

CABINET

13 October, 2004

REVENUE BUDGET 2005/06

Report of Director of Finance

Contact Officer: Sheila Boden Tel No: 01962 848120 Email: sboden@winchester.gov.uk

RECENT REFERENCES:

CAB883: Financial Strategy 2005/06 to 2009/10, 27 July, 2004

EXECUTIVE SUMMARY:

This report presents the next phase in the budget process by setting out the current list of growth and savings proposals for next year's General Fund (GF) budget. These are summarised in Appendices B and C. Also included are updated projections for the Financial Strategy period (Appendix A), the balances on reserves (Appendices D and E) and the current capital programme (Appendix F).

The General Fund growth and savings proposals both total approximately £0.9m pa.

Overall the projections show a deficit for next year and beyond that would be difficult to eliminate through Council Tax increases alone. With an illustrative council tax increase of 3% the deficit for next year is in the order of £0.7m. Allowing for underspends, perhaps of £0.5m, and assuming that no further savings proposals are proffered, the remaining deficit of £0.2m will require funding from a combination of an increase in tax of more than 3% or a contribution from the Major Investment Reserve.

The projected deficit for the following years is £1.5m pa. Further work is needed to reduce that deficit.

It is expected that, when the Government announcement of the RSG for next year is made, there will also be an indication of the levels of grant for the following two years. This will allow a more informed consideration of the Council's future financial strategy.

RECOMMENDATIONS:

- 1 That Performance Improvement Committees be asked to bear in mind the financial projections and potential revenue deficit and consider in the forthcoming cycle of meetings:
 - a) Proposals for growth and savings, including the relative priorities of proposals
 - b) Proposals for fees and charges
 - c) Balances and forward programmes for reserves

CABINET13 October, 2004REVENUE BUDGET 2005/06Report of Director of FinanceDETAIL:1 Introduction

1.1 The key principles to be applied to the budget were agreed at the Cabinet meeting of 27 July, 2004, viz:

- a) A balanced revenue budget (within a margin of £0.5m)
- b) Inflation allowance for salaries and third party contracts only
- c) Prudent approach to income estimates
- d) A net overall underspend at year end
- e) A presumption in favour of revenue over capital income

1.2 This report presents the next phase in the budget process by setting out the current list of growth and savings proposals for next year's General Fund (GF) budget. These are summarised Appendices A and B.

1.3 Also included, at Appendix A, are updated projections for the Financial Strategy period.

1.4 The General Fund growth and savings proposals are summarised below.

Proposals	2005/06	2006/07	2007/08
	£000	£000	£000
Revenue growth proposals	679	997	930
Revenue income/savings	(888)	(865)	(965)
Capital growth proposals	85	325	325

1.5 The growth proposals include a significant sum for increasing recycling but the figures are tentative at this stage as no detailed work on the scheme has been done yet. The income proposals include significant sums from possible increased parking charges and an assumption that Planning Delivery Grant (PDG) will continue or be replaced with significant income from fees for development control.

2 Current Position

- 2.1 The Performance Improvement Committees will receive monitoring reports for the current year in the forthcoming cycle. Monthly monitoring by managers has identified some variations but overall, at this stage, it is still more likely that the Council will under rather than over spend by the year end.

3 Housing Revenue Account (HRA)

- 3.1 Whilst the HRA has to fund its revenue expenditure from rent income, its capital schemes can be financed from borrowing (using supported capital expenditure approvals); from capital receipts (with a loss of interest to the General Fund); or from its rent income. Government proposals have changed the HRA financing charges and these have affected both the HRA and the GF. Therefore, the HRA must be considered as part of the Council's General Fund Strategy. Further reports will be made to Cabinet on the HRA position later in the year.

4 Income

- 4.1 The financial projections have assumed that income, in total, would increase by inflation. Individual income budgets have been reviewed by directors. It is assumed that Planning Delivery Grant will continue or be replaced by increased income. A sum of £200,000 pa has been included in the projections.
- 4.2 All fees and charges should be reviewed annually and reported to Members: it is a requirement to do so under the Financial Procedure Rules. It is suggested that reports be taken to the appropriate PICs in the forthcoming cycle on all fees and charges.

5 Capital

- 5.1 The current capital programme was approved by Cabinet on 27 July and an updated programme is included at Appendix F. There are some additional growth proposals and these are shown in Appendix B. Elsewhere on the agenda is a report considering the buy back of former HRA land. If approved the capital programme will be amended to include the cost of repurchase. This will reduce the balance of capital receipts shown in Appendix D.
- 5.2 There is a need to identify the sums of money to be expended on maintaining the City Offices, either for permanent use by the Council or short term use pending relocation to new office accommodation. This will reduce the balances of either the Major Investment Reserve or capital receipts over those shown in Appendix D.
- 5.3 Cabinet will be considering the e-government programme (as part of the expected IEG4 statement submission requirements) at its meeting on 17th November and, following this, there are likely to be changes to the figures included for ICT capital expenditure and the ICT Reserve balance.

6 Car Parks Account

- 6.1 There are proposals to consider increases in car parking charges and for that income to be used to support Council priorities. The income generated from on street parking will be used to reduce the deficit that exists on the Park and Ride account, releasing off street parking income for General Fund purposes.

7 Reserves

- 7.1 These have been established for specific purposes and should be reviewed regularly as part of the budget reports being considered by the PICs this cycle. As in other years, when considering their taxation policy, Members must be mindful of the need to balance the loss of investment income against holding reserves far in advance of requiring them.
- 7.2 In previous years it has been the policy to credit all reserves with interest. It is now proposed that only those reserves built up from external contributions should be credited with interest; for all other reserves the interest that would have been credited will remain in the General Fund. This amounts to approximately £181,000 in 2005/06. A summary of reserves is shown in Appendix E and commentary is made on some of them below.
- 7.3 **Major Investment Reserve.** There are plans within the Financial Strategy to utilise the reserve to support the capital programme. However, the current revenue budget projections show an unfunded deficit and this will have to be made good from this reserve if action is not taken to balance the revenue account. With the current projections the Reserve will be in deficit by 2008/09. Details are shown in Appendix D.
- 7.4 **Operational Property Repairs Reserve.** Major repairs to operational properties other than car parks are now included in the capital programme so this reserve is being used for capital funding.
- 7.5 **Car Parks reserves.** These are held to overcome income fluctuations and for funding a significant programme of improvement works.
- 7.6 **Insurance Reserve.** The balance on this reserve has been reviewed in conjunction with the Council's insurers. Cabinet has already agreed that part of the balance should be released back to the General Fund and the HRA. A further report will be made to Members in November.
- 7.7 **ICT Reserve.** This is available to support the corporate aspects of e-government. A further report will be made to Cabinet at its next meeting.

8 Treasury Management

- 8.1 With high balances changes in interest rates have a significant impact on the Council's income. Currently, a change of 0.25% changes income by £90,000 pa. The projections reflect expected rates of 5% for the coming year, in accordance with advice from our consultants.
- 8.2 The Treasury Management strategy will be updated in January 2005.

9 Government Settlement

- 9.1 The Government has indicated that the RSG settlement for the next three years is likely to show increases of 0.6%, 3.5% and 3.7%. It has also referred to the results of its 2004 Spending Review (the Gershon Review) and has indicated that there will be a public sector efficiency target of 2.5% pa over the next three years, with *nearly half of the total savings expected from.....within schools and the police*. It is not made clear but it is assumed that it is half in percentage terms, not cash.

9.2 Other issues are unclear:

- Do the assumptions about RSG increases of 0.6%, 3.5% and 3.7% take account of the Gerson Review figures?
- Is the efficiency saving of 2.5% pa based on gross or net expenditure?
- Will the 2.5% target be applied equally to all classes of authorities and in all areas – will there be different figures for county and district councils, for excellent and fair authorities, for North and South?
- The RSG cash grant (ie the floor) was some £0.6m greater than the formula allows in 2004/05, over what period will the cash amount be reduced to the formula amount?

9.3 The projections in Appendix B show both a cash increase in Government support in line with the settlement figures indicated and also a potential figure of savings arising from the Gershon Review (2.5% on net expenditure is illustrated).

9.4 It is not likely that any details of these matters will be known much before Christmas and they will inform the final consideration of the budget in the New Year.

10 Consideration of Growth and Savings Proposals

10.1 Included at Appendix B is a summary of the proposals for growth and savings. These proposals are put forward by Corporate Management Team (CMT) following the Comprehensive Spending Review and after initial discussion with Cabinet Members.

10.2 These proposals will be considered by the relevant PICs in the forthcoming cycle of meetings and the PICs may wish to suggest other areas of change. These committees should be asked to ascribe priority to proposals in relaying their views to Cabinet. Cabinet will give further consideration to proposals, taking account of Government support, possible tax increases and other information, as part of finalising next year's budget.

11 Comprehensive Spending Review

11.1 Throughout the Summer directors have been undertaking a review of their services. This has been conducted by the relevant director being challenged by another director and a Cabinet Member. The outcome of this review has been deliberated by CMT and Cabinet Members and the results are shown in the list of growth and savings proposals that are presented to Members in this report.

11.2 The Council has been faced with a constrained financial position over the last few years and has made considerable savings and some reduction in services in that time. The Review highlighted that, in general, further reductions in costs were only possible if there were concomitant reductions in services. Any changes in services ought to be linked to the Council's Corporate Strategy and it is for Members to decide what those priorities are.

11.3 A number of areas have been highlighted as warranting further study - some of these will be reviewed over the next few months and others will be reviewed over a longer period.

12 Projections

- 12.1 Appendix A gives projections over the medium term, until 2009/10. The assumptions behind the projections are set out in the Appendix. Two items, not referred to elsewhere in this report, are highlighted.
- 12.2 Significant increases in pension contributions may be expected over the next few years in order to reduce the current deficit on the Superannuation Fund. Included in the projections are increases from the current rate of 13.5% to 18% by 2007/08. The Fund has been revalued this year and the rate of contribution is currently being determined. Although there is a deficit on the Fund this is not unique – the policy in some years has been to underfund. If there is a significant change in the stock market the Fund could move back into surplus at some point in the future. The County has stressed that the issue about funding is a long term matter and that income into the Fund exceeds the expenditure and that a revenue surplus is expected for the foreseeable future.
- 12.3 Inflation on pay is included at 2.95% for 2005/07 (about £0.3m pa) and 3% thereafter - this item alone is equivalent to £6.50 (6%) on the Council Tax and is required for the authority simply to stand still.
- 12.4 Overall the projections show a deficit for next year and beyond that would be difficult to eliminate through Council Tax increases alone. With an illustrative council tax increase of 3% and the funding of certain items from reserves, the possible deficit for next year is in the order of £0.7m. Allowing for underspends, perhaps of £0.5m, and assuming that no further savings or growth proposals are brought forward, there is remaining deficit of £0.2m will require funding from a combination of tax increases and a contribution from the Major Investment Reserve.
- 12.5 The position looking forward over the next few years shows a projected deficit in the order of £1.5m each year. These figures exclude any further reduction in RSG following the Gerson Review which may make the deficit larger. After allowing a margin of £0.5m there is an annual deficit of £1m that needs to be eliminated. If no action is taken the deficit will be funded from the Major Investment Reserve - appendix D illustrates the effect of these deficits on the Reserve balance.
- 12.6 It is expected that, when the Government announcement of the RSG for next year is made that there will also be an indication of the levels of grant for the following two years. This will allow a more informed consideration of the Council's future financial strategy.

13 Uncertainties

- 13.1 As usual a list of items that have not been quantified, or cannot be fully assessed at this time, is given:
- Effect of Gershon review – potential further reductions in RSG over those in the base projections
 - RSG – timescale for removal of the floor
 - Superannuation Fund – outcome of the latest revaluation (March 2004) awaited

- Broadway/Friarsgate – effect of proposals on cash flow including parking income
- New office accommodation – effect of proposals on cash flow including parking income
- Repair work to City Offices – required but not assessed
- Work to Guildhall additional to the Bapsy proposals
- Business growth incentive schemes – potential for retention of business rates associated with growth in rateable value base
- Licensing – national fees yet to be announced

14 Taxation Policy

- 14.1 The current tax at Band D is £104.40 (an increase of 5% over the previous year). The Minister for Local Government has indicated that he would again consider using capping powers to limit council tax rises next year and he has indicated that increases that are not in low single figures would not be considered reasonable.
- 14.2 The projections include an illustrative increase in Council Tax of 3%. For each £1 or 1% increase about £45,000 pa is raised.
- 14.3 At this stage it is recommended that no firm decisions are taken about the level of tax - until the Government's Settlement for next year is announced the information needed to make such a decision is incomplete.

OTHER CONSIDERATIONS:15 CORPORATE STRATEGY (RELEVANCE TO):

15.1 The Financial Strategy and budget proposals are a key component of the Council's Corporate Strategy allowing the corporate priorities to be achieved.

16 RESOURCE IMPLICATIONS:

16.1 As set out in the report.

BACKGROUND DOCUMENTS:

Working papers held in the Finance and other departments.

APPENDICES:

Appendix A: General Fund Revenue Projections 2004/05 to 2009/10

Appendix B: Requests for Growth

Appendix C Increased Income and Savings Options

Appendix D: Major Investment Reserve and Capital Receipts Balances

Appendix E: Summary of Reserves

Appendix F: Capital Programme 2004/05 to 2009/10