

REPORT OF THE STRATEGIC DIRECTOR
TO THE EXECUTIVE
7 OCTOBER 2005

Roll Forward Budget 2006/07

1.0 Introduction and Report Summary

1.1 This report highlights for Members the opening position for their 2006/07 budget considerations. The report sets out a roll forward position from 2005/06, taking into account the outturn position from 2004/05. It also sets out the issues that require further consideration throughout the budget process.

1.2 The Contact Officers for this report are Steve Bishop, Strategic Director and Chief Finance Officer (01235 540332) and Stephen Lawrence, Head of Asset Management (01235 540321).

2.0 Recommendations

That the Executive consider the information contained within the report and use it as the basis for their budget deliberations and consultation exercise;

3 Background and Supporting Information

3.1 Within the budget as a whole and the setting of the level of Council Tax, there are a number of factors that Members will need to consider. These are:

- (a) Net cost of Services (the revenue budget)
- (b) Investment Income, including property income
- (c) The level of Capital Receipts, including the Capital Programme
- (d) The use of and contribution to Reserves and Balances
- (e) Government Funding and the use of the Collection Fund
- (f) Issues arising for the medium term plan, including the impact of the above.

4 The Revenue Budget

4.1 The major area of expenditure on services occurs through the Revenue Budget. Members will be required to determine at what level each of the Council's services is to be funded.

4.2 The services are grouped within Cost Centres, within service areas and within directorates.

4.3 In order to commence the consideration of the 2006/07 budget, the starting point needs to be defined. This is done by taking:

- (a) The 2005/06 original budget position,
- (b) reversing those items which were one-off adjustments for 2005/06
- (c) adding the full year effect of recurring increases and savings from 2005/06
- (d) adding supplementary estimates already agreed for 2005/06 and subsequent years
- (e) adjusting for any known changes to the revenue implications of the Capital Programme.

It should be noted that, with the exception of contracts and pay award, no inflation has been allowed for over the past five years.

4.4 After accounting for the movements described in paragraph 4.3, the 2006/07 opening Revenue Budget position is set out in Appendix A to this report. This is in the form of a rolled forward Medium Term Plan covering the period 2005/06 – 2009/10. This is broadly in line with the Plan approved in February 2005, except for the changes explained in sections 5 to 9 below.

4.5 In accordance with the integrated service and financial planning process, officers have started to consider the need for any budget adjustments, both for the remainder of the current financial year and for 2006/07. This process will continue as new information becomes available and this year's performance unfolds.

5 Medium Term Plan Assumptions

5.1 Each year officers are asked to forecast movements in income and expenditure over the ensuing four years. These are incorporated into that year's Medium Term Plan. The estimates can be revisited during the following year's budget-setting process to confirm whether or not the assumptions are still valid.

5.2 The main assumptions incorporated into the Roll Forward Medium Term Plan comprise:

- (a) Future year Service and Budget Change Form (SBCF) bids and savings
- (b) Savings arising from commenced Vale Value Proposition (V V P) schemes
- (c) Savings arising from outstanding Vale Value Proposition (V V P) schemes
- (d) Savings arising from new Service Prioritisation Plan schemes
- (e) Major contingency items

5.3 These are set out in Appendix B. During this year's budget-setting process Assistant Directors and budget holders will assess whether these assumptions are still valid. Any that are no longer valid will need to be omitted or adjusted. The omission of any significant saving assumptions will cause a budget deficit that will need to be resolved.

6 Investment Income and the Property Trading Account

6.1 The level of investment income is determined by considering the level of cash balances held, anticipated receipts and payments, and the likely level of interest rates together with the performance of our investments.

6.2 A Treasury Management report for 2004/05 is also being presented to the Executive at this meeting, which estimates that investment income will be slightly lower than anticipated this year and across the Medium Term Plan because of an earlier reduction in interest rates than expected. These movements have not been included in Appendix A. Adjustments will be recommended during the budget-setting process.

6.3 The Property Trading Account is performing as expected. An additional investment property has been acquired midway through the year (Emcor House, Hatfield) which will lead to an increase in rental income and a concomitant (though slightly smaller) reduction in cash investment income

7 The Capital Programme

7.1 The total in the Capital Receipts Fund at 1 April 2005 was just over £26m and is expected to be £27m by the end of the year. About £10m of this will be needed to fund the capital programme, which includes the acquisition of 2 investment properties. The Investment Policy has set a £10m minimum desired level of capital receipts which Members will need to bear in mind when reviewing the Capital Programme later in the Budget-setting process.

- 7.2 The current Programme, with latest estimates, is provided in Appendix C. In accordance with the integrated service and financial planning process officers are expected to submit new Capital Scheme proposals in due course.

8 The use of and contribution to Reserves and Balances

- 8.1 The medium term plan produced at the time of the 2005/06 budget in February 2005 showed that opening balances for 2005/06 were expected to be £2.99m in reserves and £1.02m in General Fund Balances, with estimated year-end positions of £2.25m and £0.36m respectively.
- 8.2 The final 2004/05 Funds and Reserves position is provided in Appendix D, with updated predictions for movements in the various funds over the medium term. The Plan demonstrates an initial usage of both earmarked reserves and general fund balances, before they start picking up again. Such a trend is required in order to move towards the 'infinite sustainability' objective contained in the Council's Financial Strategy. Members are reminded that this is dependent upon the achievement of substantial cost-cutting measures, including both Vale Value Propositions and Service Prioritisation Plans.

9 Government Funding

- 9.1 Likely Government Funding has been set out as part of the Comprehensive Spending Review, now set within a three year programme. In 2003/04 combined Government grant (Revenue Support Grant and redistributed National Non-Domestic Rates) increased by 9.6%. In 2004/05 it increased by 4.4% (after allowing for the stripping out of Benefit funding through RSG).
- 9.2 The Government has announced the introduction of three year grant settlements from 2006/07 after an initial round of consultation. It is hoped that the settlements will remove much of the uncertainty which has hindered medium term financial planning in the past. The settlements are also due to helpfully align with the Government Spending Review cycles, providing better co-ordination.
- 9.3 The likely nature of this year's settlement is unclear, although the only hints released thus far have been cautious. We will receive indications in late November/early December.

10 Council Tax and Council Tax Base

- 10.1 Central Government utilised its statutory powers earlier this year to cap eight councils which had set Council Tax levels that the Government felt were unreasonable. The Government had issued prior notification of the capping criteria, which approximated to a limit of 5% Council Tax increase (although other factors are considered on a case-by-case basis). Capping criteria have not yet been released in respect of next year's Council Tax setting. But several commentators are pointing to the perceived success of the annual efficiency targets as Government justification for imposing even lower capping limits. Members should note that the strategy for steadily reducing the annual Council Tax increase as set out in the Roll Forward Budget (e.g. an increase of 4.5% in 2006/07), may need to be modified in light of issued capping criteria.
- 10.2 The Medium Term Plan approved in February included negligible growth in the number of residential properties in the Vale. This represented a significant slowdown on last year's 1.25% growth and will be reassessed when the 2006/07 Council Tax Base is calculated in December. In the meantime, an annual growth rate of 0.5% has been incorporated in the Medium Term Plan. This will be adjusted if necessary in the final budget proposition.

11 Emerging Budget Issues

11.1 Each year the Council faces a mixture of new and ongoing financial pressures which need to be considered during the Budget process. For example the following have already been identified:

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| - Possible new reservoir | - Recycling credits regime |
| - Car park income deficit | - senior management restructuring |
| - Project managers funding | - rising pension costs |
| - Waste interim management | - replacing Tilsley Park track |
| - Supporting People grant cut | - Tilsley Park phase 2 (positive) |
| - Completion of IEG programme | - annual efficiency targets |

11.2 These issues and others will be considered by officers in the coming months and recommendations will be made to Members on how best to deal with them in the Budget.

12 Summary

12.1 The Medium Term Plan presented in the February 2005 Budget showed that, with the assumptions made at that point, the General Fund Balance would be sustainable through to 2009. The assumptions have been revised in the light of the latest information available and this report is provided to enable the Executive to make an initial Budget proposal for consultation.

12.2 The challenge to set an achievable annual budget within a sustainable medium term financial strategy is still difficult, even given the early achievement of many of the cost-reduction measures set out in last year's Budget. Members will again need to take firm decisions regarding affordable service levels and the Council Tax required to fund them. That process involves a complex amalgamation of many factors which have been set out for consideration.

STEVE BISHOP
STRATEGIC DIRECTOR AND CHIEF FINANCE OFFICER

Background Papers: None