MEDIUM TERM FINANCIAL STRATEGY 2008/09 TO 2010/11

CONTENTS

1. SUMMARY

Key Headline figures from the proposals included in the medium term financial plan are as follows:-

	2008-09 £000	2009-10 £000	2010-11 £000
General Fund Revenue Budget	8,309	8,503	8,706
Financed by			
Government Grant	5,121	5,147	5,173
Council Tax	3,158	3,326	3,503
Collection Fund Surplus	30	30	30
Funding for Revenue Budget	8,309	8,503	8,706
Council Tax - Band D (£)	184.86	194.10	203.81
Council Tax - Band A (£)	123.24	129.40	135.87
Council Tax Increase (%)	5.0%	5.0%	5.0%
General Fund Reserves	770	2,208	1,848
Housing Revenue Account Reserves	1,798	0	0
Capital Programme Spend	1,327	1,327	1,327
Financed by			
Specified Capital Grant	127	127	127
Capital Receipts	1,200	1,200	1,200
Supported Borrowing	0	0	0
Funding for Capital Programme	1,327	1,327	1,327

2. INTRODUCTION TO THE MEDIUM TERM FINANCIAL STRATEGY

Chester-le-Street District Council's Medium Term Financial Strategy underpins the Council's Corporate Plan.

The Financial Strategy aims to provide the means by which we intend to achieve our vision and priorities as stated in the Corporate Plan, and result in priority based budgeting.

The Strategy covers a rolling three year period so that the authority can plan ahead; it includes expenditure forecasts and projected funding. These are based on assumptions which could change over time; and the Strategy will be reviewed so that the authority is able to respond to any changes.

Key to the management of the Strategy will be our budget prioritisation process whereby bids for growth can be ranked and we ensure that the use of resources is linked to the Council's overall vision and priorities.

The Strategy therefore:-

- Addresses the Council's vision and priorities as stated in the Corporate Plan
- Covers a rolling three year period
- Includes clear assumptions for projections and estimates
- Shows links with other resource management strategies and takes a holistic view of the Council's finances
- Details our financial management arrangements
- Includes prioritisation processes
- Identifies risks and actions proposed to manage risks; and
- Identifies monitoring and reporting arrangements

In effect, the Medium Term Financial Strategy provides the framework for the overall management of the Council's resources and the annual budget process for the next three years.

This strategy is intended to be used for all stakeholders:-

▪ For the Executive and Council	- to decide how the available financial resources will be used
▪ For Managers and staff	- to reinforce their roles in the financial management arrangements
▪ For residents	- to show how the Council's financial strategy impacts upon service provision
▪ For taxpayers	- to demonstrate how the Council looks after public resources
▪ For partners	- to share the Council's vision and help identify opportunities for joint working

Financial planning and service planning is part of the same process, with clearly linked time scales. The financial planning and budget process is about linking budgets to policies. The process incorporates Value for Money assessments, where services produce a statement as to whether Value for Money can be demonstrated in accordance with the Council's corporate VFM criteria. The statements are challenged through the Star Chamber approach and the process requires action when Value for Money is unproven.

Similarly, the service planning process requires services to consider their proposals to make efficiency savings over the next three years, and their plans to procure services in the future.

The Organisational Development Strategy sets out workforce planning guidance and this is incorporated in the service planning process, clearly identifying that workforce development planning is an integral part of business planning.

The Medium Term Financial Strategy provides a resource plan to underpin the delivery of the Council's local strategies and plans.

The medium term financial plan will be delivered through the implementation of the annual budget strategy and through following the agreed key financial principles.

The Council established its key financial management principles when it first considered the development of the Medium Term Financial Strategy and when it adopted its new financial procedure rules in May 2005. The financial procedure rules were revisited when the Council reviewed its Constitution in May 2006, but no changes were required.

Reserves

The Council has agreed that ongoing revenue expenditure should not be dependent on contributions from the general fund balance. It has reviewed the need for all earmarked reserves which resulted in some funds being returned to the General Fund. The Financial Strategy now includes the specification of a minimum general fund balance.

Additional Income

Additional income should be treated corporately and used to fund the Council's agreed priorities.

Fortuitous Savings

Similarly, such savings must be treated corporately.

Efficiency Savings

Savings resulting from managers' actions will be shared. Half will be retained in the service and reinvested in service improvements. The other half will be treated corporately. Together with the venture fund this acts as an incentive to bring forward innovative ideas for service improvement and/or new ways of working.

Budgetary Growth and Capital Programme Bids

These will be considered collectively as part of the prioritisation process.

When the Council considered its approach to the development of its Medium Term Financial Strategy, it adopted a budget prioritisation process. This includes a structured scoring system, which helps to assess bids for growth contributions to the Council's vision and priorities.

A 'proforma' has to be completed for each bid for new funding. This includes:-

- A summary of the initiative and what it will achieve.
- Amount of funding required and for how long.
- Does the initiative attract any other funding?
- Does it result in income generation?
- Will it result in future savings (if so, what is the payback period)?
- Risks associated with the project and risks arising from not funding the initiative.
- Future implications - is further growth likely?
- For capital projects - one-off funding and ongoing revenue consequences.
- How the initiative affects other services.
- Beneficiary of new/extended service.
- Other agencies involved.
- Is the funding required to fund a new or extended statutory responsibility? If so, and the bid for growth is not successful, how do you propose to accommodate the new responsibility?
- What effect would this have on your services?

The pro-formas were used for the first time for growth bids resulting from the service planning process for 2006/07 and were considered during the budget review and analysis (or Star Chamber) meetings.

Bids were then considered informally by the Executive and Corporate Management Team and then as part of the formal budget process.

Service Specific Funding

Service specific funding should be allocated to the relevant service, even if it does not have to be ring fenced to the service.

However, the service manager must show what impact the funding is having on service delivery and the implications of the cessation of the funding.

The use of the additional funding should not result in any ongoing financial implications which continue after the funding has ceased, unless these have been agreed as budgetary growth.

Time Limited Funding

As with service specific funding, this should not result in any ongoing commitment for the Council. The funded project/initiative should cease once the funding dries up and this should be clear from the outset. If this has been used to test an innovative approach to develop services in accordance with our priorities, a full evaluation of the financial and service improvement implications would be needed before consideration is given to potential ongoing funding. This would also need to identify potential savings/reprioritisation of services to enable this to happen. Where the time limited funding will result in ongoing financial implications, these should be flagged up when the project starts. Effectively, this is then a growth bid and it should be subjected to the prioritisation process and, if supported, built into the Medium Term Financial Strategy.

Treatment of Under and Overspends

At the end of the financial year, the Director of Resources may authorise the carrying forward of unspent budgets, having due regard to the following:-

- The Council's overall resources
- Agreements with external funding bodies, where funding can only be used for the purposes for which it was given
- Financial commitments already entered into on behalf of the Council
- The availability of funding to support financial commitments in future financial years
- The proposed applications of the funds to be carried forward

The Director of Resources will report all amounts carried forward to the Executive.

The Director may recommend that an overspending in a service area's budget is carried forward to the following year, and may therefore contribute to the first call on service estimates the following year.

Freedoms and Flexibilities

Virement is limited to budgets which are fully controllable by the service manager.

Virements between individual controllable revenue budgets within a cost centre can be approved by the Service Team Manager up to a limit of £5,000 in total per individual budget. Similarly, Service Team Managers can transfer amounts within controllable budgets between cost centres up to an overall limit of £5,000 (in total between the cost centres).

The agreement of Corporate Management Team is needed for any virement above £5,000.

For capital, any transfers between schemes must be approved by the Executive.

Invest to Save Initiatives

The Council has established a 'Venture Fund' of £150,000 for invest to save initiatives and to encourage innovation/new ways of working.

Managers can call upon this to use in their service areas with a view to fund initiatives that will result in savings and/or generate income together with service improvements. Beneficiary services are required to make repayments to the Venture Fund in future years so that there is an ongoing provision of investment available to support such initiatives. Bids to the fund must be able to demonstrate a payback period of no more than three years.

To date the Venture Fund has been used for leisure options work; the procurement partnership; and, licensing initiatives.

3. NATIONAL CONTEXT

Local Government Finance Settlement

For 2006/07, the Government introduced a new funding system which focuses on grant and not on notional measures of spending and council tax. A new 'four block' model for distributing grant is now used. Councils receive:-

- A relative needs allocation using Relative Needs Formulae (RNF)
- A reduction based on relative resources - the ability of Councils to raise Council Tax
- A central allocation based on a per head amount
- An allocation to ensure a minimum increase in grant.

The settlement included a number of methodology changes for environmental, protective and cultural services (EPCS):- 2001 census data replaced 1991 census data; the fixed cost element was updated from £300,000 to £325,000 per authority; and there were adjustments to take account of the new duty in respect of concessionary fares.

Spending Review 2007

The 2007 Comprehensive Spending Review, covering departmental allocations for 2008/09 – 2010/11 was announced on 6 December 2007.

Local Authority Business Growth Initiatives

All business rates are collected by Councils and paid over to a central, national pool. The revenue is then redistributed on a per capita basis.

The Local Authority Business Growth Incentive Scheme (LABGI) allowed Councils to retain some of the business rate revenue that has resulted from increasing the business rate base at a local level. This covered period 2005/06 – 2007/08.

On 9 October 2007, DCLG published a consultation paper seeking views from local authorities and other interested parties on how best the LABGI scheme can be redesigned to create a permanent incentive for Councils that encourages sustainable economic growth, fully integrated within the local authority finance system.

Business growth is measured in terms of the increase in a local authority's rateable value during a calendar year. A single payment is made to each eligible authority in the final quarter of the financial year. The payments are treated as unringfenced grants, which means that they can be used by authorities to fund their own spending priorities.

Business Rates and Council Tax Revaluations

The last review for business rates took place in April 2005. Transitional payments ensure that the impact of revaluations is spread over a number of years.

The 2003 Local Government Act introduced 10 year revaluations for Council Tax. Valuations were initially planned for April 2005, which would have affected Council Tax bills in 2007/08 but this has been postponed following the extension to the Lyons Inquiry into Local Government Funding. The Government has now stated that it would not expect to consider revaluation before 2011 and that, even at this point, there would need to be clear benefits of doing this.

Capping

The Government announced that it expected the average Council Tax increase in England in 2008/09 to be substantially less than 5%.

4. LOCAL CONTEXT

The Chester-le-Street District Partnership, which is the Local Strategic Partnership for the District, published its Community Strategy setting out its shared vision for the future of the District in March 2004.

The Strategy has a long-term aspirational vision that aims to address the economic, social, environment and regeneration of the District.

An updated 'Sustainable Community Strategy' was agreed by the District Partnership and the Council in June 2006.

The vision of the Sustainable Community Strategy is as follows:-

'By 2016, the District of Chester le Street will be a place where people choose to live, to learn, to work and to visit. There will be inclusive, safe and healthy communities in our towns and villages built on a strong sustainable economic base with excellent communication networks. The District Council will be a place where everyone is working together for a sustainable future.'

The four key elements to the Community Strategy are:-

- A strong, sustainable and diverse economic base
- Inclusive communities
- Excellent communication networks
- An attractive and protective environment

By working with our partners to achieve the Community Strategy's vision, we will improve economic, social and environmental well being for communities across the District. While the aims and priorities to achieve the strategy's vision are expressed separately they are all linked to each other. Actions to achieve one priority will impact on other priorities.

The Council shares this vision. It has developed its own vision and identified seven priority areas.

Its vision is 'Working together to fulfil the needs of our communities'.

The Council's priorities are now under review. Proposals were built into the Council's Corporate Plan for 2007 – 2010 and were due to be considered through the normal corporate planning cycle set out in the plan. Local Government Reorganisation has a significant impact on this. A process to review priorities was therefore agreed in October. This incorporates:-

- an understanding of the political and officer priorities;
- an understanding of residents' priorities;
- an understanding of the relevance of the current Corporate Plan's proposals and their ability to achieve outcomes within the lifetime of any transitional proposals;
- an understanding of the improvement measures necessary to guide the Council through the lifetime of any transitional arrangements and their relevance to new priorities;
- the need to address the 2008 – 2010 budget and scrutiny engagement in the process in the light of new priorities; and

- the need for a reassessment of Strategic risks.

5. KEY FINANCIAL ISSUES FACING THE COUNCIL

Housing Transfer

The Council has agreed to transfer its housing stock to Cestria Community Housing Association. The position and requirements of the Council in embarking on LSVT have been consistent: the Council has not sought to make any money out of the transfer but have sought to get a broadly cost neutral position extending beyond this Medium Term Financial Strategy for the first 5 years having regard to the fact that we have ‘in built’ efficiency savings over that period of time and beyond.

A detailed financial model is available but remains commercially sensitive to the Council as part of the negotiations with Cestria Community Housing Association. The Council will consider the approval of the stock transfer at a Full Council meeting on 21 December 2007.

Leisure Options Review

The Council has considered options for the delivery of its leisure services. It wants to develop leisure services so that they are more economic, efficient and effective and to consider innovative ways to improve the services. The Council agreed, therefore, to carry out a full options appraisal of the delivery of sports, arts and leisure services. Phase 1 of the work has now been completed. Progress in respect of Phase 2 will now be limited due to local government reorganisation.

Procurement

The Council agreed its Corporate Procurement Strategy and Action Plan in April 2006. The Strategy will be implemented over the next three years and sets out the Council’s aims, objectives, framework, policies and actions relating to its future approach to procurement.

The purpose of the Strategy is:-

- “To ensure that all procurement decisions made by the Council will help to deliver the Corporate Plan objectives, produce Best Value by demonstrating Value for Money and the effective Use of Resources.”

All Procurement decisions should be made in order to achieve community benefits and support the continuous improvement of service delivery in Chester-le-Street.

A key theme of the Strategy is the development of a ‘business case culture’ whereby there is a clear justification for the chosen method of procurement based on the authority’s objectives.

A Procurement Strategy Group and Procurement Strategy Network have been established, and a robust action plan had been developed and is being implemented.

The 2007/08 budget proposals include a target of £50,000 for cashable procurement savings to be delivered by managers working with the Procurement Strategy Network.

The aim is to identify potential savings at both a service team and corporate level and progress to date can be summarised as follows:

Saving 2007-08	To 30 Sept 07
	£
Service Team Initiatives	6,550
Corporate Contracts:	
Electricity Contract (Nepo)	9,370
ICT Hardware	1,640
Fire Safety	1,290
Telephones	8,520
Stationery	2,200
Total 2007-08	29,570

The Procurement Strategy Network will continue to investigate further cashable savings through its regular meetings and 2007-08 work-plan.

Joint Working

The authority is already committed to exploring joint working and operational partnerships with other authorities.

This commitment has resulted in a successful partnership arrangement with Derwentside District Council for Procurement.

Local Government Review

The Government has announced its intentions to proceed with the introduction of a single unitary authority for the whole of County Durham to take effect from 2009/10.

The responsibility for setting the 2008/09 budget remains with Chester-le-Street District Council but the responsibility for setting the 2009/10 budget will be that of the new Executive of the Unitary Council following elections in May 2008.

This Council has a general duty in the draft Implementation Order to ensure that actions they take do not prejudice the economic financial status of the new Council. The draft order is due to be considered by Parliament at the end of January 2008.

6. REVENUE FORECASTS 2008/09 TO 2010/11 - GENERAL FUND

Chester-le-Street District Council will receive formula grant of £5.121 million in 2008/09. As the Medium Term Financial Strategy runs up to the end of 2010/2011, some assumptions have had to be made for 2009/2010 and 2010/2011. At present, the Strategy assumes increases in Formula grant of 0.5% for each year in line with the provisional settlement.

The level of resources available to the authority to fund its revenue expenditure is also dependent on Council Tax levels. The Council Tax increased by 4.8% in 2007/08; for future years the financial strategy currently assumes Council Tax increases of 5.0%, year on year. The projections also show how available resources will vary if Council Tax levels differ from the level originally assumed. (Table 2).

Table 1

	2008/09		**2009/10**		**2010/2011**	
	£m	**Increase**	**£m**	**Increase**	**£m**	**Increase**
Formula Grant	5.121	+50,708 1%	5.147	+25,607 0.5%	5.173	+25,735 0.5%
Income from Council Tax (5% increase) and Collection Fund Surplus	3.188	+130,000 4.3%	3.356	+168,000 +5.3%	3.533	+177,000 5.3%
Total Resources	8.309	+180,708 2.2%	8.503	+193,607 +2.3%	8.706	+202,735 +2.4%

Assumptions

2008/09 Taxbase = 17,086.65; Band D Tax = £184.86
2009/10 Taxbase = 17,136.65; Band D Tax = £194.10
2010/11 Taxbase = 17,186.65; Band D Tax = £203.81

The following table shows the effect of different options for Council Tax increases on the total resources available. The amount of Formula Grant assumed is the same as that shown in Table 1.

Table 2

	2008/09 £m	**2009/10 £m**	**2010/11 £m**
2% increase	8.219	8.408	8.606
2.5% increase	8.234	8.424	8.622
3% increase	8.250	8.440	8.639
3.5% increase	8.265	8.456	8.656
4.0% increase	8.280	8.472	8.672
4.5% increase	8.295	8.487	8.689
5.0% increase	8.309	8.503	8.706

Tax Levels

The table below shows the band D Council Tax which results from varying percentage increases.

Table 3

	2008/09	2009/10	2010/11
2% increase	179.58	183.17	186.84
2.5% increase	180.46	184.97	189.60
3% increase	181.34	186.78	192.39
3.5% increase	182.22	188.60	195.20
4.0% increase	183.10	190.43	198.04
4.5% increase	183.98	192.26	200.91
5% increase	184.86	194.11	203.81

The revenue projections for the next three years are summarised below:-

Table 4

	2008/09 £000	2009/10 £000	2010/11 £000
Starting Position	8,100	8,309	8,503
Plus unavoidable growth	552	500	500
Less savings already identified	(270)	-	-
Less savings to be found	(73)	(306)	(297)
Base budget for the year matches funding available	8,309	8,503	8,706

2008/09

The unavoidable growth identified for 2008/09 comprises the pay increase, removing the planning delivery grant and LABGI grant from the budget in its entirety and an increase in the recycling budget. Again, bids for growth coming out of the service planning process will be in addition to this.

2009/10 and 2010/11

The only unavoidable growth shown here is that resulting from the pay increase.

HOUSING REVENUE ACCOUNT

The Council plans to transfer its housing stock to a Registered Social Landlord at the end of 2007/08; consequently, the Medium Term Financial Strategy does not project the HRA position beyond the next financial year. The financial implications of stock transfer have been incorporated in the General Fund revenue projections and are outlined further in section 5 of the Strategy - Issues Facing the Council.

The balance on the HRA at the time of stock transfer is expected to be £1.798 million. This is available to the General Fund and the summary on page 1 reflects the estimated use of the balance in future years.

7. CAPITAL FORECASTS 2008/09 - 2010/11

The Council's Capital Programme is divided into two areas: regeneration, and other services.

Although the Council receives some specific capital grants and has been extremely successful in attracting external funding, the whole capital programme is extremely dependent on asset sales.

The Council has taken the opportunity to use all of its capital receipts resulting from the sale of housing land for the provision of affordable housing and regeneration schemes. By doing this the Council is able to retain all of its housing receipts for local use. This does mean that the funding for other services is dependent on the proceeds of sales from non-housing land and the retained proportion of Right-to-Buy receipts.

The Capital Working Group, chaired by the Executive Lead Member for Finance, monitors capital expenditure and funding and is involved in the prioritisation of new bids.

In addition, the Council benefits from Specified Capital Grants to help meet the costs of Disabled Facilities Grants.

The total funding for the next three years is summarised below:-

	2008/09 £000	2009/10 £000	2010/11 £000	Total £000
Asset Sales	1,200	1,200	1,200	3,600
Specified Capital Grant	127	127	127	381
	1,327	1,327	1,327	3,981

The Council's I.T. Strategy for 2006-2009 has recently been updated. Beyond 2007/08 it only includes outline estimates of the scale of investment required and recognises that a business case will be developed for each potential development. The business case will assess the benefits to the Council and its customers against the costs of procurement, implementation and management.

At present, there are no ongoing commitments beyond 2007/08, meaning that resources totalling £1.2 million in 2008/09 will be available for regeneration and general fund schemes. This figure is based on a conservative estimate of the proceeds from asset sales.

The authority is pro-active in its approach to securing s106 agreements resulting in funding for schemes associated with new developments and agreeing significant developers' contributions as part of land sale contracts. In total, funding currently agreed through these processes amounts to £2.1million at present.

The proposed replacement Local Plan - the Local Development Framework - provides an opportunity to develop our current approach to s106 obligations, including widening the scope of agreements and the development of firmer guidance on such issues as payment matrices.

8. TREASURY MANAGEMENT STRATEGY

The Council adopted the CIPFA Code of Practice 'Treasury Management in Public Services' in 27 March 2003.

All Treasury Management activities are undertaken within the procedures set out in the Code and the Council employs external Treasury Management consultants to advise on its treasury management strategy and provide data and interest rate forecasts to assist in planning and reducing the impact of unforeseen adverse interest rate movements. Wider treasury activities also include managing the Council's cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost and then optimise performance.

In accordance with the Code's requirements, the Council agreed its Treasury Management Strategy, including Prudential Indicators for 2007/08 - 2009/10, on 1 March 2007.

The table below shows the Council's Capital Financing Requirement which is the Council's underlying indebtedness for a capital purpose.

	2008/09 Estimated Projection £m	2009/10 Estimated Projection £m	2010/11 Estimated Projection £m
CFR – Non Housing	3.80	3.65	3.50
CFR - Housing	0	0	0
Total CFR	3.80	3.65	3.50
Borrowing	0	0	0
Other long term liabilities	0.04	0.04	0.04
Total Debt 31 March	0.04	0.04	0.04

This reflects the fact that it is expected that the Council will become debt free following the transfer of the housing stock.

The Council's investment policy is governed by DCLG (previously ODPM) guidance which has been implemented in the annual investment strategy. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the Treasury function over the year. These are district historic indicators as opposed to the prudential indicators. The latest CIPFA Treasury Management Statistics, which are for the year 2005/06, show:-

Borrowing - gross average rate of interest on all external debt for the Council was 5.57% as compared with all English non-metropolitan districts' rate of 6.19%.

Investments - average rate of interest on all external investments was 4.61% as compared with all English non-metropolitan districts' rate of 5.02%.

The Council is aware of the risks of passive management of the treasury portfolio and, with the support of Butlers, the Council's advisers, has pro-actively managed its treasury position. The Council continues to utilise historically low borrowing costs and complies with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, utilising long-term loans.

The Council's investments comprise of reserves and balances, including unused capital receipts, income from government grants, council tax and business rates, and cash-flow timing differences between income and expenditure.

Clearly capital receipts have a significant role to play in the Council's investments. Although these have been earmarked to fund regeneration schemes, there have been delays between the receipt and expenditure on the scheme.

The 2007/08 revenue budget includes £300,000 from interest on investments. This is considered a realistic prudent figure and improving upon this is very much dependent on the timing of capital receipts. Our cash flow and investment forecast is monitored and updated on a monthly basis, consequently the estimates of the investment interest will be revised to reflect our treasury management activities.

9. RESERVE AND BALANCES

The Chartered Institute of Public Finance and Accountancy (CIPFA) published guidance on reserves and balances in 2003.

Reserves can be held for three main purposes:-

- A working balance to help cushion the impact of uneven cash flows - this forms part of general reserves.
- A contingency to cushion this impact of unexpected events or emergencies - this also forms part of general reserves.
- A means of building up funds, often referred to as earmarked reserves, to meet unknown or predicted liabilities.

For each reserve held by a local authority, there should be a clear protocol setting out:-

- The reason for/purpose of the reserve
- How and when the reserve can be used
- Procedures for the reserve's management and control
- A process and timescale for review of the reserve to ensure continuity relevance and adequacy

Chief Financial Officers must take account of the strategic, operational and financial risks facing the authority in assessing the adequacy of unallocated general reserves when setting the budget.

Chief Financial Officers have a fiduciary duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

The level and use of reserves is determined by the Council, informed by the advice and judgement of the Chief Financial Officer. In order to help the Council reach its decision in respect of reserves, the Chief Financial Officer should report the facts that influenced his judgement and ensure that the advice given is recorded formally. Where the Chief Financial Officer's advice is not accepted, then this should be recorded formally in the minutes of that Council meeting.

The Council's reserves at the beginning of 2007/08 are summarised below:-

	£'000
General Fund reserve	390
Insurance reserve	176
Earmarked revenue reserves	1,134
	1,700

The total reserves are estimated to stand at £0.77 million at the end of 2007/08 and £2.27 million at the end of 2008/09 when the residual HRA balance of £1.5 million will be added to the general fund reserve.

The General Fund reserve is a reserve set aside for unforeseen events and is needed to help cash flow management. The Council is responsible for collecting the Council Tax for Durham County Council, Durham Police Authority, Durham and Darlington Fire and Rescue Authority and the Parish Councils as well as itself. Instead of paying their share of the Council Tax as it is collected, the Council has to pay a proportion of the total due to the different organisations at specific times during the year, irrespective of whether the amount due has been collected. It is important, therefore, to have the general reserve available to meet these payments should this be required.

At £390,000, the general fund reserve represents approximately 4.8% of the net general fund budget (1.2% of the gross budget). The Council has agreed that the General Fund Reserve should not be allowed to fall below £349,000.

CIPFA's guidance note on Local Authority Reserves and Balances makes it clear that the factors which determine the appropriate level for balances can only be properly assessed at local level and stresses that decisions on the level of reserves should be set in the context of each local authority's medium term financial plan, not on short term considerations. The factors to be considered in determining the appropriate level of reserves include:-

- the treatment of inflation and interest rates in the budget;
- estimates of the level and timing of capital receipts;
- the treatment of demand-led pressures;
- the treatment of planned efficiency savings and productivity gains;
- the financial risks inherent in any new funding partnerships, major outsourcing arrangements or capital developments;
- the availability of other funds to deal with major contingencies and the adequacy of provisions;
- the overall financial standing of the authority;
- the authority's track record in budget and financial management;
- the authority's capacity to manage in-year budget pressures;
- the strength of the financial information and reporting arrangements;
- the authority's virement and end of year procedures in relation to budget under/overspends;
- the adequacy of the authority's insurance arrangements to cover major unforeseen risks.

If the general fund balance is not maintained at an adequate level, the authority may not have sufficient unallocated resources to deal with unexpected liabilities and has reduced capacity to manage in year budget pressures.

The insurance reserve is needed to ensure the Council can fund its self insurance costs.

The earmarked revenue reserves are a variety of funds earmarked for specific revenue purposes. They include the planning delivery grant, finally earmarked for leisure activities and the Venture Fund.

Collection Fund Surplus

The Collection Fund Surplus is used to reduce Council Tax levels. Historically, this has been relatively small, for 2007/08 the District Council's share was £43,000. The Medium Term Financial Strategy assumes a surplus of £30,000 for both 2008/09 and 2009/10.

The projected tax base takes account of all expected major changes which may affect the property base of the district and a 98.5% collection rate is assumed when the taxbase for tax setting purpose is agreed.

The Council has recently decided to charge second homes the maximum of 90% council tax charge, thus giving the minimum 10% discount. This will have very little effect on the taxbase but the Council made a policy based decision to do this.

All expected changes in the taxbase have been incorporated in the financial projections.

Housing Revenue Account Reserve

The Housing Revenue Account Reserve is currently £1.3 million and is expected to be £1.798 million when the housing stock transfers at the end of 2007/08. The Medium Term Financial Strategy assumes that this will be available to the Council in 2008/09.

10. MONITORING, REPORTING AND REVIEW PROCESSES

The Medium Term Financial Strategy will be monitored by the Council's Executive. As a minimum, progress will be reported every six months - when the revenue budget and capital programme is set for the forthcoming year and when the final accounts for the preceding year are closed. However, the strategy is reviewed outside of these processes when required, particularly when the exact impact of major financial changes, such as that relating to the housing stock, become more certain.

The financial management principles have been communicated and are understood by all service team managers and other budget holders. They have been incorporated in the new financial regulations which, again, have been widely communicated as part of the new constitution; training on the new financial regulations has been provided to ensure they are fully understood. Refresher training and training sessions for new staff have been scheduled as part of the Corporate Training Plan.

The medium term financial strategy has been drawn up with the full involvement of corporate management team and, will be communicated throughout the organisation.

Financial monitoring reports are considered on a quarterly basis by corporate management team; high level monitoring reports are submitted to the Council's Executive at the six months, nine months and year end position. The three Overview and Scrutiny Panels receive more detailed monitoring reports for the services within their remit, again at the six months, nine months and year end stages.

The Executive also receives quarterly corporate performance management reports which link financial and non-financial performance, including key strategic risks.

The authority's corporate performance management system links performance indicators (both national and local) with financial management data.

<u>Consultation</u>

The Annual Residents' Survey includes specific questions about the Council's budget. It gave some background information so that the questions could be put into context and asked residents to look at the costs, in terms of Council Tax, for each major service and asks whether they would be willing to pay more for the service, or have a reduced charge for a lesser service.

When the Council considered its 2007/08 budget, it took account of the outcome of the Residents' Opinion Survey and the views of the business ratepayers.

Business ratepayers are consulted as a matter of course prior to each year's revenue budget being set.

The Financial Strategy is published on the Council's website and residents and other stakeholders invited to comment.

11. RISK MANAGEMENT

Risk	Action
Projections about government funding are inaccurate.	Those assumed for 2008/09 and 2009/10 reflect the 2007 Spending Review. (Note that a 1% increase in formula grant means an increase in funding of £50,000).
Assumptions made in respect of pay and price increases are not correct.	Financial projections will be revised as the annual pay award is agreed. Pay inflation has been relatively stable over recent years. Pension figures may have to be amended in the light of new information from the pensions authority.
Income levels are not achieved	Budget monitoring arrangements flag this up at an early stage in the year so this can be quantified and corrective action taken if necessary.
Expenditure budgets not adequately controlled	Financial Management system includes controls to address this. Frequent, detailed budget monitoring reports and arrangements ensure this is picked up at an early stage.
Savings not achieved	Where savings prove to be unachievable, this will be identified through budget monitoring and reporting arrangements to enable corrective action to be taken.
Capital Receipts do not materialise	Capital Schemes dependent on the proceeds of planned asset sales do not start until the sales are certain. Only schemes with guaranteed resources can progress.
Unforeseen expenditure is identified for which there is no budgetary provision	Regular budget monitoring arrangements will identify problem areas and potential savings or additional income can be vired to fund the unforeseen expenditure in accordance with financial regulations.
Procurement target savings are not achieved	These have been allocated to each area and action is being taken to ensure that these are achieved. The work of the Procurement Strategy Network will help managers to achieve their procurement savings.

Subject to government decisions, the review of local government could have implications for the Council's decision making processes as early as 2008/09. Clearly this would impact on the Council's Medium Term Financial Strategy.

Local Government Reorganisation in Durham will be managed by a Joint Committee, which includes representatives from Chester-le-Street District Council.