Report to the Cabinet

Report reference: C/108/2006-07.
Date of meeting: 5 February 2007.

Epping Forest District Council

Portfolio: **Finance, Performance Management and Corporate Support Services.**

Subject: **Council Budgets 2007/08.**

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Recommendations/Decisions Required:

(1) To consider the Council's 2007/08 General Fund budgets and make recommendations to the Council on the following:

(a) the revised revenue estimates for 2006/07;
(b) the draft CSB budgets for 2007/08 (excluding growth items);
(c) the draft CSB growth items list;
(d) the draft DDF items list;
(e) the District Council Tax for a Band 'D' property;
(f) the estimated use of surplus General Fund balances;
(g) the four year capital programme 2007/08 – 10/11;
(h) the four year financial forecast 2007/08 - 10/11; and
(i) the Council's future policy on the maintenance of General Fund Revenue Balances;

(2) To recommend to the Council that the 2007/08 HRA budget including the revised revenue estimates for 2006/07 be agreed;

(3) That the Council be requested to note that rent increases and decreases for 2007/08 are to be applied in accordance with the Government's rent reforms and the Council's approved rent strategy;

(4) To recommend to the Council that the increase in deficiency payments to the pension fund be again capitalised in accordance with the Capitalisation Direction request made to the Department for Communities and Local Government, with these payments funded from the Pension Fund Capital Reserve that was established with the transfer of £2.5m from the Usable Capital Receipts Account;

(5) To consider the Council's Prudential Indicators and Treasury Management Strategy for 2007/08 and make recommendations to the Council; and

(6) That the Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2007/08 budgets and the adequacy of the reserves be noted.

The Finance and Performance Management Scrutiny Panel, at its meeting on 15 January 2007, endorsed the draft Portfolio Holder Budgets, the revised four-year forecast and that the increase in District Council Tax should be no more than the rate of increase in the Retail Price Index.

The Panel also felt that the Waste Management Budget and the Council's Reserves should be closely monitored for the next three financial years.

The annexes referred to in this report were attached to the agenda for the meeting of the Finance and Performance Management Cabinet Committee on 29 January 2007, which members are requested to bring with them to the meeting. Further copies of the annexes can be obtained from either the Head of Finance or Democratic Services.

Introduction:

1. This meeting will receive the minutes and recommendations contained therein of the 29 January meeting of the Finance and Performance Management Cabinet Committee and will then make recommendations to Council for the setting of the Council Tax and budget on 20 February 2007.

2. The annual budget process commenced with the Financial Issues Paper being presented to the 25 September 2006 meeting of the Finance and Performance Management Cabinet Committee. The paper set out the very different financial position that the Council was in after South Herts. Waste Management had been placed in administration by their bankers. In setting the budget for the current year Members had approved a four-year forecast including £1 million of unidentified CSB growth in 2007/08, in order to restrict excessive growth in balances. Recent years have seen substantial increases in the general fund balance (2003/04 £323k, 2004/05 £1.026m and 2005/06 £968k) such that as at 31 March 2006 it was £6.456 million. This represented 41% of the Net Budget Requirement for 2006/07 and was far 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 the £2.33 million of supplementary estimates approved for waste management and consequently illustrated a very different position. It was clear that unless steps were taken within the four-year period to reduce expenditure there was a danger that all of the revenue balances could have been spent by the end of 2010/11.

4. Members decided that in view of the current strength of reserves it was possible to take a measured approach and look to reduce expenditure in a progressive and controlled manner. It was felt that a reduction was needed in the budget figures for 2007/08 as the first step in this process.

5. The budget guidelines were therefore established as:

- The ceiling for CSB net expenditure be no more than £17m including net growth/savings;
- No ceiling for DDF net expenditure, but all items in the programme were to be reviewed; and
- The District Council Tax be increased by no more than the rate of increase in the Retail Prices Index.

The Current Position:

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

(a) The ceiling for CSB net expenditure be no more than £17m including net growth:

7. 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 £113,000 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 coming to an end over the next couple of years and so the loss of income must be reflected as CSB growth.

8. The other significant item of CSB growth is £59,000 for higher energy costs. This amount is spread across the Portfolios, with the largest single amount being £44,000 in Finance, Performance Management and Corporate Support Services.

9. No CSB growth has been built into the budgets for the Customer Services Transformation Programme (CSTP). Given the uncertainty over future waste costs Members have decided not to progress this initiative at this time.

10. CSB savings fall into two categories. The first group comprises savings from cost reductions and procurement efficiencies. There are two main items in this group, firstly a £38,000 saving following an e-auction for computer hardware, which has resulted in savings of upto 40% on new computer equipment. Secondly, a saving of £35,000 following the re-letting of the Council's mobile phone contract.

11. The other category of CSB savings covers the areas where income has been increased. The most significant increase in income is the additional £50,000 that the Council should receive from SLM, under the terms of the income share agreement. This is due to the level of income from the leisure centres exceeding the amount included by SLM in their tender.

(b) That DDF expenditure be reviewed:

12. The DDF net movement for 2007/08 is £559,000, Annex 12 lists all the DDF items in detail. Net expenditure is £876,000, which is offset by transfers in of £317,000. The largest cost item is £199,000 for works to principal ordinary watercourses, although £100,000 of this has been re-scheduled from 2006/07. The highest spending portfolio is Planning and Economic Development, which is budgeted to spend £349,000 of DDF in 2007/08. Most of this expenditure is either on the local plan amendments, £160,000, or the clear up of the Paynes Lane site, £122,000. The transfers in are £117,000 of reimbursement of residual costs of highways from Essex County Council and £200,000 for the Local Authority Business Growth Incentive Scheme.

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

13. Last year members adopted a policy of restricting increases in Council Tax to less than the increase in the RPI. At the meeting of this committee on 11 December 2006, Members decided that in view of the latest RPI figure being 3.7% the Council Tax increase should be 3.5%. Since then RPI has increased to 4.4%, but it is not proposed to go above the 3.5% increase previously agreed.

(d) That longer term guidelines covering the period to March 2011 provide for:

(i) The level of General Fund revenue balances to be maintained within a range of approximately £3.5m to £4.0m but at no lower level than 25% of net budget requirement whichever is the higher.

14. Current projections show this rule will be breached by 2010/11, by which time reserves will have fallen to £3.4m and 25% of net budget requirement will be £4.5m.

(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.

15. The outturn for 2005/06 added £986,000 to reserves, and the original estimates for 2006/07 anticipated a further increase of £389,000. However, the supplementary estimates mentioned above and other changes to the revised estimates mean that £502,000 of reserves will now be used to finance the deficit in 2006/07. The deficit reduces slightly in 2007/08 to £321,000 before increasing to £925,000 in 2008/09 and £1.269 million in 2009/10. Thus contrary to the long-term guideline the use of revenue balances to support spending increases over the four-year forecast. This highlights the need to review and reduce expenditure to ensure that the guideline of reserves at 25% of net budget requirement is not breached towards the end of the period.

The Local Government Finance Settlement:

16. Last year as part of replacing the system of Assumed National Council Tax (ANCT) and Formula Spending Shares (FSS) with Relative Needs Formulae (RNF), the Government provided a two-year settlement. On November 28 draft figures for 2007/08 were issued and these were open to consultation until 5 January 2007. Initially it appeared that there was an increase of some £22,000 in the figures that the Council had previously been advised of. Unfortunately the DCLG later issued a correction and an apology that confirmed the draft settlement was as advised last year. The table below is repeated from last years budget papers to remind Members of the settlement:

	Original 2005/06 £m	Adjusted 2005/06 £m	2006/07 £m	2007/08 £m
Formula Grant	7.299	7.918	8.627	9.161
Increase £	n/a	0.619	0.709	0.534
Increase %	n/a	8.48%	9.0%	6.2%

17. It is also worth repeating that the increase of 6.2% is more than double the minimum floor increase of 2.7%. The restrictions on growth above the floor have been eased from 2006/07 as the Council can now retain 60.8% of the increase above the floor as opposed to the figure of 49.1% in 2006/07. This means the amount of grant lost to support the floor for other local authorities will reduce from £490,000 in 2006/07 to £189,000 for 2007/08.

The 2007/08 General Fund Budget:

18. The uncertainties over the future costs of waste management and concessionary fares, and changes to the grant formula (when the much delayed Lyons Review is finally concluded) will not be resolved for some time. CSB growth of £1.5 million has been allowed for a new long-term waste management contract and the lengthy tender process is now well underway. However, it is unlikely that the actual costs to be incurred, and the identity of the new contractor, will be known for several months. The lack of information coming from the Government on how the revised concessionary fare scheme will work, and be paid for, is somewhat frustrating. From 1 April 2008 bus pass holders will no longer be restricted to travel within the area of their local scheme. This is a fundamental change to the scheme and if it is to be achieved in an efficient manner guidance from the Government is now needed urgently. 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 2006/07. A capitalisation direction has been obtained for 2005/06 but it is necessary to apply for each year separately, and now as well as considering whether individual applications meet the criteria the national economic impact of all applications is also considered.

19. 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 3.5% (£139.50 Band D) for 2007/08 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.

20. Members are reminded that this strategy is based on a number of important assumptions which were agreed by the Finance and Performance Management Scrutiny Panel on 15 January 2007 and include the following:

- Future Government funding will continue to rise at a gross rate of 2% per annum, with the net increase being 2.5% in 2009/10 and 2.1% in 2010/11.
- CSB growth has been restricted to achieve the CSB target for 2007/08 of £17 million. Known growth beyond 2007/08 has been included but will be subject to a further review to help identify savings.
- All known DDF items are budgeted for, but because of the substantial additional funds being added to the DDF the closing balance at the end of 2010/11 is still anticipated to be in excess of £800,000.
- Maintaining revenue balances of at least 25% of NBR. The forecast shows that the deficit budgets throughout the period will reduce the closing balances at the end of 2009/10 to £3.4m or 19% of NBR for 2010/11, and thus illustrates the need for savings to be found.

The Capital Programme:

21. The Capital Programme at Annex 15 shows the expenditure previously agreed by Cabinet and approved as part of the Capital Strategy by Council on 19 December 2006. The only late additional capital item included is £69,000 for the replacement ICT system for Revenues and Benefits, this is being considered by Cabinet on 22 January 2007. Some changes to the previous programme have been made to reflect the latest position on slippage, most notably in respect of Bobbingworth Tip where £1.3 million of the £1.659 million budget has been moved from 2006/07 to 2007/08.

22. Members have been advised previously of the pooling requirements for housing capital receipts introduced by the Local Authorities (Capital Finance and Accounting) Regulations 2003. As a debt free authority this Council benefits from transitional arrangements in the three years 2004/05, 2005/06 and 2006/07, with capital receipts liable to pooling treated as reduced, respectively, by up to 75%, 50% and 25%, where the authority commits this amount of expenditure to assets held within the Housing Revenue Account.

23. The estimated amount of capital receipts to be retained by the Council through transitional relief between 2004/05 and 2006/07 has reduced from £7m to £5.5m, due to a reduced level of Council house sales. The Council will use the majority of this funding on investing in its own housing stock, to ensure that all its properties meet the Government's Decent Home Standard by 2010. However, an estimated £1.1 million of the funding will be utilised to fund the contributions towards affordable housing and the shortfall in Government funding for Disabled Facilities Grants.

24. 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.

25. 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 £50m over five years, it is anticipated that the Authority will still have £15.7m of usable capital receipt balances at the end of the period. It is anticipated that further disposals of surplus land will

take place during 2007/08. Although in line with normal practice no account will be taken of any disposal proceeds until the deals are completed.

The Housing Revenue Account:

26. The balance on the HRA at 31 March 2008 is expected to be £5.4m, as shown in Annex 14a, after a deficit of £399,000 in 2006/07 and a surplus of £179,000 in 2007/08. A significant factor in the change from deficit to surplus has been the reduction in capital expenditure charged to revenue, with the 2007/08 figure being £403,000 lower than the 2006/07 revised estimate.

27. The rent increase is set with reference to an individual property's formula rent but subject to various constraints. This process is referred to as Rent Restructuring and was introduced to bring Council rents and Housing Association rents more in line with each other. This process is set to continue until 2012 when most Local Authority and Housing Association rents should converge. 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 2007/08 is expected to be 5%.

28. 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.

29. 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 2007/08 and 2006/07 revised and to note that although a deficit budget was set for 2006/07 the HRA returns to surplus in 2007/08 and has substantial ongoing balances.

Risk Assessment and the Level of Balances:

30. 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 2007/08. *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 20 February will consider the recommendations of the Cabinet on the budget for 2007/08 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 2007/08:

31. As previously mentioned, the Local Government Act 2003 (LGA2003) changed the rules relating to capital finance. The regulations came into force on 1 April 2004. However, regulation 2, which requires local authorities to have regard to the CIPFA Prudential Code, was operative from 1 January 2004, because authorities needed to set their affordable borrowing limits for 2004-05 before the start of that financial year. The limits for 2007/08 are to be set and reviewed by the Full Council [section 3(8) of the Act]. The prudential indicators are set out in a separate report as Annex 17.

32. The repeal of Part IV of the Local Government and Housing Act 1989 on 1 April 2004 also ended the local authority approved investment regulations. Regulation 24 of the LGA 2003 relies on the power in section 15(b) to specify guidance to which authorities are to have regard in the future. The regulation specifies CIPFA's Treasury Management Code, which is already widely used by authorities and has been adopted by this Authority. This is quite separate from the Prudential Code although it complements it, covering good practice on the administration of debt, investments and related aspects of financial management. In addition the ODPM has issued investment guidance to replace the former regulations and regulatory approach.

33. Members approved a Treasury Management Strategy on 19 February 2004, which was based on the CIPFA and ODPM guidance mentioned above. To reflect the changing circumstances in which the Authority found itself, being debt free and having higher balances for investment, Council approved an updated Strategy on 14 December 2004. Council in turn amended this on 21 February 2006, when the limit on funds invested for more than 364 days was increased to £15m. This change was to give additional flexibility, should investment balances increase through any subsequent land sales. Investment balances have indeed increased and as further rises may be seen, an additional change is proposed at this point.

34. The current limit on funds invested for over 364 days is £15m and it is proposed to increase this limit to £20m. By taking the opportunity to change the policy now it is intended to give the treasury management staff sufficient flexibility to act quickly if a large capital receipt arises, rather than having to invest the funds at less favourable rates while a change to the policy is sought.

Statement in Support of Recommended Action:

35. The Budget shortfall still needs to be addressed.

Other Options for Action:

36. As contained in the report.

Consultation undertaken:

37. No external consultation undertaken.

Resource implications:

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

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

Background papers: Local Government Finance Report.
Environmental/Human Rights Act/Crime and Disorder Act Implications: N/A.
Key Decision Reference (if required): Finalisation of Budget, Declaration of Council Tax, To set the levels of Council Tax for all areas within the District, and Declaration of Rents.