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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM:</b> 7
<b>DATE OF MEETING:</b>	<b>15th JANUARY 2004</b>	<b>CATEGORY:</b> <b>RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>CHIEF FINANCE OFFICER</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (595811)</b>	<b>DOC:</b> u/ks/budget200405/ Consolidated January Report
<b>SUBJECT:</b>	<b>CONSOLIDATED REVENUE BUDGETS &amp; CAPITAL PROGRAMME 2003/2004 AND 2004/2005</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE:</b> FM08

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## **1.0 Recommendations**

- 1.1 That the estimates of revenue income and expenditure for 2003/04 and 2004/05 for the General Fund are considered and a level of income and expenditure approved.
- 1.2 That the proposals for revenue service developments for 2004/05 are considered.
- 1.3 That the proposals for new capital investment for 2004/05 are considered.
- 1.4 That the revised 3-year financial projection on the General Fund be noted.
- 1.5 That the financial position of the Council's Housing Revenue Account be noted.
- 1.6 That a level of Council Tax for 2004/05 be proposed.
- 1.7 That the information stemming from recommendations 1.1 to 1.6 be used as the basis for the budget consultation process.

## **2.0 Purpose of Report**

2.1 To detail the Council's overall financial position for the 2004/05 budget round, which has been considered by the Service and Financial Planning Working Group on 15<sup>th</sup> December 2003 and 7<sup>th</sup> January 2004. Essentially, it builds on the projections and financial strategy approved by this Committee in July 2003, which also reported the budget out-turn position for 2002/03. The report covers the following:

- The Council's annual financial settlement for 2004/05
- The General Fund 3-year financial projection
- Risk Analysis
- Council Tax levels
- Proposals for revenue service improvements 2004/05
- The Housing Revenue Account (HRA)

- Capital Resources
- Prudential Borrowing
- Proposals for new capital investment 2004/05

### 3.0 Detail

#### **The Council's Annual Financial Settlement 2004/05**

- 3.1 This is an annual statement that provides local authorities with the level of Government funding for the next financial year. It is a crucial element for this Council as it forms the main income stream for funding General Fund services.
- 3.2 The original settlement received in November 2003, indicated an increase for the Council of 2.4% (the average for Districts across the Country) and equated to approximately £113,000 per year. However, due to a change in the method of providing subsidy for rent allowance and council tax benefit, the Council **loses** approximately £128,500 per year, which gave a potential reduction in grant of £15,000 per year.
- 3.3 In addition, the Council continues to be substantially below the Government's funding formula, i.e. the Government's assessment of what the Council should receive to provide an adequate level of service. For 2003/04, the Government had capped increases in grant to protect those authorities that were worse off under the new Government formula. This Council should have received an increase of around 25%, but was capped at 12.5%.
- 3.4 This dampening of grant has continued for 2004/05. Out of 240 District Councils, South Derbyshire has the 30<sup>th</sup> biggest shortfall in grant. Due to this and the overall reduction in grant for 2004/05, the Council made representations to the Government over its position.
- 3.5 On 10<sup>th</sup> December 2003, the Chancellor made his pre-budget speech in which he indicated additional resources for local authorities of around £340m. This effectively changed the original announcement and subsequently new figures were issued to all Councils.
- 3.6 For South Derbyshire, the headline increase was 6.1% (District average was 4%), and equates to additional grant of approximately £290,000 per year in total. However, after allowing for the reduction in benefit subsidy (£128,500), the overall increase is £161,500 (3.1%). However, the Council is still substantially underfunded compared to the Government's formula by approximately **£1/2m**.
- 3.7 These latest figures have been built into the Council's financial projection. However, it should be noted that these figures are still **provisional** as they are subject to consultation. This period ends on the 9<sup>th</sup> January 2004.

## General Fund 3-year Financial Projection

- 3.8 This is detailed in **Appendix 1** and summarised in the table below. This does not take into account any resources that still may be allocated to meet new spending demands.

	2003/04	2004/05	2005/06	2006/07
DETAIL	£	£	£	£
<b>Net Revenue Spending</b>	9,070,205	8,710,945	9,457,442	10,025,436
<b>Less Financing</b>				
Government Grants	5,199,325	5,022,461	5,122,910	5,225,368
Council Tax	3,432,209	3,681,276	3,898,600	4,151,563
From Earmarked Reserves	359,360	65,940	53,137	54,996
<b>Gross Deficit/Surplus (-)</b>	79,311	-58,732	382,795	593,509
<b>Projected Balances</b>	<b>2,389,624</b>	<b>2,448,356</b>	<b>2,065,561</b>	<b>1,472,052</b>

- 3.9 The Council's overall financial position on its General Fund continues to stay fairly healthy, with projected balances (before any new spending is approved) well above the level of £1/2m approved as part of the Council's financial strategy. This is mainly due to increases in income from Planning and Building Regulation Fees, together with bank interest being earned on the Council's "set-aside" capital receipts.
- 3.10 In addition, the Council no longer needs to provide for the "Commutation Adjustment" as the Government has relaxed the requirement to meet future costs associated with this issue. The previous 3-year projection approved by the Council in July 2003 had planned to contribute around £575,000 into an earmarked reserve. This is no longer required.
- 3.11 The increase in resources has allowed some additional spending to be accommodated within the above projection. For example:
- A provision for further increases in contributions to the County Council's Pension Fund, based on an interim valuation.
  - Additional costs associated with the Local Plan Inquiry in 2003/2004.
  - The phasing in of increases in Members' Allowances over this planning period.
- 3.12 In addition, the projection also takes into account some contingencies, mainly relating to a fall in income (from current levels) in the last 2 years of this planning period. The projection allows for increases in Council Tax of 4.5% in the 3 years 2004-2007.
- 3.13 The other policy committees (including a separate report to this Committee) have considered in detail the probable out-turn for 2003/04 and base budget for 2004/05. **Appendix 2** provides a summary of the main changes to the projection from that approved in July 2003.

- 3.14 Whilst the current 3-year projection remains healthy, the position in the longer term gives cause for concern. There are still underlying budget pressures, as evidenced by the forecasted budget deficits in 2006 and 2007.
- 3.15 The extent of the deficit is increasing each year as projected spending is rising at a faster rate than projected income. In the medium term, action will need to be taken to address this position to reduce the impact on limited Council reserves.

### Risk Analysis

- 3.16 There is a range of factors that will have an impact on the above projection and these are considered in the table below, alongside proposed action to address these financial risks.

Risk	Action
<b>Insurance Costs</b> – these have risen sharply over the last 2 years. If these continue to rise and/or claims do not improve, this could place an increased burden on budgets.	Projection reflects increased insurance costs. Insurers working with Council's Risk Management Group to reduce claims. Re-tendering the current insurance contract is being considered as an option.
<b>Pension Costs</b> – indications suggest a significant increase in employer contributions from the next valuation 2005/06.	A contingency has been built into the projections based on an interim valuation of the Pension Fund. Actual costs will now depend on performance of the Fund over the next year.
<b>Income Projections</b> – especially planning fees and bank deposit income – planning fees in particular can fluctuate with the state of the economy and house building in general. This can be beyond the Council's control.	Costs difficult to assess. General reserves maintained at a higher level to provide a more realistic cushion and projections assume a reduction in income by 2006/07 compared to current levels.
<b>Affordability of underlying service pressures</b> – for example in refuse collection, recycling and other national targets.	General reserves being maintained at a higher level to provide a realistic cushion. In addition a key milestone for 2004/05 to meet a key aim of the Council is to extend the current "scoring system" to existing services. This tool to be used as a means of mapping out a plan for reprioritising council spending to ensure that it meets the changing needs of local residents and regional and national priorities.
<b>Loss of Government Grant</b> – new census data from 2001 likely to be fed into Government's formula from 2005/06. Census figure for the Council <b>lower</b> than the current population estimate used in the formula.	Effect very uncertain, as it will depend on how the formula works relative to other authorities. Should continue to make representations (along with family group) to the Government concerning the apparent shortfall in current funding under the Government's formula.

<p><b>Programmed funding</b> – increasingly being used by the Government to fund certain areas such as Planning, Benefits and Crime &amp; Disorder. Although Government grant in these areas has been used for more “one-off” spending, additional staff likely to be employed on an on-going basis. Question over the continuation of Government support in the longer term.</p>	<p>General reserves being maintained at a higher level to provide a realistic cushion. Should be monitored on a regular basis.</p>
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### Council Tax Levels

- 3.17 As stated earlier, the projection builds in increases of 4.5% per year for the next 3 years to 2006/07. It should be noted that the tax base and surplus or deficit on the Council’s Collection Fund that are included in the projection for 2004/05, still need to be approved by Council on 22<sup>nd</sup> January 2004. Although these may well vary, they should not have any significant effect on the overall position.
- 3.18 In providing the additional resources on 10<sup>th</sup> December, a Government statement made it clear that they expected to see council tax increases “*in low single figures.*” In addition, they reiterated their intention to use their powers to cap increases for individual authorities if they felt this was necessary.
- 3.19 In the last 2 years, the Council has set relatively low increases (3.9% and 3.5%). Based on a 4.5% increase in 2004/05, 3-year balances are projected at approximately £1,472,000 as at 31<sup>st</sup> March 2007.

### Proposals for Revenue Service Improvements 2004/05

- 3.20 The new spending proposals submitted by Divisional Managers are summarised in **Appendix 3**. These were scored against criteria approved by this Committee and members have previously received full details of all bids submitted. The Service and Financial Planning Working Group were due to meet on 7<sup>th</sup> January 2004 to discuss these proposals and an update will be provided at the meeting.

### The Housing Revenue Account (HRA)

- 3.21 This has been considered in detail by the Housing and Community Services Committee, including the increase in the level of council house rents for 2004/05. The financial projection is summarised in **Appendix 4**.
- 3.22 To satisfy the work programme required for the Stock Options Review, a financial forecast has been made to 2010; i.e. the Government’s target date for achieving the Decent Homes Standard. This shows that the HRA will fall into deficit from 2006/07, this deficit increasing year on year to 2009/10.
- 3.23 Due to the current level of HRA balances, this deficit can be sustained until 2008/09, after which the level of balances will fall to just above the minimum level of £1/2m. By 2009/10, the HRA will have an accumulated **deficit of around £267,000**.
- 3.24 As previous HRA reports have highlighted, this is due to the continuing reduction in the HRA’s income base, i.e. rents (a combination of lower rents overall due to rent

restructuring together with council house sales) and housing subsidy, again due to council house sales reducing Government subsidy.

- 3.25 Some further analysis, especially around sensitivity, is being undertaken for the Stock Options Review. In addition, the Housing and Community Services Committee considered the main financial risks associated with the projection.
- 3.26 Housing repairs spend in particular, continues to be reviewed, as this is perhaps the main area of cost where there may be some degree of flexibility and control. There may also be potential for using capital resources to finance some of the projected repairs expenditure. However, this could have an impact on the level of resources for other capital investment elsewhere in the Council.
- 3.27 The base estimates make no provision for any service improvements over the 2004 to 2010 planning period. Any growth in service provision during this period could result in the HRA falling below its minimum level of balances much earlier.
- 3.28 In essence, the Council will need to take some tough decisions to decide whether it can achieve savings of £767,000 over the next 6 years (i.e. to offset the deficit of £267,000 and maintain a minimum balance of £0.5m). Effectively, this will require savings of approximately £130,000 to be achieved in each of the next 6 years before taking into account any additional savings to finance service improvements.
- 3.29 As agreed by Housing and Community Services Committee recently there is also a need to drive forward performance improvement and there is a limit to what can be achieved with current staffing levels without these service developments. Inevitably there is a balance between any service development and affordability, which members will need to consider.

### **Capital Resources**

- 3.30 As reported to this Committee in October 2003, with effect from 1 April 2004, Government funding in the form of "Credit Approvals" to support local authority borrowing will cease to exist. In accordance with the Government's new Prudential System, councils will be free to borrow money within a pre-determined local limit, as long as they can demonstrate that the interest charges associated with it are affordable and sustainable in the medium to longer term.
- 3.31 The Government is continuing to support new capital investment. However, the Council will probably need to continue to finance most of its new capital investment from its own resources generated from asset sales (mainly council houses and land). In addition, the Council is also relying more heavily on partnership funding.
- 3.32 In the last 2 to 3 years, asset sales have been fairly significant, and the Council has not yet committed all of its useable receipts from previous years. In addition, the Council has generated a relatively significant amount this year, mainly through Council House sales.
- 3.33 However, in accordance with Government regulations, the Council is only allowed to spend 25% from the sale proceeds of housing assets, the remaining 75% has to be set-aside for debt repayment; 100% of the proceeds from non-housing assets can be re-invested.
- 3.34 Furthermore, with effect from April 2004, these set aside amounts will be paid direct to the Government. All receipts will then be **pooled** nationally and redistributed

based on regional strategies. Certain receipts, for example sales of mortgage portfolios, empty properties and unused land, are not subject to pooling if they are reinvested in "Regeneration or Affordable Housing."

3.35 Given this, the Council can expect to have the following resources available to finance new capital investment from 2004/2005.

	£'000
Government Allocation – Single Capital Pot	534
Useable Capital Receipts	2,225
<b>Total Resources</b>	<b>2,759</b>
<b>Less: Approved Commitments</b>	
Private Sector Renewal Grants 2004/05	550
Contribution to Maurice Lea Memorial Park	137
Potential Contribution to Etwall Leisure Centre	250
Geographical Survey in Gresley Cemetery 2004/05	10
Renovation of Cemeteries (4-year programme to 2006/07))	75
Repayment of Covenants 2004/05	470
<b>Resources now Available</b>	<b>1,267</b>

3.36 The Council has complete freedom in how it uses these resources. However, they are finite and once used, there is no guarantee that they will be replenished in the future. In addition, the following should be noted:

- This does not take into account any receipts that are likely to be generated in 2004/05.
- Additional Government funding for Disabled Facility Grants not yet known.
- The Council has previously approved further annual allocations for Private Sector Renewal Grants of £550,000 to 2007/08 depending on available resources.
- Repayment of Covenants will continue to 2009/10 at the rate of around £1/2m per year. This is not avoidable.
- Future Government support not easy to predict due to pooling of capital receipts and resource allocation via Regional Boards.

#### **Major Repairs Allowance (MRA)**

3.37 In addition to the above resources, the Council also receives the MRA, which is the main capital allocation provided by the Government to finance capital investment in council housing. It is calculated on a formula basis that reflects the age and condition of a Council's housing stock. It is effectively paid as a fixed amount per property.

3.38 The Government want to see these resources invested in the stock to help Council's meet the Decent Homes Targets in 2004 and 2010. The Council's allocation over the next 3 years is expected to be as follows:

2003/04 (Actual)	£1.90m
2004/05 (Provisional)	£1.87m
2005/06 (Projected)	£1.85m
2006/07 (Projected)	£1.84m

3.38 The Council has been utilising this funding mainly for major refurbishment's (kitchens and bathrooms) together with window and central heating replacements. The yearly programme is set and monitored by the Housing and Community Services Committee.

### **Prudential Borrowing**

3.39 As highlighted earlier, the Council is now free to borrow money within a pre-determined local limit, as long as it can demonstrate that the interest charges and debt repayment associated with it are affordable and sustainable in the medium to longer term.

3.40 The local limit will be based on a measure of the Council's overall indebtedness (net value of its fixed assets, less debt and other long-term liabilities). It is likely to be around £18.8m (based on figures contained in the 2002/03 statement of accounts).

3.41 However, it is not the limit in itself that is critical, but rather the affordability of the resultant debt charges. For illustration and using current interest rates, every £100,000 borrowed would incur annual interest charges of around £5,000, plus principal repayments depending on the type and term of the loan. The term of the loan should be determined by the period from which benefits are likely to accrue.

### **New Capital Investment Proposals 2004/05**

3.41 The new spending proposals submitted by Divisional Managers are summarised in **Appendix 5**. These were scored against criteria approved by this Committee and members have previously received full details of all bids submitted. The Service and Financial Planning Working Group were due to meet on 7<sup>th</sup> January 2004 to discuss these proposals and an update will be provided at the meeting.

#### **4.0 Financial Implications**

4.1 As detailed in the report

#### **5.0 Corporate Implications**

5.1 As detailed in the report

#### **6.0 Community Implications**

6.1 As detailed in the report

#### **7.0 Conclusions**

7.1 The Committee is requested to consider carefully the income and expenditure proposals (including proposed new spending) for the Council in the light of its overall financial position, and to approve a set of proposals to be used as the basis for budget consultation



## 8.0 Background Papers

- The Local Government Finance Settlement (and associated papers) 2004/05
- Housing Subsidy Determination (and associated papers) 2004/05
- Budget Out-turn 2002/03, Financial Strategy and Updated Financial Projections to 2005/06 (as reported to Finance & Management Committee 24<sup>th</sup> July 2003)

