
REPORT TO:	FINANCE & MANAGEMENT COMMITTEE	AGENDA ITEM:	7
DATE OF MEETING:	22 July 2004	CATEGORY:	RECOMMENDED
REPORT FROM:	CHIEF FINANCE OFFICER	OPEN	
MEMBERS' CONTACT POINT:	TERRY NEAVES (595800) KEVIN STACKHOUSE (595811)	DOC:	u/ks/finalaccounts/budgetout-turnreport2004.doc
SUBJECT:	FINAL ACCOUNTS 2003/2004 FINANCIAL STRATEGY and UPDATED FINANCIAL PROJECTIONS to 2006/07	REF:	
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE:	FM08

1.0 Recommendations

1.1 To consider and approve the out-turn position for:

- General Fund Revenue Account 2003/04 (as summarised in **Appendix 1**)
- Housing Revenue Account 2003/04 (as summarised in **Appendix 3**)
- Capital Expenditure and Financing 2003/04 (as summarised in **tables 4.14 and 4.17**)

1.2 To consider and approve:

- Proposed revenue contributions to earmarked reserves (**Appendix 2**)
- Proposed capital schemes to carry forward (**Appendix 4**)
- The recommendations of the Council's Service and Financial Planning Working Panel (as set out in **4.54**)

1.3 To consider and note:

- The revised financial projection for the General Fund (**Appendix 5**)
- The financial risks associated with the projections and proposals to address them (as set out in **table 4.31**)
- Projected capital expenditure and financing to 2012 (**Appendix 6**)
- The Council's level of Earmarked Reserves (as summarised in **table 4.56**)

2.0 Purpose of Report

2.1 A comprehensive financial report to inform members of the final budget out-turn for 2003/04 (with comparison to estimates) and to review/update the Council's financial strategy and current medium-term financial forecasts. It considers both revenue spending and capital investment on the General and Housing Revenue Accounts. It

also sets out the various reserves currently held by the Council, their purpose, and proposals for future utilisation.

3.0 Executive Summary

- 3.1 The Council's overall financial position continues to be relatively healthy with general and earmarked reserves considered to be at an adequate level at the end of 2003/04, to help meet the financial challenges that the Council faces in the medium-term.
- 3.2 It should be remembered that our sound financial position reflects the prudent approach taken by this Council to financial planning since the financial crisis of 2000. A key element of this is to plan financially over 3 years.
- 3.3 Although sound, with 3-year projected balances of £1.4m, Members must appreciate that the gap between spending and income is projected to increase significantly over the next 3 years. Due to our prudent approach we have time to address this position. We also need to consider very carefully how we can generate savings to fund new spending priorities that we face over the next 3 years.
- 3.4 Finally, with any assessment of the Council's future financial position, it is important to be conscious of the risks involved. These are set out clearly in **section 4.31**.

4.0 Detail

Context

- 4.1 The Council's Statement of Accounts will be submitted to Council in August, within the statutory guideline. The Council's local target for completing the statements was 16th July 2004 (the statutory target being 31st August) and the draft accounts, subject to Audit were duly signed on this date.
- 4.2 This means that members have timely information about the closedown position and its impact on council finances. This report therefore provides members with details on the final out-turn position at an early stage to enable them to consider utilising any unspent resources from the previous year. It also helps members consider at an early stage the financial implications for setting the budget for next year and beyond.
- 4.3 The Council's financial position has progressively been improving over the last 3 to 4 years. This has been recognised by the Council's external auditors in their annual reports to Members, and within the recent Comprehensive Performance Assessment.
- 4.4 The report is set out in two parts.
 - **Part 1 – FINAL OUT-TURN** covers the final revenue and capital accounts for 2003/04.
 - **Part 2 – LOOKING FORWARD TO 2005/06 AND BEYOND** – considers the Council's current financial position. This takes into account the final out-turn and considers the implications for council spending in future years. This includes a review of the financial projections approved in February 2004. It also includes an updated **risk assessment** and how the council is addressing financial risks within its financial projections.

PART 1 - FINAL OUT-TURN 2003/04

General Fund Revenue Account

- 4.5 **Appendix 1** summarises the net revenue expenditure compared to the approved estimate for 2003/04. This shows net spending was just over £8.4m compared to the approved estimate of £9.07m. After adjusting for **proposed** contributions to and from earmarked reserves, this has **increased general reserves by £119,065**. The estimate anticipated a **withdrawal** from reserves of around £79,000.
- 4.6 Overall, additional income and various underspendings in the year amounted to approximately £640,000 overall. The major variances are outlined below.

DETAIL	£'000
Various budgets not spent which are requested to be carried over into 2004/05 (see Appendix 2)	212
Staff vacancies	124
Additional Planning and Building Regulation Fees	81
Reduction in net cost of Housing Benefits	68
Increase in interest recharged to the Housing Revenue Account (reimbursed via Housing Subsidy)	51
Reduction in debt interest due to repayment of long-term (PWLB) debt	41
Lower contributions to the County Council's Concessionary Travel and Meals on Wheels schemes	26
Surplus achieved on Print Room Trading Account	23
Additional recycling credits/income for composting and kerbside collections	18
Giro and Bank Charges lower than estimated	14
Reimbursements to Parishes for Concurrent Functions and repairs to play equipment lower than estimated	10
Reduction in External Audit Fees (rebate received)	9
Dividend received from Bretby Crematorium Committee	8
Cost of new contract for Indoor Market lower than estimated	7
Reduction in provision for bad and doubtful debts	7
Sub - Total	699
Less	
• Increase in costs of Local Plan Inquiry	48
• Other Variations	11
Overall Reduction in Net Revenue Expenditure 2003/04	640

Earmarked Reserves for Commitments

- 4.7 As in previous years, during the closedown process it has been evident that some of the above reduction (around £212,000 in the above table) will need to be set aside to meet future known commitments originally envisaged to be met from 2003/04 budgets. This includes requests being made to utilise savings made in individual service areas, to meet "one-off" spending in 2004/05. These are detailed in **Appendix 2**.

4.8 Included in this list are proposals to set-aside further amounts **totalling £230,000** as provisions to meet the following:

- Interim costs being incurred whilst the new waste disposal site is operational (£120,000). This represents the amount included in current budgets as income that may not be reimbursed by the County Council/Contractor.
- Backdated housing benefit previously claimed may need be repaid to the Government due to a review of rent assessments (£60,000). The Council is currently awaiting a final decision from the Government.
- Additional legal fees that may be incurred in respect of last year's Local Plan Inquiry (£50,000). This is currently being negotiated.

General Reserves

4.9 These now stand at approximately £2.63m as at 31st March 2004, compared to an anticipated level of reserves of just under £2.39m (**an additional £238,000**).

Housing Revenue Account (HRA)

4.10 The HRA has been the subject of closer scrutiny recently in connection with the Stock Options Review. The final accounts (**summarised in Appendix 3**) for 2003/04, shows an improved position to that estimated, with Reserve Balances standing at around £1.17m at 31st March 2004. This is approximately **£293,000 more** than estimated, mainly due to the following factors:

- An earmarked contribution to supplement capital works was not required of £194,000 (this had been budgeted for at the 2003/04 budget round as a provision).
- There was no requirement to increase the provision for bad debts in the year, as there was no overall worsening of rent arrears. This saved £60,000.
- Additional grant was received for "Supporting People," i.e. towards the cost of providing services to tenants in sheltered accommodation (£37,000).

Capital Spending

4.11 Total capital spending for 2003/04 was **£3.95m**, which was approximately £1.12m less than the approved estimate. However, just under £1m (around £970,000) will need to be carried forward to complete schemes and meet commitments in 2004/05. These schemes are listed in **Appendix 4**.

4.12 An overall analysis of capital expenditure for the year is summarised below:

Analysis of Capital Spending 03/04	Approved Estimate £'000	Actual £'000	Variance In Year £'000	Carry Forward £'000	Projected Variation £'000
Community Facilities	504	353	-151	151	0
Environmental Services	170	182	+12	34	+46
I.T. Systems	554	232	-322	322	0
Property Improvements	210	112	-98	117	+19
Private Sector Housing	751	724	-27	57	+30
Sheltered Housing Improvements	180	54	-126	126	0
Council House Improvements	2,297	1,887	-410	163	-247
Repayment of Covenants	405	405	0	0	0
Total Expenditure	5,071	3,949	-1,122	970	-152

4.13 After allowing for carry forwards, the projected variation on current capital schemes is a **reduction of around £152,000**. This is analysed below.

- **Environmental Services** – an increase of £46,000 due to the purchase of composting bins that were originally planned to be leased.
- **Property Improvements** – an increase of £19,000 due to an outstanding retention payment to complete works at Forest Park.
- **Private Sector Housing** – an increase of £30,000 due to an outstanding contractual payment for Maple Road Car Park.
- **Council House Improvements** – an overall reduction of £247,000 in the planned programme for the year in line with available resources.

Capital Financing

4.14 The table below shows how capital expenditure was financed in 2003/04. In accordance with usual practice, all government (borrowing) allocations and external funding is utilised, and the balance is then taken from general (usable) capital receipts.

Analysis of Capital Financing 03/04	Original Estimate £'000	Actual £'000	Variance In Year £'000	Carry Forward £'000	Projected Variation £'000
Borrowing Approvals	736	587	-149	0	-149
Major Repairs Allowance	2,102	1,888	-214	163	-51
HRA – Revenue Contribution	195	0	-195	0	-195
HRA – IT Reserve	98	0	-98	98	0
Grants and Contributions	326	277	-49	49	0
Section 106 Planning Receipts	110	98	-12	11	-1
General Capital Receipts	1,504	1,099	-405	649	+244
Total Financing	5,071	3,949	-1,122	970	-152

4.15 In line with actual spending, resources will need to be carried forward into 2004/05 to meet the carry forwards as listed in Appendix 4. Overall, less resources of around £152,000 will be required to match the overall reduction in expenditure. This is

mainly due to the reduction in the programme for council house improvements, resulting in the revenue contribution from the HRA being returned to HRA reserves.

- 4.16 However, an extra amount of approximately £244,000 will be required to be drawn from the capital receipt pot. This is to cover the reduction in the original amount anticipated in Government support, together with the additional amounts detailed in 4.13 above.

Capital Resources Remaining

- 4.17 The main resources available to the Council are those generated from asset sales (mainly housing land and council houses) - **capital receipts**. The table below summarises general capital receipts available, taking into account the position from 2003/04 and outstanding commitments. These are split between Housing and General Fund Receipts, and contributions received via Section 106 Planning Agreements.

Analysis of Capital Receipts	Total	Gen Fund	Housing	Section 106
	£'000	£'000	£'000	£'000
Balance B/F 1 st April 2003	3,628	0	2,323	1,305
• Received in year 2003/04	5,360	156	4,587	617
• Statutory set aside 2003/04	-3,343	-1	-3,342	0
• Applied to fund schemes 2003/04	-1,837	-155	-945	-737
Balance as at 31st March 2004	3,808	0	2,623	1,185
Less - Financing Expenditure 2004/05	-2,014	0	-1,896	-118
Balance Available	1,794	0	727	1,067

- 4.18 The Section 106 receipts are "ring-fenced" and are allocated through recommendations made by the Council's Section 106 Panel. The balance available for general use (i.e. Housing of approximately £727,000) is around **£150,000 lower** than anticipated at the last budget round.

- 4.19 This is as a result of the additional draw down required in 2003/04 of £244,000. However, this was partly offset by the receipt received from the sale of property in Grove Street that was not taken into account when setting the last budget. In addition, it should be noted that the balance available **does not** include receipts that are likely to be generated in 2004/05.

PART 2 - LOOKING FORWARD TO 2005/06 AND BEYOND

Medium Term Financial Strategy

The key components of the Council's financial strategy are set out below.

- To plan financially over 3 years.
- To maintain and keep under review an associated 3-year rolling financial projection of its General Fund and Housing Revenue Accounts.
- To maintain a minimum general balance as a contingency measure, of £3/4m on its General Fund and £1/2m on its Housing Revenue Account at the end of every 3-year planning period.
- A gradual and prudent release of available capital receipts for new investment.
- To continually maintain and develop sound financial management through regular financial and budget monitoring.
- To assess the affordability of new spending proposals over the 3-year planning period.
- To assess these proposals against the Council's approved scoring system.
- To review council spending in the light of changing priorities and new spending pressures.

4.20 The main cornerstones of the above strategy are 3-year financial planning and reserve balances at a set "minimum" level at the end of every 3-year projection. This has helped the council to focus on the resources that it will have available at the end of a 3-year planning period. More importantly it has helped the council to identify where its resources are falling over this period and take action at an early stage to prevent any loss of financial stability.

4.21 Clearly, the out-turn position over the last 3 to 4 years has made it much easier to deliver this medium term financial strategy. However, it should be emphasised that this has merely meant we can achieve our aim of stable balances earlier, **it does not** necessarily provide funds for ongoing new spending.

4.22 There are on going pressures that will need to be accommodated within future budgets. For example:

- **Unavoidable pressures** – we will always have to deal with the impacts of inflation, central government grant settlements etc, which we do not control. The revaluation of the pension fund also falls into this category.
- **Service Pressures** – these come from both members and managers who naturally wish to find ways to direct additional resources towards the services that they oversee/manage. Some of this may be in response to meeting changing national and regional priorities.

General Fund - 3-Year Financial Projection

4.23 The latest approved financial forecast (February 2004) is summarised in the table below.

General Fund Projection to 31/03/2007	Approved Estimate 2003/04 £	Base Budget 2004/05 £	Projection 2005/06 £	Projection 2006/07 £
• Net Revenue Expenditure	9,070,205	8,995,803	9,698,450	10,260,769
• Less Financing	8,990,894	8,786,345	9,090,779	9,429,632
Deficit for the Year	79,311	209,458	607,671	831,137
General Reserves				
• Balance as at 1 st April	2,468,935	2,389,624	2,180,166	1,572,495
• Less Deficit (as above)	79,311	209,458	607,761	831,137
BALANCE as at 31st MARCH	2,389,624	2,180,166	1,572,495	741,268

4.24 On the basis of this projection the Council's financial plans were consistent with its financial strategy, i.e. to maintain a minimum balance of 3/4m over the 3-year planning period. However, whilst the projection showed a healthy position in the medium-term, the position in the longer term gave cause for concern. There are underlying budget pressures as evidenced by the increasingly large budget deficits in 2006 and 2007.

Updated Projection

4.25 This projection has now been updated and revised to take account of the 2003/04 final accounts, i.e. to reflect the increase in general reserves at 31st March 2004, after taking into account the proposed carry forwards and other earmarked provisions as detailed in **Appendix 2**.

4.26 It also includes other approved changes that have arisen since the original projection. Principally, these are:

- To build in the savings arising out of the repayment of Government debt in March 2004 (around £1/2m over the 3-year forecasting period).
- To include the future on-going costs of laptop computers from 2005/06.

4.27 Essentially, the rest of the original projection at this stage remains unchanged. The updated position (as at July 2004) is detailed in **Appendix 5**, and summarised below.

JULY 2004	Base Budget 2004/05	Projection 2005/06	Projection 2006/07
Revised General Fund Projection to 31/03/2007	£	£	£
• Net Revenue Expenditure	8,869,803	9,559,550	10,080,869
• Less Financing	8,786,345	9,090,779	9,429,632
Deficit for the Year	83,458	468,771	651,237
General Reserves			
• Balance as at 1 st April	2,627,900	2,544,442	2,075,671
• Less Deficit (as above)	83,458	468,771	651,237
BALANCE as at 31st MARCH	2,544,442	2,075,671	1,424,434

- 4.28 Projected reserves are now forecasted at approximately £1.4m, which is a significant increase on the February forecast. Clearly, this is due to the effect of the reduction in on going debt interest, together with a more favourable position from the 2003/04 out-turn.
- 4.29 **Although this has certainly helped to reduce the projected deficits in 2005/06 and 2006/07, clearly these are still significant enough to require further attention in the shorter-term.**
- 4.30 Any projection should be viewed with a degree of caution. Although every effort has been made to take into account known spending pressures, some are less predictable. There are a number of factors which will affect this projection:
- **New spending pressures** and priorities that the council may wish to focus on over the next few years – if the Council wishes to find money for these new priorities it may to a certain extent, only come by achieving savings elsewhere.
 - **Inflation** – our **net** costs are expected to rise **on average** by 3% per year.
 - **Growth in Council Tax Base** – in line with the continuing growth of the District, it has been assumed that the number of properties subject to council tax will increase by 2% in 2005/06 and 2006/07.
 - **Government Grants** – at this stage it has been assumed that these will rise by 2% in 2005/06 and 2006/07.

Financial Risk Analysis

- 4.31 In addition, there are a range of factors that will have an impact on the above projection and these are considered in the table below, alongside action being taken to address these financial risks.

Risk	Proposed Action
<p>Insurance Costs – these have risen sharply over the last 2 years (nearly 50% in total). If these continue to rise and/or claims do not improve, this could place an increased burden on budgets. However, early indications on this year's increase suggest a softening of premiums and the increase is likely to be reduced from the levels of the last 2 years.</p>	<ul style="list-style-type: none"> • 5% increase allowed each year to 2007. • Every 1% increase costs around £7,500 over 3 years. • Insurers provide training and assistance in trying to reduce and manage claims. • Critical data will be the updated "loss ratio" due in August. This will indicate whether the claims situation for the Council is improving.
<p>Tipping facility – substantial costs (around £400,000) being incurred whilst the new facility is operational. An on-going issue – reimbursement of the Council's costs from the County Council/Waste Disposal contractor still not formalised.</p>	<ul style="list-style-type: none"> • Provision of £120,000 to an earmarked reserve being proposed in this report. Reflects shortfall in income compared to that budgeted and is based on latest negotiations.
<p>Legal costs and Local Plan Inquiry – Council subject to appeals, litigation, etc. which attract external fees. Costs difficult to accurately predict, especially with the Local Plan.</p>	<ul style="list-style-type: none"> • Contingency of £30,000 in projection allowed for legal fees. • Provision of £50,000 to an earmarked reserve being proposed in this report to cover claim outstanding for costs associated with recent Plan Inquiry. • In addition, £40,000 per year has been built into the base budget for Planning Services to cover any interim costs pending next Inquiry.
<p>Pension Costs – indications suggest a sizeable increase in employer contributions from the next valuation 2005/06. This will depend on the performance of the Pension Fund over the last 12 months. Results and implications expected in the Autumn.</p>	<ul style="list-style-type: none"> • A contingency of £186,000 has been built into the projections for 2006 & 2007, based on an interim valuation of the Pension Fund earlier this year.
<p>Income Projections – especially planning and building regulation fees. These can fluctuate with the state of the economy and house building in general. This can be beyond the Council's control. The Council's income from fees is currently exceeding all expectations – but for how long will these levels continue?</p>	<ul style="list-style-type: none"> • Income from these activities generated around £3/4m in 2003/04. • A prudent view has been taken in the medium term, and the following amounts have been built into budgets <ul style="list-style-type: none"> ➢ 2004/05 - £600,000 ➢ 2005/06 - £540,000 ➢ 2006/07 - £490,000
<p>Loss of Government Grant – new census data from 2001 likely to be fed into Government's formula from 2005/06. Census figure for the Council lower than the current population estimate used in the formula.</p>	<ul style="list-style-type: none"> • Effect very uncertain, as it will depend on how the formula works relative to other authorities. Projection includes a prudent increase in grant of 2% each year.
<p>Programmed funding – increasingly being used by the Government to fund certain areas such as Planning, Benefits and Crime & 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>	<ul style="list-style-type: none"> • Consideration should be given to maintaining general reserves at a higher level to provide a realistic cushion against a future shortfall.

4.32 The above risks need to be balanced against other factors, which could have a potentially positive impact on council finances. In particular, members will be aware that the Council currently receives a **grant settlement around £1/2m less** than the Government's own formula assessment. If this were addressed in anyway, it would result in a higher grant settlement for the Council.

Housing Revenue Account (HRA)

4.33 The current projections for the HRA to 2010 and beyond (in its draft 30-year Business Plan), has recently been subject to close scrutiny and wide publication in connection with the Stock Options Review. It is not intended to repeat a lot of information here that is readily available elsewhere.

4.34 However, the current projection does not include the out-turn position as highlighted earlier in this report. In particular, the projection needs updating for the more favourable out-turn position from 2003/04. Simply, HRA reserve balances are now around £293,000 better than originally estimated at 31st March 2004.

4.35 If this is included in the financial projection, reserve balances show a **negative £474,000** at 31st March 2010 (compared to the current £747,000). In addition, the minimum level of balances of around £1/2m can be maintained to 2008/09.

4.36 However, this in itself does not change the overall position and issue for the HRA, i.e. if "Retention" becomes the preferred option for the Council, then the longer-term financial viability of the HRA will need to be addressed in the shorter-term.

CAPITAL INVESTMENT and FINANCING

4.37 The table in 4.17 showed uncommitted and available capital receipts of approximately £727,000. This is after meeting approved commitments in 2004/05. An updated projection of the Council's 5-year capital investment and financing has been made to 2008/09, including schemes brought forward from 2003/04 (as detailed in Appendix 4).

4.38 Detailed schemes and financing are shown in **Appendix 6** with a summary below.

Updated Capital Investment Programme to 2008/09	04/05 £'000	05/06 £'000	06/07 £'000	07/08 £'000	08/09 £'000	Total £'000
Council House Repairs and other HRA	2,409	1,840	1,840	1,845	1,857	9,791
Community Facilities	1,202	175	175	175	175	1,902
Environmental Services	467	60	60	60	60	707
E-Government	425	150	0	0	0	575
Property Improvements	233	150	150	150	150	833
Private Sector Housing	617	550	550	550	590	2,857
Repayment of Covenants	470	385	415	450	490	2,210
Total Expenditure	5,823	3,310	3,190	3,230	3,322	18,875
Financing	5,823	3,605	2,840	2,445	2,457	17,170
Remaining or Shortfall (-) in Financing	0	295	-350	-785	-865	-1,705

4.39 The above figures project a shortfall of some £1.7m over the 5-year period. This may be addressed in a number of ways including:

- Additional Government allocations
- Land sales of other disposals
- Using additional capital receipts to fund Housing investment within the programme
- Borrowing additional funds within the new Prudential Capital Financing arrangements
- Re-prioritising the programme within the available resources.

Capital Expenditure

4.40 The estimated expenditure includes:

- The approved programme for 2004/05.
- Future commitments (depending on resources) to fund rolling programmes, namely
 - Private Sector Housing Grants
 - Community Partnership Scheme
 - Renovation of Cemeteries
 - Crime Prevention
 - Property Improvements
- A contribution to Etwall Leisure Centre should external funding become available.

Capital Financing

4.41 The projection assumes the worst case scenario for **Government funding, in that no general allocation** has been assumed after 2005/06. This is due to the uncertainty in how this support will be assessed and allocated after next year.

4.42 Government support for future capital investment locally, is now being delivered through Regional Housing Boards (East Midlands for this Council). The amount for 2004/05 is confirmed, but 2005/06 is provisional and subject to any changes arising from the Government's 2004 spending review.

4.43 Funding is in accordance with a strategy laid out for the whole of the East Midlands region. Authorities are being protected for the first 2 years of this new system by receiving allocations broadly similar to recent years.

4.44 However, after 2005/06 it is very uncertain how much funding will come into South Derbyshire, other areas may well be seen as a higher priority. In addition, the Government is now directing where resources should be spent. Broadly, the East Midlands strategy, which has a strong housing theme as its base, centres around:

- Meeting the Decent Homes Standard
- Sustaining and Regenerating Communities
- Housing for more vulnerable groups
- Rural Housing

Major Repairs Allowance (MRA)

- 4.45 This can only be used to fund improvements to council homes. Planned programmes can be tailored to fit the eventual allocation. However, if the current system continues for allocating the MRA, it is considered that the amounts included are fairly typical of what can be expected in future years.

General Capital Receipts

- 4.46 The estimated level of future receipts is based on projected council house sales only. Other receipts could be generated from land sales, but these are difficult to predict. In addition, all receipts, once used, cannot be easily replenished. The Council does have the option of **borrowing**, but this would need to be paid for from its revenue accounts. Given this, it is important that the action contained in the financial strategy **“a gradual and prudent release of available capital receipts for new investment”** continues to be observed.

Pooling of Capital Receipts

- 4.47 Members will be aware that under the new Capital Finance System effective from April 2004, 75% of the proceeds from council house sales have to be paid over to the Government (being called the “national “pooling arrangements”). When the Committee were considering the repayment of Government debt in February, there was a possibility that the Council would benefit from some transitional arrangements. These were implemented to protect councils that were debt free who had kept all receipts under the old system.
- 4.48 Although the Council’s debt was repaid, technically it appeared that it was not debt free as it still had a positive “credit ceiling.” This is the measure of debt the Government uses when calculating its financial settlement for the Council. The value of the credit ceiling is a significant figure in that if it is **nil or negative on 31st March 2004** (with all debt repaid) it would mean that the Council would technically be “debt free” and could benefit from the transitional arrangements.
- 4.49 Recent guidance covering the procedural arrangements for paying the “pooling” amount to the Government contained a definition of debt free that appeared to contradict the above regulations. Effectively, the definition of debt free **does not** include the value of an authority’s credit ceiling at 31st March 2004 – it can be either positive or negative.
- 4.50 Subsequent discussions with the Office of the Deputy Prime Minister have confirmed this, and notification received that the Council has been placed on the list of debt free authorities for the pooling arrangements. This means that the Council can retain a much greater proportion of council house sales generated between April 2004 and March 2007. The potential effect of this (based on the level of council house sales projected in Appendix 7) is shown in the following table.

Analysis of Pooling Arrangements	2004/05 £'000	2005/06 £'000	2006/07 £'000	Total £'000
Total Estimated Sales in Projection	4,000	4,000	2,400	10,400
Split on 75% Pooling				
• Paid to the Government (75%)	3,000	3,000	1,800	7,800
• Remaining with the Council (25% - usable)	1,000	1,000	600	2,600
Split on Transitional Arrangements				
• Paid to the Government	750	1,500	1,350	3,600
• Remaining with the Council (usable)	3,250	2,500	1,050	6,800
Additional Usable Amounts	2,250	1,500	450	4,200

4.51 Although the above figures are estimated and will ultimately depend on the level and value of sales, the Council potentially has access to significantly more resources over the next 3 years. These amounts **have not been included** in the projections in Appendix 7.

4.52 The only condition under these transitional arrangements is that the resources generated (i.e. the additional usable amounts in the above table) can only be used on expenditure incurred on its **housing functions**. This includes, but is not limited to, expenditure on HRA assets, but there is no requirement that expenditure is made in the year the resources are generated.

4.53 However, this may give additional resources for non-housing investment. This is due to the fact that some of the original 25% usable receipt would have been required to fund private sector housing schemes. The additional resources above could cover this.

SERVICE and FINANCIAL PLANNING WORKING PANEL

4.54 The Panel met on 13th July 2004 to discuss the information contained in this report. In particular, it considered the out-turn position on the General Fund and utilisation of the under spending from 2003/04. The main recommendations of the Panel are set out below.

- To approve the proposed carry forwards and contingencies as set out in **Appendix 2.**
- To utilise the remaining under spending on the General Fund of £200,000 over the 3-year planning period, on the following:
 - To fully implement the recommendations of the Independent Remuneration Panel for Members Allowances from 1st May 2004 (£80,000 over 3 years).
 - To set-aside potential additional costs associated with the senior management review and restructure (£70,000 over 3 years)
 - To make provision for the extension of the Kerbside Collection Scheme (70,000 over 3 years)
 - To make provision for developing the Customer First Project (£50,000 over 3 years).
- In total the above proposals amount to £270,000 over 3-years. However, the Panel noted the contingencies proposed in Appendix 2 and recommend that the above costs and any additional spending are reviewed when these contingencies are known.
- That no further capital investment is made at this stage.
- That the Council's financial strategy is extended to "reducing the gap between projected spending and income over the 3-year planning period."
- In response to the above, that a working group be formed to review the Council's current spending against its priorities.

EARMARKED RESERVES

4.55 In addition to General Reserves held for the General Fund and Housing Revenue Accounts, together with usable capital receipts, the Council has earmarked reserves held for specific purposes. They are provided to meet future and known commitments and in some cases, to spread expenditure over a number of years. The current reserves are detailed in the table below with an overview provided of each reserve in **Appendix 7.**

Analysis of Earmarked Reserves	Balance 1-4-03 £	Used in Year £	Income in Year £	Balance 31-03-04 £
Housing DSO	80,297	-80,297	0	0
Non-Housing DSO (soft split)	58,714	-21,550	0	37,164
Commutation Adjustment	960,190	0	0	960,190
HRA – IT System	96,540	0	0	96,540
IT/IEG	163,007	-239,147	200,000	123,860
Woodlands Section 106	357,765	-17,859	0	339,906
Repton Parish Contributions	33,049	0	0	33,049
Commitments/Carry Forwards	211,920	-159,020	442,060	494,960
TOTAL – Earmarked Reserves	1,961,482	-517,873	642,060	2,085,669

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 Conclusions

8.1 The final accounts for 2003/043 confirm that South Derbyshire District Council continues to have a fairly healthy financial position. It appears well placed financially to develop its services, to deal with the impact of external factors, and to deal with the financial risks that it faces.

8.2 The Council is now planning prudently to use resources, as they become available to help to address new spending pressures that the Council is beginning to face. The future still holds many financial challenges for the Council, which will need to be addressed if it is to develop sustainable council finances and services into the future.

8.2 The Council will also continue to face difficult decisions as it seeks to respond to the changing needs of both local residents and central government, which influence the services it provides.

9.0 Background Papers

- Local Authority (Capital Finance and Accounting) Regulations 2004
- Pooling of Capital Receipts (ODPM Guidance under the above Regulations)
- Consolidated Revenue Budgets and Capital Programme 2003/2004 and 2004/2005 – Final Proposals (Finance and Management Committee 17th February 2004)
- Repayment of Public Works Loan Pool Debt (Finance and Management Committee 17th February 2004)