

Report considered by Cabinet - 15 February 2005

Key Decision	Yes
Listed on Forward Plan	Yes
Within Policy	Yes
Policy Document	Previous Reports, Policy and Monitoring

COUNCIL WIDE REVENUE BUDGET 2005/06, 2006/07 AND 2007/08

Accountable Cabinet Member: Councillor Tallack

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1. **Purpose**

- 1.1 To report the outcome of the consultation process on the 2005/06 to 2007/08 General Fund budget and 27 January Formula Grant final settlement for 2005/06.
- 1.2 To agree the Cabinet's proposals for recommendation to Council, on 28 February 2005, for the 2005/06+ General Fund budget, and Council Tax level for 2005/06.

2. **Recommendations**

- 2.1 That the feedback from consultation with the public, organisations and the Policy Development Committees, be welcomed (paragraph 4.4 - detailed at **Annex A and Annex B**).
- 2.2 That the Council's representations on the provisional finance settlement and the response from the ODPM be noted (paragraph 4.5 - **Annexes C and D**).
- 2.3 That the projected 2004/05 outturn position be noted (paragraph 4.2) and that, the 50% of any under spend from its total 2004/05 budget (which a directorate would normally be able to spend in accordance with the Council's financial regulations in the following financial year within its own directorate) be pooled corporately and spent in 2005/06 on Spend to Save initiatives approved by the Cabinet (paragraph 4.3).
- 2.4 That the changes proposed, in the light of the consultation and the final settlement, be agreed (paragraph 4.6 - **Annex E**).

- 2.5 That the Cabinet acknowledge the implications of the 2005/06 budget in the following two years, 2006/07 and 2007/08, and the policy priorities and the budget review process be considered at the meeting of the Cabinet in March 2005 in the context of an updated Medium Term Financial Strategy (paragraph 4.16).
- 2.6 That the Cabinet acknowledge the issues and risks detailed in the Chief Finance Officer's statement on the robustness of estimates and the adequacy of the reserves (paragraph 4.18, **Annex H**).
- 2.7 That the Cabinet acknowledge the Local Government Minister's warnings about the potential use of his reserve powers to limit budget increases (paragraph 4.16).
- 2.8 That the Cabinet note the Gershon detailed guidance is shortly to be announced and consider a report on the implications for the Council in March. (paragraph 4.6).
- 2.9 That the Council be recommended to :
- (a) maintain a minimum prudent level of unallocated general fund reserves (excluding schools) of £5m at the end of any financial year from 2005/06; and
 - (b) to re-affirm the reserves strategy, to achieve an optimal level of unallocated general fund reserves of £7m, to be accumulated with the next 4 years, with at least £6.5m achieved within 3 years (paragraph 4.18, **Annex H**).
- 2.10 That a General Fund Budget for 2005/06 of £259.997m (an increase of 9.6%, or £22.774m over the 2004/05 budget), be agreed and recommended to the Council (paragraph 4.7, **Annex F and Annex I**), and that the final detail of the expenditure within the Schools and Local Education Authority budgets be agreed by the Joint Head of Education (Planning and Standards) in consultation with the relevant Cabinet Member.
- 2.11 That the Council be recommended to increase the Council Tax by 4.5% for 2005/06, for its own purposes (Paragraph 4.7, **Annex F and Annex I**).
- 2.12 That the levy requirements be considered as part of the report to the Council on 28 February 2005 (paragraph 5.1.1).

3. **Overview**

- 3.1 The Cabinet are proposing a budget for 2005/06 that:
- (a) increases the services for social care;
 - (b) increases services for the environment;
 - (c) improves the funding for schools; and

- (d) proposes a Council Tax increase of just 4.5%.

3.2 The highlights of the budget are:

- (a) Following detailed scrutiny of policy and operational priorities approximately £1.7m of key growth items being identified across the Council, in addition to Demographic growth of £4.0m, and Unavoidable growth of £5.6m. Meeting the costs of current demand has required an increase in budgets of £3.7m.
- (b) An examination of all possible efficiency savings, and other ways of reducing expenditure or increasing income without affecting service levels has produced savings of nearly £3.0m across Council. Other savings of £1.5m have also been achieved.
- (c) Cuts that have a minimal impact on lower-priority services have been identified which total just over £0.7m.
- (d) The budget is focused on the key Council priorities: Neighbourhood Adult Social Care gaining over £4.4m, environmental issues over £4.0m, and an additional £10.3m for schools.

4. **Issues and Choices**

Starting Position

4.1 The Cabinet met on 21 December 2004 and recommended proposals for consultation; the headlines were:

- (a) a Council Tax increase, for the Council's own purposes, of 4.5% for 2005/06;
- (b) a General Fund Budget for 2005/06 of £260.290m, an increase of 9.7%, or £23.067m over the 2004/05 budget, with spend at 100.04% of the Formula Spending Share of £260.198m;
- (c) the increase in Schools FSS was passported through to the schools budget;
- (d) the highest percentage increase in the 2005/06 budget was for Neighbourhood [12.8%] and Environment [10.6%] in accordance with the Administration's priorities;
- (e) a risk analysis of the budgets, which resulted in the continuation of the policy to increase Reserves [or Balances] by £0.75m a year; and
- (f) a financial strategy for the three years 2005/06 to 2007/08, that addresses the increased cost of the capital programme, the funding of the School System Review, the funding of spend to save initiatives, a recognition that one-off funding in 2005/06 may not be repeated in

2006/07, an increase in Reserves to £6.5m and the need to act on delivering Gershon targets and the replacement of "Rooker money". This will be reviewed as part of the Medium Term Financial Strategy in March 2005.

Projected Outturn 2004/05

- 4.2 The future years budget also need to take into account the previous years' spending trends, in this case, the 2004/05 outturn.
- 4.3 The revenue budget monitor, for the period to the end of December 2004, will show an overall underspend, which together with the repayment of previous years overspends, results in balances that are higher than the target of £4.25m. This prudence permits two funding opportunities, that would otherwise be a charge to the Council Tax payer in 2005/06. They are, firstly, the funding of the Collection Fund Deficit of £390k (which was agreed at Cabinet on 21 December 2004), and secondly, the creation of an earmarked reserve of £566k to cover possible spending pressures in the 2005/06 Childrens budget. The reserves would still be in a surplus, over the target, by £394k. It is proposed to allocate the 50% of Directorate underspends, that are returned to Directorates in accordance with Financial Regulations, to the Spend to Save initiatives fund, so that the best corporate solutions can be supported.

Consultation Feedback

- 4.4 Consultation took three main forms:
- (a) The Policy Development Committees considered the officer options in October/November and responded to the Cabinet. This was the first time the draft budget position, had been scrutinised prior to Cabinet consideration.
 - (b) The Policy Development Committees then considered the Cabinet's budget proposals in January;
 - (c) A survey questionnaire was posted on the Council's Internet site and directly mailed to 550 local organisations/ individuals. It resulted in 166 replies. The Cabinet's response is set out at 4.6.c.
- 4.5 The views of the four Policy Development Committees, along with the direct mailing responses, are set out at **Annex A and Annex B**.

Developments since 21 December 2004

- 4.6 The provisional finance settlement was announced on 2 December 2004. The Council made representations to the Government - this is attached at **Annex C. Annex D** sets out the response of the Office of the Deputy Prime Minister (ODPM).
- 4.7 There are four developments that are now included and were not part of the report to the Cabinet on 21 December 2004. They are:

- (a) The Formula Grant announcement of 27 January 2005. There was a decrease of £293k. This was due to a reduction in Formula Spending Share (FSS), an increase in the grant lost to Floor authorities, and an increase in the assumed Council Tax. The following table set this out:

Table 1: Change in Formula Grant 2005-06

	Consultation Dec 2 £m	Change £000's	Final Settlement January 27 £m
• FSS	260.198	-186	260.012
• Grant lost – to Floor LA's	1.242-	-11	1.253-
• Govt assumed Council Tax	<u>72.880-</u>	<u>-96</u>	<u>72.976-</u>
• Formula Grant	186.076	-293	185.783

(b) Policy developments

There are four areas of internal development, all designed to improve control, accountability and transparency. They do not affect the “bottom line”. Firstly, budgets have been created to meet the costs of recruitment, ceasing the practice of creating funds in-year by holding posts vacant. Secondly, the staffing budgets have been expressed in person numbers, as well as cash, to improve control – see **Annex J**. Thirdly, some addition funds have been made contingent upon Directorates proving that the expected increased costs have in fact occurred - they are set out at **Annex K**. Fourthly, an updated Car Park budget is set out at **Annex L**. In addition, the Government is expected to shortly announce detailed guidance on the delivery of Gershon targets. It is recommended that the Cabinet receive a report in its March cycle.

(c) Response to Consultation

The Administration has carefully listened to the responses, and is proposing to delete the £50k reduction in weed killing activity.

(d) Updating of Budgets

There are four areas where there are proposals to update the budgets:

- (i) Firstly, the levy for the Thames Valley Magistrates Court is to cease, saving £282k.
- (ii) Secondly, minor updating of budgets in Chief Executives, Learning and Development and Environment increase expenditure by just under £57k.
- (iii) Thirdly, a grant of £50k from Defra, for co-collecting food waste, has been confirmed. This will defray the cost of the food waste growth item. The funds released will be added to the Spend to Save Initiative fund.
- (iv) Fourthly, a review of the debt financing budget has resulted in the adoption of a savings target of £119k.

(e) Use of Reserves

The following two initiatives are proposed, funded from the 2004/05 Balances surplus over the MTP target:

- (i) funding of the Collection Fund deficit of £390k, which arose due to a shortfall in building activity compared to the estimated build rate; and
- (ii) the creation of an earmarked reserve of £566k to cover possible spending pressures in the 2005/06 Childrens budget.

Annex E sets out the changes since 21 December 2004, in terms of increased demands and the funding of those demands. In summary, they are:

Table 2: Summary of budget changes 2005-06

	£000's	£000's
• Loss of Formula Grant		293
• Response to consultation	50	
• No Magistrates levy	282-	
• Budget corrections	57	
• Defra grant	50-	
• Spend to Save Fund	50	
• Debt financing target	<u>119-</u>	<u>294-</u>

Revised Proposals

4.8 **Annex F** sets out a summary of the revised budget to be recommended to the Council. The main features are:

- (a) a Council Tax increase, for the Council's own purposes, of 4.5% for 2005/06;
- (b) a General Fund Budget for 2005/06 of £259.997m, an increase of 9.6%, or £22.774m over the 2004/05 budget; and
- (c) expenditure at 99.99% of the Formula Spending Share of £260.012m.

Annex I contains supporting detail to the summary in **Annex F**.

4.9 It is recommended that the Joint Head of Education (Planning and Standards), in consultation with the relevant Cabinet Member, agree the final detail of the expenditure within the Schools and Local Education Authority budget.

4.10 The major priorities that the Cabinet set itself - maintaining schools spend in real terms, increasing the expenditure on the Adult Care and Environment services - have been achieved. At the same time, the Cabinet has improved the soundness of the Council's budgets.

Implications for the Medium Term

- 4.11 In setting a budget for 2005/06, the Cabinet and the Council must take into account the implications for future years.
- 4.12 **Annex G** sets out the budget projections for 2005/06 to 2007/08. Table 3 summarises the key features of the projections. The main assumptions are outlined in **Annex H**

Table 3: Medium Term Budget Projections 2005/06 to 2007/08

	Unit	2004-05	2005-06	2006-07	2007-08
Formula Spending Share (FSS)	£000's	239,997	260,012	276,871	294,266
Increase in FSS	%	-	8.34	6.6	6.3
Budget requirement - expenditure	£000's	237,223	259,997	280,828	299,432
Increase in budget requirement	%	-	9.60	8.01	6.62
Income	£000's	237,223	259,997	276,034	292,052
Increase in income	%	-	9.60	6.17	5.80
Shortfall to be actioned by planning	£000's	-	-	4,794	7,379
Planned Balances	£m	4.25	5.0	5.75	6.5
A 1% increase in Tax equates to	£		677,000	717,000	749,000
Council Tax Base (Band D)	Props	74,307	75,652	76,711	77,785
Council Tax Band D increase – planning assumption in latter two years	%	-	4.5	3.0	3.0
Band D equivalent Council Tax	£	894.82	935.06	963.11*	992.01*

- 4.13 By resolving to put more resources into spend to save initiatives - see recommendation 2.3 - the Cabinet has every expectation that the shortfall in the latter two years can be eliminated. Table 3 shows the budget requirement growing at 8.0% and 6.6% in the future years. This is ahead of the predicted increase in FSS, and income. The challenge is to align all three.
- 4.14 However, these projections put into sharp relief the need to continue to:
- press the ODPM to recognise the costs of growth in 2006-07 and later;
 - contribute to the Balance of Funding Review; and
 - continue the search for efficiencies under the Gershon rubric.
- 4.15 The medium term budget projections also highlight the need to develop fully a corporate Medium Term Plan. This continues to develop and should be considered by the Cabinet in March 2005. The fifteen key medium term financial issues are attached at **Annex M**.

Capping

- 4.16 The Government have said that the capping of council tax increases, that took place in March/April 2004, will continue. The 2004/05 capping criteria was twofold - that a budget should increase by less than 6.5% and the council tax should increase by less than 8.5%. Minister Raynsford has said he expects

the 2005-06 council tax rises to be “in low single figures”. As part of the settlement announcement, the mailing from the ODPM included the following text: “Ministers have made clear, there is no excuse for councils to set excessive increases in council tax. They expect to see a national average increase of less than 5%.”

Robustness

- 4.17 The Local Government Act 2003 places a duty on a Chief Finance Officer (CFO) to comment on “the robustness of the estimates” included in the budget and the adequacy of the reserves for which the budget provides. The development of the initial comments, set out at Annex B of 21 December 2004 report was a feature of the overview process. Their comments have been incorporated into the advice (**Annex F**), which together with the changes set out at 4.6 b-e, improve the robustness of the budget.
- 4.18 **Annex H** details the recommendation for a minimum prudent level of general fund reserves of £5.0m for 2005/06. An optimum level is £7m to be achieved over the medium term. In particular, this supports the recommendation for the adoption of a reserves strategy to achieve an optimum level of reserves of £7m within the next 4 years, with at least £6.5m achieved within 3 years.
- 4.19 The latest two revenue monitors for 2004/05 are summarised below, in terms of the predicted level of balances at 31 March 2005:
- | | | |
|-----|----------------------------------|---------|
| (a) | Cabinet February 1 End-November | £4.778m |
| (b) | Cabinet February 15 End-December | £4.644m |
- 4.20 The Council is expecting to receive by 31 March 2004, the balance of its £3m of Targeted Income Support (TIS) for 2004/05. The Balances figures quoted above exclude this. There will be £865k of ‘unused’ TIS, that will be carried forward to be used in 2005/06. The “cash flow” effect of the TIS will mean, that at 31 March, the Council’s balances will £865k higher than is shown above.

The Next Steps

- 4.21 The timetable for the 2005/06 budget process requires one more meeting of the Council on 28 February 2005, at which consideration will be given to:
- (a) the recommendations of this Cabinet in relation to the expenditure and tax proposals that relate to the Council’s own spending, and
 - (b) the tax issues arising from the two levying organisations, and the three precepting organisations, the Parishes, the Fire Authority, and the Thames Valley Police Authority.

However, to further develop its Medium Term Service and Financial Planning strategy it is recommended that a report to the Cabinet in March 2005 should consider the budget priorities for the next three years.

5. Implications

5.1 Policy

None.

5.2 Resources

Levy Organisations

The Council's budget and Council Tax for 2005/06 will include support for two Levying bodies; these are, Flood Defence [spend £0.1m 2004/05], and the Drainage Board [£0.2m]. The Council has no control over the level of expenditure of these bodies, but for planning purposes has been assumed to increase at 3.5%. The level of the Levies will affect the level of the Council Tax.

Once all final notifications will have been received the Council will consider the actual impact at its meeting on the February 28 2005.

Preceptors

In addition to the Council's own Council Tax, there are separate Council Taxes for the Thames Valley Police Authority, the Fire Authority, and the Parishes. These matters will be considered by the Council on 28 February 2005, but the following rehearse some of the issues:

- (a) the Thames Valley Police Authority - at the time of writing this report, no formal decision had been received;
- (b) the Buckinghamshire Fire Authority - at the time of writing this report, no formal decision had been received; and
- (c) the forty-five Parish Areas. The Parishes are in the process of agreeing their budgets. The amount Parishes will charge will be for parish purposes only, and will be considered at the Council meeting on 28 February 2005.

5.3 Legal

The Council must set a balanced budget by midnight on 10 March 2005 (a Thursday). Failure to do this would leave the Council potentially vulnerable to court action by way of judicial review from the Audit Commission. Delay in sending out Council tax demands would result in losses being incurred by the Council.

Background Papers:

2004

Policy Development Committees Oct 26, Nov 4, 11 & 23
Govt Formula Grant - Provisional settlement December 2
Budget Report - Cabinet December 21

2005

Council Tax Base 2005-06 - Cabinet January 18
Policy Development Committees January 13, 19, 20 & 25
Govt Formula Grant - Final settlement January 27
Collection Fund Estimated outturn 2004-05 - Cabinet February 1
HRA Rent Increase 2005-06 - Cabinet February 1
Prudential Indicators for Capital Finance 2005-06 to 2007-08 – Cabinet Feb 15
Treasury Strategy Report - Cabinet February 15
Capital Programme 2005-06 to 2009-10 – Cabinet February 15
Revenue Monitor Report to end Dec 2004 Period 9 – Cabinet February 15

Annex A	Consultation responses – Policy Development Committees
Annex B	Consultation responses – Public Consultation
Annex C	Representations on the Provisional settlement
Annex D	ODPM's response
Annex E	Changes since December 21
Annex F	Proposed Budget 2005-06 - Summary
Annex G	Budget Projections 2005-06 to 2007-08
Annex H	Robustness of Estimates – Statement of the Section 151 Officer under the requirements of Section 25 of the Local Government Act 2003
Annex I	Supporting Annexes of budget changes from 2004-05
Annex J	Staffing budgets expressed in person numbers
Annex K	Contingent budget increases
Annex L	Car Parking budget 2005-06 to 2007-08
Annex M	The fifteen key Medium Term financial issues