

STROUD DISTRICT COUNCIL

**AGENDA
ITEM NO**

Special Meeting of Cabinet

6 January 2011

8

Report Title	THE GENERAL FUND REVENUE BUDGET 2011/12 AND MEDIUM TERM FINANCIAL PLAN 2011/12-2014/15
Purpose of Report	To consider the Council's financial position over the medium term and set a budget requirement for 2011/12.
Decision(s)	<p>Cabinet RECOMMENDS to Council (subject to the Governments final settlement announcements):</p> <p>a) to approve the interim budget proposals including a proposed council tax Band D rate of £186.93 (0% increase) for the services provided by Stroud District Council;</p> <p>b) to approve the changes to the reserves as set out in Section 10 of the report and Appendix B;</p> <p>c) to approve the Medium Term Financial Plan as set out in Appendix A subject to any decisions made at (a) and (b) above and in light of any budget proposals of the Administration.</p>
Consultation and Feedback	<ul style="list-style-type: none"> • Budget holders on budgets and savings • Residents and Business budget telephone survey • Youth Council budget consultation event (18 October 2010) • Business budget consultation event (05 November 2010) • Concessionary Travel consultation events (30 November 2010 and 07 December 2010)
Financial Implications and Risk Assessment	<p>The General Fund (GF) budget has been prepared based on the information available at the time of writing the report. The Government Grant Settlement is provisional and final figures will not be known until January 2011. The budget pressures facing the Council reported on in September have, as far as possible, been built into the budget.</p> <p>The reduction in funding in the provisional grant settlement for 2011/12 and 2012/13 was more severe than had been expected and so to have increased GF balances to £1.5m at the end of the MTFP has helped to cushion the impact of the cuts. Having now absorbed the effects of the settlement and the increased costs following the actuarial review of the Pension Fund into the budget, it is reasonable to agree a budget over the Medium Term maintaining a GF balance of £1million.</p> <p>The risks are set out more fully in the report but in summary centre around Government funding in future years and the level of the Council's spend financed from balances from 2012/13 onwards.</p> <p>Sandra Cowley, Head of Finance Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk</p>

Legal Implications	<p>Section 32 of the Local Government Finance Act 1992 as amended places a duty on the Council, as Billing Authority, to calculate before 11 March 2011 its budget requirement for 2011/12.</p> <p>Under 25 of the Local Government Act 2003, the Section 151 Officer must report on the robustness of the estimates for the purposes of making the appropriate calculations and of the adequacy of the Council's proposed financial reserves.</p> <p>Lisa Jones, Principal Solicitor Tel: 01453 754364 Email: lisa.jones@stroud.gov.uk</p>
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Options	<p>None at this stage. Options on the level of council tax to be set will have to be considered in December.</p>
Performance Management Follow Up	<p>Cabinet report in December 2010.</p>
Background Papers	<p>Appendix A - Medium Term Financial Plan Appendix B - Review of Earmarked Reserves</p>

Contents of the Report

	Pages
Section 1: Background	3
Section 2: Comprehensive Spending Review & Provisional Settlement	3
Section 3: Corporate Delivery Plan	4
Section 4: The Medium Term Financial Plan (MTFP) Forecast	4
Section 5: Budget & Efficiency Savings	8
Section 6: Service Improvements	8
Section 7: Risks & Uncertainties	9
Section 8: Government Grants	9
Section 9: Council Tax	11
Section 10: Reserves	11
Section 11: Housing Revenue Account	12
Section 12: Capital Programme	12
Section 13: Equalities Impact Assessments	13
Section 14: Statement of the Chief Financial Officer	13
Appendix A: General Fund Medium Term Financial Plan	15
Appendix B: Earmarked Reserves	17

Section 1. Background

1. The Cabinet considered the Council's financial position as shown by the Medium Term Financial Plan (MTFP) for the General Fund at its meeting in September 2010 and agreed a strategy for setting the budget for 2011/12.
2. At that time, the MTFP, having been updated to take account of the outturn position and other known budget changes, showed that the General Fund balance at the end of the 5 years of the plan was £1.5m, in line with that recommended by the Head of Finance.
3. The report, which pre-dated the results of the Comprehensive Spending Review (CSR) announced in October, also identified a series of budget pressures faced by the Council including the reduction in Government support grant, pension costs and investment income. At that time, it was forecast there would be a funding gap of £2.7m over the life of the MTFP.
4. This report considers the impact of the CSR and the Provisional Grant Settlement announced on the 13th December 2010. The lateness of the announcement left very little time to digest the figures and produce a balanced budget in order to set a Budget Requirement and the Council Tax for 2011/12.
5. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (nominated Section 151 Officer) to make a statement to the Council on the robustness of the estimates and adequacy of financial reserves. The Council is under a statutory obligation to have regard to this when making its decision on the proposed budget.
6. This report sets out all the assumptions that have been made in preparing the budget for 2011/12 and the MTFP 2010/11-2014/15 and forms the basis of the Statement of the Chief Financial Officer set out in Section 14 of the report.

Section 2: Comprehensive Spending Review & Provisional Settlement

7. The Government announced the outcome of the Comprehensive Spending Review (CSR) on 20th October 2010. The impact on Local Government as a whole was a reduction in funding from central government of 28% over the next 4 years. Detailed information concerning the funding each local authority receives would be made available as part of the Local Government Finance Settlement in early December.
8. The indicative impact for the Council based upon the CSR announcement was a reduction from 2010/11 funding of £7.184 million to £5.619 million by 2014/15 – a decrease of £1.565 million over the 4 year period. The phasing of the overall reduction for Local Government is considerably front-loaded.
9. The Secretary of State for Communities and Local Government announced the Provisional Local Government Finance settlement on 13th December 2010. The announcement covered funding for the 2 year period 2011/12 and 2012/13 and has resulted in a greater reduction in Government Funding than suggested by the CSR.
10. Allowing for adjustments and transfers of responsibility (e.g. Concessionary Travel responsibility transfers from District Councils to County Councils on 01 April 2011), there is a reduction in Formula Grant from £6.546 million in 2010/11 to £5.446 million in 2011/12 and £4.673 million in 2012/13, decreases of 16.80% and 13.50% respectively.
11. These decreases are the largest faced by any local authority in the country and represent an additional decrease in funding of £1.314 million for 2011/12 and 2012/13 over and above that anticipated in the September Cabinet Report. Although the settlement only covered a 2 year period, the MTFP assumes further cuts in funding of 2.5% and 7.5% for 2013/14 and 2014/15 respectively – a further reduction of £0.116 million and £0.458 million over and above that anticipated in September.
12. Further details on the provisional settlement are set out in Section 8.

Section 3: Corporate Delivery Plan 2010-14

13. The Council's vision as set out in the Corporate Delivery Plan 2010-14 forms the basis for modelling the MTFP. The plan states that Stroud District Council will work to ensure efficient and effective service delivery for the people who live in, work in and visit Stroud and will work with its partners to create a great future for Stroud.
14. The four areas of focus are:
 - Climate Change - Help the community minimise its carbon footprint, adapt to climate change, recycle more and send as little waste to landfill as possible
 - Affordable Housing – Provide affordable and decent housing
 - Resources – Provide value for money to our taxpayers and high quality services to our customers
 - Economy – Help local people recover from the recession and grow the local economy
15. Along with these four priorities, we also have an aim to focus our internal work:
 - Making sure that all our services are meeting the demands of local people and any statutory responsibilities in the most efficient and fair ways possible
 - Maintaining robust and business-like Medium Term Financial Plans
16. In previous budget setting rounds, the Council has been able to direct resources to support the areas of focus through the identification of efficiency savings year on year. As shown in table 1, this year will be far more challenging as the gap between the resources available and the resources required to support the current level of service delivery, is growing.
17. In light of the Provisional Finance Settlement, service improvements cannot be funded from revenue or capital resources. Any potential service improvements will need to be funded by re-directing existing resources.

Section 4: The Medium Term Financial Plan (MTFP) Forecast

18. This report details a proposed net revenue budget of £13.783 million in 2011/12 rising to £13.828 million by 2014/15. This represents a decrease in expenditure of 10.68% on last year's budget after adjustments for changes in function and funding. The 2011/12 budget has been decreased by £0.659 million to reflect the transfer of the Concessionary Fares function from District Councils to County Councils.
19. A statement showing the analysis of the movement from the 2010/11 Original Budget over the years 2011/12 to 2014/15 is shown in the table below, with a more detailed analysis of the resultant budget shown in Appendix A.

Table 1 – Movement Statement

	Original 2010/11 £'000	Revised 2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Adjusted Service Expenditure	14,709	15,554	15,294	15,294	15,294	15,294
Less: Budget & Efficiency Savings already identified	0	(345)	(571)	(571)	(571)	(571)
Adjusted Service Expenditure	14,709	15,209	14,723	14,723	14,723	14,723
Technical Adjustments:						
Concessionary Fares	0	0	(659)	(659)	(659)	(659)
Pension Costs	(264)	(264)	(83)	(73)	(28)	222
Other Corporate Items and adjustments	612	(504)	(561)	(584)	(792)	(841)
Inflation	0	0	50	50	50	50
Base Budget	15,057	14,440	13,469	13,456	13,293	13,495
TOTAL Budget Pressures	375	175	323	374	347	366
TOTAL Future Year's Budget & Efficiency Savings	0	0	(9)	(60)	(33)	(33)
TOTAL Service Improvements	0	0	0	0	0	0
Proposed Net Revenue Budget	15,432	14,615	13,783	13,770	13,607	13,828
Use of / addition to (-) Reserves	218	(598)	(98)	759	659	1,168
Budget Requirement	15,213	15,213	13,881	13,011	12,947	12,660

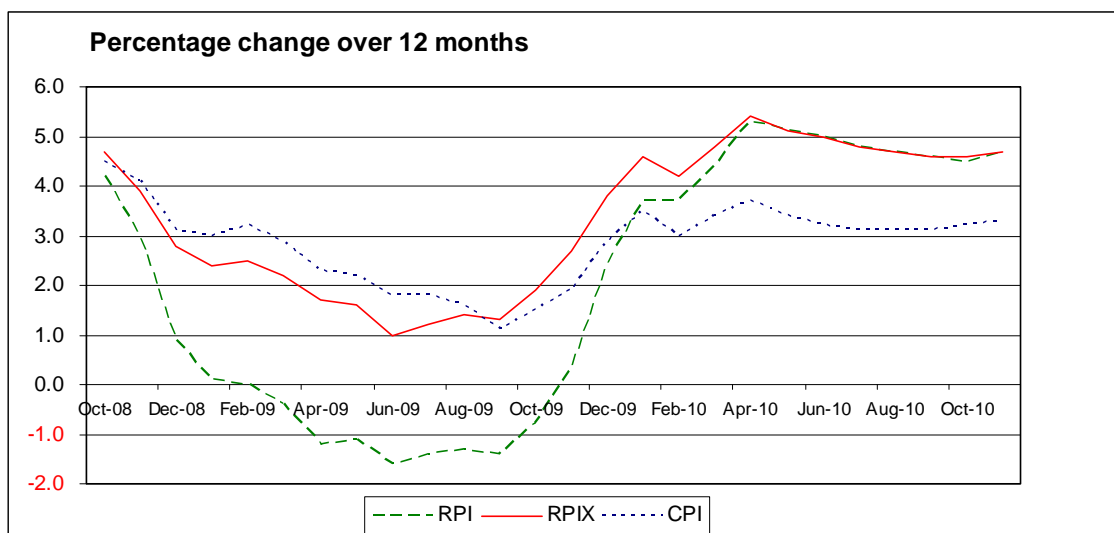
Interest Rates

20. As set out in the MTFP agreed at Cabinet in September 2010, the interest rate assumptions used for the MTFP projections have been fully revised.
21. The Bank of England base rate has remained at 0.5% since March 2009. Sector, the Council's Treasury Management advisers, anticipate that the base rate will remain at 0.5% until the 3rd Quarter of 2011 (September-December 2011) and will rise slowly to 1.25% by the end of the 2011/12 financial year. Although a rise in interest rates is anticipated, different economists have taken different views as to how soon and how quickly rates will rise, and the impact of inflation and economic recovery. This makes forecasting investment income with any certainty very difficult.
22. The projections used in the MTFP have assumed that base rates will remain low and follow a slow upward trend. These projections are, therefore, considerably lower than those reported in September 2010.

Pay and Price Inflation

23. It is estimated that inflation for pay and prices will cost £193,000 in 2011/12; £50,000 for pay, £143,000 for prices.
24. As announced in the Government's emergency budget in June 2010, there is a flat rate increase of £250 for all staff earning less than £21,000 per annum. For those earning more than £21,000 a 0% pay award has been assumed for 2011/12, in-line with the emergency budget announcement of a 2 year pay freeze for public sector staff. The cost of these changes is estimated to be £50,000.
25. The Council has set a standstill budget for a number of years now and only added inflation where we are contractually-bound using specific relevant inflation factors. For 2011/12, the impact of contract inflation is £103,000.
26. Other price inflation increases are for increases in Business Rates (which are linked to CPI) and Energy prices. The impact of these inflationary pressures is £40,000.
27. General price inflation has remained relatively high during 2010/11. CPI, the Government's preferred measure of inflation, has remained well above the target of 2.0%. The latest inflation figures (November 2010) show CPI at 3.3% and RPI at 4.7%, with the Bank of England anticipating inflation to remain above the 2% target throughout 2011.

Table 2 – Inflation changes October 2008 to November 2010



Local Government Pension Scheme

- 28. The level of the Council's contribution to the Local Government Pension Scheme (LGPS) is determined by the actuarial valuation that takes place every 3 years. At the last valuation, 31st March 2007, the overall fund was 73% funded. Employers' contribution rates are calculated at each valuation to achieve full funding of its part of the scheme over the average future working life of that employer's active members.
- 29. Final results of the triennial review of the pension fund are due following the actuarial valuation of the fund as at 31 March 2010. The draft results of the valuation show a reduction in the funding level to from 73% in 2007 to 67%.
- 30. At a meeting in August 2010, a stabilisation increase in the employer contribution rates were agreed, limiting the year-on-year change to +/-1.0%. Based on this draft valuation, the MTFP includes an additional £140,000 over the 4 years.
- 31. The Council has used the Pension Fund reserve to smooth the impact on the revenue budget of the increased employer contributions to the fund. This reserve will be depleted by the end of 2014/15 based on the current employer contribution forecast and an ongoing shortfall in revenue funding of approximately £120,000.
- 32. The Government asked Lord Hutton to undertake an independent review of Public Service Pensions (which the Local Government Pension Scheme). The final results of this review are due to be published in February 2011. The indication from the interim report is that it is likely that there will be some changes made to the operation of the scheme which will result in increased employee contributions, and ultimately reduce the financial burden on the employer. Following this report, the actuary will carry out a further review of the Pension Fund and any significant changes will be incorporated into the budget.

Icelandic Investments

- 33. The Council currently has 2 investments totalling £3m with Glitnir Bank in Iceland. The bank is currently in receivership along with 3 other Icelandic banks. The administrative arrangements for the recovery of the deposits are different for each of the banks. A full report on the position was considered by Cabinet in June 2010 setting out the legal process currently taking place.
- 34. The Council successfully applied for a 'capitalisation direction' in December 2009 which allowed the Council to write-off any losses over a 20 year period. When the accounts

were closed for 2009/10, this direction was used to capitalise £2.25m of the £3m plus interest. This will enable the Council to write-off the loss at approximately £40,000 per year for the next 20 years. This is described more fully in the General Fund Outturn 2009/10 report to Cabinet in July 2010.

35. In the event that the litigation process does not result in the desired outcome, the Council should recover approximately 30% of the total at risk from the assets of the bank. The remainder will be covered by the capitalisation direction and written off over 20 years. Should local authorities be deemed to have preferential creditor status, there are sufficient assets to repay depositors in full. The test cases will be heard by the High Court in Iceland in January 2011 and until such time as there is certainty about the outcome, the worst case scenario needs to be provided for.

Investment income

36. As outlined in Section 4, interest rates have remained at 0.5% since March 2009, and it is anticipated that rates will remain at 0.5% until the 3rd Quarter of 2011.
37. Therefore, the amount of investment income the council can anticipate to receive over the course of the MTFP has been reduced from £1.460 million to £0.930 million, as illustrated in the Table 3 below.

Table 3 – Movement in Interest Projections

	2011/12	2012/13	2013/14	2014/15	Cumulative
	£'000	£'000	£'000	£'000	Total £'000
Net Interest Projection Sept 2010	(230)	(350)	(440)	(440)	(1,460)
Net Interest Projection Dec 2010	(140)	(140)	(300)	(350)	(930)
Movement	90	210	140	90	530

Concessionary Bus Travel

38. Responsibility for Concessionary Fares will transfer from Stroud District Council to Gloucestershire County Council on 1 April 2011. As part of the settlement, adjustments to the Formula Grant of £596,000 and Specific Grant of £249,000 have been made to reflect the transfer to the County Council.
39. The initial consultation papers from the Government suggested the amount that would be taken from Stroud would be far greater than is set out in the provisional settlement. Stroud, along with many councils, made strong representations to the Government during the consultation period which appear to have had an effect.
40. The Government has now used the 2009/10 outturn position as the base year for spending on concessionary fares as opposed to 2008/09 which has resulted in a much fairer settlement for Stroud however, some councils still lose out and so it is possible that further representations will be made. Until the final settlement is announced in January, it cannot be assumed that no further changes will be made.
41. The funds taken from district councils include what they spend on travel tokens as an alternative to the free bus pass. For Stroud, this totals £130,000 and means that the travel token service can no longer be provided. This element of the service is discretionary and will not be provided by the County Council.
42. Extensive consultation is currently taking place across the County on the transfer of the service to the County and the impact on service users of the travel token service being withdrawn. A summary of the responses to the consultation so far will be made available at the Cabinet meeting. An equalities impact assessment has also been undertaken. Members will need to consider the outcome of this consultation when agreeing the budget proposals.

Income from Fees & Charges

43. Included in the MTFP is provision for a shortfall in fees and charges of £50,000. This reflects the ongoing constrained financial climate and as such makes a provision for potential under-recovery of income against planned budgets.
44. There is also uncertainty over the income received from land charges in previous years and whether or not refunds will have to be made for personal search fees. A full report in this was presented to Cabinet in September 2010.
45. The main income streams currently under pressure are land charges, car parking and planning fee income.

Leisure Options Appraisal

46. The contract for the management of Stratford Park Leisure Centre is currently going through a tender process with a new contract due to commence in November 2011. It is likely that the cost of the new contract will be higher than the existing contract and provision has been made for this in the MTFP.
47. Some investment in the Leisure Centre is required following a condition survey carried out for the purposes of re-letting the contract. The cost of the works will be funded from the Stratford Park Leisure Centre Sinking Fund and the Building Maintenance budget. There is a shortfall in the funding needed which means there will need to be additional contributions to the Sinking Fund. These are included in the MTFP and set out in the changes to reserves in Appendix B.

Section 5: Budget & Efficiency Savings

48. As set out in Table 1 of this report, the base budget estimates for 2011/12 to 2014/15 include budget savings and efficiencies of £571,000. Table 4 below sets out the main budget efficiencies already achieved. These are covered in more detail in the General Fund Revenue Estimates Cabinet Report that is also presented to the 06 January Cabinet meeting.

Table 4 – Summary of Budget & Efficiency Savings

	2010/11	2011/12	2012/13	2013/14	2014/15
Item	£'000	£'000	£'000	£'000	£'000
Employee Savings	190	233	233	233	233
Operational Savings	156	338	338	338	338
Total Savings	345	571	571	571	571

49. The identification of these savings has been key to setting the budget for 2011/12. The total saving of £2.629m over the MTFP has significantly reduced the gap between the level of expenditure and the funding available. Work on this is continuing as the Council needs to reduce annual costs further in future years as Government support continues to be reduced.

Section 6: Service Improvements

50. There is no capacity within the revenue budget to fund any ongoing service improvements. In fact, with the high level of spending from balances in future years, further revenue budget savings will need to be identified to reduce the Council's reliance in its balances.

51. Capital resources are also very limited and with the reduction in capital grant funding from the Government for Private Sector Housing schemes, any resources available may need to be directed to support these schemes.
52. The review of the Council's earmarked reserves has resulted in a proposal to close some of the reserves or transfer balances to other reserves. As a result, there is some potential to re-direct some of these resources to support service improvements in line with the Corporate Delivery Plan.
53. The budget proposals of the administration will be circulated separately to this report.

Section 7: Risks and Uncertainties

54. The Council's budget is prepared using best estimates for the level and timing of expenditure, efficiency savings, and available resources.
55. However, a number of uncertainties exist which could have an impact on the budget of the Council:
 - Income from Fees & Charges
 - Icelandic Deposits
 - Global & UK economic position
 - Interest rate forecasts
 - Inflation forecasts
56. Table 5 below gives an indication of the sensitivity of the overall budget to movements in the underlying assumptions of the Council's budgets.

Table 5 – Impact of Changes in Assumptions

Variable Change	Cash Impact £'000	Impact on Council Tax *
1.00% Change in Price Inflation on Contracts	40	0.28%
0.50% Change in Interest Rates	120	0.82%
0.25% Change in Council Tax Base (additional 107 Band D equivalent properties)	20	0.14%

*This is shown only to quantify the theoretical impact in the context of Council Tax. It does not presume that if there were any such movement that it would be passed on through increased Council Tax.

57. There are adequate provisions built into the budget to mitigate the risks identified above. There is a risk that there will be changes to the final Grant Settlement which will adversely affect the Council. Some protection will come through the 'floors and ceiling' mechanism within the grant formula and this is explained in more detail below.

Section 8: Government Grants

58. The Provisional Local Government Finance Settlement was announced on 13 December 2010. The final settlement will not be known until the end of January 2011.
59. For 2011/12 the average decrease for District Councils is 15.04%, with Norwich having the lowest decrease at 13.55%. Stroud is one of 12 councils with the largest decrease of 16.80%. The average decrease in Formula Grant for 2011/12 for all authorities across England is 9.93%.
60. For 2012/13 the average decrease for District Councils is 10.82%, with Welwyn & Hatfield having the lowest decrease at 5.46%. Stroud is one of 12 councils with the largest decrease of 13.50%. The average decrease in Formula Grant for 2011/12 for all authorities across England is 7.30%.

61. When compared to the other Gloucestershire Districts, the reduction in Revenue Support Grant for Stroud for both 2011/12 and 2012/13 is the greatest, alongside Cotswold.

Table 6 – Summary of reduction in Revenue Support Grant

District	% Change 2011/12 (Cash to Adjusted)	% Change 2012/13 (Cash to Adjusted)
Cheltenham	15.46%	8.21%
Cotswold	16.80%	13.50%
Forest of Dean	14.80%	11.50%
Gloucester	14.53%	8.19%
Stroud	16.80%	13.50%
Tewkesbury	13.80%	10.50%
Average Gloucs Districts	15.33%	10.61%
Average All Districts	15.04%	10.82%
Gloucestershire County	13.78%	8.41%

62. Grant allocations for each authority are calculated on the basis of the following four-block model:
- a relative needs allocation using a Relative Needs Formulae (RNF), which is similar to the former 'Formula Spending Share'
 - a negative amount based on relative resources (the ability of authorities to raise council tax)
 - a central allocation based on a per head amount
 - an allocation to ensure a minimum decrease in grant (floor damping)
63. The following table shows the breakdown of the provisional Formula Grant for Stroud District Council is shown in Table 7 below:

Table 7 – Breakdown of Formula Grant

	2010/11 £m	2011/12 £m	2012/13 £m
Relative Needs Amount	2.261	1.624	1.463
Relative Resources Amount	(2.954)	(1.874)	(1.840)
Central Allocation	8.000	5.530	5.009
Floor Damping	(0.122)	0.166	0.042
Formula Grant	7.184	5.446	4.673

64. This year the Government has changed the way formula grant is calculated to take greater account of relative needs and less account of central allocation. Additionally, certain specific grants have been included in formula grant for 2011/12 that were previously allocated outside of this mechanism.
65. For Stroud, the effect of the calculation can be seen in the Table above. A change to the split between Relative Needs and Central Allocation makes it more difficult to compare 2010/11 to 2011/12. However, it is worth noting the effect of Damping on 2011/12. From the position of having an increase 'reduced' by £122,000 in 2010/11 (as a ceiling authority), Stroud is now benefiting from Damping – having the decrease offset by £166,000 (being a 'floor' authority).
66. As part of the settlement announcement, additional resources have been made available to local authorities to support a Council Tax Freeze in 2011/12. Additional

funding of £202,000 has been allocated to Stroud, equivalent to a 2.5% increase in Council Tax.

67. Table 8 below summarises the Specific Grant allocations that have been announced as part of the settlement. There may be further specific grants yet to be announced

Table 8 – Breakdown of Formula Grant

Grant	2010/11 £m	2011/12 £m	2012/13 £m
Council Tax Freeze	0.000	0.202	0.202
Housing/Council Tax Benefit Administration	0.801	0.665	No details
Preventing Homelessness	0.041	0.071	0.041
Total	0.842	0.938	0.243

Section 9: Council Tax

68. The Government proposed a freeze in the level of Council Tax in the emergency budget of June 2010. Further details of this proposal were outlined in the Comprehensive Spending Review in October 2010. The government announced that local authorities who freeze their Council Tax in 2011/12 will receive funding to support the resultant loss to their tax base funded at a rate of 2.5% for the next 4 years.
69. According to figures supplied by the DCLG as part of the Provisional settlement, Stroud District Council will receive funding of £201,866 per annum for the period 2011/12 to 2014/15.
70. It is recommended that the Council freeze the Council Tax for 2011/12 to take advantage of the Government funding available. Should the Council choose to increase the Council Tax at all in 2011/12, it will forgo the equivalent of an 2.5% tax rise.

Section 10: Review of Earmarked Reserves

71. The Council should periodically review its reserves to ensure they are adequate. The outturn position on the reserves was reported to Council in July 2010 including movements to and from reserves during 2009/10.
72. A full review of the Council's earmarked reserves has been undertaken since they were noted by Cabinet at its meeting in September 2010. Some reserves have been closed and some have been transferred to other reserves or reclassified. Appendix B details all the reserves held by the Council, updated for movements during 2010/11.
73. All the changes are described in the Appendix and effectively reduce the number and value of reserves held. Cabinet is asked to recommend to Council that the changes to reserves set out in Appendix B be approved.
74. The Invest to Save reserve was set up to assist with the identification of efficiency savings where some upfront investment was needed to generate savings. Cabinet have previously approved the use of part of the reserve to fund the GO7 project but Stroud has since withdrawn and so the funding is no longer needed.
75. In order to move smaller projects along without recourse to Cabinet, it is proposed that delegated authority be given to the Head of Finance in consultation with the Cabinet Member for Finance to approve expenditure from the reserve to fund invest to save schemes up to a value of £50,000. Schemes that require investment over £50,000 will require Cabinet approval.

Section 11: Housing Revenue Account

76. The financial position of the Housing Revenue Account (HRA) is included as part of the Council's overall financial strategy. Whilst there are significant differences in the way that the HRA and General Fund are financed, many of the budget pressures facing the General Fund will also impact on the HRA, particularly interest rates, pension costs and the efficiency and savings agenda.
77. As has been reported to Cabinet elsewhere on this agenda, the HRA faces significant financial pressures over the coming years. Like the General Fund, a policy to hold balances of £1million has been developed. This is to cushion the finances against the unforeseen, e.g. fluctuations in interest rates and demand led expenditure on repairs and maintenance. HRA balances as at 31 March 2010 stood at £2.456m following the 2009-10 under spend and Cabinet approved the use of the majority of this money on high priority projects whilst aiming to maintain balances at £1m.
78. The budget round for 2011/12 sees an increase in the payment of negative subsidy to government of some £824,000. This has been counteracted by increasing dwelling rents and some other elements of service charges.
79. Changes to the structure within Tenant Services have included a greater focus on contract and budget monitoring on both the revenue and capital accounts. Budget monitoring reports to Cabinet are also in a revised format in a move to make scrutiny more straightforward.
80. Much will depend on the outcome of the Government's proposal to replace the existing national housing subsidy system. The existing system has "winners and losers" in terms of either receiving subsidy from a central pool or paying amounts into that pool (negative subsidy). The current system is formulaic in nature and uses notional figures to calculate amounts due which makes it both difficult to understand and to manage.
81. The proposed new system will see the implementation of a financial framework known as Self Financing. This will require local authorities who have retained council housing and are in the position where they currently pay negative subsidy, to buy themselves out of the subsidy system by taking on a loan. Those authorities who currently receive subsidy will have some or all of their existing loans repaid through this redistribution of debt. Although the government is currently working on the detail of the Self Financing proposals it is estimated the Stroud will have to take on debt in excess of £90 million.
82. The policy for rent setting for 2011/12 is following that of previous years which is to work towards formula rent under rent restructuring. As the existing subsidy system uses the guideline rent (part of the rent restructuring process) to assess the rent Stroud DC should receive by way of income, it is essential that the process is followed locally as failure to do so would result in either lost subsidy or reduced rent income. It is unlikely that the policy for rent setting in future years will change under the proposed Self Financing regime.
83. A full report on the HRA budget for 2011/12 is being presented to this Cabinet. It should however be noted that the details of Housing Subsidy and Dwelling rent levels contained within the budgets are based on the draft determinations received from CLG as the final detailed determinations are still awaited.

Section 12: Capital Programme

84. Over the MTFP, the Council's capital resources will be fully utilised to fund the existing capital programme. Should the estimates for the resources available not be realised e.g. less council house sales, or the capital spending is greater than estimated, e.g. the demand for disabled facilities grants, there will be a shortfall in the funding available.
85. The Council has also embarked on its largest ever capital scheme with the restoration of the canal and a number of engineering related contracts have recently been let in respect of this. The Council has committed £3.8m to the £25m project with the National

Heritage Lottery Fund providing £11.9m. There is a small contingency within the Capital Reserve above which any overspend on this project would have to be met from revenue resources or borrowing and would require further Cabinet approval.

86. The Capital Grants for schemes Private Sector Housing Renewal Schemes have also been cut and Government are now only funding the Disabled Facilities Grants. From 2011/12, there are no capital grants available to fund the Warm and Well Grants scheme or other Private Sector Housing schemes.

Section 13: Equalities Impact Assessment

87. A number of changes have been made to the way services are provided in order to reduce costs. Service Managers are responsible for undertaking Equalities Impact Assessments for any changes they make to any services they provide and where appropriate, EIAs have been undertaken.
88. The equality duties do not prevent the Council from making difficult decisions such as reorganisations and relocations, redundancies and service reductions nor do they stop the Council making decisions which may affect one group more than another. The equality duties enable the Council to demonstrate that they are making financial decisions in a fair, transparent and accountable way, considering needs and rights of different members of the community. This is achieved through assessing the impact that changes to policies, procedures and practices could have on different equality groups.

Section 14: Statement of the Chief Financial Officer

89. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to make a statement on the robustness of the estimates and adequacy of financial reserves when considering its budget, council tax and housing rents. The Act requires Councillors to have regard to the report in making decisions at the Council's budget and council tax and rent setting meeting.
90. The basis on which the budget for 2011/12 and the MTFP have been prepared has been set out very clearly in this report. I am satisfied that the budgets for the General Fund, the Housing Revenue Account and the Capital Programme have been based on sound assumptions.
91. The current economic climate continues to challenge the financial affairs of the Council and the provisional grant settlement for 2011/12 and 2012/13 has had a significant impact on the Council's finances. However, with the planning that has taken place over the last 2 years and the budget and efficiency savings that have been identified, the Council is able to set a balanced budget for 2011/12 with no increase in Council Tax.
92. I am concerned that from 2012/13 onwards, the Council is increasingly dependent on General Fund balances to support its annual spending plans. Action needs to be taken to ensure that, in future years, the Council's spending plans are reduced to match the resources available.
93. There are other income streams that may be available to the Council in the future e.g. increased planning fees to fully recover costs and the potential for the New Homes Bonus but these have not been included in the budget at this stage as the estimates would be unreliable until further details become available.
94. The Council has a good record for only including in the budget income and savings estimates when they have been identified and we are certain they are deliverable. It is on this basis that I am satisfied the estimates are robust.
95. The risks and uncertainties are clearly set out in the report and have been provided for as far as possible. Significant adverse changes to the grant settlement is a key risk which is unlikely to affect the Council's ability to set a budget for 2011/12 but may affect the Council's MTFP.

96. I will review and update this statement as a result of any changes in the final Government Grant Settlement due to be announced at the end of January and the budget proposals of the Administration being considered at this meeting of Cabinet.

Financial Reserves

97. The requirement for financial reserves is acknowledged in statute. Section 32 and 43 of the Local Government Finance Act 1992 requires billing authorities to have regard to the level of reserves needed for meeting future expenditure when calculating the budget requirement.
98. The Council's earmarked reserves have been reviewed as set out in the report. Clearly there is an opportunity cost to holding reserves and so a regular review is essential to ensure the Council does not hold money in reserves unnecessarily. I have recommended that a number of reserves are closed and some are transferred to other reserves where balances need to be increased.
99. In setting the budget for 2010/11, it was recommended that General Fund balances were increased to £1.5m (approximately 10% of net revenue budget) over the life of the MTFP in order to afford some protection with the impending reductions in Government Grants and the Actuarial review of the pension fund. Having now absorbed these budget pressures into the MTFP and with the reduction in the net revenue budget, I am satisfied that General Fund balances be maintained at £1m.
100. Overall, I am satisfied that the projected levels of reserves and balances held by the Council are adequate for the forthcoming year but will continue to review the position as necessary during the course of the year as the Governments future plans become clearer.

General Fund Medium Term Financial Plan (MTFP) – 2010/11 to 2014/15

Ref:		Original 2010/11 £'000	Revised 2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
OB1(a)	Original Budget 2010/11 (Service Revenue Expenditure)	14,709	15,554	15,294	15,294	15,294	15,294
OB1(b)	Less: Budget & Efficiency Savings already identified		(345)	(571)	(571)	(571)	(571)
OB1(c)	RESTATED SERVICE REVENUE EXPENDITURE	14,709	15,209	14,723	14,723	14,723	14,723
TA1	Technical Adjustments						
TA1(a)	Transfer of Concessionary Fares responsibility to GCC			(659)	(659)	(659)	(659)
TA1(b)	Budgets carried forward from 2009/10	409					
TA1(c)	Increase in Employers Pension Contributions	0	0	5	89	208	282
TA1(d)	Net transfers to / from (-) Pension reserve	(264)	(264)	(338)	(412)	(486)	(560)
TA1(e)	Increase in Pension Reserve Contributions	0	0	250	250	250	500
TA1(f)	Net transfer to / from (-) Other Reserves	335	381	160	135	85	85
	Subtotal	480	117	(582)	(597)	(602)	(352)
C1	Corporate Income & Expenditure						
C1(a)	Drainage Board	83	88	90	92	94	96
C1(b)	Interest payable & similar charges	210	120	80	90	160	190
C1(c)	Interest & investment income	(390)	(421)	(220)	(230)	(460)	(540)
C1(d)	Icelandic Bank Capitalisation & Impairment		40	40	40	40	40
C1(e)	Accounting adjustments for impairment charges & FRS17	(35)	(712)	(711)	(711)	(711)	(711)
	Subtotal	(132)	(885)	(721)	(719)	(877)	(926)
	ADJUSTED BUDGET	15,057	14,440	13,419	13,406	13,243	13,445
	Non-Pay Inflation	0	0	0	0	0	0
	Pay Inflation (Flat rate increase £250 below £21,000)			50	50	50	50
	Subtotal	0	0	50	50	50	50
	BASE BUDGET	15,057	14,440	13,469	13,456	13,293	13,495
	Budget Pressures						
P1	Previous Year's Policy Decisions						
P1(a)	Service Changes agreed by Council	375	175	193	244	217	236
P1(b)	Service Improvements	0	0	0	0	0	0
	Subtotal	375	175	193	244	217	236
P2	Current & Future Year's Changes						
P2(a)	New Leisure Contract	0	0	80	80	80	80
P2(b)	Reduced Income from Fees & Charges		0	50	50	50	50
	Subtotal	0	0	130	130	130	130
	TOTAL Budget Pressures	375	175	323	374	347	366
	Future Year's Budget & Efficiency Savings						
	TOTAL Future Year's Budget & Efficiency Savings	0	0	(9)	(60)	(33)	(33)
	STANDSTILL BUDGET INCLUDING EFFICIENCY SAVINGS	15,432	14,615	13,783	13,770	13,607	13,828
	PROPOSED NET REVENUE BUDGET	15,432	14,615	13,783	13,770	13,607	13,828
F1	Funded By:						
F1(a)	Precept on Collection Fund	8,028	8,028	8,081	8,135	8,188	8,242
F1(b)	Government Revenue Support / Business Rates	7,184	7,184	5,446	4,673	4,557	4,215
F1(c)	CLG Funding for Council Tax freeze	0	0	202	202	202	202
F1(d)	LABGI / PSA grants / Homelessness	0	0	30	0	0	0
F1(e)	Collection Fund surplus/-deficit	0	0	121	0	0	0
F1(f)	Use of / addition to (-) working balances	218	(598)	(98)	759	659	1,168
	TOTAL Funding	15,432	14,615	13,783	13,770	13,607	13,828
	Budget Requirement	15,213	15,213	13,851	13,011	12,947	12,660

Appendix A

	Original 2010/11 £000	Revised 2010/11 £000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
GENERAL FUND BALANCES						
General Fund Balance b/f	2,815	2,815	3,413	3,511	2,752	2,093
Change in Balances	(218)	598	98	(759)	(659)	(1,168)
General Fund Balance c/f	2,597	3,413	3,511	2,752	2,093	925
Reductions in expenditure, or increases in income, to maintain balances at £1.0m	0	0	0	0	0	75
General Fund Balances as % of Net Revenue Budget	16.83%	23.35%	25.47%	19.99%	15.38%	6.69%

	Original 2010/11 £000	Revised 2010/11 £000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
PENSION FUND RESERVE						
Balance brought forward	955	955	691	597	420	124
Transfers:						
To Pension Reserve	515	515	515	515	515	515
From Pension Reserve (Current)	(779)	(779)	(779)	(779)	(779)	(779)
From Pension Reserve (post actuarial review)	0	0	(79)	(163)	(282)	(356)
Net transfer from reserve	(264)	(264)	(343)	(427)	(546)	(620)
Additional contributions	0		250	250	250	500
Reserve balance carried forward	691	691	597	420	124	3

Review of Earmarked Reserves

Reserve Name	CDP Priority	Bal as at 31/03/10 £'000	In year receipts £'000	Transfer in £'000	Committed/ Transfer out £'000	Bal as at 31/03/11 £'000	Comments and Recommendation	Officer Responsible
Capital	Resources	1,391	325	400	(894)	1,222	Fully committed to schemes in the capital programme	Sandra Cowley
Climate Change	Climate Change	0	50	-	-	50	New reserve to fund climate change initiatives	Barry Wyatt
Closed Circuit Television	Resources	61	-	-	-	61	For replacement and upgrading of CCTV cameras in Stroud and Dursley	Phil Sullivan
Economic Development / Regeneration	Economy	86	-	-	-	86	Maintain following reduction in revenue support. Review again during the year.	Barry Wyatt
Efficiency / Invest to Save	Resources	200	-	-	(37)	163	To support efficiency proposals where upfront investment required. (Payment Kiosk £37k)	Sandra Cowley
Housing	Affordable Housing	244	-	-	-	244	Committed to the GF costs of housing development e.g. Woolaways project	Sandra Cowley/ Carl Brazier
Information Communication Technology	Resources	494	-	-	(267)	227	ICT Infrastructure replacement plan in place to support reserve balance.	Sandra Cowley/Nick Watkins
Legal Counsel	Resources	45	30	25	-	100	Heavily used over recent years. Review of use of Counsel currently taking place.	Alison Sharpe/Peter Cruden
Planning Appeal Costs	Resources	168	25	-	-	193	Maintain. One large appeal could use all the reserve	Barry Wyatt/Phil Skill
Planning Delivery Grant	Resources	226	-	88	-	314	Reclassify as Planning Strategy Reserve. Spending Plan in place	Barry Wyatt/Phil Skill
Pension Fund	Resources	955	515	-	(779)	691	Fully committed as per MTFP.	Sandra Cowley
Property Maintenance	Resources	609	-	-	-	609	Annual contributions have been stopped. Building Condition survey in 2011.	Alison Fisk
Redundancy/Pension costs	Resources	129	-	11	-	140	Needed to cover one-off redundancy/pension costs.	Sandra Cowley
Risk Management / Insurance	Resources	172	-	-	(52)	120	To meet uninsured costs & insurance excesses. Reduced based on history of annual costs	Sandra Cowley
Stratford Park Leisure Centre Sinking Fund	Resources	174	30	51	(248)	7	Fully committed. Needs to be topped up. Included in Ray Figg MTFP	
Reserves Closing								
Local Plan Preparation	Resources	88	-	-	(88)	0	Close - Transfer to Planning Strategy Reserve	Barry Wyatt
Miscellaneous General Fund	Resources	21	-	-	(21)	0	Close - Transfer to SPLC Sinking Fund	Sandra Cowley
Opportunity Land Purchase	Resources	100	-	-	(100)	0	Close - Transfer to Capital Reserve	Alison Fisk
Interest Equalisation	Resources	300	-	-	(300)	0	Close - Transfer to Capital Reserve	Sandra Cowley
Hydro power	Climate Change	14	-	-	(14)	0	Close - Transfer to Legal Counsel Reserve	Jon Beckett
Concessionary Fares	Resources	200	-	-	(200)	0	Close - Transfer to Balances	Sandra Cowley
S106 Maintenance	Resources	15	-	-	(15)	0	Take into Revenue Budget	Sandra Cowley
Total movements in reserves		5,692	975	575	(3,015)	4,227		