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**REPORT TO:** FINANCE & MANAGEMENT  
COMMITTEE

**AGENDA ITEM:**

10

**DATE OF  
MEETING:** 24 July 2003

**CATEGORY:**  
RECOMMENDED

**REPORT FROM:** CHIEF FINANCE OFFICER

OPEN

**MEMBERS'  
CONTACT POINT:** TERRY NEAVES (595800)

**DOC:**  
u/ks/3yearforecast/budgetout-  
turnreport2003.doc

**SUBJECT:** BUDGET OUT-TURN 2002/2003  
FINANCIAL STRATEGY and  
UPDATED FINANCIAL  
PROJECTIONS to 2005/06

**REF:** KS/JHM

**WARD (S)  
AFFECTED:** ALL

**TERMS OF  
REFERENCE:** FM08

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## **1.0 Recommendations**

### **1.1 Members are asked to note the out-turn position for**

- a) General Fund Revenue Account 2002/03
- b) Housing Revenue Account 2002/03
- c) Capital Expenditure and Financing 2002/03

### **1.2 Members are asked to consider and approve**

- d) Proposed revenue contributions to earmarked reserves
- e) Proposed capital schemes to carry forward
- f) Additional revenue spending items
- g) Additional capital spending items

### **1.3 Members are further asked to consider and approve:**

- h) The revised three year financial projections
- i) The assumptions that underpin the financial projections
- j) The financial risks associated with the projections and proposals to address them

## **2.0 Purpose of Report**

- ### **2.1**
- A comprehensive financial report to inform members of the budget out-turn for 2002/03 and to update the Council's financial strategy and 3-year forecasts to 2005/06. It considers both revenue and capital spending 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 stabilise with general and earmarked reserves considered to be at an adequate level at the end of 2002/03. In addition, current projections show that this can be maintained to the end of the current forecasting period, although the Housing Revenue Account is more critical in maintaining an adequate level of reserves.
- 3.2 There may be opportunities to invest additional resources in services, more so on capital projects. However, this will need to be undertaken in a sensible and prudent way as the Council continues to face many issues that will affect its overall financial position. **Part 2** of the report (looking forward) and in particular the risk analysis, clearly highlights the current issues, their volatility and the financial impact on the Council.
- 3.3 The Council's financial strategy clearly indicates that existing resources should be reprioritised where opportunities exist to meet new spending pressures. This is a responsible way in order to protect the current financial position.
- 3.4 Overall, the Council's financial position is such that it can plan fairly well for the future and is reasonably placed to meet future commitments.

### 4.0 Detail

#### **Context**

- 4.1 The Council's Statement of Accounts will be submitted to Council in August, well within the statutory guideline. The target for completing this statement has been set as 31 July 2003 and we are on course to meet that target.
- 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.

#### **Financial Background**

- 4.3 Members will be aware that this Council suffered a serious financial crisis in 2000, which resulted in considerable budget reductions. Since then a lot of time and effort has been put in by both members and offices to turn around the council's financial position and put it in a sound and stable position for the future.
- 4.4 **In 2000/01** Council finances began to turn the corner, with balances improving to a more prudent and realistic level. At the same time the Council began to focus on the spending commitments over a three-year period. This has helped it to plan more realistically for the future.
- 4.5 **During 2002/03** Council Officers were able to continue the work of steering Council Finances in a more positive direction. Close monitoring helped managers and finance staff to control their spending effectively.
- 4.6 **The final out-turn for 2002/03** shows that this position has now been cemented with the Council able to keep final spending well within budget.

4.7 The remainder of this report is set out in two parts.

- **Part 1 – BUDGET OUT-TURN** covers the out-turn position for 2002/03 and considers how any surplus resources may be used during the current financial year to improve further the services that the Council provides.
- **Part 2 – LOOKING FORWARD TO 2004/05 AND BEYOND** – considers the council's current financial position. This takes into account the budget out-turn and considers the implications for council spending over the next three years. This therefore includes a **financial projection** for the next three years with the **assumptions** underpinning it explained. It also considers **potential risk areas** and how the council is addressing these within its financial projection.

## **PART 1 - BUDGET OUT-TURN 2002/03**

### **General Fund Revenue Account**

- 4.8 **Appendix 1** summarises the net revenue expenditure compared to the approved probable out-turn for 2002/03. This shows net spending was £7,180,629 compared to the probable estimate of £7,823,860. After adjusting for contributions to and from earmarked reserves, this has increased general reserves by around £564,000 compared to that budgeted of £83,000.
- 4.9 Overall, additional income and various underspendings amounted to approximately £600,000, and predominantly these savings arose from the following sources:

Detail	£'000	Comment
Staff Vacancies	90	Some of this will be on-going in 2003/04
Planning, Building Regulations & Land Charges Fees	120	Some of this will be on-going in 2003/04
Housing Benefit Grant (mainly for detecting fraud)	60	Additional grant may accrue in 2003/04
Income from Property Lettings	28	Some of this will be on-going in 2003/04
Meals and Wheels (contribution to County)	20	On-going savings already built into budgets
Various budgets not spent	190	To be carried forward to meet commitments ( <b>see Appendix 2</b> )
Subsidy to Trident Housing Association	10	On-going savings already built into budgets
Repairs to Civic Offices	20	General Underspend
Reduction in Bad Debt Provision	25	On-going reductions built into budgets
Reduction in Print Room Deficit	10	On-going reductions built into budgets

### **Earmarked Reserves for Commitments**

- 4.10 As in previous years, during the closedown process it has been evident that some of the savings will need to be set aside to meet future known commitments originally envisaged to be met from 2002/03 budgets. In addition, requests have been made to

utilise savings made in individual service areas, to meet “one-off” spending in 2003/04. These are detailed in **Appendix 2**.

### **General Reserves**

- 4.11 These now stand at approximately £2.47m as at 31<sup>st</sup> March 2003, compared to an anticipated level of reserves of just under £2m.

### **Addressing New Revenue Spending Pressures**

- 4.12 The Service & Financial Planning Working Group met on the 22<sup>nd</sup> July 2003 to consider bids for additional revenue funding. Some of these bids had already been considered at the time of the last budget round but did not proceed due to limited council resources. Other bids reflected new pressures that the Council is facing.
- 4.13 All bids had previously been scored against agreed assessment criteria by a member/officer evaluation panel. The bids are listed in **Appendix 3** and the results of this scoring, together with the proposals of the working group against these spending bids, will be tabled at the meeting.

### **Housing Revenue Account (HRA)**

- 4.14 Members will also be aware that the financial stability of the Council’s Housing Revenue Account improved last year with balances at a more prudent level. This has continued in 2002/03 and helps place the Council in a good position to address some of the key challenges that the Housing Service faces over the next few years.
- 4.15 Overall the Housing Revenue Account achieved a surplus of approximately £152,000 compared to a budgeted deficit of £404,000. The summary account is shown in **Appendix 4**.
- 4.16 Essentially this improved position is the result of the following factors:
- ❑ **Housing Repairs** – an underspending of approximately 10%. This is in part due to the Department continuing to control this area of spending tightly within budget, but also due to some planned work (for example replacement locks £50,000) being delayed to 2003/04. Members will be aware that this area has previously placed considerable pressure on council finances. Given certain delays and the anticipated pressure on future budgets, it is proposed that this underspend is earmarked for the repairs budget in 2003/04.
  - ❑ **Housing Management** – an underspending due to resources set-aside for compensation payments to tenants affected by improvement works, not being required until 2003/04.
  - ❑ **DSO Surplus** – the HRA also benefited from the surplus achieved by the Housing DSO in the year 2001/2002 (£30,000).
  - ❑ **Capital Contribution** - a planned contribution from the HRA of approximately £178,000 to meet capital expenditure was not required due to an underspend on the overall housing investment programme (see 4.19 below). This has been returned to the HRA general reserve.

- 4.17 The overall position is that HRA general reserves now stand at around £1.4m at the end of 2002/03.

## CAPITAL

### Capital Spending

- 4.18 Total capital spending for 2002/03 was £3.59m, divided between the Housing Investment Programme (£2.81m) and General Schemes (£0.78m). Details are shown in **Appendix 5**.

### Housing Investment Programme

- 4.19 Included within the above spending, a considerable amount of Housing Investment for the Council's housing stock is funded through the **Major Repairs Reserve**. This is supplemented each year from the Government's Major Repairs Allowance (MRA), and is "ring-fenced" for capital spending on the housing stock.
- 4.20 Actual spending on the housing stock was £2.12m against a budget of £2.47m. In accordance with Government guidelines, it is proposed that the balance of MRA monies (approximately £150,000) be carried forward in the Major Repairs Reserve to be spent in the current financial year (2003/04).
- 4.21 The budget for grants provided to private sector tenants, was fully spent in 2002/03, therefore utilising all the Government's allocation in this area. The relatively small overspend of around £8,000, was funded from capital receipts.

### General Schemes

- 4.22 Overall spending on non-housing schemes was lower than anticipated, due to several schemes being delayed to 2003/04. These are identified in **Appendix 5**, and the relevant resources (already earmarked) can be carried forward for these projects.

### Capital Financing

- 4.23 The table below shows how capital expenditure was financed in 2002/03. In accordance with usual practice, all government (borrowing) allocations and external funding is utilised, and the balance is then taken from reserved (usable) capital receipts.

Source of Financing 2002/03	£'000
Government Allocations (in the form of borrowing approvals)	903
External Grants & Contributions	52
Section 106 (Planning Capital Receipts)	98
Major Repairs Allowance (Cash from Government)	2,120
<b>Sub Total</b>	<b>3,173</b>
Balance from Capital Receipts	414
<b>Total Financing 2002/03</b>	<b>3,587</b>

### Capital Resources Remaining

- 4.24 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 the current usable capital receipts. These are split between Housing and

General Fund Receipts, and contributions received via Section 106 Planning Agreements.

<b><u>Analysis of Capital Receipts</u></b>	<b>Total</b>	<b>Gen Fund</b>	<b>Housing</b>	<b>Section 106</b>
	£'000	£'000	£'000	£'000
Balance b/f 1 <sup>st</sup> April 2002	2,604	0	1,870	734
• Received in year 02/03	4,097	6	3,400	669
• Statutory set aside 02/03	-2,545	0	-2,545	0
• Applied to fund schemes 02/03	-512	-6	-408	-98
<b>Balance c/f 31<sup>st</sup> March 2003</b>	<b>3,644</b>	<b>0</b>	<b>2,339</b>	<b>1,305</b>
Less: Schemes c/f from 02/03	-376	0	-321	0
Less: Approved Contributions to 2003/04 Capital Programme	-581	0	-476	-105
<b>Balance Available</b>	<b>2,742</b>	<b>0</b>	<b>1,542</b>	<b>1,200</b>

4.25 The balance available of approximately 2.7m is £1m higher than anticipated at the last budget round. This is due to additional income from council house sales and Section 106 receipts from housing development at Hilton. The balance available **does not** include receipts that will be generated in 2003/04.

4.26 The Council has the freedom to use the above capital resources for either housing or general fund schemes, except for the Section 106 monies. The 1.2m is earmarked to be spent in specific areas (mainly in Hilton and Gresley wards) on community and recreational facilities. A separate member panel has been set up to recommend how this money should be utilised.

4.27 The above capital receipts need to be viewed in context i.e.

- They mainly stem from major asset sales that will not be repeated on an annual basis. Once used they are therefore unlikely to be easily replenished.
- Other capital resources are still scarce and as such should only be used on those schemes that are an absolute priority.
- **Conversely, capital receipts, especially those generated from Council House Sales, have a negative impact on both the General Fund and Housing Revenue Accounts. This is explained in Part 2 of the report, later.**

### **Addressing New Capital Spending Pressures**

4.28 The Service and Financial Planning Working Group also took the opportunity to consider new capital spending pressures. Again these were based on bids submitted by both members and officers. These have been evaluated against set criteria by a member/officer panel. The bids are listed in **Appendix 6** and the results of this scoring, together with the proposals of the working group against these spending bids, will be tabled at the meeting.

## PART 2 LOOKING FORWARD TO 2004/05 AND BEYOND

### Financial Strategy

4.29 The Council's Corporate Plan sets out the Council's budget strategy as follows:

- ❑ Maintain adequate balances in line with External Audit guidelines (e.g. £500,000 minimum over three years) to protect against unforeseen spending pressures.
- ❑ Ensure new spending commitments are sustainable in the medium to long term i.e. the Council will maintain sufficient revenue funds to deal with the ongoing commitments stemming from revenue and capital projects.
- ❑ Put in place mechanisms to link service and financial plans.
- ❑ Adopt Responsible Bidding to make sure that any bids for external funds are consistent with the Council's corporate plan.
- ❑ Refocus and reprioritise council spending to ensure that it meets the changing needs of local residents and regional and national priorities.

4.30 Essentially as we plan financially over a three-year period, it is reasonable that we should ensure that anticipated balances at the end of the rolling three-year planning period exceed £500,000, and do not fall below that level during the planning period.

4.31 Clearly the out-turn position over the last three 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.

4.32 There are still however other pressures that will need to be accommodated within future budgets.

- ❑ **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.

### Looking forward to 2004/05 and beyond

4.33 Since 2000 and in line with the Financial Strategy, the Council has produced a three-year spending projection. This has helped the council to focus on the resources that it will have available at the end of 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.

### Prudential Code on Local Authority Borrowing

4.34 The Government has recently issued a draft Prudential Code, which will give Councils greater freedom to borrow to fund new spending priorities, as long as they can afford it. Although still to be formally legalised, it is expected that this code will be

effective from 1<sup>st</sup> April 2004, and all Councils will need to incorporate it into the forthcoming budget round for 2004/05.

- 4.35 As part of the Prudential Code, all councils will be required to prepare a detailed three-year forecast of their revenue spending. This is in line with the forecast we have been preparing for the last three years. This will be used to help councils balance

⇒ the level of borrowing they can afford to sustain and invest in new capital spending and developing new services

**against**

⇒ the resources they have to finance this borrowing and more important, the resources they can raise from local taxpayers and the burden it will place upon them.

### **General Fund: 3-Year Financial Projection**

- 4.36 The latest approved 3-year forecast (February 2003) is summarised in the table below.

	<b>2003/04 £'000</b>	<b>2004/05 £'000</b>	<b>2005/06 £'000</b>
Net Revenue Spending	8,965	9,079	9,481
Met by			
➤ Government Grants	5,199	5,303	5,409
➤ Council Tax	3,432	3,649	3,887
➤ Earmarked Reserves	39	18	18
Projected Deficit	(295)	(109)	(167)
Transfers to commutation reserve	(266)	(176)	(133)
Reduction in General Reserves	(561)	(285)	(300)
<b>Projected Reserves</b>	<b>1,427</b>	<b>1,142</b>	<b>842</b>

### **Note**

The Council is committed to phasing out its reliance on the commutation adjustment over the next 3 financial years. Essentially the Council has agreed to make total contributions of £575,000 over the next three financial years to the commutation reserve.

- 4.37 On the basis of this projection the Council's financial plans were consistent with its financial strategy i.e. to maintain balances above £500,000 over the 3-year planning period.
- 4.38 This projection has now been updated and revised to take account of some of the known changes stemming from the 2002/03 out-turn and beyond, together with other variations since February. This is summarised in the table below.



<b>Revised 3-Year Projection</b>	<b>2003/04 £'000</b>	<b>2004/05 £'000</b>	<b>2005/06 £'000</b>
Net Revenue Spending	9,034	9,237	9,701
Met by			
➤ Government Grants	5,199	5,329	5,451
➤ Council Tax	3,433	3,649	3,887
➤ Earmarked Reserves	44	44	23
<b>Projected Deficit</b>	<b>358</b>	<b>215</b>	<b>340</b>
Transfers to commutation & IT Reserves	336	246	133
Reduction in General Reserves	694	461	473
<b>Projected Reserves</b>	<b>1,775</b>	<b>1,314</b>	<b>841</b>

4.39 The revised projection set out in detail in **Appendix 7** takes into account the final out-turn budget position for 2002/03. The main assumptions underpinning this forecast, together with some sensitivity analysis is shown in **Appendix 8**.

4.40 Projected reserves are now forecasted at approximately £841,000, around the same level previously forecasted, although there have been changes within this. Basically, the additional resources accruing at the end of 2003/03 will be taken up via additional **insurance premiums** and an increase in **capital financing charges** on the General Fund. These factors are explained further below.

4.41 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 current projection. These are listed below: -

- ❑ **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 2.75% in 2004/05, and 3% in 2005/06.
- ❑ **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 2004/05 and 2005/06.
- ❑ **Government Grants** – at this stage it has been assumed that these will rise by 2.5% in 2004/05 and 2005/06.
- ❑ **Insurance costs** – the Council's insurers are predicting an increase in insurance premiums of 30% from October 2003.
- ❑ **Pension Costs** – as part of the closedown process for 2002/03, the actuaries of the Pension Fund reassessed its liabilities. Overall, the shortfall of this Council's share of the Fund has increased from £9.2m to £15.6m over the last 12 months. This is largely due to poor investment performance, which has affected all

pension funds. This presents a risk to the Council by future increases in pension contributions, probably from 2005/06 onwards.

- **Capital Financing Costs** – the continuing increase in Council House Sales will also have an impact on the General Fund, as it reduces the amount of housing debt outstanding, and subsequently the amount of debt charges that can be transferred to the HRA. This is mitigated to some extent by additional bank interest from having a large proportion of the capital receipt on deposit, but the net effect is a cost of some £475,000 over the next 3 years.

## Risk Analysis

4.42 There are ranges 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	Proposed Action
<b>Commutation Adjustment</b> – while this adjustment currently has a positive impact on council budgets, this position will reverse in 2006/07. At that stage it will create a burden on future council spending.	Earmarked reserve created and monies added each year to provide cushion to contribute to extra costs in future years.
<b>Legal Costs</b> – the Council faces unpredicted legal costs with the need to recruit external solicitors for employment tribunal appeals etc.	Earmarked reserve created to provide contribution towards legal costs and reduce impact on individual years' budget.
<b>Insurance Costs</b> – premiums continuing to rise sharply and place an increased burden on council budgets.	Projection reflects increased insurance costs. External advisors used to benchmark insurance quotes to assess whether it is value for money. May need to consider re-tendering existing contract.
<b>Capital Financing Costs</b> – council house sales reducing the amount of debt charges transferred to the HRA.	Effect built into financial projection. Outside the control of the Council, but now needs monitoring on a regular basis.
<b>Income Projections</b> – especially planning fees 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.
<b>Pension Costs</b> – indications suggest a significant increase in employer contributions from the next valuation 2005/06.	Costs difficult to assess. General reserves maintained at a higher level to provide a more realistic cushion, or capital resources set-aside to make a further capital contribution to mitigate revenue effects.
<b>Delay in Opening New Tipping Facility</b> – extra costs may be incurred from September 2003.	Different options being considered and financing (compensation) also being pursued. Interim measure may be to maintain general reserves at a higher level.

4.43 The above risks need to be balanced against other factors, which could have a potentially positive impact on council finances:

- ❑ **Prudential Code** – as part of the prudential code mentioned earlier, the Government has indicated that it may eliminate the commutation adjustment when it becomes negative for an authority. If implemented this would allow the Council to use the money built up within its commutation reserve to meet one-off or short-term spending requirements.
- ❑ **Government Grants** – last year the government introduced a new mechanism for allocating government grants. This concluded that extra government grants should be allocated to this Council, along with other councils in the Midlands. Although increases were capped to protect those authorities losing under the new system, the full increase could be phased in. The government is yet to provide details of how this will be achieved, but if put into place this would result in a higher grant settlement for the Council.

### **Housing Revenue Account (HRA)**

4.44 When setting the HRA budget for 2003/04 and financial forecast for the following two years, it was noted that the HRA was seeing a reduction in its income base. This was mainly due to an increase in council house sales, which was reducing the rent base. In addition, the ability to increase rents in the future is now being controlled by Rent Restructuring, which is having a neutral impact on the overall rent that is being collected.

4.45 It was pointed out that the HRA would require careful monitoring, and the Council would be more reliant on its capital allocations via the Government's Major Repairs Allowance, to undertake planned maintenance work that has previously been financed directly from the HRA. However, it was forecasted that the HRA general reserve could be maintained at the recommended minimum level of £1/2m to 31<sup>st</sup> March 2006.

4.46 This HRA forecast has now been updated and revised to take account of some of the known changes stemming from the 2002/03 out-turn and other variations since February. This is summarised in **Appendix 9**.

4.47 This is based on the following main assumptions.

- ❑ **Inflation** – the same rates used for the General Fund on pay and prices has also been applied to the HRA. A 1% variation equates to approximately £15,000.
- ❑ **Rent levels** – as highlighted above, the overall increase in rent income will only increase marginally in real terms over the forecasting period as the Government's rent restructuring formula is applied to individual rents.
- ❑ **Council House Sales** – these continue to have the biggest negative impact on the HRA as they reduce the amount of rental income. Annual sales are currently around 125 and rising (before 2002/03, there were about 70 to 80 per year). The projection assumes that this trend will continue into 2004/05 and then start to tail off during 2005/06. Every sale reduces rent income on average by approximately £2,500 per year.

- ❑ **Housing Subsidy** – although overall subsidy continues to fall due to less capital financing charges being transferred from the HRA (see General Fund projections), this should be mitigated to some extent by increases in management and maintenance allowances being proposed by the Government. Overall increases of 6% (the lower end of the scale) have been assumed in the projection.
- ❑ **Housing Repairs** – budgets were reduced in 2004/05 and 2005/06 to help maintain HRA general reserves above the recommended minimum level of £1/2m. This means that more reliance is placed on the Major Repairs Allowance (MRA) to meet planned maintenance works. This is still reflected in the revised projections.
- ❑ **Revenue Contributions to Capital** – used to supplement capital spending. However, with the introduction of the MRA in 2001/02, and the under spend on the housing investment programme in 2002/03, these have not been required. Therefore, it has been assumed that the planned contribution of around £200,000 in 2003/04 will not be required.

### Risk Analysis

4.48 The table below assesses some of the key financial risks that could affect the financial projection for the Housing Revenue Account.

Risk	Action
<b>Insurance Costs</b> – as the General Fund, premiums continuing to rise sharply and place an increased burden on budgets.	Projection reflects increased insurance costs. External advisors used to benchmark insurance quotes to assess whether it is value for money. Re-tendering the contract being considered.
<b>Pension Costs</b> – indications suggest a significant increase in employer contributions from the next valuation 2005/06.	Costs difficult to assess. General reserves maintained at a higher level to provide a more realistic cushion, or capital resources set-aside to make a further capital contribution to mitigate revenue effects.
<b>Housing Repairs</b> – reducing revenue budget to maintain overall reserves of the HRA.	Capital allocations via the MRA can compensate, but requires careful monitoring and planning. Will need to assess implications for the HRA Business Plan, especially in meeting the Government's Decent Homes Standard.
<b>Council House Sales</b> – as clearly indicated, continue to increase and reduce rent income.	Mainly, outside the control of the Council. Projections assume a continuing higher level, but if it does not tail off by 2005/06, it will worsen the overall position of the HRA currently projected.
<b>Housing Subsidy</b> – increases in management and maintenance allowances	Government proposing, as set out in their spending reviews, to increase these allowances, mainly to help mitigate the effects of rent restructuring. There should be some

**Housing Subsidy (cont)**

increase to benefit the HRA, but for every 1% reduction below the 6% assumed, equates to £15,000.

- 4.49 **Appendix 9** shows projected balances at approximately £487,000 by the end of 2005/06 just below the minimum level of £1/2m. Therefore, the HRA will need to be monitored very carefully, taking account of the risks highlighted in the above table.
- 4.50 In particular the situation of housing repairs requires more urgent consideration and significant change may be required to address a deteriorating situation.

**EARMARKED RESERVES**

- 4.51 In addition to the General Reserves held for the General Fund and Housing Revenue Accounts, together with usable capital receipts, the Council also 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 10**.

<b><u>Earmarked Reserves</u></b>	<b><u>Balance @ 1/4/002</u></b>	<b><u>Add: Income 2002/03</u></b>	<b><u>Less: Spend 2002/03</u></b>	<b><u>Balance @ 31/3/03</u></b>
	£'000	£'000	£'000	£'000
Housing DSO	127	0	-47	80
"Soft Split" DSO	59	0	0	59
Commutation Adjustment	639	321	0	960
HRA – IT System	96	0	0	96
I.T./IEG	171	200	-208	163
Woodlands Section 106	383	0	-25	358
Commitments	82	191	-61	212
Repton Parish Contributions	33	0	0	33
Major Repairs Reserve (see 4.19 above)	288	1,978	-2,120	146
<b>TOTAL</b>	<b>1,878</b>	<b>2,690</b>	<b>-2,461</b>	<b>2,107</b>

**5.0 Financial Implications**

- 5.1 These are fully assessed as an integral part of the report.

**6.0 Corporate Implications**

- 6.1 The analysis and proposals contained in this report will affect the resources directed to Council services, which will influence many of the Council's key aims contained in its Corporate Plan.

## **7.0 Community Implications**

7.1 As above – will influence the level of service provided across the District.

## **8.0 Conclusions**

- 8.1 The budget out-turns for 20023/03 confirms that South Derbyshire District Council has stabilised its financial position and is placed well financially to develop its services to meet customer needs in the future, and to deal with the impact of external factors, such as increasing council house sales.
- 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.
- 8.3 The future still holds many financial challenges for the Council, which still need to be addressed if it is to develop sustainable council finances and services into the future. A step forward is made within this report by assessing these risks and considering how they will be addressed.
- 8.4 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**

None