

CABINET

11 February, 2004

BUDGET AND COUNCIL TAX 2004/05

REPORT OF THE DIRECTOR OF FINANCE

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RECENT REFERENCES:

CAB320: CIPFA Prudential Code for Capital Finance in Local Authorities	21 May, 2003
CAB676: Financial Strategy 2004/05 to 2009/09	16 July 2003
CAB718: Revenue Budget 2004/05	15 October 2003
CAB726: Corporate Strategy 2004/07	15 October 2003
CAB740: Revenue Budgets 2004/05	17 December 2003
CAB741: Capital Programme 2003/04 to 2008/09	17 December 2003

EXECUTIVE SUMMARY:

This report attempts to conclude the budget process for 2004/05 by presenting the summarised General Fund budget, including final proposals for growth and savings, for approval and recommends a Council Tax increase of 5% to £104.40 (at Band D for City council services).

The budget papers include final growth and savings proposals identified as part of the scrutiny undertaken by officers, Corporate Management Team and Performance Improvement Committees. The items for inclusion for revenue growth for 2004/05 are: £154,000 on the base budget; £307,000 funded from reserves and £200,000 funded by grant. Savings of £836,000 are included, including use of reserves. Details are shown in Appendix C.

There are several reports on this agenda that could affect the capital programme and the various proposals have been reflected in the figures in this report. It is suggested that the budget is approved as presented subject to considering those reports in detail. The capital programme would be adjusted if necessary to reflect the individual decisions taken.

The paper also reports the Prudential Code indicators covering affordability, prudence and capital expenditure as these need to be calculated by 31st March, 2004.

The surplus balance on the Collection Fund that must be used to reduce the District Council Tax is calculated at £39,700 at 25 January 2004, equivalent to £0.88 at Band D.

A Council Tax of £46.75 is recommended for the Winchester Town account, maintaining the level set in 2003/04.

RECOMMENDATIONS:

1. That Members consider the level of General Fund budget and Service budgets for 2004/05 and make recommendations as follows:

	£
Service Department	
Chief Executive	737,990
Personnel Services	(10,000)
Legal, Electoral & Committee Services	2,036,900
Finance, IT & Support Services	2,503,550
Financing Transactions	(7,487,070)
Health Services	4,343,480
Housing (General Fund) Services	3,024,570
Community Services	4,929,880
Development Services	<u>2,072,690</u>
Sub Total	12,151,990
Transfers from reserves	<u>(877,430)</u>
General Fund Budget	11,274,560
Transfer to Winchester Town reserve	<u>11,090</u>
Total	11,285,650
Charges on Winchester Town	<u>(618,450)</u>
Total City Expenditure	<u>£10,667,200</u>

The items of growth, as set out in Appendix C, (excluding C2) are included within the levels of expenditure illustrated above.

2. That the capital programme set out in Appendix F, page 1, be considered and approved, subject to various detailed recommendations being approved elsewhere on this agenda.

3. That the E-Government programme set out in Appendix H be considered and approved.

4. That approval be given to the inclusion of Planning Delivery Grant within the budget for 2004/05, once known, and that detailed proposals for the use of such grant be included within the Development Services Business Plan for 2004/05.
5. That approval be given to the inclusion of £200,000 within the revenue budget for 2004/05 for recycling pilot schemes to be funded from Grant.
6. That the policy as previously agreed by the Council on 14th July, 1999 (min 186 refers) is confirmed to treat all expenses of the Council as General Expenses other than those specifically identified and itemised in the Winchester Town account. In consequence of which: the sum of £607,360 be treated as Special Expenses under Section 35 of the Local Government Finance Act, 1992 in respect of the Winchester Town area, Appendix J.
7. That the Council Tax for the Special Expenses in the Winchester Town area at Band D be set at £46.75.
8. That the balances on the Collection Fund calculated at 25 January, 2004 of £39,700 surplus for Council Tax for this Council, be approved.
9. That Members approve a Council Tax of £104.40 at Band D for City Council services.
10. That Parish Council Taxes be noted as in Appendix K.
11. That the prudential indicators in section 11 be noted.

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DETAIL:

1 Introduction

- 1.1 As in recent years the budget process has attempted to link the budget closely to the Corporate Strategy. This started in the October/November/December cycles of meetings with Cabinet reviewing budgets and Performance Improvement Committees (PICs) commenting on proposals for reductions and growth, including capital items, with a further report at the Cabinet meeting on 17 December 2003.
- 1.2 A provisional capital programme was also approved by Cabinet in December.
- 1.3 A summary of the General Fund revenue budgets is presented for final consideration and Members are asked to consider the total level of General Fund budget and the Council Tax for next year. The figures are presented to include those items of growth and savings which the Leading Group has indicated that it wishes to support. It also includes a recommended increase in the City element of the Council Tax of 5%.
- 1.4 The detailed service budgets presented with report CAB740 have had approved growth and savings incorporated and are again presented for approval as Appendix I to this report, following some minor amendments. Once the budget is finalised – by Council on 25th February, the further growth and savings will be included in detail and will be published in the budget.

2 Revised Budget 2003/04

- 2.1 The revised budget for net expenditure on services totals £11,917,860 and no further comment to that in previous reports is made. Monitoring reports continue to indicate that the level of underspend on services is likely to be significantly lower than in previous years.
- 2.2 The budget does not yet reflect the various adjustments that are necessary following the transfer of certain services from the Chief Executive's department to other departments.
- 2.3 A contingency is maintained for job evaluation of £50,000. Some recent appeals have been successful and there are some that are still outstanding.
- 2.4 The revised budget does not take account of costs in connection with the Telecoms Masts Planning Inquiry. These may be in the order of £200,000, but notification has only recently been received and is being examined to see if there is any element that may be challenged. A further report on this matter and on proposed funding will be brought back to Cabinet shortly.

3 2004/05 Budget and Revenue Growth and Savings

- 3.1 The General Fund budget for net expenditure on services, after inclusion of approved growth and savings, totals £12,163,080. Summaries of the individual service budgets are shown in Appendix L.
- 3.2 Cabinet has considered various items of growth and savings, taking account of recommendations from PICs. After discussion with the Leading Group this list has been refined and the proposals are detailed in Appendix C. In addition, it is expected that the Council will receive Planning Delivery Grant and this will be included in the budget, with corresponding growth, when it is known. Full details will be included within the Development Services Business Plan in due course.
- 3.3 The deficit for next year, after inclusion of growth, savings and a Council Tax increase of 5% is projected at about £0.9m. Of this, some £300,000 is earmarked for funding the temporary use of Athelstan House for office accommodation and for revenue investment in a new Customer Service Centre (CAB793 elsewhere on this agenda refers). This leaves some £600,000 as a base budget deficit. This is acceptable, as the Council's prudent approach to budgeting means that it is likely that the actual deficit will be less than this. However, the projected deficit for following years is in the order of £0.9m and this will need to be reduced in future. Some specific areas for review have already been identified and a more comprehensive review of all services will also be instigated to identify further savings.
- 3.4 For this year and the coming year, Government support, through revenue support grant (RSG) and business rates, is set at the floor and it is not known what increases, if any, there may be in future years. Significant changes are taken into account for the 2004/05 budget in respect of pooling of receipts, funding of social housing grant (SHG), Housing Revenue Account financing and changes in the Benefits subsidy system. The effect of all of these has had a huge, adverse impact on the Council's financial and Corporate strategies.
- 3.5 Elsewhere on the agenda is a report (CAB789) on setting up an Enterprise Centre. This is suggesting additional growth of £20,000 for each of the next two years. This has not been considered as part of the budget process by Corporate Management Team (CMT), the PICs or Cabinet. It has not been assessed against the Council's Corporate Priorities or against other growth bids. At this stage it is not included in the figures presented in this paper.

4 Capital Programme 2003/04 to 2008/09

- 4.1 The capital programme is shown in Appendix F. Government credit approvals have been replaced with Supported Capital Expenditure (SCE) allocations. SCEs amounting to £853,000 have now been received for 2004/05 with a provisional figure of £886,000 for 2005/06. To the extent that these are intended for General Fund purposes the Council should receive funding through the RSG for financing charges. The Council has to provide the initial funds – that will be by using capital receipts – but may be compensated for the loss of interest that then arises.
- 4.2 Since attaining debt free status in 2002 the Council is able to use all its capital receipts to help fund the capital programme. This allows financial flexibility in the use of funds such as the Major Investment Reserve (MIR), which will have an estimated balance of approximately £6m at the end of 2003/04. However, both the MIR and

capital receipts are invested with the interest underpinning the Council's financial strategy.

- 4.3 The estimated use of the MIR and capital receipts is shown in Appendices D and G, and take account of the Government's proposals to pool capital receipts from 1 April 2004.
- 4.4 Reports elsewhere on this agenda seek approval to additional capital programme funding:
- a) CAB785 - £500,000 for potential affordable housing/regeneration schemes
 - b) CAB782 and CAB798 - £1.6m for various transactions relating to property
 - c) CAB793 – £200,000 for the Customer Service Centre
 - d) CAB806 - £196,000 for Swanmore Community Scheme
- 4.5 In addition, there are reports (CAB794 and CAB797 elsewhere on this agenda) on the Friarsgate/Broadway scheme and on New Office Accommodation which may have an impact on the future capital programme but no figures are included at this stage. Report CAB797 on office accommodation also includes a request for a supplementary capital estimate of £80,000 to prepare feasibility studies and planning briefs – this figure has been included within the provisional programme.
- 4.6 Similarly, a further report is expected on work that will be required to the River Park Leisure Centre and further funding may be required over that included in the programme.
- 4.7 Included at Appendix H is the E-Government Programme. At the time of writing this report there has been no indication of additional Government grant that may be forthcoming to help support this programme. This will be included in the budget when known. The programme now includes the cost for the corporate roll out of the document management system (DMS) – CAB787 elsewhere on this agenda refers.

5 The Government Settlement

- 5.1 The provisional announcement of the revenue support grant (RSG) and business rates (NNDR) figures together with subsequent announcements indicated an increase of 3% over the current year's amount and this has been confirmed in the final figures now issued. As reported previously (CAB740) the total grants received, after taking account of the Benefit changes, is expected to reduce by some £300,000pa, although there may be some one off transitional relief available in 2005/06.
- 5.2 The RSG formula has calculated that the amount of grant for Winchester should be £2.4m. With the operation of the floor, the RSG settlement is £3.0m, some £0.6m above the calculated figure. This is a little worrying when considering the future position, as there is an expectation that, over time, floors and ceilings will be removed so that authorities are no longer protected (or prevented from benefiting) from formula changes. However, at this stage the forward projections assume an increase in total Government support of 2% pa, in line with inflation.

5.3 The RSG and NNDR figures, compared to last year, are as follows:

	2003/04 Final £000	2004/05 Final £000	Change %
RSG	2,636	2,990	+13.4%
NNDR	3,742	2,945	-21.3%
TOTAL	6,378	5,935	
Adjustments	-626	0	
	5,752	5,935	+3.2%
Net loss of Benefits subsidy	0	-272	
Net loss of grant	5,752	5,663	-1.5%

5.4 Further funds may be forthcoming for support to the Planning service through Planning Delivery Grant. Last year some £297,000 was awarded and an announcement is awaited as to the level of funding for 2004/05. It is hoped that the announcement will be made in time to include it when the budget is presented to Council on 25th February.

6 Collection Fund and Council Tax

6.1 The regulations require the Council formally to approve the Collection Fund balance at 31st March, calculated at 25th January.

6.2 For Council Tax a surplus of £304,500 is estimated, shared between the County Council (£237,450), the Police Authority (£27,350) and this Council (£39,700). This must be credited to the Council Tax for the District for 2004/05. This is equivalent to £0.88 at Band D.

6.3 Appendix B shows the effect on the projections of three options for increases in Tax levels over the coming years of 3%, 5% and 7% on this year's level. For next year this would mean the Tax at Band D equivalent would be:

Current Council Tax £	3% increase £	5% increase £	7% increase £
99.45	102.42 (2.97)	104.40 (4.95)	106.38 (6.93)

6.4 The Minister of State for Local and Regional Government has written to the Leader of the Council expressing concern over potential Council Tax rises of 7-8%. The letter states that *authorities can and should deliver council tax rises in low single figures for 2004/05 and we will not hesitate to use our capping powers if that proves necessary.*

6.5 A robust argument has been made to the Minister on the financial difficulties the Council faces. Nevertheless, the warning of possible capping must not be ignored.

- 6.6 Members need to balance their Strategic aims and the projected deficit, but in view of the possibility of capping, it is suggested that if the increase in Council Tax is more than 5% then the Council could be at risk of capping. This could be a damaging process, particularly financially, and is one to be avoided.
- 6.7 As the Leading Group has indicated that the tax increase should be 5% for next year this figure has been included within the budget and is made a specific recommendation.
- 6.8 Appendix K shows the figures for Parish Council or Meeting taxes, including a comparison with the previous year's precept. The overall average Council Tax for Parishes and Winchester Town is £43.19, an increase of 3.6%. At this level there is no adverse impact on the overall Tax level in relation to possible capping.
- 6.9 The Taxes for the County Council, the Police Authority and the Fire Authority will be decided on 25th, 17th and 4th February, respectively. An update will be given to Cabinet on the recommendations being made.

7 Winchester Town Charge – Section 35

- 7.1 In accordance with Section 35 of the Local Government Finance Act 1992 the Council has taken the decision in previous years to treat all expenses of the Council as general expenses other than those identified as special expenses. The Council endorsed this policy on 26 February 2003 (minute 871 refers).
- 7.2 Special expenses are costs incurred for the provision of an amenity or service that is primarily for the benefit of one locality. In the Winchester District these expenses are levied by the Council to cover the costs of local services in the Winchester town area which elsewhere would be dealt with by parish councils.
- 7.3 The services currently covered by special expenses are listed in Appendix J. The charging options under Section 35 were last considered in detail by the Policy & Finance (Assets, Property & Investments) Sub-committee on 28th September 1999 (Report PF1793(API) refers).
- 7.4 It is recommended that the policy as previously agreed by the Council on 14th July, 1999 (minute 186), and confirmed in the budget and council tax report for 2003/04 (CAB543, 12 February 2003), is endorsed again. That is to treat all expenses of the Council as General Expenses other than those specifically identified and itemised in the Winchester Town account. In consequence of which the sum of £607,360 will be treated as Special Expenses under Section 35 of the Local Government Finance Act, 1992 in respect of the Winchester Town area, summarised in Appendix J.
- 7.5 In the previous report it was noted that the balance on the Town account would be higher than originally anticipated. The Winchester Town Forum met on 13 January 2004 and made the following recommendations:
- ◆ A growth item of up to £15,000 per annum be allowed as a contribution towards the cost of community wardens in the Town area,
 - ◆ A one-off growth item of £5,000 be allowed for the provision of noticeboards in the Town area,
 - ◆ A one-off growth item of £2,000 be allowed for the provision of recycling bins in Cathedral Close,

- ◆ A growth item of £2,000 per annum be allowed for the emptying of recycling bins in Cathedral Close,
- ◆ The Town tax be maintained at £46.75 for a band D property.

7.6 This will leave an estimated balance in the Winchester Town Reserve of £138,900 at 31 March 2005.

8 Looking Ahead

8.1 In considering its budget each year the Council is required to look further ahead than the year under detailed consideration to ensure that the impact and affordability of proposals in future years is assessed.

8.2 As usual, a marker is placed about issues that have not been quantified or may cause concern. These include:

- a) Broadway/Friarsgate – the impact of the proposed redevelopment
- b) Cultural centre – the extent to which the Council might wish to provide financial support
- c) Government revenue support, particularly as the settlement is set at the floor.
- d) Insurance costs – these are unpredictable and have been subject to significant increases in the past.
- e) Interest rates - a 1% reduction in rates reduces income by about £300,000 pa.
- f) Licensing income – the level of this is uncertain
- g) Office accommodation – the impact of the proposal to relocate into a single building and, if that is not proceeded with, the extent to which the budget for repairs to the current buildings is sufficient
- h) Planning Delivery Grant – the level in both next year and future years
- i) Recycling Grant – grant will be available to local authorities in 2005/06 and 2006/07
- j) River Park Leisure Centre – the potential additional capital funding requirement

9 Reserves and Balances

9.1 A full summary of all earmarked and major reserves is included at Appendix D. Some reserves can only be used for restricted purposes and these are noted in the appendix.

9.2 The General Fund working balance stands at £2m. As has been reported previously, the level of this balance needs to be considered in the light of a number of factors concerning the Council's level of exposure to changes in income and expenditure. A significant proportion of the Council's spending is financed from investment income (an estimated £1m in the 2004/05 budget) generated by short-term (ie less than one

year) investments, albeit at fixed interest rates. The forward projections assume that the rates will increase, in accordance with the latest information from the Council's investment advisors.

- 9.3 Exposure to expenditure fluctuations is more limited. Inflation of 1% increases the Council's General Fund costs (excluding pay) by about £145,000 pa. A provision of 3% for pay awards has been included in the budget. Each additional 1% awarded increases the Council's General Fund costs by about £80,000.
- 9.4 There is adequate insurance cover for risks such as fire.
- 9.5 Overall, taking into account the fact that the Council has built up specific reserves to fund identified major future expenditure, the provision of £2m as a General Reserve is thought to be sufficient and the forward projections assume that this level is retained. However, it should be noted that the projections assume a significant use of reserves, particularly if no action is taken to reduce the base budget in future. The position will be kept under review each year as part of the budget process.

10 Prudential Code

- 10.1 Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Prudential Code has been developed as a professional code of practice to support local authorities in taking their decisions. They are required by Regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.
- 10.2 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 10.3 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out indicators that must be used and factors that must be taken into account. These indicators are designed to support and record local decision making in a manner that is publicly accountable. The regulations regarding these indicators were only published in December and there are inconsistencies in them that need clarification before a precise interpretation can be made.
- 10.4 The indicators are purely for internal use by the Council and are not intended to be used as comparators with other authorities, as any comparisons will be meaningless. In addition the indicators should not be taken individually; rather the benefit from monitoring will arise from following the movement in indicators over time and the year on year changes.
- 10.5 The indicators in respect of treasury management covering borrowing and investment have been included in report CAB776 elsewhere on this agenda. The remaining indicators covering affordability, prudence and capital expenditure are set out below.
- 10.6 The first of these prudential indicators is the **Estimates of Capital Expenditure** for the ensuing three years. For several years the City Council has produced a six year

rolling capital programme so the capital budget referred to in section 6 above and the capital programme and financing summary in Appendix F cover this requirement.

- 10.7 The second indicator is **Actual Capital Expenditure**. This is monitored on an ongoing basis with regular monitoring reports to Cabinet during the year and an outturn report at year end. Included elsewhere on this agenda the capital monitoring report for the period to 31 December 2003 (CAB791).
- 10.8 The third indicator is the **Capital Financing Requirement (CFR)**, which represents the Council's underlying need to borrow for a capital purpose. In determining the CFR the Council must distinguish between supported and unsupported capital expenditure decisions taken during the budgeting cycle. Supported capital expenditure identifies a source of funding such as capital receipts, government grant, reserves, contributions, etc, whereas unsupported capital expenditure gives a measure of the underlying need to borrow. However, this borrowing may not necessarily take place externally as the Council may judge it prudent to make use of cash that it has available under its treasury management strategy. The following table shows the CFR projections:

	2002/03 Actual	2003/04 Estimate	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate
Capital Financing requirement	£000	£000	£000	£000	£000
General Fund	(16,623)	(12,615)	(10,296)	(9,203)	(8,758)
Housing Revenue Account	9,497	9,902	10,152	10,152	10,152
Total CFR	(7,125)	(2,713)	(144)	949	1,394

In this table the projections show that there may be a need borrow for capital purposes in 2005/06. The most likely scenario is that if a borrowing need arose it would be fulfilled from internal resources although this could have an effect on the General Fund.

- 10.9 The penultimate indicator is the **ratio of financing costs to net revenue stream**. The net revenue stream is the estimate of the amounts to be met from Government grants and local taxpayers and this indicator identifies the trend in the cost of capital (borrowing costs net of interest and investment income) against the net revenue stream.

	2002/03 Actual	2003/04 Estimate	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate
Ratio of financing costs to net revenue stream	%	%	%	%	%
General Fund Gross	(16.08)	(17.34)	(11.19)	(9.45)	(8.35)
General Fund net of earmarked reserves	(12.68)	(14.12)	(7.48)	(6.34)	(5.96)
Housing Revenue Account Gross		24.7	42.39	42.41	41.69

- 10.10 The final indicator in this section is an estimate of the **incremental impact of capital programme decisions** over the period 2004/05 to 2006/07 on the Council Tax and housing rent levels.

	Estimate 2004/05	Estimate 2005/06	Estimate 2006/07
Council Tax – Band D	£4.35	£7.09	£8.07
Weekly Housing Rents	£0.75	0	0

OTHER CONSIDERATIONS:

11 CORPORATE STRATEGY (RELEVANCE TO):

- 11.1 Financial strategy and the budget process should accord with the objectives of the Corporate Strategy whilst proposals in the Strategy must be linked to resource allocation and availability. The Budget is vital to the achievement of the Corporate Strategy.

12 RESOURCE IMPLICATIONS:

- 12.1 These are contained in the body of the report.

BACKGROUND DOCUMENTS:

Working papers within Finance and other departments.

APPENDICES:

- Appendix A General Fund Service Summary:
- Appendix B General Fund Revenue Projections 2003/04 to 2008/09
- Appendix C Budget Change Options 2004/05 - Summary
- Appendix D: Summary of Reserves Projections
- Appendix E Financing transactions
- Appendix F Capital Programme and Financing
- Appendix G Capital Receipts
- Appendix H: E-government Programme 2003/04 to 2006/07
- Appendix I Collection Fund (provisional)
- Appendix J Council Tax on Winchester Town
- Appendix K Parish Council Precepts and Council Taxes 2004/05
- Appendix L Detailed Service Budgets 2004/05