

CABINET

8 February, 2005

BUDGET AND COUNCIL TAX 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 |
| CAB961: Revenue Budgets 2005/06 | 15 December 2004 |
| CAB962: Capital Programme 2004/05 to 2009/10 | 15 December 2004 |

EXECUTIVE SUMMARY:

This report concludes the budget process for 2005/06 by presenting the summarised General Fund budget, including final proposals for growth and savings, for approval and recommends a Council Tax increase of 3.3% to £107.82 (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, Cabinet and Performance Improvement Committees. The items requested for inclusion for revenue growth for 2005/06 are: £630,000 on the base budget, of which £10,000 would be funded from reserves. Savings and proposals for increased income of £873,000 are also included. Details are shown in Appendices C and D.

The paper also reports the Prudential Code indicators covering affordability, prudence and capital expenditure as these need to be calculated by 31st March, 2005.

The surplus balance on the Collection Fund that must be used to reduce the District Council Tax is calculated at £14,570 at 25 January 2005, equivalent to £0.32 at Band D.

A Council Tax of £46.75 is recommended for the Winchester Town account, maintaining the level set in 2003/04 and 2004/05.

RECOMMENDATIONS:

1. That Members consider the level of General Fund budget and Service budgets for 2005/06 and make recommendations as follows:

| | £ |
|---------------------------------------|--------------------|
| Service Department | |
| Chief Executive | 353,960 |
| Personnel Services | 20,000 |
| Legal, Electoral & Committee Services | 2,323,750 |
| Finance, IT & Support Services | 2,450,770 |
| Financing Transactions | (8,591,530) |
| Health Services | 5,214,000 |
| Housing (General Fund) Services | 2,727,590 |
| Community Services | 6,113,560 |
| Development Services | <u>1,758,910</u> |
| Sub Total | 12,371,010 |
| Transfers from reserves | <u>(648,170)</u> |
| General Fund Budget | 11,722,840 |
| Transfer to Winchester Town reserve | <u>(47,730)</u> |
| Total | 11,675,110 |
| Charges on Winchester Town | <u>(624,300)</u> |
| Total City Expenditure | <u>£11,050,810</u> |

The items of growth, savings and increased income, as set out in Appendices C and D, are included within the levels of expenditure illustrated above.

2. That approval be given to the inclusion of Planning Delivery Grant within the budget for 2005/06, once known, and that detailed proposals for the use of such grant be included within the Development Services Business Plan for 2005/06.
3. That the capital programme set out in Appendix G, page 1, be considered and approved.
4. That Members' Allowances for 2005/06 be held at the 2004/05 levels and that the inflation index in the Members' Allowances Scheme be not applied for 2005/06.
5. 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 £685,550 be treated as Special Expenses under Section 35 of the Local Government Finance Act 1992 in respect of the Winchester Town area, Appendix J.
6. That the Council Tax for the Special Expenses in the Winchester Town area at Band D be set at £46.75.

7. That the balances on the Collection Fund calculated at 25 January 2005, of £14,570 surplus for Council Tax for this Council, be approved.
8. That Members approve a Council Tax of £107.82 at Band D for City Council services.
9. That Parish Council Taxes be noted as in Appendix K.
10. 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 15 December 2004.
- 1.2 A capital programme was also approved by Cabinet in December (CAB962).
- 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. There is a recommended increase in the City element of the Council Tax of 3.3%.
- 1.4 The detailed service budgets presented with report CAB961 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 24 February, the further growth and savings will be included in detail and will be published in the budget book.

2 Revised Budget 2004/05

- 2.1 The revised budget for net expenditure on services totals £12,389,850 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 fully reflect the various adjustments that are necessary following the transfer of certain services between departments.

3 2005/06 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 £12,556,280. Summaries of the individual service budgets are shown in Appendix L.
- 3.2 Cabinet has considered various items of growth and savings and referred them to the PICs for further consideration. Arising from this two recommendations were made by the Health PIC. One was to delete the proposed saving of £18,000 pa by levying charges for replacement bins. The second was to request growth of £11,000 pa for additional bottle bank emptying. After discussion with the Leading Group the first proposal has been included within the budget figures (ie there will be no charge for

replacement bins. The second proposal has not been included in the budget figures but officers will provide sufficient bottle banks from within existing budgets.

- 3.3 It is expected that the Council will receive further Planning Delivery Grant next year and that an announcement of the sum will be made in February. A sum of £200,000 is included in the budget figures. Full details will be included within the Development Services Business Plan in due course.
- 3.4 The deficit for next year, after inclusion of growth, savings and a Council Tax increase of 3.3%, is projected at about £0.7m. Of this £236,000 is earmarked from Reserves for funding specific projects. This leaves a budget deficit of some £500,000. This is acceptable for the current year, as the Council's prudent approach to budgeting means that it is likely that the actual deficit will be less than this.
- 3.5 However, the projected deficit for following years is in the order of £0.9m and this will need to be reduced in future. In addition, arising from the Gershon Review, the Council is required to consider the achievement of efficiency savings of 2.5% and submit a Statement to Government by the end of March 2005 on its plans. Work has commenced to identify areas that should be considered for further review and more information on this will be available at the Cabinet meeting in March.
- 3.6 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.

4 Capital Programme 2004/05 to 2009/10

- 4.1 Supported Capital Expenditure (SCE) allocations amounting to £886,000 have now been received 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 £4.34m at the end of 2004/05. 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 G and H, and take account of the Government pooling of capital receipts from 1 April 2004.

5 The Government Settlement

- 5.1 The announcement of the revenue support grant (RSG) and business rates (NNDR) figures together with subsequent announcements indicated an increase of 2.5% over the current year's amount and this has been confirmed in the final figures now issued.
- 5.2 The RSG formula has calculated that the amount of grant for Winchester should be £2.77m. With the operation of the floor, the RSG settlement is £2.94m, some £170,000 above the calculated figure. There is an expectation that, over time, floors

will be removed. However, at this stage the forward projections assume an increase in total Government support of 2.5% pa.

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

| | 2004/05 Adj. Final £000 | 2005/06 Final £000 | Change % |
|-------|-------------------------------|--------------------------|-------------|
| RSG | 3,017 | 2,944 | -2.4 |
| NNDR | 2,945 | 3,167 | +7.5 |
| TOTAL | 5,962 | 6,111 | +2.5 |

6 Collection Fund and Council Tax

- 6.1 The regulations require the Council formally to approve the Collection Fund balance at 31 March, calculated at 25 January.
- 6.2 For Council Tax a surplus of £112,750 is estimated, shared between the County Council (£82,500), the Police Authority (£10,640), the Fire & Rescue Authority (£5,040) and this Council (£14,570). This must be credited to the Council Tax for the District for 2005/06. This is equivalent to £0.32 at Band D.
- 6.3 At the Cabinet meeting on 27th July, 2004, Members agreed that *Cabinet should strive to keep Council Tax increases at or below the rate of inflation if possible, bearing in mind the uncertainties at this stage in relation to Government Grants and Council growth items.*
- 6.4 Whilst the announcement has been made for next year's Government support through RSG and NNDR, there is no indication of the support for following years. Similarly, there is no certainty about the level of PDG or about any reductions in RSG that may be required as a result of the Gershon Review. There is also continuing concern that the Council's level of Tax is some £40 below that which is included in the Government's assumptions and in the calculation of RSG. It would be sensible to aim to narrow that difference through incremental increases in Tax over and above the rate of inflation.
- 6.5 The Minister for Local and Regional Government has written to authorities that the Government expects that *the average council tax increase in England will be less than 5%.*
- 6.6 The current rate of inflation is 3.3% and it is suggested that this be the minimum Tax increase for next year. This would mean that the Tax at Band D equivalent, after taking account of the Collection Fund surplus, would be £107.82.
- 6.7 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 £45.83, an increase of 5.5%. Considering this in conjunction with a City Council increase of 3.3%, the Council should not be exposed capping.

6.8 The Taxes for the County Council, the Police Authority and the Fire Authority will be decided on 23, 15 and 9 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 25 February 2004 (minute 1060 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 2004/05 (CAB778, 11 February 2004), 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 £685,550 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 6 January 2005 and made the following recommendations:

- ◆ A one-off growth item of £20,000 for grants to local organisations.
- ◆ A one-off growth item of £10,000 for the preparation of Neighbourhood design Statements.
- ◆ A one-off growth item of £20,000 for a tree survey and arboricultural work.
- ◆ A growth item of £5,000 for the maintenance of St Faith's Meadow.
- ◆ 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 £104,722 at 31 March 2006

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. The forward projections in Appendix B give an indication of the Council's position for the next six years; the basis of the assumptions being included in notes to the Appendix. One significant item is the effect of changes in interest rates (a 1% reduction in rates currently reduces income by about £300,000 pa).

- 8.2 In addition, there is continuing uncertainty about future Government revenue support, Planning Delivery Grant and Licensing income. This last item will be subject to a report to Members if necessary once the details of the recently published fee regulations have been assessed.
- 8.3 The budget contains no specific provision for the office accommodation changes that are likely in the future. The impact of the proposal to relocate into a single building has not been fully assessed yet and, if that is not proceeded with, Members will need to consider additional provision for repairs to the current buildings, particularly City Offices. In addition, there is no specific provision for work that the Council might be required to do under the provisions of the Disability Discrimination Act 1995.

9 Reserves and Balances

- 9.1 A full summary of all earmarked and major reserves is included at Appendix E. It must be borne in mind however that some reserves can only be used for restricted purposes.
- 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 current rates will remain stable, 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 about 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 needs to be reviewed well in advance of the budget process for 2006/07.

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.
- 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 CAB974 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 G 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 is the capital monitoring report for the period to 31 December 2004 (CAB997).
- 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:

| | 2003/04 Actual | 2004/05 Estimate | 2005/06 Estimate | 2006/07 Estimate | 2007/08 Estimate |
|-------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Capital Financing requirement | £000 | £000 | £000 | £000 | £000 |
| General Fund | (16,863) | (9,206) | (8,539) | (8,539) | (8,539) |
| Housing Revenue Account | 9,623 | 9,206 | 8,539 | 8,539 | 8,539 |
| Total CFR | (7,240) | 0 | 0 | 0 | 0 |

In this table the projections show that there is unlikely to be a need borrow for capital purposes in the period 2005/06 to 2007/08. If a borrowing need did arise it would be fulfilled from internal resources, although this could then 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.

| | 2003/04 Actual | 2004/05 Estimate | 2005/06 Estimate | 2006/07 Estimate | 2007/08 Estimate |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|
| Ratio of financing costs to net revenue stream | % | % | % | % |)% |
| General Fund Gross | (16.03) | (15.87) | (11.90) | (10.20) | (8.62) |
| General Fund net of earmarked reserves | (13.30)% | (12.29)% | (9.88)% | (8.43)% | (7.17)% |
| Housing Revenue Account Gross | - | 32.25 | 32.13 | 31.37 | 31.86 |

- 10.10 The final indicator in this section is an estimate of the **incremental impact of capital programme decisions** over the period 2005/06 to 2007/08 on the Council Tax and housing rent levels.

| | Estimate 2005/06 | Estimate 2006/07 | Estimate 2007/08 |
|----------------------|---------------------|---------------------|---------------------|
| Council Tax – Band D | £4.30 | £6.25 | £8.54 |
| Weekly Housing Rents | 0 | 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 2004/05 to 2009/10
- Appendix C Requests for growth
- Appendix D: Increased income and savings options
- Appendix E: Summary of reserves projections
- Appendix F Financing transactions
- Appendix G Capital Programme and Financing
- Appendix H Major Investment Reserve and Capital Receipts
- Appendix I Collection Fund (provisional)
- Appendix J Council Tax on Winchester Town
- Appendix K Parish Council Precepts and Council Taxes 2005/06
- Appendix L Detailed Service Budgets 2005/06

CAB973