
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	16th FEBRUARY 2010	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/budget round 201011/final budget proposals 1011
SUBJECT:	FINAL BUDGET PROPOSALS 2010/11 and FINANCIAL PLAN to 2015	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That estimated net General Fund Revenue Expenditure totalling £12,411,451 for 2009/10 and £12,651,307 for 2010/11 is recommended to Council on 1st March 2010.
- 1.2 That a Council Tax level and Band D equivalent rate for 2010/11 is recommended to Council on 1st March 2010.
- 1.3 That the Medium-term Financial Plan to 2015 on the Council's General Fund Revenue Account as detailed in **Appendix 1** is approved.
- 1.4 That the financial projection on the Housing Revenue Account to 2020 as detailed in **Appendix 2** is approved.
- 1.5 That the 5-year capital investment and financing plan to 2015 as detailed in **Appendix 3** is approved.
- 1.6 That on-going cashable efficiency savings of **£375,000** are identified and in place by **October 2010**, with progress being reported to the Committee on a regular basis during the coming year.
- 1.7 That a full Contingency Plan is drawn up should insufficient capital or other resources be generated to meet all outstanding capital commitments and that this is reported to the Committee by **October 2010**.
- 1.8 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 2010/11 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 2010/11 by Council on 1st March 2010.
- 2.3 The Council's overall proposed base budget for 2010/11 and projected medium-term financial position was reported in detail to the Committee on 14th January 2010.
- 2.4 This report does not repeat those details but firms up the position following a period of scrutiny and consultation, with some minor amendments that marginally affect the overall position. In addition, the projections now reflect the contingency measures to fund capital commitments, as approved in January, together with a further reduction in concessionary travel grant in 2010/11 of £15,000.
- 2.5 The report also provides an overview of the Housing Revenue Account and the 10-year financial projection that was considered by the Housing and Community Services Committee on 4th February.

3.0 Executive Summary

General Fund Revenue Account

- 3.1 Based on spending plans and after allowing for certain cost pressures in the future, the medium-term financial projection shows a continuing budget deficit to 2014/15. Although the budget deficit for 2009/10 and 2010/11 can be balanced by drawing down general reserves, this cannot be sustained beyond 2011/12.

Critical Year 2011/12

- 3.2 The critical year is 2011/12. This is the point that general reserves fall below the safe and approved minimum level. To correct this position, the Council will need to identify cashable savings of approximately **£375,000 per year** in order to meet the longer-term budget deficit and to protect the minimum level of general reserves. These savings will need to be in place **by October 2010**.

The Need to Identify Capital Resources

- 3.3 In addition, there is a need to generate capital resources of **£1.95m** to meet outstanding commitments for covenant repayments and vehicle replacements over the next 5-years.

- 3.4 Although the Committee has approved some contingency measures totaling £700,000 to help meet the covenant commitments, a further £1/2m is required by March 2012 and £1/4m per year thereafter, to fund vehicle replacements.
- 3.5 A provision remains in general reserves, totaling approximately £1.25m (£1.95m less £700k) to meet the remaining commitments (as a revenue contribution).
- 3.6 If the use of general reserves is required, this would leave those reserves **substantially below** the approved minimum level by 2012/13. If savings of £375,000 are achieved, this is beneficial and pushes that year back to 2013/14.

Proposed Actions

- 3.7 Some actions already in place should generate resources to help remedy the situation and maintain the Council's finances on a sound and stable footing.
- 3.8 The issue here is that these resources are by no means guaranteed at this stage; they are subject to either on-going project work, or negotiations with partners. The areas involved are:
- Restructure of Community Services
 - Corporate Services Partnering Project, including the development of a Business Centre
 - On-going efficiency programme through procurement and business improvement
 - Heads of Service reviews
 - Etwall Leisure Centre – additional partner contributions
 - Disposal of Surplus Assets

Housing Revenue Account (HRA)

- 3.9 The updated 10-year projection continues to show that eventually, the Council's HRA will become unsustainable. In the absence of any other changes, this will require a detailed review of all expenditure.
- 3.10 Previous reports to the Committee have highlighted a low cost base compared to other housing authorities, but with limited scope for additional investment. Infact, the budget for 2010/11 continues to assume a "standstill" position.
- 3.11 However, a review of the current HRA Business Plan will be undertaken during 2010/11. This will include a review of all costs, included those charged from internal support services.
- 3.12 Clearly, whether the Council will be able to afford and become self-financing under Government proposals will be the key to future projections. The Council's analysis of this and a response to the Government's consultation were reported and considered by the Committee in October 2009. An announcement from the Government is imminent.

Capital Investment

- 3.13 Despite the lack of its own resources, the Council still has a fairly substantial capital programme over the next two years. This is due to the successful generation of external funding through local development agencies, Growth Point and via partnership working.
- 3.14 This continues to fund substantial projects in community and recreational facilities across the District, together with improvements to Swadlincote Town Centre in particular.

Overall Analysis and Risk

- 3.15 The Council's financial plan is subject to risk, where many factors such as government funding and interest rates for instance, are outside the control of the Council. In addition, demand for service improvements and new capital investment, for example that have been identified in the Place Survey, are likely to put further pressure on the current financial position.
- 3.16 The budget and projections included in the MTFP allow to a certain extent for known variations, some growth due to development, together with assumptions regarding public sector pay and grant settlements.
- 3.17 It is clear that the Council continues to face a tough period financially. Having been affected by the economic downturn, decisions expected later in 2010, in particular those relating to the level of revenue support grant from 2011/12, could have a significant effect (either way) on the financial stability of the Council.
- 3.18 Therefore, as the Chief Finance Officer's Section 25 report highlights in Section 4, the Council can never be complacent regarding its finances. Reviewing existing spending levels, considering alternative options and constantly striving for greater value for money 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.

YEAR	BUDGET DEFICIT £	CAPITAL PROVISION £	BALANCE OF RESERVES £
2009/10	- 453,264	0	+ 2,347,746
2010/11	- 501,090	0	+ 1,846,655
2011/12	- 581,991	- 465,000	+ 799,664
2012/13	- 346,589	-225,000	+228,075
2013/14	- 382,876	- 310,000	-464,801
2014/15	-302,163	- 250,000	-1,016,964

- 4.2 The overall figures have been updated to reflect the approved contingency plan to help meet the outstanding capital commitments to 2015. This has reduced the provision required in the General Fund Reserve by £700,000 to £1.25m.
- 4.3 In addition, some minor adjustments for recharges to the HRA and the final council tax base (as approved in January) have benefited projected reserves by £1,610 overall to 2015.

Concessionary Travel Grant

- 4.4 However, a more substantial change has arisen from a further reduction in the specific grant for concessionary travel in 2010/11. As reported to the Committee in January, all councils were given a special grant to allow for the increased costs following the introduction of the new Concessionary Travel Act (2007); this gave free bus travel to all over 60s from April 2008.
- 4.5 South Derbyshire received £150,000 for 2008/09 and 2009/10. It was due to receive this amount in 2010/11. However, the Government has in recent months reviewed where additional costs have actually been incurred.
- 4.6 Consequently, they have changed the distribution of the national pot for 2010/11. Initially, the Council was due to have its share reduced by £75,000 (50%) for 2010/11. However, following updated figures, the reduction will be £90,000, i.e. a further £15,000.
- 4.7 This has been reflected in the Budget for 2010/11. However, this is a one-off adjustment as the responsibility and financing for concessionary travel is likely to be transferred from this Council to the County Council in April 2011.

Level of Reserves

- 4.8 The above table shows that general reserves are still projected to fall sharply between 2011/12 and 2014/15. Clearly, if the remaining capital provision of £1.25m is not required due to sufficient capital receipts being generated, then this benefits the financial situation considerably.
- 4.9 However, there is still an on-going budget deficit, the financing of which relies on general reserves. To meet this, cashable savings of approximately **£375,000 per year** are required from 2011/12. If capital resources are not generated, then effectively this target will need to be raised.
- 4.10 Within the overall projection, some anticipated future spending pressures in the form of higher pension contributions and growth for example, have been accommodated based on best estimates. Provision has also been made in 2011/12 for local district elections.
- 4.11 Government grant for 2010/11, 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% per year from 2010/11.

Council Tax Levels

4.12 For **indicative** purposes, based on a 2.5% increase, council tax at Band D level is shown in the following table.

2010/11	£151.73
2011/12	£155.52
2012/13	£159.41
2013/14	£163.39
2014/15	£167.48

4.13 In announcing the financial settlement for 2010/11, the Parliamentary Under-Secretary of State for Communities and Local Government said:

“I am putting all authorities on notice that the Government will not hesitate to cap any excessive council tax increases set by individual authorities in 2010-11 and that it would be a mistake for any authority to presume they will not be capped if they stay within the capping principles which applied in 2009-10. We have already initiated capping action against three police authorities in advance for 2010-11 to limit their council tax increases to around 3%. No other decisions have been taken on capping for 2010-11, but we have made clear that we expect the average Band D council tax increase in England to fall to a 16 year low. The Government has maintained the three-year settlement in challenging economic circumstances and there can be no excuse for any authority setting an excessive council tax increase in 2010-11.”

HOUSING REVENUE ACCOUNT (HRA)

4.14 Prior to 2009/10, the HRA had been operating in surplus in the short-term. However, the 10-year financial plan forecasted a longer-term budget deficit. To maintain anticipated levels of expenditure and based on assumed income, this deficit was to be financed by drawing on the relatively high level of general reserves on the HRA.

4.15 Clearly, however, this is not sustainable. Previous plans have highlighted that by years 6 or 7, the HRA's reserves would fall below its minimum level of £1/2m and well in deficit before Year 10. In addition, projections have effectively assumed a standstill budget from year to year.

Updated Position

4.16 Following the review of the HRA's base budget, the Government's subsidy settlement for 2010/11, together with their guidelines for rent levels next year, the 10-year financial projection has been updated. This is detailed in **Appendix 2**.

4.17 This shows a worsening position. The HRA continues to operate in deficit with the first year under the £1/2m minimum reserve level being in 2015/16, compared to 2017/18 previously.

- 4.18 The main reasons for this is that firstly, the Council's average rent level will fall behind the Government's Guideline Rent from 2010/11. This is due to the fact that rent increases for many South Derbyshire tenants will be constrained within a maximum increase allowed under Government guidelines for 2010/11. Therefore, the HRA will not increase its overall income in line with that set in the subsidy settlement.
- 4.19 In addition, the Council's settlement for 2010/11 shows increases for management and maintenance allowances below the national average, but its guideline rent increase is above average.
- 4.20 A further factor is that the remaining contingency held in the housing capital receipts reserve of £370,000 to support the HRA, has now been earmarked towards the capital commitments as highlighted earlier in the report. This would have sustained the HRA's reserve above the minimum level by a further year to 2016/17.

Rents

- 4.21 Changes have once again been made to rent restructuring with the convergence date now being brought forward from 2023/24 to 2012/13 due to the current low level of inflation. The proposed average rent increase for South Derbyshire tenants for 2010/11 is **2.05%**.
- 4.22 However, many tenants will see increases above this, especially those who are still well below their formula rent. The largest increase is 2.82%.
- 4.23 The 2.05% is constrained to protect individual tenants. Without this, the unconstrained average increase would be **3.75%**. Effectively, this reduces the overall rental income in the HRA by approximately £156,000 per year (before any adjustments to subsidy) but 70% of the Council's tenants will benefit from the constraint.
- 4.24 In addition, this constraint will mean that many tenants will not converge with their rent formula in 3-years under the current system as their increase for 2010/11 is not in line with the step required. Depending on how the subsidy system takes this into account in future years, this will also reduce resources in the HRA to at least 2012/13, if the Council's actual rent remains behind the Guideline.

Subsidy

- 4.25 As expected, the Council's payment to the national pool will increase from £3,081,265 in 2009/10 to £3,305,079 (7.3%) in 2010/11. However, this is approximately £50,000 greater than estimated in the previous projection, mainly due to lower increases in management and maintenance allowances.

HRA Summary

- 4.26 The updated 10-year projection continues to show that eventually the Council's HRA will become unsustainable. In the absence of any other changes, this will require a detailed review of all expenditure.
- 4.27 Previous reports to this Committee have highlighted a low cost base compared to other housing authorities, but with limited scope for additional investment. Infact, this current budget continues to assume a "standstill" position.
- 4.28 However, a review of the current HRA Business Plan will be undertaken during 2010/11. This will include a review of all costs, included those charged from internal support services.
- 4.29 Clearly, whether the Council will be able to afford and become self-financing under Government proposals will be the key to future projections. The Council's analysis of this and a response to the Government's consultation were reported and considered by the Committee in October 2009. An announcement from the Government is imminent.

CAPITAL INVESTMENT and FINANCING

- 4.30 The updated capital programme is detailed in **Appendix 3**. This includes two changes from that reported in January. Firstly, to withdraw the annual provision from 2010/11 set-aside to top up Government allocations for Disabled Facility Grants beyond; secondly, to reflect the change in use of the Housing Capital Receipts Reserve as highlighted earlier in the report.

The Current Investment Programme

- 4.31 Despite the lack of its own resources, the Council still has a fairly substantial capital programme over the next two years. This is due to the successful generation of external funding through local development agencies, growth point and via partnership working.
- 4.32 This continues to fund substantial projects in community and recreational facilities across the District, together with improvements to Swadlincote Town Centre in particular.

Housing Investment

- 4.33 The Council has been allocated a Major Repairs Allowance of **£1,914,922** for 2010/11, an increase of approximately £19,000 (1%) over 2009/10. This is to continue the work of major improvements to council houses.
- 4.34 Government allocations for DFGs and for meeting "Decent Homes" in the private sector are still awaited for 2010/11. Pressure on DFGs budgets and a potential shortfall in resources for the public housing stock have been considered by the Housing and Community Services Committee.

Other Investment

- 4.35 No further schemes are proposed this stage. A bid to secure capital resources through the Government's Free Swimming Modernisation Programme is currently being worked up. This follows a feasibility study that successfully supported the bid through the initial stages.
- 4.36 The bid is based on a project to completely refurbish changing facilities at Green Bank Leisure Centre.
- 4.37 In accordance with the Council's Capital Investment Strategy, any proposed bids (including those externally funded) will be subject to options appraisal and reported to the Council for consideration.

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

- 4.38 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. The commentary is set out in the sections that follow.
- 4.39 This report and that considered on 14th January 2010, 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.
- 4.40 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.
- 4.41 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 economic downturn, which have been assessed and taken into account based on best estimates.
- 4.42 The compilation of detailed budgets has been undertaken in conjunction with service managers. The Council has established performance and budget - monitoring arrangements in place to help ensure that Council finances are monitored effectively. This includes a quarterly report to this Committee.
- 4.43 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.
- 4.44 The following table shows the projected level of revenue reserves over this planning period, i.e. 2010 to 2015.

PROJECTED LEVEL OF RESERVES	MARCH 2010 £'000	MARCH 2011 £'000	MARCH 2012 £'000	MARCH 2013 £'000	MARCH 2014 £'000	MARCH 2015 £'000
General Fund Reserves	2,348	1,846	800	228	-465	-1,016
Housing Revenue Account	2,319	1,879	1,453	849	759	575
Other Earmarked Reserves	170	125	125	75	100	100

4.45 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 and £1/2m on the Housing Revenue Account by 2015. This was after an assessment of the financial risks the Council faces and their potential impact upon the overall financial position.

General Fund

4.46 The above table shows that the level of reserves on the General Fund is projected to fall below the minimum by March 2012, eventually turning negative by 2015. The reliance on reserves to fund a budget deficit, exacerbated by the need to generate capital resources as highlighted throughout this budget round, is clearly unsustainable.

4.47 Therefore, in order to achieve a sound and stable financial position, it is critical that the Council adheres to the time frame for delivering efficiency targets by October 2010 in order that they can be built into the MTFP. It is noted that actions are already in place to achieve this, but the timing, especially concerning capital resources, is critical.

HRA

4.48 The overall HRA reserve is projected to remain above the minimum level of £1/2m over this planning period. However, as this report highlights, the HRA is also operating with a budget deficit and the reserve balance falls below the minimum level by 2016.

4.49 This is not as critical as the General Fund position and it is noted that a review of the current business plan will be undertaken later in 2010 in light of the on-going deficit.

4.50 It is also 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.

Risk

- 4.51 The Council's financial plan is subject to risk, where many factors such as government funding and interest rates for instance, are outside the control of the Council. In addition, demand for service improvements and new capital investment are likely to put further pressure on the current financial position.
- 4.52 The budget and projections included in the MTFP allow to a certain extent for known variations, some growth due to development, together with assumptions regarding public sector pay and grant settlements.
- 4.53 It is clear that the Council continues to face a tough period financially. Having been affected by the economic downturn, decisions expected later in 2010, in particular those relating to the level of revenue support grant from 2011/12, could have a significant effect (either way) on the financial stability of the Council
- 4.54 This means that reviewing existing spending levels, considering alternative options and constantly striving for greater value for money continue to be as important as ever. Therefore, the recommendation regarding cashable savings should be fully endorsed.

Consultation and Provision of Information

- 4.55 The information and proposals contained in this report, together with further details on where the Council spends its money, have been presented across the District. Specifically, this has been undertaken via:
- Local area forums
 - A business rate consultation forum (at a Special Finance Committee 25/01/10)
 - "Have Your Say" forum on the Council's website
- 4.56 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 There are no other direct legal, personnel or property implications apart from that considered 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

- 8.1 The Government's Pre-Budget Report (December 2009), available at:
http://www.hm-treasury.gov.uk/prebud_pbr09_repindex.htm

- 8.2 The Government's Financial Settlement for 2010/11, available at:
<http://www.local.communities.gov.uk/finance/1011/grant.htm>

- 8.3 Department for Communities and Local Government - Housing Subsidy Determination (and associated papers) 2010/11, available at:
<http://www.communities.gov.uk/housing/publications/consultations>

- 8.4 Finance and Management Committee, 14th January 2010 – Detailed Budget Proposals and Analysis, available at:
<http://cmis.south-derbys.gov.uk/CmisWebPublic/Binary.ashx?Document=5818>