

# Report to the Council

Committee: Cabinet

Date: 19 February 2008

Portfolio Holder: Councillor C Whitbread

Item: 10 (b)

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## 1. BUDGETS AND COUNCIL TAX DECLARATION 2008/09

Recommending:

Budget

- (1) That the list of CSB growth for the 2008/09 budget (set out in Annex 1) be approved;
- (2) That the list of District Development Fund items for the 2008/09 budget (set out in Annex 2) be approved;
- (3) That the revenue estimates for 2008/09 and the draft Capital Programme for 2008/09 be approved as set out in Annexes 3, 4 (a-j) and 5 including all contributions to and from reserves as set out in the attached Annexes;
- (4) That the medium term financial forecast be approved as set out in Annexes 8a and 8b;
- (5) That the 2008/09 HRA budget be approved and that the application of rent increases and decreases in accordance with the Government's rent reforms and the Council's approved rent strategy, resulting in an average increase of 6.7% from £68.09 to £72.67, be approved.

Declaration of Council Tax

(6) That it be noted that on 12 November 2007, the Finance, Performance Management and Corporate Support Services Portfolio Holder in consultation with the Chairman of the Overview and Scrutiny Committee calculated the following amounts for the year 2008/09 in accordance with regulations made under Section 33(5) and 34(4) of the Local Government Finance Act 1992:

(a) 54,017.3 being the amount calculated by the Council in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 as the Council Tax Base for the year;

(b) Part of the Council's Area	Tax Base
Essex County Council (General Expenses)	54,017.3
Essex Police Authority	54,017.3
Essex Fire Authority	54,017.3
Epping Forest District Council (General Expenses)	54,017.3
Abbess, Beauchamp & Berners Roding	202.7
Buckhurst Hill	5,230.1
Chigwell	5,942.0
Epping Town	5,026.9

Epping Upland	404.5
Fyfield	412.2
High Ongar	557.8
Lambourne	942.1
Loughton Town	12,812.1
Matching	318.9
Moreton, Bobbingworth and The Lavers	660.1
Nazeing	2,099.7
North Weald Bassett	2,552.2
Ongar	2,757.3
Roydon	1,307.5
Sheering	1,370.1
Stanford Rivers	358.3
Stapleford Abbotts	494.5
Stapleford Tawney	56.5
Theydon Bois	1,978.3
Theydon Garnon	66.3
Theydon Mount	109.4
Waltham Abbey Town	8,112.2
Willingale	245.6

being the amounts calculated by the Council in accordance with Regulation 6 of the Regulations as the amounts of the Council Tax Base for the year for dwellings in those parts of the area to which one or more special items relate;

(7) That the following amounts be now calculated for the year 2008/09 in accordance with sections 32 to 36 of the Local Government Finance Act 1992:

- (a) £104,621,024 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(2) (a) - (e) of the Act;
- (b) £84,744,169 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(3) (a) - (c) of the Act;
- (c) £19,876,855 being the amount by which the aggregate at (a) above exceeds the aggregate at (b) calculated by the Council in accordance with Section 32(4) of the Act as its budget requirement for the year;
- (d) £9,321,680 being the aggregate of the sums which the Council estimates will be payable for the year into its General Fund in respect of redistributed Non Domestic Rates and Revenue Support Grant and increased by the amount the Council estimates will be transferred in the year from its Collection Fund to the General Fund in accordance with Section 97(3) of the Local Government Finance Act 1988 and the amount which the Council estimates will be transferred from the Collection Fund to the General Fund pursuant to the Collection Fund (Community Charges) (England) Directions 1994 made under Section 98(4) of the Local Government Finance Act 1988;
- (e) £195.40 being the amount at (c) above, less the amount at (d) above, all divided by the amount at (6)(a) above, calculated by the Council in accordance with Section 33(1) of the Act as the basic amount of its Council Tax for the year;
- (f) £2,830,204 being the aggregate amount of all special items referred to in Section 34(1) of the Act;
- (g) £143.01 being the amount at (e) above, less the result given by dividing the amount at (f) above by the amount of (6)(a) above, calculated by the

Council in accordance with Section 34(2) of the Act as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no special item relates;

<b>(h) Part of the Council's Area</b>	<b>Amount £</b>
Abess, Beauchamp & Berners Roding	167.68
Buckhurst Hill	208.97
Chigwell	177.36
Epping Town	214.62
Epping Upland	170.60
Fyfield	168.24
High Ongar	164.99
Lambourne	173.79
Loughton Town	190.86
Matching	168.72
Moreton, Bobbingworth and The Lavers	159.67
Nazeing	181.08
North Weald Bassett	188.99
Ongar	200.00
Roydon	163.99
Sheering	162.24
Stanford Rivers	171.48
Stapleford Abbotts	154.70
Stapleford Tawney	166.02
Theydon Bois	174.32
Theydon Garnon	157.53
Theydon Mount	156.79
Waltham Abbey Town	232.66
Willingale	158.89

being the amounts given by adding to the amount at (7)(g) above the amounts of the special item or items relating to dwellings in those parts of the Council's area mentioned above divided in each case by the amount at (6)(b) above, calculated by the Council in accordance with Section 34(3) of the Act as the basic amounts of its Council Tax for the year for dwellings in those parts of its area to which one or more special items relate;

(i) the amounts shown in Annex 6 to this report, being the amounts given by multiplying the amounts at (7)(h) above by the number which is the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band, divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council in accordance with Section 36(1) of the Act as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands;

(8) That it be noted that for the year 2008/09 the major precepting authorities have stated that the amounts shown in Annex 7 Part A (tabled) are the precepts issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each of the categories of dwellings shown;

(9) That, having calculated the aggregate in each case of the amounts at (7)(i) and (8) above, the Council in accordance with Section 30(2) of the Local Government Finance Act 1992 hereby sets the amounts in Annex 7 Part B (tabled) as the amounts of Council Tax for the year 2008/09 for each of the categories of dwellings shown;

**(10) That the Council's policy of retaining revenue balances at no lower than £3.7M or 25% of the net budget requirement whichever is the higher for the four year period to 2010/11 be amended to no lower than £4.0M or 25% of the net budget requirement whichever is the higher during the four year period up to and including 2011/12;**

**(11) That the recommendations included in the report on the Prudential Indicators and the Treasury Management Strategy for 2008/09 (set out in Annex 9) be approved; and**

**(12) That the report of the Chief Financial Officer on the robustness of the estimates for the purposes of the Council's 2008/09 budgets and the adequacy of the reserves (see Annex 10) be noted.**

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### **General Fund Budget Guidelines**

1. The annual budget process commenced with the Financial Issues Paper being presented to the 24 September 2007 meeting of the Finance and Performance Management Cabinet Committee. 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.
2. 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%.
3. 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.
4. 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.
5. The budget guidelines for 2008/09 were therefore established as:
  - i. The ceiling for CSB net expenditure be no more than £17.3m including net growth/savings.
  - ii. The ceiling for DDF net expenditure be no more than £186,000.
  - iii. The District Council Tax be increased by no more than the rate of increase in the Retail Prices Index.
6. 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 the Finance and Performance Management Cabinet Committee. The target for the Council Tax increase was unchanged but the other guidelines were amended to:

- i. The ceiling for CSB net expenditure be no more than £16.8m including net growth/savings.
- ii. The ceiling for DDF net expenditure be no more than £1m.

### **The Current Position**

7. A review of the key budget areas is given below.

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

Annex 1 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.

The other significant item of CSB growth is £250,000 for the safer, cleaner and greener initiative. This initiative was considered and approved by Cabinet on 4 February.

Growth of £92,000 has been necessary for additional ongoing pension fund contributions. The 19 November 2007 meeting of the Finance and Performance Management Cabinet 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.

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.

The CSB total is £28,000 above the revised CSB target of £16.8m. However, Cabinet decided on 4 February that this was not significantly above the target and that a CSB total at £16.828m was acceptable.

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

The DDF net movement for 2008/09 is £1.078m, Annex 2 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.

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.

At £1.078m the DDF programme exceeds the target by £78,000. However, similarly to the position with CSB, this excess was not felt by Cabinet to be significant. All of the DDF items currently programmed to the end of 2011/12 can be funded from within existing DDF resources. 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.

**(c) The District Council Tax be increased by no more than the RPI% increase;**

For some time members have had a policy of restricting increases in Council Tax to less than the increase in the RPI. At the meeting of the Finance and Performance Management Cabinet Committee on 10 December 2007, Members decided that in view of the latest RPI figure being 4.2% the Council Tax increase should be 2.5%. Since then RPI has reduced to 4.0%, but it is not proposed to alter the 2.5% increase previously agreed.

**(d) That longer term guidelines covering the period to March 2012 provide for:**

**(i) 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;**

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.

**(ii) 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.**

The outturn for 2006/07 added £305,000 to reserves, and the revised estimates for 2007/08 anticipate a further increase of £114,000. This would leave the opening revenue reserve for 2008/09 at £6.875m and the estimates for 2008/09 show an additional increase of £218,000, which would take reserves above £7m. The Medium Term Financial Strategy at Annex 8 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**

8. 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.

	<b>2006/07</b> <b>£m</b>	<b>2007/08</b> <b>£m</b>	<b>2008/09</b> <b>£m</b>	<b>2009/10</b> <b>£m</b>	<b>2010/11</b> <b>£m</b>
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
<b>Formula Grant</b>	<b>8.627</b>	<b>9.161</b>	<b>9.322</b>	<b>9.368</b>	<b>9.415</b>

9. 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.

	<b>2006/07</b> <b>£m</b>	<b>2007/08</b> <b>£m</b>	<b>2008/09</b> <b>£m</b>	<b>2009/10</b> <b>£m</b>	<b>2010/11</b> <b>£m</b>
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%

10. The introduction of the four block system saw the Council change from receiving floor support of £412,000 to losing £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**

11. 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.
12. 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.
13. Another major area of uncertainty pending clarification was whether the DCLG would 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 2 Approval was issued on 31 January 2008, this was in line with the assumptions used in compiling the budget.
14. The starting point for the budget is the attached Medium Term Financial Strategy, Annex 8. Annexes 8a and 8b 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.

15. 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**

16. The Capital Programme at Annex 5 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 considered and approved a report on this initiative on 4 February.
17. 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.
18. Annex 8b 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**

19. The balance on the HRA at 31 March 2009 is expected to be £6.2m, after a surplus of £568,000 in 2007/08 and a deficit of £18,000 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.
20. 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. 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 6.7%.
21. 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.



22. The estimated balances for the Housing Repairs Fund and the Major Repairs Reserve at the end of 2008/09 are £3.33m and £3.31m respectively. 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**

23. The Local Government Act 2003 section 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. If this advice is not accepted, the reasons must be formally recorded within the minutes of the Council meeting. The report of the Chief Financial Officer is set out at Annex 10, Members will note the following conclusions:
- a. the estimates as presented are sufficiently robust for the purposes of the Council's overall budget for 2008/09; and
  - b. the reserves of the Council are adequate to cope with the financial risks the Council faces in 2008/09 but that spending needs to be kept under review and savings made in the medium term.

### **The Prudential Indicators and Treasury Management Strategy 2008/09**

24. 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 at Annex 9.
25. 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.
26. 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.

### **Council Tax**

27. The revenue and capital budgets of the various spending portfolios are set out in Annexes 4(a)-(j). Annex 3 summarises the overall budget for the Council for the General Fund and the HRA and is grossed up for the effects of local parish and town council precepts. Annex 5 summarises the Council's Capital Programme. The budget as submitted produces a District Council Tax (Band D) of £143.01 for 2008/09 (£139.50 for 2007/08), which represents a 2.5% increase. The average (Band D) Council Tax including local Parish/Town Council precepts will be £195.40 (£191.35 in 2007/08), which represents an approximate 2.1% increase.

## Council Tax Declaration

28. Under Recommendations (1) – (4) which include Annexes 1, 2, 3, 4(a)-(j) the Council will agree its budget for the next year. The Authority must then proceed to declare a Council Tax. The appropriate technical recommendations are set out in Recommendations (6) onwards. These follow the standard form of declaration recommended by the Local Government Association in consultation with the Secretary of State. They are designed to avoid the possibility of legal challenge to the declaration of the Council Tax.
29. The Council Tax bases for each band in each area of the District were approved by the Finance, Performance Management and Corporate Support Services Portfolio Holder in consultation with the Chairman of the Overview and Scrutiny Committee. These are reproduced in Recommendation (6)(b) and form part of the ensuing calculations. The amounts to be levied within the District in respect of Essex County Council, Essex Police Authority, Essex Fire Authority and Parish and Town Councils are notified to this Authority and are matters on which the District Council has no discretion.
30. However, the precepts of Parish and Town Councils are levied on the District Council and then taken into account in the General Fund. Details relating to the District Council precept together with the precepts in respect of Parish and Town Councils are set out in the recommendations and analysis in Annex 6.

## Guide to the Council Tax Calculation

31. The figures in Recommendation (7) draw on calculations contained within the report as follows:
  - 7(a)** is the total of the revenue expenditure items shown in Annex 3 summary of revenue including the total of the Parish/Town Council precepts;
  - 7(b)** is the total of the revenue income items shown in Annex 3;
  - 7(c)** is the difference between the revenue expenditure and income as shown in Annex 3 (in simple terms it represents the net budget requirement of the District Council plus Parish and Town Council precepts);
  - 7(d)** is the figure in Annex 3 for Exchequer support from the Government to the General Fund together with a transfer of surpluses from the Collection Fund;
  - 7(e)** is obtained by dividing 7(d) by the Council Tax Base; this represents the average Band 'D' Council Tax for the District and Parish/Town Councils only;
  - 7(f)** as shown in Annex 3 is the total of Parish/Town Council precepts; and
  - 7(g)** represents the equivalent of dividing 7(f) by the Council Tax Base, the resulting figure being deducted from the figure shown in 7(e); this provides the average Band 'D' Council Tax for the District Council only.
32. This process culminates in the figures shown in Annex 6, which are the Council Tax amounts for the District Council and the Parish/Town Councils for each valuation band for 2008/09. To these amounts are added Council Tax figures supplied by the major precepting authorities and which are further summarised as the total Council Tax due for each valuation band in Part B of Annex 7.
33. Annex 7 relating to the precepts of various parts of the District will be tabled at the meeting.