

GENERAL FUND BUDGET PLANNING 2005/06 to 2010/11

Head of Finance

1.0 Purpose

This report is designed to advise the Committee of the emerging situation on budget planning for the next three years and after. The attached reports set the scene for the budget proposals to be formulated by the Cabinet on 30th November. Those proposals will then be referred to scrutiny committees for comment.

2.0 Recommendations

The Committee is requested to:

- 1.1 Note the position detailed in the two reports on budget planning.
- 1.2 Indicate any comments on the issues emerging that they wish the Cabinet to be aware of.

2.0 Background

- 2.1 This years budget planning has built upon the draft medium term budget developed last year. Working from that base the process has concentrated upon revisiting and refining that information. This has included a series of one to one review meetings between the Resources Portfolio Holder and all other Cabinet Members.
- 2.2 Those meetings identified a number of changes to the base position drafted last year and also registered a number of issues that needed further consideration to establish if they are needed and how much should be allowed for them in future years budget planning.
- 2.3 That refinement work has been underway over recent weeks and will form the basis of the budget planning report being considered by Cabinet on 30th November. Earlier reports considered by Cabinet focused upon process and external pressures and issues.
- 2.4 For ease of reference the two reports received by Cabinet on the General Fund Budget Planning on 12th October and 2nd November 2004 are attached as appendices. Whilst the contents are mainly covering scene setting and process issues the Scrutiny Committee may wish to make comment for passing back to Cabinet prior to formulation of their initial budget proposals on 30th November.

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Background papers: *Cabinet reports and Budget working papers.*

Report to Cabinet 12th October 2004

BUDGET PLANNING 2005-06 TO 2008-09

(1) Purpose

This report gives an initial indication of the expected situation for revenue budget planning over the coming four years and beyond. At this point there are a number of matters still to be determined but it is important to begin refinement of the base planning put into place last year. Early recognition of the longer term position will facilitate better management of the issues facing the Council.

(2) Recommendation

(3) The Cabinet is recommended to

(4) 2.1 Note the position emerging from the first round of budget planning review for the General Fund.

(5) 2.2 Note the activity underway to implement operation of the Housing Revenue account within a much reduced total expenditure budget.

(6)

(3) Supporting Information

3.1 Planning of next financial years budgets will work from the base position established when finalising the 2004/05 budgets. Working from that base position the activity for this year will focus upon refinement of the matters included previously together with identifying and evaluating changes and new developments before bringing all matters together and agreeing upon a revised position for the future. It is also necessary to maintain our medium term revenue planning by extending the period to at least include the 2008/09 year.

3.2 During late August and early September the Resources Cabinet Member held a series of budget review meetings with each individual Cabinet Member and relevant Heads of Service. These meetings consisted of a review of each area's base position and previously planned changes in the light of current events together with an assessment of any further expenditure pressures now evident. In addition the scope for savings and income generation were also explored.

4 General Fund Budget

4.1 The base position for budget planning for General Fund activity over future years has two key financial elements which are covered by the Council Tax Strategy formulated last year and the longer established Policy for Revenue Balances.

4.2 The Council Tax Strategy is for containment of year on year increases to the extent that each year's increase is no greater in percentage terms than that applied in the previous year. The starting year being 2004 / 05 when the increase was 9.3%.

4.3 The Policy for Revenue Balances takes the assessed minimum level of balances required as being £1.7 million. This is now supported by the production of a budget risk register which identifies matters that could fall to be met from balances and quantifies each one's potential impact. The policy for application of sums in excess of that level are for a balanced

progressive application over the budget planning period in a manner that avoid large fluctuations in council tax and or service levels as driven by expenditure levels.

4.4 The outturn position for 2003 / 04 resulted in an additional sum being put into balances. That raised the level of balances at the start of this financial year to some £3.8 million. After use of tolerance and the planned application of balances in the current year the projected year end position at 31.3.2005 was for £3.4 million. Current budget monitoring for the year shows an anticipated saving against budgeted net spending which could increase balance to a sum of £3.7 million by March 2005.

4.5 The matters arising from the review meetings are being finalised and collated and will be the subject of detailed reporting. The indications from those meetings can be summarised as follows

1. Revisiting the items identified for 2005/06 to 2007/08 as part of last years planning has shown that most are still valid and the associated activity is still needed and planned for delivery.
2. Savings identified in that process were largely focused on the current year and are being delivered.
3. There are however a number of items now identified where nothing was in the previous plans but resourcing is being sought. In general this does not seem to be due to bad planning but more a reflection of the changing environment we are operating within.
4. Awareness of the potential implications on services from the growth agenda seems to be improving but there is a need to develop this and quantify its impact. This in part seems to be down to a need for more specific projections of change in terms of numbers of dwellings and people and more importantly the distribution across the district.
5. There are a number of large areas of uncertainty that could each be enough to have a significant impact upon our medium term council tax strategy which may be positive or negative. These include office changes, commercial rent income loss, civic centre transitional operation, car park account performance and government grant receivable.

4.1 A number of details are yet to be refined but the current indications are that if all prove necessary the new pressures for expenditure could add considerably over £500,000 to the budget each year.

4.2 Opportunities for income generation and efficiency savings are already targeted and allowed for as part of the base planning framework. A separate review exercise is underway for those items which fall under the four headings of ; Procurement, Income Generation, Best Value and Service Reviews and Savings resulting from E-Government Implementation.

4.3 At this stage of the planning it is dangerous to draw firm conclusions; it is however important to assess the likely situation as that should inform the exercise as it progresses. The improved position on revenue balances puts us in a stronger starting position, set against that are the additional bids for funds not previously built into our planning.

4.4 Overall we should only be able to stay within our council tax strategy for the next two years by considerable use of revenue balances. This does assume that government actions on capping will allow the level of tax increase we are projecting. After that we look to be facing a

difficult year in 2007/08 when either a tax increase well into double figures or substantial savings will be needed to balance the budget.

- 4.5 Clearly it is better, and indeed part of current policy and government expectation, that we manage our finances over the medium term rather than on a short term basis that leads to large fluctuations in tax and service levels. To do that we must take action now to restrict additional expenditure that cannot be sustained and to be clear about what we will stop doing if we are forced into service reductions to balance the budget.
- 4.6 Review of the items mentioned in 4.5 and 4.6 above is underway to establish clarity on cost and timing. They will also be evaluated in terms of contribution to our Key Aims and contractual and statutory requirements.

5 Housing Revenue Account

- 5.1 The prospects for the Housing Revenue Account have been extensively reported during the course of this year. The need to balance the account and stay within the limitations placed upon it by government regulations has already prompted an extensive expenditure reduction exercise.
- 5.2 Details of the actions proposed were covered in a report to Cabinet on 3rd August 2004. There are some matters being considered which relate to charges moving between General Fund and the Housing Revenue Account and care will be needed to ensure that any changes are mutually acceptable.
- 5.3 Progressing the formulation of the HRA budget is in hand as outlined in earlier reports on that matter. Unfortunately this will focus on how expenditure and service levels can be brought down to exist within the financial constraints faced.

6 The Growth Agenda

- 6.1 The growth planned for the district over the period to 2031 will have significant consequences for the Council in terms of delivery of our services. Major increase in our customer base will bring demands for additional service provision. Estimating the manner in which those demands need to be reflected in budget provision and their timing is a major exercise that is starting to gain momentum. At this time it is difficult to build sums into budget planning with confidence and this exercise needs to be developed and refined as an integral part of our medium term planning.
- 6.2 There is a natural assumption that substantial numbers of extra houses being built in our district will result in large amounts of extra council tax income that will pay for the extra service costs. Unfortunately that is not the case as we could lose more in government grant than the income we would receive from extra council tax.
- 6.3 The current formula for calculating the level of government grant we receive assumes that instead of the £103.51 actually charged each extra property generates some £185 in council tax. The government grant is then reduced by that sum, so for each extra property we stand to be over £80 worse off. We may get some recognition of the extra costs we face as that is driven by population but it is quite likely that we will end up worse off as grant loss is expected to exceed extra council tax income.

(7) Options Considered

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7.1 The report is essentially for information; it does however reinforce the need for meaningful medium term financial planning. Failure to undertake such planning would not be in the Council's best interest from a number of aspects.

(8) Reasons for Recommendation

8.1 This report marks the start of financial planning in detail for the 2005-06 budget. It is important to give an initial projection to inform the process and create a basis for future refinement.

(9) Resource Implications

None directly

(10) Response to Key Aims and Outcomes

None directly arising from the report although proper budget planning is fundamental to the delivery of our Key Aims.

Contact Officer: Peter Watson 01296 585390
Background Documents: working papers , earlier reports .

BUDGET PLANNING 2005/06 TO 2008/09

1.0 Purpose

This report presents the initial projection for the General Fund budget covering the years to 2008/09. The budget projections will be further refined for the next meeting of Cabinet to formulate its initial proposals which will then be referred to Scrutiny committees.

2.0 Recommendation

The Cabinet is recommended to

- 2.1 Note the position outlined in the report in respect of uncertainties over major factors affecting budget planning.
- 2.2 Note the initial situation as projected for coming years and the further action underway to refine those projections.

3.0 Background

- 3.1 Budget planning has been underway for several months working from the base planning position formulated during last year's budget round.
- 3.2 All areas are being actively reviewed to identify any new pressures for consideration, to revisit those items included in last year's planning and to consider income generation and, where appropriate, look at options for more economic operation.
- 3.3 This report presents an indication of the expected financial position over the next four years. It identifies risks where they exist and activity on final refinement leading to formulation of the Cabinet's initial proposals at the meeting on 30th November.

4.0 Unknown Factors and Risk Issues

- 4.1 Budget preparation, particularly when planning four years ahead, will, by its very nature, contain many factors where certainty over figures is not possible. Fortunately, it is only the first year 2005/06 where commitment will exist; however, in entering into any level of short-term commitment, it is vital that the medium to long-term prospects are taken fully into account.
- 4.2 A major element of uncertainty exists around the level of support we receive from central government. This is dealt with in detail in a subsequent section. Equal uncertainty exists over council tax capping. If the same capping calculation applies for 2005/06 as was used for 2004/05 we will not be capped with a 9% tax increase. However the government is talking about low single figure / sub 5% tax increases being the only ones tolerated. Bringing our 9% increase down to 4% would require a sum of £260,000.
- 4.3 Formulating financial plans into the future where certainty cannot be guaranteed carries risks. Managing those risks are an inherent part of financial and service planning.
- 4.4 Although best estimates are produced, these are only estimates and to guard against variations or unexpected demands arising we maintain Revenue Balances. A separate

exercise has been undertaken that assesses the financial cover needed to guard against such needs. A figure of £1.7 million is considered to be the base sum required to be held in balances.

- 4.5 Guarding against financial risk is to some degree easier than managing operational and service risk generated by inadequate financial planning. Good financial planning over a number of years is one means of preventing operational and service problems. This is around managing change on a planned basis and not operating short-term stop-go policies to live within available finance.

5.0 Government Support

- 5.1 The Council receives direct support in the form of a redistribution of the national business rate pool which is based upon our population together with a Revenue Support Grant which is determined by a complex formula. Together these sums total £10 million for 2004/05 and represents 60% of our net expenditure. The remaining 40% being the sum raised from Council Tax.
- 5.2 Although the calculation of grant is driven by formula the result is subject to moderation that can and has significantly altered the sum actually received. The moderation process operating is based upon floors and ceilings. The ceiling is the upper limit for grant increase from one year to the next whilst the floor is the minimum level for increase. Where the ceiling and floor are determined by the Government to equalise distribution, avoiding big gains and losses. In practice, money is moved between Councils without regard to the need determined by formula.
- 5.3 The Government's spending review 2004 indicated plans which, for District Councils, included 2005/06 increases in expenditure of 0.6% (including inflation) together with an increase in Council Tax yield of 6.7%. Feeding these factors into the grant calculation gives an answer showing a loss of grant of some £500,000 compared to that received in 2004/05.
- 5.4 We are therefore very much likely to be on the floor, i.e., we will get the minimum increase after moderation. Our initial assessments of what that minimum would be was 2.5% cash increase over 2004/05. As information has emerged this has been reviewed firstly to 2% and then to 1%. Many district Councils are planning for a zero increase.
- 5.5 An unknown element of this size makes planning very difficult. Over the four years now considered, a 1% change in government support when compounded costs over £1 million.
- 5.6 Details of government proposals for 2005/06 are expected late in November with the final figures not being confirmed until late January/early February next year. The government are already talking about sloping ceilings and negative floors operating.

6.0 Revenue Balances

- 6.1 As previously indicated the base level for balances has been determined at £1,700,000. The decision to proceed to ballot on Housing Stock Options carries with it a further requirement for balances. If the ballot results in a decision to retain the stock under Council management then a large part of the ballot costs will fall to be met from the General Fund.
- 6.2 The potential exposure is estimated to be up to £500,000. It is therefore appropriate to plan for a minimum level of balances over at least the next two years of £2.2 Million.

- 6.3 When forecasting sums likely to be available in balances an assumption had been included for underspending against the budget. We have a history of underspending although in total budget terms our forecasting and management across the Council is good.
- 6.4 In the past we have assumed an underspend each year of £100,000. It is now felt appropriate to review and increase that figure to £300,000. This is a significant sum of money but needs to be viewed in the context of our total financial transactions. A £300,000 variance would mean that our budget projections are 99.25% accurate even though most are established 18 months before the end of the year in question.
- 6.5 This increase is not without risk but can be justified following analysis of previous years and issues such as staff turnover and projected income flows.
- 6.6 Using sums in balances above the base requirement to reduce pressure on Council Tax is an important part of our financial strategy. It is, however, prudent to apply these sums in a balanced fashion over several years to avoid difficult fluctuations in tax levels and or service levels.
- 6.7 The table at Appendix B shows the current projection for revenue balances over future years, together with the usage built into the wider budget projections as they now stand in Appendix A. Clearly this profile of usage will need to be reviewed.

7.0 Current General Fund Budget Projections 2005/06 to 2008/09

- 7.1 The table at Appendix A shows the summary position at this initial assessment stage with base budget and variances over the four year period. The model assumes Council Tax increases of 9.2% in 2005/06 and 9.1% in 2006/07.
- 7.2 Arriving at these levels of Council Tax is only achieved by using significant revenue balances. For 2007/08 and 2008/09 large tax increases are shown. Getting these later years into line with the council tax strategy will require savings on net expenditure. This can only be achieved by;
- Generating more income
 - Not introducing new expenditure
 - Reducing current expenditure
- 7.3 Although the table shows that it is possible to deliver a tax increase consistent with the strategy this is only so in years one and two by very substantial application of balances. The sums so applied are well above what could be considered prudent in the context of a policy of progressive structured application of balances as demonstrated by the inability to use balances in later years.

6.5 When dealing with financial pressures that are evident over a period of time best results will be achieved where action is taken progressively over that period rather than being left until there is no option left but to take action in large bites.

8.0 Activity Underway

8.1 The detailed items that drive the projections in Appendix A are being subjected to review and refinement to ensure we have the best estimates of sums needed and when they will be required. Some significant matters such as the staff pay negotiations and the actuarial valuation of the superannuation fund are running in parallel with budget planning but need to be incorporated

as and when firm results are known. At this time provisions have been made on the best information available.

8.2 Within the budget plans adopted last year there are areas of targeted savings which are also being progressed. These total £1,055,000 over the next three years and cover the following;

- Savings through improved procurement
- Increased income generation
- Savings resulting from E Government investment
- Savings from Best Value and Service reviews

Each of the above is being driven by a champion in the form of a Management Team member and is subject to review by the Resources Portfolio Holder. Delivery of the targeted sums is an integral part of balancing the budget.

8.3 In previous years we have sought simple across the board percentage savings as a means of reducing pressures. Whilst that had some success, the exercise produces lower returns with each application and we are unlikely to get much from further application. The targets in 8.2 will need such review activity to be delivered.

8.4 Considerable national emphasis is being placed upon the Gershon review and the proposals for achieving greater efficiencies from changing how we operate. These principles are being embodied in the further action now being considered. These types of operational review are more likely to release savings over a period of time and need to be built into plans on a constructive basis.

8.5 The report to the next meeting of Cabinet will include refined projections and proposals that will allow the formulation of the Cabinet's initial budget proposal package.

9.0 Resource Implications

9.1 This report deals with General Fund budget planning for future years. The preparation of sustainable financial plans over at least three and preferably more years is essential to ensure optimum management of resources.

10.0 Response to Key Aims and Outcomes

10.1 There are no direct matters arising from the report although sound financial planning and the establishment of strategic priorities for resource allocation are essential for delivery of the key aims and outcomes.

Contact Officer:
Background Documents:

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Budget working papers, government information.