

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 16 MARCH 2010

Title of report	MEDIUM TERM FINANCIAL STRATEGY (MTFS)
Key Decision	a) Financial Yes b) Community Yes
Contacts	Councillor Matthew Blain 07979 852069 matthew.blain@nwleicestershire.gov.uk Corporate Director 01530 454520 alan.davies@nwleicestershire.gov.uk Head of Finance 01530 454701 lynn.gill@nwleicestershire.gov.uk
Purpose of report	To present to Cabinet the latest Medium Term Financial Strategy.
Reason for Decision	To update the Council's Medium Term Financial Strategy following agreement of the 10/11 budget.
Strategic aims	This strategy provides a critical platform to help deliver the Council's strategic aims.
Implications:	
Financial/Staff	The MTFS is likely to result in a reduction in overall staffing levels and a need for ongoing value for money programme.
Link to relevant CAT	Could have implications for all CAT's.
Risk Management	Financial risks are fully evaluated in Section 9 of the strategy.
Equalities Impact Assessment	An EIA for the current MTFS has already been completed.
Human Rights	No direct implications.
Transformational Government	Additional investment in ICT is included. The value for money programme is an integral part of the MTFS.
Comments of Head of Paid Service	Report is satisfactory.

Comments of Section 151 Officer	As author of the report, no further comment.
Comments of Monitoring Officer	Report is satisfactory.
Consultees	Corporate Leadership Team.
Background papers	Budget (Smartplan) reports to Cabinet on 19 th January 2010 and 2 nd February 2010 and Council on 25 th February 2010. http://agenda/aksnwleicester/users/managers/admin/kab12.pl http://agenda/aksnwleicester/users/managers/admin/kab12.pl
Recommendations	IT IS RECOMMENDED THAT: THE MEDIUM TERM FINANCIAL STRATEGY 2010/14 BE APPROVED.

1.0 INTRODUCTION

- 1.1 The 2010/11 budget was agreed by Council on the 25th February 2010, delivering a freeze on the Council Tax and only minor changes to some services. In respect of the Housing revenue Account, rents were increased in accordance with Government policy (2.5% average increase) and £ 560,000 improvements were funded from cash efficiency savings of £748,000. The capital programmes plan to deliver £ 1.4m improvements in GF services and £4m on Council housing stock.
- 1.2 2010/2011 will be the last year of the three year Finance settlement announced by Government in 2007. The three year settlement added to the policy on Council Tax increases has enabled the Council to adopt a resource allocation methodology for budgeting, making the process simpler, quicker and delivering an annually balanced budget (i.e. no use of reserves to pay for revenue spending).
- 1.3 Government has already commenced its work on the Comprehensive Spending Review (CSR) 2010, which will look at Government spending for the three years 2011/2014. They do this against a background of a weak economy (only just out of recession), high unemployment, high national debt, fragile confidence and a pending General Election. Both major political parties have warned of severe cuts in public spending as they give priority to reducing the level of the national debt and their stated service priorities. None of these priorities include District services. It must therefore be assumed that Districts will face a higher than the average reduction in grant. This will be a reduction in real terms and could be a reduction in cash terms. The consensus amongst District Council commentators is that over the three year period, District spending could reduce by between 16% - 30%.
- 1.4 In addition to the CSR 10, Government are also planning to make changes to the HRA Subsidy system. It is expected that each Council retaining their housing stock will be offered the opportunity to leave the existing system, in exchange for accepting debt (in our

case possibly between £65m and £85m) and retaining the amount currently paid into the subsidy system. Formal notification of this has yet to be received. Clearly, this is a significant financial decision for the Council and will impact on our current and future tenants. If the Council decides to accept the Government's offer, implementation will be 1 April 2011.

- 1.5 1 April 2011 will therefore be a very significant date for the Council and with the uncertainty it is very difficult to predict the level of resources available to the Council. The MTFS considers various scenarios, but the intention will be to fully review the position once the 2011/2014 grant settlement is received and the position on HRA Subsidy is clarified. It is anticipated that this review will be presented to Cabinet in January 2011.
- 1.6 Despite the uncertainty it is essential that the Council develops its approach to these resource issues and to that end a draft VFM Programme had been developed. Key outcomes of this programme will be to review how services are delivered, assess available options and deliver cash savings.

2. EXECUTIVE SUMMARY

- 2.1 The overall objective of the strategy is to deliver further cash efficiency savings so that the Council remains able to deliver essential services, whilst protecting the interests of council tax and rent payers. In developing the strategy, consideration has been given to defining a number of financial values and principles to provide a sound financial basis for the Council to achieve its objectives.
- 2.2 MTFS values are:
- Strong financial vision that enables the Council to take a longer term view
 - Prudent but realistic forecasts of medium term resources
 - Protecting the financial interest of the local council tax payer
 - Sustainable level of spend, with allocations reflecting Council priorities
 - Financial culture that delivers continuous improvement and more effective and efficient ways of working, leading to cash efficiency savings
 - Use of partnerships to enhance and deliver services, where these can demonstrate value for money.
- 2.3 The 2010/11 budget process included identification of priority services, development of a Vfm programme, estimation of resources available in 2010/2011 and allocation of those resources in accordance with identified service proprieties. The process maintained the Council's practice of producing structurally sound budgets i.e. no funding from revenue reserves.

2.4 General Fund ;

- Balanced budget set for 2010/2011
- Expenditure reductions of between 16% and 30% (£1.9m to £3.6m) expected for the period 2011/2014. Further reductions from 2014/2015 possible.
- Projected position assumes that Council Tax will be frozen at 2010/2011 precept.
- VfM programme plans expenditure reductions of £0.750m 2011/2012, £1.250m 2012/2013 and £0.250m 2013/2014.
- Delivery of the VfM programme essential to ensure future financial viability of the Council.
- Projected financial position to be reviewed in December 2010 (when the draft settlement for 2011/2014 is announced by Government).

2.5 Housing Revenue Account

- Balanced budget set for 2010/2011, with average rent increase of 2.5% and potential to fund further capital works from revenue.
- Capital programme of £4.257m planned
- 30 year HRA Business Plan developed
- Proposed change to the subsidy system are currently awaited. Should the Council decide to opt out of the subsidy system in return for accepting debt of between £65m and £85m, the Business Plan will need to be reviewed.

2.6 Use of all assets will be reviewed during 2010/2011.

**NORTH WEST LEICESTERSHIRE
MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

2010/2014

MARCH 2010

1. INTRODUCTION

- 1.1 The 2008/2009 global economic recession will have profound implications for the Council's finances for many years to come. The previous decade was characterised by steady and sustained economic growth, but the next decade will see a contraction in local government spending with District Council's likely to experience a higher proportion of spending reductions than other Councils. Economic recovery could be slow, and could be hampered by rising oil prices and the need to repay accumulated Government debt. Unemployment will continue to rise. As the economy comes out of recession, the risk of inflation will rise. Against this background, the overall objective of this financial strategy must be to ensure that further cash efficiency savings are achieved, and the Council remains able to deliver essential services.
- 1.2 This strategy aims to build on recent budget processes and help us deliver our long term ambitions and maintain our tradition of sound financial management. It will be kept under continual review and subsequently refreshed to take account of both the external environment and, of course, the changing needs of the people of North West Leicestershire. It recognises that the search for efficiency and value for money must be at the heart of everything we do. A glossary of key financial terms is attached.

2. BACKGROUND

- 2.1 The economic recession has proved to be the worst since quarterly GDP figures were collected in 1955. In response the Government introduced a number of short term tax reductions and increased national borrowing. The December 2009 pre-budget report announced further Government efficiency savings, and the "protection" of spending on health, police and education. The proposals are intended to reduce Government debt by 50% within 4 years. The Council has continued to reduce its cost base and manage within overall resources. A key policy is that Council Tax increases will be kept below the rate of inflation and the MTFS is built around this ambition.
- 2.2 The Council has moved from a process of projecting required net expenditure and determining how to finance it, to one of resource allocation i.e. forecasting resources using assumptions for formula grant and council tax income, and then keeping net expenditure within it. Greater certainty introduced by the 3 year grant settlement has allowed this process to work well, and the Council remains in reasonable financial shape. However, the 3 year settlement period has now ended, and projections beyond 2010/11 are difficult.
- 2.3 The Council is developing longer term plans for improvement of the council housing stock with a degree of certainty, although considerable financial challenges will remain in view of the funding shortfall previously identified to meet the Government's decent homes standard and possible changes in the housing subsidy system. A likely reduction in supporting people grant has been managed effectively for the older persons service.
- 2.4 During the course of the year, the improvements made by the Council were recognised in a number of external reviews – our "Use of Resources" assessment (carried out annually by the Audit Commission) and the investors in people assessment, which concluded the Council was leaner, more effective, and more focused.

2.5 The Council has so far responded well to the additional financial pressures, and delivered considerable savings through the transformation and efficiency programmes. However, more radical action may well be required to meet the financial challenges that lie ahead, and the “Value for Money” programme will need to re-examine the Council approach to service delivery using a strategic commissioning approach.

3. STRATEGY

3.1 The overall objective of this financial strategy is to deliver further cash efficiency savings so that the Council remains able to deliver essential services, whilst protecting the interests of council tax and rent payers. In developing the strategy, consideration has been given to defining a number of financial values and principles to provide a sound financial basis for the Council to achieve its objectives.

3.2 Our MTFS values are:

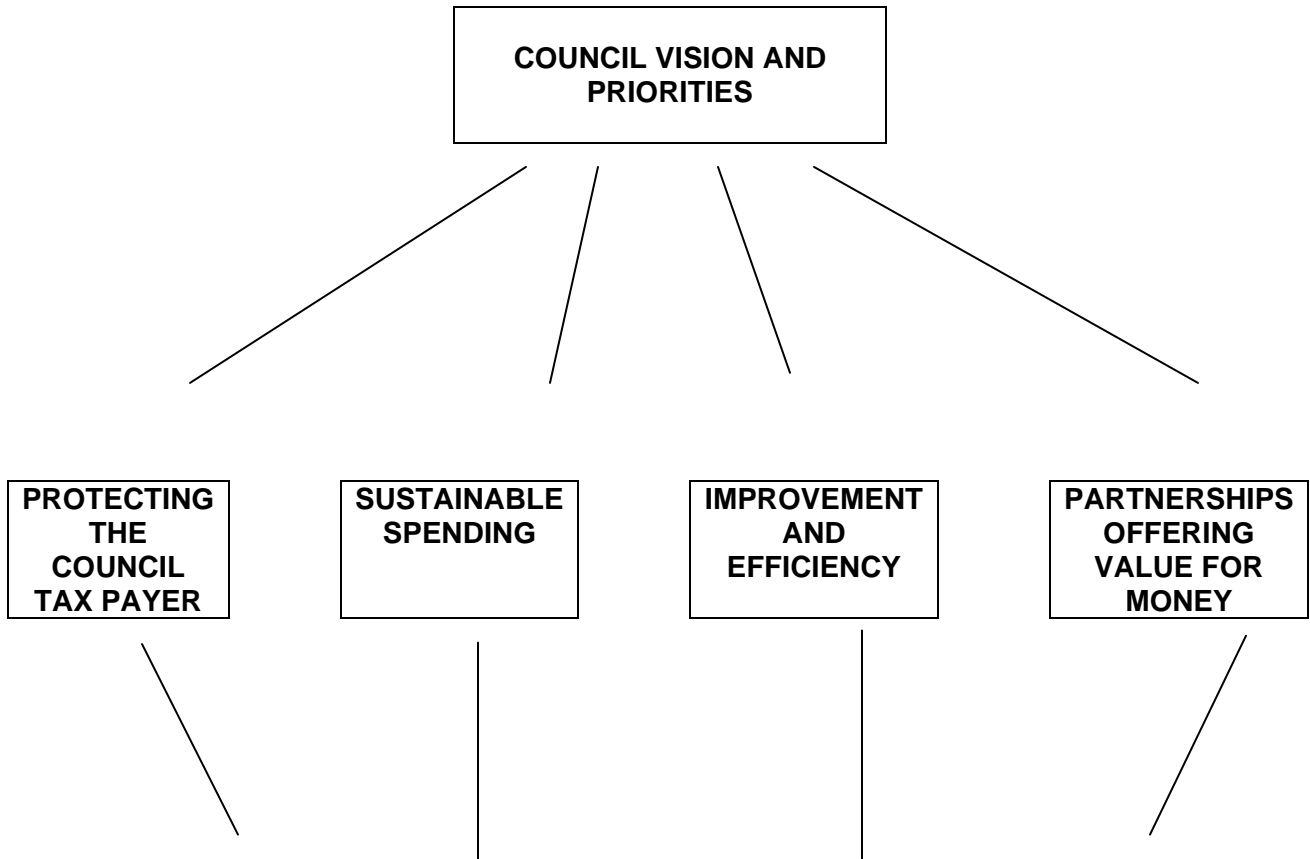
- Strong financial vision that enables the Council to take a longer term view
- Prudent but realistic forecasts of medium term resources
- Protecting the financial interest of the local council tax payer
- Sustainable level of spend, with allocations reflecting Council priorities
- Financial culture that delivers continuous improvement and more effective and efficient ways of working, leading to cash efficiency savings
- Use of partnerships to enhance and deliver services, where these can demonstrate value for money.

3.3 Linking to the above values, the following principles will be adopted to ensure that financial resources are allocated to achieve the aims as described in the Council Delivery Plan.

- Continuing a resource allocation methodology into the medium term
- Maintaining a prudent level of reserves
- Ensuring that annual expenditure is funded by annual income
- Carrying out robust financial monitoring and reporting using appropriate and timely information
- Ensuring effective budgeting and accounting and preparing for the introduction of new accounting requirements – IFRS
- Identifying all potential sources of income and setting realistic income targets using the agreed charging framework

- Maintaining “fit for purpose” asset management and procurement strategies
- Using any operating surplus to invest to deliver future years efficiencies
- Maintaining and improving financial skills throughout the Council

3.4 These are illustrated below:



RESOURCE ALLOCATION	MONITORING
PRUDENT RESERVES	CHARGING FRAMEWORK
ASSET MANAGEMENT	INVEST TO SAVE
BALANCED BUDGET	FINANCIAL SKILLS

4. PRIORITIES

- 4.1 The Council Delivery Plan sits at the heart of the Council's Corporate Planning Framework. Its purpose is to set out what the Council intends to do in the year ahead and how it intends to do it. It contains all of the key deliverables and articulates where the organisation is going and how it is going to get there.
- 4.2 One of the key purposes of the Council Delivery Plan is to clearly demonstrate how the Council intends to address the various drivers that influence what it needs to do. The Council Delivery plan 2010/13 is built around 3 strategic aims:
- Stronger Safer and Healthier Communities
 - Prosperous and sustainable Communities
 - Organisational development
- 4.3 These strategic aims are supported by 4 improvement priorities:
- Pride in my community
 - Coalville's changing
 - "Green Footprints" challenge
 - Value for Money Council Services
- 4.4 This strategy sets out the financial framework that will help to achieve these aims and priorities. Internal review processes will continue to identify resources which can be re-invested in priority areas.

5. BUDGET PROCESS

- 5.1 Underlying the Council's budget process is a prudent approach to financial management and planning, taking into account known risks. A robust budget process is essential in order to achieve the balance between customer expectations and what the Council can afford. For many years the Council has produced balanced revenue budgets – i.e. current expenditure is met from current income. The introduction of the three year settlement for Formula Grant and Council determining a strategy for Council Tax levels provided a high degree of certainty on the resources available, thus allowing the development of an improved budget process for all funds. The process has evolved over three years, and the process adopted for 2010/2011 included the development of a Value for Money Programme. The process undertaken is described below:

(a) Planning

In order to improve the integration of service and financial planning the process of "Smartplan" was developed in summer 2006. This was developed and refined in 2007, 2008 and 2009 to include an emphasis on value for money and the use of a resource allocation methodology. This changed methodology has produced a more streamlined process and given improved ownership of the budget to Directors and Heads of Service. Key to financial control is the acceptance that resource allocations are cash limited.

b) Value for Money Programme

- 1 The country's public services generally and the Council are facing the prospect of increasing pressures on budgets over the forthcoming years. Estimates of the severity of these challenges vary, but it is likely that reductions in public sector funding outside of education and the NHS could be in the range of 16% - 30%.
For the Council this is compounded by the uncertainty surrounding the costs of staffing, Government grants, pension increases, Performance Related Pay and income generation. Overall, this could mean reductions in available funding of between £750,000 and £1 million each year from 2011/12 until 2013/14.
- 2 In these challenging circumstances, a precautionary approach is called for and rather than seeking uniform saving across all services, it has been decided to refocus what the Council does around the current and likely future needs of local communities and individuals and our statutory duties. In this way, costs will be reduced whilst delivering the local outcomes people want and need.
- 3 To do this in a fair and transparent way the following work has been undertaken:
 - The evidence base of customer consultation primarily taken from the work of Leicestershire Together was researched and the priority areas for North West Leicestershire developed. These were subsequently further defined by looking at the key outcomes from the LAA agreement.
 - All services were scored against key criteria that included their contribution to the these priorities, statutory responsibilities, the amount of income that was generated, social inclusion issues and customer impact.
 - All services then produced statements that showed how they aligned with the key priority outcomes and on that basis suggest how they should be developed in the future.
- 4 This information was then used to produce a response to the immediate issues of the 2010/11 budget and, combined with further work on capacity and external issues, formed into a programme of reviews that details timescales and expected strategic direction of each service.

Underlying all the work currently being undertaking are three key principles:
 - to deliver improvements that make a real difference to people's lives (outcomes);
 - use of a sustainable delivery model;
 - in an inclusive way – engaging with local communities and employees to develop creative and innovative solutions that are both valued and supported and developed in true consultation.
- 5 This process will allow managers and other stakeholders (third sector organisations and groups of staff for example) positively to meet the challenges that the Council is facing through creating and developing innovative solutions which will deliver the outcomes communities need and want at a price the Council can afford.

Sound evidence and active engagement with service users, communities and elected Members through existing consultation mechanisms will help refine the Council's outcome targets and identify potential innovative solutions.

- 6 The programme details the proposed timescales and indicative outcomes required from the reviews, using the strategic direction of the service. There are 3 outcomes that have informed the process and 3 strategic direction statements and the latter may have particular areas for further consideration dependent on the precise timing of changes, the strategic commissioning process or other service reviews.

These are:

Outcomes:

- a) that a service will continue to be funded, but it will still be expected to achieve cash savings;
- b) that a service will either become cost neutral or make a surplus through income generation; or that
- c) whilst there will still be support for a service, there will be a progressive reduction of funding and a key output of its review will be to determine how the service will be continued without receiving funding from the General Fund.

Strategic Direction:

- a) to reduce costs of delivery whilst maintaining or improving current performance via an options appraisal to identify the most appropriate delivery model;
 - b) to undertake an options appraisal to identify the most appropriate delivery model that will generate income for the Council or reduce costs to enable the service to become surplus making or as close to cost neutral as possible;
 - c) to reduce funding whilst developing opportunities for the service to continue with minimum impact on the General fund.
- 7 Options appraisals will consider all opportunities for delivering the target outcomes including:
- sharing provision with other Public Services Bodies, including all tiers of local government;
 - partnerships with the private sector or third sectors;
 - retaining the service in house; and
 - externalising the service for it to become a commercial (full-blown or social business) or third sector operation.
- 8 When a service undertakes a review using the principles of strategic commissioning, the following elements will be built into the project initiation and review phase to become priority areas when final recommendations are being considered:
- a sound evidence base of the needs and aspirations of the local communities with regard to this service's target outcomes;
 - there should be thorough, continuing and valued, citizen, community and customer engagement and empowerment during the ongoing delivery of the service;
 - there is a focus on delivering outcomes and value for money that increase public value; and

- there is a whole system approach which recognises that delivering outcomes generally span more than one organisation.

9 It is inevitable that by 2013/14 there will be a smaller senior management structure, employee working arrangements will have changed and some services will be delivered differently. The draft VfM programme will be considered by Council as part of the Council Delivery Plan.

(c) Estimating Resources

In estimating the resources available to the Council in 2010/11, the following factors were taken into account:

- (i) **Comprehensive Spending Review (CSR 07) and Formula Grant** – the certainty introduced by the 3 year grant settlement has been built into the estimated resources for 2009/2012. 2010/11 is the last year of the 3 year settlement, so some uncertainty remains beyond 2010/11. Indications are that grant levels will reduce in cash terms.
- (ii) **External Funding** – the Council is in receipt of several external funding streams. Appropriate external funding will continue to be sought. The Council has been very successful in attracting external grants in recent years.
- (iii) **Council Housing Stock** – the Council decided on 13/01/09 to retain ownership of the council housing stock. A major improvement programme has recently commenced, and the HRA business plan is being updated.
- (iv) **Miscellaneous income** – the Council currently receives nearly £6m a year from fees and charges and investment income. A charging framework has been developed to guide future decisions but non achievement of budgeted income represents a key risk. The recession has reduced income in some key areas, and this needs to be recognised in future budget plans.
- (v) **Concessionary Travel** – A new national scheme of free travel on public transport for the over 60's was introduced in April 2008 and additional resources provided by the Government through a formula grant and special grant. However, expenditure may well exceed available resources. It is expected that this function will transfer to Leicestershire CC on 1 April 2011.
- (vi) **Council Tax** – a key priority for the Council is to maintain Council Tax increases below the rate of inflation (as measured by CPI), and this was a key “driver” when setting the budget for 2010/11, which included freezing Council Tax .
- (vii) **Housing Rents** – set in accordance with Government’s rent restructuring policy.

(d) Allocating Resources

Once resources are calculated, known additional expenditure pressures are estimated and “top-sliced” from the total resource available. Such items have included contribution to Corporate Improvement Fund (2008/2009), expected increases in Concessionary Travel, expected reductions in income, additional capital financing costs. The resulting net resource is then allocated to Directorates in proportion to the current years budget (excluding any one-off items). With priorities for the coming year already determined, Directors then allocate that resource to their services in accordance with the determined priorities. Once the initial resource allocation has been completed it is considered by CLT who determine any refinements to be made for the final recommendation.

(e) The same process has been adopted by all funds, even though the HRA has been on annual settlements.

6. GENERAL FUND

6.1 A balanced budget has been set for 2010/2011, including a freeze on the Council tax level. Planned revenue spending is £12.1m and the capital programme £1.4m.

As has been mentioned in the introduction, it is expected that the current national economic position will have a significant impact on the Council's finances for the next three years and potentially the following three years. Consequently, future resources are very difficult to estimate. Predictions by local government commentators suggest that District Councils could have to reduce their spending by between 16% - 30% in the period 2011/2014. The table overleaf shows the Council's potential budget gap in 2011/2012 at various levels of grant reduction. **THESE PROJECTIONS ASSUME NO INCREASE IN COUNCIL TAX 2011/2014.** Each 1% increase yields approximately £50,000 additional income per annum.

6.3 The draft Value for Money Programme plans expenditure reductions as follows

	£'000
2011/2012 Budget	750
2012/2013 Budget	1,250
2013/2014 Budget	250

Delivery of this programme will be crucial to enable the Council to deliver balanced annual budgets and release resources to fund priority services (no assumptions have been made regarding the level of this in the following tables) and place the Council in a strong financial position should there be further reductions in Formula Grant in 2014 onwards. The draft VfM programme is attached to the Council Delivery Plan.

Projected Position assuming 0% increase in Formula Grant 2011/2014 and VfM Draft Programme Savings Delivered

	2011/2012 £'000	2012/2013 £'000	2013/2014 £'000
Revised Spending Base	11,392	10,142	10,252
Spending Pressures:			
Inflation		220	210
PRP		90	80
Capital Funding		50	50
	11,392	10,502	10,592
Resources (0% increase)	11,406	11,406	11,406
Net budget Position (- surplus)	-14	-904	-814

Projected Position assuming 5% reduction in Formula Grant 2011/2014 and VfM Draft Programme Savings Delivered

	2011/2012 £'000	2012/2013 £'000	2013/2014 £'000
Revised Spending Base	11,392	10,142	10,252
Spending Pressures:			
Inflation		220	210
PRP		90	80
Capital Funding		50	50
	11,392	10,502	10,592
Resources (5% reduction in FG)	11,083	11,083	11,083
Net budget Position (- surplus)	309	-581	-491

Projected Position assuming 10% reduction in Formula Grant 2011/2014 and VfM Draft Programme Savings Delivered.

	2011/2012	2012/2013	2013/2014
	£'000	£'000	£'000
Revised Spending Base	11,392	10,142	10,252
Spending Pressures:			
Inflation		220	210
PRP		90	80
Capital Funding		50	50
	11,392	10,502	10,592
Resources (10% reduction in FG)	10,761	10,761	10,761
	631	-259	-169
Net budget Position (- surplus)			

6.4 Capital investment

A general fund capital investment programme of just under £1.4m is planned for 2010/11, mainly in relation to private sector housing projects and technology improvements. It is intended to pay for this by asset disposals.

6.5 Balances and Reserves

Balances and reserves are held for three main reasons

- A contingency to fund unexpected events / emergencies (General Balances)
- A means to build up funds to meet known or predictable liabilities – e.g. asset protection funds
- To smooth the impact of high expenditure items over several financial years e.g. district elections fund.

It is expected that the level of general fund balances will continue to be around £850,000 at 31 March 2010. It is intended to maintain balances at this level throughout the life of the strategy, to be held to fund unplanned (contingent) events. Any annual operating surpluses will be applied to fund “invest to save “ proposals only.

The Council also held just over £2.64m on 1 April 2009 in earmarked balances. It is estimated that these “earmarked” reserves will reduce to around £2m by 31st March 2010.

6.6 Monitoring

Resource availability in 2010/11 is reliant on three key factors:

- That spending is kept at or under resource allocation
- That the anticipated savings from the value for money programme are delivered
- That planned levels of miscellaneous income are achieved

- Rigorous financial monitoring will be maintained
- Financial “hot spots” will be reported on monthly to Directors and the Corporate Leadership Team (CLT)
- Monthly monitoring reports will be taken to CLT and quarterly to members. These will be predictive reports
- Regular reporting of summary financial information to employees
- These reports will also include performance against the value for money programme
- Monthly monitoring of key income budgets (provided on a monthly basis) will be reported to CLT

6.7 Future Spending Pressures:

There are significant additional spending pressures beyond 2010/11:

- Concessionary travel is likely to transfer to Leicestershire County Council on 1st April 2011, and this could reduce our government grant, with an overall adverse impact on our finances.
- The local government pension scheme is due to be revalued in April 2010, and the performance of the pension fund is adversely affected by the recession and will lead to increased costs in 2011/12, which could be around £200,000 a year more.
- National Insurance contributions will be increased by 1% from April 2011, adding an extra £100,000 a year.
- The “free swimming” grant of £81,700 may not continue beyond 31st March 2011.

These pressures have been built into the projections above.

7. HOUSING REVENUE ACCOUNT (HRA)

- 7.1 The HRA contains all the annual income and expenditure relating to the Council’s municipal housing stock and associated assets such as garages. Rents are the main source of income, raising over £13m a year, but a national subsidy system currently means that we will contribute £3.8m into the national housing subsidy pool. The national housing subsidy system is currently under review. Rent levels are set in accordance with a government rent convergence formula and this determines how much money can be spent to maintain and improve our stock. The average rent increase for 2010/11 is 2.5%.
- 7.2 Following a “test of opinion” amongst Council tenants, carried out in the autumn of 2008, the Council decided on the 13th January 2009 to remain as a landlord for the Council housing stock.
- 7.3 In developing the 2010/11 budget the overall aim was to ensure that annual resources funded annual expenditure. To achieve this, the following methodology was used:
- Total available resources (net of contribution to Government) estimated
 - Efficiency savings programme developed
 - Improvement proposals drawn up
 - Appropriate working balance retained.

7.4 In achieving a balanced position, approval was given by members for the following changes:

- Service charges reviewed and increased by around 1% on average
- Older persons service private lifelines increased
- Garage rents and garage site rents not increased
- Older persons service based on reduced supporting people grant level

7.5 Following the Council's decision to retain the Council housing stock, a 5 year HRA business plan will now be produced by March 2010.

7.6.1 For 2009/10 and 2010/11 the majority of housing capital resources will be utilised towards a significant home improvement programme (£4.257m), details of which are set out below:

SCHEME	BUDGET 2009/10	OUT-TURN 2009/10	CARRIED FORWARD	PROGRAMME 2010/11
	£ 000's	£ 000's	£ 000's	£ 000's
RESOURCES				
Brought forward from previous year	2,678			1,419
Usable capital receipts received	250			100
Major Repairs Allowance	2,722			2,745
	5,650			4,264
Programme 2009-10	3,642			
Roofing		357	228	228
Chimneys		9	6	6
Electrics (Rewires)		948		
Electrics (Consumer Units)		16		
Doors		217	62	62
Windows		784	226	226
Miscellaneous		30	35	35
Decoration Allowances		52		
	3,642	2,413	557	557
Planned Programme 2010-11				
Roofing				400
Electrics (Rewires)				350
Electrics (Consumer Units)				250
Doors				200
Miscellaneous				500
Decoration Allowances				30
	0	0	0	1,730
Other Schemes				
Voids	310	360		420
One off major works	414	356		420
Major Aids & Adaptations	287	623	177	350
Digital Communal TV Aerials	150	0	150	150
Older Person's Infrastructure	70	75		
Conversions	35	35		
Alarm systems		70	0	70
Development sites preparations				100
	1,266	1,519	327	1,510
Miscellaneous				
PIMSS	0	0	40	40
IBS Systems Upgrade (Contract Module)	0	0	25	25
Capital Salaries (inc agency staff)	0	217		220
Repairs Diagnostics Software	0	0	20	20
Dynamic Scheduling	0	0	25	25
Professional fees		82	24	130
	0	299	134	460

- 7.7 The Council's balanced budget strategy required annual recurring expenditure to be contained within annual recurring revenue income streams without taking money from reserves. The Council will retain a HRA reserve of around £1m at 31st March 2010.
- 7.8 A revised Business Plan will be presented to Council for approval on 30 March 2010. This MTFS will be amended to include the salient issues, once the Business Plan is approved.
- 7.9 Government has been reviewing the existing Subsidy arrangements for HRA. That results of that review are awaited, but the expectation is that this and other Councils will be offered the opportunity to "opt out" of the subsidy system, in return for accepting debt. In brief, the Council will be expected to take on and manage debt of £65m to £85m, but in return will no longer pay subsidy over to the Government and will be able to retain 100% of capital receipts. Once received, a report on the offer and the impact for the Council will be brought to members at the earliest opportunity.

8. Pension Fund Deficit

As will have been noted, the Leicestershire Pension Fund will be revalued on 1 April 2011. Whilst it is expected that the deficit position will have improved, there will remain a deficit which will have to be met from increased contributions.

Each Council has its own sub-fund of the overall pension fund, all of which are currently in deficit. If the VfM Programme results in significant numbers of staff transferring out of the Pension Scheme, then the accrued "deficits" relating to those staff will remain to be funded by the sub fund, which will have significantly fewer members. In these circumstances it is highly probable that employers contributions would need to increase.

9. OTHER RESOURCES

9.1 Asset Management

- 9.1.1 The Corporate Director is the Council's nominated officer for the management of Capital resources. The Council's property assets are currently made up and currently valued as set out in the table overleaf.

9.1.2 In addition, our Council houses are currently valued at £220m.

9.1.3 Property has a very significant drawback - it is not easy to turn into cash and in an economic downturn property values are drastically reduced. It cannot change quickly and lead-in times are long. Therefore effective asset planning is essential in bringing flexibility to property so that it delivers Council goals and objectives in a sustainable manner, at the right time and on budget. Due regard must also be had to statutory duties in property asset management (e.g. Disability Discrimination Act).

9.1.4 Asset planning involves the corporate centre, services, partners and other stakeholders. It requires an inclusive process. The effective management of assets is a crucial corporate activity if a local authority is to achieve its corporate and service aims and objectives and deliver its services with maximum effectiveness into the future.

9.1.5 In order to improve in this critical area, the Council has entered into an agreement with Charnwood Borough Council (CBC) to deliver Strategic Asset Management and Property Services. This agreement was in practical operation in February 2008. One of the first priorities in 2008/09 was to review and update the Council's Asset Management plan. This was successfully completed, and a disposals policy was also agreed.

The asset management group now carry out a thorough asset challenge of all assets prior to disposal and draw up an annual investment programme. Targeted disposals in 2008/09 have helped secure the provision of additional affordable housing.

9.1.6 Effective asset management will be essential in order to minimise costs, facilitate regeneration and redevelopment, pay for capital investment and achieve efficiency savings.

9.2 Treasury and Cash Flow Management

9.2.1 The treasury management service is an essential part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the introduction of the Government's prudential code of borrowing, and problems created by the global banking collapse, particularly in Icelandic banks.

9.2.2 Whilst a range of prudential indicators measure the affordability and impact of capital expenditure decisions, the treasury management service covers the effective funding of these decisions. There are also specific treasury prudential indicators, set by Council, which the service is required to meet.

9.2.3 The Council's activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management on 2 July 2002, and adopted a treasury management policy statement on 24 August 2004. This adoption complies with the first of the treasury prudential indicators. The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A further report is produced after the year-end to report on actual activity for the year.

9.2.4 This strategy covers:

- The current treasury position
- The expected movement in interest rates

- The Council's borrowing and debt strategy
- The Council's investment strategy (in compliance with the Government guidance)
- Treasury performance indicators
- Specific limits on treasury activities

9.2.5 The Council tightened its investment criteria in the autumn of 2007, following the problems experienced by Northern Rock in the Summer of 2007, and has no money “frozen” in Icelandic Banks.

A further review of investment arrangements was carried out once the full extent of Icelandic banking crisis was known. The Council receives external advice to inform its treasury management decisions, but remains responsible for all investment decisions. Security of investments is paramount.

9.2.6 The Council's current long term external debt profile is as follows:

	£'000
Public works loans board (PWLB)	6,091
Other institutions	10,107
As at 31 st March 2009	16,108

Opportunities to restructure debt will continue to be actively monitored.

9.2.7 The Council actively managed its cash flow during the course of the year, and closely monitors its arrears. The position at 31st March 2009 is as follows:

	Council Tax £'000	Business rates £'000	Housing rents £'000	General Debts £'000
31 st March 2009	1,875	1,239	332	1,695

9.2.8 For both 2007/08 and 2008/09 the Council has been a “top quartile” performer (as measured by best value performance indicators) for both Council tax and business rates collection. However, the impact of the recession will make it more difficult to achieve cash collection targets in future years.

9.3 Information Technology

9.3.1 The Council has invested significantly in information technology to improve infrastructure, introduce more efficient systems, increase resilience, and achieve efficiency savings.

Further investment of £140,000 is planned in 2010/11 to continue this programme. The security of information and improved access to services will continue to be a priority for the future.

9.4 Workforce planning

As an employer of 600 people with a salary bill of around £13m a year, effective work force planning is essential, and the Council will continue actively manage it's employee costs, through our work force plan and people management strategy. Workforce planning aims to determine the current composition of the workforce, identifying future needs and the gaps that need to be filled to achieve priorities and overall objectives.

9.5 Efficiency Planning and Value for Money

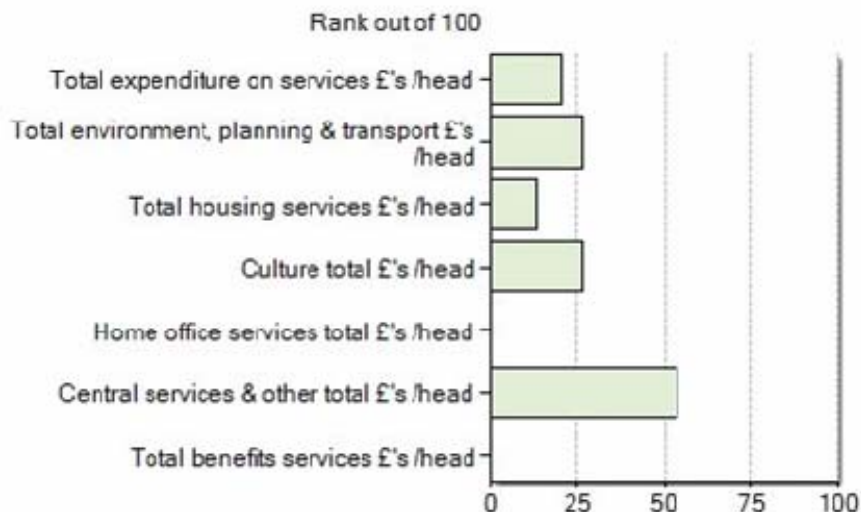
We are required to deliver a specific value for money target saving of £461,000 in 2009/10, which is monitored by NI179 and included within the Leicestershire LAA.

Our budget plans for 2009/10 were drawn up with delivery of the target specifically in mind. However, the targets for 2010/11 (£622,000) will prove somewhat more challenging to achieve, using the existing basis for calculation.

Clearly the projected resource allocations to Directorates for 2010 onwards are dependent upon the delivery of combined efficiency savings.

In order to deliver key service priorities in the medium term, the Council is developing a Value for Money Programme. Monitoring of the progress against that detailed programme is a key part of the Council's Performance Management Process and will be monitored by the Corporate Leadership Team (CLT).

The Council is generally a low spending authority when compared with "nearest" neighbour authorities:



Source: Audit Commission

10. LEICESTERSHIRE LOCAL AREA AGREEMENT (LAA) ALIGNMENT

- 10.1 Local Area Agreements (LAA) are principally about improving local services and increasing economic prosperity for local people. They are normally a three year agreement with priorities agreed between all the main public sector agencies working in the area and with central Government.
- 10.2 LAAs are emerging as a key future funding source for local authorities and councils must determine priorities within their own areas whilst considering the LAA priorities which are driven by national targets.
- 10.3 In Leicestershire, the countywide Local Strategic Partnership has taken the lead role in developing a Sustainable Community Strategy (SCS) which will be delivered through the countywide Local Area Agreement.
- 10.4 A greater percentage of funding will be channelled through the LAA process rather than directly to the district council. Therefore, in settling the Council's corporate priorities, it is important that the LAA themes are incorporated into the Council's priorities (wherever relevant) in order to be successful in accessing future funding opportunities.
- 10.5 The LAA priority areas are:
- Health
 - Safer Communities
 - Stronger Communities
 - Older People
 - Children and Young People
 - Economic Development
 - Cleaner Greener
- 10.6 The LAA, together with the sustainable community strategy and spatial development strategy, set out the vision and delivery priorities for each place. The LAA will become a much more powerful framework for devolution, taking the programme of freedoms and flexibilities further still. Pooled funding, for example, will enable delivery partners to work together towards shared outcomes for their citizens.

While burdens from central government will be reduced, direct accountability to communities will be increased.

- 10.7 For the LAA, each area has negotiated with the government office (GO) up to 35 targets from the 198 priorities covered by the National Indicator Set – these will be different priorities according to the circumstances of the area.
- 10.8 A number of the LAA targets will require a contribution by the Council to ensure that they are delivered, and it will be necessary to ensure that sufficient resources are allocated to them. The situation will be reviewed at the end of the 2009/10 financial year.

10.9 The Council is also participating in the 'Total Place' programme, which is being piloted in Leicestershire. This is likely to have a fundamental impact on future service delivery arrangements.

11. RISKS

11.1 This strategy faces a number of financial risks which are set out in the following table:

	Risk Area	Potential Impact	Mitigation
1	Failure to deliver Council and LAA priorities due to insufficient resources	Medium to low	<ul style="list-style-type: none"> • Maintain general reserves • Close monitoring of targets • External Funding
2	General overspending due to inadequate budgetary controls or non achievement of general efficiency savings	Medium to low	<ul style="list-style-type: none"> • Effective budgetary control • Corrective action once issues are identified
3	Additional costs in demand led budgets e.g. concessionary travel/housing benefits	Medium	<ul style="list-style-type: none"> • Retention of earmarked reserves • Effective monitoring
4	Failure to achieve budgeted levels of income due to economic and other factors	Medium to high	<ul style="list-style-type: none"> • Effective monitoring • Contingency plans to monitor any shortfall • Maintain general reserves
5	Leisure Centres unable to trade at a breakeven position due to economic factors	Medium	<ul style="list-style-type: none"> • Retention of earmarked reserves • Consideration of service delivery options
6	Land Charges income "at risk" due to national challenges	Medium to high	<ul style="list-style-type: none"> • Collaboration through LGA • Maintain adequate reserves
7	Increase in energy costs or other inflationary pressures	Medium to high	<ul style="list-style-type: none"> • Effective procurement arrangements • Energy reduction projects
8	Increase in labour costs beyond budget provisions	Low	<ul style="list-style-type: none"> • Monitoring by CLT • Control of agency and consultancy costs
9	Legal challenges/enquiries relating to planning decisions	Medium to high	<ul style="list-style-type: none"> • Effective decision making arrangements • Earmarked reserves
10	Other unforeseen events i.e. "Bellwin" type emergencies e.g. severe flooding	Low to medium	<ul style="list-style-type: none"> • Maintain general reserves
11	Pension deficit will lead to significant increase in employers contributions	Medium to high	<ul style="list-style-type: none"> • Impact included in all VfM exercises

11.2 The sensitivity of certain budget areas to change has also been assessed:

Budget Area	10/11 £0,000	Impact of Potential Budget Variation			
		1% £'000	2% £'000	5% £'000	10% £'000
Concessionary Travel (gross)	887	9	18	45	89
Car parking income	472	5	10	25	47
Recycling income	795	8	16	38	80
Industrial unit rents	319	3	6	16	32
Investment income	85	1	2	4	9
Building Control fees	224	2	4	10	22
Dev Control fees	723	7	14	36	72

Risks will continue to be closely monitored during the period of this strategy. The sensitivity analysis has been used to inform decisions about contingency funds and reserves.

11. CONCLUSION

11.1 The financial situation remains very challenging following the global recession. During 2009/10 the Council has had to manage additional costs of around £200,000, which could not have been foreseen. By taking early action to identify savings, these costs have been accommodated, and a balanced budget strategy has been maintained. However, the financial challenges will be significant in the future, and the “Value for Money” programme must help the Council reshape it’s service delivery arrangements.

11.2 The underlying objective and principles of this MTFS is to deliver further cash efficiency savings so that the Council remains able to deliver essential services, whilst protecting the interests of council tax and rent payers, as the Council will face significant challenges in future years. Further efficiency savings will need to be achieved, and the “other income” base will need to be maintained. Despite the recession, this MTFS is designed to ensure that the Council can continue to achieve it’s strategic priorities.

GLOSSARY OF MAIN FINANCIAL TERMS

BUDGET - a statement defining the council's policies over a specified period in terms of finance. Budgets usually include statements about the use of other resources (e.g. numbers of staff) and provide some information on performance measures.

BUDGET REQUIREMENT - the estimated revenue expenditure on general fund services that needs to be financed from the council tax after deducting income from fees and charges, certain specific grants and any funding from reserves. It is used to decide the criteria for capping local authority revenue expenditure.

CAPITAL EXPENDITURE (or capital spending) - section 40 of the *Local Government and Housing Act 1989* defines 'expenditure for capital purposes'. This includes spending on the acquisition of assets either directly by the local authority or indirectly in the form of grants to other persons or bodies. Expenditure that does not fall within this definition must be charged to a revenue account.

CAPITAL RECEIPTS - the proceeds from the disposal of land or other assets. Capital receipts can be used to finance new capital expenditure within rules set down by the Government, but they cannot be used to finance revenue expenditure.

COLLECTION FUND - a statutory fund maintained by a billing authority, which is used to record local taxes and non-domestic rates collected by the authority, along with payments to precepting authorities, the national pool of non-domestic rates and its own general fund.

COMPREHENSIVE SPENDING REVIEW (CSR) - the public expenditure planning process introduced by the Government in 1997 to replace the system of annual public expenditure surveys. Each CSR covers a three-year period e.g. CSR 2007.

CONTINGENCY - money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income, and to provide for inflation where this is not included in individual budgets.

CONTROL TOTAL - a measure of public expenditure, including local government expenditure, which is a key element in the determination of central government support to local authorities.

COUNCIL TAX - the main source of local taxation to local authorities. Council tax is levied on households within its area by the billing authority and the proceeds are paid into its Collection Fund for distribution to precepting authorities and for use by its own General Fund.

COUNCIL TAX AT STANDARD SPENDING (CTSS) - the council tax for a band D property that would be chargeable by an authority if it were to spend at the level of its standard spending assessment. It is used to work out how the RSG should be shared between local authorities.

COUNCIL TAX BENEFIT - assistance provided by billing authorities to adults on low incomes to help them pay their council tax bill. The cost to authorities of council tax benefit is largely met by government grant.

CURRENT EXPENDITURE - running costs, including employee costs, premises costs and supplies and services, but not including debt charges.

DEBT CHARGES - a colloquial term for the interest paid on loans raised and repayments of principal. Also known as capital financing costs or loan charges.

ESTIMATES - the amounts expected to be spent, or received as income, during an accounting period. The term is also used to describe detailed budgets, which are either being prepared for the following year, or have been approved for the current year.

original estimate - the estimates for a financial year approved by the council before the start of the financial year.

revised estimate - an updated revision of the estimates for a financial year.

supplementary estimate - an amount, which has been approved by the authority, to allow spending to be increased above the level of provision in the original or revised estimates.

EXTERNAL AUDIT - the independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FEES AND CHARGES - income raised by charging users of services for the facilities. For example, local authorities usually make charges for the use of leisure facilities, the collection of trade refuse, etc.

FINANCE LEASE - a lease, usually of land, or land and buildings, which is treated in the Government's capital control system as a credit arrangement as if it were similar to borrowing. Other types of lease are termed 'operating leases'.

FINANCIAL REGULATIONS - a written code of procedures approved by the authority, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative procedures and budgeting systems.

FORMULA SPENDING SHARES (FSS) - these are used by government to distribute RSG between local authorities.

FULL-YEAR EFFECT (FYE) - the impact of a policy decision on future spending levels that has not been allowed for in the base budget for future years. Full-year effects can be positive, for example where a new permanent addition to staffing levels is created and filled part way through the year, or negative, such as where a public building is closed or sold mid-year, but generates ongoing expenditure reductions.

GENERAL FUND - the main revenue fund of a billing authority. Day-to-day spending on services is met from the fund. Spending on the provision of housing, however, must be charged to a separate Housing Revenue Account.

GROSS EXPENDITURE - the total cost of providing the council's services before taking into account income from government grants and fees and charges for services.

GROWTH - any increase in spending from one year to another that enables the authority to pay for more services (staff, goods, etc) rather than to meet higher costs.

HOUSING BENEFIT - an allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by local authorities but central government refunds part of the cost of the benefits and of the running costs of the service to local authorities. Benefit paid to the authority's own tenants is known as **rent rebate** and that paid to private sector tenants as **rent allowance**. See also **Council Tax Benefit**.

HOUSING REVENUE ACCOUNT (HRA) - local authorities are required to maintain a separate account - the HRA - which sets out the expenditure and income arising from the provision of housing. Other services are charged to the General Fund.

HRA SUBSIDY - a government grant paid to some housing authorities towards the cost of providing, managing and maintaining dwellings and paying housing benefits to tenants.

LOCAL GOVERNMENT FINANCE SETTLEMENT (LGFS) - the product of the annual consultation process between central and local government which sets funding levels for local government in the following year. LGFS is announced in late November/early December following the Chancellor of the Exchequer's November statement on public expenditure.

MINIMUM REVENUE PROVISION (MRP) - the minimum amount which must be charged to an authority's revenue account each year and set aside as provision for credit liabilities, as required by the *Local Government and Housing Act 1989*.

NATIONAL NON-DOMESTIC RATE (NNDR) - a levy on businesses, based on a national rate in the pound set by the Government multiplied by the 'rateable value' of the premises they occupy. NNDR is collected by billing authorities on behalf of central government and then redistributed among all local authorities and police authorities on the basis of population. Also known as 'business rates', the 'uniform business rate' and the 'non-domestic rate'.

NET EXPENDITURE - gross expenditure less specific service income, but before deduction of Revenue Support Grant.

NON-RECURRING - items that are in a budget for one year only.

OPERATING LEASE - a type of lease, usually of computer equipment, office equipment, furniture, etc which is similar to renting and which does not come within the Government's capital control system. Ownership of the asset must remain with the lessor for a lease to be classed as an operating lease.

OUTTURN - actual income and expenditure in a financial year.

PENSION FUND - an employees' pension fund maintained by an authority, or group of authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

PRECEPT - the levy made by precepting authorities on billing authorities, requiring the latter to collect income from council tax payers on their behalf.

PRECEPTING AUTHORITIES - those authorities which are not billing authorities, i.e. do not collect the council tax and non-domestic rate. County councils, police authorities and joint

authorities are 'major precepting authorities' and parish, community and town councils are 'local precepting authorities'.

PROVISIONS AND RESERVES - amounts set aside in one year to cover expenditure in the future. Provisions are for liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will arise are uncertain. Reserves are amounts set aside which do not fall within the definition of provisions and include general reserves (or 'balances'), which every authority must maintain as a matter of prudence.

PUBLIC SERVICE AGREEMENT (PSA) - statements of the aims, objectives and targets to be achieved by public bodies with the funding provided through the Comprehensive Spending Review.

PUBLIC WORKS LOAN BOARD (PWLB) - a central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

REVENUE EXPENDITURE CAPPING - a system of controlling the spending of local authorities whereby central government limits a local authority's budget requirement either because it is deemed excessive or because it is deemed to show an excessive increase over the previous year. First introduced by the *Rates Act 1984* it is now based on the *Local Government Finance Act 1992*.

REVENUE SUPPORT GRANT (RSG) - a grant paid by central government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose. The grant makes up the difference between expenditure at SSA and the amount which would be collected in council tax for that level of expenditure (CTSS) and the amount of non-domestic rate redistributed.

SECTION 137 EXPENDITURE - under Section 137 of the *Local Government and Housing Act 1972*, local authorities are allowed to spend a limited amount to do things they are not otherwise empowered to do, but which they consider to be in the interests of residents.

SPECIFIC GRANTS - the term used to describe all government grants - including supplementary and special grants - to local authorities other than RSG, capital grants and HRA subsidy. Not to be confused with specified capital grants.

SPECIFIED CAPITAL GRANT (SCG) - certain government grants towards capital spending, for example house renovation grants. Local authorities must apply a special accounting treatment to these grants, i.e. reduce their credit approvals by the amount of the grant received. SCGs all relate to housing.

STANDARD SPENDING ASSESSMENT (SSA) - central government's assessment of the appropriate level of budget requirement for each local authority for a given year. The SSA is used to calculate the authority's Revenue Support Grant and its capping limit.

STANDING ORDERS - the rules adopted by an authority that establish the procedures by which it should conduct its business. In particular, there must be standing orders relating to tendering and contract procedures, under which there will be standing orders and financial regulations to govern financial administration, e.g. authorisation of payments, income collection and accounting and audit.

SUBJECTIVE ANALYSIS - this is an analysis of income or expenditure according to type. Such expenditure headings are wages and salaries, capital charges, building maintenance, consumable materials. On the income side, the examples are government grant, fees and charges.

TREASURY MANAGEMENT POLICY STATEMENT (TMPs) - a statement that sets out the parameters approved by the local authority for the management of treasury activities during the year.

ULTRA VIRES - local authorities are empowered to do only those things authorised by statute. If they do anything not authorised by statute, that action is said to be ultra vires (i.e. beyond their powers).

VALUE FOR MONEY (VFM) - a much-used term that describes a service or product that demonstrates a good balance between its cost, quality and usefulness to the customer. A VFM audit takes into account the economy, efficiency and effectiveness (known as the 'three Es') of a local authority service, function or activity.

VIREMENT - the permission to spend more on one budget head when this is matched by a corresponding reduction on some other budget head, i.e. a switch of resources between budget heads. Virement must be properly authorised by the appropriate committee or by officers under delegated powers.