

**Report to the Finance and Performance
Management Cabinet Committee**



**Epping Forest
District Council**

**Report reference: FCC-024-2008/09.
Date of meeting: 26 January 2009.**

Portfolio: Finance and Performance Management.

Subject: Council Budgets 2009/10.

Responsible Officer: Bob Palmer (01992 564279).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) That the Cabinet Committee considers the Council's 2009/10 General Fund budgets and makes recommendations to the Cabinet meeting on the 2 February 2009 on adopting the following:

(a) the revised revenue estimates for 2008/09, which are anticipated to increase the General Fund balance by £525,000;

(b) an increase in the target for the 2009/10 CSB budget from £17.9m to £18.1m (including growth items);

(c) an increase in the target for the 2009/10 DDF net spend from £0.7m to £1.2m;

(d) an increase of 2.5% in the District Council Tax for a Band 'D' property to raise the charge from £143.01 to £146.61;

(e) the estimated reduction in General Fund balances in 2009/10 of £763,000;

(f) the four year capital programme 2009/10 – 2012/13;

(g) the Medium Term Financial Strategy 2009/10 – 2012/13;

(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 Cabinet Committee recommends to the Cabinet that the 2009/10 HRA budget including the revised revenue estimates for 2008/09 be agreed;

(3) That the Cabinet be requested to note that rent increases and decreases for 2009/10 are to be applied in accordance with the Government's rent reforms and the Council's approved rent strategy;

(4) That the Cabinet Committee recommends to the Cabinet that the established policy of capitalising deficiency payments to the pension fund is maintained, in accordance with the Capitalisation Direction request made to the Department for Communities and Local Government;

(5) That the Cabinet Committee considers the Council's Prudential Indicators and Treasury Management Strategy for 2009/10 and makes recommendations to the Cabinet accordingly; 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 2009/10 budgets and the adequacy of the reserves.

Executive Summary:

This report sets out the detailed recommendations for the Council's budget for 2009/10. The budget uses £0.8m of reserves but this is affordable and the Council's policy on the level of reserves can be maintained throughout the period of the Medium Term Financial Strategy. Over the course of the Medium Term Financial Strategy the budget will be brought back into balance.

The budget is based on the assumption that Council Tax will increase by 2.5% and that average Housing Revenue Account rents will increase by 4%.

Reasons for Proposed Decisions:

The decisions are necessary to assist Cabinet in determining the budget that will be placed before Council on 17 February 2009.

Other Options for Action:

Members could decide not to approve the recommended figures and instead specify which growth items they would like removed from the lists, or Members could ask for further items to be added.

Report:

1. On 2 February 2009 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 17 February 2009.

2. The annual budget process commenced with the Financial Issues Paper being presented to this committee on 22 September 2008. The paper was prepared against a background of a worsening economic situation and highlighted the uncertainties associated with:

- The "Credit Crunch" and reduced housing market activity;
- Taking forward Safer, Cleaner, Greener and Waste Management;
- Future provision of leisure facilities in Epping and Waltham Abbey;
- Pay disputes and utility costs;
- Need to obtain annual approval for capitalisation of pension deficit payments;
- Introduction of nationwide concessionary fares scheme; and
- Customer Services Transformation Programme.

3. There is now greater clarity on most of these issues, although this has been achieved very recently for some of the items. The key areas are revisited in subsequent paragraphs.

4. In setting the budget for the current year Members had anticipated adding £218,000 to general fund reserves. Despite the general fund balance already being above the established guideline of 25% of the Net Budget Requirement, it was felt prudent to maintain tight control over costs and further strengthen the Council's financial position.

5. The revised four year forecast presented with the Financial Issues Paper took into account all the additional costs known at that point but highlighted that in the areas of leisure and waste management it was clear that growth would be required but it was not possible at that time to calculate a meaningful figure. This projection showed a need to achieve savings

of £100,000 on the 2009/10 estimates and £200,000 per annum in future years to keep revenue balances above the target level at the end of 2011/12.

6. Members adopted this measured approach to reduce expenditure in a progressive and controlled manner. It was felt that a reduction was needed in the budget figures for 2009/10 as the first step in this process, followed by further savings in 2010/11.

7. The budget guidelines for 2009/10 were therefore established as:

(a) The ceiling for CSB net expenditure be no more than £17.6m including net growth/savings;

(b) The ceiling for DDF net expenditure be no more than £270,000; and

(c) The District Council Tax be increased by no more than 2.5%.

8. In view of the worsening economic climate and the clearer cost increases coming through on leisure and waste management and the slippage in the DDF programme, these guidelines were revised by the 8 December meeting of this 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 £17.9m including net growth/savings; and

(ii) The ceiling for DDF net expenditure be no more than £700,000.

The Current Position

9. The draft General Fund budget summaries are attached as annexes 1 to 10. The main year on year resource movements are highlighted in the CSB Growth and DDF lists, which are attached as Annexes 11 and 12. In terms of the guidelines, the position is set out below.

The ceiling for CSB net expenditure be no more than £17.9m including net growth

10. Annex 11 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 £217,000 for the reduction in interest earnings resulting from the substantial reductions seen in interest rates.

The "Credit Crunch" and Reduced Housing Market Activity

11. The annual reduction in income from Land Charges still appears likely to be £250,000. However, the original 50/50 split between CSB and DDF has been revisited and the £125,000 that had been included as CSB growth has been increased to £175,000. Income for Development Control is in line with the original estimates for 2008/09 and this is expected to be maintained. The ring-fenced Building Control Account has seen a reduction in income but this is being addressed through a reduction in the use of consultants and a fee increase of 8% is proposed for 2009/10.

12. Interest income has benefited in 2008/09 from market volatility and £264,000 of additional income is being credited to the DDF. Unfortunately this position changes significantly for future periods. At the time of writing the Financial Issues Paper the base rate had been stable at 5% for 6 months, however October saw a reduction to 4.5% followed by moves to 4% in November, 2% in December and 1.5% in January. Further falls are anticipated, so although the Council has some protection through having £15million of the investment portfolio on long term deals it has still been necessary to allow for more than £200,000 of growth due to reduced interest earnings in 2009/10. Additional growth is also included in subsequent periods as the long-term deals expire and base rates are not

anticipated to return to mid 2008/09 levels for some years.

Safer, Cleaner, Greener and Waste Management

13. The Safer, Cleaner, Greener initiative has taken time to implement and so some of the full year growth allowed for in 2008/09 has now slipped to 2009/10. The main growth under this heading now is in respect of the Waste Management Service. An external inspection of Waste Management further highlighted the need to re-examine collection methodologies and in particular how green and food waste are dealt with. The public have responded well to the provision of a green waste service but the popularity of the service created problems in terms of the volume of the material and the cost of the biodegradable sacks.

14. Following a detailed public consultation earlier in the year, the Council has worked in partnership with the contractors and Essex County Council to develop a solution. The solution was agreed by Cabinet on 19 January and despite assistance from the County with both CSB and capital funding a combination of CSB, DDF and capital funding is also required from this Council. To implement the solution £150,000 of CSB growth has been included in 2009/10 with a further £150,000 in 2010/11.

Leisure Facilities in Epping and Waltham Abbey

15. The Cabinet meeting on 15 December agreed the terms under which the contract with SLM for the management of the Epping sports centre could be extended. Overall the annual management charge made by SLM for operating the Council's leisure centres will increase by £140,000, with a quarter of the growth being in 2008/09 and the remainder in 2009/10.

16. It was also decided at that Cabinet meeting to withdraw from the joint use arrangement for the Waltham Abbey sports centre. A notice period of one year has to be observed and so only part of the saving from this will arise in 2009/10. The benefit of the full annual saving of £270,000 should be seen in 2010/11. A feasibility study is being commissioned to consider the possibility of expanding the facilities available at Waltham Abbey swimming pool.

Pay Disputes and Utility Costs

17. Following the industrial action earlier in the year, the pay award for 2008/09 is now progressing through the arbitration process. The estimates for both 2008/09 and 2009/10 allow for pay awards of 2.475%. As the salary estimate for 2008/09 is £19.7 million the overall estimates are quite sensitive to changes in pay award assumptions. For every 1% the pay award is above 2.475% the Council's pay bill will increase by nearly £200,000. This is one key area where uncertainty persists but the assumptions made are believed to be prudent.

18. Significant growth has also been necessary for utility costs and an additional £112,000 is split between CSB and DDF over 2008/09 and 2009/10. The split between CSB and DDF reflects advice from the Office for Government Commerce that wholesale energy prices have reduced considerably from their peak.

Capitalisation of Pension Deficit Payments

19. Capitalisation applications for 2008/09 for both the general fund (£662,000) and the housing revenue account (£311,000) have been submitted to the DCLG. The DCLG are maintaining their policy of not confirming the amount of capitalisation directions until the end of January, so this too remains an area of uncertainty.

Concessionary Fares

20. The new national scheme commenced on 1 April 2008 and there has been

widespread coverage of the overall extent of the underfunding of this scheme. In Essex the districts have negotiated with the bus operators to agree a reasonable settlement for 2008/09 and although there are appeals outstanding against the reimbursement for earlier years there are none for the current year. The Department for Transport have indicated that as part of the next Comprehensive Spending Review the responsibility for concessionary fares is likely to move to a county or regional basis. In anticipation of this change and to limit the financial risk to districts for the next two years, negotiations are underway to transfer responsibility for the scheme to Essex County Council.

Customer Services Transformation Programme

21. During the year a scrutiny panel has re-considered the CSTP and their recommendations are being made to Cabinet on 2 February. It is anticipated that there will be some CSB growth for additional resource to support the website, but that a further detailed feasibility study will be conducted before a CSTP is implemented. On that basis the CSTP remains in the Capital Programme but no changes have been made to either CSB or DDF budgets.

22. The General Fund summary at Annex 1 shows the CSB total is £174,000 above the CSB target of £17.9m. Whilst the CSB growth is above the target, this is partly offset by the level of the general fund reserve being higher than anticipated. If Members require a total closer to the £17.9m target it will be necessary to reduce or remove some of the items listed on Annex 11. However, Members may feel that in the current economic slowdown there is an opportunity to display community leadership and assist in stimulating the local economy.

The ceiling for DDF net expenditure be no more than £700,000

23. The DDF net movement for 2009/10 is £1.181m, Annex 12 lists all the DDF items in detail. The largest cost item is £432,000 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 £1.137m 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.

24. Other significant items of expenditure include £215,000 for waste management expenditure that will be necessary as part of the transition to the new collection methods. Remedial works to watercourses has a DDF budget in 2009/10 of £148,000, although this represents works that have been re-phased from earlier periods.

25. At £1.181m the DDF programme exceeds the target by £481,000. All of the DDF items currently programmed to the end of 2012/13 can be funded from within existing DDF resources. However, if Members require a total closer to the £700,000 target some items could be re-programmed from 2009/10 to later years. Recent experience has shown that there is usually substantial slippage on the DDF and so even if £1.181m 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)

26. 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 8 December 2008, Members amended this policy to one of increasing Council Tax by no more than 2.5%. The latest RPI figure is 3% so even if the policy had not been amended the proposed Council Tax increase of 2.5% would have been within that target.

That longer term guidelines covering the period to March 2013 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.

27. Current projections show this rule will not be breached by 2012/13, by which time reserves will have reduced to £6.475m and 25% of net budget requirement will be £4.53m.

(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.*

28. The outturn for 2007/08 added £701,000 to reserves, and the revised estimates for 2008/09 anticipate a further increase of £525,000. This would leave the opening revenue reserve for 2009/10 at just under £8 million and although the estimates for 2009/10 show a reduction of £763,000, reserves would still be above £7m. The Medium Term Financial Strategy at Annex 13 shows deficit budgets for the three years 2009/10 to 2011/12. The level of deficit peaks at £763,000 in 2009/10 and returns to break even in 2012/13, although this is achieved through CSB savings of £300,000 in each of the three years from 2010/11.

The Local Government Finance Settlement

29. The Government have indicated that the draft figures previously advised are unlikely to be amended. To remind Members of the three-year settlement and the background to it the information below has been repeated from the 2008/09 Council Tax setting report.

30. 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

31. 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%

32. 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 2009/10 General Fund Budget

33. 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 2009/10. The full effects of the recession have still to be seen and as well as impacting on many of the Council's revenue streams it is likely that additional demands will be placed on services such as benefits and homelessness. Despite the measures being taken at the national level many commentators are predicting a severe recession that may last some years. If this is the case then the allowances made for reductions in property related income and investment income might need to be increased.

34. 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 2008/09, and subsequent years. A full capitalisation direction was obtained for 2005/06 and 2007/08 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.

35. The starting point for the budget is the attached Medium Term Financial Strategy, Annex 13. Annexes 13a and 13b are based on the current draft budget, a Council Tax increase of 2.5% (£146.61 Band D) for 2009/10 and subsequent increases of 2.5% per annum for each of the following three years in accordance with the strategy of not increasing Council Tax by more than this amount.

36. 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 still exceeds the CSB target for 2009/10 of £17.9 million. Known growth beyond 2009/10 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 2012/13 is anticipated to reduce to £600,000.
- Maintaining revenue balances of at least 25% of NBR. The forecast shows that the deficit budgets for three years of the period will reduce the closing balances at the end of 2012/13 to £6.475m or 35% of NBR for 2012/13, although this can only be done with further savings of £300,000 per annum from 2010/11 to 2012/13.

The Capital Programme

37. The Capital Programme at Annex 15 shows the expenditure previously agreed by Cabinet and approved as part of the Capital Strategy by Council on 16 December 2008. Cabinet agreed a significant late additional capital item on 19 January with £1.9 million being added to the programme. This is to fund the implementation of the revised collection arrangements and £0.5 million of the total is being funded by Essex County Council.

38. 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.

39. Annex 15d 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 £53m over

five years, it is anticipated that the Authority will still have £11m of usable capital receipt balances at the end of the period. It is not anticipated that further disposals of surplus land will take place during 2009/10, or in the medium term until market conditions have improved.

The Housing Revenue Account

40. The balance on the HRA at 31 March 2010 is expected to be £5.8 million, as shown in Annex 14a, after deficits of £22,000 in 2008/09 and £388,000 in 2009/10. A significant factor in the worsening deficit has been the increase in subsidy payable to the Government, which has gone up £351,000 to £11.2 million for 2009/10.

41. The rent increase is set with reference to an individual property's formula rent but subject to various constraints. This process of Rent Restructuring to bring Council rents and Housing Association rents more in line with each other has been temporarily suspended. For 2009/10 greater discretion has been given to local authorities, although the Government has placed a limit of 7% on increases. The actual average rent increase for 2009/10 is expected to be 4%.

42. 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.

43. Annex 14b shows the estimated balances for the Housing Repairs Fund and Annex 14c the same for the Major Repairs Reserve. Members are recommended to agree the budgets for 2009/10 and 2008/09 revised and to note that although a deficit budget is proposed for 2009/10 the HRA has substantial ongoing balances.

Risk Assessment and the Level of Balances

44. 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 2009/10. 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 17 February will consider the recommendations of the Cabinet on the budget for 2009/10 and will determine the planned level of the Council's balances. Members will consider the report of the CFO as set out at Annex 16 at that meeting.

The Prudential Indicators and Treasury Management Strategy 2009/10

45. 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 17.

46. 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.

47. Given the current instability in money markets a more prudent approach is being taken to counter parties and some institutions are no longer being dealt with even though they satisfy the credit rating requirements. As part of this approach the maximum amount to be invested will be reduced to £10m and building societies without credit ratings will be removed from the counter party list. This may lead to some reduction in interest earnings but the first priority is to safeguard the Council's investment funds.

Resource Implications:

The report details proposed growth items and potential savings, the implications are set out above and will vary depending on the course of action decided by Members.

Legal and Governance Implications:

None.

Safer, Cleaner, Greener Implications:

Items related to the Safer, Cleaner, Greener initiative are included in the report.

Consultation Undertaken:

None.

Background Papers:

Financial Issues Paper – see agenda of 22 September 2008

Draft Growth List – see agenda of 17 November 2008

Draft General Fund Budget Summary – see agenda of 8 December 2008

Impact Assessments:

The Directorate proposing the growth will have considered the equalities impacts for each growth proposal.

The report sets out some of the key areas of financial risk to the authority. At this time the Council is well placed to meet such challenges, although if the necessary savings highlighted are not actively pursued problems will arise in the medium term.

If the Council is seen to be adding further to reserves in 2008/09 and then not allowing some additional spending in subsequent periods, criticism may arise for accumulating excessive balances.