
| | | |
|--------------------------------|--|---|
| REPORT TO: | FINANCE AND MANAGEMENT COMMITTEE | AGENDA ITEM: 7 |
| DATE OF MEETING: | 13TH JANUARY 2005 | CATEGORY: RECOMMENDED |
| REPORT FROM: | DIRECTOR OF CORPORATE SERVICES | OPEN |
| MEMBERS' CONTACT POINT: | KEVIN STACKHOUSE (595811) | DOC: u/ks/budget200506/ Consolidated Budget Proposals – January 05 |
| SUBJECT: | CONSOLIDATED BUDGET PROPOSALS 2005/06 and FINANCIAL STRATEGY 2005 to 2008 | REF: |
| WARD(S) AFFECTED: | ALL | TERMS OF REFERENCE: FM08 |

1.0 Recommendations

- 1.1 That the estimates of revenue income and expenditure for 2004/05 and 2005/06 for the General Fund are considered and a level of income and expenditure approved.
- 1.2 That the updated 3-year financial projection on the General Fund to 2008 including associated assumptions and risks be approved.
- 1.3 That a minimum level of General Fund Reserves of 10% of net revenue expenditure as at 31st March 2008 be approved.
- 1.4 That a level of Council Tax for 2005/06 be proposed.
- 1.5 That the proposals for revenue service developments for 2005/06 are considered.
- 1.6 That the proposals for new capital investment for 2005/06 are considered.
- 1.7 That the information stemming from recommendations 1.1 to 1.6 be used as the basis for the budget information/consultation process.
- 1.8 That a capital contribution of £9,000 in 2004/05 towards Hilton Cycle Way be considered.

2.0 Purpose of Report

- 2.1 To detail the Council's overall financial position for the 2005/06 budget round, that has been considered by the Service and Financial Planning Working Group (SFPWG) on 20th December 2004 and 12th January 2005. Essentially, it builds on the projections and financial strategy approved by this Committee in July 2004, which also reported the budget out-turn position for 2003/04. The report covers the following:

- The Council's annual financial settlement from the Government for 2005/06
- The General Fund's 3-year financial projection including proposed spending by Policy Committees and associated analysis
- A Financial Risk Analysis
- Council Tax levels
- Proposals for revenue service developments 2005/06
- Capital Investment and available Financing
- Proposals for new capital investment 2005/06

3.0 Executive Summary

- 3.1 The Council's overall financial position is projected to remain relatively healthy over the next 3-year planning period to 2008. In particular, current 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 The proposed council tax increase of 4.5% for 2005/06 should be within Government guidelines.
- 3.3 However, there can be no room for complacency as the Council's spending in the medium term is still projected to exceed its income. As regards capital investment, current projections show a potential shortfall in resources by 2010 to fund known and planned commitments.
- 3.4 In addition, the Council is subject to risk, where many factors are outside the control of the Council. The main issue facing the Council appears to be accommodating new spending pressures and aspirations for service improvements, without compromising the overall financial position in the longer term.
- 3.5 Options for achieving this are outlined in the report. However, to sustain the Council's overall financial position, the review of the Council's spending as set out in the "shifting resources" project and a review of Council assets, are considered essential components in achieving this.

4.0 Detail

The Council's Annual Financial Settlement 2005/06

- 4.1 This is the annual statement that provides local authorities with the level of Government funding 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 The Council has received an increase on its 2004/05 level of **8%** for 2005/06. This equates to just over £400,000 in cash terms. This partly represents additional funding for the District's rising population and to cover additional duties regarding liquor licensing, civil contingency planning and recycling.
- 4.3 As regards civil contingency planning, an amount of around £22,000 per year has been specifically identified in the settlement to meet the requirements of the Civil Contingencies Act. This amount has been set-aside in the financial projections to cover these requirements.
- 4.4 In addition, the Council has gained additional funding from the lifting of the "floors and ceilings" mechanism. This had been dampening down the Council's full grant

entitlement over the last 2 years. However, the Government is still protecting those authorities who would lose grant under the current formula by scaling back increases for Council's such as South Derbyshire, who are lower than the Government's assessment of "need to spend."

- 4.5 If the Government applied the full funding formula, South Derbyshire would receive an additional £400,000 in grant (this was £600,000 at this stage last year). Effectively, this is the amount the Government claws back to help protect authorities that would be worse off.
- 4.6 The increase for 2005/06 has been built into the Council's financial projection as a "one-off" for 2005/06. Subsequent years in the rolling forecast have assumed an inflation increase (2.5%) only.
- 4.7 In addition, it should be noted that these figures are still **provisional** as they are subject to consultation. This period ends on the 11th January 2005. It is likely that the settlement will be firmed up shortly after and some figures may be adjusted to reflect latest data. However, it is unlikely that South Derbyshire will see any material change.

Other Specific Grants

- 4.8 The Council should continue to receive Planning Delivery Grant until 2008. This is likely to total around **£280,000 for 2005/06** (£370,000 in 2004/05). This money is essentially ring-fenced for Planning and the Council does need to demonstrate that improvements in this area are being delivered.
- 4.9 Spending against this allocation has previously been delegated to the Environmental and Development Services Committee. The SFPWG have been reviewing if some of these resources can be more corporately used where planning has an impact.
- 4.10 In addition, the Council has received a Waste Performance and Efficiency Grant of around **£27,000 for 2005/06**. This is to target developments in recycling/composting waste.
- 4.11 This money could be used to help offset any additional expenditure being proposed in this area. Additional allocations are expected in the following 2 years, and these amounts will be notified to the Council in advance of each year.

General Fund 3-year Financial Projection

- 4.12 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.

| | 2004/05 Probable £'000 | 2005/06 Base £'000 | 2006/07 Projection £'000 | 2007/08 Projection £'000 |
|----------------------------------|------------------------------|--------------------------|--------------------------------|--------------------------------|
| Net Revenue Expenditure | 8,912 | 9,912 | 10,259 | 10,488 |
| Less Financing | | | | |
| Government Grants | 5,033 | 5,434 | 5,570 | 5,709 |
| Council Tax | 3,708 | 3,942 | 4,121 | 4,336 |
| From Earmarked Reserves | 347 | 70 | 70 | 70 |
| Gross Deficit/Surplus (-) | -176 | 466 | 498 | 373 |
| Projected Reserves | 2,804 | 2,338 | 1,840 | 1,467 |

- 4.13 The above table shows that reserves are projected to be around £1.5m by March 2008. Within the projection some additional spending pressures in the form of higher pension contributions and waste disposal costs have been accommodated.
- 4.14 However, these have been more than offset by the increase in Government Grant and higher than anticipated income from planning fees and interest on "debt free" capital receipts. The projection allows for increases in Council Tax of 4.5% in each of the 3 years 2005-2008. The main assumptions regarding future pay and price changes underpinning the forecast are detailed in **Appendix 2**.
- 4.15 The other policy committees (including a separate report to this Committee) have considered in detail the probable out-turn for 2004/05 and base budget for 2005/06. **Appendix 3** provides a summary of the main changes to the projection from that approved in July 2004 and provides some further analysis of the change in net spending between the 2004/05 and 2005/06 base budgets.

Financial Risk Analysis

- 4.16 There are a range of factors that will have an impact on the above projection and these are set out in detail in **Appendix 4**, including proposed actions to deal with these risks. A summary is provided below.
- **Insurance Costs** – now becoming a much lower risk although the market can change quickly.
 - **Legal Costs** – earmarked reserves already provided to meet known commitments.
 - **Pensions** – still a concern – need to continue to provide for increases in financial projections.
 - **Planning Income** – prudent view being taken regarding income levels from 2006 onwards.
 - **Government Grant** – increasing, but uncertainty makes planning difficult.
 - **Job Evaluation** – possible costs from 2007/08 – this needs to be monitored closely.
 - **Programmed Funding** – may become an issue – a detailed assessment is required.
 - **Partnership Funding** – important to ensure proper contracts/agreements in place.

Minimum Level of Reserves

- 4.17 Clearly 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.
- 4.18 Previously, the Council has operated a policy of maintaining a minimum level of reserves of £1/2m. This was in line with the recommendation of the Audit Commission. The Council's current financial strategy allows for a minimum level of £3/4m at the end of every 3-year rolling period.
- 4.19 These are historic figures that are not for instance, been keeping pace with the Council's increasing expenditure base. In addition, the Prudential Code now 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.
- 4.20 A good practice benchmark indicates that the **minimum level** should be **10% of net revenue expenditure**. Given the financial risks that the Council faces and its increasing expenditure base, it is proposed that this level is applied for South Derbyshire. Based on the current financial projections, the **minimum level** of reserves will need to be targeted as **£1,050,000** at March 2008.
- 4.21 It should be noted that as now, this policy can be, and in fact should be, reviewed on a regular basis as local circumstances dictate.

Council Tax Levels

- 4.22 As stated earlier, the projection builds in increases of 4.5% per year for the next 3 years to 2007/08. It should be noted that the tax base and surplus or deficit on the Council's Collection Fund that are included in the projection for 2005/06, still need to be approved by Council on 20th January 2005. Although these can vary, they should not have any significant effect on the overall position.
- 4.23 There has been much publicity in recent months regarding council tax increases for next year. In particular, the Government have made it clear that they expect to see increases in "**low single figures**" and below last year's average increase across all authorities of 5.9%. The Government do have powers to cap increases for individual authorities if they feel that any authority is being excessive.

Identifying Additional Revenue Resources

- 4.24 Although the overall financial position on the General Fund is relatively healthy in so far as current service levels can be supported over the next 3-years, the Council continues to face many spending pressures and aspirations to develop services. The number and total cost of bids for new spending as detailed in **Appendix 5** illustrates this.
- 4.25 The SFPWG has considered options for identifying additional revenue resources to meet new spending bids. Members will be aware that a "Shifting Resources" project has been established to review and make recommendations for identifying current resources that could be redeployed elsewhere. However, any proposals arising from this are more likely to be for the longer term.

4.26 Other areas currently being considered that would have an impact in this budget round are:

- Moving away from leasing vehicles, plant and equipment, to direct purchase of assets through the operation of a Renewals Fund. This would save lease rentals as they expire (around £150,000 in this planning period). Future replacement of assets would be financed from capital resources.
- Identifying other "Invest to Save" schemes, whereby capital resources are invested in return for future revenue savings or income generation. A separate capital pot could be set-aside and Services would be invited to bid into it.
- A review of fees and charges, including the scope for operating incentives and concessions where appropriate.

4.27 The issue of leasing and the operation of a Renewals Fund is subject to a separate report elsewhere on this Agenda.

Proposals for Revenue Service Developments 2005/06

4.28 All bids for new spending are summarised in **Appendix 5**. In line with the Council's approved scoring mechanism for considering spending bids, a separate panel evaluated each proposal on 21st December 2005. The proposals are ranked based on their respective scores. **A separate booklet has been circulated to all Members detailing each bid.**

4.29 The Service and Financial Planning Working Group were due to meet on 12th January 2005 to discuss these proposals and scores. An update and recommendations of this group will be provided at the meeting.

Capital Investment and Financing

4.30 The Council is guided under the 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.

4.31 The Council's provisional programme to 2009/10 is detailed in **Appendix 6**. This is split between General Fund and Housing and also projects resources likely to be available. These projections indicate a **shortfall in overall resources of around £317,000** for the 5-years to fund the provisional programme.

4.32 This is based on projected capital receipts (mainly from council house sales). The projected capital receipts position is summarised in the table below.

| Analysis of Capital Receipts | 04/05 £'000 | 05/06 £'000 | 06/07 £'000 | 07/08 £'000 | 08/09 £'000 | 09/10 £'000 |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Balance b/f | 2,618 | 1,544 | 1,778 | 1,331 | 873 | 228 |
| Add: Projected New Receipts | 962 | 860 | 753 | 752 | 645 | 645 |
| Less: Financing Expenditure | | | | | | |
| • General Fund Programme | -1,468 | -493 | -506 | -495 | -510 | -434 |
| • Disabled Facility Grants | -99 | -73 | -66 | -66 | -66 | -66 |
| • Other Housing Investment | -469 | -60 | -628 | -649 | -714 | -690 |
| Balance c/f | 1,544 | 1,778 | 1,331 | 873 | 228 | -317 |

4.33 Provisional expenditure assumes the continuation at current levels of rolling programmes in respect of:

- Private Sector Housing Grants
- Crime Prevention
- Community Partnerships
- Improvements to Cemeteries
- Disability Discrimination Works

4.34 However, no provision has been allowed at this stage for future commitments that may arise out of legislative or good practice regulations. In particular, ensuring that the Council's assets (for example play areas) are to use the jargon "fit for purpose."

4.35 Resources projected to be available **do not** include any general Government allocations under the Single Capital Pot funding stream beyond 2005/06. Although the Government have provided general resources for **Housing in 2005/06 of around £535,000**, there is no indication that any resources will be available to the Council in future years. This will depend on how resources are allocated by the Regional Housing Board in accordance with the East Midlands Housing Strategy.

4.36 Apart from partnership funding and any specific government grants that may be available, the Council's resources are very much dependent upon generating capital receipts. This is a risk in that their level from year to year can fluctuate and cannot be accurately predicted, in particular council house sales. In addition, these resources are finite and once used, there is no guarantee that they will be replenished in the future.

4.37 Furthermore, it should be noted that the Council is committed until 2011/12 to the repayment of covenant financing at around £1/2m per year. This is effectively the "first call" on capital resources. Clearly, these need to be included in the 5-year programme.

4.38 **Therefore, it is important that the Council uses resources for new capital investment wisely and maintains a sufficient reserve against future commitments and/or a downturn in projected capital receipts.**

4.39 Given all of this, it is unlikely that any new spending can be approved unless it is financed within the current programme. This could mean reducing projected spending elsewhere. Until any additional resources are identified, committing new spending at this stage over and above the current programme, would not be considered prudent or affordable in accordance with the Prudential Code.

Identifying Additional Capital Resources

4.40 Clearly there is a need to identify additional resources, as similar to Revenue, the Council continues to face many spending pressures and aspirations to develop services. The number and total cost of bids for new investment as detailed in **Appendix 7** again illustrates this.

4.41 In addition, if from 2005/06, the leasing of assets is wound down and replaced with a Renewals Fund, then capital resources would need to be identified to fund the associated replacement programme. Similarly, any other "Invest to Save" Schemes would require capital receipts to be set-aside.

4.42 The SFPWG has considered options for identifying additional capital resources to meet new spending bids. The Council has identified a Disposal Strategy as a key task for the new Corporate Asset Manager. This will entail a review of the Council's assets to determine whether any can be disposed of or more effectively used to generate capital resources for re-investment. Other options include:

- Prudential Borrowing – provided that the Council can demonstrate that the cost is affordable and sustainable in its revenue account.
- Reprioritise the existing programme.
- Recycle a proportion of “debt free” receipts.

Debt Free Receipts

4.43 Due to the Council being debt free, it is benefiting from transitional arrangements regarding the pooling of capital receipts. Effectively, it will be able to keep a substantial proportion of capital receipts generated over the next 3 years to 2007, that normally would have been passed over to central government as part of the re-distribution mechanism for Social Housing.

4.44 The total amount currently projected to be generated is around **£3.85m** over the next 3-years, although this will depend on the level of council house sales in particular. However, these receipts are ring-fenced and can only be invested in Housing (social and private sectors).

4.45 As the **Table in 4.32** shows, the Council currently funds a proportion of its Housing Investment Programme and Disabled Disability Grants from general capital receipts. The Council does have the option of transferring this proportion to the “debt free” receipts over the next 3-years.

4.46 This would then free up general receipts for investment in other (General Fund) schemes. However, this would reduce the amount available for Housing.

4.47 If this option were fully implemented, the following additional receipts would be available for the General Fund (based on expenditure projections in Table 4.32).

| | £'000 |
|--------------|--------------|
| 2004/05 | 568 |
| 2005/06 | 133 |
| 2006/07 | 694 |
| TOTAL | 1,395 |

Proposals for New Capital Investment 2005/06

4.48 All bids for new spending are summarised in **Appendix 7**. In line with the Council's approved scoring mechanism for considering spending bids, a separate panel evaluated each proposal on 21st December 2005. The proposals are ranked based on their respective scores. **A separate booklet has been circulated to all Members detailing each bid.**

4.49 The Service and Financial Planning Working Group were due to meet on 12th January 2005 to discuss these proposals and scores. An update and

recommendations of this group will be provided at the meeting, including recommendations regarding the utilisation of "debt free" receipts.

4.50 In addition, a request is being made from the Environmental and Development Services Committee for a council contribution in 2004/05 to the **Hilton Cycle Way**. The total project cost is estimated at around £283,000, of which the Council's contribution would be £9,000.

4.51 This phase of the project is on top of 3 earlier phases bringing the overall cost to almost £580,000. The works will extend the trail south from Etwall to the A5132 at Egginton Junction where the trail will be brought up to road level on both sides.

5.0 Financial Implications

5.1 As detailed in the report

6.0 Corporate Implications

6.1 As detailed in the report

7.0 Community Implications

7.1 As detailed in the report

8.0 Conclusions

8.1 The 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 budget information/consultation process.

9.0 Background Papers

- The Local Government Financial Settlement (and associated papers) 2005/06

