

**SUBMISSION BY LEADER OF THE COUNCIL & CABINET MEMBER FOR FINANCE,
REVENUES & BENEFITS****THE MEDIUM TERM FINANCIAL STRATEGY FOR 2012-15 (REVENUE AND CAPITAL)****1. Purpose of Report**

- 1.1 To provide Members with the opportunity to scrutinise the proposals for the Council's 3 year Medium Term Financial Strategy 2012-2015.
- 1.2 The outcome of the scrutiny will be reported to Cabinet on 14 February 2011.

2. Summary**2.1 Funding a Plan for the District: The 3 year Financial Strategy**

The ability to deliver the outcomes set out in the Plan for the District 2012-2016 is dependant on the resources available over the four year period, and therefore this must drive the Medium Term Financial Strategy. It is the Council's policy to make appropriations from General Reserves to finance Net Operating Expenditure in a planned and prudent manner whilst maintaining a level of reserves to mitigate the financial business risk over the period of the Medium Term Financial Strategy.

- 2.2 The Local Government Act 2003 (Sections 25-28) places duties on Local Authorities on how they set and monitor budgets. The Director of Finance, Revenues and Benefits in the capacity as the Council's Chief Financial Officer (CFO) is of the opinion that the estimates are robust and the Council's proposed Reserves are adequate (Sections 25-27).
- 2.3 Section 28 of the Act places a statutory duty on an authority to review its budget from time to time during the year. If the Budget Monitoring Report shows that there has been deterioration in the Authority's financial position, the Authority must take such action as it considers necessary. The Council currently reviews the Budget on a quarterly basis and this practice will continue.

3. Statement of Reasons

- 3.1 The Plan for the District 2012-16 has been prepared and is featured elsewhere on this agenda. This sets out the opportunities and challenges we face, the community's needs, the Council's aspirations, our focus and our priorities covering the life of this Council. The action plan for the first year of the Plan is also provided elsewhere on this agenda.
- 3.2 To fund our Plan for the District, we prepare a **Medium Term Financial Strategy**. This covers things like how we will use reserves, our investments, the approach to Council Tax and how we deploy our Capital. Its also looks over the medium term at the cost pressures we are likely to face and how these could be financed. This is set out in **Appendix A** for Revenue & Capital and **Appendices B & C** outline our Capital Investment Plans.
- 3.3 The Council has a statutory duty to set a balanced budget in each of the 3 years and to calculate the level of Council Tax for its area. The Chief Financial Officer has a statutory duty to ensure that the figures provided for estimating and financial planning are robust and will stand up to audit scrutiny. The Council is required to set out Prudential Indicators for Capital Expenditure and financing, these are detailed elsewhere on the Agenda under the Treasury Management Strategy Report.
- 3.4 The Local Government Act 2003 places duties and requirements on the Authority on how it sets and monitors its Budgets, including the Chief Financial Officer's report on the Robustness of the Budget and adequacy of Reserves shown in **Appendix D**.

4. Community Benefits

- 4.1 The reporting of timely budget performance statements enables Members to make informed decisions for the efficient and effective use of resources, in the interest of the community, for the delivery of services and key priorities, as set out in the Plan for the District 2012-16.

5. Recommendation

- 5.1 That the Committee scrutinises the data provided at **Appendix A, B C & D** and provides views to Cabinet.

6. Plan for the District Implications

- 6.1 The report directly links to overall performance and especially the delivery of the Plan for the District 2012-16 as detailed elsewhere on the Agenda and the Corporate Risk Register.

7. Sustainability, Human Rights & Community Safety Issues

- 7.1 These areas are addressed as part of the specific areas of activity prior to being included in the Plan.

8. Consultation

- 8.1 The Plan for the District 2012-16 is informed by extensive consultation, and is supported by surveys which test the quality of services and what is important to people, and where they wish the Council to focus. The views obtained support the direction set out in the Plan for the District 2012-16 and the Medium Term Financial Strategy.

9. Risk Management Issues

Risk Description	Likelihood /Impact	Status	Countermeasure
Local Government Resource Review – Localisation of Business Rates: managing economic, financial and social impact	High/High	Economic/ Financial/ Social	Council policies will need to be developed to mitigate the impact of the Local Government Resource Review on the Council's Plan for the District 2012-16 and its finances.
Local Government Resource Review – Localisation of support for Council Tax	High/High	Financial	A local scheme will be designed for Lichfield District Council.
The Recession	High/High	Financial/ Economic	Close monitoring of the higher risk key business areas and those areas affected by the downturn.
Planned Capital receipts are not received.	Medium/ High	Financial	The budget for Capital receipts will be monitored as part of the Council's normal budget monitoring procedures.
Achievement of the Council's key Council's priorities	Medium/ High	Financial	Close monitoring of performance and expenditure; maximising the potential of efficiency gains; early identification of any unexpected impact on costs incl. central Government policy changes, movement in the markets, and changes in the economic climate.

Background Documents Government's Consultation Papers and Exemplifications on Formula Grant 2012/13.

Funding our Strategic Plan: the 3 Year Financial Strategy

- 1 The ability to deliver the outcomes set out in the Plan for the District 2012-16 is dependent on resources, and therefore this must drive the Medium Term Financial Strategy.
- 2 It is the Council's policy to make appropriations from General Reserves to finance Net Operating Expenditure in a planned and prudent manner whilst maintaining a level of Reserves to mitigate the financial business risk over the period of the Medium Term Financial Forecast.
- 3 The Local Government Act 2003 (Sections 25-28) places duties on Local Authorities on how they set and monitor budgets.

The Director of Finance, Revenues & Benefits in the capacity as the Council's Chief Financial Officer (CFO), is of the opinion that the estimates are robust and the Council's proposed Reserves are adequate (Sections 25-27).

Section 28 of the Act places a statutory duty on an authority to review its budget from time to time during the year. If the Budget Monitoring Report shows that there has been deterioration in the Authority's financial position, the Authority must take such action as it considers necessary. The Council currently reviews the Budget on a quarterly basis and this practice will continue.

Supporting information on the Chief Financial Officer's Report on the robustness of the budget and the adequacy of Reserves is shown in **Appendix D**.

The Settlement

- 4 On 8 December 2011, the Government announced the second year of the 2 year Settlement and it remains unchanged from that announced in 2010.¹
- 5 Since the start of the current financial year, fundamental changes have been announced in respect of Local Government finance. On 18 July 2011, the Secretary of State for Communities and Local Government, announced that there was going to be a Local Government Resource Review (LGRR). As part of this Review, from 2013-14 onwards Formula Grant will cease and will be replaced solely by retaining a proportion of Local Business Rates Income collected. However, with the amount of Business Rates set to be collected on a national basis due to outstrip the amount of grant Ministers plan to give Local Government by 2012-14, the Review will introduce a 'set aside' through which the Treasury will recoup the excess. The 'set aside' figure is yet to be determined by Government.
- 6 At the same time, with effect from 1 April 2013, Support for Council Tax (Council Tax Benefit) will be localised, together with a national reduction of **10%** in Grant Funding amounting to **£500m**.
- 7 Government has reviewed New Homes Bonus and this funding is now directly linked to Business Rates. In addition, as part of the Chancellor's Autumn Statement, a Public Sector pay cap of **1%** was announced up to 2014/15. How this wage cap will impact on Local Government finances in terms of Government funding, is yet to be announced.
- 8 The financial impact of all the changes to Local Government Finance on the Council needs to be evaluated as and when the detailed financial and non-financial information is made available. This will be done as part of the ongoing review of the Council's Medium Term Financial Strategy (Revenue & Capital) 2012-15 over the next **12** months.

¹ For our Council the Settlement for this year 2011/12 was **£4.732m** and for 2012/13 will be **£4.135m**

Localisation of Business Rates

Business Rates Income compared to Formula Grant:	Increase in Income £1.265m over 3 years
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- 9 The starting point for the new system is designed so that no Council is worse off as a result of its Business Rates base at the outset of the scheme. The overall amount of Business Rates to be locally distributed in 2013/14 and 2014/15 will be governed by the spending totals announced at the start of the current period, although there is reason to believe that they may be reduced. For our Council we need to establish the baseline funding level from our existing Business Rates base.
- 10 Details of the new scheme were announced in December 2011 following consultation. For budgeting purposes we need to make estimates of how much funding we are likely to receive from 2013/14 onwards. The new scheme will bring in a system of 'tariffs' and 'top-ups'. This is to nationally equalise Business Rate revenues at the start of the new scheme. A tariff will be paid if a Council's Business Rate income exceeds their baseline. A top-up will be received by a Council if it receives Business Rates below their baseline. It is the Government's intention to annually increase tariff and top-ups in line with the Retail Price Index, in order to increase Local Authorities' Business Rate revenues.
- The calculation of the baseline is fundamental to the system and the consultation response does not fully set out the methodology for calculating the baseline. However, it mentions "in establishing baseline funding levels we will update all existing datasets and consider limited technical adjustments to the relative need formulae for the cost of rural services and concessionary travel." This means even though Government has published its response there is still a high degree of risk to any financial projections.
- 11 Any Business Rate *growth* above the baseline after adjustments for tariff and top-ups will be shared. Government has indicated that the Business Rate *growth* in a two-tier area will be shared **80%** to District Councils and **20%** to County Councils.
- 12 The Government is also introducing a 'levy' for any future business growth to ensure growth is not disproportionate between areas. This levy will be used to fund a safety net for Local Authorities that see their income drop by more than a set percentage below their baseline funding level. The levy will be the share of future business growth that must be given back to the Government. The overall impact of the levy will depend on the type of levy applied. Government has indicated it will be a proportionate one. The levy rates to be used have not been set. This makes it difficult to assess the overall financial impact of the levy.
- 13 For budgeting purposes we have completed 'in-house' financial modelling, together with advice from our external financial advisors on the new scheme.
- 14 This analysis has produced a range of estimates of the future amounts we could receive under the new system. At this stage, in the interests of prudence, it is proposed to use a set of modelled figures that assume no growth in Business Rates base over the medium term. This ensures that if the prudent figures prove accurate, the Medium Term Financial Strategy (Revenue & Capital) 2012-15 will be realistic. If, however, on the other hand, the actual figures are better than forecast, the Council's financial position will be improved.
- 15 The redistributed Business Rates estimates used in the Medium Term Financial Strategy (Revenue & Capital) 2012-15 are **£4.119m** for 2013/14 and **£3.841m** for 2014/15.

New Homes Bonus:	No Net change in Income over 3 years
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- 16 This new Grant was introduced on 2011/12 and is intended to '... provide a powerful, simple, transparent and permanent means of incentivising local authorities to increase their housing supply ...' by financially rewarding the Council for each new home that is built within its area. The scheme provides that, for each additional home provided within the District compared with the previous year, an amount equating to the national average Council Tax (**£1,439** for 2011/12 and 2012/13) is paid to the Council for six financial years. In addition, for each additional affordable home a flat rate of **£350** per home will be paid. Of the total amount calculated, our Council retains **80%** of the New Homes Bonus, with the remaining **20%** being paid to Staffordshire County Council.
- 17 The initial allocation for 2011/12 has been confirmed at **£0.261m**. This will be received in 2011/12 and for each of the following five financial years, a total of **£1.566m**. The second year's allocation 2012/13 has also been recently confirmed at **£0.224m**. The cumulative total

of New Homes Bonus to be received in 2012/13 is **£0.485m**. The amounts of New Homes Bonus due to be received in 2011-13 are substantial.

- 18 Community Health and Housing Overview & Scrutiny Committee have recently discussed the role of New Homes Bonus and housing, and requested that consideration be given to utilising some of the Bonus for Housing. A considerable part of our current Strategic Plan and our Plan for the District is concerned with economic growth including housing supply. New Homes Bonus and its predecessor grant has enabled the council to invest in the resources to support our focus on this significant agenda, and this will be a requirement in the future. All of the New Homes Bonus confirmed for 2011-13 has been accounted for and included in the **Budget Reduction Programme 2011**.
- 19 When the new system of Local Government finance is implemented in 2013/14, the funding for New Homes Bonus will be payable from the national total redistributable Business Rates available to be used to fund Local Government. In effect, top-slicing Local Government funding to pay for specific grant for New Homes Bonus. At this stage we have only included the amounts for which we have been notified and we have not included estimates or provisional amounts for New Homes Bonus for 2013/14 onwards.

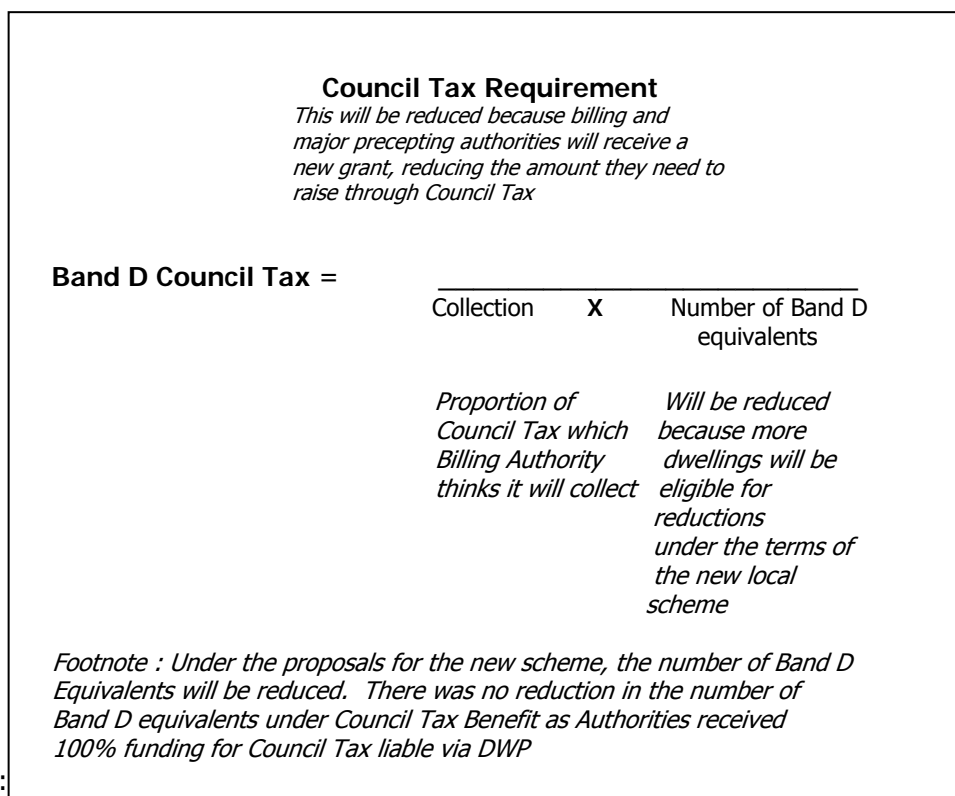
Localisation of Support for Council Tax

Support for Council Tax Support:	No Net change over 3 years
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- 20 The localisation of Support for Council Tax is due to take effect from 1 April 2013.
- 21 The Council will be required to set up a local scheme; as the Billing authority it will be the lead authority and as part of this we will be able to collaborate with others. Consultation on any local scheme will be with the general public and the other Precepting Bodies including Staffordshire County Council, Fire and Police. Risks of localisation of Support for Council Tax will be shared with the other Precepting bodies. The consultation process will allow them to influence the design of our local scheme. The Council will be allocated and paid in advance a Government grant to enable support for Council Tax. The Government is proposing that the grant will be paid to billing and major Precepting authorities. This will have the effect of reducing each authority's Council Tax Requirement and so helping to off-set the reduction in the Council Tax Base as a result of the creation of new discounts.
- 22 Our Council will have to decide on a local scheme by 31 January 2013.
- 23 Government wants Authorities to build on existing approaches especially for pensioners and vulnerable groups.²

² "The Government is clear that final decisions about the level of support to be offered to working age claimants would be for local authorities, and it has no plans to prescribe how schemes should operate. The approach set out above would be entirely voluntary; however there would be strong financial and delivery benefits to local authorities in pursuing this".

- 24 The diagram below illustrates the impact of the new discounts on the number of Council Tax Band D properties



- 25 The Government will set grant allocations on an annual basis for the first two years following introduction, allowing new allocations to be set for 2014/15 if required.
- 26 Billing authorities may be free to design a scheme where the tax foregone through discounts exceeds the amount of grant or to increase reductions by applying their powers under Section 13A to offer additional support on a discretionary basis.
- 27 Government Funding for the first two years of localised schemes is based on the Office of Budget Responsibility forecast for spending on Council Tax Benefit, which reflects existing spending and therefore assumptions about underlying demographic changes and Council Tax increases. After the first two years, decisions about the level of funding will be taken as part of the Spending Review process.
- 28 Given the level of detailed work and financial analysis required over the next few months to design, consult and implement a local scheme; there are too many uncertainties both financial and non financial to be able to quantify the financial impact at this stage for the Budget.

The Level of Council Tax

Council Tax:	Increase in Income £0.137m over 3 years
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- 29 Currently the approved Financial Strategy is based on a year-on-year increase of **3.4%**.
- 30 Government has offered a specific grant to Councils and Fire Authorities for **one year only** to freeze Council Tax equivalent to a **2.5%** increase in Council Tax. This offer is on *far less generous terms* than the Council Tax “freeze” announced as part of the 2010 Spending Review.³ Effectively for our Council it would mean that in order to financially “stand still” in the following financial year, it would need to increase its Council Tax income the year after the freeze to compensate for the loss of the one-off specific Government Grant. This increase would need to be **6.8%**.
- 31 On 16 December 2011, the Government wrote to all Chief Executives and Chief Fire Officers on the Localism Act’s provisions for Council Tax referendums and to update on the Secretary

³ This **one-off freeze** in Council Tax in 2011/12 is being met in part by a specific Government Grant equivalent to a **2.5%** increase in Council Tax and will be available for 4 years - 2011/12 to 2014/15. The specific grant for the freeze offered for 2012/13 is a **one-off year offer only**.

of State's statement to the House of Commons on 8 December 2011 about the 'excessiveness principles' he is minded to set.

- 32 The proposed principles are that for a District Council such as Lichfield it will be required to seek the approval of their local electorate in a referendum if, compared with 2011/12, it sets Council Tax increases that exceed **3.5%**. Therefore, based on this principle it would require Lichfield to hold a referendum on a proposed Council Tax increase of **6.8%** in 2013/14.
- 33 Historically, in 2009/10 when the Council's decided to reduce Council Tax increases from **4.5%** to **2.9%**, the cost to the Council has been **c£2.0m** in lost Council Tax income over the period 2009-15.
- 34 Prudent stewardship over of the Council's finances requires that we look beyond one year, and understand the impact over the 3 years of our Financial Strategy. The table below shows the *positive* financial impact over the Medium Term Financial Strategy (Revenue & Capital) 2012-15 of increasing Council Tax annually by **3.4%** in comparison with an additional one year Council Tax **freeze** in 2012/13, followed by **3.4%** increase for 2013/14 and 2014/15. The gap between the two scenario's is **£441,740** over 3 years:

	Financial Year			Total
	2012/13	2013/14	2014/15	
Council Tax Annual Increase of 3.4%				
Council Tax Base	38,248	38,702	38,841	N/A
Council Tax Band D	£146.37	£151.35	£156.50	N/A
Council Tax Income - Figure A	£5,598,360	£5,857,550	£6,078,620	£17,534,530
Council Tax Freeze in 2012/13 followed by annual increase of 3.4%				
Council Tax Base	38,248	38,702	38,841	N/A
Council Tax Band D	£141.56	£146.37	£151.35	N/A
Council Tax Income	£5,414,390	£5,664,810	£5,878,590	£16,957,790
Specific Council Tax Freeze Grant - one-off payment	£135,000	-	-	£135,000
Total Council Tax Income and Specific Government Grant - Figure B	£5,549,390	£5,664,810	£5,878,590	£17,092,790
Additional Council Tax Income Figure A minus Figure B	£48,970	£192,740	£200,030	N/A
Cumulative Additional Council Tax Income	£48,970	£241,710	£441,740	£441,740

- 35 The increase of 3.4% for a family in a Band D home is **£4.81** for the year or **9p** per week.

Council Tax Base:	Increase in Income £0.205m over 3 years
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- 36 The Council Tax Base reflects the growth in the numbers of houses and we are now assuming an increase of **0.036%** each financial year. The Approved Medium Term Financial Strategy (Revenue & Capital) 2011-14 assumed the Council Tax Base would increase by **0.01%** in 2011-14. This increase in Council Tax Base growth will result in additional Council Tax income of **£0.109m**.
- 37 In addition to this are Council Tax Base increases proposed by Council Tax Reforms. The Government are near to confirming a policy change for Second Homes and Empty Dwellings discount which will result in a greater number of properties on which we can Levy Council Tax. This increase in Council Tax Base is likely to result in additional Council Tax Income of **£0.096m** over 3 years.

Budget Variations

Provision for Inflation on Existing Levels of Service:	Saving of £0.120m over 3 years
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- 38 Generally, Financial Forecasts for 2011/12 onwards have continued with the policy of no inflationary adjustments for Budgets where there is no contractual inflationary adjustment in place. Other price increases have to be contained within budgets.
- 39 Provision for inflation for 2012/13 onwards for pay awards and fuel are as follows :
- Pay Award - in the 8 December 2011 Autumn Statement, Government announced a Pay Award cap at an average of **1%** for each of the 2 years 2013/14 and 2014/15. We have assumed **0%** for both 2012/13 and 2013/14, **1%** increase for 2014/15.
 - Fuel prices have significantly risen in the last **12** months. Our estimates for inflation have been increased to reflect this.

- 40 Income has been increased wherever practicable by 3% in 2012/13 and by 2% for 2013/14 and 2014/15.
- 41 The last major review and increase of Car Parking Charges was completed in January 2008. Car Parking charges were increased on 1 April 2008 and there have been no further general changes to charges for car parking since. The Budget at present assumes no increase in charges over the next 3 years. Therefore, this effectively means there has been no provision for increases, over the Medium Term, for car parking charges, for 6 financial years: 2009/10 to 2014/15.

Investment Income – Lower Interest Rates:	Reduction of £0.447m over 3 years
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42 **Interest on balances**

Investment interest rates as advised by our Treasury Management Consultants in December 2011 have been built into the estimates for 2012/13 onwards as follows:

Year	Rates built into Approved Medium Term Financial Strategy (Revenue & Capital) 2012-15 %	Latest Rates %
2012/13	2.49	0.85
2013/14	2.95	0.89
2014/15	2.95	1.02

- 43 The reduction in interest rates since the Approved Medium Term Financial Strategy (Revenue & Capital) 2011-14 was agreed by Council on 22 February 2011 and is a result of the credit crunch.
- 44 Pre-credit crunch 2008, the Council received investment income in excess of £1.3m per annum. The Medium Term Financial Strategy 2012-15 (Revenue & Capital) assumes total investment income of £0.339m over the 3 years, a net reduction of £0.447m in comparison with the Approved Medium Term Financial Strategy (Revenue & Capital) 2011-14.
- 45 This reduction in investment income is significantly adversely affecting our financial position.

Statutory Legislative Changes & Grant Funding:	Reduction of £0.230m over 3 years
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- 46 Aspire Grant funding is no longer available and this will increase the net cost to the Council by £0.078m over 3 years.
- 47 Councils are no longer able to charge for personal searches, resulting in a loss of income of £0.075m over 3 years.
- 48 Trade Waste disposal costs relating to Schedule 2 properties can no longer be charged in accordance with the Environmental Protection Act. Over 3 years this will reduce income by £0.053m.
- 49 The Council will be receiving lower Mineral Permit charges amounting to £0.024m over 3 years.

Other Variations:	Budgetary Pressure of £0.198m over 3 years
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- 50 Minor salary changes and an additional pension contribution rise of 0.5% amounts to £0.104m over 3 years.
- 51 Other minor variations total £0.094m over 3 years.

Future Funding Available for the Revenue Budget

- 52 The Localism Act approved by Parliament on 15 November 2011 gives Local Government a General Power of Competence. This allows Local Authorities to do anything, within the United Kingdom or elsewhere, that is not specifically prohibited by Law. It is not clear at this stage how this will impact our financial position in areas such as charging for services.

- 53 As a result of lobbying by District Councils to be able to set fees and charges to recover the full cost of the service, the Government has indicated that they will consider Planning Fees. This is a considerable advance for Councils and lobbying is continuing to extend this principle to other areas of service provision. Whilst we appear to have a 'green light' on planning fee income, because we have no detail we have not taken this into account at this stage of our forecast.
- 54 All of this means that within the next 12 months there could be potentially significant variations to our financial position. After Council has approved our Medium Term Financial Strategy (Revenue & Capital) 2012-15 at its meeting on 21 February 2012, we will commence an ongoing review of the Council's finances to take account of all the effects of these changes as and when they become clearer. We will then plan and formulate our next steps to take appropriate actions and counter measures to mitigate any potential financial impact on our finances going forwards.

Capital Programme

Revenue Contributions to Fund Capital Programme: Reduction £0.103m over 3 years

- 55 One of the stated principles of a good and balanced Budget is to ensure that the Revenue Budget is integrated with the Capital Programme.
- 56 The total Capital Programme 2012-15 amounts to **£9.164m**. It is funded from 6 sources of funding :

Total Capital Programme 2012-15	£m
Council Resources	4.501
Section 106 Funds	0.482
Sinking Funds	0.505
Grants and Contributions	1.855
Earmarked Reserves	0.345
Finance Leases	1.476
Total Sources of Funding	£9.164m

- 57 The Council's Resources available to fund the Capital Programme consist of Capital Receipts of **£3.848m** and Revenue Contributions of **£0.653m**.
- 58 The Approved Medium Term Financial Strategy (Revenue & Capital) 2011-14 assumed Capital Contributions of **£0.756m** from the Revenue budget. The Revenue Contributions to the Capital Programme have reduced by **£0.103m** to **£0.653m**. This reduction in Revenue Funding is as a result of the receipt of additional capital receipts **£0.047m** and Capital Projects in total costing less than budgeted **£0.056m**.
- 59 The Capital Programme 2012-15 is based on the following assumptions:
- The reimbursement (Capital Receipt) for Friarsgate Garage **£2.3m** will be received in 2012/13. This Capital Receipt will be used to fund the Friary Outer Car Park project **£2.020m**. The Capital Receipt Balance **£0.280m** will be used to fund other projects within the Capital Programme.
 - A Capital Contingency Budget of **£0.190m** to cover a number of risks in respect of fixed assets, for example, sewerage systems for properties, Bore Street shops and Industrial Units. This Budget has been risk assessed and has been re-profiled to financial years later than 2015.

Future Funding Available for the Capital Programme

- 60 Currently, consultation for unallocated Section 106 funds **£0.447m** for Lichfield is underway. As part of this we will be reviewing whether any of the Council's projects, or aspects of them, could be submitted for consideration which would increase the resources available to fund the Capital Programme.
- 61 The Localism Act as referred to in *Future Funding Available for the Revenue Budget* also has potential funding implications for the Capital Programme.
- **Community Infrastructure Levy (CIL)** - a tariff based developed contribution system building on the principles of Section 106, bringing together funds that can be spent on community infrastructure. The tariff would be worked out by assessing the

total costs of the infrastructure requirements of our Local Development Framework (LDF) and applying a levy to each development. This may increase the amount of resources available to us.

The Government has also consulted on another potential source of funding that the Council could use to fund Capital Investment needs in the future:

- **Tax Increment Financing** - in September 2010, the Deputy Prime Minister, announced a new way of funding borrowing for Local Authorities in England, through new powers which will allow Local Authorities to borrow against predicted growth in their locality against raised business rates. The funds would be used for infrastructure and other capital projects which in turn deliver locally driven economic development and growth. This proposal has been included in the Government's response to the proposals for Business Rate Retention.

62 For the Medium Term Financial Strategy (Revenue & Capital) 2012-15 we have not estimated the value of any of these two additional potential sources of funding to the Council for Capital Investment.

Budget Reduction Programme and Expenditure Reviews:

63 Over recent years, the Council has completed three Expenditure Reviews 2008-10 and a Budget Reduction Programme 2011 to address the Council's funding gap. The Budget Reduction Programme 2011 focused not only reducing costs and increasing income, but also on how we could change the way we operate services "to do more with less". This work was undertaken in the interest of becoming more efficient with minimal risk to the achievement of the Council's Strategic Priorities.

64 In total, the three Expenditure Reviews 2008-10 and the Budget Reduction Programme 2011 have resulted in **£12.486m** being taken out of the Council's Net Budget Requirement for the period 2008-14. The table on the following page shows the detail :

Total Savings showing the amount taken out of the budget over the last Expenditure Reviews 2008-11	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Total 2008/09 to 2013/14
	£m	£m	£m	£m	£m	£m	£m
Budget Reduction Programme 2011:			0.013	0.887	1.766	1.790	4.456
Expenditure Review 2010 Savings			1.068	1.030	1.156	Built into the base Budget	3.254
Expenditure Review 2009 Savings	0.080	0.822	1.236	1.253	Built into the base Budget		3.391
Expenditure Review 2008 Savings	0.372	0.463	0.550	Built into the base Budget			1.385
Total Cumulative Savings	£0.452m	£1.285m	£2.867m	£3.170m	£2.922m	£1.790m	£12.486m

The Position on our General Reserves

65 Currently our Revenue General Reserves are estimated to stand at **£2.749m** at the end of 2011/12.

66 In light of the fundamental changes to Local Government Finance as a result of the Local Government Resource Review, together with all the other risks in respect of the Council's

finances, it is appropriate to maintain Council policy in respect of the minimum level of Reserves currently held at **£1m**.

- 67 The way we use Reserves to help balance the Budget has to take account of the minimum requirement and be balanced by the organisation's ability to meet the Funding Gap by reductions in expenditure in a realistic and achievable way. The Medium Term Financial Strategy (Revenue & Capital) 2012-15 assumes that General Reserves of **£1.751m** will be used to help balance the Budget.

Summary - Medium Term Financial Strategy (Revenue & Capital) 2012-15 Forecast

- 68 Balancing the Budget – We are legally required to present a Balanced Budget over **3** years and this requires that it is prudent, robust and sustainable. The Financial Forecast based on all of the assumptions and sensitivities as set out in this note appear to indicate a funding gap of **£0.939m** in year **3** 2014/15, of the Medium Term Financial Strategy (Revenue & Capital) 2012-15.
- 69 However, it is clear that the Local Government Resource Review presents significant financial challenges to the Council's finances going forward. There is a lack of detailed financial and non-financial information available on which to prepare accurate financial forecasts beyond 2012/13. As outlined in this note, the Council may or may not be adversely affected by localisation of Business Rates in terms of future growth. Also, New Homes Bonus funding will be paid for by effectively top-slicing the national total redistributable Business Rates. At this stage there is too much uncertainty to quantify the funding available from New Homes Bonus beyond 2012-13.
- 70 Council Tax Support Localisation is difficult to forecast as national total funding available has not yet been announced, other than a national reduction in Grant Funding of **£500m**.
- 71 In addition, the current economic circumstances make it difficult to accurately forecast inflation and to make assessments in respect of interest rates. Financial assumptions for pay and fuel are difficult to predict with certainty. The only national guidance available in respect of pay was announced in the Chancellor's Autumn 2011 Statement - a Public Sector Pay Cap of **1%** up to 2014/15.
- 72 The Localism Act does shed some light in terms of future funding available for Local Government, including possible freedom to set fees and charges, such as Planning Fees, together with new potential funding streams, such as Community Infrastructure Levy and Tax.
- 73 In summary, given all of the uncertainties and risks for the Council's finances, it is appropriate to have an ongoing review of the Council's Medium Term Financial Strategy (Revenue & Capital) 2012-15 over the next **12** months. When this review has been completed, Lichfield District Council will be in a position to review its finances going forward.

The Revenue Budget showing the Amount to be met from Government Grants and Local Tax Payers for the next 3 years:

74 The Revenue Budget showing the Amount to be met from Government Grants and Local Tax Payers for the next 3 years, together with 2011/12 is set out in the table below:

GENERAL FUND TOTAL REQUIREMENT - DISTRICT COUNCIL PURPOSES					
FOR FINANCIAL YEARS 2011/12 TO 2014/15					
ANALYSIS IN ACCORDANCE WITH SERVICE REPORTING ACCOUNTING CODE OF PRACTICE					
BUDGET	2011/12		2012/13	2013/14	2014/15
	Approved Budget £	Revised Budget £	Original Budget £	Original Budget £	Original Budget £
Central Services including Finance, Revenue Collection, Personnel, Emergency Planning	1,564,640	1,077,650	1,285,390	1,295,300	1,352,150
Cultural, Environmental and Planning Services including Leisure, Waste	9,543,280	9,667,620	9,247,220	9,385,480	9,528,810
Housing Services including Housing & Housing Benefits	1,039,370	1,002,230	1,790,400	1,820,420	1,856,180
Highways, Roads and Transport including Car Parking	(543,490)	(585,490)	(578,100)	(562,350)	(544,230)
Corporate and Democratic Core Services	2,330,670	2,304,160	2,191,810	2,219,970	2,253,030
Non-Distributed Costs	154,780	140,740	177,130	171,900	175,740
Savings Realisation	-	-	-	-	(938,710)
Net cost of services	14,089,250	13,606,910	14,113,850	14,330,720	13,682,970
Investment income					
Interest Payments	12,500	12,500	12,500	12,500	12,500
Interest Receipts	(136,040)	(194,330)	(128,540)	(108,540)	(110,540)
	(123,540)	(181,830)	(116,040)	(96,040)	(98,040)
LESS:					
Transfer from Capital, Pension Reserves	(2,155,000)	(2,155,000)	(3,108,340)	(2,833,340)	(2,730,340)
Transfer to/(from) Revenue Reserves					
Transfer to/(from) Earmarked Revenue Reserves	(18,020)	(89,780)	45,930	38,870	36,640
Transfer to/(from) General Revenue Reserves	(1,531,760)	(658,650)	(581,000)	(831,270)	(339,210)
	(1,549,780)	(748,430)	(535,070)	(792,400)	(302,570)
Amount to be met from Government Grants and Local Taxpayers	10,260,930	10,521,650	10,354,400	10,608,940	10,552,020
Total Formula Grant	(4,732,050)	(4,732,050)	(4,135,280)	(4,119,410)	(3,841,410)
Council Tax Freeze Grant	(135,000)	(135,000)	(135,000)	(135,000)	(135,000)
New Homes Bonus Scheme Grants		(260,720)	(485,790)	(496,990)	(496,990)
Transfer to/(from) Collection Fund	(4,550)	(4,550)	-	-	-
Council Tax Requirement	5,389,330	5,389,330	5,598,330	5,857,540	6,078,620
Council Tax Base	38,072	38,072	38,248	38,702	38,841
Lichfield District Council Tax Requirement assuming a 3.4% increase in 2012/13 and a 3.4% increase onwards	£141.56	£141.56	£146.37	£151.35	£156.50

Glossary: Description of the functional areas in the table above. These are categories used in our Statement of Accounts

Central services include >> Revenue collection • Emergency planning • Financial Services **Cultural, environmental and planning services** include >> Culture and heritage • Sports • Parks and open spaces • Waste collection • Planning • Street cleansing • Community safety • Public conveniences • Environmental health and licensing • Economic development **Housing services** include >> Preventing homelessness • Housing and council tax benefits • Housing services **Highways, roads and transport services** include >> Car parking • Concessionary fares **Corporate and democratic core** include >> Democratic representation • Corporate management **Non distributed costs** include >> Retirement benefits.

Resourcing our Investment Plans: the Capital Programme

- 75 The Capital Programme identifies all Capital projects approved by the Council in line with its Capital Strategy. The Capital Programme is updated either as a result of Cabinet approvals, or through delegation approved by the Council.

Capital Investment

- 76 A summary of the Capital Programme 2012-15 (including Revised Estimate 2011/12) is shown by top priority in **Appendix C** along with the schemes proposed to be funded from the Council's resources.

The Capital Strategy

Project Identification and Prioritisation

1. The Capital Programme is a rolling programme subject to change that identifies the Council's capital investment plans for both its assets and the wider community's needs to achieve its strategic aims and objectives.

2. Operationally, the Council manages its Capital Strategy through the corporate Projects and Funding Working Group (PFWG). This group is a sub group of the Council's Leadership Team.

Project Prioritisation

- All new capital investment needs were identified using a standard Capital Investment needs document.
- These documents identified the project title, project director and directorate, project manager and Cabinet Member responsible for the project.
- They also included key project information such as reasons for the project, options considered and links to the corporate objectives together with the capital financial profile, revenue implications, project outputs and a risk assessment for the preferred option.
- Both Cabinet and Leadership Team have discussed all Capital Investment needs in a series of meetings, which also identified the impact on the Revenue Budget of the options under consideration and their fit with the Strategic Plan.

Planning Obligations - Section 106

3. As part of the planning process in relation to planning obligations, the Council secures substantial financial contributions in relation to new developments. The vast majority is spent directly on infrastructure works, however there is an element of contributions, which afford an element of discretion on how they are allocated. These contributions towards social and community

facilities are linked to the development proposed.

4. Whilst some of these financial contributions are very specific in terms of the projects on which they must be spent, a large proportion is to be allocated towards appropriate social and community schemes that result in time from the proposed development. The Council's Capital Programme includes a number of projects that are to be funded by Section 106; this is a significant source of funding and there is a significant level of interest from the community in relation to the allocation of sums to projects.

5. The Council's Cabinet has approved a policy in relation to the allocation of these sums. This policy has improved the allocation process, making it more transparent and providing for a level of consistency in terms of allocation.

6. The introduction of the Community Infrastructure Levy (CIL) will mean that the current Section 106 processes will need to be updated to reflect this new source of capital investment funding.

The Disposal of Assets.

7. The Council has determined an asset disposal policy. This policy involves evaluating each asset that the Council owns against the following criteria to determine if ownership should be retained:

- The strategic aims that the ownership of the asset helps the Council to achieve.
- The rate of return that the asset generates.
- Whether disposal of the asset would further enhance the achievement of strategic aims.

8. One example of this process was related to an area of land that the Council owned in the North Lichfield Area. The North Lichfield Action Plan identified in the area a shortage of health provision due to the size of the existing surgery. Therefore, the Council decided to sell this land for the provision of a new surgery with increased capacity.

9. Following the evaluation, an annual report is submitted to the Cabinet detailing the assets currently owned by the Council, the conclusions

of the evaluation and assets that are recommended for disposal.

Project and Service Procurement

10. The Council has evaluated its procurement policies in line with best value requirements and the report 'Rethinking Construction'. The table below shows the five drivers of change identified within the report and the action the Council has taken or is taking to improve its procurement practices.

Driver for Change	Lichfield District Council's Initiatives
Committed leadership	<ul style="list-style-type: none"> • A cabinet system of Government has been implemented. • Committees have been set up to scrutinise the decisions of the Cabinet including the Capital Strategy.
A focus on the customer	<ul style="list-style-type: none"> • The design of major capital projects involves stakeholder participation at the design stage. • A number of major capital projects are or will be managed by a management board consisting of stakeholders.
Integrated processes and teams	<ul style="list-style-type: none"> • The Council uses the Projects in a Controlled Environment (PRINCE2) methodology to project manage all new major projects. • The Council engages in value engineering dialogue with appointed contractors to determine cost savings and quality enhancements in major capital contracts. • A risk management strategy to identify possible risks to successful outcomes and the ways these risks could be managed has been developed.
A quality driven agenda	<ul style="list-style-type: none"> • The Council has developed a procurement strategy.
Commitment to people	<ul style="list-style-type: none"> • The Council's Financial Regulations and Contract Standing Orders require within pre tender questionnaires a section for the evaluation of potential contractors' records on Health & Safety and environmental policies.

APPENDIX B

11. Increasingly, the design of a project and its objectives are determined in partnership with the future users of the project. This can be demonstrated in relation to the Lichfield Garrick:

- The project brief was compiled by user organisations such as local arts groups.
- The chosen design has been based on the views of these focus groups and the public.
- This project has also been successful in securing demonstration project status under the Government's Movement for Innovation scheme, which aims to promote best practice in construction.

Project Implementation and Monitoring.

12. The project manager for each project is responsible for managing the project implementation and delivering its objectives. This monitoring is often in partnership with professional services such as architects and service users. Additionally, some projects are subject to external monitoring such as the Heritage Parks Project.

13. Project managers hold regular meetings with the parties involved in the procurement process, but increasingly, on larger projects such as Section 106 funded projects, meetings are held with the local community to inform them of progress, address any concerns and promote the project to potential users.

14. Member involvement in capital monitoring has been further enhanced to comply with the requirements of the Local Government Act regarding Member involvement in budget monitoring. Regular reporting on the Capital Programme is

submitted to the Cabinet and Overview and Scrutiny Committees.

Performance Measurement.

15. The Council undertakes performance measurement in relation to capital investment in a number of different ways:

- As part of the project development, the project manager identifies the objectives that the success of the project will be measured against.
- Regular reports to Cabinet and the Overview and Scrutiny Committees in relation to the progress of major projects are undertaken.
- The Projects and Funding Working Group undertake regular checking of project progress.

Post Project Appraisal.

16. When projects have been completed, the project manager completes a post project appraisal form. The information contained within the form is reviewed by the officer group and is then presented to the Cabinet. The Council can then use this information to learn lessons and make any improvements identified during project implementation. This scrutiny is enhanced if the project involves Lottery or other external funding.

17. The success of projects is monitored through a number of mechanisms such as public consultation and customer feedback. However, in certain cases partners actively being involved in running the service via a Management Board enhance this monitoring.

Capital Programme 2012-15⁴ (including Revised Estimate 2011/12)

Top Priorities	2011/12		2012/13		2013/14		2014/15		Total
	Council Funded Schemes	Other Funding	Council Funded Schemes	Other Funding	Council Funded Schemes	Other Funding	Council Funded Schemes	Other Funding	
	£K	£K	£K	£K	£K	£K	£K	£K	£K
Create safe, strong and proud communities	60	45	0	0	0	0	0	0	105
Improve people's health and well being	10	380	9	259	0	294	0	0	952
Help people realise their potential	0	0	0	0	0	0	0	0	0
Involve local people and partners	0	0	0	0	0	0	0	0	0
Help people access a home that's right for them and to live independently	245	507	301	1,172	248	331	137	327	3,268
Vibrant towns and villages	1,054	2,401	2,922	485	304	319	169	0	7,654
Protect and enhance our environment for future generations	59	265	0	0	0	0	0	0	324
Attract even more investment into our District	30	12	0	0	0	0	0	0	42
Provide great value services centred on customer's needs	319	54	174	400	155	1,076	82	0	2,260
TOTAL	£1,777K	£3,664K	£3,406K	£2,316K	£707K	£2,020K	£388K	£327K	£14,605K

Funding	2011/12	2012/13	2013/14	2014/15	Total
	£K	£K	£K	£K	£K
Usable capital receipts	1,687	3,406	432	10	5,535
Prudential Borrowing (Finance Leases)	54	400	1,076	0	1,530
Burntwood Leisure Centre Sinking Fund	209	151	294	0	654
Other Sinking Funds	0	60	0	0	60
Grants, Contributions and Section 106	3,392	1,679	331	327	5,729
Revenue	30	0	275	378	683
Earmarked Reserves	69	26	319	0	414
TOTAL	£5,441K	£5,722K	£2,727K	£715K	£14,605K

⁴ Includes Council Funded Schemes, Grants, Contributions and Section 106 Funded Schemes, Sinking Funds and Earmarked Reserves.

Council Funded Schemes Capital Programme 2012-15⁵ (including Revised Estimate 2011/12)

Project	2011/12 £K	2012/13 £K	2013/14 £K	2014/15 £K	Total 2011/15 £K
Closed Circuit Television	60	0	0	0	60
Create safe, strong and proud communities	60	0	0	0	60
Lichfield Angel of Gospels	10	0	0	0	10
Oakenfield Play Area	0	9	0	0	9
Improve people's health and well being	10	9	0	0	19
Disabled Facilities Grants	201	271	218	107	797
Warmer Homes and Greener Districts Programme	15	15	15	15	60
Home Repair Assistance Grants	29	15	15	15	74
Help people access a home that's right for them and to live independently	245	301	248	137	931
City Centre – Enhancement of Public Areas	60	136	0	0	196
Friary Outer Car Park	645	2,480	0	0	3,125
Parks Pavilion Project	2	0	0	0	2
Lichfield District Venture Project Management	115	116	117	57	405
Lichfield District Venture Project – Delivery of Friarsgate and Friary Outer	45	40	40	40	165
Lombard Street/Cross Keys Car Park	11	0	0	0	11
Capital Programme Management Costs	164	147	147	72	530
Garrick Square	0	3	0	0	3
N M A Garden of Remembrance	12	0	0	0	12
Vibrant towns and villages	1,054	2,922	304	169	4,449
Lichfield Garrick Auditorium	30	0	0	0	30
Attract even more Investment into our District	30	0	0	0	30
Chasewater Dam	53	0	0	0	53
Replacement Refuse Containers	6	0	0	0	6
Protect and enhance our environment for future generations	59	0	0	0	59
Health and Safety Issues	7	0	0	0	7
Lichfield Connects Upgrade	13	11	0	0	24
IT Upgrades	247	152	144	71	614
Plant Lane Depot Sinking Fund	11	11	11	11	44
District Council House Backup Power Supply	41	0	0	0	41
Provide great value services centred on customer's needs	319	174	155	82	730
TOTAL	£1,777	£3,406	£707	£388	£6,278
			£4,501		

⁵ Only includes Council Funded Schemes.

Chief Financial Officer (CFO)
Report on Robustness of the Budget and Adequacy of Reserves - Supporting Information

Context

1. In accordance with the Local Government Act 2003 (S25-S27) and to comply with CIPFA Guidance on Local Authority Reserves and Balances, the CFO is required to formally report to Members on the robustness of the Budget and the adequacy of Reserves. The CFO is appropriately qualified under the terms of S113 of the Local Government Finance Act 1988.

Adequacy of Reserves

2. The CFO assesses and determines the appropriate level of Reserves and Provisions using a variety of mechanisms, including;
 - Being significantly involved in the budget setting process, the annual financial cycle, and engaged in the strategic leadership of the organisation as a member of the Leadership Team including wider corporate roles beyond that of finance;
 - Jointly writing and leading on the annual refresh of the Medium Term Financial Strategy (MTFS);
 - Challenging the budget at various stages of construction, including the reasonableness of the key budget assumptions and sensitivity, such as estimates of inflationary and corporate financial pressures, realism of income targets, and the extent to which known trends and liabilities are provided for;
 - Meetings with specific colleagues to examine particular areas or issues;
 - An in-depth review of the financial risk assessments;
 - Review of the movements, trends and availability of contingency, provisions and earmarked reserves to meet unforeseen cost pressures in the context of future pressures and issues;
 - The use of professional experience and best professional judgement;
 - The use of appropriate professional, technical guidance and local frameworks;
 - Knowledge of the colleagues involved in the process, particularly finance professionals, including their degree of experience and qualifications;
 - Review of the strength of financial management and reporting arrangements, including internal control and governance arrangements.

This is undertaken in consultation with relevant colleagues and Members of the Cabinet.

3. It is prudent for Councils to maintain an adequate "working balance", which is part of General Reserves. A risk assessment approach is used to determine the required level of General Reserves and Provisions.
4. Our longstanding aim is to have a prudent level of General Reserves available for unforeseen financial risks. The Council has established opening General Reserves of **£3.407m**; the precise level is to be determined by risk assessment. The minimum level of Reserves for 2011/12 onwards is **£1.000m** and this is **9.7%** of the amount to be met from Government Grants and Local Taxpayers⁶
5. In recommending an adequate level of Reserves, the CFO considers and monitors the opportunity costs of maintaining particular levels of Reserves and Balances and compares these to the benefits accrued from having such Reserves. The opportunity cost of maintaining a specific level of Reserves is the 'lost' opportunity for example, of investing elsewhere to generate additional investment income, or using the funds to invest in service improvements.
6. In assessing this it is important to consider that Reserves can only be used once and are therefore potentially only "one-off" sources of funding. Therefore, any use of General Reserves above the lower minimum threshold is only ever used on one-off items of expenditure. The level of Reserves is also determined by use of a comprehensive risk assessment to ensure they represent an

⁶ Cabinet 1 February 2011. The Medium Term Financial Strategy 2011-14 (Revenue & Capital)

appropriately robust "safety net" which adequately protects the council (a complex and multi-disciplinary district local authority) against potential unbudgeted costs.

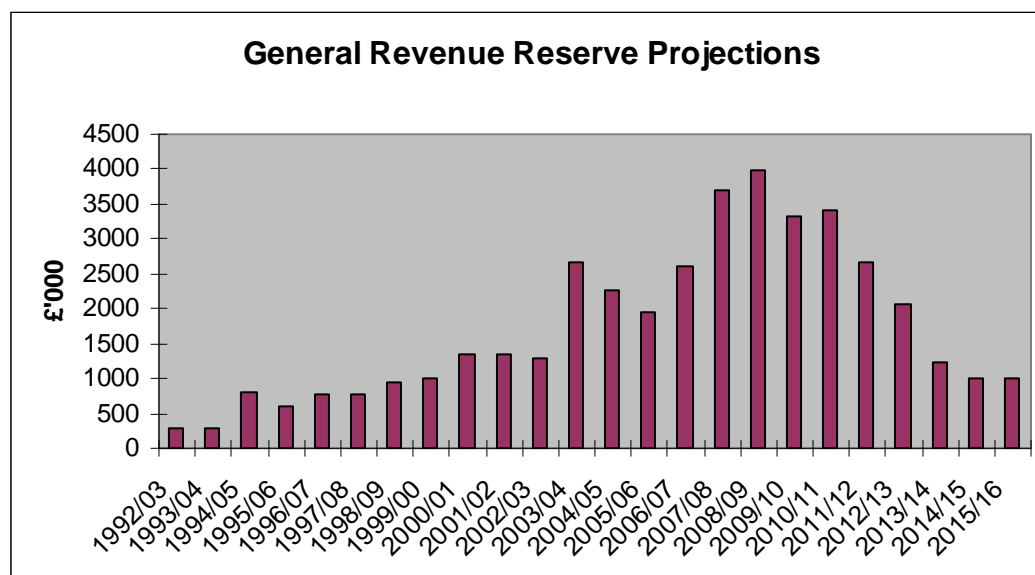
Use of General Revenue Reserve

7. The above assessment demonstrates that General Revenue Reserves are at an appropriate level; as determined in accordance with the Medium Term Financial Strategy and the CFO's professional advice. The Medium Term Financial Strategy allows any Reserves above the level required by the Strategy to be used to fund one off items of expenditure. No General Revenue Reserves below the minimum threshold are being used to support the 2012/13 budget and beyond.
8. CIPFA guidance (LAAP 55) provides two methods of determining the minimum level of Reserves. Lichfield District Council uses the method based on risk assessment. The approach to the risk assessment of Reserves has taken into account CIPFA guidance (LAAP 77) (Guidance note on Local Authority Reserves and Balances).
9. The table below shows the financial risk assessment made for **2012/13**:

Risk based review of General Revenue Reserve			
2012/13 Reserve Amounts £m	Area of Expenditure	Level of Risk: Impact/Likelihood	Explanation of risk/justification of balances
0.100	Other Income	Significant/Medium	Risk of unexpected income forgone.
0.100	Car Parking Fees	Significant/Medium	Reduction in customer demand for service
0.100	Leisure Centres	Significant/Medium	Reduction in customer demand for service
0.600	Bad Debts	Significant/Medium	Increase in Council Tax and Business Rates arrears
0.030	Civil Contingency	Significant/Medium	To meet any Civil Contingency that may arise (Bellwin Threshold)
0.070	Commercial Rents	Significant/Medium	Reduction in property rental income
£1.000m			

10. Other significant areas of operational and financial risk that have been taken into account in the budget setting process are:
 - Economic and world recession
 - Local Government Resource Review
 - Interest rate and income volatility

The projected position for the General Revenue Reserve to 2015/16 is shown below:



Earmarked Reserves (Usable Reserves)

A review of the level of Earmarked Reserves has been undertaken as part of the annual budget preparation. For each Reserve established, the purpose, usage and basis of transactions has been identified. Earmarked Reserves have been set aside for specific policy purposes.

Reserve	Reason for Reserve	Balance as at 1 April 2011 £m	Commitment (Contribution) as at 31 December 2011 £m	Remaining Balance as at 31 March 2012 £m
Revenue Reserves				
Specific Projects	To finance specific capital and revenue projects	(1.415)	0.218	(1.197)
Grant Aid	To provide assistance to Historic Buildings, Nature Conservation and Biodiversity projects	(0.038)	(0.010)	(0.048)
District Council Elections	This reserve is required to ensure sufficient resources are available to meet the District Council Elections	(0.094)	0.064	(0.030)
Public Open Spaces	To fund the cost of equipment in public open spaces	(0.007)	-	(0.007)
Building Regulations Reserves	Surpluses generated by the South Staffordshire Building Control Partnership. This reserve is operated on a rolling basis's and aggregated over three years.	(0.006)	0.006	-
Capital Reserves				
Birmingham Road Car Park	Provides for future capital works to the car park.	(0.993)	(0.148)	(1.141)
Lombard Street Car Park	Provides for future asset maintenance works	(0.017)	-	(0.017)
Capital Grants Unapplied	The Capital grants reserve is to meet specific capital grant expenditure in future years	(1.636)	0.754	(0.882)
Capital Receipts Reserve	The usable capital receipts reserve represents capital receipts available to finance capital expenditure in future years in accordance with best practice	(2.835)	1.158	(1.677)
Grand Total		£(7.041)m	£2.042m	£(4.999)m

11. The Council also holds other Unusable reserves that arise out of the interaction of legislation and proper accounting practice.

Legislation and Proper Accounting Reserves				
Unusable Reserve	Reason for Reserve	Balance as at 1 April 2011 £m	Commitment (Contribution) as at 31 December 2011 £m	Remaining Balance £m
The Pension Reserve	This is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes in accordance with the scheme requirements and the net change in the authority's recognised liability under IAS19 (FRS 17).	20.187	-	20.187
The Revaluation Reserve	This is a reserve that records unrealised gains in the value of fixed assets	(4.932)	-	(4.932)
The Capital Adjustment Account	This provides a balancing mechanism between the different rates at which assets are depreciated under the Statement of Recommended practice(SORP) and are refinanced through the capital control system	(41.873)	(0.618)	(42.491)
Deferred Credits Reserve	This item consists of principal outstanding on the sale of council houses properties sold on a mortgage.	(0.011)	0.002	(0.009)
Collection Fund Adjustment Account	This is requires under the Statement of Recommended practice (SORP) for Council Tax & Non Domestic rates accrued income.	0.014	-	0.014
Accumulated Absences Account	This is a specific accounting mechanism used to reconcile employee benefits (accrued holiday entitlements) under IAS 19	0.233	-	0.233
Grand Total		£(26.382)m	£(0.616)m	£(26.998)m

Further details are provided in the Statement of Accounts 2010/11 - see web link:

http://www.lichfielddc.gov.uk/site/custom_scripts/search.php?q=Statement+of+Accounts+2010%2F11

12. The CFO has been involved throughout the entire budget process, including revising the Medium Term Financial Strategy, input to the drafting of the Budget, the ongoing financial monitoring and reporting process, evaluation of investments and savings, engagement with Members of the Cabinet and Scrutiny, advising colleagues, the strategic choices activities, the public consultation process, challenge and evaluation activities, and scrutiny of the budget. The following sections of this statement outline particular activities and documents.

Process - a robust Budget process has been used within the overall context of the Medium Term Financial Strategy. The process, timetable and the overall Budget framework were approved by Cabinet.

Timetable - the process started in June 2011 and the draft Budget was completed in November prior to the Provisional Financial Settlement for Local Government 2012/13 in December. This enabled formal scrutiny of the budget making process between December and January 2012. The final Budget is due to be set at Council on 21 February 2012, well within the statutory deadline⁷

Member involvement and Scrutiny - formal Member involvement has been extensive, particularly through the Cabinet in conjunction with Leadership Team. Scrutiny panels have met and have reported in their recommendations and comments to Strategic Overview & Scrutiny Committee, which has fed upwards to Cabinet.

Consultation - internally and externally, has been comprehensive.

Challenge - there are various points of challenge at various stages of the Budget, meetings of Leadership Team, various Directorate Management Teams, Cabinet and the Scrutiny process itself.

Budget monitoring - reports continue to be submitted to Cabinet, Leadership Team and Directorate Management Teams across the Council throughout the year.

Localism Act

- **Right to approve or veto excessive Council Tax rises** – The Secretary of State has determined a limit for Council Tax increases for 2012/13 of 3.5%. If an authority proposes to raise taxes above the limit they will have to hold a referendum to get approval for this from the local voters who will be asked to approve or veto the rises.
- **Support for Council Tax and Local Government Funding through retention of Business Rates** - The localisation of Council Tax and Business rates for 2013/14 onwards potentially have an impact on the future level of reserves.

Ownership and accountability - the Budget has progressed through various filters during its construction including endorsement of management teams within services and Leadership Team itself. Budget holders are sent copies of budget estimates working papers for their respective areas of service responsibility. Budget holders are required to sign and return a copy to Financial Services.

Current financial position - the Budget is a statement of financial intent, reflecting the Council's vision, plans and priorities. It also sets the financial spending parameters for each financial year and as such, the CFO assessment of the adequacy of Reserves also includes the risk of services overspending and/or under-spending their budgets and the impact of this on the financial health of the Council and its level of Reserves. The current financial position has been reported on consistently throughout the year.

Key assumptions - The pay and prices used in the Budget are derived from current intelligence, are considered appropriate and compare with those used by other Councils. Fees and charges have been reviewed and changes are reflected in the overall budget. The Capital Receipts to be used for the Capital Programme are based on estimates of both timing and value.

Financial risks – the Council continues to use an embedded good practice risk assessment approach both when setting the Budget and in validating estimated outturns. This continues for the 2011/12

⁷ Statutory deadline date for setting Council Tax is 10 March 2012.

outturn and 2012/13 plus Budget. The prevailing level of General Revenue Reserves is considered adequate to cover all but the most unusual and serious combination of events.

Localism – The localisation of Council Tax Benefit and Business rates proposed for the financial year 2013/14 will have an impact on the future level of reserves.

Summary

Opinion of Chief Financial Officer on the Adequacy of Reserves and the Robustness of the Estimates

I am of the opinion that, for a Council of this size and with our recent record of prudent spending, effective Risk Management, robust budgeting and effective Budget monitoring and control, a General Minimum Reserve level of **£1.000m** is adequate.