SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Cabinet	9th February 2006
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 2006/07 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 2006/07 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's General Fund; and

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

Effect on Corporate Objectives

2.

Quality, Accessible 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
Village Life	
Sustainability	
Partnership	

PART 1 – APPROVING THE ESTIMATES

Background

3. Council agreed in April that the Medium Term Financial Strategy be based, inter alia, on the following policies:

   i) reduction of the General Fund working balance down to a minimum of £1.5 million by 31st March 2010;

   ii) maintenance of debt free status while capital receipts are available; and

   iii) use of capital receipts to finance all capital expenditure not met by grants, contributions and reserves while capital receipts are available.

4. South Cambridgeshire's budget for 2005/06 has since been capped by the Government at a maximum amount of £11.350 million, resulting in a council tax of £92.93 for a band D dwelling and a permanent ongoing budget reduction of £2.6 million. Budget reductions were agreed in October and the Medium Term Financial Strategy was reviewed by Cabinet and approved by Council last month.

5. The estimates have been considered by Portfolio Holders and are due to be considered after this meeting by the Scrutiny Panel consisting of the Chairman and Vice-Chairman of Scrutiny and Overview Committee and the Leader and Deputy Leader. 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
Appendices C1 and C2	Medium Term Financial Strategy
Appendix D	Precautionary Items
Appendix E	Parish Precepts

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

Considerations

CAPITAL ESTIMATES: REVISED 2005/06 AND ESTIMATES 2006/07 TO 2008/09

6. The capital programme up to the year ending 31st March 2009 is submitted for Members' approval as **Appendix A** showing capital expenditure of around £12 million for each of the years 2006/07 to 2008/09, 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.

8. In the calculation of capital receipts, the figures incorporate the transitional arrangements for debt free authorities for the payment of Right to Buy and equity share 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 would, therefore, not be subject to the pooling arrangements.

9. It is now anticipated that the capital receipts year end balance as at 31st March 2009 might be around £1 million (**one** million pounds).

10. **Net capital receipts in years from 2009/10 onwards** are likely to be just over £2 million and these, together with grants and contributions of £4 million including £3.2 million for the Major Repairs Allowance for council housing, **will only be sufficient to finance a capital programme of around £6 million – consequently, unless other sources of funding are agreed, the capital programme will have to be halved in 2009/10 and subsequent years.**

11. In order to meet tenants’ aspirations, it may be necessary to re-consider large scale voluntary transfer of the housing stock to a registered social landlord but this process may take two to three years from start to completion and so needs to be considered well in advance of the reduction in capital receipts.

12. 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 not subject to pooling. The amount in the programme for affordable housing is £34.834 million consisting of:

Capital Expenditure on Affordable Housing	Estimate 2006/07 £ million	Estimate 2007/08 £ million	Estimate 2008/09 £ million	Total £ million
Housing Revenue Account	10.459	10.311	10.434	31.204
General Fund	0.960	1.460	1.210	3.630
Total	11.419	11.771	11.644	34.834

LOCAL AUTHORITY FINANCE SETTLEMENT

13. The final settlement has now been received and the General Fund summary at **Appendix B** contains the final figures issued by the Office of the Deputy Prime Minister (ODPM).

14. A year on year comparison is:

	Final 2005-06 £million	Final 2005-06 £million	Final 2006-07 £million
	Cash	Adjusted for comparison with 2006-07	
Redistributed Business Rates	3.858		5.963
Revenue Support Grant	2.408		1.151
Formula Grant	6.266	6.688	7.114

15. The final figures for 2006/07 now show a £4,000 increase in Formula Grant compared to the provisional figures for 2006/07 reported to Cabinet in January. On a like for like basis, there is an increase of £426,000 in 2006/07 over 2005/06 – a 6.4% increase in cash terms and a 3.9% increase in real terms, using the Government’s previous RPIX inflation target, to cover the increased expenditure of one of the most rapidly expanding parts of the country. The Council loses £235,000 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. Many local authorities would contend that it would be fairer if the Council received its full entitlement and the cost of bringing councils up to the floor was met by additional money from the Government.

REVENUE ESTIMATES

16. The General Fund summary up to the year ending 31st March 2007 is submitted for Members’ approval as **Appendix B**.

17. The figures in Appendix B show the original estimate 2005/06 for net portfolio expenditure of £18.277 million decreasing to £ 16.899 million in 2006/07, a decrease of £ 1.378 million in cash terms (7.5%) and a decrease of £1.835 in real terms (9.8%), the main variances being:

	£million
Resources and Staffing	
Corporate Management	0.130
Information and Customer Services	
Democratic Representation	(0.119)
Environmental Health	
Pest Control	(0.100)
Waste Mgt and Street Cleansing Strategy	(0.105)
Refuse Collection	0.145
Kerbside Recycling	0.161
Housing (General Fund)	
Rent Allowances	(0.124)
Planning and Economic Development	
Building Control	(0.137)
Concessionary Fares	0.360
Community development	
Community Development	(0.192)
Sports Development	(0.132)
Museums	(0.204)
Community Safety	(0.120)
Sub Total	**(0.437)**
Other variances less than £100,000	(0.941)
Grand Total	**(1.378)**

18. In October, Cabinet recommended and Council approved savings proposals for 2006/07 of £2,741,936 plus a reserve list of £223,000. An approximate reconciliation of the figures is:

	£ million
Savings Proposals including reserve list	3.0
Additional Expenditure	
Transformation Project	(0.2)
Concessionary Fares	(0.4)
Savings not met including recharges	(0.4)
Inflation	(0.6)
Decrease in Net Portfolio Expenditure	(1.4)

19. The savings not met consist of:

	Surplus/(deficit) compared to savings target	
	2005/06	2006/07
	£m	£m
Recharges	0.090	(0.093)
Portfolios		
Resources and Staffing	0.098	(0.025)
Information and Customer Services	0.007	(0.005)
Environmental Health	0.024	(0.118)
Housing General Fund	0.057	0.065
Planning and Economic Development	0.123	(0.123)
Conservation, etc.	(0.012)	0.003
Community Development	0.002	0
Total	0.389	(0.296)

20. The deficit on Environmental Health is mainly due to increased costs on the Refuse Collection Service arising from increased fuel costs, higher leasing costs of replacement refuse freighters and the purchase of vehicle tracking devices. (The increased costs of Street Cleansing are partially offset by the savings on Waste Management and Street Cleansing Strategy). The deficit on this Portfolio has been provisionally shown in Appendix B as being met from General Fund reserves but Cabinet is being requested to decide whether this deficit should be financed from reserves or whether it should be financed from further savings and, if so, to specify the budget(s) and the amount(s) to be cut from each budget.

21. Appendix A shows the General Fund balance reducing from £6.6 million as at 31st March 2005 to £4.1 million as at 31st March 2006. The reducing balances, both revenue and capital, has the estimated effect on the income from interest on balances which almost halves from £2.4 million in 2004/05 to £1.25 million in 2006/07

MEDIUM TERM FINANCIAL STRATEGY

22. Projections for future years have now been updated to incorporate the latest figures and are shown in **Appendix C**. Appendix C1 assumes the additional costs of refuse collection will be met from reserves whereas Appendix C2 assumes the additional costs will be met from savings elsewhere.

23. The projections are based on the current level of service simply being rolled forward with provision for inflation and for the increase in the employer's pension contribution rate. **There is no provision for any extra costs associated with growth in services, statutory or non-statutory, due to population increases or any other reason**. For example, with the anticipated growth in population, it is estimated that another refuse round may be necessary in 2007/08 at an estimated cost of £130,000. The cost of this round will have to be met from cuts/efficiencies/savings within the existing budget.

24. Although there is an allowance for growth in income in the projections for Formula Grant and for the tax base, which results in additional Council Tax income, this has already been accounted for to finance ongoing revenue expenditure.

25. It should be noted that further savings may be required in 2007/08 in order to meet the Gershon efficiency savings. This issue is currently being considered by the Efficiency Savings Group and will be reported to Cabinet in due course. It has been assumed that the Gershon requirement for 2006/07 can be met from the savings already identified.

26. The Strategy includes the costs/savings of the Transformation Project. The cost/savings are based on the report by the consultants, Mouchel Parkman, updated for inflation and phasing, and assume that all of the existing Senior Management Team (4 officers) leave and are replaced by a Chief Executive and Deputy with allowance for their extra responsibilities. This is so that the Strategy is on the most prudent basis by incorporating the most expensive option, whereas the detailed estimates allow for a less expensive option under Corporate Management in the Resources and Staffing Portfolio by assuming that two officers will leave and two will stay.

27. The previous Strategy reported in January was based on the original 2005/06 estimate rolled forward with known approximate variations incorporated. The current Strategy at Appendix C is based on recently complied estimates for 2006/07 and net portfolio expenditure has turned out to be slightly higher than previously anticipated. The result is that further savings have to be found in the years 2009/10 and 2010/11, the total further required savings being £1.749 million on Appendix C1 and £1.129 million on Appendix C2.

28. **Appendix D** 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 2006/07, 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 2006/07.

COLLECTION FUND BALANCE

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

30. Regulations provide that the balance on the Collection Fund at 31st March 2006, whether in hand or overdrawn, must be transferred to the Billing Authority and the major precepting authorities in the same ratio as their 2005/06 precepts.

31. It is estimated that the balance at 31st March 2006 will be a deficit of £691,000 of which £82,150 will be transferred to the District in 2006/2007.

PART 2 – SETTING THE COUNCIL TAX

CALCULATION OF THE TAX

32. 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.

33. 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 55,954 for 2006/07 has been approved by the Finance and Resources Director.

34. If the Council approves the demand of £5.454 million 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	£54.16
A	Up to and including £40,000	6/9	£64.99
B	£40,001 - £52,000	7/9	£75.82
C	£52,001 - £68,000	8/9	£86.65
D	£68,001 - £88,000	-	£97.48
E	£88,001 - £120,000	11/9	£119.14
F	£120,001 - £160,000	13/9	£140.80
G	£160,001 - ££320,000	15/9	£162.47
H	More than £320,000	18/9	£194.96

35. 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 figures will be given at the meeting if available.

36. Parish precepts received to date are shown in **Appendix E.**

PART 3 – PRUDENTIAL INDICATORS

37. The Prudential Code for Capital Finance in Local Authorities came 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.

38. 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.

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

Ratio of Financing Costs to Net Revenue Stream			
	Estimate 2006/07	Estimate 2007/08	Estimate 2008/09
General Fund	(10%)	(6%)	(2%)
Housing Revenue Account	Not applicable		

The other affordability indicator is the incremental impact of capital investment decisions on the council tax and on average weekly housing rents and this is considered to be NIL or not applicable as capital expenditure is financed from capital receipts and has no effect on either the General Fund or the Housing Revenue Account.

40. 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 2006/07, 2007/08 and 2008/09, 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.

41. The prudential indicators for external debt and treasury management will be shown in a separate report, Investment Strategy 2006/07, to the next meeting in March.

PART 4 – FINANCIAL ADMINISTRATION

42. 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.

43. 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 2006/07 estimates and the reserves up to 31st March 2007.

44. At South Cambridgeshire District Council, the Finance and Resources Director as the chief financial officer considers the estimates for the financial year 2005/06 to be sufficiently robust and the financial reserves up to 31st March 2007 to be adequate.

45. This report is mainly concerned with the General Fund and the Council Tax but the detailed estimates also include the Housing Revenue Account. Part of this Account is the Direct Labour Organisation (DLO). The Housing and Environmental Services Director is of the opinion that the DLO will break even in 2006/07 after implementing the agreed action plan but will only do so if additional work is allocated to it in order to achieve economies of scale and spread overhead costs. Cabinet is requested to recommend to Council that work to the value of £840,000 is directly allocated to the DLO without recourse to competition.

Options

46. An option could be to increase substantially the council tax in future years instead of making further budget reductions. The likelihood of being capped is considered to be high and, in addition, there would be a reputational risk to the Council which has always shown prudent financial management in the past. An increase of, say, 6% in the Council Tax might be allowed if other authorities only increase by 4% so that the average is below 5% but the average increase cannot be anticipated in advance with any certainty. Any proposal to set a Council Tax of significantly more than 5% is considered almost certainly to result in capping.

47. Other options open to the Cabinet include increasing the Council tax by less than 4.9% and/or further reducing expenditure. These were explored in more detail as part

of the Review of the Medium Term Financial Strategy reported to the previous meeting.

Financial Implications

48. As above.

Legal Implications

49. Further savings could affect the provision of statutory services.

Staffing Implications

50. Payroll costs are the largest item in the Council's budget and further savings may regrettably result in more terminations of contracts of employment. The possible reduction in staff resources may lead to increased pressure on remaining staff and increased sickness absence.

Risk Management Implications

51. The risks include:

I. the capping criteria may be relaxed, for example, by excluding local authorities setting council taxes below average in which case budget reductions will have been made unnecessarily. The likelihood is considered to be low;

II. the planned savings may not materialise. This risk can be offset by careful budget monitoring and the likelihood is, therefore, considered to be low;

III. the further savings required in future years to compensate for the cost of inescapable growth in services due to population, etc., may prove difficult to identify and to achieve;

IV. the savings from the Transformation Project may not materialise as there is no evidence to support the efficiency savings claimed as achievable by the use of business process re-engineering and, if the two Chief Officer model is adopted, there is a loss of two Chief Officers with no provision for strengthening the second tier; the likelihood of the risk has not been assessed; and

V. the approved and any further budget reductions may have an adverse impact on the Council's Comprehensive Performance Assessment and on other performance indicators. The likelihood is considered to be significant.

Consultations

52. The Council undertook extensive consultation on the medium term financial strategy and priorities in September - October 2004, to which 2,500 replies were received. The results from that consultation have been drawn upon in agreeing priorities for savings in preparing existing budgets. No further consultation has been carried out in relation to 2006/07 budgets in the light of the fact that the previous year's results have been used in prioritising budgets and the strategic financial options available are severely limited.

Recommendations

53. Members are requested to recommend to Council:-

a) that the capital programme up to the year ending 31st March 2009 be approved as submitted which includes the sum of £34.834 million to be spent on affordable housing for the years from 2006/07 to 2008/09;

b) whether the deficit on the Environmental Health Portfolio is an additional cost on the General Fund financed from reserves or whether these costs should be financed from further savings and, if so, to specify the budget(s) and the amount(s) to be cut from each budget. This will then determine either Appendix C1 or C2 as the Council's Medium Term Financial Strategy;

c) that the revised revenue estimates for the year 2005/06 and the revenue estimates for 2006/07 be approved as submitted and incorporating the decision made at b);

d) that the District Council demand for general expenses for 2006/07 be £5.454 million;

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 £97.48 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;

e) that the prudential indicators in Part 3 be approved; and

f) that work to the value of £840,000 is directly allocated to the DLO without recourse to competition

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
Local Authority Finance Settlement on ODPM website as from 31st January 2006

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