

**BABERGH DISTRICT COUNCIL**

**FROM: Head of Finance**

**REPORT NUMBER G200**

**TO: STRATEGY COMMITTEE**

**DATE OF MEETING 7 February 2008**

**BUDGET 2008/09**

**1. PURPOSE OF REPORT**

1.1 The draft budget approved by the Committee on 10th January has been the subject of consultation and scrutiny. The Committee is asked to recommend a budget for 2008/09 to Council.

**2. RECOMMENDATIONS TO COUNCIL**

2.1 That the draft General Fund budget and revised charges, attached in Appendix A to Paper G169, as amended for the matters referred to in this report be approved. Further, that the revised charges be implemented with effect from 1 April 2008.

2.2 That the Council Housing budget and revised charges, attached which in Appendix B to Paper G173, as amended for the matters referred to in this report be approved. Further, that the weekly rents for Council dwellings and compulsory let garages be increased on average by 6.6% in accordance with rent restructuring requirements with effect from Monday, 14 April 2008.

2.3 That any further changes or amendments be made to these in the light of consultation and scrutiny.

2.4 That the amendments to the staffing establishment and arrangements for utilising the funding for Chilton Woods and Planning resources set out in paragraph 5.10 of the report be approved.

2.5 That the prudential indicators for capital finance and treasury management set out in Appendix 1 to this report be approved.

2.6 That where expenditure is included within the approved budget, the Head of Finance be empowered to:-

- Vary the timing of revenue and capital payments from the current financial year to 2008/09 or vice versa in accordance with Financial Regulations and Council resolutions.
- Vary the method of financing capital schemes, if he is satisfied that it is in the financial interest of the Council to do so.

2.7 That the Head of Finance be authorised to amend the annual amounts of Council Tax payable in accordance with any changes notified by Suffolk County Council, and/or Suffolk Police Authority to the precepts issued by them.

3. **FINANCIAL IMPLICATIONS**

3.1 These budgets determine the level of service provision, Council Tax, Council House rents and charges for the coming year.

4. **RISK MANAGEMENT**

4.1 This was fully covered in Papers G169 and G173.

5. **KEY INFORMATION**

**Overall position**

5.1 On the 10th January the Committee approved the draft General Fund (Paper G169) and Council Housing (Paper G173) budgets for consultation and scrutiny. At the time of writing this report, this is only partly complete and the position is as follows:-

<b>Consultation/Scrutiny</b>	<b>Outcome</b>
<ul style="list-style-type: none"><li>• Business Ratepayers will consider the General Fund Budget and level of Council Tax at the Business Evening on 5 February.</li><li>• The Housing Panel and Tenants Forum have considered Paper G173 and the proposals for Council House rents and charges.</li><li>• The Overview and Scrutiny Committees will be meeting on 29 January and 5 February to scrutinise and comment on the draft budgets and the matters that have arisen since the 10<sup>th</sup> January.</li></ul>	<ul style="list-style-type: none"><li>• Their views will be reported to the meeting.</li><li>• They accepted the proposed budget and amendments that have arisen since the 10th January, including an average rent increase of 6.6% and an increase in heating/lighting charges of 7%.</li><li>• The Committees' views will be reported to the meeting.</li></ul>

**General Fund Budget**

5.2 Certain matters have arisen in relation to the General Fund Budget since the meeting of this Committee on the 10<sup>th</sup> January. The Overview and Scrutiny Committees were made aware of these in Paper G186. Details are set out below:

(a) Planning Fees and Planning Delivery Grant

The statutory fees for planning applications have not been increased since 2005. The Government are proposing average increases of 23% from April 2008, which includes an 11% increase for domestic applications. The draft budget only assumed a 5% increase in income next year. Given the uncertainty of the economy, it is suggested that a cautious approach is taken to allowing for any additional fee income in 2008/09 and that an overall increase of only 10% is sensible, which would generate a further £20,000.

However, given the uncertainty on the planning element of the new Housing and Planning Delivery Grant, there should be a compensating reduction in the budget assumption for this (reduce from £50,000 to £30,000).

(b) Capital Programme

The draft capital programme includes a **provisional non-committed allowance** for potential expenditure on a Hadleigh Pool/Leisure facilities project, including a sum of £493,000 in 2008/09. However, any decision on the project will not be made until towards the end of 2008 and it is unlikely that amount would be spent next year. An adjustment should be made to reflect this and it is proposed that the 2008/09 provision should be reduced to £250,000, with the balance shown in future years.

- 5.3 On a further matter relating to the capital programme, the SFP Group's budget report to the joint O&S Committees meeting on the 11 December (Paper G158) referred to the potential need for capital funding to enhance revenue-generating facilities at the Kingfisher Leisure Centre, subject to a detailed business case being considered.
- 5.4 This proposal is part of the agreed 5-year Funding & Management agreement with the Leisure Trust, which reflects a reduction in Management Fee (from 2009/10) after allowing for the annual borrowing costs of any capital investment. Babergh would borrow the money and charge the annual borrowing costs (over 20 years) to the Leisure Trust.
- 5.5 Initial indications are that a capital investment of around £1m could be appropriate although the detailed proposals and business case will obviously require further consideration. Subject to this, it is proposed that a further **provisional, non-committed sum** should be included in the capital programme in order to enable Members to make a decision on the matter later in the year.
- 5.6 It is suggested that the O&S (Community Services) Committee consider the business case on the 25 March and make appropriate recommendations to Strategy Committee on the 1 May.
- 5.7 There is no impact on the 2008/09 revenue budget or Council Tax of any of the above issues.
- 5.8 The final amount of Government Grant for 2008/09 has been confirmed at the level previously indicated of £6,005,000.

5.9 A minor adjustment to the reserves position and their planned use is set out below:

	<b>Paper G169 £000</b>	<b>Revised £000</b>
Reserves at 31 March 2007	2,785	2,785
General use in 2007/08	-755	-755
CAST	2,030	2,030
	-299	-209**
Phased general use of reserves:	1,731	1,821
2008/09	-281	-281
2009/10	-130	-130
2010/11	-80	-100
2011/12	-40	-70
2012/13	-	-40
Minimum level of reserves	1,200	1,200

\*\* As £90,000 used in 2006/07 and reflected in the balance as at 31 March 2007.

5.10 There are no increases in the permanent staffing establishment proposed for next year. Approval is sought, however, to the following temporary amendments to the establishment:

<b>Area</b>	<b>Details</b>
ChiltonWoods/Temporary Planning Resources	£50,000 addition to Chilton Woods allocation of £100,000, funded from Business Rates Growth reserve. Head of Natural & Built Environment to determine the use of the £150,000, including for additional temporary staff, in consultation with Corporate Director.
Homelessness Officer	Temporary post to continue for 2008/09 and subsequent years, subject to Government Funding continuing.
Licensing Administration	0.5 fte temporary post to continue for 2008/09 to deal with further statutory duties including the new Gambling Act - funded by higher fee income.

### **Council Housing Budget**

5.11 On the Council Housing budget, the Government's final Housing Subsidy proposals have been received since the Strategy Committee meeting on the 10<sup>th</sup> January. Key aspects are:

- There has been no improvement in the maintenance and major repairs allowances
- The Government have removed the cap on rent increases that has applied in recent years
- As a result, the average rent increase for tenants will be 6.6% next year, which is higher than that previously anticipated of 5.2%
- That will produce additional rent income of £100,000 in 2008/09, which can be used to offset the reduction in the revenue contribution to the capital programme (Line 14 of Appendix A to Paper G173).

6. **APPENDICES**

(1) Prudential indicators under the Prudential Code for Capital Finance.

7. **BACKGROUND PAPERS REFERRED TO:**

Government Grant and Housing Subsidy determinations.

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## Appendix 1

### Prudential indicators under the Prudential Code for capital finance

1. The purpose of the indicators is to provide a framework for capital expenditure decision making, highlighting through the prudential indicators the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure the plans are affordable, prudent and sustainable.
2. The actual capital expenditure that was incurred in 2006/07 (along with the estimate originally set for the year) and the capital investment programme for the current and future years that are recommended for approval are:

**Table 1 - Estimates and Actual Capital Expenditure**

	2006/07 £'000 Estimate	2006/07 £'000 Actual	2007/08 £'000 Estimate	2008/09 £'000 Estimate	2009/10 £'000 Estimate	2010/11 £'000 Estimate
General Fund	1,795	1,614	2,180	3,475	6,001	1,394
HRA	3,490	3,777	3,056	3,136	3,090	3,145
<b>Total</b>	<b>5,285</b>	<b>5,391</b>	<b>5,236</b>	<b>6,611</b>	<b>9,091</b>	<b>4,539</b>

Note: 2008/09 and 2009/10 includes provisions for Hadleigh Community facilities. The scope and costing of this work will not be decided until later in 2008.

2. This indicator identifies the trend in the cost of capital against the net revenue stream.

**Table 2 - Ratio of Net Financing Costs to Net Revenue Stream**

	2006/07 Estimate	2006/07 Actual	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate
General Fund	(6.10)%	(6.42)%	(7.96)%	(6.41)%	(5.22)%	(4.30)%
HRA	23.90%	23.99%	23.75%	21.86%	20.99%	20.20%

The estimates of financing costs include current commitments and the proposals in the budget report.

Note: Babergh has a negative figure for the General Fund due to having low external debt charges, which are more than offset by investment income on surplus funds. There is a positive figure for the HRA as the Council has historically borrowed internal funds to finance Council Housing expenditure and these costs are reimbursed through housing subsidy.

3. Estimates of the end of year capital financing requirement for the authority for the current year and future years and the actual capital financing requirement at 31<sup>st</sup> March 2007 are:

**Table 3 - Estimates and Actual Capital Financing Requirement**

	31/03/07 £'000 Estimate	31/03/07 £'000 Actual	31/03/08 £'000 Estimate	31/03/09 £'000 Estimate	31/03/10 £'000 Estimate	31/03/11 £'000 Estimate
General Fund	(426)	(470)	(331)	2,228	3,333	4,030
HRA	4,001	4,001	4,551	5,101	5,651	6,201
<b>Total</b>	<b>3,575</b>	<b>3,531</b>	<b>4,220</b>	<b>7,329</b>	<b>8,984</b>	<b>10,231</b>

4. The Calculation of the Capital Financing Requirement (CFR) represents the Council's **underlying** need to finance its current and historic capital expenditure, which has not yet been charged to revenue. The change year on year will be influenced by the capital expenditure incurred within the year financed by borrowing.

The actual borrowing requirements for 2008/9 is 3.12 M (£2.6M General Fund and £0.55 HRA)

5. The treasury management function is an important part of the overall financial management of the Council's affairs. The Council has an integrated treasury management strategy and has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services*. At any point in time, there are a number of cash flows that are positive and negative, and this is monitored and managed in terms of the investments and any overdraft in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. Any debt in the form of overdraft arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.
6. CIPFA's *Prudential Code for Capital Finance in Local Authorities* includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current year and next two financial years."

The Head of Finance reports that the authority had no difficulty meeting this requirement in 2006/07, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the budget report.

7. In respect of external debt, it is recommended that the Council approves the following maximum authorised limits for its total external debt gross of investments for the next three financial years, which takes account of the latest balance sheet values of relevant items. The Council is asked to approve these limits.

**Table 4 - Authorised Limits for External Debt**

	2006/07 Proposed £'000	2006/07 Actual £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
Borrowing (Capital Financing Requirement	3,575	3,531	4,220	7,329	8,984	10,231
Other Long Term Liabilities	1,117	1,099	905	711	534	357
Cash flow deficit/margin	1,308		1,375	1,460	1,482	1,412
<b>Total</b>	<b>6,000</b>	<b>4,630</b>	<b>6,500</b>	<b>9,500</b>	<b>11,000</b>	<b>12,000</b>

8. The Head of Finance reports that these authorised limits are consistent with the Council's current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Head of Finance also confirms that they are based on an estimate of the most likely, prudent but not worst-case scenario with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements.
9. Risk analysis and risk management strategies have been taken into account; as have potential plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.
10. The Council is also asked to approve the following operational boundary for external debt for the same time period. This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as indicator to ensure that the authorised limit is not breached. In keeping with the definitions in CIPFA's *Prudential Code for Capital Finance in Local Authorities*, overdraft limits are not included within figures for debt. The Council is asked to approve these limits.

**Table 5 - Operational Boundary for External Debt**

	2006/07 Proposed £'000	2006/07 Actual £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
Borrowing	1,221	1,100	1,789	4,898	6,553	7,799
Other Long Term Liabilities / Cash Flow Deficit	1,779	1,099	1,711	1,602	1,447	1,201
<b>Total</b>	<b>3,000</b>	<b>2,199</b>	<b>3,500</b>	<b>6,500</b>	<b>8,000</b>	<b>9,000</b>

11. The Council's actual external debt at 31<sup>st</sup> March 2007 remained at £1.1m, which is lower than the original figure proposed for the end of 2006/07 as borrowing requirements were met internally.
12. In taking it's decisions on the budget, the Council is asked to note that the authorised limit determined for 2008/09 (see Table 4) will be the Statutory limit determined under section 3(1) of the Local Government Act 2003.
13. The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Council are:

**Table 6 - Incremental Impact on Council Tax and Housing Rents**

	2008/09	2009/10	2010/11
	£	£	£
Band D Council Tax	+0.36	-0.82	+3.59
Average Weekly Housing Rent	-0.69	-0.50	+0.02

**Note:** The above are based on the council's annual capital spending plans outlined in table 1. 2009/10 Band D Council Tax figure includes an estimated LAMP saving of £80 K.

## Treasury management strategy and annual plan for 2008/09

1. Babergh District Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.
2. The full Treasury Management Strategy for 2008/09 will be presented to Strategy Committee in March 2008.
3. It is recommended that, for the purpose of setting prudential indicators, the following upper limits are set on its fixed and variable rate exposures, based upon the debt position, for future financial years as follows:

	2008/09	2009/10	2010/11
<b>Upper Limit of Fixed Rate Exposures</b>	100%	100%	100%
<b>Upper Limit of Variable Rate Exposures</b>	70%	70%	70%

4. It is recommended that for the purpose of setting prudential indicators, the following lower and upper limits are set regarding the maturity structure of the Council's borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

### Maturity Structure of existing fixed borrowing

	2008/09		2009/10		2010/11	
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	0%	0%	0%	0%	0%
12 months to 2 yrs	0%	0%	0%	0%	0%	0%
2 years to 5 years	0%	0%	0%	0%	0%	0%
5 years to 10 years	0%	0%	0%	0%	0%	0%
10 yrs and above	0%	100%	0%	100%	0%	100%

5. It is recommended that the Council approve the following limits on principal sums to be invested for periods greater than 364 days. These limits apply to investments with final maturities beyond the year-end.

	2008/09	2009/10	2010/11
	£'000	£'000	£'000
<b>Upper Limit of Principal Sums maturing beyond the year end</b>	3000	3000	3000