Supplementary Committee Agenda

Overview and Scrutiny Committee
Thursday, 28th January, 2010

Place:	Council Chamber, Civic Offices, High Street, Epping
Time:	7.30 pm
Committee Secretary:	Simon Hill, Senior Democratic Services Officer, The Office of the Chief Executive email: shill@eppingforestdc.gov.uk Tel: 01992 564249

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8. BUDGET REPORT (Pages 3 - 74)

(Director of Finance and ICT) to consider the draft Portfolio Holder Budgets report. The full draft budgets were considered in detail at the Finance and Performance Management Scrutiny Standing Panel on 12 January 2010 and at the Finance and Performance Management Cabinet Committee on 25 January 2010.

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Report to Overview & Scrutiny Committee

Date of meeting: 28 January 2010

Subject: Council Budgets 2010/11

Officer contact for further information: Bob Palmer (01992-564279)

Democratic Services Officer: Adrian Hendry (01992-564246)

Recommendation:

1. That Overview and Scrutiny Committee consider the recommendations of the Finance and Performance Management Cabinet Committee and the Finance and Performance Management Scrutiny Panel and recommend them, as amended if necessary, to the Cabinet.

Report:

1. The revised Overview and Scrutiny arrangements are now well established and the budget has followed the same schedule of meetings as in recent years. Prior to 2006/07 the detailed proposals were taken to the relevant Overview and Scrutiny Committee and Overview and Scrutiny Committee 3 then considered the budget as a whole and made recommendations to Cabinet.

2. The timetable for the approval of the 2010/11 budgets is as follows:

Finance & Performance Management Scrutiny Panel	12 January 2010
Finance & Performance Management Cabinet Committee	25 January 2010
Overview & Scrutiny Committee	28 January 2010
Cabinet	1 February 2010
Full Council	16 February 2010

3. The Finance and Performance Management Scrutiny Panel are presented with the detailed Directorate budgets and have the opportunity to question Directors and Portfolio Holders. Therefore, this Committee had previously only received a report from the Chairman of that Panel and the Medium Term Financial Strategy. However at the meeting of this Committee in January 2008 additional information was requested and so the full reports going to the Finance and Performance Management Cabinet Committee have subsequently been appended to this report.

4. An oral update will be given on the recommendations of the 12 January meeting of the Finance and Performance Management Scrutiny Panel on the detailed draft budgets for each Directorate. Any comments or amendments suggested will also be reported orally to this Committee, as will the views of the Finance and Performance Management Cabinet Committee being held on 25 January.

5. The Overview and Scrutiny Committee is now asked to consider the recommendations of the Finance and Performance Management Cabinet Committee and the Finance and Performance Management Scrutiny Panel.

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Report to the Finance & Performance Management Cabinet Committee

Report reference: FCC-022-2009/10
Date of meeting: 25 January 2010

Epping Forest District Council

Portfolio: **Finance and Economic Development.**

Subject: **Council Budgets 2010/11**

Responsible Officer: **Bob Palmer** **(01992 564279).**

Democratic Services Officer: **Gary Woodhall** **(01992 564470).**

Recommendations/Decisions Required:

(1) That the Committee considers the Council's 2010/11 General Fund budgets and makes recommendations to the Cabinet meeting on the 1 February 2010 on adopting the following:

(a) the revised revenue estimates for 2009/10, which are anticipated to reduce the General Fund balance by £837,000;

(b) an increase in the target for the 2010/11 CSB budget from £18m to £18.1m (including growth items);

(c) an increase in the target for the 2010/11 DDF net spend from £1.3m to £1.4m;

(d) an increase of 2.5% in the District Council Tax for a Band 'D' property to raise the charge from £146.61 to £150.30;

(e) the estimated reduction in General Fund balances in 2010/11 of £497,000;

(f) the four year capital programme 2010/11 – 13/14;

(g) the Medium Term Financial Strategy 2010/11 – 13/14; and

(h) the Council's policy on General Fund Revenue Balances to remain that they are allowed to fall no lower than 25% of the Net Budget Requirement;

(2) That the Committee recommends to the Cabinet that the 2010/11 HRA budget including the revised revenue estimates for 2009/10 be agreed;

(3) That the Cabinet be requested to note that rent increases and decreases proposed for 2010/11 are to be applied in accordance with the Government's rent reforms and the Council's approved rent strategy with the addition of an extra element to give an average overall increase of 2.4%;

(4) That the Committee recommends to the Cabinet that the established policy of capitalising deficiency payments to the pension fund is maintained, in accordance with the Capitalisation Direction request made to the Department for Communities and Local Government;

(5) That the Committee considers the Council's Prudential Indicators and Treasury Management Strategy for 2010/11 and makes recommendations to the Cabinet; and

(6) That the Committee notes the Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2010/11 budgets and the adequacy of the reserves.

Executive Summary:

This report sets out the detailed recommendations for the Council's budget for 2010/11. The budget uses £0.5m of reserves but this is affordable and the Council's policy on the level of reserves can be maintained throughout the period of the Medium Term Financial Strategy. Over the course of the Medium Term Financial Strategy the budget will be brought back into balance.

The budget is based on the assumption that Council Tax will increase by 2.5% and that average Housing Revenue Account rents will increase by 2.4%.

Reasons for Proposed Decision:

The decisions are necessary to assist Cabinet in determining the budget that will be placed before Council on 16 February 2010.

Other Options for Action:

Members could decide not to approve the recommended figures and instead specify which growth items they would like removed from the lists, or Members could ask for further items to be added.

Report:

1. On 1 February 2010 the Cabinet will receive the minutes and recommendations contained therein of this meeting and will then make recommendations to Council for the setting of the Council Tax and budget on 16 February 2010.

2. The annual budget process commenced with the Financial Issues Paper being presented to this committee on 5 October 2009. The paper was prepared against the background of ongoing difficulties within the economy and highlighted the uncertainties associated with:

(a) likely reductions in grant as part of the next Comprehensive Spending Review (CSR);

(b) effects of the "Credit Crunch" and reduced activity in the housing market;

(c) using up of capital reserves on non-revenue generating assets;

(d) pay awards;

(e) next triennial pension valuation;

(f) capitalisation of pension deficit payments;

(g) changes to the statutory concessionary fares scheme; and

(h) Customer Services Transformation Programme.

3. There is now greater clarity on some of these issues, but several of them will not be resolved for some time. The key areas are revisited in subsequent paragraphs.

4. In setting the budget for the current year Members had anticipated using £704,000 from the general fund reserves. It was felt that, given the strength of the Council's overall financial position, it was able to sustain a deficit budget to support the local economy and that net spending could be managed down over the medium term.

5. The revised four year forecast presented with the Financial Issues Paper took into account all the additional costs known at that point and highlighted the likely reduction in grant support of 10% over the next CSR period. This projection showed a need to achieve savings of £300,000 on the 2010/11 estimates, £600,000 in 2011/12, £400,000 in 2012/13 and £200,000 in 2013/14 to keep revenue balances above the target level at the end of 2013/14.

6. Members adopted this measured approach to reduce expenditure in a progressive and controlled manner. It was felt that a reduction was needed in the budget figures for 2010/11 as the first step in this process, followed by increased savings in 2011/12.

7. The budget guidelines for 2010/11 were therefore established as:

(a) The ceiling for CSB net expenditure be no more than £18.3m including net growth/savings;

(b) The ceiling for DDF net expenditure be no more than £0.8m; and

(c) The District Council Tax be increased by no more than 2.5%.

8. In view of the stabilising of some of the income streams, the clearer cost and recycling credit increases on waste management and the slippage in the DDF programme, these guidelines were revised by the 14 December meeting of this committee. The target for the Council Tax increase was unchanged but the other guidelines were amended to:

(a) The ceiling for CSB net expenditure be no more than £18m including net growth/savings; and

(b) The ceiling for DDF net expenditure be no more than £1.3m.

<u>The Current Position</u>

9. The draft General Fund budget summaries are attached as annexes 1 to 8. The main year on year resource movements are highlighted in the CSB Growth and DDF lists, which are attached as Annexes 9 and 10. In terms of the guidelines, the position is set out below.

<u>The ceiling for CSB net expenditure be no more than £18m including net growth</u>

10. Annex 9 lists all the CSB changes for next year. Some of the growth items listed are for sums agreed as part of previous year's budgets but most are new for next year. The largest growth item for next year is £92,000 for the increase in employer's contributions for the pension fund, being the last of the annual 1% increases determined by the March 2007 triennial valuation.

(i) Likely Reduction in Grant as part of the next CSR

11. This is one of the key areas which are still to be clarified and the extent of the reduction is unlikely to be confirmed until several months after the general election. Whoever is in power after the general election will have to significantly reduce public spending to achieve the necessary improvement in the state of the overall public finances. It has been well documented that the bail out of the financial sector and effective nationalising of some of the countries largest banks has put an unprecedented strain on the public finances. Every month as the Government borrowing figures are announced they establish new records and it is clear that the current position is not sustainable.

12. Whilst the banking sector has now stabilised it is likely to still be several years before a full return to private ownership is possible. This means solutions must be found in other areas and there are already suggestions that an incoming Government will need to cut big programmes such as identity cards and the replacement of Trident. However, the size of the problem makes it inevitable that local government will have to share some of the pain. Best estimates are that grant will fall 10% over the next CSR with the reduction in the first year likely to be 5%. This means in 2011/12 grant is likely to reduce by £471,000 and over the three year CSR grant support could fall by £1m.

(ii) The "Credit Crunch" and Reduced Housing Market Activity

13. The Council's CSB contains a number of income streams that have been adversely affected, to varying degrees, by the current state of the housing market. Recent surveys have been more positive, although while banks remain cautious with mortgage funding and developers wait for better rates of return any recovery in the housing market is likely to remain fragile.

14. The main areas of income related to the housing market are land charges, building control and development control. For 2009/10 land charges income had been estimated at £150,000, consistent with the actual of £146,000 for 2008/09 but a long way from the 2006/07 figure of £394,000. At the end of December the income achieved was ahead of the estimate and a full year figure of £170,000 may be achieved. Building Control fees are still well short of the estimate but officers are confident that fees from major schemes will arrive before the year end to leave a shortfall of no more than £40,000. Development Control income will also fall short of the original estimate with the outturn likely to be closer to £550,000 than the £605,000 originally estimated.

15. It is worth noting that some of the Council's other income streams are doing well. The MOT income from Fleet Operations may exceed the estimate of £225,000 by £75,000. Total licensing income is also ahead of expectations and should exceed the estimate of £252,000 by £40,000.

16. Adjustments have been made to CSB income levels where the changes are thought to be ongoing and where it is more likely that a change will not be sustained the adjustment has been made to the DDF.

17. One beneficial effect of the "Credit Crunch" had been the higher interest rates in 2008/09 that banks have been prepared to pay to borrow from the Council. It was evident that this would not continue for long and so £334,000 of investment income was credited to the DDF in 2008/09 instead of the CSB. Investment income this year is behind the estimate as interest rates have fallen lower than anticipated and seem set to remain at 0.5% for months to come. The outturn is likely to be £400,000 short of the original estimate of £2.1m, although a large portion of this is credited to the HRA. The Medium Term Financial Strategy (MTFS) has taken a prudent view on future interest rate movements, based on advice from the

Council's treasury management consultants.

(iii) Using up of Capital Reserves on Non-Revenue Generating Assets

18. In recent years the Capital Strategy has stressed the need for capital projects to be used to improve the Council's revenue position, either by saving costs or increasing revenues. This issue has also been recognised on the Council's Corporate Risk Register. Capital receipts generate investment income and so if they are used up on non-revenue generating assets there is a "double whammy" whereby the Council looses out on income and takes on additional costs.

19. The updated Capital Programme was approved by Council on 22 December and includes spending of £54.3m over five years. Of this spending, £40m is funded from revenue or grants but the remainder will reduce the balance of capital receipts from £24.3m to £9.9m. In view of this Members should carefully consider whether existing schemes are essential and any additional schemes should only be approved where there is a positive revenue contribution, after allowing for any loss of investment income.

(iv) Pay Awards

20. Negotiations for 2009/10 have again been protracted and have resulted in a settlement of 1.25% for the lowest paid staff (scale points 4 to 10) and 1% for most other staff (scale point 11 up to and including Assistant Directors). Directors and Chief Executives received no increase in 2009/10.

21. Against the backdrop of the negotiations it is worth considering this Council's pay bill and the effect that different levels of pay awards might have. The total salary estimate for 2009/10 is £20m; therefore for every 1% the pay award increases the Council's pay bill by £200,000. The annual pay bill is one of the key parts of the Council's overall estimates and so the assumptions made about pay awards are particularly significant. In the current economic climate with the overall public finances in a poor state it is difficult to envisage pay awards exceeding 1.5% for the foreseeable future, although if inflation starts to increase this assumption may not prove correct.

(v) Next Triennial Valuation of the Pension Scheme

22. Similarly to the ongoing level of grant support, this is an item which will not be clarified for some time. The last triennial valuation was undertaken as at 31 March 2007 and showed a significant improvement on the 2004 valuation. As at 31 March 2004 the scheme was only 71% funded (the value of the scheme's assets only covered 71.4% of the liabilities), by 2007 the funding level had improved to 81.2%. This meant that it was possible to reduce the amount of the deficit contributions but due to other factors, such as increasing life expectancy, it was necessary to increase the ongoing contribution rate from 10.1% for 2007/08 to 13.1% for 2010/11.

23. The rally in share prices mentioned in the Financial Issues Paper has continued, with the FT100 share index having gone back above the 5,500 level. This is encouraging but is still 7% below where the index was at the last scheme valuation date. As approximately 70% of the schemes assets are invested in shares, any reduction in the index before 31 March 2010 is likely to increase the overall deficit.

24. A number of changes have been made to the LGPS, with increased contribution rates for employees and a rising of the normal retirement age. Further options for reform are being examined and it is possible that in the long term the defined benefit scheme could be closed to new entrants or pensions could be based on average earnings instead of final salary.

(vi) Capitalisation of Pension Deficit Payments

25. Capitalisation applications for 2009/10 for both the general fund (£1,205,000) and the housing revenue account (£565,000) have been submitted to the DCLG. The DCLG are maintaining their policy of not confirming the amount of capitalisation directions until the end of January, so this too remains an area of uncertainty.

(vii) National Concessionary Fares Scheme

26. Members will be aware from the report to Cabinet on 4 January that it is likely that the Council will lose £137,000 of the £247,000 special grant for concessionary fares that had been anticipated. A greater potential threat lies beyond 2010/11 with the removal of this function from districts and the associated re-working of the grant formula which could adversely impact on the Council's overall financial position. It is also worth reminding Members that not all of the appeals raised by the bus operators have been settled and further costs may still arise from these.

(viii) Customer Services Transformation Programme

27. It is still to be determined exactly what works will take place as part of this programme. No CSB or DDF amounts have been included for this initiative but some £1.3m of expenditure is still included in the capital programme. This has been re-scheduled with £837,000 moving to 2010/11 and £450,000 to 2011/12.

28. The General Fund summary at Annex 1 shows the CSB total is £79,000 above the CSB target of £18m. If Members require a total closer to the £18m target it will be necessary to reduce or remove some of the items listed on Annex 9. However, Members may feel that the amount by which the target has been exceeded is not significant and, in view of the position outlined in the Medium Term Financial Strategy, is acceptable.

The ceiling for DDF net expenditure be no more than £1.3m

29. The DDF net movement for 2010/11 is £1.358m, Annex 10 lists all the DDF items in detail. The largest cost item is £508,000 for the reduction in investment income followed by £400,000 for work on the Local Development Framework (LDF). The LDF is a substantial and unavoidable project and in 2009/10 and the subsequent two years DDF funding of £1.176m is allocated to it. The Director of Planning and Economic Development has been asked to provide regular updates to Cabinet to monitor this project and the expenditure incurred on it.

30. Other significant items of expenditure include £147,000 for the planned building maintenance programme. Allowance has also been made in the DDF for the reduction of £137,000 in special grant for concessionary fares mentioned above.

31. Officers are currently working with an international firm of accountants to examine the possibility of recovering VAT. This is using a model that the firm has developed through working with a number of authorities which has led to some substantial repayments. It is too early yet to predict what, if any, income may arise from this so no allowance has been made in the estimates. The work is being conducted on a "no win no fee basis" so any costs will be funded from any VAT refund arising.

32. At £1.358m the DDF programme is £58,000 above the target for 2010/11. The DDF is predicted to come under financial pressure in 2011/12 and may need support from the General Fund Reserve in that year. However, given that the DDF often sees items being re-phased this may not ultimately be necessary and both 2012/13 and 2013/14 currently show

net income for the DDF.

The District Council Tax be increased by no more than 2.5%

33. At the meeting of this committee on 8 December 2008, Members established a policy of not increasing the Council Tax by more than 2.5%. This is reflected in the estimates for 2010/11 and throughout the Medium Term Financial Strategy.

That longer term guidelines covering the period to March 2014 provide for:

The level of General Fund revenue balances to be maintained within a range of approximately £4.0m to £4.5m but at no lower level than 25% of net budget requirement whichever is the higher;

34. Current projections show this rule will not be breached by 2013/14, by which time reserves will have reduced to £6.659m and 25% of net budget requirement will be £4.319m.

Future levels of CSB net expenditure being financed predominately from External Funding from Government and Council Tax and that support from revenue balances be gradually phased out.

35. The outturn for 2008/09 added £973,000 to reserves, whilst the revised estimates for 2009/10 anticipate a reduction of £837,000. This would leave the opening revenue reserve for 2010/11 at £7.4 million and although the estimates for 2010/11 show a reduction of £497,000, reserves would still be above £6.8m. The Medium Term Financial Strategy at Annex 11 shows deficit budgets for the three years 2010/11 to 2012/13. The level of deficit peaks at £837,000 in 2009/10 and returns to break even in 2013/14, although this is achieved through CSB savings of £600,000 in 2011/12, £400,000 in 2012/13 and £200,000 in 2013/14.

The Local Government Finance Settlement

36. The Government have confirmed that the draft figures previously advised will not be amended. To remind Members of the three-year settlement and the background to it the information below has been repeated from the 2009/10 Council Tax setting report.

37. After one two-year settlement under the new four block system, the Department for Communities and Local Government (DCLG) announced a consultation to “update and fine tune” the model to produce a three-year settlement. Unfortunately the fine-tuning has resulted in some substantial movements in the Council’s relative position. The table below sets out the Council’s amounts in each of the four blocks for the five years of data now available. The Relative Needs Amount (what the Government believes the Council needs to spend) has increased by only £7,000 for 2010/11 whilst the Relative Resource Amount (a negative amount to reflect the ability to raise income from Council Tax) has reduced by £140,000. This improvement of £147,000 is strengthened by an increase in the Central Allocation of £37,000 although most of this is then eliminated by a change in the net Floor Damping position of £137,000.

38. The figures shown below represent a poor CSR for the Council with grant increases of only 1% (against the adjusted 07/08 figure) for 2008/09 and only 0.5% for 2009/10 and 2010/11. This seems odd given the sizeable grant increase seen under this system for 2006/07 and 2007/08.

	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Relative Needs Amount	5.728	5.742	5.455	5.457	5.464
Relative Resource Amount	-4.465	-4.724	-5.228	-5.096	-4.956
Central Allocation	7.854	8.332	8.793	8.834	8.871
Floor Damping	-0.490	-0.189	0.302	0.173	0.036
Formula Grant	**8.627**	**9.161**	**9.322**	**9.368**	**9.415**

	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Formula Grant (adjusted)	8.627	9.161 (9.229)	9.322	9.368	9.415
Increase £	0.711	0.534	0.093	0.046	0.047
Increase %	9.0%	6.2%	1.0%	0.5%	0.5%

39. The introduction of the four block system saw the Council change from receiving floor support of £412,000 to loosing £490,000 to support the floor for others. It had been hoped that the move away from the floor would last longer than two years. However, the benefit of the previous large increase has not been lost, as this has provided the base that the floor increases have been added to.

The 2010/11 General Fund Budget

40. Whilst the position on some issues is clearer now than it was when the Financial Issues Paper was written there are still significant risks and uncertainties for 2010/11. Signs of improvement in the economy are evident but weak and the gains seen so far may yet be reversed when Quantitative Easing finishes or if public spending is cut too soon or too far. The effects of the recession are clear and as well as impacting on many of the Council's revenue streams it is has placed additional demands on services such as benefits and homelessness. It is still possible that the country may fall back into a severe recession that may last some years. If this is the case then the adjustments made to property related income and investment income will need to be revised.

41. Another major area of uncertainty is how a new government will tackle the deficit in the public finances and how much of any spending reductions will fall on district councils. The Medium Term Financial Strategy is based on a 10% reduction over the next CSR, this sees grant fall from £9.4m in 2010/11 to £8.5m in 2013/14. This represents a best guess and it is prudent to allow for such a reduction. The actual reduction will depend on the outcome of the election and the state of the economic recovery when the next government is working through their CSR.

42. A final area worth touching on is the accounting treatment for impairments on investments. The Government previously mandated the deferral of impairments to 2010/11, apparently to allow for a clearer picture to emerge on the level of recoveries. Even though a clear picture has not emerged and the ultimate levels of impairments are far from certain, the Government has stated that no extension of the deferral will be allowed. The Government has also stated that authorities should not charge the impairment to the HRA, although capitalisation directions can be applied for in 2009/10.

43. The likely impairment that this Council will have to account for is £700,000. As the investment balances were generated partly from the sale of HRA assets and the HRA receives approximately two thirds of interest earned it would be logical for the HRA to share the impairment charge. Therefore, the DCLG have been asked to reconsider their decision

and it is hoped that a reply will be received before the end of January. Given the ongoing uncertainty around the ultimate level of the impairment, the year in which it will have to be accounted for and the funds it can be charged to no allowance for the impairment has been made in these figures.

44. The starting point for the budget is the attached Medium Term Financial Strategy, Annex 11. Annexes 11a and 11b are based on the current draft budget, a Council Tax increase of 2.5% (£150.30 Band D) for 2010/11 and subsequent increases of 2.5% per annum for each of the following three years in accordance with the strategy of not increasing Council Tax by more than this amount.

45. Members are reminded that this strategy is based on a number of important assumptions, including the following:

- Future Government funding over the next CSR will reduce by 10%;
- CSB growth has been restricted but still exceeds the CSB target for 2010/11 of £18 million. Known growth beyond 2010/11 has been included but will be subject to a further review to help identify savings;
- All known DDF items are budgeted for, and because of the size of the LDF programme the closing balance at the end of 2013/14 is anticipated to reduce to £286,000; and
- Maintaining revenue balances of at least 25% of NBR. The forecast shows that the deficit budgets for three years of the period will reduce the closing balances at the end of 2013/14 to £6.577m or 38% of NBR for 2013/14, although this can only be done with further substantial savings throughout the life of the strategy.

The Housing Revenue Account

46. The balance on the HRA at 31 March 2011 is expected to be £6.09 million, as shown in Annex 12a, after deficits of £25,000 in 2009/10 and £7,000 in 2010/11. There are no significant variances worth highlighting at this time.

47. The rent increase is set with reference to an individual property's formula rent but subject to various constraints. This process of Rent Restructuring to bring Council rents and Housing Association rents more in line with each other still needs to be addressed. The rent increase for 2010/11 is likely to see a narrowing of this gap between Council and Housing Association rents, with an average rent increase of 2.4% for Council dwellings.

48. An update to the current five-year forecast is being prepared and will be presented to a subsequent Cabinet. The HRA has had substantial balances for some time and this position is not expected to change in the short term.

49. Annex 12b shows the estimated balances for the Housing Repairs Fund and Annex 12c the same for the Major Repairs Reserve. Members are recommended to agree the budgets for 2010/11 and 2009/10 revised and to note that although a deficit budget is proposed for 2010/11 the HRA has substantial ongoing balances.

The Capital Programme

50. The Capital Programme at Annex 13 shows the expenditure previously agreed by Cabinet and approved as part of the Capital Strategy by Council on 22 December 2009. Members have stated that in future priority will be given to capital schemes that will generate revenue in subsequent periods. This position has been stated in previous Capital Strategies and has been reinforced by the increasing awareness that capital spending reduces

investment balances and thus impacts on the general fund revenue balance through lower interest earnings.

51. Annex 13d sets out the estimated position on capital receipts for the next four years. Members will note that even with a substantial capital programme, which exceeds £54m over five years, it is anticipated that the Authority will still have nearly £10m of usable capital receipt balances at the end of the period. It is not anticipated that further disposals of surplus land will take place during 2010/11, or in the medium term until market conditions have improved. However, it should be noted that officers are currently reviewing the development potential of a number of sites.

<u>Risk Assessment and the Level of Balances</u>

52. The Local Government Act 2003 (s 25) introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2010/11. ***Where this advice is not accepted, this should be formally recorded within the minutes of the Council meeting.*** The Council at its meeting on the 16 February will consider the recommendations of the Cabinet on the budget for 2010/11 and will determine the planned level of the Council's balances. Members will consider the report of the CFO as set out at Annex 14 at that meeting.

<u>The Prudential Indicators and Treasury Management Strategy 2010/11</u>

53. Since 2004/05 it has been necessary to set affordable borrowing limits, limits for the prudential indicators and a Treasury Management Strategy. These elements of the budget requirements are set out in a separate report as Annex 15.

54. Members approved a Treasury Management Strategy on 19 February 2004, which has been updated and amended on annual basis. Investment balances had increased substantially and, as part of the 2007/08 budget, the limit on funds invested for over 364 days was raised from £15m to £30m and the maximum amount to be invested with higher rated counter parties was increased from £8m to £12m.

55. Given the instability in money markets a more prudent approach was being taken to counter parties and some institutions are no longer being dealt with even though they satisfy the credit rating requirements. As part of this approach the maximum amount to be invested was reduced to £10m and building societies without credit ratings were removed from the counter party list. As the first priority is to safeguard the Council's investment funds, it is not proposed to reduce the existing counter party requirements.

Resource Implications:

The report details proposed growth items and potential savings, the implications are set out above and will vary depending on the course of action decided by Members.

Legal and Governance Implications:

None.

Safer, Cleaner and Greener Implications:

Items related to the Safer, Cleaner, Greener initiative are included in the report.

Consultation Undertaken:

None.

Background Papers:

Financial Issues Paper – see agenda of 5 October 2009
Draft Growth List – see agenda of 23 November 2009
Draft General Fund Budget Summary – see agenda of 14 December 2009

Impact Assessments:

Risk Management
The report sets out some of the key areas of financial risk to the authority. At this time the Council is well placed to meet such challenges, although if the necessary savings highlighted are not actively pursued problems will arise in the medium term.

Equality and Diversity:

No assessment undertaken.

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?

What equality implications were identified through the Equality Impact Assessment process?

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?

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Annex 1

GENERAL FUND ESTIMATE SUMMARY

2008/09 Actual £000	2009/10 Original Estimate £000	2009/10 Revised Estimate £000		Annex no.	2010/11 Budget Gross Expenditure £000	2010/11 Budget Gross Income £000	2010/11 Budget Net Expenditure £000
2,921	2,910	3,014	Chief Executive	2	4,070	849	3,221
(320)	(161)	(334)	Corporate Support Services	3	1,678	1,997	(319)
1,528	1,647	1,591	Deputy Chief Executive	4	2,034	331	1,703
9,558	10,596	10,183	Environment & Street Scene	5	15,919	5,712	10,207
2,419	2,348	2,565	Finance & ICT	6	45,276	42,872	2,404
1,896	1,323	1,339	Housing	7	2,540	1,050	1,490
2,572	3,157	2,913	Planning & Economic Development	8	4,467	1,247	3,220
(442)	(112)	(179)	Other Income			112	(112)
20,132	**21,708**	**21,092**	**Net Cost of Services**		**75,984**	**54,170**	**21,814**
(3,509)	(2,142)	(1,089)	Interest and Investment Income		0	897	(897)
2,126	1,310	619	Interest Payable (Inc. HRA)		573	0	573
1,542	404	1,543	Pensions Interest/Return		4,983	3,440	1,543
19	0	0	Revenue Contributions to Capital		0	0	0
20,310	**21,280**	**22,165**	**Net Operating Expenditure**		**81,540**	**58,507**	**23,033**
(2,608)	(1,952)	(1,935)	Depreciation Reversals & Other adj		294	2,580	(2,286)
974	(704)	(837)	Contribution to/(from) Other Reserves		0	497	(497)
(384)	0	(25)	Contribution to/(from) Insurance Reserves		0	24	(24)
206	(1,261)	(691)	Contribution to/(from) DDF		0	1,358	(1,358)
(1,450)	(52)	(1,366)	FRS 17 Adjustment		0	1,310	(1,310)
17,048	**17,311**	**17,311**	**To be met from Government Grants and Local Taxpayers**		**81,834**	**64,276**	**17,558**
17,246	**17,416**	**17,449**	**Continuing Services Budget**				**18,316**
1,231	737	1,551	CSB - Growth				561
(1,659)	(138)	(827)	CSB - Savings				(798)
(428)	**599**	**724**	**Total Growth (Net)**	9			**(237)**
16,818	**18,015**	**18,173**	**Total Continuing Services Budget**				**18,079**
1,873	1,875	2,087	DDF - Expenditure				1,791
(2,079)	(614)	(1,396)	DDF - One Off Savings				(433)
(206)	**1,261**	**691**	**Total District Development Fund**	10			**1,358**
436	(1,965)	(1,553)	Appropriations to/(from) other Reserves				(1,879)
17,048	**17,311**	**17,311**					**17,558**

Office of the Chief Executive

General Fund Estimate Summary

2008/09 *Actual £000*	*2009/10* *Original Estimate £000*	*Revised Estimate £000*		2010/11 Gross Expend £000	Gross Income £000	Net Expend £000
			Direct Services			
1,347	*1,368*	*1,412*	Corporate Activities	1,949	492	1,457
346	*291*	*293*	Elections	489	104	385
792	*785*	*861*	Member Activities	1,103	241	862
345	*435*	*422*	Voluntary Sector Support	493	12	481
91	*31*	*26*	Other Activities	36	0	36
2,921	***2,910***	***3,014***	**Total (Transferred to GF Summary)**	**4,070**	**849**	**3,221**
			Support and Trading Services			
515	*521*	*485*	Democratic Services	507	0	507
286	*297*	*268*	Internal Audit	288	0	288
(542)	*(553)*	*(509)*	Recharged to this Directorate	(538)	0	(538)
(259)	*(265)*	*(244)*	Recharged to other Directorates	(257)	0	(257)
0	***0***	***0***	**Total**	**0**	**0**	**0**
2,921	***2,910***	***3,014***	**Directorate Total**	**4,070**	**849**	**3,221**

3,082	*2,981*	*3,105*	Continuing Services Budget	3,201
65	*0*	*2*	Continuing Services Budget - Growth	0
(163)	*0*	*0*	Continuing Services Budget - Savings	(5)
2,984	***2,981***	***3,107***	**Total Continuing Services Budget**	**3,196**
6	*20*	*0*	District Development Fund - Expenditure	25
(69)	*(91)*	*(93)*	District Development Fund - Savings	*0*
(63)	***(71)***	***(93)***	**Total District Development Fund**	**25**
2,921	***2,910***	***3,014***	**Directorate Total**	**3,221**

Corporate Support Services

General Fund Estimate Summary

2008/09 Actual £000	2009/10 Original Estimate £000	2009/10 Revised Estimate £000		2010/11 Gross Expend £000	2010/11 Gross Income £000	2010/11 Net Expend £000
			Direct Services			
(895)	*(859)*	*(889)*	Land & Property	153	1,030	(877)
584	*673*	*575*	Other Activities	1,239	714	525
(311)	***(186)***	***(314)***	**Total Direct**	**1,392**	**1,744**	**(352)**
			Regulatory Services			
50	*57*	*43*	Licensing & Registrations	154	103	51
(59)	*(33)*	*(63)*	Hackney Carriages Licensing	132	150	(18)
(9)	**24**	**(20)**	**Total Regulatory**	**286**	**253**	**33**
(320)	***(161)***	***(334)***	**Total (Transferred to GF Summary)**	**1,678**	**1,997**	**(319)**
			Support and Trading Services			
1,632	*1,742*	*1,660*	Legal & Administration Services	1,734	50	1,684
2,221	*2,192*	*2,301*	Accommodation Services	2,343	33	2,310
1,612	*1,696*	*1,814*	Other Support Services	1,694	15	1,679
(1,509)	*(1,555)*	*(1,595)*	Recharged to this Directorate	(1,616)	(27)	(1,589)
(3,955)	*(4,075)*	*(4,179)*	Recharged to other Directorates	(4,155)	(71)	(4,084)
0	***0***	***0***	**Total**	**0**	**0**	**0**
(320)	***(161)***	***(334)***	**Directorate Total**	**1,678**	**1,997**	**(319)**
(736)	*(324)*	*(447)*	Continuing Services Budget			(459)
245	*0*	*44*	Continuing Services Budget - Growth			0
(40)	*(20)*	*(129)*	Continuing Services Budget - Savings			(37)
(531)	***(344)***	***(532)***	**Total Continuing Services Budget**			**(496)**
355	*183*	*238*	District Development Fund - Expenditure			177
(144)	*0*	*(40)*	District Development Fund - Savings			0
211	***183***	***198***	**Total District Development Fund**			**177**
(320)	***(161)***	***(334)***	**Directorate Total**			**(319)**

Deputy Chief Executive

General Fund Estimate Summary

2008/09 Actual £000	*2009/10 Original Estimate £000*	*2009/10 Revised Estimate £000*		**2010/11 Gross Expend £000**	**2010/11 Gross Income £000**	**2010/11 Net Expend £000**
			Direct Services			
736	*751*	*746*	Arts & Museum	913	136	777
705	*806*	*751*	Sports Development & Other Miscellaneous Amenities	1,024	195	829
87	*90*	*94*	Other Activities	97	0	97
1,528	***1,647***	***1,591***	**Total (Transferred to GF Summary)**	**2,034**	**331**	**1,703**
			Support and Trading Services			
1,908	2,088	1,970	Support and Trading Services	2,101	6	2,095
(1,122)	*(1,148)*	*(1,115)*	Recharged to this Directorate	(1,170)	(4)	(1,166)
(786)	*(940)*	*(855)*	Recharged to other Directorate	(931)	(2)	(929)
0	***0***	***0***	**Total**	**0**	**0**	**0**
1,528	***1,647***	***1,591***	**Directorate Total**	**2,034**	**331**	**1,703**

1,568	*1,500*	*1,523*	Continuing Services Budget	1,559
0	*2*	*2*	Continuing Services Budget - Growth	0
0	*(10)*	*(10)*	Continuing Services Budget - Savings	0
1,568	***1,492***	***1,515***	**Total Continuing Services Budget**	**1,559**
100	*179*	*231*	District Development Fund - Expenditure	207
(140)	*(24)*	*(155)*	District Development Fund - Savings	(63)
(40)	***155***	***76***	**Total District Development Fund**	**144**
1,528	***1,647***	***1,591***	**Directorate Total**	**1,703**

Environment & Street Scene Directorate

General Fund Estimate Summary

2008/09 Actual £000's	2009/10 Original Estimate £000's	2009/10 Revised Estimate £000's		2010/11 Gross Expend £000's	2010/11 Gross Income £000's	2010/11 Net Expend £000's
			Direct Services			
1,224	*1,399*	*1,333*	Environmental Health	1,504	59	1,445
5,098	*5,400*	*5,391*	Waste Management	7,902	2,430	5,472
385	*407*	*373*	Highways	549	151	398
(494)	*(394)*	*(399)*	Car Parking	1,237	1,606	(369)
683	*944*	*762*	Land Drainage & Sewerage	817	4	813
485	*550*	*422*	Safer Communities	469	7	462
1,818	*1,952*	*1,973*	Leisure Facilities	1,749	90	1,659
766	*791*	*713*	Parks & Grounds	724	5	719
(407)	*(453)*	*(385)*	North Weald Centre	968	1,360	(392)
9,558	***10,596***	***10,183***	**Total (Transferred to GF Summary)**	**15,919**	**5,712**	**10,207**
			Support and Trading Services			
3,176	*3,322*	*3,549*	Support and Trading Services	3,878	145	3,733
(2,282)	*(2,374)*	*(2,490)*	Recharged To This Directorate	(2,749)	(100)	(2,649)
(894)	*(948)*	*(1,059)*	Recharged To Other Directorates	(1,129)	(45)	(1,084)
0	***0***	***0***	**Total**	**0**	**0**	**0**
9,558	***10,596***	***10,183***	**Directorate Total**	**15,919**	**5,712**	**10,207**

9,677	*9,802*	*9,590*	Continuing Services Budget	10,543
313	*376*	*583*	Continuing Services Budget - Growth	24
(869)	*(78)*	*(99)*	Continuing Services Budget - Savings	(297)
9,121	***10,100***	***10,074***	**Total Continuing Services Budget**	**10,270**
541	*551*	*248*	Development Fund - Expenditure	58
(104)	*(55)*	*(139)*	Development Fund - Savings	(121)
437	***496***	***109***	**Total District Development Fund**	**(63)**
9,558	***10,596***	***10,183***	**Directorate Total**	**10,207**

Finance & ICT

General Fund Estimate Summary

2008/09	*2009/10*			2010/11		
Actual £000	*Original Estimate £000*	*Revised Estimate £000*		**Gross Expend £000**	**Gross Income £000**	**Net Expend £000**
			Direct Services			
846	*735*	*687*	Housing Benefits	42,750	42,081	669
1,273	*1,217*	*1,063*	Local Taxation	1,661	555	1,106
300	*395*	*815*	Other Activities	865	236	629
2,419	***2,348***	***2,565***	**Total (Transferred to GF Summary)**	**45,276**	**42,872**	**2,404**
			Support and Trading Services			
2,174	*2,253*	*2,305*	Finance Support Services	2,433	106	2,327
2,523	*2,687*	*2,821*	ICT Services	2,999	73	2,926
(633)	*(666)*	*(691)*	Recharged to this Directorate	(732)	(24)	(708)
(4,064)	*(4,274)*	*(4,435)*	Recharged to other Directorates	(4,700)	(155)	(4,544)
0	***0***	***0***	**Total**	**0**	**0**	**0**
2,419	***2,348***	***2,565***	**Directorate Total**	**45,276**	**42,872**	**2,404**

2,675	*2,317*	*2,704*	Continuing Services Budget	2,281
118	*130*	*145*	Continuing Services Budget - Growth	133
(265)	*(30)*	*(34)*	Continuing Services Budget - Savings	(45)
2,528	***2,417***	***2,815***	**Total Continuing Services Budget**	**2,369**
406	*197*	*232*	District Development Fund - Expenditure	152
(515)	*(266)*	*(482)*	District Development Fund - Savings	(117)
(109)	***(69)***	***(250)***	**Total District Development Fund**	**35**
2,419	***2,348***	***2,565***	**Directorate Total**	**2,404**

Housing

General Fund Estimate Summary

2008/09 Actual £000	2009/10 Original Estimate £000	2009/10 Revised Estimate £000		2010/11 Gross Expend £000	2010/11 Gross Income £000	2010/11 Net Expend £000
			Direct Services			
572	*742*	*581*	Private Sector Housing	1,435	596	839
279	*290*	*275*	Homelessness	441	167	274
40	*44*	*52*	Housing Strategy	51	0	51
1,005	*247*	*431*	Affordable Housing Grants	326	0	326
0	*0*	*0*	Leasehold Services Administration	287	287	0
1,896	***1,323***	***1,339***	**Directorate Total**	**2,540**	**1,050**	**1,490**

2008/09 Actual £000	2009/10 Original Estimate £000	2009/10 Revised Estimate £000		2010/11 Net Expend £000
1,552	*1,291*	*1,306*	Continuing Services Budget	1,408
345	*12*	*23*	Continuing Services Budget - Growth	0
0	*0*	*(12)*	Continuing Services Budget - Savings	0
1,897	***1,303***	***1,317***	**Total Continuing Services Budget**	**1,408**
8	*20*	*89*	District Development Fund - Expenditure	103
(9)	*0*	*(67)*	District Development Fund - Savings	(21)
(1)	***20***	***22***	**Total District Development Fund**	**82**
1,896	***1,323***	***1,339***	**Directorate Total**	**1,490**

Planning and Economic Development

General Fund Estimate Summary

2008/09 Actual £000	2009/10 Original Estimate £000	2009/10 Revised Estimate £000		2010/11 Gross Expend £000	2010/11 Gross Income £000	2010/11 Net Expend £000
			Direct Services			
156	*218*	*213*	Economic Development	194	0	194
17	*19*	*19*	Bus Shelters	19	0	19
170	*214*	*202*	Conservation Policy	214	0	214
194	*202*	*304*	Countrycare	318	8	310
41	*55*	*55*	Environmental Co-Ordination	58	0	58
413	*789*	*688*	Forward Planning	822	8	814
175	*177*	*151*	Town Centre Enhancements	224	7	217
1,166	***1,674***	***1,632***	**Total Direct Services**	**1,849**	**23**	**1,826**
			Regulatory Services			
421	*441*	*312*	Planning Appeals	426	3	423
523	*520*	*451*	Development Control Enforcement	481	0	481
298	*348*	*348*	Development Control	928	623	305
0	*0*	*0*	Building Control Fee Earning	598	598	0
164	*174*	*170*	Building Control Non Fee Earning	185	0	185
1,406	***1,483***	***1,281***	**Total Regulatory Services**	**2,618**	**1,224**	**1,394**
2,572	***3,157***	***2,913***	**Total (Transferred to GF Summary)**	**4,467**	**1,247**	**3,220**
			Support and Trading Services			
731	*689*	*693*	Planning Administration	663	2	661
367	*399*	*391*	Planning Policy	421	0	421
(1,004)	*(995)*	*(991)*	Recharged to this Directorate	*(992)*	*(2)*	*(990)*
(94)	*(93)*	*(93)*	Recharged to other Directorates	*(93)*	*(0)*	*(93)*
0	***0***	***0***	**Total**	**0**	**0**	**0**
2,572	***3,157***	***2,913***	**Directorate Total**	**4,467**	**1,247**	**3,220**
2,373	*2,498*	*2,465*	Continuing Services Budget			2,658
111	*0*	*24*	Continuing Services Budget - Growth			0
(127)	*0*	*(22)*	Continuing Services Budget - Savings			0
2,357	***2,498***	***2,467***	**Total Continuing Services Budget**			**2,658**
477	*659*	*493*	District Development Fund - Expenditure			562
(262)	*0*	*(47)*	District Development Fund - Savings			0
215	***659***	***446***	**Total District Development Fund**			**562**
2,572	***3,157***	***2,913***	**Directorate Total**			**3,220**

CONTINUING SERVICES BUDGET - GROWTH / (SAVINGS) LIST

Directorate	Service		Original 2009/10 £000's	Revised 2009/10 £000's	Estimate 2010/11 £000's	Estimate 2011/12 £000's	Estimate 2012/13 £000's	Estimate 2013/14 £000's
Chief Executive	Democratic Services	Committee Attendance		2				
	Civic & Member	Members courses & conferences			(5)			
	Total Chief Executive		**0**	**2**	**(5)**	**0**	**0**	**0**
Corporate Support Services	Human Resources	Recruitment & Retention savings	(20)	(20)				
	Local Land Charges	Personal Charges- Increase from £11 to £22		(4)	(17)			
	Industrial Estates- Brooker Rd	Reduced Rental Income		24				
	Industrial Estates- Oakwood Hill	Increased Rental Income		(48)				
	Industrial Estates- O Hill Workshops	Reduced Rental Income		4				
	Industrial Estates- O Hill Workshops	NNDR on Voids		(7)				
	Licensing & Registration	Legal Expenses		2				
	Hackney Carriage Licensing	Legal Expenses		4				
	Fleet Operations	MOT Income		(50)				
	Energy Sites	Energy Costs Offices		7				
	Energy Sites	Energy Costs Depots		(2)				
	Civic Offices	Statutory Energy Conservation Reports		5				
	Civic Offices	Energy Savings - Heating			(20)			
	Total Corporate Support Services		**(20)**	**(85)**	**(37)**	**0**	**0**	**0**
Deputy Chief Executive	Performance Management Unit	Ten Performance Manager	2	2				
	Public Relations & Information	Consultation	(10)	(10)				
	Total Deputy Chief Executive		**(8)**	**(8)**	**0**	**0**	**0**	**0**
Environment & Street Scene	Pest Control	Reduced cost of contract	(10)	(10)				
	Neighbourhoods / Rapid Response	Safer, Cleaner and Greener	57	52				
	Waste Management	Changes to Service	150	359	(51)			
	Contaminated Land	Bobbingworth Tip Maintenance	7	7				
	Safer Communities / CCTV Cameras	CCTV Operations Officer	12	12				

CONTINUING SERVICES BUDGET - GROWTH / (SAVINGS) LIST

Directorate	Service		Original 2009/10 £000's	Revised 2009/10 £000's	Estimate 2010/11 £000's	Estimate 2011/12 £000's	Estimate 2012/13 £000's	Estimate 2013/14 £000's
	Safer Communities	ASB Investigations Officer	25	25				
	Safer Communities / CCTV Cameras	CCTV replacement and maintenance	18	21				
	Safer Communities / CCTV Cameras	CCTV replacement and maintenance - recharge to HRA		(16)				
	Leisure Facilities	Epping Sports centre new contract	107	107				
	Waltham Abbey Sports Centre	Cessation of joint use agreement	(68)	(73)	(192)			
	Off Street Parking	Reduction in NDR			(6)			
	Off Street Parking	Closure of Parking Shop			(24)			
	On Street Parking	Closure of Parking Shop			(24)			
	On Street Parking	Closure of Parking Shop			24			
	Total Environment & Street Scene		**298**	**484**	**(273)**	**0**	**0**	**0**
Finance & ICT	Finance Miscellaneous	Increase in Employers Pension Conts (Act Val 2007)	93	92	92			
	Accountancy	Staff costs Post FAC/14	(10)	(10)				
	ICT	Network maintenance	(20)	(20)				
	ICT	Mobile telephones - contract increases		5	2			
	Bank Charges	Banking & Cash collection contract savings		(4)				
	Housing Benefits/Local Taxation	Replacement Revenues & Benefits System	4	4				
	Housing Benefits	Housing Benefit Admin Subsidy settlement reductions	33	33	39			
	Insurance Services	Reduction in Commission		5				
	Insurance Services	Savings on Premium			(45)	(15)		
	Procurement	Essex Procurement Hub		6				
	Total Finance and ICT		**100**	**111**	**88**	**(15)**	**0**	**0**
Housing	Private Sector Housing	Environmental Health Practitioner	12					
	Bed and Breakfast	Reduction in Bed and Breakfast income		23				
	New Start Scheme	Grants		(12)				
	Total Housing		**12**	**11**		**0**	**0**	**0**
Planning & Economic Development	Development Control	Committee Attendance		5				
	Building Control Ring Fenced	Consultants		(19)				
	Building Control Ring Fenced	Consultants		19				
	Planning Policy & Conservation	Staff restructure		(3)				
	Total Planning & Economic Development		**0**	**2**	**0**	**0**	**0**	**0**
Other Items	Investment Interest	Reduction due to lower interest rates	217	217				
	All Services	Printer Cartridge Savings		(10)	(10)			
	Total CSB		**599**	**724**	**(237)**	**(15)**	**0**	**0**

DISTRICT DEVELOPMENT FUND

Directorate	Service		Original 2009/10 £000's	B/F from 2008/09 2009/10 £000's	Revised 2009/10 £000's	Estimate 2010/11 £000's	Estimate 2011/12 £000's	Estimate 2012/13 £000's	Estimate 2013/14 £000's
Chief Executive	Civic & Member	Printing year book saving			(2)				
	Elections	No District Elections (May 2009)	(90)		(90)				
	Electoral Registration	Grant on-line Register of Electors	(1)		(1)				
	Grants to Voluntary Orgs	Furniture Exchange Scheme Suspended	20			20			
	Members	Standards Committee additional investigations				5			
	Total Chief Executive		**(71)**	**0**	**(93)**	**25**	**0**	**0**	**0**
Corporate Support Services	Legal Services	Data capture re Land Terrier	11						
	Legal Services	Computerisation of Land Terrier records	17			28			
	Legal Services	Registration of Unregistered Titles	31		10	2			
	Local Land Charges	New IT system		10	10				
	Office Accommodation	Essential Work to Civic Offices		18	18				
	Office Accommodation	Potential Accommodation Changes		45	45				
	Non HRA Building Maintenance	Planned Building Maintenance Programme	55	83	89	147	82	19	7
	Facilities Management	Quality Assurance & Accreditation BS EN ISO 9001	19		19				
	Estates & Valuation	Consultant's Fees - Dev Potential of Council Car Parks		13					
	Estates & Valuation	Consultant's Fees & site surveys Langston Rd Depot		3	28				
	Estates & Valuation	Agency Staff			19				
	Energy Sites	Energy Costs Offices	40						
	Energy Sites	Energy Costs Depots	10						
	Hackney Carriage Licensing	Increased Licensing Income			(40)				
	Total Corporate Support Services		**183**	**172**	**198**	**177**	**82**	**19**	**7**
Deputy Chief Executive	Public Relations	Improvements to Main Reception Area	20	3	11	12			
	Public Relations & Information	Website Officer	25		5	23	23	24	
	Community Development	Additional Projects	12	19	56	7			
	Community Development	Additional Projects	(12)	(19)	(56)	(7)			
	Sports Development	Additional Projects	12	6	83	40			
	Sports Development	Additional Projects	(12)	(6)	(83)	(40)			
	BLF Children's Play	Additional Projects			13	6			
	BLF Children's Play	Additional Projects			(13)	(6)			
	Regional Touring Exhibitions	Museum Apprentice			3	10			
	Regional Touring Exhibitions	Museum Apprentice			(3)	(10)			
	Youth Council	Youth Council	12		12	12			
	Limes Farm Hall	Costs of Management/Admin/Mtc/Repairs	48		48	27			
	NWA Strategy Action Plan	North Weald Airfield Action Plan.	50			50			
	NWA Strategy Action Plan	Aviation Consultant				20			
	Total Deputy Chief Executive		**155**	**3**	**76**	**144**	**23**	**24**	**0**

Annex 10

DISTRICT DEVELOPMENT FUND

Directorate	Service		Original 2009/10 £000's	B/F from 2008/09 2009/10 £000's	Revised 2009/10 £000's	Estimate 2010/11 £000's	Estimate 2011/12 £000's	Estimate 2012/13 £000's	Estimate 2013/14 £000's
Environment & Street Scene	Pollution Control	Air Quality Modelling			9				
	Neighbourhoods / Rapid Response	Safer, Cleaner and Greener		17	13				
	Waste Management	Changes to Service	215	(65)	(84)	(119)			
	Highways	replacement vandalised name plates	3		3				
	Contaminated Land	Bobbingworth Tip Maintenance	5			5			
	Land Drainage	Remedial Works Principal Ordinary Watercourses	148	2	15	35			
	Land Drainage	Out of Hours Standby	8		8				
	Safer Communities	Safer Communities Project HO Funded	11	(3)	2	3			
	Safer Communities	Protective clothing		4		3			
	Safer Communities	Police Community Safety Accreditation		2		2			
	Leisure Facilities	Loughton Leisure Centre - Mediation	15		15				
	Leisure Facilities	Free Swimming Programme - Over 60's	39		39				
	Leisure Facilities	Free Swimming Programme - Over 60's	(39)		(39)				
	Leisure Facilities	Possible redundancies	55		52				
	Parks & Grounds	Roding Valley Lake - Disabled Projects	16		16				
	Parks & Grounds	Roding Valley Lake - Disabled Projects	(16)		(16)				
	North Weald Airfield	Casual Staffing	6		6				
	North Weald Airfield	Aviation Consultant	20						
	North Weald Airfield	Increased Energy Costs	10						
	North Weald Airfield	Loss of Income - Hangar 5			40				
	North Weald Airfield	Closure of 2 x Sat Markets			30				
	North Weald Airfield	Transformer - Sub 'X'				5			
	Off Street Parking	Mobile Phones				3			
	On Street Parking	Mobile Phones				2			
	On Street Parking	Mobile Phones				(2)			
	Total Environment & Street Scene		**496**	**(43)**	**109**	**(63)**	**0**	**0**	**0**

DISTRICT DEVELOPMENT FUND

Directorate	Service		Original 2009/10 £000's	B/F from 2008/09 2009/10 £000's	Revised 2009/10 £000's	Estimate 2010/11 £000's	Estimate 2011/12 £000's	Estimate 2012/13 £000's	Estimate 2013/14 £000's
Finance & ICT	Finance Miscellaneous	Asset Register		13	13				
	Finance Miscellaneous	Asset Register - HRA contribution		(7)	(9)				
	Finance Miscellaneous	Finance System Outstanding Commitments		11	6	5			
	Finance Miscellaneous	Transfer of excess Reserves on Insurance Fund	(25)						
	Finance Miscellaneous	Area Based Grant Expenditure	44						
	Insurance/Risk Management	Implementation of Risk Management Strategy		3	2				
	Housing Benefits	Hit squad to improve performance	12	28	40				
	Housing Benefits	Combined increased volume costs			17				
	Housing Benefits	DWP residual grant aided admin costs		2					
	Housing Benefits	Electronic Document management		(4)					
	Housing Benefits	Local Housing Allowance Implementation Costs		11					
	Housing Benefits	Employment Support Allowance Implementation Cost		2					
	Housing Benefits	Customer Account Management Implementation Costs		2					
	Housing Benefits	Additional Unemployed Admin - Grant	(66)		(66)				
	Housing Benefits	Additional Unemployed Admin - Costs	66		66				
	Housing Benefits	Economic Downturn - Additional Subsidy			(43)				
	Housing Benefits	Temporary Accommodation Subsidy - Grant				(6)			
	Housing Benefits	Temporary Accommodation Subsidy - Costs				6			
	Housing Benefits	In & Out of work processes - Grant			(4)				
	Housing Benefits	In & Out of work processes - Costs			4				
	Housing Benefits	HB/CTB Subsidy re 07/08 and 08/09			(85)				
	Housing Benefits	Prior Year Subsidy Claim Costs			9				
	Council Tax Collection	Court Cost Shortfall from 2008/09		(100)	(100)				
	NNDR	Business Rates Deferral Scheme - Grant			(15)				
	NNDR	Business Rates Deferral Scheme - Costs			15				
	Concessionary Fares	New National Scheme - Costs	141		141	141			
	Concessionary Fares	New National Scheme - Grant	(241)		(241)	(111)			
	Total Finance & ICT		**(69)**	**(39)**	**(250)**	**35**	**0**	**0**	**0**

DISTRICT DEVELOPMENT FUND

Directorate	Service		Original 2009/10 £000's	B/F from 2008/09 2009/10 £000's	Revised 2009/10 £000's	Estimate 2010/11 £000's	Estimate 2011/12 £000's	Estimate 2012/13 £000's	Estimate 2013/14 £000's
Housing	Homelessness	Rental Loan scheme	20		9				
	Homelessness	Essex Rental Loan Scheme			8	11			
	Homelessness	Essex Rental Loan Scheme			(8)	(11)			
	Homelessness	Repossession Prevention Fund			48				
	Homelessness	Repossession Prevention Fund			(48)				
	Private Sector Housing	Finders Fee Underspend		5	5				
	Private Sector Housing	House Condition Survey				55			
	Housing Strategy	Consultant Housing Company		6	6				
	Private Sector Housing	Technical Officer				27	27	27	
	Private Sector Housing	Handyperson Scheme			(15)	(15)			
	Private Sector Housing	Handyperson Scheme		2	17	15			
	Total Housing		**20**	**13**	**22**	**82**	**27**	**27**	**0**
Planning & Economic Development	Building Control Ring Fenced	Fees & Charges			40				
	Building Control Ring Fenced	Fees & Charges			(40)				
	Countrycare	Veteran Tree Project		2	2				
	Development Control	Fees & Charges			60				
	Development Control	Consultants			(8)				
	Development Control	Contingency for Appeals	90	3	3	82			
	Enforcement	Blunts Farm Golf Course			8				
	Economic Development	Developing Business Networks	2	3	3	2			
	Economic Development	Enhanced Business Contacts	2	2	2	2			
	Economic Development	Town Centre Manager	20	(2)	35	36	36		
	Forward Planning	Technical Planning Officer -Tree Preservation		1	1				
	Forward Planning	Local Development Framework	432	(11)	320	400	456		
	Forward Planning	Loughton Broadway/Epping Design Briefs	25	21					
	Forward Planning	Habitat Regulations Assessment Grant			(17)				
	Planning Appeals	Consultants			(22)				
	Planning Services	Planning Delivery Grant 2	10			10			
	Planning Services	Planning Delivery Grant 4	13	12	25				
	Planning Services	Planning Delivery Grant 5	21		21				
	Planning Services	File retrieval & checking & destruction			30				
	Planning Services	Housing and Planning Delivery Grant			(63)				
	Tourism	Rural Projects and Tourism Officer	22	8	30				
	Tourism	Tourism Summit		2	2	2			
	Town Centre Enhancements	Improvements Grant Waltham Abbey TC	10	(4)		6			
	Town Centre Enhancements	Town Centre Support	12		14	22			
	Total Planning & Economic Development		**659**	**37**	**446**	**562**	**492**	**0**	**0**
	Total Service Specific District Development Fund		**1,373**	**143**	**508**	**962**	**624**	**70**	**7**
Other Items	Increased Investment Interest							(25)	(25)
	Second Homes Discount Allowance		(90)		(84)	(84)	(84)	(84)	(84)
	Lost Investment Interest				362	508	388		
	Area Based Grant		(22)		(23)	(28)			
	Local Authority Business Growth Incentive				(72)				
	Total District Development Fund		**1,261**	**143**	**691**	**1,358**	**928**	**(39)**	**(102)**

Medium Term Financial Strategy

Introduction

1. For a number of years as part of the Council's sound financial planning arrangements a four-year financial strategy has been prepared. This document allows a considered view to be taken of spending and resources. Without a medium term financial strategy finances would be managed on an annual basis leading to sudden expansions and contractions in services. Clearly such volatility would lead to waste and be confusing for stakeholders.

2. Managing this Council's finances has been made easier by isolating one off fluctuations (District Development Fund or DDF) from the ongoing core services (Continuing Service Budgets or CSB). This distinction highlights the differing effects in the medium term of approving different types of initiative.

3. A key part of the strategy is future rises in Council Tax and the Council has a stated ambition to not only remain a low tax authority but to ultimately have the lowest Band D charge in Essex. This ambition is unlikely to be realised until 2011/12, although it is anticipated that the gap will narrow further in 2010/11. The Council currently has the second lowest charge and last year saw the gap to the lowest Band D charge in Essex reduce from £6.39 to £3.33.

4. At its 5 October 2009 meeting the Finance and Performance Management Cabinet Committee decided that communication of the revised medium term financial strategy to staff, partners and other stakeholders be undertaken by way of publishing key bullet points in appropriate publications.

Previous Medium Term Financial Strategy

5. That meeting of the Finance and Performance Management Cabinet Committee considered the annual Financial Issues Paper and an updated medium term financial strategy. At that time Members attention was drawn to a number of areas of significant uncertainty. Key amongst these is how an incoming government will deal with the very poor overall state of the public finances and the extent of the pain to be borne by district councils. The effects of the "Credit Crunch" are stabilising, but have reduced income and increased demand for several services. There were also questions over the using up of capital receipts on non-revenue generating assets, the next triennial valuation of the pension fund and changes to the national concessionary fares scheme.

6. Against this background of risk and uncertainty a forecast was constructed that set a target of £18.3m for CSB expenditure for 2010/11 and maintained the requirement for annual CSB savings until the end of the forecast period. At this time deficit budgets were anticipated for each year of the forecast, although these were reducing throughout the period of the forecast.

7. At that time the predicted General Fund balance at 1 April 2014 of £6.2m represented nearly 36% of the anticipated Net Budget Requirement (NBR) for 2013/14 and was therefore somewhat higher than the guideline of 25%. It was also predicted at that time that there would be £492,000 left in the DDF at 1 April 2014.

Updated Medium Term Financial Strategy

8. As the effects of the "Credit Crunch" and the changes in the waste service became clearer it has been necessary to keep the CSB target for 2010/11 under review. The meeting of the Finance and Performance Management Cabinet Committee on 14 December considered a draft General Fund summary together with growth lists of both CSB and DDF items. This meeting decided to revise the CSB target down by £0.3m to £18m. However, the final re-examination of some estimates and assumptions has meant the CSB total for 2010/11 is now £18.079m. To reflect these budget changes a revised medium term financial strategy has been prepared and is attached as Annexes 11 a and b. In constructing the forecast it has been necessary to make certain assumptions, these are set out below:

    a) CSB Growth – a net saving for 2010/11 has been included at a total of £237,000. For 2011/12 a net saving of £15,000 has been identified. In common with the earlier version of the strategy, target CSB savings are included for the period 2011/12 to 2013/14. The lower than anticipated pay award and the higher recycling credits have helped achieve the savings required for 2010/11. However, annual savings targets of £600,000 for 2011/12, £400,000 for 2012/13, and £200,000 for 2013/14 are likely to prove more challenging.

    b) DDF – all of the known items for the four-year period have been included and at the end of the period a balance of £286,000 is still available. The worsening position has arisen due to the charging of reduced investment income to the fund, although of course this is consistent with the previous practice of crediting investment income to the fund when it has exceeded the CSB level.

    c) Grant Funding – beyond 2010/11 it has been assumed that there will be a 10% reduction in grant over the three year CSR period. This is felt to be prudent but is dependant on the outcome of the general election and the strength of the economic recovery.

    d) Council Tax Increase – Members have confirmed they wish to limit rises to 2.5% and this constraint has been applied to all years. An alternative illustrative example is provided at Annexes 11 c and d, with the increase in 2010/11 reduced to 1.5% but held at 2.5% for the remainder of the strategy.

9. This revised medium term financial strategy has deficits in the next three years of the period, although these are reducing and break even is achieved in the final year of the period. The predicted revenue balance at the end of the period is £6.659m (or £6.299m for 1.5% option), which represents 38% (or 36% for 1.5% option) of the NBR for 2013/14 and thus comfortably exceeds the target of 25%.

10. It is worth repeating that significant savings are necessary in each of the final three years of the strategy and in approving the medium term financial strategy Members are asked to note these targets. The strategy will be monitored during the year and updated for the September 2010 meeting of the Finance and Performance Management Cabinet Committee.

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2009/10 - 2013/14

ORIGINAL 2009/10		REVISED FORECAST 2009/10	FORECAST 2010/11	FORECAST 2011/12	FORECAST 2012/13	FORECAST 2013/14
£'000	**NET REVENUE EXPENDITURE**	£'000	£'000	£'000	£'000	£'000
17,416	Continuing Services Budget	17,449	18,316	18,171	17,660	17,379
599	CSB - Growth Items	724	-237	-15	0	0
0	Net saving	0	0	-600	-400	-200
18,015	Total C.S.B	18,173	18,079	17,556	17,260	17,179
1,236	One - off Expenditure	691	1,358	928	-39	-102
19,251	Total Net Operating Expenditure	18,864	19,437	18,484	17,221	17,077
0	Contribution to/from (-) Insurance Res	-25	-24	0	0	0
-1,236	Contribution to/from (-) DDF Balances	-691	-1,358	-928	39	102
-704	Contribution to/from (-) Balances	-837	-497	-264	-27	95
17,311	Net Budget Requirement	17,311	17,558	17,292	17,233	17,274
	FINANCING					
				-5%	-3%	-2%
9,195	Government Support (NNDR+RSG)	9,195	9,379	8,944	8,676	8,502
173	RSG Floor Gains/(-Losses)	173	36	0	0	0
9,368	Total External Funding	9,368	9,415	8,944	8,676	8,502
7,943	District Precept	7,943	8,143	8,348	8,558	8,772
0	Collection Fund Adjustment	0	0	0	0	0
17,311	To be met from Government Grants and Local Tax Payers	17,311	17,558	17,292	17,233	17,274
	Band D Council Tax	146.61	150.30	154.08	157.95	161.91
	Percentage Increase %		2.5	2.5	2.5	2.5

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2009/10 - 2013/14

	REVISED FORECAST 2009/10	FORECAST 2010/11	FORECAST 2011/12	FORECAST 2012/13	FORECAST 2013/14
REVENUE BALANCES	£'000	£'000	£'000	£'000	£'000
Balance B/forward	8,189	7,352	6,855	6,591	6,564
Surplus/Deficit(-) for year	-837	-497	-264	-27	95
Balance C/Forward	7,352	6,855	6,591	6,564	6,659
DISTRICT DEVELOPMENT FUND					
Balance B/forward	3,122	2,431	1,073	145	184
Transfer Out	-691	-1,358	-928	39	102
Balance C/Forward	2,431	1,073	145	184	286
CAPITAL FUND (inc Cap Receipts)					
Balance B/forward	24,319	19,514	13,898	11,610	10,500
New Usable Receipts	346	273	273	273	273
CR Used to Fund Capital Expenditure					
- Transistional Relief Receipts	0	0	0	0	0
- Other Capital Receipts	-5,151	-5,889	-2,561	-1,383	-861
Balance C/Forward	19,514	13,898	11,610	10,500	9,912
TOTAL BALANCES	29,297	21,826	18,346	17,248	16,857

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2009/10 - 2013/14

ORIGINAL 2009/10		REVISED FORECAST 2009/10	FORECAST 2010/11	FORECAST 2011/12	FORECAST 2012/13	FORECAST 2013/14
£'000	**NET REVENUE EXPENDITURE**	£'000	£'000	£'000	£'000	£'000
17,416	Continuing Services Budget	17,449	18,316	18,171	17,660	17,379
599	CSB - Growth Items	724	-237	-15	0	0
0	Net saving	0	0	-600	-400	-200
18,015	Total C.S.B	18,173	18,079	17,556	17,260	17,179
1,236	One - off Expenditure	691	1,358	928	-39	-102
19,251	Total Net Operating Expenditure	18,864	19,437	18,484	17,221	17,077
0	Contribution to/from (-) Insurance Res	-25	-24	0	0	0
-1,236	Contribution to/from (-) DDF Balances	-691	-1,358	-928	39	102
-704	Contribution to/from (-) Balances	-837	-580	-352	-119	-2
17,311	Net Budget Requirement	17,311	17,475	17,204	17,141	17,177
	FINANCING					
				-5%	-3%	-2%
9,195	Government Support (NNDR+RSG)	9,195	9,379	8,944	8,676	8,502
173	RSG Floor Gains/(-Losses)	173	36	0	0	0
9,368	Total External Funding	9,368	9,415	8,944	8,676	8,502
7,943	District Precept	7,943	8,060	8,260	8,465	8,675
0	Collection Fund Adjustment	0	0	0	0	0
17,311	To be met from Government Grants and Local Tax Payers	17,311	17,475	17,204	17,141	17,177
	Band D Council Tax	146.61	148.77	152.46	156.24	160.11
	Percentage Increase %		1.5	2.5	2.5	2.5

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2009/10 - 2013/14

	REVISED FORECAST 2009/10	FORECAST 2010/11	FORECAST 2011/12	FORECAST 2012/13	FORECAST 2013/14
REVENUE BALANCES	£'000	£'000	£'000	£'000	£'000
Balance B/forward	8,189	7,352	6,772	6,420	6,301
Surplus/Deficit(-) for year	-837	-580	-352	-119	-2
Balance C/Forward	7,352	6,772	6,420	6,301	6,299
DISTRICT DEVELOPMENT FUND					
Balance B/forward	3,122	2,431	1,073	145	184
Transfer Out	-691	-1,358	-928	39	102
Balance C/Forward	2,431	1,073	145	184	286
CAPITAL FUND (inc Cap Receipts)					
Balance B/forward	24,319	19,514	13,898	11,610	10,500
New Usable Receipts	346	273	273	273	273
CR Used to Fund Capital Expenditure					
- Transistional Relief Receipts	0	0	0	0	0
- Other Capital Receipts	-5,151	-5,889	-2,561	-1,383	-861
Balance C/Forward	19,514	13,898	11,610	10,500	9,912
TOTAL BALANCES	29,297	21,743	18,175	16,985	16,497

HOUSING DIRECTORATE
HOUSING REVENUE ACCOUNT SUMMARY

2008/09	2009/10			2010/11
Actual £000's	Original Estimate £000's	Revised Estimate £000's		Original Estimate £000's
			EXPENDITURE	
4,062	4,251	4,369	Supervision & Management General	4,354
3,657	3,689	3,728	Supervision & Management Special	3,804
462	378	413	Rents,Rates Taxes & Insurances	431
5,970	5,600	5,600	Contribution to Repairs Fund	5,600
14,151	**13,918**	**14,110**	**MANAGEMENT & MAINTENANCE**	**14,189**
9,313	9,246	7,776	Depreciation	8,010
48	49	41	Treasury Management Expenses	41
10,842	11,193	9,751	HRA Subsidy Payable	10,132
55	104	55	Provision for Bad/Doubtful Debts	55
34,409	**34,510**	**31,733**		**32,428**
			INCOME	
24,473	25,454	25,188	Gross Rent of Dwellings	25,791
2,494	2,561	2,418	Non Dwellings Rent	2,606
1,683	1,781	1,920	Charges for Services & Facilities	1,928
316	305	298	Contribution from General Fund	314
28,966	**30,101**	**29,824**		**30,639**
5,443	**4,409**	**1,909**	**NET COST OF SERVICES**	**1,789**

HOUSING DIRECTORATE
HOUSING REVENUE ACCOUNT SUMMARY

2008/09	*2009/10*			2010/11
Actual £000's	*Original Estimate £000's*	*Revised Estimate £000's*		**Original Estimate £000's**
5,443	*4,409*	*1,909*	NET COST OF SERVICES	1,789
(2,083)	*(1,274)*	*(544)*	Interest on Receipts and Balances	(537)
(4,695)	*(4,468)*	*(2,998)*	Transfer from MRR	(3,166)
731	*189*	*723*	Pensions Interest Payable/Return on Assets	723
(604)	*(1,144)*	*(910)*	**NET OPERATING INCOME**	(1,192)
			APPROPRIATIONS	
1,452	*1,525*	*1,525*	Capital Exp. Charged to Revenue	1,763
(688)	*(24)*	*(640)*	FRS 17 Adjustment	(614)
(81)	*31*	*50*	Transfer to Capital Reserves	50
683	*1,532*	*935*		1,199
79	*388*	*25*	**(SURPLUS)/DEFICIT FOR YEAR**	7
6,201	*6,122*	*6,122*	BALANCE BROUGHT FORWARD	6,097
79	*388*	*25*	(SURPLUS)/DEFICIT FOR YEAR	7
6,122	***5,734***	***6,097***	**BALANCE CARRIED FORWARD**	**6,090**

HOUSING DIRECTORATE
HOUSING REPAIRS FUND SUMMARY

2008/09	2009/10			2010/11
Actual £000's	*Original Estimate £000's*	*Revised Estimate £000's*		**Original Estimate £000's**
			EXPENDITURE	
3,448	*3,602*	*3,071*	Responsive and Void Repairs	3,147
2,081	*2,131*	*2,128*	Planned & Cyclical Maintenance	2,390
114	*214*	*169*	Other items	182
5,643	***5,947***	***5,368***	**TOTAL EXPENDITURE**	**5,719**
(5,970)	***(5,600)***	***(5,600)***	**CONTRIBUTION FROM HRA**	**(5,600)**
(327)	***347***	***(232)***	**(SURPLUS)/DEFICIT FOR YEAR**	**119**
3,708	*4,035*	*4,035*	BALANCE BROUGHT FORWARD	4,267
(327)	*347*	*(232)*	(SURPLUS)/DEFICIT FOR YEAR	119
4,035	***3,688***	***4,267***	**BALANCE CARRIED FORWARD**	**4,148**

HOUSING DIRECTORATE
MAJOR REPAIRS RESERVE SUMMARY

2008/09	*2009/10*			2010/11
Actual	***Original Estimate***	***Revised Estimate***		**Original Estimate**
£000's	***£000's***	***£000's***		**£000's**
			EXPENDITURE	
4,989	*5,265*	*6,503*	CAPITAL EXPENDITURE	5,143
4,695	*4,468*	*2,998*	TRANSFERRED TO HRA	3,166
9,684	***9,733***	***9,501***	**TOTAL EXPENDITURE**	**8,309**
(9,313)	***(9,246)***	***(7,776)***	**DEPRECIATION**	**(8,010)**
371	***487***	***1,725***	**(SURPLUS)/DEFICIT FOR YEAR**	**299**
7,290	*6,919*	*6,919*	BALANCE BROUGHT FORWARD	5,194
371	*487*	*1,725*	(SURPLUS)/DEFICIT FOR YEAR	299
6,919	***6,432***	***5,194***	**BALANCE CARRIED FORWARD**	**4,895**

CAPITAL PROGRAMME
2009/10 to 2013/14 FORECAST

	2009/10 Original £000	2009/10 Revised £000	2010/11 Forecast £000	2011/12 Forecast £000	2012/13 Forecast £000	2013/14 Forecast £000	5 Year Total £000
EXPENDITURE							
Finance & ICT	540	418	661	300	300	300	1,979
Corporate Support Service	517	296	977	364	333	11	1,981
Deputy Chief Executive	1,994	254	3,341	450	0	0	4,045
Environment & Street Scene	3,045	2,997	1,018	820	133	103	5,071
Planning & Economic Development	1,580	1,535	0	0	0	0	1,535
Total Non-Housing	**7,676**	**5,500**	**5,997**	**1,934**	**766**	**414**	**14,611**
Housing GF	2,181	1,157	1,610	930	920	750	5,367
HRA	6,790	8,088	6,956	6,961	6,267	5,831	34,103
Housing DLO	50	55	0	50	50	50	205
Total Housing	**9,021**	**9,300**	**8,566**	**7,941**	**7,237**	**6,631**	**39,675**
TOTAL	**16,697**	**14,800**	**14,563**	**9,875**	**8,003**	**7,045**	**54,286**
FUNDING							
DCLG Grant for DFG	290	303	240	240	240	240	1,263
DCLG Grant for Decent Homes	203	350	239	0	0	0	589
HPDG/LABGI Capital Grants	0	76	0	0	0	0	76
Big Lottery Grant	60	162	0	0	0	0	162
ECC/Parish Contributions	500	554	250	0	0	0	804
Private Funding	1,208	176	1,039	113	113	113	1,554
Total Grants	**2,261**	**1,621**	**1,768**	**353**	**353**	**353**	**4,448**
Housing GF (Other Capital Receipts)	1,688	504	1,131	690	680	510	3,515
Non Housing (Other Capital Receipts)	5,958	4,647	4,758	1,871	703	351	12,330
Total Capital Receipts	**7,646**	**5,151**	**5,889**	**2,561**	**1,383**	**861**	**15,845**
HRA - RCCO	1,525	1,525	1,763	1,450	700	750	6,188
HRA - MRR	5,265	6,503	5,143	5,511	5,567	5,081	27,805
Total Revenue Contributions	**6,790**	**8,028**	**6,906**	**6,961**	**6,267**	**5,831**	**33,993**
TOTAL	**16,697**	**14,800**	**14,563**	**9,875**	**8,003**	**7,045**	**54,286**

CAPITAL PROGRAMME
2009/10 to 2013/14 FORECAST

	2009/10 Original £000	2009/10 Revised £000	2010/11 Forecast £000	2011/12 Forecast £000	2012/13 Forecast £000	2013/14 Forecast £000	5 Year Total £000
Finance & ICT							
General IT	450	358	454	300	300	300	1,712
Cash-Receipting & Income System	90	60	30	0	0	0	90
General Capital Contingency	0	0	177	0	0	0	177
Total	**540**	**418**	**661**	**300**	**300**	**300**	**1,979**
Corporate Support Service							
Civic Office Works	444	238	919	330	63	11	1,561
Building Improvement Programme - Leisure	23	8	58	34	0	0	100
Upgrade of Industrial Units	50	50	0	0	270	0	320
Total	**517**	**296**	**977**	**364**	**333**	**11**	**1,981**
Deputy Chief Executive							
Customer Services Trans Prog	500	50	837	450	0	0	1,337
Limes Farm Hall Development	0	0	1,062	0	0	0	1,062
Ongar Playing Fields Development	1,434	0	1,433	0	0	0	1,433
Youth Sports Facilities	0	0	9	0	0	0	9
Children's Play Programme	60	204	0	0	0	0	204
Total	**1,994**	**254**	**3,341**	**450**	**0**	**0**	**4,045**
Environment & Street Scene							
W Abbey Sports Provision Feasibility	0	42	0	0	0	0	42
Fitness Equipment - Loughton LC	150	150	0	0	0	0	150
Loughton Leisure Centre	0	51	0	0	0	0	51
Waste Management Vehicles & Equip't	1,875	1,875	0	0	0	0	1,875
Environ. Protection Equipment	0	30	0	0	0	0	30
Bobbingworth Tip	0	254	0	0	0	0	254
Parking & Traffic Schemes	200	172	300	200	0	0	672
Housing Estate Car Parking	439	20	572	527	40	40	1,199
Bakers Lane Car Park	120	120	0	0	0	0	120
N W Airfield Market Improvements	231	68	62	63	63	63	319
N W Airfield Fire Cover Vehicle	0	10	0	0	0	0	10
Safer Cleaner Greener	0	13	0	0	0	0	13
Flood Alleviation Schemes	0	0	47	0	0	0	47
Grounds Maint Plant & Equipt	30	192	37	30	30	0	289
Total	**3,045**	**2,997**	**1,018**	**820**	**133**	**103**	**5,071**
Planning & Economic Development							
Loughton Broadway TCE	1,580	1,508	0	0	0	0	1,508
Planning Services Capital Schemes	0	27	0	0	0	0	27
Total	**1,580**	**1,535**	**0**	**0**	**0**	**0**	**1,535**
TOTAL NON-HOUSING PROGRAMME	**7,676**	**5,500**	**5,997**	**1,934**	**766**	**414**	**14,611**

CAPITAL PROGRAMME
2009/10 to 2013/14 FORECAST

	2009/10 Original £000	2009/10 Revised £000	2010/11 Forecast £000	2011/12 Forecast £000	2012/13 Forecast £000	2013/14 Forecast £000	5 Year Total £000
Housing General Fund							
Affordable Housing Conrtib to Estuary HA	155	155	0	0	0	0	155
Disabled Facilities Grants	400	400	400	400	400	400	2,000
Other Private Sector Grants	350	350	350	350	350	350	1,750
Private Sector Capital Contingency	310	0	180	180	170	0	530
Home Ownership Grants Scheme	238	102	102	0	0	0	204
Open Market Shared Ownership Scheme	350	150	200	0	0	0	350
CPO 8/8A Sun Street, W. Abbey	378	0	378	0	0	0	378
TOTAL HOUSING GENERAL FUND	**2,181**	**1,157**	**1,610**	**930**	**920**	**750**	**5,367**
Housing Revenue Account							
Springfields, Waltham Abbey	0	1,548	0	0	0	0	1,548
Heating/Rewiring	1,100	1,262	1,539	1,700	1,726	1,685	7,912
Windows/Roofing/Asbestos/Water Tanks	955	868	877	951	1,034	859	4,589
Other Planned Maintenance	543	279	476	368	385	454	1,962
Total Planned Maintenance	2,598	3,957	2,892	3,019	3,145	2,998	16,011
Structural Schemes	250	391	400	400	400	400	1,991
Small Capital Repairs	400	438	685	632	464	493	2,712
Kitchen & Bathroom Replacements	2,067	2,110	1,548	1,672	1,520	1,204	8,054
Environmental Improvements	949	479	949	768	268	266	2,730
Disabled Adaptations	430	582	450	450	450	450	2,382
Other Repairs and Maintenance	96	131	32	20	20	20	223
TOTAL HRA	**6,790**	**8,088**	**6,956**	**6,961**	**6,267**	**5,831**	**34,103**
Housing DLO Vehicles	50	55	0	50	50	50	205
TOTAL DLO	**50**	**55**	**0**	**50**	**50**	**50**	**205**
TOTAL HOUSING PROGRAMME	**9,021**	**9,300**	**8,566**	**7,941**	**7,237**	**6,631**	**39,675**

CAPITAL RECEIPTS
2009/10 to 2013/14 FORECAST

	2009/10 Original £000	2009/10 Revised £000	2010/11 Forecast £000	2011/12 Forecast £000	2012/13 Forecast £000	2013/14 Forecast £000	5 Year Total £000
Receipts Generation							
Housing Revenue Account	1,080	739	1,080	1,080	1,080	1,080	5,059
General Fund	0	165	0	0	0	0	165
Total Receipts	**1,080**	**904**	**1,080**	**1,080**	**1,080**	**1,080**	**5,224**
Receipts Analysis							
Usable Receipts	273	346	273	273	273	273	1,438
Payment to Govt Pool	807	558	807	807	807	807	3,786
Total Receipts	**1,080**	**904**	**1,080**	**1,080**	**1,080**	**1,080**	**5,224**
Usable Capital Receipt Balances							
Opening Balance	23,389	24,319	19,514	13,898	11,610	10,500	24,319
Usable Receipts Arising	273	346	273	273	273	273	1,438
Use of Other Capital Receipts	(7,646)	(5,151)	(5,889)	(2,561)	(1,383)	(861)	(15,845)
Closing Balance	**16,016**	**19,514**	**13,898**	**11,610**	**10,500**	**9,912**	**9,912**

MAJOR REPAIRS RESERVE
2009/10 to 2013/14 FORECAST

	2009/10 Original £000	2009/10 Revised £000	2010/11 Forecast £000	2011/12 Forecast £000	2012/13 Forecast £000	2013/14 Forecast £000	5 Year Total £000
Opening Balance	5,595	6,919	5,194	4,968	4,517	4,154	6,919
Major Repairs Allowance	4,778	4,778	4,917	5,060	5,204	5,351	25,310
Use of MRR	(5,265)	(6,503)	(5,143)	(5,511)	(5,567)	(5,081)	(27,805)
Closing Balance	**5,108**	**5,194**	**4,968**	**4,517**	**4,154**	**4,424**	**4,424**

The Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2010/11 budgets and the adequacy of the reserves.

Introduction

1. The Local Government Act 2003 section 25 introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2010/11. If this advice is not accepted, the reasons must be formally recorded within the minutes of the Council meeting. Council will consider the recommendations of Cabinet on the budget for 2010/11 and determine the planned level of the Council's balances.

2. Sections 32 and 43 of the Local Government Finance Act 1992 also require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the net budget requirement.

3. There are a range of safeguards, which exist to ensure local authorities do not over-commit themselves financially. These include:

    - The CFO's s.114 powers, which require a report to the Cabinet and to all members of the local authority if there is or is likely to be unlawful expenditure or an unbalanced budget
    - The Prudential Code, which applied to capital financing from 2004/05.

The Robustness of the Recommended Budget

4. A number of reports to the Cabinet in recent years have highlighted the difficulties inherent in setting budgets, not least because of significant changes in the level and complexity of Government funding and continuing pressure to protect and develop services. At the same time major changes have been introduced to the way the Council is structured and managed and the way services like waste and leisure are delivered. These changes and the "Credit Crunch" are still ongoing and represent significant risks to the Council's ability to assess properly all the financial pressures it faces.

5. However the Council's budget process, developed over a number of years, has many features that promote an assurance in its reliability:

    - The rolling four year forecast provides a yardstick against which annual budgets can be measured
    - The early commencement of the budget process and the clear annual timetable for both Members and officers including full integration with the business planning process promotes considered and reasoned decision making
    - The establishment of budget parameters in the summer is designed to create a clear focus before the budget process commences

- The analysis of the budget between the continuing services and one off District Development Fund items smoothes out peaks and troughs and enables CSB trends to be monitored
- The adoption of a prudent view on the recognition of revenue income and capital receipts
- The annual bid process whereby new or increased budgets should be reported to Cabinet before inclusion in the draft budget
- Clear and reasoned assumptions made about unknowns, uncertainties or anticipated changes

6. Changes to the process have also created the facility for far greater consultation, particularly with the development of the Overview and Scrutiny Panel which deals with finance and performance management issues. With a Cabinet system the onus is on Portfolio Holders to deliver acceptable and accurate budgets. This role has been taken seriously and has helped enhance the detailed knowledge of the Cabinet.

7. The budget is therefore based on strong and well-developed procedures and an integrated and systematic approach to the preparation of soundly based capital and revenue plans and accurate income and expenditure estimates. The risks or uncertainties inherent in the budget have been identified and managed, as far as is practicable, and assumptions about their impact have been made.

8. **The conclusion is that the estimates as presented to the Council are sufficiently robust for the purposes of the Council's overall budget for 2010/11.**

Factors to be taken into account when undertaking a Risk Assessment into the overall Level of Reserves and Balances

9. Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) states that the following factors should be taken into account when the CFO considers the overall level of reserves and balances:

   - Assumptions regarding inflation;
   - Estimates of the level and timing of capital receipts;
   - Treatment of demand led pressures;
   - Treatment of savings;
   - Risks inherent in any new partnerships etc;
   - Financial standing of the authority i.e. level of borrowing, debt outstanding etc;
   - The authority's track record in budget management;
   - The authority's capacity to manage in-year budget pressures;
   - The authority's virements and year-end procedures in relation to under and overspends;
   - The adequacy of insurance arrangements.

10. These issues have formed the basis for budget reports in the past and they remain relevant for the current budget.

Factor Assessment

a. Inflationary pressures

11. Every year base budget estimates are produced and then different inflation factors are applied to the resultant figures to take budgets to out-turn prices. It is inevitable that there will be either over or under provision for the full cost of inflation, as prices will inevitably vary against the estimates made. This is particularly relevant in the current unstable economic climate. Efforts have been made to predict the level of inflation in the coming year, although the difficulty in making these predictions has been highlighted by the December inflation figures. Inflation, as measured by the annual rate of increase in the Retail Prices Index, rose from 0.3% for November to 2.4% for December. To find a larger month on month increase you have to go back to July 1979. By co-incidence this was also an election year but the problem of inflation was much greater then as the increase was from 11.4% to 15.6%.

12. If inflation remains at the current level for long there will inevitably be pressure for a higher pay award. Negotiations for 2009/10 were protracted and resulted in a settlement of 1.25% for the lowest paid staff (scale points 4 to 10) and 1% for most other staff (scale point 11 up to and including Assistant Directors). Directors and Chief Executives received no increase in 2009/10. The Medium Term Financial Strategy (MTFS) includes an allowance of 1.5% for pay awards, which is believed to be prudent. Recruitment and retention is less of a concern, but some difficulty is still being experienced in certain areas. In the budgets the centrally held vacancy allowance has been maintained at 2%. This reflects the ongoing underspends, with total salaries at December 2009 being 3.7% underspent. It is unlikely that the Authority will have a full establishment throughout 2010/11 and so this allowance is reasonable.

b. Estimates on the level and timing of capital receipts

13. The Council has always adopted a prudent view on the level and timing of capital receipts, a position justified by past experience. Capital receipts are not recognised for budgetary purposes unless they have been received or their receipt is contractually confirmed prior to the budget being ratified. Cabinet is unlikely to agree further disposals until the property market has improved and so no significant disposals are anticipated in 2010/11.

14. The exception to this relates to receipts from council house sales. In this instance because sales occur throughout the year assumptions are made about their generation. Although sales have fallen dramatically from previous years and the pattern of less than 10 sales per annum is expected to continue.

15. Clearly if the forecasts contained in this report are not realised in full, there could be a financial impact on the General Fund because investment income to that account has been based on that level of sales. However, this is relatively unlikely given the low numbers involved.

16. Even with the Authority's substantial capital programme, which exceeds £54m over five years, it is anticipated that the balance of usable capital receipts at 31 March 2014 will be £9.9m. The Capital Strategy continues to emphasise that priority will be given to capital schemes that will create future revenue benefit, either through increased income or reduced costs.

c. Treatment of demand led pressures and savings

17. Last year, the largest demand led pressure facing the Council was for the green waste service. To address this need and reduce the reliance on biodegradable sacks an amended service was introduced with a second wheeled bin. This has required considerable investment in terms of CSB, DDF and capital. However, this is a key service and by moving forward in this way it has been possible to secure significant ongoing revenue support from Essex County Council and one-off capital assistance to help purchase the necessary equipment.

18. The increase in demand for bus passes has reduced. The number of passes in issue had increased by more than 50% from 10,490 at 31 March 2008 to 15,564 at 31 March 2009. This is still increasing but more slowly with the current number in issue being 17,600. The Department for Transport has confirmed that responsibility for the scheme is likely to change as part of the next Comprehensive Spending Review. This will require a re-working of the grant support formulas and recent history has shown that this Authority has not benefited from such changes.

19. The "Credit Crunch" has seen new benefit claims increase by more than 25% and has also increased demand for the Council's homelessness service. These are not the only Council services to face extra demands in the current economic climate. Against this background, it is clear that in order to avoid breaching the guideline on reserves it will be necessary to achieve substantial savings in the last three years of the period covered by the medium term financial strategy.

d. Risks inherent in partnership arrangements etc

20. There are several partnership arrangements, some of which carry risks of varying degrees in monetary terms. The risks have not been specifically identified in the budget but are underwritten through the Authority's balances.

e. Financial standing of the authority (i.e. level of borrowing, debt outstanding etc)

21. The Authority is currently debt free and intends to remain so in the medium term. Revenue reserves for both the General Fund and the Housing Revenue Account are in a healthy state.

22. The largest threat to the Authority's financial standing is the probable reduction in grant support as part of the next Comprehensive Spending Review (CSR). The overall public finances are in a very poor state and it is inevitable that the next government will have to reduce spending. It will only become clear after the general election how much of a reduction will be imposed on district councils. The MTFS assumes a reduction of 10% over the next CSR, this sees grant reduce from £9.4m in 2010/11 to £8.5m by 2013/14.

f. The authority's track record in budget management, including its ability to manage in-year budget pressures

23. The Authority has a proven track record in financial management as borne out by the Use of Resources assessments from the Authority's external auditors. A comparison of actual net expenditure with estimates over a number of years shows that the Council rarely experiences under or over spends of any significance.

24. However, the discipline of Financial Regulations - not incurring spending without a clear budget - must be rigidly observed, and the monitoring of the riskier budgets, particularly income budgets, needs to be maintained. The quarterly budget monitoring reports on key budgets to both the Finance and Performance Management Cabinet Committee and the Finance and Performance Management Scrutiny Panel will continue throughout 2010/11. The production of these reports during the year is essential in identifying emerging problems at the earliest opportunity. This allows maximum benefit to be accrued from any corrective action taken.

g. The authority's virement and year-end procedures in relation to under and overspends

25. The Authority has recognised and embedded virement procedures that allow funds to be moved to areas of pressure. Although underspends and overspends are not automatically carried forward, the Authority does have an approved carry forward scheme for capital and DDF which is actioned through the formal provisional outturn report to Cabinet in the summer of each year.

h. The adequacy of insurance arrangements

26. The Council is now in the final year of a five-year agreement, which was subject to a competitive tendering process. A collaborative procurement exercise is currently underway with twelve other authorities to establish new long term agreements. As part of this process a number of options on excess levels and joint arrangements are being examined. The Authority still maintains an insurance fund, which has been capped at £500,000.

i. Pension liabilities

27. Previously Members decided to take the option to phase in the increase required in employer's contributions, following receipt of the 2007 triennial valuation of the Pension Fund. The previous ongoing employer's contribution was 10.1%, which has to increase to 13.1% over the three-year life of the valuation. Members decided to introduce the increases by 1% per annum and consequently make higher deficit payments, although total payments over the three years are lower with this option.

28. Council agreed in December 2007, as part of approving the Capital Strategy, that the policy of capitalising deficit payments would continue and a further £2.5m of capital receipts were moved to the Pension Deficit Reserve to fund this. Annual applications are made to Department for Communities and Local Government (DCLG) for a capitalisation directions, as separate directions are required for the Housing Revenue Account and the General Fund. These applications have been made since 2005/06 and the only year when a full direction was not given was 2006/07 when the capitalisation was limited to 57.19% of the value of the application.

29. The regulations for issuing capitalisation directions were changed for 2006/07, with a "Two Gate" system being introduced. Applications must satisfy the previous criteria to clear Gate 1 but applications will not pass Gate 2 until the national economic impact has been considered in total. Confirmation that the applications have been successful at Gate 1 has now been received, although Gate 2 confirmations are not issued until the end of January. If capitalisation

directions had not been provided the additional charges to revenue for 2008/09 would have been £662,000 General Fund and £311,000 HRA. As the deficit payments have not changed significantly the amounts at risk in future years are broadly similar.

Statement on the adequacy of the reserves and balances

30. The Use of Resources assessment conducted by the external auditors has moved on from the formulaic approach of CPA to achieve the 'good' ranking for reserves. The old formula had suggested that the Council should maintain a General Fund balance of at least £0.89m but no more than £17.86m. The Council's current best estimate of the General Fund balance at 31 March 2011 is £6.9m as shown in the Annex 11 b. This is clearly within the range specified but as a benchmark is not particularly useful. Therefore a risk assessment related to the Authority's individual circumstances is provided as a more meaningful benchmark against which the adequacy of the balances can be determined.

31. The following table lists those developments and cost pressures within the four-year forecast that offer the greatest risk to financial stability.

Item of risk	Estimated level of financial risk £000	Level of risk %	Adjusted level of risk £000
Basic 5% of Net Operating Expenditure			1,100
Grant reduction being 20% instead of 10% over next CSR	500	40	200
Pay award being settled 1% in excess of 1.5% est. for 10/11 and future years	600	20	120
Inflationary pressures between 1-4% higher than budget	600	20	120
Loss of North Weald Market Income	4,000	20	800
General Income between 1-4% less than budget	600	10	60
Interest Rates 1% less than budget	500	10	50
Emergency Contingency	800	20	160
Capitalisation applications refused for 09/10 and 10/11	1,300	40	520
Renegotiating External contracts and partnership arrangements	Say 1,000	10	100
Total	9,900		3,230

32. The income generated from the market at North Weald airfield is significant to the ongoing financial well being of the Authority. Uncertainties surrounding the future of the airfield create a risk to the Authority that needs to be recognised and quantified hence its inclusion in the list above. A number of contracts have been granted to outside bodies for the provision of Council services. The failure of any of these contracts would inevitably lead to the Council incurring costs, which may not be reimbursed. Other than certain bond arrangements there is no specific provision made in the estimates for this type of expenditure, which therefore would have to be covered by revenue balances.

33. The presentation in this table is not a scientific approach, but a crude attempt to put a broad order of scale on the main financial risks potentially facing the Council. It is meant to be thought provoking rather than definitive. It is certainly not a complete list of all the financial risks the Council faces but it shows the potential scale of some of the risks and uncertainties and the impact they may have on the Council's balances if they were to come to fruition.

34. Based on the old CPA formula there is an expectation that an authority should carry a level of balance that equates to at least 5% of the net operating expenditure (NOE) of the Authority. During the period of the four-year plan NOE is expected to average out at £18.2m, which suggests a figure of £910,000.

35. The Council has always been conscious of its balances position as can be demonstrated by budget reports over many years. Fortunately for the Authority the question had not been whether it had a sufficient level of balance but rather that it had too much. Balances have been increasing since 2003/04 and are predicted to have peaked at £8.2m at 31 March 2010.

36. A number of policies have been determined previously to bring about reductions and the current policy reflects that deficit budgets are now necessary for the balances to fall. The current policy allows for balances to fall to no lower than 25% of Net Budget Requirement (NBR). This is slightly different from the NOE stated above, the average NBR figure for the next four years is expected to be £17.3m therefore 25% of that figure equates to £4.3m. The current four-year forecast shows balances still at £6.7m at the end of 2013/14.

37. The risk assessment undertaken above suggests that 20-25% of NBR is about the range that this authority should be maintaining its balances within. By 31 March 2014 balances will represent 38% of NBR, which is perfectly adequate. However, Members are aware that this situation can only be achieved with CSB savings and have stated a clear target of reducing expenditure throughout the period of the medium term financial strategy.

38. It has already been stated that the capital fund is expected to remain in a surplus position beyond 2013/14 and the capital programme is fully funded.

40. The Council has a few earmarked reserves (e.g. DDF), which are intended to be used for specific purposes over a period of time of more than a single financial year. These earmarked reserves have been excluded from the assessment for this reason.

41. The HRA revenue balance of £6.1m at 31 March 2009 is expected to decrease slightly, by £25,000 in 2009/10 and £7,000 in 2010/11. The balance on the Housing Repairs Fund is expected to reduce over the next year, from £4.3m to £4.1m. Similarly the Housing Major Repairs Reserve is predicted to reduce from £5.2m to £4.9m. Even though reductions in reserves are budgeted the overall financial standing of the HRA and its reserves going into 2010/11 remain healthy.

42. The conclusion is that the reserves of the Council are adequate to cope with the financial risks the Council faces in 2010/11 but that savings will be needed in subsequent years to bring the budget back into balance in the medium term.

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Report on the Council's Prudential Indicators for 2010/11 to 2012/13 and the Treasury Management Strategy for 2010/11

This report outlines the Council's prudential indicators for 2010/11 – 2012/13 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:

- The reporting of the **prudential indicators** setting out the expected capital activities;
- The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year;
- The **treasury management strategy statement** which sets out how the Council's treasury service will support the capital decisions taken above;
- The **investment strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2009. The Department for Communities and Local Government (CLG) is currently consulting on changes to the Investment Guidance. The revised guidance arising from these Codes has been incorporated within these reports, with CLG proposals being incorporated where these do not conflict with current Guidance. If necessary the Investment Strategy will be revised if any elements of the final CLG Investment Guidance have not been covered.

The main changes above increase the Members' responsibility in scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information.

One element of the revised CIPFA Treasury Management Code of Practice is that the constitution is amended to identify the appropriate committee be responsible for ensuring effective scrutiny of the treasury management strategy and policies, before making recommendations to Council.

Recommendations;

1. **The Council is recommended to adopt the prudential indicators and limits for 2010/11 to 2012/13 contained within Annex 15a of the report. The main indicators are summarised in the table below:**

	2008/09 Actual	2009/10 Revised	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Capital Expenditure	10,472	14,800	14,563	9,875	8,003
Capital financing requirement	-£0.784m	-£0.784m	-£0.784m	-£0.784m	-£0.784m
Ratio of financing costs to net revenue stream – General Fund	-10.37%	-3.18%	-2.52%	-3.23%	-6.27%
Ratio of financing costs to net revenue stream – HRA	-10.74%	-3.29%	-2.60%	-3.35%	-6.49%
Incremental impact of capital investment decisions on the Band D Council Tax	N/a	-£0.59	-£0.37	£0.51	£1.50
Incremental impact of capital investment decisions on weekly housing rents levels	N/a	£0.04	£0.11	-£0.61	-£2.51

2. **Members are recommended to approve the Council's Statement on the Minimum Revenue Provision contained within Annex 15a of the report.**
3. **Members are recommended to approve the treasury management strategy for 2010/11 to 2012/13 contained within Annex 15b. The treasury prudential indicators are set out in the tables below;**

	2008/09 Actual	**2009/10 Revised**	**2010/11 Estimate**	**2011/12 Estimate**	**2012/13 Estimate**
Authorised limit for external debt	£5.0m	£5.0m	£5.0m	£5.0m	£5.0m
Operational boundary for external debt	£0.5m	£0.5m	£0.5m	£0.5m	£0.5m

Exposure to fixed/variable interest rates	**2010/11 Upper**	**2011/12 Upper**	**2012/13 Upper**
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	30%	30%	30%

Maturity Structure of fixed interest rate borrowing						
	2010/11		**2011/12**		**2012/13**	
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	100%	0%	100%	0%	100%
12 months to 2 years	0%	0%	0%	0%	0%	0%
2 years to 5 years	0%	0%	0%	0%	0%	0%
5 years to 10 years	0%	0%	0%	0%	0%	0%
10 years and above	0%	0%	0%	0%	0%	0%
Maximum principal sums invested for 1 year or more	£30 m		£30 m		£30 m	
Investment returns to exceed the 7 day LIBID rate by;	0.10 %		0.10%		0.10%	

4. **Members are recommended to approve the investment strategy for 2010/11 contained in the treasury management strategy (Annex 15b), and the detailed criteria included within it, specifically approving:**
    - **The criteria for specified investments**
    - **The criteria for non-specified investments**

The Prudential Indicators 2010/11 – 2012/13

1. The Local Government Act 2003 required the Council to adopt the CIPFA Prudential Code and to produce prudential indicators. This report revises the indicators for 2009/10, 2010/11 and 2011/12, and introduces new indicators for 2012/13. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the Council's underlying capital appraisal systems.
2. Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence, the treasury management strategy for 2010/11 to 2012/13 and the treasury indicators form part of this report.

Capital Expenditure Plans

3. The first prudential indicators govern the Council's capital expenditure plans, its net borrowing position and its Capital Financing Requirement (CFR). The Council's capital expenditure plans are summarised below. Capital expenditure can be financed immediately (by resources such as contributions from revenue, capital receipts and capital grants), so that with no unfinanced expenditure there is no need to borrow.
4. A certain level of capital expenditure will be grant supported by the Government; anything above this level will be unsupported and will need to be paid for from the Council's own resources. The Government has the power to restrict the level of external debt undertaken by either all councils as a whole or of a specific council, although these powers have not yet been exercised.
5. The key risk to the plans is that the level of Government support has been estimated and is therefore subject to change. Similarly some of the estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.
6. **The Council is recommended to approve the capital expenditure estimates presented in Table 1.**

Table 1: Estimated Capital Expenditure 2009/10 to 2012/13

Directorate	2008/09 Actual £'000	2009/10 Revised Estimate £'000	2010/11 Original Estimate £'000	2011/12 Original Estimate £'000	2012/13 Original Estimate £'000
Finance & ICT	431	418	661	300	300
Corporate Support Service	62	296	977	364	333
Deputy Chief Executive	134	254	3,341	450	0
Environment & Street Scene	461	2,997	1,018	820	133
Planning & Economic Development	932	1,535	0	0	0
Housing General Fund	1,779	1,157	1,610	930	920
Total General Fund	**3,799**	**6,657**	**7,607**	**2,864**	**1,686**
HRA	6,624	8,088	6,956	6,961	6,267
Housing DLO	49	55	0	50	50
Total Housing Revenue Account	**6,673**	**8,143**	**6,956**	**7,011**	**6,317**
TOTAL	**10,472**	**14,800**	**14,563**	**9,875**	**8,003**

The Council's Capital Financing Requirement

7. The Council's Capital Financing Requirement (CFR) is the total capital expenditure which has not yet been financed from either revenue contributions or capital income. It is essentially a measure of the Council's underlying borrowing need; any unfinanced capital expenditure will increase the Council's CFR. Table 2 demonstrates that all projected capital expenditure over the current and the next three financial years is expected to be financed, and that the Council's CFR is expected to remain unchanged.

8. **Members are asked to approve the Capital Financing Requirement from 2009/10 to 2012/13, contained within Table 2, which shows the Council has complied with keeping net borrowing below the appropriate CFR in 2008/09, and that no difficulties are envisaged for the financial years 2009/10 to 2012/13.**

Table 2: Capital Expenditure Financing and its effect on the CFR

	2008/09 Actual £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Total General Fund	3,799	6,657	7,607	2,864	1,686
Financed by:					
Capital receipts	2,766	5,151	5,889	2,561	1,383
Capital grants	1,033	1,506	1,718	303	303
Revenue Contributions	0	0	0	0	0
Total Financed Expenditure	**3,799**	**6,657**	**7,607**	**2,864**	**1,686**
Net financing need for the year	**0**	**0**	**0**	**0**	**0**
Opening CFR	**22,019**	**22,019**	**22,019**	**22,019**	**22,019**
CFR arising during the year	**0**	**0**	**0**	**0**	**0**
Closing CFR	**22,019**	**22,019**	**22,019**	**22,019**	**22,019**
Total Housing Revenue Account	6,673	8,143	6,956	7,011	6,317
Financed by:					
Capital receipts	20	0	0	0	0
Capital grants	193	115	50	50	50
Revenue Contributions	6,460	8,028	6,906	6,961	6,267
Total Financed Expenditure	**6,673**	**8,143**	**6,956**	**7,011**	**6,317**
Net financing need for the year	**0**	**0**	**0**	**0**	**0**
Opening CFR	**-22,803**	**-22,803**	**-22,803**	**-22,803**	**-22,803**
CFR arising during the year	**0**	**0**	**0**	**0**	**0**
Closing CFR	**-22,803**	**-22,803**	**-22,803**	**-22,803**	**-22,803**
General Fund CFR	22,019	22,019	22,019	22,019	22,019
HRA CFR	-22,803	-22,803	-22,803	-22,803	-22,803
Total CFR	**-0.784**	**-0.784**	**-0.784**	**-0.784**	**-0.784**

9. Local authorities are required to repay an element of the accumulated General Fund capital spend – represented by the CFR - through an annual revenue charge (the Minimum Revenue Provision, or MRP).

10. CLG Regulations will require full Council to approve an MRP Statement. This will need to be approved in advance of each financial year. As the timetable for consultation is very tight, members are asked to approve the following MRP statement:

As the Council is currently debt-free and intends to remain so for the foreseeable future, there is no requirement to make a provision for external debt repayment. If the Council identifies a need to borrow externally, the Council will draw up a minimum revenue policy in accordance with proper accounting practice, and will present this to members for approval.

11. **Members are asked to approve the Council's Minimum Revenue Provision Statement, set out in paragraph 10 above.**

Affordability Prudential Indicators

12. The previous sections cover prudential indicators designed to examine capital expenditure and control of borrowing: prudential indicators in this section are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's financial affairs, and identify the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

13. The estimates of financing costs include current commitments and the proposals in this budget report.

14. Prudential Indicators for the actual and estimated ratios of financing costs to net revenue stream for the General Fund and Housing Revenue Accounts, and are shown in Table 3. As the Council is debt-free, these are based on investment income and are therefore negative.

Table 3: Actual and estimated ratios of financing Costs to net revenue stream

	2008/09 Actual %	**2009/10 Revised Estimate** %	**2010/11 Estimated Forecast** %	**2011/12 Estimated Forecast** %	**2012/13 Estimated Forecast** %
General Fund	-10.37	-3.18	-2.52	-3.23	-6.27
HRA	-10.74	-3.29	-2.60	-3.35	-6.49

15. Prudential Indicator for the estimate of the incremental impact of capital investment decisions on the Band D Council Tax over the next three financial years, and is shown in Table 4. This indicator identifies the revenue costs associated with new schemes introduced to the capital programme considered as Appendix 15 to this report, compared to the capital programme examined for the 2009/10 Prudential Indicators. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support in future years.

16. Prudential Indicator for the estimates of the incremental impact of capital investment decisions on housing rent levels over the next three financial years. Similar to the Council Tax calculation, this indicator identifies the trend in the cost of proposed changes in the part of the capital programme relating to the Housing Revenue Account. It compares the most recent programme to that examined for the 2009/10 Prudential Indicators, and is expressed as a discrete impact on weekly rent levels.

Table 4: Incremental impact of capital investment decisions on Council tax and rents				
	2009/10 Revised £	**2010/11 Estimate £**	**2011/12 Estimate £**	**2012/13 Estimate £**
Band D Council Tax	-0.59	-0.37	0.54	1.50
Housing rents levels	0.04	0.11	-0.61	-2.51

17. It should be emphasised that these are theoretical, and do not imply an actual requirement to raise either Council Tax or housing rent levels. Any move to raise housing rent levels will be constrained by the rent restructuring controls.

Treasury Management Strategy 2010/11 – 2012/13

18. The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators considered so far relate to the affordability and impact of capital expenditure decisions and govern the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures that the Council meets the "balanced budget" requirement under the Local Government Finance Act 1992. There are specific treasury prudential indicators included within this strategy which require approval.

19. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2009). This Council adopted the Code of Practice on Treasury Management on 22 April 2002, and as a result formulated a Treasury Management Policy Statement (approved by Cabinet on 18 October 2004). However, the revised Code of Practice has amended the Treasury Management Policy Statement and is at Annex 15b (iii) for approval. This adoption meets the requirements of the first of the treasury prudential indicators.

20. The Council's Treasury Management policy requires an annual strategy to be reported to Council in advance of the first financial year to which it relates, outlining the expected treasury activity for the following three financial years. A key requirement of this report is to explain both the risks and the management of the risks associated with the treasury service. A further treasury report is produced within six months of the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

21. This strategy covers:
    - The Council's debt and investment projections;
    - The Council's estimates and limits on future debt levels;
    - The expected movement in interest rates;
    - The Council's borrowing and investment strategies;
    - Treasury performance indicators;
    - Specific limits on treasury activities;

Debt and Investment Projections 2010/11 – 2012/13

22. The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. Table 5 shows this effect on the treasury position over the next three years. The expected maximum debt position during each year represents the Operational Boundary prudential indicator. It also highlights the expected change in investment balances, although as a matter of prudence it does not include an estimate for capital receipts from proposed land sales.

23. Although the Council is debt-free and expects to remain so for the foreseeable future, there is a reducing element of debt taken out on behalf of other local authorities. Epping Council has repaid the underlying external debt in full from its own resources; the authorities concerned are paying the Council their share of the debt plus interest in instalments. This is shown as negative debt, as it represents income to the Council.

Table 5: Estimated Treasury position as at 31 March, 2010 to 2013				
	2010 Revised £'000	**2011 Estimate £'000**	**2012 Estimate £'000**	**2013 Estimate £'000**
External Debt				
External debt	0	0	0	0
Less transferred debt	-507	-481	-452	-424
Total debt	**-507**	**-481**	**-452**	**-424**
Investments				
Investment portfolio	44,000	42,000	38,000	38,000
Funds held in short notice accounts	9,000	8,000	8,000	8,000
Total investments	**53,000**	**50,000**	**46,000**	**46,000**
Change from previous year	-4,250	-3,000	-4,000	0
Annual net interest income	1,120	899	1,137	2,198

Limits to Borrowing Activity

24. Within the Prudential Indicators there are a number of key indicators to ensure that the Council operates its external borrowing activities within well defined limits.

25. In order to comply with the first Prudential Indicator the Council must ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2009/10 and next two financial years. This allows flexibility for limited early borrowing for future years.

26. The Director of Finance & ICT confirms that the Council has complied with this prudential indicator throughout the current year and does not envisage difficulties for the foreseeable future. This view takes into account current commitments, existing plans, and proposals contained within this budget report. The Council's estimated net debt positions as at 31 March 2010 and for the next three years are shown for information in Table 5.

27. The Authorised Limit for External Debt. This represents a limit beyond which external debt is prohibited, and needs to be approved by full Council. It reflects the level of external debt which could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

28. The Operational Boundary for External Debt. This indicator is based on the expected maximum external debt during the course of the year; it is not a limit.

29. The Council became debt-free on 29th March 2004, and intends to remain debt-free for the foreseeable future, meaning that the Authorised Limit is unlikely to be breached. The Director of Finance & ICT confirms that the Council has remained within these two limits during the current year, and does not foresee any difficulty in continuing to do so.

30. **The Council is recommended to approve the Authorised Limit and Operational Boundary set out in Table 6.**

Table 6: The Authorised and Operational Limits of External Debt				
	2009/10 Revised £ m	**2010/11 Estimate £ m**	**2011/12 Estimate £ m**	**2012/13 Estimate £ m**
Authorised limit	5.0	5.0	5.0	5.0
Operational boundary	0.5	0.5	0.5	0.5

Borrowing in advance of need

31. The Council has some flexibility to borrow funds this year for use in future years to fund the approved capital programme, where there is a clear business case for doing so. However, the Council is debt free and expects to remain so for the foreseeable future.

Economic Forecast

Table 7: Expected movements in interest rates (Source: Butlers, January 2010)				
		Market investment rates		
As at end of:	**Base Rate %**	**3 month %**	**6 month %**	**12 month %**
December 2009	0.50	0.60	0.80	1.20
March 2010	0.50	0.70	0.90	1.50
June 2010	0.75	0.90	1.30	1.90
September 2010	1.00	1.20	1.50	2.20
December 2010	1.00	1.30	1.60	2.40
March 2011	1.25	1.50	1.80	2.60

32. Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy has commenced but it will remain insipid and there is a danger that early reversal of monetary ease, (rate cuts and Quantative Easing {QE}), could trigger a dip back to negative growth and a W-shaped GDP path.

33. Credit extension to the corporate and personal sectors has improved modestly but banks remain nervous about the viability of counterparties. This is likely to remain a drag upon activity prospects, as will the lacklustre growth of broad money supply.

34. The main drag upon the economy is expected to be weak consumers' expenditure growth. The combination of the desire to reduce the level of personal debt and job uncertainty is likely to weigh heavily upon spending. This will be amplified by the prospective increases in taxation already scheduled for 2010 – VAT and National Insurance. Without a rebound in this key element of UK GDP growth, any recovery in the economy is set to be weak and protracted.

35. The MPC will continue to promote easy credit conditions via QE. QE has been extended to a total of £200bn and there is still an outside chance that it could be expanded further in February. Whether this has much impact in the near term remains a moot point given the personal sector's reluctance to take on more debt and add to its already unhealthy balance sheet.

36. With inflation set to remain subdued in the next few years, the pressure upon the MPC to hike rates will remain moderate. But some increase will be seen as necessary in 2010 to counter the effects of external cost pressures (as commodity prices begin to rise again) and to avoid damage that sterling could endure if the UK is seen to defy an international move to commence policy exit strategies.

37. Longer terms rates are expected to be more volatile. The current ‘softness’ of gilt yields & PWLB rates may continue for a while yet, given that these are being driven by a benign international backdrop and the effects of QE. Nevertheless this process will come to an end before the close of the financial year.

38. This is likely to herald a return to rising yields for a number of reasons:

- Net gilt issuance will rise sharply;
- This will be increased by the extent to which the BoE attempts to claw back funds injected to the economy via QE programme.
- Investors will be looking to place more if their funds in alternative instruments as their risk appetite increases, demand for gilts will weaken as a consequence;
- A decision to leave QE in place will generate inflation concerns and pressurise long yields higher.

Investment Strategy 2010/11 – 2012/13

39. The primary objectives of the Council’s investment strategy are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Following the economic background above, the current investment climate has one over-riding risk consideration, that of counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which maintains the controls already in place in the approved investment strategy.

40. A development in the revised Codes and the CLG consultation paper is the consideration and approval of security and liquidity benchmarks. These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach will be reported with supporting reasons in the Mid-Year or Annual Report.

41. Security – The Council’s maximum security risk benchmark for the current portfolio, when compared to historic default tables, is 0.03%

42. Liquidity – In respect of this area the Council seeks to maintain:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council’s prudential indicators covering the maximum principal sums invested.
- Bank overdraft – the Council has a facility in place to use, if necessary.
- Liquid short term deposit of at least £1.5M available with a weeks notice
- Weighted Average Life benchmark is expected to be 0.50 years, with a maximum of 0.60 years.

43. Yield – Local measures of yield benchmark is investment returns 0.10% above the 7 day LIBID rate.

Investment Counterparty Selection Criteria

44. The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

45. The Director of Finance & ICT will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it selects which counterparties the Council will invest with rather than defining what form its investments will take. The rating criteria (see explanation of the credit ratings in Annex 15b (iii)) use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria.

46. Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

47. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

    - **Banks and Building Societies** – the Council will invest in banks and building societies which have the following Fitch or equivalent ratings as a minimum:
        - **Short Term** – F1 (minimum of F1+ for total investments between £5m to £10m)
        - **Long Term** – A (minimum of AA- for total investments between £5m and £10m)
        - **Individual / Financial Strength** – C (Fitch / Moody's only)
        - **Support** – 3 (Fitch only)
    - **Banks and Building Societies** – the Council will use banks and building societies whose ratings fall below the criteria specified above if all of the following are met:
        - Wholesale deposits in the bank are covered by a government guarantee;
        - The government providing the guarantee is rated "AAA".
        - The Council's investments with the bank are limited to amounts and matures within the terms of the stipulated guarantee and up to the limits above.
    - **Building Societies with no credit ratings** –The Council will no longer invest with unrated societies.
    - **UK Government** including gilts and the Debt Management Account Activity Deposit Facility (DMADF – a Government body which accepts local authority deposits)
    - **HM Treasury Credit Guarantee Scheme** – the Council will invest in institutions that are included within this scheme initially announced on 13 October 2008. Any such investments will follow the same limits as set out above and will not exceed 12 months or £5m for any individual counterparty.
    - **Council's own banker** – the Council will continue to invest with our own banker if they fall below the above criteria.

- **Pooled Investment Vehicles** – this includes AAA Money Market Funds or other AAA rated funds
- **Local Authorities, Parish Councils etc**

48. Country, group and sector exposure of the Council's investments will be monitored. The country selection will be chosen by the credit rating of the Sovereign state in the above.; no more than 10% will be placed with any non-UK country at any time; and sector limits will be monitored regularly for appropriateness.

49. Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

50. The time limits for institutions on the Council's counterparty list are five years (these will cover both specified and non-specified Investments). Where a counter party is only on the Councils list because of a Government guarantee no loan will be entered into which exceeds the period of that guarantee. Investments for terms of one year or more are subject to prior approval by the Director of Finance & ICT. The proposed criteria for specified and non-specified investments are shown in paragraphs 67 to 73.

51. The use of longer term instruments (one year or greater from inception to repayment) will fall into the category of non-specified investments. These instruments will be used only where the Council's liquidity requirements are safeguarded. This usage is limited by Prudential Indicator for principal funds invested for one year or more at paragraph 56 below.

Economic Investment Consideration

52. Expectations on short-term interest rates, on which investment decisions are based, show likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in mid-2010. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

53. The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Director of Finance & ICT may temporarily (in conjunction with the Portfolio Holder for Finance and Economic Development) restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval.

Sensitivity to Interest Rate Movements

54. Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to treasury management income for next year. That element of the investment portfolio which is of a longer term, fixed interest rate nature will not be affected by interest rate changes.

Table 8: Sensitivity to Interest Rate Movements		
Revenue Budgets	**2010/11 Estimated + 1% £'000**	**2010/11 Estimated - 1% £'000**
Investment income	500	-500

Treasury Management Limits on Activity

55. There are four more treasury activity limits, which were previously prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on fixed interest rate exposure. This indicator identifies a maximum limit for fixed interest rates based upon the debt position net of investments
- Upper limits on variable interest rate exposure. Similar to the previous indicator, this covers a maximum limit on variable interest rates.
- Maturity structures of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing; upper and lower limits of each category are required.
- Total principal funds invested for one year or more. These limits are set to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

56. **Members are recommended to approve the indicators within Tables 9 and 10.**

Table 9: Exposure to fixed/variable interest rates (Prudential Indicators 9 and 10)			
	2009/10 Upper	**2010/11 Upper**	**2011/12 Upper**
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	30%	30%	30%

Table 10: Maturity structure of fixed interest rate borrowing and limits on longer term investments (Prudential Indicators 11 and 12)						
	2009/10		**2010/11**		**2011/12**	
Borrowing	**Lower**	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	100%	0%	100%	0%	100%
12 months to 2 years	0%	0%	0%	0%	0%	0%
2 years to 5 years	0%	0%	0%	0%	0%	0%
5 years to 10 years	0%	0%	0%	0%	0%	0%
10 years and above	0%	0%	0%	0%	0%	0%
Maximum principal sums invested > 364 days	£30 m		£30 m		£30 m	

Performance Indicators

57. 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 distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. As a debt free council with no externally managed funds, the only effective performance indicator that can be set is an achievement margin in excess of the 7 day LIBID rate, the London Interbank Bid rate, which is the generally accepted benchmark for local authority treasury operations. The results of these indicators will be reported in the Treasury Annual Report for 2009/10.

58. **Members are recommended to approve the local performance indicators set out in Table 11.**

Table 11: Performance indicator for the Council's Treasury operations			
	2009/10 %	**2010/11 %**	**2011/12 %**
Returns to exceed the 7 Day LIBID rate by:	0.10	0.10	0.10

59. The Council is aware that external fund managers are potentially able to achieve higher returns on an investment portfolio than in-house staff. However, these potential high returns are offset by the managers' fees. The Council has considered the net returns available through the use of external managers, and has decided to retain its policy of retaining the entire portfolio in-house. This policy will be kept under review each year.

Table 12: Returns achieved by the in-house Treasury team compared to the industry average net returns for external fund management teams			
	2006/07 %	**2007/08 %**	**2008/09 %**
In-house team	4.92%	5.85%	5.42%
External management (net of charges)	4.29%	5.86%	5.74%
Average 7 Day LIBID	4.82%	5.59%	3.69%

Treasury Management Advisers

60. The Council uses Butlers as its treasury management consultants. They provide technical support on treasury matters, capital finance issues, economic and interest rate analysis and credit ratings / market information service comprising the three main credit rating agencies. The current contract was let in 2007 and will expire on 30 April 2010.

61. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council.

Member and Officer Training

62. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. We have addressed this by now having a qualified accountant as the treasury officer and both the Treasury Officer and the Principal Accountant attending appropriate courses.

63. Once the Council has determined the appropriate Member body to conduct the additional scrutiny on treasury management training will be arranged.

Treasury Management Practice (TMP) 1 (5) – Credit and Counterparty Risk Management

64. The Office of the Deputy Prime Minister (now the CLG) issued Investment Guidance on 12th March 2004, and this forms the structure of the Council's policy below. The CLG is currently consulting over revisions to the Guidance and where applicable the Consultation recommendations have been included within this policy.

65. The key intention of the Guidance was to maintain the current requirement for Councils to invest prudently, giving priority to security before liquidity, before yield. In order to facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes". This Council adopted the Code on 18 April 2002 and will continue to apply its principles to all investment activity. In accordance with the Code, the Director of Finance & ICT has produced treasury management practices. This part, TMP 1(5), covering investment counterparty policy requires approval each year.

66. The key requirements of both the Code and the investment guidance are to set an annual investment strategy as part of its annual treasury strategy for the following year, to be approved by full Council and covering the identification and approval of:

    - The strategy guidelines for decision making on investments, particularly non-specified investments.
    - The principles to be used to determine the maximum periods for which funds can be committed.
    - Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
    - Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

Specified and Non-Specified Investments

67. Specified investments are sterling investments with original investment terms of not more than one year, or those which are agreed for a longer period where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These include investments with:

    I The UK Government (such as the DMADF, UK Treasury Bills or a Gilt with less than one year to maturity).

    II A local authority, parish council or community council.

    III Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

    IV A financial body such as a bank or building society that has been awarded a high credit rating by a credit rating agency.

68. The Council proposes to invest in specified investments, with further restrictions related to credit ratings.

69. **Members are requested to confirm their approval of the following specified investments for this council:**

- **All Category I and II investments;**
- **For Category III – Pooled investment vehicles such as money market funds rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.**
- **For Category IV – banks and building societies which have the following Fitch or equivalent rating as a minimum:**
  i. Short Term – F1 (minimum of F1+ for total investment between £5m to £10m)
  ii. Long Term – A (minimum of AA- for total investments between £5m and £10m)
  iii. Individual / Financial Strength – C (Fitch / Moody's only)
  iv. Support – 3 (Fitch only)

70. Non-specified investments are any other type of investment (i.e. not defined as specified above). These would include sterling investments with:

I. Securities which are guaranteed by the UK Government (such as supranational bonds). These are fixed income bonds although the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

II. Gilt edged securities with a maturity of greater than one year.

III. A government issued guarantee for wholesale deposits within specific timeframes and the government has an AAA sovereign long term rating from the three major credit agencies.

IV. An institution on the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008.

V. The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.

VI. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society), for deposits with a maturity of greater than one year.

71. Proposals approved at Cabinet in December 2004 added the thirty largest building societies by capital asset base to the counterparty listing. A review of the counterparty criteria in August 2007 introduced limits on investments in unrated societies determined by their asset base. The Council will now only deal with building societies that satisfy the minimum rating requirements set out above.

72. Proposals approved at Cabinet in December 2004 also allow a limited proportion of funds to be invested for terms of between one and five years. On the advice of Butlers, any investment of a term of one year or more would be made only with a counterparty possessing a minimum long term credit rating of AA- (Fitch), Aa3 (Moody's) and AA- (Standard & Poors).

73. **Members are requested to confirm that, for the time being, it is intended that non-specified investments will not form part of the Council's investment portfolio, with the exception of;**

A maximum of £30,000,000 invested for terms of one year or more, subject to the credit rating criteria in Paragraph 72 and a maximum term of five years and institutions on the HM Treasury Credit Guarantee Scheme.

74. The credit rating of counterparties will be monitored regularly. The Council receives credit rating emails from its Treasury advisers as and when ratings change, and counterparties are checked promptly on receipt of these emails. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance & ICT and if any new counterparties meet the criteria they will be added to the list.

75. The Council is aware that a counterparty may hold investments from the Council at the time that it is removed from the approved list due to a downgraded rating. The criteria used are high enough that a minor downgrading should not affect the full receipt of the principal and interest at maturity. Existing investments with the downgraded counterparty will therefore be allowed to run to maturity, unless there is reason to believe that an attempt should be made to retrieve the funds beforehand.

76. It should be noted that credit ratings are subject to change without prior warning, and that a high credit rating is an indication, not a guarantee, of a financial body's stability and creditworthiness.

Security, Liquidity and Yield Benchmarking

77. A proposed development for Member reporting is the consideration and approval of security and liquidity benchmarks. These are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury or Mid-year Report.

78. **Yield** – This benchmark is currently widely used to assess investment performance.

- Investments – Interest returns 0.10% above the 7 day LIBID rate.

79. Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty criteria and some of the prudential indicators. However, they have not previously been separately and explicitly set out for Member consideration. Proposed benchmarks for cash type investments are set out below and these will form the basis of future reporting in this area. In the other investment categories appropriate benchmarks will be used where available.

80. **Liquidity** – This is defined as “having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its objectives. In respect of this area the Council seeks to maintain:

- Bank overdraft – the Council has a facility in place to use if necessary.

- Liquid short term deposit of at least £1.5M available with a maximum week’s notice.

81. The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – shorter WAL would generally embody less risk. In this respect the proposed benchmark is to be used:

- WAL benchmark is expected to be 0.50 years, with a maximum of 0.60 years.

82. **Security of the investments** – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties., primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody’s and Standard and Poors). Whilst this approach embodies security consideration, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council’s investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the period 1990 to 2007.

Table 13: Average historic default for investment grades

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.00%	0.00%	0.00%	0.00%	0.00%
AA	0.00%	0.00%	0.00%	0.03%	0.06%
A	0.03%	0.15%	0.30%	0.44%	0.65%
BBB	0.24%	0.78%	1.48%	2.24%	3.11%

83. The Council's minimum long term rating criteria is currently A, meaning the average expectation of default for a one year investment in a counterparty with a A long term rating would be 0.03% of the total investment (e.g. for a £1m investment the average loss would be £300). This is only an average – any specific counterparty loss is likely to be higher – but these figures do act as a proxy benchmark for risk across the portfolio.

84. The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic tables, is:

- 0.03% historic risk of default when compared to the whole portfolio.

85. These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Annual Report. As the data is collected, trends and analysis will be collected and reported. Where a counterparty is not credit rated a proxy rating will be applied.

The Treasury Management Policy Statement

The Council defines its treasury management activities as:

- The management of the organisation's investments and cash flows, its banking, money market and capital market transactions;
- The effective control of the risks associated with those activities; and
- The pursuit of optimum performance consistent with those risks.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Credit Ratings

Long-Term Credit Ratings

Long-term credit ratings are set up along a scale from 'AAA' to 'D', and adopted and licensed by Standard and Poor (S&P). Moody's also uses a similar scale, but names the categories differently. Like S&P, Fitch also uses intermediate modifiers for each category between AA and CCC (i.e., AA+, AA, AA-, BBB+, BBB, BBB- etc.). Moodys intermediate modifers for each category between Aa to Caa are Aa1, Aa2, Aa3, A1, A2 etc.

Definitions (from S&P)	**Fitch**	**Moody**	**Standard & Poor**
Has extremely strong capacity to meet its financial commitments. Is the highest credit rating	AAA	Aaa	AAA
Has very strong capacity to meet its financial commitments. It differs from AAA only to a small degree	AA	Aa	AA
Has a strong capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions	A	A	A
Has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity	BBB	Baa	BBB

Short-Term Credit Ratings

Short-term ratings indicate the potential level of default within a 12-month period.

Definitions (from S&P)	**Fitch**	**Moody**	**Standard & Poor**
Has extremely strong capacity to meet its financial commitments. Is the highest credit rating	F1+	P-1	A-1+
Has strong capacity to meet its financial commitments.	F1	P-2	A-1
Has satisfactory capacity to meet its financial commitments. However, more susceptible to the adverse effects of changes in circumstances and economic conditions	F2	P-3	A-2
Has adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity	F3		A-3

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