

**FINANCE PROPOSALS 2010/11 – GENERAL FUND AND HOUSING REVENUE ACCOUNT  
– REVENUE AND CAPITAL**

Agenda Item 8d

**Portfolio Area:** Efficiency and Resources  
**Report Presented by:** Councillor Lager

**Background Papers:** Medium Term Financial Strategy 2009/10 to 2012/13 report to Cabinet 12<sup>th</sup> October 2009; Update on Medium Term Financial Strategy 2010/11 to 2013/14 report to Cabinet 7<sup>th</sup> December 2009  
**Corporate Implications:** Please refer to table at end of report  
**Options:** To accept or amend the budget proposals for 2010/11 for recommendation to Full Council.  
**Risks:** Detailed in report

**Executive Summary**

The process of establishing a balanced budget for 2010/11 commenced in February 2009 when the Council's Performance and Efficiency Programme Board was tasked with identifying efficiencies to meet the estimated funding gap for 2010/11 and 2011/12. During the course of the year the Council's medium term financial position has been updated to reflect changes in budgetary assumptions such that the target for efficiencies was set as a range between £1.2million and £1.5million. The main changes included the continuing impact of the recession with reductions in income (building control, car parks, interest); the need to change assumptions regarding office accommodation costs and depot requirements; and expectations in Government Grant to be received from 2011/12.

Cabinet at its meetings in October and December 2009 have considered options to achieve the savings required and have ensured, through a wide range of consultation methods, that our communities and residents in the district have had opportunity to give their views.

The proposals contained in the report identify a total of £1.306million of savings, which are to be delivered through efficiencies and changing the way that some of the services will be provided.

Details of the financial proposals for the General Fund and Housing Revenue Accounts, covering both revenue and capital, for 2010/11, are provided.

The report also provides details of the Council's borrowing and investment requirements for 2010/11; these are contained in the Treasury Management Strategy and Prudential Indicators and Limits. These have been prepared in accordance with a new Code of Practice issued by the Chartered Institute of Public Finance and Accountancy and draft guidance on investments issued by the Department for Communities and Local Government.

## **Decision**

It is recommended that Members agree to the release of the provision set aside in the 2009/10 Budget, of £40,000, to the Braintree Museum Trust.

That it be recommended to Council that:

### **Revenue**

1. The changes to service provision as detailed in Appendix E to the Cabinet report together with a budget of £10,250, funded from the LABGI reserve, for the development of the tourism website be approved.
2. The budget variations to the current base budget as summarised in the Appendix G to the Cabinet report, copy attached, be approved.
3. The Service Demands detailed in Appendix C of the Cabinet report be approved.
4. That a provision of £50,000 be set aside in 2010/11 for the Braintree Museum Trust. To be funded from the General Fund balance and payments to be released with agreement of the responsible Cabinet Portfolio Holder.
5. The increases to existing Fees and Charges for 2010/11 as detailed in Appendix D to the Cabinet report be approved.
6. A single concessionary rate of 25%, applicable to fees and charges as appropriate, is agreed.
7. Concessions to be available for the following persons:
  - In receipt of means tested benefit;
  - Under 16 years of age; or
  - In full-time education.or to organisations making block or regular bookings.
8. The additional Housing Benefit Administration Subsidy for 2010/11, of £315,880, be applied to maintain/improve the service, with an immediate allocation of the funds, of £56,000, to extend the contracts by one year of two temporary Benefits Assessor posts.
9. The provision set aside to meet the cost of redundancies be increased by £500,000 to £1million, by transfer from the General Fund balance, be agreed.
10. The transfer of £654,000 to the General Fund balance from the Earmarked Reserves, as detailed in Appendix K to the Cabinet report be approved.

### **Housing Revenue Account**

11. No increase is applied to housing rents for 2010/11.
12. No increase is applied to housing service charges for 2010/11.
13. The proposed Housing Revenue Account budget for 2010/11, as detailed in Appendix I to the Cabinet report, be approved.

### **Capital**

14. The General Fund Capital bids for 2010/11 listed in Appendix L to the Cabinet report, be approved.

### **Treasury Management**

15. The revised CIPFA Code of Practice on Treasury Management in the Public Services be adopted
16. The Prudential Indicators and limits set out in Appendix N to the Cabinet report be approved.
17. The Policy on Minimum Revenue Provision as recommended in Appendix N to the Cabinet

report be approved.

18. The Treasury Management Strategy, including annual investment strategy, for 2010/11 is approved.

### **Council Tax**

19. The proposed estimates detailed in Appendix P to the Cabinet report and the Council Tax increase of 2.5% be approved, having taking into consideration:

The consultation feedback received; and

The Section 151 Officer's report on the robustness of the estimates and the adequacy of balances (Appendix O of the Cabinet report).

### **Future Efficiencies**

20. Given the anticipated budget gap, coupled with the possibilities of the Government Grant reducing and the pension costs increasing by more than that currently provided over the next three years, that an overall strategic approach to efficiency and service delivery options be brought forward to a future meeting.

21. The Medium Term Financial Strategy is updated to take account of the information detailed in the report and the decisions made.

<b>Corporate Implications</b>				
<b>Financial:</b>	Addressed in Report			
<b>Legal:</b>	<u>Local Government Finance Act 1992 – Section 106</u> Will any members affected by Section 106 please note that any declarations to that effect should be made on the commencement of the meeting or immediately on arrival if this is later. Under Section 106 a member who has not paid an amount due in respect of their Council Tax for at least two months after it became payable is precluded from voting on any matters affecting the level of Council Tax or the arrangements for administering the Council Tax. (The member is, however, entitled to speak).			
<b>Equalities &amp; Diversity:</b>	Considered, as appropriate, under each of the individual proposals			
<b>Customer Impact:</b>	Considered, as appropriate, under each of the individual proposals			
<b>Environment &amp; Climate Change:</b>	Considered, as appropriate, under each of the individual proposals			
<b>Consultation/Community Engagement:</b>	Local Committees	X	Partners	X
	Public	X	Staff	X
<b>Key Decision:</b>	No			
<b>Public/Private Report:</b>	Public			
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## FINANCE PROPOSALS 2010/11

### GENERAL REVENUE ACCOUNT AND HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL

#### 1. Background

The Cabinet considered the following reports, which have outlined the budgetary and consultation processes and the Council's financial position.

12<sup>th</sup> October 2009                      Medium Term Financial Strategy (MTFS) 2009/10 to 2012/13 Update – review of assumptions and rolls forward Strategy for 2010/11 to 2013/14. An outcome from consideration of this report was that the Cabinet requested budget options and efficiencies to a value of between £1.2million and £1.5million be identified to address the funding gap for 2010/11 and 2011/12.

7<sup>th</sup> December 2009                      Update on the Medium Term Financial Strategy 2010/11 to 2013/14 including details of the proposed bids for revenue and capital funding, proposed changes to service provision and efficiency savings for 2010/11 and 2011/12.

At the meeting on 7<sup>th</sup> December 2009 the Cabinet gave consideration to the proposals contained in the report, and after taking into account the significant consultation undertaken to that date, recommended to Council that a number of the proposed budget and service changes for 2010/11 be agreed with the remainder of the proposals contained in the Medium Term Financial Strategy 2010/11 to 2013/14 report be subject to further consultation.

#### 2. Budget Consultation Process

##### 2.1 Local Committees

Each Local Committee has revenue and capital budgets to meet priority-spending needs in its area, the budget process provides opportunity to raise those issues that require funding in excess of their budgets or for schemes that would have an impact on the wider community across the district.

Local Committees have been determining their priorities for 2010/11 over the last two cycles of meetings and will be considering the budget proposals at their meetings during January 2010. Any requests for funding and/or comment on the budget proposals will be provided at tonight's meeting.

## **2.2 Overview and Scrutiny Committee**

The Budget Scrutiny process commenced with the Leader of the Council and the Cabinet Member for Efficiency and Resources presenting the updated MTFS, with the detail and rationale of the financial assumptions, to the Overview and Scrutiny Committee on 28<sup>th</sup> October 2009.

On 2<sup>nd</sup> December 2009 the Leader of the Council and other Members of the Cabinet presented and answered questions on the budget proposals contained in the updated MTFS report.

The Overview and Scrutiny Committee will have had a further opportunity to comment on the budget proposals at its meeting to be held on 27<sup>th</sup> January 2010. Comments from that meeting will be circulated at tonight's meeting.

## **2.3 Business Council**

The Leader of the Council presented a report on the Budget proposals for 2010/11 to the Business Council on 11<sup>th</sup> January 2010. The relevant minute of this meeting is provided at Appendix A.

## **2.4 Public and Key Stakeholder Consultation**

The earlier preparation of budget and service proposals enabled an earlier commencement of consultation with the public and our other key stakeholders. This has resulted in a number of decisions to be agreed at Full Council on 16<sup>th</sup> December 2009.

The opportunities to provide views on the budget proposals have been increased and expanded over previous years and have included the following:

- The Leader of the Council wrote to all town and parish councils on 16th October 2009 regarding the proposed consideration of withdrawing the Parish Support Grant scheme at the Cabinet meeting on 7th December 2009. Responses were received from 27 parish/town councils, the Braintree Association of Local Councils, Sir Alan Haselhurst M.P. and 2 local parishioners.
- On 5th November 2009 the Leader of the Council also wrote to all of the Council's partners on the Local Strategic Partnership and all town and parish councils.
- The first survey to be conducted with the recently established Citizens Panel included a section on service options and associated budget reductions. Survey questionnaires were distributed to the 360 citizens on the Panel.
- An additional survey on the service options and associated budget reductions was also undertaken by means of an internet based questionnaire. This

'Simalto' exercise was conducted with 3,500 people who had provided the Council with their email address. The exercise provided each of the 202 respondents an opportunity to prioritise the various service changes and savings, and to provide an indication of how the impact of the selections made would affect their satisfaction with the Council's services.

- A document 'Cutting our Cloth' was produced which provided information on the service options and associated budget reductions. This was published on the Council's website and in the winter edition of the Contact magazine, with the public being encouraged to make comment on the proposals.
- During the budget setting process the Leader of the Council has held a number of briefings with the local press on the Council's finances and the proposed service and budget changes. The press responded by encouraging their readers to voice their opinions to the Council.

Correspondence and comments received from members of the public in response to the 'Cutting our Cloth' document and the articles in the local press have been in support of retaining the current service provision on the following services:

- Welfare Rights Service – 38 individuals and 1 petition;
- Community wardens – 6 individuals
- Travel Tokens – 1 individual
- Community Halls – 1 letter on halls generally; 1 comment from Halstead Senior Citizens; 17 individuals and 1 petition on the Glebe Hall and 1 individual on Goldingham Hall
- Braintree Museum – 1 individual
- Parking Charges – 1 individual
- Landscape Services – 4 letters from partner organisations; 16 individuals
- Tourist Information Service – 4 letters; 78 comments and 1 telephone call
- Mediation Service – 1 letter

The budget proposals have also been informed by information and views received through the following recent surveys:

- Place Survey carried out in October/November 2008. A total of 1,350 people responded providing details of their priorities. Analysis of the survey was published in October 2009 and provided a breakdown across six areas: Braintree urban and rural, Halstead urban and rural, and Witham urban and rural.
- Value for Money Survey conducted in October 2009. Workshops were held in Braintree, Halstead and Witham, with participants providing views on whether services provided by the Council were value for money.

## **Part A - General Fund Revenue Account**

### **A.1. 2009/10 Budget Update**

At the time of writing this report, the quarterly monitor for the third quarter is being drawn together, therefore this update of the current year financial position is based on the first half year's expenditure and income. This predicts a requirement for an additional withdrawal from balances of £248,000 for the year (£188,000 predicted at Quarter 1).

The main cause of this position continues to be the impact of the difficult economic environment on the Council's income streams. With a further shortfall against budget of car park income, by £75,000 more than that predicted based on the Quarter 1 figures.

This overall position is based on the achievement of the remaining 50% of the Efficiency Factor, i.e. £131,000, during the second half of the year.

Management continues to exercise strict control over requests to fill vacant posts and has requested all managers to consider every item of expenditure and whether it is essential or can be delayed or cancelled over the next three months without significant damage to the service.

### **A.2. Inflationary Pressures**

**Inflationary increases on expenditure** for 2010/11 are calculated to cost £284,000, covering the following main types of spend:

- Pay. An allowance of 1% is provided, in each year of the period, for the annual pay award due on 1st April to officers and members. In addition the increase provides for incremental progression for those officers that are not at the top of their salary grade. Allowance is provided for a 1% increase in Employers National Insurance contributions from April 2011.
- Pension Fund Deficit. The financial position of the Council's Local Government Superannuation scheme, administered by Essex County Council, is assessed every three years. The payment required for 2010/11 was determined at the last assessment undertaken as at 31st March 2007. The next assessment will be undertaken as at 31st March 2010 and the outcome will provide the payments required for 2011/12 to 2013/14, at this point in time a provision for an additional sum of £170,000 per annum has been included for 20011/12 to 2013/14.
- Energy Costs. The new contracts for gas and electricity effective from 1<sup>st</sup> October 2009 have produced reductions of 35% in price over the previous year's high values. An annual increase of 2% is however allowed for 2011/12 onwards.
- Fuel. The assumption is that the increased budget provided for the current year will be sufficient for 2010/11.
- Other Expenditure. Inflation increases have been determined for a variety of types of expenditure based on components of the Retail Prices Indices for September 2009. Examples are 1.3% for supplies and services and business

rates, 5% for water and sewerage, 2.1% rent allowances and 10.44% for road fund licences.

- As Essex County Council has taken responsibility for the running of the Concessionary Travel scheme for 2009/10 and 2010/11, it will be responsible for any increase in the cost of the service in 2010/11. This arrangement is specific to Essex, although the Government is looking into making this a permanent arrangement across England from 2011/12. Whilst this review is in progress no allowance for any increased cost to this Council after April 2011 has been made in the financial projections.

An assessment of the sensitivity of the council's costs to changes in the assumed rates of inflation is provided at section A.12.

### **A.3. Accommodation and Service Level Agreements**

#### **3.1 Accommodation**

The Council's accommodation costs as provided in the finance proposals are based on the following assumptions:

- Causeway House, Braintree continues to be the main office accommodation. The accommodation will be shared with Essex County Council, from 1<sup>st</sup> January 2012, who will pay a rent and a share of the running costs. This is based on the recommendation contained in the separate report on Office Accommodation on this agenda.
- Millenium Tower. The Council's requirement for depot facilities is currently being reviewed. It is assumed that current running costs of the existing facility will continue until 31<sup>st</sup> March 2011. After this time the costs will be reduced by £100,000.

The Council will take possession of Mayland House, Witham on 1<sup>st</sup> July 2010. The Council will determine the future of the building in March 2010 and depending on the decision and the timescales needed for the delivery of the option, costs of holding the building will be incurred. At this stage, it is difficult to estimate the total of these costs, which will have to be met from the General Fund balance. The report on the future of Mayland House to be considered by Cabinet in March will include an assessment of the costs of holding the vacant building.

#### **3.2 Service Level Agreements**

As a consequence of the transfer of the Housing Stock to Greenfields Community Housing (GCH), the Council entered into a number of Service Level Agreement (SLA) s, which had an initial total value of £1.836m, with GCH to continue to provide certain services. The majority of these SLA's have either been or are in the process of being terminated in the current financial year.

The termination of the SLA's have been due to either the services being uncompetitive at tender, such as the Grounds Maintenance service or the Council decided not to tender, such as graphic design and reprographics. Agreements and working relationships continue regarding Housing services and the use of waste transfer facilities. The latter being a two-year agreement to continue to use the facilities at Cordons Farm.

GCH moved out of Causeway House and Millenium Towers to its new accommodation, establishing its own customer services centre, at the end of October 2009. The Grounds Maintenance SLA terminated on 31<sup>st</sup> December 2009.

Reviews have been undertaken of those services, which had SLA's with GCH, in order to determine measures to address the issues of no longer providing service to and the loss of income from GCH.

A schedule of the former SLA's with GCH is provided at Appendix B. This shows the values of the SLA income, the savings made and the net cost, totalling £745,220, to be met from the General Fund revenue account.

#### **A.4. New Demands**

Each year the Council is faced with demands for additional or new funding to meet corporate objectives, provide new services, address declining income levels, etc. A schedule detailing the recommended increases in expenditure is provided at Appendix C.

In addition to the above there are specific demands to address substantial reductions in income to the Council caused by the significant downturn in the economy. These are:

- Local Land Charge searches. After the budget was set for 2009/10 the Council was required to eliminate its budgeted surplus on this service by reducing its level of charges. The consequence of this action was to reduce the level of income by £150,000 not only for 2009/10 but for each subsequent year.
- Building Control charges. The economic downturn has had a significant impact on the amount of income received for Building Control services. The shortfall against budget in the current year is estimated to be £148,000 and this is expected to continue at this level for the coming year.
- Car Park income. The amount of income received from car parking charges is expected to be £142,000 less than the budget provided in the current year. Cabinet at its meeting in October 2009 agreed that a proposal to increase car park charges in 2010/11 be subject to consultation. Assuming the proposed increases are agreed and implemented with effect from 1<sup>st</sup> April 2010 this

would raise an estimated additional income of £67,000, requiring the budget to be reduced by £75,000 for 2010/11.

- Investment Income. The amount of investment income receivable is expected to reduce, by £241,510, to £512,200 for 2010/11 before increasing in 2011/12 and 2012/13. The reasons for this are as follows:

Interest rates are expected to continue at the historic low level for 2010/11, with an average rate assumed for new investments of 1.5% (previously estimated at 2.5%). Forecasts of interest rate movements over the following three years, prepared by the Council's Treasury Advisors (Arlingclose), indicate increases with an average of 2.25% for 2011/12 and an average of 3% for 2012/13 onwards.

The capital receipt from the Housing Stock transfer is being utilised to temporarily fund part of the current year's Capital Programme ahead of receiving the capital receipt for the sale of Riverside Pool/St Johns Road site.

The Council is committed to the provision of a new Leisure facility in Witham. For financial planning purposes the financing of this has been included in 2011 and 2012, funded from capital receipts, which reduces the amount available for investment.

The amounts available for investment in each of the years do not allow for the return of a proportion of the £5million investments made with Icelandic Banks. This approach has been adopted as the amounts to be repaid and the timing of the repayments by the administrators for the banks are subject to ongoing legal processes in the Icelandic Courts.

The Housing Revenue Account balance will pass to the General Fund in 2012/13, with the interest earned on the balance increasing the amount of investment income to the General Fund.

No allowance is provided for new demands in 2011/12 to 2013/14.

#### **A.5. Fees and Charges**

The finance proposals for 2010/11 include a provision for an increase in discretionary fees and charges, with the exception of car park charges, of £63,000. The discretionary fees and charges have been reviewed as part of the budget process, in accordance with the Council's Charging Policy and recommendation of the Fees and Charges task and Finish Group that:

An annual process is implemented to set fees & charges that ensures:-

- a) There is an audit trail of how discretionary charges are set;
- b) Consideration is given to the full cost of providing the service;

- c) Consideration is given to likely impact between price variations and usage;
- d) Benchmarking with local government and private sector organizations; and
- e) Charge levels and implementation should be uniform across departments.

A schedule detailing the proposed fees and charges for 2010/11 by service is attached at Appendix D. The schedule was endorsed by the Fees and Charges Task and Finish Group on 30<sup>th</sup> November 2009.

It is proposed that the single concession rate, of 25%, as recommended by the Fees and Charges Task and Finish Group, be introduced from 1<sup>st</sup> April 2010.

The concession to be available either to persons:

- in receipt of Means Tested Benefits;
- 16 or under; or
- in full time education.

or to organisations making block or regular bookings.

The services on which concessions may be allowed are:

- Community halls
- Pest Control
- Sports pitch hire
- Town Hall Centre rooms
- Special collections
- Allotments

A report on proposed car park charges for 2010/11 is provided as a separate item of the agenda of this meeting.

## **A.6. Proposals for changes to service provision, Efficiencies and Budget Reductions**

### **6.1 Proposals for changes to service provision**

At the meeting on 7<sup>th</sup> December 2009 Cabinet considered a schedule of proposed options, 'Service and Budget Proposals 2010/11 and 2011/12', and whilst agreeing that the majority continue to be the subject of consultation, a number of the proposals were recommended for approval to Full Council, these being:

- Review of Management Structure;
- Restructuring the Economic Development function;
- Welfare Rights Service to cease on 31<sup>st</sup> March 2011;

- Parish Support Grant to be frozen at its current level;
- Community Halls – to transfer to other organisations; and
- To cease the Environmental Health ‘Out of Hours’ service during the week and only provide at weekends.

The recommendation was agreed at Full Council on 14<sup>th</sup> December 2009.

Members of the Cabinet have given further consideration to two of the proposed service proposals and have decided to withdraw both of them. These being:

- Landscape Services – Whilst the proposed change to the management arrangements of the service are still proposed, the proposed deletion of one of the Community Landscape Officer posts is to be withdrawn. This will enable the continuation of work on countryside projects in conjunction with parish councils, community groups and voluntary organisations.
- Museum Service and Town Hall staffing – The proposal for changes to staff at these two facilities has been withdrawn in order that consideration can be given to a report into the viability of the Museum Service which is to be undertaken by the Colchester and Ipswich Museum Service in the near future. In addition requests have recently been received from Braintree Museum Trust for the release of the financial provision, of £40,000, set aside in the 2009/10 budget and for financial support in 2010/11; this has been determined to be £50,000.

It is recommended that the Cabinet agrees to the payment of the provision for 2009/10.

It is proposed that a provision of £50,000 for 2010/11, funded as a one-off from the General Fund balance, be agreed. The payment of the provision to be agreed by the appropriate Cabinet Portfolio holder.

An updated version of the Service and Budget Proposals 2010/11 and 2011/12 is provided at Appendix E. With regard to the proposal for the Tourism service a paper outlining further detail is attached as Appendix F. The paper identifies a need to design and develop a new website at an initial cost of £10,250. It is suggested that this can be met from the Local Authorities Business Growth Incentives (LABGI) reserve.

With regard to the proposal to reduce by 50% the existing Community Warden Service, the Council intends to develop the residual Community Warden Service so as to create a substantially improved enforcement role across the District. This initiative will involve co-ordinating enforcement resources across the whole organisation, improving levels of performance and promoting a cleaner and greener environment. Proposals are being developed and will be reported to Members at the next Cabinet meeting.

## **6.2 Efficiencies and Budget Reductions**

In addition to the Service and Budget proposals at 6.1 above, a number of other reductions have been identified and agreed:

- Efficiencies proposed by Management Board (£491,770);
- Savings/Increased Income agreed during 2009/10 Budget Setting process (£323,070); and
- Budget reductions agreed by Management Board (£75,320).

Within the annual budget an allowance is provided for efficiency savings to be achieved during the year. The Efficiency Factor for 2010/11 is £359,820, representing 3% of the Council's salary costs excluding Waste Management and Street Scene services.

### **6.3 Staffing Implications**

The proposals have staffing implications in a number of areas, it is anticipated that the staffing establishment will be reduced over the two years by forty four posts, with fifty members of staff being affected.

Under the Council's Management of Change process those members of staff placed at risk will be subject to the staff stability scheme, which may lead to redeployment in some cases. It is expected however that a number of redundancies may be required. Whilst, at this early stage it is not possible to determine the financial cost, it is recognised that redundancy costs will be incurred by the end of 2010 and therefore it is considered that a total of £1million should be set aside for this purpose. A provision of £500,000 has already been agreed and it is therefore recommended to Council that an additional sum of £500,000 be transferred from the General Fund balance.

## **A.7. Investment Income**

### **7.1 Investments and Interest**

The total estimated amount of Interest on the Council's Investments is £762,000 for 2010/11, of which £512,200 is due to the General Fund, £237,600 due the Housing Revenue Account and £12,200 due to some Section 106 balances. This is based on an average balance of funds invested of £39.8 million and an average rate of interest of 1.91%. The average rate of interest assumed for new investments placed in 2010/11 is 1.5%.

The average balance of funds available for investment takes into account the estimated cash flow implications of the proposed capital resources and programme as presented at Part D below and excludes the £5million of monies invested and at risk with the three Icelandic Banks.

### **7.2 Update on Investments at Risk**

The current position regarding the recovery of the four investments, totalling £5million, placed with three Icelandic Banks is as follows:

**Landsbanki** – two investments totalling £3million – the Winding-Up Board (WUB) of Landsbanki has given priority status to local authorities. On this basis it is

anticipated that the Council would receive 83p in the £, or £2.49million of the principal sum invested plus £270,000 in respect of interest and costs. The decision of the WUB is expected, however, to be challenged by other creditors of the bank which do not have priority status.

**Glitnir** – one investment of £1million – contrary to the decision of the Landsbanki WUB the Glitnir WUB has not given priority status to local authorities. On this basis it is anticipated that the Council would receive 25p in the £, or £250,000 of the principal sum invested plus £19,000 in respect of interest and costs. The local authorities with investments in Glitnir are to challenge the decision of the Glitnir WUB which will in the first instance try to be resolved through a mandatory mediation process but if this is not possible then the issue would be referred to the Icelandic courts. The Local Government Association (LGA), which is co-ordinating the legal representation on behalf of the affected local authorities, is confident that priority status is applicable to Glitnir as is currently the position with Landsbanki. On the basis that the decision of the WUB is overturned then the recovery of the full investment is anticipated.

**Kaupthing Singer and Friedlander** – one investment of £1million – two interim repayments have been received to-date totalling: £300,000 in respect of the principal sum invested and £8,656.02 in respect of interest. The current expectation is for further repayments providing an overall recovery of between 60p and 75p in the £. Assuming a recovery at the mid-point of 67.5p in the £ this would produce a repayment of £675,000 of principal and £19,500 in interest.

As repayments of the investments are still subject to due process under Icelandic Law and/or are subject to the realisation of the Bank's assets it is anticipated that receipt of all of the amounts due to the Council will take place over the next two to three years.

With regard to the accounting requirements for the losses on the investments, the Department for Communities and Local Government (DCLG) had issued a regulation which meant that local authorities did not have to account for the potential loss when setting their 2009/10 budget. The Local Government Minister has informed the LGA that the Government is not prepared to extend the temporary referral regulation for 2010/11 and in addition is neither prepared to allow any of the loss to be charged to the Housing Revenue Account nor give an undertaking that applications to capitalise the loss will be permissible in future years.

In view of the Government's stance on capitalisation of losses after 2009/10 and its requirement that capitalisation requests in the current year should be made on the basis of recovery rates predicted by the Banks at the current time, it was decided to apply for a Capitalisation Direction for 2009/10. An application to capitalise a potential loss of £1.585million was submitted on 15<sup>th</sup> December 2009, a decision is currently awaited. For financial planning purposes it is assumed that the application is granted and that the potential loss is charged to capital and is therefore shown in the Capital Programme in 2009/10.

## A.8. Grants

### 8.1 Financial Grant Settlement

Details of the provisional Financial Grant Settlement were received by email from the DCLG on 26<sup>th</sup> November 2009. The notification provided the figure for the third and final year of the first three-year settlement for local government covering 2009/10 and 2010/11.

The allocation is:

2010/11	£10,231,363 (made up of £1,297,308 of Revenue Support Grant and £8,934,055 of redistributed Business Rates) (increase over the previous year is 2.9%)
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The grant figure allocated is after a significant reduction to pay for the 'floor' system, a minimum level of grant increase for some councils which would otherwise have suffered nil increase or a reduction. The amount of the reduction is:

2010/11	£330,390 (a reduction of 3.13% on the amount of grant calculated for the Council)
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This is the final year of the Government's three-year settlement of financial support to local government. It is assumed that the principle of issuing three-year settlement will continue and that a new settlement will be made for 2011/12 to 2013/14. It is clear that there will not be an increase in the settlement as in previous years. Rather predictions revolve around by how much will the funding be reduced? Three assumptions have been made representing best, central and worst case scenarios:

- Standstill at 2009/10 level (£10.231million);
- 10% reduction against the 2009/10 level over the three-year period (£9.24million by 2013/14); and
- 20% reduction against the 2009/10 level over the three-year period (£8.32million by 2013/14)

At this time the central case has been adopted for the purposes of financial planning.

### 8.2 Specific Grants

**Concessionary Fares** – The funding the Council is to receive for the expansion of the national concessionary fare scheme is:

2010/11	£293,323
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As in the current financial year this grant will be paid to Essex County Council, as part of the agreement with the district/borough councils in the county for ECC taking responsibility for the running of the Essex Concessionary Fares Scheme from 1<sup>st</sup> April 2009.

**Homelessness Grant** – The Council is to receive £50,000 in 2010/11 in accordance with the three-year settlement covering 2008/09 to 2010/11. This is in line with the budget assumption in the MTFS.

**Housing and Planning Delivery Grant (formerly Planning Delivery Grant) -** Notification of the Council's allocation for 2009/10, of £289,746 was received on 1<sup>st</sup> December 2009. A report identifying proposed spend against this allocation is provided as a separate item on this Agenda. For medium term financial planning it is assumed that allocations will be received for 2010/11 to 2013/14 and these will be sufficient to continue to cover the external costs, average of £150,000 per annum, of the Local Development Framework. Should an allocation be in excess of £150,000 this will be the subject of a separate report to Members to agree priorities for funding from this source.

**Housing and Council Tax Benefit Administration Subsidy** – Notification of the allocation has been received from the Department for Work and Pensions (DWP). This provides a main allocation of £994,124 for 2010/11 and is included within the budget proposals. In addition a further one-off allocation of £315,880 is to be received and comes 'as a result of the economic downturn, to ensure that authorities continue to deliver and improve effective support services for the unemployed' Housing Benefit and Council Tax Benefit circular S6/2009. An immediate request is for an allocation of £56,000 of the additional subsidy to extend the contracts of two officers by a further year to assist with the caseload which has continued to increase (7.6% between January and December 2009).

**Local Authority Business Growth Incentive Scheme** – The amount allocated to the Council under this scheme has varied in recent years, from £23,740 in 2006/07 to £176,279 in 2008/09, and most recently £58,976 in 2009/10. Due to this unpredictability no allocation is assumed within the MTFS for 2010/11 and beyond.

**Growth Area Grant** – The Government announced on 4<sup>th</sup> December 2007 that the bid for Growth Area funding submitted jointly between this Council and Chelmsford Borough Council had been successful. The award is £4,354,053 capital and £252,890 revenue for 2008/09 and an allocation of £8,384,232 capital and £373,488 revenue for 2009/10 to 2010/11.

The programme of development is intended to set out the action that is required to deliver the housing required by the East of England Plan and the infrastructure that is required to support it. The total bid was for £29.2million, therefore there will be a need to prioritise the projects that were included in the bid to fit the funding available.

The types of projects included in the bid by this Council were:

- Water cycle study
- Rail improvement study
- Town Centre regeneration
- Green space improvements
- Cycleway network improvements

A Memorandum of Understanding has been agreed between Chelmsford BC and this Council which provides for the allocation of funding and for the overseeing of the delivery of growth. The Memorandum provides the following allocations to this Council:

	2008/09	2009/10	2010/11	Total
Revenue	£101,156	£63,482	£67,239	£231,877
Capital	£1,741,621	£1,463,510	£832,503	£4,037,634

A report seeking to determine the priorities for spend against these allocations is due to be considered by the Local Development Framework Panel on 3<sup>rd</sup> February 2010.

#### **A.9. Collection Fund Surplus/Deficit**

Each year an assumption is made regarding the amount of Council Tax expected to be collected. The variation from this assumption arising from the Council Tax actually collected in the year results in either a surplus or deficit which must be returned to or requested from council taxpayers in the following year.

A surplus of £106,200 is estimated to be achieved in 2009/10. The amount in respect of this Council's proportion of the council tax to be repaid in 2010/11 is £13,910.

#### **A.10. Taxbase**

The Council's Taxbase for 2010/11, calculated as at 30<sup>th</sup> November 2009, is 53,164. This was determined under delegated authority by the Finance Director. The increase over the previous year is 0.52%, marginally lower than the increase for 2009/10 of 0.58%. The increase allowed for 2011/12 onwards has been reduced to 0.5%.

A summary of the Taxbase calculation is provided in the table below:

	Total number of Dwellings	Equivalent No. of dwellings after discounts, exemptions, etc	Multiplier	Relevant amount (equivalent amount x multiplier)	Taxbase @ collection rate of 99.5%
AR	0	10	5/9	5	5
A	5,659	4,492	6/9	2,995	2,980
B	15,795	13,857	7/9	10,777	10,723
C	18,302	16,634	8/9	14,787	14,713
D	8,752	8,099	9/9	8,099	8,059
E	6,745	6,352	11/9	7,764	7,726
F	3,852	3,658	13/9	5,284	5,257
G	2,122	2,015	15/9	3,358	3,341
H	204	181	18/9	362	360
	61,431	55,297		53,431	53,164

### A.11. Council Tax Level

The consequences of the proposals as detailed above are summarised in the General Fund Revenue Account profile provided at Appendix G.

These summaries show:

Year	Council Tax at Band D	Percentage increase	Balance remaining to be found from Savings and/or Council Tax
2009/10	£158.85	2.5%	
2010/11	£162.81	2.5%	Nil
2011/12	£166.86	2.5%	£458,261
2012/13	£171.00	2.5%	(£167,798)
2013/14	£185.32	2.5%	£519,455

The balance remaining could be addressed either by requiring additional savings or increasing the amount raised from the council taxpayer or a combination of both.

### A.12. Sensitivity Analysis

Projecting into the future is subject to a high degree of uncertainty, making sensitivity analysis and careful interpretation of results important.

Areas where our financial planning is most sensitive to change have been subject to this analysis, the outcome from which are provided at Appendix H.

### A.13. Proposed Approach to Balance the General Fund Budget between 2010/11 and 2013/14

Based on the proposals within this report there is a balanced budget for 2010/11.

In addition to identifying the position for 2010/11, the table at A11 above shows that net savings of approximately £810,000 are required between 2011/12 and 2013/14. The key reasons for the saving requirement are:

- No income from the anticipated sharing of office accommodation in Causeway House with Essex County Council until January 2012;
- Anticipated year-on year increase of £170,000 in the pension deficit payment;
- A 3.33% reduction per annum in Government Grant
- Offset partially by an anticipated annual saving, of £300,000, on the running costs of the new Leisure Facility in Witham, as compared against the current running costs of the Bramston sports Centre, from 2012/13.

Given the anticipated budget gap, coupled with the possibilities of the Government Grant reducing and the pension costs increasing by more than that currently provided over this period, it is suggested that an overall strategic approach to efficiency and service delivery options will need to be developed and it is recommended that this be brought forward to a future meeting.

## **Part B - Housing Revenue Account and Rent Levels**

### **B.1. Housing Revenue Account Estimates 2010/11**

The Council retains a Housing Revenue Account until an application for the account to be closed is made to and approved by the Secretary of State. As the Council is entitled to receive Housing Revenue Account Subsidy on debt premia costs until 2011/12, the Housing Revenue Account will remain open until 31<sup>st</sup> March 2012.

The majority of the dwellings were transferred to Greenfields CH (GCH), College House was sold to Family Mosaic in 2009 and three individual dwellings in Braintree were also sold in 2009. This has reduced the number of dwellings retained by the Council, for temporary accommodation for housing the homeless, to Craig House and four properties in Bradford Street, Braintree.

The Housing Revenue Account will therefore be operational during 2010/11:

- Receiving the rental and service charge income
- Repair and maintenance expenses
- Management costs
- Interest on HRA balance
- Proportion of the Pension deficit costs, related to the cost of retired members of staff who worked within the Housing service, and
- Receiving Housing Revenue Account subsidy.

These few transactions provide a small withdrawal from the HRA balance of £91,750. Details of the HRA for 2010/11 are provided at Appendix I.

## **B.2. Housing Rent Levels 2010/11**

The rent levels for the dwellings retained by the Council have previously been increased in accordance with the Council's policy on housing rents and with reference to the parameters set each year by Government. As all of the dwellings are currently at target rent, the applicable parameter, set by the Government, provides a rent increase of the Retail Prices Index + ½ Percent, this equates to a reduction of 0.9% (as the RPI was -1.4%).

As the Council has a low number of dwellings, the Government now sets the Council's Housing Subsidy return to zero for income and expenditure directly related to dwellings.

In view of the tenancies for these properties being short-term in nature and that the Council's Housing Subsidy is not affected by the level of rents charged it is recommended that rents be held at their current levels for 2010/11.

## **B.3. Service Charges**

Proposed service charges for 2010/11 are detailed in the schedule at Appendix J.

## **Part C Use of Balances and Earmarked Reserves**

### **C.1. General Balances**

Unallocated balances as at 31<sup>st</sup> March 2009 were:

General Fund	£2.834million
Housing Revenue Account	£5.147million

The agreed budgets for 2009/10 anticipated a withdrawal of £278,000 from the General Fund balance and an anticipated addition of £114,820 to the Housing Revenue Account balance. The Finance Report for 2009/10 indicated that balances would also be required to fund the costs of redundancies which would result from the reductions in staffing to achieve the planned savings.

### **General Fund Balance**

	£'000
Opening Balance as at 1st April 2009	2,834
Withdrawal for 2009/10 budget	(278)
Redundancy costs in 2009/10	(326)

Projected requirement for 2009/10	(248)
Rivenhall Enquiry costs	(79)
Transfer to Reserve for redundancies in 2010/11 and 2011/12	<u>(1,000)</u>
Sub total	903
Transfers from Earmarked Reserves (see below)	654
Balance as at 31st March 2010	1,557

### **Housing Revenue Account Balance**

	£'000
Opening Balance as at 1st April 2009	5,147
Redundancy costs in 2009/10	(72)
Projected requirement for 2009/10	(105)
Balance as at 31 <sup>st</sup> March 2010	4,970

The proposed budgets for 2010/11 for the General fund and the Housing Revenue Account provide for:

General Fund – no movement on the balance

Housing Revenue Account – withdrawal from balance of £91,750.

### **C.2. Earmarked Reserves**

Over the years the Council has set aside monies in reserve accounts to be used either to meet specific requirements/purposes in the future or to make provision for issues that are likely to occur but the timing is not predictable. The total amount of money in earmarked reserves as at 31<sup>st</sup> March 2009 was £4.015 million.

A schedule showing the various accounts, including estimated use of the monies, is provided at Appendix K.

As a consequence of the reduction in the General Fund balance to £903,000 a review of the earmarked reserves has been undertaken to determine whether the funds are still required for their original purpose. The outcome of the review is a proposal to return £654,000 back to the general revenue balance from five of the reserves. Details of the reserves and the justification for the action are also provided in Appendix K.

## Part D Capital Programme

### D.1. Summary

The anticipated capital resources available for the capital programme, over the next four years are as follows:

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Anticipated capital resources (excl. LSVT capital receipt and Growth Area Funding)	4,730	2,335	3,650	2,335
Less:				
Schemes/commitments already approved	3,884	2,700	487	487
Provision for works to council assets		500	500	500
Capital Salaries	391	399	407	415
<b>Net Balance of Capital Resources available</b>	<b>455</b>	<b>(1,264)</b>	<b>2,256</b>	<b>933</b>

The estimated amount of the Large Scale Voluntary Transfer (LSVT) capital receipt as at 1<sup>st</sup> April 2010 is 12.749million.

### D.2. Capital Resources

The anticipated resources include:

- Share of Right to Buy sales income with Greenfields CH. The Council has an agreement to share the proceeds from the sale of the former council houses with GCH. The estimated resources are based on 4 sales per annum.
- Capital receipts from the sales of Riverside pool and St. Johns Avenue site, Braintree and Millenium Tower and a proportion of the proceeds from the sale of land assembled east of High Street, Halstead.
- Share of VAT Shelter arrangement with Greenfields CH. The Council has an agreement with GCH to share the VAT that it will recover on particular costs on improvement works to the housing stock. The estimated total amount to be shared is £27million over a ten-year period. An estimate of the amount

receivable is provided but the amount received will be dependent on the actual spend by GCH in each year.

- Capital Grant from government. Allocation to provide funding toward the cost of disabled facilities grants awarded by the Council.
- Growth Area Fund. The Council's proportion of capital funding awarded from the Growth Area Fund by Central Government, for the joint submission by Chelmsford BC and this Council, is £4.037 million over the three-year period 2008/09 to 2010/11.

### **D.3. Proposed Capital programme**

Details of the proposed schemes for 2010/11, totalling £1,392,680, were included in the report to Cabinet on 7<sup>th</sup> December 2009.

A report on a feasibility study for a new community facility in Halstead is provided as a separate item on this agenda. The report contains a recommendation that a provision of £800,000 be allocated from the capital programme.

A schedule detailing the recommended capital schemes for 2010/11 is provided at Appendix L.

### **D.4. Funding Summary**

A schedule detailing the capital resources and schemes already approved and proposed is provided at Appendix M.

The summary shows that the proposed capital schemes for 2010/11 and the provision for a community facility in Halstead shown in 2011/12 can be funded from the resources available including drawing down on the LSVT receipt.

The loss of interest earned by utilising the LSVT capital receipt has been taken into account in the General Fund Revenue Profile 2010/11 to 2013/14.

## **Part E- Prudential Indicators and Treasury Management Strategy 2010/11**

### **E.1. Treasury Management and Prudential Indicators**

Appendix N sets out the report on Prudential Indicators that are required to be approved as part of the Budget and Council Tax setting, along with the Treasury Management Strategy.

The indicators and strategy have been drawn up based on the revenue and capital plans set out elsewhere in this report for 2010/11 and over the medium term. The

The Prudential Indicators and Treasury Strategy are based on the adoption of the new Code of practice on Treasury Management issued recently by the Chartered

Institute of Public Finance and Accountancy (CIPFA) and draft guidance from the Department for Communities and Local Government on investments.

In meeting the CIPFA guidance, a first step has been taken in that the Treasury Strategy, Prudential Indicators and Minimum Revenue Provision Policy have been considered by the Audit Committee at its meeting on 14<sup>th</sup> January 2010. Accordingly the Cabinet will receive a recommendation from the Audit Committee.

It is recommended that the Council adopts the new Code of practice on Treasury Management in the Public Services issued by the CIPFA and that the consequential changes required to the Council's Financial Regulations be included as part of the update of the Constitution which is to be reported to Cabinet in March 2010.

## **E.2. Minimum Revenue Provision**

Local authorities have a duty to make prudent provision for the repayment of debt, and in doing so have regard to statutory Guidance issued by Government covering the Minimum Revenue Provision (MRP). There are different methodologies for calculating MRP depending upon circumstances regarding the related capital investment and all local authorities are required to approve an MRP Statement of their chosen policy.

Appendix N sets out the range of options for applying MRP and proposes that methodology 2, i.e. the Capital Financing Requirement method is adopted as the Council's policy which at present means there is no statutory requirement to set aside revenue funds for repayment of debt.

## **Part F - Virement Levels and Policy Framework**

The Council's Constitution requires that Members agree annually the Policy Framework and virement levels used for financial control. The current Policy Framework and virement levels will be reviewed and considered by Cabinet in March 2010 as part of the review and update of the Constitution.

## **Part G - Robustness of the Estimates and the adequacy of the proposed Financial Reserves**

The Local Government Act 2003 (Part 2, sections 25 and 26) require the Chief Financial Officer (as defined under Section 151 of the Local Government Act 1972) to report on the robustness of the estimates and the adequacy of the proposed financial reserves. Members are required to have regard to the report when making decisions on the budget. The report is detailed at Appendix O.