APPENDIX B: COMPONENTS OF THE STRATEGY

Contents:

Inflation

There will be no contingency provision for inflation, it must be contained within the overall base budget. The only exception to this will be pay awards (which are negotiated nationally), and contractual commitments. For estimate purposes inflation is to be RPI – X as published by the Office for National Statistics. The Government's inflation target will be used for forecasting purposes. Inflation Indices will be monitored quarterly.

Income Strategy

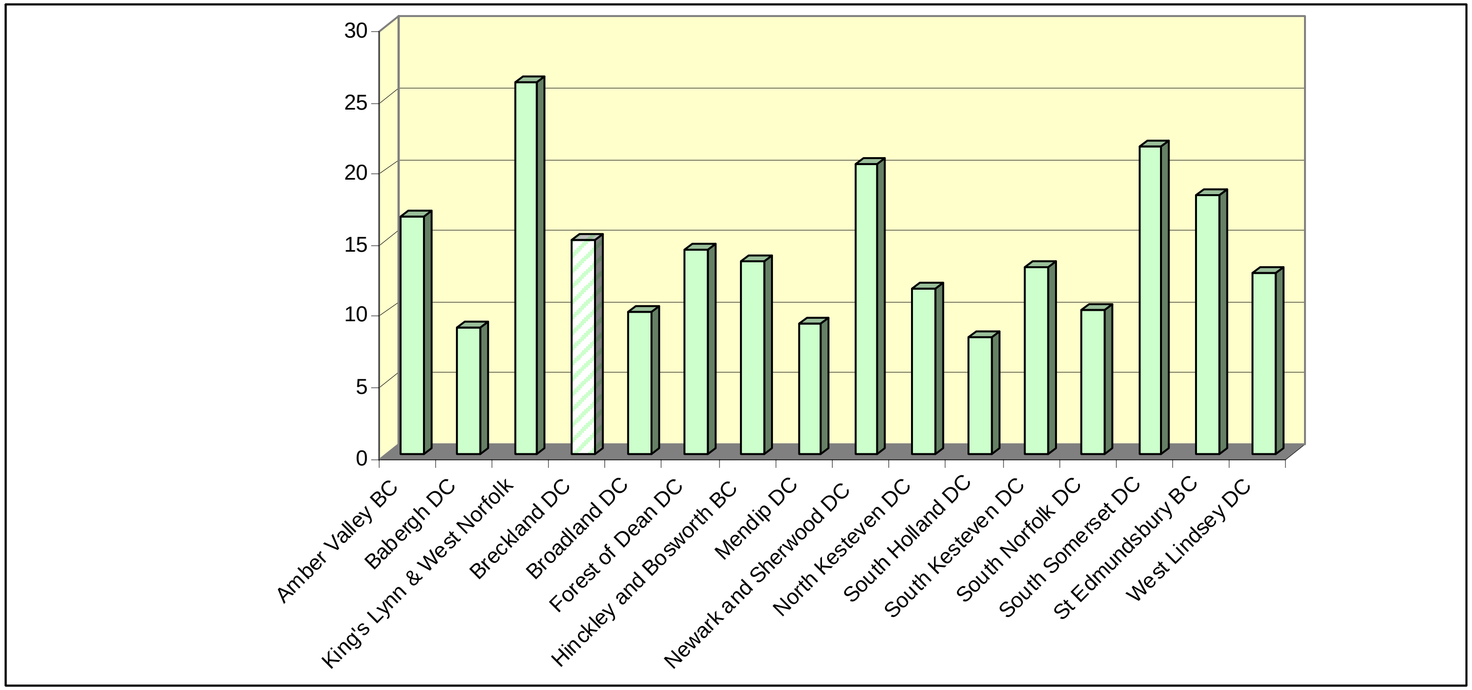
As part of our overall income strategy we will seek to:

- Ensure that the yield from fees and charges matches the increase in base budget for services that levy fees and charges, otherwise the shortfall will fall upon the council tax payer.
- Maximise the return from the Council's asset holdings
- Annually review fees and charges for discretionary services.
- Ensure statutory charges are implemented.
- Monitor compliance with the corporate charging policy and corporate debt policy
- Set targets for income collection and levels of arrears. These will be monitored, reported to managers and members and necessary action taken when needed.
- Maintain detailed collection and recovery timetables governing activity for all major funds.
- Maximise gains from the Local Authority Business Growth Incentive scheme (and successor schemes).
- Maintain and seek to increase our ratio of sales, fees and charges in relation to total expenditure.
- Treat windfall income as a corporate resource. However trading account managers will be given the opportunity to present a business case for re-investment in their service area.

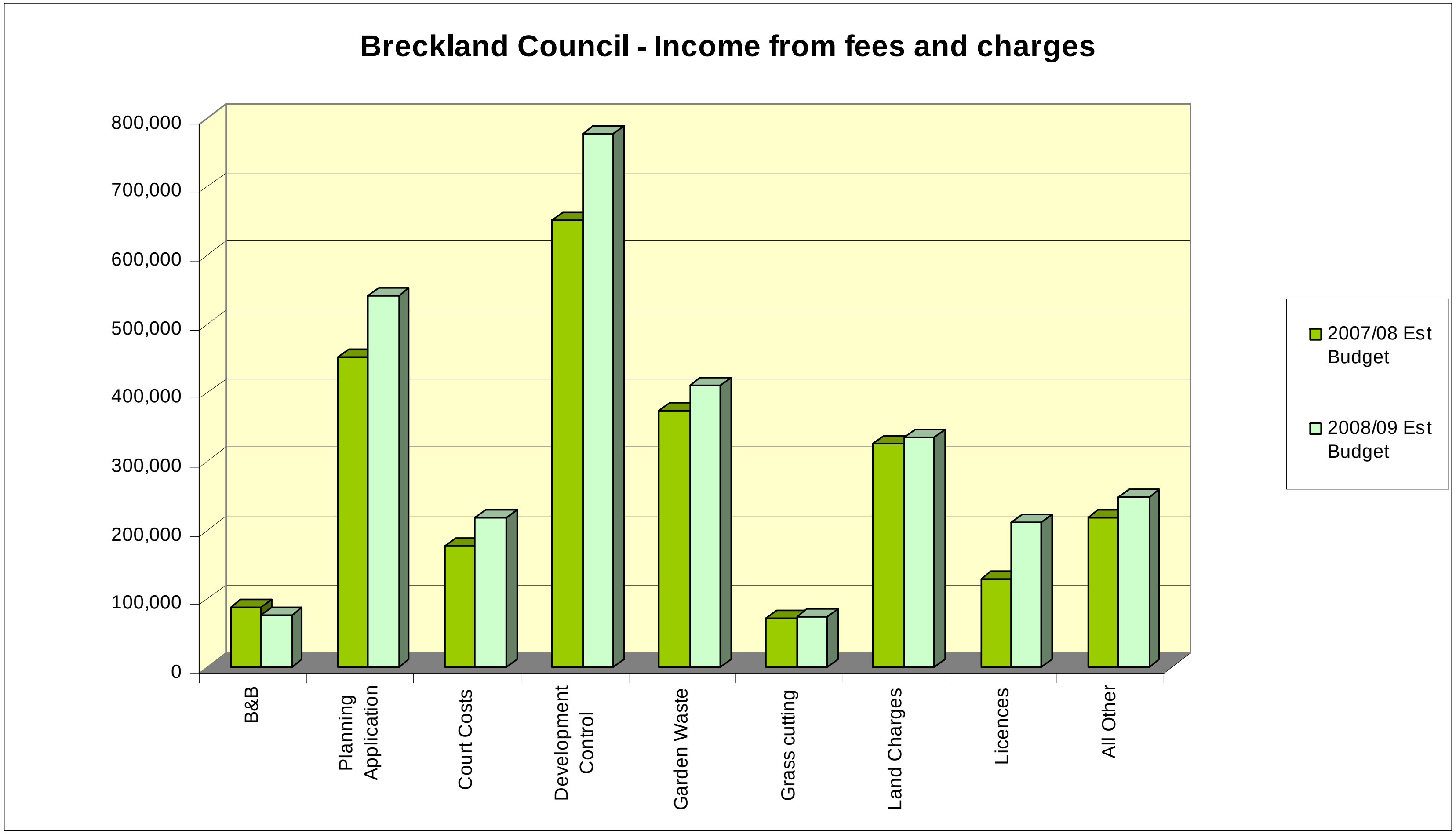
- Measure the subsidy paid to community organisations as the difference between actual rates and commercial rates.
- Establish rules for the operation of Trading Units so that they can trade effectively.
- Use enforcement remedies effectively
- Seek to minimise benefit subsidy losses.

The chart below illustrates income from sales, fees and charges as a proportion of total expenditure for Breckland's nearest neighbours group of comparative councils.

Sales, fees and charges as a proportion of total service expenditure – Nearest neighbours (2006-2007)

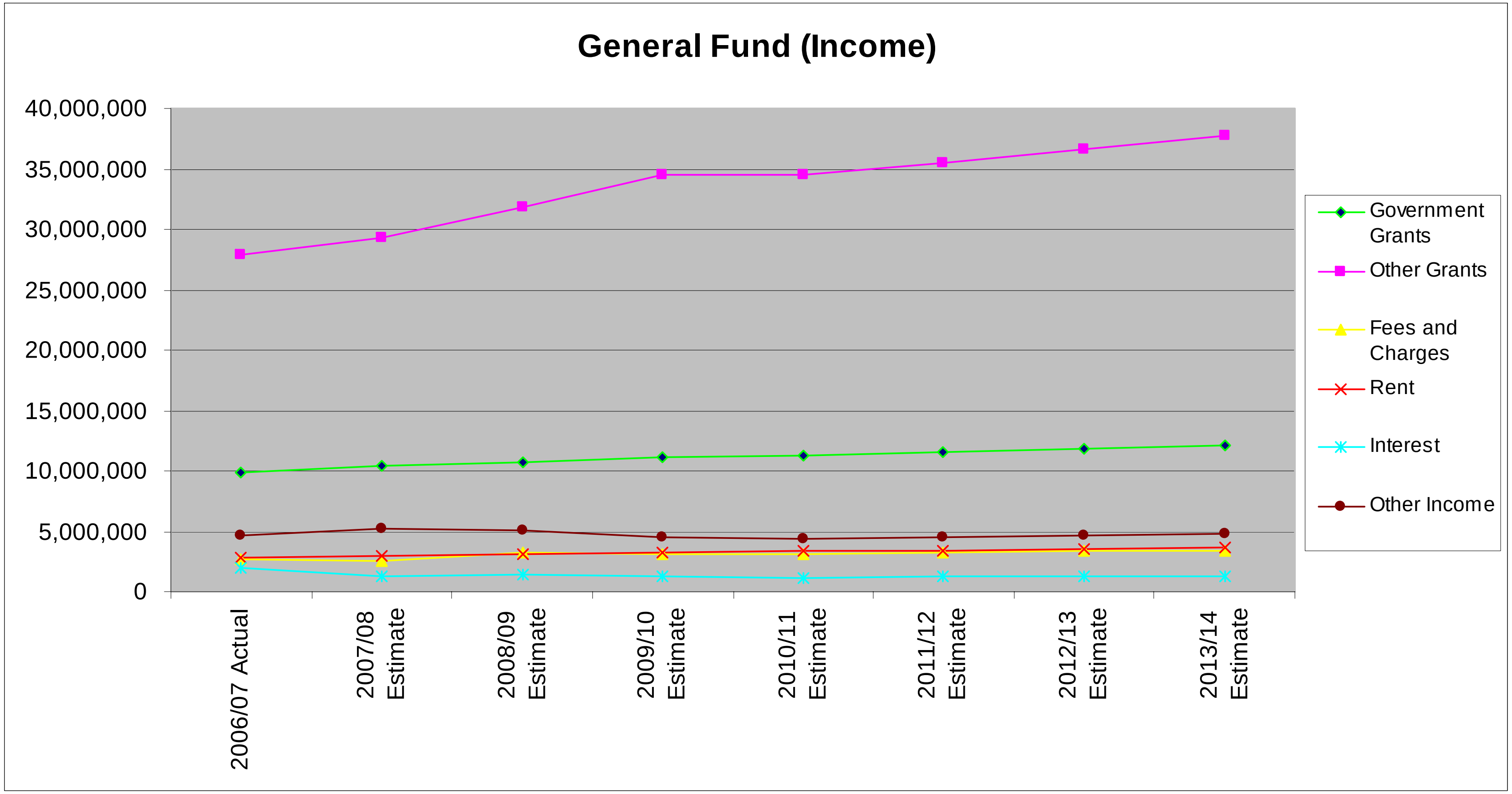


In total £2.9m is due in from fees and charges in the 2008-09 budget. The chart below shows the main categories of fee income in 2008-09 (and 2007-08 for comparison).



This chart excludes income from shared services/partnerships and rental income.

The chart below shows the major categories of income to the general fund from 2006/07 to 2013/14.



Grants

The Council will use external funding opportunities and specific grants to meet Government targets and to improve services e.g. planning delivery grant, DEFRA (Department of the Environment Food and Rural Affairs), waste grant, benefits funding. However, where grants are available only over fixed timescales, we will have a defined exit strategy or efficiency programme to ensure the ongoing cost doesn't fall upon the council tax payer or tenant.

We will endeavour to claim up to the maximum subsidy entitlements on grants.

We will follow the Audit Commissions guidance on grants **'***Claims and returns: Good practice for authorities'.*

Lobbying

The authority is committed to lobbying the Government to secure adequate funding for local authorities. We will support the Authority's membership of special interest groups that reflect our issues. We will also work with the Norfolk Finance Officers' Group and the Society of District Council Treasurers. We will focus our lobbying on a number of key issues such:-

- Government grant distribution formula, and the raw deal that very rural areas get from the formula
- Population especially migrant workers

Council Tax Base

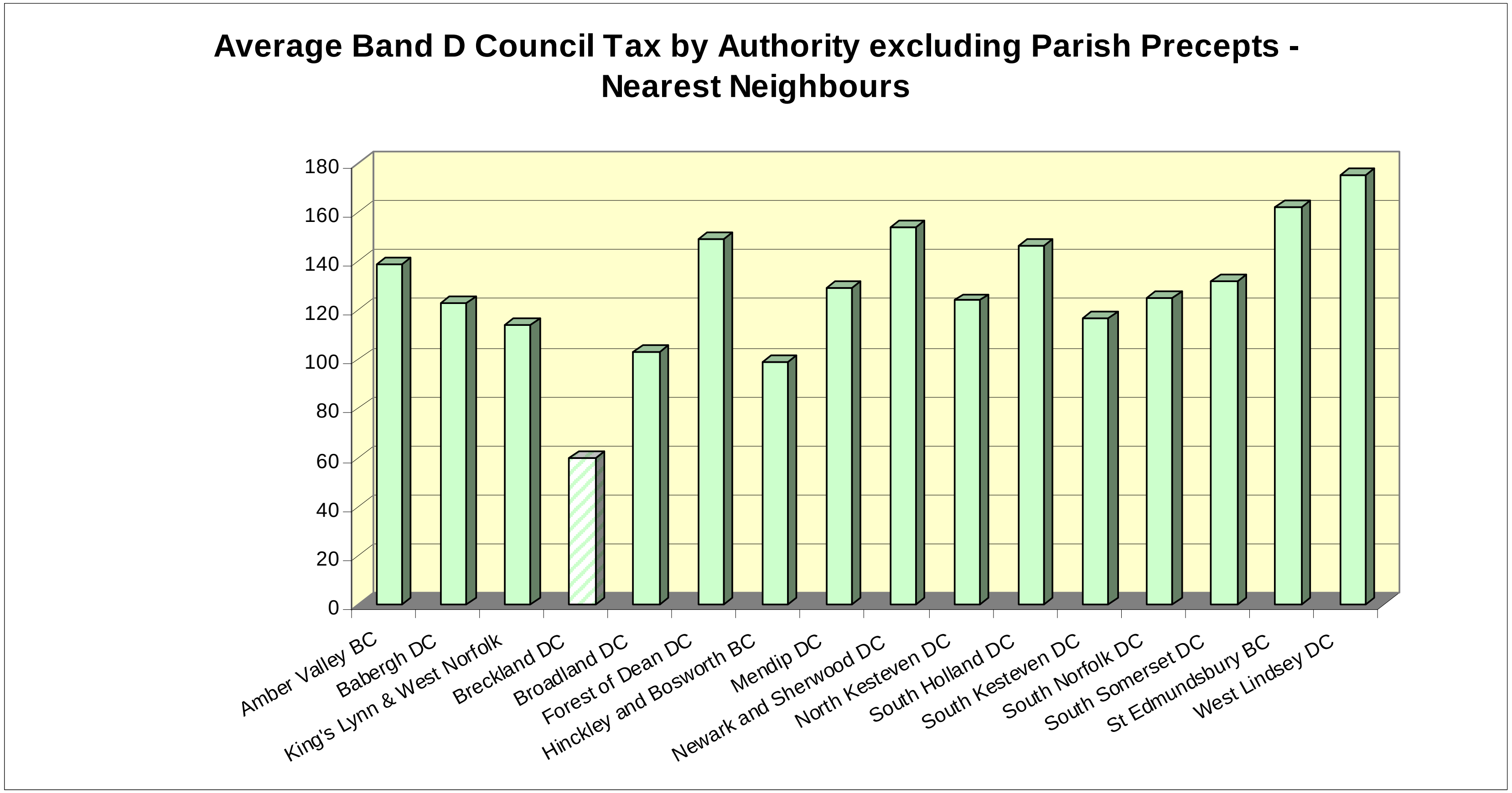
As part of our strategy we will work to refine our estimating processes to ensure that the tax base is set at a maximum achievable level for council tax setting purposes and spans a five year time horizon.

	Norfolk County Council £	Norfolk Police Authority £	Breckland (incl. Special Expenses) £	Parish £	Total £	Increase %
2002/03	758.52	100.35	48.89	36.42	944.18	
2003/04	879.12	121.95	50.60	38.59	1,090.26	15.5
2004/05	929.70	138.69	56.84	39.86	1,165.09	6.9
2005/06	956.70	145.53	57.98	42.21	1,202.42	3.2
2006/07	1,004.40	154.17	59.14	46.37	1,264.08	5.1
2007/08	1,052.10	164.88	60.32	49.25	1,326.55	4.9
2008/09	1,091.52	178.56	61.98	52.15	1,384.21	4.4

Of all the homes in our area 78% are in Bands A-C, 55% are in Band A or B. The majority of homes pay less than £1.19 a week towards the District Services we provide. An average property in Breckland is in band B rather than band D as originally assumed by the Government. Therefore, the average council tax in Breckland in 2008/09 is £1,077 rather than the headline figure of £1,384. This represented an increase of £5.90 per week on an average property in Breckland.

In England the average council tax in 2008/09 for a Band D dwelling (occupied by two adults, including parish precepts) is £1,374, compared with £1,321 in 2007/08. This equates to an average decrease in council tax between 2007/08 and 2008/09 of 4%. *(Source: ODPM March 2008).* Average Band D council taxes are £1,292 in London, £1,408 in shire areas and £1,292 in metropolitan areas. These figures are before any reductions due to discounts or benefits.

The Audit Commission compares us with our nearest neighbours (similar types of authority) – the following graph shows average Band D Council Tax levels including Parish Precepts for 2006/07.



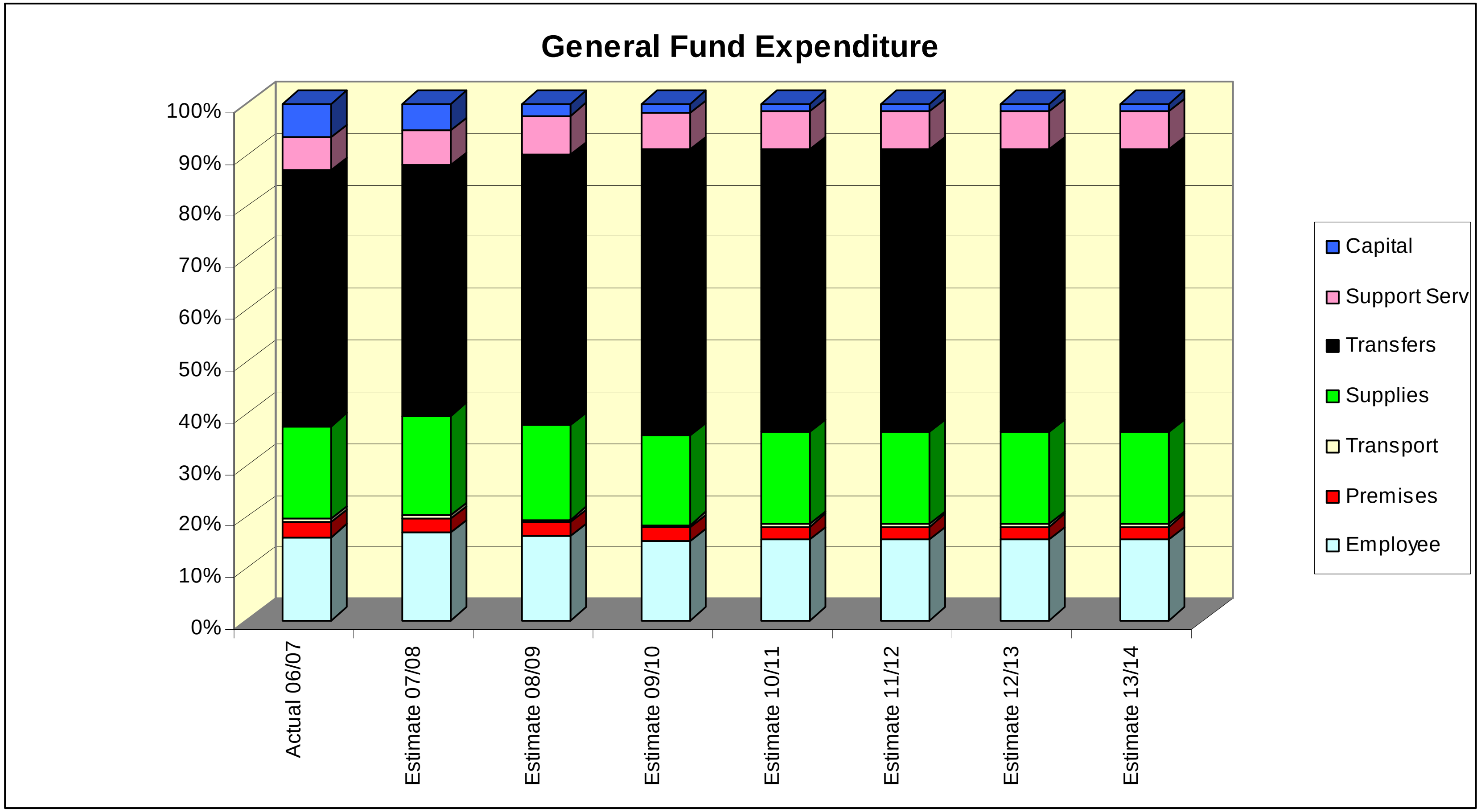
The Comprehensive Spending Review 2007 (CSR07) covers the three year period 2008/09 to 2010/11. Formula Grant allocations for each council were announced in early December 2007 and finalised in late January 2008. A sensitivity analysis was undertaken as part of the estimate process starting with a base of a real term reduction in grant funding.

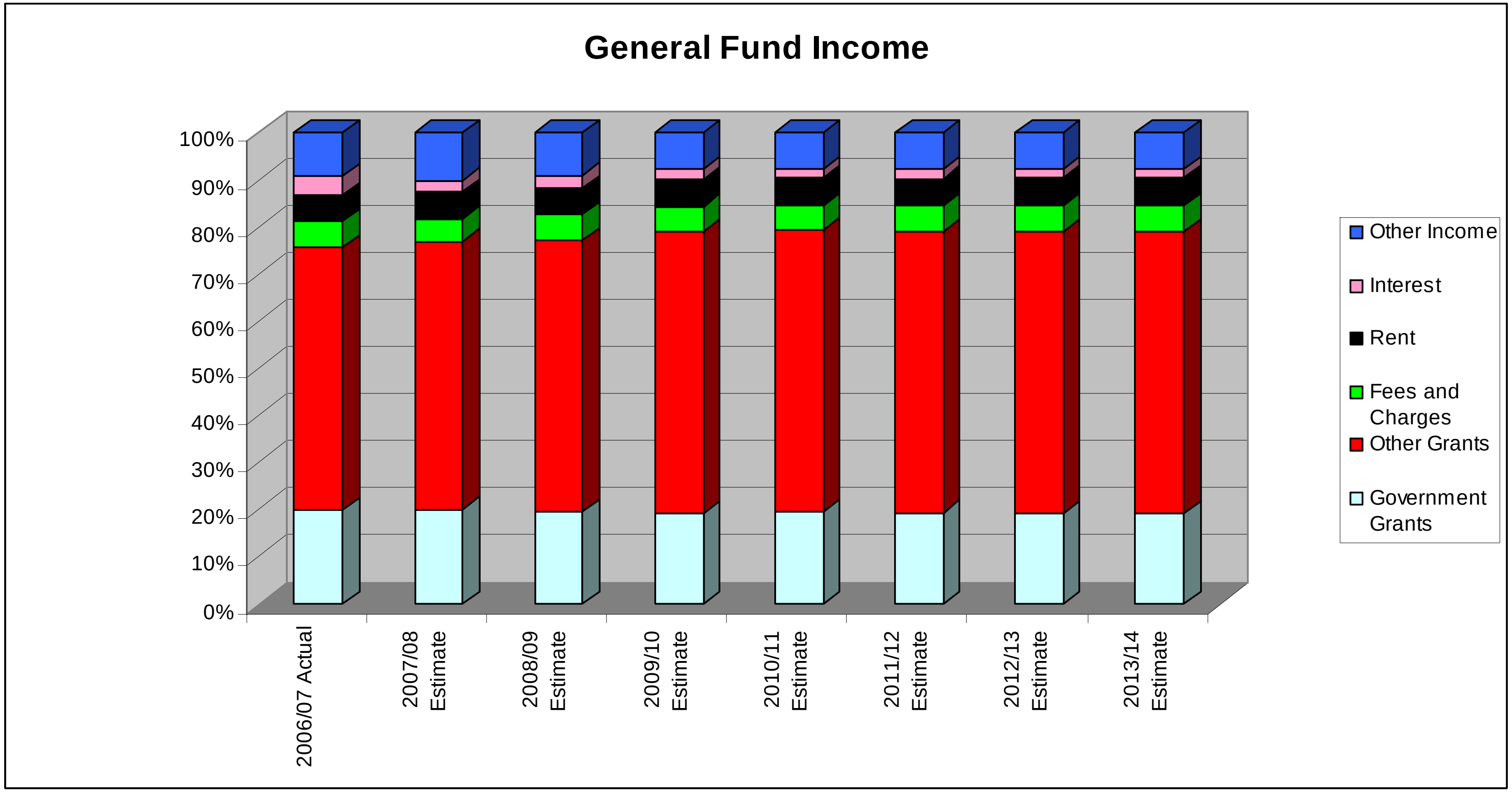
	2005/06 Final £000's	**2006/07 Final £000's**	**2007/08 Final £000's**	**2008/09 Final £000's**	**2009/10 Provisional £000's**	**2010/11 Provisional £000's**	**2011/12 Predicted £000's**	**2012/13 Predicted £000's**	**2013/14 Predicted £000's**
RSG	5,061	1,597	1,494	9,456	9,707	9,927	10,153	10,383	10,619
NNDR	3,594	8,276	8,905	1,316	1,351	1,382	1,413	1,445	1,478
Total	**8,655**	**9,873**	**10,399**	**10,772**	**11,058**	**11,309**	**11,566**	**11,828**	**12,097**

The table below shows predicted revenue budgets

	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Target Council Tax Band D	£60.32	£61.98	£63.68	£65.43	£67.23	£69.08	£70.98
Target council Tax Increase		2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Forecast Base Budget (excl parish precepts)	£2.50m	£2.60m	£2.71m	£2.82m	£2.94m	£3.06m	£3.18m
Predicted Government Grant	(£10.40m)	(£10.77m)	(£11.06m)	(£11.31m)	(£11.57m)	(£11.83m)	(£12.10m)
Estimated Collection Fund surplus/(deficit)	(£0.00m)	£0.06m	(£0.00m)	(£0.00m)	(£0.00m)	(£0.00m)	(£0.00m)
Estimated Council Tax Base	41,447	41,996	42,552	43,116	43,687	44,266	44,852

The tables below show how the components of income and expenditure are made up. Supplies and Services costs are the most significant expenditure area which is under our direct control, closely followed by Staffing costs. Many aspects of transfer payments are demand led and re-imbursed through government grant e.g. housing benefit payments.




General Fund Income
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2006/07 Actual
2007/08 Estimate
2008/09 Estimate
2009/10 Estimate
2010/11 Estimate
2011/12 Estimate
2012/13 Estimate
2013/14 Estimate
Other Income
Interest
Rent
Fees and Charges
Other Grants
Government Grants

Council Tax

Members have indicated that they wish to see the percentage increase in council tax fixed over the next five years; however, this will be dependent upon the grant support the authority will receive.

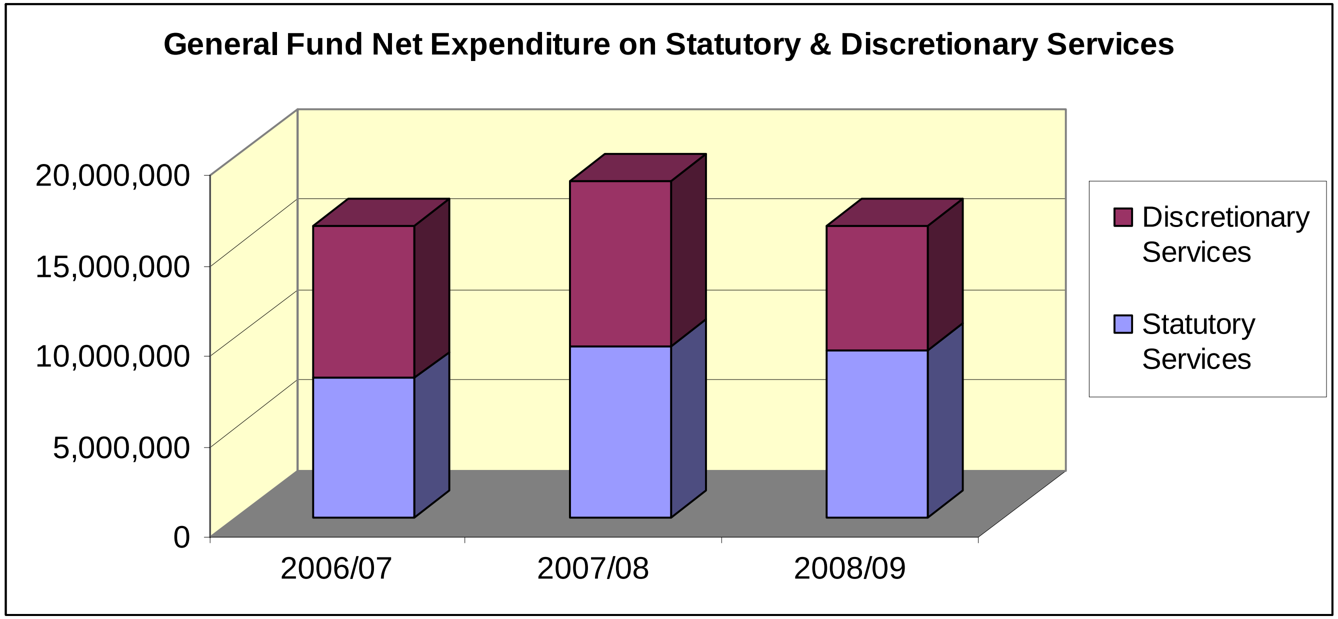
Discounts for Second Homes

We apply council tax discount for second homes at a minimum of 10%. Income from second homes will be ring-fenced to support the community and affordable housing initiatives.

Resource Allocation

To demonstrate how we make best use of our resources, we analyse our budgets to show how they support our corporate priorities. We will use our resource allocation model to identify how the different budget areas contribute to Breckland's priorities.

An analysis of net General Fund expenditure on statutory and discretionary services over the period 2006/07 to 2008/09 is shown below.



Comprehensive Performance Assessment (CPA)

The Authority was judged as fair under ‘CPA’. The Council is committed to achieving a level 3 "consistently above minimum requirements -performing well" and has an improvement plan. The council will be subject to an annual Use of Resources assessment and a Direction of Travel review.

Breckland : CPA Use of Resources Scores			
	2004/05	2005/06	2006/07
Financial Reporting	3	2	1
Financial Management	2	2	2
Financial Standing	2	2	2
Internal Control	2	2	2
Value for Money	2	2	2

Partnerships

The local authority is uniquely placed to bring together private, public and voluntary groups in the community to drive forward change. The Audit Commission have advised that if governance arrangements within partnerships are weak, or not fully thought through, then the partners discharging the accountable body role are at risk either financially or reputationally. As part of our strategy the desire to avert risk will not undermine the opportunity to use partnership arrangements to deliver improved services, as a solution we will ensure sound systems are in place.

We will ensure that there are effective controls and governance arrangements in place when the authority is the ‘accountable body’. This will be underpinned by clear and well documented internal controls.

Balances and reserves

Reserves are defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as follows:

“Amounts set aside for purposes falling outside the definition of provisions should be considered as reserves, and transfers to and from them should be distinguished from service expenditure disclosed in the Statement of Accounts’.
A statement of the adequacy of reserves is prepared as part of the Council Tax setting reports. Reserves are reviewed annually by the Corporate Management Team and the Cabinet will receive a report on the Authority’s reserves, together

with an assessment of the key financial risks.

Part 11 of the Local Government Act 2003 introduces a requirement for the Chief Financial Officer to report upon the robustness of the estimates made for the purposes of the budget and tax setting calculations and the adequacy of proposed reserves. There will be an assessment of the minimum level of reserves linked to:

The risks identified in the corporate risk register.
Demand led services and pressures upon them
Inflation and interest rates
Underwriting arrangements

We will set out to manage the risk and uncertainties by demonstrating that reserves and balances represent at least a minimum level after allowing for contingent liabilities. Setting the level of general reserves is one of the decisions to be made in the formulation of the medium term strategy.

The General Fund Balance will not be used to provide an on-going revenue funding stream with the exception of the costs of re-structuring, pension capital costs and associated costs. Consideration will also be given to short term fund initiatives (1 yr – 3 yrs), that themselves will have ongoing positive revenue funding implications. These initiatives are known as 'invest to save' options, with savings being returned to General Balances. We recognise that we need to realign our General Fund Balance to our preferred level and we will use the capital programme to help achieve this.

Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management. Expenditure should not be charged direct to any reserve.

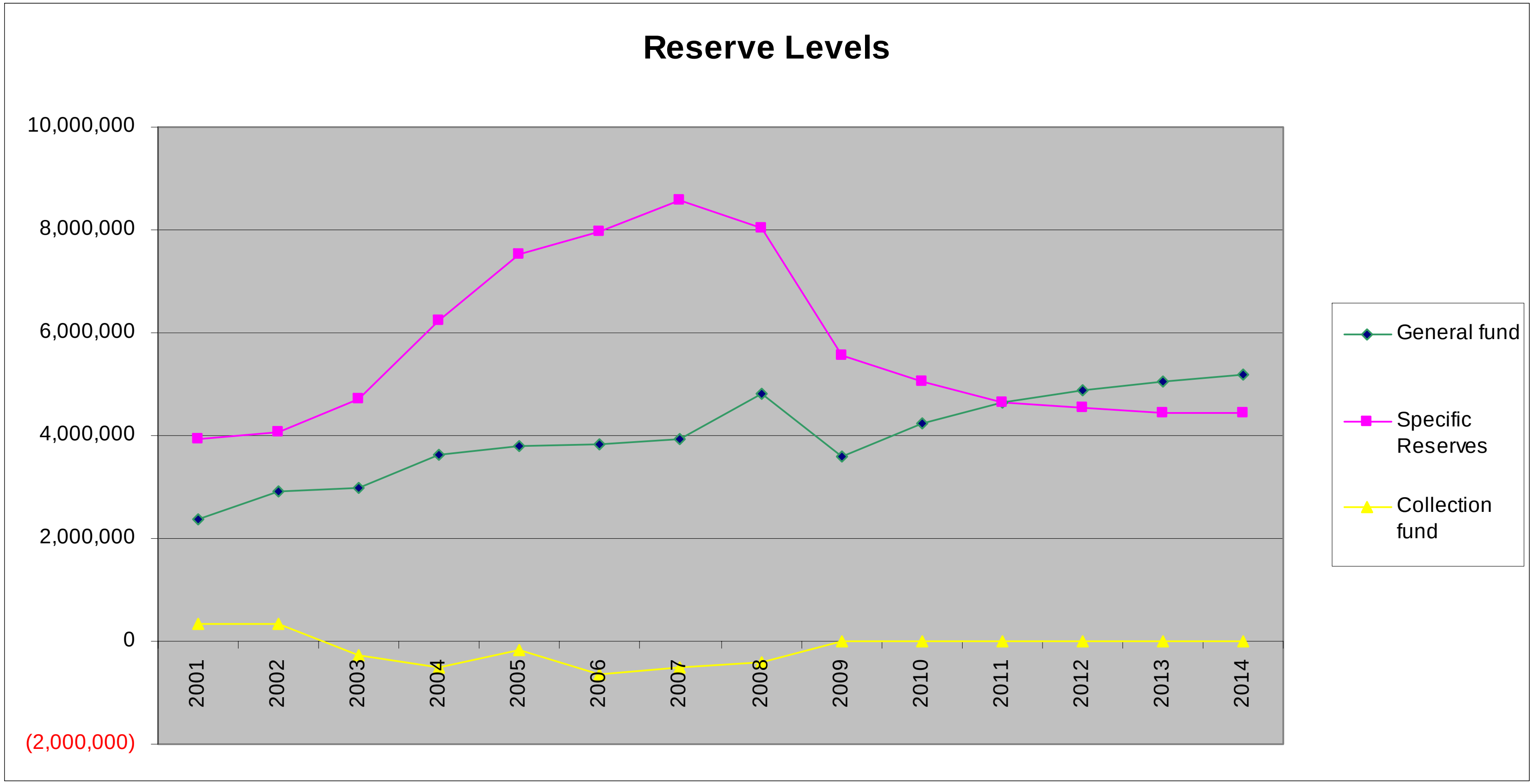
For each reserve held there will be a statement setting out:

The reason for/purpose of the reserve
How and when the reserve can be used

A process for annual review
Minimum and maximum levels

The Authority’s exposure to risk is regulated by the Corporate Management Team. Whilst it is generally accepted that risk mitigation does not necessarily drive a material increase in spending, it should nevertheless be borne in mind that risk exposure will influence the level of general reserves year by year. An assessment of the risks faced by the Council has been undertaken using a risk matrix. An evaluation was made of the short/medium term risks to the Council which could lead to overspends in 2007/08 and an evaluation of the factors which could impact on the Council’s reserves over the longer term. In setting the level of General Balances, consideration has been given to the adequacy of financial control, the overall financial position, Medium-term financial plans and the strategic, operational and financial risks facing the Authority. Following this review, it is proposed that General Balances are set at a minimum level of £2m.

Reserves 2001-2013



Provisions

The CIPFA SORP “Statement of Recommended Practice” is prescriptive about when provisions are required. A provision must be established for any material liabilities of uncertain timing or amount to be settled by the transfer of economic benefits. As part of our overall strategy we will comply with the SORP.

Approved Treasury and Investment Strategy

This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heads of **Specified Investments** and **Non-Specified Investments**.

This Strategy also sets out:

The procedures for determining the use of each asset class (advantages and associated risk), particularly if the investment falls under the category of “**non-specified investments**”;

The maximum periods for which funds may be prudently committed in each asset class;

The £ or % limit to be invested in each asset class;

Whether the investment instrument is to be used by the Council’s in-house officers; and, if non-specified investments are to be used in-house, whether prior professional advice is to be sought from the Council’s treasury advisors;

The council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Revised Code of Practice on Treasury Management. The primary requirements of the Code are to set out the policies and objectives of the Council’s Treasury management activities, maintain Treasury Management Practices, preparation of a strategy, annual review and scheme of delegation.

The current strategy covers:

- the current treasury position;
- prospects for interest rates;
- treasury limits in force which will limit the treasury risk and activities of the Council;
- the borrowing strategy;
- the investment strategy;

- debt and investment projections;
- treasury performance indicators;
- the extent of debt rescheduling opportunities;
- any extraordinary treasury issues

We will set our minimum revenue provision at the basic rate for the General Fund. This will be reviewed if we undertake any borrowing.

5 Year Cash Flow Forecast					
Year	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Investments opening balance	30,000	27,000	24,000	23,000	28,000
(Reduction)/Increase	(3,000)	(3,000)	(1,000)	5,000	0
Investments closing balance	27,000	24,000	23,000	28,000	28,000

Balance Sheet

The balance sheet position has been updated as at 31st March 2008 and shows the last 3 financial years.

Consolidated Balance Sheet – Last 3 years			
	31st March 2006 £000's	**31st March 2007 £000's**	**31st March 2008 £000's**
Fixed Assets			
Intangible Fixed Assets	476	351	178
Tangible Fixed Assets:			
Operational assets			
Other land and buildings	9,803	9,926	11,247
Vehicles, plant and equipment	1,522	1,284	1,086
Infrastructure assets	55	55	67
Non-operational assets			
Surplus land and buildings	5,783	6,033	6,669
Investment properties	20,156	26,985	29,030
Assets under construction	217	1,159	1,047
Total fixed assets	**38,012**	**45,793**	**49,324**
Long term investments	15,000	15,000	11,000
Long term debtors	4,593	6,293	6,018
Total long term assets	**57,605**	**67,086**	**66,342**
Current Assets			
Debtors	6,092	5,460	6,568
Bank balance	159	529	70
Investments	30,268	21,294	29,255
Total assets	**94,124**	**94,369**	**102,235**

Current Liabilities			
Creditors	(5,119)	(4,576)	(6,233)
Bank overdraft	0	0	0
Total assets less current liabilities	**89,005**	**89,793**	**96,002**
Long term liabilities			
Provisions	0	0	(40)
Capital contributions – deferred	(1,492)	(1,380)	(1,061)
Deferred credits	(334)	(611)	(683)
Capital contributions - unapplied	(179)	(205)	(564)
Liability related to defined benefit pension scheme	(14,600)	(10,100)	(6,763)
Total assets less liabilities	**72,400**	**77,497**	**86,891**
Financed by:-			
Fixed Asset Restatement Account	(7,496)	(7,341)	0
Capital Financing Account	79,360	77,953	0
Capital Adjustment Account	0	0	67,896
Revaluation Reserve	0	0	4,570
Capital receipts	3,972	4,996	8,358
Pensions reserve	(14,600)	(10,100)	(6,763)
Fund balances and reserves	11,164	11,989	12,830
Total net worth	**72,400**	**77,497**	**86,891**

Balance Sheet Analysis

We have analysed our balance sheet components, assessing them against financial and non-financial dimensions. The results of this analysis will be compared with related risk management activity.

	Materiality				
Balance Sheet Component	**Balance sheet values**	**Impact on operating costs**	**Criticality of area to operational delivery (eg: assets used for delivery – critical areas)**	**Past experience (eg: history of material error/ fraud/ poor performance)**	**Judgement: area where specific expertise is required?**
Intangible fixed assets					
Tangible assets – operational					
Tangible assets – non-operational					
Long term investments					
Long term debtors					
Debtors					
Bank balance					
Investments					
Creditors					
Bank overdraft					
Capital contributions – deferred					
Deferred credits					
Capital contributions – unapplied					
Liability related to defined benefit pension scheme					
Fixed Asset Restatement Account					
Capital Financing Account					
Useable capital receipts					

	Materiality				
Balance Sheet Component	Balance sheet values	Impact on operating costs	Criticality of area to operational delivery (eg: assets used for delivery – critical areas)	Past experience (eg: history of material error/ fraud/ poor performance)	Judgement: area where specific expertise is required?
Pensions reserve					
Fund balances and reserves					

Key:

	High risk
	Medium risk
	Low risk

Strategic Financial Measures

Strategic Financial Measures	07/08 Actual	08/09 Forecast
Surplus and Liquid Assets		
> Commercial Property trading surplus or deficit as %age of income	4.48%	4.83%
> Accumulated surplus (general fund) as %age of income	10.22%	8.35%
> Ratio of current assets to current liabilities (current ratio)	1.06	n/a
> Percentage return on investments	5.42%	5.16%
> Percentage return on Commercial Property Assets	6.61%	n/a
Efficiency		
> Support costs as %age of total costs	7.67%	8.96%
Assets		
> Utilisation/occupancy	97.61%	90.0%
> amount spent on major refurbishment or replacement as %age of current replacement cost/insurance value	1.15%	4.93%
> amount spent on maintenance as %age of current replacement cost/insurance value	0.09%	0.14%
Staff		
> Investment in staff development as %age of gross pay	1.52%	2.39%
> Number of support staff in relation to front line staff	13.92%	18.76%
IT and equipment		
> spend on IT as a %age of costs	2.32%	2.59%

Notes:

This is the first year that we have calculated these indices. Many of the measures are standard accounting ratios, developed for use in the private sector. We intend to monitor trends and benchmark with other local authorities to compare our performance with other similar organisations.