

## STROUD DISTRICT COUNCIL

AGENDA  
ITEM NO

## CABINET

10 December 2009

**10**

<b>Report Title</b>	<b>THE GENERAL FUND REVENUE BUDGET 2010/11</b>
<b>Purpose of Report</b>	To consider the Council's financial position and a budget requirement for 2010/11.
<b>Decision(s)</b>	<b>That the Cabinet <u>RECOMMENDS</u> to Council:</b>  a) <b>Proposals to enable a level of Council Tax charge to be set in 2010/11 for Stroud District Council.</b>  b) <b>To approve the Medium Term Financial Plan as set out in Appendix A subject to any decision made at (a) above.</b>
<b>Consultation and Feedback</b>	<ul style="list-style-type: none"> <li>• Budget holders on budgets and savings</li> <li>• Residents survey (Agenda item 5 to this meeting)</li> <li>• Business consultation event (25<sup>th</sup> Nov 09)</li> </ul>
<b>Financial Implications</b>	<p>Given the number of uncertainties around future pension fund contributions, the level of future Government support and the Icelandic investments, it is considered prudent to increase the value of General Fund balances from £1m to £1.5m.</p> <p>Sandra Cowley, Head of Finance Tel: 01453 754136 Email: <a href="mailto:sandra.cowley@stroud.gov.uk">sandra.cowley@stroud.gov.uk</a></p>
<b>Legal Implications</b>	<p>Section 32 of the Local Government Finance Act 1992 places a duty on the Council, as billing authority, to calculate its budget requirement for 2010/11.</p> <p>Patricia Adley, Interim Head of Legal Services Tel: 01453 754369 Email: <a href="mailto:patricia.adley@stroud.gov.uk">patricia.adley@stroud.gov.uk</a></p>
<b>Report Author</b>	<p>Sandra Cowley, Head of Finance Tel: 01453 754136 Email: <a href="mailto:sandra.cowley@stroud.gov.uk">sandra.cowley@stroud.gov.uk</a></p>
<b>Portfolio Holder</b>	<p>Councillor Nigel Cooper, Cabinet Member for Finance Tel: 01454 260097 Email: <a href="mailto:cllr.nigel.cooper@stroud.gov.uk">cllr.nigel.cooper@stroud.gov.uk</a></p>
<b>Options</b>	Various options for service improvements and levels of Council Tax in 2010/11.
<b>Performance Management Follow Up</b>	Monitoring of financial position through the year reported to Cabinet and Performance and Overview Scrutiny Committee.

<b>Background Papers</b>	Budget Strategy 2010/11 Report to Cabinet, 1 October 2009 (agenda item 6). General Fund Revenue Estimates Revised 2009/10 & Original 2010/11 report, agenda item 7 to this meeting.
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## Discussion

### Background

1. The Cabinet considered the Council's financial position as shown by the Medium Term Financial Plan (MTFP) for the General Fund at its meeting on 1 October 2009. At that time, a strategy was set out for framing the budget for 2010/11.
2. This report showed that the balances stood at an estimated £1.9 million at the end of 2009/10 compared with a target sum of £1 million at the end of the four year plan. It also highlighted a number of significant budget pressures the impact of which is an estimated shortfall in funding of approximately £3.6 million over the life of the plan.
3. No projected change in the level of Council Tax had been included and General Fund Revenue budgets had not been completed.

### General Fund Revenue Estimates included in the MTFP

4. The details of the revenue estimates for 2010/11 are reported to this meeting at agenda item 7. The forward budget for 2010/11 of £14,638,600 is included in the Medium Term Financial Plan less a factor of £100,000 for end of year budget variances.
5. Following a series of workshops with the Executive, Strategic Team, Heads of Service and Service Managers, savings of £3,300,000 over the life of the plan have been identified. These have been included in the budget as shown in detail in the General Fund Revenue Estimates report. This has had a significant impact in reducing the shortfall identified in the October report.
6. This efficiency process has included a decision to hand back two joint use sites namely Vale of Berkeley College, Nailsworth Primary School and Wotton Pool, the savings from which will be realised in the 2011/12 budget. These savings have not been included in the MTFP at this stage.
7. The provision for inflation on pay and index linked contracts, which was included in the previously reported version of the Plan, has now been included in revenue budgets. The pay award for the current year has been settled at 1% having previously been estimated at 2.5%. This 'windfall' has been used largely to offset the loss in income from fees and charges and investment income. A provision for pay inflation for 2010/11 has been included at 1.5%.

### Local Government Financial Settlement

8. The Comprehensive Spending Review 2007 (CSR07) concluded a 3 year settlement for 2008/09 to 2010/11 with provisional figures being given for 2009/10 and 2010/11. The provisional settlement for 2010/11 is a total of £7.184 million for Revenue Support Grant and National Non Domestic Rate redistribution. This is an increase of 1.76% on the settlement figure for 2009/10.

The final settlement will not be announced until the New Year but is unlikely to vary from the provisional sum.

9. The Government are currently collating data for the Comprehensive Spending Review 2010. The outcome will not be known for some time but it is widely anticipated that there will be a significant reduction in public spending of 20% over a 2 year period. The impact of this on the grant support the Council receives from the Government is very difficult to estimate.
10. It has been assumed in the MTFP that revenue support grant and redistributed non-domestic rates will be reduced by 15%, phased in over the next 3 years. It is not known whether the reduction in support will be phased in or take full effect in 2011/12. To give an indication of the impact of such a reduction, 10% of our current support grant is £718,000. The Government may give an indication of what to expect when the final settlement is announced for 2010/11. The MTFP will be amended accordingly and considered by Council in January 2010.

### **Investment and Other Income**

11. The Bank of England base rate fell from 5% to 0.5% between April 2008 and March 09 and has remained at 0.5% ever since. This had a significant impact on the investment income the Council has received and expects to receive over the next year. Our treasury advisors, Sector, are predicting that the base rate will remain at this low level until the spring of 2010 after which they will steadily rise. This forecast has been used as the basis for estimating the level of investment income the Council can expect to receive over the MTFP.
12. Members will be aware that the Council has deposits of £3m currently held in an Icelandic Bank. Claims have been filed with the administrators of the bank for the full amount of the deposit plus interest. Local Authorities are claiming preferential status and if successful, can expect to recover the full deposit. It is very likely that other depositors not deemed to be preferential creditors will object, in which case, the decision will have to be tested in court. Should Local Authorities not have preferential status, it is possible that only 25% of the deposits will be recovered.
13. The LGA and the solicitors representing all the councils affected remain optimistic about the possibility of a full recovery. The outcome of the claims filing process will be known on 17<sup>th</sup> December 2009.
14. The Government have made regulations which mean Councils need not make provision in their 2009/10 budgets for any possible loss on these investments. The LGA intend to lobby the Government on behalf of all councils to defer the treatment of losses for a further 12 months by which time there will be some certainty of the outcome, this will avoid the need for the Council to make speculative assumptions about the likely level or timing of losses if any.
15. The present economic situation continues to impact further on the Council's finances particularly with regard to income. As shown in the detailed revenue estimates report, income from land charges and planning fees are significantly lower than originally estimated for 2009/10 and may fall further than that currently forecast. A provision for loss of investment and other income has been provided for in the MTFP.

## **Pension Fund**

16. The level of the Council's contribution to the Local Government Pension Scheme (LGPS) is determined by the actuarial valuation that takes place every 3 years. At the last valuation, 31<sup>st</sup> March 2007, the overall fund was 73% funded. Employers' contribution rates are calculated at each valuation to achieve full funding of its part of the scheme over the average future working life of that employer's active members.
17. The employer's contribution to the fund has increased annually over the last few years in order to achieve full funding. For the current year, the employer contribution rate is 22.2% of payroll rising to 24.5 in 2010/11. The next actuarial valuation is due in March 2010. Based on information available as at the end of August, there has been a significant fall in the value of the fund and although it may recover a little before the next evaluation, the forecast is very disappointing.
18. The additional cost for 2010/11 has been included in the MTFP but is funded from the pension reserve which is exhausted by the end of 2013/14. Beyond 2013/14, there is a funding gap of £264,000 annually between the additional cost of the employer's contributions and the contributions to the reserve. It has been assumed that employer's contributions will rise to 30% over the next 3 years which will significantly increase the current shortfall. Action will be needed to make further contributions to this reserve to avoid a significant gap in years to come.

## **Concessionary Fares**

19. When the new National Free Bus Pass scheme was introduced in April 2008, there was a considerable increase in the take-up of passes and a switch from bus tokens to passes. Following a number of appeals by Stagecoach on the level of reimbursement by Councils in Gloucestershire, a 3 year agreement for 2008/09 to 2010/11 has finally been reached that at least gives Councils some budget certainty. Subject to the agreement being signed, the current judicial review of 2007/08 and the appeal by Stagecoach for 2008/09 will no longer be a potential liability for the Council.
20. The Government are currently considering the arrangements for the administration of the scheme. It is possible that from 2011/12, the scheme could be administered by the County Council but the distribution of the funding for the scheme is of major concern to many councils' who have had to find significant resources to meet the demand which has not been fully funded by the Government. Until the funding issue is resolved and who is to administer the scheme, it is difficult to budget for it with any certainty beyond 2010/11.
21. The budget provision currently in place is sufficient to meet the demand for passes assuming the agreement with Stagecoach is finalised. Some growth has been provided for in future years. It is recommended that the reserve is kept in place until there is clarification about the issues referred to above.

## **Business Growth Incentive Scheme**

22. The Local Authority Business Growth Incentive scheme (LABGI) has been an additional source of funding to the Council over the last 3 years. The scheme was reviewed during 2008/09 and so no funding was available in that year. The

new scheme has a different method of distribution with 50% being paid to the county council and 50% to the district council.

23. This year the Council has received £54,410. No estimate has been included in the MTFP for future receipts of LABGI.

### Capital Resources

24. The Council's capital programme is detailed in agenda item 8 to this meeting. After 2009/10, the programme consists largely of expenditure on housing and the Canal Restoration Project. The Council has very limited access to any further capital resources without prudential borrowing.
25. The Council's involvement in the Canal Restoration Project was agreed at an Extraordinary Council meeting on the 16<sup>th</sup> December 2008. The Council contribution totals £3.8 million and is funded largely from capital receipts from land sales.
26. Expenditure on the Council's housing stock is met entirely by the Major Repairs Allowance and revenue contributions from the Housing Revenue Account. Expenditure on private sector housing is funded largely from Government grants although this has decreased in recent years and will continue to do so as the Government reduces its public spending. This has put pressure on the Council to meet the shortfall in funding for disabled facilities grants as set out in the Capital Programme report.
27. A capital contingency has been built into the MTFP that will cushion the Council from any pressures coming from the Capital Programme. The Council is currently involved in one of the largest capital projects it has ever been involved in with very little room for manoeuvre for even the smallest of overspends. With that and the pressure on the DFG budget, it is recommended that a contribution is made to the Capital Reserve as a contingency.

### Council Tax

28. The following table illustrates the likely additional revenue that could be raised from various Council Tax charges.

Tax Increase %	Annual Amount Raised £	Revenue Raised (over 4 years) £	Band D Charge £	Annual increase at Band D £
0	0	0	183.44	0
0.5	39,400	157,600	184.36	0.92
1.0	78,400	313,600	185.27	1.83
1.5	117,700	470,800	186.19	2.75
2.0	157,100	628,400	187.11	3.67
2.5	196,500	786,000	188.03	4.59
3.0	235,500	942,000	188.94	5.50
3.5	274,900	1,099,600	189.86	6.42
4.0	314,200	1,256,800	190.78	7.34
4.5	353,200	1,412,800	191.69	8.25
5.0	392,600	1,570,400	192.61	9.17

29. The Cabinet needs to consider what level of Council Tax should be set at the Budget Council meeting on 21 January 2010 and what service changes they may wish to make in light of the budget pressures the Council is faced with and the funds available.
30. It is intended that the budget proposals of the Administration will be circulated before the meeting.

### **Public Consultation**

31. The Residents Survey 2009 was carried out by Research Box, a local company which has carried out independent surveys for the Council over the past 5 years. The results are reported at agenda item 5 to this meeting.
32. A consultation event with the business community took place on 25<sup>th</sup> November at Stroud College and a further budget consultation meeting is scheduled for January.

### **Local Government Act 2003**

33. As the Council's Chief Financial Officer I am required to report on the "robustness of the estimates" and the adequacy of the proposed financial reserves. The estimates for 2010/11 and revised estimates for 2009/10 are presented to this meeting in the report at agenda item 7. In my opinion they are robust and provide a sound basis for making financial decisions. The Council's balances stood at £2.049 million on 31 March 2009 and it is recommended that balances do not fall below £1.5 million to protect the Council from the number of uncertainties currently faced. This will need to be addressed when the level of Council Tax is determined.

### **Risks**

34. Risk management forms an important part of the Council's operations. The following are some of the risk areas that should be noted in conjunction with this report.
  - The Council's deposits with an Icelandic Bank are at risk. There is no provision in the MTFP for the loss of these investments although General Fund balances have increased and reserves will be maintained.
  - The current economic crisis and its impact on the Council's finances in particular the reduction in income for various services e.g. sales of recycling materials, planning and land charge fees.
  - Government external support lower than current levels in future years;
  - Fluctuations in interest rates and the impact on the Council's investment income. A 1% reduction in the base rate is estimated to have a net effect on the General Fund of £150,000 per annum;
  - Contractors who provide significant services to the Council withdrawing from their contracts. Estimated risk: £100,000 to £200,000 per annum;
  - Pension Fund shortfalls. The actuarial revaluation of the Pension Fund has increased employer's contributions and is likely to do so again in March.
  - Inflation, particularly pay awards, higher than anticipated. The basis of the pay award for next year is estimated and a provision is included in the budget.

- Insurance. Uninsured liabilities fall on the Council. The Insurance Reserve exists for smaller claims and insurance cover should protect against foreseeable risks.
  - Canal. A risk arises from the Council's involvement with the Cotswold Canal regeneration project. The project has been fully risk assessed and costed. These will be monitored closely as the project progresses.
  - Concessionary Fares. Changes to the funding and administration of the scheme from 2011/12 continue to cause uncertainty for the Council's finances.
35. The MTFP is one of the key financial controls operated by the Council in respect of forward planning, management of resources and the management of risk. The Plan shows expenditure projections and funding for the General Fund over a four year period. Council policy, over a long period of time, has been to ensure that balances do not fall below £1 million in the final year of the Plan. For the reasons described in the report, it is recommended that this be increased to £1.5 million.
36. Reasons for maintaining balances at this level are:
- Protection against unknown risks that could threaten the Council
  - Plan for an orderly use of balances to support expenditure on services
  - Provide a cushion against sudden changes in interest rates, prices or pay awards
  - Uncertainty about future Government Finance settlements
  - Protection against errors in subsidy calculations
  - Balances earn interest which would be lost if they were not maintained
  - Protection against capital or revenue expenditure being necessary that was not known when budgets were set

## **Reserves**

37. The Council has a number of reserve accounts in addition to its General Fund and Housing Revenue Account balances.
38. These are shown in detail in the Council's Statement of Accounts 2008/09, which was approved at the Council meeting on 25 June 2009. These reserves stood at £5.343 million at 31 March 2009 and the most significant reserves provide cover for spending on the Capital Programme, pension fund liabilities, property maintenance and information technology as well as supporting areas of possible future financial risk. The purpose of each reserve is set out in the Statement.
39. The reserve for pension fund liabilities needs to be increased as set out above. Once the amount the Council contributes to the reserve equals the additional annual costs of employers contributions, the use of a reserve will not be necessary.
40. The capital reserve is fully committed to funding the existing programme. The annual contribution to the Property Maintenance reserve has been suspended for the time being and will be reinstated at such time as is deemed necessary.
41. Given the current position with the Council's investments, it is recommended that all reserves are maintained at their current levels until such time as the deposits are recovered. In the event of any losses on the investments, the use of the Council's reserves and balances will cushion the impact on the Council's finances.

## **Conclusion**

42. The MTFP at Appendix A shows General Fund balances to be £1.1 million at the end of 2013/14. This does not include any council tax increases or the budget proposals of the administration.
43. The amount of savings identified and built into the budget has been key to bridging the gap between increasing costs and the reduction in government support in future years.
44. There is considerable uncertainty about a number of major streams of income and expenditure in the medium term financial plan but with the budget that is proposed, the Council is well placed to absorb the pressures that it currently faces.
45. Given the amount that is needed from balances in the last year of the MTFP to fund estimated expenditure, further savings will need to be found in future years to balance annual expenditure with the annual resources available.



## General Fund Medium Term Financial Strategy 2009/10 to 2013/14 - December 2009

Ref		Revised 2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
1	Service revenue expenditure	14,708	14,539	14,539	14,539	14,539
2	Net transfers to / from (-) Pension reserve	- 86	- 264	- 264	- 264	- 264
3	Transfers to / from (-) other reserves	285	285	85	85	85
4	Service changes	190	275	218	235	270
5	Increase in Employers Pension Contributions	-	-	-	250	674
6	Leisure Options Appraisal	-	100	-	-	-
7	Capital Contingency (to Capital reserve)	50	50	50	50	-
8	Contingency	50	50	50	50	50
<b>9</b>	<b>Adjusted Service Expenditure</b>	<b>15,197</b>	<b>15,035</b>	<b>14,678</b>	<b>14,945</b>	<b>15,354</b>
	<u>Corporate Income &amp; Expenditure</u>					
10	Drainage Board	81	83	85	88	91
11	Interest payable & similar charges	150	210	350	460	470
12	Interest & investment income	- 340	- 390	- 580	- 810	- 910
13	Reversal of depreciation charge	- 861	- 861	- 861	- 861	- 861
14	Reversal of FRS17 credit charge	818	826	826	826	826
<b>15</b>	<b>Net Expenditure</b>	<b>15,045</b>	<b>14,903</b>	<b>14,498</b>	<b>14,648</b>	<b>14,970</b>
	<b>Funded by:</b>					
16	Precept on Collection Fund	7,833	7,853	7,873	7,892	7,912
17	Government revenue support	7,060	7,184	6,825	6,466	6,107
18	LABGI / PSA grants	54	-	-	-	-
19	Collection Fund surplus/-deficit	61	-	-	-	-
20	Use of / addition to (-) working balances	37	- 134	- 200	290	951
<b>21</b>	<b>Total Funding</b>	<b>15,045</b>	<b>14,903</b>	<b>14,498</b>	<b>14,648</b>	<b>14,970</b>
<b>22</b>	<b>BUDGET REQUIREMENT (21 less 18 and 20)</b>	<b>14,955</b>	<b>15,037</b>	<b>14,698</b>	<b>14,358</b>	<b>14,019</b>

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
<b>General Fund Balances</b>					
23 Working balances brought forward	2,049	2,012	2,146	2,346	2,056
24 Change in balances	- 37	134	200	- 290	- 951
<b>Balance carried forward</b>	<b>2,012</b>	<b>2,146</b>	<b>2,346</b>	<b>2,056</b>	<b>1,105</b>
Reductions in expenditure, or increases in income, to maintain balances at £1m	-	-	-	-	-

**Notes:**

- The tax base for 2010/11 has been estimated as 42,809.18
- Future years are shown at 2010/11 prices
- Based on Council Tax increase in 2010/11 of 0.00%
- Band D Council Tax in 2009/10 £183.44

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'001
<b>Pension Fund Reserve</b>					
25 Balance brought forward	1,041	955	691	426	162
<u>Transfers:</u>					
26 To Pension Reserve	515	515	515	515	515
27 From Pension Reserve	- 601	- 779	- 779	- 779	- 779
28 Net transfer from reserve (line 2 above)	- 86	- 264	- 264	- 264	- 264
<b>Reserve balance carried forward</b>	<b>955</b>	<b>691</b>	<b>426</b>	<b>162</b>	<b>- 102</b>