

WARWICK DISTRICT COUNCIL

TO: RESOURCES SUB-COMMITTEE - 7th FEBRUARY 2000

SUBJECT: REVISED ESTIMATES 1999/2000

FROM: FINANCE

1. PURPOSE OF REPORT

1.1 To inform the Sub-Committee of the situation with respect to revised estimates for 1999/2000, to provide information on other items which affect the General Fund and to make recommendations on the level of General Fund balances.

2. COMPARISON OF ORIGINAL AND REVISED ESTIMATES

2.1 Strategy Committee approved the Revenue Estimates of £11,194,000 for 1999/2000 on 16th February 1999. These estimates comprised three main elements:

(a) the Service Committee Budgets as presented to the Service Committees;

(b) general provisions in respect of the Revenue costs of that year's Capital Programme, adjustments required from matters arising after the Committees have approved their budgets and an allowance for inflation for the year; and

(c) general financing arrangements.

2.2 The Service Committees have now considered their revised budget requirements in respect of 1999/2000. Those revised estimates show the latest estimated requirements incorporating changes in service provision, actual inflation to November 1999 and the revised notional capital charges. Adding the revised general financing adjustments referred to in 2.1 (c) above allows the overall revised estimate position to be calculated.

2.3 The final revised estimate total must equal the original estimate figure of £11,194,000 as this is the amount that will be received from Council Tax, Revenue Support Grant and contribution from the National Non-Domestic Rate Pool.

2.4 Accordingly, any surplus could be used to finance additional expenditure or be transferred to reserves and, similarly, any deficit would need to be financed from a

reduction in expenditure or a transfer from reserves. Appendix 'A' provides a summarised analysis comparing the 1999/2000 revised estimates against the original estimates.

3. VARIATIONS BETWEEN ORIGINAL AND REVISED ESTIMATES FOR GENERAL FUND SERVICES 1999/2000

3.1 In Appendix 'A' the "Net Cost of General Fund Services" has been highlighted. Effectively, this is the position on the General Fund after the Service Committees have set their revised estimates and adjustments for any subsequent known changes have been taken into account (e.g. additional items financed from reserves, effects of the revised capital programme, etc.). The variation of £1,400,300 between the original estimate of £15,312,500 and the revised estimate of £16,712,800 can be summarised over the following main areas:

	<u>£</u>
Use of Earmarked Reserves	418,800
Net change in Fees and Charges Income	4,900 cr
Reduced Expenditure / Increased Income	160,400 cr
Increased Expenditure / Reduced Income	326,900
Supplementary Estimates	75,000
Changes in Capital Financing Charges	744,900
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Total Variation	1,400,300
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Appendix 'B' provides a committee by committee analysis of the main items included within the above figures, and explained under the headings shown below.

3.2 Earmarked Reserves (£418,800)

3.2.1 Earmarked Reserves comprise amounts set aside in previous years to meet future specific revenue schemes.

3.2.2 Of the £418,800 identified above £366,100 is in respect of items that have slipped from 1998/1999 to 1999/2000, as approved by this Sub-Committee in June 1999 when considering the Final Accounts for 1998/1999.

3.2.3 The remaining items comprise a few small schemes, totalling £52,700, approved for the current year to be financed from specific reserves, as detailed in Appendix 'B'.

3.3 Net change in Fees and Charges Income (£4,900 cr)

3.3.1 The main items are identified in Appendix 'B' from which it can be seen that the change in income consists of several relatively small changes in demand for certain

activities that have, in overall terms, resulted in a small net increase in anticipated income.

3.4 Reduced Expenditure / Increased Income (£160,400 cr)

3.4.1 From Appendix 'B' it can be seen that the main item is a reduction in staff costs of £75,100 cr. The majority of this is from Contract Services Board and comprises a saving of £95,200 cr on Housing Contractor staffing due to a combination of vacant posts and a lower than estimated amount of cover required, offset by an increased cost of sickness cover of £17,500 on the Sports and Leisure Contract.

3.4.2 The other main items comprise a transfer of Key Issue resources from revenue to capital in respect of Joint Working with Parish Council schemes (£30,800 cr), reductions in the net costs of Benefit Payments (£22,100 cr) and a reduction in the insurance premiums for the Art Gallery (£11,000 cr).

3.5 Increased Expenditure / Reduced Income (£326,900)

3.5.1 This heading covers additional inflation, items of committed growth and other small changes in income and expenditure.

3.5.2 The major item here is the net revenue effect, in 1999/2000, of the move to Leamington House. This totals £112,000 and comprises rental costs of £220,000 in respect of Leamington House prior to its purchase, offset by reduced costs of Imperial House and Regent Square house of £108,000 following the transfer of Council Tax, Chief Executive and Commissioning Team to Leamington House. This item was originally planned and included in the 1999/2000 capital programme, but is now more properly shown charged directly to the General Fund revenue account.

3.5.3 The next largest item is inflation of £77,500 over and above the Pay and Price Provision of £250,000. The two main areas where inflation has been greater than provided for are the 1999 Pay Award (+£26,300) and Repair and Maintenance costs (+£38,800).

3.5.4 There is a loss of £31,100 in interest received in respect of Housing Association mortgages as a result of their early redemption. Although there is a corresponding reduction in capital financing charges to offset this item, because of the way capital charges impacts on the General Fund (see section 3.7 below for more details) the net result is an apparent increase in General Fund costs.

3.5.5 There are also several items of committed growth which, in themselves are relatively small, but when added together total £82,000.

3.6 Supplementary Estimates

3.6.1 At the meetings of Resources Sub-Committee held on 18 October and 6 December 1999 supplementary estimates for 1999/2000 totalling £75,000 were approved, as listed in Appendix 'B'.

3.7 Changes in Capital Financing Charges (£744,900)

- 3.7.1 From Appendix 'B' it can be seen that the main item within the variations in Capital Financing Charges is the change in Notional Interest charges, totalling £394,500. This change comprises an increase of £516,000 - mainly as a result of feeding in new capital valuations of the Council's assets (following the five-yearly revaluation exercise required under current capital accounting codes of practice) - offset by a reduction to the value of leases in respect of vacated office accommodation (-£52,300) and a re-phasing of the Royal Pump Rooms development (-£47,700).
- 3.7.2 The main increases in asset revaluations are in respect of Car Parks (+£131,000), Office Accommodation (+£66,600) and General Fund Properties (+£244,400).
- 3.7.3 The other main area of increased expenditure is Deferred Charges, which totals £369,200. This is mainly due to items having slipped from the 1998/1999 capital programme to 1999/2000 (+£104,600), items slipping to 2000/2001 (-£32,300) and revisions to the current year's capital programme (+£293,200)
- 3.7.4 The main revisions to the current year's schemes are Warwick Market Place (£100,000), Lillington Regeneration (£60,000), Sports Facilities (£50,000) and Benefits Software (£42,700).
- 3.7.5 It should be noted these charges have very little effect on the Council Tax Payer. This is because the charges included within the Service Committees' expenditure are based on notional costs (asset rentals, etc.) which are replaced "below the line" with the true cost of financing the Council's capital expenditure.

4. GENERAL FINANCING ARRANGEMENTS

- 4.1 This section of the report deals with the funding arrangements for the Council's expenditure, and how they combine with the expenditure items detailed in section 3 of the report, to reflect the final position on balances and reserves.
- 4.2 Replacement of Notional with the Actual Cost of Capital (£571,800 cr)
- 4.2.1 The capital charges for assets used in the provision of services are the result of a prescribed notional calculation which far exceeds the actual cost of capital financing. Hence the following adjustments are required to show the real cost of capital financing:
- (a) removal of the Capital Financing Charges included within the service committees' estimates (£744,900 cr) - this is the contra entry to the one discussed in paragraph 3.7; and
 - (b) replace them with the cost of Loan Repayments, Revenue Contributions to Capital and Interest Paid (£173,100).

4.2.2 The major element of the increase identified in 4.2.1(b) above is the reduction in the amount of external borrowing interest which can be charged to the Housing Revenue Account. This has been caused by increased receipts in respect of sales of council houses and increased Basic Credit Approvals utilised on General Fund Housing Schemes (+£150,600).

4.3 External Interest Received (£112,100 cr)

4.3.1 This increased income is as a result of increased interest rates, changes in the capital programmes and increased usable capital receipts totalling £169,100 cr offset by an increased amount of £57,000 being due to the Housing Revenue Account because of increased council house sales, which in turn have resulted in larger balances on the Housing Revenue and Repairs Accounts.

4.4 Contributions from Reserves (£432,300 cr)

4.4.1 This item consists mainly of the financing of the earmarked reserve items referred to in paragraph 3.2 (i.e. £418,800).

4.5 Contributions to Reserves (£95,400)

4.5.1 This mainly comprises the provision of £94,500 required to establish an Early Retirement Reserve following the changes to the funding of future early retirement decisions.

4.6 Additional Contribution to Capital Investment Reserve (£379,500 cr)

4.6.1 Within the original estimates an amount of £549,100 was proposed to be transferred to the Capital Investment Reserve. However, following the revised estimates exercise it can be seen that expenditure has increased by £379,500.

4.6.2 This represents a transfer of £112,000 from the capital programme to revenue in respect of the Leamington House move, and a net increase of £267,500 on revenue expenditure.

4.6.3 The net effect of this is to reduce the likely contribution to the Capital Investment Reserve down from £549,100 to £169,600.

5. GENERAL FUND BALANCE

5.1 The report on the final accounts for 1998/1999 referred to a need to maintain a General Fund balance of £1,000,000. It is still considered prudent that a General Fund balance of £1,000,000 is maintained.

6. KEY ISSUE STRATEGIES

6.1 The revenue estimates provide resources to support the implementation of all of the Council's Key Issue Strategies.

7. SUMMARY

7.1 The service committees have now considered their Revised Estimate requirements. It can be seen from paragraph 4.6.1 that the original proposal to make a contribution of £549,100 to the Capital Investment Reserve is unlikely to be achieved when the accounts for 1999/2000 are eventually closed. This contribution is now estimated to be £169,600, a reduction in the contribution to the reserve of £379,500.

7.2 The detailed factors contributing to this change are shown earlier in the report and Appendix 'B', but the major items are as follows:

(a) Meeting one-off Leamington House rental directly from Revenue rather than Capital Programme item previously provided	(para. 3.5.2)	£112,000
(b) Inflation above that provided in estimates	(para. 3.5.3)	£77,500
(c) Committed growth items	(paras. 3.5.4 & 3.5.5)	£113,100
(d) Supplementary estimates already approved	(para. 3.6.1)	£75,000
(e) Increased Capital financing costs chargeable to General Fund	(para. 4.2.2)	£150,600
(f) The above additional costs are offset by various savings	(para. 3.4)	- £160,400

7.3 It is regarded as desirable to maintain a balance on the General Fund of £1,000,000, and it is anticipated that there will be a surplus on the General Fund of £169,600 at 31st March 2000. The treatment of any surpluses or deficiencies for 1999/2000 will be dealt with in the Report on the Accounts in June when the actual position is known.

8. DECISIONS REQUIRED

8.1 The Committee is asked to:

- (a) approve the revised estimates for 1999/2000, and
- (b) confirm a General Fund balance of £1,000,000 (paragraph 5.1).

Marcus Miskinis
Principal Accountant

Background Papers:

Strategy Committee 16 February 1999: "Council Tax - Calculation of Warwick District Council Element 1999/2000"

Resources Sub-Committee 23 June 1999: "Accounts 1998/1999"

Committee Service Plans

Fees and Charges Reports 2000/2001

2000/2001 Budget Reports to Service Committees

2000/2001 Budget working papers / files

Contact Officer: Marcus Miskinis (01926) 884805

Areas in District Affected: All