SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Leader and Cabinet	12 February 2009
AUTHOR/S:	Chief Executive / Head of Accountancy	

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 2009/10 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 2009/10 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. 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 November 2008 Forward Plan.

Executive Summary

3. An increase of 4.9% in the Council Tax for a Band D property for 2009/10 is recommended to keep within the 5% capping criteria. The Minister for Local Government has on several occasions stated that "the Government again expects the average council tax increase in England to be substantially below 5% in 2009-10". The capping criteria in previous years, which are not announced until councils have set their council taxes, have clearly demonstrated that the 5% is a maximum limit for an individual council, and not an average across all councils.

4. The estimates and the Medium Term Financial Strategy show the Council's financial position as being about the same as that reported to Council on 27th November 2008 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, the achievement of efficiency and other savings and an increase in Formula Grant which is higher than the increases in the current three year settlement.

The medium term position of an estimated £1.2 million deficit on the General Fund from 2012/13 onwards indicates that there can be no relaxation in the search for savings and efficiencies or in pressing for fairer funding.

Background

5. 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	Medium Term Financial Strategy
Appendix D	Precautionary Items
Appendix E	Prudential Indicators (to follow)

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

PART 1 – APPROVING THE ESTIMATES

Considerations

CAPITAL PROGRAMME

6. The capital programme up to the year ending 31st March 2012 is submitted for Members' approval as **Appendix A** showing capital expenditure of around £12 million in 2008/09, reducing to £7 million from 2010/11 onwards, together with the associated financing and balance of capital receipts. The balance of capital receipts brought forward is fully utilised in 2009/10 and thereafter the programme is dependent on in-year capital receipts and grants

7. 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.

8. In the calculation of the pooling of capital receipts, the Council has been informed by the Department for Communities and Local Government (DCLG) that the earliest any legislation will be in place is 1st April 2010. The delay in implementing this legislation is estimated to have cost the Council a total of approximately £3.2 million over the years from 2007/08 to 2009/10, plus lesser amounts in the years 2004/05 to 2006/07 due the transitional relief arrangements.

9. It has also been assumed that all other housing capital receipts are used to finance affordable housing capital expenditure and will, therefore, not be subject to the pooling arrangements.

10. The housing estimates allow for an additional £400,000 of capital expenditure on disabled adaptations to be financed from revenue in 2009/10 only and Cabinet and Council will be asked to approve this change in capital financing. This will allow

disabled adaptations to be maintained at its previous level while allowing other capital resources to be used on improvements and the contractual acquisition of equity share dwellings. This will utilise part of the increased Housing Revenue Account balance arising from the underspend in 2007-08 (the underspend in that year did not occur on disabled adaptations).

11. **It is now anticipated that a cut in the capital programme of £0.6 million might be needed from 2010/11 onwards** and that the capital receipts year end balance as at 31st March 2010 might be **NIL.** The potential cut in the capital programme is less than previously reported as the ICT capital estimate is being substantially reduced. Housing is also being cut to the minimum in 2010/11, the minimum consisting of the acquisition of equity share dwellings, being financed from capital receipts, and improvement work, being financed by the major repairs allowance. The £0.6 million cut will, therefore, have to be found from the General Fund part of the capital programme.

12. Net capital receipts in years from 2010/11 onwards are likely to be £3.5 million and these, together with grants and contributions of £3.9 million including £3.2 million for the Major Repairs Allowance for council housing, will only be sufficient to finance a capital programme of around £7.5 million.

LOCAL AUTHORITY FINANCE SETTLEMENT

13. The provisional settlement was announced on 26th November. A formal response to the provisional settlement was then made within the consultation period requesting a meeting with the Minister but no reply has been received.

14. The final settlement has now been received and the General Fund summary at **Appendix B** contains the final figures issued by the DCLG. The final figures are the same as those reported to the December meeting of Cabinet. The Local Government Minister stated that local government had received a fair and affordable 4.2 % increase in 2009/10. The 4.2% is the national increase for all grants from central to local government. The increase in Formula Grant is a national average of 2.8% and the increase in Formula Grant for South Cambridgeshire **next year is a mere 0.5% in cash terms – the lowest possible increase**. This compounds the financial restrictions imposed by this year’s (2008/09) low increase of 0.4% in cash terms.

15. The provisional grant for the year 2009/10 would have been even lower except for the system of grant floors to ensure that all shire districts receive minimum cash increases of 0.5%. The provisional increase in 2010/11 is above the floor of 0.5% at 0.9% in cash terms but is still likely to be a fall in real terms and insufficient to cover inflation, increased pension contributions, increased expectations and statutory requirements, population growth and planning pressures.

REVENUE ESTIMATES

16. The General Fund summary up to the year ending 31st March 2010 is submitted for Members’ approval as **Appendix B**.

17. Cabinet on 11th December 2008 approved additional spending plans (bids) for inclusion in the estimates and these are included in the General Fund, Housing Revenue Account and Capital Programme estimates presented to this meeting.

18. Comments on the estimates are:

a) the portfolio estimates set out in the separate document include pay inflation and non-pay inflation (where applicable) at 2.5% as agreed by Cabinet and Council in November when the latest available retail price index (RPI) for the year to September 2008 showed an increase of 5%. The latest RPI to December 2008 now shows an increase of 0.9%. A credit of £262,000 has, therefore, been included in the General Fund summary at Appendix B to reduce the 2.5% inflation in the portfolio estimates to an estimated 1% for 2009/10;

b) the sum of £150,000, which is equivalent to 2.4% of the proposed 4.9% council tax increase, has been included in the General Fund summary at Appendix B for targeted initiatives aimed at economic interventions; part of this sum will also be used to cover the loss of income from any fees and charges which are not increased in 2009/10;

c) interest on balances is estimated to reduce from an original estimate of £1.9 million in 2008/09 to £1.25 million in 2009/10 partly due to reducing balances but substantially due to lower interest rates;

d) income from planning fees and land charges fees is estimated to reduce by £224,000 and £103,900 respectively in the original estimates from 2008/09 to 2009/10; part of the exceptional Housing and Planning Delivery Grant received in 2008/09 has been used in 2009/10 only to offset this estimated reduced income;

e) the total cost of the Housing Futures project has increased marginally in 2008/09 from the original estimate to revised but a detailed reassessment of the allocation of these costs has resulted in a much greater proportion falling on the General Fund;

f) the 2008/09 original estimate of £734,000 for concessionary fares payment to the County Council is estimated to reduce to £433,000 in the revised 2008/09 and to £588,000 in 2009/10; and

g) since the benefits estimates were compiled, the Department for Work and Pensions announced an additional grant of £51,015 for the purpose of administering and processing benefit claims. It is assumed that this grant will be used for additional expenditure on the benefits service to meet additional demands due to the economic downtown such that it will have a net nil effect in financial terms. Delegated authority is being requested to spend this grant.

19. The figures in Appendix B show the original estimate 2008/09 for Net District Council General Fund Expenditure of £13.865 million increasing slightly to £13.866 million in the revised estimate 2007/08, a increase of £0.001 million in cash terms. The main variances are shown below in very approximate terms:

	£ million
Housing Futures Project	0.321
Development Control	0.118
Concessionary Fares	(0.275)
Growth Agenda	0.372
Planning Policy	(0.192)
Efficiency savings not included above / still to be found	0.116

Unallocated costs	0.137
Interest on Balances	(0.180)
Sub Total	0.417
Other variances less than £100,000	(0.416)
Grand Total	0.001

20. The figures in Appendix B also show the original estimate 2008/09 for Net District Council General Fund Expenditure of £13.865 million increasing to £15.418 million in the estimate 2009/10, an increase of £1.553 million in cash terms (11.2%) financed mainly by increased use of the General Fund balance and by use of Housing and Planning Delivery Grant, the main variances being in very approximate terms:

	£ million
Refuse Collection Service	0.184
Kerbside Recycling	0.352
Development Control	0.147
Concessionary Fares	(0.117)
Growth Agenda	0.451
Capital grants credited to services	0.177
Unallocated – inflation from 2.5% to 1%	(0.262)
Support for Economic Downturn (net of income foregone)	0.133
Interest on Balances	0.650
Depreciation	(0.143)
Sub Total	1.572
Other variances less than £100,000	(0.019)
Grand Total	1.553

21. The increase can be re-analysed as:

	£ million
Bids, both inescapable and to support Council actions	0.501
Full year effect of plastics recycling	0.126
Loss of income – planning and land charges	0.328
Loss of interest	0.650
Support for economic downturn (net)	0.150
Saving on concessionary fares	(0.117)
Saving on elections every fourth year	(0.098)
Other items	0.013
Net increase	1.553

22. Appendix B shows the General Fund balance increasing from £7.8 million as at 31st March 2008 to £8.0 million as at 31st March 2009 and then decreasing to £7.3 million as at 31st March 2010. 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 not in the long term.

MEDIUM TERM FINANCIAL STRATEGY

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

24. The Strategy is dependent on the assumptions that are built in to it, the main general assumptions being:

a) in view of the disappointing financial settlement, no provision has been included in the Strategy for any contribution towards the revenue funding for supporting community facilities at Northstowe; and

b) the Council is currently working towards implementing a revised pay and grading scheme and a provisional 3% increase in pay has been included with effect from 1st April 2010.

25. Assumptions relating to the economic downturn include:

a) pay and non-pay inflation of 1% in 2009/10, 1.5% in 2010/11 and 2.5% thereafter. The reduction in the estimated inflation rate has a substantial effect as it not only reduces expenditure in 2009/10 and 2010/11 but also reduces the base budget to which 2.5% inflation is applied from 2011/12 onwards;

b) interest rates of 2.25% in 2009/10, 3.25% in 2010/11 and 4.5% thereafter;

c) employer's pension contributions as stated in the last triennial valuation, that is, no allowance for an increased pension fund deficit;

d) compared to this time last year, a lower taxbase (number of band D equivalent dwellings) in future years based on the latest housing trajectory, that is, fewer new houses being built;

e) income from planning and land charges will recover to 2008/09 original estimate level in the second half of 2009/10; and

f) the £150,000 for support for the economic downturn is one-off expenditure in 2009/10 only.

26. The Strategy now assumes lower ongoing cashable efficiency and other savings of £250,000 in 2009/10 compared to the previous targets of 2% in 2009/10 (£243,000) and a further 2% in 2010/11 (£304,000). Efficiency and other savings of £250,000 may not all be realised in 2009/10 but it is essential that savings of this magnitude are identified in 2009/10 so that the full year effect of the savings is achieved in 2010/11 and later years.

27. The economic downturn is likely to result in an increased demand for some services such as benefits and homelessness and a decreased (or an increase not rising as fast as previously predicted) for other services. The need to fill any posts which fall vacant may, therefore, need to be re-assessed. It is proposed that the approval of Senior Management Team to start the recruitment process for posts which are /will be vacant is re-established

28. The result is that by the end of the projection period, 31st March 2014, the General Fund balance is £2.9 million (credit balance). This balance may be considered to be adequate for future financial planning. **However, the medium term position of a**

£1.2 million deficit on the General Fund from 2012/13 onwards indicates that there can be no relaxation in the search for efficiencies and other savings or in pressing for fairer funding.

29. The movement in the General Fund balance as at 31st March 2014 can be analysed as:

	£ million	£ million
Reduced base budget including bids and inflation	(1.748)	
Reduced efficiency and other savings	3.381	
Movement on reserves and grants	(0.319)	
Interest, reversal of depreciation, etc,	(0.753)	
Increased formula grant due to amended tax base	(0.053)	
Increased council tax income due to amended tax base	(0.342)	
Movement on collection fund	(0.008)	
		0.158
General Fund balance 31/03/14 as reported to Council 27/11/08		(3.102)
General Fund balance 31/03/14 as in Appendix C		(2.944)

30. **Appendix D** sets out details of "precautionary" items of expenditure totalling £570,720. These are items of expenditure over which there is some doubt as to whether they would occur in 2009/10, 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 2009/10 on the basis that there has been no use of precautionary items in the previous year and that in previous years most additional demands have been met by virement.

COLLECTION FUND BALANCE

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

32. Regulations provide that the balance on the Collection Fund at 31st March 2009, whether in hand or overdrawn, must be transferred to the Billing Authority and the major precepting authorities in the same ratio as their 2008/09 precepts.

33. It is estimated that the balance at 31st March 2009 will be a deficit of £380,926, mainly due to expected growth not materialising, of which £46,840 will be transferred to the District in 2009/2010.

PART 2 – SETTING THE COUNCIL TAX

CALCULATION OF THE TAX

34. 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.

35. 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 58,252.5 for 2009/10 has been approved by the Chief Executive.

36. If the Council approves the demand of £6,555,150 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	£62.52
A	Up to and including £40,000	6/9	£75.02
B	£40,001 - £52,000	7/9	£87.52
C	£52,001 - £68,000	8/9	£100.03
D	£68,001 - £88,000	-	£112.53
E	£88,001 - £120,000	11/9	£137.54
F	£120,001 - £160,000	13/9	£162.54
G	£160,001 - ££320,000	15/9	£187.55
H	More than £320,000	18/9	£225.06

37. 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 26th February.

PART 3 – PRUDENTIAL INDICATORS

38. 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.

39. 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.

40. The prudential indicators are set out in **Appendix E.**

PART 4 – FINANCIAL ADMINISTRATION

41. 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.

42. 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 2009/10 estimates and the reserves up to 31st March 2010.

43. At South Cambridgeshire District Council, the Chief Executive as the Chief Financial Officer considers the estimates for the financial year 2009/10 to be sufficiently robust and the financial reserves up to 31st March 2010 to be adequate. The estimated balances are £7.3 million and £2.1 million on the General Fund and Housing Revenue Account respectively. As a temporary measure due to the increased uncertainties caused by the economic downturn, a minimum balance for the General Fund is likely to be £2.5 million, instead of the £1.5 million which applies in normal economic conditions. The minimum balance for the Housing Revenue Account has also been increased from £1.0 million to £1.5 million due to the uncertain economic conditions and because in future years any unexpected capital works will have to be financed from revenue.

Options

44. The risk of being capped limits the options for increasing the council tax by more than 5%. The deficit on the General Fund illustrates the need to keep the council tax increasing.

Implications

45.

Financial	As above
Legal	The pressure to achieve efficiency and other savings and the continuation of a poor financial settlement could adversely affect the level of provision of statutory services.
Staffing	Payroll costs are the largest item in the Council’s budget and if the efficiency savings cannot be found and/or maintained, then salary budget reductions may have to be made to balance the Medium Term Financial Strategy.

Risk Management	The Council's strategic risk register includes the risks arising from the current economic climate, ranked as C2 (C medium impact, 2 likely) and from not delivering the efficiency savings targets, ranked as A3 (A extreme impact, 3 possible). Both risks are above the risk tolerance line and, therefore, strategic risk action plans have been prepared. The risks include: (a) the Council may be capped as its proposed council tax increase of 4.9% is not "substantially below 5%" as expected by the Minister for Local Government. The likelihood is considered **high** as few councils are also likely to be setting increases of 4.9/5%. A survey by the Local Government Association indicated an average rise of 3.5% but at the same time quoting an RPI of +3%, this being inflation for the year to November 2008. Now that the RPI for the year to December 2008 of +0.9% has been published, actual average council tax increases may be lower than 3.5%. (b) the severity and period of the economic downturn may be more than allowed for in the estimates and the MTFS resulting in lower income from fees and charges, lower interest on balances, additional costs for services such as benefits and homelessness and reduced council tax income due to fewer new houses being built. The risk may be partly offset as the demand for services which are driven by population growth may not increase as fast as expected. (c) the efficiency savings of £250,000 may not materialise or may not be maintained as ongoing. The likelihood is considered to be possible.
Equal Opportunities	None

Consultations

46. 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 4.9% increase in the council tax during a recession.

Effect on Annual Priorities and Corporate Objectives and Aims, Approaches and Actions

47. 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 achievement of the Council's existing corporate objectives and towards the Aims, Approaches and Actions to be adopted with effect from 1st April 2009.

Recommendations

48. Cabinet is requested to recommend to Council:

a) that the capital programme (Appendix A) up to the year ending 31st March 2012 be approved as submitted which includes an additional £400,000 for disabled adaptations to be financed from the Housing Revenue Account;

b) that the revised revenue estimates for the year 2008/09 and the revenue estimates for 2009/10 be approved as submitted in the General Fund summary (Appendix B);

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

d) that the Chief Executive is given delegated authority to authorise expenditure up to the sum of £51,015 on the benefits service, to be financed by additional government grant;

e) that the approval of Senior Management Team to start the recruitment process for posts which are /will be vacant is re-established;

f) that the District Council demand for general expenses for 2009/10 be £6,555,150;

g) 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 £112.53 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;

h) that the prudential indicators in Appendix E be approved, and

i) to approve the list of precautionary items (Appendix D) to be used under delegated powers already given to the Finance 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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