*Report to the Finance and Performance Management Cabinet Committee*

*Date of meeting: 28 January 2008.*

Epping Forest District Council

**Portfolio:** **Finance and Performance Management**

**Subject:** **Council Budgets 2008-09.**

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**Recommendations/Decisions Required:**

**(1) That the Committee considers the Council's 2008-09 General Fund budgets and makes recommendations to the Cabinet meeting on the 4 February 2008 on adopting the following:**

**(a) the revised revenue estimates for 2007-08, which are anticipated to increase the General Fund balance by £116,000;**

**(b) an increase in the target for the 2008-09 CSB budget from £16.8m to £16.828m (including growth items);**

**(c) an increase in the target for the 2008-09 DDF net spend from £1m to £1.078m;**

**(d) an increase of 2.5% in the District Council Tax for a Band 'D' property to raise the charge from £139.50 to £143.01;**

**(e) the estimated increase in General Fund balances in 2008-09 of £219,000;**

**(f) the four year capital programme 2008-09 – 11-12;**

**(g) the Medium Term Financial Strategy 2008-09 – 11-12; and**

**(h) the Council's policy on General Fund Revenue Balances to remain that they are allowed to fall no lower than 25% of the Net Budget Requirement;**

**(2) That the Committee recommends to the Cabinet that the 2008-09 HRA budget including the revised revenue estimates for 2007-08 be agreed;**

**(3) That the Cabinet be requested to note that rent increases and decreases for 2008-09 are to be applied in accordance with the Government's rent reforms and the Council's approved rent strategy;**

**(4) That the Committee recommends to the Cabinet that the increase in deficiency payments to the pension fund is again capitalised in accordance with the Capitalisation Direction request made to the Department for Communities and Local Government. These payments are funded from the Pension Fund Capital Reserve that was established with the transfer of £2.5m from the Usable Capital Receipts Account;**

**(5) That the Committee considers the Council's Prudential Indicators and**

**Treasury Management Strategy for 2008-09 and makes recommendations to the Cabinet; and**

**(6) That the Committee notes the Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2008-09 budgets and the adequacy of the reserves.**

**Introduction:**

1. On 4 February 2008 the Cabinet will receive the minutes and recommendations contained therein of this meeting and will then make recommendations to Council for the setting of the Council Tax and budget on 19 February 2008.

2. The annual budget process commenced with the Financial Issues Paper being presented to this committee on 24 September 2007. The paper was prepared against a background of considerable uncertainty with major issues such as the corporate restructuring, funding for concessionary fares, the outcome of the latest pension fund valuation and the Council's grant settlement for the next three years still to be determined. There is now greater clarity on most of these issues and they will be revisited in subsequent paragraphs.

3. In setting the budget for the current year Members had anticipated using £321,000 of general fund reserves. This was not viewed as a matter of concern as recent years have seen substantial increases in the general fund balance (2003-04 £323k, 2004-05 £1.026m and 2005-06 £968k) such that at the time of setting the budget it was £6.456 million. This level of reserves represented 39% of the Net Budget Requirement for 2007-08 and was comfortably in excess of the Council's adopted guideline of 25%.

4. The revised four year forecast presented with the Financial Issues Paper took into account all the additional costs known at that point but did not anticipate the savings from the corporate restructuring or any increase in investment income. This projection showed a need to achieve savings of £100,000 on the revised estimates and £200,000 per annum in future years to keep revenue balances above the target level at the end of 2010-11.

5. Members adopted this measured approach to reduce expenditure in a progressive and controlled manner. It was felt that a reduction was needed in the revised budget figures for 2007-08 as the first step in this process, followed by further savings in 2008-09.

6. The budget guidelines for 2008-09 were therefore established as:

(a) The ceiling for CSB net expenditure be no more than £17.3m including net growth/savings;

(b) The ceiling for DDF net expenditure be no more than £186,000; and

(c) The District Council Tax be increased by no more than the rate of increase in the Retail Prices Index.

7. In view of the progress made in identifying savings and the slippage in the DDF programme, these guidelines were revised by the 10 December meeting of this committee. The target for the Council Tax increase was unchanged but the other guidelines were amended to:

(a) The ceiling for CSB net expenditure be no more than £16.8m including net growth/savings; and

(b) The ceiling for DDF net expenditure be no more than £1m.

**The Current Position:**

8. The draft General Fund budget summaries are attached as annexes 1 to 9. The main year on year resource movements are highlighted in the CSB Growth and DDF lists, which are attached as Annexes 10 and 11. In terms of the guidelines, the position is set out below.

**The Ceiling for CSB Net Expenditure be no more than £16.8m including Net Growth:**

9. Annex 10 lists all the CSB changes for next year. Some of the growth items listed are for sums agreed as part of previous year's budgets but most are new for next year. The largest item for next year is £331,000 for the end of subsidy on reinstatement grants. Under section 541 of the 1985 Housing Act the Council has been receiving subsidy for reinstatement grants made between 1987 and 1991. The subsidy was for loan charges on those grants and lasts for 20 years from the inception of each grant. This subsidy is largely coming to an end next year and so the loss of income must be reflected as CSB growth.

10. The other significant item of CSB growth is £250,000 for the safer, cleaner and greener initiative. This issue is still to be considered by Cabinet on 4 February 2008, and if the proposals are not supported at Cabinet there will be a reduction in the growth shown here. It was felt appropriate to include the growth in this report rather than to leave Members guessing as to the effects and affordability of this growth.

11. Growth of £92,000 has been necessary for additional ongoing pension fund contributions. The 19 November 2007 meeting of this committee considered the different options for phasing in the additional contributions and decided on the option to increase ongoing contributions by 1% per annum in each of the next three years instead of implementing the full 3% increase in 2008-09. This does cause an increase in deficit contributions but total contributions over the next three years are lower with the phased growth option.

12. CSB savings come mostly from cost reductions and procurement efficiencies. The largest single saving is from the new waste management contract, where the tendering exercise proved far more competitive than had been anticipated and a saving of £604,000 resulted. Corporate restructuring has provided significant savings at both the top management level, £206,000, and below the assistant director level, £300,000.

13. The General Fund summary at Annex 1 shows the CSB total is £28,000 above the CSB target of £16.8m. This is not significantly above the target and as a contingency of £175,000 is included if Members require a total closer to the £16.8m target the contingency could be reduced to £150,000 to leave the CSB total at £16.803m.

**The Ceiling for DDF Net Expenditure be no more than £1m:**

14. The DDF net movement for 2008-09 is £1.078m, Annex 11 lists all the DDF items in detail. The largest cost item is £288,000 for work on the Local Development Framework (LDF). The LDF is a substantial and unavoidable project and over the next four years DDF funding of £1.273m is currently allocated to it. The Director of Planning and Economic Development has been asked to provide regular updates to Cabinet to monitor this project and the expenditure incurred on it.

15. Other significant items of expenditure include £130,000 for the non-HRA building maintenance programme and £100,000 to complete the comfort cooling programme. Expenditure of £235,000 is included for the new national concessionary fares scheme but this is matched by a specific government grant.

16. At £1.078m the DDF programme exceeds the target by £78,000. Similarly to the position with CSB, this excess is not felt to be significant. All of the DDF items currently programmed to the end of 2011-12 can be funded from within existing DDF resources. However, if Members require a total closer to the £1m target some items could be re-

programmed from 2008-09 to later years. Recent experience has shown that there is usually substantial slippage on the DDF and so even if £1.078m were programmed, the outturn would be unlikely to exceed £1m.

**The District Council Tax be increased by no more than the rate of increase in the Retail Prices Index (RPI):**

17. For a number of years now Members have had a policy of restricting increases in Council Tax to less than the increase in the RPI. At the meeting of this committee on 10 December 2007, Members confirmed that this policy would remain in place. The latest RPI figure is 4.3% and in view of this the proposed Council Tax increase of 2.5% is within this target.

**Longer Term Guidelines Covering the Period to March 2012:**

18. *The level of General Fund revenue balances to be maintained within a range of approximately £4.0m to £4.5m but at no lower level than 25% of net budget requirement whichever is the higher.*

19. Current projections show this rule will not be breached by 2011-12, by which time reserves will have reduced to £6.1m and 25% of net budget requirement will be £4.4m.

20. *Future levels of CSB net expenditure being financed predominately from External Funding from Government and Council Tax and that support from revenue balances be gradually phased out.*

21. The outturn for 2006-07 added £305,000 to reserves, and the revised estimates for 2007-08 anticipate a further increase of £116,000. This would leave the opening revenue reserve for 2008-09 at £6.877m and the estimates for 2008-09 show an additional increase of £219,000, which would take reserves above £7m. The Medium Term Financial Strategy at Annex 12 shows deficit budgets for the three years 2009-10 to 2011-12. The level of deficit peaks at £387,000 in 2010-11 and reduces to £371,000 in 2011-12, although this is achieved through CSB savings of £200,000 in each of those three years.

**The Local Government Finance Settlement:**

22. After one two-year settlement under the new four block system, the Department for Communities and Local Government (DCLG) announced a consultation to "update and fine tune" the model to produce a three-year settlement. Unfortunately the fine-tuning has resulted in some substantial movements in the Council's relative position. The table below sets out the Council's amounts in each of the four blocks for the five years of data now available. The Relative Needs Amount (what the Government believes the Council needs to spend) has fallen nearly £300,000 for 2008-09 whilst the Relative Resource Amount (a negative amount to reflect the ability to raise income from Council Tax) has increased by over £500,000. This worsening of £800,000 is offset by an increase in the Central Allocation of £460,000 and a change in the net Floor Damping position of £490,000.

| | **2006-07 £m** | **2007-08 £m** | **2008-09 £m** | **2009-10 £m** | **2010-11 £m** |
|---|---|---|---|---|---|
| Relative Needs Amount | 5.728 | 5.742 | 5.455 | 5.457 | 5.464 |
| Relative Resource Amount | -4.465 | -4.724 | -5.228 | -5.096 | -4.956 |
| Central Allocation | 7.854 | 8.332 | 8.793 | 8.834 | 8.871 |
| Floor Damping | -0.490 | -0.189 | 0.302 | 0.173 | 0.036 |
| **Formula Grant** | **8.627** | **9.161** | **9.322** | **9.368** | **9.415** |

23. The draft figures shown above represent a poor settlement for the Council and give grant increases of only 1% (against the adjusted 07-08 figure) for 2008-09 and only 0.5% for 2009-10 and 2010-11. This seems odd given the sizeable grant increase seen under this system for 2006-07 and 2007-08.

| | 2006-07 £m | 2007-08 £m | 2008-09 £m | 2009-10 £m | 2010-11 £m |
|---|---|---|---|---|---|
| Formula Grant (adjusted) | 8.627 | 9.161 (9.229) | 9.322 | 9.368 | 9.415 |
| Increase £ | 0.711 | 0.534 | 0.093 | 0.046 | 0.047 |
| Increase % | 9.0% | 6.2% | 1.0% | 0.5% | 0.5% |

24. The introduction of the four block system saw the Council change from receiving floor support of £412,000 to loosing £490,000 to support the floor for others. It had been hoped that the move away from the floor would last longer than two years. However, the benefit of the previous large increase has not been lost, as this has provided the base that the floor increase of 1% has been added to.

**The 2008-09 General Fund Budget:**

25. Whilst the position on many issues is clearer now than it was when the Financial Issues Paper was written there are still significant risks and uncertainties for 2008-09. The effects of the new national concessionary fares scheme will not become clear until at least half way through 2008-09. A prudent view has been taken on the costs of the scheme as the level of costs predicted by MCL (the consultants to the current countywide scheme) has been matched to the CSB budget. The additional funding provided by specific grant has been treated as a DDF item and provides some comfort against the costs exceeding the MCL estimate.

26. The recent substantial increases in utility prices and the potential for higher than budgeted wage settlements are also areas of concern. In view of these concerns and the general fear of a worsening economic position a contingency of £175,000 has been included in the estimates which will be available to members to allocate as and when necessary to cover unforeseen expenditure.

27. The other major area of uncertainty still pending clarification is whether the DCLG will provide a capitalisation direction to cover the pension deficit payments for 2007-08, and subsequent years. A full capitalisation direction was obtained for 2005-06 but a direction covering only 57% of the costs was given for 2006-07. It is necessary to apply for each year separately, and now as well as considering whether individual applications meet the criteria (Gate 1) the national economic impact of all applications (Gate 2) is also considered. A notice of full Gate 1 Approval has been issued but the amount given Gate 2 Approval will not be notified until 31 January 2008.

28. The starting point for the budget is the attached Medium Term Financial Strategy, Annex 12. Annexes 12a and 12b are based on the current draft budget, a Council Tax increase of 2.5% (£143.01 Band D) for 2008-09 and subsequent increases of 2.5% per annum for each of the following three years in accordance with the strategy of keeping Council Tax increases in line with the RPI.

29. Members are reminded that this strategy is based on a number of important assumptions, including the following:

- Future Government funding beyond the current CSR (for which the grant increases are known) will increase at a rate of 1% per annum;
- CSB growth has been restricted but slightly exceeds the CSB target for 2008-09 of £16.8 million. Known growth beyond 2008-09 has been included but will be subject to a further review to help identify savings;
- All known DDF items are budgeted for, and because of the size of the LDF programme the closing balance at the end of 2011-12 is anticipated to be only £69,000.

- Maintaining revenue balances of at least 25% of NBR. The forecast shows that the deficit budgets in the final three years of the period will reduce the closing balances at the end of 2011-12 to £6.1m or 34% of NBR for 2011-12, although this can only be done with further savings of £200,000 per annum from 2009-10 to 2011-12.

**The Capital Programme:**

30. The Capital Programme at Annex 14 shows the expenditure previously agreed by Cabinet and approved as part of the Capital Strategy by Council on 18 December 2007. Late additional capital items include £25,000 for works to the main lift at the Civic Offices and £23,000 as part of the Safer, Cleaner, Greener initiative. As stated earlier, Cabinet is still to consider a report on this initiative but the costs have been included at this stage to give the most complete picture of the budgetary position.

31. No significant new items have been included in the capital programme for some time. Members have stated that in future priority will be given to capital schemes that will generate revenue in subsequent periods. This position was stated in the previous Capital Strategy and has been reinforced by the increasing awareness that capital spending reduces investment balances and thus impacts on the general fund revenue balance through lower interest earnings.

32. Annex 14d sets out the estimated position on capital receipts for the next four years. Members will note that even with a substantial capital programme, which exceeds £50m over five years, it is anticipated that the Authority will still have £17.3m of usable capital receipt balances at the end of the period. It is anticipated that further disposals of surplus land will take place during 2008-09. Although in line with normal practice no account will be taken of any disposal proceeds until the deals are completed.

**The Housing Revenue Account:**

33. The balance on the HRA at 31 March 2009 is expected to be £5.9m, as shown in Annex 13a, after a surplus of £681,000 in 2007-08 and a deficit of £404,000 in 2008-09. A significant factor in the change from surplus to deficit has been the increase in subsidy payable to the Government, which has gone up £2m to £10.8m for 2008-09.

34. The rent increase is set with reference to an individual property's formula rent but subject to various constraints. This process is referred to as Rent Restructuring and was introduced to bring Council rents and Housing Association rents more in line with each other. This process has now been extended with the date for convergence moving from 2012-13 to 2016-17. Rent Restructuring is not mandatory however it is recommended as best practice and forms part of the Council's existing Rents Strategy. The actual average rent increase for 2008-09 is expected to be 5%.

35. An update to the current five-year forecast is being prepared and will be presented to a subsequent Cabinet. The HRA has had substantial balances for some time and this position is not expected to change in the short term.

36. Annex 13b shows the estimated balances for the Housing Repairs Fund and Annex 13c the same for the Major Repairs Reserve. Members are recommended to agree the budgets for 2008-09 and 2007-08 revised and to note that although a deficit budget is proposed for 2008-09 the HRA has substantial ongoing balances.

**Risk Assessment and the Level of Balances:**

37. The Local Government Act 2003 (s 25) introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2008-09.

Where this advice is not accepted, this should be formally recorded within the minutes of the Council meeting. The Council at its meeting on the 19 February will consider the recommendations of the Cabinet on the budget for 2008-09 and will determine the planned level of the Council's balances. Members will consider the report of the CFO as set out at Annex 15 at that meeting.

**The Prudential Indicators and Treasury Management Strategy 2008-09:**

38. Since 2004-05 it has been necessary to set affordable borrowing limits, limits for the prudential indicators and a Treasury Management Strategy. These elements of the budget requirements are set out in a separate report as Annex 16.

39. Members approved a Treasury Management Strategy on 19 February 2004, which has been updated and amended on annual basis to give additional flexibility in dealing with increased investment balances, resulting from land sales. Investment balances have increased substantially and, as part of the 2007-08 budget, the limit on funds invested for over 364 days was raised from £15m to £30m and the maximum amount to be invested with higher rated counter parties was increased from £8m to £12m.

40. No further increases to the limits set out in the Treasury Management Strategy are currently proposed. Indeed given the current instability in money markets a more prudent approach is being taken to counter parties and some foreign banks are no longer being dealt with even though they satisfy the credit rating requirements. This may lead to some reduction in interest earnings but the first priority is to safeguard the Council's investment funds.

**Other Options for Action:**

41. Contained in the report

**Consultation Undertaken:**

42. Overview and Scrutiny Committees currently being consulted.

**Resource implications:**

**Budget provision:** As per report.
**Personnel:** As per report.
**Land:** As per report.

**Community Plan/BVPP reference:** Various.
**Relevant statutory powers:** Various.

**Background papers:** Local Government Finance Report.
**Environmental/Human Rights Act/Crime and Disorder Act Implications:** None.
**Key Decision reference:** Council Budgets 2008-09.