

REPORT TO POLICY & FINANCE COMMITTEE – 21 October 2009**FINANCIAL STRATEGY 2010/11 TO 2013/14****1 INTRODUCTION**

- 1.1 Over the last few years the Council has adopted the use of expenditure plans, for both revenue and capital expenditure, in its budget making process.
- 1.2 With the Town Plan having been completed and the compilation of a new 'wish list' of expenditure items/projects being drawn up, this Committee should consider what guidelines should be recommended to Council in formulating a financial strategy over the medium term period i.e. four years.

2 EXPENDITURE AND COUNCIL TAX LEVELS

- 2.1 The Council's net budgets and council tax levels for the last three years have been as follows:-

	2007/08 £	2008/09 £	2009/10 £
Net Budget	320,790	350,080	376,930
Council Tax Level	59.32	64.66	69.19

- 2.2 The net budgets for each of these years has included a transfer from the general reserve.
- 2.3 Any new capital expenditure financed directly from the revenue budget will impact on the Council Tax level.
- 2.4 Contributions to or from the general reserve will continue to have a direct effect on the Council Tax.

3 CAPITAL EXPENDITURE AND FINANCING

- 3.1 Capital expenditure may be financed from a variety of sources. These include:-
- (1) Capital Receipts: from the sale or disposal of existing capital assets.
 - (2) Developers Contributions: collected by New Forest District Council and paid over to this Council for specifically identified capital expenditure schemes.
 - (3) Provisions: created as a charge to the Revenue Account in the first instance, but then used to finance specific capital expenditure such as plant and machinery.
 - (4) Grant: some capital expenditure that meets laid down criteria can be financed from grants. The grants awarded shall not usually exceed 50% of the expenditure, resulting in the Council having to meet the shortfall from other sources of finance.
 - (5) Loan: the Council can apply to the appropriate Secretary of State for a borrowing approval. The maximum loan that the Council would be authorised to borrow would normally be limited to £500,000, in any single year for any single purpose. The repayment of the loan, both interest and principal, would become a revenue account charge each year until the loan is repaid.
 - (6) Revenue: a charge to the revenue account in the year the expenditure is incurred.

3.2 All capital expenditure schemes must be financially appraised to ensure the full revenue account budget implications are known before any commitment to a scheme is made.

4 GENERAL RESERVE

4.1 The Council currently operates with a General Fund balance of between £150,000 to £200,000. The estimated balance at 31 March 2010 is about £117,000, some £33,000 under the prudential lower financial limit. As the last two budgets have included using about £60,000 from the general reserve, further use of this reserve would compromise the Council's current limit. Consideration should be given to restoring the level to at least £150,000.

5 INTEREST EARNINGS

5.1 The level of interest earnings has fallen from £19,000 in 2008/09 to a revised estimate of £3,500 for 2009/10. The current prediction is for interest rates to rise to 2% over the next two years and possibly remain at this level for a further two years. Therefore, the Council will not be able to rely on this source of income when determining its budgets.

FORECAST BUDGET LEVELS 2010/11 TO 2013/14

5.2 The budget for 2009/10, before transferring £15,380 from the General Reserve, was £392,310. The table below shows the actual budget and Council Tax for 2009/10 and the forecast budget levels and Council Tax levels from 2010/11 to 2013/14, after allowing for inflation (2%), after deducting the non-recurring expenditure items included in the base budget for 2009/10 (£23,630), no transfers to or from the General Reserve, and no new bids, i.e. the Council's base budget:-

	2009/10 Actual	2010/11 Forecast	2011/12 Forecast	2012/13 Forecast	2013/14 Forecast
Budget Level	£376,930	£385,000	£385,500	£393,500	£401,500
Council Tax	£69.19	£70.38	£70.48	£71.94	£73.40

5.3 Due to the very small amount of permitted domestic development in Ringwood, the base on which the Council Tax is calculated remains almost static. Unlike other large town councils that would normally have some domestic growth this Council must absorb inflationary and any growth increases in its static base. The Council Tax level would increase from 2009/10 by 1% for approximately every £3,800 increase in the net revenue budget. Therefore, a net budget of £397,000 would result in a Council Tax of about £72.65, an increase of 5%.

EXPENDITURE PLANS 2010/11 TO 2013/14

5.4 All Members have already been requested to submit new budget expenditure and income generation items for 2010/11 to 2013/14.

5.5 This Committee now needs to give guidelines on the indicative revenue budget level for 2010/11. To achieve this budget level the guidelines should include the following, which Committees should follow when considering their budgets for 2010/11:-

- (1) Identify any essential and mandatory revenue expenditure/income bids.
- (2) Identify other revenue expenditure/income bids and rank them in order, with no. 1 being the highest ranking.

- (3) All capital expenditure bids must be assessed, and show how each one will be financed. Those that will be financed fully or partly from revenue must be prioritised with the other revenue expenditure bids.
- (4) Identify savings in existing revenue budgets and indicate the effect on the service.

FINANCIAL IMPLICATIONS

5.6 By providing indicative revenue expenditure levels over the medium term period, the Council will provide more stability to its financial planning. In the event that significant changes are made to the services provided by the Council, the financial effects on the budget will have to be assessed at the appropriate time.

5.7 By ranking each new revenue expenditure bid, and the revenue effect of each capital expenditure bid, this Committee will be able to decide which bids it will recommend to Council to include in the budget for 2010/11, and which ones to consider for future budgets.

RECOMMENDATIONS

It is **RECOMMENDED** that this Committee:-

5.8 determines the indicative revenue budget level for 2010/11,

9.2 requests each Committee to follow the guidelines (1) to (4) in paragraph 7.2 above when preparing their budgets for 2010/11.

For further information please contact:

Martin Townsend, Finance Manager
Tel: 01425 473883
Email: martin.townsend@ringwood.gov.uk

Terry Simpson, Town Clerk
Tel: 01425 473883
Email: terry.simpson@ringwood.gov.uk