

REPORT TO CABINET

REPORT OF: CORPORATE HEAD OF FINANCE AND CUSTOMER SERVICES

REPORT NO.: CHFCS87

DATE: 1st February 2010

TITLE:	Budget 2010/11 and indicative budgets for 2011/12 and 2012/13 <ul style="list-style-type: none">• Revenue Estimates 2010/11 and indicative budget 2011/12 to 2012/13• Capital Estimates 2010/11 to 2012/13• Reserves Statement• Fees and Charges• Treasury Management Strategy	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	Policy Framework Proposal	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Resources and Assets Portfolio Holder	
CONTACT OFFICER:	Richard Wyles Tel: 01476 406210 Email: r.wyles@southkesteven.gov.uk	
INITIAL IMPACT ASSESSMENT:	Carried out and appended to the report	Full impact assessment Required: N/A
Equality and Diversity		
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	CHFCS 84, CHFCS 85, TSE0041	

1. RECOMMENDATIONS

It is recommended that the Cabinet:

General Fund Revenue Estimate

Make recommendations a. to m. to Council:

- a. to set a General Fund budget requirement of £16.416M for 2010/11 (inclusive of special expenses) and note the indicative budget requirement figures of £15.893M for 2011/12 and £16.115M for 2012/13
- b. to set a Council Tax increase of 2.5% for 2010/11 (1.2% inclusive of special expense areas)
- c. to approve the original base estimate for 2010/11 and indicative base estimates for 2011/12 and 2012/13 as detailed in the summary at Appendix A page 1;

- d. to approve the Treasury Management Strategy provided at Appendix E;
- e. to approve increases in Fees and Charges for 2010/11 (in accordance with the Council's Fees and Charges Strategy) as set out in Appendix D
- f. to approve the Revenue and Capital Reserves statement contained at Appendix C
- g. to continue the fundamental review of services where the projected income levels show a continued reduction to ensure the allocated resources are proportionally aligned.
- h. To approve a revised funding allocation of £56K per annum in respect of the town centre partnerships
- i. To approve a service review programme to ensure all services delivered are cost efficient, aligned to priorities and providing value for money to the taxpayer
- j. To approve the growth in the base budgets in respect of the following:
 - o Choice based lettings set up costs
 - o Provision for additional benefits assessor
 - o Civilian parking enforcement set up costs
 - o Creation of priority action plans provision
 - o Efficiency initiatives provision
 - o Service initiatives provision
- k. To set cash releasing efficiency targets for each service area at corporate level in order for the Council to achieve its overall efficiency target
- l. to approve the use of the Housing and Planning Delivery Grant in respect of the works associated with the Local Development Framework
- m. to receive and consider at the meeting, the analysis of the outcome of budget consultation
- n. to approve the use of the priority themes and service improvement reserve to financially support the 'next steps' programme

Capital Programme

Make recommendations o.to q. to Council:

- o. to note the forecast outturn Capital Programme for 2009/10 and approve the indicative programme for 2010/11 to 2012/13 detailed at Appendix B pages 1-3
- p. to authorise the funding proposals subject to an annual review of the financing options by the Corporate Head of Finance and Customer Services, in consultation with the Resources and Assets Portfolio Holder, during the preparation of the Statement of Accounts to optimise the use of Council resources.
- q. To approve the setting of a cash releasing efficiency target in respect of the Capital programme

Housing Revenue Account (HRA)

Make recommendations r. to v. to Council:

- r. to set dwelling rent increases in accordance with Government guideline rent, of 3.1% providing an average rent of £61.86 (and an actual average rental increase of 1.78%)
- s. to set an increase in garage rents of 3.1%
- t. to increase service charges by 3.1%
- u. to approve the Housing Revenue Account for the year 2010/11 and indicative years 2011/12 and 2012/13 shown at Appendix A page 9
- v. to approve the setting of a cash releasing efficiency target in respect of the Housing Revenue Account

2. PURPOSE OF THE REPORT/DECISION REQUIRED

The purpose of this report is to present the Budget proposals for 2010/11 in relation to:

- Revenue and Capital Expenditure together with the proposed use of reserves
- Proposals regarding the setting of the Council Tax
- The Treasury Management Strategy for the Council
- The level of fees and charges
- Providing advice to Councillors on the robustness of the Budget proposals and adequacy of balances and reserves as required by the Local Government Act 2003.

3. DETAILS OF REPORT (SUMMARY – USE APPENDICES FOR DETAILED INFORMATION)

Background

3.1 The 2010/11 Budget and indicative budgets for 2011/12 to 2012/13 have been drawn up to take account of the Council's various strategies, policies and the financial context, in particular:

- The Corporate Plan
- The Council's priority theme action plans
- The Medium Term Financial Plan (MTFP)
- Service Strategies and Plans
- The economic downturn
- The 2009/10 forecast outturn

3.2 The 18 months leading up to the budget setting period has been particularly challenging for the Council and it has responded to the economic downturn by protecting and, where necessary, increasing resources at key front line service points. It has managed continuing reductions in traditionally large income services (Building Control, Development Control) and reviewed its Treasury Management Strategy to ensure exposure to investment risk is minimised. These issues, whilst ensuring that priority actions continue to be delivered and quality service delivery is maintained, have set the financial framework of the budget process for 2010/11.

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 District Valuer to keep the asset register up to date. Any change in the use of assets, a 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 2010/11 estimates have been prepared in the context of these plans and controls.

4.3 Integrated Service and Financial Planning

Service planning has focused on linking the proposals for service delivery to the Council's vision and priority themes as well as the wider Lincolnshire Sustainable Community Strategy and Local Area Agreement. Priority theme action plans have been produced for the financial year 2010/11 and have been reviewed and updated in order to ensure all actions are achievable and affordable within the budget proposals. Clear resource implications have been determined together with measurable outputs and outcomes that can be demonstrable to the community. To further support the delivery of the actions the budget proposals include a revenue provision to support the actions and will be allocated during the financial year. Further details of this provision are given later in the report.

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 service risks.

There have been a series of budget briefing and planning meetings involving Cabinet and Strategic Management Team, Management Team and service managers. In addition, policy development work has been undertaken by a working group of the Resources Policy Development Group, one specific area covered by this group is a review of the options for fees and charges which is referred to later in the report.

4.4 Efficiency Agenda

The 2010/11 financial year will be the final year of the local government 3 year grant settlement which included a requirement to identify an on-going efficiency target of 3% for 2008/09 and 2009/10 with an additional 1% from 2010/11. Thereafter the target will be reviewed as part of the comprehensive spending review 2010 (CSR10). This target has been identified under the national indicator NI 179 which is defined as 'the value for money – total net value of on-going cash releasing value for money gains that have impacted since the start of the 2008/09 financial year'. Within the Local Area Agreement (LAA) delivery plan, the priority of improving services across Lincolnshire authorities in order to provide value for money has been agreed. Each authority has agreed to contribute towards this overall priority and deliver value for money savings over the three year period. This

will be achieved through a number of initiatives including shared services, review of business processes and sharing best practice. In order to ensure the Council meets its obligations under NI179, efficiency targets have been identified for each corporate area (including capital and the HRA) and during the course of the year regular monitoring is undertaken against the efficiency action plan in order to track progress with the overall target. The targets are shown in the table below:

	2008/09	2009/10	2010/11
	£'000	£'000	£'000
Annual Target	826	820	1,127*

*Based on 4% to reflect the increase from the current annual 3%

All service budgets include a workforce efficiency target for each service area (totalling £248K in 2010/11 based on a 2% target) in order to ensure the staffing resource is efficiently managed and that business cases are prepared in response to staffing vacancies to assess the need for a like-for-like permanent staffing replacement. Included in the review is the opportunity to share in-house skills within services and promote internal re-deployment.

Zero based budgeting has also been introduced into the budget setting process for all service areas. The concept of this approach is to build budgets from a zero base position and fundamentally challenge the resource levels necessary for service delivery. This approach has identified savings of approximately £250K and this initiative has now become a key feature of the budget setting process as the Council continues to ensure resources are targeted appropriately and that value for money is being delivered.

4.5 National Settlement and Three Year Budget Planning

The Secretary of State for Communities and Local Government introduced three year settlements from 2008/09 and so the next financial is the final year under the current arrangement. The three year settlement has allowed for relatively sound medium term financial planning to be undertaken. The allocation for 2010/11 has been set at £10.147M. In real terms this represents an increase of 1.20% from the 2009/10 settlement. After the financial year 2010/11, there is great uncertainty regarding the future grant settlements and the Council, alongside the majority of the public sector, is bracing itself for potential significant grant reductions. The Medium Term Financial Plan (MTFP) (presented to Council in September 2009) reflects this uncertainty and shows a number of financial scenarios that could materialise. Budget scenario planning will be undertaken during 2010 to model several potential budget gaps and invite stakeholders to express views on where any changes in service delivery can be identified. For the purposes of presenting indicative budgets for 2011/12 and 2012/13 the grant has been reduced by the removal of the concessionary grant element only (based on operational costs of £700K) as it is anticipated that the concessionary travel responsibility will transfer to the County Council from 2011/12. The remainder of the grant has been assumed at a standstill position i.e. no grant growth. This is shown in the 'Summary of General Fund Estimates' at Appendix A under the line 'Formula Grant'.

In accordance with the MTFP a number of actions have already been implemented in order to reduce the budget requirement which has had the effect of eliminating the deficit and enabling a balanced budget for 2010/11 to be produced. These savings will also be carried over and feature in future year's budgets. These actions include:

- The removal of contingency budgets
- An increase in fees and charges in service areas
- A reduction in pay award assumptions over the next 3 financial years
- Zero based budgeting across all service areas

However the Council will potentially be facing a significant grant reduction from 2011/12 and will need to prepare plans in order to ensure that a balanced budget is produced. It is extremely difficult to anticipate the actual grant reduction as no confirmation has been announced but it is prudent to expect that a reduction will be forthcoming. The timing of any reduction is also uncertain as it is possible that an emergency budget could be prepared by the Government following the parliamentary elections. A further difficulty in presenting the medium term financial prospects is in respect of the transfer of the administration arrangements of concessionary travel. At the current time it has been confirmed that the responsibility will be transferred although the financial impact of the transfer has not been identified. The intention is to remove the concessionary travel cost 'element' from the grant settlement although it is recognised that this is not easily identifiable to achieve. Indicative work in respect of this transfer has suggested that the Council could 'lose' more grant than the current service costs thereby creating a further deficit scenario for the Council. The true impact of the issue will only emerge during the summer of 2010 once the discussions in respect of the financial transfer commence. The table below demonstrates in financial terms the effect these grant reductions have in reducing the grant settlement.

2011/12	Worst case scenario	Anticipated outcome
Formula Grant reduction	15% £1.324M	10% £0.950M
Concessionary Travel grant reduction (net of service cost)	£0.900M	£0.300M
Total Grant reduction	£2.224M	£1.250M

5. Financial forecasting of Budgets 2009/10

5.1 During the course of the financial year regular monthly budget monitoring is undertaken with service budget holders and Accountancy Services in order to monitor expenditure and income compared with budget prediction. A key element of this monitoring is forecasting the year end outturn position having taken into consideration the actual expenditure and anticipating the future levels of expenditure. This activity enables early indications of potential financial issues and allows remedial action to be implemented to manage the projected outcome. These discussions are further supported by monthly meetings with corporate heads and strategic directors when there is an opportunity to discuss both the financial and performance position.

6. Estimates 2010/11

6.1 The budget assumptions used in compiling the 2010/11 estimates are set out below:

<u>Inflation Factors</u>	
Salary Inflation for 2010/11	Any pay award will be in accordance with the national pay settlement
Retail Price Index	2%
National Business Rate	1%
Utility Cost increase	10%
Drainage Board Levies	3%
Fuel costs	10%
<u>Other Assumptions</u>	
Interest Rates	1.5%
Salary Vacancy Factor	2%
Growth in numbers of Band D equivalent properties	1.1%

6.2 Analysis of changes to base budget and budget pressures

The budget proposes a net service expenditure of £18.277million broken down by Corporate Head areas as follows:

Summary of Net Service Expenditure				
	Original base 2009/10* £'000	Estimated base 2010/11 £'000	Indicative base 2011/12 £'000	Indicative base 2012/13 £'000
Resources and Organisational Development	1,298	1,912	2,005	2,121
Finance and Customer Services	2,418	2,576	2,078	2,142
Healthy Environment	6,425	6,515	6,714	6,927
Partnerships & Improvements	3,551	3,345	3,450	3,381
Special Expenses	643	578	560	567
Sustainable Communities	3,390	3,351	3,124	3,036
Net Service Expenditure	17,725	18,277	17,931	18,174

*the original base as approved by Council on 2 March 2009

Key points to note:

- Resources and Organisational Development - the increase from 2010/11 onwards is due to the inclusion of the leisure costs for both the management fee and the business rates following the withdrawal of the Leisure Trust proposal.
- Finance and Customer Services – the reduction from 2011/12 reflects the current proposals to transfer the administration arrangements of concessionary travel from the District Council to the County Council.
- Special Expenses – the reduction from 2010/11 reflects the reduction in costs in respect of Stamford SEA following the removal of Stamford Recreation Ground facilities.

A balanced budget has been produced. However current and future resources are tight reflecting the fact that the four main income streams of Government Grant, specific grant, fees and charges and Council Tax are, and will continue to be, constrained at a time when the economic climate is uncertain and customer expectations are increasing.

6.3 2010/11 Bids for Growth and Service Investment

There are a number of bids for growth and service investment which have been included in the proposed budget for 2010/11. The key items are summarised as:

Bids for growth

- Choice Based Letting (CBL) – this service aspires to create a more customer focussed and transparent approach to housing allocations as customers are able to make informed decisions about their housing future. There will be one-off costs incurred in respect of the implementation of the CBL service but thereafter the operational costs will fall within the current costs of providing the housing register (waiting list) and the statutory housing advice/homelessness service. The one-off costs in respect of the establishment of the CBL service are £120,000 and will be shared between the General Fund and the Housing Revenue Account.
- Benefits assessor – Over the last 18 months the service has experienced a 20% increase in the benefits caseload as a result of the prevailing economic conditions. This has placed a resource strain on the service which has responded by introducing new ways of working (following a fundamental service review). However in order to ensure quality service delivery is provided and within acceptable performance times it is necessary to provide a more sustainable solution. It is proposed to increase the resource base by 1 FTE (a 6% increase) at a cost of £25K which will be utilised to ensure current service delivery levels are maintained. The service will constantly review the ratio of workload to resource and should there be a change to the ratio then this will be managed through natural wastage over the short to medium term.
- Civilian Parking Enforcement (CPE) - A provisional sum of £25K revenue and £20K capital has been set aside in the budget proposals to meet the necessary one-off costs of introducing CPE in the South Kesteven district should the proposal be implemented in the 2010/11 financial year. However at the present time the full financial impact of introducing CPE has not been modelled and the revenue budgets have been established based on the current operational arrangements.
- Local Development Framework – The Council is required to prepare a Local Development Framework (LDF) to replace it's Local Plan. The LDF establishes the planning policies used to determine planning applications. Preparation of the LDF must follow the statutory processes set out in the Planning and Compulsory Purchase Act 2004 and its associated regulations. The cost of the LDF will be £387k in 2010/11 which will be funded through the Housing Planning Delivery Grant.

Other budget proposals requiring commentary:

- Arts Centres – The arts venues at Grantham and Stamford continue to show a net cost growth when compared to previous financial years. It is therefore proposed that the operation of the venues is fundamentally reviewed in 2010/11 as part of the service review programme to investigate and ensure value for money is being delivered and explore alternative ways of service delivery.
- Investment Income - the financial forecasts in respect of investment income over the next three years have been modelled on the following anticipated levels of interest rates (provided by the investment advisors):

Financial Year	2010/11	2011/12	2012/13
Base Rate	1%	2%	4.5%
Money Market Rate (average.)	1.5%	2.5%	4.8%

This information has been utilised to anticipate the potential levels of interest income the Council will receive for its investment of the reserve balances. This income will be shared between the General Fund and the Housing Revenue Account. However as the spending plans of the reserves progress (thus reducing the reserve levels) then there will be a corresponding reduction in the amount of interest income that will be received. Scenario planning in respect of continuing investment, forecast interest rates and potential for borrowing will be a feature of 2010/11 and will be undertaken within the framework of the Treasury Management Strategy.

- **Fees and charges** – The Resources PDG established a working group to review and consider a range of fees and charges proposals for 2010/11 and presented its findings to Cabinet. These are detailed in report CHFCS85 and the agreed fees and charges have been incorporated into the budget proposals and shown in detail at appendix D.
- **Leisure management fee** – The budget proposals include the current arrangement with the leisure provider in respect of the management fee. However, during the time period of the budget the Council will need to review the contractual arrangement and commence a procurement process in respect of future leisure delivery. There is a financial risk that the management fee included in the budgets will not be sufficient to meet the future fees as this will depend on the market conditions at that time. This is detailed as a financial risk to the budget later in the report.
- **Priority plans initiatives provision** – In order to financially support the delivery of the priority plan actions it is proposed to include a provision of £200K. The use and allocation of this provision will be subject to detailed spending proposals which will demonstrably show the priority action outcome. This provision will be financially supported by the use of the priority themes and service improvement reserve.
- **Efficiency initiatives provision** – A sum of £150K per annum has been included to be utilised to financially support service initiatives that have been prepared on the basis of an ‘invest to save’ framework. This provision is available to encourage entrepreneurial thinking in alternative service delivery that does not compromise service quality but can demonstrate clear financial savings over a period of time following one-off set up costs. These proposals will be prepared utilising a business case template detailing clear service proposals, financial implications and performance outcomes. This provision will be financially supported by the use of the priority themes and service improvement reserve.
- **Service provision initiatives** – The budgets have been prepared within the context of zero based budgeting i.e. all budgets have been built up from a zero position. This approach minimises the risk of over budgeting and ensures that only the most appropriate level of budgets have been provided at service level. However this approach carries the risk that any unforeseen service events that may occur during the course of the financial year may not have sufficient resource available to meet them. Therefore a service provision has been included (£100K per annum) to allow such unforeseen events to be supported without compromising service delivery.

- Local Authority Business Growth Incentive (LABGI) – The Authority received a one-off award during 2009/10 of £194K in recognition of business growth and development in South Kesteven. The remaining balance of £141K has been included in the corporate line of ‘Sustainable Communities’ and will be utilised to support the priority theme of ‘Good for Business’.
- Community Fund – This fund has been replaced with appropriate budget provision in key service areas where community support and engagement is required and therefore it is proposed to withdraw the Community Fund in its current format.
- Building Control – The building control service is required to maintain a statutory account which must breakeven over a rolling 3 year period but has suffered in recent years to maintain a breakeven position due to continuing reductions in income levels. The service costs are split between chargeable and non-chargeable work. A review of officer time has been undertaken and the chargeable split has been updated from 80/20 to 70/30 (i.e. 70% of officer time is spent on chargeable activity and 30% non-chargeable). It is anticipated that the chargeable service will make a deficit of £36K in 2009/10 (which will be charged to the reserve in addition to a £15K commitment for IT related improvements) but will make a surplus of £15K in 2010/11. This is shown in the Reserves statement at appendix C.
- Land Charges - The principle behind the level of fees to be set are based on service cost recovery. Members should be made aware there is currently a national review of the type of fees that can be imposed in respect of the service. If this review concludes certain elements of the service are non-chargeable this will result in income levels being reduced which in turn will necessitate the need to review the current levels of expenditure.
- Development Control – the forecast position of the service is identifying an income reduction of £80,000 which will result in the service costs increasing for 2009/10. It is not anticipated that the income level will improve in the short term and therefore the costs of the service will continue to reflect the reduced income position in 2010/11. In accordance with Council approved decision the service will be undergoing a comprehensive service review during 2010/11 in order to review the service costs.
- Concessionary travel – the budget for 2010/11 has been prepared utilising forecast information on the anticipated growth in customer demand and the likely operational costs of the service. It is also prepared on the basis that South Kesteven will be operating free all day travel from 1 April 2010 and the proposals to withdraw an element of the specific grant (£197K) will be implemented from 1 April 2010. Thereafter it is anticipated that the service will transfer to the County Council and so no service costs are shown from 2011/12.
- Aligning Skills and Resources to deliver the Council’s Vision and Priorities – the ‘next steps’ programme. At the Council meeting on 21st January 2010 a presentation was given by the Chief Executive in respect of the next steps programme which is a review of staffing and resources to support the delivery of the priorities. It is proposed to support any one-off financial implications arising from the review from the priority theme and service improvement reserve and the appropriate level of resource will need to be identified once the full impact of the next steps programme is assessed. Thereafter the budget framework will be reviewed to reflect the new staffing resource levels.

6.4 Special Expense Areas (SEA)

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 e.g. 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.

The district seeks to fully recover the net expenditure of the special expense areas and the proposed budget for 2010/11 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.

Cabinet has agreed, subject to finalising the transfer details, to the freehold transfer of the Stamford Recreation Ground facilities to Stamford Town Council. Therefore the budgets have been prepared on the basis that there will be no cost to South Kesteven District Council in respect of the Recreation Ground for the 2010/11 financial year as the operational costs will pass to Stamford Town Council. For the District Council this will have the effect of reducing the special expense charge to Stamford from 2010/11 onwards and will result in a significantly lower charge.

In respect of the Grantham special expense area there are a number of one-off specific expenditure items that are included in the spending proposals for 2010/11 including capital financing charges in respect of cemetery surface water improvement works.

6.5 Overall General Fund Position 2010/11

The overall General Fund position for 2010/11 is shown at Appendix A. The total service expenditure (net of direct income) for 2010/11 is estimated at £18.277M. Interest and investment income has been estimated at £229K 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 D 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:-

	£'000
• Pension - to cover former employee pension liabilities	65
• Pension – contribution to current employee reserve in respect of future employer contribution increases	(368)
• Building Control – contribution in respect of service	(15)
• Special expense reserve	12
• Priority themes and service improvement reserve	491

The summary of the projected use of Reserves is attached to this report at Appendix C. After adjusting for accounting entries that do not impact on the taxpayer and taking into consideration the reserve movements the budget requirement is £16.416M (including special expense areas).

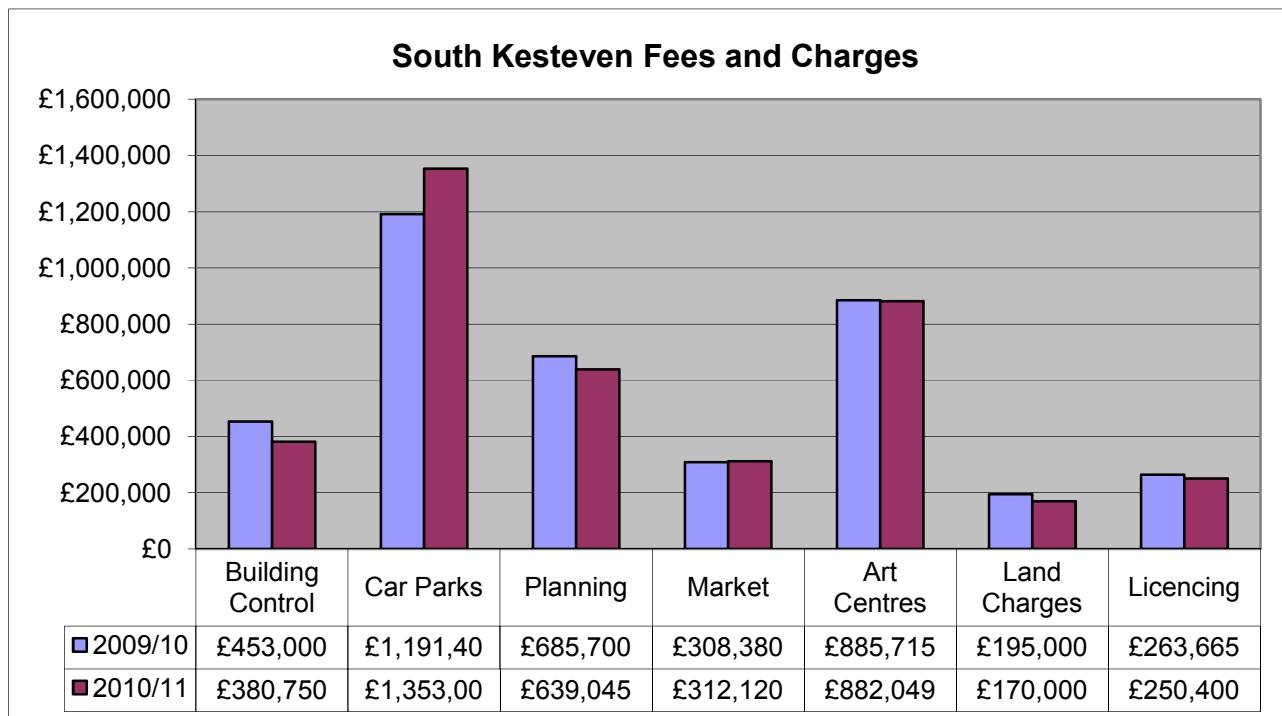
7 General Fund Income

7.1 Partnership Funding

The Council continues to access 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 addition the partnership arrangements have been strengthened through the development of partnership protocol policy which will ensure any partnership is of benefit to the Council and clear outcomes are evidenced.

7.2 Fees and Charges

In accordance with the Fees and Charges Strategy, proposals for the level of fees and charges for 2010/11 are shown in detail at Appendix D and have been based on the proposals contained within report CHFCS85. All fees and charges were discussed and proposed by the Resources PDG working group. The chart below shows the level of income budgeted to be received from the Council's main sources of fees and charges; this is compared with the previous year budget.



Members will notice that some areas continue to show a deterioration of income levels for the next financial year, particularly building control and development control. This is based on 2009/10 forecasting information undertaken during the course of the current year. Services that have experienced a reduction in income levels have undergone a review of expenditure headings in order to align the operational costs of delivering the service with the volumes of activity. Given the economic outlook there is no evidence that these income levels will improve in the short to medium term and therefore the Council must continue to ensure that the costs associated with these services is aligned to the income levels.

7.3 Area Based Grants

There have been two awards for the district council in respect of community cohesion and climate change. In respect of community cohesion the award is £75,000 for 2010/11. In respect of climate change the allocation is £22,500. Utilisation of these allocations have been incorporated into the budgets and the spend proposals will contribute to the Local Area Agreement outcomes and the Council's priority themes specifically 'Quality Living'. The community cohesion funding allocation will continue to be used to support a number of projects led by the Local Strategic Partnership's Community Cohesion Theme Group. This group is chaired by the Council's LSP Co-Coordinator. In 2010/11 these will include, events at district carnivals; projects for young people; multi-agency projects which deal with community issues in a joined up way and strengthen community development; a support worker and a research project mapping the different communities in the district.

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.

8.0 Capital Programme

- 8.1 The recommended Capital Programme (Appendix B pages 1-3) provides a forecast outturn for 2009/10 of £6.651M and an indicative 3 year programme totalling £29.080M for the financial years 2010/11 to 2012/13. This is a significant capital programme in terms of projects and financial investment and the Council will need to ensure it has sufficient officer capacity to ensure the delivery of the programme in the timescales proposed.
- 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 Resources and Assets Portfolio Holder, in compiling the programme. The Programme comprises of both General Fund and Housing Revenue Account (HRA) Schemes. The capital programme for the HRA has been compiled using the data from the 100% stock condition survey which has been analysed in order of priority of need and ensuring the Council meets the decent homes standard in 2010. The full details of the HRA business plan and financial model have been approved by Cabinet at its meeting on 4 January 2010.

8.3 Forecast Outturn Programme 2009/10

A forecast outturn capital programme for 2009/10 is provided based on the current levels of projected spend for both the General Fund and the Housing Revenue Account.

The preparation of the Capital programme for 2010/11 has taken potential areas of slippage into consideration.

The following key issues should be noted for the general fund:

- Good for Business – During the course of the year a financial contribution of £300K has been agreed to facilitate the development of a business innovation

and incubation centre at the Deepings. Further progress is being made in respect of the Bourne core area development with key strategic sites being identified. Work has also been undertaken in respect of the ground floor layout at the Guildhall Arts Centre including the re-positioning of the entrance point at the front of the building.

- Quality Living – The Council has continued to obtain and provide grants for both regional housing needs and disabled facilities for the private sector and full use of these grants is expected. In respect of waste management, 2 additional freight vehicles have been purchased to support the waste collection service and additional green waste wheelie bins have been purchased in order to meet customer demand during the year. The works in respect of the energy efficiency initiatives have been deferred until 2010/11 to enable detailed proposals to be considered.
- Customer First – the budget provision in respect of area office upgrades will be re-allocated into the 2010/11 financial year to enable plans to be agreed in respect of the Bourne Community access point and the identification of alternative locations in Stamford.
- Quality Organisation – A number of schemes have been undertaken to ensure existing assets are maintained or improved including the purchase of market stall covers, wall maintenance at Ropsley (closed burial ground) and Stamford Arts Centre. To maximise energy efficiency, pool covers have been purchased for the pools at Deepings and Grantham leisure centres – this purchase has been grant funded from the Department for Culture, Media and Sport following a successful bid application.

The following key issues should be noted for the HRA:

- A comprehensive list of schemes have been included in the HRA capital programme for 2009/10 and all schemes are due to be completed within the financial year. There are 2 projects which are forecasting an overspend due to the need to address health and safety issues – these are the passenger lift schemes at Essex Road and Meadows Close Stamford and the boiler replacement programme which has identified an urgent communal boiler replacement at Essex Road Stamford.

8.4 Programme 2010/11 to 2012/13

Key areas to note in relation to the 2010/11 programme include:

HRA

The investment in the Council's housing stock over the next three years has been compiled using the analysis data from the 100% stock condition survey. The spending profile reflects the need to achieve decent homes standard by 2010/11 and therefore there is an increase in the capital programme to £6.9M. Thereafter the capital programme will be evenly allocated (in five yearly blocks) over the future years. This will enable the spending programmes to be efficiently procured and delivered within the context of resource capacity. However it should be noted that the overall financing of the capital programme will become extremely challenging in the medium term and the spending plans will need to be scaled downwards to bring it in line with the financing resources available. This may compromise the Council's on-going ability to maintain the decent homes standard.

General Fund

The General Fund has been compiled following the submission of capital bids and the improvement and investment programme as identified in the Council's Asset Management Plan. The following submissions are proposed:

- Good for business – Budget provision has been included to enable the further feasibility and development work in respect of the town centre development projects of Grantham Growth point and Bourne core area.
- Quality living – Further budget proposals are included in respect of the use of the regional housing grant and the disabled facilities grant. The programme also includes the proposal to purchase the existing waste management fleet which is currently on a lease arrangement (expiring July 2010).
- Customer First – The capital provision in respect of the proposed alterations and improvements to the area offices has been included in the 2010/11 capital programme. The Council is working with other partners to investigate the feasibility of a community access point at Bourne and proposals will be presented in the new financial year.
- Quality Organisation – The Council continues to invest in its assets to ensure effective utilisation in accordance with the Asset Management Plan. Key projects include the introduction of 'pay on exit' at 2 Council car parks (Wharf Road Stamford and Wharf Road multi-storey Grantham), investment at Deepings Leisure Centre and investment in respect of stalls and covers at the markets in Grantham and Stamford.

8.5 Proposed method of financing the Capital Programme

The detailed Capital Programme contained within Appendix B also identifies the proposed method of financing the Capital Programme which will be reviewed by the Corporate Head of Finance and Customer Services 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 In respect of the capital programme the summary financing statement has been prepared for the General Fund and the Housing Revenue Account. In respect of the General Fund it is proposed to utilise the capital receipts reserve, grant funding and the specific capital reserve together with a contribution from revenue. There is no immediate borrowing requirement within the timescale of the capital programme, however work is being undertaken to determine the most financially advantageous method of capital financing. Therefore the actual method of capital financing may be adapted during the course of the financial year. This will be kept under review by the Corporate Head of Finance and Customer Services when preparing the Statement of Accounts each year. In respect of the HRA capital programme the financing of the programme will be met from the Major Repairs Reserve (MRR) together with contributions from revenue (when available). This will also ensure the HRA working balance is reduced in accordance with the current policy of maintaining a working balance of £5M. It should be noted that the programme currently exceeds the projected levels of annual major repairs allowances (MRA) and therefore the financial difference will need to be met from the MRR. This has the effect of reducing the current level of the MRR by nearly 50% over the medium term capital programme. This will need to be constantly reviewed in order to ensure sufficient resources are available in the medium term to continue to invest in the housing stock.

8.7 The Council policy in respect of the use of the useable capital receipts reserve is to use the housing capital receipts to contribute towards the financing of both the General Fund and the Housing Revenue Account but the non-housing capital receipts would be used only to finance the General Fund programme. I support the continuation of this policy in order to ensure the financing of the Council's overall capital programme is the most financially advantageous for the Council as a whole. However I recommend that the Corporate Head of Finance and Customer Services in consultation with the Resources and Assets Portfolio holder determine the overall capital financing arrangements. This would then allow the Council the maximum flexibility in determining the most appropriate method of financing the overall capital programme.

8.8 Forecast of Capital Receipts

Estimates of the likely capital receipts to be generated during 2010/11 and subsequent years have been projected based on the Council's Asset Management Plan. The anticipated level of capital receipts during the current financial year has not been achieved due to the difficult economic climate and the inability to realise the forecasted valuations. However it remains an important part of the capital financing decision making process and modest levels of receipt forecasts have been incorporated into the financial model. The anticipated level of receipts during 2010/11 is £570K (made up of £470K General fund and £100K HRA receipts) of which all will be applied to finance the capital programme in 2010/11.

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 E outlining the Council's prudential indicators for 2010/11 – 2012/13 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements as required by the Local Government Act 2003:

- The reporting of the prudential indicators setting out the expected capital activities as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix E Annex A);
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year (Appendix E Annex A);
- The treasury management strategy statement which sets out how the Council's treasury service will support the capital decisions taken above in accordance with the CIPFA Code of Practice on Treasury Management (Appendix E Annex B);
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss (in accordance with the CLG investment guidance) (Appendix E Annex B);

A review of the Treasury Management strategy has taken place in conjunction with the Council's treasury management advisors to ensure the strategy provides a framework for effective, efficient treasury management activity and ensure the Council's exposure to risk is minimised. Whilst it is widely acknowledged that exposure to risk cannot be removed, good governance and scrutiny arrangements help to ensure the exposure is minimised. A recent Audit Commission publication entitled 'Risk and Return' sets out specific guidance in respect of ensuring local

authorities manages the treasury management activities in a proactive and methodical manner. The Council's arrangements reflect this guidance. Specifically, Governance and Audit Committee ensure the governance and scrutiny function is undertaken on behalf of the Council and during the past year has received specific treasury management training and receives regular quarterly reporting information.

10 Reserves and Provisions

10.1 The Local Government Act 2003 requires the Chief Financial Officer (Corporate Head of Finance and Customer Services, 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 C.

10.2 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 £1.917m at 31st March 2010 which is equivalent to 10.50% of the estimate service expenditure for 2010/11. This is within the Council's approved policy. It is proposed to contribute a further £100K during 2010/11 to ensure the working balance remains in line with net expenditure spending plans.

The **Insurance Reserve** will be utilised during 2009/10 to meet the costs in respect of any planning determination appeals. This is estimated to be in the region of £100K and this use is in accordance with the Council policy. In order to preserve the balance a contribution will be made to the reserve in 2009/10.

Whilst the Council does not 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 the balance as at 31st March 2010 is estimated to be £249K which is considered sufficient for the Council's needs in the short to medium term, although this will need to be kept under review.

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 (the next review is due on 31 March 2010) and also to finance potential one-off capital costs of any future early retirements. The balance as at 31st March 2010 is estimated to be £1.480M which will be sufficient in the short to medium term, although I am proposing to contribute £368K in 2010/11 and a further £137K in 2011/12 in readiness for the future triennial valuation of the Pension Fund particularly in light of 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. There is a forecast charge of £51K in 2009/10 and this will be charged to the reserve reducing the balance to £167K as at 31 March 2010. Thereafter the service is forecast to make a modest annual surplus and this is reflected in proposed contributions to the reserve.

The Priority Themes and service improvement reserve – The balance on this reserve is forecast to be £924K as at 31 March 2010. However this forecast does not reflect any contributions that may be made to the reserve as a result of the outturn position for the financial year 2009/10. The budget proposals for 2010/11 include a contribution from the reserve of £491K (compiled of £200K priority initiatives, £150K efficiency initiatives and £141K LABGI funding). The use of this reserve will be closely monitored to ensure there is a sufficient level to continue the delivery of the priority actions and other one-off service improvement proposals.

Capital Reserve – It is anticipated that all of the capital reserve will be used during 2009/10 and 2010/11 in order to contribute towards the funding of the General Fund Capital programme leaving a zero balance as at 31 March 2011. At this stage there are no further contributions anticipated to the reserve as the future financing of the capital programme will be met from useable capital receipts reserve, external grant opportunities, revenue contributions and, potentially, external borrowing. However, it is proposed that this be reviewed during the closure of accounts process in order to ensure the financing of the programme is the most financially advantageous for the Authority.

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 £3.662M will be made to the reserve from MRA but a contribution from the reserve of £6.485M will be necessary to finance the capital programme leaving a projected balance as at 31st March 2011 of £3.795M subject to the final outturn position on the Capital Programme. Thereafter the use of the reserve reflects the proposed capital programme for the remaining period. It should be noted that the reserve balance is reducing at an accelerated speed due to the capital programme been set at a higher level than the projected MRA figure.

The Working balance on the HRA – The working balance on the HRA is projected to be £5.431M as at 31st March 2010 and will be maintained at a level of £5M in accordance with the policy established in the previous budget report (CHFCS25). This balance is set at an appropriate level in order to meet any in-year unforeseen costs that may arise. This level will be kept under review in accordance with the financial position of the HRA.

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 anticipated that the reserve will be used during the medium term in order to contribute towards the financing of the capital programme reducing the balance to a projected balance of £2.477M as at 31 March 2013.

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 Customer Services in consultation with the Resources and Assets Portfolio Holder, during the preparation of the Statement of Accounts.

SEA reserve – This reserve (which is made up of individual SEA reserve balances) is utilised to financially support transactions and future spending proposals in respect of the special expense areas. The reserve will be used during 2010/11 to finance specific spending proposals in respect of the Grantham SEA.

11 Collection Fund

- 11.1 All transactions associated with Council Tax are shown in the Collection Fund.
- 11.2 To comply with CIPFA's Best Value Accounting Code of Practice authorities are required to forecast the out-turn on the Collection Fund as at 31st March 2010 in order to distribute this amount in 2010/11. . In previous years SKDC has not undertaken this approach and has distributed the previous years out-turn.
- 11.3 For this financial year SKDC has forecasted the out-turn for 2009/10 and in 2010/11 will distribute the 2008/09 out-turn and the 2009/10 forecast. In future years the amount to be distributed will therefore only be any difference that has occurred between the forecast and actual for the last financial year together with the forecast outturn for the current financial year.
- 11.4 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.
- 11.5 The accumulated surplus on the Collection Fund at 31st March 2009 was £977K of which £511K has already been distributed during 2009/10. The forecast out-turn for 2010/11 is a deficit of £168k. This leaves a total of £298K for distribution in 2010/11. This will be distributed as follows:

	£K
Lincolnshire County Council	209
Lincolnshire Police	46
South Kesteven District Council	<u>43</u>
Total Surplus on Collection Fund	298

- 11.6 The amounts due to Lincolnshire County Council and Lincolnshire Police will be distributed, on a pro rata basis, utilising the precept mechanism.
- 11.7 The council tax income budget for 2009/10 was produced based on an anticipated increase in tax base of 1.1% rather than the previous year's prediction of 1.4%. These changes are made to try to bring the Collection Fund nearer to a breakeven position, rather than generating large surpluses. These changes have resulted in a forecast of a small deficit in 2009/10.
- 11.8 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 of 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.

11.9 The amount due from the County Council is £85K for 2009/10 and it is estimated that the amount for 2010/11 will be £82K, this will be used to continue to the work of the Local Strategic Partnership including the employment of a Local Strategic Partnership Co-ordinator.

12.1 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 below:

Description	2009/10 £k	2010/11 £k
Housing Benefit Administration Grant	835	886
Homelessness	55	55
Area Based Grants:		
Community Cohesion	48.5	75
Climate Change	22.5	22.5
Concessionary Fares*	387	190
Housing & Planning Delivery Grant	736	
Total Specific Grants (announced at time of writing report)	2,084	1,228.5

*subject to the necessary legislative arrangements being agreed

13. Budget Consultation

13.1 The Council has been consulting the community on its budget proposals utilising a variety of consultation techniques including the Local forums, on-line survey, SKtoday feedback article and direct telephone and email feedback. The response has been pleasing with a higher than average number of responses to the consultation process. Three options have been put forward for consultation:

1. Zero i.e. 0% increase
2. 2.5% increase – an increase of £2.99 for the financial year 2010/11 (band D equivalent)
3. 3.5% increase – an increase of £4.19 for the financial year 2010/11 (band D equivalent)

At the time of compiling the report the consultation is still underway and so 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 2010/11

14.1 The calculation of the Council's basic amount of Council Tax is made by deducting from the Budget Requirement £16.416million (including special expense areas, but excluding parishes), the external support that will be received from the Government from Formula Grant £10.147million, together with a surplus of £43K on the Collection Fund.

14.2 The result is divided by the Council Tax Base of 46,251.5. The proposed band D Council Tax is £122.76 (excluding special expense areas and parishes), representing an increase of 2.50%. The proposed Band D charge (including special expenses) is

£134.61 (2009/10 £133.08) representing an increase of 1.10%. The national average increase for 2009/10 was 3% and the proposed increase is below this and in keeping with the Local Government minister's announcement that 2010/11 increases should be less than the 2009/10 increase.

15 Housing Revenue Account (HRA)

Housing Revenue Account – Rent Setting in 2010/11

- 15.1 The main element of policy relating to the Housing Revenue account for 2010/11 is once again the setting of rents. The Council's current policy is to keep in line with the Government guidance on rent restructuring and guideline rent increases. The following is an analysis of the Government's proposals for 2010/11.
- 15.2 Following a detailed consultation process relating to rent restructuring and convergence which took place in the summer, Government issued the draft HRA subsidy determination for 2010/11 during mid December, which was the latest it had ever been published.
- 15.3 As it is likely that any changes to the housing finance and subsidy system will not take effect before April 2011, last year's draft was an attempt to provide a two-year settlement and, therefore, provide some measure of stability pending the outcome of the review.
- 15.4 For this reason, the formulae for the expenditure allowances were largely unchanged and a two year settlement was proposed giving guideline rent increases of 6.2% and 6.1% in 2009/10 and 2010/11 respectively. In the event, the rapidly falling RPI caused CLG to limit the 2009/10 increase after the financial year had begun, and it was scaled back to 3.1%.
- 15.5 With RPI turning negative in September, there was clearly no scope for a 6.1% increase in 2010/11. CLG decided that the increase would be 3.1% once again and this was achieved by radically changing the convergence date and reducing it to three years.
- 15.6 The allowance for management has been increased to £456.74 per dwelling (6.4%) and that for maintenance to £964.22 per dwelling (4.5%). However, the increase in major repairs allowance (MRA) to £584.56 per dwelling is only 0.98%.
- 15.7 Guideline rent is the notional figure used in the Housing Revenue Account subsidy calculations, whilst actual rent is that which is actually charged to tenants. Where the increase in actual rent is higher than the increase in guideline rent, there is an overall gain to the HRA and vice versa. In 2010/11, the increase in notional rent will be 3.1%. However, CLG has achieved this by altering the convergence date, not the RPI which was the methodology used when reducing the 2009/10 increase. This has the effect of increasing by 3.1% all of the dwellings for notional rent purposes but, where actual rent on a dwelling is already at or near target, the scope for increase in actual rent is limited. This could result in a loss to the HRA of approximately 1% of the rent income due. For South Kesteven, the average actual rent increase for 2010/11 is 1.78%.
- 15.8 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 by 3.1% in line with the rental proposals used within the subsidy determination. It is proposed to increase service charges by 3.1% (RPI) and undertake a review of the cost base and charging mechanism during 2010/11.

15.9 There are a number of financial issues facing the HRA over the short to medium term and these have been identified and included in the HRA business plan. Whilst the business plan shows a financially sound revenue position over the medium term, there are a number of significant issues that have yet to be fully determined in terms of the impact on the financial position of the HRA. The most significant of these is the national review of the housing subsidy arrangement and the potential impact any changes will have on the Council's housing revenue account. During the forthcoming year efficiencies and savings will need to be continued to be made in order to maintain a financially solvent HRA. The consultation findings will continue to be analysed in order to assess financial and service impact and will be considered in the future budget proposals.

16 Statement by Chief Finance Officer (s151 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 Customer Services 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 Customer Services (s151 officer) in respect of the above. For 2010/11 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 reserved capping powers and has used them in Lincolnshire in 2008/09. The proposed increase of 2.5% for a band D exclusive of special expenses (1.2% increase inclusive of special expenses) and is below the Government's previous 5% cap threshold. The average increase for authorities last year was 3% and the Government expect any 2010/11 increases to be less than the 2009/10 average. If the Council was capped then the costs associated with re-billing would need to be met from balances.
- b. The budget estimates assume that **efficiency savings** can be found from the revenue and capital budgets (including both General Fund and the Housing Revenue Account). Careful monitoring will be required to ensure savings are forthcoming.
- c. The **grant settlement** for 2011/12 has not yet been announced by the Government and the next three year settlement is expected to be extremely challenging and so the budget for 2011/12 could be particularly difficult for the Council. For this reason the formula grant indicative budget provision has been based on a standstill of the 2010/11 settlement.

- d. Further to the risk identified at c above, there is an additional risk that after the parliamentary election, an emergency budget could be announced by the Government that could impact on the 2010/11 grant settlement.
- e. The impact of the **economic downturn** will place higher demand on particular services in relation to social care and well being, specifically benefit advice and support and homelessness. This may create additional resource pressures in these service areas.
- f. **National Concessionary Fares Scheme** – The budget assumptions have allowed for a further increase in take up of the new National Concessionary Fares scheme and the impact of all day travel. This is particularly important as the costs are based on customer demand and so the Council has limited ability to control the expenditure. Furthermore the specific grant allocation for 2010/11 is anticipated to reduce and the service is expected to transfer to the County Council from 1 April 2011. It is not clear at this time how the cost implications of operating this scheme will be transferred.
- g. **Leisure services** – the Council will need to have long term contractual arrangements in place in respect of the leisure centres. The current arrangements are in place until September 2010 and thereafter it is not known the financial impact of any alternative service delivery.
- h. **Fees and Charges income** – The report has identified a continued shortfall in the projected income levels for next year based on the current year's forecasting. The income forecasts will need to be carefully monitored to identify any further reduction in levels and whether there is any identified improvement in the future years. In the absence of any improvement then the costs associated with these services will require reviewing.
- i. **Building control account** – Although a service review has been undertaken during 2009/10 and costs have been reduced, the service will continue to be carefully monitored to ensure it achieves the required rolling three year breakeven position.
- j. **Investment Income** – the forecast in respect of investment income is included in the budget proposals and shows an improvement over the three year period. Given the current volatility in respect of the economic market there is a risk of investment income not achieving this level.
- k. The future financing level of the **Housing Revenue Account Capital programme** is anticipated to be at a higher level than previous years as the Council aspires to meet decent homes standard during 2010. This increase in expenditure will place further financial pressure on the available funding. It is expected that the full use of the reserve will be undertaken and the reserve will be reduced in the medium term. This has been forecasted in the HRA business plan. Thereafter alternative sources of funding will need to be identified which will place further financial pressure on the HRA and, in addition, the level of capital expenditure will need to be reviewed to align it with the available funding.
- l. **Reserves** – The Reserves statement attached at appendix C shows an anticipated reduction of £10.095M between 1 April 2010 and 31 March 2013. 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 support 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 be at the levels of 2.5% for 2011/12 and 2012/13. 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 2010/11 and 2011/12 will need to be kept under review to ensure they remain sustainable, particularly in light that the settlement for 2011/12 has not been determined.
- n. The **Housing Revenue Account** will require an annual review to reflect the changing financial environment in which it needs to operate and to ensure the business plan remains fit for purpose. The HRA will need to balance tenant needs and expectations in the context of its financial situation and have due regard to any anticipated changes to the housing subsidy arrangements.
- o. The costs associated with any planning application appeals will need to be met by the Council and will need to be financed from the **insurance reserve**.

17 Comments of the Monitoring Officer

The budget forms part of the Council's Budgetary Framework. Members should have regard to the comments of the Corporate Head of Finance and Customer Services as the Council's Chief Financial Officer which are set out in section 16 above when making their recommendations to Council in accordance with the Local Government Act 2003.

18. Appendices:

- Appendix A – Revenue Estimate 2010/11 and indicative budgets 2011/12 and 2012/13
- Appendix B – Capital Estimates 2010/11 to 2012/13
- Appendix C – Reserves Statement
- Appendix D – Fees and charges 2010/11
- Appendix E – Treasury Management Strategy