

CABINET

15 December, 2004

REVENUE BUDGETS 2005/06

REPORT OF THE DIRECTOR OF FINANCE

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RECENT REFERENCES:

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

CAB924 Revenue Budget 2005/06 13 October 2004

CAB951 Corporate Strategy 2005/08 13 October 2004

EXECUTIVE SUMMARY:

This report gives an overview of the progress made towards achieving the Council's budgetary objectives. The announcement of the Council's provisional Formula Spending Share (FSS) and External Support through Revenue Support Grant (RSG) and National Non Domestic Rates (NNDR) has been made. The cash increase awarded to Winchester is reported as 2.5%. The cash figure continues to be significantly above the FSS calculation.

Appendix B contains the projections for next year and beyond. It includes the growth, savings and income proposals considered in CAB924 (reproduced in Appendices C & D) and with a 3% rise in council tax the deficit for next year is projected at £0.57m. The Financial Strategy allows for a deficit of £0.5m, reflecting the underspend that is usually seen on budgets overall. On this basis, the base budget projected for next year is considered prudent. However, the deficit continues to run at around £1.5m to £1.7m in the following years and this needs to be addressed.

The paper also reports the position for the Winchester Town account where the balance is expected to be higher than anticipated by the end of this year. The Town Forum (Councillors' Meeting) will be considering the budget at its meeting in January 2005.

RECOMMENDATIONS:

1. That consideration be given to the total revenue budgets and the growth and savings proposals for 2005/06.

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REPORT OF THE DIRECTOR OF FINANCE

1 Introduction

- 1.1 This report gives an overview of the progress made towards achieving the Council's budgetary objectives. It sets the scene for the budget report that will come to Cabinet on 8 February 2005 prior to setting the Council Tax levels for 2005/06 at Council on 24 February 2005.
- 1.2 The announcement of the Council's provisional Formula Spending Share (FSS) and External Support through Revenue Support Grant (RSG) and National Non Domestic Rates (NNDR) has been made and is reported in this paper.

2 Revised Budget 2004/05

- 2.1 The revised budget before transfers to reserves and direct financing of the capital programme totals £12.409m compared with an original budget of £12.165m. This includes managed savings brought forward from 2003/04, any supplementary estimates approved since February and changes in financing transactions (principally adjustments to capital financing charges because of slippage in the capital programme).

3 2005/6 Budget

- 3.1 A summary of the budget before growth and savings proposals is shown in Appendix A with detailed budgets at Appendix I. The growth and savings proposals considered in October by Cabinet and the Performance Improvement Committees (PICs) are included in the forward projections in Appendix B. These show an expected deficit of about £568,000 for next year assuming a 3% rise in council tax.
- 3.2 Although the rate of interest being achieved on our investments is currently 4.5 to 5% and the forecast for next year assumes 4.75% (in line with advice from our Brokers) investment income is expected to fall in 2005/06. The total invested is expected to decrease to about £20m, principally because of capital programme spending and pooling of capital receipts. A 1% change in interest rates equates to about £200,000 pa. Any deficit funding of the revenue budget from reserves will further reduce the balances and reduce the investment interest earned. Reduction in balances of £1m results in loss of interest of about £50,000 pa.
- 3.3 Provision has been included for pay awards of 2.95% and general inflation of 3% on contracted services, although where more accurate information is available different rates will have been used. The effect on the General Fund of a 1% change would be about £160,000 (split between pay and other costs).

4 Additional Budget Requirements

- 4.1 At its meeting on 13 October Cabinet considered papers on service development and budget growth and savings proposals. It resolved that the Performance Improvement Committees should consider and make recommendations back to Cabinet on matters

within their respective remits. Their comments were reported back to the meeting on 17 November.

- 4.2 It is for Members to decide upon the relative priorities of items but they should be mindful of the future projections and the need to eliminate the call on reserves other than for supporting the capital programme.

5 Winchester Town Account

- 5.1 Appendix E shows the position for the Winchester Town Account. The tax for the current year is £46.75 at Band D. There have been changes in some budget heads in the current year, principally a reduction in the budget for recreation grounds, and increases in the budgets for cemeteries and Christmas lights.

- 5.2 The Town balance is expected to be higher than anticipated by the end of this year. At this stage it is unclear what the Forum may wish to add for schemes not currently budgeted for and the Town Forum (Councillors' Meeting) will be considering the budget at its meeting in January 2005. Overall, it is suggested that a minimum balance of around 10% of the annual budget (approximating to £60,000) is maintained. With a tax base of 13,354 for next year, a £1 change in tax equals about £13,000.

- 5.3 The methodology for determining which items should be charged as special expenses to Winchester Town will be brought to Cabinet in the New Year as part of the Council Tax-setting report.

6 Looking Ahead

- 6.1 As in previous reports a detailed forecast is attempted for three years and a broad outlook is given for the following three. With council tax increases of 3%, there continues to be a deficit beyond the next financial year of over £1.5m pa with the inclusion of the growth and savings options considered by the PICs. This is not sustainable in the longer term as balances are run down. These projections assume that Government support will continue to increase by 2.5% per annum.

- 6.2 The ability of the Council to continue with the current level of service provision is dependent upon the final Government settlement, the extent to which growth is allowed and on the level of council tax for next year. The planned programme of investment in capital works is reported separately to Cabinet in report CAB962, elsewhere on this agenda.

- 6.3 As usual, a marker is put down about significant issues which have not been quantified or may cause concern:

- a) City Offices relocation – whether this will be cash neutral or not, and the timing of any payments made before benefits are received. The projections take no account of the financial effect of this proposal, either favourable or costly.
- b) Friarsgate/Broadway study – within the capital programme provision of £1m is maintained for the Friarsgate car park and this could be used to support the redevelopment or be released for other purposes.

7 General Fund Working Balance

- 7.1 The General Fund working balance stands at £2m. As has been reported before 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 (£1.2m in next year's budget) generated by short-term (ie less than one year) investments, albeit at fixed interest rates. The forward projections assume that rates will remain stable at 4.75% next year, in accordance with the latest information from the Council's investment advisors.
- 7.2 Other income in the budget is also significant, particularly that for planning and building control services. This Council has seen a downturn in such income in the past that has caused concern.
- 7.3 Exposure to expenditure fluctuations is more limited. Inflation increases of 1% increase the Council's costs by about £160,000 pa (split between pay and other costs). Significant repair reserves are held to ensure sufficient funds are available for maintaining the Council's property and funding unforeseen expenditure. There is adequate insurance cover for other risks such as fire. Emergency expenditure in the past on flooding, for example, has been found from within this balance.
- 7.4 Overall, the provision is considered to be sufficient and the forward projections assume this level is retained. The position should be kept under review each year as part of the budget process.

8 The Government Grant Settlement

- 8.1 The Government publishes a guideline showing the level at which each authority would be expected to spend on a common basis given their population and profile. Part of this expenditure is to be financed from government grant and the balance from council tax assuming council tax is set at a notional level. The Formula Spending Share (FSS) is the Government's assessment of what a council needs to spend in order to provide the standard level of service at a standard amount of council tax. It determines the total amount of external government support (Revenue Support Grant (RSG) and National Non Domestic Rates (NNDR)) and hence the level of council tax.
- 8.2 To avoid major disruptive changes in grant aid from one year to the next a system of floors and ceiling was introduced to dampen the effect of these changes. For the financial year 2004/05 Winchester's calculated grant was below the previous year's cash figure so a floor was set that gave a 3% rise in the cash received.
- 8.3 The 2005/06 provisional figures for FSS, RSG and NNDR were announced on 2 December and the cash increase awarded to Winchester was reported as 2.5%. The cash figure continues to be significantly above the FSS calculation (£420,000). It is to be expected that the amount of cash grant given will decrease to the figure calculated as the FSS over a period of time (but as yet not defined by the Government).

The following table shows the provisional figures issued on 2 December compared with the current year's:

	External Support £000
2004/05	5,935
2005/06	6,111
Difference	176

8.4 The Government Settlement assumes that income from council tax will rise by less than 5% next year and this is built into the settlement. Winchester's assumed national council tax (ANCT) has been set at the level of £181.53 for 2005/06. The current tax is £104.40 plus the parish average of £43.18, £147.58 in total.

8.5 The current tax base is 44,938 and next year's is projected at 45,678. An assessment of the Collection Fund will be presented to a future meeting. However, the current projections indicate that there will be a small surplus of £14,000 to be taken into account when setting the tax for next year.

9 Policy for Total Spending and Council Tax Level

9.1 Appendix B contains the projections for next year and beyond, including all the growth, savings and income items considered previously by Cabinet. With a 3% rise in council tax the deficit for next year is projected at nearly £0.57m. The Financial Strategy allows for a deficit of £0.5m, reflecting the underspend that is usually seen on budgets overall. On this basis, the base budget projected for next year is considered prudent.

9.2 The concern, though, is for the following years. The projections assume that RSG continues to rise by 2.5% per annum, which may be optimistic considering that the cash amount is above the FSS figure, and that council tax will rise by 3%. On this basis, the deficit continues to run at between £1.5m and £1.7m.

9.3 Appendices G and H show the position of the Council's reserves. If all growth and savings proposals are approved and spending continues without further savings or tax increases, in two years the Major Investment Reserve will be less than a third of its current level and within three years the GF working balance will be required to support the day to day expenses of the Council. Clearly this position is not sustainable and the deficit that the Council faces must be reduced. As part of the plan to reduce this deficit, the PICs have been requested to identify the 20% of General Fund expenditure which they consider should have the lowest priority. Further the Council will need to consider its response to the requirements following from the Gershon efficiency review.

OTHER CONSIDERATIONS:

10 CORPORATE STRATEGY (RELEVANCE TO):

10.1 The need for continued clear financial planning within the City Council is an integral part of the Corporate Strategy.

11 RESOURCE IMPLICATIONS:

11.1 These are contained in the body of the report.

12 BACKGROUND DOCUMENTS:

12.1 Working papers within Finance and Other Departments.

APPENDICES:

Appendix A: General Fund Service Summary 2003/04 to 2005/06

Appendix B: General Fund Projections 2004/05 to 2009/10

Appendix C: Revenue Growth Proposals 2005/06 to 2009/10

Appendix D: Income and Savings Proposals 2005/06 to 2009/10

Appendix E: Winchester Town Account 2003/04 to 2005/06

Appendix F: Financing Transactions

Appendix G: Major Investment Reserve and Capital Receipts 2004/05 to 2009/10

Appendix H: Summary of Major Reserves

Appendix I: Detailed Budgets 2005/06

CAB961