

REPORT TO CABINET

REPORT OF: Director of Financial and Strategic
Resources

REPORT NO: FIN223

DATE: 7th February 2005

TITLE:	BUDGET 2005/06
FORWARD PLAN ITEM:	YES
DATE WHEN FIRST APPEARED IN FORWARD PLAN:	1st June 2004
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	POLICY FRAMEWORK PROPOSAL

COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION:	CABINET RESPONSIBILITY
CORPORATE PRIORITY:	CORPORATE GOVERNANCE
CRIME AND DISORDER IMPLICATIONS:	
FREEDOM OF INFORMATION ACT IMPLICATIONS:	
BACKGROUND PAPERS:	

RECOMMENDATIONS

1. For the Cabinet to give any further guidance on the preparation of the budget for 2005/06 on issues in FIN223.
2. To accept the recommendations in FIN221 (Appendix 4)
3. To accept the recommendations in FIN222 (Appendix 6)

INTRODUCTION

1. The purpose of this report is to update the Cabinet on the budget preparation for 2005/06. The Cabinet will then present its full budget report to the Full Council meeting on 24 February 2005.

SECTION A

BACKGROUND TO BUDGET PREPARATION AND CONSULTATION

2. Building upon the process of involving policy and development committees as part of the 2004/05 budget work, this has been replicated for 2005/06 by using the Capacity and Resources Development and Scrutiny Panel (DSP) with co-opted members of the three other DSP's.
3. The role of that budget working group has been to get a full understanding of the issues impacting upon the Council's budget situation of 2005/06. This has covered diverse areas from the Local Government Settlement and Pension Fund– to the service by service analysis of net spend, and exploration of cross-cutting issues such as utilities management.
4. The Capacity and Resources DSP has given a series of recommendations to the Cabinet in relation to the budget and these are included in the attachments.
5. In accordance with the development of Service Plans, I have tried to involve portfolio holders and relevant service managers in a better understanding of the linkages between service and corporate priorities and to highlight those areas of non priority. The development of service plans does have implications for the formulation of the budget and I have given more details about this in the future issues section of the report.
6. External consultation has involved joint working with the Lincolnshire County Council and Police Authority through the Viewpoint Panel. A meeting held with a representative sample of the panel was held on 11th January. The meeting was observed by those group leaders or nominees that were able to attend.
7. Further consultation through the Local Area Assemblies is being undertaken. This has included a likely position for each of the main precepting authorities. I have attached a copy of the consultation papers, including those slides used at the Viewpoint Panel meeting.
8. The result of consultations on South Kesteven's budget so far indicate that the majority of respondents prefer a Council Tax increase of up to 6% with very few advocating a higher increase. The table below shows the current position.

	4-5%	5-6%	> 6%
Viewpoint Panel	6	8	3

9. The Capacity and Resources DSP following its analysis has indicated that the Cabinet should carefully consider the Council Tax increase for 2005/06.

SECTION B

OVERALL REVENUE BUDGET POSITION AND CAPPING

GENERAL FUND

10. I can confirm that the original budget requirement assuming a 6% rise in Council Tax can be achieved. Given the advice received from Nick Raynsford, the Local Government Minister, on the likelihood of capping for those authorities with increases of greater than 5%, I have reviewed the budget and can confirm that such an increase could be achieved, whilst still investing in the new priority areas. If the Council was to be capped the cost of re-billing and the detrimental cash flow position that would ensue, could cost £50,000, greater than the additional tax revenue the additional 1% increase would raise.
11. I am, as the Council's responsible finance officer, required to prepare an independent statement to the Council on the robustness and sustainability of the Council's budget proposals. Given the advice on capping and the Council's reserve position, my advice would be for the Cabinet to consider a Council Tax increase of 5% for 2005/06, with a resultant budget requirement of £13.3m.

SPECIAL EXPENSE AREAS (SEA)

12. The Capacity and Resources DSP's had a detailed report on the operation of SEA's. The budget for 2005/06 has been prepared on a breakeven position with a 5% rise in Council Tax. I believe the expenditure incurred within the SEA's should be reviewed for 2005/06 to ensure value for money for those residents contributing to the costs.

SUSTAINABILITY AND RISK AREAS ASSOCIATED WITH THE BUDGET

13. The more important issue for the Cabinet to consider is the sustainability of the budget in the medium term. 2005/06 will see an increase in expenditure in those areas identified as priorities, but those areas of savings will not necessarily begin to accrue at the same pace, for example the decisions on Travel Vouchers and Discretionary Business Rate Relief will not have a positive budget impact until 2006/07. It will be important over the year 2005/06 that work continues to ensure (a) further savings are identified and (b) those areas already targeted deliver the required cashable amounts.

I outline below some of the current areas of risk within the budget. Any further areas of concern will be raised at the meeting.

(a) Pest Control

The full cost recovery of this service is a big change. If the price is set too high and demand drops off it will be necessary to take decisive corrective action early in the financial year to protect the overall budget position. An appropriate charge will need to be levied to achieve the Council objective.

(b) Car Park Closures (Wharf Road, Stamford)

Car park income is a contributor to the development of town centres and plays an important role in the Council's overall budget plans. The budget anticipates a loss of car park income for a period up to 3 months at Wharf Road, Stamford, whilst the contamination clearance takes place, this equates to £24,000. If the car park remains closed for a longer period this will clearly have an impact upon the council's financial position.

(c) Increasing Base Budgets on Receiving Reward Grants

The Council has anticipated receiving planning reward grant for 2005/06, estimated at approximately £500,000. This will need to be spent on planning related matters; if it is used for recruitment of staff, the overall base budget will increase if planning grant is not received in future years. Thus it is imperative that any specific grants received are carefully utilised to avoid a future burden falling upon the Council Tax charge. Ideally, one-off items of expenditure would be the best use of those time limited grants.

(d) Interest Receipts

The Council has become reliant upon the level of interest receipts accruing to the General Fund. This arises because of the levels of reserves the Council holds. In the medium term financial strategy it is expected that the level of specific reserves will fall, leading to a reduction in the level of interest receipts. Effectively, interest receipts changes will have a 'gearing' impact traditionally associated with the changes in external support from government.

The above leads to a focus upon future value for money work within the budgetary framework.

GERSHON EFFICIENCY TARGETS AND VALUE FOR MONEY

14. At the time of preparing this report the final advice from the government is awaited – due on 27th January. I have attached a background paper on the Gershon Efficiency savings. Overall I expect there will be a requirement to deliver cashable rather than non cashable savings. Early in 2005/06 a programme of work will be required to ensure the efficiency savings are achieved.
15. Linked with the efficiency work, will be a requirement to ensure the services being delivered offer value for money. The balanced scorecard approach used on the front of the service plan are a useful starting point but more detailed benchmarking will be required over the coming year. Since the incidence of the costs of job evaluation have now been shown at service level it may show a change in the way some services perform against other authorities or the private sector. The work on formal market testing and procurement will help underpin this activity.

SECTION C

SCALE OF CHARGES REVIEW

16. The charges for the financial year 2005/06 are derived from a number of sources. The charges in respect of recreation (excluding leisure centres) are increased in line with inflation in accordance with the best value review recommendation. Leisure centre charges are increased in accordance with the management contracts. Car parking charges remain unchanged for the forthcoming year but will be reviewed for 2006/07. The Grantham cemetery charges have been increased to reflect the inflationary increase applied to grounds maintenance. Pest Control charges will need to be set at a level that should achieve full costs recovery of the service. The remaining charges have either been set nationally (eg air pollution charges) or where they are set at the Council's discretion, remain unchanged for the forthcoming year. The current inflationary indice used for Council service increases is 3.4%.

SECTION D

HOUSING REVENUE ACCOUNT (HRA)

17. I have attached a separate report on the proposals for rent and service charges for 2005/06. These have been discussed and agreed with the District Compact and follow the Government Guidance for 2005/06.
18. The budget for the HRA is being developed along the lines included within the 30 year business plan being developed as part of stock option appraisal. Dependent upon which option is chosen the medium term plan for the HRA may require amendment during 2005/06. The budget for 2005/06 does include for an increase in expenditure for management of the stock, a requirement if the Council is going to achieve the 2 star status it has set itself.

19. Overall the stock option appraisal process is providing a detailed risk assessment through the detailed financial planning which should ensure the chosen option is sustainable.
20. The main area of concern within the Housing Revenue Account relates to the warden service, and the less than anticipated level of income being received from supporting people grant. This issue is currently being considered by the Supporting People Team and I will update the Cabinet at the meeting on the latest position. It is likely a review of the charging structure will be required during 2005/06.

SECTION E

COUNCIL TAX REGULATIONS 2ND HOMES DISCOUNT

21. I attach a report from the Revenue Services Manager regarding the discretionary powers on the reduction of discounts on second homes and long term empty properties. In line with the rest of Lincolnshire if the proposals are approved it would allow the additional revenue raised on behalf of the major precepting authorities to be spent within South Kesteven. If approval is given, I will liaise with the County Council and Police Authority on the Council's priorities for this additional revenue. It may be a positive move to ask that the funding be directed at the local strategic partnership for delivery of the community strategy.

SECTION F

DEVELOPMENT OF SERVICE PLANS AND FINANCIAL MANAGEMENT

22. As outlined in paragraph 5, this has been the first year when service plans have been developed alongside the budget process. It is appreciated that improvements can be made next year, but the difficulties of bringing together the complexities of budget preparation mean it will need to be handled carefully. I believe we need to encourage service managers in their involvement with all aspects of the budget.
23. I would appreciate any views the portfolios have on the process used in this year. The service plans will now be published on the Intranet to support the main budget process.

SECTION G

NEXT STEPS

24. The capital programme budgetary position is being finalised, and this will need to be reviewed by the Cabinet in preparing its report to Council. I will undertake the necessary work on (a) the prudential code, (b) statement of robustness and adequacy of reserves (c) to feed any further consultation of information from the IAA's or Capacity and Resources DSP, in time for the final budget preparation reports.

CONCLUSION

25. The information required by the Cabinet in formulating its budget proposals is nearly complete. I will update the Cabinet with any amendments at the appropriate time.

J Blair
Director of Finance and Strategic Resources

ATTACHMENTS FOR FIN223

1. Budget Summary General Fund – DRAFT
2. Summary for DSP's – DRAFT
3. Budget Consultation Papers
4. Gershon Efficiency Paper
5. Proposals for Council Tax 2nd Homes Regulations
6. Proposals for Housing Revenue Account 2005/06