

BUDGET 2005/06 AND MEDIUM TERM PLAN 2006-2010

(Report by the Director of Commerce and Technology)

1 PURPOSE

- 1.1 The purpose of this report is to allow Cabinet to determine its recommendations to Council on 16 February in relation to the Budget for 2005/06, the Medium Term Plan for 2006/10 and associated matters.

2 BACKGROUND

- 2.1 The Council decided in December 2003 that a “ *member-led review of the District Council’s base budget, to include fees and charges but not to exclude any potential restructuring of existing arrangements for the delivery of services, be undertaken with a target of identifying an overall saving of at least 2% in net expenditure*”.
- 2.2 In September 2004 the Council decided to endorse a financial strategy “*based around that described in (the table below) with a minimum increase in Band D Council Tax for 2005/06 amounting to £12 per annum*”.

	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012
	£M	£M	£M	£M	£M	£M	£M	£M
Budget	16.7	18.2	20.3	21.8	23.6	25.3	26.6	27.9
REDUCTIONS		-0.5	-1.5	-2.0	-2.5	-3.5	-4.0	-4.5
Reduced Budget	16.7	17.7	18.8	19.8	21.1	21.8	22.6	23.4
Total Funding	14.0	15.2	16.6	17.8	19.0	20.4	21.4	22.5
Use of reserves	2.7	2.5	2.2	2.0	2.1	1.4	1.2	0.9

	£	£	£	£	£	£	£	£
Council Tax	94.54	106.54	118.54	130.54	142.54	154.54	166.54	178.54
Increase %	14.5%	12.7%	11.3%	10.1%	9.2%	8.4%	7.8%	7.2%

Note: Savings will need to increase further to approximately £5.5m post 2011/12

- 2.3 Cabinet and the Planning and Finance Overview and Scrutiny Panel considered draft variations to the approved Medium Term Plan and the Base Budget review and a preliminary interpretation of the Government’s Efficiency Review at their November meetings.
- 2.4 Subsequently further detail of the Efficiency review was received together with the provisional Revenue Support Grant announcement. A number of additional proposals to vary the MTP have also emerged.

3. UPDATING THE DRAFT PLAN

Efficiency Review

3.1 Following the Gershon review of public spending, which considered a wide range of opportunities including better procurement, the Government has been considering how best to achieve the significant potential for more efficient services that was identified.

3.2 The report on MTP Progress that was considered on 4 November anticipated that the Government would require local authorities to:

- Publish plans on how they will achieve efficiency savings of 2.5% of **net** spending per year for at least the next 3 years. The report also assumed this would be extended to the end of the 5 year MTP period.
- Achieve half the savings as cashable.
- Have external auditors review what has been achieved.

3.3 The Government's report was substantially as expected except that the 2.5% is to be based on **gross** expenditure (excluding benefit payments) rather than **net**. It also refers to the cashable part being **at least** half. This results in the implications shown in the table below.

Efficiency Review	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010
	£000	£000	£000	£000	£000	£000
Cabinet Report Assumptions		2.5%	5.0%	7.5%	10.0%	12.5%
Gross efficiency target		-418	-836	-1,254	-1,672	-2,090
Non-cashable element		209	418	627	836	1,045
Net impact		-209	-418	-627	-836	-1,045
Government Announcement						
Base (estimated)	31,390	32,181	33,043	33,936	34,852	35,793
		2.5%	5.0%	7.5%	7.5%	7.5%
Gross efficiency target		-804	-1,652	-2,546	-2,614	-2,684
Non-cashable element		402	826	1,273	1,307	1,342
Net impact		-402	-826	-1,273	-1,307	-1,342

3.4 The table shows that the Government's target of 7.5% after 3 years, based on **gross** spending, exceeds the assumed 12.5% over 5 years based on **net** spending.

3.5 The achievement of these targets is likely to be extremely demanding and a further report will be presented once further information is received from the Government.

Provisional Grant Proposals

3.6 The Council received the initial proposals for 2005/06 on 2 December. The following table shows the result:

Government Support	2005/06	2006/07	2007/08	2008/09	2009/10
	£000	£000	£000	£000	£000
Assumption in approved MTP	9,231	9,742	10,265	10,670	11,251
Provisional settlement	9,516	9,995	10,481	10,972	11,219
Variation	285	253	216	302	-32

- 3.7** It has been assumed that the Council will receive the additional funds resulting from the 2003/04 inclusion of the Area Cost Adjustment over the next four years. Whilst the assumption continues to appear reasonable in the light of this year's provisional settlement, there has not been, nor is there likely to be, any indication of how quickly this will happen in practice.
- 3.8** The Council remains the most under-funded, in cash terms, District Council in England based on the Government's own figures. The amount we have still not received is £748k.
- 3.9** There is usually a small change to the provisional settlement when the final figures are announced which can be adjusted for in the use of revenue reserves.

MTP Proposed Variations

- 3.10** Annex A details the MTP schemes in service order. The non-shaded lines represent items approved last year. The shaded lines represent the following:

- Pink** Variations reported in November
- Dark Grey** Variations that have subsequently emerged (later officer information or formal Cabinet decisions)
- Green** Variations proposed by Executive Councillors

- 3.11** The table below summarises these variations:

MTP Proposed Variations	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000
November Variations	-517	64	-538	-239	1,489
Subsequent Variations	483	119	-62	-231	-285
Executive Councillor Adjustments	-123	-189	-33	-40	-40
Total Variations	-158	-6	-633	-510	1,164

- 3.12** This year's appraisals are available on the intranet via the Members' area.

Interest Rates

- 3.13** Interest rates of 5% have been assumed for next year and 4.75% subsequently. Phasing of income and expenditure and the forecast level of capital receipts have also been reviewed, both giving a beneficial effect.

Pension Contributions

- 3.14** The Council currently has to make pension scheme contributions of 8.3% for those employees that choose to join the scheme. Falling stock market levels in recent years has significantly reduced the value of the pension fund and rising longevity increases the likely call on it. The MTP variations included a cautious estimate of the likely increase with annual increases of 1.5% resulting in a contribution rate of 15.8% by 2009/10. The preliminary details of the Actuary's three yearly valuation were received on the 21 January and are based on a staged increase to reach 21.1% by 2010/11 with an eventual extra annual cost of £636k. It is understood that other Cambridgeshire Authorities also have increases of the same scale.

Other Items

- 3.15** Annex B gives the details of the Base Budget Review which have been adjusted by £9k in 2005/06 to correct an error.
- 3.16** The 2005/06 and subsequent years' taxbases have been increased to reflect the 2005/06 level approved by the Corporate Governance Panel.
- 3.17** A future shortfall in the cost of recycling has recently emerged. This is mainly due to the impact of variations in gate-fees and recycling credits. A provisional sum of £120k per year has therefore been included in the budget for future years. A report will be submitted to Cabinet once more accurate figures are available.

Items Not Taken Into Account

- 3.18** The Middle Level Drainage Board is proposing to construct a major new pumping station on its main drain at St Germans, south west of Kings Lynn. A proportion of the cost will fall on the Council via increased Drainage Board rates or special levies. It is too early to estimate the potential impact.
- 3.19** No allowance has been made for any benefit that may arise from the Government's Local Authority Business Growth Incentive scheme which will allow authorities a portion of increases in business rates over and above a norm. The scheme is such that it would be imprudent to estimate how much might be received until its operation is clearer.
- 3.20** Inflation on Capital Schemes of 2.5% per year has been included in total within the plan and will be allocated to individual schemes once the budget is approved. Some schemes that were originally included in the plan two years ago will thus be increased by 5%. There have however been recent examples of high tender prices on specific schemes but there is little objective data on which to base a higher inflation allocation or even to estimate a suitable contingency sum so no provision has been included.
- 3.21** In early January two letters were received from the Government consulting on the level of planning fees and planning delivery grant for 2005/06. Whilst the letters are separate the issues are integrated because the Government considers that fee increases should provide extra funding as the levels of planning delivery grant reduce. At the same time they refer to the fee increases will allow a "move to a position closer to cost recovery". It has been assumed in the MTP that £375k grant will be received and then used for supporting extra expenditure on planning so there is no net impact. It is unlikely that the government's response to the two consultations will be available until after the budget/MTP has been approved. The result should be, at worst, neutral and may be beneficial. A report on the results will be submitted to Cabinet in due course.

4. UPDATED FINANCIAL POSITION

- 4.1** The table below (further detail in Annex C) shows the overall financial position after adjustment for the items outlined above, inflation on the variations and the impact of the forecast 2004/05 and actual 2003/04 outturns. It is based on Council Tax increases of £12 per year. Annex D

shows the analysis by service.

Financial Summary	Forecast	Budget	MTP			
	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000
Approved Budget and MTP	16,828	18,880	20,697	22,409	23,923	23,995
MTP Variations	-425	-158	-6	-633	-510	1,164
Sub-total (Annex A)	16,403	18,722	20,691	21,776	23,413	25,159
Other Variations						
Cashable Efficiency Savings Target		-402	-826	-1273	-1307	-1,342
Base Budget Reductions (adjusted)	-557	-523	-588	-578	-578	-578
Inflation on revenue variations	0	27	73	31	29	21
Extra recycling costs	40	120	120	120	120	120
Extra pension contributions			96	180	300	360
Interest adjustment	-340	-567	-659	-713	-784	-891
2003/04 and 2004/05 Outturns **	1,139	-17	-17	-17	-17	-17
TOTAL NET SPENDING	16,685	17,360	18,890	19,526	21,176	22,832
FUNDING						
Government Support	-8,731	-9,516	-9,995	-10,481	-10,972	-11,219
Collection Fund Deficit	14	4				
Council Tax	-5,308	-6,043	-6,790	-7,552	-8,328	-9,120
Contribution from Revenue Reserves	-2,660	-1,805	-2,105	-1,493	-1,876	-2,493

COUNCIL TAX	£	£	£	£	£	£
Band D Equivalent	56,149	56,718	57,278	57,850	58,429	59,013
COUNCIL TAX	94.54	106.54	118.54	130.54	142.54	154.54
Increase %	14.5%	12.7%	11.3%	10.1%	9.2%	8.4%

** Includes the actual impact of revenue items delayed from 2003/04 to 2004/05. No deferral from 2004/05 to 2005/06, other than in the MTP variations, has been included.

- 4.2** The overall impact of the changes referred to above which include efficiency review savings, proposed scheme reductions, increased capital receipt assumptions, etc., is a reduction in spending levels and hence the speed with which revenue reserves are used. This means that if Council Tax increases are maintained at £12 per year, the minimum increase agreed by September Council, for as long as possible then higher Council Tax increases would not be required until 2011/12. Annex E shows this and the reductions in reserves graphically. If such extra Council Tax increases would not be acceptable then further spending reductions of around £3.6M per year would be required instead. However, reports over the last few years have shown that this timing is quite sensitive to changes in interest rates and inflation levels. Thus if service delivery is to be maximised any reductions will have to be carefully planned and managed.
- 4.3** If, in the meantime, Council Tax increases of less than £12 were to be agreed then higher spending reductions would become inevitable and from an earlier date.
- 4.4** One of the key assumptions is the level of cashable efficiency savings which rise to £1.3m over the plan period. Achieving these will be critical if future spending reductions are not to become larger and sooner. The details of the Government's approach are still awaited but it is quite clear that a major exercise will be required.
- 4.5** One aspect of increased efficiency is better procurement and examples

of high tender prices on some capital schemes have already been referred to in para. 3.19 above. One approach that seems valid is to go out to tender on larger parcels of work i.e. several schemes combined to form one contract. In order to do this, greater certainty is required on the future capital programme to avoid unnecessarily delaying schemes planned for the first part of 2005/06. It is therefore proposed that Council be recommended to approve both 2005/06 and 2006/07 capital schemes so that such an approach can be developed and put into practice without risking abortive design work.

5. CAPPING

- 5.1** The Government is already highlighting its expectation that Council Tax increases will be low next year due to the extra money it has added to the provisional Grant settlement. There is also reference to a harder line on capping following the action taken against a handful of authorities in 2004. Capping can result in a Council having to reduce its Council Tax during the year or be given a limit for the following year. Both approaches were used in 2004 but any Council taxing at less than the average for the class of authority was excluded. However, as usual, no advance notice will be given on the criteria that will be used.
- 5.2** In legal terms it is the level of "Budget Requirement" that is capped rather than the level of Council Tax. The combination of higher spending (+3.1%) and a lower use of reserves next year gives a significant increase in budget requirement (+10.9%) when compared with the approved 2004/05 budget.
- 5.3** If the Secretary of State proposes to cap Huntingdonshire the Council will have an opportunity to explain why it is felt that the increase is appropriate. There are a significant list of points the Council could make in defence of its decision.
- 5.4** If, despite these points, the Council were capped it could choose to fund the resulting shortfall from reserves, reduce spending or a combination of the two.
- 5.5** In addition there would be the cost of rebilling, estimated at £65k, and any loss of interest on cash flow. If other authorities precepting upon us (County Council, Police Authority and the new Fire Authority) were also capped they would have to share the cost of the re-billing but not the loss of interest on cash flow. This is very difficult to estimate, as it is highly dependent on the precise timing of events.

6. CONSULTATION WITH THE BUSINESS COMMUNITY

- 6.1** A consultation meeting with members of the business community is taking place on 26 January and their comments will be reported to the meeting.

7. PRUDENTIAL CODE

- 7.1** The way that the Government controls the borrowing of Local Authorities changed from April 2004. It requires the full Council, as part of the

budget-setting process, to approve the prudential indicators shown in Annex F.

8. RESERVES AND THE ROBUSTNESS OF THE 2005/06 BUDGET

- 8.1** The Local Government Act 2003 requires the Director of Commerce and Technology (as the Council's Chief Financial Officer) to report to the Council on the robustness of the estimates and the adequacy of reserves when it considers its budget and the consequent Council Tax. His comments are contained in Annex G and confirm that he considers the budget is adequately robust and the level of revenue reserves is significantly above the minimum level required.

9. CONCLUSIONS

- 9.1** Council has decided on increases in Council Tax of a minimum of £12 per year in order to reduce the need for future reductions in services and proposed service developments. Over £500k per annum of budget reductions that will not affect service delivery have been identified.
- 9.2** The Government has announced its approach to efficiency savings over the coming years which creates the need for cashable savings of £1.3m per annum by 2009/10. These will not be easy to achieve given the historically low spending base of the Authority, and will need to be the focus of significant management action.
- 9.3** In order to try to reduce tender prices, it is proposed that Council be recommended to approve both 2005/06 and 2006/07 capital schemes so that schemes can be combined into larger packages without risking abortive design work.
- 9.4** There are a number of reductions that are proposed in the MTP but there are also some pressures, generally unavoidable, for additional expenditure, partly due to continuing growth in the District and the surrounding Region.
- 9.5** The Grant settlement was better than expected, but the Council is still £748k short of the grant it is due. The final figures are likely to result in a small adjustment to the use of reserves.
- 9.6** Paragraph 4.1 shows the results of a Council Tax increase of £12 per year. The variations made to the MTP have resulted in the need for further cuts or higher Council Tax increases being delayed beyond the plan period. However, adverse conditions could soon bring forward the need for spending reductions of around £3.6m. As usual, there will not be any advance indication of the Government's proposed approach to capping.
- 9.7** The combination of sound budget practices and significant revenue reserves means that the proposed 2005/06 budget is robust and that the Council is well-placed financially to deal with any unforeseen expenditure.
- 9.8** This report is to be considered by a joint meeting of the two Overview and Scrutiny Panels on the 25 January so that Cabinet can consider

their comments together with those of the business community in reaching their decision on the recommendations to be made to Council.

10. RECOMMENDATION

The Cabinet is asked to consider the recommendations it wishes to make to February Council regarding:

- **Any changes to the draft MTP.**
- **The proposed Council Tax level for 2005/06 and indicative planning levels for future years.**
- **The acceptance of the Prudential Indicators in Annex F, subject to any necessary changes flowing from its recommendations on the above items.**
- **The formal approval of the 2006/07 capital schemes.**

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Grant Settlement Information – Files in Financial Services

Working Papers - Files in Financial Services

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