Agenda Item: 5

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Leader and Cabinet	08 February 2007
AUTHOR/S:	Chief Executive	

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 2007/08 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 2007/08 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.

Executive Summary

2. An increase of 4.9% in the Council Tax for a Band D property for 2007/08 is recommended to keep within the 5% capping criteria.

3. The estimates and the Medium Term Financial Strategy show a temporary improvement in the Council's financial position achieved by a severe programme of cost cutting and reduced service provision which has resulted in budget reductions of approximately 25% in two years to meet the Government's cap on the budget in 2005/06 and other savings pressures. The medium term position of a £0.8/1.0 million deficit on the General Fund from 2010/11 onwards indicates that there can be no relaxation in the search for savings and efficiencies.

Background

4. The estimates have been considered by Portfolio Holders and by the Scrutiny Panel consisting of the Chairman and Vice-Chairman of Scrutiny and Overview Committee and the Resources, Staffing, Information and Customer Services Portfolio Holder. 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	Medium Term Financial Strategy
Appendix D	Precautionary Items

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

Considerations

CAPITAL PROGRAMME

5. The capital programme up to the year ending 31st March 2010 is submitted for Members' approval as **Appendix A** showing capital expenditure of around £12 million for each of the years 2007/08 to 2009/10, together with the associated financing and balance of capital receipts.

6. 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 up to the 2006/07 original estimate) 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.

7. 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 25% in 2006/07 which is the last year of the transitional arrangements. It has been assumed that all other housing capital receipts are used to finance affordable housing capital expenditure and would, therefore, not be subject to the pooling arrangements.

8. It has also been assumed that legislation will be introduced with effect from 1st April 2007 which will allow equity share capital receipts also to be used to finance affordable housing capital expenditure and which would, therefore, no longer be subject to the pooling arrangements. The draft legislation would still have resulted in some equity share capital receipts being subject to pooling; representations have been made during the consultation period and the outcome is awaited.

9. It is now anticipated that a cut in the capital programme of £1.7 million might be needed in 2009/10 and that the capital receipts year end balance as at 31st March 2010 might be **NIL.**

10. **Net capital receipts in years from 2010/11 onwards** are likely to be just over £3 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 £7 million – consequently, unless other sources of funding are agreed, the capital programme will have to be cut by over 40% in 2010/11 and subsequent years.**

11. The advice from the Department for Communities and Local Government (DCLG) 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 £33.285 million consisting of:

Capital Expenditure on Affordable Housing	Estimate 2007/08 £ million	Estimate 2008/09 £ million	Estimate 2009/10 £ million	Total £ million
Housing Revenue Account	10.309	10.405	10.428	31.142
General Fund	1.030	1.530	1.280	3.840
Reduction required to meet funding			(1.697)	(1.697)
Total	11.339	11.935	10.011	33.285

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 DCLG. The DCLG consulted and received 169 written representations but the final figures are exactly the same as those reported to the December meeting of Cabinet. The increase in formula grant of £0.448 million on a cash basis comparing 2007/08 to 2006/07 is almost fully utilised to cover inflation at an assumed rate of 2.5% and increased pension contributions leaving little for population growth and planning pressures. There is the prospect of a meeting with the Minister for Local Government to discuss the financial situation of the Council.

REVENUE ESTIMATES

13. The General Fund summary up to the year ending 31st March 2008 is submitted for Members' approval as **Appendix B**.

14. The figures for individual portfolios have been significantly affected by a recent change in local authority accounting practice that has been applied to the current estimates. The 2006/07 original estimates include capital charges, consisting of depreciation and an interest charge, for the use of fixed assets. The requirement to make an interest charge has now been removed, resulting in substantial reductions in the capital charges, particularly in respect of the Cambourne office, in the 2006/07 revised and 2007/08 original estimates. The reduction for the Cambourne office affects the cost of all services through the recharges. The capital charges are reversed out in the General Fund summary as "Capital Charges, etc. – General Fund" and the figures at the level of "Net District Council General Fund Expenditure" are, therefore, on a like for like basis when comparing net expenditure over the years.

15. The figures in Appendix B show the original estimate 2006/07 for Net District Council General Fund Expenditure of £13.935 million decreasing to £12.846 million in 2007/08, a decrease of £1.089 million in cash terms (8%) and a decrease of £1.437 in real terms (10%), the main variances being in very approximate terms:

additional posts at £0.254 million approved in the State of the Nation report in September;

the inclusion of savings of £1.133 million in 2007/08 partially offset by spending pressures of £0.400 million as reported and approved by Council at its November meeting;

an additional saving of £0.275 million on the travellers budget (in addition to the saving of £0.175 million approved in November);

other savings on portfolio and staffing estimates of £0.594 million;

an increase of £0.891 million for inflation, pension contributions and incremental drift; and

an increase of £0.550 in interest on balances due to higher estimated cash balances and higher interest rates, assuming 5.25% for 2007/08 (and 5% thereafter). A variation of 0.5% in the interest rate is estimated to affect the interest on balances by £0.170 million.

16. One of the capping savings approved in October 2005 was £19,864 from a two day secondment of the Community Development Manager to Cambridgeshire County Council. This secondment has now ended resulting in an increase in staffing costs to this Council which has been included in the estimates. It is considered that any approved savings which do not materialise, cease or come in lower than anticipated should be reported to Members.

17. Appendix B shows the General Fund balance reducing from £6.2 million as at 31st March 2006 to £6.0 million as at 31st March 2007 and then increasing to £6.6 million as at 31st March 2008. This increase in balances is not sustainable as shown in the next section of the report.

MEDIUM TERM FINANCIAL STRATEGY

18. Projections for future years have now been updated to incorporate the latest figures and are shown in **Appendix C**.

19. The previous Strategy reported in November was based on the original 2006/07 estimate rolled forward with known approximate variations incorporated. The current Strategy at Appendix C is based on recently compiled estimates for 2007/08 and Net District Council General Fund Expenditure has turned out to be lower than previously anticipated such that the amount added to the General Fund balance in 2007/08 increases from £0.339 million (November projection) to £0.636 million. The General Fund balance is also added to in 2008/09 and marginally in 2009/10 but, as costs rise and interest on balances falls, from 2010/11 the General Fund balance then reduces by £0.8/1.0 million per annum.

20. As well as the lower base estimate for 2007/08, the Strategy now includes an additional £0.875 million for interest on balances over the years 2008/09 to 2010/11, an additional £0.1 million per annum with effect from 2009/10 for additional planning fees on major developments and substantial savings in the years 2008/09 to 2009/10 and 2012/13 when there is anticipated to be lower expenditure on the Local Development Framework.

21. The figure for spending pressures approved by Council in future years shows at a lower figure on a separate line in Appendix C because, for example, the £0.7 million approved for 2008/09 included £0.4 million ongoing from 2007/08; the £0.4 million is now built into the base budget for 2007/08 and consequently only an additional £0.3 million plus inflation is shown on a separate line in Appendix C.

22. The result is that by the end of the projection period, 31st March 2013, the General Fund balance is £4.6 million and the target balance of £1.5 million is not likely to be achieved until around 2016/17.

23. The increase in the balance as at 31st March 2013 from the projections in November to the current projections is due to a significantly higher estimate for interest on balances, additional planning fees on major growth areas and additional savings not anticipated in 2007/08. The increase can be approximately reconciled as:

	2007/08	
2007/08 increase in working balance	MTFS Nov 2006	(339)
Adjust for:		
Assumed LDF savings not in 2007/08, delayed to 2008/09		250
Additional interest in 2007/08		(400)
Additional net savings		(147)

2007/08 increase in working balance	MTFS Feb 2007	(636)
		=======
Additional net savings of £147,000 rolled forward for six years in base budget		(882)
Additional interest 2006/07 to 2012/13		(1,425)
Additional planning fees on major growth areas 2009/10 to 2013/14		(500)
Other variations		(317)

Total variations		(3,124)
		=======
General Fund balance as at 31st March 2013	MTFS Nov 2006	(1,500)
General Fund balance as at 31st March 2013	MTFS Feb 2007	(4,624)

		(3,124)
		=======

24. This temporary improvement in the Council's projected finances also incorporates a severe programme of cost cutting and reduced service provision. The medium term position of a £0.8/1.0 million deficit on the General Fund from 2010/11 onwards indicates that there can be no relaxation in the search for savings and efficiencies.

25. **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 2007/08, 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 2007/08.

COLLECTION FUND BALANCE

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

27. Regulations provide that the balance on the Collection Fund at 31st March 2007, whether in hand or overdrawn, must be transferred to the Billing Authority and the major precepting authorities in the same ratio as their 2006/07 precepts.

28. It is estimated that the balance at 31st March 2007 will be a surplus of £90,000 of which £10,850 will be transferred to the District in 2007/2008.

PART 2 – SETTING THE COUNCIL TAX

CALCULATION OF THE TAX

29. 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.

30. 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 56,693.7 for 2007/08 has been approved by the Chief Executive.

31. If the Council approves the demand of £5.798 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	£56.81
A	Up to and including £40,000	6/9	£68.17
B	£40,001 - £52,000	7/9	£79.54
C	£52,001 - £68,000	8/9	£90.90
D	£68,001 - £88,000	-	£102.26
E	£88,001 - £120,000	11/9	£124.98
F	£120,001 - £160,000	13/9	£147.71
G	£160,001 - ££320,000	15/9	£170,43
H	More than £320,000	18/9	£204.52

32. 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 22nd February.

PART 3 – PRUDENTIAL INDICATORS

33. 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.

34. 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.

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

Ratio of Financing Costs to Net Revenue Stream			
	Estimate 2007/08	Estimate 2008/09	Estimate 2009/10
General Fund	(13%)	(10%)	(7%)
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.

36. 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 2007/08, 2008/09 and 2009/10, 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.

37. The prudential indicators for external debt and treasury management will be shown in a separate report, Investment Strategy 2007/08, to the next meeting in March.

PART 4 – FINANCIAL ADMINISTRATION

38. 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.

39. 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 2007/08 estimates and the reserves up to 31st March 2008.

40. At South Cambridgeshire District Council, the Chief Executive as the chief financial officer considers the estimates for the financial year 2007/08 to be sufficiently robust and the financial reserves up to 31st March 2008 to be adequate.

Options

41. There is no option to increase the council tax by more than 5%. With the announcement of the provisional figures for the local authority finance settlement, the Minister for Local Government stated that "… we expect to see an average council tax increase in England of less than 5%. We will not allow excessive council tax increases" and, with the announcement of the final settlement, "As in previous years, we are prepared to take capping action to deal with excessive increases".

Implications

42.

Financial	As above
Legal	Further savings could affect the provision of statutory services.
Staffing	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	The risks include: (a) 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; (b) the planned savings may not materialise. This can be monitored by ensuring that any unrealised savings are reported to Cabinet. The likelihood is considered to be medium; (c) the savings from the Transformation Project may not materialise as business process re-engineering might not achieve the assumed staff reductions; the likelihood of the risk has not been assessed; and (d) 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
Equal Opportunities	None

Consultations

43. The winter edition of South Cambs magazine included a section on future spending and priorities and invited views via the website on savings, growth and other issues. The results have not yet been assessed but the response has not been overwhelming. If any significant issues arise, they will be reported at the meeting.

Effect on Annual Priorities and Corporate Objectives

44.

Affordable Homes	The proposals in the report relate to budget estimates to provide the resources for the Council to continue and improve its services as far as possible within the current financial constraints and directly and indirectly contribute towards the
Customer Service	
Northstowe and other growth areas	

Quality, Accessible Services	achievement of annual priorities and corporate objectives.
Village Life	
Sustainability	
Partnership	

Recommendations

45. Members are requested to recommend to Council:

a) that the capital programme up to the year ending 31st March 2010 be approved as submitted which includes the sum of £33.285 million to be spent on affordable housing for the years from 2007/08 to 2009/10;

b) that the increase in staffing costs due to an approved saving no longer being achieved is approved (paragraph 16);

c) that the revised revenue estimates for the year 2006/07 and the revenue estimates for 2007/08 be approved as submitted and incorporating the decision made at b);

d) that the District Council demand for general expenses for 2007/08 be £5.798 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 £102.26 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 Part 3 be approved.

46. Members are requested to approve the list of precautionary items (Appendix D) to be used under delegated powers already given to the Resources, Staffing, Information and Customer Services Portfolio Holder and the Chief Executive.

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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