



CABINET - 2 JANUARY 2002

GENERAL FUND REVENUE BUDGET 2002/03

1. INTRODUCTION

- 1.1 This report provides Members with the latest forecast for the General Fund revenue budget for 2002/03, updating the forecast considered by the Cabinet at the meeting held on 7th November. This is outlined in Appendix 1 to this report.
- 1.2 The projected budget is based on the provisional Standard Spending Assessment (SSA) and related Government grants; the final SSA settlement will be available at the end of January 2002, and at that stage, some adjustment may be necessary.
- 1.3 Members may wish to raise any matters of detail with the Director of Resources before the meeting of the Cabinet.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT PROPOSALS 2002/03

- 2.1 Table 1 shows the figures for the SSA, Government grant and permitted Council Tax level for 2002/03 compared with 2001/02.

Table 1

	2001/02	2002/03	Variations	
	£m	£M	£M	%
Standard Spending Assessment	15.991	16.652	0.661	4.1
Revenue Support Grant And Non-Domestic Rate Distribution	9.710	9.845	0.135	1.4
Council Tax Level (Excluding Parishes) avoiding Council Tax Benefit subsidy loss	£ 118.17	£123.70		

- 2.2 It was the Government's intention originally to ensure that all shire district councils received an increase in general grant support of 2.3% between 2001/02 and 2002/03, but because of an amendment to the formula used to calculate the grants, this has not materialised. However, the Government has now accepted this error and has stated that it intends to make good the shortfall, which in this Council's case, could amount to £ 88,000.

- 2.3 The calculation of the Council Tax level in the above table reflects the present requirement to set an upper limit for the payment of council tax subsidy, based on the aggregated expenditure of the District and Town and Parish Councils. However, the Government has announced in the last few days that the subsidy limitation rules will be abolished for 2002/03, but as yet, no details have been issued. The consequence of this is that the Government will now pay 95% of all benefits paid. It is not yet known whether it is intended to introduce some other limitation or capping on the maximum increase on Council Tax for 2002/03.
- 2.4 As the Government will not be able to introduce primary legislation to amend the regulations until February 2002, for the purpose of this report, the effect of the present regulations are still outlined for 2002/03 only.
- 2.5 Assuming the combined level of spend for Town and Parish Councils for 2002/03 is at £2.776 million, resulting in an average Council Tax level of £40.47 (an increase of 3.9% over 2001/02), this Council may set its own budget up to £18.596 million resulting in a Council Tax level of £ £123.70.

3. MEDIUM TERM FINANCIAL PLANNING - ISSUES TO BE CONSIDERED

3.1 Government Spending Guidelines

3.1.1. The SSA calculation for 2002/03 mainly reflects data changes.

3.1.2 In the last few days, the Government issued a white paper entitled 'Strong Local Leadership - Quality Public Services' in which it outlines its proposals to provide wider powers to local councils to deliver quality services. These proposals include:

- The abolition of Council Tax Benefit Subsidy Limitation;
- Ending the use of the reserve powers to cap council tax increases;
- Greater freedom to decide council tax discount and exemptions
- Abolition of existing system of credit approvals, providing councils with the ability to borrow within the affordable limits of the appropriate revenue fund (this will be subject to reserve powers to set a national borrowing limit and to restrict individual councils where appropriate);
- Greater freedom to invest surplus funds
- Ability to charge for discretionary services provided

- 3.1.3. With regard to the revenue grant system, the Government intend to retain the existing grant distribution formula for 2002/03, and frame new formulae for the grant distribution for 2003/04; thereafter a freeze will be imposed on formula changes for 2004/05 and 2005/06.
- 3.1.4. The government has also indicated that no revaluation of property bands for council tax will take place in the lifetime of this Parliament; legislation will be introduced however, which will provide for a revaluation in time for 2007/08 council tax bills.
- 3.1.5. The proposed legislation will also place a new duty on the Chief Financial Officer (CFO) to ensure the level of reserves are adequate, and give the Secretary of State the power to specify a statutory minimum .
- 3.1.6. The proposals also empower the CFO to take corrective action where an authority is overspending, and require accounts to be published by 30th June each year.

3.2 Capital Financing

- 3.2.1 For 2002/03, the Council is only permitted to borrow £199,000 to fund its 'other services capital expenditure'. This does not include specific borrowing approvals for coast protection schemes. The draft capital expenditure budget for the period of the forecast from 2002/03 to 2005/06 amounts to £10.382 million. The programme includes new bids, but excludes programmes for the maintenance of the Council's assets, the expenditure for which, it is proposed, is transferred to the General Fund with effect from 2002/03.
- 3.2.2. The capital programme for 2002/03 will be financed initially by a combination of borrowing approvals, developers' contributions against specific schemes, the balance being met from the General Reserve. No provision has been made at this stage, for a contribution from the General Fund towards financing this capital programme.
- 3.2.3. Within the allocated borrowing approval of £199,000 for 2002/03, is a sum of £50,000 which was received as a result of an excellent assessment by GOSE of the Council's Capital Strategy. A grant of £200,000 is also anticipated as a result of the Council's IEG bid.
- 3.2.4. From 2002/03, the Government has introduced a 'single capital pot', which in effect, removes the requirement to ring fence borrowing approvals and grants for specific schemes. The consequence of this is that borrowing approvals for housing purposes, may be allocated to non-housing projects, and vice versa.

3.2.5. As part of the provisional settlement, the Council has been allocated the following Basic Credit Approvals (BCA):

BCA - Housing	£ 1.661m
BCA - Non-Housing	£ 0.149m
BCA - Capital Strategy	£ 0.050m

The credit approvals allocated for 'housing' have, in recent years, been used for Social Housing Grant (SHG), as the Council received a cash grant from the Housing Corporation. As this continues to maximise the resources available to the Council, and also achieves a key objective in the provision of new housing within the district, it is not proposed to redirect these resources for 2002/03.

3.2.6 At the November meeting of the Cabinet, a recommendation was made that the General Reserve be renamed the Capital Reserve, the primary use of which is to fund the Council's future Capital Programme. The Balance on this reserve as at 1st April 2001 was £4.473 million.

3.2.7 Having taken into account the forecast expenditure during the current financial year, grants, borrowing approvals and use of developers' contributions, the current proposed capital programme for 2002/03 will extinguish the Capital Reserve within the forthcoming financial year.

3.3 Commutation

3.3.1 Local Authorities are required to operate within a very complex framework of financial controls set up by the Government. From time to time, the emphasis of these controls have been changed by the Government to ensure resources are targeted on the key objectives of the day, and to limit spending by local authorities. Consequentially, a number of adjustments are undertaken each year in the Council's accounts.

3.3.2 The two main adjustments referred to in this report are the calculation of the Minimum Revenue Provision (MRP) and Commutation adjustments. Both adjustments relate to capital expenditure but may have a knock on effect on both the General Fund (GF) and Housing Revenue Account (HRA).

3.3.3 Within the legislation, providing certain specific criteria are met, there is an option to offset the General fund debt against the debt position on the HRA, thereby reducing the amount that needs to be set aside as MRP.

3.3.4 A review of the respective debt positions of both the HRA and GF between 1994/95 and 2000/01 has identified an over provision of MRP that may now be credited to the General Fund.

- 3.3.5 In October 1992, the DTLR (Department of Transport, Local Government and the Regions) commuted sums owing to the Council for Renovation and Slum Clearance Grants. This means that the sums the Council would have received in future years were paid off in full. The DTLR did not pay the Council direct, but instead repaid prematurely debt equal to the grant commutation sum.
- 3.3.6 Although a commutation adjustment was made initially to the FG for 1992/93 and 1993/94, no adjustment has subsequently been made, because of an incorrect interpretation of a factor within the formula to be applied. As a consequence, the General Fund was in effect, overcharged by £541,960 for the next 7 years.
- 3.3.7 Because of the complex nature of this adjustment, a number of options have been explored with both the Council's Treasury Consultants and District Audit relating to the correction of this position and potential application of this identified resource.
- 3.3.8 The Consultants have confirmed that the Government is intending to introduce legislation to repeal the commutation adjustments, although the timing and extent of the possible change are not yet known. At that stage, most local authorities will be in a similar position to this Council in having a substantial charge made for 2006/07 onwards.
- 3.3.9 The consequence to this Council, if the legislation is not introduced, will be a neutral position on the General Fund for 2004/05 and 2005/06 (i.e. neither an additional resource or charge), and thereafter a substantial charge made for 2006/07 onwards.

3.3.10 Available Resources

- 3.3.11 With regard to the Minimum Revenue Provision, the total sum available for immediate use is £581,370; this comprises of adjustments for the period 1992/93 to 2001/02. For the financial years 2002/03 to 2004/05 the following provisional sums may also be available:

2002/03	£103,500
2003/04	£123,000
2004/05	£73,600

- 3.3.12 With regard to the Commutation adjustment, the total sum available for the period is set out below:

1992/93 to 2001/02	£2.32 million
2002/03	£106,200 (Provisional)
2003/04	£18,000 (Provisional)

- 3.3.13 As part of the commutation adjustment, an application was made to the DTLR for a supplementary credit approval (SCA) for 2001/02. A sum of £217,600 has now been approved. Applications for grant will also be made in future years, but the allocation to this Council will depend upon the overall resources made available and the number of applications
- 3.3.14 Although confirmation has been received from the District Auditor that the above sums can be used for any purpose it would seem appropriate not to rush into making any decision at this stage regarding their utilisation. It is therefore recommended that use of these adjustments be considered at the February Cabinet meeting in light of final grant and allocation figures.

3.4 Reserves

- 3.4.1 At the November meeting of the Cabinet, a proposal was made to amalgamate all uncommitted revenue reserves into the General Fund Balance. Proposals will be put forward for consideration by the Cabinet, when the General Fund revenue budget is considered in February.
- 3.4.2 With effect from 1st April 2001, the General Fund Balance will be used to meet any additional unplanned revenue expenditure and will be credited with any year-end revenue underspends.
- 3.4.3 The IT Renewals Reserve is a fund which was originally set aside specifically to meet the cost of replacement IT equipment previously purchased and for which no ongoing budget provision has been made in the General Fund. As part of the overall financial strategy previously approved by Members, majority of the costs for the provision of IT has been met through leasing. Consideration is currently being given to amending this policy, and recommendations will be made relating to the use of this reserve within the overall financial strategy report to the Cabinet in February.

3.5 Interest Earnings

- 3.5.1 Since the draft General Fund Forecast for 2002/03 was considered by the Cabinet in November, the forecast for earnings from investments has reduced by £150,000 to £850,000. The estimated interest earnings is based on the bank base rates remaining at 4% throughout the next financial year; however, there is a significant risk of the rate being reduced to 3.75% in early 2002. Any reduction in this rate would increase net expenditure, and would require further prioritisation of resource allocations or a supplementary budget from the General Fund balance

3.5.2 The effect of the reduction in interest rates, has been slightly offset by an anticipated improvement in cash flow as a result of higher than anticipated receipts from the sale of council housing stock.

4. DRAFT BUDGET FOR 2002/03

- 4.1 The draft net budget of £18.365 million includes:
- Expenditure Plan bids, savings and additional income, already considered by the Cabinet in November;
 - Additional bids and savings arising since the last forecast for the General Fund was considered by the Cabinet in November. Details of these items are contained in Appendix 2 to this report.
 - An increase in the Council's share of the Collection Fund of £168,000, as a result of higher than anticipated collection of Council Tax for 2000/01
- 4.2 On 7 November the Cabinet considered a report titled 'Expenditure Plan and Financial Strategy Update'. This report included a revised Expenditure Plan forecast based on the latest information available, some new proposals for additional savings and growth and the comments that were made by the review panels and committees on their deliberations of the first round of expenditure plan items.
- 4.3 The deliberations of that Cabinet meeting have now been fed back to the review panels and committees with any changes that were made from the original proposals. The comments made by the Portfolio Review Panels are included in Appendix 3 to this report.
- 4.4 Inflation of 2.5% has been provided for most income and expenditure items except employees salaries, for which an increase of 4% has been provided, to cover the pay award (3%) and increments (1%) from 1st April 2002. At this stage no allowance has been made in the proposed budget for the implications of the Council adopting a new pay and reward strategy.
- 4.5 Provision has been made for all single status issues currently agreed by Members. Progress continues to be made towards integration of all outstanding issues and budgetary provision will be made as and when agreement is reached.
- 4.6 The number of band D equivalent properties used for calculating the Council Tax level for 2002/03 is 68577.7, an increase of 353 over 2001/02

5. CONCLUSIONS

- 5.1 Although some work has been undertaken in the last few weeks to identify additional income and reduce expenditure, the current forecast General Fund budget is still somewhat short of being balanced. No decisions have yet been made as to the extent of the use of the Council's reserves, which will be the balancing figure, once the Council has agreed the level of council tax for 2002/03

6. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no crime and disorder or environmental implications arising directly from this report.

7. EMPLOYEE SIDE COMMENTS

- 7.1 The employee side note this report.

8. RECOMMENDATIONS

It is recommended that:

- 8.1 the amendments to the Expenditure Plan proposals contained in Appendix 2 be agreed;
- 8.2 the draft budget as outlined in Appendix 1 to this report, be noted;
- 8.3 the comments from the Portfolio Review panels, as contained in Appendix 3 be considered;
- 8.4 a further report to be considered by the Cabinet in February, when the provisional figures contained in this report have been confirmed and at that time, the Cabinet will recommend a revenues capital budget to the Council for approval

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Background Papers:

Finance Strategy 2002/03
to 05/06 - report
Cabinet on 2nd July 2001

DTLR letters Nov/Dec on
provisional settlements.

Portfolio Budget reports.

ADDITIONAL PROPOSED BIDS AND SAVINGS FOR 2002/03

	<u>£000</u>
1. Renewals Grant Agency	+ 24
This growth item reflects an income loss of £62,000 offset by a supplies and services cost reduction of £4,540, following the closure of the Council's Renewals Grants Agency. In addition, associated savings of £33,450 have been made in staff costs.	
2. National Insurance Changes	- 60
This is as a result of a reduction in the earnings limits, thresholds and rates introduced by the Government from 1.4.02	
3. Totton Recreation Centre	+ 20
The shortfall in income is as a result of a reduction of casual swimming and centre membership (£19,000), anticipated growth which has not been achieved (£19,000) and the impact of income lost during the refurbishment of the wet changing facilities.	
4. Hythe Marina	- 25
This additional income is as a result of an increase in share of profits from the trading activities at Hythe Marina	
5. Bank Charges	- 13
This reduction in expenditure is as a result of a number of initiatives implemented with the Bank, to reduce the overall bank charges	
6. Clinical Waste	- 43
Following the introduction of new regulations, the cost of collecting, transporting and disposing of clinical waste will increase. The Council is carrying out a review of waste collections, with the aim of reducing the number of collections made free of charge, and providing collections only where the waste is infectious. It is anticipated that this review will generate net savings of £43,000.	
7. IT Investment Programme	+ 31
This additional bid is as a result of reconsideration of the financing arrangements of the proposed programme.	
8. Abandoned Vehicles:	+ 12
No provision has been made for 2002/03 to reflect the increased costs associated with the continued rise in the numbers of abandoned vehicles to be removed by the Council.	

9.	Pest Control	+ 12
	The expenditure plans included provision for charging for the treatment of rats and mice in domestic premises, producing additional income of £75,000. This did not reflect a potential reduction in demand for the service of approx 20% and an adjustment to income has now been made of £15,000 for 02/03. This is offset by savings in vehicle hire as a result of staff reductions.	
10.	Refuse Collection and Street Cleansing	- 42
	The refuse fleet budget has been reduced as a result of lower Road Tax charges (£11,790) and an overstated bid of £31,620 for the replacement of vehicles.	
11.	Waste Management and Recycling	+ 15
	This bid is as a result of the omission of the replacement cost of a vehicle in 2002/03 from the expenditure plans; this is offset by savings in vehicle excise duty.	
12.	Recreation Centre Cleaning	+ 5
	Additional cleaning required as a result of an increase in the areas open for public use and volumes of people Now using the 5 centres from the original specification.	
13.	Planning Application Fees	- 75
	The Government have just announced a 14 % increase on the statutory scale fees for planning applications, with effect from 1.4.02. This will generate an additional £75,000 in income, based on a similar number of applications to 2000/01.	
	Total	<u>- 139</u>

EXPENDITURE PLANS 2002/03 TO 2005/06
PORTFOLIO REVIEW PANEL COMMENTS

□ **Environment Review Panel**

As part of this Review Panel's agenda they considered a report on the issue of charging for the removal of rats and mice. The report highlighted the potential elasticity's of demand in relation to this activity that had not previously been evaluated in the original proposal. As a consequence the saving previously suggested was reduced from £75,000 to £60,000. The Panel were also not totally convinced of the merits of charging at all for the service and were concerned that it could result in individuals using dangerous substances with little knowledge. **This items has now been adjusted in the latest forecast.**

The Portfolio holder, who attended the meeting, also informed the Panel that the growth bid required for dog bins could be reduced from £10,000 to £5,000. **No action has yet been taken on this item.**

No other comments regarding the services within this portfolio were made although an issue regarding the reduction in the level of funding of the Chairman's travel was raised. Although not part of this panels remit the Cabinet were requested to revisit the size of the reduction proposed.

□ **General Purposes and Licensing Committee**

No comments relating to the activities of the Committee.

□ **Crime and Disorder Review Panel**

No comment

□ **Corporate and Finance Review Panel**

As the remit of this Panel covers the resources of the whole Council the Panel reviewed not only their Portfolio but also all other portfolio's including the Council's overall financial position.

□ **Housing, Health and Social Exclusion Review Panel**

The Panel wished to express their disappointment that the Cabinet had not taken on board the comments that the Panel made during their last meeting on the issue of increasing the charge for the meals on wheels service. The Panel wish to re-iterate that they do not support the proposed increase. Furthermore the Panel suggest that officers and members meet with the County Council in order to ensure that the County Council ceases its current practice of significantly increasing the charge for the service leaving the District in the unenviable position of

having decide whether to increase their subsidy further or pass that charge on to some of the most vulnerable members of the community.

The Panel also wish to express their concern and dissatisfaction with the proposal to remove the Shared Amenities contribution from the General Fund to the Housing Revenue Account. The Panel felt that this was iniquitous and would result in Council Tenants paying for services of those properties that had be sold as well as those that remained within the Housing Revenue Account. **This item has now been adjusted in the current forecast.**

❑ **Leisure Review Panel**

No comment. Cabinet's recommendations were noted.

❑ **Economy and Planning Review Panel**

No comment

❑ **Standards Committee**

No comment

NEW FOREST DISTRICT COUNCIL
DRAFT GENERAL FUND FORECAST 2002/03 TO 2005/06 BASED ON 2001/02 BUDGET

<u>20/12/01</u>	2001/02	2002/03	2003/04	2004/05	2005/06
	£000	£000	£000	£000	£000
Net Portfolio Requirements	19040	19040	19040	19040	19040
Transfer To Provisions					
Est. Inflation (salary related)		595	1135	1695	2275
Other Inflation		170	340	520	700
Sub Total (A)	19040	19805	20515	21255	22015
Capital Financing Provision	250		250	250	250
Sub Total (B)	19290	19805	20765	21505	22265
Transfer from DSO reserve	-250	-250	-250	-250	-250
Sub Total (C)	19040	19555	20515	21255	22015
Less Interest on Balances(net)	-1300	-850	-1000	-1000	-1000
Sub Total (D)	17740	18705	19515	20255	21015
Transfer From Capital Financing Reserve	-293				
Transfer To/From(-) General Reserve	-79				
Budget Requirements Total (E)	17368	18705	19515	20255	21015
Add Expenditure Plan Bids					
Corporate & Finance		767	828	923	957
Crime & Disorder		189	214	224	214
Economy & Planning		134	291	266	210
Environment		94	179	179	179
Health & Social Exclusion		22	22	22	22
Housing		102	104	106	108
Leisure		229	368	337	338
General Purposes & Licensing Committee		0	80	20	20
Planning Development Control Committee		0	0	0	0
Standards Committee		19	19	19	19
Sub Total Bids	0	1555	2104	2095	2067
Deduct Expenditure Plan Savings					
Corporate & Finance		-736	-804	-864	-938
Crime & Disorder		0	0	0	0
Economy & Planning		-200	-188	-223	-223
Environment		-261	-261	-261	-261
Health & Social Exclusion		-13	-13	-13	-13
Housing		-140	-150	-160	-170
Leisure		-397	-513	-620	-625
General Purposes & Licensing Committee		0	0	0	0
Planning Development Control Committee		-9	-9	-9	-9
Standards Committee		0	0	0	0
Sub Total Savings	0	-1755	-1936	-2148	-2237
Other Items	388	-139	-139	-139	-139
Transfer To/From(-) General Reserve	-388	0	-75	-50	0
Forecast Budget Requirements Total (F)	17368	18365	19469	20013	20706