

Taunton Deane Borough Council

Report of the Strategic Director (SA) to the Executive – 16 July 2008

Financial Strategy

This matter is the responsibility of Councillor Henley (Leader of the Council)

Executive Summary

The Executive is requested to review and approve the attached Financial Strategy prior to its ratification by Full Council in October 2008.

1. Background

- 1.1 This document updates the Financial Strategy approved by the Council in 2004.
- 1.2 The new strategy sets out the current policy and financial issues facing the Council. It then sets out the draft corporate financial objectives and the proposals for moving these forward.
- 1.3 This strategy has been considered by the Overview and Scrutiny Board on 3 July 2008, who have offered the following comments for the Executive to consider:
 - That the Executive take urgent notice of the financial forecast position of the Housing Revenue Account, and provide clarity of service delivery plans post Decent Homes (in 2011).
 - That the Executive take urgent notice of the challenge facing this Council with the forecast loss of car park income in 2012 (as a result of the Project Taunton regeneration programme) and share the plans for dealing with this as soon as possible.
 - That the Executive consider adding a further bullet point to section 4.13 of the Financial Strategy as follows: “ to seek investment opportunities”

2. Recommendation

- 2.1 The Executive is requested to consider the comments from the Overview and Scrutiny Board set out above, and consider any amendments they wish to make to the draft Financial Strategy.
- 2.2 The Executive is requested to recommend the Financial Strategy to Full Council for final ratification.

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TAUNTON DEANE BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

JULY 2008

FOREWORD

As a public body, Taunton Deane Borough Council is accountable for the stewardship and use of public money, and for ensuring its plans deliver financial stability and sustainability in to the future.

Over recent years, we have continued to develop our financial management arrangements and budget setting process to reflect the changing environment of local government finance.

The Council is facing a challenging financial future, and cannot rely on annual budget setting rounds to guarantee longer-term financial health. The current corporate strategy cannot be delivered without the creation of additional financial capacity.

This Financial Strategy provides the financial context for making sure this is progressed, and our service improvement aspirations for the future are both affordable and sustainable. It sets out our strategic approach to financial management, and is key to the financial governance and leadership arrangements of the Council.

This document updates the Financial Strategy approved by the Council in 2004.

Although the Strategic Director (SA) is responsible and accountable for leading and advising on financial matters, all managers in the Council have a collective responsibility for financial management (including ensuring value for money, delivering efficiencies, and treating cash as a corporate resource). Financial management isn't something that "the accountants do". Financial management is the responsibility of management – not finance. It is part of every managers job and delivery against this key task is critical to the success of the Council.

Shirlene Adam
Strategic Director & Chief Finance Officer

Contents

1. Introduction
2. National Context
 1. Policy
 2. Financial
3. Taunton Deane Context
 1. Policy
 2. Financial
4. Financial Strategy
 1. Corporate Financial Objectives
 2. Reserves Policy
 3. Council Tax Aspirations
 4. Business Rates
 5. Debt Collection
 6. Fees & Charges
 7. External Funding
 8. Core Council Review
 9. Budget Carry Forwards and Underspends
 10. Developers Contributions
 11. Partnerships
 12. Financial Management
 13. Capital Strategy
 14. Efficiencies
5. Action Plan

Appendices

- A Medium Term Financial Plan (MTFP) – General Fund
- B Medium Term Financial Plan (MTFP) – HRA
- C Profile of Services

1. INTRODUCTION

This is a comprehensive Financial Strategy for Taunton Deane Borough Council covering the financial years 2009/10 to 2013/14.

The Financial Strategy firstly provides some context in terms of the national and local priorities and financial position. It then looks at how the Council intends to manage its financial affairs in order to maintain financial stability over what is expected to be a very challenging period for local government – particularly District Councils.

Sound financial governance will be vital as we enter the most challenging period the Council has faced since 1974.

The Financial Strategy sets out some key financial objectives for the Council, and the strategy for delivering them. It also flags the key areas for the Council to review over the coming months, and requests decisions to be made on the areas of uncertainty.

The Financial Strategy may be reviewed if necessary in line with the refresh of the Corporate Strategy.

2. NATIONAL CONTEXT

2.1 NATIONAL POLICY CONTEXT

2.1.1 Change in the public sector has been extensive in recent years, and this trend is set to continue for the foreseeable future. Since the last Financial Strategy in 2004 we have seen the following:-

- The introduction of 3 year grant settlements
- The postponement of Council Tax revaluations
- Changes and delays to the Lyons enquiry
- Postponement of the Comprehensive Spending Review 2006(CSR) and a delayed CSR2007.
- Changes to the Housing Benefit system
- The White Paper on the Future of Local Government
- The Local Government Reorganisation that is currently underway in certain areas.
- The requirement to improve 2 tier working.
- The changes to the CPA regime
- The introduction and greater responsibilities of the Local Area Agreement (LAA).

2.1.2 The key challenges for the future are as follows:-

- The move to Comprehensive Area Assessments (CAA)
- The increasing role of Local Area Agreements (LAA)
- Meeting the challenge of continuous improvement (in the environment of reduced funding, the efficiencies agenda, and higher expectations of the community)
- Meeting the challenges of the White Paper: Strong and Prosperous Communities (improving 2-tier working, stronger community leadership)
- Delivering more affordable, more sustainable homes for the future

2.1.3 There is still uncertainty on the longer term position of local government funding (following on from the Lyons review). Unless or until specific policy changes are announced, the impact on local authorities finances is uncertain. It is clear however, that the Government policy on public services is built upon a foundation of efficiency savings through enhanced partnership working.

2.2 NATIONAL FINANCIAL CONTEXT

2.2.1 National Economy

The world economy is complex and many factors impact on the UK economy. The current issues facing the Bank of England Monetary Policy Committee (MPC) are particularly difficult. Inflationary pressures are rising. Oil and commodity prices have risen considerably, and other energy supplies are becoming less certain and prices are rising. The banking sector is troubled by the credit squeeze. US house prices are falling. UK household debt is high and increasingly unaffordable.

All these factors influence the MPC decision on interest rates – which of course impacts on local authorities in terms of their treasury management activities, but also influences authorities' activities and priorities within their communities.

There has been a decade of economic stability in the UK. There has been a sustained housing boom, low interest rates and low inflation throughout. Economic growth has been satisfactory and unemployment has been at manageable proportions. The workforce has increased, and imports from other economies have helped keep price inflation in check.

The UK economic forecast is for growth of 1 to 2.25% in 2008 before strengthening to trend at 2.25 to 2.75% in 2009 and 2.5% to 3% by 2010. The projections for the public finances show the government meeting its strict fiscal rules of:

- (a) the golden rule: over the economic cycle, the government will borrow only to invest and not to fund current spending; and
- (b) the sustainable investment rule: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.

The Treasury's forecast is for inflation to remain around its 2% (+/-1%) target and in the near term may test the 3% ceiling. Overall public spending shows average increases of about 2% per annum for 2008-11 in real terms, compared with about 4% over recent years. A considerable tightening on previous years.

2.2.2 Comprehensive Spending Review (CSR) 2007

The CSR2007 was published in October 2007 and represents a long-term and fundamental review of government expenditure. It covers departmental funding allocations for the next 3 years.

Funding increases for local government will average 1% in real terms over 2008-11 compared to 39% over the last 10 years. A considerable reduction in resources to meet the key challenges ahead.

An increase in the net Aggregate External Finance (AEF) (i.e. Revenue Support Grant (RSG), plus National Non Domestic Rates (NNDR)), funding of 4.2% in 2008-09; 3.5% in 2009-10 and 3.4% in 2010-11.

This amounts to real terms increases of 1.5%, 0.8% and 0.7% over the CSR period after adjusting for 2.75% (the GDP deflator – the government's economic measure of inflation).

However if the Private Finance Initiative (PFI) special grant is deducted then the corresponding run of increases would be (with the real terms increases in brackets) – 3.8% (1%) in 2008-09; 2.8% (0.1%) in 2009-10 and 2.6% (-0.1%) in 2010-11 which is an even more concerning position.

These increases will be underpinned by a 3% per annum cashable efficiency target for local government which is forecast to realise £4.9bn over the CSR period.

The government expects that the money for local government will enable local authorities to keep council tax increases well below 5% in each of the next three years. This will be very challenging for most Councils.

The Government is consulting on the technical detail of a new power to allow councils to implement a Supplementary Business Rate (SBR) from 2010-11.

The CSR07 also introduced a single set of priority outcomes for local government working alone, or in partnership – measured by a single set of 198 national indicators. There will be no mandatory targets for LAA's. Any and all targets reflecting national priorities – to a maximum of 35 – will be negotiated through LAAs (plus the 17 statutory education and early years targets).

The tight financial settlement heralded by the CSR poses tough challenges for local government over the coming years. The challenge for local government now is to absorb the changes and adapt to the new climate.

2.2.3 Summary

Looking to the medium term, the new financial constraints should service to sharpen strategies for efficiency and value for money – and indeed partnership working. These are significant challenges – a series of tough years are in prospect.

TAUNTON DEANE'S CONTEXT

3.1 TAUNTON DEANE'S POLICY CONTEXT

3.1.1 The vision for Taunton Deane and how it will be achieved are set out in the Taunton Deane Sustainable Community Strategy. This has been developed and will be delivered by the Taunton Deane Local Strategic Partnership (LSP), which comprises the Council and its major partner organisations across the public, private and voluntary and community sectors.

3.1.2 The Council's 3 year Corporate Strategy sets out what the Council will do to fulfil its contribution to delivering the Community Strategy (as well as what the Council will do internally to be as efficient and effective as possible).

All of the Council's plans and strategies are subject to extensive public consultation and scrutiny.

3.1.3 Taunton Deane's Sustainable Community Strategy

Each local authority must produce a sustainable community strategy that should be based on issues and priorities for local services, reflecting the views of local people, businesses and organisations. The Taunton Deane Sustainable Community Strategy sets out a shared vision for the future of the Taunton Deane area. It paints a picture of the sort of place that people would like Taunton Deane to be in 2020.

To achieve this vision, organisations work together in the Taunton Deane LSP which is a non-statutory voluntary partnership. Partners include:-

- Avon and Somerset Police
- Community Council for Somerset
- Project Taunton
- Quantock Hills Area of Outstanding Natural Beauty
- Somerset College of Arts and Technology
- Somerset Connexions
- Somerset County Council
- Somerset County Youth Service
- Somerset Primary Care Trust
- Taunton and Somerset National Health Service Trust
- Taunton Deane Borough Council
- Taunton Deane Citizens Advice Bureau
- Taunton Deane Council for Voluntary Services

In addition, many other groups are involved in the LSP and contribute to achieving the vision (eg Government Office South West).

The key priorities emerging from this are:-

- To reduce rural isolation and increase rural employment opportunities, and to address low wage levels, and low skills levels
- To create a shift in travel behaviour to limit the rate of growth of congestion, and to improve rural transport
- To build confidence in safer communities, to create a safer night time economy, and to reduce anti-social behaviour
- To promote and enable healthier lifestyles
- To address the shortage of affordable housing and reduce the number of non-decent homes
- To tackle climate change
- To improve the provision of leisure, arts and cultural opportunities
- To promote equality and diversity
- To make the most of natural assets

3.1.4 Local Area Agreement

Local Area Agreements continue to gather momentum and will have a significant impact on the Council's resources in the coming years. LAA's essentially pool resources on an area basis (in our case at County level) and are held for distribution against agreed priorities and outcomes.

It is possible that the Council could receive additional resources if it can achieve the required outcomes. However, there is a risk that mainstream funding resources will be pooled under the LAA and distributed to other, perhaps more deprived areas of the County.

3.1.5 Taunton Deane's Corporate Strategy

Taunton Deane's Corporate Strategy sets out the Council's objectives for the next 3 years in support of the Taunton Deane Sustainable Community Strategy.

Taunton Deane's medium-term objectives are as follows:-

- Economy – regenerating Taunton and strengthening the economy of the Borough.
- Transport – minimising the growth of traffic congestion.
- Crime – promoting safer communities and tackling anti-social behaviour.
- Healthy Living – promoting healthy and sustainable communities.
- Environment – safeguarding and enhancing the local environment.
- Delivery – delivering accessible, value for money services.

To support the delivery of the corporate strategy, and to ensure resources are directed to priority areas, the Council has developed a "Profile of

Services". This is attached at Appendix C and is used as part of the financial planning process to ensure our limited resources are targeted at true priority areas.

3.1.6 Operational Plans & Taunton Deane's Overall Improvement Plan

Each service area of the Council produces, on an annual basis, an Operational Plan that sets out how the service will help the Council deliver the objectives set out above. Services delivered by key partnerships also produce service plans.

In addition, and in support of the above key planning documents, Taunton Deane Borough Council has an Overall Improvement Plan. All Councils are subject to various forms of assessment and inspection, most of which result in some form of improvement plan. This document pulls together the key areas for improvement identified by these reviews, and sets out the actions planned by the Council in response. It is monitored regularly by the Council's Corporate Governance Committee.

3.2 TAUNTON DEANE'S FINANCIAL CONTEXT

3.2.1 The Medium Term Financial Plan (Revenue)

The forecasting and monitoring regime is highlighting the following local areas of pressure, in addition to the normal pay and price increases, within the Councils budgets over the coming years:-

- Concessionary Travel
- Homelessness
- Car Parking Income
- Project Taunton – implications of land deals

In addition, the MTFP assumes that salary budgets will increase by 3% per annum. Employers superannuation contributions will be uplifted by the planned percentage increase for each year based on the latest actuarial advice. Indirect employee costs will not be uplifted for inflation. The next actuarial review may have cost implications for the Council. In addition, national changes to the local government pension scheme take effect from 1.4.08 and may, over time, have a financial impact on the Council and scheme members.

Non-pay inflation is generally not permitted in the MTFP. Managers are expected to manage this pressure within their allocated budget. The exception to this is utilities and contractual arrangements – where the uplift will be assessed and reviewed annually.

Treasury management activities (investment and borrowing costs) are reflected in the MTFP in line with the Treasury Management Strategy (which is approved by the Council annually).

Although the 3-Year settlement gives a little more certainty on the Government funding for the Council than we have ever had, there are still lots of areas of uncertainty within the core budget. Over recent years, there has been a clear shift in the funding ratio from grant to fees and charges and this places the Council in an position of increasing reliance on the economy.

The summary page from the Medium Term Financial Plan – General Fund (MTFP) is attached at Appendix A. This is based on the latest information available. This has been refreshed to reflect the corporate strategy priorities. The headlines are as follows:

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
TDBC Forecast Budget Position	14,015	15,112	16,188	16,885	18,919	19,796
Forecast Govt Grant *	8,369	8,536	8,721	8,765	8,809	8,853
Forecast Council Tax **	5,697	6,030	6,382	6,755	7,175	7,622
Collection Fund	(50)	0	0	0	0	0
Forecast Resources Available	14,015	14,566	15,103	15,520	15,984	16,475
Predicted Budget Gap	0	546	1,085	1,366	2,935	3,322

* 2008/09 – 2010/11 Figures Provided in Government Settlement. Estimates thereafter assume a 0.50% growth.

** Assuming a council tax increase of 4.5% per annum.

The model clearly shows the challenge ahead, if the corporate strategy is to be delivered.

The Medium Term Financial Plan – HRA is currently under development. In future, the HRA budget setting and financial planning will follow the same process and timescales as the General Fund. The first draft of the HRA MTFP is included at Appendix B for information.

3.2.2 Medium Term Financial Plan (Capital)

In 2008/09 the Council has only £15k of unallocated capital receipts. The following items are included in the Corporate Strategy and will need to be funded over the coming years.

Corporate Priority	Proposed Actions
Economy	<ol style="list-style-type: none"> 1. Free up the Firepool development area for Project Taunton and commence commercial/employment development. 2. Kick start the Cultural Quarter of Project Taunton by redeveloping Castle Green, Coal Orchard and Goodlands Gardens, to include providing a new site for the County Council library and records office. 3. To work with partners to bring forward the proposed retail development in High Street 4. Facilitate the development of 20 hectares of employment land in Wellington and Wiveliscombe 5. Explore the feasibility of facilitating the

	<p>development of Tone Mill, Wellington as a cultural and creative industry node</p> <ol style="list-style-type: none"> 6. Identify a suitable site for the relocation of the Taunton TIC 7. Secure a major business incubation centre for Taunton.
Transport	<ol style="list-style-type: none"> 1. Implement the Taunton car parking strategy. 2. Deliver the actions of the TDBC employees travel plan by March 2010.
Crime	<ol style="list-style-type: none"> 1. Crime reduction measures within the Housing capital programme ie the provision of double glazing and security lighting 2. The provision of facilities for young people ie new play equipment.
Healthy Living	<ol style="list-style-type: none"> 1. Planning gain through S106 agreements – ie the need to provide in partnership a targeted proportion of social and subsidised housing 2. Utilise council owned sites to develop social and subsidised housing. 3. Investigate new approaches to delivering intermediate housing. 4. Ensure that all Council owned properties comply with the Decent Homes Standard by March 2011. 5. Improving both private and public sector housing conditions through an extensive capital programme of works and grants. 6. Consider all options for delivering new opportunities for public swimming in Taunton Deane including the construction of a new 25m pool in Taunton. 7. Deliver the actions identified in the Play Strategy to make provision in priority areas.
Environment	<ol style="list-style-type: none"> 1. Expand the recycling service to include other types of waste, such as plastics and cardboard. 2. Development of sustainable construction practices which help tackle climate change and reduce emissions. 3. Ensure that new Housing built through Housing Corporation funded schemes meet a minimum of level 3 of the Code for Sustainable Housing. 4. Meet the government target of improving energy efficiency by 30% on housing in Taunton Deane through various housing initiatives. This includes capital investment in council housing, other social housing and where possible within the private

	sector. 5. To construct flood alleviation measures to enable the development of Firepool
Delivery	1. Development of our assets through our key partnership project, SW1 2. Continued investment in IT systems such as the new Planning system 3. Implement the Customer Access Strategy to deliver our services where and when they are required. 4. Develop procurement through collaboration with SW1 to achieve savings targets, better quality and cost effective services and support our objectives around economy sustainability and equalities.

In addition there are ongoing capital schemes that are currently unfunded from 2009/10 onwards. These are:-

Portfolio	Schemes
Leisure	1. Grants to clubs £60k pa 2. Play Equipment – grants to parishes £31k pa 3. Replacement/new play equipment £26k pa
Corporate Services	1. Energy conservation measures £50k pa 2. Desk Top Hardware Replacement - £17k in 2009/10 and then £60k thereafter
Environmental	1. Taunton Canal Grant £10k pa
Planning & Transportation	1. Contributions towards footpaths & streetlighting £25k pa

The MTFP assumes that the ongoing schemes will be funded by RCCO (if sufficient capital receipts are not available).

3.2.3 Reserves (Revenue)

To support day to day spending, Taunton Deane has a General Fund Reserve, a Housing Revenue Account Reserve and some Earmarked Reserves (which are held for specific purposes).

The following table shows the balance on these at the end of the last 4 financial years, together with the forecast position at 31/3/09:-

Balance as at:	General Fund Reserve £'000	HRA Reserve £'000	Earmarked Reserves £'000	Total £'000
31.3.05	1,486	2,286	8,956	12,728
31.3.06	1,383	2,009	9,032	12,424
31.3.07	1,243	2,659	6,681	10,583
31.3.08	645	3,046	5,900	9,591
31.3.09 Predicted	1,400	2,110	5,900	9,410

The reserves position as at 31st March 2008 is significantly lower than in previous years. This position is rectified in April 2008, when some £595k of previously earmarked reserves were returned to the General Fund Reserve – bringing the forecast position up to £1.4m at 31 March 2009 (which is more in line with previous years).

3.2.4 Reserves (Capital)

There are two capital reserves that represent useable cash available to support spending on the creation or enhancement of assets. They are the Unallocated Capital Resources (Non-Hsg) and Unallocated Capital Resources (Hsg).

The following table shows how these have moved over the last 4 years, together with a forecast of the position at 31/3/09:-

Unallocated Capital Resources (Non-Housing)

Financial Year	Balance at start of year £'000	Income from revenue (RCCO) £'000	Prudential Borrowing £'000	Income from sale of assets (capital receipts) £'000	New Capital Spending £'000	Balance at end of year £'000
2004/05	1,232	614	0	153	(1,068)	931
2005/06	931	104	0	297	(1,001)	331
2006/07	331	170	0	0	(483)	18
2007/08 Predicted	18	0	2,086	452	(2,513)	43
2008/09 Predicted	43	15	0	0	(43)	15

Currently, almost all capital reserves have been committed to fund future capital projects in 2008/09 onwards, leaving only £15k as yet unallocated.

Unallocated Capital Resources (Housing)

Financial Year	Balance at start of year £'000	Income from revenue (RCCO) £'000	Supported Borrowing £'000	Govt Grants £'000	Income from sale of assets (capital receipts) £'000	New Capital Spending £'000	Balance at end of year £'000
2004/05	2,039	263	1,009	3,289	1,341	(7,589)	352
2005/06	352	1,200	1,059	3,545	468	(6,254)	370
2006/07	370	797	807	3,938	1,205	(6,492)	625
2007/08 Predicted	625	1,508	242	4,465	550	(5,803)	1,587
2008/09 Predicted	1,587	1,552	821	3,942	805	(7,922)	785

3.2.5 Trends in Outturn - Revenue Overview

The table below compares the actual use of General Fund Reserve compared to planned use for the last 4 financial years, together with a forecast of the position for 2008/09.

Financial Year	Planned Use of Reserves £'000	Actual Use of Reserves £'000
2004/05	(309)	(146)
2005/06	(238)	(194)
2006/07	(314)	(556)
2007/08	(723)	(772)
2008/09 Forecast	0	0

This table suggests that there may be some latent financial capacity in the base budget. Although we have made improvements in this area, this does indicate that we still have more work to do to encourage service managers to behave more corporately and treat their budgets as a corporate rather than a service resource.

3.2.6 Trends in Outturn - Capital Overview

The Council maintains a rolling 5 year capital programme. The following table compares the capital budgets for the last 4 years to actual spend.

GFd (incl GFd Housing)

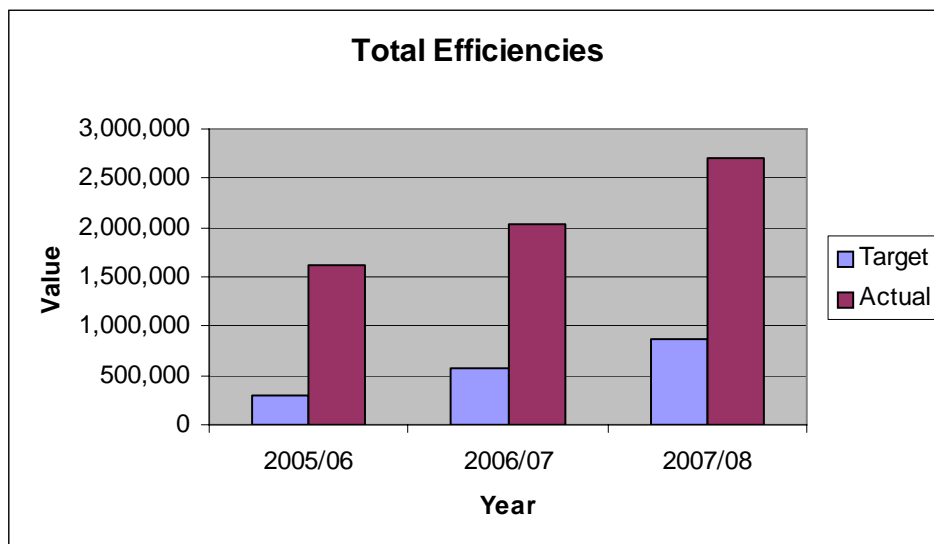
Financial Year	Capital Budget £'000	Actual Spend £'000	Over / (under) spend £'000
2004/05	5,522	2,767	(2,755)
2005/06	9,679	4,196	(5,483)
2006/07	6,245	6,064	(181)
2007/08	4,655	3,762	(893)
2008/09 Forecast	4,839	4,839	0

Slippage in the Councils capital spending programme is managed to ensure that conditional funding resources have not been lost and that the use of available resources has been maximised. Again, there is scope to improve the management of this and improve cashflow returns.

Delays in incurring capital spending have a direct impact on the revenue account, in terms of extra investment income generated.

3.2.7 Efficiencies

Taunton Deane has a good track record of delivering on its 2.5% Gershon efficiency target, as evidenced in the Annual Efficiency Statements. The new Gershon target for local authorities is to achieve a 3% cashable saving each year. The table below shows the level of total cashable and non cashable efficiencies compared to government specified targets over recent years:



Future delivery of Gershon savings targets will be monitored via the LAA.

3.2.8 Value For Money (VFM)

Taunton Deane was judged to be delivering good value for money in the Use of Resources assessment, scoring 3 out of 4 on the Value For Money lines of enquiry (2006/07).

The Council supports the drive to deliver value for money services by:-

- Benchmarking our costs and activities with other authorities (where appropriate)
- Task & Finish reviews
- Internal and External audit reviews

The measures used the Audit Commission continue to tighten, and the Council will be challenged to maintain its current score.

3.2.9 Use of Resources

The Use of Resources assessment is a key measure of how the Council manages its resources. The Council was judged to be achieving a score of 3 out of 4 (2006/07). This is an excellent endorsement of the Council's approach to financial management.

Whilst a number of improvements can be put in place without a significant impact on resources these are unlikely to move the Council's assessment to level 4. Other initiatives that could change the categorisation will come at a cost.

Meantime, the Audit Commission have decided to increase the difficulty of achieving the current scores – thereby requiring authorities to improve processes to ensure they retain their current status, let alone improve. This will undoubtedly require additional resources and will need to be measured against the benefit accrued to the local taxpayer. A measured approach is being adopted, and again, it should be noted that the Council will be challenged to maintain its current score.

3.2.10 Treasury Management

The annual Treasury Management Strategy is approved as part of the budget setting process.

The Treasury Management Strategy is a key element of the overall Financial Strategy of the Council. It sets out:-

- the Council's strategy for investment and borrowing in light of the latest forecasts re interest rates.
- the financial institutions the Council will invest with, and the limits on the size and time period of the investments.
- the balance of fixed and variable rate borrowing, and rescheduling opportunities.

- The Prudential Indicators for the year. These define the framework within which the Council self-regulates its borrowing based on long-term affordability.

The treasury management strategy is key in supporting the delivery of several of the corporate financial objectives. Detailed procedures and delegations for treasury management are set out in the Treasury Management Plans (TMPs) which are refreshed on an annual basis.

3.2.11 Value Added Tax (VAT)

Taunton Deane manages its business affairs to ensure that the partial exemption limit is not breached. We are allowed to reclaim the VAT on exempt business activities providing it does not exceed 5% of our total VAT liability. If we breach the 5% limit, HMRC will expect us to hand over the VAT on exempt activity too – approximately £100k to £150k per annum.

Local authority VAT is a particularly specialised area of accounting, and Taunton Deane will continue to use external advisors when necessary. The Finance Team will continue to raise awareness of VAT issues with our Managers, to ensure the risk of breaching the partial exemption limit is minimised.

3.2.12 Key Financial Risks & Opportunities

Risk management is an essential part of the corporate governance framework, and has been embedded in our project management disciplines for several years now. Service Managers also produce annual risk registers of operational service risks. Corporate Management Team are responsible for managing the Corporate Risk Register. Issues flagged are then, if appropriate, recognised in the Financial Strategy and MTFP.

The focus in our improvement plan is to ensure that elected Members play a full and active role in our risk management process. The most recent Risk Management Strategy was approved by the Corporate Governance Committee in 2006.

The 3 key things that underpin the Council's ability to maintain its financial standing are:-

- Strong corporate working
- Strong and transparent financial management
- Delivery of the transformation programme (with Southwest One, the Achieve Breakthrough Projects, and beyond).

The “top” financial risks and opportunities facing the Council are:-

Concessionary Travel	- continuing growth in usage compared to funding offered by Govt.
Procurement Savings	- shift in corporate behaviour required to deliver savings needed to fund the transformation programme.
Capital Programme	- no obvious way of funding the aspirations of the Council
Revenue Impact of Project Taunton	- key decisions needed on car parking and land usage
Housing	- need to develop a robust business plan post 2010
Partnership Working	- the Council is now working with partners of key areas of service delivery – waste, revenues and benefits – and the client and contract management arrangements will need to continue to be robust.
Asset Management	- need to review and rationalise asset portfolio.
LABGI	- uncertainty over future availability of this grant. Central Govt are reviewing their policy.
HPDG	- uncertainty over level of future grant to be paid to TDBC. This is linked to performance.

3.2.13 Summary

Taunton Deane is not a well-resourced Council, but despite this it has been judged as providing services that represent good value for money. Despite the challenges to date, financial performance has generally been good, providing a reasonable level of reserves.

However, looking forward, the Council is facing a very challenging financial position, and must adopt a Financial Strategy that will help the Council deliver its objectives – both in terms of revenue and capital.

The current corporate strategy cannot be delivered without the creation of additional financial capacity.

The Council must deliver a robust, sustainable and affordable medium term financial plan that preserves the financial health of the authority through a period in which we plan significant transformation whilst the level of funding from the Government reduces in real terms.

The remainder of this document is focussed on setting out the proposed Financial Strategy of Taunton Deane Borough Council. This is the broad framework that the Council will operate within during the forthcoming four

financial years. It will be reviewed on an annual basis to ensure that it maintains relevance.

The Financial Strategy covers the General Fund activities (revenue and capital) but does not cover the Housing Revenue Account as this is covered by a separate Business Plan. However, some of the strategic proposals considered in the strategy will have an impact beyond the General Fund.

4. FINANCIAL STRATEGY

This sections sets out Taunton Deane's corporate financial objectives. It also set out the key financial risks the Council will be monitoring to ensure it stays on course to deliver its objectives.

4.1 Taunton Deane's Corporate Financial Objectives

- **To maintain an affordable and sustainable Council Tax position.**
The objective is to maintain modest and affordable increases in council tax over the next 5 years (whilst accepting that such an objective is linked to the amount of annual Government Grant).
- **To run an inclusive, open and transparent budget setting process.**
Public consultation on priorities, fees and charges and tax levels will continue to underpin the Councils budget setting process. All Members will be involved in the development of the Councils budget.
- **To ensure budgets are realistic, balanced, sustainable and support corporate priorities.** The link between the Councils financial and corporate plan and public consultation will be clear and transparent. Key financial decisions of the Council will clearly relate back to the corporate priorities. To continue to clearly identify priority and non-priority areas – via the Profile of Services. Balances and reserves must not be used for long-term budget requirements.
- **To maintain a strong balance sheet position.** To ensure the Council has a sustainable level of reserves and provisions. This will be set bearing in mind the corporate financial risks facing the Council. The aim is not to tie up public resources unnecessarily, but to provide comfort that the key risks facing the Council are covered.
- **To manage spending within budgets.** Managers are required as a “non-negotiable” to manage spending within their approved budget.
- **To deliver year on year cash and non-cash efficiency savings in line with Government targets.** The CSR2007 indicates that cashable savings of 3% per annum will be required from 2008/09 onwards.
- **To continue to improve on Financial Management, Use of Resources, and Value for Money assessments.**

Having accepted these objectives, then the following key areas need to be considered:

4.2 General Fund Reserve & Earmarked Reserves

The policy set in 2004 was to maintain a minimum balance of unearmarked General Fund Reserves of £1m (or £750k if being replenished via invest to save initiatives). It is appropriate that this is reviewed in light of the financial environment facing the Council in 2008 and beyond.

Due to the increasing risks facing the Council the following strategy should be adopted by the Council:

That General Fund Reserves should be maintained at a minimum of £1.25m (or £1m if being replenished via invest to save initiatives).

That Housing Revenue Reserves should not fall below £150 per dwelling.

The medium term financial plans will be refreshed to reflect this policy.

4.3 Council Tax

The MTFP currently assumes a 1.7% increase in the tax base to 2011/12 and 2% thereafter, a 4.5% increase in council tax charges, and a break-even position on the Collection Fund account. The assumed lifetime collection rate is 99.2%.

The MTFP will be remodelled to reflect the objective of setting a council tax increase in line with inflation. This will increase the predicted budget gap.

The Council's policies on discounts and exemptions will continue to be reviewed to ensure best fit with corporate priorities. The Council's strategy on benefit take-up will continue to be refreshed in line with best practice and local conditions.

4.4 Business Rates

Business rates are paid into the national pool and redistributed on a formula basis to local authorities. Changes to business rates are possible over the medium term (supplementary rates or partial re-localisation).

Councils operate mandatory and discretionary reliefs. Taunton Deane will review its current practices and policies on these areas over the coming 12 months to ensure they fit with policy objectives and remain affordable.

4.4.1 Business Improvement District (BID)

The BID for Taunton started during 2007. The Council will continue to monitor the collection rate and ensure robust information is provided to the BID team. The Council will engage in any future discussions around new BIDs or extensions to existing schemes.

4.5 Debt Collection

The Council has traditionally had excellent rates of collection on outstanding council tax and nndr debts. The introduction of the new IT system in this area caused some problems during 2007, but the Council is now on track to achieve the earlier excellent rates.

The Councils collection methods, and bad debt policies will be reviewed over the next 12 months to ensure best practice is being followed.

4.6 Fees and Charges

It is important that the Council takes all opportunities to create additional financial capacity by maximising income, and generating income from new sources. It is also important that the income budgets set are realistic.

Each service within the Council should maximise the level of income generated unless there are corporate reasons why this is not the case. Clear policies on subsidies and exemptions should be developed.

4.7 External Funding Arrangements

External funding provides another opportunity to increase financial capacity of the Council. These opportunities should be actively pursued provided that:-

- They support the delivery of the Councils corporate priorities
- They do not commit the Council to ongoing funding liabilities that cannot be met within the existing budget plans.
- Requirements for match funding are clearly established and approved in advance.

4.8 Core Council Review

In order to deal with the challenges ahead, Taunton Deane will need to focus not just on growth pressures, but on the underlying base budget position.

Historical budgets, staffing arrangements, and spending patterns will be challenged through the Core Council Review to ensure the Councils underlying base budget is sustainable and focussed on delivering priorities.

This review will commence in the summer of 2008 and will aim to conclude on organisational design by the end of 2008, in order to influence the next budget setting round. Until this review is completed, the current vacancy management arrangements should continue.

This review is fundamental to the delivery of a sustainable budget position.

4.9 Budget Carry Forwards & Under-Spends

Budget carry forwards are only allowed if the Councils overall financial position is acceptable, the reasons for the under spend are valid, and the request fits with the achievement of the corporate priorities.

All budget under-spends will be robustly evaluated and built into the base budget unless there is a sound reason for doing so.

4.10 Developer Contributions

This is a key source of external funding for the Council. Through the planning system, support for both infrastructure and maintenance funding can be achieved.

The Council will maximise the potential for increasing financial capacity through s106 agreements. This will involve a much more corporate approach to such opportunities. This work is being led by Joy Wishalde, Strategic Director.

4.11 Partnership Working

Taunton Deane is already working in partnership with other authorities and agencies to deliver more effective services. This will continue to develop as the proposals for improved 2-tier working are developed and implemented.

In order to achieve corporate financial objectives, we will always ensure in partnerships that:-

- There is clarity of roles and responsibilities.
- The accounting arrangements are agreed in advance of the commencement of the partnership.
- The partnership business case is sustainable
- The Partners involved are financial viable.

The strategic partnership with Southwest One will be key to the Council delivering its objectives, and delivering the transformation agenda.

Pioneer Somerset is the programme being developed within Somerset to progress improvements in 2-tier working. This programme will lay the foundations for the future of local government service delivery in Somerset and could offer great opportunity for efficiencies and savings.

4.12 **Financial Management**

Maintaining strong financial control is a prerequisite to achieving the Councils corporate and financial plans. Good systems and procedures are in place for reporting on financial performance as part of the integrated performance reporting framework - however there is still room for improvement.

Reports now look at service performance as well as financial performance. The next development will be to look at how non-financial information can be better incorporated to help us track value for money improvements, and highlight areas that are performing to the standard required and have spare financial capacity that could be reinvested in another priority area.

The new financial system, SAP (which is being delivered through the Southwest One Partnership) will go live in early 2009. The new system will help ensure that budget monitoring reports are clear and differentiate between controllable and non-controllable budget items. This will not only assist with any benchmarking / value for money comparisons, but will provide an enhanced financial service to Managers.

4.13 **Financial Strategy for Capital Investment**

Capital resources for the future are very constrained.

Taunton Deane has only £15k of confirmed unallocated useable capital receipts – to fund corporate strategy objectives outlined in section 3.2.2 above. Clearly this is an unsustainable position.

The resources could be topped up by either disposing of assets, or building in revenue contributions to capital (RCCO) in the revenue budget process. Clearly this would have implications for the revenue budget gap position. The MTFP currently does not forecast any RCCO over the coming years.

Another solution could be prudential borrowing. The challenge with this route, is the affordability of the new borrowing – the impact on the revenue budget. The MTFP already shows a challenging budget position, and there is limited capacity to accommodate new projects funded by borrowing unless efficiency savings can match the additional borrowing costs.

The Council has an Asset Management Plan (AMP) and Capital Strategy that are updated annually. The AMP is undergoing a fundamental review and will be published in September 2008. The Council will need to strike a balance between procuring new assets and maintaining existing assets.

The areas of focus for the Council on the financial capital strategy will be:-

- Maximising developer contributions
- Effective project management of capital projects to ensure they are delivered on time and in budget
- Reviewing property holdings to be clear on any opportunities for rationalising property assets and releasing resources (capital and revenue).
- Maximising external funding for projects
- Reviewing the approvals process for new capital projects – to ensure the limited resources are allocated in line with corporate priorities.
- Developing a corporate property maintenance plan.

The revenue implications of any capital scheme will be fully considered as part of any approvals process.

The Council has some difficult choices to make over the coming months. Until there is clarity of direction, the Council's corporate strategy remains unfunded.

4.14 Efficiencies

The Council will continue to aim to achieve more from the same amount of resource (or less). The released capacity, over and above our savings targets, will be targeted towards our highest priorities.

The Task & Finish Scrutiny reviews will provide an opportunity for value for money reviews of specific issues.

The CSR2007 is raising the bar in terms of efficiency targets for local authorities. The new requirement will be to deliver, year on year, cash savings of 3%. This is a new challenge and our corporate planning, and operational service planning process will need to be updated to reflect this.

The strategic partnership with Southwest One will deliver the technological infrastructure necessary to produce significant efficiency gains in the future. In addition, the transformation programme developed with Southwest One will deliver a radically different procurement process – which will in turn release cash savings for the Council.

Changes to corporate behaviour in both procurement, and use of systems will be driven throughout all services of the Council to ensure this is achieved.

4.15 Conclusions

Robust financial management is one essential ingredient in the successful delivery of the Councils priorities – even more so in the ever more challenging financial environment facing local authorities.

This Financial Strategy is designed to ensure this is delivered. The following action plan summarises the actions outlined in the strategy.

5. FINANCIAL STRATEGY ACTION PLAN

	Lead Officer	Timescale
Update MTFP (GFd and HRA) to reflect new policy on Reserves, aspirations on Council Tax level, full impact of Project Taunton, and any new legislative changes.	Paul Carter	CCM April 2008 CMT May 2008 O&S June 2008 Exec July 2008
Review existing discounts and exemptions policies and procedures to ensure affordability, best fit with corporate priorities	Heather Tiso	March 2009
Review existing strategy on council tax benefit take-up to ensure compliance with best practice and local conditions.	Heather Tiso	March 2009 (and annually thereafter)
Review existing business rates relief practices and policies to ensure fit with policy objectives and affordability requirements	Heather Tiso	January 2009
Review collection methods to ensure value for money, and best practice	Heather Tiso	Ongoing
Review bad debt policies to ensure best practice	Heather Tiso / Paul Carter	Ongoing – part of corporate bad debt policy review
Develop fees and charges policy – to provide clarity on increases, exemptions, and subsidies	Shirlene Adam	December 2009
External Income Potential – the Council should consider how this could be best delivered. CMT to consider as part of Core Council Review.	Penny James	December 2008
Maintain existing vacancy management protocols until conclusion of Core Council Review	Penny James	Ongoing
Core Council Review – to deliver sufficient ongoing savings to provide a sustainable budget position moving forward.	Kevin Toller	Reporting Nov 08
Review of year end outturn position against current forecast (compliance with FRegs, and input to base budget review)	Shirlene Adam	June 2008
New s106 policy to outline clear funding framework	Joy Wishlade	TBA
All proposals for partnership working to	All Managers	Immediate

complete an “impact assessment” – outlining the financial and HR impact on the Council.		
Performance reporting framework to be reviewed and improved to better link financial and non-financial information.	Shirlene Adam / Simon Lewis	Summer 2008
Ensure new financial system is designed to report financial information in a flexible manner and is capable of analysing trends	Shirlene Adam	Immediate
Review of Asset Management Plan to ensure fit for purpose.	Shirlene Adam / George Stark	CMT Aug 2008 Exec Sept 2008
Design process for robust capital approvals regime	Shirlene Adam	CMT Sept 2008
Clarity of funding for corporate strategy capital objectives <i>Key decisions will be needed by the Executive</i>	Executive Cllrs	Summer 2008
Operational Planning process reviewed to ensure services are reporting on their plans to deliver the 3% efficiencies target.	Simon Lewis	Immediate
Procurement savings (SWOne transformation project) to be regularly reviewed against target and reported to CMT and Members	Simon Lewis	Immediate

APPENDIX A

MTFP SUMMARY – GENERAL FUND

Taunton Deane Borough Council – 5 Year General Fund Revenue Budget Forecast

	2008/09			2009/10			2010/11			2011/12			2012/13			2013/14		
	Add	Red	Tot	Add	Red	Tot	Add	Red	Tot	Add	Red	Tot	Add	Red	Tot	Add	Red	Tot
Base Budget			14,015			14,024			15,112			16,188			16,885			18,919
Sup.Est/Budget Chan																		
Property Ser Restructure					(57)			(45)										
Town Centre Xmas Lights								(5)										
CMT Restructuring													(61)					
DLO High Restructure	9				(51)													
TOTAL	9		9		(108)	(108)		(50)	(50)					(61)	(61)			
INESCAPABLE BUGET																		
Non recur 08/09					(67)						(77)							
Employee Pay Award				245			252			260			267			276		
NI & Sup. Ann				49			50			50			51			51		
Incremental Progress				125			129			132			136			141		
Inf. Price				164			164			164			164			164		
Inv. Income				38														
MRP				28			28			28			28			28		
Other				9			85			9	(76)		10			10		
TOTAL				657	(67)	590	707		707	643	(153)	490	656		656	668		668
UNAVOID COMMIT																		
Growth				22			22			22			26			26		
New POS				36	(36)		38	(38)		30	(30)							
Reduction Salary					(115)													
Removal Staff T/O				50														
County Museum				100														
Loss CP Income				60														
Silk Mill P & R/project park							200						1200					
ISIS Cash Savings					(96)			(96)			(89)			(90)			(98)	
Dev Control				81	(81)													
GF Funding PDG				42	(42)													
Land Charges				51														
RCCO Cap Scheme				249			292			292			292			292		
Other				200	(70)		21	(25)		22	(40)		11				(11)	
TOTAL				891	(440)	451	573	(159)	414	366	(159)	207	1,529	(90)	1,439	318	(109)	209
CORP. STRAT ACTION																		
Recycling Further costs				150														
TOTAL						150												
REVENUE CAP PROGRAM																		
Play area and Total				5		5	5		5									
UNAVOIDABLE CHANGES	9	0	9	1,703	(615)	1,088	1,285	(209)	1,076	1,009	(312)	697	2,185	(151)	2,034	986	(109)	877
PRED BUDGET REQRIMENT			14,024			15,112			16,188			16,885			18,919			19,796
BUDGET GAP																		
Revenue Supp Grant	8,369			8,536			8,721			8,765			8,809			8,853		
Other	-50																	
C. Tax increase (4.5%)	5,697			6,030			6,382			6,755			7,175			7,622		
TOTAL			14,015			14,566			15,103			15,520			15,984			16,475
BALANCE TO BE MET FROM GENRAL FUND RESERVE			9			546			1,085			1,366			2,935			3,322

APPENDIX B

MTFP SUMMARY – HRA

DRAFT HRA MTFP FORECAST 2008/09 – 2015/16

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
INCOME								
Dwelling Rents	19,261,390	20,435,669	21,298,677	23,078,987	23,732,335	24,410,142	25,115,538	25,843,420
Non Dwelling Rents	468,550	478,163	487,948	498,013	508,366	519,017	529,973	541,243
Charges for services/facilities	421,990	433,725	445,789	458,192	470,942	484,050	497,525	511,379
Contributions towards expend	223,500	229,088	234,815	240,685	246,702	252,870	259,191	265,671
Government Subsidy	(5,826,140)	(6,451,897)	(7,058,606)	(7,709,619)	(8,010,616)	(8,314,034)	(8,663,425)	(8,983,501)
Government Sub Housing Def								
Net Supporting People Windfall	451,250	428,688	407,253	386,890	367,546	349,169	331,710	315,125
TOTAL	15,000,540	15,553,436	15,815,875	16,953,148	17,315,276	17,701,212	18,070,513	18,493,337
EXPENDITURE								
Management	4,333,240	4,464,571	4,576,185	4,690,590	4,807,855	4,928,051	5,051,252	5,177,534
Maintenance	5,694,850	6,036,118	6,249,594	6,530,825	6,759,404	6,995,983	7,240,843	7,494,272
Major Repair Allowance	3,530,210	3,716,379	3,932,891	4,162,006	4,279,802	4,403,102	4,530,698	4,661,987
Debt Management Expenses	24,000	24,600	25,215	25,845	26,492	27,154	27,833	28,528
TOTAL	13,582,300	14,241,669	14,783,885	15,409,267	15,873,552	16,354,290	16,850,626	17,362,321
OTHER CHARGES								
Loan charges interest	833,000	781,124	781,124	781,124	781,124	781,124	781,124	781,124
Interest receivable	(160,000)	(41,094)	(41,027)	(40,959)	(40,892)	(40,844)	(40,804)	(40,763)
Transfer to reserves	130,000	130,000	130,000					
Revenue Contribute to Capital	1,552,160	1,549,021	1,517,139	122,029	116,853			
NET OPERATING EXPEND	(936,920)	(1,107,284)	(1,355,246)	681,687	584,638	606,643	479,567	390,655
WORKING BAL B/FWD 1 APRIL	3,281,240	2,344,320	1,237,036	(118,209)	563,478			
WORKING BAL C/FWD 31 MARCH	2,344,320	1,237,036	(118,209)	563,478	1,148,116			
Memo: Mini Accept Working Balance @ £150 per dwelling	916,200	913,200	911,700	910,200	908,700			
Surplus (Deficit) of forecast working balance over minimum acceptable level	1,428,120	323,836	(1,029,909)	(346,722)	239,416			
HRA CAPITAL EXPENDITURE								
Decent homes	4,512,390	4,735,400	4,920,030	3,754,035	3,866,655			
Other works	320,000	280,000	280,000	280,000	280,000			
Community Alarm Systems	45,000	45,000	45,000	45,000	45,000			
Tenants Improvements	5,000	5,000	5,000	5,000	5,000			
HRA DFGs	200,000	200,000	200,000	200,000	200,000			
TOTAL HRA CAPITAL SPEND	5,082,390	5,265,400	5,450,030	4,284,035	4,396,655			
FINANCED BY:								
MRA	3,530,210	3,716,379	3,932,891	4,162,006	4,279,802			
RCCO	1,552,160	1,549,021	1,517,139	122,029	116,853			
Other	20							
TOTAL FINANCING	5,082,390	5,265,400	5,450,030	4,284,035	4,396,655			

Service	Increase Direct Funding	Maintain Direct Funding	Reduce Direct Funding
High Priority			
Economic Development and Regeneration	✓		
Planning (including Transportation)	✓		
Community Safety/ CCTV	✓		
Licensing	✓		
Street Cleaning	✓		
Affordable Enabling/Housing	✓		
Sustainability	✓		
Homelessness	✓		
Medium Priority			
Britain in Bloom		✓	
Car Parks		✓	
Cemeteries and Crematorium		✓	
Communications		✓	
Customer Services		✓	
Democratic Services (including Members, Mayoral, Electoral Services and Parish Liaison)		✓	
Building Control		✓	
Emergency Planning		✓	
Flooding and drainage works		✓	
Heritage and Landscape		✓	
Land Charges		✓	
Pest Control and Dog Wardens		✓	
Policy and Performance		✓	
Sport and Leisure		✓	
Tourism		✓	
Training and Development		✓	
Waste collection and recycling		✓	
Low Priority			
Consultation activities			✓
Environmental Health (except Licensing and Dog Warden)			✓
Grants (in lower priority areas)			✓
Highways			✓
Parks and Open Spaces			✓
Private Sector Housing (except enabling)			✓
Property (Deane Building Design Group/Valuation etc)			✓
Revenues and Benefits			✓