

Budget 2006/07 FOREWARD

1 General Fund Revenue Budget

- 1.1 The Medium Term Plan sets out the financial strategy for the Council, identifying cost pressures, potential use of reserves and a range of assumptions. The two most difficult areas to forecast are government funding and council tax levels. The base budget reported to Cabinet in December 2005 assumed a government grant increase of 2.5% and a council tax increase of 3%. On these assumptions the Medium Term Plan forecast a potential budget shortfall of £102,000.
- 1.2 This deficit was calculated on the assumption that the full savings reported to Cabinet in December 2005 were made. These savings total £0.354 million in FY 2006/07 and a further £0.275 million in FY 2007/08, most of which are reductions in staffing budgets.
- 1.3 The deficit did not reflect the final announcement of Revenue Support Grant, any service growth bids nor any revenue implications arising from the capital programme. Cabinet was advised at its meeting in December 2005 that the potential financial implications from the collection fund deficit and waste management costs would also need to be factored into the FY 2006/07 revenue budget.
- 1.4 Included in the medium term plan and the proposed General Fund revenue budget for FY 2006/07 are a number of assumptions which are repeated here:
 - a) A pay award, effective from 1 April 2006, of 2.95% has been agreed
 - b) The employers contribution into the superannuation fund increases from 13.9% to 14.9%
 - c) The full year effect of the loss of Service Level Agreements with Saffron Housing Trust. It is estimated that further SLAs will be terminated or renegotiated during FY 2006/07, and a further sum has been provided for this. In overall terms, provision of £365,000 has been made to reflect this.
 - d) Recycling- loss of DEFRA grant (£211,000) partly offset by increased income (£168,000).
 - e) Inflationary increases of 2.5% across all non-pay and income budgets
 - f) Insurance premia increased by £24,000 during FY 2005/06 and should be incorporated into the base budget. Officers have been advised that no further increases in premia above inflation will be sought during FY 2006/07.
 - g) An interest rate of 4.5% on investments is incorporated

- h) Use of £150,000 from the General Revenue Reserve to support the Council's revenue expenditure
 - i) Planning Delivery Grant sufficient to fund ongoing staffing costs and some support in financing the capital programme
- 1.5 The Best Value Review of Support Services, together with other savings identified, will deliver savings of £354,000 in FY 2006/07
- 1.6 These assumptions have been used in determining the General Fund budget and proposed council tax requirement for 2006/07.
- 1.7 The final announcement for South Norfolk Council showed an increase in grant as a result of changed responsibilities. The main area responsible for this increase is Concessionary Fares. The overall increase for services predominantly provided by districts is £400 million, of which £350 million is as a result of Concessionary Fares. The final grant increase for South Norfolk Council shows an increase for these new responsibilities of £0.538 million, so if this is hypothecated on the national proportions this Council would be seen to receive additional funding of £0.492 million for Concessionary Fares, with the remaining £0.046 million for other new responsibilities, mainly additional costs arising from Electoral Registration.
- 1.8 In terms of the "real" increase in government grant, we had assumed an increase in grant of 2.5% in each of the next two years. The announcement provides an increase of 7.8% in 2006/07 and 7.3% in 2007/08. The 2006/07 settlement is £0.366 million greater than we had assumed.
- 1.9 The General Fund base budget for FY 2006/07 is produced below showing variations from the FY 2005/06 budget.

	£'000
Base Budget 2005/06	11,522
Pay Award	307
Employers' Increased Pension Contribution	90
Provision for loss of SLAs with Saffron	365
Recycling-Loss of DEFRA Grant (net of increased gate fees and recycling credits)	43
Removal of Growth Relating to FY 2005/06 only	(47)
Net inflation on goods and services	144
Increased Utility Prices	64
Insurance Premiums Increase	24
Other	43
Collection Fund Deficit	78
Assumed Additional Short-term Investment Interest	(78)
Loddon Public Conveniences	4
Active Citizenship Worker	20
Waste Management Costs	170
Electoral Registration	25
Asset Management Plan	25

Reduction in Licensing Income	25
Concessionary Fares	492
Additional Waste Management Grant	(11)
Savings as Reported to Cabinet in December 2005	(354)
Additional Income	(36)
Base Budget 2006/07	<u>12,915</u>
Financed By:	
Revenue Support Grant/ NNDR	(7,413)
Assumed Council Tax of 3.85%	(5,352)
Use of General Revenue Reserve	(150)
Balance	<u>Nil</u>

1.10 Four growth bids were submitted as part of the budget preparation process. These are restated below:

- Marketing and education in recycling, estimated cost £30,000. Cabinet agreed at its meeting on 30 January 2006 that growth of £20,000 be financed by the realignment of budgets currently allocated to Recycling Adopter Groups.
- Business Continuity Planning, estimated cost £5,000;
- Maintenance of existing assets (eg leisure centres, depot), estimated cost £86,000; and
- Active Citizenship Worker for youth development work, estimated cost £20,000.

1.11 The government has announced additional performance grant in respect of waste management. The grant in FY 2006/07 is £93,000, of which 50% must be used to support capital expenditure. A further grant of £97,000 can be expected for FY 2007/08.

1.12 The government grant settlement includes additional grant funding of approximately £30,000 to fund increased costs of electoral registration. Officers have calculated that costs will rise to around £25,000 per annum, and it is recommended that this be included in the base budget.

1.13 In parallel to the government grants being announced, the government has announced Planning Delivery Grant of £264,000 for FY 2006/07. Further grants will be awarded up to a maximum of £350,000 grant in FY 2006/07. Cabinet is advised that 25% (£87,500) of this is a capital grant, the remainder (£262,500) being revenue. The revenue part of the grant is sufficient to fund ongoing staff costs funded from PDG. However, the ODPM has asked that authorities consider an Exit Strategy which suggests that funding post FY 2007/08 is very unlikely. It is therefore recommended that no further commitments are made in respect of the use of PDG.

1.14 The Asset Management Plan (AMP) was approved by Cabinet at its meeting in October 2005. This includes an average increase in support

of maintaining existing assets of some £86,000 per annum over the next 5 years. The AMP shows that the Council has a history of under-investment in its assets, and this growth bid is an attempt to bring existing assets up to a higher standard, for staff morale, increased customer satisfaction and to maintain asset values. The capital programme includes a significant increase in capital investment in the Council's assets, and part of the rationale behind this is to avoid increasing maintenance costs. Consequently a smaller sum, of £25,000, be included as a growth item in the FY 2006/07 base budget.

1.15 Officers have made a thorough review of income charges and projections for FY 2006/07. All Fees and charges that are not statutory have been increased by 2.5% and we have concluded that the income budgets in respect of Planning and Investments should be increased by a total of £36,000. Based on projections in FY 2005/06, this is seen to be a realistic assessment.

1.16 The increase in Recycling credits and gate fees have also been included in the Base Budget at £168,000.

Recycling Credits	£112,000
Provide property management facilities to Broadland	£7,000
Outsource Carpark admin to GYBC	£4,000
Additional Income From South Norfolk Council Buildings	£1,000
Additional Planning Income	£20,000
Additional Interest on Investments	£16,000
Profit share Income from News	£56,000
Total Increase in Income Budgets	£216,000

1.17 The developments in financial management showed that at the start of the FY 2005/06 managers faced a projected overspend of £316,000 should all posts be filled for the full financial year. Effective management by Heads of Service and Management Team has brought the level of spend on employee costs in line with the overall budget. Management Team has developed this work further in FY 2006/07 in reviewing staffing levels, recruitment plans and staffing budgets (having taken account of the Best Value Review of Support Services). That work completes shortly, so there is reasonable confidence that employee costs will again be managed with budgets reduced in real terms.

- 1.18 Since 1996 vehicles, large items of equipment used by the DSOs and wheeled bins have been acquired under operating leases. Revenue budgets amounting to £691,000 exist to finance the annual rentals. Since 31st March 2004 no new leases have been entered into. As existing leases mature, the unused portion of the budgets is being transferred to a replacement programme to fund to the replacement of vehicles and equipment (in FY 2006/07 the base budget includes £447,000 leasing budgets which will be used to support the new Replacement Programme).
- 1.19 Provision should be made to cover potential costs of work in developing solutions to travellers issues. A provision of £50,000 would be a prudent estimate and subject to the FY 2005/06 outturn position be funded from additional planning income received in this financial year.
- 1.20 Dividing the Council Tax Requirement shown of £5.352 million by the Council Tax base of 43,190 results in a council tax for a Band D property of £123.93. This compares to a council tax of £119.34 in 2005/06, representing an increase of 3.85%. This compares to the council tax increase in FY 2005/06 of 3.92%.
- 1.21 The level of council tax increase set by Norfolk County Council is 4.99%. The council tax increase approved by the Police Authority is an increase of 5.90%. The council tax for each body for a Band D property is shown below:

	Budget Requirement £	Council Tax (Band D equivalent) £
Norfolk County Council	43,379,691	1004.40
Norfolk Police Authority	6,658,602	154.17
South Norfolk Council	5,352,537	123.93
Parish/ Town Councils (average)	1,847,161	42.76
Special Expenses (if applicable)	66,501	1.54
Average Total Bill for Band D property	57,304,492	1326.80

2 General Revenue Reserve

- 2.1 The use of £150,000 from the General Revenue Reserve in supporting the FY 2006/07 budget provides the following projections:

	£'000
Projected Balance as at 31 st March 2006	572
Net Use in 2006/07	(150)
Assumed No Carry Forward of Underspendings brought forward	<u>NIL</u>
Projected Balance as at 31 st March 2007	<u>422</u>

- 2.2 This projected balance would be sufficient to support the General Fund budget at the base budget level of £150,000 per annum for three more years.

3 Housing Revenue Account (HRA)

- 3.1 It is intended to keep the Housing Revenue Account open for 2006/07 to receive any outstanding subsidy from 2004/05 and earlier years, any income arrears collected or written off, and to write off premia incurred on the early redemption of debt. This premia amounts to some £800,000, and will be charged to the HRA over the next nine years, being fully funded by ODPM housing subsidy. If the position changes with the ODPM not paying subsidy on this outstanding premia, then this premia will be a charge against capital receipts. It would then be sensible to seek closure of the HRA and transfer the remaining balance to the Council's General Revenue Reserve. The H.R.A. balance as at 31 March 2005 stood at £982,000.

4 Medium Term Plan

- 4.1 The medium term plan is reported later in the budget book. Cabinet has been made aware of the future years budget position when it approved the budget for 2006/07.
- 4.2 The medium term plan is based on a number of assumptions which are shown below:
- a) The pension fund valuation to be undertaken as at 31 March 2007 will not require an increased contribution from FY 2008/09 over and above that already built in following the 2004 valuation;
 - b) Planning Delivery Grant ceases on 31 March 2008, and savings are made and/ or planning fees increased so that none of the costs of employees funded from this source falls on the General Fund budget;

- c) New growth bids of £200,000 will be included in the FY 2007/08 budget, with a further sum of £200,000 included in the FY 2008/09 budget;
 - d) The Best Value Review savings will be implemented in FY 2007/08 and FY 2008/09 as set out in the Cabinet report dated 5 December 2005. Cabinet is reminded that the savings shown in that report are those assumed to be taken over the next 3 years;
 - e) The use of the General Revenue Reserve remains at £150,000 per annum, although the use is not forecast for FY 2007/08 at this time;
 - f) Government grant increases by £438,000 in FY 2007/08, as announced in the provisional grant settlement, but that the impact of the Comprehensive Spending Review 2007 (CSR07) will see the FY 2008/09 grant increases scaled back to a 2.5% increase.
 - g) The taxbase of 43,190 does not increase in FY 2007/08 nor FY 2008/09.
- 4.3 The impact of the above assumptions would enable council tax increases to be in line with recent increases. An assumed increase of 3.9% each year would be affordable under the current assumptions.

5 Parish Precepts

- 5.1 A listing of parish precepts for 2006/07 and the corresponding Band D parish council tax is provided later in the budget book.
- 5.2 The average Band D parish council tax is £42.76 an increase of 8.2% over the 2005/06 level of £39.51. South Norfolk Council has no influence over the level of these precepts.

6 Capital Programme

- 6.1 Cabinet approved a new Capital Strategy at its meeting in November 2005. This strategy was based around four areas of major activity:
 - a) The new Asset Management Plan was approved by Cabinet in October 2005. This highlighted the need for investment in the Council's assets in order to avoid increasing maintenance costs, to maintain their values and useful lives, and in some cases to generate an income to the Council.
 - b) The provision of additional Affordable Housing in the district. The first phase of this project is to maximise the number of additional units by type, area etc up to a maximum spend £2.4 million.
 - c) Meeting the Implementing E-Government targets by December 2005. Although the significant levels of investment in e-government would have been completed by December 2005, there will be a need for future investments in order to keep pace with technological developments, and furthermore to meet new government targets.

- d) Other capital schemes, predominantly around developing a Replacement Programme for vehicles and equipment.
- 6.2 Where schemes commence in FY 2005/06, they are shown in the proposed capital programme. Schemes which are not yet committed have been analysed to evaluate how each scheme supports the Council's Community Strategy and Corporate Plan.
- 6.3 As outlined in the Asset Management Plan, the Council has reviewed its existing property portfolio to see if existing assets could be used more efficiently and effectively or disposed of. This work informed the Capital Strategy, and there are a number of capital schemes being proposed which emanate from the good work on the Asset Management Plan- particularly around capital investments in South Norfolk House, Ketteringham Depot, the Council's commercial properties and leisure facilities.
- 6.4 Prior to LSVT capital expenditure on the maintenance of the housing stock formed the significant part of the capital programme in order to work towards the achievement of the Decent Homes Standard by 2010. Since the transfer the emphasis of the capital programme has altered with the majority of the expenditure on Housing Enabling, IT and Waste Management.
- 6.5 Affordable housing is a significant factor in the proposed capital programme. There is the potential for further land sales, which could be used to either increase the Affordable Housing budget, or free up resources to fund other capital schemes. The present policy is that any housing land sales generated should in the first instance be considered for affordable housing schemes. To date the Council has an approved capital programme of £2.4 million. As more resources become available specific authority will be sought from Cabinet to fund more schemes.
- 6.6 Over the next few years £4 million will be required to be spent on upgrading the Council's sewage plant before Anglian Water adopts them. The cost of this will be funded from the LSVT receipt.
- 6.7 The Council can finance its capital programme from various sources as outlined below:
- Revenue - General Fund revenue resources can be used, this is likely to be associated with salary costs for staff involved in bringing capital assets on line, mainly IT development.
 - Balances - from time to time existing balances are used to fund specific projects, although the level of balances presently held are not considered sufficient to use to fund the capital programme.
 - Replacement Programme- officers have produced a ten year fully costed and funded replacement programme. This is being funded through savings in leasing budgets, a form of "internal borrowing" whereby the service seeking a replacement asset repays the money

borrowed plus interest to the Council, rather than paying principal plus interest to an external lease provider.

This Programme only applies to repairs and asset replacements. It will not be used to fund original purchases. The savings released in leasing budgets will not be used for any other purposes at this time.

- Capital Receipts – All general land sales (ie excluding new housing land sales) have been assumed in the capital financing.
- Capital Receipts From Housing Land Sales- due to the reducing levels of resources available to support the capital programme, Management Team has considered and proposes a programme for housing land sales to finance the affordable housing agenda. These land sales total £3.021 million over the three year period. This funding, together with VAT shelter monies which are being set aside for Affordable Housing, will be sufficient to fund the Affordable Housing scheme and the provision of additional units for homeless families. Cabinet is advised that as these land sales occur, if they are not spent on Affordable Housing schemes, then 50% of the receipt obtained is payable to the ODPM under the pooling arrangements. Cabinet was advised that housing land sales should only be progressed when there is a clear commitment to spend the proceeds on Affordable Housing.
- Right to Buy Receipts – as part of the LSVT agreement the Council will continue to receive income from the sale of right to buy properties. In years leading up to the LSVT date there was a very buoyant Right to Buy market, however since transfer the number of Right to Buy sales has fallen markedly and the amount of income that they will generate is predicted to decrease in future years. As an illustration the levels have dropped from around 80 properties per year to around 12 forecast for this and future financial years.
- LSVT Capital Receipt – The Council received £31,659,527 from the transfer. Cabinet has previously been advised that the net receipt after allowing for levy etc is around £18 million. The proposed capital programme includes use of the LSVT capital receipt to fund Sewage Treatment Works, Aids and Adaptations and the Replacement Programme (as described above). Members are advised that any further plans to spend the LSVT receipt will have adverse revenue implications.
- VAT Shelter – Customs and Excise have agreed that Saffron Housing Trust can reclaim the input VAT incurred on work carried out to ensure the housing stock meets the Decent Homes Standard. The LSVT agreement provides the Council with a 50% share of this VAT, estimated to be approximately £876,000 over the three year period FY 2006/07 to FY 2008/09. This funding is at present ring fenced for affordable housing schemes.
- Grants – mainly arising from DEFRA, Planning Delivery Grant and Housing Grants. A new Housing Grant is being introduced as from

FY 2006/07 in place of the past borrowing approvals which the Council has not been able to use since LSVT, mainly as a result of the benefits in remaining “debt-free”. The new Housing Grant is likely to be a transitional arrangement which will help the Council over the next three years, with levels of grant estimated to be £351,000 in FY 2006/07, £175,000 in FY 2007/08 and £100,000 in FY 2008/09.

- NLIS/LAMP- The Council has signed a contract with MacDonald Dettwiler to bring the Council’s land and property systems up to date and to enable the Council to comply with the government targets of being fully electronic by 2005. This contract is designed to be classed as revenue expenditure and therefore will not impact on the capital programme.

6.8 The capital resources predicted are shown later in the budget book, along with a schedule of approved capital schemes. The resources reflect the LSVT Capital Receipt only to the extent that it is being used to fund the capital programme (ie as a replacement for leasing, as a form of “internal borrowing” as described above, together with the funding of aids and adaptations and sewage treatment works).

6.9 The capital programme shows a status indicator, being:

- A- scheme requires final business case to be approved by Cabinet
- B- scheme requires final business case to be approved by Management Team and Portfolio Holder
- C- scheme requires business case to be approved by the relevant Head of Service, E-Services, Asset Management Group or Balancing Housing Markets Group.

6.10 In FY 2006/07 the capital monitoring of the projects will continue to strive to report not only on the financial performance but also on outcomes of the project in terms of milestones and objectives to link the two aspects together to obtain an overall picture. The body overseeing implementation of each scheme should be monitoring the delivery of outcomes (both intended and unintended), ensuring the objectives as set out in the business case are met, that the assumptions, risks and resources were all managed effectively. The body may also request on a scheme by scheme basis that a post implementation review is undertaken.

6.11 The capital funding is also reviewed monthly to ensure sufficient resources are available to fund the capital programme or to enable the programme to be reduced should there be a significant drop in funding available, such has been the case in FY 2005/06 where the reduction in anticipated Right to Buy capital receipts has required some re-profiling of schemes into FY 2006/07. Some capital projects are also on the list of projects reported to Cabinet on a quarterly basis.

7 Treasury Management Strategy

7.1 The Council approved the actual and estimated Capital Financing Requirement (CFR) and actual debt figures:

	2004/05 Actual £000	2005/06 Comparator £000	2006/07 Estimate £000	2007/08 Estimate £000	2008/09 Estimate £000
Capital Expenditure					
Supported spend	4,895	6,932	6,711	4,775	2,387
Unsupported spend	0	0	0	0	0
Total spend	4,895	6,932	6,511	4,775	2,387
Financed by:					
Borrowing	0	0	0	0	0
Capital receipts	2,786	5,108	5,840	4,153	1,888
Capital grants	831	1,120	715	466	343
Capital Reserves	0	352	0	0	0
Revenue	1,278	352	156	156	156
Capital Financing Requirement					
Net movement in CFR	(357)	(2,150)	0	0	0
Total CFR	2,150	0	0	0	0
External Debt*					
Borrowing	0	0	0	0	0
Other long term liabilities	0	0	0	0	0
Total Debt 31 March	0	0	0	0	0

7.2 Estimates of the incremental impact of capital investment decisions on the Council Tax – This indicator identifies the trend in the cost of proposed changes in the three year capital programme recommended in this budget report compared to the Council's existing commitments and current plans. The forward assumptions are based on the assumptions included in the budget, but will invariably include some areas, such as the level of government support, which is not published over a three year period.

7.3 Incremental impact of capital investment decisions on the Band D Council Tax

	Proposed Budget 2006/07	Forward Projection 2007/08	Forward Projection 2008/09
Council Tax - Band D	£1.82	£4.16	£5.61

8 Treasury Management Strategy 2006/07 – 2008/09

8.1 The full strategy approved by Council included:

- The current treasury position
- The expected movement in interest rates
- The Council's borrowing and debt strategy
- The Council's investment strategy (in compliance with the ODPM guidance)
- Treasury Prudential Indicators and limits on Treasury activity.
- Criteria for determining the Counterparty List
- Reporting Arrangements

8.2 The interest rate movements in FY 2004/05 saw interest rates reducing, and FY 2005/06 was a difficult year to forecast, with commentators showing a diverse range of potential interest rate movements. In FY 2005/06 short term investments have been made, pending an opportunity to lock into long term interest rates when they show signs of an increase. The predicted movements in interest rates during 2006/07 suggest a gradual increase in rates. The central forecast made by Butlers is shown below:

December 2005	4.50%
March 2006	4.25%
June 2006	4.25%
September 2006	4.25%
December 2006	4.25%
March 2007	4.50%

8.3 Cabinet is advised that the base budget for 2006/07 assumes an average interest rate of 4.50% on investments in that year, and that the capital programme for 2005/06 and 2006/07 is fully spent by 31 March 2007. Should the interest rate forecasts prove correct then the interest earned will exceed the base budget. There is a risk that such national or world events lead to a long-term reduction in interest rates below 4.50%, then there would have to be a realignment of expenditure levels to match this loss of income.

8.4 There is one change being sought for officers in FY 2006/07. At present only £5 million of the Council's £29 million investment portfolio is invested for periods in excess of 1 year. The Fund Manager is tending to invest short-term. As the current parameters restrict investments between 1 year and 3 years to £5 million, the Council is at risk of becoming too reliant on short-term investment periods, which means that the Council is over exposed to short term interest rate fluctuations. Officers would like to extend the periods so that up to £5 million can be invested for up to 2 years, with a further £5 million for investment for up to 3 years. All other investments would be 1 year or less and be subject

to cash flow forecasts. This change would enable officers to lock into longer-term interest rates when they are favourable

9 Conclusion

- 9.1 The budget preparation process was aided by a favourable government grant, proactive work by Management Team in identifying savings to be made through the Best Value Review of Support Services and releasing capital resources through a land sales programme. These three factors enabled the Council to set a balanced budget, and set a three year revenue and capital budget which is affordable.
- 9.2 A Thank you to Management Team, Members, and the Financial Services Team in working together to produce this Budget.