

CABINET

7 February, 2006

BUDGET AND COUNCIL TAX 2006/07

REPORT OF THE DIRECTOR OF FINANCE

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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
CAB1171 Revenue Budget 2006/07 18 January 2006
CAB1182 Capital Programme and Budget 2006/07 to 2010/11 18 January 2006
CAB1185 Corporate Strategy 2006/09 (update) 18 January 2006

EXECUTIVE SUMMARY:

This report concludes the budget process for 2006/07 by presenting the summarised General Fund budget for approval, including final proposals for growth and savings. Members are asked to consider a Council Tax increase of 4.9% to £113.10 (at Band D for City Council services).

The budget papers include final growth and savings proposals identified as part of the work undertaken by officers, Corporate Management Team, Cabinet and Scrutiny Panels. The items requested for inclusion for revenue growth for 2006/07 are £669,000 on the base budget. Savings and proposals for increased income of £1,404,000 are also included. Details are shown in Appendices 3 and 4.

The paper also reports the Prudential Code indicators covering affordability, prudence and capital expenditure as these need to be calculated by 31st March, 2006.

The surplus balance on the Collection Fund that must be used to reduce the District Council Tax is calculated at £41,630 at 25 January 2006, equivalent to £0.90 at Band D.

A Council Tax of £49.05 is recommended for the Winchester Town account.

RECOMMENDATIONS:

1. That Members consider the level of General Fund budget and Service budgets for 2006/07 and make recommendations as follows:

	£
Central Services	
Chief Executive	923,900
Legal, Electoral, Committee Services	2,587,770
Finance, IT and Support Services	2,127,640
Human Resources	(29,000)
Community Services	
Environmental Health	5,154,030
Strategic Housing	2,456,830
Community Development	3,798,730
Development Services	
Estates	(866,150)
Engineering	798,710
Cultural	2,769,750
Planning	1,565,120
Building Control	188,730
Financing Transactions	(8,465,600)
Savings to be allocated	<u>(247,000)</u>
Sub Total	12,763,460
Transfers from Reserves	<u>(120,380)</u>
General Fund Budget	12,643,080
Transfer to/(from) Winchester Town Reserve	<u>(50,190)</u>
Total	12,592,890
Charges on Winchester Town	(668,900)
Total City Expenditure	<u>11,923,990</u>

The items of growth, savings and increased income, as set out in Appendices 3 and 4, are included in the figures above.

2. That approval be given to the inclusion of any further Planning Delivery Grant within the budget for 2006/07, once known, and that detailed proposals for the use of such grant be included within the Development Directorate Business Plan for 2006/07.
3. That the capital programme set out in Appendix 7, page 1, and the E-Government Programme set out in Appendix 8 be considered and approved.
4. That Members' Allowances for 2006/07 be held at the 2005/06 levels and that the inflation index in the Members' Allowances Scheme be not applied for 2006/07.

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 £719,090 be treated as Special Expenses under Section 35 of the Local Government Finance Act 1992 in respect of the Winchester Town area, Appendix 11.
6. That the Council Tax for the Special Expenses in the Winchester Town area at Band D be set at £49.05.
7. That the balances on the Collection Fund calculated at 25 January 2006, of £41,630 surplus for Council Tax for this Council, be approved.
8. That Members consider a Council Tax of £113.10 at Band D for City Council services.
9. That Parish Council Taxes be noted as in Appendix 12.
10. That the prudential indicators in section 12 be noted.

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REPORT OF THE DIRECTOR OF FINANCE

1 Introduction

- 1.1 As in recent years the budget process has attempted to link the budget closely to the Corporate Strategy. Following approval of the Financial Strategy in July, Cabinet has reviewed the Corporate Strategy and associated budgets, with Scrutiny Panels commenting on proposals for growth and savings.
- 1.2 A capital programme and e-government programme were also considered by Cabinet in January (CAB1182).
- 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.
- 1.4 The detailed service budgets are presented for approval as Appendix 13 to this report. Once the budget is finalised – by Council on 23 February - if there are further growth or savings these will be included in detail and will be published in the budget book.

2 Revised Budget 2005/06

- 2.1 The revised budget for net expenditure on services totals £12,220,920: an additional £0.38m is expected to be earned on investments in excess of the original budget as the capital programme spend has been slower than profiled and because of keen management of the investments.

3 2006/07 Budget and Revenue Growth and Savings

- 3.1 The General Fund budget for net expenditure on services, after inclusion of proposed growth and savings, totals £12,763,460. Summaries of the individual service budgets are shown in Appendix 13.
- 3.2 Cabinet has considered various items of growth and savings and referred them to the Scrutiny Panels for further consideration. Some further changes have been proposed and are detailed in Appendices 3 and 4. The figures for the specific proposal for alternative weekly recycling are not yet finalised.
- 3.3 Early in 2005, arising from the Gershon Review, the Council was required to consider the achievement of efficiency savings of 2.5% and a Statement was submitted to Government on its plans. These savings have now been incorporated in the budgets presented here.
- 3.4 After inclusion of proposed growth and savings; a collection fund surplus; some specific reserve contributions and, at this stage, a Council Tax increase of 4.9%; it is

estimated that a small contribution from reserves of £62,000 will be needed to balance the budget for next year.

4 Capital Programme and E-Government Programme

4.1 Since attaining debt free status in 2002 the Council is able to use all its capital receipts to help fund the capital and e-government programmes. This allows financial flexibility in the use of funds such as the Major Investment Reserve (MIR), which will have an estimated balance of approximately £3.5m at the end of 2005/06. However, both the MIR and capital receipts are invested with the interest underpinning the Council's financial strategy.

4.2 The estimated use of the MIR and capital receipts is shown in Appendix 9, and takes account of the Government pooling of capital receipts. Whilst the MIR maintains a reasonable balance by the end of the Strategy period, capital receipts are significantly depleted, with £0.2m only remaining at March, 2011.

5 The Government Settlement

5.1 The Government issued a provisional local government settlement for 2006/07 and 2007/08 early in December. Over the current year's figure there is a cash increase of £545,000 for next year and £693,000 for 2007/08. To avoid major disruptive changes in grant aid from one year to the next a system of floors and ceilings is used 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 Collection Fund

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 £322,740 is estimated, shared between the County Council (£236,070), the Police Authority (£30,890), the Fire & Rescue Authority (£14,150) and this Council (£41,630). This must be credited to the Council Tax for the District for 2006/07. This is equivalent to £0.90 at Band D.

7 Council Tax

7.1 The Government settlement assumes that income from Council Tax will rise by no more than 5% next year. Ministers have indicated that local authorities that increase council tax above the 5% level will be capped. Capping has been applied to the separate tiers of authorities in the past, based on the increases applied individually, rather than by considering the total increase in Council Tax bills.

7.2 At present the projections include a council tax increase of 4.9% (to £113.10).

7.3 Appendix 11 shows the figures for Parish Council or Meeting taxes, including a comparison with the previous year's precept. The Council still awaits notification of several precepts, including some significant precepts. At this stage it is not possible to say what the overall increase in precepts will be but it is probable that it will exceed 5%. It is not clear what approach the Government may take to local authorities that exceed the indicative capping limit as a consequence of parish precepts, over which the Council has no control, being increased in excess of 5%.

- 7.4 Being mindful of the potential for capping a firm recommendation on the final council tax level for next year is not being made immediately. However, in order to support the Council's priorities and to secure a firm foundation for the future, an increase in excess of inflation is advised.
- 7.5 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.
- 8 Winchester Town Charge – Section 35
- 8.1 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 24 February 2005 (minute 859 refers).
- 8.2 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.
- 8.3 The services currently covered by special expenses are listed in Appendix 11. 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).
- 8.4 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 2005/06 (CAB973, 8 February 2005), 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 £719,090 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 10.
- 8.5 The Winchester Town Forum met on 18 January 2006 and made the following recommendations:
- ◆ the Town Tax should be set at £49.05, an increase of 4.9%,
 - ◆ the grants budget should be set at £35,000 to include grants for the Business Hub and support for the BIDS programme,
 - ◆ an increase in contribution by £25,000 to £45,000 should be made towards expansion of the Neighbourhood Warden scheme,
 - ◆ a target reduction of £30,000 in expenditure on maintenance of open spaces and recreation grounds should be made.
- 8.6 Expenditure is in excess of income by around £46,000, some of which is for one-off items. The balance in the Winchester Town Reserve will be approximately £45,000 at 31 March 2007 and this should not be reduced further – the 2007/08 budget will need to ensure that expenditure matches income more closely.
- 9 Reserves and Balances
- 9.1 A full summary of all earmarked and major reserves is included at Appendix 5. 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 £1.1m in the 2006/07 budget) generated by investments, albeit at fixed interest rates. The forward projections assume that the current rates will remain relatively stable, in accordance with the latest information from the Council's investment advisors. A change in interest rates of 0.25% alters investment income by about £50,000 pa.
- 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 and capital receipts and the position needs to be kept under review. It will be reviewed more formally as part of the budget process for 2007/08.

10 Looking Ahead

- 10.1 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 is assessed for future years. The forward projections in Appendix 2 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.
- 10.2 With the inclusion of the growth and savings proposals as detailed in this paper the forward projections indicate a budget that is balanced over the medium term.
- 10.3 A significant element of the savings proposals is the expectation that efficiency savings can be made: the organisation will have to work hard to ensure that these are delivered.
- 10.4 There is continuing uncertainty about some significant income:
- a) Government revenue support beyond 2007/08 is uncertain, particularly when the Floor calculation might be removed.
 - b) Planning Delivery Grant is estimated at £260,000 in the base revenue budget. If more grant is awarded this will be used to fund additional planning expenditure. When Grant ceases additional income or reduced expenditure will be required to maintain a balanced budget.
 - c) The Government is conducting a review of Licensing income and the effect of this on future budgets is unknown.
- 10.5 The impact of the proposal to relocate into a single building for office accommodation 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. The projection of capital receipts shows that these will be depleted by the end of the strategy period so funding for offices will need to be found elsewhere – such as from borrowing.

11 Section 25, Local Government Act 2003

- 11.1 There are specific requirements under Section 25 of the Local Government Act, 2003, for the chief finance officer to provide a positive assurance statement about the adequacy of proposed financial reserves and the robustness of estimates made for the purposes of the budget calculation.
- 11.2 Reserves are detailed in this report and specific comment is made upon the significant balances. The General Fund working balance is discussed in Section 9 and is considered to be adequate. The Major Investment Reserve is available to support specific projects, both revenue and capital, and shows a healthy balance throughout the Strategy period. Capital Receipts, and other reserves that are not restricted in their use, are expected to be depleted by the end of the period and this will curtail capital spending unless it is supported by borrowing (or reductions in expenditure elsewhere). Borrowing is an option available to the Council to consider for specific projects, taking account of the revenue impact of those projects, in the same way as it considers that impact for schemes financed from capital receipts. The Director of Finance is able to provide positive assurance about the adequacy of reserves bearing in mind the commentary about the need to identify funding for future projects that are not yet included within current programmes.
- 11.3 In considering the robustness of estimates for the budget calculation for the coming year the area to be mindful of is that of the savings proposals. These total around £1.5m for next year and significant sums are sought from efficiencies and from service reviews. These sums are achievable but will require a diligent approach to realising them with both Directors and Members adopting a robust attitude towards reductions in service levels and staffing. Within the context of the overall budget and reserve levels, the Director of Finance is able to provide positive assurance about the robustness of the estimates made for the purposes of the budget calculation for next year.

12 Prudential Code

- 12.1 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.
- 12.2 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.
- 12.3 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.

- 12.4 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.
- 12.5 The indicators in respect of treasury management covering borrowing and investment have been included in report CAB1174 elsewhere on this agenda. The remaining indicators covering affordability, prudence and capital expenditure are set out below.
- 12.6 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 7 cover this requirement.
- 12.7 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 2005 (CAB1173).
- 12.8 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:

	2004/05 Actual	2005/06 Estimate	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate
Capital Financing requirement	£000	£000	£000	£000	£000
General Fund	9,826	10,529	10,529	10,529	10,529
Housing Revenue Account	9,826	10,529	10,529	10,529	10,529
Total CFR	0	0	0	0	0

In this table the projections show that there is unlikely to be a need to borrow for capital purposes in the period 2006/07 to 2008/09 although specific schemes for which there is no provision, such as new offices, would change the position.

- 12.9 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. As the authority is debt free this indicator has little relevance: it will become relevant if the Council borrows externally in future.

	2004/05 Actual	2005/06 Estimate	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate
Ratio of financing costs to net revenue stream	%	%	%	%	%
General Fund Gross	-16.9	-15.4	-11.0	-7.9	-8.0
General Fund net of earmarked reserves	-13.4	-13.5	-9.3	-6.3	-6.1
Housing Revenue Account Gross	23.8	23.1	22.4	21.2	20.6

- 12.10 The final indicator in this section is an estimate of the **incremental impact of capital programme decisions** over the period 2006/07 to 2008/09 on the Council Tax and housing rent levels. This reflects the increasing cost of the current capital programme on the level of council tax through the loss of interest on investments.

	Estimate 2006/07	Estimate 2007/08	Estimate 2008/09
Council Tax – Band D	£1.39	£3.28	£4.03
Weekly Housing Rents	0	0	0

OTHER CONSIDERATIONS:

13 CORPORATE STRATEGY (RELEVANCE TO):

- 13.1 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.

14 RESOURCE IMPLICATIONS:

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

BACKGROUND DOCUMENTS:

Working papers within Finance and other departments.

APPENDICES:

- Appendix 1 General Fund Service Summary:
- Appendix 2 General Fund Revenue Projections 2005/06 to 2010/11
- Appendix 3 Growth Proposals
- Appendix 4 Savings Proposals
- Appendix 5 Summary of Reserves
- Appendix 6 Financing Transactions
- Appendix 7 Capital Programme
- Appendix 8 E-Government Programme
- Appendix 9 Major Investment Reserve and Capital Receipts
- Appendix 10 Collection Fund (provisional)
- Appendix 11 Council Tax on Winchester Town Area
- Appendix 12 Parish Council Precepts and Council Taxes 2006/07
- Appendix 13 Detailed Service Budgets 2006/07 (to follow)

CAB1172