

REPORT TO CABINET

REPORT OF: Corporate Head of Finance and Resources

REPORT NO.: CHFR88

DATE: 11 February 2008

TITLE:	BUDGET 2008/09 and indicative budget for 2009/10 and 2010/11 <ul style="list-style-type: none"> • Revenue Estimates 2008/09 and indicative budget 2009/10 to 2010/11 • Capital Estimates 2008/09 to 2010/2011 • Fees and Charges • Treasury Management Strategy • Priority Plans 	
FORWARD PLAN ITEM:	Yes	
DATE WHEN FIRST APPEARED IN FORWARD PLAN:	14 September 2007	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	BUDGET POLICY FRAMEWORK DECISION	
COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION:	Assets and Finance Portfolio Holder Councillor Mrs Spencer-Gregson OBE	
CORPORATE PRIORITY:	Use of Resources Corporate Governance	
CRIME AND DISORDER IMPLICATIONS:	NONE	
FREEDOM OF INFORMATION ACT IMPLICATIONS:	This report is publicly available on the Council's web site www.southkesteven.gov.uk via the local democracy link	
INITIAL EQUALITY IMPACT ASSESSMENT	Carried out ? Yes To be circulated at the meeting	Full impact assessment required? No
BACKGROUND PAPERS:	CHFR70 medium term financial strategy CHFR85 Budget Requirement 2008/2009	

1. INTRODUCTION

The purpose of this report is to present the Budget proposals for decision by Councillors in relation to:

- Revenue and Capital Expenditure together with the potential use of reserves

- Proposals regarding the setting of the Council Tax
- The Treasury Management Strategy for the Council
- The level of fees and charges,
- and provide advice to Councillors on the robustness of the Budget proposals and adequacy of balances and reserves as required by the Local Government Act 2003.

2. RECOMMENDATIONS

It is recommended that the Cabinet:

General Fund Revenue Estimate

Make recommendations a to k to Council:

- to set a General Fund budget requirement of £15.783m for 2008/9 and an indicative target of £16.247m for 2009/10 and £16.766m for 2010/11 (inclusive of special expenses).;
- to set a Council Tax increase of 4.95% for 2008/9
- to approve the revised revenue base estimate for 2007/08; original base estimate for 2008/09; and indicative base estimates for 2009/10 and 2010/11 as detailed in the summary at Appendix A page 1;
- to approve the Treasury Management Strategy provided at Appendix B;
- to approve increases in Fees and Charges for 2008/09 (in accordance with the Council's Fees and Charges Strategy) and as set out in Appendix C
- to approve a revised joining fee of £20 for the Green Waste Collection Scheme applicable to new entrants with effect from 1st April 2008
- to agree that the earlier decision to give notice to Lincolnshire County Council to withdraw District Council support from the Dial A Ride project is not rescinded.
- to take into account in future years Special Expense Areas (SEAs) under/overspending balances when setting the level of the Council Tax for SEAs using a de-minimus level of 10% with effect from the Closure of Accounts for 2007/8.
- to create specific reserves for each of the SEAs to enable contributions to be made to the reserve at outturn and as part of the future council tax setting process to provide for asset renewal in future years.
- to approve the forecast balances of Revenue and Capital Reserves contained at Appendix A page 2;
- delegate to the Section 151 Officer, in agreement with the Portfolio Holder for Finance and Assets, agreement of the final Pension Pool contribution rate following attendance at a seminar to present the Actuary's valuation report.
- require the Service Manager for Building Control, in consultation with the Corporate Heads of Finance and Resources and Sustainable Communities, to undertake necessary actions to restore the breakeven position, over a rolling three year cycle, within the new financial year (2008/9)
- receive and consider, at the meeting, the analysis of the outcome of Budget Consultation

Capital Programme

Make recommendations n. to p. to Council:

- to approve the revised Capital Programme for 2007/08 and Programme for 2008/09 to 2010/11 detailed at Appendix A page 10-13
- to authorise the funding proposals subject to an annual review of the financing options by the Corporate Head of Finance and Resources, in consultation with the Portfolio Holder, during the preparation of the Statement of Accounts to optimise the use of Council resources.

- p. to review the policy on the use of Housing Capital Receipts to enable them to be applied to finance the Council's overall capital programme in the most financially advantageous way for the Council as a whole and as recommended by the Corporate Head of Finance and Resources in consultation with the Portfolio Holder for Finance and Assets, subject to the view that in the longer term the capital resources made available to the Council as a housing authority are used for housing purposes.

Housing Revenue Account (HRA)

- q. to consider the outcome of consultation of Tenants on the rent increase proposals. Make recommendation r to t to Council:
- r. to set dwelling rent increases in accordance with Government guideline rent, but with a cap on individual rent increases, with no rent being increased by more than "Rent + RPI @ 3.91%+ 0.5% + £2" and no rent being reduced resulting in an average increase of 7.79%, providing an average rent of £59.06.
- s. to set an increase in Garage rents of 4.1%.
- t. to increase service charges by 3.9% (RPI Sept 2007)
- u. to commission a review of the cost base and charging mechanism for service charges during 2008/9.

Priority Plans

- v. accept the Strategic Management team's recommendation that the Priority Plans attached at appendix D are recommended for approval by Council as part of the approval of the Budget proposals.

3. BACKGROUND

- 3.1 The 2008/09 Budget and indicative budgets for 2009/10 to 2010/11 have been drawn up to take account of the Council's various strategies and policies, in particular:

- The existing Corporate Plan and draft revised Corporate Plan
- The Council's priorities and Priority Plans
- The Medium Term Financial Strategy (MTFS) and draft revised MTFS
- Service Strategies and Plans

In addition the Budget has taken account of the impact of:

- The outcome of the Government's Comprehensive Spending Review 2007
- The three year Local Government Finance Settlement
- Budget Consultation
- Use of Resources Assessment.

The budget has been prepared on the basis of principle 4 of the Council's MTFS, "to maintain a sustainable Revenue Budget".

- 3.2 The Budget has continued to redirect resources to priority areas and has provided for new statutory functions, in particular the introduction of the National Bus Concessionary Fares Scheme.
- 3.3 The Budget also reflects that the devolvement of service budget management to Service Managers has been fully implemented during 2007/8.
- 3.4 The Budget format is the same as last year and continues to be presented based on Corporate Themes allocated to individual Corporate Heads to reflect responsibilities within the Council's officer structure. There have been minor

changes to reflect redistribution of service responsibilities which have occurred during 2007/8.

4 ACCOUNTING REQUIREMENTS AND EXTERNAL FACTORS AFFECTING THE BUDGET

4.1 Capital Charges

Where Services benefit from the use of assets, the Revenue expenditure includes a charge for the use of the capital in line with standard accounting practices. There is corresponding credit shown in the General Fund summary (Appendix A page 1). A rolling programme of valuations is undertaken by the valuer to the Council to keep the asset register up to date. Any change in the use of assets, or revised valuation, or additional Capital Expenditure will affect the capital charge made to the Revenue Budget.

4.2 Prudential Code

The Council complies with the Prudential Code for controlling Local Government Capital Finance. The key objectives of the code are to ensure that:

- Capital Investment Plans are affordable, prudent and sustainable
- All external borrowings and other long term liabilities are within prudent and sustainable levels
- Treasury Management decisions are taken in accordance with good practice and in a manner that supports prudence, affordability and sustainability
- The Local Authority is accountable for decisions made
- It supports local strategic planning, local asset management planning and proper option appraisal.

The Council's Current Financial Planning Systems demonstrate the affordability of the Capital Programme and the 2008/09 estimates have been prepared in the context of these plans and controls.

4.3 Integrated Service and Financial Planning

Service planning has focussed on linking the proposals for service delivery to the Council's vision and priorities. Priority Plans have been produced for the Council's category A priorities. These are attached at appendix D and Strategic Management Team is now recommending that these be recommended for approval by Council.

The priority plans have taken account of a current position statement to evaluate the needs for the future based on the following:

- Priority scope and definition
- Context
- Links to strategies
- Proposed outcomes, targets and assessment methods
- Measures of success and key actions
- Capital and Revenue requirements for the next three years
- People Resource implications
- ICT resource implications
- Risk Assessment
- Key components of communication
- Proposed Delivery methods
- Equality Assessment
- Related projects
- Related priorities.

Service planning has also had regard to the efficiency agenda, an assessment of the service development needs, performance indicators and an overall assessment of potential risks.

There have been a series Budget briefing and planning meetings involving Cabinet and Management Board, and Management Board and Service Managers. In addition, policy development work has been undertaken by a working group of the Resources Policy Development Group together with the Chairmen of the other Policy Development Groups, one specific area covered by this group is a review of the options for fees and charges which will be referred to in more detail later.

4.3 Efficiency Agenda

The CSR07 announced public sector efficiency targets of 3% per annum for each of the three years within the spending review. Efficiency targets have been identified for each service area to reflect the national efficiency target and also to take account of the number of items of uncontrollable fixed cost estimated at £6.1m, which have been identified within the medium term financial strategy as effectively uncontrollable by the Council taking into account long term contracts, which are indexed linked to various indices (for example retail price index (RPI)) and items such as national business rates which are set by Government.

A Value for Money Strategy was approved by Cabinet in November 2007 (report SD17). It will be necessary, during the year, to develop an Efficiency strategy (as part of the revision of the Medium Term Financial Strategy) to identify how the Council will achieve the Government's efficiency gains target of 3% per annum for each of the next three years, taking account of the assumptions within the current budget.

The attached budget for 2008/9 incorporates service efficiencies and budget savings of £710k against a target of £750k, together with an assumed Salary vacancy factor of £250k, to reflect the budget savings achieved when filling staff vacancies.

4.4 National Settlement and Three Year Budget Planning

The Secretary of State for Communities and Local Government announced the three year Local Government Finance Settlement for 2008/9 to 2010/11 on 24th January 2008 which included the final settlement for 2008/9 and provisional settlements for the following two years. This is the first time the Government has set out Formula Grant for three years; as a result the Council's provisional resource base from Formula Grant is now set for 2008/9 to 2010/11.

The Council's Medium Term Budget Strategy is currently being revised to reflect the settlement and the Council will need to move towards three year budgeting, as a result Service Managers have been asked to produce indicative budgets for 2009/10 and 2010/11. Further work will need to be undertaken by Service Managers to refine these budget forecasts in advance of the budget cycle for 2009/10.

Report CHFR85 "Budget Requirement" set out the key points of the provisional settlement the main elements of the final settlement are:

- No change in the National totals for 2008/9, but there has been a increase in the baseline used for damping of £36m to reflect the increase in public law family fees. The result of this is that the headline net Aggregate External Finance increase for 2008/9 goes down from 3.7% to 3.6% and the headline

formula grant increase from 3.6% to 3.5%. There is no increase in Aggregate External Finance (AEF) in 2008/9.

- Figures for the following years have been adjusted for some authorities for more up to date supported borrowing data and to correct data errors. This makes no difference to the headline increases, 4.4% in 2009/10 and 4.3% in 2010/11 for total AEF.
- No change to damping arrangements
- The floor for shire district councils remains at 1%, 0.5% and 0.5% for the three years respectively. These are paid for by scaling down the grant increases for those authorities above the floor.

The Final settlement for South Kesteven is summarised as follows:

	2008/9	2009/10	2010/11
Total Formula Grant	£9,881,342	£10,025,255	£10,147,091
Increase in Formula grant based on adjusted base	£188,702	£143,913	£121,836
% increase in Formula Grant	1.9%	1.5%	1.2%
Loss of Grant through Floor Damping impact	-£243,582	-£157,118	-£98,535

A more detailed analysis of the Formula and Specific Grant position is provided in section 12 of this report.

5. REVISED BASE ESTIMATE - 2007/08

5.1 Projected outturn on the General Fund for 2007/08 financial year is summarised in the following table:

Comparison of original estimate and revised base for 2007/08

	Original estimate 2007/08 £k	Revised base 2007/08 £k	Variation £k
Corporate & Customer Services	2,267	2,198	(69)
Finance & Resources	4,501	4,687	186
Healthy Environment	6,842	6,464	(378)
Partnerships & Organisational Improvement	626	807	181
Sustainable Communities	3,271	3,307	36
Special Expense Areas	660	632	(28)
Salary Vacancy Factor*	(300)	0	300
LABGI funded One off approved expenditure	215	215	0
LABGI funded Invest to Save initiatives	250	250	0
Under allocation of Support Services	28	11	(17)
Net Service Expenditure	18,360	18,571	211

* Salary vacancy factor savings have been shown within service areas for the revised base

5.2 The key reasons for the changes in Budget Expenditure on Services are mainly as a result of changes to the allocation of support charges and the transfer of cost centres to reflect responsibilities of Corporate Heads, further details are shown below:

- Corporate and Customer Services
 - Changes in allocations of support
 - Legal – Amended Salary projections to reflect staff vacancy and increase in income
 - Strategic Management - amendments to salary and premises costs
- Finance and Resources

- Transfer of Play Areas, Open Spaces, Cycle centres and cycle ways cost centres from Healthy Environment
- Transfer of CCTV and Emergency Planning cost centres to Partnerships and Organisational Improvement
- Changes in support allocation including an increase in supported travel support allocation as a result of preparatory work in relation to the introduction of the new national concessionary travel scheme and an increase in the support allocation to Leisure Procurement
- Increase in premises cost as a result of revaluation of Meres Leisure Centre and the Sports Stadium
- Amended income assumptions including an increase in income from miscellaneous properties and a decrease in income from Deepings Leisure Centre
- Healthy Environment
 - Transfer of Play areas, Open Spaces, Cycle centres and cycle ways cost centres to Finance and Resources
 - Amendments to support allocations including an increase in support allocation to Health Education and a decrease in support allocation to Hackney Carriage registration
 - Waste Management inclusion of one off costs related to twin bin roll out and vehicle maintenance not included in base budget
- Partnerships and Organisational Improvement
 - Transfer of CCTV and Emergency Planning cost centres from Finance and Resources
 - Transfer of Local Strategic Partnerships cost centre from Sustainable Communities
 - Amendment of support allocations
- Sustainable Communities
 - Transfer of Local Strategic Partnerships cost centre to Partnerships and Organisational Improvement
 - Provision for outcome of Judicial Review included within Development Control cost centre
 - Amendments to allocation of support costs including a reduction in allocation to Economic Development and increase in support allocation to the Helpline cost centre
 - Increase in expenditure on Dial a Ride
 - Increase in capital charges to the Helpline cost centre

5.3 Investment income is expected to be £144k more than the original estimate. The average interest rate assumed in the original estimate was 5.1%. Investment returns have been higher than expected as a result of the increased base rate of 5.6% and amended spend profile on the capital programme.

5.4 During the year active budget management has been undertaken, specifically monthly budget monitoring by Service Managers and Management Board with Financial Services support. This has resulted in the use of virement in accordance with the Council's financial regulations; these have been reflected in the revised estimate base for 2007/8 shown above.

6. ESTIMATES 2008/09

6.1 The Budget's assumptions used in compiling the 2008/09 estimates are set out below:

<u>Inflation Factors</u>	
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Salary Inflation for 2008/9	2.0%
Consumer Price Index (Dec 2007)	2.1%
Retail Price Index (Sept 2007 – for HRA subsidy purposes)	3.9%
Retail Price Index (Dec 2007)	4.0%
National Business Rate	3.9%
Utility Cost increase assumption	3.0%
Drainage Board Levies	3.6%
Audit Commission increase fee proposal	14.0%
Pension Fund revenue contribution	0%
<u>Other Assumptions</u>	
Interest Rates	5.2%
Salary Vacancy Factor	2.0%
Growth in numbers of Band D equivalent properties	1.4%

6.2 Analysis of changes to base budget and budget pressures

The budget proposes a net service expenditure of £18.042million broken down by Service themes as follows:

Summary of Net Service Expenditure				
	Revised base 2007/08 £'000	Estimated base 2008/09 £'000	Indicative base 2009/10 £'000	Indicative base 2010/11 £'000
Corporate and Customer Services	2,198	2,539	2,457	2,496
Finance and Resources	4,687	4,305	3,970	4,004
Healthy Environment	6,464	6,621	6,727	6,886
Partnerships & Organisational Improvement	807	932	913	928
Sustainable Communities	3,306	3,197	3,243	3,382
Special Expenses	632	654	681	729
Salary Vacancy Factor	0	(250)	(250)	(250)
LABGI funded One Off Expenditure	215	0	0	0
LABGI funded Invest to Save	250	0	0	0
Under allocation of Support Services	12	44	38	37
Net Service Expenditure	18,571	18,042	17,779	18,212

A balanced budget has been produced, however, current and future resources are tight reflecting the fact that the four main income streams for the Council: Government Grant, Specific grant, Fees and Charges and Council Tax are, and will continue to be constrained, at a time when ambitions and customer expectations are increasing.

In addition, the Council faces inflationary pressures, over which the Council has little or no control on items of expenditure such as Business rates, long term contracts linked to Retail Price Index and Drainage Board Levies. Around a third of the Council's net service expenditure is subject to these uncontrollable inflationary factors at a time when government efficiency targets are set at 3%. This has resulted in Service Managers being asked to find 4.6% efficiencies on their controllable costs to enable the Council to meet the overall efficiency target of 3%.

In particular there are a number of key issues addressed within the 2008/09 budget:

- The impact of the new **leisure management contract**. The selection of the Council's partner and contractual negotiations are currently being finalised. It is proposed that the new arrangements will be for a fifteen year period and will involve the transfer of the Council's Leisure Facilities to a Trust on a fifteen year lease. It is proposed that there will be a tri-party relationship between the

Council, the Leisure Trust and Contractor. The Trust and Contractor will manage the assets and the delivery of the management contract. For budgeting purposes it has been assumed that the Trust will be in operation from 1 October 2008, although if negotiations and legal issues are able to be resolved earlier they will be.

- The introduction of the **national concessionary travel scheme** which comes into effect 1 April 2008. The scheme extends the existing concessionary travel scheme to provide free off-peak local bus travel anywhere in England for the over 60's and qualifying disabled. Whilst there has been government funding for set up and towards the additional cost of administering the scheme, the budgets anticipate that the shortfall will require funding from the local council tax. The **additional** annual cost of reimbursement through the scheme has been estimated at £500k. The specific grant from Government has been set at £379k leaving a shortfall of £121k. These assumptions will be addressed later in the section on risks to the budget.
- **Salary inflation** has been assumed at 2%, the Government target for Public Sector Pay awards and will be subject to the outcome of the final pay settlement.
- **Triennial Revaluation of the Pension Fund** – the pension fund administered by Lincolnshire County Council is subject to formal review by the Actuary every 3 years. During 2007/8 the review was conducted by the Actuary Hymans Robertson and a draft report has been produced which shows an small improvement in the funding level of SKDC's sub fund from 78.9% (31.3.2004) to 84.1% (31.3.2007) equating to a deficit of £10.187m based on the Actuary's assumptions. The contribution rate currently being paid equates to 21.2% of payroll. The Council has to notify LCC ahead of the financial year of the employer's contribution rate the Council wishes to have based on the information in the Actuary's report. As it is likely there will be minimal change, and the final report has yet to be received, it is requested that agreement of the final rate be delegated to the Section 151 Officer (Corporate Head of Finance and Resources) in agreement with the Portfolio Holder for Finance and Assets following attendance at a seminar to present the Actuary's valuation.
- **Utility cost inflation** – at the time of preparing the budgets utility costs have been assumed at 3%. However the Council is currently re-negotiating its electricity tariff rates for 2008/09 and current projections show that the likely increase in costs is estimated to be 11% overall. Therefore the Council will need to identify energy efficiency measures to keep within existing budget levels.
- **Salary vacancy factor** efficiency savings these as assumed at £250k overall representing around 2% of overall salary budget
- Continued **investment In Category A priorities** which has been achieved through re-distribution of resources in line with the Council's prioritisation process, efficiency gains and investment from reserves for one off items and the proposed level of council tax.
- **Dial a Ride** – Provision for ongoing support for this project has not been included within the Budgets for 2008/9 in line with the earlier decision to give notice to Lincolnshire County Council to withdraw District Council support for the project. This has also taken account of the County Council's decision to roll out the Call Connect service within South Kesteven's district. The Call Connect service will qualify for Concessionary Fares for those qualifying residents. In November, the Scrutiny Committee agreed to set up a Transport Working Group of members to look at rural transport and the future of Dial A Ride, at the time of writing this report this group has not formally reported.

- Identified **efficiency savings** in all service areas have resulted in an overall efficiency gain of £710k. This level of saving will need to continue in 2009/10 and 2010/11 and to achieve this, further work will need to be undertaken by Members and Officers during 2008/9 to identify further efficiency opportunities in response to the Government's three year efficiency agenda to achieve 3% efficiency per annum.

6.3 2008/09 Bids for Growth and Service Investment

There are a number of bids for growth and service investment identified within the Priority Plans attached at appendix D, which have been included in the proposed budget for 2008/09. The key items are summarised as:

Bids for growth in Base Budget

- Customer Services – Increase in permanent capacity £193k (2008/9), £209k (2009/10), and £222k (2010/11).
- Green waste service – Introduction of additional round to enable the continuation of the green bin roll-out to meet the waiting list demand. The additional revenue cost of providing a vehicle and crew is £180k which will be netted off by additional income in the first year from the joining fee resulting in a net cost in 2008/9 of £70k.
- Development Control – creation of a dedicated team to assess Major Planning applications £140k per annum with 2% associated pay inflation in future years

Bids for one off investment

- Use of Resources – One off investment in 2008/9 which it is proposed will be funded from the Council's Capacity building, priority setting and service improvement reserve.
 - Creation of a Corporate Invest to Save Budget of £150k to provide a resource for Services to bid for one off investment to achieve ongoing efficiencies. Applications will be subject to a completed business plan including anticipated outcomes and pay back projections. It is proposed that, as payback is achieved from the 2007/8 budget and proposed budget for 2008/9, this be set aside to provide an ongoing invest to save fund for future years.
 - Funding for technical support to progress Formal Market Testing options £80k
 - Temporary resource for Financial Services to further develop and improve year end and closure of accounts processes £20k
 - Lean systems pilot and knowledge transfer to enable officers to develop skills to undertake future Lean Systems reviews £50k
 - Corporate VFM training £10k
 - One-off provision for change in shared services agenda £20k
- Planning Policy – appointment of a temporary service manager to manage the service delivery until a permanent appointment is made £22k

6.4 Special Expense Areas

Special Expense Areas make use of provisions under the Local Government Finance Act 1992 which provide for different amounts of council tax to be calculated for different parts eg parished and unparished areas, of the district, depending on what, if any, special items relate to those parts. A special item is an item which relates to only part of the district's area. Treating expenses as special expenses does not affect the overall amount that the council needs to raise through council tax across the whole of the district. It simply means that, compared with what would happen if

the expenses were not treated by the district council as special expenses, the council tax is:

- relatively lower for areas where the parish council performs the concurrent function; and
- relatively higher for areas where the district council performs the concurrent function.

A review of Special Expenses was undertaken during 2007/8 and the recommendations of the review are currently being implemented. Special Expenses will be under the management of one service manager with effect from 1st April to enable improved budgetary control. The historical lack of co-ordinated financial monitoring has resulted in variances at outturn and these amounts have historically been written off, or under or over-spending being written back to the General Fund annually at outturn. It is proposed that with effect from the closure of accounts for 2007/8:

- Under/overspending balances be taken into account in setting the level of the Council Tax for SEAs in the future using a de-minimus level of 10%
- Reserves are created for each of the SEAs to enable contributions to be made to the reserve at outturn and as part of the council tax setting process in future years to enable provision to be made for asset renewal to smooth the impact of this over time.

The district seeks to fully recover the net expenditure of the special expense areas and the proposed budget for 2008/9 has been prepared on the basis of full recovery of costs. It should be noted that increases in the special expense precepts count towards the overall council tax capping calculation for the district.

6.5 Overall General Fund Position 2008/09

The overall General Fund position for 2008/09 (Appendix A) may be summarised as follows; the total service expenditure (net of direct income) for 2008/09 is estimated at £18.042 million. Interest and investment income has been estimated at £613k based on the proposed use of Capital Resources whilst also taking into account expected movements in interest rates. Further details of the Council's investment strategy are contained in Appendix B to this report.

In preparing the Budget consideration of the use of reserves has been taken into account. It is proposed to use specific general fund revenue reserves as follows:-

	£k
• Pension - to cover former employee pension liabilities	65
• Building Control	22
• Capacity Building, Priority Setting & Service Improvement	200

The summary of the projected use of Reserves is attached to this report at Appendix A page 2. The Budget assumptions result in a net Budget requirement of £15.783 million (including special expense areas).

6.6 Budget Monitoring

Monthly monitoring and management of Service budgets will continue to be undertaken by Service Managers with dedicated and focussed support from Financial Services under the arrangements for devolved Service Budget Management. In addition, it is proposed to continue monthly financial reports to the Management Board and quarterly financial monitoring reports to Cabinet briefing and Resources Policy Development Group.

7 GENERAL FUND INCOME

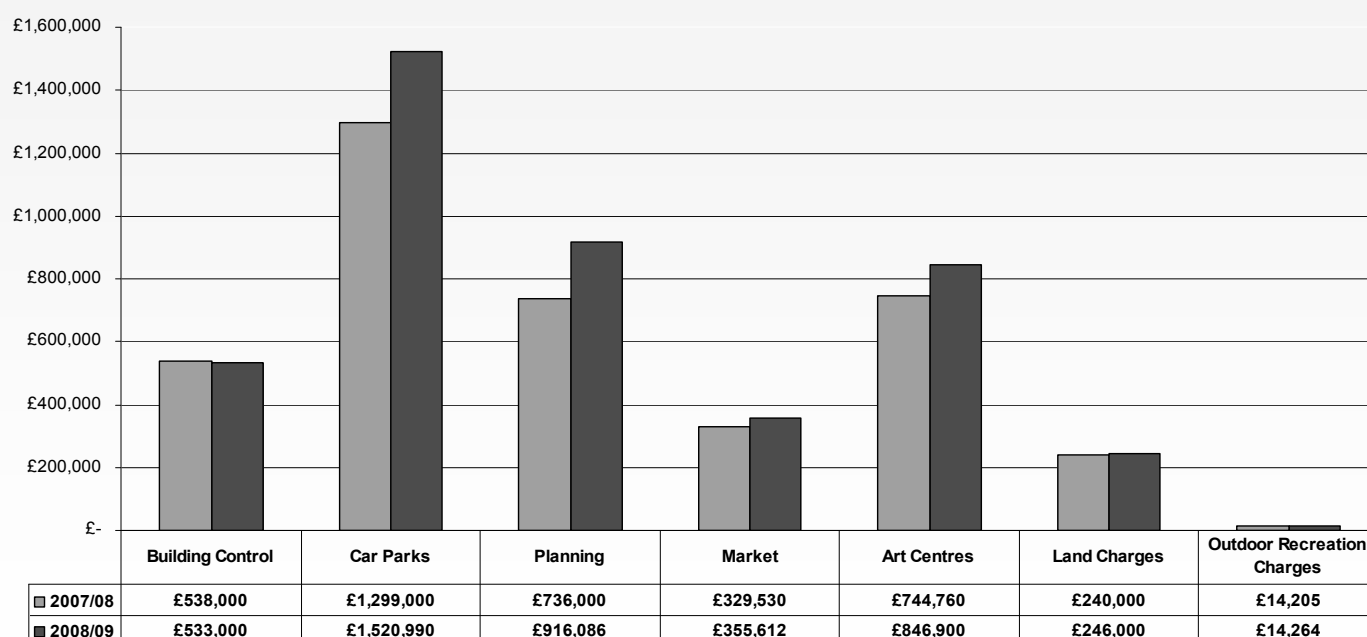
7.1 Partnership Funding

The Council has historically accessed several partnership funding streams and during the year officers will continue to take advantage of any bidding and partnership opportunities that may arise in order to maximise resources available to the Council in accordance with Principle 6 of the Council's Medium Term Financial Strategy.

7.2 Fees and Charges

In accordance with Principle 11 of the Council's Medium Term Financial Strategy and the Fees and Charges Strategy, proposals for the level of fees and charges for 2008/09 are shown in detail within the Revenue estimates book and have been based on the proposals contained within report CHFR81. The chart below shows the level income received from the Council's main sources of fees and charges; this is compared with the previous year.

Fees and Charges



Council's services and the projected increase in income is as a result of the proposed increases to fees and charges to key services identified in detail in Appendix C. Whilst a number of the fees and charges are statutorily determined the Council should keep under review all fees and charges in line with the Council's strategy to protect this resource base.

It is proposed to increase the joining fee for the Green Waste Scheme to £20 with effect from April 2008. There has been some consultation at the Local Forums regarding the possibility of introducing an annual charge for the collection of Green Waste in future years, however, at this stage the Cabinet are not recommending this as it has been possible to accommodate the increase in service within the proposed budget for 2008/9. However, members will need to keep this under review in future years taking account of my commentary regarding the robustness of the budget and potential future risks.

During the Summer of 2007 the Government consulted on amendments to Statutory Development Control Fees, they have now agreed that subject to Parliamentary approval a draft Statutory Instrument will be put before both Houses in January 2008 to confirm the new fee levels as follows:

- a fee increase of 11% (that is, £15) for householder applications
- an overall 25% increase for other fees
- a new maximum fee of £250,000 (or £125,000 if an outline application) *for all except minerals and waste applications*, for which the maximum will go up 25% (to £65,000); and
- a new fee of £85 for 'requests for confirmation that a planning condition has been fulfilled' (or £25 where the request relates to householder development
- if approved they will come into effect from 6 April 2008; and
- Communities and Local Government will review the impact of the proposed increases, and will take a further look at planning fees next year;
- in this context, the Department will hold discussions with the Local Government Association and the development industry to identify other areas of common ground on how to ensure proper resourcing of the planning service. The Government will also continue discussions about whether there is further scope for future devolution of planning fee-setting.

The recently released Audit Commission report "Positively charged" recommends that Councils should undertake regular reviews of their approaches to charging. It is proposed that a Resources PDG working group is set up and takes account of this report and other sources to develop policy proposals on charges for the Cabinet as part of developing an action plan to deliver the Category Z priority – "Placing consultancy services onto a commercial basis".

7.3 Local Area Agreement (LAA)

During 2006/7 the County Council, the seven Lincolnshire Districts and other members of the Lincolnshire Strategic Partnership (LSP) negotiated with Government Office East Midlands regarding the development of a Local Area Agreement. The Local Area Agreement was set to be a three year agreement, based on local Sustainable Community Strategies, which set out the priorities for a local area agreed between Central Government, and the local areas, represented by the LSP.

However, the Government now require new Local Area Agreements to be negotiated for the period 2008/9 to 2010/11, the negotiations for this are ongoing and the formal submission of the LAA is required by early June 2008 with approval of the LAA by the Secretary of State for Communities and Local Government due by the end of June 2008.

There will be no pump-priming or specific grants available for LAAs although a number of specific grants have been merged into the new Area Based Grants, but these are not ring-fenced for spending on LAA.

The provisional Local Government Settlement identified an allocation of Cohesion Area Based Grant (ABG) for South Kesteven of £25k (2008/9), £49k (2009/10) and £75k (2010/11). No further confirmation or details of the grant have been received at the time of writing the report. Government guidance on Local Area Agreements define ABG as non ring fenced general grant, which local authorities and partners can use to work towards national indicators set and LAA targets. The guidance goes on to state that ABG maximise local flexibility over the use of the resource to deliver priorities.

As confirmation of the details of the Grant have not been received and the negotiations on the LAA are ongoing, the grant has not been included within the

budget proposals, Cabinet are recommended to review this position when further details are available.

7.4 Government Grants

The Council receives funding from the Government by way of Formula Grant and Specific Grants, full details of these funding streams are provided in section 12.

8 CAPITAL PROGRAMME

8.1 The recommended Capital Programme (Appendix A page 10-13) provides a revised estimate for 2007/08 together with a further 3 year programme to 2010/11. It is proposed that in future years an additional year will be added to the programme to provide for a 5 year Capital Programme based on a revised estimate for the current financial year plus 4 further years.

8.2 The Programme has been compiled based on the Council's priorities, the Council's Asset Management Plan and in accordance with the Council's Capital Strategy and Capital Scoring mechanism. Bids for the Capital Programme have been assessed by members of the Capital Asset Management Group who have provided advice to the Portfolio Holder for Assets and Finance, in compiling the Programme. The Programme comprises of both General Fund and Housing Revenue Account (HRA) Schemes.

8.3 Revised Programme 2007/08

A revised Capital Programme for 2007/08 was approved by Council in September 2007, with an additional update going to Council in January 2008, to up date the Housing Revenue Account Capital Programme and for the additional purchase of a refuse vehicle, which had been written off in an accident earlier in the financial year.

As part of the preparation of the Capital programme for 2007/08 a review of the current programme has taken place and the following key issues should be noted for the general fund:

- Expenditure of £70k S106 monies at Allington to part finance the overall cost for an affordable housing scheme; This expenditure is now shown in the capital programme following a review of accounting practices
- Private Sector Renewal – transfer of £255k expenditure to revenue to comply with accounting practices, resulting in an reduction to the overall capital budget. The budget will continue to be applied to private sector renewal schemes.
- A small reduction in the cost of the wheelie bin procurement and freighter enhancement project;
- An increase in the budget for Wharf Road Stamford Car Park from £500k to £550k to reflect actual spend. This work has been financed by a grant from Department for the Environment, Food and Rural Affairs (DEFRA);
- Welham Street Car Park a reduction in the budget from £1,196k to £1,002k to reflect scheme savings;
- Three small budget adjustments on projects included in the Provision for Existing Assets to reflect final accounts:

- £2k for Toilet refurbishment at Stamford Arts Centre,
- £7k on the changing rooms at Deepings Leisure Centre
- £4k for the Gentleman's toilets at the Council Offices in Grantham;
- A transfer of £45k from the Provision for Existing Assets budget to a specific project for the purchase and fitting of replacement audio and voting equipment for the Council chamber
- Reduction in the Service Transformation budget of £120k (line 33). This has been slipped into future years programme (2009/10) and is now shown within the indicative schemes section, the project is referred to as Service Programme Transformation (Area Office Improvement Work) (shown at line 39) a budget of £180k in 2009/10 and £30k in 2010/11 ;

In 2007/08 the following schemes have been funded partially or completely by grants and other contributions to the Council (details are shown in the appendix):

- Langtoft playing field, a contribution of £6k;
- Wharf Road, Stamford a grant of £586k from Defra;
- Disabled facility grants contribution to the costs of £213k; and
- Private sector renewal grant of £76k.

8.4 Programme 2008/09 to 2010/11

Key areas to note in relation to the 2007/8 programme include:

HRA

- Provision for continued investment in the Council's Housing Stock to achieve the decent homes standard. Members should note, at this point, that the full stock condition survey planned for 2007/8 will now be carried out during 2008/09, once the results of this have been analysed there is likely to be the need to revise the future year's Capital Programme to reflect priorities identified by the Survey. These will be reflected in revised capital programmes prepared during 2008/09 and future years.

General Fund

- The capital programme currently includes provision for the continued replacement of fleet vehicles as required to maintain the fleet of pool cars and small fleet vehicles in good working order. Members may recall that the Budget Report for 2007/8 proposed a review of the options for procuring fleet vehicles. This will commence shortly and the option appraisal will identify the cost benefits of the most appropriate use of the Council's resources to either purchase or lease vehicles. This review will look at the options for cars, vans and freighters it may be necessary to amend the capital programme following this review, as the programme only currently provides for new cars and vans and does not provide for fleet freighters.
- A provision of £750k was included within the 2007/8 capital programme for the Bourne core area town centre development spread over 3 years. Whilst pre-project work has been undertaken during 2007/8, there has not been capital expenditure on this scheme to date. Therefore, this provision has now been slipped to commence in 2008/9 (£400k in 2008/09, 200K in 2009/10 and £150k in 2010/11).

- A further provision of £2.250m has been included for allocation to other town centre projects over the next 3 years. This is in line with the Council's corporate priority for town centre development in Grantham and Bourne;
- £110k for the provision of play equipment at Stamford recreation ground. This will be fully funded by S106 contributions and other contributions from external bodies to the council;
- Further affordable housing schemes are to be provided in the Grantham area using S106 contributions totalling £200k during 2008/09;
- The Council plans to expand the green waste collection service. This will require the purchase of new wheeled bins (£50k of expenditure planned in 2008/09) and two refuse vehicles for the collection (£260k expenditure planned to be in 2009/10). This is in line with the Council's corporate priority for recycling;
- £150k for further health and safety work on the Grantham Canal to be carried out in 2008/09;
- £500k annual provision for existing assets in line with the Asset Management Plan. Currently £230k of this provision has been allocated to the following works:
 - Window replacements at the main council offices (phase 2) £100k;
 - Cemetery works (phases 2 and 3) £100k
 - £30k for automatic monitoring equipment for utilities
 - A provision of £270k remains for additional works which arise during the year, these will be subject to consideration when the Capital Programme is reviewed during 2008/9;
- £170k to update and renew the Lifeline equipment so the technology remains up to date and compatible with digital telephone lines; and
- Increased provision in future years for Disabled Facility Grants reflecting the increase in need for this service. It should be noted that Disabled Facility Grants are mandatory. There is some Government funding support via specified Capital Grant £213k for 2008/9 equivalent to 60% of the expenditure within agreed allocations. However, the provision within the Capital Programme of £500k has been based on expected need for this service but this exceeds the current Government allocation, as a result the balance of £57k will have to be fully supported by the District Council in 2008/9 and similar amounts in future years (based on an anticipated continued allocation of £213k specified capital grant).

The capital programme also contains indicative projects which are still being fully developed and have therefore, not yet been scored against the council's capital scoring matrix or approved by capital and asset management group and council members, although they have been included as indicative projects for financial planning purposes. These projects are shown on lines 38 to 44 for the General Fund Capital Programme.

Proposed method of financing the Capital Programme

- 8.5 The detailed Capital Programme contained within Appendix A also identifies the proposed method of financing the Capital Programme which will be reviewed by the Corporate Head of Finance and Resources when preparing the Statement of Accounts for each financial year to enable the most effective form of financing to be adopted by the Council.
- 8.6 When preparing the budget for 2007/8 it was anticipated that, based on projected capital spend and policies regarding the use of Capital Receipts, there would be an estimated need for unsupported borrowing during 2008/09. However, as a result of the delayed start of anticipated major spend in respect of town centre development and alternative planned use of the Useable Capital Receipts reserve (in line with comments in paragraph 8.8) and future projections for anticipated capital receipts it is now not anticipated that Unsupported Borrowing will be required until 2010/11. However, this will be kept under review by the Corporate Head of Finance and Resources when preparing the Statement of Accounts each year.
- 8.7 In the Budget report last year, an alternative to the Council's existing Policy on the use Housing Capital Receipts was highlighted, but no formal resolution was made at that time as it was proposed that the Corporate Head of Finance and Resources would report back having reviewed options for the future following the production and audit of the Statement of Accounts for 2006/7. During the preparation of the budget for 2008/9 and preparation of the Treasury Management Strategy I have undertaken this review and my recommendations are set out in paragraph 8.8 and 8.9.
- 8.8 It is recommended that to avoid the need to enter into borrowing in the short-term the Council should review the existing policy regarding the use of Housing Capital Receipts. Historically the Council has adopted a policy of utilising Housing Capital Receipts for Housing purposes only, including supporting the provision of affordable housing. Although, interim arrangements were agreed to utilise Housing Receipts to finance overall Capital Programme until general fund receipts were secured from major disposals during 2007/8, negotiations on these sites are now being finalised, therefore it is an appropriate time to review this policy.
- 8.9 It is recommended that the Council resolve to amend the policy on the use of Housing Capital Receipts to enable them to be applied to finance the Council's overall capital programme in the most financially advantageous way for the Council as a whole to be recommended by the Corporate Head of Finance and Resources in consultation with the Portfolio holder for Finance and Assets. This would then allow the Council the maximum flexibility in determining the most appropriate method of financing the overall Capital Programme, as Housing Capital Receipts may be applied to the overall General Fund Capital Programme. Based on current projections this would result in unsupported borrowing not being required until 2010/11, unless unsupported borrowing provided the Council other financial benefits.
- 8.10 Forecast of Capital Receipts
In accordance with Principle 7 of the Council's Medium Term Financial Strategy "*to manage the Council's assets, reserves, balances of receipts to optimise financial returns for future investment in the Council's priorities for the benefit of the community*", estimates of the likely Capital Receipts to be generated during 2008/09 and subsequent years have been made based on the Council's Asset Management Plan. The likely level of receipts anticipated during 2008/09 is £3.449million (made up of £2.965million General fund and £0.484million HRA receipts) of which £2.599 million will be applied to finance the Capital Programme in 2008/09.

- 8.11 To ensure that the Council optimises its Capital Receipts and returns on existing assets it is essential that all assets are kept under review in line with the Capital Strategy, Asset Management Plan and Medium Term Financial Strategy. Therefore, it is proposed that the Cabinet will continue to be regularly briefed on the performance of assets and in particular non-operational assets. The briefing will identify any potential surplus assets that do not meet Council needs and may be considered for formal decision for disposal.

9 TREASURY MANAGEMENT AND INVESTMENT STRATEGY

- 9.1 In accordance with the requirements of Local Government Act 2003 a Treasury Management Strategy is provided within Appendix B. This appendix provides

- the reporting requirements of prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Annex A of Appendix B)
- the Treasury Strategy in accordance with CIPFA Code of Practice on Treasury Management (Annex B of Appendix B)
- the investment strategy in accordance with the Department of Communities and Local Government Investment Guidance (Annex C of Appendix B).

10 RESERVES AND PROVISIONS

The Local Government Act 2003 requires the Chief Financial Officer (section 151 officer) to report on the adequacy of financial reserves when consideration is given to the General Fund budget requirement for the year. Under the Local Government Finance Act 1988, all balances held by the Council are at the direct disposal of the General Fund with the exception of the Housing Revenue Account balance, the Collection Fund or any funds held in trust. A statement showing the forecast balances of revenue and capital reserves is provided at appendix A page 2 .

Justification of balances

The **General Fund balance** comprises two elements: the working balance and an amount held as a contingency against unforeseen events. A working balance is required so that the council has sufficient funds available to meet its cash flow requirements. The forecast of revenue reserves reflects the Council's policy of maintaining the General Fund balance, at between 4% to 5% of gross turnover, or at between 10% to 15% of net expenditure, to provide adequate cover for any unanticipated expenditure or loss of income that may occur over the course of the financial year.

It is estimated that the General Fund balance will be £1.959m at 31st March 2008 which is equivalent to 10.5% of the estimate Service Expenditure for 2007/8. Whilst this will remain within the Council's approved policy, it will be towards the lower end of the range. Taking this factor into account and in the light of anticipated inflationary factors and associated risks identified in section 16, the budgets have provided for an increase in the General Fund balance of £200k in 2008/9, £100k in 2009/10 and £100k in 2010/11, providing for a general fund balance representing 11.9%, 12.7% and 12.9% of indicative estimates for Service Expenditure respectively. This will ensure that the Council adheres to its General Fund balance policy in future years.

The **Insurance Reserve** has been maintained at £500k. This reserve is held to meet potential and contingent liabilities arising from of the high level of 'self insurance' used by the Council to reduce external premiums. The Council currently has a couple of outstanding insurance issues related to costs associated with judicial review of planning decisions and the insurance contract is also currently out to tender

so the balance on this reserve will be kept under review during the closure of accounts process to ensure that it remains adequate.

Whilst the Council does not currently operate a Pension policy with 'added years', the **Former Employee Pension reserve** provides for matching added years payments in respect of former employees when such a policy operated. The requirement to draw on this reserve will continue and a further contribution of £150k was made during the Closure of Accounts for 2006/7 to reflect the fact that the pension recipients are living longer than originally estimated. The balance as at 31st March 2008 is estimated to be £327k and £262k as at 31st March 2009 which is considered sufficient for the Council's needs in the short to medium term, although this will need to be kept under review and in particular as part of the budget process for 2011/12 when the balance is projected to reduce to £67k

A triennial valuation of the Pension fund has taken place in 2007/8, the results contained in the draft Actuary's report are summarised in paragraph 6.2 above. The **Current Employees Pension Reserve** is held to protect the Council from large changes in Council Tax resulting from unanticipated rises in employer's contribution rate following triennial valuations and also to finance potential one off capital costs of any future early retirements. The balance as at 31st March 2008 is estimated to be £1.482million which will be sufficient in the short to medium term, although this should be kept under review particularly in light of the comments made in paragraph 10.4 and the current volatility of the financial markets.

Any annual surpluses from the chargeable element of Building Control activities are set aside in the **Building Control reserve** and used to finance service improvements and offset any future deficits. The statement shows a modest surplus anticipated for 2007/8 of £10k giving an estimated balance as at 31st March 2008 of £286k with an anticipated deficit of £22k in 2008/9 reducing the estimated balance to £264k. It is recommended that a review of the Building Control Chargeable Account is undertaken by the Service Manager supported by the Financial Services team as the current revenue estimates project ongoing increasing deficits, but there is a requirement for the Building Control Chargeable Account to breakeven over a three year period, so actions need to be implemented during 2008/9 to improve the financial position. In the meantime, the Building Control Reserve provides sufficient cover to protect the General Fund from the impact of the current estimates.

The **Capacity building, priority setting and service improvement reserve** – the balance on this reserve was £1.557m. It is anticipated that £451k will be utilised to support investments in Council priorities and to improve services, subject to the outturn position which will be assessed during the preparation of the Statement of Accounts. The budget proposals for 2008/9 proposed to utilise a further £200k to support investment in Category A Priorities including one off investment related to the Use of Resources priority. This will result in an estimated balance of £906k as at 31st March 2009. It is anticipated that bids for one off growth to deliver the Council's priorities will be forthcoming in future financial years as the Council's priorities and associated plans are reviewed, therefore, it is anticipated that this reserve will need to be utilised to support these bids, it is proposed that in these instances applications to draw on the reserve will be assessed on the basis of the business case and fit with Corporate priorities.

Capital Reserve – It was anticipated that the £5.057million balance on the General Fund Capital Reserve would be fully utilised to finance the delivery of the Capital Programme during 2006/7 resulting in a nil balance as at 31st March 2007. However, as a result of the outturn position reported to Governance and Audit Committee in report CHFR62, the balance of the reserve as at 31st March 2007 was £2.249million. The

proposed financing of the Capital Programme for 2007/8 shows that it is anticipated this reserve will be fully utilised in the current financial year. At this stage there are no further contributions anticipated to the reserve, however, it is proposed that this be reviewed during the Closure of Accounts process and also in light of the awaited Government announcement on the third year of the existing Local Authority Business Growth Funding Initiative (2007/8).

HRA Major Repairs Reserve (MRR) – This is a mechanism whereby the Council is required to account for the resources provided through the Major Repairs Allowance, which is provided through Housing Revenue Account Subsidy and is available to fund capital. A contribution of £3.477million will be made to Major Repairs Allowance (MRA) but the current capital programme will require the use of £5.772million to finance it, leaving a projected balance as at 31st March, 2008 of £5.348million, subject to the final outturn position on the Capital Programme. It is anticipated the balance as at 31st March 2009 will be reduced to £1.671million after taking account of the notified amount of MRA due and the use of the reserve to finance proposed capital programme. Members will note that based on the submitted capital programme, it is anticipated that the Major Repairs Reserve will be fully utilised by 31st March 2010, at this stage it is anticipated that the Council will need to utilise the Useable Capital Receipts reserve or enter into borrowing to support the ongoing Housing Revenue Account capital programme.

The **Working balance on the HRA** – The submitted estimates show an anticipated surplus in the current financial year (taking account of a contribution from the MRR) as a result of revised profiling of expenditure but then show a projected deficit year on year on the HRA resulting in a reducing working balance in future years. The working balance on the HRA is projected to be £8.728million as at 31st March 2008, and the working balance is anticipated to increase to £9.059million at the end of 2008/9 and then it will decrease to £8.437m in 2009/10. A review of the Housing Revenue Account and its subsidy system has been announced by the Government and a report is due in spring 2009 it will be necessary to keep this situation under review and model the impact over the 30 year life of the business plan, prior to entering into future commitments.

Useable Capital Receipts Reserve – This reserve is utilised to finance the capital programme and the balance brought forward contains both receipts from the sale of General Fund assets and the sale of HRA properties under the Right to Buy. It is estimated that the balance will be £4.075million as at 31st March 2008 and £4.925million as at 31st March 2009,

Paragraphs 8.6 to 8.9 explain the historic use of Housing receipts and explain proposals for a revision of the existing policy to enable the increased flexibility in the financing of the overall capital programme to achieve the most financially advantageous method of financing for the Council. If this is approved unsupported borrowing would not be required until 2010/11.

To enable the greatest flexibility in using the Council's resources to finance the Capital Programme it is recommended that the Council authorise the funding proposals subject to an annual review of the financing options by the Corporate Head of Finance and Resources, in consultation with the Portfolio Holder, during the preparation of the Statement of Accounts.

11 COLLECTION FUND

All transactions associated with Council Tax are shown in the Collection Fund. The legislation requires a calculation to be made of the estimated surplus or deficit on the Collection Fund as at 31st March 2008 in order to distribute these amounts in 2008/9.

Any surplus or deficit arising from Council Tax transactions is shared between South Kesteven District Council, Lincolnshire County Council and Lincolnshire Police (the precepting bodies) in proportion to their demands on the Collection Fund.

The surplus on the Collection Fund at 31st March 2007 was £1.149m with amounts due for distribution in future years as follows:

	£k
Lincolnshire County Council	881
Lincolnshire Police	127
South Kesteven District Council	<u>141</u>
Total Surplus on Collection Fund	<u>1,149</u>

The amounts due to Lincolnshire County Council and Lincolnshire Police will be distributed, on a pro rata basis, utilising the precept mechanism. The budget shows that it is estimated South Kesteven's surplus will be applied during 2007/8 (£47k) and 2008/9 (£55k) the remaining small balance will be applied in future years. The surplus has occurred as a result of the tax base increasing at a faster rate than anticipated when preparing the budgets in previous years. The budgets for 2008/9 have been produced based on an anticipated increase in tax base of 1.4% rather than 1% as used in previous years.

Since 2004/5 Council billing authorities have had the powers to reduce the discount on second homes from 50% to a minimum of 10%, this has the effect of generating additional income, for the billing authority and the precepting authorities (the County Council and the Police Authority). In 2005/6 the discount was reduced to the minimum 10%. The County Council and the Police Authority agreed that the additional income would be spent within the district on agreed schemes of mutual benefit.

The amount due from the County Council is £74k for 2007/8 and it is estimated that the amount for 2008/9 will be £87k, this will be used to continue to the work of the Local Strategic Partnership including the employment of a Local Strategic Partnership Co-ordinator.

12 LOCAL GOVERNMENT FINANCE SETTLEMENT 2008/9 to 2010/11

Report CHFR85 presented details of the provisional Local Government Settlement for the three years 2008/9 to 2010/11. The final announcement was made on 24th January 2008.

Formula Grant

Formula Grant is the name for the funding that the Council receives from the Government. The Government have made various adjustments to the 2007/8 Formula Grant base before calculating the Formula Grant for 2008/9. These are set out below:

Adjustments for 2007/8 Formula Grant base (announced in the Local Government Settlement)		
	£	£
Formula Grant for 2007/8		9,626,145
Waste Performance & Efficiency Grant (Formerly a specific grant now mainstreamed)	54,629	
Funding for Contaminated Land (as at 29.11.07)	989	
Local Government New Conduct Regime for Lower Tier Authorities	3,172	
Stray Dog Control (represents elements previously payable to Police)	7,705	

Total Adjustments		66,495
Adjusted Formula Grant for 2007/8		9,692,640

The Council's entitlement to Formula Grant is based on the following elements:

SKDC's Formula Grant from the Government			
	2008/9 £million	2009/10 £million	2010/11 £million
Relative Needs assessed by ascribing values to a range of demographic indices	3.260	3.290	3.325
Relative Resource Amount A deduction, calculated by assessing the authority's taxbase in relation to its population	(2.519)	(2.565)	(2.601)
Central Allocation Paid on a population based formula	9.384	9.457	9.522
Floor Damping Provides protection to those authorities whose entitlement would otherwise fall below increase announced by the Government (and paid for by reducing the entitlement of authorities whose increase is more than)	(0.244)	(0.157)	(0.099)
FORMULA GRANT	9.881	10.025	10.147
% increase on Adjusted Base	1.9%	1.5%	1.2%

The Medium Term Financial Strategy (MTFS) took a prudent approach and anticipated no change in the level of the Formula Grant for 2008/9 until the outcome of the Comprehensive Spending Review 2007 and the three year provisional allocation of Formula Grant was announced later in 2007. The MTFS will need to be amended to reflect the final settlement.

Specific Grants

Specific grants continue to provide an important source of funding for Local Government, the specific grants notified as payable to South Kesteven District Council are summarised overleaf.

Specific Grants payable to SKDC			
Description	2008/9 £k	2009/10 £k	2010/11 £k
Housing Benefit Administration Grant	734	716	To be announced
Homelessness	55	55	55
Concessionary Fares	379	387	398
Housing & Planning Delivery Grant	To be announced in Summer of each year & payable in Autumn of each year		
Local Authority Business Growth Initiative New Scheme	No allocation	To be announced following review of LABGI system	
Total Specific Grants (announced at time of writing report)	1,168	1,158	453

*Note the allocation for the final year (2007/8) of the initial scheme has yet to be made

At the time of writing the report, the Council is still awaiting the announcement of the third year of a three year allocation for Local Authority Business Growth Initiative Grant relating to 2007/8. Advice from the Local Government Association is that, "while the statement (made by the DCLG during week commencing 14th January) suggests that a further announcement will be made shortly authorities would be wise not to allocate anticipated LABGI grant to any specific project". The LGA committed to continue to press the DCLG for an early resolution to year 3. In light of this no

provision has been made within the estimates for this grant currently, however, should an allocation of grant be received it is recommended that a contribution be made to the Capital Reserve to finance future capital investment to support the Council's priority for the Town Centre Development of Bourne and Grantham. An update will be provided once further notification is received

Report CHFR85 provided details of the proposals for the new Housing and Planning Delivery Grant (HPDG). The first allocation of HPDG is due to be announced in Summer 2008 and members will be updated following the announcement.

13. Budget Consultation

13.1 The Council has been consulting on its budget proposals during January via the Local Forums, including a joint consultation meeting with Lincolnshire County Council held at Grantham. In addition, an online survey and survey in SKToday have been commenced. The Local Forum Consultation has also included the following options for Fees and Charges in future years:

- Charging for Sunday parking
- Charging for evening parking
- Charging for disabled car parking
- Charging for car parking in Bourne
- Increasing the one off joining fee for Green Waste to £20
- Charging an annual fee for Green Waste Collection of either £25 or £30

An analysis of the results of the Budget Consultation will be reported at the Cabinet meeting and subsequent Council meeting.

14. The District's basic amount of Council Tax 2008/9

14.1 The calculation of the Council's basic amount of Council Tax is made by deducting from the Budget Requirement £15.783million (including special expense areas, but excluding parishes), the external support that will be received from the Government from Formula Grant £9.881million, together with a surplus of £55k on the Collection Fund.

14.1 The result is divided by the Council Tax Base of 45,237.7. The proposed band D Council Tax is £116.37 (excluding special expense areas and parishes), representing an increase of 4.95%.

14.2 The Government has reserved powers to cap local authority budget requirements where it judges authorities to have set excessive increases. Capping action was taken against 14 authorities in 2004/5, against 9 authorities in 2005/6 and against 2 authorities in 2006/7. The Government has made it clear to all local authorities that it expects that the average Council Tax increase in England to be substantially below 5% and that it will not hesitate to use its capping powers as necessary to protect council tax payers from excessive increases. No decisions have yet been made by the Government on capping principles for 2008/9. However, a letter from the Minister identified that it would be unwise for any authority to assume that capping principles set in previous years will be repeated. The letter goes on to state that the Government intends to take decisions on the principles after authorities have set their budgets, but that they are prepared to announce the principles in advance, if the circumstances suggest that this is necessary, Members will be updated on any change to this announcement.

14.3 Taking account of this announcement the budget requirement has been based on a maximum increase in Council Tax of 4.95% which is below the previous capping level of 5%, however, it should be noted that until the principles for capping are more

formally announced there may be a risk of considering a Council Tax increase at this level. It is anticipated the proposed level of increase will generate a yield of around £250k which is broadly equivalent to the level of Formula Grant that has been lost through the effect of damping. It should also be noted that the Council's Council Tax is currently at a low base being the 34th lowest in the country. Also in the annual survey of residents which took place in November 2007, 78% of respondents thought that the Council offers Value for Money in the provision of its services.

- 14.4 The cost of re-billing is currently being re-evaluated and an update will be provided in due course. A specialist at the Department of Communities and Local Government advised the Council last year that whilst Parish precepts are not taken into account when considering capping, special expense area precepts are. In addition, they advised that Council Tax levels should be kept down and therefore Ministers may consider the impact of parish precepts in the future.

15 Housing Revenue Account (HRA)

- 15.1 Housing Revenue Account Subsidy Determination - The HRA budget has been prepared taking account of the HRA subsidy determination issued on 15th January 2008. This is a one year settlement and confirms the draft determination issued in December which was reported in CHFR85.
- 15.2 The general formula for calculating the amount of Housing Revenue Account (HRA) subsidy payable to an authority for 2008-2009 is essentially unchanged from that used in 2007-2008 with the exception that the Rental Constraint Allowance has been removed.
- 15.3 The Management and Maintenance allowance has been increased by 2.32% for South Kesteven. An additional allowance of £4 per dwelling per year has been built into the Management allowance per dwelling to fund the production of Energy Performance Certificates for local authority stock. The Government's intention is that this is not a one-off allowance for 2008-2009 but rather that it will form a continuing constituent part of the allowance.
- 15.4 The Guideline rent for South Kesteven is £58.09 an increase of 5.68%, the average rent for 2008/9 for South Kesteven is £59.06, an increase of 7.79%. The rent inflation factor used for guideline rents and rent calculations is 3.9% (September RPI) as advised by the DCLG. The Rental Constraint Allowance introduced by the Government in 2006/7 and which was worth £342k to South Kesteven in 2007/8 through the subsidy system has been withdrawn. The Government has indicated that this will be replaced by a return to the caps and limits system to compensate for the loss of income by an adjustment to the Guideline Rent figure in the year following the loss ie 2009/10. It is the DCLG's intention to circulate a spreadsheet shortly which will allow authorities to reassure themselves that relative movements between constrained and unconstrained transitional rents will be accounted for in 2009-2010.
- 15.5 Taking account of all relevant factors, South Kesteven's total subsidy for 2008/9 will amount to a negative £5.831million, a decrease of £1.131million (24.06%) on 2007/8, (any change in subsidy, should be offset by an approximately equal and opposite change in expenditure or income should any of the base information change for example charges for capital).
- 15.6 The Council has also taken into account the target to achieve rent convergence by 2016/17 and the DCLG subsidy proposals that individual rents should not to be increased by more than 4.4% (3.9% RPI + 0.05%) plus £2 from 2007/8. Following

the Cabinet's decision in January to approve an indicative rent increase in accordance with Guideline rent increase of 5.68% or a maximum of 4.4% plus £2 in individual cases, the Tenant Compact has been consulted and have supported the proposal. This will result in an average indicative increase in rent of £7.79%.

- 15.7 Garage rents are set locally, but in past years have followed the guideline rent increase to avoid charge erosion. Thus, it is proposed to increase garage rents and all other service charges by 4.4% in line with the rental proposals used within the subsidy determination.
- 15.8 It is proposed to increase service charges by 3.9% (RPI) and undertake a review of the cost base and charging mechanism during 2008/9.

Analysis of HRA budget proposals

The proposed budget for 2008/9 provides for:

- 15.9 The 2007/8 budget provided for a full stock condition survey to be undertaken. However, this survey will now be completed during 2008/9, therefore the budgets for 2007/8 and 2008/9 have been adjusted accordingly. A review of the capital programme and revenue estimates for repair and maintenance will need to be undertaken in light of the results of the survey. However, based on current proposals it is estimated that the Major Repairs Reserve will be fully utilised by the end of 2009/10 at which time it is anticipated Useable Capital Receipts or borrowing will be required to support future improvements as referred to in paragraph 10.9 above.
- 15.10 Overall, the submitted estimates for cost of service show a deficit of £2.177m for 2008/9 with an on-going deficit of around £1m year on year. This results in a reduction on the HRA working balances in future years. A more detailed analysis is contained in paragraph 10.10 above. It will be necessary to keep this situation under review and modelling of the impact over the 30 year life of the business plan has commenced following a review and rebasing of the HRA estimates. It will be essential that prior to entering into any ongoing future commitments in future years the impact of the sustainability of the business plan of any proposals is fully evaluated.
- 15.11 It will also be necessary to keep under the review the proposals to reform the HRA subsidy system as proposals are developed and once the results are known fully evaluate the impact of these on both Revenue and Capital budgets and the longer term business plan.

16 Statement by Chief Finance Officer

- 16.1 The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer, in the Council's case the Corporate Head of Finance and Resources must report on:
- (a) the robustness of the estimates made for the purposes of the budget calculations, and
 - (b) the adequacy of the proposed financial reserves.
- 16.2 In recommending the budget to the Council, the Cabinet must take account of the advice of the Corporate Head of Finance and Resources in respect of the above. For 2008/9 I can advise that the budget presented to the Council is robust in its formulation and the level of reserves is adequate for the organisation.

16.3 Risks to the budget

In formulating my opinion the following risks and factors have been taken into account.

- a. **The Government will cap the level of Council Tax increase for Local Authorities.** The Government has reserve capping powers and has used them in 2004/5, 2005/6 and 2006/7. There is an indication from the Minister that it is expected that Council Tax increases will be kept substantially below 5%.

South Kesteven is a low taxing Council being 34th lowest in the country (based on 2007/08 council tax). The proposed increase of 4.95% for a band D inclusive of special expenses is below the Government's previous 5% cap threshold. Given no Government guidance on capping any resultant impact from capping measures would need to be found from balances. The cost of re-billing if capping did occur is currently being evaluated and will be reported in due course.

- b. The estimates assume that **efficiency savings** of £710k be found during 2008/9. Careful monitoring will be required to ensure savings are forthcoming.
- c. **National Concessionary Fares Scheme** – The budget assumptions have allowed for an increase in take up of the new National Concessionary Fares scheme. Historically the Council's own scheme was restricted to within District borders, the national scheme allows cross boarder travel throughout England. Also the Authority where the journey starts is liable for the whole cost of the journey. Therefore, the cost of the scheme will be dependant upon travel patterns and behaviours of individuals which may arise out of the publicity and promotion of the new national scheme, as a result there is a risk that actual usage and take up may exceed the assumptions, this will be kept under review, particularly during the first quarter when new patterns will start to emerge.
- d. **Leisure Trust assumptions** – At the time of writing the report the negotiations on the new Leisure Contract are ongoing therefore assumptions have been made regarding the potential impact of these negotiations. The assumptions are based on two key issues, likely contract price (as the Best and Final Offer has not yet been made) and the transfer of the leisure assets on a 15 year lease to a Leisure Trust with an assumed benefit from Mandatory Rate Relief. The budget assumptions have only reflected a six month impact to allow time to finalise negotiations and to legally complete the transactions.
- e. **Car park income** – Car park income has been assumed to include an increase of 10p per price band and rise in users of Grantham Car Parking following the completion of the Welham Street Car Park. The income projections for all car parks will need to be kept under review as there are a number of factors which may affect these projections, including ongoing roadworks, the impact of take up of the new concessionary travel scheme and other car parks provided at retail sites within the towns.
- f. **Planning fee income** – Planning fee income assumptions have taken into account the Government's statutory increase in planning fee income to take effect on 6th April 2008. However, factors which may affect these projections are the outcome of the Planning Bill and the influence of the National and Local economy. Therefore these income projections should also be kept under review.
- g. **Building control account** – Earlier in the report I have highlighted that the Building Control Charging Account will need to be kept under review as there is a risk that based on current forward projections and recent trends that this account

will not meet the objective of breaking even over a three year period. Work will be undertaken during the first quarter to review options to achieve a break-even position over a rolling three years.

- h. **Fuel and Utilities inflation** - Paragraph 5.1 has identified the budget assumptions in relation to inflation factors. Members will note that Utility cost increases have been assumed at 3%, although paragraph 6.2 has identified that negotiations on electricity tariffs are currently ongoing and projections show that the likely increase in costs is estimated to be 11% overall. It is felt that this can be contained within the proposed budget providing that the Council is able to identify energy efficiency measures, but fuel and utilities inflation should be kept under review to ensure this does not pose a significant risk in the future.
- i. The **Capital programme** for 2008/9 continues to be maintained at the relatively high level established in 2006/7 and 2007/8 when compared to recent years. It will be necessary to actively review levels of capital receipts to ensure reliance on borrowing is minimised.
- j. **Fees and charges** provide a significant income stream for the Council, these will need to continue to be kept under review, and an evaluation of impact of the recommendations contained in Audit Commission report "Positively charged" will be undertaken on the Council's Fees and Charge Strategy.
- k. The impact of the court judgement on the **treatment of VAT on car parking income** continues to be monitored for future years Council Tax assessments.
- l. **Reserves** – the Reserves statement attached at appendix A page 2 shows a total projected net use of £16,118million from 1st April 2007 to 31st March 2011 the period covered by the revised estimate for 2007/8 and the three year budgets for 2008/9 to 2010/11. This represents a 54.5% reduction in the level of overall reserves (combined General Fund and HRA) during the period. It is essential that the use of reserves is kept under review to ensure they can continue to be applied in a sustainable manner. Particular caution should be exercised where any potential use of the reserve is to grow base service budgets year on year. This has not been the case in preparing the current three year proposals for the General Fund. In addition, where investment is made on an ongoing basis to category A and B priorities any subsequent review of the level of priority should take account of the need to manage realignment of resources as required, to ensure that the prioritisation process remains sustainable.
- m. **Indicative Budgets for future years** – The indicative General Fund budget requirement for future years has been based on an assumption that future Council Tax increases will continue at the current rate. If the principles of capping are varied from those of previous years a review of the base budget will need to be undertaken. Also the assumptions of Service Managers in compiling their budgets for 2009/10 and 2010/11 will need to be kept under review to ensure they remain sustainable, in light of the fact that the Government has set a three Formula Grant settlement (this has also taken into account in the indicative budget requirement) and therefore the likelihood of additional funding is likely to be restricted to specific grants yet to be announced or other external funding sources.
- n. The **Housing Revenue Account** will require a review once the outcome of the review of the HRA subsidy and accounting system has been undertaken. The HRA should also be reviewed to assess the sustainability of any improvement

plans which may arise from the forthcoming Inspection of the Housing Landlord function. The impact of any proposals arising out of either the national review or the local Inspection will need be modelled over the 30 year life of the business plan, prior to entering into any ongoing future commitments

17 Comments of the Monitoring Officer

The budget forms part of the Council's Budgetary and Policy Framework. Members should have regard to the comments of the Corporate Head of Finance and Resources as the Council's Chief Financial Officer which are set out in section 15 when making their recommendations to Council in accordance with the Local Government Act 2003

18 Summary and Conclusion

18.1 Overall it has been possible to produce a balanced budget. However, current and future resources are tight. This particularly reflects the fact that the four main income streams for the Council:

- Government Grant,
- Specific grant,
- Fees and Charges and
- Council Tax

are, and will continue to be constrained, at a time when ambitions and customer expectations are increasing. The Council also faces budgetary pressures from pay, pensions and the efficiency agenda with a Government target of 3% per annum with effect from 2008/9. Members will also note that subject to the delivery of the projected Capital Programme in the current financial year the Council is planning to fully utilise its Capital Reserve. Overall the total General Fund and HRA reserves are projected to reduce by 54.5% over the three year period of the Local Government Settlement, this will not be able to be repeated in future years and will also have an impact on the Council's interest earning capacity in the future.

18.2 In addition, the outcome of the Local Government Settlement which provided for just a 1.9%, 1.5% and 1.2% increase in Formula Grant for each of the three years of the settlement respectively will need to be reflected in a revision of the Medium Term Financial Strategy to enable the continued application and redirection of resources as required to provide a sustainable budget.

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