MEDIUM-TERM FINANCIAL STRATEGY

2014/15
&
2015/16



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INTRODUCTION

1. This Strategy provides an overarching framework which sets out the context in which future decisions on resource allocation and budgeting will be taken. The primary purpose of this Strategy is to provide an indication of the future financial position of the Council facilitating the preparation of the annual budget. It ensures that available resources are aligned to strategic intent and business objectives. Given the current financial climate, the need to consider the medium term financial outlook is pertinent to ensuring sustainable service delivery and for the Council to remain viable as a going concern. It also describes how the Council will structure and manage its finances to ensure that it fits with and supports the achievement of the Council's objectives.

2. This Strategy includes:

   - Financial Context and a high level overview of funding changes likely to affect the strategy;
   - An Impact Assessment of the Revenue Budget 2013/14 on future years;
   - Illustrative scenarios and potential Gap Analysis for 2014/15 and 2015/16;
   - Opportunities, Risks and Underlying Assumptions;
   - Reserves Forecast, including a Reserves Strategy;
   - Financial Performance 2012/13; and
   - Monitoring and Review

3. This Strategy reflects the approach adopted in a number of other strategies and policies adopted by the Council, which should be read in conjunction with this document. These include the Revenue Budget 2013/14, the Statutory Report of the Chief Finance Officer, Asset Management Strategy, the Capital Strategy and the Treasury Management Policy. In addition the Corporate Charging Policy and the Reserves Strategy are of fundamental importance and are included as appendices to this document.

4. The medium-term financial planning process has been in place for a number of years and is now an established part of the budget setting process. It provides a forecast of the cost of continuing to provide existing levels of service and the resources that are likely to be available to the Council over the period. It sets out the potential budget gap to inform the Executive and to determine the overall size of the efficiencies and cost reduction programme needed over the medium term.

5. The overall aim of the Financial Strategy is to identify resources to meet the Strategic Objectives set out in the Corporate Strategy, as set out below:

   - PEOPLE

     PE1 Strong visible leadership for the Council and the Borough
     PE2 Developing opportunities and sustaining ambition of local residents
     PE3 Ensuring services to vulnerable groups are protected wherever possible
     PE4 Improved health standards

- <u>PERFORMANCE</u>

  PF1 Improved value for money
  PF2 Improved performance
  PF3 Improved services

- <u>PLACES</u>

  PL1 Making the Borough cleaner
  PL2 Making the Borough safer
  PL3 Making the Borough greener

- <u>PROSPERITY</u>

  PR1 Developing a diverse business base with an entrepreneurial culture
  PR2 Establishing Burnley as a key retail and service centre in Pennine Lancashire
  PR3 Establishing Burnley as an attractive, alternative place to live, work, and play
  PR4 To enhance Burnley's reputation as a regional advanced manufacturing centre
  PR5 To improve skills, qualifications and employability of the Borough's workforce

6. Underpinning the Corporate Strategy are the individual service plans and a number of other key strategies and plans as set out below. In each case, these set out the detail of how the Council will achieve its objectives and the relevant milestones that will measure progress.

   - Asset Management Strategy
   - Information Technology Strategy
   - Risk Management Strategy
   - Workforce Plan
   - Housing Strategy
   - Economic Development Strategy
   - Capital Strategy
   - Organisational Development Strategy
   - Homelessness Strategy
   - Waste Management Strategy
   - Treasury Management Strategy
   - Customer Access & Service Strategy
   - Green Spaces Strategy
   - Sustainability Action Plan
   - Car Parking Strategy

7. In all cases, the resources required are developed during the business planning cycle and fed into the budget process. This Strategy enables these commitments to be identified and incorporated into the Council's overall spending plans.

FINANCIAL CONTEXT

8. The financial year 2013/14 sees the introduction of new funding arrangements for local government. This Medium-Term Finance Strategy is based on a forward forecast of the new arrangements, as they are projected to impact on Burnley Council. Key changes to the local government settlement 2013/14 are:

   - An ability to retain locally a proportion of any increase in business rates;
   - A new calculation of Spending Power reduction;
   - The introduction of the Efficiency Support Grant (ESG) for some authorities, including Burnley;
   - Localisation of Council Tax Support; and
   - Permitted increase in council tax beyond which a local referendum would be triggered.

BUSINESS RATE RETENTION

9. Prior to 2013/14, business rates were collected by local government and paid into a national pool and redistributed to local government as part of formula funding, in essence this meant, for councils such as Burnley, that any variation in business rates collected, ie, any increase in business rates or any reduction in business rates collected locally, did not affect the Council's financial performance as the Council's contribution from the national pool was fixed as part of the local government settlement.

10. With effect from 2013/14, Burnley will now receive a local allocation of business rates and will be able to retain a proportion of business rate growth or bear an element of risk in the event of a reduction in collected business rates. Whilst the arrangements are complex, in essence, Burnley is able to retain 20% of any increase in business rates. In the event that Burnley achieves a 10% increase in its business base, Burnley Council will receive additional £529k in funding. Conversely, a safety net threshold has also been introduced to protect the Council from significant business rate reductions. For Burnley, this means that the Council's financial position underwrites losses of up to £279k.

SPENDING POWER

11. Previously, in 2011/12 and 2012/13, Spending Power reduction between financial years was limited to a maximum reduction of 8.8% and Transitional Grant was provided to those authorities to ensure that they did not experience losses greater than 8.8%. In 2012/13, Burnley Council received £3.2m in Transition Grant.

12. For 2013/14, the Government has continued to calculate Spending Power reductions for 2013/14 and 2014/15. The scope of Spending Power includes not only formula funding but also an assessment of precept (council tax receipts) and certain specific grants such as Efficiency Support Grant (2013/14 only), Council Tax Support Grant and New Homes Bonus. A comparison of Burnley Spending Power with other local authorities can be shown in the table below. In essence, Burnley is facing Spending Power reductions of 4-5 times the national average.

	Burnley (%)	England Average (%)	Ratio
2013/14	8.8	1.7	5 times
2014/15	15.1	3.8	4 times

13. The headline Spending Power reductions for Burnley of 8.8% and 15.1% for 2013/14 and 2014/15 respectively however are, in reality, much greater cash reductions of Government funding of 16.7% for 2013/14 with a further 32% reduction for 2014/15.

EFFICIENCY SUPPORT GRANT

14. Seven authorities, including Burnley, will see Spending Power reductions of greater than 8.8% in 2013/14 and are eligible to apply for additional grant funding known as the Efficiency Support Grant. This funding is conditional on the preparation and implementation of a business case outlining a transformational programme of work to deliver sustainable savings. If successful, the Grant could be up to £1.78m, although it is subject to clawback in the event of underachievement and payment in 2014/15 is conditional on meeting business commitments outlined in 2013/14.

LOCALISATION OF COUNCIL TAX SUPPORT

15. The Spending Review 2010 announced that support for council tax would be localised from April 2013 and expenditure reduced by 10%. Pensioners are protected from any reduction in Council Tax Support. A grant, known as the Council Tax Support Grant, has been included in the 2013/14 settlement. Government has set allocations for the first two years and will review funding mechanisms from 2014/15, if required. This means that not only will funding for the scheme drop by 10% it is also a fixed amount. Consequently, any increase to cover council tax increases or to cover additional caseload will be borne by the Council.

16. Transition funding is available for one year only in 2013/14, for those authorities that adopt the national scheme that sees claimants of working age paying no more than 8.5% of their next council tax liability. For Burnley this equates to £38k in 2013/14 but will fall out from 2014/15.

COUNCIL TAX INCREASES

17. The Council recognises the impact that council tax has on local residents and will always take their ability to pay into consideration when setting council tax levels.

18. For 2013/14, guidance and capping criteria, issued by central Government, require a referendum where council tax increases are more than 2%. In the event of a council tax freeze, grant will be paid in 2013/14 equivalent to 1%. For the purposes of this Medium-Term Financial Strategy, no increase in council tax beyond 2013/14 has been anticipated.

EXTERNAL BORROWING

20. The Council's external borrowing for capital purposes is currently just under £20m. This imposes a significant burden on the Revenue Budget in terms of annual payments of principal and interest. The Council will manage its borrowing requirement over the medium-term to ensure that it is a lower figure than the minimum revenue provision over the same period.

21. The Council has revised its policy regarding repayment of borrowing through the Minimum Revenue Provision (MRP). It is now calculated on the following basis:

    (a) 4% of the Council's capital financing requirement as at 31st March 2008

    plus

    (b) for capital expenditure funded from prudential borrowing after 1st April 2008, the calculation is based on the borrowing relating to each individual asset divided by the estimated life of that asset beginning in the year after the borrowing has been incurred.

AN IMPACT ASSESSMENT OF THE REVENUE BUDGET 2013/14 ON FUTURE YEARS

22. The Medium-Term Financial Strategy for 2014/15 and 2015/16 is reliant on the delivery of a number of assumptions within the annual budget for 2013/14. This strategy assumes that:

    - the Council has approved a balanced Revenue Budget for 2013/14;
    - the Council has received a full payment of the Efficiency Support Grant of £1.78m in 2013/14;
    - the Council receives Council Tax Support Transition Grant in 2013/14 only; and
    - Council tax increase of 1.995% in 2013/14.

23. These assumptions are a realistic assessment of the underlying financial position on the Medium Term Finance Strategy. The annual budget will be approved in February 2013.

ILLUSTRATIVE SCENARIOS AND POTENTIAL GAP FOR 2014/15 & 2015/16

24. Given the new funding regime and the emerging Spending Review, it is not possible to give a precise forecast of the financial position beyond 2013/14 the projections are based, therefore, on a number of scenarios:

    - Scenario 1:

      Efficiency Support Grant will be available for 2013/14 but not for future years.

    - Scenario 2:

      Efficiency Support Grant will continue over the medium-term and Spending Power reduction will be limited to 8.8% per annum.

- <u>Scenario 3:</u>

  Efficiency Support Grant will be available as a two year cash allocation.

25. The overall funding gap for 2014/15 and 2015/16, using planning assumptions, is summarised below:

	Scenario 1 (£m)	**Scenario 2 (£m)**	**Scenario 3 (£m)**
Anticipated Funding Reduction	2.7	1.6	1.0
Increased New Homes Bonus/ Business Rates	(0.2)	(0.2)	(0.2)
Pay and Prices	0.3	0.3	0.3
Other pressures	0.2	0.2	0.2
Potential Gap 2014/15	**3.0**	**1.9**	**1.3**
Anticipated funding reduction	0.9	1.5	2.6
Increased New Homes Bonus/ Business Rates	(0.2)	(0.2)	(0.2)
Pay and Prices/other	0.5	0.5	0.5
Potential Gap 2015/16	**4.2**	**3.7**	**4.2**

26. Underlying assumptions in all three scenarios:

- Efficiency Support Grant will be paid in full for 2013/14 with no clawback;
- Council Tax Transition Grant will be paid in 2013/14 only;
- Council tax will increase by 1.995% in 2013/14;
- No increase in council tax in 2014/15 or 2015/16;
- Internal assessment of likely increase in New Homes Bonus and local retentions of business rates likely to be £200k in 2014/15 and 2015/16;
- 2015/16 figures are based on extrapolated trends, Government figures not available for 2015/16;
- 2014/15 figures are based on the Local Government Settlement announcement from 19th December 2012;
- Pay award assumed at 1% per annum, fees and charges income at 3% per annum; and
- No assumptions built into forecast regarding changes to Council Tax Support claimant numbers.

OPPORTUNITIES

27. There are a number of funding opportunities that could be secured to assist in closing the medium-term funding gap:

- New Homes Bonus:

  For every new home built and occupied the Government gives an unringfenced grant paid each year for six years equivalent to the council tax.

- Business Rates Increase:

  Any increase in the business rates baseline will see Burnley retaining 20% based on current levy rates, a 10% increase in the business rates provides an extra £529k.

- Council Tax:

  A 2% increase in council tax each year would generate £108k or £216k over two years.

For financial planning assumptions, an additional £200k has been included in both 2014/15 and again in 2015/16 for increases in New Homes Bonus and Business Rate increases. This is based on an internal assessment of the likely impact of the Capital Programme.

BALANCING THE ANNUAL BUDGET

28. The overall size of the challenge that the Council faces is considerable and the formulation of a balanced budget over the longer term requires the delivery of efficiency savings through service transformation, continuous improvement and strategic prioritisation. The Council has a strong track record of delivering efficiency savings over recent years and this work will need to continue for the foreseeable future.

The outcome for the Council will be a Council which is more streamlined and focussed on key strategic objectives, delivered through transformed services.

RISKS

29. The significant risk areas are:

RISK	MITIGATION	ASSESSMENT
(i) Ability to maintain a balanced budget over the medium term.	Consideration of options and the development of a planned and systematic programme of efficiency and cost reduction measures over the medium term; use any opportunity to maximise reserves.	HIGH

RISK		MITIGATION	ASSESSMENT
(ii)	Funding uncertainty with regard to the next Spending Review and its impact on local government spending as part of the national deficit reduction programme.	Horizon scanning national developments and proactive contribution to help shape the funding framework.	HIGH
(iii)	Assurance of receipt of ESG in 2013/14 is not clear but has been assumed to be available. Further uncertainty with regard to the bidding process and the governance arrangements for Efficiency Support Grant.	Horizon scanning national developments, reflect changes into updated forecast and revenue budget as they become known.	HIGH
(iv)	Business rate reduction/Business Rate Appeals outside the Council's control – potential loss of business rate funding up to £279k (the safety net threshold).	Increase general reserves by equivalent amount to buffer any risk	HIGH
(v)	Future impact of any increase in council tax or increase in numbers of claimants for council tax support.	Monitoring and review, current claimant numbers are included within the Budget 2013/14.	MEDIUM
(vi)	Reserves - potential impact on reserves position, if they are required to support the delivery of a balanced budget over the medium-term.	Include policy on use of reserves within Medium-Term Financial Strategy (attached).	MEDIUM
(vii)	Potential clawback or loss of any external or grant funding.	Compliance to external and grant funding conditions, careful programme monitoring of capital projects.	MEDIUM

RISK		MITIGATION	ASSESSMENT
(viii)	Income and fees and charges.	An allowance has been built into the Medium-Term Financial Strategy for a fee increase in line with the Council's fees and charges policy (APPENDIX 1).	LOW
(ix)	Energy - historically a volatile spend area.	Earmarked reserve provision.	LOW
(x)	Prices - the Strategy only allows for budget increases in specific areas, eg, business rates and contractual requirements.	Review at each update of the Strategy.	LOW
(xi)	Treasury Management.	Risks are mitigated through an approved Treasury Management Policy, with regular monitoring with support from external advisors.	LOW
(xii)	Pension increases – pension revaluation exercise to be undertaken during 2013/14.	Keep under review.	LOW

FINANCIAL PERFORMANCE 2012/13

30. The current financial forecast for 2012/13 indicates that savings in the order of £551k are likely to be achieved and transferred to reserves at the end of the financial year.

It is recommended that £279k from this under spending is used to contribute to the General Reserves, to mitigate potential risk from sudden and unexpected business rate losses.

RESERVES AND BALANCES

31. The overall forecast position on reserves is shown in the table below. This includes earmarked and general reserves but excludes those earmarked reserves which are held for operational purposes and cannot be used to support the budget or Medium-Term Financial Strategy. The Reserves Strategy can be found in detail at APPENDIX 2.

	Earmarked (£m)	General (£m)	Total (£m)
Expected balance 31/03/2013 (as at November 2012)	4.8	1.1	5.9
Anticipated Contribution 2012/13	0.3	0.3	0.6
Commitment 2013/14	(0.6)		(0.6)
Expected balance 31.03.2014	**4.5**	**1.4**	**5.9**
Commitment 2014/15	(0.6)		(0.6)
Expected balance 31.03.2015	**3.9**	**1.4**	**5.3**

32. The worst case scenario, where no ESG is paid and no remedial action to close the funding gap is taken, would result in total reserves being £0.5m by the close of 2014/15 and the Council runs the risk of not being viable as a going concern beyond that year.

33. A best case scenario, however, would be one where there is payment in full of the Efficiency Support Grant, the delivery of a transformation programme giving sustainable financial savings and local business growth. In this scenario, there would be little need to call on reserves and the Council would be financially robust and stable.

34. The minimum level of General Revenue reserves is set at £1.1m. This is a General Reserve to ensure there are adequate funds to cover any spending liabilities and risks. This figure has been set as an assessment of spending risk. From 2013/14, further risks are brought in with the localisation of business rates. It is considered prudent, therefore, to increase the general reserve to cover any potential losses from a reduced business rate base.

35. The Council will not use General Reserves to support ongoing revenue expenditure. If budget monitoring reveals that reserves are set to fall below the minimum level, the budget for the following year will include provision that will ensure that the shortfall is recovered over two financial years. If, in any financial year, the Statement of Accounts shows that balances have fallen below the minimum figure set out above, a Recovery Plan will be put in place to ensure that this is corrected by the end of the following financial year.

36. A review of earmarked reserves was carried out in October 2012 to ensure that adequate provision exists to meet future liabilities and commitments. Any resources that are released by savings on the approved budget will be transferred into an earmarked reserve. The purposes, for which reserves are held, are included within APPENDIX 2.

37. It is Council policy that earmarked reserves should not be used to pay for continuing expenditure. Earmarked reserves should be used for the specific purpose for which they were set aside. This includes funding one-off or non-recurring items, invest to save or to provide short term and time limited support to manage the transition from the withdrawal of funding.

38. Despite recent criticism by the Secretary of State, with regard to level of reserves held by local government which nationally exceed £10bn, this Council's reserves are not excessive compared to some local authorities and furthermore, it is prudent to protect and enhance earmarked reserves where there are opportunities to do so to provide one-off protection particularly given the uncertainty of the current financial climate and longer term risks associated with the local government funding arrangements.

MONITORING & REVIEW

39. The Council operates delegated financial management. Following approval of the annual budget, budgets are delegated to service units where each Head of Service has delegated responsibility to ensure that they monitor and maintain budgetary control, achieve efficiency plans built into the budget and follow financial procedure rules. Each Head of Service is charged with ensuring their lead Member is fully briefed on financial issues. Corrective action plans are required in the event of any underperformance against budget to ensure the budget remains on track by the end of the financial year. Conversely, any service underspend at the end of the financial year will be used to contribute towards corporate priorities, carry forward of underspends for service specific priorities will not normally be considered.

40. The Council is committed to achieving value for money in all aspects of its operations. To achieve this, reviews are regularly undertaken to determine whether cost improvements can be made, and to ensure that resources are prioritised and align to strategic intent.

41. Any new proposals for ongoing Revenue Growth must be backed up by a clear business case that demonstrates how it will help to deliver the Council's Strategic Objectives. Identical criteria will be used to determine the relative priority of all capital projects and revenue growth bids.

42. The Council will operate a Corporate Charging Policy that recognises the unit cost of each service provided and the impact on overall policy and service objectives. It will use this information to inform the tariffs that are set to ensure that any subsidy provided by local taxpayers is identified and justified. The corporate charging policy is set out at APPENDIX 1.

43. The Council will carry out four cycles of budget monitoring during each financial year, reported formally to the Executive. These will also be reported to the Resources Scrutiny Panel. Approval of any adjustments to Capital or Revenue Budget totals will then be sought from Full Council.

44. The financial modelling projections contained within this Medium-Term Financial Strategy will be a living model, which will be updated, revised and reported following receipt of business intelligence, changes to underlying assumptions and as the position becomes clearer.

APPENDICES

APPENDIX 1

CORPORATE CHARGING POLICY

1. The policy applies to all those fees and charges that the Council has the discretion to set. Services where charges are decided externally will be set in line with the relevant national legal framework.

2. The full cost of delivering services will be identified to make clear the level of subsidy the council is providing.

3. All current and proposed charges will be subject to review. This review will be undertaken in line with the procedure set out in a flow chart and associated guidance maintained by the Head of Finance & Property Mangement.

4. An effective and efficient collection system will be operated. The methods for paying charges will be made clear. The procedures for recovering fees will be governed by the corporate Debt Recovery Policy.

5. Reasonable notice should be given to service users before any change is implemented. Reasonable notice is defined as one calendar month.

6. The effects that any new charge has on service usage and income must be closely monitored over the first 12 months by the Head of Service.

7. All discretionary fees and charges will be set in line with the approved charging policy for that service and should fall into one of the following categories:

    - COMMERCIAL CHARGES

      The Council aims to cover the cost of providing the service and makes a surplus.

    - FULL COST RECOVERY

      The Council aims to recover the full cost of providing this service from those who use it.

    - SUBSIDISED

      The Council wishes users of the service to make a contribution to the costs of providing it.

    - FREE

      The Council chooses to make the service available at no charge to meet a service objective.

- STATUTORY

  Charges are determined in line with legal requirements.

8. Exemptions and concessionary charges should be implemented in line with the Councils agreed procedures.

9. Fees and charges will be regularly reviewed within the Council's financial planning process, and variations outside of this will need separate approval. Increases In fees and charges will each year be generally in line with the rate of inflation assumed within the budget process, subject to the consideration of the specific issues in relation to each service. Increases above this rate, and all decreases, will need specific approval.

10. Wherever possible, charges will be collected either in advance or at the point of service delivery. Where charges are to be collected after service delivery has started, invoices will be raised within 5 working days, and as necessary appropriate recovery procedures followed.

11. More detailed guidance on the procedures to be followed in order to comply with this policy is available from the Head of Finance and Property.

APPENDIX 2

RESERVES STRATEGY

1. LEGISLATIVE/REGULATORY FRAMEWORK

1.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

1.2 There is also a requirement reinforced by section 114 of the Local Government Finance Act 1988 which requires the chief financial officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

2. ROLE OF THE CHIEF FINANCIAL OFFICER

2.1 Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (in Burnley's case this is the Director of Resources) to advise the local authority about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

2.2 There are no statutory minimum levels imposed and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget.

3. PURPOSE OF RESERVES & BALANCES

3.1 Reserves and balances can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of what is commonly referred to as 'general reserves';
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of 'general reserves';
- A means of building up funds, commonly referred to as earmarked reserves, to meet known or anticipated future liabilities.

3.2 For each earmarked reserve held by a local authority there should be a clear protocol setting out:

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

- Procedures for the reserve's management and control; and
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

4. **PRINCIPLES TO ASSESS ADEQUACY**

4.1 Setting the level of reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:

BUDGET ASSUMPTIONS

- Financial risks associated with funding and income streams, this includes changes following the localisation of business rates
- The treatment of inflation and interest rates
- Estimates of the level and timing of capital receipts
- The treatment of demand led pressures and this includes any demand led changes to council tax claimant numbers.
- The timing and ability to achieve any planned efficiency savings/gains
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments
- The availability of other funds to deal with major contingencies and the adequacy of provisions

FINANCIAL STANDING & MANAGEMENT

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.)
- The authority's track record in budget and financial management including the robustness of the medium term financial plans
- The authority's capacity to manage in-year budget pressures
- The strength of the financial information and reporting arrangements
- The authority's virement and end of year procedures in relation to budget under/over spends at authority and departmental level
- The adequacy of the authority's insurance arrangements to cover major unforeseen risks.

4.2 The minimum level of General Revenue reserves is set at £1.1m, this is a general reserve to ensure there are adequate funds to cover any spending liabilities and risks. This figure has been set as an assessment of spending risk. From 2013/14, further risks are brought in with the localisation of business rates, it is therefore considered prudent to increase the general reserve by a further £0.3m to cover any potential losses from a reduced business rate base.

4.3 A review of the level of earmarked reserves is also undertaken as part of the annual budget preparation and as part of the closure of accounts process. The Council does not regularly monitor the opportunity costs of maintaining its levels of earmarked reserves as these are generally not held as a form of investment but to meet an identified need.

5. REPORTING FRAMEWORK

5.1 The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Director of Resources. The protocols covering all reserves are set out in sections 6 and 7 for earmarked and ringfenced reserves respectively.

5.2 This Medium-Term Financial Strategy and where appropriate, the Council's annual budget report includes a statement showing the estimated opening general fund balances for the year ahead, any addition to/withdrawal from balances, and the estimated end of year balance. The Medium Term Financial Strategy includes a forward forecast of future commitment and an assessment of likely contributions for the relevant period.

6. EARMARKED RESERVES PROTOCOL

Earmarked Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Modernisation	To assist the Council in achieving its strategic objectives by financing initiatives aimed at modernising the range of services available.	Used to mitigate the impact on the Council's revenue account of the costs associated with redundancy and early retirement of staff whether compulsorily or voluntarily.	Managed by the Director of Resources (Chief Financial Officer).	Undertaken as part of the annual budget preparation, the updating of the Medium Term Financial Strategy and as part of the closure of accounts process.
Grant Equalisation Reserve	To assist in smoothing out reductions in Government funding in future years	To provide short term or transitional or pump prime funding support following withdrawal of funding.	Managed by the Director of Resources (Chief Financial Officer).	Twice-yearly as part of the final accounts and budget processes.
Community Regeneration Reserve	To assist in meeting the future cost of services identified as key priorities for the Council.	When other sources of funding are exhausted.	Managed by the Director of Resources (Chief Financial Officer).	Twice-yearly as part of the final accounts and budget processes.
Utilities Equalisation Reserve	To mitigate the impact of unanticipated tariff increases.	When there is insufficient provision in the continuation budget.	Managed by the Director of Resources (Chief Financial Officer).	Twice-yearly as part of the final accounts and budget processes.

7. RINGFENCED RESERVES PROTOCOL

Ringfenced Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Transport and Plant	To manage the financing of the councils transport and plant requirements.	There is an annual payment into the reserve which helps to equlaise spending as transport and plant renewals are due	Managed by the Director of Resources (Chief Financial Officer) in conjunction with Greenspace.	Twice-yearly as part of the final accounts and budget processes.
Local Development Framework	To fund the necessary work needed for the Core strategy and other development plans.	A programme of work was approved by the Executive in May 2012, will be time-limted for the next two years.	Managed by the Director of Economic Regeneration in conjunction with the Director of Resources.	Monitored as part of budget monitoring process.
Taxi Licensing	To manage annual surpluses and deficits on the account.	Self financing account in support of the taxi trade.	Managed by the Monitoring officer in conjunction with Director of Resources (Chief Financial Officer).	Twice-yearly as part of the final accounts and budget processes.
Selective Licensing	To manage the financing of the selective licensing pilot in Trinity during the life of the pilot.	Fees were paid by the landlords at the start of the pilot. Money is being drawn from the reserve to meet deficits incurred ntil the pilot ends in October 2013.	Managed by the Director of Resources (Chief Financial Officer).	Monitored as part of budget monitoring process until the pilot ceases.
Housing Benefit Admin Subsidy	To manage the caseload within the Revenue and Benefit service	Additional funding was received to reflect increased benefit caseload, this resource is set aside to maintain performance of the team.	Managed by the Director of Resources (Chief Financial Officer).	Requirements for additional staff resource are monitored by the Head of Revenues and Benefits.
Financial Instrument Adjustment Reserve	To meet any losses that may arise from the non repayment of the Council's deposit with Landsbanki Islands HF	At the time when the amount of any losses can be established.	Managed by the Director of Resources (Chief Financial Officer).	Annually as part of the final accounts process