

Older People's Forum
Policy Development Panels
Scrutiny Committee
South Norfolk Youth Action

14 November 2005
21, 22, 28, 29 November
2005
23 November 2005
7 December 2005

Revenue and Capital Budget Preparation FY 2006/07

Head of Financial Services

Summary:

The Council is in the process of considering its revenue and capital budgets for FY 2006/07. The purpose of this report is to set the scene on the key issues, and seek views on them, for feedback to Cabinet in February 2006.

Due to the tightness in budget projections, managers have not been invited to submit growth bids for the FY 2006/07.

There are a number of budget pressures which the Council faces in 2006/07. There are pressures from central government and the public to restrain levels of council tax increases, so there will be some difficult choices to be made to arrive at a balanced budget.

Prioritisation of capital schemes is necessary as the level of funds available to finance the capital programme are reducing, mainly due to government grants supporting IT and Recycling initiatives ceasing, and the significant reduction in the level of Right to Buys made.

Conclusions:

The Council faces a difficult budget setting round for 2006/07. There are many issues which come into play, and Cabinet would welcome comments from all consultees as to the issues it should take into account.

The Head of Financial Services will present this paper to all consultees, and is able to give a fuller presentation if that would be useful. He will record and feedback to Cabinet the outcomes of the various discussions.

Recommendations:

That comments are submitted to the Head of Financial Services on issues raised within the report.

Cabinet member(s):

Ward(s) affected:

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Mr T Lewis

All

Contact Officer, telephone
number, and e-mail:

Andy Radford 01508 533856
aradford@s-norfolk.gov.uk

1. Introduction

- 1.1. The Council is in the process of considering its revenue and capital budgets for FY 2006/07. Regular reports on progress have been made to Cabinet since July 2005, and in the most recent update Cabinet requested that a similar consultation process be undertaken to last years. This consultation will include:
- a) South Norfolk Youth Action;
 - b) Older People's Forum;
 - c) All Policy Development Panels;
 - d) Scrutiny Committee (in its "Resources" role);
 - e) The business community; and
 - f) Public consultation exercise.
- 1.2. The final decisions will be recommended by Cabinet at its meeting on 13 February 2006 to the full Council meeting on 23 February 2006.
- 1.3. The purpose of this report is to set the scene on the key issues, and seek views on them, for feedback to Cabinet in February 2006.

2. Revenue Budget

- 2.1. The revenue budget includes the range of revenue expenditure (eg staff, premises, contracts) costs and income (eg planning fees). Whilst fees contribute to the costs, the predominant funding to balance the budget comes from central government in the form of grant (approximately 55%), and council tax which is raised locally (approximately 45%). A summary of the current revenue budgets is shown at appendix A.
- 2.2. The government grant is announced in November each year, but is not finalised until January. The Council is not fully aware of the grant it will receive until a couple of weeks before the revenue budget has to be agreed. The assumption is that the grant for this Council will increase by 2.5% for the 2006/07 financial year. However, there is a risk that the grant increase could be less than this, potentially as low as a 1.5% increase, which will put an additional strain on services and/ or council tax levels.
- 2.3. The budget forecast for FY 2006/07 shows a budget deficit of £301,000.

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Budget Deficit as Reported to Cabinet 10 October 2005	507
Recycling Credits/ NEWS Additional Income	(168)
One off Growth Bids in FY 2005/06	(47)
Other	9
Forecast Deficit FY 2006/07	301

- 2.4. This takes account of the most significant cost pressures, which are described below:
- a) The Council provided a range of support services (eg IT) and front line services (eg grounds maintenance) to South Norfolk Housing Partnership (now called Saffron Housing Trust). It was predicted that some of these would cease in May 2005 and so a provision of £225,000 was made in the current year's budget. Ultimately, the vast majority of services ceased in May 2005 and although some savings could be made, this loss of income exceeded the budget provided by £270,000. This is being managed by reducing expenditure levels in services during the current financial year, but there will need to be a permanent budget increase of £270,000 in future years.
 - The Council is required to contribute to the Pension Fund on behalf of its staff. The costs in 2006/07 will increase by some £80,000, with a further £80,000 each and every year until FY 2010/11. This increase may be adjusted when the next fund valuation is undertaken in March 2007.
 - The recycling scheme across the district has been partly funded through grant the Council obtained from central government. This grant of £211,000 ceases in this financial year so this will be a further budget pressure in FY 2006/07 and beyond. However, these additional costs are partly offset by additional recycling credits and gate fees totalling £168,000.
- 2.5. The projected deficit of £301,000 is based on the assumption of a 2.5% increase in government grant, and a 3% increase in council tax.
- 2.6. Due to the tightness in budget projections, managers have not been invited to submit growth bids for the FY 2006/07. Heads of Service have drafted three year service plans, and these show a range of alternative funding sources being sought to fund pressures (eg seeking external grant funding). The growth bids which have been submitted which would increase the budget requirement are:
- a) Marketing and education in recycling, estimated cost £30,000;

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- b) Business Continuity Planning, estimated cost £5,000;
- c) Maintenance of existing assets (eg leisure centres, depot), estimated cost £86,000; and
- d) Active Citizenship Worker for youth development work, estimated cost £20,000

Should these or any growth items be added to the FY 2006/07 budget, this would increase the forecast deficit further.

- 2.7. In addressing the budget deficit, savings have been identified by service managers. However, the biggest contributor to the savings exercise is the Best Value Review of Support Services. This has identified savings of up to £913,000 over three years. The overall savings identified for delivery in FY 2006/07 (estimated to be £351,000) are sufficient to meet the forecast budget shortfall if all are achieved, but makes no allowance for a low increase in government grant, nor any service growth bids.
- 2.8. Further options open to the Council should additional resources be necessary are:
- a) Reduce the level of expenditure, by reducing levels of service. For information, a high level view of where the budgets currently exist is shown at appendix A.
 - b) Reduce the level of grants paid out to third parties.
 - c) Increase the levels of fees, for example in car parks, and/ or leisure facilities.
 - d) Use more reserves. These are in effect savings made in previous years, and budgets can only depend on reserves for a limited period of time.
 - e) Increase the council tax above 3%. As a guide, an increased budget of £43,000 equates to a further 1% increase in council tax.

The government will cap councils whose council tax increase exceeds a particular figure. I will advise members that any increase in excess of 5% is at risk of capping in 2006/07. If the council was to be capped, it could have to rebill council taxpayers, which would have a cost to the Council.

- 2.9. The budget assumes that the Council receives planning delivery grant sufficient to fund ongoing commitments in the planning service, although there is a risk that this grant will be reduced or ceased over the next three years. This would add a further £300,000 budget pressure:

	£000
Budget Forecast FY 2006/07 Deficit	301
Best Value Review of Support Services- Realisable Savings in FY 2006/07	(351)

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Potential Growth Bids	141
Revised Forecast Deficit FY 2006/07	91

- 2.10. Should the government grant be an increase of just 1.5%, the Revised Forecast Deficit FY 2006/07 would increase to £203,000, again based on an assumed council tax increase of 3%.
- 2.11. The Council has established the South Norfolk Housing Partnership and received a net capital receipt of some £18 million. At the present time this sum is being invested to earn interest, so that the costs the Council faced after the transfer do not impact on the revenue budget and thus the council tax. The Council could elect to spend some of this receipt on new capital schemes, and as a measure each £1 million of capital expenditure would add a further 1% increase to the council tax, to compensate for the loss of interest.
- 2.12. In summary, there are a number of budget pressures which the Council faces in 2006/07. There are pressures from central government and the public to restrain levels of council tax increases, so there will be some difficult choices to be made to arrive at a balanced budget.

3. Capital Programme

- 3.1. The capital programme covers the acquisition or improvement of assets, and mainly focuses on buildings, IT and vehicles. These costs are funded through separate government grants, and receipts the council earns from selling assets, most notably land sales and council house sales (under the right to buy regime).
- 3.2. The Capital Strategy covering the period FY2006/07 to 2008/09 was recently approved by Cabinet. Alongside the Strategy was a listing of all bids for schemes submitted by managers. Most of these bids feature in the draft service plans put forward by Heads of Service. These bids will be reviewed by Management Team and some priority given to them.
- 3.3. This prioritisation is necessary as the level of funds available to finance the capital programme are reducing, mainly due to government grants supporting IT and Recycling initiatives ceasing, and the significant reduction in the level of Right to Buys made. As a guide, in FY 2003/04 the Council sold 85 houses under the Right to Buy scheme generating receipts of £5.1 million. In the current financial year the Council expects there to be 16 Right to Buy sales generating receipts to the Council of £700,000. The Council expected to be able to use £1.8 million from Right to Buy receipts in this FY. Assuming this trend continues explains the deficit which has arisen in the new Capital Strategy. Such a

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reduction over just two years requires the Council to have a radical rethink of its capital programme for the future.

- 3.4. The deficit between the projected level of resources and bids made is some £4 million over the next three years.
- 3.5. In terms of new bids, they fall into two key areas:
 - a) Affordable Housing, and
 - b) Asset Improvements (eg car parks, leisure centres).
- 3.6. A full listing of all bids made is attached at appendix B. New bids are marked in bold.
- 3.7. Which year of the three year Capital Programme the schemes fall into is largely irrelevant, as long as over the three years to 2007/08 the Capital Programme is affordable.