

**Committee:** Resources Committee – extraordinary meeting

**Date:** 5 February 2003

**Agenda Item No:** 3

**Title:** General Fund Revenue Estimates 2003/04

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### **Summary**

- 1 This report summarises the draft General Fund Revenue Budget for 2003/04. It includes the budget related recommendations of this Committee on 23 January 2003 and reflects final technical adjustments and the recommended Council Tax increase of 7.5%. The report has had to be prepared in advance of Final Settlement details not now expected to be released until 3 February 2003 at the earliest.
- 2 This is the final opportunity for this Committee to confirm items to be included in the General Fund Revised Estimates 2002/03 and the 2003/04 Estimates, together with the Council Tax increase it wishes to recommend to the Council Meeting on 11 February 2003 for approval.
- 3 Supporting figures are provided in a set of three appendices. As well as budget projections to 2005/06 (REV1), details are also provided of projection and corporate contingency amounts (REV2) and for updated reserve recommendations (REV3).

### **Local Government Finance Settlement and Precept Information**

- 4 Budget projections are still based on the provisional settlement notification of 5 December 2002. Details of the final settlement are not now expected to be released until sometime on 3 February. Town and parish precepts are also still being collated, the figure included in REV1 being simply indicative at this stage. Any updates to the overall figures required as a result will be circulated to Members as soon as possible and should be available for the meeting on 5 February.
- 5 The Essex Police Authority budget meeting is on 11 February 2003, but, because of the late settlement date, Essex County Council will not be formally determining its precept requirement until 18 February. Our Council meeting on 11 February will therefore not be able to confirm formally the total council tax requirement tables when it determines its own figures. Arrangements are being made for a Group Leaders' meeting on 18 February to confirm the

overall council tax rates for 2003/04 once the County makes its decision on the same day.

### Updated Service Budgets

- 6 The table below outlines the service budget position after changes made at the last meeting of this Committee on 23 January and subsequent corrections. Updated figures for all Committees for both 2002/03 and 2003/04 are shown in Appendix REV1.

	<b>2003/04 Estimate £</b>
<b>Net cost of services total – 23 January 2003</b>	7,279,400
C&L Committee additional savings omitted	<u>-48,920</u>
<b>Corrected total as reported – 23 January 2003</b>	7,230,480
Corporate staffing - ongoing reduction (net)	-6,500
Stansted Airport campaign	100,000
Community Safety - policing	<u>50,000</u>
<b>Updated total as approved – 23 January 2003</b>	7,373,980
Corporate staffing transition (from reserves)	10,000
Corporate CPA training (from reserves)	15,000
Member training (from reserves)	22,000
Tax Credit administration (net - from report)	-9,600
Verification Framework (from reserves)	<u>14,180</u>
<b>Updated total prior to final corrections</b>	7,425,560
Resources Committee changes double-counted	85,050
Corporate staffing reduction above corrected	<u>-500</u>
<b>Net cost of services total – Appendix REV1</b>	<u>7,510,110</u>

- 7 All final checks are now completed. It should be noted that the corrections shown above are only to the final service budget totals including internal charges and reflect the tight timescales within which detailed figures have to be prepared, updated and summarised. They have had no adverse effect on the overall position projected from approved direct cost budgets on which this Committee's previous decisions were based.
- 8 The Revised Estimates 2002/03 represent the latest budget monitoring position as at the end of the third quarter, 31 December 2002. The main variance is £185,000 additional interest on balances. Otherwise the overall position appears quite neutral, despite the previously reported Industrial Estate problems. An additional £182,000 is projected to be added to provisions and reserves. The methodology for projecting interest earnings has now been modified to take better account of the increase in cash flow earnings year-on-year in line with overall amounts of local tax collected.

## **“Below the Line” Updates**

- 9 The main changes “below the line” in REV1 are designed to address issues flagged for consideration in reports to this Committee on 21 November 2002.
- 10 The final corporate contingency, that for furniture, has now been deleted from the Resources Committee budget. However, the practical need for such a contingency remains, along with a number of others. A solution is presented in REV2. This is designed to give managers across all General Fund services the ability to practically manage a range of routine service uncertainties within their delegated authority under Financial Regulations without the need to build contingency sums into every budget. These budget provisions net to nil by setting them against realistic allowances for staff turnover and administrative savings. They are detailed here for approval as integral elements of the budget which would otherwise be invisible.
- 11 Preliminary information from the Audit Commission, in the context of Comprehensive Performance Assessment, makes it clear that budget items to balance the books labelled “Allowed for unidentified underspends/savings” are not a demonstration of sound financial management. Therefore, this is not an acceptable way to address the now familiar annual pattern of underspends overall against original budgets. REV1 and REV3 reflect an alternative solution based on conditional, prioritised additions to reserves.
- 12 The Local Government Bill places a statutory responsibility on the Chief Financial Officer to prudently manage and make recommendations on reserve levels. What is proposed, in practise, is that if any overall underspend is identified when the accounts are closed, it should be added to the reserves below in the following order, as required to bring them up to prudent levels:
- Risk Management reserves;
  - Financial Planning reserve - District Plan;
  - Change Management reserves; and finally ...
  - Financial Management reserves (FMR).
- 13 The extent to which it is necessary at the year-end to use the FMR to top up these other reserves, will act as a measure of how truly sustainable the arrangement is. The extent to which the FMR balance changes in-year will be a measure of the overall sustainability of the budget at current council tax levels.

## **Capital and Leasing Programmes and depreciation**

- 14 The Capital and Leasing Programme is to be considered elsewhere on this agenda. Appendix REV1 reflects the revenue contributions and new provisions for depreciation referred to in that report. The extent to which the depreciation provisions shown will satisfy statutory expectations must await passage of the Local Government Bill currently before Parliament. Research on this issue will form part of the ongoing work to be carried out in preparation for submission of the Capital Strategy document in July.

## Earmarked Reserves

- 15 As previously indicated, most updates to appendix REV3 are based on reserve usage as outlined in previous reports and recommendations. Anything new is detailed below. All new reserves or changes to previously earmarked amounts are shown as transfers to/from the Financial Management Reserve. For transparency, the other General Reserves are now shown under several different sub-headings each of which is discussed in more detail below.
- 16 **Service Planning** reserves represent amounts available to achieve specific service objectives. Once used, they are not replaced. They are either:
- carry-forwards of approved budgets – not normally quantified until after the financial year end but can sometimes be planned;
  - amounts specially earmarked by Members from Financial Management or Change Management reserves.
- 17 **Financial Planning** reserves fall into two sub-categories:
- saving up for predictable budget peaks in the medium term;
  - medium term budget cover for realistic future savings targets.
- £278,500 is budgeted to be met under the first category in 2002/03 and 2003/04 taken together. Much of this was originally transferred from the Financial Management reserve. It is now proposed that regular annual additions to reserves should provide sustainable funding for District Council elections, customer satisfaction surveys, the housing need survey and legal fees in respect of the District Planning process. For the District Plan itself the proposals are as set out in paragraph 12 above. The only new savings cover proposed for 2003/04 is in respect of depot rationalisation
- 18 **Change Management** reserves represent the amounts set-aside corporately to enable in-year investment in change without being specific as to any particular service area. They currently include an amount specifically in support of the annual Best Value review process and the remainder is available for use as suitable opportunities arise to achieve ongoing savings or service improvements. These reserves need to be topped up to a suitable level each year as they are used.
- 19 **Risk Management** reserves are set aside to provide cover for known areas of budget risk, thus avoiding overstatement of the base budget position. They allow officers to monitor the position when accounts are closed and to review budget levels accordingly. They currently include cover for external legal fees, planning consultancy support and extension of operating leases. These reserves may need to be topped up year-on-year if the circumstances arise which make their use necessary.

- 20 **Financial Management** reserves (FMR) represent the resources available to the Council, above minimum prudent balances, for a range of potential financial management needs, including:
- the flexibility to respond quickly to urgent and unexpected external events (such as the 2002 proposals to expand Stansted airport);
  - any need to top up Change Management and Risk Management reserves each year;
  - the ability to earmark amounts for special one-off service investment above base budget levels – Service Planning reserves;
  - buying the time necessary to allow the Council to adapt in a relatively measured way to the effects of changes in the financial framework within which it operates (such as the Housing Finance changes in April 2001, Grant changes from April 2003 and Capital Finance and other changes expected from the Local Government Bill).
- 21 An amount equivalent to the estimated collection fund surplus of £20,103 has been added in the first instance to the FMR. This is to ensure that it is treated as an unsustainable resource in the same way as reserves.
- 22 The unallocated balance on the FMR at 31 March 2003 is currently estimated to stand at about £1million. This may sound like a large amount but, in 2002/03 so far, almost £300,000 has been allocated for use. A similar level of usage in 2003/04 would reduce the FMR to £700,000. Such usage is obviously unsustainable.

### **Forward Projections**

- 23 The projections shown in REV1 for 2004/05 and 2005/06 are both based on assumed 7.5% council tax increases, the same increase as is currently being recommended for 2003/04. However, there is such a large element of protection built into the provisional grant settlement that no increase can yet be projected in grant for future years. REV1 shows, that without any grant increases to compensate for inflation, small net savings still have to be found in each of the two following years to keep within a 7.5% council tax increase.

### **Conclusions**

- 24 Appendix REV1 now updates the last budget projection presented to this committee on 23 January 2003. The result of all the final adjustments and the reserve usage proposals detailed above, is that the previously indicated Council Tax increase of 7.5% gives £11,500 leeway before Final Settlement details are confirmed. These details should be available in time for the meeting together with confirmed town and parish precept totals.
- 25 It is recommended that Members confirm the 7.5% increase adjusted as necessary for any final changes before budgets, reserve usage and the Council Tax level are recommended to full Council. Each 1% change in Council Tax equates to a change of about £1.01p at Band D and represents £30,175.

**RECOMMENDED** to full Council on 11 February 2003 that, subject to any final changes made by this Committee,

- a) final approval be given to the contributions to and use of earmarked reserves in 2002/03 and 2003/04 as detailed in REV3;
- b) final approval be given to the General Fund Revenue Revised Estimates 2002/03 and the General Fund Revenue Estimates 2003/04 as detailed in REV1;
- c) final approval be given to a Council Tax increase of 7.5%;
- d) Group Leaders, or their nominees, be authorised to confirm the final overall Council Tax figures for collection purposes on 18 February 2003 following Essex County Council's decision making meeting on the same day.

Background Papers: ODPM Provisional Settlement Details 5 December 2002