Report to the Council

Committee:	**Cabinet**	**Date:**	**16 February 2010**
Portfolio Holder:	**Councillor C Whitbread**	**Item:**	**14**

BUDGETS AND COUNCIL TAX DECLARATION 2010/11

Recommending:

(1) That the list of CSB growth for the 2010/11 budget (set out in Annex 1) be approved;

(2) That the list of District Development Fund items for the 2010/11 budget (set out in Annex 2) be approved;

(3) That the revenue estimates for 2010/11 and the draft Capital Programme for 2010/11 be approved as set out in Annexes 3, 4 (a-i) 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 8 a and 8 b;

(5) That the 2010/11 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 2.4% from £74.81 to £76.61, be approved.

Declaration of Council Tax

(6) That it be noted that on 26 October 2009, the Finance and Economic Development Portfolio Holder in consultation with the Chairman of the Overview and Scrutiny Committee calculated the following amounts for the year 2010/11 in accordance with regulations made under Section 33(5) and 34(4) of the Local Government Finance Act 1992:

(a) 54,370.4 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)	**54,370.4**
Essex Police Authority	**54,370.4**
Essex Fire Authority	**54,370.4**
Epping Forest District Council (General Expenses)	**54,370.4**
Abbess, Beauchamp & Berners Roding	**201.8**
Buckhurst Hill	**5,288.1**
Chigwell	**5,998.6**
Epping Town	**5,025.8**
Epping Upland	**412.2**
Fyfield	**411.5**
High Ongar	**558.8**

Lambourne	**937.8**
Loughton Town	**12,928.4**
Matching	**330.5**
Moreton, Bobbingworth and The Lavers	**677.2**
Nazeing	**2,095.3**
North Weald Bassett	**2,578.3**
Ongar	**2,750.0**
Roydon	**1,324.2**
Sheering	**1,358.0**
Stanford Rivers	**369.6**
Stapleford Abbotts	**504.9**
Stapleford Tawney	**71.5**
Theydon Bois	**1,976.0**
Theydon Garnon	**61.9**
Theydon Mount	**108.9**
Waltham Abbey Town	**8,155.6**
Willingale	**245.5**

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 2010/11 in accordance with sections 32 to 36 of the Local Government Finance Act 1992:

(a) £113,112,324 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) £92,540,386 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) £20,571,938 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) £9,415,130 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) £205.20 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) £3,068,124 being the aggregate amount of all special items referred to in Section 34(1) of the Act;

(g) £148.77 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;

(h) Part of the Council's Area	Amount £
Abbess, Beauchamp & Berners Roding	176.02
Buckhurst Hill	218.02
Chigwell	184.43
Epping Town	230.35
Epping Upland	176.67
Fyfield	170.83
High Ongar	177.40
Lambourne	180.61
Loughton Town	197.95
Matching	178.47
Moreton, Bobbingworth and The Lavers	165.83
Nazeing	183.15
North Weald Bassett	200.05
Ongar	217.41
Roydon	170.32
Sheering	169.79
Stanford Rivers	176.37
Stapleford Abbotts	161.92
Stapleford Tawney	168.06
Theydon Bois	201.04
Theydon Garnon	164.44
Theydon Mount	162.61
Waltham Abbey Town	243.23
Willingale	167.10

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 2010/11 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 2010/11 for each of the categories of dwellings shown;

(10) That the Council's policy of retaining revenue balances at no lower than £4.0M or 25% of the net budget requirement whichever is the higher for the four year period to 2012/13 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 2013/14;

(11) That the recommendations included in the report on the Prudential Indicators and the Treasury Management Strategy for 2010/11 (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 2010/11 budgets and the adequacy of the reserves (see Annex 10) be noted.

General Fund Budget Guidelines

1. The annual budget process commenced with the Financial Issues Paper being presented to the Finance and Performance Management Cabinet Committee on 5 October 2009. The paper was prepared against the background of ongoing difficulties within the economy and highlighted the uncertainties associated with:

   a) Likely reductions in grant as part of the next Comprehensive Spending Review (CSR)
   b) Effects of the "Credit Crunch" and reduced activity in the housing market
   c) Using up of capital reserves on non-revenue generating assets
   d) Pay awards
   e) Next triennial pension valuation
   f) Capitalisation of pension deficit payments
   g) Changes to the statutory concessionary fares scheme
   h) Customer Services Transformation Programme

2. There is now greater clarity on some of these issues, but several of them will not be resolved for some time. The key areas are revisited in subsequent paragraphs.

3. In setting the budget for the current year Members had anticipated using £704,000 from the general fund reserves. It was felt that, given the strength of the Council's overall financial position, it was able to sustain a deficit budget to support the local economy and that net spending could be managed down over the medium term.

4. The revised four year forecast presented with the Financial Issues Paper took into account all the additional costs known at that point and highlighted the likely reduction in grant support of 10% over the next CSR period. This projection showed a need to achieve savings of £300,000 on the 2010/11 estimates, £600,000 in 2011/12, £400,000 in 2012/13 and £200,000 in 2013/14 to keep revenue balances above the target level at the end of 2013/14.

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 budget figures for 2010/11 as the first step in this process, followed by increased savings in 2011/12.

6. The budget guidelines for 2010/11 were therefore established as:

   i. The ceiling for CSB net expenditure be no more than £18.3m including net growth/savings.
   ii. The ceiling for DDF net expenditure be no more than £0.8m.
   iii. The District Council Tax be increased by no more than 2.5%.

7. In view of the stabilising of some of the income streams, the clearer cost and recycling credit increases on waste management and the slippage in the DDF programme,

these guidelines were revised by the 14 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 £18m including net growth/savings.
ii. The ceiling for DDF net expenditure be no more than £1.3m.

The Current Position

8. The draft General Fund budget summaries are attached as annexes 4a to 4i. The main year on year resource movements are highlighted in the CSB Growth and DDF lists, which are attached as Annexes 1 and 2. In terms of the guidelines, the position is set out below.

The ceiling for CSB net expenditure be no more than £18m including net growth;

9. 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 growth item for next year is £92,000 for the increase in employer's contributions for the pension fund, being the last of the annual 1% increases determined by the March 2007 triennial valuation.

Likely Reduction in Grant as part of the next CSR

10. This is one of the key areas which are still to be clarified and the extent of the reduction is unlikely to be confirmed until several months after the general election. Whoever is in power after the general election will have to significantly reduce public spending to achieve the necessary improvement in the state of the overall public finances. It has been well documented that the bail out of the financial sector and effective nationalising of some of the countries largest banks has put an unprecedented strain on the public finances. Every month as the Government borrowing figures are announced they establish new records and it is clear that the current position is not sustainable.

11. Whilst the banking sector has now stabilised it is likely to still be several years before a full return to private ownership is possible. This means solutions must be found in other areas and there are already suggestions that an incoming Government will need to cut big programmes such as identity cards and the replacement of Trident. However, the size of the problem makes it inevitable that local government will have to share some of the pain. Best estimates are that grant will fall 10% over the next CSR with the reduction in the first year likely to be 5%. This means in 2011/12 grant is likely to reduce by £471,000 and over the three year CSR grant support could fall by £1m.

The "Credit Crunch" and Reduced Housing Market Activity

12. The Council's CSB contains a number of income streams that have been adversely affected, to varying degrees, by the current state of the housing market. Recent surveys have been more positive, although while banks remain cautious with mortgage funding and developers wait for better rates of return any recovery in the housing market is likely to remain fragile.

13. The main areas of income related to the housing market are land charges, building control and development control. For 2009/10 land charges income had been estimated at £150,000, consistent with the actual of £146,000 for 2008/09 but a long way from the 2006/07 figure of £394,000. At the end of December the income achieved was ahead of the estimate and a full year figure of £170,000 may be achieved. Building Control fees are still well short of the estimate but officers are

confident that fees from major schemes will arrive before the year end to leave a shortfall of no more than £40,000. Development Control income will also fall short of the original estimate with the outturn likely to be closer to £550,000 than the £605,000 originally estimated.

14. It is worth noting that some of the Council's other income streams are doing well. The MOT income from Fleet Operations may exceed the estimate of £225,000 by £75,000. Total licensing income is also ahead of expectations and should exceed the estimate of £252,000 by £40,000.

15. Adjustments have been made to CSB income levels where the changes are thought to be ongoing and where it is more likely that a change will not be sustained the adjustment has been made to the DDF.

16. One beneficial effect of the "Credit Crunch" had been the higher interest rates in 2008/09 that banks have been prepared to pay to borrow from the Council. It was evident that this would not continue for long and so £334,000 of investment income was credited to the DDF in 2008/09 instead of the CSB. Investment income this year is behind the estimate as interest rates have fallen lower than anticipated and seem set to remain at 0.5% for months to come. The outturn is likely to be £400,000 short of the original estimate of £2.1m, although a large portion of this is credited to the HRA. The Medium Term Financial Strategy (MTFS) has taken a prudent view on future interest rate movements, based on advice from the Council's treasury management consultants.

Using up of Capital Reserves on Non-Revenue Generating Assets

17. In recent years the Capital Strategy has stressed the need for capital projects to be used to improve the Council's revenue position, either by saving costs or increasing revenues. This issue has also been recognised on the Council's Corporate Risk Register. Capital receipts generate investment income and so if they are used up on non-revenue generating assets there is a "double whammy" whereby the Council looses out on income and takes on additional costs.

18. The updated Capital Programme was approved by Council on 22 December and includes spending of £54.3m over five years. Of this spending, £40m is funded from revenue or grants but the remainder will reduce the balance of capital receipts from £24.3m to £9.9m. Further late additions to the programme have now reduced the predicted balance at 31 March 2014 to £8.7m. In view of this Members should carefully consider whether existing schemes are essential and any additional schemes should only be approved where there is a positive revenue contribution, after allowing for any loss of investment income.

Pay Awards

19. Negotiations for 2009/10 have again been protracted and have resulted in a settlement of 1.25% for the lowest paid staff (scale points 4 to 10) and 1% for most other staff (scale point 11 up to and including Assistant Directors). Directors and Chief Executives received no increase in 2009/10.

20. Against the backdrop of the negotiations it is worth considering this Council's pay bill and the effect that different levels of pay awards might have. The total salary estimate for 2009/10 is £20m; therefore for every 1% the pay award increases the Council's pay bill by £200,000. The annual pay bill is one of the key parts of the Council's overall estimates and so the assumptions made about pay awards are particularly significant. In the current economic climate with the overall public finances in a poor state it is difficult to envisage pay awards exceeding 1.5% for the foreseeable future. This is clearly the view of the employers who responded to a the union pay claim of 2.5% with a 0% offer.

Next Triennial Valuation of the Pension Scheme

21. Similarly to the ongoing level of grant support, this is an item which will not be clarified for some time. The last triennial valuation was undertaken as at 31 March 2007 and showed a significant improvement on the 2004 valuation. As at 31 March 2004 the scheme was only 71% funded (the value of the scheme's assets only covered 71.4% of the liabilities), by 2007 the funding level had improved to 81.2%. This meant that it was possible to reduce the amount of the deficit contributions but due to other factors, such as increasing life expectancy, it was necessary to increase the ongoing contribution rate from 10.1% for 2007/08 to 13.1% for 2010/11.

22. The rally in share prices mentioned in the Financial Issues Paper has reversed, with the FT100 share index having gone back from 5,500 to 5,100. This is concerning as this level is more than 10% below where the index was at the last scheme valuation date. As approximately 70% of the schemes assets are invested in shares, any further reduction in the index before 31 March 2010 will increase the overall deficit.

23. A number of changes have been made to the LGPS, with increased contribution rates for employees and a rising of the normal retirement age. Further options for reform are being examined and it is possible that in the long term the defined benefit scheme could be closed to new entrants or pensions could be based on average earnings instead of final salary.

Capitalisation of Pension Deficit Payments

24. Capitalisation directions for 2009/10 for both the general fund (£1,205,000) and the housing revenue account (£565,000) have been received from the DCLG.

National Concessionary Fares Scheme

25. The outcome from the Department for Transport consultation, reported to Cabinet on 4 January, is that the Council will lose £130,000 of the £241,000 special grant for concessionary fares that had been anticipated. A greater potential threat lies beyond 2010/11 with the removal of this function from districts and the associated re-working of the grant formula which could adversely impact on the Council's overall financial position. It is also worth reminding Members that not all of the appeals raised by the bus operators have been settled and further costs may still arise from these.

Customer Services Transformation Programme

26. It is still to be determined exactly what works will take place as part of this programme. No CSB or DDF amounts have been included for this initiative but some £1.3m of expenditure is still included in the capital programme. This has been re-scheduled with £837,000 moving to 2010/11 and £450,000 to 2011/12.

27. The CSB total is £79,000 above the CSB target of £18m. However, Cabinet decided on 1 February that this was not significantly above the target and that a CSB total of £18.079m was acceptable.

The ceiling for DDF net expenditure be no more than £1.3m;

28. The DDF net movement for 2010/11 is £1.358m, Annex 2 lists all the DDF items in detail. The largest cost item is £508,000 for the reduction in investment income followed by £400,000 for work on the Local Development Framework (LDF). The LDF is a substantial and unavoidable project and in 2009/10 and the subsequent two years DDF funding of £1.176m is 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.

29. As the government has decided not to extend the deferment regulations for the impairment of investments, and has refused the authority's application for a capitalisation direction, provision has been included within the DDF for an impairment of £375,000. This is based on the administrators latest base case prediction of an ultimate 85p in the £ dividend.

30. Other significant items of expenditure include £147,000 for the planned building maintenance programme. Allowance has also been made in the DDF for the reduction of £150,000 in special grant for concessionary fares mentioned above.

31. Officers are currently working with an international firm of accountants to examine the possibility of recovering VAT. This is using a model that the firm has developed through working with a number of authorities which has led to some substantial repayments. A prudent estimate of the income that will arise has been included at £375,000. The work is being conducted on a "no win no fee basis" so any costs will be funded from any VAT refund arising.

32. At £1.879m the DDF programme is £579,000 above the target for 2010/11, although this is off-set by the revised estimate for 2009/10 reducing by £375,000. The other significant late addition to the DDF programme is £135,000 for development reviews of some of the Council's property assets. Cabinet on 1 February decided to make the late amendments set out above and also that the overall programme was acceptable given that there is still estimated to be £156,000 available at 31 March 2014.

<u>The District Council Tax be increased by no more than 2.5%;</u>

33. At the meeting of the Finance & Performance Management Cabinet Committee on 25 January 2010, Members decided that a lower increase of 1.5% could be recommended for 2010/11. This was subsequently agreed by Cabinet for 2010/11, although the long term policy of not increasing the Council Tax by more than 2.5% remains throughout the rest of the Medium Term Financial Strategy.

<u>That longer term guidelines covering the period to March 2014 provide for:</u>

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;

34. Current projections show this rule will not be breached by 2013/14, by which time reserves will have reduced to £6.419m and 25% of net budget requirement will be £4.302m.

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.

35. The outturn for 2008/09 added £973,000 to reserves, whilst the revised estimates for 2009/10 anticipate a reduction of £837,000. This would leave the opening revenue reserve for 2010/11 at £7.4 million and although the estimates for 2010/11 show a reduction of £551,000, reserves would still be above £6.8m. The Medium Term Financial Strategy at Annex 8 shows deficit budgets for the three years 2010/11 to 2012/13. The level of deficit peaks at £837,000 in 2009/10 and returns to break even in 2013/14, although this is achieved through CSB savings of £600,000 in 2011/12, £400,000 in 2012/13 and £200,000 in 2013/14.

The Local Government Finance Settlement

36. The Government have confirmed that the draft figures previously advised will not be amended. To remind Members of the three-year settlement and the background to it the information below has been repeated from the 2009/10 Council Tax setting report.

37. 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 increased by only £7,000 for 2010/11 whilst the Relative Resource Amount (a negative amount to reflect the ability to raise income from Council Tax) has reduced by £140,000. This improvement of £147,000 is strengthened by an increase in the Central Allocation of £37,000 although most of this is then eliminated by a change in the net Floor Damping position of £137,000.

	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**

38. The figures shown above represent a poor CSR for the Council with 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%

39. 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 increases have been added to.

The 2010/11 General Fund Budget

40. The position on some issues is clearer than when the Financial Issues Paper was written but there are still significant risks and uncertainties for 2010/11. Signs of improvement in the economy are evident but weak and the gains seen so far may yet be reversed when Quantitative Easing finishes or if public spending is cut too soon or too far. The effects of the recession are clear and as well as impacting on many of the Council's revenue streams it is has placed additional demands on services such as benefits and homelessness. It is still possible that the country may fall back into a severe recession that may last some years. If this is the case then the adjustments made to property related income and investment income will need to be revised.

41. Another major area of uncertainty is how a new government will tackle the deficit in

the public finances and how much of any spending reductions will fall on district councils. The Medium Term Financial Strategy is based on a 10% reduction over the next CSR, this sees grant fall from £9.4m in 2010/11 to £8.5m in 2013/14. This represents a best guess and it is prudent to allow for such a reduction. The actual reduction will depend on the outcome of the election and the state of the economic recovery when the next government is working through their CSR.

42. 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 1.5% (£148.77 Band D) for 2010/11 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.

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

- Future Government funding over the next CSR will reduce by 10%.
- CSB growth has been restricted but still exceeds the CSB target for 2010/11 of £18 million. Known growth beyond 2010/11 has been included but will be subject to a further review to help identify savings.
- All known DDF items are budgeted for, and the closing balance at the end of 2013/14 is anticipated to reduce to £156,000.
- 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 2013/14 to £6.419m or 37% of NBR for 2013/14, although this can only be done with further substantial savings throughout the life of the strategy.

The Housing Revenue Account

44. The balance on the HRA at 31 March 2011 is expected to be £6.09 million, after deficits of £25,000 in 2009/10 and £7,000 in 2010/11. There are no significant variances worth highlighting at this time.

45. 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 still needs to be addressed. The rent increase for 2010/11 is likely to see a narrowing of this gap between Council and Housing Association rents, with an average rent increase of 2.4% for Council dwellings.

46. An update to the current five-year forecast is being prepared and will be presented to Cabinet in March 2010. The HRA has had substantial balances for some time and this position is not expected to change in the short term.

47. The estimated balances at 31 March 2011 for the Housing Repairs Fund and the Major Repairs Reserve are £4.1m and £4.9m respectively. Members are recommended to agree the budgets for 2010/11 and 2009/10 revised and to note that although a deficit budget is proposed for 2010/11 the HRA has substantial ongoing balances.

The Capital Programme

48. The Capital Programme at Annex 5 shows the expenditure previously agreed by Cabinet and approved as part of the Capital Strategy by Council on 22 December 2009. Cabinet on 1 February agreed a number of late additions to the programme, including £930,000 for leisure items and £545,000 to meet housing needs.

49. Members have stated that in future priority will be given to capital schemes that will generate revenue in subsequent periods. This position has been stated in previous

Capital Strategies 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.

50. 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 now exceeds £55m over five years, it is anticipated that the Authority will still have nearly £9m 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 2010/11, or in the medium term until market conditions have improved. However, it should be noted that officers are currently reviewing the development potential of a number of sites.

Risk Assessment and the Level of Balances

51. 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 2010/11. If this advice is not accepted, this should be formally recorded within the minutes of the Council meeting. The report of the Chief Finance Officer is set out at Annex 10, Members will note the following conclusions:

(i) the estimates as presented to the Council are sufficiently robust for the purposes of the Council's overall budget for 2010/11; and

(ii) the reserves of the Council are adequate to cope with the financial risks the Council faces in 2010/11 but that savings will be needed in subsequent years to bring the budget back into balance in the medium term.

The Prudential Indicators and Treasury Management Strategy 2010/11

52. 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 9.

53. Members approved a Treasury Management Strategy on 19 February 2004, which has been updated and amended on annual basis. Investment balances had 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.

54. Given the instability in money markets a more prudent approach was 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 was reduced to £10m and building societies without credit ratings were removed from the counter party list.

Council Tax

55. The revenue and capital budgets of the various spending portfolios are set out in Annexes 4(a)-(i). 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 £148.77 for 2010/11 (£146.61 for 2009/10), which represents a 1.5% increase. The average (Band D) Council Tax including local Parish/Town Council precepts will be £205.20 (£200.92 in 2009/10), which represents an approximate 2.1% increase.

Council Tax Declaration

56. Under Recommendations (1) – (4) which include Annexes 1, 2, 3, 4(a)-(i) 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.

57. The Council Tax bases for each band in each area of the District were approved by the Finance and Performance Management 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.

58. 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

59. 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.

60. 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 2010/11. 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.

61. Annex 7 relating to the precepts of various parts of the District will be tabled at the meeting.