

CABINET

17 October 2007

PRINCIPAL SCRUTINY COMMITTEE

22 October 2007

GENERAL FUND BUDGET 2008/09

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

CAB1476: Revenue Outturn 2006/07, 20 June 2007

CAB1483: Financial Strategy 2008/09 to 2012/13, 17 July 2007

CAB 1484: Capital Strategy and Programme 2007, 17 July 2007

CAB1530: Capital Programme 2007/08 to 2012/13, 19 September 2007

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. 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.

Initial 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 alongside 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.

Within this report it is proposed to set up a separate earmarked reserve for the Local Authority Business Growth Incentive (LABGI) funding received to enable it to be ring-fenced to support future economic development.

RECOMMENDATIONS:To Cabinet:

- 1 That Cabinet approves the setting up of a separate earmarked reserve for Local Authority Business Growth Incentive (LABGI) funding to be used for the purposes specified (see para 6.3).
- 2 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.

To Principal Scrutiny Committee:

- 3 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.

## CABINET

17 October 2007

## PRINCIPAL SCRUTINY COMMITTEE

22 October 2007

## GENERAL FUND BUDGET 2007/08

## REPORT OF HEAD OF FINANCE

### DETAIL:

#### 1 Introduction

1.1 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.

1.2 The key principles to be applied to the budget were agreed at the Cabinet meeting of 17 July 2007, 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

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

#### 2 Current year baseline (2007/08)

2.1 The Working Budget for the current year is the Original Estimate updated to include; approvals for carry forward from 2006/07; approved supplementary estimates; and, expenditure funded from the Local Authority Business Growth Incentive (LABGI) received.

2.2 Monitoring of performance in the year to date has identified pressures in containing expenditure within the budget set; the main areas being; paybill - where more stringent vacancy management action has been taken; and, targeted savings not yet achieved. These will be considered further when the detailed growth and savings are presented.

#### 3 Housing Revenue Account

3.1 Whilst the Housing Revenue Account (HRA) is fairly self contained in that its revenue expenditure must be funded by its rental income, its capital schemes can impact on the General Fund through loss of interest. Conversely changes initiated in the General Fund can impact on the HRA in the form of overhead charges.

- 3.2 Therefore the General Fund cannot be considered independently of the Housing Revenue Account (HRA). As in previous years, further reports will be made to Cabinet on the HRA position later in the year.

#### 4 Income

- 4.1 The financial projections assume that total income will increase by inflation. It is a requirement under the Financial Procedure Rules that all fees and charges are reviewed annually and reported to Members. This is undertaken by the respective Divisions. Detailed approval of changes in charges could be undertaken through the portfolio holder decision-making process.
- 4.2 Planning Delivery Grant will be replaced by a new Planning and Housing Delivery Grant next year but the Government has not yet consulted on the detailed mechanisms for allocating funding, nor indicated the total amount to be distributed. A sum of £365,000 was received in 2007/08 and 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 and if the new grant does not provide sufficient funding this will add to pressures on service budgets.
- 4.3 Significant income is generated from the investment of the Council's balances and changes in interest rates have a corresponding impact on the Council's interest income. The projections reflect expected rates of 5.5% for the coming year, in accordance with advice from the Council's consultants.

#### 5 Capital

- 5.1 An updated capital programme was considered by Cabinet in September and, including the approvals made at that meeting, the current programme is included at Appendix B.
- 5.2 The projection of capital receipts, the prime source of funding the General Fund capital programme, is shown in Appendix C. This forecast shows that by 2012/13, the end of the current Financial Strategy period, the balance of capital receipts will be depleted. However, there may be future opportunities for receipts from the further sale of assets. Also, it should be noted that the forecast of receipts from the sale of HRA stock under the right to buy has been assumed to continue at the same levels as in the recent past although it is considered that these levels may reduce at some point in the future. This will be kept under review.
- 5.3 Further work will be necessary on the detailed cash flow requirements for funding the capital programme. Accordingly, the projection for financing charges will be refined as part of the detailed budget process.

#### 6 Reserves

- 6.1 The principal reserve used for supporting fluctuations in 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.
- 6.2 Earmarked reserves have been established for specific purposes with associated spending plans. Operational property condition surveys (currently underway) may determine a requirement to set up an earmarked reserve for Property Enhancement and Repair.

- 6.3 The Local Authority Business Growth Incentive (LABGI) scheme has provided additional funding in 2005/06 and 2006/07 with further amounts due to be received in 2007/08. Some of this has been allocated to one-off projects and a balance currently remains in the Major Investment Reserve. Members have expressed a requirement that this funding is used primarily to support future economic development and that a share of the benefit is returned to the communities that helped deliver the funding. To facilitate this it is proposed to set up a separate earmarked reserve and for the unallocated LABGI receipts to date to be transferred from the General Fund to the earmarked reserves with spending plans to be identified through the budget setting process. Any future amounts of LABGI received would be subject to a separate decision. Appendix D provides the details.
- 6.4 As in other years, when considering the taxation policy, Members must be mindful of the need to balance the loss of investment income against holding reserves in advance of requiring them.

## 7 Government Settlement

- 7.1 The projections in Appendix A assume no increase in Government support in 2008/09 and thereafter. The Formula Grant Distribution System is currently under review with the first three year settlement to run from 2008/09 to 2010/11 inclusive, with possible changes in the grant distribution method. 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.
- 7.2 There is also expected to be some specific grant allocation for the extension to the concessionary travel scheme, although it is not yet known whether the amounts received will be sufficient to fund obligations. Any potential impact of this is not currently reflected in the projections.

## 8 Consideration of Growth and Savings Proposals

- 8.1 Initial 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.
- 8.2 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.
- 8.3 The Council has been faced with a constrained financial position over the last few years and has made considerable savings with some reductions 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.

## 9 Projections

- 9.1 Appendix A gives projections over the medium term, until 2012/13. The assumptions used in the projections are set out in the Appendix.
- 9.2 Last year's baseline projections included various cost savings assumptions. Currently some of these planned savings have not been achieved. Hence, the overall position

for the Council's budget presented for future years may be optimistic. This will be taken into account when the detailed growth and savings are presented.

- 9.3 There have been significant increases in pension contributions over the past few years. Next year will see the impact of changes to the scheme as well as the results of the recently completed triennial valuation. Annual increases in employer's rates of +0.8% have been assumed although it is hoped that the final amounts will be slightly less than this.
- 9.4 Inflation on pay is included at 2.5% for 2008/09 onwards (amounting to c. £0.35m pa). 0.5% pa is equivalent to c. £70,000 pa. Pay negotiations are determined at a national level and the outcome of negotiations for 2007/08 is still undetermined.
- 9.5 The projections do not yet include any increases for incremental pay progression which would apply to over 50% of the workforce. These will be considered as the detailed budgets are prepared.
- 9.6 Annual inflation (RPI) in the year to August was 4.1%; 4% has been included within the projections at this stage.
- 9.7 Overall the projections show a deficit for next year and increasing into the future. In order to achieve a balanced Budget it will be necessary to identify where equivalent savings are to be made.

## 10 Uncertainties

- 10.1 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. These include:
  - The level of Revenue Support Grant (RSG)
  - Any changes to funding as a result of the Comprehensive Spending Review 2007
  - The Local Authority Business Growth Incentive scheme
  - The amount of Planning and Housing Delivery Grant
  - Investment interest rates
  - Changes to the Employer's contribution to the Pension Fund
  - The calculation of the payment due to bus operators for the 2007/08 concessionary travel scheme and implications of the National concessionary travel scheme to be introduced on 1 April 2008 and the demand for concessionary travel passes. There are likely to be significant upward pressures imposed by Government possibly not fully funded from central funds.
  - Further Changes to the fee structure for land charges searches and the longer term impact of the Home Information Packs upon search numbers.
  - Growth pressures and changes to statutory requirements

10.2 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:

- 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
- Changes to and refurbishment of existing office accommodation and the possibility of redeveloping City Offices

## 11 Taxation Policy

11.1 The current tax at Band D is £116.46 (2007/08). 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. In the recent past such limits have been set at 5%.

11.2 The projections include an illustrative increase in Council Tax of 4%. For each 1% increase about £60,000 pa is raised.

11.3 At this stage it is recommended that no firm decisions are taken about the level of tax as until the Government's Settlement is announced the information needed to make such a decision is incomplete.

## OTHER CONSIDERATIONS:

### 12 CORPORATE STRATEGY (RELEVANCE TO):

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

### 13 RESOURCE IMPLICATIONS:

13.1 As set out in the report.

## BACKGROUND DOCUMENTS:

Working papers held in the Finance and other directorates.

## APPENDICES:

Appendix A: General Fund Revenue Projections 2007/08 to 2012/13

Appendix B: Capital Programme 2007/08 to 2012/13

Appendix C: Major Investment Reserve & Capital Receipts projections 2007/08 to 2012/13

Appendix D: Local Authority Business Growth Incentive (LABGI)

<b>GENERAL FUND REVENUE PROJECTIONS 2007/08 - 2012/13</b>								
	Report ref. / Assumption (annual %)	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	Note
<b>GROSS BUDGET FOR GF SERVICES 2007/08</b>		20,759	20,759	20,759	20,759	20,759	20,759	
<i>Less</i> one off costs included in the Base	CL44		(788)	(876)	(876)	(856)	(876)	
Revenue savings adjustments (re 2006/07)	CAB 1172	0	(59)	(59)	(59)	(59)	(59)	1
Revenue Growth adjustments (re 2007/08)	CL44		(229)	(314)	(336)	(315)	(315)	2
Revenue savings adjustments (re 2007/08)	CL44		100	89	79	56	56	3
Brought Forward from 2006/07	CAB 1476	324	0	0	0	0	0	
Supplementary approvals to date		565	(36)	(64)	(64)	(64)	(64)	
Refuse/cleansing costs re new properties		0	50	100	150	200	250	4
Pensions increases	0.8%	0	86	173	259	345	431	5
Pay inflation	2.5%	0	346	701	1,065	1,438	1,820	
Inflation on Third Party Payments	4.0%	0	341	695	1,064	1,448	1,846	
Inflation on Income	4.0%	0	(510)	(1,040)	(1,591)	(2,165)	(2,761)	
<b>Projected Expenditure Ceiling before growth and savings</b>		<b>21,648</b>	<b>20,061</b>	<b>20,165</b>	<b>20,450</b>	<b>20,787</b>	<b>21,088</b>	
Capital Financing Charges		(5,098)	(5,098)	(5,098)	(5,098)	(5,098)	(5,098)	
Net Interest		(1,584)	(951)	(833)	(751)	(703)	(685)	
<b>Budget Requirement</b>		<b>14,966</b>	<b>14,012</b>	<b>14,234</b>	<b>14,601</b>	<b>14,986</b>	<b>15,305</b>	
<b>Funding</b>								
Council Tax	4.0%	6,163	6,409	6,599	6,796	7,000	7,210	
RSG & NNDR	0.0%	6,813	6,813	6,813	6,813	6,813	6,813	6
Winchester Town contributions		23	3	(19)	(36)	(44)	0	7
Funded by LABGI		287	25	0	0	0	0	
Cont. (to) / from Major Investment Reserve		1,752	88	0	0	20	0	
<b>Funding</b>		<b>15,038</b>	<b>13,338</b>	<b>13,393</b>	<b>13,573</b>	<b>13,789</b>	<b>14,023</b>	
<b>(Headroom)/Shortfall</b>		<b>-72</b>	<b>674</b>	<b>841</b>	<b>1,028</b>	<b>1,197</b>	<b>1,282</b>	
<b>Notes:</b>								
1 Further Savings included in 2006/07 budget for 2008/09								
2 Effect of Growth included in 2007/08 budget								
3 Revenue savings included in 2007/08 baseline								
4 Tax Base assumed to increase by 500 properties p.a. & tax increase 4% p.a.								
5 Projections for pensions increases derived from information supplied by HCC								
6 No increases in RSG assumed								
7 Difference between budget and tax levels for Winchester Town account								



<b>CAPITAL PROGRAMME 2006/07 to 2011/12</b>							
Corporate Priority		2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
		£000	£000	£000	£000	£000	£000
<b><u>Economic Prosperity</u></b>							
	Car Parks	336	200	180	180	180	180
	Tower Street	1,130	100	100	100	0	0
	Tower Street car park	0	100	0	0	0	0
	Guildhall Capital Repairs	42	0	0	0	0	0
	Discovery Centre Fit out	52	0	0	0	0	0
	Business Improvement District (BID)	20	0	0	0	0	0
		<b>1,580</b>	<b>400</b>	<b>280</b>	<b>280</b>	<b>180</b>	<b>180</b>
<b><u>Safe &amp; Strong Communities</u></b>							
HRA	Major repairs	3,326	3,326	3,326	3,326	3,326	3,326
HRA	Re-investment in affordable housing	1,000	1,000	1,000	1,000	1,000	1,000
	Renovation Grants - Mandatory	521	450	450	450	450	450
	Renovation Grants - Discretionary	170	170	170	170	170	170
	Affordable Housing (SHG)	0	0	0	0	0	0
	Affordable Housing/Regeneration	1,000	1,000	1,000	1,000	1,000	1,000
	Affordable Housing/funded by Developers' contributions	1,300	200	200	200	200	200
	CCTV	0	250	0	0	0	0
	Open Space & Recreation Facilities	268	150	150	150	150	150
	Capital grants	171	80	80	80	80	80
	Guildhall Community Facilities	0	500	500	0	0	0
	Outdoor Sports Centre - Bar End	1,010	0	0	0	0	0
	Knowle Community Building	50	350	0	0	0	0
	Rural Transport	20	50	50	50	50	50
	Groundworks in Jewry Street	180	0	0	0	0	0
	Winchester Discovery Centre	340	0	0	0	0	0
	Magdalen Hill Cemetery Improvements	40	0	0	0	0	0
	City Museum	4	0	0	0	0	0
	RPLC Capital Repairs	113	50	0	950	0	0
	Meadowside	116	0	300	0	0	0
		<b>9,629</b>	<b>7,576</b>	<b>7,226</b>	<b>7,376</b>	<b>6,426</b>	<b>6,426</b>
<b><u>High Quality Environment</u></b>							
HRA	Sewage Treatment Works	416	200	200	200	200	200
	Public Conveniences	20	0	20	0	0	0
	Replacement Bins	225	10	10	10	10	10
	Abbey Gardens Public Toilets	150	0	0	0	0	0
	Denmead Environmental Improvements	62	0	0	0	0	0
	Winnall Moors Project	0	10	10	10	10	10
		<b>873</b>	<b>220</b>	<b>240</b>	<b>220</b>	<b>220</b>	<b>220</b>
<b><u>An Efficient &amp; Effective Council</u></b>							
	ICT Equipment	244	200	200	250	200	200
	ICT E-govt	631	953	320	0	0	0
	Digital Print Software	25	0	0	0	0	0
	Financial System	0	40	110	0	0	0
	Purchase of property	3,437	0	0	0	0	0
	West Wing	364	0	0	0	0	0
	Abbey House	40	200	190	0	0	0
	Avalon House	150	0	0	0	0	0
	City Offices	28	20	20	20	20	20
	New Offices - fees	50	260	200	0	0	0
		<b>4,969</b>	<b>1,673</b>	<b>1,040</b>	<b>270</b>	<b>220</b>	<b>220</b>
<b>Total</b>		<b>17,051</b>	<b>9,869</b>	<b>8,786</b>	<b>8,146</b>	<b>7,046</b>	<b>7,046</b>
of which:							
	General Fund	12,309	5,343	4,260	3,620	2,520	2,520
HRA	Housing Revenue Account	4,742	4,526	4,526	4,526	4,526	4,526

**MAJOR INVESTMENT RESERVE AND CAPITAL RECEIPTS**

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
<b><u>MAJOR INVESTMENT RESERVE</u></b>						
Balance B/F	(5,539)	(1,932)	(914)	(394)	(364)	(145)
<b><u>Planned contributions to Revenue</u></b>						
Budgeted	876	88	0	0	20	0
Brought Forward from 2006/07	324					
Supplementary approvals in 2007/08	552	0	0	0	0	0
Proposed Transfer to LABGI earmarked reserve	670					
Financing of Capital Programme	1,185	930	520	30	199	0
<b>Projected total</b>	<b>(1,932)</b>	<b>(914)</b>	<b>(394)</b>	<b>(364)</b>	<b>(145)</b>	<b>(145)</b>
<b><u>CAPITAL RECEIPTS</u></b>						
Balance B/F	(8,702)	(6,293)	(4,600)	(3,580)	(2,210)	(2,109)
Asset Sales (RTB)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Pooling	1,500	1,500	1,500	1,500	1,500	1,500
Asset Sales (Other)	(1,950)	(150)	(150)	(150)	(150)	(150)
Financing of Capital Programme	8,159	4,543	3,870	4,220	2,951	3,150
Capital receipts ( re 2007/08 budget)	(3,300)	(2,200)	(2,200)	(2,200)	(2,200)	(2,200)
<b>Projected total</b>	<b>(6,293)</b>	<b>(4,600)</b>	<b>(3,580)</b>	<b>(2,210)</b>	<b>(2,109)</b>	<b>(1,809)</b>

<b>LABGI RECEIVED AND ALLOCATIONS TO DATE</b>					
	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>	<u>Total</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<b>LABGI Received</b>	<b>408</b>	<b>458</b>	<b>94</b>		<b>960</b>
<b>LABGI ALLOCATED</b>	<b>CAB 1243</b>	<b>CAB 1488</b>			
Winchester in Bloom	35				
Planning DC service improvements	100				
Strategic Planning service improvements	20				
Economic Development strategy & action plans	150				
Cultural Services relocations	60		32		
Signage decluttering project	30				
Year of Sculpture	13				
			<b>CL44</b>	<b>CL44</b>	
Economic Development Study			50	25	
Conserving Character/Design Guidance			45		
<b>Total Allocated</b>	<b>408</b>	<b>0</b>	<b>127</b>	<b>25</b>	<b>560</b>
<b>LABGI TO BE ALLOCATED</b>	<b>0</b>	<b>458</b>	<b>425</b>	<b>400</b>	<b>400</b>

<b>LABGI EXPENDITURE AND BUDGET</b>					
	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>	<u>Total</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<b>LABGI - available /unspent</b>	<b>408</b>	<b>866</b>	<b>764</b>	<b>425</b>	
<b>EXPENDITURE</b>		<b>Actual</b>	<b>Budget</b>		
Winchester in Bloom		13	22		
Planning DC service improvements		50	50		
Strategic Planning service improvements		20	0		
Economic Development strategy & action plans		59	91		
Cultural Services relocations		26	66		
Signage decluttering project		15	15		
Year of Sculpture		13	0		
Economic Development Study			50	25	
Conserving Character/Design Guidance			45		
<b>Total spent /forecast</b>	<b>0</b>	<b>196</b>	<b>339</b>	<b>25</b>	<b>560</b>
<b>Of which:</b>					
- capital expenditure			52		
- revenue expenditure		196	287	25	
<b>Unspent</b>	<b>408</b>	<b>670</b>	<b>425</b>	<b>400</b>	