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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM:</b> 12
<b>DATE OF MEETING:</b>	<b>15TH FEBRUARY 2005</b>	<b>CATEGORY:</b> <b>RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (595811)</b>	<b>DOC:</b> u/ks/budget200506/ final F&M proposals
<b>SUBJECT:</b>	<b>CONSOLIDATED BUDGET 2005/06 and FINANCIAL PLANS 2005 to 2008</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM08</b>

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## **1.0 Recommendations**

- 1.1 That net General Fund Revenue expenditure of £8,884,380 for 2004/05 (probable out-turn) and £10,132,690 for 2005/06 (base budget) is approved.
- 1.2 That £180,000 be transferred from the Commutation Reserve to the Council's General Fund Reserve.
- 1.3 That this amount is repaid at the earliest opportunity.
- 1.4 That the 3-year financial projection on the General Fund showing a general reserve of £1,002,200 as at 31/03/2008 be approved.
- 1.5 That a projected minimum General Reserve of 10% of Net Revenue Expenditure (i.e. £1,065,000) as at March 2008 be attained at the earliest opportunity.
- 1.6 That the increase in Council Tax for District Services for 2005/06 is considered and the level recommended to Full Council.
- 1.7 That the financial projection on the Housing Revenue Account to 2015 is noted.
- 1.8 That the Capital Investment Programme 2005 to 2010 as detailed in Appendix 5 is approved.
- 1.9 That the Prudential Indicators as set out in paragraph (table) 4.49 are approved.
- 1.10 That the report of the Council's Acting 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 2005/06 and financial projections to March 2008. This will form the basis of setting the Council Tax for 2005/06 by Full Council on 1st March 2005. The report covers the following:

- The Council's proposed revenue and capital spending, including medium term financial projections.
- The Prudential Indicators and assessment of the overall budget and level of reserves as required by the Local Government Act 2003.

## **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, many spending pressures have been accommodated and some new spending added.

3.2 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. However, the projected level of General Fund Revenue Reserves as at March 2008 of just over £1m, is below the agreed and recommended minimum level of 10%, i.e. £1,065,000.

3.3 Therefore, as recommended, this level should be attained at the earliest opportunity. Members' attention is drawn to the Section 25 opinion of the Section 151 Officer, detailed in **paragraph 4.62 onwards**.

3.4 Overall, the Council does appear to have a sound financial base to build on. 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.

3.5 In addition, the Council is subject to risk, where many factors are outside the control of the Council. A particular issue arising out of this budget round was accommodating new spending pressures and aspirations for service improvements, without compromising the overall financial position in the longer term.

3.6 Methods for achieving this, such as moving away from leasing have already been approved. It is noted that other actions are planned. To sustain the Council's overall financial position whilst accommodating new spending demands, 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**

### **Summary of the Position to-date**

4.1 The Committee considered the initial budget proposals and overall financial position of the Council at its meeting on 13<sup>th</sup> January. This included proposed new revenue spending and capital investment and was based on a Council Tax increase for 2005/06 of 4.5%.

- 4.2 The Committee approved the following proposals that had previously been considered by the Service and Financial Planning Working Group.
- The proposed spending plans submitted by Policy Committees for 2004/05 and 2005/06.
  - The updated 3-year financial projection on the General Fund to 2008, including associated risks and assumptions.
  - In principle, to achieve a minimum level of General Fund Revenue Reserves of 10% of Net Revenue Expenditure as at March 2008.
  - To note the assumption of a Council Tax increase of 4.5% for 2005/06.
  - In principle, that all proposals for new revenue service developments and capital investment be approved.
  - Effectively, to give further consideration, in particular to the affordability of all spending proposals, against the need to maintain a minimum reserve balance.
- 4.3 In addition, the Committee also established a Renewals Fund for the future replacement of Council vehicles, plant and machinery. In doing so, it was also resolved to transfer £550,000 from the Commutation Reserve to establish the Fund and to provide capital resources to finance this Fund in the future.
- 4.4 These proposals have now been subject to scrutiny and consultation with business ratepayers, parish councils and residents via area meetings.
- 4.5 This report effectively seeks to confirm these proposals and to update the financial projections accordingly. In addition, new spending and investment proposals are set out for confirmation.
- 4.6 In addition, the budget proposals are put in the context of the new Prudential System for Capital Finance, together with an assessment of risks, and opinion of the Council's Acting Section 151 (Chief Finance) Officer under Section 25 of the Local Government Act 2003.

#### **The Council's Annual Financial Settlement 2005/06**

- 4.7 The January report detailed the provisional level of general Government Grant. The final figures were confirmed on 2<sup>nd</sup> February 2005. The Council's grant was **reduced** by around £13,000 (1/4%) compared to the provisional settlement.
- 4.8 This was due to a recalculation of the capital financing element of the Formula. Over the 3-year financial projection, this equates to a reduction in projected resources of **around £40,000**.

#### **General Fund 3-year Financial Projection**

- 4.9 The report to Committee in January showed projected reserve balances of approximately £1.59m as at 31/03/2008. This projection has now been updated to reflect the final grant settlement and the new spending proposals, which are set out in **Appendix 2**.

- 4.10 The updated projection is detailed in **Appendix 1** and summarised in the table below. This is based on a Council Tax increase of 4.5% for 2005/06 and includes the revenue implications of capital investment.

	<b>2004/05 Probable Out-turn £</b>	<b>2005/06 Base Budget £</b>	<b>2006/07 Projection £</b>	<b>2007/08 Projection £</b>
<b>Net Revenue Spending</b>	8,884,380	10,132,690	10,516,380	10,642,160
<b>Less Financing</b>				
General Government Grant	-5,032,930	-5,421,140	-5,556,670	-5,695,590
Council Tax	-3,708,790	-3,941,660	-4,120,580	-4,336,190
From Earmarked Reserves	-346,360	-70,000	-70,000	-250,000
<b>Surplus / Deficit (-)</b>	203,700	-699,890	-769,130	-360,380
<b>Projected Reserve Balance</b>	<b>2,831,600</b>	<b>2,131,710</b>	<b>1,362,580</b>	<b>1,002,200</b>

### **General Reserve Balances**

- 4.11 As previously highlighted, the Committee approved in principle, to set a **minimum** level of general reserves of 10% of net revenue expenditure by 2007/08. Based on the projected net spending in the above table for 2007/08, this would equate to around **£1,065,000**.
- 4.12 The projected balance in the above table of just over £1m is under this level. Therefore, as recommended, it is important that this level is attained at the earliest opportunity.
- 4.13 In addition, the projections have assumed a contribution from the Commutation Reserve of £140,000 to help maintain the general reserve balances of at least £1m. As reported at January's Committee, the new spending proposals in total exceeded available resources by around £190,000.
- 4.14 It was proposed that this be funded by having a lower reserve balance of £1m and subsequently by a contribution from the Commutation Reserve totalling £140,000, with a commitment to repay this amount, again at the earliest opportunity.
- 4.15 The contribution now required from the Commutation Reserve is **£180,000**, i.e. an additional £40,000 to cover the reduction in the final grant settlement.

### **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 amounts to £960,000.

- 4.17 However, as approved, £550,000 of this balance will be transferred to the Renewals Fund and £180,000 earmarked (if approved) to be transferred to the General Fund Reserve. **This leaves a balance of £230,000.**
- 4.18 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.

### **Spending Pressures**

- 4.19 The main issue for the Council during this budget round has been identifying sufficient resources to meet new demands and aspirations for service improvements, without compromising the overall financial position of the General Fund.
- 4.20 In addition, the projections for 2006/07 and 2007/08 show that overall, spending exceeds income.
- 4.21 Members may be aware that a "Shifting Resources" project has been established to review and make recommendations for identifying current resources that could be redeployed elsewhere. In addition, the "Gershon" recommendations regarding the redirection of resources and efficiency savings may also enhance this review.

### **Risk Analysis**

- 4.22 Furthermore, there are a range of factors that will have an impact on the above projection and these were considered in the January report. However, it is worth re-iterating these, and they are detailed in **Appendix 3**, along with current and planned actions to help mitigate these factors. 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 2007 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

### **Council Tax Levels**

- 4.23 As stated earlier, the budget for 2005/06 builds in an increase of 4.5. There has been much publicity in recent months regarding council tax increases for next year.
- 4.24 In particular, the Government has 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 does have powers to cap increases for individual authorities if they feel that any authority is being excessive.

- 4.25 In the last 3 years, the Council has set relatively low increases compared to other Councils of 3.9%, 3.5% and 5% respectively.
- 4.26 The 3-year financial projection also assumes increases of 4.5% for 2006/07 and 2007/08. **Band D Council tax** would therefore be as follows:

2005/06	£132.17
2006/07	£138.12
2007/08	£144.33

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

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

- 4.28 The Housing and Community Services Committee considered this in detail on 3<sup>rd</sup> February 2005. This included the increase in the level of council house rents for 2005/06 and an updated financial projection to 2015. This is detailed in **Appendix 4**.

### **Financial Projection to 2015**

- 4.29 The Council has approved to retain the housing stock following the Stock Options Review carried out during 2004. In addition, it was also resolved to keep under review the financial projections of the HRA.
- 4.30 Following this decision, the Council is now being directed to submit a business plan for the HRA to the Regional Government Office. This is likely to be for a period covering the next 10 years, i.e. to 2015.
- 4.31 Following the more recent review of the HRA's current income and expenditure for 2004/05 and the base budget for 2005/06, the financial projection undertaken in the stock options review has been updated to 2015. Compared to the stock options review, the overall financial position appears to have slightly improved over this forecasting period.
- 4.32 This is reflected by the fact that the HRA is projected to fall into deficit **by 2010/11**, which is a year later than the previous projection. The increased level of reserves and additional rent can sustain the HRA **until 2009/10**, by which time reserve balances fall below the current minimum level of £1/2m.
- 4.33 However, an increasing deficit in the longer-term shows that the **current HRA** is still not sustainable over the 10-year period with a **forecasted deficit of around £2.5m by 2015**.
- 4.34 Clearly and as planned, this position is being reviewed. It will be necessary for the Council to submit a business plan that demonstrates that the HRA is viable over this term and that service improvements can be delivered. This will involve more detailed modeling, in particular around the profiling of repair's expenditure.
- 4.35 Various options for working towards achieving a more sustainable HRA in the longer-term were highlighted in the Stock Options Report. On this issue, a proposal to set-

aside £1m from the “debt free” receipts to supplement the HRA, is part of the capital investment programme proposed in this report.

4.36 If this were approved, it would sustain the HRA's balances over the minimum amount of £1/2m by a further year until 2012 based on current projections. However, there would still be a projected deficit of around £1.5m by 2015.

### **Capital Investment**

4.37 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.

4.38 The detailed proposals for spending and financing were reported to the January Committee. The Council's proposed programme to 2009/10 is detailed in **Appendix 5**. This now includes new investment previously approved and shows the proposed utilisation of the “debt free” capital receipts.

4.39 Besides continuing current rolling programmes, the updated programme provides new investment in the following areas over the next 5 years.

- Heritage Economic Regeneration Scheme
- Enhancing current Private Sector Housing Renewal
- Swadlincote Woodlands
- Vehicles, Plant and Machinery
- Risk Management
- Improvements to Parks
- Modernising the District's Play Sites
- Football Pitch Improvements

4.40 However, the overall investment programme shows a **shortfall in overall resources of around £250,000** over the 5-year plan. Additional resources may be generated within the planning period and this will need to be monitored. Similar to Revenue, the main issue for capital spending is accommodating all demands and aspirations for new investment within available resources.

4.41 Clearly, if existing programmes are to be continued, the need to identify additional resources is an important issue. The Council has identified a Disposal Strategy as a key task over the coming financial year to achieve this.

4.42 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.

### **The Prudential System for Capital Finance**

4.43 The key objectives of the Prudential System are to ensure that:

- Capital investment plans of local authorities are affordable and sustainable.
- Treasury management decisions are taken in accordance with good professional practice.
- Financial planning and asset management are integrated into the Council's overall planning arrangements.

- 4.44 Some detailed requirements of the system, such as medium term financial projections, future council tax levels, and the affordability of capital investment are dealt with as an integral part of this report.
- 4.45 As regards Treasury Management, the Council adopts CIPFA's Code of Practice and this helps formulate the Council's annual borrowing and investment strategies. These are subject to a separate report elsewhere on this Agenda.
- 4.46 The Council is free to borrow money within a pre-determined local limit, as long as it can demonstrate that the interest charges and debt repayment associated with it are affordable and sustainable in the medium to longer term. Within the current financial planning period, the Council has not included any provision for new borrowing or any other credit arrangements. However, this can be kept under review.
- 4.47 A key requirement of the System is that the Council must set and regularly monitor Prudential Indicators. In addition, the Council's Section 151 (Chief Finance) Officer is required to provide an assessment of these indicators and the implications for the Council's spending plans and overall financial position.
- 4.48 The prudential system provides the flexibility for these indicators to be changed depending on local circumstances. It is the responsibility of the Section 151 Officer to advise the Council accordingly.
- 4.49 The relevant Prudential Indicators are set out in the table below.

<b>Prudential Indicator</b>	<b>2003/4 Actual £'000</b>	<b>2004/05 Estimate £'000</b>	<b>2005/06 Estimate £'000</b>	<b>2006/07 Estimate £'000</b>	<b>2007/08 Estimate £'000</b>
<b>1 – Capital Expenditure:</b>					
• General Fund	2,062	3,173	3,500	2,235	2,025
• Council Housing	1,887	2,193	2,551	1,824	1,763
<b>Total</b>	<b>3,949</b>	<b>5,366</b>	<b>6,051</b>	<b>4,059</b>	<b>3,788</b>
<b>2 – Ratio of Financing Costs to Net Revenue Stream:</b>					
• General Fund	7.4%	1.2%	0.4%	1.5%	1.3%
• Council Housing	11.9%	6.9%	6.4%	6.0%	5.4%
<b>3 – Capital Financing Requirement (CFR)</b>	<b>17,641</b>	<b>18,239</b>	<b>19,180</b>	<b>19,231</b>	<b>19,256</b>
<b>4 – Authorised Limit for External Debt</b>					
• Borrowing Limit	18,000	7,500	7,500	10,000	10,000
• Long term Liabilities (Covenant Finance)	4,000	3,500	3,200	2,800	2,300
<b>Total</b>	<b>22,000</b>	<b>11,000</b>	<b>10,700</b>	<b>12,800</b>	<b>12,300</b>
<b>5 – Operational Boundary for External Debt</b>	<b>15,000</b>	<b>5,000</b>	<b>5,000</b>	<b>7,500</b>	<b>7,500</b>



### **Indicator 1 - Capital Expenditure**

- 4.50 This represents a summary statement of actual capital expenditure that was incurred in 2003/04 and the estimates of capital expenditure to be incurred for future years as included in the capital investment programme detailed in Appendix 5.
- 4.51 It has been noted that in assessing projected resources available, that there is a potential shortfall over the current 5-year rolling programme of around **£1/4m**. If additional resources are not identified, that it may be necessary to curtail some planned investment included in the proposed programme.

### **Indicator 2 - Ratio of Financing Costs to Net Revenue Stream**

- 4.52 This indicator aims to show the level of "gearing", i.e. the extent of the Council's debt liability. If this percentage is high and/or rising, then it could give cause for concern as it may indicate that an organisation is relying too heavily on loan finance.
- 4.53 The indicator for the Council shows that in percentage terms, the Council's overall debt interest is relatively low and has reduced significantly from 2003/04. This is due to the repayment of Government debt in March 2004.
- 4.54 The main liability now remaining is interest payable on Covenants, which reduce over this planning period. In addition, repayment of the principal and interest associated with this finance have been included in the financial projections.

### **Indicator 3 – Capital Financing Requirement (CFR)**

- 4.55 The CFR is a measure of the Council's underlying need to borrow **for capital investment**, and is based on the value of its assets contained in the Council's balance sheet. Under the Prudential System, the Council will need to ensure that net external borrowing does not exceed the CFR.

### **Indicator 4 - Authorised Limit for External Debt**

- 4.56 This limit is designed to cover all borrowing and long-term liabilities. As regards borrowing, total debt outstanding is currently £1m. Based on current spending plans and the level of set-aside capital receipts, it is unlikely that the Council will need to borrow, except to cover short-term cash flow requirements.
- 4.57 It is considered that a maximum borrowing level of between £7.5m and £10m will accommodate these requirements. It is unlikely that the CFR will be breached over this planning period, but this will be kept under review as part of the Council's Borrowing Strategy.
- 4.58 **The Committee is asked to note that the limit of £10.7m for 2005/06 will be the statutory limit determined under Section 35(1) of the Local Government Act 2003.**

### **Indicator 5 - Operational Boundary for External Debt**

- 4.59 This limit will act as a trigger for the Head of Finance in managing day to day treasury management. It is designed to act as an early warning sign in advance of the Council possibly exceeding the statutory limit above. There is no definitive guidance on how this should be calculated and it depends on local circumstances.

- 4.60 The Council's Borrowing Strategy for 2005/06 (which is subject to an earlier report elsewhere on this Agenda) projects that the Council will not have any borrowing requirement during the next financial year.
- 4.61 Based on debt and covenants outstanding, and with no current plans to undertake prudential borrowing, it is recommended that this boundary be set at the levels indicated in the above table.

### Section 25 Report (under the Local Government Act 2003)

- 4.62 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.
- 4.63 This report highlights the risks and uncertainties surrounding the Council's financial plans and proposed actions it intends to take over the medium term to maintain a sound financial position.
- 4.64 It is considered that estimates of expenditure are prudent in that they provide for inflation and other known variations. In addition, a prudent view has been taken regarding projected income levels in 2007 and 2008, especially those relating to planning fees and interest on bank deposits.
- 4.65 The compilation of detailed estimates has been undertaken in conjunction with service managers. The Council has established budget monitoring arrangements in place to help ensure that Council finances are monitored effectively.
- 4.66 The table below shows the projected level of revenue reserves over the next 4 years.

	31/03/2005 £	31/03/2006 £	31/03/2007 £	31/03/2008 £
General Fund Reserves	2,831,600	2,131,710	1,362,580	1,002,200
Commutation Reserve	960,190	410,190	410,190	230,190
<b>Sub-total</b>	<b>3,791,790</b>	<b>2,541,900</b>	<b>1,772,770</b>	<b>1,232,390</b>
Other Earmarked Reserves	667,000	473,000	354,000	260,000
<b>Total Reserves</b>	<b>4,458,790</b>	<b>3,014,900</b>	<b>2,126,770</b>	<b>1,492,390</b>

- 4.67 The Council, based on the recommendation of the Section 151 Officer, have approved in principle, to set a **minimum** level of General Fund Reserves of 10% of net revenue expenditure by 2007/08. Based on the projected net spending for 2007/08, this would equate to around **£1,065,000**.
- 4.68 The projected balance in the above table shows at just over £1m, after including a transfer from the Commutation Reserve of £180,000. Therefore, as recommended, it is important that the minimum level is attained at the earliest opportunity.

4.69 It is noted that in addition to the £1m, there is still a projected balance on the Commutation Reserve of around £230,000 as at 31<sup>st</sup> March 2008. As this reserve is no longer required for this purpose, 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.

4.70 However, before doing so, it is recommended that the overall level of general reserves be maintained at the minimum level of 10%.

### **Provision of Information**

4.71 The information and proposals contained in this report have been presented via local area meetings, the local strategic partnership, a Parish Council Forum and through the Council's scrutiny process. A separate report by the Corporate Scrutiny Committee is included elsewhere on the Agenda, including feedback from the various presentations.

### **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 Conclusion**

8.1 The Committee is requested to consider carefully the financial position of the Council, together with the commentaries and issues highlighted in this report. Consequently, the Committee is asked to recommend spending proposals, council tax levels and prudential indicators to the Full Council on 1st March 2005.

### **9.0 Background Papers**

- The Local Government Finance Settlement (and associated papers) 2005/06
- Housing Subsidy Determination (and associated papers) 2005/06
- Local Government Act 2003
- Local Authority (Capital Finance and Accounting) Regulations 2003
- Prudential Code for Capital Finance in Local Authorities
- Finance Committee 13<sup>th</sup> January 2005 (Agenda Item 7)

