: ABG and concessionary fares already confirmed)	Grants are lower than budgeted.	The ABG grant has been confirmed. LABGI estimate based on indications provided within consultation paper. HPDG grant in 08/09 was over £900k and whilst the level for 09/10 is likely to be lower it is considered that £250k is a reasonable estimate.	Grants will be notified during 209/10 and will be reported as part of normal budget monitoring reports to FASP.

Budget Analysis – Appendix E

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth	Total Savings	Detailed 09/10 Budgets
	£	£	£	£	£	£
Corporate & Democratic Core	322,900	0	7,076	0	0	329,976
Executive Management Team	905,300	-20,000	13,887	0	-132,000	767,187
Corporate Management	6,569,500	-45,000	390,138	0	-251,000	6,663,638
Customer Services	1,065,200	0	56,938	0	-10,000	1,112,138
Env. & Protective Services	2,388,800	-223,000	1,084,412	50,000	-628,500	2,671,712
Life Opportunities	5,773,000	0	464,805	5,000	-338,000	5,904,805
Resource Management	2,282,600	-59,000	428,405	0	-550,000	2,102,005
Strategic Policy & Regen.	2,910,600	-329,000	55,953	286,000	-260,000	2,663,553
Street Services	2,316,000	-3,000	497,986	210,000	-67,500	2,953,486
Total Services	**24,533,900**	**-679,000**	**2,999,739**	**551,000**	**-2,237,000**	**25,168,500**
Technical Items						
Pay Savings	-515,000	0	0	0	0	-515,000
Procurement	-93,400	0	0	0	0	-93,400
Advertising	-70,000	0	0	0	0	-70,000
LABGI	0	0	0	0	-50,000	-50,000
HPDG	0	0	0	0	-250,000	-250,000
ABG	0	0	0	0	-22,500	-22,500
Grants to Parish councils	201,900	0	0	0	0	201,900
CLIA (net interest)	-299,000	0	10,000	0	-50,000	-339,000
Min Revenue Provision	447,400	0	102,000	0	0	549,400
Pensions	2,101,200	0	96,400	0	0	2,197,600
Redundancy Provision	165,000	-165,000	0	0	120,000	120,000
ECC Second Homes	-124,000	0	-20,000	0	0	-144,000
Heritage Reserve	22,000	0	-10,000	0	0	12,000
Contribution to capital	0	0	0	80,000	0	80,000
Regeneration Reserve	50,000	-50,000	0	0	0	0
GF/HRA adjustments	-2,421,200	0	8,000	0	0	-2,413,200
Total Below the Line	-535,100	-215,000	186,400	80,000	-252,500	-736,200
Total incl Below the line	**23,998,800**	**-894,000**	**3,186,139**	**631,000**	**-2,489,500**	**24,432,300**
Funded by:-						
General Reserve	-607,000	607,000	-46,000	-140,000	-297,600	-483,600
Capital Expenditure Reserve	-751,000	30,000	159,800	0	-100,000	-661,200
Regeneration Reserve	-278,000	278,000	-55,000	-166,000	0	-221,000
Other Reserves - S.106	-30,000	0	0	0	-30,000	-60,000
Insurance	0	0	0	0	-100,000	-100,000
Government Grant (RSG / NNDR)	-12,385,000	0	0	0	-296,000	-12,681,000
Council Tax	-9,812,800	0	0	0	-412,200	-10,225,000
Collection fund Transfer	-135,000	0	134,500	0	0	-500
Total	**-23,998,800**	**915,000**	**-81,200**	**-306,000**	**-200,000**	**-24,432,300**

Appendix F

General Fund Balances
Current Position

	£'000	£'000
Balance as at 31 March 2008 (As per Statement of Accounts)		3,347
Movement on balances during 2008/09:		
• Financing carry forwards		(250)
• Funds released in 07/08 to carry forward to 08/09		(213)
• Supporting 2008/09 budget:-		
Items included in 2008/09 budget	(607)	
New emerging pressures	(325)	
		(932)
• Further changes to balances agreed by Cabinet / Strategy Portfolio Holder		(7)
• 2008/09 net budget (forecast to be on budget)		0
• Carry forward Of HPDG grant to meet costs in 2009/10		140
• Carry forward of provision for service review		46
• Carry forward saving on insurance contract through accounting change		200
Projected Balances as at 31 March 2009		**2,331**
Less anticipated support to 2009/10 budget		(484)
		1,847
Proposed minimum balance		**1,700**
Potential headroom as at 31 March 2009 (if 8/09 outturn is delivered on budget)		**147**

Note:

- This forecast is on the basis that there are no further calls on balances during the remainder of the year and that the current year's outturn is delivered on budget.

- The projected balance at 31 March 2009 reflects the level of balances retained when the 2008/09 budget was approved because of the difficult medium term position. A proposal is made within the main report (paragraph 10.6) to use £484k from balances to support the 2009/10 budget. This includes £386k in respect of budgets carried forward from 08/09.

APPENDIX G

Renewals and Repairs 2009/10 Releases

Scheme	Requested Value of Release
Various	
Building Maintenance Programme	603,000
Life Opportunities(all Colchester Leisureworld)	
Pool water filters	20,000
Pipework and valves	20,000
Building Management System	20,000
Total	**663,000**

Medium Term Financial Forecast
2009/10 to 2011/12

	2009/10 £'000	2010/11 £'000	2011/12 £'000
Base Budget	23,998	24,432	25,234
Remove one-off items	(894)	(21)	
Cost Pressures	3,186	1,063	850
Growth Items	631	(170)	0
Savings	(2,489)	(70)	22
Forecast Base Budget	**24,432**	**25,234**	**26,106**
Government Grant	(12,681)	(12,911)	(12,911)
Council Tax	(10,225)	(10,613)	(11,324)
Collection Fund Surplus	0	0	(10)
Use of Reserves	(1,526)	(526)	(360)
Total Funding	**(24,432)**	**(24,050)**	**(24,605)**
Budget (surplus) / gap (cumulative)	**(0)**	**1,184**	**1,501**
Annual increase		**1,185**	**317**

Key Assumptions

Inflation - Average 2.9%

Gov't Grant – Increase in line with 3 year settlement. As an initial assessment, the grant for 2011/12 assumed to be at a cash standstill.

Council Tax – 2.76% increase + 1% increase in tax base assumed for 10/11 and 11/12

Pensions forecast in-line with Actuarial review for 09/10 & 10/11. Next review will impact in 11/12 and a planning assumption of £250k has been assumed.

Cost Pressures			
General Inflation	740	740	740
Net Inflationary pressures (pay, energy etc)	450		
Pensions	96	154	250
MRP (Minimum Revenue Provision)	102	13	10
Concessionary Fares (change in operating hours / usage)	100		
Core Strategy Examination		150	(150)
Best Value Surveys		15	
Equality and diversity	15		
PCT - Community Health	15		
Income pressures:-			
Car Park Income	300		
Planning Income	683		
Building Control Income	271		
Land charges Income	100		
Impact of commercial property market slowdown on rental income and empty rates costs	170		
Reduction in benefits admin grant	40		
Service Review Post (funded through c/f from 08/09)	46		
ICT related costs (including website)	35	(9)	
GF / HRA impact / misc changes	23		
Total	**3,186**	**1,063**	**850**

Growth Items			
Planning, Protection & Licensing (P, P & L) Review **(incl. one-off)**	30	70	
Renaissance Team – Resources	166		
Street Wardens	80		
HPDG c/f	140	(140)	
Welfare Rights	5		
Recycling	210	(100)	
Total	**631**	**(170)**	**0**

Savings / additional Income			
Service savings			
Corporate Management	213	(80)	
Executive Management Team	132		
Resource Management	537		
Life Opportunities	194		
Environmental & Protective Services	623	15	
Strategic Policy and Regeneration	260		
Street Services	55		
Customer Service Centre	10		
Corporate Savings / Technical Items			
Energy Saving through LACM	200		
LABGI	50		
Housing and Planning Delivery Grant	250		
Area Based Grant	22		(22)
Increase in Concessionary fares grant	13	15	
Interest / MRP	50		
less redundancy provision	(120)	120	
Total	**2,489**	**70**	**(22)**

Use of Reserves			
Balances (General)	98		
Balances re items c/f from 08/09	386		
S106 monitoring reserve	60	60	60
Regeneration Reserve	221	166	
Insurance Provision	100		
Capital Expenditure Reserve:-			
Accommodation	205	0	0
Community Stadium	300	300	300
ICT Strategy	56		
Opportunity purchases	100		
Total	**1,526**	**526**	**360**

Addressing the Budget Gap
The MTFF shows a budget gap of circa £1.5m over the next two years. This is an increase on the previous situation reflecting the increased pressures on the Council's budgets and some of the one-off savings used to balance the budget.
There is no doubt that the current economic climate has impacted on the Council's budget proposals for 09/10 and is likely to continue having an impact during next year and beyond.

Risk Areas / Comments

The key risk areas to the forecast are:-

Ref	Risk / Area of uncertainty	
1	*White paper – Strong and prosperous communities*	The White Paper set out a number of important financial issues for the Council. This includes responding to the proposals concerning communities, neighbourhoods and place-shaping and the impact of the new performance management framework and proposals around efficiency. The latter includes ambitious targets for efficiency savings (3% cashable savings over the next three years) and involving greater collaboration and partnership working.
2	*Government Grant and the Comprehensive Spending Review 07 (CSR07)*	Details of the CSR07 were announced in 2007 alongside a 3-year grant settlement. The grant Settlement for the last 2 years in this period (09/10 and 10/11) shows an increase of 2.4% and 1.8% respectively. Our housing target to achieve is 17,100 by 2021 and we are currently the highest district housing producer in the region on an annual basis. This requires a grant settlement that allows us the funding needed to provide basic services. The reducing Settlement will continue to place pressures on Council budgets.
3	*Pensions*	An allowance has been built in for increases in pensions costs based on the results of the recent actuarial review and therefore are fixed for the period of the MTFF until 2010/11. However, an updated review will be undertaken that will inform the cost for 2011/12 onwards. The recent and ongoing economic downturn is likely to impact on the pension fund and therefore whilst an increased allowance has been made for this will need to be reviewed closer to the time when we may have more reliable estimates.
4	*Concessionary Fares*	The budget for 2009/10 includes a net saving of circa £400k reflecting negotiations with bus operating companies. The service is demand led and therefore costs are uncertain and there remains a risk that with grant details already fixed we may face a funding shortfall.
5	*Fees and charges*	As has been seen in the past few years we have experienced pressures arising from changes in income levels. In 2008/09 we are experiencing significant shortfalls in income in respect of planning and building control fees and car park revenue (on and off street). This has been considered as part of the 2009/10 budget but remains a risk that we will monitor next year.
6	*Inflation*	An allowance for general inflation has been built into the

Ref	Risk / Area of uncertainty	
		09/10 forecast and MTFF, and specific increases allowed for items such as energy. Currently, economic indicators point to reducing inflation (RPI), however, not all the Council's costs are directly linked to RPI and therefore we will continue to monitor the impact of inflation on all Council costs
7	*Use of reserves*	The budget update includes proposals to use reserves to meet certain one-off costs. The forecast position on general balances makes assumptions regarding the current year's outturn.
8	*Legislation*	There may be new legislation over the life of the MTFF for which any available funding may not cover costs.
9	*Government grants and partnership funding*	The Council's budget has changed over recent years with a greater emphasis on funding from both partner organisations and Government bodies. These funding streams can rarely be guaranteed and can therefore add to our cost pressures. This year's budget includes funding in respect of HPDG and the LABGI scheme. It is likely that there will be changes to some of these or other funding sources over the life of the MTFF and as the position becomes clearer the budget forecasts will need to be adjusted.
10	*Impact of renaissance programme e.g. car park closure and staff resources*	As the renaissance programme progresses there will be an impact on income from car park income due to temporary and permanent closure of certain car parks and also the introduction of park and ride. We are currently using the Regeneration Reserve to meet some staffing costs to provide increased capacity to deliver the renaissance programme. The budget forecast includes funding for 2009/10 to ensure that the team can continue work and this has also been allowed for in the 2010/11 forecast.
11	*ICT strategy – change programme*	The ICT strategy was updated in 2007 and it is likely that there will continue to be a number of financial implications arising from changes. This may result in some costs in the short-term leading to longer term savings. This continues to be examined as part of detailed budget proposals.
12	*Property review*	A review of our assets was carried out and a 5-year Building Repairs and Maintenance Plan produced. There will continue to be financial implications arising from this for both the revenue budget and capital programme and these will be continue to be considered in detail by the council's Property Forum and included in the on-going updates of the MTFF.
13	*Impact of growth in the Borough and demand for services*	A number of Local Authority services are directly impacted by the increase of population in the Borough, such as waste services, planning, benefits etc. As part of the budget it will be necessary to consider whether there is a need for additional resources in these or other areas in order to maintain levels of service. A further area of risk is any increase in the demands for Council services arising from the impact on residents of the

Ref	Risk / Area of uncertainty	
		economic environment.
14	*Delivery of 09/10 budget savings*	The 2009/10 budget sets some challenging targets for savings including those in respect of procurement and salaries.
15	*Net Interest earnings*	The budget is influenced by a number of factors including interest rates and cashflow movements. The treasury management strategy highlights the outlook for interest rates in the medium-term which points to unprecedented low levels during next year and potentially into 2010/11. Whilst it may be possible to provide some financial protection from the impact of these low rates, it is likely that there will be significant pressures on budgets during the medium term.

All these issues will remain as risks to be managed over the course of the MTFF.

Appendix J

NNDR Ratepayers Meeting
7 January 2009

Present:
Cllr Paul Smith. Portfolio Holder for Business and Resources
Nigel Myers, Enterprise Manager
Sean Plummer, Finance Manager

Representatives from:-

- Chamber of Commerce
- Colchester Retail Business Association (Corba)
- Federation of Small Business (FSB)

Notes of Meeting

The meeting started with a presentation of the Council's finances, budget process, budget position and medium term outlook. In addition, commentary was provided on a number of issues raised in advance by the FSB.

Issues Raised / Questions

- Comments were made that recent car park campaigns had been successful, however, needed to continue such steps to ensure affordable access to Colchester shops.
- In respect of proposed increase in recycling queries whether it was the best possible time to do this given falling prices paid for recyclables
- It was explained that schemes such as Supplementary Business Rates and workplace parking levy were matters to be decided by Essex County Coucil, however, it was stated by the business representatives that now was certainly not the time to impose further charges on local businesses.
- In respect of LABGI it was explained that the Government's proposed new scheme distributed grant in a different way with an allocation on an area basis.
- Congratulations to the Council were given on take up rates for small business rate relief and the impact of the targeted promotion of this support.
- Comments were made on whether it would be possible to pay local SMEs quicker to help them with cashflow especially during the difficult economic climate.
- It was also important to ensure that the Council promotes good news stories
- In general, those present welcomed the support they received from the Council and said that they felt that it was better than some other authorities and that the Council needed to continue to support local business.

COLCHESTER

Finance and Audit Scrutiny Panel

27 January 2009

Item 11

Report of	**Head of Resource Management**	**Author**	**Steve Heath** **☏ 282389**
Title	**Treasury Management and Investment Strategy**		
Wards affected	Not applicable		

The Panel is invited to review the 2009/10 Treasury Management and Investment Strategy prior to its submission to Cabinet and Council as part of the final budget process

1. Action required

1.1 The panel is asked to note and comment on the 2009/10 Treasury Management and Annual Investment Strategy prior to it being considered by Cabinet and Full Council as part of the 2009/10 budget report.

2. Reason for scrutiny

2.1 The Council agreed to adopt the CIPFA Code of Practice for Treasury Management on 18 February 2004. It is a requirement of the Code to produce an annual Treasury Management Strategy Statement, and to keep treasury management activities under review.

2.2 The Local Government Act 2003 introduced new freedoms for local authorities though the prudential borrowing framework. This led to guidance from the ODPM, requiring authorities to agree an Annual Investment Strategy. The Council's investment strategy was last agreed by Council in February 2008.

2.3 The panel reviewed proposed changes to the Council's Investment Policy on 18 November 2008. It was agreed that the 2009/10 strategy statement would be submitted to the panel prior to Cabinet and Council.

3. Background information

3.1 The proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2009/10 is attached as a separate document. The follow paragraphs contain a summary of the strategy for 2009/10.

3.2 The escalation of the 'credit crunch' led to economic difficulties in the second half of 2008. The UK Interest rate was reduced to 1.5% in January 2009, and the current view from the Council's treasury advisers is that this will fall to 0.5% in the first quarter of 2009. The interest rate is then expected to stay at that level for the remainder of the 2009/10 financial year, and then begin to rise gently during 2010.

3.3 The Council will have an additional borrowing requirement during the year in respect of the purchase of Rowan House, additional funding for the Visual Arts Facility, new cremators and the upgrade of communal aerial systems in the Council's housing stock. The trigger point for new longer term borrowing is 3.95%. However, the current forecast for PWLB borrowing shows that below 10 year PWLB rates are expected to be substantially lower than longer term rates, which opens up the opportunity for the Council to spread its debt maturity profile and generate savings through debt restructuring. The low interest rate also provides an opportunity to consider the potential merits of internal borrowing to maximise savings in the short term and reduce the Council's exposure to interest rate and credit risk.

3.4 The investment policy explains how credit ratings are used when making investment decisions, and details changes to the Council's investment policy as reported to the Panel in November. These include the introduction of sovereign debt criteria, halved country limits, the removal of the previous lowest level of certain credit criteria, and a reduction in the duration of investments with certain counterparties. It also details developments resulting from the 'credit crunch'. The Council will avoid longer term deals while investment rates are at historically low levels, and will therefore budget for a return of 1.5% on investments placed during 2009/10.

3.5 The Council currently has £4m of investments frozen in Icelandic banks. The Icelandic Government has stated that it intends to honour all its commitments, but it is not possible to say with certainty whether the Council will recover all of its investments. The UK Government intends to make a regulation that will require local authorities to delay recognising any loss that may be incurred on these investments until 2010/11. The Panel will be kept updated on any developments regarding this matter.

3.6 The Council's Prudential Indicators for 2009/10 Prudential indicators through to 2011/12 have been produced to support capital expenditure and treasury management decision making. They are designed to inform whether planned borrowing and the resultant revenue costs are affordable and within sustainable limits. They take into account all the economic forecasts and proposed borrowing and investment activity detailed in the report.

3.7 It should be noted that whilst the Investment Strategy includes a wide range of investment instruments, it is likely that a number of these will not be used. However, their inclusion enables the required credit controls to be stated if their use is to be considered.

4. Strategic Plan references

4.1 No direct links. However, prudent treasury management underpins the budget required to deliver all Strategic Plan priorities.

5. Financial implications

5.1 Interest paid and earned on borrowing and investments is shown within the Central Loans and Investment Account (CLIA). The strategy documents have been produced with reference to the agreed CLIA budget for 2009/10.

6. Risk Management implications

6.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Statement contains a section on treasury Risk Management (TMP1).

6.2 TMP1 covers the following areas of risk all of which are considered as part of our treasury management activities:

- Liquidity.
- Interest rates.
- Exchange rates.
- Inflation.
- Credit and counterparty.

- Refinancing.
- Legal and regulatory.
- Fraud, error and corruption, and contingency management.
- Markets.

7. Other Standard References

7.1 Having considered consultation, and publicity, equality, diversity and human rights, health and safety and community safety implications, there are none which are significant to the matters in this report.

Background Papers
Treasury Management Strategy Statement and Annual Investment Strategy 2009/10

TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY 2009/10

1 Introduction

1.1 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 The suggested strategy for 2009/10 in respect of the following aspects of the treasury management function is based upon officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Sector Treasury Services. The strategy covers:

- the current portfolio position;
- the economic background and prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy;
- prudential indicators to 2011/12

1.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby charges to revenue caused by increased borrowing, and any increases in running costs are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2 Economic Background

2.1 In the second and third quarters of the year the financial crisis erupted and escalated. In September Fannie Mae/Freddie Mac (the mortgage banks) and AIG, the insurance giant, had to be bailed out by the US Federal Government. Then in mid September, Lehman Bros., the New York investment bank, was allowed to fail. This triggered a domino effect with other banks and financial institutions having to be rescued or supported by governments around the world. The Government and Bank of England supplied massive amounts of liquidity to the banking market in an attempt to reignite longer interbank lending.

2.2 After the collapse into receivership of the Icelandic banks in early October, other countries then started to feel the strain and a number had to approach the IMF for support. Even the Asian 'Tiger' economies were affected, and it became clear that the crisis had become a global one and no country was insulated from it.

2.3 The resulting dearth of lending from banks anxious to preserve capital led to economic forecasts being sharply reduced and recession priced into markets. This in turn led to sharp falls in oil and other commodity prices with the result that recession fears drove interest rate sentiment and policy. The housing market also came to a virtual standstill as lenders demanded larger deposits and higher fees. House sales and prices both dropped sharply.

2.4 UK growth was already slowing before the full impact of the credit crunch was felt, after which GDP fell to -0.3% and was then expected to continue to be negative going into 2009. Unemployment rose throughout the year with forecasts of 2 million unemployed by the end of the financial year and continuing to increase through 2010.

2.5 The financial crisis led to an economic crisis and there was a co-ordinated global interest rate cut with the Federal Reserve, ECB and MPC all cutting rates by 50 basis points (i.e. 0.5%) in October. The MPC subsequently cut interest rates by 150bp in November, 100bps in December and a further 50bps in January 2009 to reach 1.5%. The Fed subsequently cut rates by 50bp to 1% in October, and again in December to a band of 0.0% to 0.25%. The ECB reduced rates by 50bp in November, 75bp in December and 50bp in January to reach 2.5%.

2.6 Because of the credit fears and the reluctance of lenders to place cash for long periods 3 month LIBOR (London Inter Bank Offer Rate – the rate at which banks will lend to one another) has been substantially higher than Bank Rate, which eroded the MPC's power over monetary policy. However, the power of the Government over the semi nationalised banks has had considerable impact in enforcing pro rata reductions to the Bank Rate cuts on some borrowing rates.

2.7 Government finances deteriorated as income from taxation dropped and the cost of the bailout of the banks was added to the deficit. The Pre Budget Report on 14 November revealed the Government's plans for a huge increase in borrowing over coming years.

2.8 The Council has appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. **Appendix A** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates.

2.9 Sector's current interest rate view is that the Bank Rate will fall from current levels because of the intensifying global recession. Starting 2009 at 2.00%, the Bank Rate is forecast to fall to 0.5% in Q1 2009. It is then expected to remain there until starting to rise gently up from Q2 2010 till it reaches 4.0% in Q1 2012. There is a downside risk to these forecasts if the recession proves to be deeper and more prolonged than currently expected.

2.10 The Council's five-year contract with Sector expired on 31 December 2008. This has been extended to 31 March 2009, and the position will be considered again at that time.

2.11 The Council's treasury portfolio position at 31 December 2008 comprised:

		Principal £m	Av. rate %
Fixed rate funding	PWLB	27.9	4.58
	Market	34.5	6.74
TOTAL DEBT		**62.4**	**5.77**
Overnight		0.7	2.20
up to 3 months		8.0	5.92
up to 6 months		8.5	5.80
up to 1 year		2.0	6.35
over 1 year		4.0	6.34
frozen		4.0	5.81
TOTAL INVESTMENTS		**27.2**	**6.03**

3 *Borrowing Strategy*

3.1 The table below summarises all new borrowing that has taken place in the current and previous financial years, together with estimates of future borrowing needs. This assumes that the Council will borrow funds in respect of the purchase of Rowan House and additional funding for the Visual Arts Facility. Additional new borrowing is proposed with regards to new cremators, and the upgrading of communal aerial systems from analogue to digital in the Council's housing stock. It should be noted in both cases that the actual amount of borrowing required will not be known until a contractor has been appointed. No specific debt restructuring is planned although officers will periodically review the potential for savings through using this approach.

	2007/08 £'000 actual	2008/09 £'000 probable	2009/10 £'000 estimate	2010/11 £'000 estimate	2011/12 £'000 estimate
New borrowing during year	5,000	15,500	3,500	0	0
Alternative financing arrangements	0	0	0	0	0
Replacement borrowing	0	0	0	0	0
TOTAL	**5,000**	**15,500**	**3,500**	**0**	**0**

3.2 Forecasts for longer fixed interest rates are shown in **Appendix A**. The Sector forecast for new PWLB borrowing is as follows:

- The 50 year PWLB rate is expected to remain around current levels of about 3.80 - 3.90% until Q2 2010 when it is forecast to rise to 4.00%. The rate then edges up gradually to reach 5.00% at the end of the forecast period.
- The 25 year PWLB rate is expected to drop to 3.95% in Q1 2009 and stay around there until starting to rise in Q1 2010 and then to eventually reach 5.05% at the end of the forecast period.
- The 10 year PWLB rate is expected to drop to 2.55% in Q3 2009 but then to start rising again in Q2 2010 to eventually reach 4.85% at the end of the forecast period.

- The 5 year PWLB rate is expected to fall to a floor of 2.15% during Q3 2009. The rate then starts rising in Q2 2010 to eventually reach 4.60% at the end of the forecast period.

3.3 This forecast indicates that there is a range of options available for borrowing strategy for 2009/10. Under 10 year PWLB rates are expected to be substantially lower than longer term PWLB rates so this will open up a range of choices for new borrowing, and would mean that after some years of focusing on borrowing at or near the 50 year period, the Council would be able to undertake borrowing in a markedly different period and so achieve a better spread in its debt maturity profile.

3.4 Regarding long term rates, the 25 – 30 year period could be seen as being much more attractive than 50 year borrowing, despite the more expensive new borrowing rates, as the spread between the PWLB new borrowing and early repayment rates is considerably less. This then maximises the potential for debt rescheduling at a later time.

3.5 Rates are expected to be slightly lower at the middle to end of the year than earlier on so it may be advantageous to borrow later in the year. A suitable trigger point for considering new fixed rate long term borrowing would be 3.95%. This rate will be reviewed in the light of movements in the slope of the yield curve, spreads between PWLB new borrowing and early payment rates, and any further changes that the PWLB may introduce to their lending policy and operations.

3.6 The historically low Bank Rate opens up an opportunity to fundamentally review the strategy of undertaking external borrowing and consider the potential merits of internal borrowing. As long term borrowing rates are expected to be higher than rates on the loss of investment income the Council may look to avoid new external borrowing in the next financial year in order to maximise savings in the short term. The running down of investments also has benefits of reducing exposure to interest rate and credit risk.

3.7 Against this background caution will be adopted with the 2009/10 treasury operations. The Head of Resource Management will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the Portfolio Holder for Resources and Business at the next available opportunity.

3.8 In normal times the main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- if it were felt that there was a significant risk of a sharp rise in long and short term rates the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.
- if it were felt that there was a significant risk of a sharp fall in long and short term rates long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

4 Debt Rescheduling

4.1 The introduction of different PWLB rates in 2007 for new borrowing as opposed to early repayment of debt, and the setting of a spread between the two rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than before. However, significant interest savings may still be achievable through using LOBOs (Lenders Option Borrowers Option) loans and other market loans if these become available after the drying up of their supply during Autumn 2008.

4.2 Due to short term borrowing rates being expected to be considerably cheaper than longer term rates, there are likely to be significant opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of their short term nature and the likely cost of refinancing short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a rebalancing of the Council's debt maturities towards a flattening of the maturity profile as in recent years there has been a skew towards longer dated PWLB.

4.3 Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.

4.4 As average PWLB rates in some maturity periods are expected to be minimally higher earlier on in the financial year than later on, there should therefore be greater potential for making marginally higher interest rate savings on debt by doing debt restructuring earlier on in the year. Any positions taken via rescheduling will be in accordance with the strategy position outlined above.

4.5 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- to help fulfil the strategy outlined above; and
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.6 All rescheduling will be reported to the Finance and Audit Scrutiny Panel as part of the Annual Report on Treasury Management.

5 Investment Policy

5.1 The Council will have regard to the ODPM's Guidance on Local Government Investments issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's investment priorities are the security of capital and the liquidity of its investments.

5.2 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to invest or on lend and make a return is unlawful and the Council will not engage in such activity.

5.3 Investment instruments identified for use in the financial year are detailed in **Appendix B**. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

5.4 Specified investments will be sterling denominated, with maturities up to maximum of one year, meeting the minimum 'high' rating criteria where applicable. Non-specified investments are those that do not meet these criteria. A maximum of £20m will be held in aggregate in non-specified investments.

5.5 Credit ratings are an assessment of an entity's ability to punctually service and repay debt obligations, which are used by investors as an indication of the likelihood of getting their money back in accordance with the terms on which they invested. They provide uniform global comparisons of the credit quality of institutions, and they are used by many organisations as a core part of their credit and investment policies.

5.6 The Council uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's (or other rating agency if applicable) rating will be used. All credit ratings will be monitored on a monthly basis, as well as when considering making an investment.

5.7 Fitch has a four-way approach to credit ratings:

- **Short-term** ratings have an emphasis on the liquidity necessary to meet financial commitments in a timely manner. Organisations with a strong capacity for timely payment of financial commitments are rated as 'F1'. Some organisations may have an added '+' to denote an exceptionally strong credit feature. The Council limits its short-term lending to this top-tier.
- **Long-term** ratings denote the level of credit risk, capacity for payment of financial commitments, and vulnerability to foreseeable events. Organisations with high credit quality are rated as 'A', whilst those with very high or the highest credit quality can be rated as 'AA' or 'AAA'. The Council uses 'A' rated organisations as a minimum for lending under one year, and 'AA-' for lending in excess of one year.
- **Individual** ratings assess how a bank would be viewed if it were entirely independent and could not rely on external support. These denote the organisations' exposure to, appetite for and management of risk. The ratings range from 'A' to 'F', with 'A' being the highest. The Council uses 'B/C' rated organisations as a minimum for lending up to one year, and 'B' rated organisations as a minimum for lending in excess of one year.
- **Support** ratings provide a judgement of a potential supporter's (e.g. sovereign state's or institutional owner's) propensity and ability to support the organisation should it become necessary. These range from '1' to '5', and the Council uses Support Rating '2' (high probability of external support) as a minimum for all investments.

5.8 The Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- If a body is placed on negative rating watch (i.e. there is a reasonable probability of a negative rating change) and it is currently near the floor of the of the minimum acceptable rating for placing investments with that body, then no further investments will be made with that body. Other organisations on negative watch will be subject to approval by the Head of Resource Management and a record will be kept of decisions made.

5.9 Since the credit crunch crisis there have been a number of developments which require separate consideration and approval for use:

5.10 Nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, they have assigned an 'F' rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an 'F1+' short term rating as they effectively take on the creditworthiness of the Government itself. They also have a support rating of '1', meaning that on both counts, they have the highest ratings possible.

5.11 Some countries have supported their banking system by giving a blanket guarantee on ALL deposits (e.g. Ireland). The UK Government has NOT given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a £500bn support package. Other countries such as the US, countries within the EU and Switzerland are currently providing major support packages to their banking systems.

5.12 Fitch produce sovereign debt ratings for individual countries, and there are currently 16 'AAA' rated countries:

Austria	Canada	Denmark	Finland
France	Germany	Ireland	Luxembourg
Netherlands	Norway	Singapore	Spain
Sweden	Switzerland	UK	USA

5.13 The Council's approach will be to continue to rely on the credit ratings of the individual banks. However, the risk of investing in foreign banks will also be measured through the credit rating of sovereign debt, with the Council only using rated organisations within countries with a sovereign debt rating of 'AAA'. In addition, the Council will take into account other professional advice that is available to us, and always use the lowest common denominator when making investment decisions.

6 Investment Strategy

6.1 The Council's in-house managed funds are mainly cash-flow derived and there is a core balance available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. The Council's investments that mature beyond 2009/10 are shown in the table below.

Principal Sums Invested for over 364 Days	**Amount £'000**	**Maturity**	**Rate %**
Term Deposits - Banks & Build. Socs.	2,000	Jun-10	6.25
Term Deposits - Banks & Build. Socs.	2,000	Jul-10	6.44
	4,000		

6.2 Sector forecasts that the Bank Rate will be cut to 0.5% during Q1 2009. It is then expected to stabilise until starting to rise gradually with the first increase in Q2 2010, and then be back up to 4.00% during Q1 2012. The Council will therefore avoid locking into longer term deals while investment rates are at such low levels.

6.3 For 2009/10 the Council will budget for an investment return of 1.50% on investments placed during 2009/10. This assumes that the credit crunch will inflate investment rates by about 100 bps over Bank Rate through 2009-10.

6.4 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (over night to three months) in order to benefit from the compounding of interest.

6.5 At the end of the financial year, the Council will report on its investment activity as part of its Annual Report on Treasury Management.

6.6 The Council currently has the following investments frozen in Icelandic banks.

	Amount £'000	**From**	**To**	**Rate %**
Term Deposits - Banks & Build. Socs.	3,000	02-Sep-08	02-Dec-08	5.82
Term Deposits - Banks & Build. Socs.	1,000	10-Sep-08	10-Dec-08	5.8
	4,000			

6.7 The Icelandic Government has stated its intention to honour all its commitments as a result of their banks being placed into receivership. The U.K. Government is working with the Icelandic Government to help bring this about. At the current time it is not possible to say with certainty that the Council will recover the entirety of its investments or when reimbursements will be made. The Local Government Association is coordinating the efforts of all UK authorities with Icelandic investments. Members will be periodically updated on the latest developments on these efforts.

6.8 The Government advised in November 2008 that it intends to make a regulation to require local authorities to delay recognising any loss on these investments that may eventually be incurred until the 2010/11 year.

7 *Prudential Indicators 2009/10 to 2011/12*

7.1 The aims of the Prudential Code are to assist local authorities to ensure that:

- Capital expenditure plans are affordable
- All external borrowing is at a prudent and sustainable level
- Treasury management decisions are taken in accordance with good practice
- The authority is accountable in taking decisions by providing a clear and transparent framework
- The framework is consistent with and supports local strategic and asset management planning and proper option appraisal.

7.2 The prudential indicators are designed to support and record decision making in relation to capital expenditure plans, external debt and treasury management. Estimating capital expenditure for the forthcoming financial year and the following two financial years is the starting point of the calculation of prudential indicators, and the Council has made reasonable estimates of its total capital expenditure.

7.3 **Prudential indicators of affordability**. The Prudential code specifies a range of indicators that inform whether the borrowing and resulting revenue costs of alternative levels of capital expenditure are affordable. These include the ratio of financing costs to net revenue stream and the incremental impact of capital investment decisions on the council tax and housing rents.

	2007/08 Actual £'000	2008/09 Probable outturn £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
Capital expenditure					
Non-HRA	23,663	21,668	17,808	0	0
HRA	6,743	2,512	6,249	4,880	4,790
Total	**30,406**	**24,180**	**24,057**	**4,880**	**4,790**
Ratio of financing costs to net revenue stream					
Non-HRA	-9.01%	-4.88%	1.09%	1.28%	1.28%
HRA	13.66%	13.00%	12.02%	11.34%	10.80%
Net borrowing requirement					
B/fwd 1 April	19,577	19,749	35,600	39,100	39,100
C/fwd 31 March	19,749	35,600	39,100	39,100	39,100
In year borrowing requirement	**172**	**15,851**	**3,500**	**0**	**0**
Capital Financing Requirement as at 31 March					
Non-HRA	11,362	26,958	28,909	28,307	27,695
HRA	50,883	50,883	51,883	51,883	51,883
Total	**62,245**	**77,841**	**80,792**	**80,190**	**79,578**
Incremental impact of capital investment decisions					
Council Tax (Band D)			£1.17	£0.00	£0.00
Housing Rents			£0.00	£0.00	£0.00

7.4 The Capital Financing Requirement (CFR) reflects the council’s underlying need to borrow for a capital purpose, although this borrowing may not necessarily take place externally. It shows the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income.

7.5 **Prudential indicators of prudence** have an emphasis on Treasury Management, and have the objective of ensuring that external debt is kept within sustainable limits. For a financial strategy to be prudent, medium term net borrowing should only be used for capital purposes. To ensure this is the case, the Net Borrowing Requirement should not, except in the short term, exceed the total CFR in the previous year plus the estimates of any additional capital financing requirement for the current and next two financial years.

	2007/08	2008/09	2009/10	2010/11	2011/12
	Actual	Probable outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised limit for external debt					
Borrowing		77,700	81,500	81,500	81,500
Other long term liabilities		5,000	5,000	5,000	5,000
Total		**82,700**	**86,500**	**86,500**	**86,500**
Operational boundary for external debt					
Borrowing		70,600	74,100	74,100	74,100
Other long term liabilities		3,000	3,000	3,000	3,000
Total		**73,600**	**77,100**	**77,100**	**77,100**
Upper limit for fixed interest rate exposure			100%	100%	100%
Upper limit for variable rate exposure			50%	50%	50%
Upper limit for total principal sums invested for over 364 days			5,000	5,000	5,000
Maturity structure of new fixed rate borrowing during 2009/10					
	< 12 mths	**1 - 2 yrs**	**2 - 5 yrs**	**5 - 10 yrs**	**> 10 yrs**
Upper Limit	10%	50%	50%	70%	100%
Lower Limit	0%	0%	0%	0%	20%

7.6 Treasury management creates the link between the Council's CFR and the structure of its external debt. The treasury management indicators are relevant for the purposes of setting an integrated treasury management strategy. The first indicator is the adoption of the CIPFA Code of Practice for Treasury Management, which the Council adopted on 18th February 2004.

7.7 The level of external debt is a consequence of a treasury management decision about how much external borrowing to undertake. External borrowing arises as a consequence of all the Council's financial transactions. There are two indicators for external debt that encompass all borrowing whether for capital or revenue; the Authorised Limit and the Operational Boundary.

7.8 The Authorised Limit is the outer boundary of the Council's borrowing. It should reflect a level of borrowing which, while not desired, could be afforded but may not be sustainable. The capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Council must have regard to the Prudential Code when setting the limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

7.9 The Operational Boundary differs from the authorised limit in that it is based on expectations of the maximum external debt of the Council according to probable events. Cash-flow variations may lead to the occasional breach of the operational boundary. It therefore should allow a sufficient margin to allow time to take corrective action before the authorised limit is breached.

7.10 There is a need for integration between the Capital Programme and treasury management for the Council to be able to demonstrate the affordability of Capital projects. Where capital receipts are not available, the Council should show how much it intends to borrow, and that this is within the authorised limits for the year.

7.11 A best practice approach to treasury management is to reduce uncertainty surrounding fluctuations in interest rates, whilst retaining a degree of flexibility. The Council has set upper limits to both fixed and variable interest rate exposures.

7.12 The total principal sums invested indicator is an upper limit for each financial year for the maturing of long-term investments. This is to minimise the possibility that investments will need to be realised early, with the risk of losing some of the principal sum. It also demonstrates that the Council is not borrowing more money than it needs or in advance of its needs, purely in order to profit.

7.13 The Council could be exposed to the risk of having to refinance debt at a time when interest rates may be volatile. The code aims to assist authorities to avoid large concentrations of fixed rate debt that needs to be replaced at the same time. The indicator shows both the upper and lower limits of the maturity structure of borrowing. This expresses the amount of fixed rate borrowing that is maturing in each period as a percentage of the total projected fixed-rate borrowing.

7.14 There may be some changes to the Prudential Indicators arising from the finalisation of budget figures for the Housing Revenue Account and details of Parish Council Precepts. The Capital Programme will also be reviewed to confirm that there are no additional implications in respect of the 'Incremental Impact of Capital Investment Decisions' indicator. This will be completed before approval by Council. The 'Incremental Impact of Capital Investment Decisions' indicator currently takes into account additional funding required for flat recycling.

Interest Rate Forecasts

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions. The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

Individual Forecasts

Sector interest rate forecast – 6 December 2008

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011	Q/E2 2011	Q/E3 2011	Q/E4 2011	Q/E1 2012
Base Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%	4.00%
5yr PWLB Rate	2.50%	2.25%	2.15%	2.15%	2.15%	2.45%	2.80%	3.15%	3.65%	3.95%	4.20%	4.45%	4.60%
10yr PWLB Rate	3.10%	2.75%	2.55%	2.55%	2.55%	2.85%	3.25%	3.65%	4.15%	4.40%	4.70%	4.75%	4.85%
25yr PWLB Rate	4.00%	3.95%	3.95%	3.95%	4.00%	4.15%	4.35%	4.45%	4.60%	4.85%	4.95%	5.00%	5.05%
50yr PWLB Rate	3.85%	3.80%	3.80%	3.80%	3.85%	3.90%	4.00%	4.25%	4.40%	4.70%	4.80%	4.95%	5.00%

Capital Economics interest rate forecast – 12 January 2009

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010
Base Rate	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
5yr PWLB Rate	1.65%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%
10yr PWLB Rate	2.65%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%
25yr PWLB Rate	4.15%	4.00%	3.80%	3.65%	3.65%	3.65%	3.65%	3.65%
50yr PWLB Rate	4.05%	3.95%	3.85%	3.75%	3.75%	3.75%	3.75%	3.75%

UBS interest rate forecast (for quarter ends) – 12 December 2008

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009
Bank Rate	0.50%	0.50%	0.50%	0.75%
10yr PWLB Rate	3.75%	4.15%	4.35%	4.65%
25yr PWLB Rate	4.25%	4.55%	4.85%	5.05%
50yr PWLB Rate	4.30%	4.65%	5.00%	5.25%

Survey of Economic Forecasts

HM Treasury – December 2008 summary of forecasts of 23 City and 12 academic analysts for Q4 2008 and 2009. Forecasts for 2010 – 2012 are based on 21 forecasts in the last quarterly forecast – November 2008.

		Qtr Ended		Ave. Bank Rate		
	Actual	Q4 2008	Q4 2009	Ave. 2010	Ave. 2011	Ave. 2012
Median	2.00%	2.00%	1.00%	3.11%	3.97%	4.49%
Highest	2.00%	4.50%	4.00%	4.70%	5.00%	5.25%
Lowest	2.00%	2.00%	0.50%	1.00%	2.25%	3.00%

Investment Policy

ORGANISATION	CRITERIA			MAXIMUM AMOUNT	MAX. PERIOD Support Rating		
	Short-term	Long-term	Individual		1	2	3
Deposits with Banks and Building Societies (including unconditionally guaranteed subsidiaries)	Minimum F1+	AAA, AA+, AA, AA-	A	£7.5m	5 years	5 years	
			A/B, B	£7.5m	5 years	5 years	
			B/C	£2.5m	1 year	1 year	
	Minimum F1	A+, A	A, A/B, B	£2.5m	3 mths	3 mths	
			B/C	£2.5m	3 mths	3 mths	
Non-rated Building Societies	Assets > £3bn			£1m	3 months		
UK Local & Police Authorities				£10m	1 year		
Govt. Securities (e.g. DMO)				£10m	10 years		
Money Market Funds		AAA		£3m	60 days		
Multilateral Development Banks		AAA		£3m	1 year		
Investment schemes (e.g. bond funds)		AAA		£7.5m	5 years		

Other Limits:
- Country limit £10m
- UK limit £25m (Banks and Building Societies)
- Limit in non-rated UK Building Societies £5m
- Limit in all Building Societies £10m

COLCHESTER

Finance and Audt Scrutiny Panel

27 January 2009

Item **12**

Report of	**Scrutiny Officer**	**Author**	**Robert Judd Tel: 282274**
Title	**Housing Revenue Account Estimates 2009-10**		
Wards affected	All		

This report provides members with the opportunity to consider the Housing Revenue Account Estimates for 2009-10.

1. Action Required

1.1 To review and note the attached Cabinet report on the Housing Revenue Account Estimates 2009-10 that forms the decision to be taken by the Cabinet on the 28 January 2009, referring any comments to tomorrow's Cabinet meeting for further consideration.

1.2 This report has come to the panel specifically to provide them with the opportunity to consider the rebuilding of the revenue balances within the Housing Revenue Account in respect of the Decent Homes Programme.

2. Reason for Action

2.1 The Panel may at the Cabinet's request scrutinise decisions to be taken by the Cabinet, and report any concerns or points for further consideration back to the Cabinet prior to the decision being taken.

COLCHESTER	**Cabinet**		**Item**
	28th January 2009		
Report of	**Head of Strategic Policy & Regeneration**	**Author**	**Lindsay Barker** **Darren Brown** **☎ 282253**
Title	**Housing Revenue Account Estimates 2009/10**		
Wards affected	**All**		

This report presents the Housing Revenue Account (HRA) estimates for 2009/10 and the Medium Term Financial Forecast (MTFF) for 2009/10 to 2011/12

1. Decision Required

1.1 To approve the 2009/10 HRA revenue estimates as set out in Appendix A.

1.2 To approve dwelling rents as calculated in accordance with the rent restructuring formula (set out in paragraph 4.6).

1.3 To approve rents for garages (set out in paragraph 4.9).

1.4 To approve the base management fee of £3,510,400 for Colchester Borough Homes (CBH) (set out in paragraph 4.22).

1.5 To note a revenue contribution of £402,000 to the Housing Investment Programme is included in the budget (paragraph 4.25 to 4.27).

1.6 To note the HRA balances position in Appendix B.

1.7 To note the Medium Term Financial Forecast (MTFF) set out at Appendix C.

2. Reasons for Decision

2.1. Financial Procedures require the Head of Strategic Policy and Regeneration to prepare detailed HRA estimates for approval by the Cabinet, setting the new rent levels for the new financial year.

3. Supporting Information

3.1 As part of the process for setting the 2009/10 HRA budget, it is necessary to revisit the 2008/09 position to forecast the predicted level of HRA balances along with identifying any risk areas or cost pressures which could have an impact in future years.

2008/09 Revised Housing Revenue Account

3.2 Appendix A shows the Revised Housing Revenue Account (HRA) estimates for 2008/09. There have been some amendments to the Original budget for 2008/09 during the course of the current financial year. A reconciliation is therefore provided in the following table between the Original and Revised budget for 2008/09:-

Reconciliation between Original and Revised 2008/09 HRA Budget

	Budget 08/09	***Commentary***
	£'000	
Original Budget Deficit	**46**	Agreed 30th January 2008
2007/08 Budgets c/fwd	170	Agreed by Head of Resource Management/Head of Housing and Environmental Policy
Revised Budget Deficit	**216**	

2008/09 Forecast Outturn Position

3.3 When considering the financial position of the HRA, in addition to the adjustments to the 2008/09 original budget shown in the above table, it is important to note the 2008/09 forecast outturn position for the HRA. It is currently predicted that the HRA will be overspent by £45k compared to the revised budget for 2008/09. The table below provides a breakdown of this forecast underspend. In addition, commentary is provided on the major variations;

	Budget 08/09
	£'000
Additional Rental Income	(253)
Employee Costs	(62)
Premises Costs	110
Utility Costs	127
Legal and Consultancy Costs	100
Third Party Payments	23
Forecast 2008/09 Under-Recovery	**45**

- Additional rental income of £253k is forecast due to fewer Right to Buy sales and void properties than assumed within the budget.

- An underspend of £62k on Employee costs is predicted for the year primarily due to the effect of vacant posts to date.

- An overspend of £110k is currently predicted for Premises costs as a result of the Health and Safety works required at Ascott House and Bardfield House, for which no budget provision has been made.

- An overspend of £127k is currently being forecast for Electricity and Gas costs within our sheltered units, which reflects the price increases being incurred nationally.

- An overspend of £100k is currently predicted for Legal and Consultancy costs associated with the mediation process and the set-up of the interim repairs and maintenance arrangement.

- An overspend of £23k is predicted for Third Party Payments, which reflect late changes to the 2008/09 CBH Management Fee for Pensions and Data Link costs, which were agreed after the 2008/09 budget had been finalised.

4. 2009/10 Housing Revenue Account Budget

4.1 Appendix A shows the Housing Revenue Account (HRA) estimates for 2009/10. This shows a predicted HRA surplus of £213K which will be used to increase the level of uncommitted HRA balances.

Balances

4.2 The estimated balances for the HRA are set out in Appendix B. The anticipated level of the uncommitted HRA balance as at 31st March 2009 is £215K. The recommended prudent level of balance is £600k. Therefore, we will use the budget surplus for 2009/10 to increase the uncommitted balance as mentioned in paragraph 4.1. Although the uncommitted balances will still be below the prudent recommended level, the MTFF is currently predicting a surplus in 2010/11, which would mean that by March 2011 the balances will have been re-instated to a prudent level.

4.3 Following the cessation of the Inspace contract and when the 2007/08 HRA final accounts were closed, the decision was taken by the Portfolio Holder for Resources, in the light of the financing of prior years Repairs and Maintenance works, to reduce the uncommitted HRA balance below the recommended prudent level, with the intention of reinstating the balance in future years. A request on how this would be achieved was subsequently made by the Accounts and Regulatory Committee on 30th June 2008.

4.4 The Medium Term Financial Forecast at Appendix C shows the uncommitted HRA balance increasing over the next 2 years. This has been achieved by reviewing existing budget provisions (Para 4.30), freezing the CBH Management Fee for 2009/10 (Para 4.22) and from the lower level of HRA subsidy payable to the Government (Para 4.24) than anticipated. Furthermore, the assumptions on rental loss through Right to Buys and empty properties have been reviewed. Details of each of these are included elsewhere within this report. However, the full impact of these savings has been largely offset by the substantial increase in the budget for utility costs and other cost pressures which have arisen as part of the budget process, referred to elsewhere in this report.

4.5 A risk assessment has been undertaken to review the minimum prudent level of HRA uncommitted balance the Council should maintain. The results of this review are set out at Appendix D and show that it would be reasonable to retain the uncommitted balance at £600k.

<u>Income</u>

Housing Rents

4.6 2009/10 is the eighth year of transitional rent reform arrangements. The dwelling rents are set within Communities and Local Government (CLG) guidelines and so the annual increases in rents paid by tenants are set by reference to national Government policy. The average rent proposed for 2009/10 is £67.79 per week compared to a current average of £63.82 an increase of £3.97 (6.22%) per week. Given the current uncertainty over the level of inflation (RPI) in the short to medium term, it is difficult to anticipate future rent increases. However, if RPI were to continue at the level used to set the 2009/10 rent, then similar increases are anticipated in future years to ensure rents are set in accordance with DCLG's target rents by 2012.

4.7 Sales of council houses under the Right to Buy scheme could possibly reach 10 in 2008/09 (28 sold in 2007/08 and 37 sold in 2006/07), against sales of 50 expected in the 2008/09 HRA budget. The level of sales has reduced significantly in the current financial year, even when compared to the average number sales per year of 35 since 2004/05. The 2009/10 budget has been set assuming the sale of 20 properties, being broadly in line with the current level but still being prudent in case of an increase in interest following the recent falls in house prices and interest rates.

4.8 The budget for 2009/10 has been set using the assumption that there will be a loss of rental income of 1.25% resulting from empty properties. This is lower than the provision made in the budget for previous years, but is reasonable given the actual void loss in recent years.

Other Income - Fees and Charges

4.9 The rent proposed for garages for 2009/10 is £6.81 per week compared to £6.41 in 2008/09. Although these rents are outside of the rent reform arrangements this increase is in line with the proposed increase in dwelling rents, i.e. 6.22%.

4.10 There are a range of other fees and charges for services which are made to Tenants and Leaseholders, which are agreed by the Portfolio Holders for Neighbourhoods and Resources. The budget for 2009/10 assumes that the demand for these services will remain the same as the current financial year.

4.11 The de-pooling of services charges to individual tenants was implemented in 2008/09. There have not been any new service charges introduced for 2009/10, only an update of existing charges to reflect the actual cost of the services provided.

Expenditure

Service Improvement Bids

4.12 The MTFF for the HRA shows that the level of uncommitted balances is expected to increase over the next 2 years, although as discussed elsewhere in this report it is forecast to worsen in 2011/12. It is important therefore to consider the overall impact on the MTFF when approving any new Service Improvement Bids, or indeed continuing those previously agreed. It is proposed that all Service Improvement Bids will continue to be reviewed for effectiveness and affordability.

4.13 There are no new Service Improvement Bids proposed for 2009/10, only a continuation of those agreed in previous years. Given the risks outlined in paragraph 4.28 and the need to safeguard the ongoing financial position of the HRA shown in the MTFF, these bids will be reviewed against the MTFF from 2010/11 onwards to see if they are both affordable and meeting the service objectives.

Repairs and Maintenance

4.14 The 2009/10 Housing Investment Programme has been drafted and is included elsewhere on the agenda for approval. New resources totalling £5,831,000 have been determined. In respect of revenue, £4,503,000 has been included in the budget for repairs of which £4,197,000 (£4,115,000 in 2008/09) is specifically for the planned and responsive works programme, which is being provided by CBH in the interim. The deed of variation which enables CBH to provide the interim Repairs and Maintenance service currently expires in December 2009, at which point the service will be provided by the organisation(s) awarded the new contract as a result of the competitive tendering process to be undertaken in the new year. The 2009/10 budget, however, provides for the full 12 months of the service.

Management Costs

4.15 The 2009/10 HRA budget includes £5,943,100 for management costs, an increase from 2008/09 (£5,467,200). Management costs form a substantial part of the HRA annual expenditure, and they consist of budgets managed directly by the Council, as well as those which are managed on behalf of the Council by CBH. Further information along with an explanation for any material changes from the 2008/09 budget is given in the following paragraphs;

4.16 The budget for Employee costs has increased by £49,600 for 2009/10 which primarily reflects the provision for an annual pay increase, whilst the budget for Transport related expenses is largely unchanged.

4.17 The budget for Premises costs has increased by £439,700 for 2009/10. This is primarily due to an increase of £345,200 in the budget for Utilities, which is discussed further in the following paragraph. The budget for Contract Cleaning for 2009/10 has increased by £49,600 which reflects the anticipated price of the new contract, once it has been let. The budget for Grounds Maintenance has increased by £33,800, which is in accordance with the terms of the partnership agreement. The budget for Litter Picking has been increased by £16,700 to more accurately reflect the cost of the service.

4.18 The budget for Utility costs for 2009/10 is £677,700 (compared to £332,500 for 2008/09). The majority of these costs relate to our Sheltered Housing schemes and Homeless Persons Units. Energy costs have increased substantially in the last year and future increases are expected. The Council procures electricity and gas through the use of the OGC (Office of Government Commerce) which aims to purchase energy in bulk to secure efficiency in procurement. Utility costs can be recovered from tenants as a service charge and are included in the Fees and Charges report for approval by Portfolio Holders. Clearly, any increase in costs not passed on to tenants will cause a budget pressure on the HRA, with the impact of savings having to be made elsewhere or the HRA balance being retained below prudent recommended levels. Work will be undertaken during 2009/10 to review energy consumption and explore energy efficiency measures which could lead to future savings. A 5% saving has therefore been built-in to the 2009/10 budget to reflect this work.

4.19 The budget for Supplies and Service costs has reduced by £23,000. A review of all budgets has been undertaken which has resulted in savings in 2009/10, with the main areas involving provisions for Legal/Consultancy costs and postage costs.

4.20 The budgets for Third Party payments and Transfer payments remain largely unchanged for 2009/10. The only material variation is a reduction of £10,000 to the budget for removal and disturbance payments, which reflects the reduced level of decants.

4.21 The HRA receives a significant level of recharges from other Council services, along with a proportion of central support costs, such as Corporate and Democratic Core and Pension costs associated with the back-funding of the scheme. The total budget for 2009/10 is largely unchanged from 2008/09. There has been an increase of £17,000 which relates to ongoing back-funding costs of the pension scheme following the tri-annual review by Essex County Council, which has been offset by a reduction in other recharges to the HRA.

Colchester Borough Homes Management Fee

4.22 The management fee payable by the Council to CBH is funded entirely from the Council's HRA. Other resources such as those for housing repairs and the capital programme are delegated to Colchester Borough Homes to manage but do not form part of the management fee. The Management Fee for 2009/10 has been frozen in cash terms, which has resulted in a saving to the HRA of approximately £100k which will contribute towards the reinstatement of the HRA balance to the recommended prudent level. It is understood that the freeze in the Management Fee has not resulted in any cuts in service to tenants, with the bulk of the savings coming from salary and running costs budgets.

Capital Financing Costs

4.23 The budget includes the statutory charges to the HRA for the interest costs of the Council's borrowing in respect of the housing stock. These charges have increased greatly in recent years, given the significant level of investment in the housing stock from the decent homes programme, although the budget for 2009/10 has decreased which reflects the lower borrowing rates now being achieved. However, this decrease is offset by the decrease in the financing element of housing subsidy, which also includes the ALMO allowance. The ALMO allowance is the Government's revenue funding to support the cost of financing the capital investment in decent homes. It is currently paid at a rate of 8%. Given that the Council's Decent Homes borrowing approval has now been fully utilised, the level of HRA debt, and resultant interest costs, have stabilised and this is reflected in the MTFF.

Subsidy

4.24 The formulae for calculating subsidy entitlement is largely unchanged for 2009/10, except that CLG have recognised that there is an ongoing requirement to compensate authorities whose annual rent increases have been constrained in previous years, either due to the affordability limits placed on individual property increases as they move towards their target rent, or the 5% cap imposed by CLG in 2006/07 and 2007/08 following their review of rent restructuring undertaken in 2005/06. This is known as the "caps and limits" adjustment and has resulted in less subsidy payable of £363K in 2009/10. The summary HRA shown at Appendix A includes Government subsidy in respect of the Major Repairs Allowance (MRA). For 2009/10 this figure is £4.429million and has been taken into account when determining the 2009/10 Housing Investment Programme.

Revenue Contributions to Capital Outlay (RCCO)

4.25 The Council has continuously made revenue contributions to capital spending recognising the significance of targeting resources to invest in our Housing Investment Programme.

4.26 The revenue contribution included in the estimates is £402,000. Of this total, £140,000 has been provided for ICT, which is intended to support various projects. Furthermore, the review of the Housing Service which is being undertaken this year will consider the strategic requirements of the service in relation to ICT, which could impact upon how this budget is utilised. The revenue contribution also meets the Council's technical strategic asset management role within the repairs and maintenance arrangements with CBH, and supports the continuing work on ICT projects required to support the HRA and the maintenance and repairs programmes.

4.27 The balance of the RCCO, namely £150,000, will be used to fund the second year's programme of works to Sewage Treatment Plants. The 2009/10 Housing Investment Programme is included elsewhere on the agenda for Cabinet approval and the provision within the revenue budget reflects the funding for this capital scheme. Clearly, if the Housing Investment Programme is not agreed by Cabinet, then there will be a resultant impact on the figures contained within this report.

Risk areas and budget review process

4.28 Some of the key variables that may impact during the year are shown in the table below:-

Area	Comment
Rental Income	The budget makes assumptions on the future level of Right To Buy sales and void levels. These are to a certain extent demand led and due to the significance of Rental Income within the HRA, can have a significant effect on the level of the HRA balance.
Revenue Contributions to Capital (RCCO) / Prudential Borrowing	Work has been undertaken via CBH to establish the cost to complete the Decent Homes programme. Capital Resources have been provisionally allocated for 2009/10 within the Housing Investment Programme report contained elsewhere on the agenda. If these resources prove insufficient, then options exist to finance capital expenditure from revenue or undertake prudential borrowing, dependant on affordability. At the time of compiling the budget, no allowance has been made for either of these options. Clearly, if one of these options was pursued, then there will be a requirement to find additional resources from the HRA.
Repairs and Maintenance	There is an on-going pressure on Responsive and Void repair budgets. Given that this area is demand-led, any additional costs will have to be met either from savings elsewhere or from balances.
Utility costs	The budget makes assumptions on future prices increases for Gas and Electricity that are consumed within the Council's housing stock, such as Sheltered Schemes, Homeless Persons Units and Communal entrances in blocks of flats. Given there have been substantial increases in prices nationally, there is a risk that this could continue.
2008/09 Outturn	An overspend of £45k is predicted for this year**.** Any variance on the forecast will either be a contribution to or from balances.

4.29 As shown in the table above several key variables have been identified. It is therefore essential that a programme of formal reviews of the HRA be set out to provide an opportunity to make changes to resource allocations during the year. The following schedule therefore sets out a suggested framework for these reviews.

Review	Comment
March 2009	Updated outturn forecast.
July 2009	Provisional pre-audit outturn / current year issues etc.
September 2009/ October 2009	Mid year review.
December 2009 / January 2010	Outturn review / Budget 2010/11.

Savings and Efficiencies

4.30 During the process of formulating the budget, officers have continued to review areas where savings and efficiencies can be made. A number of these savings have been built into the budget and include;

- Review of CBC budgets - £108K
- Sewage Treatment Plants - £13K
- CBH Management Fee frozen - £100K
- Absorbing a lower BCIS increase on Repairs & Maintenance budgets - £83K
- Provision for Energy Efficiency savings - £31k

4.31 Given the pressure facing the Repairs and Maintenance budget in recent years, the Council and CBH will continue to work closely together to ensure that the cost reductions arising from the interim service continue, and will explore further areas where savings and efficiencies may be achieved.

4.32 As indicated in paragraph 4.27 of this report and also the 2009/10 Housing Investment Programme contained elsewhere on the agenda, provision has again been made to undertake work to Sewage Treatment plants over a phased period which commenced in 2008/09. As these works are completed, it is proposed to transfer the sites to Anglian Water. The transfer of all the sites will achieve ongoing savings of approximately £70,000 per annum, as the requirement for the Council to maintain them will cease. These savings have been reflected in the Medium Term Financial Forecast.

4.33 It is recognised in the medium to long term that there will be substantial financial pressures on the HRA which will mean the Council working closely with CBH to identify areas where efficiencies can be made.

5. Supporting Information - Medium Term Financial Forecast (MTFF)

5.1 As part of the budget process for 2009/10 a MTFF has been produced for the HRA. This sets out the indicative budget position for the period 2009/10 to 2011/12.

5.2 By nature the HRA is complex with a large number of variables. Therefore, the MTFF should mainly be viewed as indicative.

5.3 Appendix C sets out the MTFF for the period analysed by the main areas of expenditure and income. This shows that the level of uncommitted HRA balance is anticipated to be restored to prudent levels by 2010/11. However, due to the likely removal in 2011/12 of the benefit arising from the ALMO allowance discussed in the following paragraph, the MTFF shows the uncommitted HRA balance falling below the prudent level in 2011/12 and that position increasing moving forward. The recommended level of uncommitted balance on a risk based approach is £600k. There are several factors which can affect the forecast position, namely:-

- ***Capital financing / ALMO allowance***

There continues to be a benefit of approximately £900k from the ALMO allowance in 2009/10. This arises from the methodology used to calculate the subsidy figures and may change depending on borrowing rates and any potential amendments to legislation. Whilst CLG have not given a definitive response regarding the likelihood of this benefit remaining, it is understood they have indicated to other authorities that this arrangement is likely to end after the financial year 2010/11. To be prudent, provision has been made within the MTFF for the loss of this income from 2011/12 onwards. Clearly, if the benefit of the ALMO allowance is lost, then compensating savings would need to be made within the HRA.

- ***Rental income***

Rent forecasts have been updated for anticipated changes as the Council moves towards rent restructuring. A key component of this forecast is assumptions on future inflation levels but the CLG have not given any guidance on rates to assume when undertaking modelling of future rent increases. Rental income remains one of the areas of the MTFF in particular which is subject to change. The assumptions on the number of Right To Buy sales and the level of anticipated rent lost through void properties have been updated to reflect recent activity, but once again these are areas which can significantly alter the forecast of Rental Income and are to a certain extent demand led.

- ***Housing subsidy***

There are regular changes to the methodology used to calculate housing subsidy, especially in respect of Management and Maintenance allowances. Furthermore, the assumptions used by the CLG for increases in notional rent income can have a major impact on the level of subsidy received. The MTFF assumes inflationary increases for future years broadly in line with those for 2009/10. As this is an area that is subject to CLG policy it is extremely difficult to forecast and therefore can have a significant effect on the financial forecast. The Government are in the process of reviewing the national HRA subsidy system with the CLG and HM Treasury. The purpose of the review is to ensure that there is a sustainable, long-term system for financing council housing and that the system is consistent with wider housing policy. The results of the review are expected in spring 2009 and there will be a period of consultation. Any changes as a result of this review are anticipated to be implemented from 2011/12.

- ***Temporary Accommodation Unit Review***

A review of the use of temporary accommodation has been the subject of a Portfolio Holder report and a project team is moving this piece of work forward. If implemented, this is expected to generate savings to the Housing Revenue Account in future years. However, given the early stage of this project, no provision has been made within the MTFF at this point in time.

5.4 The MTFF provides a baseline position against which to make decisions as to the allocation of HRA resources and to determine the budget strategy. The MTFF will be updated on a regular basis.

5.5 A fundamental review of Colchester's Housing Services has commenced and will conclude in November 2009 to feed into the 2010/11 budget process. As this review is to be based on the principles of customer experience and satisfaction, efficiency and value, how resources are used to deliver the Housing services will underpin the review. Currently, no provision has been made within the MTFF for any possible outcomes from this review.

6. Strategic Plan References

6.1 The revenue estimates presented here have been drawn up in accordance with the priority given by members to the services within the strategic plan.

7 Consultation and Publicity

7.1 With the proposed commencement of the Digital TV project in 2009/10 along with the potential consideration of service improvements that would lead to new service charges for tenants, it is anticipated that an appropriate amount of consultation will be undertaken during the course of the financial year.

8. Financial Implications

8.1 Are set out in this report.

9. Equality, Diversity and Human Rights Implications

9.1 This report has no specific human rights implications.

10. Community Safety Implications

10.1 This report has no significant community safety implications

11. Health and Safety Implications

11.1 This report has no significant Health and Safety implications

12. Risk Management Implications

12.1 These have been taken into account in the body of the report.

Appendices
- Appendix A - Housing Revenue Account Estimates 2009/10
- Appendix B - HRA Balances Statement
- Appendix C - Medium Term Financial Forecast
- Appendix D - HRA Balances Risk Management Assessment

Background Papers
- None

Appendix A

	COLCHESTER BOROUGH COUNCIL		
	Revenue Estimates 2009/10		
	Housing Revenue Account		
	Summary		
2007/2008		**2008/09**	**2009/10**
Actuals	**Expenditure & Income Analysis**	**Revised**	**Original**
		Budget	**Budget**
£000's		**£000's**	**£000's**
	INCOME		
(19,929)	Dwelling Rents (Gross)	(20,257)	(21,748)
(686)	Non-Dwelling Rents (Gross)	(710)	(738)
(1,935)	Charges for Services and Facilities	(2,401)	(2,350)
(210)	Contributions towards Expenditure	(231)	(278)
(116)	HRA Subsidy Receivable (including MRA)	0	0
(22,876)	**Total Income**	**(23,599)**	**(25,114)**
	EXPENDITURE		
6,462	Repairs and Maintenance	4,475	4,494
3,375	CB Homes Ltd Management Fee	3,487	3,510
5,463	Supervision and Management	5,601	5,943
102	Rents, Rates and Other Charges	113	116
917	Payment of Subsidy to CLG	2,269	2,896
201	Increased provision for Bad or Doubtful Debts	100	125
3,012	Interest Payable	2,917	2,772
12,876	Depreciation and Impairments of Fixed Assets	7,069	7,951
156	Amortisation of Deferred Charges	206	200
35	Debt Management Costs	33	33
32,599	**Gross Expenditure**	**26,270**	**28,040**
9,723	**Net Cost of Services**	**2,671**	**2,926**
(5,334)	Net HRA Income from the Asset Management Account	(206)	(200)
200	Amortised Premiums and Discounts	200	200
(97)	HRA Investment Income (including mortgage interest and interest on Notional Cash Balances	(61)	(19)
4,492	**Net Operating Expenditure**	**2,604**	**2,907**
1,288	Revenue Contribution to Capital Expenditure	396	402
(3,422)	Transfer to/(from) Major Repairs Reserve	(2,784)	(3,522)
2,358	**Deficit/(Surplus) for the Year**	**216**	**(213)**
(3,856)	Deficit/(Surplus) at the Beginning of the Year	(1,498)	(1,282)
2,358	Deficit/(Surplus) for the Year	216	(213)
(1,498)	Deficit/(Surplus) at the End of the Year	(1,282)	(1,495)

Appendix B

Housing Revenue Account - Estimate Balances

	£'000
Balance as at 1 April 2008	**(1,498)**
Committed - Capital Spending in 2008/09 and onwards	1,022
Less budgeted deficit in 2008/09	216
Less Forecast overspend in 2008/09	45
Unallocated balance at 31st March 2009	**(215)**
Plus Proposed Contribution to balances from 09/10 Budget	(213)
Estimated uncommitted balance at 31st March 2010	**(428)**
Recommended level of Balances	**(600)**
Forecast balances below prudent level at 31st March 2010	**172**

Note:

This forecast is on the basis that there are no further calls on balances during the remainder of the year and that the 2008/09 budget overspends by £45k, as currently predicted at this stage. Any deviation from this forecast underspend would either increase or decrease our uncommitted balances.

Appendix C

Housing Revenue Account – Medium Term Financial Forecast

Area	*Revised Budget 08/09*	*Budget 09/10*	*Budget 10/11*	*Budget 11/12*
	£'000	*£'000*	*£'000*	*£'000*
Income				
Housing Rents	20,157	21,623	22,953	24,076
Other Income	3,342	3,367	3,531	3,742
	23,499	**24,990**	**26,484**	**27,818**
Expenditure				
Repairs & Maintenance	4,475	4,494	4,597	4,703
Running Costs	9,201	9,570	9,791	10,018
Capital Financing	7,374	7,415	7,525	7,603
Subsidy Payable	2,269	2,896	3,959	5,774
RCCO	396	402	402	252
Contribution to Balances	0	0	0	0
Other	0	0	0	0
	23,715	**24,777**	**26,274**	**28,350**
Budgeted (Surplus)/Deficit	**216**	**(213)**	**(210)**	**532**
Forecast 2008/09 Overspend	45	0	0	0
Revised (Surplus)/Deficit	* **261**	**(213)**	**(210)**	**532**

Opening Balance	**(1,498)**	**(215)**	**(428)**	**(638)**
Committed Balance	**1,022**	**-**	**-**	**-**
(Surplus)/Deficit	**261**	**(213)**	**(210)**	**532**
Uncommitted Closing Balance	**(215)**	**(428)**	**(638)**	**(106)**

* It should be noted that it is currently forecast the HRA will be overspent by £45k in 2008/09, which will result in a use of balances. Clearly, if this level of overspend is exceeded, then there is the potential that the HRA balance will fall further below our prudent levels.

Appendix D

Review of Housing Revenue Account Balances 2009/10

Risk Management Assessment

Factor	**Assessed Risk**		
	High £'000	**Medium £'000**	**Low £'000**
Cash flow (1% of £50m)	500		
Capital			
Inflation		75	
Emergencies		25	
Housing Subsidy			
New Spending		100	
Litigation			50
Partnerships			
	500	200	50

	Minimum Provision £'000
High Risk – 100%	500
Medium – 50%	100
Low – 10%	5
Sub Total	**605**
Other - say	-5
	600