

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO Cabinet 16th February 2004
AUTHOR/S: Finance and Resources Director

**CAPITAL AND REVENUE ESTIMATES,
 COUNCIL TAX AND PRUDENTIAL INDICATORS**

Purpose

1. To approve and recommend to Council:
 - i) the level of expenditure necessary to carry out those services chargeable to the District Council's General Fund in the financial year 2004/05 and the demand on the Collection Fund required to meet District Council General Expenses after allowing for use of balances and formula grant;
 - ii) the Council Tax for 2004/05 required to meet the demand on the Collection Fund from the District Council and from Parish precepts which are treated as special expenses in the District Council's General Fund; and
 - iii) the indicators required by the Prudential Code for Capital Finance in Local Authorities.

Effect on Corporate Objectives

High quality, accessible value for money services	The proposals in the report relate to budget estimates for General Fund services which directly and indirectly contribute towards the achievement of corporate objectives.
Quality village life	
A sustainable future for South Cambridgeshire	
A better future through partnership	

PART I – APPROVING THE ESTIMATES

Background

2. At the meeting of 24th July 2003, Council agreed a medium term financial strategy, as a basis for the preparation of Continuous Improvement Plans (CIPs) and the budget, based on £300,000 per annum new money in support of Council objectives and a third year of a £70 Council Tax giving a projected expenditure estimate for 2004/05 of £17.167 million.

3. The CIPs process resulted in total recurring bids of £1.522 million (ongoing cost) and non-recurring bids of £2.065 million. On 8th January 2004, Cabinet agreed “to support Option 3 for approving CIP bids with recurring costs, by increasing additional spending to approximately £800,000, but with savings of approximately £500,000 in order to adhere to the agreed limit of £300,000; Portfolio Holders to examine their budgets for savings within 10 days with a view to a further report to the next meeting”. Cabinet also agreed that non-recurring CIP bids of £1,839,000, to be paid for by financing capital expenditure of £1,839,000 from capital receipts, be included in the estimates to be presented to Cabinet on 16th February 2004 for recommendation to Council.
4. On 29th January, Cabinet recommended to Council that the draft budget be produced incorporating:
 - (a) a Band D Council Tax of £70 for 2004/05;
 - (b) £503,000 additional spend for 2004/05 with recurring costs of £457,000 in subsequent years (both figures gross of the identified savings of £146,000), reflecting:
 - i. only the inescapable bids of £94,000;
 - ii. the CASCADE bid of £224,000, Land and Property Gazetteer bid of £20,000;
 - iii. the senior Strategic Housing Officer bid of £43,000; and
 - iv. the plastics recycling banks bid of £50,000, the latter of which being subject to:
 - £50,000 costs in 2004/05 being funded by the DEFRA grant; and
 - the ongoing revenue costs of £42,000 being funded from ‘savings’ within the Environmental Health portfolio;
 - (c) the additional expenditure on refuse collection and street cleansing service estimated at £76,000.
5. The estimates have been considered by Portfolio Holders and the Estimates Panel consisting of the Leader and Deputy Leader of the Council and Chairman and Vice Chairman of Scrutiny Committee. Scrutiny Committee is also considering the estimates at their meeting on 12th February 2004. The following appendices have been included with this report to show the overall effect of the proposals:

Appendix A	Capital Programme
Appendix B	General Fund summary
Appendix C	Precautionary Items
Appendix D	Parish Precepts

Considerations

CAPITAL ESTIMATES: REVISED 2003-2004 AND ESTIMATES 2004-05 TO 2006-07

6. The capital programme up to the year ending 31st March 2007 is submitted for Members’ approval as **Appendix A** showing capital expenditure of around £13 million for each of the years 2004/05 to 2006/07, together with the associated financing and balance of capital receipts.

7. Capital Expenditure can be classified as:
- i) expenditure on fixed assets such as buildings which is accounted for on an accruals basis. The expenditure is no longer charged directly to the General Fund revenue accounts but, instead, a capital charge for depreciation and interest is made to reflect the use of the asset in providing the service. This accounting method is required by the Local Authority Accounting Code of Practice.
 - ii) expenditure on grants to individuals and organisations which is accounted for on a cash payments basis. This expenditure is normally financed from reserves which are built up from revenue contributions.
8. **Appendix A** shows the capital programme up to the year 2006-07 with non-housing grants on a commitment basis. These grants are normally financed from revenue and, therefore, the amount in the capital programme also appears in the revenue estimates. In 2004/05, however, some of these grants have been financed from capital receipts so that the revenue expenditure included in the £1.839 million non-recurring CIPs bids can be financed at no extra cost to the General Fund.
9. The General Fund programme includes improvement grants and the financing of these items, which is not met by Government grant, is borne by the Council Tax.
10. In the calculation of capital receipts, the figures incorporate the transitional arrangements for debt free authorities for the payment of Right to Buy capital receipts into a national pool with the 75% contribution rate being reduced by 75% in 2004/05, 50% in 2005/06 and 25% in 2006/07. It has been assumed that all other housing capital receipts received from 1st April 2004 will be used to finance affordable housing capital expenditure and will, therefore, not be subject to the pooling arrangements. It is now anticipated that the capital receipts year end balance as at 31st March 2007 might be around £14.2 million with the balance reducing to nil in 2009/10.
11. The advice from the Office of the Deputy Prime Minister (ODPM) is that there should be a separate Council resolution, in addition to the approval of the capital programme, determining the amount to be spent on affordable housing to ensure that other housing capital receipts are subject to pooling. The amount in the programme for affordable housing is £34.189 million consisting of:

Capital Expenditure on Affordable Housing	Estimate 2004/05 £ million	Estimate 2005/06 £ million	Estimate 2006/07 £ million	Total £ million
Housing Revenue Account	10.175	10.655	11.120	31.950
General Fund	0.763	0.763	0.713	2.239
Total	10.938	11.418	11.833	34.189

LOCAL AUTHORITY FINANCE SETTLEMENT

12. The final settlement has now been received and the General Fund summary at **Appendix B** contains the final figures issued by the ODPM.

13. A year on year comparison is:

	Final 2003-04 £million Cash	Final 2003-04 £million Adjusted	Final 2004-05 £million
Redistributed Business Rates	4.552	4.552	3.568
Revenue Support Grant	1.744	1.184	2.370
Formula Grant	6.296	5.736	5.938

14. The final figures for 2004/05 now show an £11,000 decrease in Formula Grant compared to the increased provisional figures for 2004/05 reported to Council in December. On a like for like basis, there is an increase of £202,000 in 2004/05 over 2003/04 – a 3.5% increase in cash terms and a 1% increase in real terms, using the Government’s RPIX inflation target, to cover the increased expenditure of one of the most rapidly expanding parts of the country. The Council loses £72,000 due to the redistribution of grant entitlement which is used to bring other authorities, within the shire districts category, up to the minimum floor of a 3% increase on a like for like basis.

REVENUE ESTIMATES

15. The General Fund summary up to the year ending 31st March 2005 is submitted for Members’ approval as **Appendix B**.
16. In the estimate 2003/04, net portfolio expenditure of £16.030 million was reduced by £0.411 million by switching the financing of capital grants from revenue to capital receipts in order to achieve the target budget for that year. The estimate 2003/04 was £15.619 million net of capital receipts financing. The revised estimate 2003/04 at £15.406 million has come in below the original and, therefore, the capital grants have continued to be financed from revenue in that year.
17. The estimate 2003/04 included the sum of £0.960 million for Local Authority Social Housing Grant. This Grant was abolished by the Government with effect from 1st April 2003 and Council decided that the sum should be retained in the General Fund for future use. On a like for like basis, the comparison would then be between an estimate 2003/04 of £15.070 million (£16.030 million less £0.960 million) and a revised estimate of £15.406 million, an increase of £0.336 million.

18. The estimate 2004/05 of £18.079 million (£17.152 million net of capital receipts funding of £0.927 million) is an increase of £2.049 million on the estimate 2003/04 of £16.030 million, the main variances being:

	£million
Corporate Management	0.147
Cost of Council Tax Collection	0.196
Democratic Representation	0.240
Refuse Collection and Street Cleansing (Client)	(0.252)
Refuse Collection and Street Cleansing (Contractor)	0.394
Housing Association Support (0.934)	0.026
Negative Housing Subsidy 0.960	
Housing Miscellaneous	0.151
Rent Allowances	(0.153)
Planning Service	0.388
Building Control Services	0.162
Community Safety	0.143
Unallocated costs 2004/05	
CASCADE, ICT staff and networking CIPs	0.367
General Fund CIPs	0.340
Unallocated Costs 2003/04, Reallocated 2004/05	
Recruitment and Retention	(0.525)
Cambourne Offices	(0.380)
Additional Approvals Feb 2003	(0.136)
Sub Total	1.108
Other variances less than £100,000	0.941
Sub Total	2.049
Capital Receipts Financing	(0.927)
Grand Total	1.122

Projections for future years have now been updated and are:

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Net portfolio exp. (£million)	17.152	17.989	19.363	20.539	21.762	23.034
Council Tax (£)	70	140	165	185	205	225
Underlying Council Tax (£)	143	158	183	199	215	226
General Fund Balance (£million)	4.628	3.770	2.826	2.105	1.622	1.635

19. **Appendix C** sets out details of “precautionary” items of expenditure. These are items of expenditure over which there is some doubt as to whether they would occur in 2004/05, but if they did, the Council would be required to meet them. It has been assumed that expenditure of £100,000 will be incurred on precautionary items in 2004/05.

COLLECTION FUND - BALANCE

20. The Council's Collection Fund includes transactions relating to the Council Tax.
21. Regulations provide that the balance on the Collection Fund at 31st March 2004, whether in hand or overdrawn, must be transferred to the billing authority and the major precepting authorities in the same ratio as their 2003-2004 precepts.
22. It is estimated that the balance at 31st March 2004 will be a surplus of £48,550 of which £5,210 will be transferred to the District in 2004-2005.

PART II - SETTING THE COUNCIL TAX

CALCULATION OF THE TAX

23. The Council Tax figures quoted in this report relate to the tax on a Band D property occupied by two or more adults unless otherwise indicated. Council Tax benefits and discounts are excluded.
24. The figure for a Band D property is arrived at by dividing the amount of the demand by the tax base of band D equivalents. A tax base of 54,581 for 2004/05 has been approved by the Finance and Resources Director.
25. If the Council approves the demand of £3.821 million on the Collection Fund, then the tax on properties in bands A- to H will be:

Band	A-	A	B	C	D	E	F	G	H
Tax (£ p)	38.89	46.67	54.44	62.22	70.00	85.56	101.11	116.67	140.00

26. The full amount of the tax is arrived at by adding the requirements of the County Council, the Police and Fire Authorities and the relevant Parish to the District figure.
27. Parish precepts received to date are shown in **Appendix D**.
28. The figures for the County Council and Police and Fire Authorities will be given at the meeting, if available. Neither have all the Parish precepts been received and the figure shown below is an average of those received to date. Final figures may not be known until shortly before our Council meeting on 26th February 2004.

29. The actual 2003-2004 and provisional to date 2004-05 Council Tax on a Band D property is:-

	Actual 2003-2004 £	Provisional to date 2004-05 £	Variation %
District Council - General Expenses	70.00	70.00	Nil
- Special Expenses for Parish Precepts	39.60	41.22	+4.1%
County Council	797.40		
Police Authority	113.31		
Fire Authority	-		
Total	1,020.31		

30. Once the tax for a band D property is known, then the tax for the other bands is calculated as follows:

Valuation Band	Range of values	Ratio to band D
A-		5/9
A	Up to and including £40,000	6/9
B	£40,001 - £52,000	7/9
C	£52,001 - £68,000	8/9
D	£68,001 - £88,000	-
E	£88,001 - £120,000	11/9
F	£120,001 - £160,000	13/9
G	£160,001 - £320,000	15/9
H	More than £320,000	18/9

PART III – PRUDENTIAL INDICATORS

31. The Prudential Code for Capital Finance in Local Authorities comes in to effect from 1st April 2004, the objective being to provide a framework for capital programmes to ensure that:

- capital expenditure plans are affordable;
- all external borrowing and other long term liabilities are within prudent and sustainable levels; and
- treasury management decisions are taken in accordance with professional good practice.

32. Prudential indicators must be set by Council before the beginning of the financial year and can be revised at any time. The chief financial officer is required to establish procedures to monitor performance against the prudential indicators and to ensure that any borrowing is for capital purposes. The indicators are primarily to show whether a local authority is entering into long term commitments which it may not be able to afford in the future and they are, therefore, of less relevance to debt free authorities like South Cambridgeshire.

33. It is proposed that the key indicators for affordability are set at the following levels:

Ratio of Financing Costs to Net Revenue Stream			
	Estimate 2004/05	Estimate 2005/06	Estimate 2006/07
General Fund	20%	11%	6%
Housing Revenue Account	Not applicable		

Incremental Impact of Capital Investment Decisions (£ p)			
	Estimate 2004/05	Estimate 2005/06	Estimate 2006/07
For a Band D Council Tax (General Fund)	(11.49)	(2.70)	21.50
For average weekly housing rent	Not applicable		0.04

34. The first prudential indicator for capital expenditure relates to the estimates of capital expenditure and are covered by Part I and recommendation a) of this report and the second prudential indicator is the capital financing requirement. The capital financing requirement is capital expenditure which has not been financed from a local authority's own resources but has been covered by raising external debt. As South Cambridgeshire is debt free, its capital requirement is a negative £5.7 million for the years 2004/05, 2005/06 and 2006/07, meaning that it has more capital resources than capital expenditure and is not intending to raise any external debt. The requirement cannot presently be split between the General Fund and the Housing Revenue Account.
35. The prudential indicators for external debt and treasury management are shown in a separate report, Investment Strategy 2004/05, on this agenda.

PART IV – FINANCIAL ADMINISTRATION

36. When a local authority is calculating its budget requirement and consequent council tax, the chief financial officer is now required under Section 25 Local Government Act 2003 to report on:
- the robustness of the estimates made for the purposes of the calculations; and
 - the adequacy of the proposed financial reserves.
37. The emphasis is to ensure that the estimates are sufficient to cover regular recurring costs plus any reasonable risks and uncertainties and, in the event of unexpected expenditure, that there are adequate reserves to draw on. The calculations relate to the budget requirement for the forthcoming year and the legal requirement may, therefore, be interpreted as reporting only on the 2004/05 estimates and the reserves up to 31st March 2005.
38. At South Cambridgeshire District Council, the Finance and Resources Director as the chief financial officer considers the estimates for the financial year 2004/05 to be sufficiently robust and the financial reserves up to 31st March 2005 to be adequate.

Financial Implications

39. As above

Legal Implications

40. None

Decisions/Recommendations

41. Members are requested to recommend to Council:-
- a) that the capital programme up to the year ending 31st March 2007 be approved as submitted which includes the sum of £34.189 million to be spent on affordable housing for the years from 2004/05 to 2006/07;
 - b) that the revised revenue estimates for the year 2003-2004 and the revenue estimates for 2004-05 be approved as submitted;
 - c) that the District Council demand for general expenses for 2004-05 be £3.821 million;
 - d) that the Council sets the amount of Council Tax for each of the relevant categories of dwelling in accordance with Section 30(2) of the Local Government Finance Act 1992 on the basis of a District Council Tax for general expenses on a Band D property of £70 plus the relevant amounts required by the precepts of Parish Councils, Cambridgeshire County Council and the Cambridgeshire Police and Fire Authorities, details of those precepts and their effect to be circulated with the formal resolution required at the Council meeting; and
 - e) that the prudential indicators in Part III be approved.
42. Members are requested to approve the amended list of precautionary items (**Appendix C**)

Background Papers: the following background papers were used in the preparation of this report:
Estimate files in the Accountancy Division
Estimates approved by Portfolio Holders
Local Authority Finance Settlement on ODPM website as from 29th January 2004

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