
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	17th FEBRUARY 2004	CATEGORY: RECOMMENDED
REPORT FROM:	CHIEF FINANCE OFFICER	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/budget200405/ final F&M proposals
SUBJECT:	CONSOLIDATED REVENUE BUDGETS & CAPITAL PROGRAMME 2003/2004 AND 2004/2005 – FINAL PROPOSALS	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM08

1.0 Recommendations

- 1.1 That new spending proposals as set out in Appendix 2 are approved.
- 1.2 That net General Fund Revenue expenditure of £9,070,205 for 2003/04 and £8,995,803 for 2004/05 is approved.
- 1.3 That the 3-year financial projection on the General Fund showing a general reserve of £741,358 as at 31/03/2007 be approved.
- 1.4 That the financial projection on the Housing Revenue Account to 2009/10 is noted.
- 1.5 That an increase in council tax of 5% for 2004/05 be recommended to Full Council.
- 1.6 That the proposals for new capital investment as set out in Appendix 3 are approved.
- 1.7 That the Prudential Indicators as set out in paragraph (table) 3.40 are approved.
- 1.8 That the report of the Chief Finance Officer under Section 25 of the Local Government Act 2003 is approved.
- 1.9 That the Commutation Reserve is maintained at its current level.
- 1.10 That the Service and Financial Planning Working group is commissioned to review all Council spending in accordance with the approved "scoring system."

2.0 Purpose of Report

- 2.1 To detail the Council's final budget proposals for 2004/05 and financial projections to 2006/07. This will form the basis of setting the Council Tax for 2004/05 by Full Council on 26th February 2004. The report covers the following:

- The Council's proposed revenue and capital spending for 2004/05
- The medium term (3-year) financial projection
- The proposed Council Tax increase for 2004/05.
- The Prudential Indicators and assessment of the overall budget and level of reserves as required by the Local Government Act 2003.

3.0 Detail

Summary of the Position to-date

- 3.1 The Committee considered the initial budget proposals and overall financial position of the Council at its meeting on 15th January. This included proposed new revenue spending and capital investment and was based on a Council Tax increase for 2004/05 of 5%.
- 3.2 The Committee approved the following proposals that had previously been considered by the Service and Financial Planning Working Group.
- Net revenue expenditure on the General Fund of £9,070,205 for 2003/04 (probable) and £8,710,945 for 2004/05 (base budget).
 - New revenue spending totalling £795,200 over 3 years.
 - New capital investment of £395,250.
 - To maintain a general reserve on the General Fund of between £700,000 to £750,000 over the 3-year forecasting period.
 - To note the financial projection on the Housing Revenue Account to 2010.
 - That existing services be reviewed against the Council's "scoring system" as set out in the Corporate Plan.
 - To maintain the commutation reserve at its current level and to review its future use in accordance with the overall financial strategy of the Council.
- 3.3 These proposals have been subject to scrutiny and consultation with business ratepayers, the local strategic partnership and via area meetings.
- 3.4 This report effectively seeks to confirm these proposals along with changes that have occurred since the last report. In doing so, spending and investment proposals are set out for confirmation.
- 3.5 In addition, the budget proposals are put in the context of the new Prudential System for Capital Finance, together with an assessment of risks, and opinion of the Chief Finance Officer under Section 25 of the Local Government Act 2003.

General Fund – Net Revenue Spending

- 3.6 The Council's Policy Committees have considered their estimated level of spending for 2003/04 and 2004/05 in detail and the following net spending has been included in the Council's overall financial projection.

Proposed Spending by Committee	2003/04 Base Budget £	2003/04 Probable Out-turn £	2004/05 Base Budget £
Environmental and Development Services	3,447,570	3,583,490	3,304,320
Housing and Community Services	2,405,170	3,490,960	2,351,320
Finance and Management Committee	3,874,870	3,863,960	3,014,290
Capital Financing Adjustments reversed out (Finance Committee)	-589,030	-1,681,140	-26,612
Commutation Adjustment (Finance Committee)	-265,565	-265,565	-175,973
Overall Net Expenditure (before new spending)	8,873,015	8,991,705	8,467,345

New Spending Proposals

- 3.7 These are summarised in **Appendix 2** and are those reported to the Committee in January, as recommended by the Service and Financial Planning Working Group. These have now been built into the 3-year financial projection (**see 3.11 below**)

Planning Delivery Grant

- 3.8 It is anticipated that the Council will continue to receive this Government Grant for the next 3 years (estimated at £100,000 per year - £300,000 over the 3-year planning period). It is proposed that these resources are reinvested in developing the Planning Service and that the Environmental and Development Services Committee allocate these resources once the grant has been finalised.
- 3.9 It is expected that the grant will fund development proposals, in particular for additional staffing and I.T. investment.

Developments to the Licensing Service

- 3.10 It is proposed that additional expenditure in taking on Liquor Licensing, i.e. the Licensing Enforcement Officer (£76,500 over 3 years) and a Licensing Team Assistant (£58,400 over 3 years) be funded from fees and charges levied for granting licenses. This will need to be kept under review.

General Fund 3-year Financial Projection

- 3.11 The report to Committee in January showed projected balances of approximately £1.47m as at 31/03/2007. Adjustments have been made to accommodate the following:
- Addition of new spending proposals over 3 years (**Appendix 2**).
 - Loss of income from sale of 46-48 Grove Street (as approved on 15th January).
 - Increase in council tax income after confirmation of Collection Fund surplus and tax base.
 - Reduction in provision for on-going costs of new capital investment proposals.
 - Confirmation of Government grant that was reduced by approximately £11,000 per year compared to the provisional settlement.

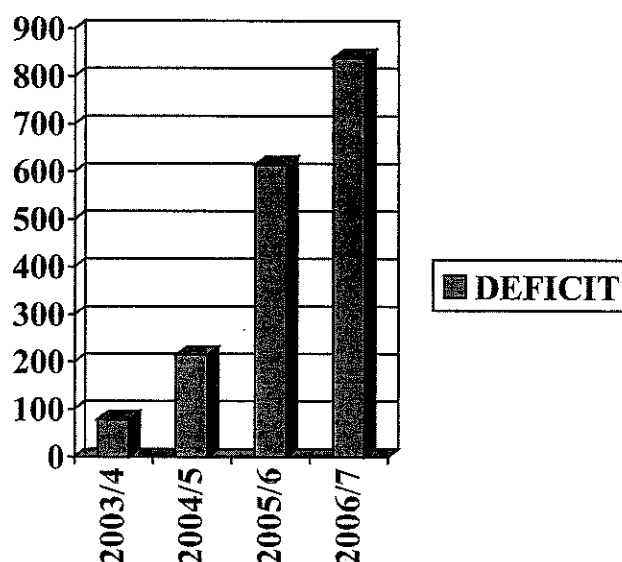
3.12 The revised projection is detailed in **Appendix 1** and summarised in the table below. This is based on a Council Tax increase of 5% for 2004/05.

	2003/04 £	2004/05 £	2005/06 £	2006/07 £
Net Revenue Spending	9,070,205	8,995,803	9,698,450	10,260,769
Less Financing				
General Government Grant	5,199,325	5,011,615	5,111,847	5,214,084
Council Tax	3,432,209	3,708,790	3,925,795	4,160,551
From Earmarked Reserves	359,360	65,940	53,137	54,996
Surplus / Deficit (-)	79,311	-209,458	-607,671	-831,137
Projected Balances	2,389,624	2,180,166	1,572,495	741,358

3.13 The Council's overall financial position on its General Fund continues to stay fairly healthy. Projected balances are within the approved range of £700,000 to £750,000 at the end of the 3-year forecasting period, in accordance with the Council's financial strategy.

Word of Caution

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. This is further illustrated in the graph below.



3.15 The extent of the deficit is increasing each year as projected spending is rising at a faster rate than projected income. In particular, members should note that the projected deficit at the end of 2006/07 (£831,137) exceeds the projected balances of £741,358. In the medium term, action will need to be taken to address this position to reduce the impact on Council reserves.

Risk Analysis

3.16 In addition, there is a range of factors that will have an impact on the above projection and these were considered in the January report. However, it is worth re-iterating these, and they are shown in the table below, alongside proposed actions to address these financial risks.

Risk	Implications and Action
<p>Insurance Costs – 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.</p>	<ul style="list-style-type: none"> □ Projection reflects increased insurance costs. □ 5% increase allowed each year to 2007. □ Every 1% increase costs around £7,500 over 3 years. □ Insurers working with Council's Risk Management Group to reduce claims. □ Re-tendering the current insurance contract is being considered as an option.
<p>Pension Costs – indications suggest a significant increase in employer contributions from the next valuation 2005/06.</p>	<p>A contingency of £186,000 has been built into the projections for 2006 & 2007, based on an interim valuation of the Pension Fund. Actual costs will now depend on performance of the Fund over the next year.</p>
<p>Income Projections – 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.</p>	<ul style="list-style-type: none"> □ Income from these activities is expected to generate around £1m per year in 2004 and 2005. □ A prudent view has been taken in the medium term, and a reduction to £850,000 is projected by 2007. □ General reserves maintained at a higher level to provide a more realistic cushion.
<p>Affordability of underlying service pressures – for example in refuse collection, recycling and other national targets.</p>	<p>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.</p>
<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>	<p>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>

<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>	<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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Other Proposed Action

- 3.17 Given the cautionary note and the risk analysis above, the Council has committed to reviewing its services and what it spends in detail early in 2004/05. The aim of this is to map out a plan for reprioritising council spending.
- 3.18 In addition, the Council is keeping under review other opportunities to reduce overall spending. In particular, interest on debt is a significant cost to the Council, and this is considered in a further report on this Agenda.
- 3.19 Furthermore, the Council will continue to lobby the Government through various means in order to attract more Grant support, which it is entitled to based on the Government’s own needs assessment formula.

Council Tax Levels

- 3.20 As stated earlier, the projections build in an increase of 5% for 2004/05. Recent Government statements have made it clear that the Secretary of State is likely to use his Reserve Power to cap any council tax increases beyond 5%. The Government has already targeted a number of authorities where initial indications have suggested “unacceptable” increases.
- 3.21 In the last 2 years, the Council has set relatively low increases compared to other Councils of 3.9% and 3.5% respectively.
- 3.22 The 3-year financial projection assumes increases of 4.5% for 2005/06 and 2006/07. **Band D Council tax** would therefore be as follows:

2004/05 Proposed	£126.48
2005/06 Projected	£132.17
2006/07 Projected	£138.12

- 3.23 The overall increase in Council Tax will depend on the elements set by the County Council, Police and Fire Authorities, together with any additional levies set by local Parish Councils.

The Housing Revenue Account (HRA)

- 3.24 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 only change since the January report to this Committee, is that an approved provision has been made for service improvements of £480,000 over the forecasting period to 2010. The financial projection is summarised in **Appendix 4**.

- 3.25 The Council is required to keep a minimum reserve balance of £1/2m on its HRA and cannot legally fall into deficit. Based on the current projection, the HRA is sustainable until 2008/09. After this period, the HRA will fall below the minimum reserve and infact have a cumulative deficit by 2009/10.
- 3.26 Clearly, the Council will need to take some tough decisions to decide whether it can achieve savings of approximately £1.25m over the next 6 years (i.e. to offset the deficit of £747,000 and maintain a minimum balance of £0.5m). Effectively, this will require savings of approximately £200,000 to be achieved in each of the next 6 years.

Capital Investment

- 3.27 The report in January set out changes to capital financing from 2004/05. The table below reiterates the resources now available for new capital investment.

Detail	£'000
Government Allocation – Single Capital Pot	534
Useable Capital Receipts	2,225
Total Resources	2,759
Less: Approved Commitments	
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
Resources now Available	1,267

- 3.28 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.

New Capital Investment Proposals

- 3.29 These are summarised in **Appendix 3** and are those reported to the Committee in January, as recommended by the Service and Financial Planning Working Group. It also includes commitments previously approved as shown in the table in **3.27** above. These would reduce resources currently in hand to meet future commitments and further capital investment to approximately £870,000.
- 3.30 Ongoing revenue costs associated with the new capital investment (approximately £8,000 per year) have been built into the 3-year revenue forecast. It is anticipated that some schemes could generate additional income for the Council in the future, but nothing has been built into budgets at this stage.

Major Repairs Allowance (MRA)

- 3.31 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.
- 3.32 The Government wishes 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

- 3.33 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.

The Prudential System for Capital Finance and CIPFA Code of Practice

- 3.34 Previous reports to Committee in October 2003 and January 2004 have provided details of this framework. It is being introduced through the Local Government Act 2003 to support financial planning and capital investment at the local level.
- 3.35 The key objectives of the Prudential Code are to ensure that capital investment plans of local authorities are affordable and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that financial planning and asset management are generally supported.
- 3.36 Some requirements of the code, such as 3-year financial projections, future council tax levels, and the affordability of capital investment are dealt with as an integral part of this report. As regards Treasury Management, the Council adopts CIPFA's Code of Practice and this helps formulate the Council's annual borrowing strategy.
- 3.37 A crucial element of the system is that Councils will be 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. From 1st April 2004, the Government will no longer set pre-determined borrowing limits for authorities.

- 3.38 A requirement of the Code is that the Council must set and regularly monitor Prudential Indicators. In addition, the 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.
- 3.39 The prudential system provides the flexibility for these indicators to be changed depending on local circumstances. It is the responsibility of the Chief Finance Officer to advise the Council accordingly, and the indicators can only be changed by Full Council. These indicators would need to be reviewed in the light of any significant debt repayment, which is subject to a further report on the Agenda.
- 3.40 The Indicators are set out in the table below and are explained in more detail in the following sections.

Prudential Indicator	2002/03 Actual	2003/04 Estimate	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate
1 – Capital Expenditure:					
<input type="checkbox"/> General Fund	1,696	2,519	1,887	960	990
<input type="checkbox"/> Housing	1,892	2,297	1,872	1,851	1,838
Total	3,588	4,816	3,759	2,811	2,828
2 – Ratio of Financing Costs to Net Revenue Stream:					
<input type="checkbox"/> General Fund	11.4%	8.0%	5.9%	5.5%	5.3%
<input type="checkbox"/> Housing	7.9%	6.4%	4.4%	4.1%	3.9%
3 – Capital Financing Requirement (CFR)	£18.8m	£19.4m	£19.9m	£20.4m	£20.8m
4 – Authorised Limit for External Debt					
<input type="checkbox"/> Borrowing Limit	£18m	£18m	£18m	£18m	£18m
<input type="checkbox"/> Long term Liabilities	£4.5m	£4.1m	£3.6m	£3.2m	£2.8m
Total	£22.5m	£22.1m	£21.6m	£21.2m	£20.8m
5 – Operational Boundary for External Debt	£15m	£15m	£15m	£15m	£15m

Indicator 1 - Capital Expenditure

- 3.41 This represents a summary statement of actual capital expenditure that was incurred in 2002/03 and the estimates of capital expenditure to be incurred for future years. The estimate for 2004/05 is based on the proposals set out in this report and is fully financed.

- 3.42 The estimates for 2005 to 2007 are only based on known commitments. They do not include any provision for further capital investment other than that detailed in this report.
- 3.43 In addition, the Council is maintaining a balance of useable receipts (£870,000) and current projections do not include any additional resources being generated from 2004/05 and beyond. Therefore, it is considered that the Council is taking a prudent view with its capital expenditure plans.

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

- 3.44 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.
- 3.45 The indicator for the Council shows that in percentage terms, the Council's overall debt interest is reducing. This is due mainly to the current interest being earned on bank deposits from reserved capital receipts.
- 3.46 However, the overall level of interest payable is still a fairly significant amount for the Council, although in monetary terms it is reducing. In addition, the Council's current budget proposals do not assume at this stage, any further long term borrowing to be undertaken. Furthermore, the current interest payable is contained within the financial projections. Options for reducing the Council's debt is subject to a further report on the Agenda.

Indicator 3 – Capital Financing Requirement (CFR)

- 3.47 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 balance sheet. Under the Prudential System, the Council will need to ensure that net external borrowing does not exceed the CFR.
- 3.48 Based on current debt outstanding and spending plans, it is unlikely that this limit will be breached over this forecasting period. The Council's outstanding debt (approximately £9m) is less than 50% of the CFR and the budget proposals do not assume any further long term borrowing to be undertaken.

Indicator 4 - Authorised Limit for External Debt

- 3.49 This limit is designed to cover all borrowing and long-term liabilities. As regards borrowing, the Council's current Treasury Management Strategy already sets out an overall annual borrowing limit, and it is proposed that this amount is used for this purpose. The Council's long-term liabilities relate to principal amounts outstanding on Covenants.
- 3.50 Based on the current financial plans and cash flow forecasts, this is considered to be an adequate limit to cover all eventualities, i.e. long term borrowing and credit requirements, together with short term cash flow requirements – in all cases whether revenue or capital.
- 3.51 The Committee is asked to note that the limit of £22.5m for 2004/05 will be the statutory limit determined under Section 35(1) of the Local Government Act 2003.

Indicator 5 - Operational Boundary for External Debt

- 3.52 This limit will act as the trigger for the Chief Finance Officer 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.
- 3.53 Due to the amount of money currently on deposit, it is considered that the Council will not be required to borrow to cover variations in cash flow over this forecasting period. Based on debt and covenants outstanding, and with no plans to undertake further borrowing, it is recommended that this boundary be set at £15m.

Section 25 Report

- 3.54 The Chief Finance Officer is required under this section of the Local Government Act 2003, to provide an overall opinion on the robustness of the estimates included in budgets and the adequacy of Council reserves.
- 3.55 The more general report 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.
- 3.56 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 2006 and 2007, especially those relating to planning fees and interest on bank deposits. The compilation of detailed estimates has been undertaken in conjunction with service managers.
- 3.57 The Council has also established sound monitoring arrangements to ensure that Council budgets are monitored effectively. This will be further enhanced by the introduction of the Financial Management computer system in April.
- 3.58 The table below shows the projected level of reserves for the next 4 years.

	31/03/2004 £	31/03/2005 £	31/03/2006 £	31/03/2007 £
General Fund Reserves	2,389,624	2,180,166	1,572,495	741,358
Commutation Reserve	960,190	960,190	960,190	960,190
Sub-total	3,349,814	3,140,356	2,532,685	1,701,548
Earmarked Reserves	545,392	479,452	426,315	371,319
Total Reserves	3,895,206	3,619,808	2,959,000	2,072,867

- 3.59 Total reserves at the end of this financial year (31/03/2004) are estimated to be around £3.9m. This is comfortably above the minimum level identified as prudent by our external auditors (£1/2m).
- 3.60 It should be noted that of this total some £545,000 relates to earmarked reserves that have been set aside to meet future spending commitments, such as IT development and expenditure associated with Swadlincote Woodlands. This effectively means that the reserves available to meet unforeseen spending are reduced to around £3.3m.

- 3.61 A further £960,000 relates to the commutation reserve. This was originally set aside to provide for future costs associated with commuting grants, which will not now arise following the introduction of the new Prudential System for Capital Finance. At this stage Members have decided to maintain this reserve at its current level (£960,000).
- 3.62 Any decision to spend the commutation reserve will reduce the overall level of general reserves. Decisions on the use of this reserve should only be taken when members have considered what action to take to reduce the underlying budget deficit.
- 3.63 Effectively this leaves the council's general reserves at approximately £741,000 at the end of the 3-year planning period. This is consistent with the Council's financial strategy to maintain reserves in excess of £700,000 at the end of the rolling 3-year period.
- 3.64 Members must however note the projected deficit for the last of the 3 years of £831,000. This exceeds the level of balances at the end of that financial year and indicates that action will need to be taken well in advance of 2006/7 to align council spending more closely to projected income.

Budget Consultation

- 3.65 The proposals contained in this report have been subject to consultation via Area meetings, the local strategic partnership, local businesses and through the Council's scrutiny process. A separate report by the Corporate Scrutiny Committee is included elsewhere on the Agenda.

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 financial position of the Council, together with the commentaries and issues highlighted in this report. Consequently, the Committee is asked to recommend spending proposals, council tax levels and prudential indicators to the Full Council on 26th February 2004.

8.0 Background Papers

- The Local Government Finance Settlement (and associated papers) 2004/05
- Housing Subsidy Determination (and associated papers) 2004/05
- Local Government Act 2003
- Local Authority (Capital Finance and Accounting) Regulations 2003
- Prudential Code for Capital Finance in Local Authorities