

REPORT TO COUNCIL

REPORT OF: Cabinet (Section A)
Director of Finance & Strategic Resources (Section B,C,D)

REPORT NO. FIN226

DATE: 24TH February 2005

SUBJECT:	BUDGET 2005/06 <ul style="list-style-type: none">- Section A - Cabinet Report to Council- Section B - Chief Finance Officer's Statement on Robustness and Adequacy of Reserves.- Section C - Council Tax Resolution for 2005/06.- Section D - Resolutions on Capital Financing.
KEY DECISION OR POLICY FRAMEWORK PROPOSAL	KEY DECISION AND POLICY FRAMEWORK PROPOSAL

COUNCIL POLICIES:	BUDGET DEVELOPMENT
CORPORATE OBJECTIVES:	CORPORATE HEALTH
RELEVANT STATUTORY POWERS:	LOCAL GOVERNMENT FINANCE ACT 1992 LOCAL GOVERNMENT ACT 2003
BUDGETARY IMPLICATIONS:	SIGNIFICANT
CONSULTATIONS:	PDC's COUNCIL TAX PAYERS VIEWPOINT PANEL

BUDGET 2005/2006

SECTION A - CABINET REPORT TO COUNCIL

Recommendation

The Council is recommended to accept this budget, attached statement from the Chief Finance Officer and approve the resolutions at Section C and D for the Budget 2005/06.

Introduction

1. The budget for 2005/06 is a major policy framework item and the purpose of this report is to present the Council with the budget proposals for consideration. The draft budget book for 2005/06 has been circulated to members in advance of the meeting. The full budget book will be available when the Police Authority have set their Council Tax for 2005/06.
2. The report covers the background to the budget, looks at the main external influences impacting on the Council's finances, and highlights new service delivery areas. It provides an overview of the strategic financial position and is supported by the Chief Finance Officer's statement on robustness of budget and adequacy of reserves.

Background to the Budget

3. The Budget preparation continues to evolve alongside the modernising and prioritisation agenda. The delivery of priorities and ensuring they are resourced will be the major element in budget deliverance. It has been necessary to switch additional resources to those services which may be assessed as priorities. Financial capacity has been built into the medium term financial plan to allow this to happen. The 2005/06 budget is therefore the first year that service delivery, reflects the Council's priorities and redirection resources from non-priority areas.
4. Budget development has evolved since last year. Building upon the success 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 from the four DSP's.
5. 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.

6. The Capacity and Resources DSP has given a series of recommendations to the Cabinet in relation to the budget and these have been included in the Cabinets assessment of the budget.
7. In accordance with the development of Service Plans, the Cabinet has through portfolio holders and relevant service managers gained a better understanding of the linkages between service and corporate priorities and highlighted those areas of non priority. The development of service plans will have implications for the formulation of the budget in future years as service managers become more involved with the process.
8. 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.
9. Further consultation through the Local Area Assemblies has been undertaken. This has included a likely position for each of the main precepting authorities. The results are similar to that of the Viewpoint Panel.
10. 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 position.

	4-5%	5-6%	> 6%
Viewpoint Panel	35%	47%	18%

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

Government Guidance on Council Tax Increases

12. The Local Government Finance settlement and subsequent pronouncements assume Councils will be aiming to increase Council Tax by low single figures and no more than 5%. Nick Raynsford, the Local Government Minister, has given the view that there will be a strict capping regime in place to ensure this happens. The Government has reserve capping powers and initially would ask for further information on proposed increases, but has indicated that it will be enforced to a greater degree than last year.
13. South Kesteven has three unique problems in relation to this position (i) with such a low base of tax and spending the gearing impact has a much bigger effect on percentage increases (ii) the increases in special expenses must be considered alongside the overall increase (iii) the impact of parish precepts may also need consideration. The Council is able to control items (i) and (ii) but item (iii) is outside its direct control. Parish Councils were urged to consider the impact of capping in setting their precepts for 2005/06. The Cabinet is aware that the cost of re-billing could be £50,000 if the Authority was capped.

District Audit Management Letter

14. This provides the external assessment of the accounts for 2003/04 and a view on 2005/05 budget setting. It urged the Council to consider the impact of capping in setting the level of Council Tax for 2005/06. This point has been considered preparing this budget report.

External Financial Issues

15. The biggest external factor influencing the budget target for 2005/06 is the Local Government Finance Settlement. The provisional settlement issued in November has been the subject of technical reports from the Director of Finance and Strategic Resources. The Government's priorities nationally have been for Education, Social Services and the Police. District services have been a lower priority and the net impact of external funding gives a 5.1% cash increase in comparison to 2003/04 (4.7% on a 'like for like' basis). In cash terms the level for general formula grant for 2005/06 is £403,000 more than that received in 2004/05. The final Local Government finance settlement indicates the level of external support will be £8,368,000 for 2005/06. The formula grant figure for 2004/05 was £7,965,000.

Interest Rates and Retail Price Index

16. Interest rates and the retail price index have changed over the past 12 months. Stable interest rates help predict the element of investment income that will come from the Council's reserves, although the yield will be relatively low in comparison to past years ie the Council needs to have a higher level of reserves to receive the same level of investment income. The base rate has increased by from 4% to 4.75% over the year through three 0.25% increases. It has not changed since August 2004.
17. The Retail Price Index (RPI) is used by those Council Tax payers on fixed incomes eg pensioners and those who receive inflationary awards only, to question higher than RPI increases in Council Tax. The cost base of the Council does not necessarily follow the main Retail Price Index. The Council has a number of contracts indexed to particular expenditure factors relevant to the work undertaken which exceed RPI increases eg grounds maintenance. The November RPI (including interest rates) is 3.4%.

Interest Receipts

18. 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.
19. General fund interest receipts for 2004/05 are estimated at £650,000, and £500,000 for 2005/06. The level of interest receipts is expected to fall because of the use of reserves in 2005/06 - in particular the use of the specific reserves.

The Stock Market and Pension Fund

20. The Council is statutorily obliged to belong to the Local Government Pension Scheme and the Lincolnshire (County Council) Pension Fund. In the 2004/05 budget process we contributed
 - (i) a lump sum into the fund for the capital cost of early retirements - this was at £500,000, and was paid in 2003/04.
 - (ii) paying an additional 4% on payroll in 2004/05, effectively making the employer's contribution 20% closing the deficit in the fund. For 2004/05 this additional expenditure will be funded by the Pensions Reserve. This will amount to £336,000 for 2004/05.
21. The triennial actuarial valuation of the fund took place in March 2004 with new employer contribution rates payable from April 2005. The interim valuation results of the fund received in December 2004 showed the funding level for South Kesteven falling from 97.6% to 78%, leading to an increase in employer contribution rates from 16% of payroll to 28%, if the deficit was recovered over the usual 12 year period. The County Council actuary has advised mitigation of the impact by looking at various methods such as extending the period over which the deficit can be recovered eg over 20 years. This leads to a required employer's contribution of 21.2% for 2005/06 through to 2007/08. The additional contribution has been budgeted for in 2005/06 onwards.

Overall impact on Budget Requirement

22. The increase in Council Tax at rates above the RPI, depends very much upon the relative position and gearing effect between net expenditure and government grant. For every 1% that expenditure rises above the level of grant increase, Council Tax rises by 3.3%. The Council's budget requirement for 2005/06 is £13,292,000 an increase of 5% on 2004/05, but the amount to be met by taxpayers, £4,871,000, will be 6.2% higher than 2004/05. The above figures include the five special expense areas (SEA). This gives rise to the following levels of Council Tax at Band D:-

Proposed Council Tax Levels 2005/06			
	04/05 £	05/06 £	Change %
South Kesteven - Overall Band D	96.02	100.80	5
Grantham SEA	30.69	32.22	5
Stamford SEA	17.01	17.82	5
Bourne SEA	4.14	4.32	5
Langtoft SEA	20.07	20.79	5
Deeping SEA	2.43	2.52	5

23. The call on the collection fund of £5,744,000 includes Parish Precepts of £873,000, an increase of 6% over 2004/05. The average Band D Council Tax charge including

Parishes and Special Expense areas will be £132.36 in 2005/06 (£126.41 in 2004/05) - an increase of 4.7%. The increase in the tax base is 1.3% for 2005/06. The changes to the 2nd homes discount will be implemented from April 2005, and be incorporated in the tax base for 2006/07.

Comments on Strategy Approach to Budget Setting

24. In calculating the budget requirement for 2005/06 there will be no impact on general fund reserves. One issue that causes the Cabinet concern is the treatment of special expense areas; preparing estimates for these areas and assuming full cost recovery from those taxpayers created unreasonable percentage increases in Council Tax. A consistent approach has been adopted for SEA'S limiting the overall tax increase to 5%. A review of expenditure in SEA'S will be undertaken during 2005/06.
25. Briefly to re-cap the purpose of SEA's are to eliminate double taxation of those areas where the local services provided by the District are akin to those provided by the Parish Council in other areas. Some residents were therefore taxed twice - once by the District and once by the Parish.
26. Analysing the reasons for the large potential changes for 2005/06 for the SEA's
 - (i) any large changes in expenditure requirements fall on a low tax base generating large percentage increases.
 - (ii) accountability for charging costs to the SEA's must be clearly identified.
27. The position at Langtoft has been difficult to resolve. It is imperative that costs are driven down to ensure a sustainable position. The new management arrangements should satisfy the users of the facility and Council Tax payers.
28. The Cabinet proposes to increase the tax on special expense areas by 5% and aims to review whether the deficits can be recovered in future years. An element of general fund working balances relates to the SEA's. This approach will allow for ensuring expenditure is evened out over time and avoid large changes in Council Tax from SEA's. An element of general fund working balances relates to the SEA'S. There will be no increase in the deficits for 2005/06.

Development and Scrutiny Issues

29. The rising expectations from service recipients regarding improvements in service quality does have to be considered within the overall financial management of the authority. The various best value reviews, CPA and priority consultation will all impinge upon future policies. The detailed Development and Scrutiny Panels (DSP) budgets are contained within the budget book and the following summarises the key areas by DSP.

Economic and Cultural DSP

30 The net general fund charge is due to rise from £5,283,000 to £5,741,000 for 2005/06. The most significant change relates to the postponement of setting up of an Industrial Provident Society (IPS) for the management of leisure facilities, which will give rise to a full liability on business rates payable. The remaining budgets show the investment in Economic Regeneration and Town Centres.

Environment DSP

31. The net general fund charge will rise from £4,215,000 to £5,171,000 for 2005/06. The areas of growth include waste management, street cleansing, and recycling.

Capacity and Resources DSP

32. There are no major budget issues ensuing from the Capacity and Resources DSP. The net panel cost is budgeted to rise from a projected out-turn of £2,177,000 to £2,765,000. This reflects the additional investment in the Access to Service Programme, an agreed Priority A item. The cost of central support charged to the General Fund increases from £4,891,000 to £5,367,000 for 2005/06.

Communications and Engagement DSP

33. The net general fund charge will rise from £909,000 to £974,000 in 2005/06.

Community DSP

34. The net general fund charge will rise from £1,059,000 in 2004/05 to £1,233,000 in 2005/06.

Scale of Charges

35. Attached to the report is a summary of the main changes in the scale of charges. The budget book shows the individual charges against each service.

Capital Programme

36. FIN195, the Capital Programme Review was presented to the Council during 2004/05. This budget report includes the current budget position on the capital programme. The capital programme shows the investment in Priority A areas and a provision for maintaining existing assets. All projects are now subjected to appraisal by the Property Management Performance Group.

Savings Identified in Budget Process

37. The budget process for 2005/06 has incorporated those areas where savings could be established in order for them to be re-directed to future priorities. This is in line with the Council decision previously agreed.
38. The resources freed up will be re-directed to capacity funding and priority delivery in accordance with the last years policy. It may be used to support capital or revenue expenditure or one-off projects identified for 2005/06. In addition an efficiency target of £200,000 has been set in accordance with the implementation of 'Gershon'. A formal efficiency statement will be presented in April 2005.

Housing Revenue Account

39. The Housing Revenue Account is ringfenced from the General Fund. The Government tightly controls what can be charged to the account and the level of external support through the Housing Subsidy system. The main target will be to bring all stock up to the Decent Homes standard by 2010 and achieve a 2 star rating for management and this will require the continuation of previous targeted financial management, with the focus upon planned improvements to stock rather than responsive maintenance. Over 50% of the Council's reserves relate to the Housing Revenue Account.
40. The rent increase for 2004/05 is 4.03%, plus an adjustment for rent restructuring. This will be the fourth year of the ten year transition programme of moving rents to their assessed level under the Government's basis for setting social housing rents - namely 70% set upon local earnings and 30% on market value of the dwelling. Other HRA charges will be set according to the FIN222 report presented to Cabinet on 7 February 2005.

Reserves

41. The Council holds reserves to either protect itself against unforeseen or unexpected charges of expenditure or income - general reserves or for a specific reason - specific reserves. The reserves are split between the Housing Revenue Account and the General Fund.
42. The Housing Revenue Account will have £10,854m in capital reserves and £4,868m in revenue reserves, as at 1st April 2005. By 31st March 2006 the HRA reserves will be £8,694m in capital and £6,124m in revenue.
43. The General Fund balances are estimated at 1st April 2005; £4,657m capital; £6,072m specific; £2,548m general. By 31st March 2006 the general fund balances are estimated at - £2.498m capital; £5.701m specific; £2.548m general.
44. The specific reserves will be reviewed over the next financial year to ensure they are appropriate for the Council's developing delivery of services.

Capital Financing 2005/06

45. 2005/06 sees the second year of the Prudential Code of Practice for Capital Financing. This replaced the tight regulation of local authority capital financing and will, over time, allow for a more flexible approach to the financing of the Council's Capital Programme. The Director of Finance and Strategic Resources has attached his report on the new Code of Practice as part of the statement on the budget.

Appendices to Cabinet Report

Appendix A	-	Consolidated Budget Summary 2005/06
Appendix B	-	Summary of Development & Scrutiny Panels Budget Heads 2005/06
Appendix C	-	Housing Revenue Account Summary 2005/06
Appendix D	-	Capital Programme
Appendix E	-	Scale of Charges changes 2005/06
Appendix F	-	Parish Precepts 2005/06