

Finance and Audit Scrutiny Panel

Grand Jury Room, Town Hall
25 January 2011 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. The panel scrutinises the Council's audit arrangements and risk management 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.

Have Your Say!

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

Private Sessions

Occasionally meetings will need to discuss issues in private. This can only happen on a limited range of issues, which are set by law. When a committee does so, you will be asked to leave the meeting.

Mobile phones, pagers, cameras, audio recorders

Please ensure that all mobile phones and pagers are turned off before the meeting begins and note that photography or audio recording is not permitted.

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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 risk management arrangements, 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 financial performance of the Council, and to make recommendations to the Cabinet in relation to financial outturns, revenue and capital expenditure monitors
- To scrutinise the Audit Commission's annual audit letter
- 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 AND AUDIT SCRUTINY PANEL
25 January 2011 at 6:00pm**

Members

Chairman : Councillor Dennis Willetts.
Deputy Chairman : Councillor Christopher Arnold.
Councillors Jon Manning, Kim Naish, Gerard Oxford,
Nick Cope, Scott Greenhill, Sue Lissimore, Colin Mudie and
Colin 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 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

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

1 - 6

To confirm as a correct record the minutes of the meeting held on 15 December 2010.

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

(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.

Members of the panel may use agenda item 'a' (all other members will use agenda item 'b') as the appropriate route for referring a 'local government matter' in the context of the Councillor Call for Action to the panel. Please refer to the panel's terms of reference for further procedural arrangements.

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. 2011-12 Budget and Medium Term Financial Forecast 7 - 57

See report from the Head of Resource Management.

11. Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2011-12 58 - 60

See report from the Head of Resource Management.

12. Work Programme 61 - 62

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 AUDIT SCRUTINY PANEL 15 DECEMBER 2010

- Present :-* Councillor Dennis Willetts (Chairman)
Councillors Nick Cope, Scott Greenhill, Sue Lissimore,
Colin Mudie and Colin Sykes
- Substitute Members :-* Councillor Nigel Chapman
for Councillor Christopher Arnold
Councillor Bill Frame for Councillor Jon Manning
Councillor Michael Lilley for Councillor Kim Naish
Councillor Philip Oxford for Councillor Gerard Oxford
- Also in Attendance :-* Councillor Tina Dopson
Councillor Paul Smith
Councillor Henry Spyvee

44. Minutes

The minutes of the meetings held on the 23 November 2010 was confirmed as a correct record subject to the following amendments.

Councillor Colin Sykes was added to the list of attending Councillors, as was his declaration of a personal interest to minute 43, Referred items under the Call in procedure - Revenue Grants to Town and Parish Councils 2011/12, in respect of his membership to Stanway Parish Council and the Colchester Association of Local Councils.

The minutes of the meeting held on the 25 November 2010 were confirmed as a correct record.

45. Mayoralty Budget

Councillor Nigel Chapman, Chairman of the Mayoralty Task and Finish Group (MTAFG) presented the Mayoralty Budget report.

Councillor Chapman said the final report was on the back of an intensive amount of work carried out over seven weeks during October and November. The final report is both full and comprehensive, unanimously endorsed by the members of the task and finish group.

Councillor Chapman explained the major aspects of the report, a split in the Civic Fund Budget to provide two separate budgets, a Civic Budget to primarily pay for all costs associated with mandatory civic events and a Mayoral Budget to meet the discretionary costs associated with hospitality. The revised budget would contribute to the desired outcome of hosting the Oyster Feast and Opening of the Oyster Fishery on a cost neutral basis, a Mayoral lunch paid for by those who attend and reasonable funds to undertake the other requisite duties. The report reinforced the role of the Borough

Mayor, how it encouraged the strategic aims of the Council, the importance of the Mayor to local people and the appreciation given by local people.

Councillor Chapman concluded by saying the report proposed the provision of flowers for major events through 'Colchester in Bloom', as has been done in the past, and was a positive gesture towards enhancing community engagement and involvement, and mentioned the point scoring scheme described in paragraph 6.3 of the report, saying this was an idea flagged up through the work of the MTAFG and was included within the report as a good idea / suggestion.

Former Mayor, Councillor Henry Spyvee addressed the Panel saying during his year as Mayor in 2009, the Mayoralty under spent on the annual budget by £5,000, and whilst this was in the main due to some events or hospitality not undertaken, it showed that costs could be reduced.

Councillor Spyvee welcomed the report, saying the splitting of the Civic Fund Budget into a Civic Budget and Mayoral Budget was a excellent suggestion. Given the Mayor's role in supporting the wellbeing of the Borough, the Town's heritage and local business enterprise, a Mayoral budget of £20,000 represented a good deal.

Councillor Spyvee requested that for Remembrance Day, both the ceremonial and reception costs should be met from the Civic Budget (members later agreed to this amendment), and believed it would be helpful and make financial sense to try and arrange the Alderman Ceremony Reception(s) on the day of Full Council meetings (It was later agreed that this would be the intention).

Councillor Spyvee concluded by saying the Points Scoring Scheme was not really necessary, with double bookings for Mayoral events being very rare, and in those cases the second event was invariably picked up by the Deputy Mayor.

Councillor Willetts, as a member of the MTAFG said the main purpose of the review was to ensure greater transparency in the funding of Mayoral civic events, but once the work commenced other issues or initiatives came up, some of which e.g. the Points Scoring Scheme, are mentioned as useful suggestions, and not intended to tie down the Mayor. Councillor Willetts said in regards to the funding to the Twinning Society, the report made it clear that any grant application would be considered and prioritised along with all other grants by the Portfolio Holder for Resources and Diversity.

Councillor Frame, a member of the MTAFG congratulated Councillor Chapman on his Chairmanship of the group who accomplished a lot of work in a short amount of time. Councillor Frame was disappointed that the press were not present at the meeting, highlighting one of the proposals within the report that recommended the reduction in free invitations to the Oyster Feast by fourteen. Councillor Frame said he hoped the Portfolio Holder would consider and agree the proposals set out in the report.

Councillor Smith, Portfolio Holder for Resources and Diversity addressed the Panel and thanked the MTAFG for producing such a comprehensive report so quickly, highlighting that it was possible when determined, to produce good work in a timely fashion.

Councillor Smith said Former Mayor and Councillor, Christopher Hall was likely to receive the honour of Alderman probably in March 2011, and this would be done in line with the proposals on Alderman as mentioned in paragraph 6.1 of the report.

Councillor Smith appreciated the work done on the budget figures and welcomed the aforementioned split in the original Civic Fund Budget. At this point in time Councillor Smith welcomed the budget proposals within the report, but said the figures could be further affected by the recently published Government Grant Supplement.

Councillor Smith concluded by thanking the MTAFG for the final report.

RESOLVED that the panel;

- i) Considered and endorsed the proposals of the Mayoralty Task and Finish Group.
- ii) Agreed that for Remembrance Day, both the ceremonial and reception costs should be met from the Civic Budget
- iii) Agreed for the proposals to be taken forward to the Cabinet for consideration, and inclusion in the 2011-12 budget review.
- iv) Agreed that the Mayoralty Budget should be reviewed annually by the Finance and Audit Scrutiny Panel.

46. Highway Verge Maintenance

Councillor Tina Dopson, Portfolio Holder for Communities addressed the Panel, saying this report provided a rationale for how the Council will better manage their resources and finances when maintaining highway verges on behalf of Essex County Council (ECC).

Councillor Dopson said ECC contribute £54,600 towards highway verge maintenance, though the overall cost to the Council was £203,900. The new criteria to be used for determining the level of maintenance to highway verges and borders was anticipated to provide modest savings of £5,000, but more importantly, the criteria would enable officers to reduce maintenance costs at significant or less significant sites, enabling gateways and prestigious sites to be maintained at the current standard.

Mr. Bob Penny, Parks and Recreation Manager presented the report on Highway Verge Maintenance, saying the maintenance work was provided over an area of 8 hectares, including 28,000 square metres of planting, the equivalent of between 4 to 5 football pitches, but spread over in excess of 200 different locations.

Mr. Penny said the intention was to retain the current level of maintenance to gateway and prestigious sites. Mr Penny explained the reduction in summer maintenance visits to other less significant sites that are not regularly visited or where there is less visual impact. This will produce budget capacity to enable the gateway and prestigious sites

to be refurbished and replanted to continue to deliver a good visual appearance. All sites will be monitored individually against the set criteria to determine the significance of landscape features, and where landscape features are not deemed to be providing a visual amenity due to their sparse nature, they would be considered for grassing over, to create some capacity within the budget to carry out refurbishment work on gateway and prestigious sites

Councillor Willetts said whilst he was supportive of the introduction of an effective and clear policy for the maintenance of highway verges, he was concerned that the report remained abstract, providing no information on the classification of each site, an important factor in giving the report greater context.

Councillor Lissimore asked whether residents will be consulted on their views where it is determined to grass over a local site. Councillor Lissimore said that some planted areas had been created to address problems of ASB and therefore returning areas to grass could reintroduce a previous problem.. Councillor Lissimore asked that the Portfolio Holder consider anti-social behaviour as an additional criterion for determining the classification of each site.

Councillor Dopson said anti-social behaviour could be added to the list of criteria for determining the classification of each site. Councillor Dopson understood that Colchester Borough Homes have provided rose borders to some grassed areas as a deterrent, in an attempt to combat anti-social behaviour. Mr Penny confirmed that local residents are able to maintain local shrub and rose borders, but ECC would need to give their consent, and there remained significant insurance issues. That said, he would consider any initiative that opened up the opportunity for residents to undertake this maintenance.

Councillor Lissimore said some sites on estates or minor roads are very visible to pedestrians, in some cases more so than to road users. Mr. Penny acknowledged that in regards to traffic flow, the effect to pedestrian traffic on estates and minor roads was equally important as that of road traffic, and would build this into the classification process.

Mr. Penny confirmed to Councillor Frame that the overall cost of maintaining the programme of works was £219,600 and the difference between this figure and the £203,900 the Council contributes to responsive maintenance was for the additional ad-hoc, non-planting work carried out by the workforce.

Councillor Chapman said an inventory of all the 200 plus sites and the potential changes as a result of the classification exercise would be very useful to all Ward Councillors, a point later endorsed by Councillor Lissimore. Councillor Dopson said members could be given a list of gateway and prestigious sites, for example, major roads and roundabouts and key road junctions, and the classification list of all other sites once this piece of work has been completed.

In response to Councillor Sykes and the fear that those sites classified less significant and with a reduced level of maintenance will deteriorate, condemned to being grassed over at a very early stage, Councillor Dopson said those sites deemed less significant

will still get a level of maintenance that will enable the site to retain its appeal. Mr. Penny said officers did not believe the reduced level of maintenance to these sites would make them noticeably decline or lead to their accelerated deterioration.

RESOLVED that the Panel, on the agreement that a classified list of sites is provided to members once completed;

- i) Noted the policy of introducing a criterion based hierarchy of highway verge maintenance to deliver the maximum aesthetic impact with the resources available.
- ii) Requested the Portfolio Holder for Communities to consider 'the possibility of anti-social behaviour' as an additional criterion for determining the classification of each site.

47. Treasury Management report 2010/11

Mr. Steve Heath, Finance Manager presented the 2010-11 Treasury Management report. Mr. Heath confirmed that there had not been any deviation from the Council's strategy on Treasury Management during 2010-11.

Mr. Heath said there had been no new external borrowing undertaken, and provided an update on the Icelandic Investments, with the estimated repayment to Landsbanki's preferential claimants being 95%.

In response to Councillor Willetts who noticed the list of investments as noted in appendix B of the report had reduced considerably, Mr. Heath said this was due to the running down of external investments. With the average rate of interest earned on all investments for the year being 0.72%, this compared favourably with the current external investment rates.

Mr. Heath confirmed to Councillor P. Oxford that all investments have been returned on the scheduled dates.

RESOLVED that the Panel noted the 2010-11 Treasury Management report.

48. Capital Monitor 2010/11

Mr. Steve Heath, Finance Manager presented the 2010-11 Capital Monitor, confirming that in the first 6 months of the year capital spending totalled £5.4 million, representing 26.9% of the total spend for 2010-11. Whilst this appears a low percentage, some very large schemes such as the St Botolphs Regeneration Site, the Visual Arts Facility and Business Incubator Units did have planned expenditure for the second half of the year.

Mr. Heath acknowledged that the spend of £12,600 on a capital spend of £100,000 for

2010-11 for the provision of delivering projects to parishes was low, but believed the third quarter results will give a clearer indication of the likely spend for the year.

Councillor Smith, Portfolio Holder for Resources and Diversity responded to Councillor Lissimore by explaining that the capital costs associated with the Moler Works Site was for the provision of three commercial shop units, provided to the Council as part of the development deal. The units will provide rental income and employment opportunities.

Whilst Councillor Sykes was pleased that funding was provided for the vast majority of capital schemes, he was concerned that further funding was still required for the Heritage Fund (including the Roman Walls) and the redevelopment of the Castle Museum. Councillor Smith said that with regards to the Heritage Fund, the Cabinet, along with officers, are working hard to find a way of matching the funding of English Heritage, who agreed to award a grant of £79,088 dependant on the Council providing the match funding. The redevelopment of the Castle Museum is at stage 2 of the bidding process. Whilst there remained a shortfall in funding of £100,000 on a total scheme cost of £944,300, he remained hopeful that the Council would be able to contribute further monies.

Councillor Smith confirmed to Councillor Willetts that Firstsite had funding in place for the final phase of works. The interior work was slightly behind schedule. Councillor Smith confirmed that phase 2 of the works was likely to be completed slightly under budget. Councillor Smith said the opening date of Firstsite would be announced in January 2011, and there are promising signs that the site is starting to attract external business already. In regards to the Roman Circus scheme, Councillor Smith said the funding for this scheme is in place, but as this scheme is now linked to the larger Castle redevelopment project which will include an interpretation of the Roman Circus, progress on this scheme is progressing slower than was originally anticipated.

RESOLVED that the panel noted the 2010-11 Capital Monitor.

49. Work Programme

RESOLVED that the Panel noted the Work Programme.

Finance and Audit Scrutiny Panel

Item
10

25 January 2011

Report of	Scrutiny Officer	Author	Robert Judd Tel. 282274
Title	2011/12 Revenue Budget and Medium Term Financial Forecast		
Wards affected	Not applicable		

This report provides an update on the 2011/12 Revenue Budget and Medium Term Financial Forecast

1. Action Required

- 1.1 To review and note the attached Cabinet report on the 2011/12 Revenue Budget and Medium Term Financial Forecast, that forms the decision to be taken by the Cabinet on the 26 January 2011. The Panel may refer any comments or concerns 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

26 January 2011

Report of	Head of Resource Management	Author	Charles Warboys Sean Plummer ☎ 282350 ☎ 282347
Title	2011/12 Revenue Budget and Medium Term Financial Forecast		
Wards affected	n/a		

This report requests Cabinet to recommend to Council:

- **The 2011/12 Revenue Budget**
- **Colchester's element of the Council Tax for 2011/12**
- **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 an overspend of less than £200k (paragraph 3.4.).
- 1.2 To approve the cost pressures, savings and increased income options identified during the budget forecast process as set out at Appendices B and C.
- 1.3 To consider and recommend to Council the 2011/12 Revenue Budget requirement of £20,255k (paragraph 6.1) and the underlying detailed budgets set out in the Background Papers.
- 1.4 To agree that Revenue Balances for the financial year 2011/12 be set at a minimum of £1,500k.
- 1.5 To agree the following releases (paragraph 10.7):-
 - £300k from the Capital Expenditure Reserve in 2011/12 to meet costs including the community stadium.
 - £596k to be financed from the Renewals and Repairs Fund for specific projects
 - £70k from the S106 monitoring reserve
- 1.6 To agree to create a provision for future pension deficit costs as set out at paragraphs 10.5 and 10.6.
- 1.7 To agree and recommend to Council that £100k of Revenue Balances be earmarked for potential unplanned expenditure within the guidelines set out at paragraph 11.3.
- 1.8 To agree and recommend to Council that up to £600k of Revenue Balances be earmarked for potential cost associated with delivering budget savings as set out at paragraph 9.6.

- 1.9 To agree and recommend to Council that Colchester's element of the Council Tax for 2011/12 be set at £175.23 for Band D properties which is a nil increase (paragraph 12.2).
- 1.10 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.
- 1.11 To note the Medium Term Financial Forecast for the financial years 2011/12 to 2014/15.
- 1.12 To note the comments made on the robustness of budget estimates at section 15.
- 1.13. To agree and recommend to Council the Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy (paragraph 16.7).

2. Background Information and Summary

- 2.1 The 2011/12 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 2011/12

- 2.2. The Revenue Budget for 2011/12 has been prepared against a background of meeting the Council's Strategic Plan objectives whilst facing significant financial pressures from the reductions in Government funding and the ongoing difficult economic background. Every effort has been made to produce a balanced budget that includes a high level of savings with no change to the Council Tax rate. This has been achieved through a budget strategy that has resulted in:-
 - the delivery of savings through the fundamental service review process
 - making efficiencies through specific budget reviews
 - maximising new and existing income streams
 - making decisions on budget changes where necessary

Council Tax

- 2.3. It is proposed that the Council's element of the Council Tax be frozen for 2011/12. This has been achieved against a background of significant reductions in core government grant funding and other cost pressures and without the use of additional reserves to balance the budget.
- 2.4. Further information on the budget is provided in the following paragraphs.

3. Current Year's Financial Position

- 3.1 In order to inform the 2011/12 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 that the forecast outturn is expected to be a small overspend of less than £200k. This forecast shows an improvement on the position reported during the year and reflects work undertaken to identify budget savings in year. Delivering this budget position in the context of the reduction in Government funding of over £750k and shortfalls in other income has been a considerable challenge.
- 3.3. There remain some outstanding risks to the forecast and the position continues to be monitored and FASP on 22 February 2011 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 an overspend of below £0.2m and that the position will continue to be monitored.**

4. 2011/12 Revenue Cost Pressures

- 4.1 Appendix B sets out revenue cost pressures, over the 2010/11 base, of £1,543k which have been identified during the budget process. This includes an inflation allowance and the impact of reduced income and the ceasing of some Government grants.
- 4.2 The cost pressures have been considered by Cabinet, and include a reduction in Government grant for administration of housing benefits and a change in the additional cost of pensions following a detailed actuarial review. The pensions cost includes the contribution to a provision for the increase in the pensions cost in 2012/13 and 2013/14.

4.3 **Cabinet is asked to approve inclusion within the 2011/12 Revenue Budget of the cost pressures set out at Appendix B.**

5. 2011/12 Revenue Saving / Increased Income

- 5.1. Appendix C sets out savings / increased income totalling £3,563k. The appendix provides an analysis by service including commentary.
- 5.2. This level of savings and increased income is significant and is the largest reduction in budgets in recent years reflecting the tough economic climate and deficit reduction decisions taken by Central Government. It can be viewed alongside the Budget strategy which included five tracks:-

- *Income generation*

Increases in income budgets account for c£0.5m of savings and includes increases in existing income streams and new sources of income.

- *Shared services*

The budget includes £150k in respect of shared service proposals, although some of the income items referred to above also include working with other authorities.

- *Total Place – projects with partners to look at how we reduce duplication*

It was explained within the budget strategy that savings as part of this approach would be more likely in future years and work continues to that end.

- *Efficiencies (including but not exclusively FSRs)*

The majority of the budget proposals can be considered as efficiencies and these total almost £2.5m. Of this, £0.9m is as a result of FSRs and other savings as a result of other corporate reviews such as communications, ICT and accommodation.

It should be acknowledged that a large number of the proposed efficiency measures are delivered through reduced resources, mainly staff. As such there will be a reduction in capacity and it will be necessary to ensure that ongoing robust performance monitoring continues to assess any impact. The introduction of new technology and procedures will help mitigate any risks to service delivery.

- *Cuts and reductions*

Cuts and reductions account for c£0.4m of the budget proposals, although it should be stressed that other savings will also result in reduced resources.

- 5.3. There are several changes to the report since Cabinet met on 1 December 2010. These include the setting of targets for a number of ongoing reviews and the introduction of further savings following the announcement of the grant settlement.
- 5.4. There will be one-off costs required to deliver some of the budget savings. This issue is considered as part of the review of revenue balances.
- 5.5. Three further issues to report include the Government Grant payable to authorities for agreeing to freeze Council Tax, the transfer of responsibility for concessionary fares to Essex County Council and changes to technical budgets.

Council Tax Freeze

- 5.6. As reported to Cabinet in December the Government announced as part of the Comprehensive Spending Review (CSR) that a grant equivalent to 2.5% of Council Tax revenue would be provided to authorities who do not increase the Council Tax rate in 2011/12. This grant is estimated to be £267k for 2011/12 and the Government has stated that it intends to provide this funding during the period of the CSR. There is no guarantee that funding will continue beyond this point and this is considered within the Medium Term Financial Forecast (MTFF).

Concessionary Fares

- 5.7. The responsibility for concessionary travel has transferred to 'upper tier' local authorities, such as Essex County Council, and as such the Government has made adjustments to grant funding to allow for this change. The net cost of concessionary fares in the 2010/11 budget is £1.755m and therefore this can be removed from the budget, reducing the level of revenue spending. The adjustment being made by the Government to the level of formula grant to allow for this is reflected in the figures set out later in this report.

Technical Items

- 5.8. The Council's budget includes several technical items such as net interest, Council Tax on second homes, various budget provisions and the net impact of charges between the General Fund and the Housing Revenue Account (HRA). These budgets are compiled based on final budget proposals and in total there is a forecast net saving compared to the 2010/11 budget of £58k.

- 5.9. **Cabinet is asked to approve inclusion of the savings / increased income items set out at Appendix C within the 2011/12 Revenue Budget.**

6. Summary Total Expenditure Requirement

- 6.1 Should Cabinet approve the items detailed above, the total expenditure requirement for 2011/12 is as follows:

	£'000
2010/11 Budget	25,670
Less: 2010/11 one-off items	(1,313)
Cost Pressures (as per Appendix B)	1,543
Savings/Increased Income (as per Appendix C)	(3,563)
Grant in respect of Council Tax Freeze	(267)
Adjustment re: concessionary fares (see para. 5.7.)	(1,755)
Technical items (see para. 5.8)	(58)
Forecast Budget 11/12	20,255

Note:

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

- 6.2 **Cabinet is asked to agree and recommend to Council the net revenue expenditure requirement for 2011/12 and the underlying detailed budgets set out in the Background Papers.**

7. Formula Grant (Revenue Support Grant)

- 7.1. The provisional Local Government Finance Settlement was announced in Parliament on 13 December 2010. Our provisional grant settlement is £9,262k. This represents a decrease on the adjusted 2010/11 grant of £1.702m or 15.5%.
- 7.2. The announced Settlement includes a number of important issues which should be noted as they will influence future funding. These include the concept of Revenue Spending Power, transitional grant and system of grant damping or grant floors.

Revenue Spending Power

- 7.3. The Settlement introduces the term "Revenue Spending Power". In simple terms this represents the total of our revenue grants from Government and level of Council Tax income. The following table shows the breakdown of revenue spending power for 10/11 and 11/12 showing the figure of a 6% cut in Revenue Spending Power:-

	10/11	11/12	Change	
	£'000	£'000	£'000	%
Council Tax (incl. parishes)	11,523	11,523	0	0.0%
Adjusted grant	10,964	9,262	-1,702	-15.5%
Benefit Admin Grant	1,201	1,149	-51	-4.3%
Preventing homelessness grant	141	197	56	40.0%
Council Tax grant for freeze		268	268	
Total Revenue Spending Power	23,829	22,400	-1,429	-6.0%

Transitional Grant

- 7.4. The Government has established a Transition Grant of £85 million for 2011/12 and £14 million in 2012/13, to ensure that no authority in receipt of formula grant faces a reduction of more than 8.9% in 'revenue spending power' in 2011/12 or 2012/13. As shown in the earlier table our reduction is below this threshold.

Grant Damping - Floors

- 7.5. As has been the case for the last three years our grant has been reduced by the system of damping or floors. The floor methodology is designed to ensure that no authority receives a cut greater than a given level. The system is self financing between categories of local authorities. The table below shows that for Colchester the cost of damping is £1.328m:-

2010-11 Adjusted Formula Grant	2011-12 Formula Grant Before Floor	2011-12 Formula Grant After Floor	Reduction		Reduction (before floor damping)		floor
(£ million)	(£ million)	(£ million)	(£ million)	%	(£ million)	%	(£ million)
10.964	10.590	9.262	1.702	15.5%	0.374	3.41%	-1.328

- 7.6. In prior years there was one grant floor figure for each class of authority. This Settlement introduces 4 bands. This has been worked out by looking at the proportion of an authority's budget requirement that is funded through grant. The methodology is simply to rank all authorities and then group these in "bands" of 50. The floors for each Band are shown below which also shows the maximum cut within each category, Colchester being in Band 3.

	Min	Max
Range before floors	-30.66%	11.50%
Band 1 - Most Dependent on Grant	-13.80%	-13.55%
Band 2	-14.80%	-14.32%
Band 3	-15.80%	-15.46%
Band 4 - Least Dependent on Grant	-16.80%	-16.16%

- 7.7. The Settlement shows that the level of the floor is now the critical factor in the grant allocation methodology.
- 7.8. The Settlement is provisional and subject to consultation which ends on 17 January 2011. 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.
- 7.9. Looking ahead the Settlement shows that the grant for 2012/13 will be £8.425m, a further reduction of £772k (8.4%) on the adjusted 2011/12 grant. Beyond 2012/13 it is expected that further cuts in grant funding will occur and this is considered as part of the Medium Term Financial Forecast (MTFF).

8. Council Tax

- 8.1 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.

- 8.2 The collection rate continues to be close to our target however a deficit on the fund is forecast of £58k mainly as a result of the position at the end of March 2010 being less than previously estimated.

9. Revenue Balances

- 9.1 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.

- 9.2. Cabinet, at its meeting on 1 December 2010, considered a report setting out the outcome of a risk analysis in respect of the Council's Revenue Balances. Cabinet agreed with the recommendation that Revenue Balances should be maintained at a minimum of £1.5m and that the situation would be reviewed based on 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 £1.5m.

- 9.3. In considering the level at which Revenue Balances should be set for 2011/12, Cabinet should note the financial position the Council is likely to face in the medium term through the levels of future Government funding highlighted in the Medium Term Financial Forecast (MTFF).

- 9.4. The forecast position in respect of Revenue Balances as at 31 March 2011 is set out at Appendix E and shows balances at £2,102k, £602k above the recommended minimum balance as set out in the agreed Risk Analysis. Taking account of the medium term position detailed above, Cabinet is recommended to approve that balances are retained at a minimum level of £1,500k.

- 9.5. The proposed budget savings outlined within this report including the implementation of Fundamental Service Reviews which will require one-off costs to deliver. It is proposed that Cabinet recommend to Council that up to £0.6m be earmarked within balances to fund these costs.

- 9.6 **Cabinet is recommended to approve Revenue Balances for the financial year 2011/12 be maintained at £1.5m and that it be recommended to Council that up to £0.6m be earmarked for one-off costs to deliver budget savings.**

10. Reserves and Provisions

- 10.1. Cabinet at its meeting on 1 December 2010 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 2011/12. 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.

Capital Expenditure Reserve (CER) – Community Stadium - £300k

- 10.2. 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. For 2011/12 the use of the reserve remains at £300k.

Renewals and Repairs Fund – release of £596k

- 10.3 Cabinet noted on 1 December that the estimated balance at 31 March 2011 on the Renewals and Repairs Fund stood at £1.8m and that the 2011/12 expenditure programme would be considered at this meeting. Appendix F sets out the recommended programme totalling £596k. The releases include £512k 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 2012/13.

S106 Monitoring Reserve – release of £70k

- 10.4. 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 £70k to support the 2010/11 budget and the same is proposed for 2011/12. Contributions to this reserve are made from S106 payments received in respect of monitoring. This reserve will still last for at least the next 2 years if used in a similar way.

Pension costs

- 10.5. Previous triennial reviews of the pension fund have shown a significant deficit due to market conditions and increased life expectancy. The latest review has resulted in a forecast total increase in pension costs over the next three years of £72k, with a reduction in 2011/12 followed by increases in each of the two subsequent years. The overall position is better than forecast, partly due to the option of spreading deficit payments over 30 years as opposed to 20 years, as permitted within the actuarial review.
- 10.6. It is proposed that to ease future budget pressures a contribution of £199k is made to a pensions provision to provide for the increases in 2012/13 and 2013/14.

- 10.7 **Cabinet is recommended to agree the:**

- **release of £300k from the Capital Expenditure Reserve in 2011/12**
- **release of £596k from the Renewals and Repairs Fund as set out at Appendix G**
- **release of £70k from S106 monitoring reserve towards the costs of carrying out this function**
- **contribution of £199k to a pensions provision to provide for future increase in pension deficit costs.**

11. Contingency Provision

- 11.1 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.

11.2 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 £1,500k and the Council would need to consider steps to reinstate balances at a later date.

11.3 **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.**

12. Summary of Position

12.1 Summary of the Revenue Budget position is as follows:

	£'000
Revenue expenditure requirement for 2011/12 (para 6.1).	20,255
Release from Capital Expenditure Reserve (para 10.2)	(300)
Release of S106 monitoring reserve (para 10.4)	(70)
Budget Requirement	19,885
Funded by:	
Revenue Support Grant (para 7.1)	9,262
Collection Fund Deficit (para 8.2)	(58)
Council Tax Payers requirement (before Parish element) see below*	10,681
Total Funding	19,885

Council Tax*	
Council Tax Payers requirement (before Parish element)	10,681
Council Tax Base – Band D Properties	60,953.5
Council Tax at Band D	£175.23

12.2 **Cabinet is asked to agree and recommend to Council Colchester's element of the Council Tax for 2011/12 at £175.23 per Band D property, which remains unchanged from 2010/11, 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.**

13. Medium Term Financial Forecast – 2011/12 to 2014/15

13.1. 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 providing statutory services, ongoing pressures caused by reduction in several sources of fees and charges and interest earnings and potential revenue implications of strategic priorities. However, the most significant factor that will impact on budget will be the level of Government grant support.

13.2. The Comprehensive Spending Review 2010 (CSR10) set out spending plans for the next 4 years and provided high level figures across all departments alongside

welfare reforms and a number of other policy announcements / reforms. The grant Settlement provided details of grant for the next two years and a second two year Settlement is expected to follow for which Government intends to adopt a new allocation system.

- 13.3. The Medium Term Financial Forecast (MTFF) is attached at Appendix G showing that the Council will face the need to bridge a budget gap of £2.1m over the three years from April 2012 with the 2012/13 gap likely to be in the region of £0.3m. To formulate the MTFF it is necessary to make a number of assumptions. Generally, these do not represent decisions but are designed to show the impact of a set of options for planning purposes. The key assumptions and savings required are set out at the Appendix and summarised below:-

Government Grants and Local Government Finance

- 13.4. A reduction of 9% in Formula Grant equivalent to £837k pa in 12/13 has been allowed for with further reductions of 5% assumed for each of the following two years. Any assumptions for the latter two years must be treated with caution and these forecasts will need to be reviewed in due course.
- 13.5. The Government is currently considering responses to the consultation on the New Homes Bonus. This is a reward scheme intended to offer local authorities and local communities financial incentives to agree to new housing developments in their area by paying a grant based on the increase in the Borough taxbase (the equivalent number of Band D properties).
- 13.6. This could potentially provide an important source of grant funding, however, there remains uncertainty concerning a number of elements of the scheme which are expected to be made clear shortly. One important point to note is that initial central government funding is capped and all future funds will come from the overall formula grant allocation and so councils will see their grant reducing in order to pay for this Bonus. How this redistribution will impact on individual authorities such as Colchester is not known.
- 13.7. Further changes in Government funding over the course of the MTFF are likely with potential reductions in grants for benefit administration.
- 13.8. There are a number of areas where a there is an expected wider change to local government finance with potentially significant impacts for district councils in particular. The Government has stated that a Local Government Resource Review will be carried out in 2011 with the intention of delivering proposals for long term change to how local authorities are financed including local retention of business rates. An implementation plan for localising Council Tax Benefit is also expected in 2011.

Pay, Inflation and costs

- 13.9. The 2011/12 budget includes no allowance for a pay award. The same assumption has also been made for 2012/13 with an assumed increase of 2% for each following two years. For other price inflation a range of 1% to 1.5% has been used although it will be necessary to review forecasts for specific areas in due course.
- 13.10. An allowance for changes to pension costs following the actuarial review has been included. It is assumed that the increased cost in 2012/13 and 2013/14 will be funded by the provision set aside in the 2011/12 budget. Beyond 2013/14 an

assumption of an increased cost of £250k is shown and this will be refined in future years as the position becomes clearer.

Forecast savings

- 13.11. The MTFF includes changes to forecast savings for 2012/13. These include the removal of one-off items and the full year impact of on-going savings. These changes total £411k with the most significant savings being those in respect of the Street Services and Revenues and Benefits FSRs.

Economic Background – Fees and charges

- 13.12. It is evident that there has been a reduction in some income budgets such as planning, car parking and net interest earnings in recent years. The MTFF assumes a broadly neutral position over the next three years and this will need to be reviewed annually to ensure income targets are reasonable.

Council Tax

- 13.13. A planning assumption has been used of increase in Council Tax of 2.5%pa. This is shown for planning purposes only in the MTFF position and does not represent a proposal.

Summary

- 13.14. In the 2011/12 budget savings of £3.6m have been found which is significantly more than in previous years. 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.
- 13.15. This year's budget process includes assumptions in respect of savings anticipated through the fundamental service review process and these and other budget reviews will continue during 2011/12. The Budget Group has also noted a number of areas where savings in 2012/13 may be possible. This group is continuing to meet and has started considering steps necessary to deliver balanced budgets for future years.

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

14. Capital Programme

- 14.1. The capital programme has been reviewed recently and as a result changes were agreed by Cabinet and Council in December. No further changes are proposed at this stage.

15. Robustness of Estimates

- 15.1 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.
- 15.2 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, the Budget Group 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.

15.3. This financial year, 2010/11, has so far been one of major change for all of the public sector with the Government's plan for deficit reduction resulting in cuts in grant funding in year. The Comprehensive Spending Review and subsequent grant Settlement has now provided some certainty over the extent of the reductions in resources facing the Council over the next two years and outline indications for two further years.

15.4. The continuing impact of reductions in income remains a budget pressure. This includes pressures on income from areas such as planning and car parks. Interest rates remaining at very low levels and more restrictive investment policy means that budget assumptions remain challenging. Steps have been taken to revise some income budgets such as car parking, however, these budgets will be closely monitored during the year to identify any possible variances.

15.5. By taking appropriate action within the proposed 2010/11 budget, exposure to further downgrading of assumptions has been reduced and to that extent some of the risk has been mitigated. However, the need to draw heavily on reserves to support the budget, albeit largely in respect of one-off items, is a concern and considerable financial discipline will be required to achieve balanced budgets over the medium term.

15.6. Whilst I consider that reasonable assumptions have been made to account for the pressures being faced there remains a degree of risk with the key areas being:-

- The combined impact of low 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 the assumptions in respect of fundamental service reviews and other corporate budget reviews.
- Meeting income levels in particular in respect of planning, leisure and car parking and the new sources of income.

15.7. These risks will be managed during 2011/12 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 £1.5m.

15.8. Delivery of the budget will continue to require financial discipline led by SMT in terms of a number of budget reviews and by budget holders, ensuring expenditure is not incurred without adequate available budget and that income targets are achieved. Budget managers will continue to be supported through training and advice to enable them to do this.

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

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

16. Prudential Code Indicators

- 16.1. 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.
- 16.2. 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.
- 16.3 In agreeing the Council's revenue budget and capital programme there is a requirement to approve the prudential indicators for the coming year.
- 16.4 The recommended Prudential Indicators for 2011/12 are set out in the background paper with relevant commentary.
- 16.5. 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:
- 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.
- 16.6. The Council is 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 the revenue budget for net interest earnings. The 2011/12 strategy reflects the revised CIPFA Treasury Management in the Public Services Code of Practice. The strategy states that the Council will continue to 'borrow internally' for the foreseeable future to reduce exposure to interest rate and credit risk, as well as providing forecasts on interest rates and setting the policy for calculating the Minimum Revenue Provision.
- 16.7 **Cabinet is asked to agree and recommend to Council:**
- **The revised CIPFA Treasury Management in the Public Services Code of Practice, including the four amended clauses**
 - **The revised Treasury Management Policy Statement**
 - **The Treasury Management Strategy Statement and Annual Investment Strategy**
 - **The Prudential Indicators for 2011/12**
 - **The Minimum Revenue Provision Policy Statement**
- All of the above are set out in Appendix H**

17. Strategic Plan References

- 17.1. 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.
- 17.2. This process for 2011/12 has though been dominated by the need to reduce costs and increase income in order to balance the budget with no real scope for additional investment or growth. The budget process has though ensured that resources have been maintained to deliver key front line services. Where budgets have been reduced for these areas, such as those within Street Services, it is mostly being done through the FSR process or other budget reviews.

18. Financial Implications

- 18.1 As set out in the report.

19. Publicity Considerations

- 19.1 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.

20.1. Human Rights Implications

- 20.1 None

21. Equality and Diversity

- 21.1. Consideration has been given to equality and diversity issues in respect of budget changes proposed as part of the budget process. This has been done in line with agreed policies and procedures including production of Equality Impact Assessments where appropriate.

22. Community Safety Implications

- 22.1 None

23. Health and Safety Implications

- 23.1 There are possible implications with removal of resources and some of the proposed savings, but each case has been reviewed and dealt with individually to mitigate or ensure risk is minimised.

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 is reflected in the corporate risk register.

25. Consultation

- 25.1. The budget will be scrutinised by Finance and Audit Scrutiny Panel on 25 January 2011. The statutory consultation with NNDR ratepayers takes place on 20 January 2011 and notes of the meeting will be provided at Cabinet.
- 25.2. Residents were given the opportunity to put forward their views regarding the budget in a consultation exercise. This was important to assess their priorities and thoughts on the services we provide. Overall, we received a total of 865 responses, where 628 (73%) were submitted online.
- 25.3. The survey asked residents to prioritise services through ranking their 3 most and 3 least important services. The three services with the highest level of positive responses (rated first, second or third in terms of most important to the responder) are as follows:
- Waste and Recycling (357 responses)
 - Tackling anti-social behaviour (219 responses)
 - Housing and Homelessness (203 responses).
- 25.4. The services that received the highest number of negative responses (rated first, second or third in terms of least important to the responder) are as follows:
- Mayoral and Civic Duties (578 responses)
 - Arts and Culture (351 responses)
 - Street Wardens (165 responses).
- 25.5. The Budget Consultation also encouraged residents to submit ideas on making additional savings and generating income. General ideas were submitted, such as turning off every other street light, reducing the amount of printed material by communicating electronically where possible, removal of free bin bags for residents and stopping ceremonial events for two years.
- 25.6. The consultation has helped provide an indication of the priorities of residents and Cabinet and senior managers have reviewed all the comments received in detail. Some ideas have already been put in place and whilst it is not always practical to implement all of the ideas suggested the outcomes of the exercise has helped to inform budget decisions.

Background Papers

Detailed Service Group Expenditure Papers
Budget reports to Cabinet – 1 December 2010

2011/12 Budget Timetable	
Budget Strategy March 10 – July 2010	
March – June (SMT and Budget Group)	Budget Group Meetings Agreed Update MTFF /Budget Strategy Review potential cost pressures, growth and risks Consider approach to budget Initial budget reviews started
Cabinet – 30 June 10	<ul style="list-style-type: none"> • Report on updated budget strategy / MTFF • Timetable approved
SOSP – 20 July 10	Review Cabinet report
Budget Group / Leadership Team - June / July	Consider review of capital programme Consider approach to consultation
Detailed Budget preparation and Budget Setting Consultation	
Budget Group / Leadership Team regular sessions on progress / budget options now - December	Review budget tasks (the 5 tracks) Consider outcomes of Fundamental Service Reviews
Cabinet – 20 October 10	Budget Update
Cabinet – 1 December 10	<ul style="list-style-type: none"> • Budget update • Reserves and balances • Grant settlement
SOSP – 14 December 10	Review Cabinet report / Budget Position (Strategic Review)
FASP – 25 January 11	Review consultation / Budget position (Detailed proposals)
Cabinet – 26 January 11	Revenue and Capital budgets recommended to Council
Council – 16 February 11	Budget agreed / capital programme agreed / Council Tax set

2011/12 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 1 December 2010 are highlighted.

	Previous Forecast	Updated Forecast	
	£'000	£'000	Comment
Inflationary pressure	140	140	Net inflation impact, including the assumption of a nil pay award for 2011/12 and general increase averaging c1.5% with income rising by a similar amount.
Incremental pension contributions (including contribution to provision for future years)	250	72	Previous triennial reviews of the pension fund have 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. The impact of the current triennial review has been considered as part of the 2011/12 budget and the reduced figure is in line with this review and includes the contribution to a provision to fund increases in later years.
Minimum Revenue Provision	71	71	Increase in calculated figure based on statutory criteria and decisions taken in respect of borrowing.
Car Parking Income	200	200	It has previously been reported that income from these services is below budget assumptions. Based on current forecasts it is considered appropriate to make an allowance for reduced income.
Planning and Cemetery and crematorium income	130	130	
Sport and Leisure Grants and introduction of contribution to repair and renewals (R&R).	130	160	It has previously been reported that there will be a cost pressure arising from the ending of the free swimming grant. In addition, it is currently anticipated that other reductions in funding will occur next year. A contribution of £30k towards the R&R is also now included.

	Previous Forecast	Updated Forecast	
	£'000	£'000	Comment
Government grants (HPDG, LABGI, ABG)	770	770	The budget forecast for 2011/12 had previously assumed that funding from these grants would cease in 2011/12., but they were removed in 2010/11.
Housing benefit administration grant and homelessness grant		50 (50)	The Government Grant Settlement provided confirmation of other grants. These included a reduction in housing benefit administration grant of £50k and an increase in homelessness grant of the same value.
Total	1,691	1,543	

Summary of Savings / Increased Income

	Total £
Service specific savings	£
Executive Management Team	20,000
Corporate Management	589,400
Customer Service Centre	52,900
Environmental & Protective Services	421,100
Life Opportunities	543,500
Resource Management (incl. CDC)	510,000
Strategic Policy and Regeneration	212,000
Street Services	627,000
Total Service Savings	2,975,900
Shared Management	150,000
Reduction in parish grants	100,000
ICT review	50,000
Office Accommodation	40,000
Colchester Borough Homes – FSR	50,000
Communications review	200,000
Total Service Savings	3,565,900

Notes:

The budget also includes the continuation of the savings target in respect of salaries of £315k which has been allocated across service areas.

Housing FSR savings are shown all within Life Opportunities, however, some saving will be within SP&R.

The table above excludes miscellaneous adjustments to technical / corporate budget items.

The following pages set out a breakdown for all specific proposals.

<i>Saving Options</i>	<i>2011/12 £</i>	<i>Ongoing £</i>	<i>Comments e.g. impact on service / risk to delivery/ description of delivery</i>
Corporate Management			
Human Resources - Training	22,500	35,500	Reduced cost of corporate training including Leadership Days, reduced cost of in-house training and HR training and conference costs.
Staff costs - overtime	86,000	86,000	Introduction of flat time overtime rates across the Council. This means the same overtime rate is now applied across the Council. Discussed with Unison.
Staff costs - subscriptions	15,000	30,000	Contribution to professional subscriptions reduced by 50% from April 2011 and 100% from April 2012.
Carbon Management Programme	43,000	85,000	Reduced energy costs from LACM (local authority carbon management programme) projects
Civic Offices / Facilities Management	79,300	79,300	Procurement savings: cleaning contract, printers and vending. Also savings on furniture and reduction of hallkeeping at Rowan House through not replacing vacant post
Facilities Mgt / Building Mitce	38,400	38,400	Removal of vacant post and merger of two roles.
Land Charges	35,200	35,200	Not replacing 2 p/t staff; reduction in fees to Northgate, IT supplier
Legal Services	35,500	35,500	Not replacing member of staff following retirement
HR Manager	7,200	7,200	Reduction in hours of HR manager
Corporate ICT	12,000	12,000	Reduced officer hours
ICT costs	52,750	52,750	Saving through use of I-Connect service and other on going ICT initiatives
Head of Service	11,000	4,900	Small savings across service including eg stationery, printing etc
Staff costs - payslips	3,300	3,300	Move to electronic pay slips except where staff don't have access to IT
Communications	38,150	38,150	Review of external communications with a view to move to more on-line publications supported by a range of other communication mechanisms

<i>Saving Options</i>	<i>2011/12 £</i>	<i>Ongoing £</i>	<i>Comments e.g. impact on service / risk to delivery/ description of delivery</i>
Management Consultancy and Support and FSR Resources	47,000	47,000	Reduction in consultancy and support costs to Fundamental Service Reviews
Income target - Flexible Working, FSR's and learning & development	32,000	32,000	Income opportunities across a range of areas of expertise
Members public transport, hospitality and subsistence and training.	10,400	10,400	These costs have reduced and this saving reflects underpends in these areas
Messenger & timed post delivery	10,700	10,700	Internal service to be used for delivery of bags to Councillors
Civic Fund	10,000	10,000	Task and Finish Group reported to FASP 15/12/10 and suggested savings at this level
Customer Service Centre			
Uniform	2,000	2,000	A review of the CSC uniform policy to reduce costs
Website Review	5,900	5,900	Reduction in support from Website provider training in-house staff to do more
Reduce opening hours of CSC	45,000	45,000	Reduction in opening hours of the CSC by half an hour at the beginning and end of the day. Enquiries will be managed between 9am to 5pm and customers needing to contact the council outside of these hours will be supported either in an automated way, online or by staff calling customers back outside of these hours.
Executive Management Team			
Customer Excellence & Marketing	10,000	10,000	Reduced capacity to deliver Customer Excellence programme
Income target - Customer excellence	10,000	10,000	Development of training package to sell externally
Environmental & Protective Services			
Reductions in office expenditure	9,900	9,900	Includes reduction in costs of mileage, hospitality, stationery, printing
Training budget	13,900	0	One off saving on training budget can be delivered but need to ensure that staff continue to develop professionally to keep level of expertise.

<i>Saving Options</i>	<i>2011/12 £</i>	<i>Ongoing £</i>	<i>Comments e.g. impact on service / risk to delivery/ description of delivery</i>
Reduction of IT software licences	3,000	3,000	Reduction in the number of licenses
Clerical Assistant Post	8,300	8,300	Vacant post not being filled
Animal Control Officer	21,800	21,800	Vacant post not being filled
Anti-Social Behaviour Manager	10,100	10,100	Vacant half post not being filled
Planning Officer	40,800	40,800	Vacant post not being filled
Professional Support Officer	7,400	7,400	Shift to electronic processing of mail reduces capacity needed
Rental income from Flower Chapel	3,000	3,000	Agreement with tenant to pay rent after first year of lease
Increase income by targeting enforcement activity to identify offences relating to fee-paying activities	10,000	10,000	Targeted enforcement
Planning Officer (reduce by 9 hours)	9,700	9,700	Service absorbed the reduction of 9 hours due to a staff absence and can do so on an ongoing basis
Health and Safety Technical Officer	17,200	17,200	Reduction in level of health and safety inspections - low-risk premises will no longer be inspected on a routine basis
Income target - Professional Services	60,000	60,000	Income from providing professional support on a consultancy basis to other Local Authorities (Urban Design, Landscape Design, Arboricultural Services)
Statutory planning applications	30,000	30,000	Negotiation of contract with local newspaper for the delivery of statutory Planning adverts to reduce cost
Cemetery and Crematorium - reductions in grounds maintenance provision, change in provision of music for services, reduction in energy costs	83,000	83,000	Reductions in energy costs are as a result of the new Cremators currently being installed, the reductions in grounds maintenance include a slight reduction in litter picking and a reduction in the frequency of grass cuts in the older part of the cemetery, introduction of "Wesley System" for providing music provides a staff saving
Tymperleys	23,000	23,000	Current negotiations taking place with local Heritage Groups in respect of the future for both Tymperleys building and Clock Museum.

<i>Saving Options</i>	2011/12 £	Ongoing £	<i>Comments e.g. impact on service / risk to delivery/ description of delivery</i>
Museums and arts (Museums)	70,000	70,000	Savings delivered by a range of reductions in expenditure, standardising closures of Museums across the service for specific days and reductions in staffing levels.
Life Opportunities			
Proportion of salary savings from removal of group manager post	29,000	29,000	Removal of vacant post from structure
Removal of community research budget	13,000	13,000	Saving made on an external research budget for community projects
Salary savings from reducing administrative support posts	36,000	36,000	Removal of vacant posts from structure
Increase sports pitches charges	5,000	5,000	Income is dependent on customer demand
In-house delivery of income-generating event in Castle Park	12,500	12,500	Income is dependent on customer demand
Provision of new beach huts locations at West Mersea	3,000	3,000	Income from ground rent on new locations - dependent on customer demand
Reduced maintenance costs from removal of one bowling green at Old Heath Recreation Ground	7,000	7,000	Current customer demand can be met by reducing number of bowling greens from 2 to 1
Increase in Beach Hut ground rent and transfer charges to levels comparable with near neighbouring authorities	36,500	36,500	Income is dependent on customer demand
Introduce consistent charging policy for use of Kings Meadow for parking during events	2,000	2,000	Income is dependent on customer demand
Removal of Castle Park putting green maintenance costs due to improvements in park facilities	1,500	1,500	Removal of putting green maintenance on site of new children's play area

<i>Saving Options</i>	<i>2011/12 £</i>	<i>Ongoing £</i>	<i>Comments e.g. impact on service / risk to delivery/ description of delivery</i>
Changes to Castle Park staffing arrangements	25,000	25,000	Review of security arrangements
Closure of Leisure World Colchester Creche	10,000	10,000	Impact on current creche customers and potential staff redundancies
Changes to Highwoods Sports Centre staffing arrangements	30,000	30,000	Minimal impact on customers and potential staff redundancy
Development of Aqua Springs offers and facilities to generate additional customer income	68,000	68,000	Income is dependent on customer demand and investment from repairs and renewals budget
Increase in Leisure World Colchester car park income through targeted offers	20,000	20,000	Income is dependent on customer demand and marketing support
Increased income through rental of meeting rooms to external customers	5,000	5,000	Income is dependent on customer demand
Reductions in Sport and Leisure repairs and maintenance budgets	80,000	20,000	£60k of savings are one-off only. Operation of facilities and generation of income depends on ability to respond to need for unforeseen repairs
Increased income from lunches and snacks at Activity Centres, along with changes to staff cover arrangements	10,000	10,000	Income is dependent on customer demand
General fund proportion of the savings delivered from the Fundamental Service Review of Housing Services. (note: includes savings within Strategic Policy and Regeneration).	150,000	150,000	New service went live on June 14 2010.
Resource Management			
Internal audit contract (450 audit days per annum)	20,000	20,000	Full tender exercise completed. New contract rates apply. No price escalation. Better audit planning.

<i>Saving Options</i>	<i>2011/12 £</i>	<i>Ongoing £</i>	<i>Comments e.g. impact on service / risk to delivery/ description of delivery</i>
Internal audit contract (further efficiencies)	20,000	20,000	Use of Assurance Mapping tool to reduce duplication of audits by using existing third party assurances. Small increased risk but manageable.
Procurement Hub rebates	20,000	20,000	Assumes continued use of frameworks. Assumes a higher target for the Hub to achieve but in line with 10/11 results.
Bailiff contract (no commission)	7,000	7,000	Agreed in new contract following tender exercise.
Reduced staff hours & increased annual leave / salary sacrifice	15,000	0	Reduced capacity in Finance team. One-off saving only.
Reduce use of tax advice, Finance Advisory Network etc.	15,000	15,000	May miss out on some relevant issue but risk is manageable.
Reduce printing of ad hoc leaflets in Benefits	4,000	4,000	May reduce benefit take up but other methods of communication are also used to mitigate any risk.
Reduce grounds maintenance	5,000	5,000	Savings on maintenance at commercial properties.
Review Single Person Discounts	25,000	25,000	Review in progress. Income is an estimate. Benefit seen in Collection Fund.
Reduced charges from Audit Commission	15,000	15,000	Await confirmation of exact figure from Audit Commission but principle is agreed.
Corporate subscriptions	4,000	4,000	Saving already made.
Asset Management Plan - action plan for delivery of Estates activities.	50,000	50,000	Additional rental income / reduced costs from more efficient use of properties. Delivery depends partly on market conditions.
Revenues and Benefits - FSR	185,000	335,000	Final structure agreed and recruitment completed. Now being implemented. Risk to delivery of service is mitigated by new technology and processes.
Reduced NNDR when sale of Roman House & St James House goes through and rental income from Old Police Station.	100,000	100,000	Delivery depends on completion of the sale of these two properties.
Reduce Accountancy staff by one post	25,000	35,000	Review commenced of finance tasks to see how to deliver this.

<i>Saving Options</i>	<i>2011/12 £</i>	<i>Ongoing £</i>	<i>Comments e.g. impact on service / risk to delivery/ description of delivery</i>
Strategic Policy and Regeneration			
Shared programme manager role in Housing and Regen	26,000	26,000	Merger of two project roles, one is vacant.
Loss of one support post	20,000	20,000	Review underway to implement from April 2011.
Spatial policy income from 'selling expertise'	36,000	36,000	Secured for 2011
Communications - Engagement and communications post in regeneration.	25,000	25,000	Post will end in June 2011 at end of 1 year contract.
Communications - Enterprise & marketing publications spend	5,000	5,000	Reduction in spend
Museums & Arts FSR (arts grants)	100,000	100,000	Exact distribution of saving across the three venues to be confirmed.
Street Services			
Remove Project budget and External printing costs from Community Street Wardens (CSW)	8,000	8,000	As we move to the proposed arrangement for Zone Working Zone Wardens will be encouraged to be more creative in advertising and getting free printing. There will be an emphasis on working closely with communities to deliver projections.
Increase in parking offer charge from 1.11.10 increasing the offer rate to £2.50 from £2.00	85,000	85,000	This forms part of the new charging structure for car parks which is designed to increase income whilst encouraging more usage of the Council's car parks by introducing tariff changes requested by traders.
Reduce Street Care resource by 1(25% of staff resource)	30,000	30,000	The duties of this post will be absorbed into Zone Working.
Merge Monitoring Centre and Community Alarms Teams	104,000	104,000	Following consultation with staff it is planned to implement the changes by April 2011.
Street Services	400,000	676,000	The Full Business Case has been agreed by Cabinet and the Implementation Plan is now out for consultation with staff.
Technical Items / Corporate Reviews			

<i>Saving Options</i>	<i>2011/12 £</i>	<i>Ongoing £</i>	<i>Comments e.g. impact on service / risk to delivery/ description of delivery</i>
Shared Management	150,000	150,000	We are currently progressing discussions with Braintree and Tending District Councils to consider sharing services and/or managers. In addition we continue to discuss with the County Council and others possibilities of sharing services and obtaining efficiencies.
Reduction in parish grants	100,000	100,000	Reduction in grant allocation agreed by Portfolio Holder
ICT Review	50,000	50,000	Review of ICT resources across the Council
Office Accommodation	40,000	40,000	Review of office space in Rowan House
Colchester Borough Homes FSR	50,000	50,000	General Fund
Communications - review of all resources across the Council	200,000	200,000	To be delivered from a number of different services included in the review
Total s	3,565,900	3,976,900	

Budget Analysis – Appendix D

	Adjusted Base Budget £	One-Off Items £	Cost Pressures £	Technical Items £	Total Savings £	Detailed 11/12 Budgets £
Corporate & Democratic Core	356		4		(19)	341
Executive Management Team	744		1		(20)	725
Corporate Management	6,734	(13)	70		(483)	6,308
Customer Services	1,135		2		(51)	1,086
Environmental & Protective Services	2,577		124		(420)	2,281
Life Opportunities	5,594	(15)	174		(440)	5,313
Resource Management	278	(87)	93		(496)	(212)
Strategic Policy & Regeneration.	2,973	(455)	14		(227)	2,305
Street Services	2,583	4	160		(710)	2,037
Total Services	22,974	(566)	642	0	(2,866)	20,184
Technical Items						
<i>Corporate Targets</i>						
Shared Services	0		0		(150)	(150)
FSR	0		0		(50)	(50)
ICT Review	0		0		(50)	(50)
Office Accommodation Review	0		0		(40)	(40)
Communications & Marketing Review	0		0		(200)	(200)
<i>Corporate Grants</i>						
LABGI	(100)		100			0
HPDG	(648)		648			0
Area Based Grant (ABG)	(22)		22			0
Council Tax Freeze Grant					(267)	(267)

	Adjusted Base Budget	One-Off Items	Cost Pressures	Technical Items	Total Savings	Detailed 11/12 Budgets
	£	£	£	£	£	£
<i>Non-Service Budgets</i>						
Grants to Parish councils	202		0		(100)	102
CLIA (net interest)	619		0			619
Min Revenue Provision	587		71			658
Pensions	2,352		72	(27)		2,397
Redundancy Provision	150	(150)	0			0
ECC Second Homes	(144)		0	(5)		(149)
Heritage Reserve	12		0	(3)		9
Invest to Save	(34)	19	0	15		0
Icelandic Investment Impairment	615	(615)	0			0
GF/HRA adjustments	(2,648)		(12)	(38)	(110)	(2,808)
Total Below the Line	941	(746)	901	(58)	(967)	71
Total incl. Below the line	23,915	(1,312)	1,543	(58)	(3,833)	20,255
<i>Funded by:-</i>						
General Reserve	(671)	671	0			0
Capital Expenditure Reserve	(1,210)	910	0			(300)
Regeneration Reserve	(166)	166	0			0
Other Reserves - S.106	(70)		0			(70)
Government Grant (RSG / NNDR)	(11,156)		1,894			(9,262)
Council Tax	(10,593)		0		(88)	(10,681)
Collection fund Transfer	(49)	49	58			58
Total	(23,915)	1,796	1,952	0	(88)	(20,255)

**General Fund Balances
Current Position**

	£'000
Balance as at 31 March 2010 (As per Statement of Accounts)	3,926

Proposed use of balances during 2010/11:

- | | |
|--|-----|
| • Financing carry forwards – Proposed carry forward of 09/10 budgets | 196 |
| • Funds released in 09/10 carry forward to 10/11 | 297 |
| • Supporting the 10/11 Budget (agreed as part of 10/11 budget) | 671 |
| • Further Changes in 2010/11 | 510 |
| • Forecast overspend in year | 150 |

Projected Balances as at 31 March 2011

Less: proposed earmarked sum to fund one off costs

Agreed minimum balance

2,102

Up to 600

1,500

Potential Surplus Balances as at 31 March 2011 (based on 2010/11 forecast outturn)

2

Renewals and Repairs 2011/12 Releases

Renewals and Repairs 2011/12 Releases

Scheme	Requested Value of Release
Various	
Building Maintenance Programme	512,000
Environmental and Protective Services	
Cemetery - Chapel Decorations	12,000
Cemetery - Boundary Wall	20,000
Life Opportunities (All Colchester Leisure World)	
CLW Squash Court Refurbishment	20,000
Highwoods Sports Hall Floor	13,000
Closed Churchyard - Monuments	2,400
Closed Churchyard - Boundaries/Wall	6,700
Castle Park Café and Grounds - Roof/Railings	9,500
Total	595,600

Medium Term Financial Forecast				
2011/12 to 2014/15				
	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000
Base Budget	25,670	20,313	20,179	20,826
Remove one-off items	(1,313)	0	0	0
Cost Pressures	773	277	742	890
Growth Items	0	0	0	0
Savings	(3,623)	(353)	(95)	0
Adjustments: Concessionary fares	(1,755)			
Changes to Gov't grants (LABGI, HPDG, Council Tax Freeze etc)	503	0	0	0
Forecast Base Budget	20,255	20,179	20,826	21,716
Government Grant	(9,262)	(8,425)	(8,004)	(7,604)
Council Tax	(10,681)	(11,003)	(11,334)	(11,676)
Collection Fund Surplus	58	0	0	0
Use of Reserves	(370)	(467)	(472)	(370)
Total Funding	(20,255)	(19,895)	(19,810)	(19,650)
Budget (surplus) / gap before changes (cumulative)	0	284	1,016	2,066
Annual increase		284	732	1,050

Key Assumptions
Inflation - Pay assumed at 0% for 12/13 and 2% for the following two years, other cost and income circa 1 / 1.5%
Gov't Grant – The grant for next two years is reduced in cash terms by 15.5%, 9%. For the following two years a reductions of 5% pa has been shown for indicative purposes
Based on an increase in Council Tax of 2.5% pa for next three years

Cost Pressures				
General Inflation		140	640	640
Pensions		97	102	250
MRP (Minimum Revenue Provision)		40	0	0
Total		277	742	890
Savings				
One off adjustments		153		
HR – Reduced IT costs		(13)		
Staff Costs – Subscriptions		(15)		
Carbon Management Programme		(42)		
Revenue and Benefits FSR		(150)		
Accountancy Review		(10)		
Street Services – FSR		(276)	(95)	
Total		(353)	(95)	0

Use of Reserves				
Balances (General)				
S106 monitoring reserve		70	70	70
Pensions Provision		97	102	
Capital Expenditure Reserve:- Community Stadium		300	300	300
Total		467	472	370

Addressing the Budget Gap

The MTFF shows a budget gap of circa £2.1m over the three years from 2012/13. Whilst this is less than the gap for 2011/12 it should be seen in the context of the risks and variables set out below and also in terms of reduced budgets and more efficient services resulting in savings that will be increasingly hard to deliver.

Risk Areas / Comments

The key risk areas to the forecast are:-

Ref	Risk / Area of uncertainty	
1	<i>Government Grant and the Comprehensive Spending Review 10 (CSR10)</i>	<p>The CSR10 sets out the background to public sector finances over the next 4 years. The grant settlement which followed in December provided grant figures for 2011/12 and 2012/13 showing a reduction of 15.5% and 8.4% respectively. Further reductions in later years are expected and a provision for cash reductions of 5% in each of the last two years of the MTFF has been included.</p> <p>The Government has announced the intention to review Local Government resources and is expected to announce proposals for change later this year. These are expected to include proposals relating to NNDR (business rates) and also the localisation of Council Tax benefits. These are likely to be significant for district councils such as Colchester.</p>
2	<i>Government grants and partnership funding</i>	<p>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.</p> <p>Provision has been made for reductions in Government grants in respect of housing benefit administration and sport and leisure. Further changes are possible over the coming years.</p> <p>No provision has been made in the budget for the New Homes Bonus for which the consultation period ended in December 2010. Future budget reports will consider this source of funding and the implications for the MTFF.</p>
3	<i>Pensions</i>	<p>An allowance has been built in for increases in pensions costs based on the results of the recent actuarial review and which therefore are fixed until 2014/15.</p>

Ref	Risk / Area of uncertainty	
4	<i>Fees and charges and other income</i>	As has been seen in the past few years we have experienced a number of pressures arising from changes in income levels. In the current year income from off street car parks, sport and leisure, planning and cemetery and crematorium have all experienced a level of shortfall. Looking ahead to 2011/12 and beyond it is difficult to estimate how income levels may continue to be affected. The 11/12 budget assumes some decrease in revenue from car parking, planning and cemetery and crematorium and future updates of the MTFF will consider any changes to income.
5	<i>Inflation</i>	An allowance for general inflation has been built into the 11/12 forecast and MTFF, and specific increases allowed for items such as energy. The current (November 2010) CPI is 3.3% and RPI is 4.7% The economic forecasts published by HM Treasury point to inflation figures for 2011 of 2.8% and 3.5% for CPI and RPI respectively. 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 with particular attention on energy costs. An assumption of no annual pay increase has been shown for 2012/13 with an increase of 2% pa thereafter. Any changes to this will need to be considered in future updates.
6	<i>Use of reserves</i>	The budget position for 2011/12 includes proposals to use certain reserves. The MTFF assumes the ongoing use of the capital expenditure reserve and S106 reserve. The forecast position on general balances shows that due to the forecast 10/11 outturn there is currently headroom of c£0.6m above the recommended level. The budget includes the proposal to agree that up to £0.6m be made available to meet one-off costs required to deliver the budget savings.
7	<i>Legislation</i>	There is likely to be several items of new legislation over the life of the MTFF for which any available funding may not cover costs or which may impact significantly on the Council e.g. universal credit.
8	<i>Impact of regeneration programme e.g. car park closure and staff resources</i>	As the regeneration programme progresses there will be an ongoing impact on income from car parks due to temporary and permanent closure of certain car parks and also the introduction of park and ride.
9	<i>Property review</i>	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 continue to be considered in detail and included in the on-going updates of the MTFF.
10	<i>Impact of growth in the Borough and demand for services</i>	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

Ref	Risk / Area of uncertainty	
		<p>other areas in order to maintain levels of service. At this stage no allowance for these areas has been provided within the MTFF. Fundamental Service Reviews (FSR) have been carried out or are being implemented on some of the key areas affected by growth and such as benefits, housing and street services. The financial assumption made is that these reviews will assist in identifying efficiencies to cope with changes in demand, however, this will be regularly reviewed.</p>
11	<i>Delivery of budget savings</i>	<p>The 2011/12 budget includes a number of budget targets including cross cutting reviews such as ICT and communications as well as FSR and other budget changes. The MTFF assumes these will be delivered as proposed.</p>
12	<i>Net earnings and investments</i> <i>Interest and</i>	<p>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 continuation of unprecedented low levels into 2011/12. The MTFF currently assumes no further recovery in this area. This will be monitored and considered again as part of the 2011/12 budget. No further provision has been made in respect of the Icelandic investment impairment. The situation will be monitored and any changes reported and reflected in the MTFF.</p>

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

TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT and ANNUAL INVESTMENT STRATEGY 2011/12

1 Introduction

Background

- 1.1 Treasury management is defined as: “The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Statutory requirements

- 1.2 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Prudential Code and Treasury Management Code of Practice, and to set Prudential and Treasury Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable.
- 1.3 The Act therefore requires the Council to set out its strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act). This sets out the Council’s policies for managing its investments, giving priority to the security and liquidity of those investments.
- 1.4 The Department of Communities and Local Government (CLG) has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

CIPFA requirements

- 1.5 The CIPFA Code of Practice on Treasury Management (revised November 2009) was adopted by the Council on 17 February 2010. The primary requirements of the Code are as follows:
1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
 2. Creation and maintenance of Treasury Management Practices which set out how the Council will seek to achieve those policies and objectives.
 3. Reporting of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
 4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Finance and Audit Scrutiny Panel.

Treasury Management Strategy for 2011/12

1.6 The suggested strategy for 2011/12 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services. The strategy covers:

- The economic background and prospects for interest rates
- The borrowing strategy
- The investment strategy
- Prudential and treasury indicators
- The Minimum Revenue Provision strategy

1.7 The Council's treasury portfolio position at 31 December 2010 comprised:

		Principal £m	Av. rate %
Fixed rate funding	PWLB	27.9	4.58
	Market	34.5	6.79
Gross debt		62.4	5.80
Overnight		2.0	0.73
up to 3 months		6.2	0.44
up to 6 months		8.0	0.49
up to 1 year		5.0	0.95
over 1 year		0.0	0.00
frozen		4.0	5.81
Total investments		25.2	2.80
Net debt		37.2	

Scheme of delegation

1.8 Full Council:

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.
- budget consideration and approval
- approval of the division of responsibilities

1.9 Cabinet:

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- approving the selection of external service providers

1.10 Finance and Audit Scrutiny Panel:

- reviewing the treasury management policy and procedures and making recommendations to the responsible body
- receiving and reviewing regular monitoring reports

1.11 The treasury management role of the Section 151 Officer:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports

- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

Policy on the use of external service providers

- 1.12 The Council has appointed Sector Treasury Services as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 Economic Background

- 2.1 Prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction the UK's AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating.
- 2.2 The coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be major job losses during this period, in particular in public sector services. This is likely to have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a generally negative trend in mid 2010. Mortgage approvals are also at very weak levels and declining, all of which indicates that the housing market is likely to be very weak next year.
- 2.3 The outlook is for slow economic growth in 2011/12, although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5%), which is above what most forecasters are currently expecting. Inflation has remained above the MPC's 2% target during 2010, but it is confident that it will fall back under the target over the next two years.
- 2.4 **Appendix A** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. Sector's central view is that there is unlikely to be any increase in Bank Rate until the end of 2011. There is a downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:
- the strength of economic growth in our major trading partners - the US and EU

- the danger of currency war and resort to protectionism and tariff barriers if China does not adequately address the issue of its huge trade surplus due to its undervalued currency
- the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence
- changes in the consumer savings ratio
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- the potential in the US for more quantitative easing, the timing of this, and its subsequent reversal in both the US and UK
- the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy
- Political risks in the Middle East and Korea

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 continue to borrow internally for the foreseeable future in respect of the purchase of Rowan House, additional funding for the Visual Arts Facility, the Business Incubation Centre, and new cremators. The Council's borrowing requirement is as follows:

	2009/10 £'000 actual	2010/11 £'000 probable	2011/12 £'000 estimate	2012/13 £'000 estimate	2013/14 £'000 estimate
External borrowing	62,400	62,400	62,400	62,400	62,400
Alternative financing arrangements	11,569	14,467	14,911	14,264	13,626
Replacement borrowing	0	0	0	0	0
TOTAL CFR (borrowing requirement)	73,969	76,867	77,311	76,664	76,026

3.2 Forecasts for new borrowing rates from the Public Works Loans Board (PWLB) are shown in **Appendix A**. The Council's borrowing strategy will give consideration to new borrowing in the following order of priority:

1. The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years
2. PWLB variable rate loans for up to 10 years
3. Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
4. PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt

5. Preference will be given to PWLB borrowing by annuity and EIP loans instead of to maturity loans
 6. Rates are expected to gradually increase during the year so it should therefore be advantageous to time new borrowing for the start of the year.
- 3.3 In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted 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 FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
 - if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then 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.

External v Internal Borrowing

- 3.4 This Council currently has a net debt of £37.2m. The general aim of this treasury management strategy is to reduce the difference between the gross and net debt levels over the next three years in order to reduce the credit risk incurred by holding investments. However, measures taken since 2008 have already reduced substantially the level of credit risk so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.
- 3.5 Over the next three years, investment rates are expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term savings.
- 3.6 The running down of investments also reduces exposure to interest rate and credit risk. However, short term savings by avoiding new long term external borrowing in 2011/12 will also be weighed against the potential for incurring long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.
- 3.7 The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that large premiums would be incurred by such action and would also do

so in the near term; such levels of premiums cannot be justified on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

- 3.8 Against this background caution will be adopted with 2011/12 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 appropriate decision making body at the earliest opportunity.

Policy on borrowing in advance of need

- 3.9 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money and the security of such funds. In determining whether borrowing will be undertaken in advance of need the Council will:
- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
 - ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
 - evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
 - consider the merits and demerits of alternative forms of funding
 - consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
 - consider the impact of temporarily increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them

Debt Rescheduling

- 3.10 The spread between the rates applied to new PWLB borrowing and the repayment of debt has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.
- 3.11 As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual 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 the size of premiums incurred, their short term nature, and the likely cost of refinancing those 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 flattening of the Council's maturity profile as in recent years there has been a skew towards longer dated PWLB.

- 3.12 The reasons for any rescheduling to take place will include the generation of cash savings and / or discounted cash flow savings, helping to fulfil the strategy outlined above, or enhancing the balance of the portfolio (maturity profile and/or volatility). Consideration will also be given to identify if there is any potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
- 3.13 All rescheduling will be reported to the Finance and Audit Scrutiny Panel at the earliest meeting following its action.

4 Investment Strategy

Investment Policy

- 4.1 The Council will have regard to the CLG's Guidance on Local Government Investments and the 2009 revised CIPFA 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.
- 4.2 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. The borrowing of monies purely to invest or on lend and make a return is unlawful and this Council will not engage in such activity.
- 4.3 Investment instruments identified for use in the financial year are listed in **Appendix B**. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

Creditworthiness policy

- 4.4 This Council uses the creditworthiness service provided by Sector. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element.
- 4.5 This modelling approach combines the credit ratings, with credit watches and credit outlooks from credit rating agencies in a weighted scoring system. This is then combined with an overlay of Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings, and sovereign ratings to select counterparties from only the most creditworthy countries. The end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments and could not be replicated using in house resources.
- 4.6 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands:
- Yellow – 5 years (AAA rated Government debt)

- Purple – 2 years
- Blue – 1 year (applies to nationalised or semi nationalised UK Banks)
- Orange – 1 year
- Red – 6 months
- Green – 3 months
- No Colour – not to be used

4.7 Sole reliance will not be placed on the use of this external service. The Council will follow the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. This differs from the Sector creditworthiness service, which uses ratings from all three agencies in a risk weighted scoring system. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

4.8 The Council is alerted to changes to ratings of all three agencies, movements in CDS and other market data on a weekly basis through the Sector creditworthiness service. If a downgrade or an extreme market movement 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.

Country Limits

4.9 The Council has determined that it will only use approved counterparties from countries with a sovereign credit rating of 'AAA' from Fitch Ratings (or equivalent from other agencies if Fitch does not provide), as well as those from the UK. The list of countries that qualify using this credit criteria as at the date of this report is shown below. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

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

Investment Strategy

4.10 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. Current investments that mature during the 2011/12 financial year are listed below.

Principal Sums Invested for over 364 Days	Amount £'000	Maturity	Rate %
Banks & Build. Socs.	1,000	Aug-11	1.70
UK Local & Police Authorities	2,000	May-11	0.72
	3,000		

4.11 The Bank Rate has been unchanged at 0.50% since March 2009. It is forecast to commence rising in quarter 4 of 2011 and reach 1.00% by the financial year end

(March). However, there is a downside risk to the forecast if recovery from the recession proves to be weaker and slower than currently expected.

- 4.12 The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available within the risk parameters set by the Council that make longer term deals worthwhile. The suggested budget for investment returns on investments placed for up to three months during the 2011/12 financial year is 0.7%. This assumes that the Bank Rate starts increasing from November 2011. There is a downside risk to this forecast if the start of increases in Bank Rate is delayed even further.
- 4.13 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, 15 and 30 day accounts, money market funds and short-dated deposits (overnight to three months) to benefit from the compounding of interest.
- 4.14 The Council will report on its investment activity to the Finance and Audit Scrutiny Panel at the half-year stage, as well as at the end of the financial year as part of its Annual Report on Treasury Management. The Panel will also be informed of any other significant matters in the quarterly Capital Monitor reports.

Icelandic Investments

- 4.15 The Council invested a total of £4m in Icelandic banks in September 2008, which suffered a default following the collapse of the Icelandic banking system. The Council has followed the guidance issued by CIPFA detailing the impairments to be recognised in the accounts.
- 4.16 The estimated repayment to Landsbanki's preferential claimants is 95%, including interest to 22 April 2009. It is also estimated that repayments to depositors will be made annually between October 2011 and October 2018.
- 4.17 Recovery is subject to the following uncertainties and risks:
- Confirmation that deposits enjoy preferential creditor status which will have to be tested through the Icelandic courts.
 - The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim.
 - It is estimated that if preferential creditor status is not achieved the recoverable amount may only be 38p in the £.

5 Prudential Indicators 2011/12 to 2013/14

- 5.1 Prudential and Treasury 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 on Treasury Management. The original 2001 Code was adopted on 18 February 2004 and the revised 2009 Code was adopted by the full council on 17 February 2010.
- 5.2 It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget, 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 increases in charges to revenue caused by increased borrowing to finance additional capital expenditure, and any increases

in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

- 5.3 It is a statutory duty for the Council to determine and keep under review how much it can afford to borrow. This amount is termed the “Affordable Borrowing Limit”. The Council must have regard to the Prudential Code when setting the Authorised 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’.
- 5.4 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion also incorporate financing by other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.
- 5.5 The Council’s Prudential and Treasury Indicators for 2011/12 to 2013/14 are shown in **Appendix C**.

6 *Minimum Revenue Provision Strategy*

Minimum Revenue Provision Policy Statement 2011/12

- 6.1 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess its MRP for 2011/12 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.
- 6.2 A proportion of the MRP for 2011/12 will relate to the historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 (Regulatory Method) of the guidance. Certain expenditure reflected within the debt liability at 31st March 2011 will be subject to MRP under option 3 (Asset Life Method), and will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.
- 6.3 The estimated life periods that are referred to in the guidance will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.
- 6.4 As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

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 January 2011

	Mar 2011	Jun 2011	Sep 2011	Dec 2011	Mar 2012	Jun 2012	Sep 2012	Dec 2012	Mar 2013
Base Rate	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%
3 month LIBID	0.60%	0.70%	0.80%	1.00%	1.25%	1.50%	1.75%	2.00%	2.50%
6 month LIBID	0.90%	1.00%	1.10%	1.20%	1.50%	1.80%	2.10%	2.40%	2.80%
12 month LIBID	1.40%	1.50%	1.60%	1.80%	2.10%	2.40%	2.70%	3.00%	3.20%
5yr PWLB Rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%
10yr PWLB Rate	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%
25yr PWLB Rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%
50yr PWLB Rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%

Capital Economics interest rate forecast – 12 January 2011

	Mar 2011	Jun 2011	Sep 2011	Dec 2011	Mar 2012	Jun 2012	Sep 2012	Dec 2012	Mar 2013
Base Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
5yr PWLB Rate	3.20%	3.20%	3.00%	2.75%	2.75%	2.90%	3.00%	3.20%	3.40%
10yr PWLB Rate	4.75%	4.75%	4.25%	3.75%	3.75%	3.75%	3.75%	3.75%	3.90%
25yr PWLB Rate	5.25%	5.25%	4.85%	4.65%	4.65%	4.65%	4.65%	4.65%	4.75%
50yr PWLB Rate	5.30%	5.30%	5.20%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

UBS interest rate forecast (for quarter ends) – 6 January 2011

	Mar 2011	Jun 2011	Sep 2011	Dec 2011	Mar 2012	Jun 2012	Sep 2012	Dec 2012
Bank Rate	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
10yr PWLB Rate	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%
25yr PWLB Rate	5.25%	5.30%	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%
50yr PWLB Rate	5.35%	5.40%	5.45%	5.50%	5.55%	5.60%	5.65%	5.70%

Survey of Economic Forecasts

HM Treasury – December 2010

The current Q4 2010 and 2011 forecasts are based on the December 2010 report. Forecasts for 2010 – 2014 are based on 32 forecasts in the last quarterly forecast – in November 2010.

	Bank Rate Actual	Qtr Ended		Annual Ave. Bank Rate			
		Q4 2010	Q4 2011	Ave. 2011	Ave. 2012	Ave. 2013	Ave. 2014
Median	0.50%	0.50%	2.00%	0.90%	1.60%	2.40%	3.00%
Highest	0.50%	0.80%	0.80%	2.10%	3.10%	3.60%	4.50%
Lowest	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	1.20%

Investment Policy

ORGANISATION	CRITERIA			MAXIMUM AMOUNT	MAX. PERIOD		
	Short-term	Long-term	Individual		Support Rating		
					1	2	3
Deposits with Banks and Building Societies (including unconditionally guaranteed subsidiaries)	Minimum F1+	AAA, AA+, AA,	A, A/B, B	£7.5m	2 years	2 years	
	Minimum F1+	Minimum AA-	Minimum B/C	£2.5m	1 year	1 year	
	Minimum F1	A+, A	A, A/B, B	£2.5m	6 mths	6 mths	
			B/C	£2.5m	3 mths	3 mths	
UK nationalised banks	F1+		E, F	£1m	1 year		
UK Government support to the banking sector**				£1m	1 year		
UK Local & Police Authorities				£10m	1 year		
Debt Management Agency Deposits				£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:

- Sovereign debt rating of AAA only
- Country limit £10m
- UK limit £25m (Banks and Building Societies)
- Limit in all Building Societies £10m
- Limit of £20m in aggregate in non-specified investments
- Limit of 20% of investment portfolio with one count

** Where other criteria are not met. Banks eligible for support under the UK bail-out package are: Abbey (Santander), Barclays, HBOS (Lloyds), Lloyds TSB, HSBC, Nationwide Building Society, RBS, Standard Chartered.

Bank of Scotland, Clydesdale, Coventry Building Society, Investec Bank, Rothschild Continuation Finance PLC, Standard Life Bank, Tesco Personal Finance plc, West Bromwich Building Society, Yorkshire Building Society

Prudential Indicators

	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	Probable outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Capital expenditure					
Non-HRA	9,581	15,428	13,758	806	0
HRA	3,391	6,486	4,778	4,868	4,958
Total	12,972	21,914	18,536	5,674	4,958
Ratio of financing costs to net revenue stream					
Non-HRA	5.47%	6.56%	8.12%	8.27%	8.25%
HRA	11.14%	10.71%	10.18%	9.83%	8.81%
Net borrowing requirement					
B/fwd 1 April	49,319	60,762	64,222	65,322	64,222
C/fwd 31 March	60,762	64,222	65,322	64,222	64,222
In year borrowing requirement	11,443	3,460	1,100	(1,100)	0
Capital Financing Requirement as at 31 March					
Non-HRA	23,086	25,984	26,428	25,781	25,143
HRA	50,883	50,883	50,883	50,883	50,883
Total	73,969	76,867	77,311	76,664	76,026
Annual Change in Capital Financing Requirement					
Non-HRA	(438)	2,898	444	(647)	(638)
HRA	0	0	0	0	0
Total	(438)	2,898	444	(647)	(638)
Incremental impact of capital investment decisions					
Council Tax (Band D)			£0.00	£0.00	£0.00
Housing Rents			£0.00	£0.00	£0.00

Treasury Indicators

	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	Probable outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised limit for external debt					
Borrowing		85,003	86,203	85,003	85,003
Other long term liabilities		0	0	0	0
Total		85,003	86,203	85,003	85,003
Operational boundary for external debt					
Borrowing		77,303	78,403	77,303	77,303
Other long term liabilities		0	0	0	0
Total		77,303	78,403	77,303	77,303
Actual external debt	62,400	73,843	77,303	78,403	77,303
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 2011/12					
	< 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%



Finance and Audit Scrutiny Panel

Item

25 January 2011

Report of	Head of Resource Management	Author	Steve Heath ☎ 282389
Title	Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2011/12		
Wards affected	Not applicable		

The Panel is invited to review the 2011/12 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual 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 2011/12 Treasury Management Strategy, Minimum Revenue Provision Policy and Annual Investment Strategy prior to it being considered by Cabinet and Full Council as part of the 2011/12 budget report.

2. Reason for scrutiny

- 2.1 The Council agreed to adopt the revised CIPFA Treasury Management in the Public Services Code of Practice on 17 February 2010. The Code requires the Council to produce an annual Treasury Management Strategy Statement, which should be submitted for scrutiny prior to the start of the year to which it relates, 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. It also requires the Council to set Prudential and Treasury Indicators to ensure that capital investment plans are affordable, prudent and sustainable.

3. Background information

- 3.1 The proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2011/12 is attached as a separate document. The follow paragraphs contain a summary of the strategy for 2011/12.
- 3.2 The UK bank rate has been unchanged from a historically low 0.5% since March 2009. The current view from the Council's treasury advisers is this will begin to increase in the fourth quarter of 2011, reaching 1.00% by the end of the financial year. There are currently differing opinions on the expected rate of economic recovery (see **Appendix A**) and this represents a moderate view, however the risk is currently to the downside.
- 3.3 The Council currently has a borrowing requirement in the region of £15m. However, the borrowing strategy is to reduce the difference between gross and net debt by continuing to 'borrow internally', which is primarily due to investment rates on offer being lower than long term borrowing rates. This has the advantages of maximising short-term savings and reducing the Council's exposure to interest rate and credit risk. This approach will be kept under review during the year along with opportunities for the early repayment of debt and debt rescheduling. Should external borrowing be required, the strategy suggests an order of priority for different forms of new borrowing.

- 3.4 The investment policy reflects the Council's low appetite for risk, emphasising the priorities of security and liquidity over that of yield. The main features of the policy are as follows:
- The Council will only invest with institutions with the highest credit ratings, taking into account the views of all credit rating agencies and other market data when making investment decisions.
 - The Council will use Sector Treasury's creditworthiness service, which combines data from credit rating agencies with credit default swaps and sovereign ratings. However, whereas this service uses ratings from all agencies in a weighted scoring system, the Council will continue to follow the approach suggested by CIPFA of using the lowest rating from all the agencies (i.e. the lowest common denominator).
 - The Council will only use approved counterparties from countries with the highest credit rating of 'AAA', together with those from the UK.
 - The Council will continue to invest with UK institutions that have been nationalised or part-nationalised, or those that are covered by the UK Government's support package.
 - The Council will continue to avoid longer term deals while investment rates are at such low levels. The budgeted return on investments placed for up to three months during the year is 0.7%.
- 3.5 Investment instruments identified for use are detailed in **Appendix B**. It should be noted that whilst this 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.
- 3.6 The latest guidance from CIPFA relating to the Council's Icelandic investments estimates a recovery rate of 95%, with repayments being made annually between 2011 and 2018. However, this assumes that preferential creditor status is achieved. The Panel will be kept updated on any developments regarding this matter.
- 3.7 The Council's Prudential and Treasury Indicators for 2011/12 through to 2013/14 are shown in **Appendix C**. They have been produced to support capital expenditure and treasury management decision making, and are designed to inform whether planned borrowing and the resultant revenue costs are affordable and within sustainable limits. The indicators take into account all the economic forecasts and proposed borrowing and investment activity detailed in the report.
- 3.8 The Minimum Revenue Provision (MRP) Policy Statement for 2011/12 states that the historic debt liability will continue to be charged at 4%, with the charge for more recent capital expenditure being based on the useful life of the asset and charged using the equal annual instalment method.
- 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 2011/12.
- 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, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2011/12



Finance and Audit Scrutiny Panel

Item
12

25 January 2011

Report of	Scrutiny Officer	Author	Robert Judd Tel. 282274
Title	Work Programme 2010-11		
Wards affected	Not applicable		

This report sets out the rolling 2010/11 Work Programme for the Finance and Audit Scrutiny Panel and Accounts and Regulatory Committee

1. Action Required

1.1 The Panel is asked to consider and comment on the 2010-11 work programme.

2. Reason for Action

2.1 This function forms part of the Panel's Terms of Reference in the Constitution.

3. Additional Item / Outstanding items

3.1 Honorary Alderman - tbc

4. Work Programme

29 June 2010

1. Audit Opinion Plan and 2010-11 Audit and Inspection Fee Letter (A&R)
2. Annual review of the Governance Framework and 2009-10 Statement (A&R)
3. Draft Annual Statement of Accounts (A&R)
4. 2009-10 Financial Monitor (FASP)
5. 2009-10 Capital Expenditure Monitor
6. 2009-10 Internal Audit Report

27 July 2010

1. Community Governance Review – Wivenhoe Town Council (A&R)
(merging of two parish wards / increase of councillors to 13 (+2))
2. Community Governance Review – Fordham (A&R)
(increase of councillors to 9 (+2))
3. Freedom of Information Update (Head of Corporate Management)
4. Annual Report on Treasury Management
5. 2009-10 Risk Management Summary

17 August 2010

1. Capital Improvement Programme (DHP update to incl. outcomes of pilot scheme)
2. 2010-11 Financial Monitor, period April to June
3. 2010-11 Capital Monitor

31 August 2010 Extra meeting

1. Call-in Proposed Travellers Site – Severalls Lane East

7 September 2010 Extra meeting

1. Call-in Highwoods Country Park Car park charging proposals

28 September 2010

1. 2010-11 Internal Audit Monitor, period April to June
2. Annual Statement of Accounts – Annual Governance Report (A&R)
3. Financial Regulations revised (A&R)
4. Colchester Visual Arts Facility – Audit Commission

19 October 2010

1. Report Publication of Audited Statement of Accounts (A&R)
2. Risk Management period April to September
3. Annual Business Continuity Progress report
4. Local Governance Review (Hd.of Corp.Management)(A&R)
5. Summary for Colchester Credit union – Update

23 November 2010

1. Annual Audit letter (AC)
2. Audit Commission Benefit Services Report (AC)
3. Annual Governance Statement (A&R)
4. 2010-11 Internal Audit Monitor, period April to September
5. 2010-11 Financial Monitor, period April to September
6. Decent Homes Programme – 6 monthly update

25 November 2010 Extra meeting

1. Call-in Revenue Grants to Town and Parish Councils

15 December 2011 Extra meeting

1. 2010-11 Capital Monitor
2. 2010-11 Treasury Management Monitor
3. Mayoralty Budget – TAFG report
4. Highway Verge Maintenance – PH Communities

25 January 2011

1. 2011-12 Budget Strategy
2. Treasury Management - Investment Strategy

22 February 2011

1. Risk Management, period April to December
2. 2010-11 Financial Monitor, period April to December
3. 2010-11 Capital Monitor
4. Decent Homes Programme – quarter 3 update
5. Honorary Alderman (provisional)

29 March 2011

1. 2010-11 Internal Audit Monitor, period April to December
2. Annual Governance Statement briefing paper
3. Audit Opinion Plan
4. International Financial Reporting Standards

