GOSPORT BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2011/12 - 2015/16

CONTENTS

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1. 0 INTRODUCTION AND OBJECTIVES

1.1 Introduction

The Medium Term Financial Strategy (MTFS) contains details of the main challenges affecting the Council's finances over the next few years and indicates how the Council will respond to these. It provides the overall framework for the financial investment in services from 2011 to 2016. Updated and reviewed annually, the MTFS helps to ensure that the Council's financial resources are targeted to achieve the strategic priorities and values contained within the Council's Corporate Plan.

It contains sections covering:

- Revenue – the running costs of General Fund services (affecting Council Tax levels),
- Housing Revenue Account – A statutory account which is primarily financed from Council House rents,
- Capital - the Council's plans for investment in assets used to provide benefit over more than 1 year,
- Treasury Management – management of cash flows, borrowing and investing,
- Budgeting; and,
- Risk Management.

The MTFS also provides a link to other financially related strategies including the Capital Strategy, Asset Management Plan, Treasury Management Strategy and Workforce Development Strategy.

1.2 The Council's Mission

The MTFS plays a key role in helping achieve the Council's mission of 'To work with our community to improve everyone's quality of life and deliver a sustainable future for the Borough.' by providing an efficient, effective and robust financial framework which will enable the Council to focus resources on its stated priorities.

1.3 Objectives of the Strategy

The main objectives of the Medium Term Financial Strategy are:-

To help ensure that the Council's financial resources are sufficient to achieve its stated objectives within the Corporate Plan including strategic priorities and core values;

To seek to minimise net debt and maximise income in order to provide investment in economic and efficient services within Council Tax increases below the level that might result in the possibility capping by the Government;

To ensure that the Council maintains an adequate level of General Reserves to both meet unforeseen events and help reduce vulnerability to significant fluctuations in Council Tax levels;

To provide both a link and framework to other financially related strategies;

To provide a single document to communicate the financial aims and objectives to staff and stakeholders alike; and

To provide a projection of resource requirements over a 5 year period.

2.0 REVENUE

2.1 General Fund Base Budget 2011/12

2.1.1 The current year's budget is divided into the following services:

Gosport Borough Services	Gross Expenditure £'000	Gross Income £'000	Net Budget £'000
Environmental Health Services	1,796	165	1,631
Parks and Leisure Activities	2,876	568	2,308
Housing Services	26,719	25,757	962
Council Housing	11,751	12,019	-268
Refuse Collection	1,722	267	1,455
Town Planning & Development	2,719	730	1,989
Transportation	947	951	-4
Other Services and Expenses	10,992	8,602	2,390
Sub-Total	59,522	49,059	10,463
Net transfer to Balances	245	0	245
TOTAL	59,767	49059	10,708

2.1.2 The net budget for 2011/12 is 16.6% lower than that for 2010/11, resulting in the Borough's Council Tax rates remaining unchanged despite reduced grant from the Government. This can be seen from the following table:-

Gosport-Percentage Council tax increase for 2011/12

Council's budget needs	-40.5%
Government Grant variation	38.3%
Transfer from reserves	2.3%
	0.1%
Changes to Collection Fund balance	-0.1%
	0.0%

2.2 **Revenue Budget Projections 2012/13 – 2015/16**

2.2.1 The following table shows a forecast of the revenue budget for the next four years and takes into account any significant variations in income and expenditure that are presently known or anticipated. It must be recognised that this projection represents a central forecast and may be subject to considerable variation for a number of reasons such as changes in demand for Council services, new or amended Central Government legislation (including the Government Grant Settlement) and the external economic environment in which the Council has to operate. However, it is essential that this analysis is undertaken and updated as necessary in order that any potential budget problems or opportunities are quickly identified and the appropriate action undertaken.

A variation in the forecasts of only approximately £55,000 affects the Borough's Council Tax rates by 1%. Major risks to the forecasts are detailed in the Council's Budget Book and include variations in demand for statutory services (such as homelessness), reduced income from Government Grants and reduced income from fees, charges and interest receipts. The projections are believed to be prudent but are particularly susceptible to political decisions on public spending levels by the incoming Government in response to the national economic situation. The projections assume that Government funding through Revenue Support Grant (RSG) will reduce in accordance with the current understanding of the comprehensive spending review projections until 2014/15 and be frozen in 2015/16. The large revenue reduction from restructuring relates to savings already consolidated as part of the Council's response to the funding cuts made by Government in 2010 and as part of the latest comprehensive spending review.

PROJECTED GENERAL FUND BUDGET FOR THE YEARS TO 2014/15
(AT CURRENT PRICES)

		(£'000)			
		2012/13	**2013/14**	**2014/15**	**2015/16**
A	2011/12 Base Budget	10,708	10,708	10,708	10,708
B	Revenue Increases				
	Local Elections	53		53	
	Tax Freeze Grant				140
	HB Subsidy	70	70	70	70
	Other	5	10	15	20
		128	80	138	230
C	Additional Financing Charges *****	169	289	315	343
D	(A+B+C)	11005	11077	11161	11281
E	Less Revenue Decreases				
	New Homes Grant	50	150	250	350
	Leisure Centre running costs	40	160	180	180
	Priddy's Hard	50	50	50	50
	Succession/restructuring	586	586	586	586
		726	946	1066	1166
F	**PROJECTED BUDGET TOTALS** (D-E)	10,279	10,131	10,095	10,115

*****Arising from the Capital Programme and accounting requirements

2.2.2 Further action will be taken to cut the projected budget totals as necessary to reduce the required Council Tax rises to an acceptable level that will avoid capping in coming years. The reductions necessary to the Council's projected General Fund budget to achieve Council Tax increases of 2.5% (below likely capping level) incorporating latest inflation projections amount to approximately £0.25M over the next 4 years, including £220,000 in 2014/15. These figures assume inflation affecting the Council's net budget requirements averaging approximately 2% each year. A variation of 1% on inflation assumptions impacts on the Borough's Council Tax rates by approximately 2%, largely due to the expected inflexibility of Government grant funding as national budget deficits are addressed.

2.2.3 Whilst the figures projected in paragraph 2.2.1 represent the best projection that can currently be made, there is a lot of uncertainty regarding future levels of Exchequer support, inflation and interest rates. The most optimistic current forecast beyond 2012/13 is that modest additional expenditure may be possible in some years, working within Council Tax rises of 2.5%p.a., whilst the worst scenario is for ongoing annual budget cuts of between £50,000 and £450,000 being required. In the unlikely event that the worst case scenario were to emerge, the Council would have to consider actions similar to those taken during the last 12 months and including:

- Reduce expenditure on "back office" functions and lower priority services;
- Increase fees & charges in excess of inflation;
- Raise capital receipts to reduce the impact of new capital investment; and,
- Consider local tax rises in excess of the current policy, possibly requiring a local referendum.

2.3 General Fund Working Balance

2.3.1 A key objective of the Strategy is:-

'To ensure that the Council maintains a realistic level of General Reserves to both meet unforeseen events and help stabilise annual fluctuations in Council Tax Levels'

2.3.2 The Council's Working Balance minimum prudent target level of 7% of net expenditure was dropped from 2009/10 and the balance frozen at £890,000. It had previously required budget contributions and use of council tax collection fund surpluses in order to maintain the percentage link. Although still very low compared to most local authorities, £890,000 is considered to be adequate, subject to the regular review of budget risk. This approach eases pressure on Council Tax levels slightly and allows a faster build up of the Revenue Financing Reserve for application to spend-to save initiatives etc.

2.3.3 Gosport's working balance remains in the lowest quartile compared to other local authorities. This is considered appropriate as the Council is conscious that the balance represents local taxpayers' funds set-aside and not directly contributing to service provision.

2.4 Revenue Financing Reserve

2.4.1 The Revenue Financing Reserve (RFR) is a provision available for general use, although it is particularly targeted at:-
- helping achieve efficiencies by providing funding for spend-to-save initiatives;
-helping to ensure that variations in annual maintenance requirements can be adequately financed; and,
- reducing exposure to risk by helping to underwrite uninsurable risks and by saving premiums where self insurance is undertaken.

2.4.2 It is considered that maintaining a viable RFR is an essential element for improved management of the Council's finances. In order to achieve this, the approved Council policy is that the RFR receives General Fund Contributions from year end savings, a base budget contribution and Council Tax Collection Fund surpluses (subject to the working balance first being maintained at an appropriate level).

3. HOUSING REVENUE ACCOUNT

3.1 Housing Revenue Account (HRA)

3.1.1 The HRA comprises expenditure and income relating to stock of over 3,100 Council dwellings and the provision of services to tenants. This includes management, the repair and maintenance of stock and the rent and income collection services.

3.1.2 The determination of future expenditure patterns relies upon the following key elements:

- Repair and maintenance needs of the stock
- Meeting the decent homes and post decent standards
- Aspirations of the tenants
- Rent convergence
- The resources available.

3.2 HRA Business Planning

3.2.1 An HRA business planning model has been developed and covers all the expenditure and income areas listed below for a 10 year period. The business plan model is currently being updated in line with the requirements of HRA finance reform. The new model when completed will be a 30 year plan that will have more detailed financial modelling and will have links to the asset management strategy. It will continue to cover the areas listed below but in considerably more depth.

- Rental income
- Service charge income
- Garage and other HRA income
- Void levels and rental income forgone
- Mortgage interest
- Management and maintenance expenditure
- Housing Subsidy
- Debt management costs
- Additional expenditure
- Depreciation
- Working balances.

3.2.2 The plan will highlight some of the major issues and pressures affecting the Housing Revenue Account. In particular, the level of future rent increases, maintaining adequate balance levels and supporting the costs of maintenance and improvement work on the housing stock.

3.3 HRA Rent Income

3.3.1 The Council is currently operating its rent setting policy within the national rent restructuring framework which was introduced in 2002/3. The original aim of this framework was to put all Council house rents on the same clear and transparent basis. It was expected that there would be comparability with Registered Social Landlord rents in the same area and it would take 10 years to achieve this. This has now been amended to take into account the HRA reform and is expected to be completed in 2016/17. It is unclear as yet as to what if any policy will be introduced beyond 2016/17, although for the basis of any modelling increases will be assumed at RPI levels.

3.3.2 As a stock retaining authority, Gosport is currently part of the national subsidy system although, if the Localism Bill gets Royal Assent in June, this will cease to exist from March 2012 (see paragraph 3.16). The Government bases its subsidy calculations on a notional HRA. This notional HRA makes assumptions about the rent levels this Council should be charging. There is currently a variation between the notional HRA rent level assumptions (known as the guideline rent) and actual rents charged to Gosport Council tenants. The difference currently stands at an average of £2.74 rent per week less being charged to Gosport Council tenants than is calculated within the notional HRA. The Government currently calculates that this Council charges £70.72 reduced by £1.09 per property per week to £69.63 after the adjustment for caps and limits on average per week over 52 weeks (2010/11). The actual average charge levied by the Council is £66.89 per week.

3.3.3 The Grant Subsidy system requires a contribution from the HRA calculated on the assumption that this Council charges £69.63 on average per week over 52 weeks. The annual loss to the HRA through not charging tenants at guideline rent is calculated at £454,000.

3.3.4 It is considered essential that the gap between guideline rents and actual rents is reduced and the HRA Business Plan assumes from 2011/12 to 2014/15 rents will increase annually at a percentage point above the increase in guideline rent.

3.4 **Housing Revenue Account Subsidy**

3.4.1 The Housing Revenue Account Subsidy is an assessment of the entitlement to Government support for Council housing based on calculations derived from a 'notional' Housing Revenue Account. In broad terms the Government takes what it believes an Authority needs to spend and deducts from this the income they believe an Authority should raise, this difference being the subsidy entitlement. This Authority's 'notional' income is greater than its notional expenditure, meaning this Authority makes a payment in respect of negative subsidy to the Government.

3.4.2 The housing subsidy settlement for the financial year 2011/12 shows an increase of £102,000 payable to Central Government. This means that the Council will now pay £3.497M in subsidy which equates to £0.31 in every £1 of rent collected.

3.5 **Housing Revenue Account working balance**

3.5.1 The HRA working balance is a reserve of the Housing Revenue Account and is “ring fenced” for this purpose.

3.5.2 The HRA balance as at 31 March 2011 was £439,000. The balance is significantly lower than the target figure of approximately £800,000 (based on £250 per property)

3.5.3 It is estimated that this balance will increase by March 2012 to £700,000 but further expenditure pressures on the Housing Revenue Account are anticipated during the financial year 2011/12 after the letting of the repairs and gas servicing contracts to new contractors. It is important that the balance is maintained at the target level in the medium to longer term and is increased to match business planning assumptions when self financing takes place.

3.5 Improvement and Repairs

3.5.1 The Housing services Asset Management Strategy and Action plan 2011/12 was submitted to Housing Board in March 2011. It is recognised that the full aspirations of this strategy cannot be achieved when taking into account current and predicted Capital resources (as included in the Housing Revenue Account Business Plan).

3.5.2 A report is submitted in March each year to Housing Board detailing the Housing Repairs Programme including the capital investment that can be afforded towards addressing the aims of the Asset Management Strategy.

3.6 HRA Subsidy Reform

3.6.1 The HRA subsidy reform as mentioned above is set for implementation in April 2012. Councils will in effect be buying themselves out of the existing subsidy system. The figure currently attributed to Gosport for this purpose is over £50m and the figure finally determined will be added to any existing borrowing (currently approx £4m) to provide a debt cap.

3.6.2 The debt cap is based upon the value of the local HRA business and how much debt it can afford at the start of 2012/13. The value of the HRA business has been calculated in a similar fashion to the formula used for stock transfers. A final decision will have to be made before January 2012 on how this will be funded.

3.6.3 Initial financial modelling shows that although resources will be similar to those presently available for managing the stock, these are likely to improve significantly as the year’s progress. It is anticipated that the new business plan model will be considered by Community Board towards the end of the summer.

4.0 CAPITAL

4.1 Capital Priorities and Selection Process

4.1.1 In order to ensure that the Council’s Capital expenditure is targeted at achieving the Council’s Priorities capital projects must be evaluated and prioritised before they are recommended for inclusion in the Draft Capital Programme which is considered by Members as part of the budget process.

4.1.2 Proposed schemes are assessed using the Council's Capital Scheme Proposal Form which covers a number of key areas of information including examining how the scheme will contribute to the Council's Strategic Priorities and the outputs/outcomes that will be achieved. The form also requires other important information to be detailed including that relating to the cost (both capital and associated revenue implications), funding, programming and risk associated with the project.

4.1.3 The projects are then considered by the Council's Management Team with particular attention to the contribution to the priorities detailed within the Corporate Plan and associated Corporate Action Statement. The Team then make recommendations to Members on which Schemes should be included as part of the Council's Capital Programme.

4.4 Prudential Framework/Impact on Revenue Account

4.4.1 The Local Government Act 2003 introduced major changes to the capital funding regime with effect from 1 April 2004.The previous system of controlling Councils capital expenditure by limiting borrowing through the use of credit approvals was replaced by a more flexible system based on affordability.

4.4.2 The prudential capital finance system (Prudential Framework) allows the Council to make its own borrowing decisions using agreed professional principles as set out in the Prudential Code to ensure that any new borrowing is affordable and prudent. It is accepted that use of the Code by the HRA will necessitate proper arrangements for debt repayment, although not currently required by statute.

4.4.3 The main advantages of the increased freedom to borrow under the Prudential Framework are:-

(i) The ability to bring forward capital schemes that would not otherwise have been possible to fund in the short to medium term under the previous capital financing regime.
(ii) Spend-to-Save Schemes where the cost of the borrowing associated with the capital expenditure on a Scheme can be wholly or partly met by revenue savings arising as a result of the project being carried out.
(iii) The ability to raise funding up to 3 years in advance when market conditions are favourable.

4.4.4 The expenditure possible under (i) will be limited by the ability of the Council to afford the revenue consequences of the borrowing undertaken. In any event, the anticipated low levels of supported borrowing, capital grants and other capital funding resources together with the national pooling of Housing Capital Receipts has resulted in an increase in the need to borrow to finance Capital Expenditure. The anticipated increase in financing charges can be seen within the projected General Fund Budget (paragraph 2.3).

4.5 **Projected Expenditure**

4.5.1 **Capital Programme 2011/12 – 2015/16**

	2011/12 £,000	**2012/13 £,000**	**2013/14 £,000**	**2014/15 £,000**	**2015/16 £,000**
Community (Housing Stock)	2,643	2,893	2,250	2,250	2,250
Community (General Fund)	7,290	2,245	1,150	1,110	530
Economic Development	25				
Policy & Organisation	405	250	250	250	250
Total Capital Programme	**10,363**	**5,388**	**3,650**	**3,610**	**3,030**
Major Repairs Allowance - HRA	2,200	2,200	2,200	2,200	
Specific Capital Grants - GF	240	240	240	240	240
Developer Contributions for Open Spaces -GF	265				
Developer Contributions for Social Housing - GF	300				
Other Grants and Contributions - GF	425	645	640	600	50
Capital receipts & contributions -GF	650	650	650	513	287
Capital Funding Requirement - GF	5,840	960	-130	7	2,403
Capital Funding Requirement - HRA	443	693	50	50	50
Total Capital Funding	**10,363**	**5,388**	**3,650**	**3,610**	**3,030**

4.5.2 A significant proportion of the planned capital expenditure relates to the Community Board, the main schemes being the new Gosport Leisure Park and the replacement of the Landing Stage, both considered to be high priority.

5.0 TREASURY MANAGEMENT STRATEGY

5.1 The treasury management service is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. Whilst the prudential indicators above consider the affordability and impact of capital expenditure decisions and set out the Council's overall capital framework, the treasury management activity covers the effective funding of these decisions. Taken together they form part of the process which ensures the Council meets the requirement of setting a balanced budget.

5.2 The CIPFA code of practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report will be produced after the year-end to report on actual activity for the year together with the mid-year position. This report includes extracts from the Treasury Management Strategy for 2011/12.

5.3 A key requirement of the strategy is to explain both the risks associated with the treasury service and how those risks are to be managed.

This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Council's borrowing and debt strategy
- The Council's investment strategy
- Treasury performance indicators;
- Specific limits on treasury activities;
- Any local treasury issues.

5.4 Treasury Position

5.4.1 The council had net borrowing of £13M at 31 March 2011 which is forecast to increase significantly during both 2011/12 and 2012/13 at which point it is expected to level off before reducing as capital receipts are raised and applied to reducing debt and capital funding.

5.4.2 The Council's capital expenditure plans will be partially financed by external funds such as capital receipts, capital grants, external contributions and deposits. The remaining element which is not able to be immediately financed from these sources will impact on the Council's borrowing need (the Capital Financing Requirement). This borrowing or net financing need is known as unsupported capital expenditure and must be paid for from the Council's own revenue resources. It is anticipated that the Council will need to borrow substantial amounts over the next few years in order to finance its capital programme, although some of the debt will subsequently be repaid when capital receipts are raised as the property market recovers.

5.4.3 A key risk of the capital funding plan is that the estimated sources of external funding are subject to confirmation and/or negotiation which may cause changes to the budgeted funding pattern. For instance, anticipated asset sales may be postponed due to the continuing impact of the recession on the property market. This will become increasingly important as interest rates begin to rise.

5.5 Expected Movement in Interest Rates

(The following commentary has been substantially derived from the Council's treasury management advisors.)

Short-term rates are expected to remain low for a considerable time. The recovery in the economy has commenced and recent growth data has come in at the high side of expectations. Nevertheless, this higher rate is unlikely to be sustained, with growth expected to revert back to more neutral levels. The danger of a double-dip recession is fading but the crisis in the euro-zone, the prospects of tight economic policies at home and fragile consumer confidence means the threat has still not evaporated completely.

The void left by significant cuts in public spending will have to be filled by a number of alternatives – corporate investment, rising exports and consumers' expenditure. In terms of sheer magnitude, the latter is the most important and a strong recovery in this area is by no means certain. The combination of the desire to reduce the level of personal debt and continued job uncertainty is likely to weigh heavily upon spending. This will be amplified by fiscal policy tightening, outlined in the Budget and expanded upon in the 20 October Comprehensive Spending Review. Without

a rebound in personal spending, any recovery in the economy is set to be weak and protracted.
Inflation performance remains a key risk to the future course of interest rates. Nevertheless, the perceived need to counter the fiscal squeeze via accommodative monetary policy suggests that barring deterioration from the current situation, the MPC will be prepared to hold rates at very low levels until the latter stages of 2011. The outlook for long-term interest rates is favourable in the near term but is set to deteriorate in the latter part of 2011.

5.6 **Borrowing and Debt Strategy 2010/11 – 2012/13**

5.6.1 The continuing uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy. The Borough Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the Interest Rate Forecasts above.

5.6.2 All long-term loans (in excess of 365 days) to be raised through the PWLB, Bond Issue or Loan Receipt (1989 Housing Act) and variable rate loans may be considered. There may also be opportunities to borrow from other public bodies

5.6.3 All short term money market loans (less than 365 days) will be raised through dealings using brokers at the discretion of the Borough Treasurer, including

- Garban Harlow Ueda Limited,
- Tradition UK Limited
- ICAP
- R P Martins

Further funds may be raised directly (ie from other public bodies) without using intermediary brokers or the Council's bank.

5.6.4 In view of the uncertainties and higher risk levels in the money markets, a risk averse policy is being operated that is substantially within the parameters set by Council. Returns are to be maximised by efficiency rather than risk – primarily by enhanced monitoring of capital fund projects rather than by exposing the Council to the market.

5.6.5 The authority to respond to different interest rates throughout the financial year is delegated to the Borough Treasurer. In his absence the Council's response to short term fluctuations is jointly agreed between any two of the Financial Services Manager, the Head of Accountancy and the Group Accountant. There is a clear segregation of duties between setting up and authorising loans and investments. The Council is now in a net borrowing position.

5.6.6 Maturing investments will be required to fund the capital programme and the projected need for available cash resources will be balanced against new capital receipts and the availability of low rates of interest for long term loans through the Public Works Loans Board. The robust management of capital budgets and schemes is a prerequisite to forward planning to ensure the availability and effective use of cash resources.

5.7 **Investment Strategy 2011/12 to 2013/14**

5.7.1 The key objectives of the Council's investment strategy are security, liquidity and yield in that order.

5.7.2 In order to limit interest rate exposure all investments other than short term surplus funds are to be fixed rate transactions. No Investments are to exceed 3 years although most will not exceed 364 days.

5.7.3 New investments to be placed with:-

- The top three building societies (currently Nationwide, Coventry and Yorkshire)
- The Council's bank – NatWest (part of the RBS Group)
- The major British banks and their wholly owned subsidiaries (Royal Bank of Scotland, HSBC, Lloyds/HBOS, Barclays and Co-op)

5.7.4 Short term surplus funds are to be invested in either deposit accounts as operated by the Royal Bank of Scotland and the Bank of Scotland or UK Regulated Qualifying Money Market Funds.

5.7.5 A £3m limit applies with any single group other than the Council's Bank.

5.7.6 Whilst credit ratings may be considered, undue reliance will not be placed on these. There is a clear operational difficulty arising from the current banking situation. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness and interest rates suggests short dated investments may provide lower exposure to risk.

6.0 BUDGET STRATEGY AND PROCESS

6.1 The Council's Corporate Plan 2009-2012 details the Council's Strategic Priorities which are categorised under four main headings namely, People, Places, Prosperity and the Pursuit of Excellence.
The Corporate Action Statements (contained within the Corporate Plan) underpin the delivery of the Corporate Priorities. Any budgetary implications arising from the actions outlined in Service Improvement Plans are included within the Council's initial Draft Budget. Depending on the resource constraints affecting the Council these are either ultimately approved or, if this is not possible, the unit SIP is amended to reflect this.

6.2 Budget preparation commences annually in July and incorporates requirements resulting from Council priorities identified from Capital Strategies, Community Strategy, Corporate Plan and Best Value action plans, culminating in recommendations to Boards and Council the following January/February.

6.3 Budget preparation is "zero-based" where appropriate and new bids are minimised. Maintenance proposals are provided for according to the latest Asset Management Planning requirements.

6.4 Prudent inflation parameters are used in the build up of the initial budgets.

6.5 In the interest of sustainability, the Council will not generally budget to use one-off or short-term income (including grants) on expenditure that is properly part of its base budget requirements.

6.6 Capital projects bids are considered for inclusion within the Capital Programme in terms of affordability, including impact on local tax levels as part of the Budget Process.

6.7 Once the Council’s budget is set and the precepting authorities’ requirements known, the Council sets Council Tax levels for the forthcoming year. (This has to be done by 11 March).

7.0 RISK MANAGEMENT AND INSURANCE

7.1 Risk Management

7.1.1 The Council recognises the importance of an effective risk management process covering all aspects of the significant business risks that the authority faces. Although much has already been achieved, further development of the risk management process remains a key priority of the Council and significant resource has been earmarked for this purpose.

7.1.2 The Council has an agreed Risk Management Strategy in place. All capital schemes must be risk assessed as part of the approval process. In addition a risk register is in operation that assesses financial risks as part of its overall framework. Finally, a corporate risk management group meets to discuss key risk issues that influence the Council's day-to-day business and to further develop and critically review the risk management process.

7.1.3 The Budget report to Council and the Budget Book highlight the principal areas of risk to the budget with an assessment of likelihood and impact.

7.2 Insurance

The Council has a range of insurance policies which help safeguard against many of the higher financial risk areas particularly relating to property and public liability insurance.