

REPORT TO CABINET

REPORT OF: DIRECTOR OF FINANCE AND
STRATEGIC RESOURCES

REPORT NO: FIN208

DATE: 30 SEPTEMBER 2004

TITLE:	BUDGET CONSULTATION 2005/06 AND MEDIUM TERM FINANCIAL STRATEGY
FORWARD PLAN ITEM:	YES
DATE WHEN FIRST APPEARED IN FORWARD PLAN:	16 th June 2004
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	POLICY FRAMEWORK PROPOSAL

COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION:	LEADER - FINANCE PORTFOLIO HOLDER
CORPORATE PRIORITY:	CORPORATE HEALTH

Introduction

1. The purpose of this report is to consider the updated medium term financial strategy for the period 2005/06 to 2009/10 and to examine the main influences on the budget preparation for 2005/06.
2. It reviews
 - (i) the issues raised in the MTFS presented in July 2003 and their subsequent impact on the 2004/05 budget.
 - (ii) the position on reserves and balances.
 - (iii) the financial strategies and their appropriateness.
 - (iv) the main budgetary issues for 2005/06.

Background

3. In preparing the current MTFS the following were the main issues facing the Council.

- (a) constrained financial settlement from the government, with limited ability to increase Council Tax.
 - (b) impact of job evaluation.
 - (c) protecting against the impact of significant rises in employers pension contributions.
 - (d) the bringing in-house of waste management.
 - (e) analysis of areas of cost rising at faster rates than general inflation - pay award and insurance premiums.
 - (f) acceptance of limited capital programme.
4. Over the past year the Council has made progress in all the above areas. In particular the financial management of job evaluation, forward financing of the likely impact of expected rises in employers pension contributions, tight cost control of the waste management function, development of sophisticated risk management strategy to help reduce insurance premiums, and the development of the capital programme to reflect Council priorities. The above was all achieved within a 6.2% rise in Council Tax and did not attract capping from the government.

Financial Strategies

5. **In developing the likely expenditure/income profile it is important to have regard to the current financial strategies as approved by the Council.**
- 5.1 **Strategy No. 1 - That the Council must be prudent in making estimates of external funding from the Government.**
- 5.2 In 2003/04 the methodology changes to the formula for grant distribution benefited the Council. In 2004/05 further changes to the grant system caused further difficulties in assessing the grant settlement, in particular the switch in funding source for housing benefit administrative grant from the ODPM to DWP. On a like for like basis the general level of grant received was a 2.3% increase; below the rate of general inflation.
- 5.3 Assessment of future levels of government grant is always difficult. The main indicator comes from the Spending Review 2004, where the Treasury publishes its spending plans for the period 2004/05 to 2007/08. The Treasury expects to see the Environmental Protection and Cultural Services (EPCS) block increase by 8% over that period. The table below puts that in perspective. The ERS block is the lowest increase for planned expenditure other than highway maintenance. This gives a clear message about the importance (or otherwise) about the services District Councils provide. Given the complexities of the grant distribution system and relative impact of headline census data I believe an annual figure of a 2% increase on a like for like basis is a prudent basis for financial planning.

	2004-5	2005-06	2006-07	2007-08	Change 2007-08 2004/05 %
	£m	£m	£m	£m	
FSS:					
Education	26402	27963	29863	31663	19.9%
Children's Social Services	3737	4016	4316	4516	20.8%
Adults Social Services	8690	9553	9933	10373	19.4%
Police	4355	4553	4768	4993	14.6%
Fire	1848	1898	1961	2035	10.1%
Highways Maintenance	2004	2054	2054	2054	2.5%
EPCS	11152	11217	11606	12040	8.0%
Capital Financial Costs	2802	3269	3599	3924	40.0%
Total	60990	64522	68099	71597	17.4%

5.4 In terms of the impact the government has on the level of Council Tax and increase thereof, is dealt with under Strategy No. 8.

5.5 Strategy No. 2 - The Council should continue to review all of its services in relation to its corporate objectives.

5.6 The work carried out over the past year has been of vital importance in ensuring resources will follow priorities. This is a key issue identified by the CPA assessment and forms a key component of the Change Management Plan.

5.7 Strategy No. 3 - Ensure that following approval of the budget, those officers responsible for delivering the associated work programmes deliver the outputs within the approved allocation.

5.8 This is achieved through comprehensive budget monitoring and adherence to the Council's approved financial regulations. Historically the strong control of corporate budgets has allowed the Council to be flexible in its approach to budget monitoring and delivery of new services. To further strengthen the current process, the service planning process will be aligned more closely to the budget process, with increased information being available to service managers regarding their service costs.

5.9 Strategy No. 4 - The Council must continue to find new sources of funding for its activity.

6. Government funding continues to be 'top-sliced' for specific projects. If the specific schemes link with the Council's priorities then bids should be submitted. The secured use of S106 agreements help to develop community assets with less reliance upon the Council's own resources. The recent bid for recycling from DEFRA is a good example of additional external funding for an identified Council priority.

6.1 Strategy No. 5 - Optimising the financial return on the Council's assets and ensuring capital receipts are at required levels.

It is important that the Council commits to reviewing its asset base and the returns upon them.

6.2 Strategy No. 6 - To improve Treasury Management performance.

The addition of the prudential code on borrowing has given the Council more freedom in managing its debt in relation to the capital programme. The current flexible approach to debt redemption and borrowing should be maintained. In terms of investment performance regular reports will be presented to the Constitutional and Accounts Committee.

6.3 Strategy No. 7 - To annually review the scale of charges for Council services.

New levels of charge often result from normal inflationary increases, statutory review of charges, best value service reviews or from new services being delivered. During budget development, the balance between who pays for local services, the user or taxpayer, needs to be reviewed.

6.4 Strategy No. 8 - The policy on Council Tax increases is that any increase should aim to be equal to the change in the retail price index. Any increase above this should include any identification of particular service objectives that the additional tax revenue would be used to finance.

6.5 This is an important area to be considered. During the budget preparation for 2004/05 the wide public consultation on priorities was coupled with discussion on future years Council Tax increases. Feedback indicated that reasonable increases in Council Tax are acceptable providing service improvements are visible. Given the Government guidance to Councils on keeping Council Tax increases to an average of 3% for 2005/06 and the re-emergence of "capping" as a government mechanism to control Council's tax setting, the Council will need to balance the needs of the community against the government policies.

6.6 Strategy No. 9 - All potential capital schemes are appraised and fed into the capital strategy.

The Council approved the appraisal process in 2003/04 and a revised programme in 2004/05. This will be incorporated into the medium term strategy.

6.7 Strategy No. 10 - To maximise the financial viability of the Housing Revenue Account (HRA) within government guidelines.

The production of the 30 year business plan for the Housing Revenue Account as part of the stock option appraisal process will enable full financial assessment of the HRA.

Estimated Budget Requirements - 2005/06 to 2009/2010

7. Given the national position on Revenue Support Grant and likely allowable Council Tax increases the following table presents the likely budget requirement for SKDC over the next 6 years. It includes Special Expense Area expenditure, since this forms part of the Council's expenditure.

Profile of External Financing 2004/05 to 2009/10

	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/2010 £000
Government Grant	7965	8124	8286	8452	8621	8783
Council Tax - General Income	4115	4280	4408	4540	4676	4816
Council Tax Income - SEA	471	500	500	500	500	500
SKDC Budget Requirement	12551	12904	13194	13492	13797	14109
Allowable Growth in Net Spend	-	353	290	298	305	312
Increase %		2.8%	2.2%	2.2%	2.2%	2.2%

Assumptions

- (i) Government Grant increase - 2% per year
- (ii) Tax Base inc - 1% increase p.a.
- (iii) Council Tax - 3% increase p.a.

Impact on Financing of Priorities

8. What does this mean for Revenue costs

- 8.1 These estimated budget requirements will need to deliver the resources for stepped improvements in the priority areas. The table below provides an initial assessment of the impact of growth areas, efficiency savings and known liabilities.

	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/2010 £000
Budget Requirement	12904	13194	13492	13797	14109
Re-distribution of Savings	-250	-500	-500	-500	-500
Gershon Efficiency Savings	-200	-460	-529	-	-
Superannuation Additional	+100	+200	+300	-	-
Recycling & Street Scene + Other Priorities	+500	+500	+500	+500	+500
Access to Services	+240	+300	+300	+300	+300
Other Items of Growth Above Inflation	+200	+200	+200	+200	+200
Loss of "IPS" Savings	150	150	150	150	150
Estimated Spend	13644	13584	13913	14447	14759
Use of Reserves/Savings/ Additional Interest Receipts	740	390	421	650	650

Re-distribution of Savings

8.2 The model assumes that the identification of costs associated with the non-prioritisation of services will be realised. If the savings are not realised the budget requirement will remain higher than desired.

Gershon Efficiency Savings

8.3 A government target of 2% efficiency savings has been built into the model. I have assumed a marginal increase in the 'cash' savings assumed through these efficiency measures. Further information is required from the Audit Commission on how the baseline position will be assessed. At the moment 2.5% for each of the next three years is assumed. This will be difficult to achieve.

Employers Pension Contribution

8.4 The pension fund is being re-valued as at 31 March 2004. The new employer rates become payable from 1 April 2005. In 2004/05 the Council has been paying an additional 4% of payroll into the fund to help mitigate the impact of the likely rise in contribution above 20% of payroll. I have assumed an additional 1% for each of the next three years as a sensible provision for the revised contribution rates. Any liabilities that the Council has to the fund from early retirements for example will be charged to the Pensions reserve or paid over in the year it occurs.

Priority Services

- 8.5 I have included an amount of stepped change investment in the priority areas. These may need to be revised through the budget development work.

Other Items

- 8.6 Given the allowable growth in the settlement will be less than inflation and that particular cost bases within the expenditure of the Council rise at a faster rate eg pay award, I have allowed a provision to cater for these type of uncontrollable cost increases.

IPS Savings

- 8.7 The current budget requirement assumes IPS savings of £150,000 accruing to the Council. I have adjusted the budget requirement accordingly.

What does it tell us?

- 8.8 At the current time, the use of reserves or requirement to find further savings are shown at the bottom of the table. The following will be worked upon.
- (a) The starting budget requirement has consistently been greater than the actual expenditure incurred. This implies that an element of growth can be constrained within existing parameters.
 - (b) The use of reserves will be expected for future years. They have been set aside for specific purposes and should gradually be released to help fund stepped changes in service improvement.
 - (c) The funding gap could be closed by further increases in Council tax;
 - (i) by assuming full cost recovery in Special Expense areas
 - (ii) by a general rise greater than 3%. I would urge caution on simply financing expenditure by this method alone. Capping is a realistic government option and must be carefully considered by the Council.
 - (d) Timing the investment in new areas with the release of cash savings.

Conclusion

9. At this stage in the development of the budget for 2005/06 and future years, I recommend a target budget requirement of £12,904,000. If this cannot be achieved or other factors become relevant it will be reviewed and the impact on Council Tax assessed.

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READY RECKONER

Approx 43,000 Band D's

Current Band D - £96.03

£1 raises £43,000 pa

1% increase - £97.00 raises £41,700 pa

2% increase - £97.95 raises £82,560 pa

3% increase - £98.91 raises £123,840 pa

4% increase - £99.87 raises £165,120 pa

5% increase - £100.83 raises £206,400 pa

10% increase - £105.63 raises £412,800 pa