

REPORT TO CABINET

REPORT OF: Corporate Head of Finance and Resources

REPORT NO. CHFR12

DATE: 10th July 2006

TITLE:	Medium Term Financial Strategy and Budget Preparation 2006/7 to 2010/11
FORWARD PLAN ITEM:	Yes
DATE WHEN FIRST APPEARED IN FORWARD PLAN:	14 th April 2006
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	Budgetary Framework Proposal
COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION:	Resources Cllr T Bryant
CORPORATE PRIORITY:	Effective Use of Resources - Priority A
CRIME AND DISORDER IMPLICATIONS:	None
FREEDOM OF INFORMATION ACT IMPLICATIONS:	This report is available via the Local Democracy link on the Council's website www.southkesteven.gov.uk
BACKGROUND PAPERS:	FIN 236 – Update on Financial Issues 2005/6 FIN 239 – Medium Term Financial Strategy and Budget Preparation 2006/7

1. INTRODUCTION

The purpose of this report is to consider the key issues that will impact on the Council's Medium Term Financial Strategy (MTFS) and on the budget preparation for 2007/8. The existing MTFS covers the period 2006/7 to 2010/11 an updated Strategy covering the period 2006/7 to 2010/11 will be submitted to members in August.

2. RECOMMENDATIONS

It is recommended that the Cabinet:

- a. approve the development of a more strategic forward looking approach to budgeting with a more robust three year planning process, demonstrating the direction of resources towards priority services
- b. approve an indicative budget requirement for general fund together with an indicative tax increase 2007/8 and acknowledge implications for the following three years of the strategy
- c. approve the development of a Fees and Charges Strategy to address both discretionary and mandatory fees over a rolling three year period.
- d. request a review of the current position relating to Performance Grants, Challenge Funding and Partnership contributions to be undertaken.
- e. request a review of the assumptions used to assess the Tax Base and Collection Fund as follows:-
 - o The estimated number of properties (in Band D terms) expected to be added for the period of the budget.
 - o The collection rate assumptions.
 - o The balance on the Collection Fund.
- f. request Resources DSP to undertake scrutiny of the indicative budget, allocation and tax increase together with the headline issues prior to Cabinet's formal recommendation to Council on the MTFS as part of the Budget Framework

3. KEY FINANCIAL ISSUES

Background

The MTFS report submitted to Cabinet by the former Director of Finance and Strategic Resources in August 2005 identified the following key local issues facing the Council:

- Housing Stock Options
- Leisure Trust
- Travel Concessions
- Grounds Maintenance Contract renewal
- Senior Management Restructure

These are addressed in more detail in appendix A.

4. ISSUES AFFECTING MEDIUM TERM FINANCIAL STRATEGY (MTFS)

The MTFS is affected by two key issues the demands for spending and the available funding to meet these demands and the financial budget is mechanism to address these. Both of these are dynamic in that demands for spending change to reflect priorities and cost of provision of the service, whilst the funding available to finance these demands relates to the level of Government Grant, Council Tax Base and ability to raise local income through fees and charges.

The issues which will be reviewed and which affect the Council's MTFS may be broken down as follows:

- Local Issues
 - o Review of strategic financial issues facing the Council
 - o Review of base budget based on 2005/6 outturn, the Annual Efficiency Statement backward looking statement and a review of 2006/7 financial performance year to date
 - o Review of Priorities
 - o Expanding population and tax base
 - o Level of reserves and balances
 - o Corporate Demands
- National Issues

- Revenue Support Grant settlement
- Comprehensive Spending Review 2007
- Implementation of Local Area Agreements
- National Priorities

Local issues affecting the MTFS

Review of strategic financial issues facing the Council

Following my appointment as section 151 officer I commissioned a desk top review of the strategic financial issues facing the Council. This has been undertaken by an external consultancy Bob Whetton Ltd. The following recommendations have been identified in relation to the Council's budget and MTFS processes:

- a) A more strategic forward looking approach to budgeting is developed with a more robust three year planning process, demonstrating the direction of resources towards priority services.
- b) The budget process should be more challenging, including income assumptions, and bids for resources should demonstrate the proposed impact on service delivery.
- c) A more robust business planning process is developed, linking service plans to financial plans, both annually and in the medium term.
- d) A Fees and Charges Strategy is developed to address both discretionary and mandatory fees over a rolling three year period.
- e) A review of the current position relating to Performance Grants, Challenge Funding and Partnership contributions is undertaken.
- f) The Council is recommended to review the assumptions used to assess the Tax Base and Collection Fund as follows:-
 - The estimated number of properties (in Band D terms) expected to be added for the period of the budget
 - The collection rate assumptions.
 - The balance on the Collection Fund.

Although the financial benefit from the above actions may not be major, it will enable the resource base to be increased in a sustainable way.

These recommendations together with a number of other recommendations contained in the report on strategic financial issues have been developed into an action plan which will be incorporated within the overall "Use of Resources" action plan to be finalised shortly.

Review of base budget

Based on the 2005/6 outturn overall the Development and Scrutiny Panels have shown a minor overspend of £79,000 compared with original estimates or an underspend of £227,000 compared to projected outturn. However, the significant variations identified at a DSP level in report CHFR10 were as identified below:

DSP	Service	Detail	£'000	Impact on base budget
Resources	Council Tax and Benefits Administration	Additional prior year and transitional benefit subsidy	147	None
Resources	Council Tax and Benefits Administration	Overpaid benefits recovered greater than budget	110	Need to review base estimates
Resources	Council Tax and Benefits Administration	Redistribution of Support Services	80	None
Resources	Pensions	Costs for backfunding and additional years accounted	122	None

		for at service level		
Community	Housing Solutions	Supplementary budget	60	Inc. in 2006/7 base
Community	Housing Solutions	Redistribution of costs following Housing restructure		None
Community	LSVT	Pre-ballot costs financed from LSVT reserve	198	Impact at service level but no impact on tax level

The Annual Efficiency Statement backward looking statement is being finalised at the time of writing the report and an update on this position together with a review of the financial position for the year to the end of the first quarter for 2006/7 will be included in the subsequent report to Cabinet in August.

Review of Priorities

The Council reviewed local priorities at its extraordinary meeting on 22nd June, 2006 and the Category A priorities for stepped change have been identified as follows:

- Access
- Affordable Housing
- Anti-social behaviour
- Communications
- Effective use of resources
- Recycling
- Town Centre Development and development of Grantham as a Sub-Regional Centre

Expanding tax base and population

The district has one of the fastest growing populations in the country, which should be reflected in the Tax Base (although this will partly be reflected in relatively lower Formula Grant). It is recommended that an interim review of the tax base to date and the population will need to be undertaken as there is evidence of growth which places additional demands on local services.

Level of balances and reserves

A review of level of balances and reserves was undertaken as part of the closure of accounts and preparation of the Statement of Accounts, details of the level of reserves and current estimated movements on reserves for 2006/7 are contained in appendix B.

Corporate demands

The level of pay and price inflation is 2.4% based on RPI. In particular, there is pressure on utility costs with a current rate of inflation of around 25%. Also the pay inflation for 2007/8 has not yet been determined therefore, any increase above RPI will have a further impact on the Council. The Pension Actuary is due to provide a report on the performance of the pension sub funds in July, any update will be included within the subsequent report on MTFS to members.

National issues affecting MTFS

Revenue Support Grant (RSG)– Members will recall that the RSG Settlement for 2006/7 introduced a two year settlement with effect from 2006/7 and it is anticipated that this will move to a three year settlement from 2008/9.

Comprehensive Spending Review 2007 (CSR07)

Early indications are that the CSR07 will be a zero based review across the whole of government. Whilst there have been a number of spending reviews this is the first comprehensive review in ten years. At this stage it is likely that Local Government will maintain a real terms neutral position. However, in terms of district councils it is likely that this will result in decrease in real terms as districts do not deliver the highest government priorities such as Education and Adult Social Services. Themes being considered as part of CSR07 include review of level of balances and reserves; asset management and surplus assets; and efficiency and shared services.

Specific grants

Local Authority Business Growth Initiative (LABGI) this grant relates to promoting economic growth of the area by allowing Councils to retain a proportion of any increase in business rate revenue, above a certain level. LABGI can be used to support any Authority expenditure, in 2005/6 it was reflected in the projected outturn for the summary of General Fund, the final amount of grant payable to the Council for the year was £297,000 and was received in the last quarter of the financial year. In future years, there will be a single payment in the final quarter of the financial year based on the actual changes to rateable values in the previous calendar year, therefore when the budget was prepared for 2006/7 no announcement of LABGI had been made and as a result no allowance was made for its receipt. The Minister in his statement last year announced that there would be a review of the outcomes at the end of year one and also to take account of any issues arriving out of the Lyons Review. Approaches have been made by the Federation of Small Businesses and some of the local business clubs to request that this funding is ring fenced for business support / development within South Kesteven, therefore cabinet's views are requested on this matter.

National performance grants, such as Planning Delivery Grant and Defra grant for recycling, are likely to be reviewed as part of the CSR07.

Travel Concessions

The RSG settlement for 2006/7 incorporated funding for the introduction of free local bus travel during off peak times within district for the over 60s and the qualifying disabled, this figure can not be quantified due to the complex formula used for grant calculations. However, following the budget announcement of the introduction of free national bus travel during off peak times for this group with effect from April 2008, it is unclear at this stage how this scheme will be administered and whether this will impact on the level of RSG settlement.

Local Area Agreements

The implementation of Local Area Agreements is in progress nationally and agreements for Lincolnshire will be progressed in due course.

Lyons Review

The Sir Michael Lyons is undertaking a review of the function and funding of Local Government. The final report is due in December 2006, this is likely to affect the Council's MTFS in the future, particularly in relation to the ability to raise local income.

5. INDICATIVE BUDGET

The outcome of the budget process is the approved level of Council Tax, and historically the Council has a very low level of Tax compared to most District Councils. The government policy to keep tax increases from year to year at a modest level (5% for 2006/07) means that the Council is working from a relatively low resource base, therefore all potential income streams need to be considered. In keeping with recent years, it is likely that the level of

Council Tax increase acceptable to Government will need to be limited to an increase of less than 5% taking account of the current capping regime, therefore set out below is an indicative budget requirement based on a increase at the ceiling of 5% and an assumed 1% growth in tax base in line with assumptions in previous years.

	2006/7	2007/8	2008/9
	£'m	£'m	£'m
Formula grant indicative allocation	9.272	9.626	9.626
Council Tax Collection Fund surplus	0.039	0.000	0.000
SKDC & Special Expenses Budget	5.144	5.466	5.795
requirement funded from Council Tax	<u>14.455</u>	<u>15.092</u>	<u>15.421</u>

6. COMMENTS OF CORPORATE HEAD OF FINANCE AND RESOURCES

My comments are contained within the body of the report.

7. COMMENTS OF THE MONITORING OFFICER

I am satisfied that the recommendations are in accordance with the budget and policy framework.

8. CONCLUSIONS

This report has identified a number of issues facing the Council in the preparation of its Medium Term Financial Strategy. A review of the MTFS is due to presented to Cabinet members in August for their subsequent recommendation to Council for approval in September. In the meantime, the Cabinet, Strategic Management Team and Resources DSP will need to consider the issues raised and in particular, take account of the need to balance the likely spending demands with the potential availability of funding when developing medium term plans for the Council.

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Update on issues identified in 2005/6 as affecting the Council's MTFS

Housing Stock Options

The Options Appraisal identified Large Scale Voluntary Transfer as the preferred option for the future ownership and management of the Council's housing stock and a ballot is planned to take place in Autumn 2006. A reserve of £1m has been set up to cover the one-off costs of the LSVT ballot. The Statement of Accounts for 2005/6 show that pre-ballot expenditure of £198,000 has been financed from this reserve leaving a remaining balance on the reserve of £802,000.

Leisure Trust

A report to Cabinet in June resolved to proceed with the creation of a Leisure Trust to deliver leisure centres and sport facilities only (excluding arts centres). The introduction of such a Trust would be effective from April 2008 upon the expiry of the current leisure contract. It was also decided to continue a concurrent procurement process for delivery of leisure service in the event that the creation of a robust Trust business plan is not satisfactory to the Council. There are several financial implications for the Authority if the Trust option is realized which will to be considered as part of the business plan and the budget setting process for 2008/09.

Travel Concessions

With effect from 1st April, 2006 the Council has fulfilled the requirements of the national scheme to provide free bus travel within the district for the over 60's and qualifying disabled. A review of the budgetary position is currently being undertaken to determine the overall financial position of this service.

Grounds Maintenance Contract renewal

The Grounds Maintenance Contract has now been renewed and the revised contract sum of £835,000 has been awarded. This represents a 8% increase on the previously budgeted figures but 67% of the increase falls within the HRA. The remaining general fund element can be contained within existing budget provision.

Senior Management Restructure

The first phase of the senior management restructure has been undertaken to recruit Strategic Directors, the second phase of the review is currently underway and indicative savings of up to £150,000 have been identified for re-investment in front line service delivery. In May the Council approved a supplementary estimate of up to £700,000 to be financed from the Priorities and Capacity Building reserve for one off costs associated with implementing the senior management restructure.