SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Leader and Cabinet	11 February 2010
AUTHORS:	Senior Management Team	

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 2010/11 and the demand on the Collection Fund required to meet District Council Expenses after allowing for the use of balances and Formula Grant;

   ii) the Council Tax for 2010/11 required to meet the demand on the Collection Fund from the District Council; and

   iii) the indicators required by the Prudential Code for Capital Finance in Local Authorities.

2. To note the updates on the Medium Term Financial Strategy reported in October and on the savings proposals reported in November.

3. This is a key decision because:

- it is likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates;
- it is likely to be significant in terms of its effects on communities living or working in an area of the District comprising all wards;
- it increases financial commitments (revenue and / or capital) in future years above existing budgetary approvals;

and it was first published in the September 2009 Forward Plan.

Executive Summary

4. An increase of just under 3% in the Council Tax for a Band D property for 2010/11 is recommended to keep within the possible 3% capping criteria. The Minister for Local Government wrote to local authority Leaders in December and stated that:

   "… the average Band D council tax increase this year was 3 per cent. The Government anticipates this amount to fall further in 2010/11 whilst authorities protect and improve front line services. In fact, we expect the average Band D council tax increase to achieve a 16 year low in 2010/11. The Government remains prepared to take capping action against excessive increases by authorities and to require them to rebill households for a lower council tax if necessary. …".

5. The capping criteria in previous years, which are not announced until councils have set their council taxes, have clearly demonstrated that the 3% is a maximum limit for an individual council, and not an average across all councils.

6. The estimates and the Medium Term Financial Strategy show the Council's financial position as being better than that reported to Council on 26 November 2009 in terms of the use and level of balances but there are substantial changes within the overall figures. The financial position is dependent on low inflation, the period and severity of the economic downturn and the achievement of savings, which have been included in the estimates but, in many cases, have still to be achieved.

7. The medium term position of an estimated £1.3 million deficit on the General Fund in 2014/15 onwards indicates that there can be no relaxation in the search for savings or in pressing for fairer funding.

Background

8. The estimates have been considered by Portfolio Holders and by the Scrutiny and Overview Committee. The following appendices are included with this report to show the overall effect of the proposals:

Appendix A	*Capital Programme
Appendix B	General Fund Summary
Appendix C	Update on savings target reported in November
Appendix D	Medium Term Financial Strategy
Appendix E	Precautionary Items
Appendix F	Prudential Indicators (to follow)

The detailed estimates are being sent out as a separate document.

* The capital programme will not be considered by the Finance and Staffing Portfolio Holder or the Policy and Performance Portfolio Holder (the latter with regard to the ICT capital programme) until the 8th February and any comments and/or amendments from them will be reported at the meeting.

PART 1 – APPROVING THE ESTIMATES

Considerations

CAPITAL PROGRAMME

9. The capital programme up to the year ending 31st March 2015 is submitted for Members' approval as **Appendix A** showing capital expenditure of around £11 million in 2008/09, reducing to around £5 million from 2012/13 onwards, together with the associated financing and balance of capital receipts. The balance of capital receipts brought forward is fully utilised in 2012/13 and thereafter the programme is dependent on in-year capital receipts and grants, including the use of existing and anticipated future Housing and Planning Delivery Grant.

10. Capital Expenditure can be classified as:

   i) expenditure on fixed assets such as buildings which is accounted for on an accruals basis. A capital charge for depreciation is made to the revenue accounts to reflect the use of the asset in providing the service;

ii) expenditure on grants to individuals and organisations which is accounted for on a cash payments basis.

11. With regard to the pooling of capital receipts, it has been assumed that capital receipts from both Right to Buy and equity share sales will continue to be pooled at the rate of 75% for the full duration of the capital programme.

12. ICT Development has been re-assessed by the Senior Management Team and the programme is now extended up to 2014/15.

13. In 2010/11, the sum of £1.509 million has been included for wheeled bins to be financed from a grant of £0.500 million with the balance from reserves.

14. The programme has been financed by running down the balance of capital receipts first and then by using the historic mandatory capital element and the anticipated future revenue element of Housing and Planning Delivery Grant. After using this Grant to finance the capital programme and to meet the revenue costs of posts in Planning, there is still an unused balance of £1.2 million as at 31st March 2015 but this estimate is dependent on future Housing and Planning Delivery Grant settlements being as predicted:

Receipt, use and balance of Housing and Planning Delivery Grant					
		Capital Reserve			Revenue Reserve
	Used for Capital	Balance at year end	Used for Revenue	Estimated receipt of Grant	Balance at year end
2009/10	0	(584,050)	660,130	(1,262,273)	(1,184,305)
2010/11	0	(584,050)	394,390	(1,000,000)	(1,789,915)
2011/12	0	(584,050)	409,377	(750,000)	(2,130,538)
2012/13	136,660	(447,390)	417,564	(500,000)	(2,212,974)
2013/14	402,600	(44,790)	432,179	(250,000)	(2,030,795)
2014/15	422,600	0	447,305	0	(1,205,680)

15. The financing policy inherent in Appendix A can therefore, be summarised as:

i. run down the balance of capital receipts to zero in the years 2009/10 to 2011/12 to finance both Housing Revenue Account (HRA) and General Fund capital expenditure;

ii. from 2011/12 onwards, finance HRA capital expenditure from the Major Repairs Allowance and miscellaneous minor grants;

iii. from 2011/12 onwards, use the balance of HRA capital receipts after pooling to finance General Fund capital expenditure (HRA capital receipts after pooling substantially equate to General Fund capital expenditure on housing improvement grants and loans);

iv. use Housing and Planning Delivery Grant to finance the balance of General Fund capital expenditure; and

v. in addition, earmarked capital grants are received and used to finance specific capital expenditure.

16. A further option is borrowing to finance capital expenditure but the subsequent debt repayments would increase the deficit/use of balances on the General Fund and/or the Housing Revenue Account.

17. **Cabinet are invited to consider** the proposed capital financing policy and the balance between using HRA capital receipts on HRA and General Fund capital expenditure and between using Housing and Planning Delivery Grant on capital and revenue expenditure.

18. The programme has been framed on the assumption that the guaranteed buy-back of equity share dwellings be transferred to housing associations during 2010/11 so that the annual estimate of £3 million reduces to £1 million in 2010/11 and to NIL in 2011/12. **If agreement cannot be reached with the housing associations within the next few months, then a substantial sum will have to be included in the capital programme for future acquisitions and the level of expenditure and financing of the whole capital programme will have to be re-assessed.**

LOCAL AUTHORITY FINANCE SETTLEMENT

19. The provisional settlement was announced on 26th November. A formal response to the provisional settlement was then made within the consultation period and a reply was received with an assurance that all comments would be carefully considered.

20. The final settlement has now been announced and the General Fund summary at **Appendix B** contains the final figures for formula grant issued by the DCLG. The final figures are the same as those reported to the December meeting of Finance and Staffing Portfolio Holder. The Local Government Minister stated that "… the overall settlement … will allow authorities to continue to deliver improving services at an affordable cost … and there can be no excuse for any authority setting an excessive council tax increase in 2010/11…".

21. The formula grant for the year 2010/11 would have been higher except for the system of grant floors to ensure that all shire districts receive minimum cash increases of 0.5%. An amount of £47,932 has been deducted from the Council's grant and redistributed to other shire districts reducing the increase in the Council's grant from 1.6% to 1%.

22. The year 2010/11 is the last year of the Government's three year comprehensive spending review and no indication has been given of the level of grant for future years. If the expected reductions in public spending occur together with certain non-shire district services being protected (hospitals and schools) in cash terms, there would be a reduction in grant available to shire districts. It has, therefore, been assumed that formula grant will reduce in cash terms by 1.2% in 2011/12, 1.1% in 2012/13, 0.6% in 2013/14 and 0.5% in 2014/15. This is based on a estimated 14% cut in public spending in real terms, which has been spread over three years taking account of inflation and population growth. As a result, the reduction in grant compared to a constant grant at the 2010/11 level is £0.740 million over the period of the medium term financial strategy.

REVENUE ESTIMATES

23. The General Fund summary up to the year ending 31st March 2011 is submitted for Members' approval as **Appendix B**.

24. Cabinet on 12th November approved savings targets for inclusion in the estimates and these are included in the General Fund and Housing Revenue Account estimates presented to this meeting.

25. Comments on the estimates are:

a) expenditure on concessionary fares has increased from £588,000 in 2009/10 to £700,000 in 2010/11 together with a reduction in special grant from £187,000 to £90,000. It is anticipated that this service will transfer to the County in 2011/12 at an estimated net cost to this Council of £276,000 after loss of formula grant;

b) the estimates for 2010/11 now include £200,000 as a provision for savings in Revenues and Benefits which will be ongoing in future years. This replaces the estimated saving from the shared service of £350,000 which was due to be in 2011/12 (see the separate report on this agenda);

c) Senior Management Team have recommended the inclusion of £60,000 for ongoing maintenance of South Cambridgeshire Hall;

d) a one-off sum of £500,000 has been included in 2010/11 for the potential costs of redundancy and early retirement arising from the various restructurings;

e) £50,000 has been included on an ongoing basis for Council actions in 2010/11;

f) in accordance with the earlier Cabinet decision, no provision for a pay award has been made in the 2010/11 estimates;

g) there is still a balance of £158,000 out of the total savings of £2.199 million, approved by Cabinet in November, to be identified. This has been included in the 2010/11 estimates on the assumption that savings of this amount will be identified and realised in 2010/11. Slippage from 1st April to 1st July has been recognised on some restructurings by including an estimated cost of £219,000 in the 2010/11 estimates. A schedule of the savings is attached as **Appendix C**; and

h) no provision has been made for the cost of implementing the move to single status in the 2010/11 budget nor in the five year medium term financial strategy. No estimate can be made of these costs at present. This had previously been included in the strategy but has been removed so as not to compromise negotiations.

26. The figures in Appendix B show the original estimate 2009/10 for Net District Council General Fund Expenditure of £15.343 million increasing to £15.951 million in the revised estimate 2009/10. Excluding the revenue financing of half of the grant to the Cambridge Sports Lake Trust which was approved by Council as expenditure

outside the budget framework, the increase is £0.477 million in cash terms (3.1%). The main variances are shown below in very approximate terms:

	£ million
Kerbside Recycling	(0.127)
Development Control	0.245
Growth Agenda	(0.267)
Interest on balances	0.380
Sub Total	0.231
Other variances less than £100,000	0.246
Sub Total	0.477
Revenue financing of capital grant to Cambridge Sports Lake Trust	0.131
Grand Total	0.608

27. The figures in Appendix B also show the original estimate 2009/10 for Net District Council General Fund Expenditure of £15.343 million increasing to £15.556 million in the estimate 2010/11, an increase of £0.213 million in cash terms (1.4%), the main variances being in very approximate terms:

	£ million
Rent Allowances	0.137
Elections	0.130
Kerbside Recycling	(0.189)
Housing Futures Project	(0.169)
Development Control	(0.110)
Concessionary Fares	0.183
Growth Agenda	(0.672)
Planning Policy	(0.190)
Slippage on savings relating to some restructurings	0.219
Provision for savings on Revenues and Benefits	(0.200)
Support for Economic Downturn	(0.100)
Provision for redundancy and early retirement	0.500
Interest on balances	0.750
Sub Total	0.289
Other variances less than £100,000	(0.076)
Grand Total	0.213

28. Appendix B shows the General Fund balance decreasing from £8.1 million as at 31March 2009 to £6.9 million as at 31 March 2010 and then decreasing further to £6.1 million as at 31 March 2011. This decrease in balances is sustainable over the

period of the Medium Term Financial Strategy as shown in the next section of the report but longer term pressures remain as described at paragraph 5.

MEDIUM TERM FINANCIAL STRATEGY

29. The Executive Director (Corporate Services) and the Head of Accountancy have updated the projections for future years to incorporate the latest figures, which are shown in **Appendix D**.

30. The Strategy is dependent on the assumptions that are built in to it and in view of the disappointing financial settlement, no provision has been included in the Strategy for any specific contribution towards the revenue funding for supporting community facilities at Northstowe but there is a provision for new general growth.

31. Other assumptions include:

    a) pay inflation of 0% in 2010/11, 1% in 2011/12 and 2012/13 and 2.5% thereafter;

    b) non pay inflation of 2.5% where applicable or actual rates where known;

    c) employer's pension contributions as stated in the last triennial valuation and then up to an assumed maximum of 25% in 2013/14;

    d) provision of £300,000 per annum for new growth from 2012/13 onwards, i.e. a total for new growth of £1.861 million for the three years from 2012/13 to 2014/15;

    e) income from planning and land charges will recover to around 2008/09 original estimate levels; and

    f) that the £150,000 for support for the economic downturn is one-off expenditure only.

32. The result is that by the end of the projection period, 31March 2015, the General Fund balance is £3.8 million (credit balance). This balance may be considered to be adequate for future financial planning and to cover any costs of single status. **However, the medium term position of a £1.3 million deficit/use of balances on the General Fund in 2014/15 indicates that there can be no relaxation in the search for savings or in pressing for fairer funding.**

33. **Appendix E** sets out details of "precautionary" items of expenditure totalling £490,720. These are items of expenditure over which there is some doubt as to whether they would occur in 2010/11, but if they did, the Council would be required to meet them. It has been assumed that expenditure of £75,000 will be incurred on precautionary items in 2010/11 on the basis that there has been limited use of precautionary items in the previous year and that in previous years most additional demands have been met by virement.

COLLECTION FUND BALANCE

34. The Council's Collection Fund includes transactions relating to the Council Tax.

35. Regulations provide that the balance on the Collection Fund at 31st March 2010, whether in hand or overdrawn, must be transferred to the Billing Authority and the major precepting authorities in the same ratio as their 2009/10 precepts.

36. It is estimated that the balance at 31 March 2010 will be a surplus of £79,217 of which £9,700 will be transferred to the District in 2010/2011.

PART 2 – SETTING THE COUNCIL TAX

CALCULATION OF THE TAX

37. 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.

38. 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 59,135 for 2010/11 has been approved by the Executive Director (Corporate Services).

39. If the Council approves the demand of £6,827,780 on the Collection Fund, then the tax on properties in bands A- to H will be:

Valuation Band	Range of values	Ratio to band D	Council Tax
A-		5/9	£64.14
A	Up to and including £40,000	6/9	£76.97
B	£40,001 - £52,000	7/9	£89.80
C	£52,001 - £68,000	8/9	£102.63
D	£68,001 - £88,000	-	£115.46
E	£88,001 - £120,000	11/9	£141.12
F	£120,001 - £160,000	13/9	£166.78
G	£160,001 - ££320,000	15/9	£192.43
H	More than £320,000	18/9	£230.92

40. 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 and these figures, together with a full list of parish precepts, will be presented to the Council meeting on 25 February 2010.

PART 3 – PRUDENTIAL INDICATORS

41. The Prudential Code for Capital Finance in Local Authorities came in to effect from 1 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.

42. Prudential indicators must be set by Council before the beginning of the financial year but 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.

43. The prudential indicators are set out in **Appendix F.**

PART 4 – FINANCIAL ADMINISTRATION

44. When a local authority is calculating its budget requirement and consequent council tax, the Chief Financial Officer is now required under Section 25 of the 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.

45. 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 2010/11 estimates and the reserves up to 31 March 2011.

46. At South Cambridgeshire District Council, the Executive Director (Corporate Services) as the Chief Financial Officer considers the estimates for the financial year 2010/11 to be sufficiently robust and the financial reserves up to 31 March 2011 to be adequate, the main risks being the potential costs of single status and the actual realisation of savings which have been included in the estimates.

47. The estimated balances are £6.1 million and £2.2 million on the General Fund and Housing Revenue Account respectively. The minimum balance for the General Fund was temporarily £2.5 million but, as the working balance as at 31 March 2011 and the revised 2009/10 and estimates 2010/11 have already been reduced to reflect current economic conditions, it is now considered that the minimum balance for future years can revert to £1.5 million. The minimum balance for the Housing Revenue Account has been increased to £2 million because in future years any unexpected capital works may have to be financed from revenue and to provide cover for uninsured losses. **In this regard, Members' attention is drawn to the fact that the housing stock is not insured**.

Options

48. The risk of being capped limits the options for increasing the council tax by more than 3%. Recognising that future formula grant settlements may not keep pace with inflation and population growth and the resultant increasing deficit on the General Fund illustrates the need to keep the council tax increasing.

Implications

49.

Financial	As above
Legal	The pressure to achieve savings and the continuation of a poor financial settlement could adversely affect the level of provision of statutory services.
Staffing	The proposed restructurings and reductions in staffing levels have been incorporated in the estimates.
Risk Management	The Council's strategic risk register includes the Medium Term Financial Strategy ranked as A3 (A extreme impact, 3 possible likelihood). The risks include: (a) the Council may be capped with its proposed council tax increase of just under 3% as the average Band D council tax increase for 2009/10 was 3 per cent and the Government anticipates this amount to fall further in 2010/11; (b) the severity and period of the economic downturn may be more than allowed for in the estimates and the Medium Term Financial Strategy resulting in lower income from on some services and higher expenditure on others; (c) the inclusion of savings targets in excess of £2 million in 2010/11 and subsequent years, as reported to Cabinet on 12th November, may not materialise or may not be maintained as ongoing. Some of these savings have been incorporated in the estimates for a full year in 2010/11, i.e. with effect from 1st April 2010, but, in many cases, have still to be achieved and realised. Slippage from 1st April to 1st July has been recognised on some restructurings. The likelihood is considered to be possible; and (d) There may be a delay or it may not be possible to achieve a partnership arrangement with housing associations to take over the acquisition of existing dwellings, the cost of which has been taken out of the capital programme
Equal Opportunities	None

Consultations

50. Residents were asked for their views on the budget and council tax proposals via *South Cambs magazine* and on the Council website. 124 responses were received,

although not all respondents answered all questions. From those who responded to the question about council tax increases, the majority supported a higher level of council tax:

6% increase	4.5% increase	2.5% increase	2% increase	0% increase	Other comment
26	18	25	1	9	6

Other messages from respondents were that savings should be balanced, coming from all areas of the council's work (10 comments) with a balance being struck between discretionary and statutory services (22 comments). There was also support (15 comments) for community and cultural services, including the arts, although a significant number commented that statutory services should be a priority (19 comments).

51. Consultations were invited on the website and in the South Cambs magazine and parish councils and local businesses were also consulted. Only a few replies were received which may not be representative but, of the few replies that were received, most questioned the proposed 4.5% increase (which was the proposed increase reported to Cabinet in October) in the council tax during a recession.

Effect on Strategic Aims

52.

Commitment to being a listening council, providing first class services accessible to all.	To determine the budget and council tax to provide the resources for the Council to continue its services to achieve its strategic aims as far as possible within the current financial constraints.
Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.	
Commitment to making South Cambridgeshire a place in which residents can feel proud to live.	
Commitment to assisting provision for local jobs for all.	
Commitment to providing a voice for rural life.	

Recommendations

53. Members are requested to recommend to Council:

a) that the capital programme (Appendix A) and the associated funding (paragraph 15) up to the year ending 31st March 2015 be approved as submitted;

b) that the revised revenue estimates for the year 2009/10 and the revenue estimates for 2010/11 be approved as submitted in the General Fund summary (Appendix B);

c) that the Medium Term Financial Strategy (Appendix D) be approved based on the assumptions set out in the report;

d) that the District Council demand for general expenses for 2010/11 be £6,827,780;

e) 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 £115.46 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

f) that the prudential indicators in Appendix F be approved.

54. Members are requested to note the update on the savings proposals (Appendix C) and to approve the list of precautionary items (Appendix E) to be used under delegated powers already given to the Finance and Staffing Portfolio Holder and the Chief Financial Officer.

Background Papers: the following background papers were used in the preparation of this report:

Estimate files in the Accountancy Division
Reports and estimates approved by Portfolio Holders

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