

REPORT TO CABINET

REPORT OF: FINANCE PORTFOLIO HOLDER – CLLR T BRYANT

REPORT NO. CAB5

DATE: 10 FEBRUARY 2006

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| TITLE: | BUDGETARY PROPOSALS FOR REVENUE 2006/2007 AND CAPITAL FOR 2006/2007 TO 2008/2009 |
| FORWARD PLAN ITEM: | YES |
| DATE WHEN FIRST APPEARED IN FORWARD PLAN: | 17 OCTOBER 2005 |
| KEY DECISION OR POLICY FRAMEWORK PROPOSAL: | POLICY FRAMEWORK PROPOSAL |

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| COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION: | CABINET CORPORATE GOVERNANCE |
| CORPORATE PRIORITY: | ALL |
| CRIME AND DISORDER IMPLICATIONS: | N/A |
| FREEDOM OF INFORMATION ACT IMPLICATIONS: | Unless exempt, this report is a public document and available from the Council's website: www.southkesteven.gov.uk |
| BACKGROUND PAPERS: | FIN254 |

A. RECOMMENDATIONS

1. To recommend to Council a Council Tax increase of 4.82% for 2006/07 and an overall average increase of 4.9% when including Parishes and Special Expense Areas.
2. To recommend the Budget to the Council at its meeting on 2nd March including the General Fund Revenue Account, Housing Revenue Account and the Capital Programme and Capital Financing Report.
3. To explain any amendments and addendums from the papers, attached to this report, and add the required resolutions for major precepting authorities at the Council meeting on 2nd March.
4. To recommend that all service plans are approved and published on the Council's intranet to underpin the budget sheets.
5. To approve the use of reserves as detailed in the report.
6. To recommend a maximum subsidy per Council Taxpayer for the operation of the Arts Centres.

B. INTRODUCTION

7. The purpose of this report is to lay the foundations in achieving excellence in service delivery through a well resourced budget strategy. The budget report and enclosures cover the following areas:

- Background to Budget Development
- Local Government Settlement 2006/07
- Government Guidance on Council Tax increases 2006/07
- External Financing
- Overall Budget Requirement
- Integration of Service Planning and Budgets
- Investments, Savings and Efficiencies
- Capital Programme and Financing
- Reserves
- Budget Consultation
- Financial Services – Impact of Use of Resources
- Recommendations

C. BACKGROUND TO BUDGET DEVELOPMENT

8. The preparation of the Budget for 2006/07 has been at a time of great change for the Council a) in the way in which services are being delivered and b) which services will receive additional investment and which areas will deliver efficiency and economies. The medium term financial plan has allowed resources to be redirected from non-priority to priority areas. The 2006/07 budget is the second year of investment in the five original priority areas and constitutes the first full year for the 2 new areas – Communications and Affordable Housing.

9. The national backdrop to the budget preparation has focused upon an assessment of how well the council uses its financial resources and achieves Value for Money in Service delivery. This has underpinned all of the detailed work on the budget this year and has been made more relevant with the recent discussions on local government re-organisation of two tier areas and inferences that the "district tier is an expensive luxury".

10. The integration of Service planning with the Budget coupled with the roll out of a new focused financial management process will help ensure excellent services can be delivered efficiently and effectively.

D. LOCAL GOVERNMENT SETTLEMENT 2006/07

11. The provisional local government settlement was issued in December. The Corporate Director of Finance and Strategic Resources provided a full analysis of the settlement along with the national, regional, and local impacts of the Government decisions on grant in his report FIN254. The key elements of the settlement are outlined below:

- a) 2 year settlement for 2006/07 and 2007/08
- b) Introduction of a new formula grant system - the Four Block System
- c) A headline increase of 4.5% in aggregate External Finance in 2006/07 and 5.0% for 2007/08, (including schools). In 2005/06 the increase was 6.2%.
- d) An increase in Formula grant beyond the Spending review 2004 of £305m in 2006/07 and £508m in 2007/08.
- e) Total increase in Formula grant of 3.1% in 2006/07 and 3.8% in 2007/08
- f) Relief of spending pressures through
 - funding of net cost of new burdens
 - financing cost pressures of pensions rule of 85 rule
 - agreement to work with LGA on managing pressure on pay, waste, adult social care
 - commitment costs of new licensing will be met by national fee regime.
- g) Increase in ring-fenced grant of over 50%-in particular the introduction of ring fenced dedicated schools grant in 2006/07.
- h) New formulae changes for Personal social care and Concessionary fares
- i) Damping arrangements - the floors will be 2% for 2006/07 and 2.7% for 2007/08, for those with Education and social services, 3.2% and 3.7% for police Authorities, **3% and 2.7% for Shire districts**, and 1.5% and 2.7% for fire authorities.
- j) The East Midlands is the major beneficiary of new distribution formula.

12. The level of external financing the Council receives is still the largest influencer of the level of budget the Council is able to set. In recent years we have seen a shift from general grants - monies the authority can spend on the provision of any service to those that are much more service based e.g. Planning delivery grant. There is a further tendency for these specific grants to be outcome and performance based. It is important for service managers to keep noticing in their areas whether any grants are available to support their business plans. These grant streams have been top sliced from the local authority "pot" and South Kesteven should ensure it receives its full entitlement if it can. So for 2006/07 managers will be expected to be aware of the availability of specific grants through the ongoing development of their service plans.

13. South Kesteven District Council will receive formula grant of £9.27m in 2006/07 and has been given an indicative allocation of £9.6m in 2007/08. This is an increase of 3.3% on 2005/06 on a like for like base. The settlement provided for new money for the extension of concessionary travel from half to free fares. This is included in the level of formula grant received and cannot be separately identified.

14. In terms of specific grants the Council will receive £222,000 from planning delivery grant and possibly £300,000 from LABGI (Local Authority Business Growth Initiative). The latter special grant will be paid in February 2006 and a further calculation done for 2006/07. Although its source relates to the Economic growth of the area it can be used to support any Authority expenditure. These types of additional income are important marginal funding sources for the Council and help to avoid excessive increase in council tax. At time of

preparing this report the announcement of LABGI had not been made and no allowance has yet been made in the budget for its receipt.

E. GOVERNMENT GUIDANCE ON COUNCIL TAX INCREASE

15. In keeping with recent years, advice has been received on the level of Council tax rise likely to be acceptable to the government. It is expected that Councils will keep their overall increase to less than 5%. Councils that go above this are likely to be capped. No guidance on capping has been issued but it will be based upon different criteria than last year. The Corporate Director of Finance and Strategic Resources, the Councils Responsible Finance Officer (RFO), has advised the cabinet of the cost of re-billing, estimated at £60000, and in his opinion it is possible to set a robust and sustainable budget without breaking the 5% ceiling. In preparing the budget the Cabinet has taken account of the RFOs advice.

16. Given the low base of Council Tax the authority begins from, it is a difficult juggling act to ensure the budget requirement including parish precepts and special expense areas does not create an overall increase greater than 5%. In the budget development work, letters were sent to all parishes asking them to consider carefully their precepts for 2006/07 and expenditure on SEAs will be carefully monitored.

F. EXTERNAL FINANCING

17. The table below summarises the external support from the Government for 2006/07. It illustrates the change to the four block system and compares the level of grant on a like for like basis.

| Description | 2006/07 | 2007/08 |
|---|----------------|----------------|
| Relative needs Amount | £3.216m | £3.266m |
| Relative Resource Amount | (£2.213m) | (£2.410m) |
| Central Allocation | £8.300m | £8.837m |
| Floor Damping | (£0.0308m) | (£0.065m) |
| Formula Grant | £9.272m | £9.626m |
| Formula grant after Amending reports | £9.326m | |
| FG- RSG | £1.500m | |
| FG-NNDR | £7.7725m | |
| Amending grant | £0.0054m | |
| Adjusted Grant 2005/06 | £8.974m | £9.272m |
| Grant Received 2005/06 | £8.368m | |
| Increase in Formula grant on Adjusted 2005/06 | 3.3% | 3.7% |
| Increase including amending reports | 3.9% | |
| Increase on cash base- assume no additional functions | 10% | |

18. Overall the settlement has been good for Districts in the East Midlands although South Kesteven's increase is relatively the second lowest in Lincolnshire, with only Lincoln City receiving a lower increase. This again puts pressure on the Council in delivering quality services without receiving the additional resources other Councils get.

G. INTEREST RATES AND RETAIL PRICE INDEX

19. Interest rates have changed over the last 12 months. The base rate has fallen by .25% over the last 12 months and is now 4.5%. This is bad news for the Council when it is a net investor although the budget proposals for 2006/07 envisage some borrowing in support of the capital programme at a time when low base rates will be helpful. The General Fund continues to be supported by interest receipts helping to reduce the burden on taxpayers of the revenue spend.

20. The Retail Price Index (RPI) is often referred to by those on fixed incomes eg pensioners and those who receive inflationary awards only, to question higher than RPI increases in Council Tax. It should be remembered the Council's cost base does not necessarily reflect the base used within the calculation of the RPI and given the complexities of the Local Government Finance System it is not surprising that an increase greater than RPI needs to be made. It is important to continue to signpost the availability of Council Tax Benefit to those who may qualify for support.

H. INTEREST RECEIPTS AND PAYMENTS

21. The Council has become increasingly reliant on the level of receipts it receives from its investment portfolio. These accrue because the level of reserves held by the Council have not reduced in recent years. The budget proposals for 2006/07 see a significant reduction in the General Fund reserves position as a significant capital programme kicks in.

22. The budget will require close monitoring to make sure the balance between bringing cash back from our investments is timed to meet payments out to the projects. It may be necessary to replace £500,000 of debt on maturity during 2006/07 and possibly borrow a further £2m. This will be the first full use of the Prudential Code for borrowing. It is likely the "borrowing" will be against the Council's reserves and effectively be managed by bringing back cash investments. The Corporate Director of Finance and Strategic Resources will use advice from Butlers, the Council's Treasury Management advisors to plan these changes for optimum benefit of the Council.

I. BUDGET AND SERVICE PLAN PROCESS

23. The budget has been developed in a significantly different way this year. A full integration of service planning and budgets has taken place. The use of technology has been optimized by using the intranet and servers to give remote access to detailed budget planning for members and officers. The opportunity to be involved with the process has never been greater.

24. The introduction of gateway reviews for each Service Plan has allowed full consideration of all issues, including a risk assessment and action planning process. Each Service plan has a balanced scorecard attached which can be a useful summary for a Value for Money approach.

25. By ensuring managers developed their own budgets, a major transfer of ownership is underway and this will need to be underpinned by training and support. This is being developed through the implementation of the new Financial Management System. Thus the integration of Service and Budget planning is the first step of an ongoing process to deliver excellent financial management within excellent Service provision. The bringing together of Capital and revenue spending plans allows full consideration of investment decisions to be considered at the appropriate time rather than in isolation.

26. During 2006/07 the gateway review of Service plans will begin much earlier in the financial year and be used to monitor Financial and Service outcomes, thus allowing flexibility in resourcing decisions through the year if required.

J. BUDGET CONSULTATION

27. Budget consultation has been undertaken through the following ways:

- a) through discussion at Local Area Assembly (LAA) meetings at Grantham, Stamford and Bourne. Members of the public were given the opportunity to comment on the overall budget proposals for 2006/2007 alongside LAA members.
- b) through SK Today - a 3 page Value for Money article supported by a questionnaire with various options on budget proposals given.
- c) through a joint Budget Consultation with the Lincolnshire County Council and the Police Authority.
- d) in the Budget working group run by the resources DSP.

28. The conclusions of the public meetings and the resources DSP supported the budget proposals of an average 5% increase. There was overall a good appreciation of the issues impacting on the Council and the investment and saving agenda that needed to be pursued. The postal and internet survey from the SK Today article was not statistically sound. The proportion of respondents was weighted heavily to the older age groups and perhaps not surprisingly did not support a rise in Council Tax. In considering the impact of the increase, those on fixed incomes often request an RPI increase in line with pension increases etc. The Council's cost base does not reflect the RPI base and therefore rises in Council Tax may move ahead of the RPI.

K. BUDGET REQUIREMENT AND USE OF RESERVES 2006/07

29. The budget requirement for 2006/07 will be £14.4m including the Special Expense Areas and £13.9m with them excluded. This will give a resultant Council Tax rise of 4.82% excluding Special Expense areas and 4.9% for the District as a whole. The budget summary sheet at Appendix 1 shows the overall position for projected outturn 2005/06, 2006/07 base and 2007/08 indicative. Some key statistics are shown below:

- Overall budget requirement +8.7% on 2005/06
- Budgeted spend at Service level +2.5% on 2005/06 original to revised
- Budgeted spend at Service level +10.4% up 2006/07 compared to 2005/06
- Interest receipts higher than originally Budgeted - £500,000
- Specific Reserves used sensibly over the period of Budget
- Efficiency savings of £250,000 per annum
- Economy savings of £100,000

The tables below show the increases at DSP level.

Revised Budget Changes Outturn to Original 05/06

| Service | % Increase |
|--|-------------------|
| Capacity and Resources Development and Scrutiny Panel | |
| Communications and Engagement Development and Scrutiny Panel | 8.7 |
| Community Development and Scrutiny Panel | 3.5 |
| Economic and Cultural Development and Scrutiny Panel | 5.7 |
| Healthy Environment Development and Scrutiny Panel | |
| Special Expense Areas | 5.4 |

Budget Change Base 06/07 to Original 05/06

| Service | % Increase |
|--|-------------------|
| Capacity and Resources Development and Scrutiny Panel | 7.0 |
| Communications and Engagement Development and Scrutiny Panel | 42.0 |
| Community Development and Scrutiny Panel | 43.5 |
| Economic and Cultural Development and Scrutiny Panel | 9.0 |
| Healthy Environment Development and Scrutiny Panel | 1.3 |
| Special Expense Areas | 7.3 |

The table below shows the overall change in budget requirement and level of council tax.

% Increase 06/07 over 05/06

| | Call on Collection Fund | Council Tax Increase |
|---|--------------------------------|-----------------------------|
| SKDC | 5.80 | 4.82 |
| SKDC + Special Expense Areas (SEA) | 5.60 | 4.62 |
| SKDC + SEA + Parishes | 5.97 | 4.99 |

30. It has been necessary to review the level and purpose of reserves held. These were considered in the report by the Director of Finance and Strategic resources in FIN254.

The budget summary shows a planned use of the Capacity and Priority setting reserve of £500000 in 2006/07 and further use will take place in 2007/08. In addition the General Fund Capital reserve will be used for financing the Capital programme over the next year with a resultant fall in interest receipts. Finally the minimum revenue provision reserve has been allocated to the Capital Financing Requirement Reserve in accordance with the audit requirements of "Adjustment A" linking the requirements of the prudential Code with the Local Government and Housing Act 1989.

31. The General Fund working balances will be maintained at their current level for 2006/07. They will be monitored closely during the year to ensure they are adequate. The statement of balances is at Appendix 4.

L. BUDGETS AT SERVICE LEVEL

32. Appendix 1, pages 3-8, show the detail of the budget at Service level. Overall they bring together all of the investment and Savings targets at service level. All members have had the opportunity to review these figures through the development of Service plans. All service plans have been targeted to achieve efficiency savings in accordance with the Gershon targets. Through the devolution of budgets to Service Plan level we will be better placed to achieve them.

33. Through the introduction of the new ledger system, a suite of reports will be developed to allow full monitoring of the budget during 2006/07. This will be available to all members with particular reports being created to give the necessary information.

The table below shows some budget highlights at Service level.

| | |
|------------------------|---|
| Capacity and Resources | <ul style="list-style-type: none"> ▪ Access programme up - Investments. ▪ Impact of Business Rate Relief – savings £90,000 per annum. |
| Communications | <ul style="list-style-type: none"> ▪ Public Relations and Communication – Investment |

| | |
|-----------------------|---|
| | <ul style="list-style-type: none"> ▪ Supported Travel – Investment |
| Community | <ul style="list-style-type: none"> ▪ Community Safety – Investment ▪ Housing Solutions – Investment |
| Economic and Cultural | <ul style="list-style-type: none"> ▪ Car Park Income ▪ Economic Development increase – Investment |
| Healthy Environment | <ul style="list-style-type: none"> ▪ Waste and Street Scene – Investment |

M. HOUSING REVENUE ACCOUNT

34. The Housing Revenue Accounts budget has been prepared by the Interim Director of Tenancy Services. The Housing Revenue Account is at Appendix 2. It has gone through the same gateway review process as the other Service plans. In preparation for delivering on a 2 star service all of the tenancy services staff have been brought together and this has resulted in changes to the way in which support services have been allocated to the housing revenue account.

35. The Housing Revenue Account reflects the agreed increases in dwelling and garage rents and service charges.

N. CAPITAL PROGRAMME 2005/06 TO 2007/08

36. The Council's capital programme is enclosed at Appendix 3. This highlights the investment being made in Town Centres and Waste Management in 2006/07. The level of the programme at over £8m is the highest seen for a number of years and this shows the investment being directly made into the priority Services. Careful monitoring of the Capital projects will be required to minimize the impact of gap funding between building new assets and receiving the receipts from the sale of others.

37. During 2006/07 a full review of surplus and miscellaneous assets will take place to try and relieve some of the financing issues of 2007/08 and beyond. It would be unadvisable to commit to further significant capital projects until the outcome of the Stock Ballot is known.

O. USE OF RESOURCES - AIMING FOR EXCELLENCE

38. Financial management underpins the provision of services. In order to be assessed as excellent, a level 3 score is required in the Use of Resources assessment. This will be a tough goal given the current capacity within Financial Services. It is classed only as a Y service at the moment. It is proposed to consider reclassifying the Service as a B priority and amend the ranking of Council Tax Collection from a B to a Y to maintain the overall balance of Ys to Bs. The Corporate Director of Finance and Strategic Resources prepared a report FIN256 which outlined the 'Harder Test' the Council will be required to undertake, and this will underpin its ambitions.

38. Budget provision has been made to allow this investment to take place, providing the Council approves the re-designation of the Service.

P. CONCLUSION

40. This budget report continues the re-allocation of resources to the Council's priorities. I would like to take this opportunity to thank all members, officers and partners, and stakeholders for their contribution to the Budget development for 2006/2007.

ATTACHMENTS TO REPORT

Attachment 1 Statement by Responsible Financial Officer

Attachment 2 Prudential Indicators 2006/2007 – Capital Finance Report

Attachment 3 Appendix 1 – General Fund Summary 2006/2007
 Appendix 1, pages 3-8 – DSP Summary Sheets 2006/2007
 Appendix 2 – Housing Revenue Account 2006/2007
 Appendix 3 – Capital Programme 2005/2006 to 2008/2009
 Appendix 4 - Reserves