

***Basingstoke and Deane Borough
Council***

**Medium Term Financial Forecast
2009/10 – 2011/12**

February 2009

CONTENTS

	page
1 Introduction	3
2 Internal Policy and Service Context	3
3 Internal Financial Context	4
4 External Economic, Financial and Legislative Context	4
5 Budget Strategy 2009/10 – 2011/12	5
6 Partnership Working and External Funding	8
7 The Medium Term Financial Forecast 2009/10 – 2011/12	9
8 Capital Programme 2009/10 – 2011/12	13
9 Basing View Regeneration Funding Strategy	14
10 Reserves Review	15
11 Risk Assessment and Sensitivity	16
12 Report of the Chief Finance Officer on the Budget	17
Appendix 1 – Purpose of Earmarked Reserves	18
Appendix 2 – Risk Assessment	19

MEDIUM TERM FINANCIAL FORECAST 2009/10 – 2011/12

1 Introduction

- 1.1 The purpose of the Medium Term Financial Forecast is to set a robust overall framework for the Council's spending plans over the next three years to support delivery of the Council Plan priorities.
- 1.2 The main objectives of the Medium Term Financial Forecast are;
- to look to the longer term to help plan sustainable services and budgets and help ensure that the Council's financial resources are sufficient to support delivery of Council Plan priorities.
 - to provide a single document to communicate the financial context, aims and objectives to staff and stakeholders and support working with partners.
- 1.3 The financial forecast includes a three year budget forecast that is reviewed annually. The medium term financial forecast builds on the previous medium term strategies to provide the financial foundation for delivery of the Council's policy priorities and to meet the identified performance and resource issues.

2 Internal Policy and Service Context

- 2.1 The Council Plan sets the overall direction for the Medium Term Financial Strategy and annual budgets. The Cabinet has reviewed the Council Plan and is proposing to continue with the current four priority themes as follows;
- **To secure and enhance *prosperity***
 - **To maintain and enhance local community *wellbeing***
 - **To build and sustain a strong focus on *inclusion***
 - **To develop and support effective *partnerships* focused on community priorities**
- 2.2 The Council will continue to direct resources to priority areas that can deliver improvements for local communities. A number of key aims and planned activity have been identified in the Council Plan. These are in addition to the provision of existing services and activities and will help deliver enhanced community outcomes over the plan period.
- 2.3 The Council's performance management process, the Asset Management Plan, Corporate Improvement Plan, Efficiency Strategy and Treasury Management Strategy have also identified resource issues that have been taken into account in formulating the financial forecast.
- 2.4 The Borough continues to grow with new housing developments and an expanding population. These factors place increasing pressure on the delivery and cost of existing council services to meet the demand.

3 Internal Financial Context

- 3.1 In 2008/09 the Council's net revenue budget requirement was approximately £15.9m (net of fees and charges, rent and interest) and the Capital Programme was £16.1m, together they provide the resources to meet the service delivery plans of the Council.
- 3.2 The Council's 2008/09 gross revenue expenditure budget was £96m and after excluding capital charges and financing and housing benefit payments the gross underlying expenditure budget was £48m.
- 3.3 The Council's gross expenditure is supported by a considerable level of other, non council tax and government grant, income. The budget position is therefore very sensitive to changing investment returns, rental income growth, government grant and pay inflation.
- 3.4 The Council currently has almost £150m of resources which are largely invested to earn interest to support the revenue base budget. However over time approximately £19m will be used to fund the existing and proposed capital programme equating to a reduction in interest of £1m.
- 3.5 On a roll forward basis the Council's budget will increase for pay and price inflation by around £1.5m per year. This is offset by increased fees and charges income, government formula grant, rental income growth, and increased council tax income. However this increased income generally only meets about two thirds of the increased cost leaving a potential funding gap that needs to be managed via the financial strategy.
- 3.6 The key elements of the existing and future medium term financial strategy are detailed in Section 5.

4 External Economic, Financial and Legislative Context

- 4.1 The Council's medium term financial forecast is set within the context of national economy, public expenditure plans and national legislation.
- 4.2 The Council's medium term financial forecast has been formulated within the context of a deteriorating national economy and falling interest rates as the UK and international economies fall into recession.
- 4.3 Both the Treasury and external forecasters are expecting a continued economic downturn during 2009 and this provides a challenging background for the Council's budget. Demand led services such as benefits and housing are likely to see increased pressures while income from fees and charges and commercial rents is likely to come under stress. Utility and fuel inflation have been running at significantly higher levels than the general CPI rate.
- 4.4 Interest base rates have reduced by 4.25% since last year's strategy and now stand at 1.5%, the lowest level ever in the history of the Bank of England which was created in 1694, with the possibility of further reductions later this year. The economy is set to continue contracting and the fear of a prolonged recession is forcing the Bank of England to respond by cutting interest rates to historically low levels. The ongoing "credit crunch" has led to increasing uncertainty in the financial markets and is likely to both prolong and deepen the economic downturn.

- 4.5 The Local Government White Paper set out a vision for local government to be empowered to work with others to create sustainable communities and the implementation of the white paper proposals is likely to have a significant impact on the future shape of local government. The Government have also set challenging efficiency targets for local government to deliver.
- 4.6 The economic downturn will place increased pressures on the Council's own finances and also on the wider community. The medium term financial forecast will therefore need to remain flexible to respond to any opportunities or threats that this external environment will present.

5 Budget Strategy 2009/10 – 2011/12

Revenue Strategy

- 5.1 The budget strategy reflects the Council's external and internal context, the budget forecast and addresses identified service pressures and issues. The strategy:
- Targets resources to achieve the greatest positive impact.
 - Looks to the longer term to plan for sustainable services and budgets and the maintenance and improvement of front line services.
 - Pursues efficiency to make best use of the Council's assets – funds, land, buildings, staff and information technology.
 - Supports working with partners to secure best outcomes for the benefit of local communities.
- 5.2 The Council's underlying budget position is that pressure on expenditure may rise to meet or exceed forecast income.
- 5.3 The financial strategy is therefore to continue to manage this potential gap to deliver a balanced budget position. This will be achieved by;
- Maintaining a downward pressure on supplies and services inflation costs mainly delivered through more effective procurement.
 - Establishing staff/service efficiency savings targets to be delivered through the Council's "fit for purpose" business unit reviews and shared service opportunities.
 - Maximising external income sources including rents and grants to be delivered through fees and charges reviews, effective asset management and partner working.
 - Generating capital receipts from the disposal of surplus land to be invested to earn additional revenue interest to support the base budget.
 - A reduction in the revenue contribution to capital.
 - Controlling the growth in the Council's budget by planning for future new priority costs to be met from within the existing base budget funded by service switching and/or efficiency improvements.

5.4 The key elements of the budget strategy are:

- To plan for a balanced budget over the medium term.
- To plan for a 3.25% increase in Council Tax for 2009/10 followed by a 2.5% or inflationary increase in Council Tax per year (which ever is the higher).
- To plan for an above inflationary increase in fees and charges income over the medium term period equivalent to 5% per year.
- To continue to maintain earmarked risk reserves for interest at £1m and rents at £0.5m over the medium term.
- To continue to maintain a general fund reserve of £1.5m over the medium term.
- To look to offset the medium term loss of investment income by a reduction in the revenue contribution to capital.
- To plan for further “fit for purpose” savings of £170,000 to meet the original £1m target and plan for shared services savings of £250,000 from 2010/11 along with further non specific efficiency and budget savings targets of £445,000 in 2010/11 and £278,000 in 2011/12.
- To reinstate the capital receipts target of £5m by 2011/12.

Capital Strategy

5.5 The Asset Management Plan and Capital Strategy identifies the following strategic capital aims:

- Maintaining the existing operational assets to a good standard. This includes significant property enhancements and the continued provision of appropriate ICT infrastructure and vehicles and plant.
- Maintaining the Council’s property portfolio to the standard necessary to protect and enhance the significant revenue rent stream produced.
- Delivering regeneration and new and enhanced facilities in support of the Council Plan priorities.
- Supporting the delivery of Council priorities through partner organisations via a program of capital grants and contributions.
- Enhance asset and infrastructure funding to reflect sustainability / climate change responsibilities.
- To set a target for future capital receipts generation.
- Operate an “invest to grow” policy with a maximum spend of £10m earmarked for potential schemes that meet the criteria.
- To maximise the opportunities to attract external grant and partnership funding to support the capital programme.

- Maintain the current policy of no borrowing to finance capital expenditure.
- Develop a funding strategy to support planned future major regeneration projects.

Corporate Pricing Policy (Fees and Charges)

5.6 The new corporate pricing policy was agreed by Cabinet in October 2008. The aim of the policy is to address the requirement for a corporate approach to the issue of fees and charges and to provide clear guidance on:

- the setting of new fees and the framework within which existing charges should be reviewed.
- how fees and charges can assist in the achievement of corporate priorities.
- our approach to cost recovery and income generation from fees and charges.
- eligibility for concessions.

5.7 A “charging framework”, developed alongside the policy, has been used to review the fees and charges set out in this report. The framework recognises that although full cost recovery will be the customary approach, this will not be appropriate in all circumstances and the amount charged will need to be a reflection of:

- Relevant council strategies, policies, or other local objectives.
- Any subsidies and/or concessions.
- The legal or contractual basis for charging.
- Market conditions and prices charged by competitors (acknowledging the need to avoid distortion of the market, which might occur from pricing below private sector levels).
- Prices charged by other local authorities.
- The possibility of increasing income to the Council.
- The cost of collection.
- The potential impact of charging on customers; including the need for all council imposed charges to be reasonable and to avoid the risk of exploiting customers who have no choice but to use our services.

6 Partnership Working and External Funding

- 6.1 The Council Plan has a focus on working with partners to secure best outcomes for the benefit of local communities and investigating opportunities for joint work with other agencies / local authorities. The financial strategy takes a realistic but prudent approach to possible partnership funding that is not yet certain or confirmed. Specific partner funding or grant income is generally not assumed in the forward forecasts unless its allocation has been confirmed.
- 6.2 The Council is a partner in the Hampshire Local Area Agreement (LAA), a process of agreeing community priorities for the county area based on district level community strategies and local priorities. Government reward funding will be allocated to the LAA following achievement of the agreed performance targets. Any such funding will not be allocated until the end of 2009/10 at the earliest. The financial strategy therefore does not assume the receipt of any one off reward funds from the Government for achievement of the LAA performance targets.
- 6.3 The Government has introduced a New Growth Point initiative which will provide pilot funding to support infrastructure projects in areas which are experiencing significant growth. The Council is anticipating £434,000 of further revenue funding and £5,277,500 of capital funding between 2009/10 and 2010/11. This funding has been earmarked to support delivery of the Basing View Regeneration.
- 6.4 The Medium Term Financial Strategy assumes that the Council will continue to receive a Housing and Planning Delivery revenue grant of £275,000 which will be allocated to the Basing View Regeneration Reserve.
- 6.5 The government is also consulting on a change to the Local Authority Business Growth Incentive Grant Scheme (LABGI). This scheme provides one-off grant based on the annual growth in business rateable values. The latest consultation suggests that the Council could receive a revenue grant in future. However there is still considerable uncertainty around the likely final scheme details, so the medium term financial strategy continues to assume that the Council will not receive any funding from this source.
- 6.6 The Council works in partnership with Hampshire County Council, Housing Associations and the Police Service via the Community Safety Forum to deliver community safety initiatives. The financial strategy assumes the continued receipt of partnership funding of £219,000.

7 The Medium Term Financial Forecast 2009/10 – 2011/12

7.1 Details of the medium term financial forecast for 2009/10 to 2011/12 are as follows:

MEDIUM TERM FINANCIAL FORECAST

	2009/10 Forecast £'000	2010/11 Forecast £'000	2011/12 Forecast £'000
Net Cost of Services (excl Rents)	36,313	36,516	36,790
Forecast Changes:			
Removing One-Off Items	-1,157	-105	13
Pay Inflation	1,084	981	932
Other Inflation	397	350	362
Demographic Growth	160	115	105
Cost Pressures	202	0	25
Fees and Charges Increases	-486	-250	-250
Efficiency and Fit for Purpose Savings	-1,132	-865	-278
Budget Risks	650	350	-200
Detailed Estimate Changes	233	-297	-120
Additional Funding for Council Plan Priorities	252	-5	60
Net Cost of Services	36,516	36,790	37,439
Base Interest Income	-6,377	-6,077	-5,914
Set Aside Interest	-363	-341	-274
Interest from new sale of land receipts	0	0	-120
Rent Income	-13,941	-14,207	-14,432
Net Operating Expenditure	15,835	16,165	16,699
Contribution to/ (from) Reserves			
Asset & Infrastructure RRCP	178	38	38
Capital Priorities RRCP	170	38	38
Basing View Regeneration Reserve	647	397	275
Corporate Bond Reserve	363	341	274
Invest to Grow Reserve	106	-132	-144
Invest to Save Reserve	50	0	0
Reorganisation and Pension Reserve	-815	-25	-15
Other Reserves	-130	0	0
Total Contribution to Reserves	569	657	466
Total Net Expenditure	16,404	16,822	17,165
Met By:			
Revenue Support Grant	9,918	10,123	10,224
Collection Fund Surplus	70	50	50
Required from Council Tax Payers	6,416	6,649	6,891
Headline Budget Target	16,404	16,822	17,165
Forecast Deficit/(Surplus)	0	0	0

- 7.2 The main assumptions included in the forecast are explained below;
- 7.2.1 **Pay** - A pay award of 2.5% per year has been assumed with increases in the employer's superannuation rate of from 17.7% to 19.1% over the period and full allowance for incremental increases. An annual saving of 2.75% has been included in the forecast as a vacancy saving target to reflect in-year staff turnover.
- 7.2.2 **Non Pay** – Non contracted supplies and services budgets have been increased by 1% and external grants and contributions by 1.5%. The supplies and services budgets have been subsequently reduced through targeted savings.
- 7.2.3 **Rents** - this forecast is based on a detailed review by the Head of Property Services of the likely impact of rent reviews and occupation over the period. This shows an increase on the 2008/09 budget of 0.8% in 2009/10 increasing to an annual increase of approximately 1% after that, which reflects the impact of the rent review profile of the Council's property portfolio.
- 7.2.4 **Interest** - base rates now stand at 1.5% and city forecasters are suggesting future reductions. The interest rates used in the medium term strategy have therefore been based on the average return on the Council's fixed investments and an assumed base rate level for non-fixed investments.
- 7.2.5 The investment income forecasts are based on rates of;
- 2009/10 invested rates of 1.25% short term and 2.5% long term
 - 2010/11 invested rates of 2.5% short term 3.5% long term
 - 2011/12 invested rates of 3.5% short term and 4% long term
- 7.2.6 The estimate of interest and investment income is as follows:

	2009/10 £'000	2010/11 £'000	2011/12 £'000
Estimated Interest & Investment Income	6,740	6,418	6,308
Estimated average investment balance	157,800	151,300	147,300
Estimated average interest rate return	4.27%	4.24%	4.28%

- 7.2.7 **Government Grant** –The roll forward budget forecast includes grants determined by the three year 2008/09 grant settlement announced in November 2008 and assumes a 1% increase thereafter.

7.3 **Demographic Growth** – Additional costs have been included in the forecast to meet demands placed on the services. These are partially offset by an increase in the Council Tax base. The demands are summarised below:

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Waste Collection	60	100	140
Concessionary Travel (Travel Tokens)	100	175	240
Sub Total	160	275	380

7.4 **Cost Pressures** – The cost pressures identified in the budget strategy have been updated and are summarised below:

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Loss of housing benefit admin grant	25	50	75
LDF consultants	25	0	0
Discretionary rate relief	25	25	25
Vacant commercial unit costs	80	80	80
Other	47	47	47
Sub Total	202	202	227

7.5 **Fees and Charges** – The forecast includes additional income from fees and charges of £486,000 in 2009/10 a 10.1% increase and further increases of £250,000 in 2010/11 and 2011/12.

7.6 **Efficiency and “fit for purpose” savings** – Efficiency and budget savings of £1,132,000 (7.1% of the net revenue expenditure) have been built into the 2009/10 budget. These include £822,000 of targeted and general savings identified during the estimate process and a further £310,000 of identified staff savings from completed and proposed “fit for purpose” business unit restructures.

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Fit for Purpose savings	-310	-480	-480
Shared Services savings target	0	-250	-250
Future efficiency & savings targets	0	-445	-723
Reduced maintenance budget	-200	0	0
Reduced consultants budget	-50	-50	-50
Reduced capital feasibility budget	-50	-50	-50
Supplies & Services reductions	-300	-330	-360
Other savings from detailed estimates	-222	-392	-362
Sub Total	-1,132	-1,997	-2,275

7.7 **Budget Risks** – The budget process has updated the budget risks that will require funding over the Medium Term Financial Forecast period and these are summarised below:

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Recycling income	50	100	50
Contract re-tendering costs	0	550	600
Reduced planning income	600	350	150
Sub Total	650	1,000	800

7.8 **Detailed Estimate Changes** – The forecast includes net changes of £233,000 in 2009/10 mainly due to £500,000 of estimated use of the reorganisation and pension reserve off-set by the removal of the bus pass contingency of £300,000.

7.9 **Additional Funding for Council Plan Priorities** – Cabinet will continue to direct resources to priority areas that can deliver real and sustained improvements for local communities. Several key issues have been identified, a number are the result of previous Cabinet or Overview reports that require additional resources to deliver. Cabinet have agreed an allocation of additional revenue resources to the following priorities:

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Continued supported bus routes	100	135	135
Pest control service	30	30	30
Community centre managers (funded from reorganisation reserve)	35	25	15
Public realm maintenance	0	0	70
Waste collection shared services (funded from reorganisation reserve)	30	0	0
Cemetery headstones work	20	20	20
Debt advice post	37	37	37
Sub Total	252	247	307

8 Capital Programme 2009/10 – 2011/12

8.1 The Council operates a rolling three year capital programme to support the capital strategy aims and delivery of Council Plan objectives. The programme is split between asset and infrastructure schemes, which relate to the improvement or replacement of existing operational and non-operational land and buildings, capital priorities rolling programmes which are annual grant and redevelopment schemes and other portfolio capital priorities which are individual one-off schemes. The programme also includes provision for schemes where the precise details are not yet established (e.g. re-letting works for units in the Malls).

8.2 The table below summarises the proposed capital programme:

Capital Programme	2009/10 £'000	2010/11 £'000	2011/12 £'000	Total £'000
Asset & Infrastructure Schemes				
Operational Land & Buildings	128	185	400	713
Operational Vehicles, Plant, Furniture & Equipment	811	1,039	761	2,611
Non-Operational Land & Buildings	200	1,137	0	1,337
Capital Programme Provisions	700	0	0	700
Sub Total Asset & Infrastructure	1,839	2,361	1,161	5,361
Non Asset & Infrastructure Schemes				
Portfolio Rolling Programmes	1,801	1,881	1,998	5,680
Public Realm Schemes	120	280	191	591
Invest to Grow Schemes	1,900	1,200	0	3,100
Other Portfolio Schemes	1,974	1,630	811	4,415
Basing House	50	50	50	150
Capital Programme Provisions - Other	258	0	0	258
Total Capital Programme	7,942	7,402	4,211	19,555

8.3 The main additions to the programme include;

- £1.161m allocated to asset & infrastructure schemes
- £1.560m allocated to priority rolling programmes
- £1.034m for section 106 funded schemes
- £0.591m for Basing View public realm improvements
- £0.480m of government grant for housing renewal grants
- £0.150m to support planned works at Basing House

8.4 The capital programme has also been updated to reflect the release by Council of £3.2m from the Invest to Grow resources to deliver the South Ham Doctors Surgery scheme (£100,000 in 2008/09)

8.5 The capital programme is financed mainly from the revenue reserve for capital purposes (RRCP) (49%), capital receipts (20%), along with section 106 and other contributions. The capital programme is therefore resourced from within the Council's own funds and external contributions with no actual or planned borrowing as follows:

Financing	£'000	%
RRCP - Asset & Infrastructure	5,361	27%
RRCP – Capital Priorities	4,310	22%
Capital Receipts	3,959	20%
S106 Developer Contributions	3,660	19%
Lottery/Miscellaneous Contributions	2,265	12%
Total Financing	19,555	100%

8.6 After financing the proposed capital programme and allowing for the annual revenue contribution to the RRCP and the budget strategy proposals, it is estimated that the resources available for the future capital programme will total £30.5m as follows:

- Asset & Infrastructure £3.1m
- Capital Priorities £1.7m
- Section 106 Contributions £5.8m
- Earmarked for Malls Redevelopment £5.4m
- Basing View Regeneration Reserve £1.5m
- Basing View Regeneration earmarked growth point capital grants £6.2m
- Invest to Grow £6.8m (£1.8m General and £5m Basing View)

9 Basing View Regeneration Funding Strategy

9.1 The key features of the Basing View regeneration funding strategy outlined in the Medium Term Financial Strategy to support delivery of the Council Plan regeneration priority have been confirmed as follows;

- 9.1.1 The “major capital schemes & fees reserve” has been renamed the “Basing View Regeneration Reserve” to provide resources to support the redevelopment activity.
- 9.1.2 £250,000 has been transferred from the Reorganisation and Pension Reserve to the Basing View Regeneration Reserve
- 9.1.3 £1.55m of the received new growth point capital grant has been allocated to public realm improvements in Basing View (with the release of £591,000 into the capital programme).
- 9.1.4 The balance of anticipated new growth point capital grant has been earmarked for Basing View redevelopment.

- 9.1.5 New growth point revenue grant and revenue housing and planning delivery grant will be allocated to the Basing View Regeneration Reserve.
- 9.1.6 £5m of invest to grow resources have been earmarked for Basing View regeneration elements that meet the scheme criteria.
- 9.1.7 The above elements provide the foundations for developing a detailed regeneration financial strategy when detailed proposals are available and approved. This will be required before any significant regeneration activity can occur.

10 **Reserves Review**

- 10.1 The Council maintains four types of revenue reserves; reserves to fund capital expenditure, specific reserves to cover interest rate and rent risks, earmarked reserves for specific purposes and a general fund balance.
- 10.2 The purpose, use and level of each reserve have been reviewed as part of the budget strategy planning. For details of the purpose of each reserve see Appendix 1. The estimated use of these reserves over the medium term forecast period is summarised below:

	Estimate 31-Mar-09 £'000	Estimate 31-Mar-10 £'000	Estimate 31-Mar-11 £'000	Estimate 31-Mar-12 £'000
Reserves to Fund Capital Expenditure				
Assets & Infrastructure RRCP	8,192.0	6,530.8	4,207.8	3,084.8
Capital Priorities RRCP	5,813.5	4,380.7	3,076.7	1,749.1
Basing View Regeneration Reserve	183.7	830.9	1,227.7	1,502.7
Corporate Bonds Reserve	802.5	1,165.5	1,506.5	1,780.5
Risk Reserves				
Rent Risk Reserve	500.0	500.0	500.0	500.0
Interest Rate Risk Reserve	1,000.0	1,000.0	1,000.0	1,000.0
Earmarked for Specific Purposes				
Invest To Grow Reserve	833.0	939.0	807.0	663.0
Invest To Save Reserve	50.0	100.0	100.0	100.0
Local Development Framework Inquiry Reserve	274.5	199.5	199.5	199.5
Insurance Reserve	150.6	150.6	150.6	150.6
Reorganisation and Pension Reserve	1,916.7	1,101.7	1,076.7	1,061.7
Budget Carry Forward Reserve	55.0	0.0	0.0	0.0
General Reserves				
General Fund Balance	1,500.0	1,500.0	1,500.0	1,500.0
	21,271.5	18,398.7	15,352.5	13,291.9

- 10.3 The Medium Term Financial Strategy assumes that there will be no draw on the risk reserves and that the general fund balance will remain at approximately 9% (£1.5m) of net expenditure during the strategy period.

11 **Risk Assessment & Sensitivity**

- 11.1 There are a number of risks associated with the medium term forecast as a relatively small change in key underlying assumptions can produce a significant change in the forecast. The key sensitivities are outlined below;

Sensitivity Analysis	Change	Annual Impact
Pay Award	0.25%	£48,000
Rent Income	1.00%	£140,000
Government Grant	1.00%	£95,000
Fees and Charges	1.00%	£55,000
Interest Rates – Impact in the Short Term	0.25%	£110,000
Interest Rates – Impact in the Medium Term	0.25%	£155,000
Interest Rates – Impact in the Long Term	0.25%	£200,000
Capital Receipts Delay of 1 Year	£5m	£225,000

- 11.2 It is proposed that further 2009/10 downside investment income risk (below the assumptions used in the budget) will be managed by drawing from the interest risk reserve (£1m) in year if necessary.
- 11.3 The downside risk on rents will be managed in year via the rent risk reserve (£0.5m). The Council's rent roll is a mixture of more secure longer ground leases and short term flexible leases. The most at risk rents total about £2.8m, therefore the rent risk reserve could cover an in year reduction in this rental income of around 20%.
- 11.4 Other downside risks such as reduced fees and charges income will need to be managed in year through the budget monitoring process and could involve temporary savings (such as freezing vacant posts) if necessary and exceptionally via a draw on the general fund balance (£1.5m).
- 11.5 Any upside benefit in year would be allocated to the revenue reserves for capital purposes.
- 11.6 A more detailed risk assessment is attached as Appendix 2.

12 Chief Finance Officer's (Head of Finance, Local Tax and Procurement) Report to Council

- 12.1 Part II of the Local Government Act 2003 places a duty on the Chief Finance Officer to report on the robustness of the budget and adequacy of reserves.
- 12.2 The budget has been constructed following a detailed process involving Cabinet, budget holders and finance staff, starting with the Medium Term Financial Strategy formulation and refined by the final estimates. Expenditure and income estimates have been carefully considered during the budget process which included a review of the implications of last year's outturn as well as a zero base budget approach in a number of areas.
- 12.3 Account has been taken of financial issues identified during the current year and of new legislative requirements and service pressures. Realistic budget assumptions have been made and key risks identified. These risks are managed through a comprehensive and timely in year budget monitoring process which acts as an effective early-warning system in identifying potential problems and for managing risk.
- 12.4 The proposed capital programme to 2011/12 includes funding to support the asset management plan and is fully financed from identified resources and revenue contributions with no external borrowing. The budget proposals have been prepared with regard to the CIPFA Prudential Code.
- 12.5 The general fund balance is forecast to remain at £1.5m (9% of net expenditure), the interest risk reserve at £1m and the rent risk reserve at £0.5m during the period of the medium term forecast. There is no planned use of reserves to fund ongoing revenue expenditure.
- 12.6 I therefore consider that the overall budget has capacity to meet unforeseen costs or a reduction in planned income and that the level of reserves is adequate to manage the risks.
- 12.7 **Challenging targets have been set as part of the budget strategy for 2010/11 and 2011/12. The Council will need ensure that a planned comprehensive review/efficiency process is established to deliver future savings and budget targets to produce sustainable and balanced future budgets.**
- 12.8 The budget proposals have been reviewed by Strategic Management Team and the budget strategy process by the Audit and Governance Committee.
- 12.9 **The above and the other relevant sections of the report to the Cabinet meeting on 27 January 2009, support my advice to Council that the 2009/10 budget is robust and is supported by adequate reserves.**

Details of Revenue Reserves

Reserve	Purpose
Revenue Reserve for Capital Purposes – Asset & Infrastructure	To provide resources for the Asset Management Plan and to establish a major refurbishment fund for the property portfolio.
Revenue Reserve for Capital Purposes – Capital Priorities	To provide resources for future capital expenditure.
Basing View Regeneration Reserve (previously called the Major Capital Schemes & Fee's Reserve)	To provide resources to fund the Basing View regeneration capital scheme, the associated fees and detailed feasibility work.
Corporate Bond Reserve	To set aside funds to cover capital depreciation on corporate bond investments.
Rent Risk Reserve	To cover the risk of not achieving the required amount of rent income supporting the revenue budget.
Interest Rate Risk Reserve	To cover the risk of not achieving the required amount of interest income supporting the revenue budget.
Invest to Grow Reserve	To provide resources to finance the revenue implication of the time delay between capital spend on a scheme and receipt of financial returns.
Invest to Save Reserve	To provide one off pump priming for revenue efficiency saving initiatives
Local Development Framework Inquiry Reserve	To provide resources for provision of the Local Plan.
Insurance Reserve	To provide self-funding for specific elements of insurance claims in order to save costs.
Reorganisation and Pension Reserve	To meet one off reorganisation costs and reimbursing the Hampshire County Council superannuation fund for early retirements.
Budget Carry Forward Reserve	To provide funds for items budgeted for in one year that will not be spent until the following year.
General Fund Balance	To cushion the effect of any unexpected events.

Risk Assessment - Main Risks to Budget 2009/10

Description of risk	Inherent Risk			Current Mitigation	Residual Risk		
	Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score
Interest base rates reduce faster than anticipated.	4	3	12	The interest rate risk is managed through the Treasury Management Strategy which has increased the amount of fixed rate investments.	2	3	6
Planned capital receipts are delayed.	4	3	12	A specific interest risk reserve is maintained that can cushion the in-year impact of any adverse returns resulting from slippage in the receipt of planned capital sale proceeds.	2	3	6
Planned and budgeted "fit for purpose savings" and other service restructure changes and savings are not achieved.	2	3	6	SMT are reviewing and monitoring the business unit restructure proposals to ensure delivery of savings.	1	3	3
Expenditure is not contained within approved budgets.	2	2	4	The Council has a well developed in year budget monitoring process that identifies any variations early to allow corrective action to be taken.	2	1	2
Rent income budgets are not achieved.	3	2	6	A specific rent risk reserve is maintained to be used to make good an in year shortfall in rent income.	2	2	4
External grants and contributions are less than forecast.	3	2	6	A general fund balance of £1.5m is maintained to meet any unavoidable unexpected costs in year.	2	2	4
Pay inflation increases by more than allowed for in the budget.	3	1	3	Pay increases are not yet agreed but the budget assumes an increase at the level of past settlements. Separate budget provision has been made for increasing employer pension costs.	3	1	3