Part I
F11/09
Agenda Item No 9

Eden District Council

Council

12 February 2009

Approval of Revenue and Capital Budgets 2009-2010

Report of the Director of Finance

1 Introduction

1.1 This report sets out the revised revenue budget for 2008-9, the proposed revenue budget for 2009-10 (the 'Budget Requirement') and the proposed capital budget (2008-13 Capital Programme) for the approval of Council. These were recommended to Council by the Executive at its meeting on 29 January 2009. In addition, the Council must consider two other points. Firstly, the Council has to consider the formal advice of its Chief Financial Officer on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. Secondly, the Council also has to determine what levels of borrowing, if any, it wishes to make under the Prudential Code that governs local authority borrowing.

2 Background

2.1 Revenue Budget 2009-10

2.1.1 The Council is required, by Section 32 of the Local Government Finance Act 1992, to calculate its Budget Requirement for each financial year. The Council is doing this as part of the consideration of this report. In effect, this is when the Council sets its own tax.

2.1.2 At the Council meeting on 26 February 2009, the Council's own Council Tax (including parish precepts) is then added to the Council Tax set by the County Council and the Police Authority to produce the total amount that Eden's residents will pay for Council Tax in 2009-10.

2.1.3 For this Council, the Budget Requirement is the sum of:

(a) the net expenditure on the General Fund revenue account which the Council will incur in performing its functions during the coming year;

(b) any amounts which the Council estimates that it would be appropriate to transfer to, or from, balances during the year; and

(c) the amount of any precept issued to it for the year by a local precepting authority (parish council or parish meeting).

2.1.4 Once the Budget Requirement has been determined, the amount of Central Government Support and any surplus on the Collection Fund are deducted to produce the demand on the Council Tax payers.

2.2 Capital Budget

Each year the Council sets a five year Capital Programme. This needs to be set at the same time as the revenue budget, as there is a linkage between the two: how the Capital Programme is financed impacts directly on the revenue budget.

2.3 Chief Financial Officer (CFO) Opinion on the Estimate Process and Reserve Levels

Section 25 of the Local Government Act 2003 requires the CFO to report to his/her council when it is making the statutory calculations required to determine its Council Tax or precept. Government guidance states, '*The authority is required to take the report into account when making the calculations. The report must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. What is required is the professional advice of the CFO on these two questions. Both are connected with matters of risk and uncertainty. They are interdependent and need to be considered together*'.

2.4 Determination of Borrowing

The Prudential Accounting regime states that, each year, a council must determine what is the maximum level of borrowing it will incur. This decision must take account of the prescribed indicators of affordability.

3 Policy Framework

3.1 The Council's budget and the setting process is a key element within the Council's Budgetary and Policy Framework.

4 Section 25 Report of the Chief Finance Officer

4.1 Robustness of the Estimates

The Director of Finance is the Council's CFO. In my opinion, the estimates are robust.

Whilst relevant budget holders are responsible for individual budgets and their preparation, all estimates are scrutinised by Financial Services staff and Management Team prior to submission to Members. The Council has no history of budgetary problems.

The Council's revenue and capital budgets are 'joined up' both for next year's budget and for the longer term. This means that the full cost of the proposed Capital Programme is reflected in the revenue estimates. Both revenue and capital budgets include the funding needs of the Council's asset management plan.

Budgeting is an inherently risky process. However, this Council's budgets do not cover some of the areas that have traditionally caused problems for local authorities, such as social services and direct labour organisations. Areas of risk do remain, such as benefits and concessionary travel.

4.2 The risk to a number of budgets has changed markedly with the recession. In the budget report to the Executive, it was noted that, due to the fast changing environment, a number of key high risk estimates would be revisited early in the New Year. This review has been undertaken with the following conclusions which are incorporated into the Executive's budget proposal:

1. **level of interest receipts** – the current estimate for interest receipts is £355,000. This is a dramatic reduction on the previous year's estimate due to the collapse of Base Rate. The 2009-10 estimate is based on a average return of 2% during 2009-10, being a return of 0.5 percentage point above Base Rate of 1.5%. It is now clear that Base Rate will average below 1.5%. The budget has been reduced to £326,000

2. **income from fees and charges** – the most significant budgets at risk from the recession are development control, building control and land charges. The draft 2009-10 estimate for these incomes was £350,000, £271,000 and £70,000 respectively. The building control estimate has been reduced to £250,000 and this has been reflected in the proposed budget. This reflects the fact that applications are falling off noticeably. The land charges estimate has been reduced to £48,000 as searches continue to fall

   Income levels for these three services will need to be closely monitored throughout the year and appropriate adjustments made to the resource inputs into them. A final review of the building control and development control income estimates will be undertaken based on applications up to the end of January. This will be reported verbally to Council. If the estimates are reduced, a revised budget recommendation will be circulated

3. **provision for inflation** – the estimates include a range of provisions for inflation. The most significant ones have been reviewed in the light of the forecast sharp fall-off in inflation during 2009-10. The conclusions are as follows:

   - pay award - the estimates include provision for the national pay award from April 2009. The provision in the draft estimates was 2.5%, which was in line with the Government's broad pay norm. This is still felt to be reasonable, as the pay award is seen (certainly by the staff side) as compensating for inflation in the previous twelve months: it is very unlikely that actual inflation over 2008/9 will be below 2.5%;

   - service contracts - after staff pay the biggest cost for the Council is that of the blue collar contracts for refuse collection, street sweeping, grounds maintenance etc.. Each contract has a detailed index by which the contract is annually adjusted to reflect cost increases. The index is applied each April and reflects price increases over the twelve months to the previous December. The current provision for the uplift in the indices broadly is in line with what it is likely to be.

4.3 **Adequacy of Reserves**

The Council's Reserves, as reported to the Executive, are estimated to be about £5 million at 1 April 2009. This level of reserves is clearly adequate in 2009-10, given budgeted net expenditure of £8.0 million, with a projected deficit of £0.5 million and the level of risk within the budget.

Viewed in isolation, the Council's reserves may appear high. However, the appropriateness of the level of reserves can only be judged in the context of the Council's longer term plans. The Council's medium term financial projection is set out at Appendix A. This shows that the Council has a significant revenue deficit in the short term which should largely be corrected if the expected income from the New Squares development arises. However, this is by no means certain. In recommending a budget, the Executive made it clear that the Council's financial position must be reviewed early in the new financial year. If there is not a reasonable certainty that the estimated income from Penrith New Squares will arise, the Council must start to plan for a major re-shaping of its finances. Strong reserves will be a key component of any such plan.

When it can be demonstrated that the Council's finances are balanced on an ongoing basis, consideration can be given to reducing balances to a more 'normal' level. For a council of Eden's size, a 'normal' level of balances is probably about £1.5 million. However, at the moment, it is my opinion that the Council's reserves are at an appropriate level and form a crucial element in the Council's longer term financial strategy.

The approach to the current level of reserves, as set out above, fits within the current 'Policy on General Fund Reserves', as agreed by the Resources Portfolio Holder on 16 September 2008.

5 Determination of Borrowing

5.1 In considering the Capital Programme, the Executive assumed that no borrowing would take place, except for the extension to Bluebell Lane car park agreed by Council on 27 November 2008. This was agreed on the basis that the extra income generated by the scheme would cover all the associated costs, including the costs of borrowing. Other than this, the Capital Programme 2008-13 is largely funded from capital receipts, with some grant funding.

5.2 The Council must formally consider the prescribed indicators under the Code and these are set out in Appendix B. However, given that the Council is estimated to have an ongoing revenue deficit for the foreseeable future, and that the Council has a funded Capital Programme, it is proposed that the Council undertakes no borrowing in 2009-10 except for:

- the extension to Bluebell Lane car park already agreed (see above);
- any scheme where all revenue costs will be covered by additional income - this would require approval by full Council;
- any scheme that will generate receipts to repay the loan within the medium term - this would require approval by full Council.

6 Revenue Budget 2008-9 to 2009-10

6.1 On 29 January 2009, the Executive considered report F10/09. In addition, two reports with budgetary implications are being considered by the Executive on 10 February 2009. If these are agreed, the budget recommendation is:

(a) **2008-9**

	Net Cost of Services	Deficit/ Use of Balances
	£	£
Executive recommendation 29 January 2009	8,370,333	540,030
Executive on 10 February 2009		
Dog Control Costs	+4,280	+4,280
Wind Farm Enquiries	+11,000	+11,000
	8,385,613	555,310

(b) **2009-10**

- the Council's demand on Council Tax payers in 2009-10 be set so that Council Tax increases by 4.99%. This would increase the current Band D of £161.59 to £169.65.
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	Net Cost of Services	Deficit Use of Balances
	£	£
Executive recommendation 29 January 2009	8,505,790	460,640
Rounding Adjustment	-52	
Additional cost to be considered by Executive on 10 February 2009		
Dog Control Costs	+3,900	+3,900
Wind Farm Enquiries	+26,000	+26,000
	8,535,638	490,540

6.2 The provisional and final settlements (ie how much cash support Central Government gives to the Council) are the same. Therefore, no adjustment is required.

6.3 The Council's Budget Requirement (ex Parish Precepts) for 2009-10 is therefore made up as follows:

	£
Council's net cost of services	8,535,638
Less: Contribution from balances	490,540
Budget requirement (ex Parish Precepts)	8,045,098

6.4 The Budget Requirement is funded as follows:

	£
Demand on Council Tax Payers	3,473,665
Surplus on Collection Fund	0
Grant from Central Government	4,571,433
	8,045,098

6.5 The Council's total Budget Requirement is made up as follows:

	£
Budget Requirement for own services (6.4 above)	8,045,098
Parish Precepts (Appendix C)	388,188
Total Budget Requirement (inc Parish Precepts)	8,433,286

7 Capital Budget 2008-13

7.1 On 29 January 2009, the Executive considered report F16/09 on the proposed Capital Budget 2008-13. The Executive recommended:

	£'000	£'000	
Total Expenditure		6,140	See paragraph 7.2
Funded By:			
Capital Receipts	2,682		
Borrowing	550		
Grants	2,314		
Revenue	51		
		5,597	
Over Commitment		543	See paragraph 7.3

7.2 The summary Programme is set out at Appendix D.

7.3 It is anticipated that future capital receipts of £965,000 will arise. Whilst such receipts aren't budgeted for until they have been realised, they should more than cover the current level of over-commitment.

8 Council Tax 2010-11 and Beyond

8.1 The Council's Medium Term Financial Plan, set out at Appendix A, includes projected Council Tax levels up to 2012-13. This assumes that Council Tax will continue to increase at 4.99% per annum for the foreseeable future. This depends on future Government views on the capping level. It also depends on Member support for such increases. At present, this level of Council Tax increase is an intrinsic part of the Balancing the Budget action plan to deliver a balanced budget.

8.2 One of the benefits of achieving a balanced budget is that it will take some of the upwards pressure off Council Tax levels. At this point, Members will be able to consider lower levels of increase without prejudicing sound financial management.

9 The Legal Implications

9.1 This report complies with the relevant legislation by:

- determining its Budget Requirement for 2009-10: Local Government Finance Act 1992;
- setting out the advice of the Council's Chief Financial Officer on the robustness of the estimates and adequacy of reserves: Local Government Act 2003;
- determining borrowing in 2009-10 under the Prudential Code: Local Government Act 2003.

10 Financial Implications

10.1 These are set out in sections 4 to 7 above.

11 Risk Management Implications

11.1 The main risks relate to the robustness of the estimates and the level of projected deficit. These are referred to in paragraphs 4.1 and 4.2 respectively.

12 Recommendations

It is recommended that:

(a) the Council's revenue budget in 2008-9 be a Net Cost of Services of £8,385,613

(b) The Council's Budget Requirement (inclusive of Parish Precepts) be £8,433,286 in 2009-10;

(c) The Council's capital budget 2008-13 be £6,140,000; and

(d) the Council does not borrow in 2009-10 beyond that already authorised, unless specific projects are approved by Council where:

- all revenue costs will be covered by additional income;
- capital receipts to repay the loan will be generated within the medium term.

D J Rawsthorn
Director of Finance

Background Papers:

Resources Plan to Council, 27 November 2008 - report F7/08

Draft Revenue Budget Proposal: Executive, 9 December 2008 - report F103/08: this was the budget consulted upon

Draft Capital Budget Proposal: Executive, 9 December 2008 - report F101/08: this was the budget consulted upon

Proposed Revenue Budget 2009-10: Executive, 29 January 2009 - report F10/09: this includes details of the proposed growth items.

Proposed Capital Budget 2008-13: Executive, 29 January 2009 - report F16/09

Budget section of website: this includes the detailed estimates as considered by the portfolio holders http://www.eden.gov.uk/your-council/council-finances/consultation-on-the-2009-2010-budget/

E-mail from the DCLG dated 21 January 2009, re Final Settlement

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Governance Checks

Seen by Chief Finance Officer	✓
Seen by Monitoring Officer	✓

Appendix A

Medium Term Financial Plan 2009-13

	2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000	Assumptions
Recurring					
Base Budget	8,983	9,280	9,580	9,888	1
Proposed Growth: Recurring	87	161	165	170	2
National Insurance	0	0	26	27	3
Extra Pension Costs	0	51	53	54	4
New Squares Rental	0	0	-228	-456	5
BTB Savings	0	-52	-54	-55	6
Interest Receivable	-325	-195	-240	-276	7
Second Homes' Grant	-180	-189	-198	-208	8
Concessionary Travel Grant	-354	-363	-372	-381	
Local Elections	0	0	97	0	9
Statutory Consultation	0	10	0	10	
	8,211	8,703	8,829	8,773	
Non-Recurring					
Tendering of Contracted Services	0	0	125	125	10
Non-Recurring Costs	30	5	0	0	
Proposed Growth: Non-Recurring	148	83	0	0	2
Frenchfield Stadium	51	0	0	0	11
Local Development Framework	26	72	0	0	12
Wind Farm Enquiries	26	0	0	0	
Temporary Income Loss	43	0	0	0	13
Net Expenditure	8,535	8,863	8,954	8,898	
Budget Requirement	8,045	8,294	8,475	8,666	14
Annual Deficit	490	569	479	232	

Assumptions

1. Inflation runs at an average 3.25%. This is based on a 2.5% increase for salaries, a 6% increase for contracted services and a 2.0% for all other costs and income.

2. Proposed growth per Executive.

3. The Chancellor's pre-Budget statement increased employers' National Insurance from 1 April 2011 by 0.5 of a percentage point.

4. Following the triennial pension revaluation, employers' pension contributions will increase by 1 percentage point per annum cumulatively over 2008-11. This reflects the final increase for 2010-11. The 2009-10 increase is in the base budget.

5. The projected income (£415,000 per annum, plus inflation since July 2005) relates to the minimum ground rent included in the developer's proposal that was agreed at the Resources Committee meeting on 20 March 2003. Clearly, this income cannot be guaranteed until the development is complete. The income is assumed to arise from 1 October 2011 onwards.

6. This is the total target for Budget Efficiency reviews under Balancing the Budget for 2009-11, less those built into the detailed estimates for 2009-10.

7. Investment returns have been based on assumed base rate plus 0.5 of a percentage point as follows: 2010-11: 1.5%, 2011-12: 2.0% and 2012-13: 2.5%. These have been reduced by half a percentage point since the last version of this plan – as presented to the Executive on 9 December 2008.

   Interest receipts in 2009-10 are based on actual deposits in January 2009 and assumed base rates and cash levels.

8. This is the grant from the County, assuming that negotiations are successfully concluded. In addition, there is £80,000 within the Council Tax income which is the Council's 'as of right' share.

9. This represents the extra direct cost of an all-out Eden only election.

10. £300,000 is the estimated one-off costs of tendering the blue collar and leisure management contracts, with new contracts to start in 2012. £50,000 was budgeted for in 2008-9.

11. Revenue contribution agreed by Council on 18 December 2008. This is the anticipated cost, net of grant from the North West Development Agency of completing the stadium and enabling the relocation of Penrith Football Club from the Southend Road site.

12. Additional cost agreed by the Executive on 20 January 2009. It is likely that this cost will ultimately be ongoing.

13. The draft 2009-10 budgets for Building Control and Land Charges income have been reduced, due to the impact of the recession. At the moment, it is assumed that this income loss will be reversed from 2010-11 onwards.

14. The Budget Requirement has been set so as to produce a 4.99% annual Council Tax increase. This accords with the Government's expectation of increases below an average of 5%. However, there may come a point at which above inflation increases are no longer politically acceptable.

See overleaf for the impact of the above on Council Tax

Impact of Estimated Revenue Outturn on Council Tax

	2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000	Notes
Impact on Council Tax					
Budget Requirement	8,045	8,294	8,475	8,666	See above
Less: Government Cash Support	4,571	4,646	4,646	4,646	1
Collection Fund surplus	0	0	0	0	
Borne by Council Tax	3,474	3,647	3,829	4,020	
Tax Base (properties)	20475	20475	20475	20475	
Band D Council Tax	169.65	178.12	187.00	196.33	
% Increase	4.99	4.99	4.99	4.99	

Notes

1. For 2009-10 and 2010-11, grant is shown at the indicative figure in CSR07: the former has now been confirmed as the provisional figure. Thereafter, it is assumed that, over the three year period of the next Comprehensive Spending Review, Government cash support will be frozen. This is in the light of the Government's clear message that once the recession ends, public spending will need to be curtailed.

Appendix B

Prudential Indicators with Effect from 1 April 2009

Capital Expenditure	**2008-9 £'000**	**2009-10 £'000**	**2010-11 £'000**	**2011-12 £'000**	**2012-13 £'000**
Total General Fund	2,442	1,756	702	616	492
Financing Costs to Net Revenue Stream					
Total General Fund	-7.93%	-4.17%	-2.94%	-3.37%	-3.85%
Capital Financing Requirement					
Total General Fund	335	502	482	462	444
Authorised Limit for External Debt and Operational Boundary					
Authorised Limit	22,047	22,405	23,085	23,710	24,359
Operational Boundary	32,146	28,721	29,058	29,231	29,456

Treasury Management

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. Report reference F43/03, Special Council, 29 May 2003, Minute Reference CL/16.

Note

The above indicators are designed to demonstrate a link between the Council's Capital Expenditure and the affordability of borrowing to finance this. As revenue projections show an ongoing deficit, borrowing is effectively precluded unless certain criteria can be met. The Council resolved on 27 November 2008, to recommence borrowing. The project being financed by the borrowing is expected to accrue more income than the expenditure required to fund the debt repayments.

Appendix C

Parish Precept Amounts 2009 - 2010			
Parish	**Amount £**	**Parish**	**Amount £**
Ainstable	9,775	Mallerstang	500
Alston Moor	20,800	Martindale	0
Appleby-in-Westmorland	56,700	Matterdale	2,000
Asby	3,000	Milburn	2,000
Askham	5,000	Morland	5,500
Bampton	3,000	Mungrisdale	2,750
Bandleyside	2,500	Murton	2,500
Barton	1,800	Musgrave	1,000
Bolton	4,750	Nateby	850
Brough	11,459	Newbiggin	200
Brough Sowerby	990	Newby	400
Brougham	400	Orton	7,900
Castle Sowerby	1,500	Ousby	8,000
Catterlen	3,500	Patterdale	4,600
Cliburn	1,500	Ravenstonedale	12,300
Clifton	2,000	Shap	16,525
Crackenthorpe	0	Skelton	10,000
Crosby Garrett	1,800	Sleagill	200
Crosby Ravensworth	3,500	Sockbridge and Tirril	3,300
Culgaith	8,000	Soulby	1,500
Dacre	6,500	Stainmore	0
Dufton	3,300	Great Strickland	3,200
Glassonby	1,500	Little Strickland	500
Great Salkeld	6,000	Tebay	10,000
Greystoke	5,000	Temple Sowerby	6,360
Hartley	750	Threlkeld	4,222
Helbeck	0	Thrimby	0
Hesket	9,000	Waitby	87
Hunsonby	4,600	Warcop and Bleatarn	4,300
Hutton	1,500	Wharton	150
Kaber	1,100	Winton	1,970
Kings Meaburn	0	Yanwath and Eamont Bridge	2,750
Kirkby Stephen	49,100	Penrith	0
Kirkby Thore	9,300	**TOTAL**	**388,188**
Kirkoswald	9,500		
Langwathby	10,000		
Lazonby	9,000		
Long Marton	2,500		
Lowther	2,000		

Appendix D

Summary Capital Budget 2008-13

Portfolio	Total Cost 2008-13 £'000	2008-9 £'000	2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000
Environment and Sustainability	811	599	212	0	0	0
Economy	427	418	9	0	0	0
Housing	2,765	517	647	558	558	485
Community	668	442	144	82	0	0
Resources	1,469	528	809	62	63	7
Total Capital Programme	**6,140**	**2,504**	**1,821**	**702**	**621**	**492**