

CABINET

11 October, 2006

PRINCIPAL SCRUTINY COMMITTEE

16 October, 2005

GENERAL FUND BUDGET 2007/08

Report of Director of Finance

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RECENT REFERENCES:

PS242 - Budget Monitoring and Efficiencies Overview to July 2006 - 11 September 2006

CAB1269 - Financial Strategy 2007/08 to 2011/12 - 26 July 2006

CAB1270 - Capital Strategy and Programme 2006 - 26 July 2006

EXECUTIVE SUMMARY:

This report presents the next phase in the budget process by setting the scene for the deliberation of the corporate strategy and the detailed budget. Updated projections for the Financial Strategy period are included. At this stage these show little variation over those previously considered by Members with a small deficit anticipated in 2007/08 and some small surpluses thereafter. The projections are based on a number of assumptions and are subject to influence from various external and internal factors – these are detailed in the report.

Any proposals for growth and savings will be considered by Cabinet at its November meeting and the relevant Scrutiny Panels in the November/December cycle of meetings. These should be considered against the emerging priorities in the draft Corporate Strategy: equivalent savings will be required in order to release funds for any growth proposals.

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 in the New Year.

**RECOMMENDATIONS:**

- 1 That Cabinet notes the current projection of the Council's financial position and uses this as the basis for considering changes to priorities, through growth and savings proposals, as part of its deliberation of the draft Corporate Strategy.
- 2 That Principal Scrutiny Committee considers whether it wishes to make any comments on the Council's budget to Cabinet or Scrutiny Panels in advance of their deliberations on the budget.

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### Report of Director of Finance

#### 1 Introduction

1.1 The key principles to be applied to the budget were agreed at the Cabinet meeting of 26 July, 2006, viz:

- The revenue budget for the forthcoming year will be balanced
- Reserves will not be used to fund annual, recurring expenditure
- Savings proposals will be sufficient to fund Growth proposals and to eliminate any projected deficit
- Growth proposals will not create a revenue deficit in future financial years without equivalent forward savings also being identified
- Inflation will be applied only to budgets for staff and external contracts

1.2 This report presents the next phase in the budget process by setting the scene for the deliberation of the corporate strategy and the detailed budget.

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

#### 2 Current Position

2.1 The current year's budget has been updated to include additional approvals for carry forward from 2005/06; supplementary estimates and expenditure to be funded from the Local Authority Business Growth Incentive Scheme (LABGI).

2.2 The last meetings of Cabinet and Principal Scrutiny Committee received a monitoring report (PS242) covering the first four months of the current financial year. This highlighted a number of significant variations including several areas of savings, efficiencies or income that appeared to be below target. Scrutiny Panels will receive monitoring reports for the current year in the forthcoming cycle.

#### 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. In addition, some of the savings arising from efficiencies or reductions in services elsewhere can impact on the HRA through reduced overhead charges. Thus the HRA must be considered alongside the General Fund: 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 will be reviewed by directors. 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 Scrutiny Panels in the forthcoming cycle on all fees and charges.
- 5 It is assumed that Planning Delivery Grant will continue or be replaced by equivalent income. A sum of £365,000 is included in the budget for the current year. Whilst some of this will be spent on one-off projects a significant part is underpinning base budget expenditure.
- 5.1 Significant income is generated from the investment of the Council's balances and changes in interest rates have a correspondingly significant impact on the Council's income. The projections reflect expected rates of 4.5% for the coming year, in accordance with advice from the Council's consultants. A change of 0.25% changes income by £90,000 pa.

#### 6 Capital

- 6.1 The capital programme was approved by Cabinet on 26 July 2006 and, following subsequent additional approvals, the current programme is included at Appendix C.
- 6.2 The projection of capital receipts, the prime source of funding the General Fund capital programme, is shown in Appendix B. This forecast shows that by 2011/12, the end of the current Financial Strategy period, the balance of capital receipts will be exhausted. However, this does not yet include receipts from the sale of assets arising from office accommodation proposals. Also, it should be noted that the forecast of receipts from the sale of HRA stock under the right to buy has not been revised and receipts from this source in the current year are currently below expectations.
- 6.3 There are new accounting requirements for the treatment of capital charges which may alter the allocation of costs between the General Fund and the HRA.
- 6.4 Further work is being done on the detailed cash flow requirements for funding the capital programme. Accordingly, the projection for financing charges has not been revised at this stage but will be reviewed as part of the detailed budget process.

#### 7 Reserves

- 7.1 These have been established for specific purposes and will be reviewed by the Scrutiny Panels in the November/December cycle of meetings. 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 The principal reserve used for supporting the Budget is the Major Investment Reserve. There are plans within the Financial Strategy to utilise the reserve to support the capital programme, although a first call on the balance would be to support any deficit on the Revenue budget. With the current projections, assuming the surpluses on the revenue account remains unused, the Reserve remains in surplus at 2011/12. Details are shown in Appendix B.

### Government Settlement

- 8.1 The projections in Appendix A show both a cash increase in Government support of 2.7% in 2007/08 and 2% pa thereafter. The details of the settlement will not be known much before Christmas and they will inform the final consideration of the budget in the New Year.

### 9 Consideration of Growth and Savings Proposals

- 9.1 Any proposals for growth and savings will be considered by Cabinet at its November meeting and the relevant Scrutiny Panels in the November/December cycle of meetings.
- 9.2 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 in the New Year.
- 9.3 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. Whilst the Council continues to pursue savings through its efficiencies programme, further reductions in costs may only be possible if there are 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.

### 10 Projections

- 10.1 Appendix A gives projections over the medium term, until 2011/12. The assumptions behind the projections are set out in the Appendix.
- 10.2 The projections include savings to be found under the Gershon efficiency requirements. Currently achievement of these savings is falling below target and the overall position for the Council's budget presented for future years may be optimistic.
- 10.3 There have been significant increases in pension contributions over the past few years in order to reduce the current deficit on the Superannuation Fund. There are proposals to change the pension scheme in future in order to reduce its cost but further increases in the employer rates in future cannot be ruled out.
- 10.4 Inflation on pay is included at 2.5% for 2007/08 onwards (about £0.35m pa) - this item alone is equivalent to £7.50 (6.5%) on the Council Tax and is required for the authority simply to stand still. The Government has indicated that it expects pay awards to be no more than 2% in the public sector. 0.5% pa is equivalent to £70,000 pa. Pay negotiations have commenced at a national level and the outcome of these will determine the level of award that the Council will implement.
- 10.5 The Government has also indicated that its inflation target is 2% pa. Currently inflation is 3.4%. 3% has been included within the projections at this stage. 1% pa is equivalent to £70,000 on expenditure (for third party contracts only) and £120,000 on income.
- 10.6 Overall the projections show a small deficit for next year with small surpluses thereafter. This is because inflation has been applied to all income but only to certain expenditure heads and because considerable savings have been assumed in both this year's and future years' budgets.

## 11 Uncertainties

11.1 The budget for next year, and the Strategy's forward projections, will be influenced significantly by various external factors that cannot be quantified or assessed fully at this stage even though they will affect the baseline in due course. These include:

- The level of Revenue Support Grant (RSG)
- The review of Government funding for local councils and the possibility of business rate income being retained by councils
- The Business Growth Incentive scheme
- The amount of Planning Delivery Grant
- The level of external investment interest rates
- The deficit on the Superannuation Fund
- The demand for concessionary travel passes
- Changes to fee structure for land charges searches
- Growth pressures and changes to national priorities that must be met

11.2 Similarly the baseline budget will also be influenced by factors and aspirations within the Council's control, such as changes to corporate priorities. Capital schemes that may have an impact on the revenue budget in the future include:

- New office accommodation
- Silver Hill development proposals
- Any need for further investment in building fabric
- Work to the Guildhall additional to the Bapsy proposals
- Further expansion of the Park and Ride scheme

## 12 Taxation Policy

12.1 The current tax at Band D is £113.13. It is assumed that the Government will consider using capping powers to limit council tax rises next year but there is no information on this at present.

12.2 The projections include an illustrative increase in Council Tax of 3%. For each 1% increase about £50,000 pa is raised.

12.3 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:

13 CORPORATE STRATEGY (RELEVANCE TO):

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

14 RESOURCE IMPLICATIONS:

14.1 As set out in the report.

BACKGROUND DOCUMENTS:

Working papers held in the Finance and other directorates.

APPENDICES:

Appendix A: General Fund Revenue Projections 2006/07 to 2011/12

Appendix B: Major Investment Reserve and Capital Receipts

Appendix C: Capital Programme 2006/07 to 2011/12