INTRODUCTION AND EXPLANATORY FOREWORD

INTRODUCTION

Unfortunately 2004/05 was another year of significant change for the grant allocation system. The Government had introduced a new system from 2003/04 based on Formula Spending Shares (FSS) and it was hoped that this would be the start of a period of stability, and that Local Authorities would be able to plan for the future with more certainty. The settlement for 2004/05 involved major changes to the funding of Council Tax Benefit and Rent Allowances. These items are now funded 100% through special grant from the Department for Work and Pensions. The effect of this change had not been properly allowed for and the Chancellor of the Exchequer had to provide additional funding, the details of which were released on 11 December. These revised figures showed an increase of 3.05% in grant to £7.09m. However, this increase was calculated on an adjusted grant figure for 2003/04 of £6.88m (original grant figure £7.71m) and the validity of the assumptions made in calculating the adjusted figure are somewhat questionable.

The Financial Statements for 2004/05 are the second set to have been prepared to fully comply with the requirements of Financial Reporting Standard 17 (FRS17). A detailed account of the effect of the changes introduced by FRS17 was given last year. One point worth re-iterating is that in terms of the revenue account, that (in a similar way to capital charges) these entries are reversed so as to have a nil net effect on the level of council tax and housing rents. On the Balance Sheet authorities are now required to include their share of any pension fund surplus or deficiency. Note 21 (page 30) to the Consolidated Balance Sheet shows that the deficiency relating to this Council has increased from £24.7 million as at 31 March 2004 to £38.1 million as at 31 March 2005. In total this gives an increase of £13.4 million, although some £11 million of this was due to a change in the assumptions used by the actuary. The inclusion of this amount in the Balance Sheet shows the extent of the authorities liability if the pension fund was to close on 31 March 2005. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

Ongoing funding requirements are determined by triennial valuations, which aim to reduce deficiencies in the long term. The results of the March 2004 triennial valuation have been received and require our annual deficit contribution to more than double from £823,000 in 2004/05 to £1,674,659 in 2005/06, with further smaller increases in 2006/07 and 2007/08. In anticipation of this increase £2.5 million was moved to a Pension Deficit Reserve in the Financial Statements for 2003/04. This was done in order to minimise the effect of these additional contributions on the council tax. In order to charge the additional contributions to this capital reserve a capitalisation direction is required and I am pleased to report that it has been possible to obtain one from the Office of the Deputy Prime Minister for 2005/06.

Our debt free status has been rewarded in 2004/05, as debt free authorities have benefited from transitional relief from the Governments pooling requirements for capital receipts. This benefit was worth £3.2 million in 2004/05, but will reduce in subsequent years as the percentage eligible for relief reduces from 75% to 50% and finally 25% in the final year of the scheme in 2007/08.

The year-end position is generally better than was anticipated when the revised estimates were set. A predicted General Fund surplus of £453,000 has increased to £1,026,000, whilst, after allowing for increased contributions to capital outlay, the Housing Revenue Account has achieved a surplus some £368,000 better than the revised estimate. The next section provides more detail on both the revenue and capital outturn for the year.

SUMMARY OF OUTTURN

The following tables provide a summary review of net expenditure and financing for 2004/05.

General Fund

The table below summarises the revenue outturn for the General Fund and the consequential movement in balances for 2004/05.

General Fund	Original Estimate £000	Revised Estimate £000	Actual Expend £000	Variance from Original £000	Variance from Revised £000
Net Expenditure after Adjustments	**13,858**	**13,306**	**12,733**	**(1,125)**	**(573)**
Government Grants and Local Taxation	**13,759**	**13,759**	**13,759**	**-**	**-**
Use of/(Contribution to) Balances	**99**	**(453)**	**(1,026)**	**(1,125)**	**(573)**
Opening Balances – 1/4/04	**(4,462)**	**(4,462)**	**(4,462)**	**-**	**-**
Use of/(Contribution to) Balances	**99**	**(453)**	**(1,026)**	**(1,125)**	**(573)**
Closing Balances – 31/3/05	**(4,363)**	**(4,915)**	**(5,488)**	**(1,125)**	**(573)**

Net expenditure for 2004/05 totalled £12.73 million, which was £1,125,000 (8.1%) below the original estimate and £573,000 (4.3%) below the revised. When compared to a gross expenditure budget of approximately £60 million, the variances can be restated as 1.9% and 1.0% respectively.

An analysis of the changes between Continuing Services Budget (CSB) and District Development Fund (DDF) expenditure illustrates where the main variances in revenue expenditure have occurred.

General Fund	Original Estimate £000	Revised Estimate £000	Actual Expend £000	Variance from Original £000	Variance from Revised £000
Opening CSB	14,595	14,297	13,683	(912)	(614)
In Year Growth	578	389	141	(437)	(248)
In Year Savings	(1,422)	(1,427)	(1,248)	174	179
Total Continuing Services Budget	**13,751**	**13,259**	**12,576**	**(1,175)**	**(683)**
DDF – Expenditure	1,152	1,987	1,292	140	(695)
DDF – One Off Savings	(647)	(1,096)	(892)	(245)	204
Total DDF	**505**	**891**	**400**	**(105)**	**(491)**
Appropriations	**(398)**	**(844)**	**(243)**	**155**	**601**
Net Expenditure	**13,858**	**13,306**	**12,733**	**(1,125)**	**(573)**

Continuing Services Budget

CSB expenditure was £1,175,000 lower than the original estimate and £683,000 lower than the revised. The variances have arisen on both the opening CSB, £614,000 lower than the revised estimate and the in year figures, £69,000 lower than the revised estimate.

Most of the savings on the opening CSB relate to staff savings due to vacancies. Actual salary spending for the authority in total, including agency costs, was some £18.3 million compared against an original estimate of £19.4 million. There have been some offsetting variances, most notably Development Control Fees which fell some £90,000 short of expectations.

The saving on the in year CSB arose primarily from additional investment income, which was more than £300,000 greater than the revised estimate. This was offset by higher than anticipated spending on rent rebates (£152,000) and lower than anticipated income from Leisure (£86,000) and Local Land Charges (£76,000). Income in all of the three areas mentioned above will be closely monitored in 2005/06 to see if these results are part of a trend that future budgets need to be adjusted for.

District Development Fund

Net DDF expenditure was £105,000 below the original estimate and £491,000 below the revised. However given that there are requests for carry forwards totalling £479,000 the £491,000 variation actually equates to a £12,000 net underspend on the DDF items undertaken. These one-off projects are akin to capital, in that there is regular slippage and carry forward of budgetary provision. Therefore the only reasonable variance analysis that can be done is against the revised position.

The DDF increased between the Original and Revised position by some £386,000, this was due to a mixture of items brought forward from 2003/04 and new items identified during 2004/05. In previous years unspent DDF has simply been rolled forward into the next financial year but the programme was re-evaluated in 2004/05 in an attempt to show items in the years when expenditure was likely to be incurred.

The main area of underspend was Corporate Support Services where the actual spend was £134,000 compared to a revised estimate of £325,000, a net difference of £191,000. The major areas of slippage were Legal Services and ICT, in both services the cumulative underspend was £66,000. Other Portfolios also showed significant underspends most notably Finance and Performance Management and Planning and Economic Development.

Since the Revised Estimate an additional amount has been added to the DDF. An authority unable to offset its commutation adjustment against its minimum revenue provision can apply for a capitalisation direction. As a debt free authority we no longer make a minimum revenue provision and so a capitalisation direction has been sought for the whole of the commutation adjustment, confirmation of the direction is still awaited from the ODPM. No decision has been taken on future years commutation adjustments and as the capitalisation direction is still subject to confirmation, it is appropraite to treat this £346,000 as a one off sum and put it into the DDF.

The inclusion of the commutation adjustment and the large underspend mean the balance on the DDF has increased to £2.46 million. Much of this amount is committed to finance the present programme of DDF expenditure.

Appropriations

The only significant variations on appropriations arise from the underspend on the DDF and the inclusion of the amount for the commutation adjustment mentioned above.

Housing Revenue Account

The table below summarises the revenue outturn for the Housing Revenue Account.

Housing Revenue Account	Original Estimate £000	Revised Estimate £000	Actual Expend £000	Variance from Original £000	Variance from Revised £000
Revenue Expenditure	11,443	11,351	11,309	(134)	(42)
HRA Subsidy Payable	7,554	7,554	7,556	2	2
Asset Rentals	19,096	27,969	31,643	12,547	3,674
Total Expenditure	**38,093**	**46,874**	**50,508**	**12,415**	**3,634**
Gross Dwelling Rents	20,016	20,261	20,305	(289)	(44)
Other Rents and Charges	3,561	3,631	3,804	(243)	(173)
Total Income	**23,577**	**23,892**	**24,109**	**(532)**	**(217)**
Net Cost of Service	**14,516**	**22,982**	**26,399**	**11,883**	**3,417**
Interest and Other Transfers	1,137	1,147	1,086	51	61
Reversal of Asset Rentals	14,594	23,467	27,156	(12,562)	(3,689)
Net Operating Income	**(1,215)**	**(1,632)**	**(1,843)**	**(628)**	**(211)**
Appropriations					
Capital Expenditure Charged to Revenue	-	50	950	950	900
Other	110	(255)	(412)	(522)	(157)
Surplus for Year	**(1,105)**	**(1,837)**	**(1,305)**	**(200)**	**532**
Opening Balance – 1/4/04	(3,529)	(3,529)	(3,529)	-	-
Surplus for year	(1,105)	(1,837)	(1,305)	(200)	532
Closing Balance – 31/3/05	**(4,634)**	**(5,366)**	**(4,834)**	**(200)**	**532**

The surplus within the HRA was £200,000 greater than its original revenue budget, but some £532,000 less than the revised estimate. The main difference between the actual figures and the revised estimates was the additional £900,000 of Revenue Contribution to Capital Outlay (RCCO). This was necessary as the receipts generated from the sale of Council houses in 2004/05 were £1.3 million lower than anticipated. This additional revenue cost was partially offset by savings on heating, grounds maintenance and salaries.

The asset rentals charged to the HRA and the associated "below the line" reversal are based on the value of the dwellings and as a result any change in dwelling values has a direct impact on these charges. The actual charge was some £12.5 million higher than the original estimate, however as can be seen above the variation has no net impact on the HRA.

Housing Subsidy is now a payable rather than a receivable item. However, the variance on subsidy this year between original, revised and actual was minimal.

Dwelling rents were higher than anticipated due to low void levels and the reducing number of Council house sales. Other rents and charges also exceeded estimates, due mostly to increased commercial property rents.

Capital Outturn

The table below summarises the capital expenditure outturn and its financing for 2004/05.

Capital Expenditure and Financing	Original Estimate £000	Revised Estimate £000	Actual Expend £000	Variance from Original £000	Variance from Revised £000
Non-Housing	2,523	2,611	1,211	(1,312)	(1,400)
Housing	4,778	9,922	9,631	4,853	(291)
Total Expenditure	**7,301**	**12,533**	**10,842**	**3,541**	**(1,691)**
Grants	940	820	451	(489)	(369)
Capital Receipts	5,562	6,511	3,704	(1,858)	(2,807)
Revenue Contributions	1,156	5,024	7,584	6,428	2,560
Net Movement in Creditors	(357)	178	(897)	(540)	(1,075)
Total Financing	**7,301**	**12,533**	**10,842**	**3,541**	**(1,691)**

The table identifies a net underspend of £1,691,000, some of which has been established as genuine savings. However, the majority represents slippage and expenditure has therefore currently been re-phased into 2005/06. The main areas of slippage relate to ICT, Loughton Leisure Centre and traffic schemes.

The reduction in the generation of capital resources through the sale of Council Houses was mentioned in the HRA section above. Receipts of £5.5 million were £1.3 million lower than anticipated with 61 sales at an average discounted value of £89,700. This compares to the 2003/04 figure of gross receipts totalling £11.35 million from 139 properties. Other receipts were in line with expectations.

THE FUTURE

The Government has promised further significant changes to the funding system, with all local authorities receiving three-year budgets from April 2006. This should help provide more certainty for financial planning. However, more information is still awaited on both the system of floors and ceilings and the balance of funding review. Currently floors and ceilings are used to prevent authorities grant either increasing or decreasing significantly in any one year. The Government has stated that this system is not sustainable in the long term but has not indicated how it will be phased out. Withdrawal of the floor could cost this authority as much as £400,000 p.a.

Unfortunately the Government's Balance of Funding review achieved very little. The review concluded that:

"A shift in the balance of central and local funding of local government would give local authorities more funding flexibility by reducing the impact of the gearing problem on their decisions about council tax levels."

However, the Government was not prepared to take any action on this and instead appointed Sir Michael Lyons to conduct another review which is due to report by the end of 2005. The schemes under consideration still include reforming the Council Tax, returning National Non-Domestic Rates to local control and the introduction of a local income tax. It is hoped that some action will result from the Lyons Inquiry to address the gearing effect, which the Government has acknowledged as clouding the accountability and transparency of local spending decisions.

The Council is in a very challenging period, as 2005/06 will see the loss of the Highways Agency to Essex County Council and four leisure centres may come under external management. This creates challenges for both the staff involved and those trying to plan the Council's finances. A significant new financial threat appeared in the Chancellor's budget statement on 16 March 2005. The minimum requirements under the Transport Act 2000 will be increased from 1 April 2006 so that older and disabled people will be able to travel free in their local areas, instead of at half fare. Detail is still awaited from the ODPM on how the funding mechanism for this change will work and in particular the extent of protection for floor authorities. One area of uncertainty that has now been resolved is future insurance premiums, as a new long-term agreement has been entered into.

Given the uncertainties above it is clear that although the General Fund revenue balances are higher than was anticipated they still need to be carefully managed to safeguard the future of the Council. Consuming balances has the effect of reducing income generated by their investment and the withdrawal of their usage as a subsidy, has the effect of increasing council tax. This is a process that Members have managed extremely carefully to date. Members have regularly considered what is an appropriate level of balance at which to stabilise. The current policy stipulates that the balances should not go below 25% of net budget requirement. This would allow the balances to fall to approximately £3.85m if budget projections are to increase in line with expectations: the net budget requirement is expected to have reached £15.4m by 2008/09. The current balance stands at just under £5.5 million.

An updated five-year forecast for the Housing Revenue Account is currently being prepared. It is anticipated that even after allowing for substantial Revenue Contributions to Capital Outlay from 2005/06 to 2009/10 the HRA will still have a healthy balance at 1 April 2010. The capital programme for the HRA has been adjusted to reflect the reduced levels of Council house sales, and hence the reduced level of transitional receipts available. Under the pooling arrangements, in place from 1 April 2004, for housing capital receipts debt free authorities have the benefit of transitional arrangements for three years. These transitional arrangements now look likely to provide an additional £5.5 million over the three years 2004/05 to 2006/07, as opposed to the £8.9 million that had been originally forecast. There is still a considerable capital programme for the HRA and the next four years will see a spend of £26 million. It is anticipated that the financial strength of the HRA should allow the Decent Homes Standard to be achieved ahead of the Government target of 2010. This supports the decision by Members that retention was the most appropriate stock option.

The four-year programme of non-housing capital investment totals £12.6 million. Civil Engineering and Maintenance has the largest programme, with some £5.3 million being spent. The Loughton Leisure Centre final account should be agreed in 2005/06 and £1.4 million has been allowed for this. The other major projects in the programme include IT investment of £2 million and Bobbingworth Tip, which has over £900,000 allocated.

The Council continues to produce a four-year revenue and capital financial plan for both its General Fund and Housing Revenue Accounts. This enables the Members to set an annual budget within clear parameters set for the medium term. This process has served us well in the past and continues to ensure the Council remains in a sound financial position well placed to deal with the unforeseen in a considered and structured fashion.

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