

Finance and Administration Committee 17 June 2010

Agenda item 9 – Urgent Items

Report by Stephen Joyce, Chief Finance Officer, 16 June 2010

9 (a) Reduction in Grants to Local Government

On 10 June the Government provided details of the cuts in Local Government funding totalling £1.166 billion, which had been previously announced as part of the £6.2 billion of cross government savings. The effects on UDC are as follows:

Housing & Planning Delivery Grant (HPDG)	Abolished. No announcements of allocations to individual authorities had been made. UDC budget assumed that £100,000 would be received. The announcement therefore creates a deficit in the 2010/11 budget of £100,000. This will be met by drawing upon the Planning Development Reserve, so no budget pressure will arise. No assumed income had been built into the Medium Term Financial Strategy beyond 2010/11.
Local Authority Business Growth Incentive Scheme (LABGI)	Abolished. The provisional allocation for UDC of £42,581 has been withdrawn. This was not built into the budget and no commitments had been made, so this does not cause any budget pressure. No assumed income has been built into the MTFs.
Area Based Grant (ABG)	UDC's 2010/11 allocation confirmed at £38,599, which is £9,780 higher than the provisional allocation of £28,819. The budget had assumed £28,819 so the announcement gives rise to a favourable variance of £9,780.
Local Government Finance Settlement	No change to previously confirmed figure of £4,106,237.
LAA Reward Grant	The scheme is to be reduced with the Government announcing that claims will be paid at 50%. This does not form part of the Council's own resources, so no direct budget pressure is caused, however the scheme reduction is likely to have an effect on partnership activity.

In addition, there could be indirect consequences for the Council arising from the cuts to Essex County Council's funding of £7.559 million.

No announcements were made regarding other Government grants relied on by UDC, most notably Benefits subsidy and Benefits admin subsidy. No announcements were made about grants that fall within the purview of government agencies, such as Improvement East and the Homes & Communities Agency.

Further information:

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/>

RECOMMENDATION

The Committee is recommended to note this report.

9 (b) Holloway Crescent project

This is a referred item from the Community & Housing Committee on 10 June.

The Council has approved a scheme to build 5 new bungalows at Holloway Crescent, Leaden Roding.

The estimated cost of the project is £560,000, currently expected to be financed as follows:

HCA Grant	£225,000
Section 106 contributions	£191,000
HRA revenue contribution	£144,000 (up to £150,000 is budgeted for)

Pending the Budget announcements on 22 June, there is some uncertainty about whether the HCA grant will continue to be available.

If the HCA grant is cancelled, the Council will need an alternative source of finance to complete the project.

No other Section 106 contributions or HRA revenue contributions are likely to be available.

The financing strategy approved by the Council is to use its own cash deposits to fund the capital programme, where required. This is known as “internal borrowing”.

This is a sensible alternative to external borrowing because it avoids borrowing costs and reduces the Council’s exposure to the banking market.

The Council can accommodate an additional £225,000 of internal borrowing. Even with this included, forecasts suggest that no external borrowing will be required until 2014.

Analysis shows that even if external borrowing is undertaken to fund the £225,000, the cost of servicing the loan can be met from rent revenues generated from the new units. However, internal borrowing is the preferred method.

In addition to making the recommendation below, the Community & Housing Committee resolved to write to the local MP to express concern about potential cancellation of the HCA grant.

RECOMMENDATION FROM COMMUNITY & HOUSING COMMITTEE

The Finance & Administration Committee is requested to approve a variation to the capital financing strategy, to use internal borrowing in lieu of HCA grant if required, to ensure that the Holloway Crescent project can proceed.