

CABINET

18 January 2006

REVENUE BUDGET 2006/07

REPORT OF THE DIRECTOR OF FINANCE

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

RECENT REFERENCES:

CAB1090 Financial Strategy 2006/07 to 2010/11 26 July 2005

CAB1126 Corporate Strategy and Revenue Budget 2006/07 12 October 2005

CAB1149 Corporate Strategy and Revenue Budget 2006/09 16 November 2005

CAB1185 Corporate Strategy 2006/09 (update) 18 January 2006

EXECUTIVE SUMMARY:

This report gives an overview of the progress made towards achieving the Council's budgetary objective of setting a balanced budget so that Cabinet may develop final proposals for consideration by Council in February.

The announcement of the Council's provisional formula grant allocation has been made and covers a two year period. The cash increase awarded to Winchester is £545,000 for 2006/07 and £693,000 for 2007/08. The cash figure continues to be above the formula grant calculation. The report gives a commentary on the grant settlement.

The report includes growth proposals of £700,000 pa and savings proposals of around £1.4m pa. With a 4.9% rise in council tax revenue expenditure next year is projected to exceed income by around £0.5m. The comments of the Scrutiny Panels on the potential budget changes are included as an appendix to the report.

The four year forward projections continue to show that revenue expenditure exceeds income and the Major Investment Reserve and Capital Receipts balance are projected to be substantially depleted, as are the non specific reserve balances.

The paper also considers the position for the Winchester Town account. The Town Forum (Councillors' Meeting) will be considering the Winchester Town budget at its meeting on 18 January 2006.

RECOMMENDATIONS:

That Cabinet indicate which of the growth and savings proposals for 2006/07 should be incorporated in the budget and comment on final options to be developed for presentation to Council.

CABINET

18 January 2006

REVENUE BUDGETS 2006/07

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 objective of setting a balanced budget as agreed at the Cabinet meeting of 26 July 2005 so that Cabinet may develop final proposals for consideration by Council in February.
- 1.2 It builds on the proposed changes to the budget set out in CAB1149 and reports on feedback from consultation with the Scrutiny Panels on these proposed changes. It also sets the scene for the budget report that will come to Cabinet on 7 February 2006 prior to setting the Council Tax levels for 2006/07 at Council on 23 February 2006.
- 1.3 The announcement of the Government's provisional local government settlement has been made and the provisional formula grant allocation for Winchester is reported in this paper.

2 Revised Budget 2005/06

- 2.1 The revised budget before transfers to reserves and direct financing of the capital programme totals £12.23m compared with an original budget of £12.41m. This includes managed savings brought forward from 2004/05, any supplementary estimates approved since February 2005 and changes in financing transactions (principally adjustments to capital financing charges because of changes in the capital programme).
- 2.2 There are some significant changes on individual service heads caused by capital financing charges. These internal charges have no effect on the bottom line as Financing Transactions include an off-setting credit. The revised estimate shows an increase of £1.6m in the credit: about £1.2m is changes in capital financing charges.
- 2.3 Other than capital financing charges, service budgets are generally in line with the original estimates. The revised budget overall has reduced because an additional £0.38m will be earned in interest on investments than was originally budgeted for. This arises mainly from higher than expected balances as the capital programme spend is slower than profiled but also from keen management of the investments.

3 Budget 2006/07

- 3.1 A summary of the budget before growth and savings proposals is shown in Appendix 1a. The growth and savings proposals considered in November/December by Cabinet and the Scrutiny Panels are included in the budget summary at Appendix 1b and the forward projections in Appendix 2. These show a deficit for next year assuming agreed contributions from various reserves and a 4.9% rise in council tax.
- 3.2 Although the rate of interest being achieved on our investments is currently 4.5% and the forecast for next year assumes a continuance of this return (in line with advice from our Brokers) investment income is expected to fall in 2006/07. The total

invested is expected to decrease to about £20m, principally because of capital programme spending and the 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. Inflation other than on pay or third party contracts has been absorbed within the base budgets (the value of this is in excess of £0.2m). The effect on the General Fund of a 1% change would be about £260,000 (split between pay and other costs).

4 Additional Budget Requirements

- 4.1 At its meeting on 16 November Cabinet considered the roll forward of the corporate strategy and a range of budget growth and savings proposals. These are included in Appendices 3 and 4. Growth totals around £700,000 pa, with savings totalling around £1.4m pa: many of the savings are projected to come from efficiencies or from increased income from car park charges.
- 4.2 These proposals formed the basis of consultation with the Scrutiny Panels in their November/December meetings. Feedback from the Scrutiny Panels on the budget proposals is shown in Appendix 5, with the relevant extracts from the Panel minutes. These issues will be considered by Principal Scrutiny Committee at its meeting on 16 January.
- 4.3 Since the Scrutiny Panel meetings further changes have been made to the growth and savings proposals – these are annotated in Appendices 3 and 4. The proposal for increasing the waste recycling programme has not yet been fully costed and the proposed budget may change once these figures are known.
- 4.4 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 projected deficit and the consequent call on and depletion of reserves, which provide interest income to support the revenue account.

5 Looking Ahead

- 5.1 As in previous reports a detailed forecast is attempted for three years and a broad outlook is given for the following three. The Government has indicated that any tax rises in excess of 5% will lead to those authorities being capped. If a council tax increase of 4.9% is agreed in 2006/07 there will still be a deficit in that year and the following three years, after allowing for the inclusion of growth and savings options. These projections assume that Government support will increase by 2.7% in 2007/08 and 2% per annum thereafter.
- 5.2 The ability of the Council to continue with the current level of service provision is dependent upon the final Government settlement (although little change is expected), the extent to which savings are achieved and 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 CAB1182, elsewhere on this agenda.

- 5.3 As usual, a marker is put down about significant issues which have not been quantified or may cause concern:
- a) **Land charges/Licensing income.** Current projections show land charges income may be £40,000 below target for 2005/06 – and it may not be possible to make any significant changes to fee structure because of current market conditions. Licensing income is also being reviewed to take account of recent changes from implementation of the Licensing Act 2003.
 - b) **Monitoring Officer Work.** The Standards Board recently indicated that the number of cases referred for investigation or local determination will increase significantly. This could result in the need for consultancy fees to outsource work either to deal with volume or timing of cases.
 - c) **New office accommodation.** This scheme is at an early stage and no assessment has been made of the effect on the Council's finances and cash flow, although the intention is for the scheme to be no worse than cost neutral overall.
 - d) **Silverhill.** Detailed proposals for this scheme are nearing completion but the final outcome on City Council finances cannot be quantified precisely. As well as several capital elements that may affect the overall costs of the scheme, and thus the Council's share of any subsequent profit, there may be additional revenue costs, such as in relation to additional street cleaning or landscape maintenance.
 - e) **Superannuation Fund.** Government proposals to reduce the burden on the Pension Fund were abandoned earlier this year. If these proposals are not pursued the deficit on the Fund may be worse than currently forecast and Employers' contribution rates in 2007/08 may have to increase above those included in the projections.
- 5.4 Issues in relation to the capital programme are highlighted in report CAB1182 elsewhere on this agenda.

6 The Government Grant Settlement

- 6.1 The Government issued a provisional local government settlement for 2006/07 and 2007/08 early in December. The total support for local government is reported to have risen by 4.5% in 2006/07 compared with 2005/06. For the first time the Government have given a two year settlement for individual authorities.
- 6.2 The 2006/07 provisional figures for Formula Grant were announced on 5 December and the formula increase awarded to Winchester is 3%. The provisional figures are not expected to change significantly upon finalisation.
- 6.3 Over the current year's figure there is a cash increase of £545,000 for next year and £693,000 for 2007/08. It is understood that the figures have been adjusted to reflect some of the increased cost pressures that the Council faces, such as concessionary travel, electoral registration and elections. The formula calculation is obscure and it is not possible to determine whether the increases properly reflect the additional costs that the Council will have to bear.
- 6.4 To avoid major disruptive changes in grant aid from one year to the next a system of floors and ceilings was introduced to dampen the effect of these changes. For

2006/07 the Council will receive £171,000 in excess of the formula amount. For 2007/08 the Council will receive £106,000 in excess of the formula amount.

- 6.5 The following table shows the provisional figures issued on 5 December compared with the current year's adjusted figure:

	Formula grant £000	Formula Increase £000	Floor damping £000	Total Increase £000	Increase %
2005/06(adj)	6,462	-	-	-	-
2006/07	6,656	23	171	194	3.0
2006/07(adj)	6,625	-	-	-	-
2007/08	6,804	73	106	179	2.7

- 6.6 The Government settlement assumes that income from council tax will rise by no more than 5% next year and this is built into the settlement. Ministers have indicated that local authorities who increase council tax above the 5% level will be capped.

- 6.7 The current tax base is 45,678 and next year's is projected at 46,208. An assessment of the Collection Fund will be presented to a future meeting. However, the current projections indicate that there will be a surplus of £42,000 to be taken into account when setting the tax for next year.

7 Policy for Total Spending and Council Tax Level

- 7.1 The report to Cabinet in October (CAB1126) indicated that without significant savings in existing budgets being achieved there would be a substantial ongoing deficit of approximately £1m per annum for the foreseeable future. Cabinet resolved that action should be taken to eliminate this deficit and Appendix 2 contains the projections for next year and beyond including all the growth and savings items considered previously by Cabinet.

- 7.2 Although it has been substantially reduced there still remains a projected deficit and this continues to give cause for concern. The two year settlement figures have given some greater certainty on immediate grant funding: for the projections beyond that period it is assumed that formula grant continues to rise by 2% per annum, which may be optimistic, and that council tax will rise by 3%. On this basis there will continue to be a deficit unless action is taken.

- 7.3 The projections have included a Council Tax increase of 4.9%. This allows an increase for inflation (say 3%) plus an additional amount to support the various corporate priorities such as expansion of recycling. The income arising from the additional 1.9% is around £90,000 pa.

- 7.4 Action taken to reduce the deficit for next year is likely also to reduce the on-going deficit. As part of its deliberations on the budget, Cabinet may consider a combination of tax increases, savings or reduced aspirations. Also, the use of

reserves is legitimate for one-off or invest-to-save projects. Cabinet is asked to consider options for presentation to Council in February.

8 General Fund Working Balance

- 8.1 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.
- 8.2 A significant proportion of the Council's spending is financed from investment income (£1m 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 4.5% next year, in accordance with the latest information from the Council's investment advisors. However, the balance of investment on which interest is earned will fall as the full effect of the Government's capital receipts pooling regime is felt and spending on the capital programme proceeds.
- 8.3 Other income in the budget is also significant, particularly that for planning and building control services. Unexpected or sudden changes cannot always be matched by immediate reductions in expenditure and balances provide an interim protection for the Council.
- 8.4 Exposure to expenditure fluctuations is more limited. Inflation increases of 1% increase the Council's costs by about £260,000 pa (split between pay and other costs). Although repair reserves are held to ensure funds are available for maintaining the Council's property and funding unforeseen expenditure these have generally been reduced in recent years. 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.
- 8.5 Overall, the provision is considered to be sufficient and the forward projections assume this level is retained. The position will be kept under review each year as part of the budget process.

9 Reserves

- 9.1 Appendices 8 and 9 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 over those included in the projections, the balance on the Major Investment Reserve will be less than £1m by the end of the projection period. Based on the current capital programme (CAB1182 elsewhere on this agenda), there will be no capital receipts by the end of the projection period. There will be a continued need to find savings and generate efficiencies in order to protect the Council's future aspirations.
- 9.2 Whilst the total of other reserves seems high, the inclusion of specific reserves such as Bapsy and open spaces developers' contributions, gives a false sense of security. By the end of the plan period, balances on non specific reserves will be small.
- 9.3 The balances held in these reserves are invested and the interest used to support the General Fund, other than where they are built up from external contributions and interest is credited directly to those reserves.

10 Winchester Town Account

- 10.1 Appendix 6 shows the draft budget 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 an increase in the budget for recreation grounds.
- 10.2 The Town balance is expected to be lower than anticipated by the end of this year. The Forum has indicated that it may wish to incur additional expenditure on schemes not currently budgeted for and the Town Forum (Councillors' Meeting) will be considering the budget at its meeting on 18 January 2006. Overall, it is suggested that a minimum balance of around 10% of the annual budget (approximating to £70,000) is maintained. With a tax base of 13,637 for next year, a £1 change in tax equals about £13,500.
- 10.3 The methodology for determining which items should be charged as special expenses to Winchester Town will be brought to Cabinet in February as part of the Council Tax-setting report.

OTHER CONSIDERATIONS:

11 CORPORATE STRATEGY (RELEVANCE TO):

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

12 RESOURCE IMPLICATIONS:

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

13 BACKGROUND DOCUMENTS:

- 13.1 Working papers within Finance and Other Departments.

APPENDICES:

Appendix 1: General Fund Service Summary 2004/05 to 2006/07

Appendix 2: General Fund Projections 2005/06 to 2010/11

Appendix 3: Revenue Growth Proposals 2006/07 to 2008/09

Appendix 4: Revenue Savings Proposals 2006/07 to 2008/09

Appendix 5: Budget Comments from Scrutiny Panels

Appendix 6: Winchester Town Account 2004/05 to 2006/07

Appendix 7: Financing Transactions

Appendix 8: Major Investment Reserve and Capital Receipts 2005/06 to 2010/11

Appendix 9: Summary of Major Reserves