
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE SPECIAL - BUDGET	AGENDA ITEM: 7
DATE OF MEETING:	23RD FEBRUARY 2006	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/budget round 200607/final budget proposals
SUBJECT:	FINAL BUDGET PROPOSALS and FINANCIAL STRATEGY 2006 to 2009	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the recommendations of the Service and Financial Planning Working Group of 22nd February 2006 are considered and that the following is resolved:
- That a Council Tax increase and Band D equivalent rate for 2006/07 is recommended to Council on 2nd March 2006.
 - That new revenue service improvements are approved and any additional funding requirements are included in the Council's base budget.
 - That an overall level of General Fund Revenue Expenditure for 2005/06 and 2006/07 is recommended to Council on 2nd March 2006.
 - That the forecasted level of General Fund Revenue Reserves as at 31st March 2009 is approved.
 - That new capital investment proposals and associated financing are approved and included in the Council's planned programme to 2010.
- 1.2 That the Prudential Indicators governing capital investment and financing as set out in the report are recommended to Council on 2nd March 2006.
- 1.3 That the report of the Council's Section 151 (Chief Finance) Officer under Section 25 of the Local Government Act 2003 is noted.

2.0 Purpose of Report

- 2.1 To detail the Council's final budget proposals for 2006/07 and financial forecasts to March 2009. This will form the basis of setting the Council Tax for 2006/07 by Council on 2nd March 2006. The report covers the following:

- The Council's proposed revenue and capital spending, including medium term financial forecasts.
- The Prudential Indicators and assessment of the overall budget and level of reserves as required by the Local Government Act 2003.

3.0 Executive Summary

- 3.1 The Council's financial position including its medium to longer-term financial forecasts was reported to Committee on 17th January 2006. This indicated that the overall financial position was relatively healthy, although there was a much tighter outlook for capital investment.
- 3.2 Besides setting the main parameters of the budget and overall financial strategies, the detailed proposals on the budget for the next 3-years, including the level of council tax, was deferred. This was to allow for the outcomes of the consultation on the draft Corporate Plan 2006-2009.
- 3.3 These outcomes, their effect on the Council's budget and a level of council tax was considered at the Service and Financial Planning Working Group (SFPWG) on 22nd February 2006. The recommendations of the Group will be tabled at the meeting.

Overall Analysis and Risk

- 3.4 The Council is subject to risk, where many factors such as programmed funding and the level of council house sales for instance, are outside the control of the Council. In addition, service improvements and new investment are likely to put further pressure on the current financial position.
- 3.5 Therefore, as the Section 25 report highlights, the Council can never be complacent regarding its finances. Therefore, reviewing existing spending levels, considering alternative options and embracing the Government's efficiency agenda are as important as ever.

4.0 Detail

The Council's Financial Position

- 4.1 The report to Committee on 17th January 2006 highlighted that the General Fund was forecasted to remain relatively healthy over the next 3-year planning period to 2009. This was largely due to a sizeable increase in Government grant for 2006/07 and 2007/08, together with savings and efficiencies achieved in other areas.
- 4.2 Broadly, current and planned levels of service can be financed and the Council should be able to maintain a sufficient level of general reserves as a contingency against potential financial risks and any other unforeseen circumstances. A minimum level of general reserves of £1m was approved and this left available resources of £1.4m over the next 3-years.
- 4.3 Any decision on future levels of council tax was deferred. The current forecast includes increases of 4.5% for 2006/07 and 2007/08. This has been reviewed in the light of the national picture and announcements by Government Ministers regarding their desire to see "low" increases. The SFPWG are due to recommend the final increase to Committee as result of their meeting on 22nd February.

Housing Revenue Account (HRA)

- 4.4 Updated forecasts for the Housing Revenue Account (HRA) showed a stronger position in the short to medium term that helps to sustain the account in surplus to 2015. This is mainly due to additional rent income emanating from a review of the national rent-restructuring framework.
- 4.5 The Housing and Community Services Committee approved the HRA's base budget, financial forecast to 2015 and average rent increase for 2006/07 (of 5%) on 12th January 2006.

Capital Investment

- 4.6 The position on capital investment is much tighter. This is due to limited and in fact a shortfall in overall resources to meet the current planned programme to 2010. This has been reviewed including alternative options to finance investment. The SFPWG are due to recommend proposals as a result of their meeting on 22nd February.

General Fund 3-year Financial Forecast

- 4.7 This is detailed in **Appendix 1** and summarised in the table below. This is the position as reported on 17th January, but at this stage, the forecast **does not** take into account any resources that still may be allocated to meet new spending proposals.

	2005/06 Probable £'000	2006/07 Estimate £'000	2007/08 Forecast £'000	2008/09 Forecast £'000
Net Revenue Expenditure	10,004,520	10,938,020	11,147,280	11,388,480
Less Financing				
Government (Formula) Grant	5,421,140	6,352,967	6,698,918	6,832,896
Council Tax	3,941,660	4,188,450	4,379,700	4,631,650
From Earmarked Reserves	382,980	26,440	28,640	30,840
Deficit/Surplus (-)	258,740	370,163	40,022	-106,906
General Fund Reserve Balance	2,715,920	2,345,757	2,305,735	2,412,641

- 4.8 Two relatively minor changes have arisen in the interim period. Firstly, the Government Grant settlement for 2006/07 and 2007/08 was confirmed on 1st February. Final figures show that the Council will receive an additional £7,350 (cumulatively over the 3-years) compared to the provisional settlement.
- 4.9 Secondly, the Council approved the Tax Base and Collection Fund Balance on 26th January. This was slightly more favourable on the forecasted figures and will generate an additional £2,950 cumulatively over the 3-years.

Available Revenue Resources

- 4.10 After allowing for a minimum level of general reserves of £1m, resources of **£1.4m** are potentially available over the next 3 years to 2009.

Capital Investment and Financing

4.11 The current 5-year investment programme is detailed in **Appendix 2**. The updated resources forecast reported on 17th January, highlighted that the Council would have insufficient resources to meet its entire planned investment programme. Freeing up resources elsewhere would help to bridge this gap.

4.12 Clearly however, it will also be difficult to afford any proposals for new investment from within existing resources. Other options open to the Council are detailed below.

- **Further Government Allocations** – it has still been confirmed whether the Council will receive any allocation beyond 2005/06 (confirmation should be available before the SFPWG meet on 22nd February).

Allocations for delivering decent homes in the private sector of £155,000 (06/07) and £78,000 for 2007/08 has been confirmed, although this had been known earlier and expected in previous plans. Any further support via capital grants would help to ease the pressure on financing.

- **Asset Disposals** – a draft asset disposals policy was submitted to this Committee on 21st February for adoption. Proposals to dispose of some assets identified as being “surplus to requirements” were also submitted the Committee.

- **Revenue Contributions** – given the relatively healthy position on the General Fund Revenue Account in particular, this is an option, and in particular “one-off” contributions. However, it clearly reduces the amount available for revenue developments.

- **Prudential Borrowing** – based on current interest rates, the approximate cost of repayment per £100,000 borrowed is:

- 5 years - £25,000 per year
- 10 years - £15,000 per year
- 20 years - £10,000 per year

4.13 Under the Prudential Framework for Borrowing, there are several “tests” to pass. The main one for the Council would be demonstrating that the cost is affordable and sustainable and can be met in the long-term.

4.14 In addition, the repayment period should reflect the life of the asset. For example, borrowing over 20 years would need to be in accordance with significant improvements/developments to assets such as land and buildings. Borrowing over 5 years is designed for replacing vehicles, plant and equipment.

4.15 The Council’s approved Capital Strategy does contain provision for prudential borrowing on an “invest to save” basis, i.e. the cost of loan finance is met from the payback of the investment (efficiencies, greater income, etc).

Summary – Indicative Capital Investment and Financing Position

- **Windfall Receipts** – additional Government support (£233,000) and reduced spending already identified in 2005/06 (£200,000) would virtually cover the forecasted shortfall in resources of £447,000. The £1m for supporting the HRA is still being held as a contingency.

- **General Receipts** – forecasted shortfall of £350,000 to meet current plans.

New Service and Capital Investment Proposals

- 4.16 The Council has been consulting on its future priorities through the Draft Corporate Plan 2006 to 2009. This Plan is developing “themes” and action areas to meet its priorities for this planning period.
- 4.17 In addition, proposals have also been drawn up to improve services (in accordance with the Council’s Best Value Improvement Plan) or to meet statutory obligations/national targets.
- 4.18 A list of all proposals is shown in **Appendix 3** (Revenue) and **Appendix 4** (Capital). These proposals were evaluated against the Council’s approved scoring system by the SFPWG on 20th January 2006. As approved by Committee on 17th January, following the outcome of consultation on the proposals, additional weighting was awarded to reflect these outcomes.
- 4.19 This was to reflect the top 3 proposals in each theme as identified through consultation. Effectively, this weighting ranged from 30% for the highest-ranking proposals in the most popular theme to 10% for the third ranked proposal in the least popular theme. The overall scores are shown in the appendices.
- 4.20 The SFPWG were due to consider the final proposals and scores at their meeting on 22nd February and their recommendations will be tabled at the meeting.

The Prudential System for Capital Finance

- 4.21 The key objectives of the Prudential System are to ensure that:
- Capital investment plans of local authorities are affordable and sustainable.
 - Treasury management decisions are taken in accordance with good professional practice.
 - Financial planning and asset management are integrated into the Council’s overall planning arrangements.
- 4.22 Some detailed requirements of the system, such as medium term financial projections, future council tax levels, and the affordability of capital investment are dealt with as an integral part of this report.
- 4.23 As regards Treasury Management, the Council adopts CIPFA’s Code of Practice and this helps formulate the Council’s annual borrowing and investment strategies. The Council’s Treasury Management Strategy for 2006/07 is subject to a separate report elsewhere on this Agenda.
- 4.24 As highlighted earlier in the report, the Council is 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.

- 4.25 Within the current financial planning period, the Council has not included any provision for new borrowing or any other credit arrangements. However, this can be kept under review.
- 4.26 A key requirement of the System is that the Council must set and regularly monitor Prudential Indicators. In addition, the Council's Section 151 (Chief Finance) Officer is required to provide an assessment of these indicators and the implications for the Council's spending plans and overall financial position.
- 4.27 The prudential system provides the flexibility for these indicators to be changed depending on local circumstances. It is the responsibility of the Section 151 Officer to advise the Council accordingly.
- 4.28 The relevant Prudential Indicators are set out in the following table.

Prudential Indicator	2004/05 Actual £'000	2005/06 Estimate £'000	2006/07 Estimate £'000	2007/08 Estimate £'000	2008/09 Estimate £'000
1 – Capital Expenditure:					
• Council Housing	2,034	2,098	2,147	2,100	1,766
• Other Housing	125	59	0	0	0
• General Fund	2,666	5,274	1,820	1,575	1,125
• Covenants	469	385	415	450	490
Total	5,294	7,816	4,382	4,125	3,381
2 – Ratio of Financing Costs to Net Revenue Stream:					
• General Fund	0.7%	0%	1%	0%	0%
• Housing Revenue	5.2%	4.5%	3.8%	4%	3.4%
Total	2.2%	1.4%	1.8%	1.5%	1.2%
3 – Capital Financing Requirement (CFR)	13,840	14,713	14,784	14,903	15,076
4 – Authorised Limit for External Debt					
• Fixed Debt	1,000	1,000	1,000	1,000	1,000
• Temporary Debt	7,500	7,500	7,500	7,500	7,500
• Covenants	3,500	3,200	2,800	2,300	1,760
Total	12,000	11,700	11,300	10,800	10,260
5 – Operational Boundary for External Debt	10,000	9,700	9,300	8,800	8,260

Indicator 1 - Capital Expenditure

- 4.29 This represents a summary statement of actual capital expenditure that was incurred in 2004/05 and the estimates of capital expenditure to be incurred for future years as included in the current capital investment programme.
- 4.30 It has been noted that in assessing projected resources available, that there is a potential shortfall over the current 5-year rolling programme of around **£350,000**. If additional resources are not identified, that it may be necessary to curtail some planned investment included in the proposed programme.

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

- 4.31 This indicator aims to show the level of "gearing", i.e. the extent of the Council's debt liability. If this percentage is high and/or rising, then it could give cause for concern as it may indicate that an organisation is relying too heavily on loan finance.
- 4.32 The indicator for the Council shows that in percentage terms, the Council's overall debt interest is relatively low particularly on the General Fund. This is due to the repayment of Government debt in March 2004.
- 4.33 The main liability now remaining is interest payable on Covenants (particularly on the Housing Revenue Account) that reduces over this planning period. In addition, repayment of the principal and interest associated with this finance have been included in the financial plan.

Indicator 3 – Capital Financing Requirement (CFR)

- 4.34 The CFR is a measure of the Council's underlying need to borrow **for capital investment**, and is based on the value of its assets contained in the Council's balance sheet. Under the Prudential System, the Council will need to ensure that net external borrowing does not exceed the CFR.

Indicator 4 - Authorised Limit for External Debt

- 4.35 This limit is designed to cover all borrowing and long-term liabilities. As regards borrowing, total debt outstanding is currently £1m.
- 4.36 Based on current spending plans and the level of set-aside capital receipts, it is unlikely that the Council will need to borrow, except to cover short-term cash flow requirements. This is detailed more in the proposed Treasury Management Strategy for 2006/07 that is subject to a separate report elsewhere on this Agenda.
- 4.37 Consequently, it is considered that a maximum borrowing level of £10m will accommodate these requirements. It is unlikely that the CFR will be breached over this planning period, but this will be kept under review as part of the Council's Borrowing Strategy.
- 4.38 **The Committee is asked to note that the limit of £11.3m for 2006/07 will be the statutory limit determined under Section 35(1) of the Local Government Act 2003.**

Indicator 5 - Operational Boundary for External Debt

- 4.39 This limit will act as a trigger for the Head of Finance in managing day to day treasury management. It is designed to act as an early warning sign in advance of the Council

possibly exceeding the statutory limit above. There is no definitive guidance on how this should be calculated and it depends on local circumstances.

- 4.40 The Council's Borrowing Strategy for 2006/07 (which is subject to an earlier report elsewhere on this Agenda) projects that the Council will not have any borrowing requirement during the next financial year, except to cover short-term cash flow deficits.
- 4.41 Based on debt and covenants outstanding, and with no current plans to undertake prudential borrowing, it is recommended that this boundary be set at the levels indicated in the above table.
- 4.42 After allowing for full coverage against the fixed debt and covenant financing (which are known and fixed), it effectively sets a trigger of 75% on the temporary debt limit, i.e. around **£5.5m** per year.

Section 25 Report (under the Local Government Act 2003)

- 4.43 The Council's Section 151 (Chief Finance) Officer is required, to provide an overall opinion on the robustness of the estimates included in budgets and the adequacy of Council reserves.
- 4.44 This report and that considered on 17th January 2006, highlights the risks and uncertainties surrounding the Council's financial plans and proposed actions it intends to take over the medium term to maintain a sound financial position.
- 4.45 It is considered that estimates of expenditure are prudent in that they provide for inflation and other known variations. In addition, a prudent view has been taken regarding projected income levels in 2008 and 2009, especially those relating to planning fees and interest on bank deposits.
- 4.46 The compilation of detailed estimates has been undertaken in conjunction with service managers. The Council has established budget -monitoring arrangements in place to help ensure that Council finances are monitored effectively.
- 4.47 The table below shows the projected level of revenue reserves over the next 4 years.

	31/03/2006 £	31/03/2007 £	31/03/2008 £	31/03/2009 £
General Fund Reserves	2,715,920	2,345,757	2,305,735	2,412,641
Commutation Reserve (currently still set-aside)	410,000	410,000	410,000	410,000
Sub-total (General Fund)	3,125,920	2,755,757	2,715,735	2,822,641
Housing Revenue Account	1,738,900	2,052,360	2,334,900	2,209,591
Other Earmarked Reserves	888,147	708,057	587,067	513,877
Total Reserves	5,725,967	5,516,174	5,637,702	5,546,109

Note – this will need to be updated pending the recommendations of the SFPWG on 22nd February.

- 4.48 The Council, based on the recommendation of the Section 151 Officer, have approved in principle, to set a **minimum** level of General Reserves of £1m on the General Fund by 2009 and £1/2m on the Housing Revenue Account. This was after an assessment of the financial risks the Council faces and their potential impact upon the overall financial position.
- 4.49 The above table shows that the level of reserves is forecasted to remain above the minimum levels. In addition, the Council has several earmarked reserves available. These mainly relate to Section 106 monies set-aside for the provision of open space and woodland maintenance as part of development agreements.
- 4.50 These are being drawn down over a period of time, which stretches beyond this planning period.

Provision of Information

- 4.51 The information and proposals contained in this report have been presented via local area meetings, a Parish Council Forum and through the Council's scrutiny process. A separate report by the Corporate Scrutiny Committee is included elsewhere on the Agenda, including feedback from the various presentations.

Overall Analysis and Risk

- 4.52 The Council is subject to risk, where many factors such as programmed funding and the level of council house sales for instance, are outside the control of the Council. In addition, service improvements and new investment are likely to put further pressure on the current financial position.
- 4.53 Therefore, the Council can never be complacent regarding its finances; Reviewing existing spending levels, considering alternative options and embracing the Government's efficiency agenda are as important as ever.

5.0 Financial Implications

- 5.1 As detailed in the report

6.0 Corporate Implications

- 6.1 As detailed in the report

7.0 Community Implications

- 7.1 As detailed in the report

8.0 Background Papers

- The Local Government Finance Settlement (and associated papers) 2006/07
- Housing Subsidy Determination (and associated papers) 2006/07
- Local Government Act 2003
- Local Authority (Capital Finance and Accounting) Regulations 2003
- Prudential Code for Capital Finance in Local Authorities
- Finance and Management Committee 17th January 2006 (Agenda Item 7)

