

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE SPECIAL - BUDGET	AGENDA ITEM: 7
DATE OF MEETING:	18th JANUARY 2007	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/budget round 200708/consolidated budget proposals
SUBJECT:	CONSOLIDATED BUDGET PROPOSALS and MEDIUM TERM FINANCIAL PLAN TO 2010	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the estimates of revenue income and expenditure for 2006/07 and 2007/08 for the General Fund are considered and a level of income and expenditure approved.
- 1.2 That the Council Tax Base for 2007/08 of 30,051.4 is approved.
- 1.3 That the estimated Collection Fund Surplus of £36,000 for 2006/2007 be used in the calculation of the Council Tax for 2007/2008.
- 1.4 That a level of Council Tax for 2007/08 be proposed.
- 1.5 That the updated 3-year financial projection on the General Fund to 2010 including associated assumptions and risks be approved.
- 1.6 That the revenue service developments are considered and any new spending is proposed.
- 1.7 That the existing capital investment programme and available financing to 2012 is considered and any changes proposed.
- 1.8 That the decisions made in recommendations 1.1 to 1.7 are used as the basis for consultation with local residents and businesses.

2.0 Purpose of Report

2.1 To detail the Council's overall financial position for the 2007/08 budget round. Essentially, it builds on the financial plan and strategy approved in July and October 2006. The report covers the following:

- The Council's annual financial settlement from the Government for 2007/08.

- The General Fund's 3-year financial forecast including proposed spending by Policy Committees and associated analysis.
- The proposed council tax base and collection fund surplus
- The effects of indicative Council Tax levels.
- Proposed service developments
- A review and update of the existing capital investment programme and financing available.

3.0 Executive Summary

- 3.1 The Council's overall financial position on its General Fund is forecasted to remain relatively healthy over the next 3-year planning period to 2010. Broadly, current and planned levels of service can be financed and the Council should be able to maintain a sufficient level of general reserves as a contingency against potential financial risks and any other unforeseen circumstances.
- 3.2 Provision has been made in the projection for the effects of the pay and grading review, challenge to the Local Plan and the next actuarial valuation of the Pension Fund. Clearly however, these could vary significantly and it is important that a minimum balance of £1m (as set out in the Financial Strategy) is maintained by 2010 as a further safeguard.
- 3.3 The position on capital investment is much tighter. This is due to limited and in fact a shortfall in overall resources to meet the current planned programme to 2012.
- 3.4 The Council is subject to risk, where many factors such as programmed funding and the level of capital receipts for reinvestment, are outside the control of the Council. In addition, proposals for service improvements and new investment are likely to put further pressure on the current financial position.
- 3.5 In particular those emanating from the recent "Ideas into Action" initiative on which the Council's budget proposals are largely based. Therefore, reviewing existing spending levels, considering alternative options and constantly reviewing efficiency are still as important as ever.

4.0 Detail

THE COUNCIL'S ANNUAL FINANCIAL SETTLEMENT 2007/08

- 4.1 This is the annual statement that provides local authorities with the level of Government funding (its Formula Grant) for the next financial year. It is a crucial element for the Council as it forms the main income stream for funding General Fund services.
- 4.2 As part of the Government's move towards 3-year settlements, the Council effectively received its formula grant allocation for 2007/08 12 months ago, as part of a 2-year settlement. The Government have confirmed the Council's grant for 2007/08 and it remains unchanged from that awarded last year, i.e. an increase of £348,616 (5.5%) over 2006/07.
- 4.3 The Council's Medium Term Financial Plan (MTFP) had already included this amount.
- 4.4 However, the Council is still "losing" grant through a contribution to protect other authorities (the Council is scaled back in a floor and ceilings mechanism). Over the

last 4 years this has been decreasing but will still be approximately £148,000 for 2007/08 (effectively, the Council will still be this amount behind on its full funding formula).

Future Grant Settlements Beyond 2007/08

- 4.5 These will depend on the Governments Comprehensive Spending Review (called CSR 07). This is effectively undertaking a base budget review of public sector spending and future public investment. Due to this, general government grant in the medium-term financial projection has only been increased by 2% in 2008/09 and 2009/10.
- 4.6 CSR 07 could also impact upon the level of other (more specific) grants, in particular Planning Delivery Grant. Therefore, a cash limit position based on the 2006/07 base budget has been assumed over the next 3-years.

Lyons Inquiry into Local Government

- 4.7 This is the on-going inquiry set up by the Government, into the role, function and funding of local government. It is now scheduled to be completed during 2007 and any implications for the Council will need to be considered in the on going monitoring of the financial strategy and medium term financial plan.

GENERAL FUND 3-YEAR FINANCIAL PROJECTION

- 4.8 This is detailed in **Appendix 1** and summarised in the table below. This includes proposed spending levels of the Council's main Policy Committees, but at this stage, the projection does not take into account any resources that still may be allocated to meet new spending proposals.

	2006/07 Probable Out-turn £'000	2007/08 Original Estimate £'000	2008/09 Projection £'000	2009/10 Projection £'000
Net Revenue Expenditure	11,476,855	12,115,545	11,915,215	12,275,825
Less Financing				
General Government Grant	6,353,952	6,702,568	6,836,619	6,973,352
Council Tax	4,166,063	4,282,423	4,517,981	4,778,855
Earmarked Reserves	809,200	136,680	92,080	94,820
Equals Amount Required from General Reserves	147,640	993,874	468,555	428,798
General Fund Reserve Balance (at year end)	3,318,319	2,324,445	1,855,890	1,427,092

- 4.9 The above table shows that general reserves are projected to be approximately £1.4m by March 2010. This is above the minimum level required by the Financial Strategy of £1m.

- 4.10 Within the overall projection, some anticipated future spending pressures in the form of higher pension contributions and the statutory pay review have been accommodated.
- 4.11 In addition, the projection incorporates additional expenditure approved to increase resources in certain areas and to begin meeting the costs of implementing "Ideas into Action." To a certain extent, this additional expenditure has been offset by an increase in income, in particular from planning fees.
- 4.12 The projection has built in Council Tax increases (for District services) of 2.9% in 2007/08 and 4.5% in both 08/09 and 09/10 (as originally planned 12 months ago).
- 4.13 The previous projection, following the budget out-turn for 2005/06, reported a balance of £1,867,288 as at March 2010, approximately £440,000 more than the current projection. The main reasons for the change are summarised in the following table.

Changes – Effects over 2006 to 2010 (4 years)	£'000
Increased Planning Fees	+300
Increase in income from Liquor Licensing	+88
Savings on retendering contracts on central supplies	+75
Savings on posts transferred to the Contact Centre	+81
Approved staffing restructures and other expenditure	-322
Provision made for costs re: challenge to Local Plan	-200
Ideas into Action (as approved at Committee on 30/11/06)	-105
Additional provision for costs of Pay and Grading Review	-150
Additional energy costs at Etwall Leisure Centre	-111
Additional inflation	-26
Increased costs of Concessionary Travel	-34
Additional costs associated with Rosliston Forestry Centre	-38
Other variations	+2
Total reduction in 3-year projected balances	-440

- 4.14 The main assumptions regarding future pay and price changes underpinning the projection are detailed in **Appendix 2**.
- 4.15 The Council's other policy committees (including a separate report to this Committee) have considered in detail the probable out-turn for 2006/07 and the base budget for 2007/08.

Commutation Reserve

- 4.16 This reserve had previously been set-aside to cover the additional costs in future years of what was termed the "commutation adjustment." However, as previously reported, Council resources are no longer required for this issue. The reserve currently stands at £410,000.
- 4.17 A provision of £250,000 (at £50,000 per year) has been earmarked against this £410k as a contribution to new capital investment over the next 5-years. This is effectively a contingency in lieu of receipts to be generated from the disposal of assets identified as "surplus to requirements."

- 4.18 However, this will not be required if receipts totalling this amount are generated over the planning period.
- 4.19 It should be noted that as this reserve is no longer required it should be incorporated into the Council's general reserves in any case, unless the Committee resolved to earmark the remaining sum for other purposes.

Financial Risks - Minimum Level of General Reserves

- 4.20 The Council faces many financial risks, and therefore, needs to be prudent in ensuring that it maintains an adequate level of general reserves on its General Fund to act as a contingency. The Council cannot earmark special provisions or reserves unless they are known and amounts involved can be reasonably predicted.
- 4.21 The Local Government Act 2003, places the emphasis on each local authority to determine its minimum level of reserves, based on advice from the authority's Section 151 (Chief Finance) Officer. This will depend on local circumstances and the minimum level should be reviewed on a regular basis.
- 4.22 The Council's minimum level as set out in its Financial Strategy is £1m on the General Fund, at the end of every 3-year planning period (£1/2m for the Housing Revenue Account).
- 4.23 This level is calculated based on an assessment of the major financial risks facing the Council and is detailed in **Appendix 3**.

Other Provisions

- 4.24 In addition, the projection also allows for some fairly significant changes to the future base budget. These are areas where an additional liability is almost certain, although the amounts involved may not be fully known at this stage. This includes:
- Potential costs arising from the Pay and Grading Review (Job Evaluation) – implementation date April 2007.
 - Pension increases on the next valuation of the Pension Fund – effective from April 2008.
 - Appeals inquiries into planning applications (May 2007).
 - Loss of rental income on sale of industrial site (November 2008).

Available Revenue Resources

- 4.25 As highlighted above, projected balances show £1,427,000 as at 2010. Therefore, after allowing for a minimum level of general reserves of £1m, resources of £427,000 are available for new spending over the 3 years to 2010.

COUNCIL TAX

Council Tax Base

- 4.26 Regulations under the Local Government Finance Act (1992) require each billing authority to calculate its tax base for the forthcoming fiscal year. This is the amount that the actual council tax levels are based upon.

- 4.27 The tax base as calculated for 2007/08 is summarised in **Appendix 4**. As usual, this assumes a collection rate of 99% and is based on the number of properties (by Parish/Area) as at 2nd January 2007.
- 4.28 The calculation shows a total tax base for 2007/08 of 30,051.4. This is an increase of 1.4% compared to 2006/07 (29,645.9) and this has been used to calculate the amount of income from council tax in 2007/08.
- 4.29 The medium term financial projection assumes an increase in the council tax base of 1.25% for both 2008/09 and 2009/10. This is broadly in line with the planned growth of residential development in the District over this period.

Collection Fund Surplus/Deficit

- 4.30 In setting the level of council tax for 2007/08, the Council is also required to calculate the estimated balance on its Collection Fund for the current year.
- 4.31 The estimated position on the Collection Fund for 2006/07 with a comparison to previous years is summarised in **Appendix 5**. The overall balance is distributed to the major precepting authorities on the Fund, i.e. this Council, Derbyshire County, Police and Fire Authorities in proportion to their precepts on the Fund.
- 4.32 It should be noted that Parish councils do not get a share of any balance on the Fund as they are categorised as local (and not major) preceptors under the Local Government Finance Act (1992).
- 4.33 **Appendix 5** shows an estimated surplus balance on the Collection Fund as at 31st March 2007 of approximately £313,000. In accordance with the prescribed formula, this is shared as follows:

- Derbyshire County Council - £231,000
- Derbyshire Police Authority - £32,000
- Derbyshire Fire Authority - £14,000
- South Derbyshire District Council - £36,000

- 4.34 The amount attributable to the District Council is £36,000. In accordance with statutory regulations, this amount will effectively be returned to local taxpayers as part of the Council Tax for 2007/08. This will equate to around £1.20 on a Band D bill for the District Services.

Council Tax Levels

- 4.35 As highlighted earlier, the projection has built in Council Tax increases (for District services) of 2.9% in 2007/08 and 4.5% in both 08/09 and 09/10 (as originally planned 12 months ago).
- 4.36 In announcing the financial settlement for 2007/08, the Secretary of State for Communities and Local Government said:

"We (the Government) expect to see an average council tax increase in England in 2007/08 of less than 5%. We will not allow excessive council tax increases.... We have used our reserve capping powers in previous years to deal with excessive increases and wont hesitate to do so again if that proves necessary."

- 4.37 A 1% increase or decrease in council tax equates to approximately £40,000 per year – £120,000 over the 3-year planning period.

SPENDING PRESSURES AND PROPOSED SERVICE DEVELOPMENTS

- 4.38 **Appendix 6** summarises the proposed service developments that have been evaluated and considered by the Service and Financial Planning Working Group (SFPWG). Many of these are to meet issues arising from the “Ideas into Action” consultation with local residents in order to meet the Council’s vision and priorities in the Corporate Plan.
- 4.39 They also include other service demands identified by Heads of Service. The revenue bids total over £3m. Clearly, it would be impossible to afford all of these bids and the SFPWG agreed some initial proposals given the amount of additional revenue finance available over the next 3-years.
- 4.40 The initial proposals put forward by the SFPWG are summarised in the following table.

PROPOSAL	3-YEAR COST (£)
A new post of Urban Designer (Fixed 3-year term)	45,500
Setting up an Environmental Invest to Save Fund	10,000
Implementing the Economic Regeneration Strategy	20,000
Contribution to the Domestic Violence Outreach Services	7,500
Further Promotion of Rosliston Forestry Centre	12,000
Fear of Crime Project (mainstreaming post)	37,050
Continuation of Get Active in the Forest Physical Activity	50,000
Young People’s Cultural Development Project	47,250
Team Assistant – Disabled Adaptations Services (1-year post)	20,256
Derbyshire Sports Awards Project	3,000
Swadfest	3,000
Support for procuring Greenbank Leisure Centre contract	15,000
Funding a further 2 editions of “The News” on a permanent basis.	60,000
Appointment of Democratic Services Assistant on a permanent basis	67,500
TOTAL – INITIAL PROPOSALS	398,056

Identifying Additional Resources

- 4.41 Clearly, the above demands will put pressure on the Council’s medium term financial position. Therefore, reviewing existing spending levels, considering alternative options and constantly reviewing efficiency are as important as ever.
- 4.42 In recent years, the Council has been able to make fairly large savings in its base budget to help generate additional resources for service delivery and to sustain the overall revenue position in the medium-term.
- 4.43 For example, the repayment of all Government debt and the replacement of leasing have eased considerably the cost of finance in the Council’s future base budget. In addition, cash savings from the Customer First service and from corporate

procurement in particular, are starting to be realised. Amounts generated to-date have been built into the medium term projection

CAPITAL INVESTMENT and FINANCING

- 4.44 The Council is guided under the National Prudential Code to set a 5-year capital investment programme. Clearly, this has to be based on assumptions about likely resources to be available and potential commitments facing the Council over this period.
- 4.45 The Council's current approved spending and financing programme to 2011/12 is detailed in **Appendix 7**. As previously reported, there is still a projected shortfall in resources to meet the entire planned programme over the next 5-years.
- 4.46 In particular, there is a projected shortfall on General Capital Receipts. Based on current plans, expenditure starts to exceed income in 2009/10 and approximately £1/2m of resources are still required to fully finance all the planned projects and commitments.

Recycling "Windfall Receipts"

- 4.47 This is the money for reinvestment in supporting the HRA and to supplement the existing private sector housing programme. It is additional finance that would normally be paid over to the national "pool" for redistribution.
- 4.48 Due to the Council being free of Government debt, reduced payments have been allowed for the period 2004/05 to 2006/07.
- 4.49 There is still £139,000 uncommitted in this Pot that could be recycled to finance other housing investment. This would reduce the contribution required from general receipts and help to finance some of the forecasted shortfall.

Government Grant for Capital Investment

- 4.50 Government grant of £250,000 has been assumed for 2007/08 to finance the Housing Investment Programme (excluding the HRA). A bid of £648,000 has been submitted to the Government under the Decent Homes programme. Any additional grant over and above the £250k will also reduce the contribution required from general receipts and again help to reduce the forecasted shortfall.

On-going Schemes

- 4.51 The overall plan includes on-going spending (not as yet all committed) until 2010 as previously approved, in the following areas:
- Private Sector Improvement and Renewal Grants
 - Crime Prevention
 - Community Partnership Grants
 - Youth and Play Facilities
 - Planned Maintenance of Public Buildings

The Council's own Resources

- 4.52 Future resources are very much dependant on receipts from council house sales and other asset disposals. The financing plan assumes a certain level but these can easily fluctuate.
- 4.53 The level of council house sales has fallen significantly over the last 2 to 3 years. This is also affecting national government and an outcome from CSR 07 could be a reduction in the amount of centrally supported capital expenditure.
- 4.54 This places more pressure on the Council (through its Disposals Policy) to generate resources locally. Proceeds generated to-date together with a yearly target have been included in the financing plan.
- 4.55 Potentially, there may be several significant disposal of assets (deemed surplus to requirements) over the next 5-years and 1 or 2 are already in the pipeline. However, it is not recommended that commitment to any new investment be made until these resources are certain.
- 4.56 In summary, this leaves very little (if anything) for investment in new schemes at this stage.

Business Improvement Grant

- 4.57 This is a yearly grant introduced for 2005/06 that rewards areas experiencing a growth in local businesses. It is awarded based on a measurement of how much ratable value space for business locally, has increased during the preceding 12 months.
- 4.58 The Council did not qualify last year, but all indications suggest that it will for 2007/08. However, the amount will not be known until late February 2007 and the amount could range from a few thousand pounds to tens of thousands of pounds.
- 4.59 This will depend on the total amount set-aside nationally from business rates and how South Derbyshire's increase compares to all other authorities that qualify. The grant is not ring-fenced but is a one-off – the Council may not automatically qualify a year later.
- 4.60 It is recommended that should the Council be awarded grant, then this is used as a contribution to new capital investment.

Pressures to Increase Capital Investment

- 4.61 **Appendix 8** summarises proposals for new capital investment over and above that included in the current 5-year programme. Once again, these have been evaluated and considered by the SFPWG. Many of these are to meet issues arising from the "Ideas into Action" consultation with local residents in order to meet the Council's vision and priorities in the Corporate Plan.
- 4.62 They also include other service demands identified by Heads of Service. The bids total just under £2m. Given the lack of further resources at this stage, the SFPWG have not put forward any proposals from the bids submitted.

Possible Sources of Finance

4.63 Besides being awarded further government grant later in the year and generating additional receipts from asset disposals, other options available to provide resources for capital investment are as follows:

- **Revenue Contributions** – given the relatively healthy position on the General Fund Revenue Account in particular, this is an option, and in particular for “one-off” contributions. However, it clearly reduces the amount available for revenue developments.
- **Prudential Borrowing** – based on current interest rates, the approximate cost of repayment per £100,000 borrowed is:
 - 5 years - £26,000 per year
 - 10 years - £15,500 per year
 - 20 years - £10,000 per year

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

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

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

5.0 Financial Implications

5.1 As detailed in the report

6.0 Corporate Implications

6.1 None Directly

7.0 Community Implications

7.1 The proposed budgets and spending, provides the financial resources to enable many of the on-going services and Council priorities to be delivered to the local community.

8.0 Conclusions

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

9.0 Background Papers

9.1 The Local Government Financial Settlement (and associated papers) 2007/08.