

**Committee:** Resources Committee – Extraordinary meeting  
**Date:** 3 February 2004  
**Agenda Item No:** 3  
**Title:** Budget Strategy - General Fund Summary 2004/5  
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## **Summary**

- 1 This report summarises the draft General Fund Revenue Budget for 2004/05. It includes all budgeted related recommendations from the current cycle of Committee meetings and reflects final technical adjustments and the recommended Council Tax increase of 7.5%.
- 2 This is the final opportunity for the Committee to confirm items to be included in the General Fund Revised estimates for 2003/04 and the 2004/05 estimates, together with the Council Tax increase it wishes to recommend to the Council meeting on 10 February 2004 for approval.
- 3 The report also contains a summary of the responses to the Budget Consultation meetings held during January 2004 and details of agreed additions to and use of reserves.
- 4 The three appendices to the report therefore cover the budget summary (Appendix 1), the use of Reserves (Appendix 2), Corporate Contingency amounts (Appendix 3) and budget consultation feedback (Appendix 4).

## **Background**

- 5 The meeting of this Committee on 22 January 2004 was informed that the following information was awaited to allow the 2004/05 budget to be finalised:  
  
Final Local Government Grant Settlement  
Council Tax income from Second Homes  
Financial Adjustments between the General Fund and Housing Revenue Account  
Capital Charges  
Outcome from the Budget Consultation exercises
- 6 The information outlined in paragraph 5 has now been received and appropriate changes have been made to the budgets previously reported. The Final Local Government Settlement was announced on 29 January and has resulted in a reduction of £38 in the Council's previously notified external support.

- 7 The Essex County Council budget meeting is on 17 February, the Essex Police Authority budget meeting is on 9 February and the Essex Fire Authority on 11 February. The Uttlesford Council meeting on 10 February 2004 will therefore not be able to confirm formally the total council tax requirement when it determines its own figures. Arrangements have therefore been made for a Group Leader's meeting on 17 February to confirm the overall council tax figures for 2004/05.

### **Updated 2004/05 Committee Budgets**

- 8 All Committees have now agreed their draft 2004/05 budgets, with the exception of the Environment and Transport Committee, which is considering its final budget decisions at an Extraordinary Meeting prior to this Committee's meeting on 3 February. The decisions made by the Environment and Transport Committee will be reported verbally at the Resources Committee tonight.
- 9 The Council's Budget Requirement has increased by only approximately £32,000 or 0.45% between 2003/04 and 2004/05, despite the inclusion of spending on the Quality of Life Corporate Plan and other growth items. The main factor in achieving this sustainable position is this Committee's decision at its meeting on 20 November to make a capital pension fund contribution in order to eliminate the deficiency over the four year period 2004/5 – 2007/8. The payment will be made into the Essex Pension Fund before 31 March 2004. The rigorous budget review process has also reduced costs and increased income while protecting key client groups and services.

### **" Below the Line " Updates**

- 10 All below the line budgets have been updated to reflect Member decisions during the budget process. The main changes to these items since this Committee last reviewed these items on 20 November 2003 are summarised below in the following paragraphs.
- 11 Interest on Balances (£620,000 in 2004/05). This now reflects both the interest loss on the capital receipts used to eliminate the Pension Fund deficit, and also the latest increase in interest rates and the detailed rules regarding the pooling of Right to Buy housing capital receipts.
- 12 Pension backdating costs (£83,000 in 2004/05). This now reflects only pension service added years for former employees, following the decision to eliminate the accumulated deficit for the period 2004/5-2007/8.

### **Overall Budget Summary**

- 13 The overall budget summary is contained in Appendix 1 attached to this report. The individual Committee budgets shown reflect decisions regarding Budget Review Items and savings targets during the budget process. This will be simplified to give final Committee totals when the Budget Book is published

during March 2004. The summary includes indicative three year projections of Council Tax levels which are required under the new statutory Prudential Code.

- 14 The summary also shows that the Council's previously agreed indicative Council Tax increase of 7.5% can support the proposed levels of expenditure including the 2004/5 Quality of Life Corporate Plan costs. In fact the budget as presented indicates a surplus of £27,000 from setting a Council Tax increase of 7.5%. This surplus has arisen because of final refinements to budgets since the spending targets for committees were set and because of updated information on Council Tax collection rates leading to £22,065 being added for higher than expected collection levels on the council tax for the financial year 2002/03.
- 15 There is a technical change to the presentation of the external funding figures which results in an amended 'District Council Requirement' as shown on line 62 of the summary at Appendix 1. This change is due to the Government now including increases in Housing Benefit Grant in its assessment of increased (or reduced ) external funding provided to councils. This specific grant is accounted for in the budget of the Resources Committee, causing a reduction in the District Council Requirement (the Council's own net spending needs). The presentational aspect of this change has now been clarified, requiring an amendment to the District Council Requirement for 2004/05 of £7,253,960 agreed at this Committee's meeting on 3 February 2004. Along with the latest information on the Council's Collection Fund surplus, this leads to a revised District Council Requirement of ££7,034,695 as shown at line 62 of Appendix 1. This change will also necessitate a memorandum note in the Council's published Budget Book to explain that total external funding from central government is higher than that shown in line 67 of Appendix 1 now that the definition of external funding includes the Housing Benefit Grant increase.

### **Budget Consultation**

- 16 A summary of the feedback from the budget consultation meetings undertaken around the District in January 2004 is contained in Appendix 4. Members may wish to consider the information contained there in before making their final decisions on the budget.

### **Potential Capping of the Council Tax Level**

- 17 Members will be aware that the possibility of councils being capped has been speculated on in recent months and some councils have now received a specific warning where their increases are projected to exceed 5%. Members, however, may wish to reflect on the following facts. This Council has the lowest Council Tax level in Essex, and this is likely to continue following the current budget setting process of these councils. Also Uttlesford has only received for 2004/5 an increase of £50,000 (1.3%) in external support from the Government. Furthermore, the budget review and fees and charges review processes have achieved reductions of approximately £450,000 or around 6.5% in the Council's net budget, indicating that all

reasonable steps have been taken to offset Council Tax increases. Further attempts to reduce expenditure will be undertaken in the forthcoming Zero Based Budgeting process which is due to start in March 2004. In conclusion however, Members need to be aware of the possibility of capping with an increase of above 5% and the additional costs associated with rebilling.

### **Earmarked Reserves**

- 18 As part of the overall budget strategy, all Earmarked Reserves have been reviewed. Members will be aware that this Council actively uses Earmarked Reserves to smooth out peaks and troughs in what would otherwise be uneven spending between financial years. This allows proper long term financial planning to take place, and keeps Council Tax levels at consistent levels. The Council's Reserves also act as an aid to effective risk management, covering unexpected items of spending, and again keeping Council Tax levels stable. There is a degree however to which Reserve usage both reduces the transparency of the budget making process and the clarity of understanding the sources of funding. This will be reviewed during the arrangements planned for improving budgetary control during the 2004/05 financial year and the budget process for 2005/06.
- 19 The review of the Council's Earmarked Reserves, and issues around the Council's long term finances indicates that two new Reserves should be created from the Council's Financial Management Reserve (FMR). The FMR represents the resources available to the Council, above prudent balances and Earmarked Reserves, for a range of potential management needs. The projected balance on the Reserve at 31 March 2004 is approximately £900,000. In the budget report presented to this Committee at this time last year, the FMR was described as being available, among other things, to give flexibility in responding quickly to issues such as proposals to expand Stansted Airport. It is now proposed that this arrangement is formalised but increased to include not just the airport, but also other strategic regional issues, such as the M11 corridor issue, and other issues where the Council wishes to protect and enhance the character of the District. The proposal is that a 'District Character' Reserve be set up, with an initial contribution of £300,000 from the FMR, and ongoing annual contributions at a level of £50,000 from 2005/06. The first use of this Reserve will be to fund the Airport Campaign during 2004/05. With this new source of funding in mind, this Committee on 22 January 2004 agreed to fund the £50,000 Airport Campaign budget from reserves. This will not reduce the financial profile of the campaign, as the expenditure will still be shown, but with financial resources coming from reserves rather than falling directly on the Council Tax.
- 20 Officers have also proposed to the Environment and Transport Committee that certain items in its budget also come from this new reserve.
- 21 Over and above these decisions made during the budget process, proposals to use the District Character Reserve will need approval during the year by this Committee.

- 22 The other new Earmarked Reserve proposed in paragraph 19 above is designed to address the potential long term deficit on the Pension Fund. Members will be aware that the decision to contribute capital receipts should eliminate the deficit from the General Fund Revenue budget for the next four years. However it is also prudent to plan for after 2007/8 when a deficit payment may be required. To help eliminate this potential problem, it is proposed to earmark a further £300,000 of the FMR towards a Pension Deficit Reserve, with further annual contributions of £50,000 to this Reserve from 2005/06.

### **Forward Projections**

- 23 The Council intends to continue improving its long term financial planning, thereby increasing service stability, and giving the potential for less volatility in Council Tax levels. This approach is an implicit part of the new Prudential Code, covered as an item elsewhere on this Agenda. The new Financial Management System which will be operational by Summer 2004 should significantly improve financial planning. Although the lack of certainty over Government funding for more than one year ahead still creates difficulties, the adoption of the Quality of Life Corporate Plan, and its inclusion in the budget process is of significant help in planning finances further than one year ahead. The proposed two new Earmarked Reserves, with their clearly planned additional annual contributions also reduce many of the most variable risks from the Council's annual budget process, further work does however need to be undertaken to improve Service Planning and the Council's overall approach to the review of fees and charges. With all these initiatives in place, it will be easier to explain potential changes in Council Tax levels to stakeholder groups, and to plan to achieve the Council's long term policy priorities.
- 24 Currently, the summary in Appendix 1 indicates that the Council will have financial surplus resources of £99,000 if it aims for a Council Tax rise of 7.5% in the year 2005/06. This is however, a preliminary figure, making only the broadest assumptions on spending and funding trends for that year.

### **CONCLUSIONS**

- 25 The General Fund budget process has progressed to a stage where this Committee can make recommendations to the Council regarding the 2004/05 Budget Requirement and Council Tax levels.
- 26 The budget process has been complicated this year by delays including changes to the Governments external funding of local authorities.
- 27 The Council's prudent stance on increases in external support, adopted by this Committee in June 2003 has proved correct, with increased overall funding from the Government of only £50,000.
- 28 Members need to be aware of the possibility of a letter from the Minister of State for Local Government if the Council Tax is increased by more than 5%.

**RECOMMENDED** to full Council on 10 February 2004 that, subject to any final changes made by this Committee,

- 1) final approval be given to the contributions to and use of Earmarked Reserves in 2003/4 and 2004/5 contained in Appendix 2, and the creation of two new Reserves from the Financial Management Reserve as outlined in paragraphs 18 to 22 of this report.
- 2) final approval be given to the General Fund Revenue Revised Estimates 2003/04 and the General Fund Revenue Estimates 2004/05 as detailed in Appendix 1.
- 3) final approval be given to a Council Tax increase of 7.5% for 2004/05 based on a revised District Council Requirement of £7,034,695.
- 4) Group Leaders, or their nominees, be authorised to confirm the overall Council Tax figures for collection purposes on 17 February 2004 following Essex County Council's decision making meeting on the same day.

Background Papers : Budget Working papers and files