REPORT TO:	**FINANCE AND MANAGEMENT COMMITTEE**	**AGENDA ITEM: 13**
DATE OF MEETING:	**17th FEBRUARY 2009**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**DIRECTOR OF CORPORATE SERVICES**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (595811)**	**DOC:** u/ks/budget round 200910/final budget proposals 0910
SUBJECT:	**FINAL BUDGET PROPOSALS 2009/10 and FINANCIAL PLAN to 2014**	**REF:**
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM 08**

1.0 <u>Recommendations</u>

1.1 That estimated net General Fund Revenue Expenditure totalling £11,912,752 for 2008/09 and £11,865,828 for 2009/10 is recommended to Council on 26th February 2009.

1.2 That a Council Tax level and Band D equivalent rate for 2009/10 is recommended to Council on 26th February 2009.

1.3 That the projected level of General Fund Revenue Reserves totalling £590,461 as at 31st March 2014 is approved.

1.4 That the latest 10-year financial projection on the Housing Revenue Account to 2018 be approved.

1.5 That a continuing programme of efficiency reviews be continued across all services in order to generate cash releasing value for money gains over the life of the current medium-term financial plan.

1.6 That the updated 5-year capital investment and financing plan to 2014 be approved.

1.7 That the report of the Council's Section 151 (Chief Finance) Officer under Section 25 of the Local Government Act 2003 is noted.

2.0 Purpose of Report

2.1 To detail the Council's final budget proposals for 2009/10 and medium term financial projections on its main revenue and capital accounts. This includes an assessment of the overall budget and level of reserves as required by the Local Government Act 2003.

2.2 The proposals will form the basis of setting the Council Tax for 2009/10 by Council on 26th February 2009.

3.0 Executive Summary

3.1 The Council's overall proposed base budget for 2009/10 and projected medium-term financial position was reported in detail to the Committee on 15th January 2009. This indicated that the overall financial position was worsening over the next 5-year planning period to 2014, although there were still 2 issues to be resolved which would improve this projected position.

3.2 This report firms up that position following a period of scrutiny and consultation. It also now builds in the positive effects of concessionary travel and industrial rents following the report in January.

3.3 The report also provides an overview of the Housing Revenue Account and the 10-year financial projection that is subject to a report earlier on this Agenda.

General Fund Revenue Account

3.4 Based on spending plans and after allowing for certain cost pressures in the future, the medium-term financial projection shows a reserve balance of approximately £590,000 by March 2014 on the General Fund.

3.5 This is below the recommended minimum level of £1m, but allows for (as a provision) capital contributions of £1.825m between 2011 and 2014 to cover commitments pending capital receipts being generated in the future.

3.6 The more critical financial indicator is the on-going budget deficit, which is projected to be (after excluding capital contributions) £179,500 in 2013/14. Therefore, it is important that a continuing programme of efficiency reviews be continued across all services in order to generate cash releasing value for money gains over the life of the current medium-term financial plan.

Housing Revenue Account (HRA)

3.7 The overall financial forecast for the HRA is improved compared to that previously reported in September 2008, although there remains an on-going budget deficit in the longer term of approximately £656,000 by 2018, compared to £850,000 last September. In addition, the first year that the HRA falls into deficit is now projected to be in 2011/12, compared to 2010/11 previously.

3.8 This slightly better position is mainly due to changes in rent levels brought about by the Government's updated rent restructuring policy, together with a further reduction in projected council house sales (see detailed report).

3.9 The latest projection shows that the HRA can now maintain an adequate level of reserves as required by the Council's Financial Strategy over the 10-year planning period. The forecasted balance is £937,000 (surplus) compared to a projected deficit balance of £335,000 in September 2008.

3.10 However, this all depends to a large extent on the inflation index applied to formula rents over this period, caps/limits and whether any other changes are made to the timing of rent convergence.

3.11 Having considered and tested the main assumptions and risks associated with the HRA projection, although the short-term position continues to remain fairly sound, the longer-term viability of the HRA is still very much questionable. This is compounded by the uncertainties within the current funding system.

Capital Investment

3.12 The position on capital investment remains unchanged from the initial proposals reported in January. The financing element of the programme assumes no capital receipts beyond those generated to-date, over the next 5-years.

3.13 Clearly, at some stage the Council will in all probability generate resources over the planning period. Assets considered "surplus to requirements" have been identified and in some cases already approved for disposal by this Committee. The timing of these disposals and their amount is currently very uncertain and no income is anticipated over the next 12 to 18 months.

3.14 Prudently, this can be considered the "worst case scenario," but it does help to focus on how much the Council needs to generate to meet commitments on Covenant repayments, vehicle replacements and its contribution to disabled facility grants, all of which are unavoidable.

3.15 The Council needs to generate around £1.825m over the next 5-years to meet these commitments. As approved in January, a proportion of the gain from concessionary travel and industrial rents has been set-aside as a provision on a prudent basis, to meet capital commitments pending future receipts.

Overall Analysis and Risk

3.16 The Council is subject to risk, where many factors such as programmed funding, fee income and the level of council house sales for instance, are outside the control of the Council. In addition, demand for service improvements and new investment are likely to put further pressure on the current financial position.

3.17 Therefore, as the Chief Finance Officer's Section 25 report highlights, the Council can never be complacent regarding its finances. Reviewing existing spending levels, considering alternative options and constantly striving for greater efficiency continue to be as important as ever.

4.0 Detail

GENERAL FUND BUDGET and FINANCIAL PROJECTION

4.1 This is detailed in **Appendix 1** and summarised in the table below. This confirms the position as reported on 15th January, but now builds in the gains made on concessionary travel costs and income from industrial rents.

YEAR	DRAW DOWN FROM RESERVES £'000	LESS PROVISION FOR CAPITAL £'000	BUDGET DEFICIT/ (SURPLUS) £'000	GENERAL RESERVE BALANCE £'000
2008/09	273	0	273	2,818
2009/10	4	0	4	2,814
2010/11	187	(400)	(213)	2,627
2011/12	1,022	(750)	272	1,605
2012/13	510	(350)	160	1,095
2013/14	504	(325)	179	591

4.2 The above table shows that general reserves are projected to be £591,000 by March 2014. This is below the minimum level required by the Financial Strategy of £1m.

4.3 Within the overall projection, some anticipated future spending pressures in the form of higher pension contributions and the local pay and grading review (interim protection costs) have been accommodated based on best estimates. Provision has also been made in 2011/12 for local district elections.

4.4 In addition, the projection incorporates past measures such as efficiency savings, restructures, debt repayment and reduction of leasing costs.

4.5 Government grant as detailed in January has been confirmed. In addition, the projection continues to build in Council Tax rate increases (for district services) of 2.5% year on year from 2009/10.

Council Tax Levels

4.6 Based on this, indicative council tax at Band D level is shown in the following table.

2009/10	£148.03
2010/11	£151.73
2011/12	£155.52
2012/13	£159.41
2013/14	£163.39

4.7 In announcing the financial settlement for 2009/10, the Minister for Local Government said:

"The Government expects the average council tax increase in England to be substantially below 5% in 2009-10 and we will not hesitate to use our capping powers as necessary to protect council taxpayers from excessive increases, including requiring authorities to re-bill if that proves necessary………..As last year, I do not propose to send any further reminders about the risks of capping. The decisions are yours and the Government has now set out clearly the context in which you must take these decisions.*"*

4.8 In the light of the general economy now heading into recession, subsequent statements from the Minister have indicated that council taxes rises could be capped below 5%. Comments have stressed that the Government expects increases to be "substantially" below this figure (of 5%).

4.9 A 1% increase or decrease in council tax equates to approximately £48,000 per year – £240,000 over the 5-year planning period.

HOUSING REVENUE ACCOUNT (HRA)

4.10 Following the Housing Stock Options Review in 2004, the Council is directed by the Government to plan and monitor it's longer-term financial position over 10 years on the HRA (on a rolling basis) and to maintain at least its minimum balance. The Council's financial strategy sets this minimum contingency at £1/2m.

4.11 As set out in an earlier report on this Agenda, consideration was given to the detail of the HRA's base budget and updated financial projection. The account is summarised in **Appendix 2**. That report also considered the overall rent increase for 2009/10 in accordance with the Government's rent restructuring model.

4.12 The overall financial forecast for the HRA is improved compared to that previously reported in September 2008, although there remains an on-going budget deficit in the longer term of approximately £656,000 by 2018, compared to £850,000 last September. In addition, the first year that the HRA falls into deficit is now projected to be in 2011/12, compared to 2010/11 previously.

4.13 This slightly better position is mainly due to changes in rent levels brought about by the Government's updated rent restructuring policy, together with a further reduction in projected council house sales.

4.14 The latest projection shows that the HRA can now maintain an adequate level of reserves as required by the Council's Financial Strategy over the 10-year planning period. The forecasted balance is £937,800 (surplus) by 2017/18 compared to a projected deficit balance of £335,000 in September 2008.

4.15 However, this all depends to a large extent on the inflation index applied to formula rents over this period, caps/limits and whether any other changes are made to the timing of rent convergence.

Rent Convergence

4.16 Effectively, there is no longer a definitive date set for completing rent restructuring. Twelve months ago, the Government delayed full rent convergence to 2016/17, a further 5 years than originally planned. The principle was to avoid hefty rent rises for tenants.

4.17 This was the case for South Derbyshire as generally, actual rents were below formula rents. Whilst this would help to smooth increases for individual tenants over a longer period, overall, the financial position on the HRA worsened as this reduced the amount of rent compared to previous projections.

4.18 The Government calculates the formula rent based on the rate of inflation in the previous September. As this stood at 5% in September 2008, this would have increased rents nationally by up to 9%, after adding the uplift required to actual rents in order to catch up the formula rent.

4.19 Therefore, the Government has capped overall increases to 7%. This is higher than the previous 5% limit applied in 2006/07 and 2007/08. However, to complicate matters further, on this model, full rent convergence will not be completed until 2024.

4.20 This is because the rate of inflation was historically high in September 2008 (5%) compared to previous years since the introduction of rent restructuring.

4.21 Therefore, the model pushes back further, rent convergence to compensate. In addition, there is no longer a fixed date to work towards for convergence. It will be determined each year depending upon future inflation rates – it is now a moveable date.

Rental Income and Rent Increases

4.22 On the Council's rent restructuring journey, it is the increase in inflation on formula rents (from 5%) that has had a big impact on future rental income for the Council. The previous projection assumed inflation of 3.5% in 09/10 and 2.75% per year thereafter, broadly in line with national indices.

4.23 This has increased the ability to raise current base rents higher overall than in previous models, including a catching up element when rents were capped in 2006/07 and 2007/08.

4.24 Increases for individual tenants will continue an upward trend in 2009/10 based on the Government's model. The average increase for South Derbyshire approved on 5th February will be 6.28% for 2009/10 (5.9% in 2008/09).

Council House Sales

4.25 Previous projections since 2005/06 have been reducing the estimated sales, as first rising house prices and more recently the economic downturn, have significantly reduced "right to buys." This had helped to maintain rent income in the HRA.

4.26 The previous projection assumed 130 between 2008/09 and 2017/18. This has now been reduced to 90 (effectively an average of 9 per year) including no sales being forecast for 2009/10, with subsequent years being reduced accordingly.

The Overall Projection

4.27 Clearly, in undertaking a longer-term (10-year) projection, assumptions regarding costs and other external factors need to be made. In particular, on housing subsidy and the Council's increasing payment to the National Pool (negative subsidy).

4.28 Future rent income is perhaps now as uncertain as it ever was. If inflation is relatively high over a few years, then under the current model, this benefits the HRA further and conversely, lower inflation will worsen any future forecast. Clearly at present, inflation is falling and this trend is expected to continue over the coming months, but the key indicator will be the level as at September each year.

4.29 In addition, there is the interplay of caps/limits and final rent convergence. This updated forecast assumes average inflation for rent rises (before any uplift) of 2.5% per year form 2011/12, with a limit of 7% overall and rent convergence by 2023/24.The detailed report to the Housing and Community Services Committee considered the sensitivity of these assumptions.

4.30 However, unless inflation becomes historically high over a sustained period of years, it is still likely that at some stage the HRA will fall into yearly deficit that can quickly accelerate.

4.31 Therefore, although the short-term position continues to remain fairly sound, the longer-term viability of the HRA is still very much questionable. This is compounded by the uncertainties within the current funding system.

4.32 Previous reports to this Committee have highlighted a low cost base compared to other housing authorities, but with limited scope for additional investment. Infact, the current budget and projection for the HRA assume a "standstill" position, i.e. current service provision will be maintained but it allows for no additional service development.

4.33 The more detailed report considered the effect of this on maintenance and improvement budgets. The Head of Housing reports that there is little room for extra investment to raise future standards and meet tenant aspirations. In addition, he noted growing service pressures in some areas particularly the Housing Options Team (Allocations, Homelessness and Advice).

4.34 Finally, the Committee will be aware of the current review commissioned by Central Government of the subsidy system and the wider HRA. This is due to report later in 2009 and clearly the outcomes and how this will affect the Council remains to be seen.

CAPITAL INVESTMENT and FINANCING

4.35 The latest approved capital programme is detailed in **Appendix 3**. This includes two changes from that reported in January.

4.36 Firstly, an additional £50,000 has been awarded for Disabled Facility Grants for 2009/10. The total Government Allocation for the year is now £258,000.

4.37 The amount of Growth Point funding has now been confirmed for 2008/09. This is £100,000 lower than originally indicated at £635,000. However, this reduction can be accommodated within the cost of the proposed schemes approved against this funding.

4.38 In anticipation of a lower amount, proposals for an outdoor playing surface at the redeveloped Etwall Leisure Centre have now been replaced by a scheme to purchase gym and other equipment for the new facility. The Housing and Community Services approved this on 8th January 2008.

4.39 The financing element of the programme still assumes no capital receipts beyond those generated to-date, over the next 5-years.

4.40 Clearly, at some stage the Council will in all probability generate resources over the planning period. Assets considered “surplus to requirements” have been identified and in some cases already approved for disposal by this Committee. The timing of these disposals and their amount is currently very uncertain and no income is anticipated over the next 12 to 18 months.

4.41 Prudently, this can be considered the “worst case scenario,” but it does help to focus on how much the Council needs to generate to meet commitments on Covenant repayments, vehicle replacements and its contribution to disabled facility grants, all of which are unavoidable.

4.42 The Council needs to generate around £1.825m over the next 5-years to meet these commitments. As approved in January, a proportion of the gain from concessionary travel and industrial rents has been set-aside as a provision on a prudent basis, to meet these capital commitments pending future receipts.

THE SECTION 25 Report (under the Local Government Act 2003)

4.43 The Council's Section 151 (Chief Finance) Officer is required to provide an overall opinion on the robustness of the estimates included in budgets and the adequacy of Council reserves.

4.44 This report and that considered on 15th January 2009, highlights the risks and uncertainties surrounding the Council's financial plans and proposed actions it intends to take over the medium term to maintain a sound financial position.

4.45 It is considered that estimates of expenditure are prudent in that they provide for inflation and other known variations, based on the most up-to-date forecasts and available information. This is set out in **Appendix 1** to the report.

4.46 In addition, a realistic but prudent view has been taken regarding projected income levels from fees, charges and short-term investments. This includes the on-going effects of the current economic downturn, which have been assessed and taken into account based on best estimates.

4.47 The compilation of detailed budgets has been undertaken in conjunction with service managers. The Council has established budget -monitoring arrangements to help ensure that Council finances are monitored effectively. This includes a regular report to this Committee.

4.48 The Council's Financial Strategy directs the Council to plan its spending over a 5-year rolling period. This provides an indication of the sustainability of spending plans and allows sufficient time in which remedial action can be implemented to address any issues.

4.49 The following table shows the projected level of revenue reserves over this planning period, i.e. 2009 to 2014.

PROJECTED LEVEL OF RESERVES	MARCH 2009 £'000	MARCH 2010 £'000	MARCH 2011 £'000	MARCH 2012 £'000	MARCH 2013 £'000	MARCH 2014 £'000
General Fund Reserves	2,818	2,814	2,627	1,605	1,095	591
Housing Revenue Account	2,751	2,942	3,013	3,008	2,911	2,908
Other Earmarked Reserves	133	138	150	175	100	75

4.50 The Council, based on the recommendation of the Section 151 Officer, has approved to set a minimum level of General Reserves of £1m on the General Fund by 2014 and £1/2m on the Housing Revenue Account. This was after an assessment of the financial risks the Council faces and their potential impact upon the overall financial position.

General Fund

4.51 The above table shows that the level of reserves on the General Fund is projected to be below the minimum in the final year, 2014. However, it is noted that within this, a provision of £1.825m has been made to protect capital commitments pending the generation of capital receipts over the next 5-years.

4.52 Based on the Council's Asset Management Plan and allowing for an upturn in the general economic situation in the later years of the projection, it is considered likely that some resources will be generated. This will reduce the amount required from the General Fund and consequently improve the balance on reserves.

4.53 It should be noted however, that the Council is still carrying an underlying budget deficit, projected to be approximately £180,000 in 2013/14. Therefore, it is important that the Council continues to review its base spending and the efficiency of services, with a view to identifying cash releasing savings.

HRA

4.54 The overall HRA reserve is projected to remain above the minimum level of £1/2m over this planning period. However, as this reports highlights, the underlying budget deficit in later years does bring into question the longer-term viability of the HRA.

4.55 It is noted that the current uncertainty and volatility of the national funding system (including the potential effects of the Government's rent restructuring policy) does make planning more difficult.

Capital

4.56 The report also highlights the worsening position with limited resources to finance capital commitments. However, it is noted that general revenue reserves have been set-aside as a provision to meet these commitments should capital receipts not be generated.

Risk and Looking Beyond the Current Planning Period

4.57 The Council is subject to risk, where many factors such as programmed funding and the level of council house sales for instance, are outside the control of the Council. In addition, service improvements and new investment are likely to put further pressure on the current financial position.

4.58 Therefore, the Council can never be complacent regarding its finances. Reviewing existing spending levels, considering alternative options and constantly striving for greater efficiency are as important as ever.

4.59 Therefore, the recommendation regarding a continuing programme of efficiency reviews, to be continued across all services, in order to generate resources over the life of the current medium-term financial plan, should be fully endorsed.

Consultation and Provision of Information

4.60 The information and proposals contained in this report have been presented across the District alongside consultation on priorities contained in the Council's Corporate Plan. Specifically, this has been undertaken via:

- Local area forums
- A business rate consultation forum

4.61 In addition, the proposals have been subject to the Council's scrutiny process. A separate report by the Overview and Scrutiny Committee is included elsewhere on the Agenda.

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

8.0 Background Papers

- The Local Government Finance Settlement (and associated papers) 2009/10 and 2010/11
- Housing Subsidy Determination (and associated papers) 2009/10
- Local Government Act 2003
- Finance and Management Committee 15th January 2009