

**Harlow District Council**

**Medium Term Financial  
Strategy**

**2005/06 – 2009/10**

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## **Medium Term Financial Strategy**

### **1. Key Messages**

- 1.1 This document sets out the Council's approach to its medium term financial planning.
- 1.2 The Council's strategic financial objectives are:
  - a) Not to rely on 'unidentified savings' to balance revenue budgets
  - b) Keep the Council's debt free position under regular review to ensure that being debt free remains of benefit to the Council
  - c) Arrange the General Fund finances so that from 1<sup>st</sup> April 2005:
    - i. General Fund revenue reserves are maintained at a minimum level of £1.5M in real terms
    - ii. General Fund uncommitted revenue reserves above the minimum level are not used to support the budget except for funding of specific once only items
    - iii. Any increase in Council tax shall be no greater than 2% above the Retail Price Index, with a review to take place on the appropriate inflation index to be used in future years.
    - iv. Revenue budget funds are reallocated from areas of low priority to priority areas
  - d) Carry out annual reviews of fees and charges
  - e) Ensure that there is sufficient investment in the housing stock to secure the Decent Homes standard by 2010
  - f) As required by Gershon, to continually seek to secure savings or introduce new ways of working, particularly in the areas of procurement and 'back office' systems, to provide finance for investment in priority areas
  - g) Continually explore ways of securing additional sources of both revenue and capital income
  - h) Align the Capital Programme with the Council's priorities
  - i) Housing rent levels to be raised in line with Government guidelines
  - j) Maintain an uncommitted HRA reserve at a minimum level of £1.23M
  - k) Keep the Council's investments under review in accordance with the Prudential Code.
- 1.3 A policy of not using revenue reserves to support the budget has been formally adopted.
- 1.4 The total cost of the Capital Programme will not exceed a realistic and affordable assessment of the capital finance available to fund it.
- 1.5 The projects in the Capital Programme are to be reviewed and the whole programme expanded to cover a 5 year period.

- 1.6 The capital project appraisal process is to be made more robust.
- 1.7 The Council will always comply with the Prudential Code.
- 1.8 The Housing priorities are:
- a) Affordable homes - meeting local housing need
  - b) Decent homes - improving the condition of Harlow's homes
  - c) Homes for all - promoting social inclusion and regenerating communities
  - d) Community matters - empowering stakeholders.
- 1.9 The General Fund priorities are:
- a) A clean, safe and sustainable environment
  - b) A prosperous community
  - c) Decent affordable homes
  - d) A caring community with a higher quality of life
  - e) Providing high performing, customer focussed services.
- 1.10 A rolling 5 year medium term financial plan for General Fund expenditure is produced.
- 1.11 The fees and charges policy will be incorporated in a wider income strategy.
- 1.12 The Council will seek to develop existing partnerships and forge new ones to achieve further benefits for the local area, particularly in its priority areas.
- 1.13 The Council is very aware of the need to identify and minimise risks.
- 1.14 The medium term financial plan is monitored on a quarterly basis and this medium term financial strategy is reviewed annually in early September.

## **2. Introduction**

- 2.1 This document sets out the Council's approach to its strategic medium term financial planning and provides an operational framework for both Members and Officers to ensure economic, efficient and effective financial management by the Council on behalf of its residents, taxpayers and other stakeholders. It is a document which also identifies the processes which are used to link corporate priorities to resources and forecast the level of resources needed and available over a number of years. It is based on models used in "excellent" authorities.
- 2.2 The document links to the Council's other corporate and financial strategies, and in particular supports the following:

- a) Council's Corporate Plan
- b) Council's priority areas
- c) Council's C.P.A. Corporate Recovery Plan
- d) The prudential regime for capital finance in local government
- e) Housing business plan
- f) Community Strategy
- g) Council's service plans
- h) Council's Asset Management Plan.

2.3 The aim of the strategy is to enable the Council to establish and maintain a position whereby it:

- a) Achieves its financial objectives
- b) Has balanced capital, housing revenue account and general fund budgets, year on year
- c) Maintains its uncommitted general fund revenue reserves at a 'real terms' level of £1.5M
- d) Can deliver quality services
- e) Can link resources to priorities and decide the level of investment in its priority areas
- f) Can make informed decisions about the level of council tax it needs to levy
- g) Does not raise expectations by embarking on programmes it cannot afford
- h) Can ensure that a stable and sustainable financial position is secured and maintained.

2.4 The Council's strategic financial objectives are:

- a) Not to rely on 'unidentified savings' to balance revenue budgets
- b) Keep the Council's debt free position under regular review to ensure that being debt free remains of benefit to the Council
- c) Arrange the General Fund finances so that:
  - I. General Fund uncommitted revenue reserves are maintained at a minimum level of £1.5M in real terms
  - II. General Fund uncommitted revenue reserves above the minimum level are not used to support the budget except for funding of specific once only items.
  - III. Any increase in Council tax is no greater than 2% above the Retail Price Index, with a review to take place on the appropriate inflation index to be used in future years.
  - IV. revenue budget funds are reallocated from areas of low priority to priority areas.
- d) Carry out annual reviews of fees and charges
- e) Ensure that there is sufficient investment in the housing stock to secure the Decent Homes standard by 2010

- f) As required by Gershon, to continually seek to secure savings or introduce new ways of working, particularly in the areas of procurement and 'back office' systems, to provide finance for investment in priority areas
- g) Continually explore ways of securing additional sources of both revenue and capital income
- h) Align the Capital Programme with the Council's priorities
- i) Housing rent levels to be raised in line with Government guidelines
- j) Maintain an uncommitted HRA reserve at a minimum level of £1.23M
- k) Keep the Council's investments under review in accordance with the Prudential Code.

2.5 The Council's finances fall into two categories:

- a) general fund
- b) housing revenue account (HRA).

and each has expenditure and income of two types:

- a) capital and
- b) revenue.

2.6 There are major areas where housing activity and finances interact with general fund activity and finances such as:

- a) The HRA is a major user of support services from the rest of the Council, for which appropriate charges are levied
- b) The transfer of the major repair allowance to the general fund, although this is being phased out over the next few years.

2.7 Capital expenditure is financed from capital receipts and capital grants in accordance with the Council's capital strategy.

2.8 HRA revenue expenditure is mainly financed from:

- a) Rents charged for Council dwellings and garages
- b) Charges made to leaseholders
- c) Interest on unused HRA capital receipts.

2.9 General Fund revenue expenditure is financed from:

- a) Specific Government grants
- b) Government Revenue Support Grant and share of national Business Rate income (Aggregate External Finance)
- c) Council Tax
- d) Fees and charges
- e) Investment income.

- 2.10 Revenue reserves are reviewed annually and over the past few years have been used to support the budget. The Council recognises that this is not a sustainable position and has adopted a policy of not using revenue reserves to support its budget.
- 2.11 Like all other Councils, in planning its finances, the Council recognises that there will be changes which will affect it financially, but over which it has little, or no, control. Some of those facing the Council in the medium term are:
- a) Changes in interest rates nationally
  - b) Changes in Government grant
  - c) Pay and price increases
  - d) New, or changes to existing, legislation
  - e) Rising pension costs.

### **3. Capital Expenditure and Treasury Management**

- 3.1 Capital spending is essential to the successful delivery of the Council's priorities. The Council is, however, currently restrained by the limited availability of capital and revenue resources to finance capital spending.
- 3.2 Aims, Key priorities and Targets of Capital Expenditure.
- 3.3 The projects in the Capital Programme (as summarised at Appendix A) will be reviewed against a new prioritisation methodology to show the links to the Council's priority areas as set out in the Corporate Plan and to fit available and affordable resources.
- 3.4 These priority areas were identified following extensive consultation with the community, recently via a MORI survey and a SIMALTO exercise conducted by 'Research for Today'. In particular, the HRA projects reflect the Council's decision to retain its housing stock and achieve the Decent Homes Standard by 2010.
- 3.5 The total cost of the Capital Programme must never exceed a realistic and affordable assessment of the capital finance available to fund it.
- 3.6 At present a 3 year Capital Programme is produced. This is to be expanded to a 5 year one to match the period covered by this strategy.
- 3.7 The Council has adopted a capital investment appraisal process (Appendix B) to evaluate all capital projects to determine whether or not a project should be included in the Capital Programme. Links to the Council's priority areas forms part of this appraisal process, but the methodology is not robust enough and will be improved. In particular the revenue implications of projects will be spelt out in terms of additional rent or council tax.

### ***The Prudential Code***

- 3.8 The Local Government Act 2003 brought about a new statutory borrowing regime for local authorities known as The Prudential Code. This new arrangement gives the Council much greater flexibility and freedom to borrow without Government consent than hitherto was the case, as long as it can afford to repay the amount borrowed.
- 3.9 The new arrangements came into effect on 1<sup>st</sup> April 2004 and are based on the principle of self regulation and the concept of prudential management.
- 3.10 The aim of the Code is to support local authorities when making capital investment decisions, to ensure that capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in line with the Council's Community Strategy and Corporate Plan.
- 3.11 The Code prescribes a set of prudential indicators which must be used, and the factors which must be taken into account in order to show that the Council has fulfilled its objectives. They are not used to compare performance between authorities but to measure an individual authority's performance over a period of time.
- 3.12 The Code also lays down clear procedures for setting and revising the prudential indicators with the Council's S151 Officer bearing the responsibility for ensuring that the Council has taken into account all matters specified in the Code and for monitoring compliance with the established limits approved by the full Council before the start of each financial year.

### ***Treasury Management***

- 3.13 The Council has customarily considered and approved an annual treasury management strategy statement as required by the CIPFA Code of Practice on Treasury Management. The Prudential Code referred to above introduced new requirements for the management and reporting of borrowing and investments.
- 3.14 The Council is at present debt free so the question of borrowing does not arise, although provision has prudently been made by the Council under the Code for some limited short term borrowing for cash flow purposes in case the need should arise in the current year. Similar prudent provision will be made in the future.
- 3.15 An Annual Investment Strategy is drawn up as required under the Code. At present the Council has a considerable sum invested (£29.6M as at 1 January 2005). These investments are divided between those managed by the Council's own staff, and those managed by an

external fund manager. The investments are managed so as to secure the best possible return for the Council.

#### **4. Revenue Expenditure**

4.1 Housing Revenue Account.

4.2 Revenue expenditure within the HRA is incurred on:

- a) The day-to-day services provided in maintaining and managing the Council's housing stock
- b) Contributions towards capital expenditure which is not funded from usable capital receipts.

4.3 The Housing Revenue Account Business Plan sets out the Council's priorities for its housing stock. The priorities for council housing in the District are driven by national, regional, sub regional and local housing priorities. They are also informed by the views and perspectives of stakeholders, especially tenants and leaseholders. In addition, local housing priorities are driven by the Local Plan, Community Plan and the Corporate Plan.

4.4 The housing priorities detailed in the Business Plan are:

- a) Affordable homes - meeting local housing need
- b) Decent homes - improving the condition of Harlow's homes
- c) Homes for all - promoting social inclusion and regenerating communities
- d) Community matters - empowering stakeholders.

4.5 Details of the medium term financial planning and financial projections and outcomes are included in the HRA Business Plan. The HRA Business Plan also contains an action plan which sets out responsibilities and timescales for the delivery of activities within the Plan.

4.6 An HRA projection is attached at Appendix C.

#### ***General fund***

4.7 General Fund revenue expenditure is incurred on the day-to-day services the Council provides other than those provided through the HRA. Spend by the Council here falls into two main categories:

- a) Statutory services which the Council is legally obliged to provide, such as refuse collection. Even when the service is a statutory one, the Council sometimes has a discretion as to the level of service provided
- b) Discretionary services i.e. those which the Council is empowered but not legally obliged to provide.

- 4.8 The Council's priority areas for General Fund expenditure are set out in the Corporate Plan as:
- a) A clean, safe and sustainable environment
  - b) A prosperous community
  - c) Decent affordable homes
  - d) A caring community with a higher quality of life
  - e) Providing high performing, customer focussed services.
- 4.9 Gross General Fund expenditure for 2004/05 is currently budgeted to be £53M. This can be analysed as follows:
- a) 34 % - employees expenses (£18M)
  - b) 47 % - Housing Benefit and Council Tax rebates (£25M)
  - c) 19 % - general running expenses (£10M).
- 4.10 A comparison of the Council's General Fund budget with those of others in the locality is attached at Appendix D.
- 4.11 A medium term financial plan for General Fund revenue expenditure is produced on an annual basis.

## **5. General Fund Medium Term Financial Plan 2005/2011**

- 5.1 A General Fund medium term financial plan (MTFP) is developed from this strategy on an annual basis. Rolling 5 year financial forecasts are therefore made, based on the most up to date information available at the time. Like all other Councils, Harlow's financial position is dynamic and budgets will need to be continually monitored to avoid significant under or overspendings.
- 5.2 The Council has adopted a budget monitoring system which involves regular reports to Members via the Budget and Performance Monitoring Working Party and the Policy and Resources Committee.
- 5.3 A copy of the current MTFP is attached at Appendix E. The summary sheet shows that without significant increases in income or reductions in expenditure the required increase in Council Tax could be of the order of:
- a) 28 % for 2005/06
  - b) 12 % for 2006/07
  - c) 11 % for 2007/08
  - d) 10 % for 2008/09
  - e) 10 % for 2009/10
- 5.4 However, the Council is well aware that the Government has said that it will not hesitate to use its capping powers on authorities which raise their Council Tax to an unacceptable level. It is assumed that for

2005/06 an increase of more than 5% would attract Government attention and potential action.

- 5.5 The Plan identifies the level of investment to be made to support the Council's priority areas and also the level (and the detail) of any savings required to meet the Council's agreed financial position.
- 5.6 The Plan will be developed so that there is no confusion about who is responsible for ensuring that the investment and savings shown in the Plan are achieved, and in what timescale.
- 5.7 The Plan will continually identify and recognise the level of spend above which the Council is likely to be subject to 'capping'.

## **6. The Revenue Budgets**

- 6.1 The Council's HRA and General Fund budgets represent the Council's expectations of the cost of providing its ongoing services in a year. As such they are integral parts of the MTFs, reflecting the financial implications of the Council's aims and objectives for the year.
- 6.2 Each year the Council is required by law to approve balanced budgets and in doing so has to decide upon:
  - a) Competing claims for additional expenditure
  - b) The level of investment required in priority areas
  - c) The level of, and the areas in which, savings can be made
  - d) The level of rents and council tax to be levied.
- 6.3 The Council's current Revenue Budget process is set out at Appendix F.

## **7. Fees and charges**

- 7.1 The Council obtains income from fees and charges levied for providing some services. The Government determines some of these charges but there are a number of areas where the Council has a discretion as to whether to levy a charge, and, if it decides to do so, the level of that charge.
- 7.2 The level of fees and charges must be reviewed at least annually in the early Autumn so that any new levels which are agreed for implementation on the following 1<sup>st</sup> April can be well publicised and the additional income reflected in the revenue budgets.
- 7.3 In carrying out the annual review of fees and charges existing charges will be:
  - a) Compared against the legally permissible maximum as well as local and national market rates

- b) Compared against the cost of providing the service
  - c) Compared against the objective for this charge (i.e. charge to make a profit/break even/subsidise).
- 7.4 A wider review of services will be undertaken to identify any where charges could be made but where currently it is not the Council's policy to do so.
- 7.5 The Fees and Charges policy will be incorporated in a wider Income Strategy.

## **8. Key partnerships**

8.1 The Council is committed to working in partnership with local community groups, the voluntary sector and other service providers so that as far as possible the co-ordination of services with community needs is realised and also with a view to maximising economy and efficiency and securing additional funds for the benefit of the local community. The Council is also a member of the Local Strategic Partnership which comprises representatives of other major and local agencies.

8.2 Some of the key partners for the Council are:

- a) Essex County Council
- b) Essex Police Authority
- c) Go- East
- d) ODPM
- e) IDeA
- f) Home Office
- g) Primary Care Trust
- h) Voluntary Sector
- i) Registered Social Landlords
- j) Environment Agency.

8.3 As part of this strategy the Council will seek to develop existing partnerships and forge new ones to achieve further benefits for the local area, particularly in its priority areas.

## **9. Risks**

9.1 The Accounts and Audit Regulations 2003 state that the Council should ensure that its accounting control systems include measures to ensure that risk is appropriately managed.

9.2 The Audit Commission's Code of Audit Practice makes it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks to the Council should be

assessed in the context of the Authority's overall approach to risk management.

- 9.3 The 2002/03 Statement of Recommended Practice (SORP) requires local authorities to include a statement on the system of internal control with the Statement of Accounts, with an option to include a broader statement of corporate governance as set out in the CIPFA/SOLACE Corporate Governance Framework.
- 9.4 The Council is very aware of the need for effective risk management and considers that the assessment and minimisation of all types of risk to be vital. It has an adopted Risk Management Strategy in place, the aim of which is 'for the systematic identification and control of risks, hazards and losses, to reduce the impact of risk upon council decision making'.
- 9.5 The Head of Finance has identified the risks set out in Appendix G as representing the greatest threats to the 2005/06 budgets.

## **10. Monitoring and review arrangements**

- 10.1 The Medium Term Financial Plan included within this Strategy is a living document and is monitored by way of reports to the Policy and Resources Committee on a quarterly basis.
- 10.2 The Strategy itself is reviewed on an annual basis by the Policy and Resources Committee in September of each year so that any changes can be reflected in the revenue and capital budgets for the following year(s).