

Committee:	Finance and Administration Committee	Agenda Item
Date:	7th February 2008	9
Title:	General Fund Budget 2008/09	
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Summary

REPORT TO COUNCIL 19.02.08

APPENDIX 2

1. This report summarises the draft General Fund Revenue Budget for 2008/09. It includes all the budget recommendations from the current cycle of committees, together with the "Below the Line" technical accounting adjustments necessary to set the Council Tax.
2. In addition the report sets out all the additional changes necessary for this Committee to recommend the setting of a legal budget to the Council on 19th February 2008.
3. Where possible, savings as a result of the most recent round of redundancies have been included in the committee budgets. Because of the need for ring-fencing of appointments it has not been possible to complete all the re-allocations of budgets, which has left a balance unallocated within the General Fund Summary.
4. The Appendices to the report cover:
 - The Budget Summary
 - The details of proposed use of reserves

Recommendations

5. THAT THIS COMMITTEE RECOMMENDS TO FULL COUNCIL THAT:

- 1) Approval be given to the contributions from Earmarked Reserves in 2007/08 and 2008/09, summarised in Appendix 1 and shown in detail in Appendix 2 to this report.
- 2) Final Approval is given to the General Fund Revenue Revised Estimates for 2007/08 and the General Fund Revenue Estimates for 2008/09, as set out in Appendix 1.
- 3) A Council Tax increase for 2008/09 of £6.48 (4.979%) based on a District Council Budget Requirement of £8,431,849 (excluding parish precepts) is approved.
- 4) Any amount received for 2008/09 from the new Housing and Planning Delivery Grant in excess of £200k is returned to the PFI Special Grant Reserve, up to the previously transferred amount.
- 5) The General Fund contribution to the District Election Reserve for 2008/09 is deferred and that contributions re-commence in 2009/10.

GENERAL FUND BUDGET 2008/09

- 6) A figure of £19k is appropriated from the Housing Needs Survey Reserve to the General Fund in 2008/09.
- 7) The Housing Needs Survey Reserve is closed and the balance on the Reserve of £25,000 is transferred to the General Fund.
- 8) The Energy Efficiency Investment Reserve is closed and the balance on the Reserve of £15,000 is transferred to the General Fund.
- 9) This Council's maximum net cost will be £250,000 and if partner income falls below £250,000, then the gross expenditure of £500k will be reduced by the same amount.
- 10) Any amount received for 2008/09 from the new Housing and Planning Delivery Grant in excess of £200k, is returned to the PFI Special Grant Reserve, up to the previously transferred amount.

Background Papers

6. Budget working papers and files, together with budget update reports to previous committees and Council.

Impact

Communication/Consultation	No specific consultation has taken place
Community Safety	No specific implications.
Equalities	No specific implications.
Finance	This report relates to the whole of the Council's General Fund Budget for the next financial year.
Human Rights	No specific implications
Legal implications	The meets the statutory deadline to set a legal budget for the following financial year
Sustainability	No specific implications
Ward-specific impacts	No specific ward related issues can be highlighted.
Workforce/Workplace	Ongoing communication and consultation is taking place with staff and unions

Situation

7. Background.

- I. At its meeting on 11th December 2007 the Council considered an update of the Medium Term Financial Strategy (MTFS).
- II. This showed that the revised forecast deficit for 2007/08 was £938,466, and for 2008/09 a forecast shortfall of £1,822,724.
- III. Within the summary of the report to Council were the following points:
 - It is likely that all Balances will have been used to address the projected deficit in 2007/08 leaving none available for 2008/09.
 - At the time of setting the budget, under Section 25 of the Local Government Act 2003, the Council's Chief Financial Officer is required to report to the Council on:
 - a) The robustness of the estimates included within the budget,
 - b) The adequacy of the reserves and balances.
 - In respect of the G1 appeal, BAA has asked for costs to be awarded against the Council. The Council believes it can defend the request but should it be unsuccessful there are no reserves to meet any award.
 - Exercises undertaken during the second half of 2007/08 have stripped out potential budget savings. Consequently it is the opinion of the Section 151 Officer that the only way to address the projected deficit is to remove as a minimum £1m of staff costs from the organisation by no later than 31st March 2008.
 - Even after taking £1m of staff savings, a further deficit of £822,724 will remain which will have to be met from ongoing base budget reviews and recruitment restrictions as well as a Council-wide review of discretionary/statutory services
- IV. Council agreed at its meeting on 11th December 2007 to note:
 - the forecast budget deficit and
 - the position in respect of reserves and balances
 - the Section 25 of the Local Government Act 2003 position in respect of balances and reserves
 - the outstanding requests for costs from BAA and the impact on the budget if successful
 - the need to reduce staff costs
- V. Council also agreed:
 - That Directors and Heads of Division seek additional income from Fees and Charges
 - To re-consider the proposed Council Tax increase of 3.5% for 2008/09

8. Finance and Administration Committee

Finance and Administration Committee, at its meeting on 15th January 2008, received a report on vacant posts to be deleted, vacant posts to be included in the redeployment opportunities list and finally a list of areas for potential redundancy. Members noted the three stage process undertaken and agreed to consult on the proposed redundancies and staff reductions.

9. Changes to Revised Budgets 2007/08

The following amendments have been made to the 2007/08 budgets which were not included in the budget reports to the January committee cycle.

- | | |
|---|----------|
| • Additional costs of redundancies, pay in lieu, etc | £284,449 |
| • Extra responsibility payments/consultant fees/recruitment | £42,680 |
| • Reduced Development Control fees | £50,000 |
| • Further claims on Concessionary Fares | £20,000 |

TOTAL ADDITIONAL COSTS **£397,129**

OFFSET BY ADDITIONAL SAVINGS

- | | |
|---|----------|
| • Extra income pre-application fees/airport applic. | £63,300 |
| • Further partner contributions Airport G1 | £175,480 |
| • Extra fee income-airport | £95,000 |
| • Write back of "Out of Date cheques" | £115,200 |

NET ADDITIONAL SAVINGS **£51,851**

10. 2007/08 assumptions members need to be aware of.

The following assumptions have been included in the revised budget for 2007/08 which officers feel that members should be aware of:

- The Council has applied to the DCLG for permission to fund one-off redundancy payments totalling £236,740 by way of Capitalisation, which would then be funded from capital receipts. No decision has yet been received from the DCLG, but an answer has been promised before 31st March 2008. The Budget for 2007/08 assumes this bid for capitalisation will be successful.
- The Budget Summary for 2007/08 includes a sum of £236,800 for grant under the Local Authority Business Growth Incentive (LABGI) Scheme. This matches the amount due for 2006/07. A notice has been received from DCLG on two occasions by the Minister of Local Government to

say that the DCLG is reviewing the sums to be paid under Year 3 of the LABGI scheme. In the latest announcement the Government are looking again at the allocation of resources, not only for Year 3 but also for years 1 and 2 in the light of legal challenges by some authorities. Although the Council received £20k as a final payment this financial year in respect of 2006/07, Officers have been prudent by only including the same amount as the allocation for 2006/07. No budget has been included for 2008/09.

11. Reserves and Balances

As members are aware the Council's Reserves and Balances are now seriously depleted.

- **General Fund Balance**

The General Fund Balance as at 1st April 2007 was £1m. The financial problems previously identified mean that a sum of £892,515 is forecast to be withdrawn from balances in respect of 2007/08. Guidance under the Comprehensive Performance has meant that in order to meet a "good" ranking the Council would have to meet the following criteria:

The aggregate balance of:

- General Fund Balance
- Other earmarked revenue reserves

should be in surplus at the year end and the General Fund Balance should be equal to at least 5%, but not more than 100% of forecast net operating expenditure.

Excluding Parish Council precepts, this Council's District Council Budget Requirement for 2007/08 is £8.021m, and 5% would be a minimum balance of £401k. Further proposals to support the General Fund Balance are set out below in the section on the PFI Special Grant Reserve.

A further report on the robustness and adequacy of estimates and reserves and balances is required to be made by the Section 151 Officer to the Council when setting the Council Tax for the following financial year. A report will be presented to Council on 19th February.

Set out at Appendix 2 are details of the Earmarked Reserves held by the Council, details of the purpose the reserve was set up for and the proposed use in 2007/08 and 2008/09.

Proposals for the use of reserves and background information are set out below:

- **Financial Management Reserve (FMR)**

The balance brought forward on the FMR at 1st April 2007 is £23,838.92.

In the light of the Council's financial position it is proposed to use all the outstanding balance to offset the estimated deficit in 2007/08.

- **District Character Reserve (DCR)**

The balance brought forward on the DCR at 1st April 2007 is £311,436.56.

Within the Development Control budget for 2007/08 there is a sum of £450,000 for costs for the Stansted runway appeal. The DCR was set up to support the costs of airport and other major developments. It is proposed to use all the outstanding balance to offset the estimated costs incurred in 2007/08.

- **Planning Delivery Grant (PDGR)**

The balance brought forward on the PDGR at 1st April 2007 is £133,201.57

All the above balance is only for use on capital expenditure, and, together with the capital allocation for 2007/08, has been used for funding the capital programme in 2007/08.

The spending allocations for PDG on the present scheme are split 75% Revenue and 25% Capital.

For 2007/08 the Council, along with all other authorities, has been notified that it is to receive a PDG allocation of £387,415, but so far has only received £50,073. (Today we have been notified that payment by the Government is imminent). This is split £290,561 for Revenue and £96,854 for capital. For the 2007/08 budget officers have included the sum previously notified of £387,415 in the 2007/08 budgets for revenue and capital.

For 2008/09 a new Housing and Planning Delivery Grant (HPDG) will be launched, but as yet no allocations have been published by the Government. Because of the uncertainty of the payments for 2007/08 officers have been prudent and only included £200,000 for the new HPDG in 2008/09.

- **PFI (Special Grant) Cash flow Reserve (PFISG)**

The balance brought forward on the PFISG at 1st April 2007 is £1,101,517.42.

In Appendix 2 the purpose of this reserve is set out, which is to equalise the government grant received towards the Council's PFI scheme.

In 2020 the Council changes from a net grant receiver to a payer to Central Government, and until this year the Council has been putting aside sums of around £40k per annum to build up the balance on the PFISG so that by 2020 there is a sufficient balance totalling around £2.2m to equalise payments.

In the light of the Council's current financial position together with the demands on the General Fund Balance, officers are recommending that

the PFISG Reserve is used as a short term measure to support the General Fund Balance.

As set out in the paragraph above the General Fund Balance brought forward as at 1st April 2007 was £1m. If, as recommended above, the Council retains the General Balance at £500,000, the overspend in 2007/08 will mean only £100,000 can be used from the GF Balance, and the forecast remaining overspend will be funded by an amount of £400,000 being transferred from the PFISG Reserve.

To ensure this does not put undue pressure on the Council in 2020 a financial plan is set out below for returning the PFISG Reserve to the level of balance that would have been achieved without being used.

Assuming the PFISG falls to £700k at the end of the financial year 2008/09, with no contributions from the General Fund in either 2007/08 or 2008/09, contributions from 2009/10 up to and including 2020/21 would have to commence at £70,000 per annum and increase annually by 10%. For instance in year 2, 2010/11 the contribution would be £77,000 rising each year until in 2020/21 the contribution would be £199,719.

As a sum as high as this would put General Fund spending under very great pressure for the next 12 years, members should be aware that on the current Council Tax base this would mean an increase of £2.20 on a Band D property in 2009/10, and increasing to £6.26 in 2020/21.

However, it is envisaged that the Council will receive further funding from the new Housing and Planning Grant from 2008/09. As there has been only £200k included in 2008/09 for the new grant, it is **RECOMMENDED** that any amount received for 2008/09 from the new Housing and Planning Delivery Grant in excess of £200k is returned to the PFI Special Grant Reserve, up to the previously transferred amount.

- **District Election Reserve (DER)**

The balance brought forward on the DER at 1st April 2007 is £50,000.

This reserve is made up of resources set aside to fund elections. As the elections were held in May 2007 it is appropriate to use this reserve this financial year and so £50,000 has been appropriated to the General Fund Summary in 2007/08.

However, because of the Council's financial problems it is **RECOMMENDED** that the General Fund contribution to the District Election Reserve for 2008/09 is deferred and that contributions recommence in 2009/10.

- **Housing Needs Survey Reserve (HNSR)**

The balance brought forward on the HNSR at 1st April 2007 is £44,000.

This reserve is made up of resources set aside to fund Regional Housing Market Assessments. Within the Housing Strategy budget for 2008/09 is

a sum of £19k for sharing the cost of a regional strategy and it is **RECOMMENDED** that a matching figure of £19k is appropriated from the Housing Needs Survey to the General Fund in 2008/09. It is also **RECOMMENDED** that the HNS Reserve is closed and the balance on the HNS Reserve of £25,000 is transferred to the General Fund.

- **Energy Efficiency Investment Reserve (EEIR)**

The balance brought forward on the EEIR at 1st April 2007 is £15,000.

Within the Council's approved Capital Programme there is already a sum of £200,000, of which £145,000 will be available in 2008/09. It is **RECOMMENDED** that the Energy Efficiency Investment Reserve is closed and the balance on the Reserve of £15,000 is transferred to the General Fund.

12. Formula Grant Settlement

The Government has now confirmed the proposals for the first 3 year settlement for local government covering 2008/09, 2009/10 and 2011/12. This Council's settlement is as follows:

	2007/08	2008/09	2009/10	2010/11
	£	£	£	£
Revenue Support Grant	573,036	496,791		
Redistrib. Business Rates	3,414,572	3,568,690		
Total	3,987,608	4,065,481	4,085,808	4,106,237
Adjusted 07/08 Grant base	4,025,228			
% Increase	-	1%	0.5%	0.5%

13. Capping

The Minister for Local Government wrote to all local authorities on 17th December 2007 regarding Council Tax in 2008/09.

With regard to Capping, his letter states as follows:

“The Government expects the average council tax increase in England to be substantially below 5% in 2008/09. I made it clear to the House that we will not hesitate to use our capping powers as necessary to protect council taxpayers from excessive increases.

No decisions have been taken on capping principles for 2008/09. It would, however, be unwise for any authority to assume that capping principles set in previous years will be repeated. We intend to take decisions on principles after authorities have set their budgets, but we are prepared to announce the principles in advance if the circumstances suggest this is necessary.”

Last week the Chief Executive attended a meeting with GoEast, to set the Council's financial situation. It was made clear at that meeting that the regional office plays no part in the principles or implementation of capping at local authorities and it will be for the Government to determine whether an authority will be capped.

The Government's policy, as set out above, appears to be very clear.

14. Committee Budgets

All the Council's Committees have now met to agree their budgets. Decisions taken in respect of redundancies in the October round were included in the base budgets agreed by committees,

15. Fees and Charges.

A number of increases in Fees and Charges for 2008/09 were agreed by committees in the January cycle, which have now been incorporated into base budgets. These are as follows:

• Implementing a charge for white goods/bulky waste	£90,000
• Dry recyclable Disposal Charges	£100,000
• Additional Car Parking charges (net)	£45,000
• Trade waste, garden waste, Septic Tanks	£23,200
• Street Naming	£3,500
• Stray Dogs/Squirrels Fees	£2,500
• Additional income-Border inspection income	£34,000
TOTAL ESTIMATED ADDITIONAL INCOME	£298,200

16. Changes to Original Budgets 2008/09

The following amendments have been made to the 2008/09 budgets which were not included in the budget reports to the January committee cycle.

• Staff savings from redundancies	£625,690
• Deleted posts	£713,430
• Extra responsibility payments/consultant fees	(-) £38,330
• Deletion of net costs of Tourism service less grant	£95,230
• G2 Estimated income from Partners	£250,000
• New Housing & Planning Delivery Grant	£200,000
• Miscellaneous adjustments	(-)27,020
TOTAL ADDITIONAL SAVINGS	£1,819,000

17. 2008/09 assumptions members need to be aware of.

The following assumptions have been included in the original budget for 2008/09 which officers feel that members should be aware of:

- No budget has been included for the Local Authority Business Growth Incentives (LABGI) Scheme. A possible new scheme may be introduced in 2009/10.
- An expenditure budget of £500,000 has been included for the G2 airport costs. To offset this cost, £250,000 income from partners has been forecast, leaving a net £250,000 cost to this Authority. It is **RECOMMENDED** that, this Council's maximum net cost will be £250,000 and if partner income falls below £250,000, then the gross expenditure of £500k will be reduced by the same amount.
- The Budget includes a provisional sum of £200,000 for the new Housing and Planning Delivery Grant which is due to start later in 2008. As there has been only £200k included, it is **RECOMMENDED** that any amount received for 2008/09 from the new Housing and Planning Delivery Grant in excess of £200k, is returned to the PFI Special Grant Reserve, up to the previously transferred amount.
- The 5% savings (vacancies) factor included in the Original Budget for 2007/08 has been retained and has been deducted from each service. For the Authority as a whole this amounts to around £500,000 and as the Council has just been through a very strict redundancy process, it is likely to be very difficult to achieve this level of savings in the next financial year.
- Within Paragraph 15 above, there are a number of changes to the principals for charges within the new Fees and Charges. At this stage it is difficult to forecast the effects in the first year.
- The budget for Investment Interest Income has been forecast based on the views coming out of the City, and take into account today's confirmed Base Rate cut to 5.25%. A lower level of rates is expected later in 2008/09. However the Council does have some investments placed out up to a year at higher fixed rates, which will help offset today's fall in the base rate.
- The detailed Committee budgets shown in Appendix 1 have to be amended to take account of variations to recharges as a result of all the variations set out in paragraph 16 above. These changes to recharges will not have an effect on the overall Council General Fund Budget Requirement for 2008/09.
- The Dry Recyclable Disposal changes are only at a trial stage at the present time.

- Because of the shortage of senior finance staff time, the Medium Term Financial Strategy (MTFS) has not yet been updated for the next three years. This will be brought to members at the Finance and Administration Committee on 27th March 2008.

18. Collection Fund

On the 15th January each financial year, the Billing Authority (Uttlesford DC) has to produce an estimate of the surplus or deficit on the Collection Fund as at the end of the current financial year. The estimated balance must legally be shared with the other major preceptors (County, Police and Fire) based on the original % of their precept as a share of the total major precepts. The forecast on 15th January shows that the forecast total surplus on the Collection Fund at 31st March 2008 will be £46,745 and this Council's share will be £6,278.

19. Council Tax Base

The Council Tax Base for 2008/09 has now been calculated and is 31,914. A detailed breakdown of parish precepts for individual parishes will be included in the report to Council on 19th February 2008 as part of the council tax resolution.

20. Council Tax

In paragraph 13 above the Government's policy on Capping is set out quite clearly, which shows that the Government are looking for Council Tax increases for 2008/09 to be substantially lower than 5%.

The MTFS calculations assumed an increase of 4.5%.

However in the light of the Council's current financial situation it is essential that the Council Tax income base is as high as possible.

The General Fund Summary set out in Appendix 1 assumes a Council Tax increase for 2008/09 from £130.14 to £136.62 on a Band D property for the Uttlesford part of the Council Tax. This is an increase of 4.979% over 2007/08.