

Item 3

KEY DECISION

REPORT TO CABINET

13TH JANUARY 2005

REPORT OF DIRECTOR OF RESOURCES

Portfolio: RESOURCE MANAGEMENT

BUDGET FRAMEWORK 2005/06

1.0 SUMMARY

- 1.1 This report sets out a budget framework for 2005/06 after taking into account the Government's proposed settlements in relation to Revenue Support Grant (RSG), Housing Subsidy and Capital Allocations. Detailed account has also been taken of the Council's medium term financial plan, which sets out the framework for developing annual revenue and capital budgets over the medium term. The proposals are subject to consultation through Scrutiny Committees, through Council Tax Focus Groups for General Fund services and for Housing Services through the Tenants' Housing Services Group.
- 1.2 The Budget Framework 2005/06 includes significant service growth in key priority areas in accordance with the approved Corporate Plan. The growth is largely funded from additional investment income, which it is anticipated will be generated from significant capital receipts receivable by the Council. The receipts of these monies can still be affected by external influences and for this reason the Budget Framework, at this stage, is subject to the risk assessment set out in the body of this report.

2.0 RECOMMENDATION

- 2.1 That the Budget Framework 2005/06 be approved and be consulted upon in accordance with the timetable previously published.

3.0 BUDGET FRAMEWORK 2005/06

3.1 Background

- 3.1.1 The Government's proposed settlements in relation to the following key components of the 2005/06 budget have now been received:-

Spending Area

Government Settlements

General Fund Services

Revenue Support Grant/Business Rates

Housing Revenue Account

Housing Subsidy

Capital Spending Programmes

Capital Allocation

- 3.1.2 Management Team has carefully assessed the implications of the settlements and has examined all main spending areas particularly to consider:-

- The balance between spending on statutory services and discretionary services.
- The allocation of resources between priorities to achieve our strategic goals and performance targets.
- Allocation of additional resources for real service growth arising from additional investment income.
- The needs of the public as expressed in previous consultation exercises, particularly through Council Tax Focus Group meetings.
- The balance between spending and taxation/rent levels.
- The sustainability of the Budget Framework in relation to its dependency both on the receipt of large sums of money from the disposal of land and external time limited grant funded streams.
- The proposed transfer of the housing stock under LSVT arrangements.

3.1.3 This report will look at each of the spending areas set out above and make proposals on levels of expenditure for 2005/06, together with their impact on Council Tax and rent levels.

3.2 General Fund Services

3.2.1 The Council has been notified that it will receive £7,580,450 of external government support for 2005/06 - an increase of £226,043 on the current year figure. This includes an award of £25,000 for civil contingencies (emergency planning) which means that the net increase in grant is £201,043 – a year on year increase of 2.7%. This is broadly in line with the national minimum increase allowed for district councils and is relatively small considering the financial pressures facing the Council through pay awards, pension costs, insurance premiums and to meeting the cost of improving key services.

3.2.2 As stated in the medium term financial plan, the Council is nevertheless in a strong financial position with real resources being available for service growth in key priority areas. This is made possible (subject to the risk assessment set out below) because of a significant increase in external investment income arising from major land sales. These additional resources will allow the Council to invest in revenue services to deliver on its priority areas over the next few years, despite the relatively small grant settlement from central Government.

3.2.3 Protection of the environment and the standard of street cleansing and ground maintenance continue to be key concerns of residents as raised in public consultation exercises. The Council recognises this and places these services high on the agenda for additional investment and consequently a real term increase in budgetary provision of £242,000 (or 6.5% in addition to inflation) has been provided for 2005/06.

3.2.4 The Council is in the process of transforming its community force function following a fundamental review of the service. This involves extending the role and use of neighbourhood wardens across the Borough, targeting the areas most in need. Additional resources have been made available to enhance service provision with a clear emphasis on community engagement and enforcement. Furthermore, the Council is intent on working in partnership to tackle domestic violence issues within the Borough and additional resources have been set aside for service development in this area. These initiatives have resulted in additional budget provision for the Community Safety portfolio of around £118,000 (or 22.5% in addition to inflation).

- 3.2.5 The Council aims to build and maintain strong and cohesive communities and is intent on tackling deprivation and social exclusion. Whilst support for regeneration projects will be sustained during 2005/06, a clear exit strategy must be developed over the next few months, to deal with the fall out of grant in this important area of spend from April 2006. This will need to be recognised in committing any new expenditure in 2005/06.
- 3.2.6 The Council is committed to promoting equality and diversity and has set stretching targets to meet various levels of the Equalities Standard. It is felt that if we are to achieve these improvements we need to appoint a Corporate Equality and Diversity Officer, to drive forward this agenda. Additional resources of £50,000 have therefore been provided to support this important area of work.
- 3.2.7 In accordance with the medium term financial plan, leisure services has, in the main, only been provided with an inflationary increase, although additional budget provision has been made for the full-year running costs of the national railway museum and for the development and co-ordination of activities for young people (ages 5-16), particularly school based activities.
- 3.2.8 The additional funding of £25,000 which the Government has made available for emergency planning or civil contingencies has been passported into the 'other expenses and receipts' budget within the Resource Management portfolio and will probably be utilised in accordance with advice from our partners in the emergency services.
- 3.2.9 The Council is committed to maintaining the highest standards of officer and member conduct and recent reports have indicated that the Standards Board may now refer cases to the Council for local investigation. This will obviously involve expenditure but the amount cannot be accurately quantified as the number of referrals is unknown and therefore a contingency provision of £50,000 has been made. Reflecting the national position, more than 50% of complaints from the Sedgefield area are in respect of Parish and Town Councils and it has been anticipated that £25,000 of the aforementioned contingency will be recovered from those authorities.
- 3.2.10 In the current year, rent rebates have been removed from the HRA and are being accounted for in the General Fund. This means that the cost of any benefit payments that are not met by subsidy will fall to the General Fund and not the HRA. The Government has recognised this and allowed a two-year transitional period whereby the HRA will partially meet these costs, after which all costs will be borne by the General Fund. As part of the transitional arrangements for 2005/06, the HRA contribution to the General Fund to meet these costs will be reduced by £185,000, which explains the increase in costs to this portfolio.
- 3.2.11 The job evaluation exercise is expected to be completed by 31st March 2005. At this point in time, the financial implications are not known but recent exercises in other authorities have resulted in overall salary costs increasing. It is therefore prudent to ensure that adequate budgetary provision is made and the contingency sum has been increased to reflect this.
- 3.2.12 As indicated above, the Budget Framework 2005/06 has been prepared to reflect the Council's key priorities set out in the Corporate Plan. Wherever possible, service growth has been front-loaded into the 2005/06 financial year, which will mean that there will be little scope for further additional spending in later years. Furthermore, all areas of Council spending are expected to achieve efficiency

savings over the next few years, and this has been assumed in the Council's medium term financial strategy. By the end of 2007/08 efficiency savings totalling £500,000 must be achieved to maintain spending levels and keep council tax increases low, as use of the budget support fund is withdrawn.

3.2.13 In addition to the key features set out above, the detailed budgets have been prepared on the following basis:-

- Average pay and price increases of 2.75%.
- 2.5% anticipated savings from staff turnover.
- Increase in charges of 3% on average.
- Allowances for inflation have been restricted to the following areas of spending:
 - Salaries and wages
 - Business rates
 - Insurance premiums
 - Utilities costs i.e. gas, water, electricity and telephones
 - Other unavoidable costs which are of a contractual nature

3.2.14 Detailed budgets, which will be circulated to Overview and Scrutiny Committees, have been prepared to meet the following target figures:-

<u>Portfolio</u>	<u>Current Budget 2004/05</u>	<u>Target Budget 2005/06</u>	<u>Change in Budget</u>
	£000	£000	£000
<i>Resource Management</i>	767,410	(102,430)	(869,840)
<i>Performance Management</i>	1,122,200	1,327,700	205,500
<i>Welfare and Communications</i>	1,100,400	1,385,730	285,330
<i>Culture and Recreation</i>	2,206,980	2,493,000	286,020
<i>Environment</i>	3,924,940	4,380,000	465,080
<i>Housing</i>	539,140	624,000	84,860
<i>Regeneration</i>	1,033,030	1,102,000	68,970
<i>Community Safety</i>	522,450	680,000	157,550
<i>Supporting People</i>	958,450	1,065,000	106,550
¹ <i>Contingency</i>	125,000	455,000	330,000
	<u>12,300,000</u>	<u>13,410,000</u>	<u>1,110,000</u>
² <i>Use of Balances</i>	(300,000)	(500,000)	(200,000)
<i>Net Spending</i>	<u>12,000,000</u>	<u>12,910,000</u>	<u>910,000</u>

3.2.15 It should be noted that the increase in net spending shown in the above table is significantly offset by the increase in investment interest earned. After adjusting for this additional income, actual spending on Borough services has increased by £1.9m (or 16%).

Notes:

1. *The inclusion of a contingency fund reflects good practice and provides an element of flexibility to help meet the key priorities in the Budget and Policy Framework. An increase has been provided for 2005/06 to largely account for the effect of job evaluation.*
2. *The use of earmarked balances continues the policy to provide budget support in the medium term. Support in 2005/06 has been increased by £200,000 in line with the medium term financial plan.*

3.2.16 Careful planning of the budget means that the commitment made in the medium term financial plan to restrict council tax increases to 3% can be delivered in 2005/06. The substantial additional investment in Council services

will add only £5 per year, or 10p per week to the Band D Tax. The cost to the Band A taxpayer will be £3 per year, or 7p per week.

Risk Assessment – General Fund Budget

- 3.2.17 Whilst the spending targets outlined above provide for significant real growth in the Council's priority service areas, they are based on the expectation that major capital receipts will be received before the end of the current financial year. The receipt of these monies, which will generate significant additional investment income can still be affected by external influences and for this reason the Budget Framework, at this stage, is still subject to risk assessment.
- 3.2.18 In view of this, the spending growth identified for Environment (£242,000) and Community Safety (£118,000) totalling £360,000 will only be implemented once the receipts have been received.

3.3 Housing Revenue Account

- 3.3.1 The structure of the Housing Revenue Account has changed significantly in recent years with the introduction of Supporting People Grant for Carelink services, rent restructuring and removal of rent rebates from the HRA. The subsidy settlement has also undergone major methodology changes, particularly with respect to how certain allowances are calculated.
- 3.3.2 In 2005/06, further refinements have been made to the way in which management and maintenance allowances are derived. As a consequence, Sedgefield's management and maintenance allocations are set to increase by a further 20%, supplementing the increases received in the current year.
- 3.3.3 The Major Repairs Allowance has increased marginally from £4,923,000 to £5,037,000 in 2005/06 (2.3% increase).
- 3.3.4 The level of assumed rent increase contained in the subsidy settlement is 4.03%, which will have the impact of increasing the average base rent, prior to changes for rent restructuring, by £1.97 per week over 47 weeks. Rent restructuring will continue to be applied at the rate of up to + or - £1 in accordance with Council policy.
- 3.3.5 In the current year, the HRA is in a negative subsidy position, which means that the Council is required to make a payment of £3.3m to the Government to be redistributed nationally to other housing authorities. The subsidy settlement for 2005/06, particularly as a result of the changes to management and maintenance allowances has meant that the Council's contribution to the national pool will fall by 40%. This means that resources of around £1.4m will be released into the HRA to support management and maintenance of the Council's own housing stock.
- 3.3.6 In addition to the above, the HRA contribution to the General Fund for spending on rent rebates will fall by £185,000, which means that total additional resources of around £1.585m will be available. The large volume of right to buy sales has meant that the Council's rental stream has fallen and this has been fully accounted for in the 2005/06 budget. This means that inflationary cost increases will need to be met from the additional resources above.

3.3.7 So far as spending plans are concerned, the main use of the additional resources available next year can be summarised as follows:-

	<u>£000</u>
<i>Inflationary increase in costs</i>	585
<i>Additional supervision and management costs</i>	390
<i>Additional spending on repairs and maintenance</i>	380
<i>Increase revenue contribution to capital programme</i>	125
<i>Additional contingency provision</i>	200
<i>Other costs and savings on interest payments</i>	<u>(95)</u>
	<u>1,585</u>

3.3.8 Improvements are already being made to repairs and maintenance arrangements through the Service Improvement Plan, and changes to the way we manage our stock and consult with tenants are already having a positive impact on service delivery. As with the General Fund, prudent provision has been made for the impact on staffing costs in the HRA from the job evaluation exercise and this is reflected in an increase in the contingency provision.

3.3.9 The proposals set out in the HRA Budget Framework 2005/06 will enable further service improvements to be made and provide revenue support to meeting the Decent Homes standard. The additional resources released into the HRA mean that the revenue contribution to the capital programme can be increased slightly to broadly maintain the current level of investment.

Risk Assessment – Housing Revenue Account

3.3.10 In preparing both the General Fund and HRA initial budgets it has been assumed that the proposed transfer of the housing stock under LSVT arrangements will have a cost neutral impact in 2005/06. However, Members need to be aware that there may be implications on the level of General Fund spending that can be afforded in later years of the medium term financial plan if transfer does not proceed.

3.4 Capital Spending Programmes

3.4.1 Government allocations towards capital spending programmes for 2005/06 have now been confirmed. The largest of these, the Major Repairs Allowance, was mentioned earlier in the report and totals £5,037,000. Other Government support towards capital spending includes supported borrowing approvals and specific grants. The Council continues to make good progress in meeting e-government targets and is expected to receive a grant of £150,000 in 2005/06 to support further planned work in this area. In addition, a specific grant of £185,000 is also receivable in respect of the Council's expenditure on Disabled Facilities Grants. So far as supported borrowing approvals are concerned, the Council's allocation has increased from £655,000 in 2004/05 to £671,000 for 2005/06. This is in line with a commitment that allocations from Regional Housing Boards to authorities in 2004/05 and 2005/06 should remain at broadly the same level to ensure stability, with allocations from 2006/07 onwards being based on a new resource allocation mechanism.

3.4.2 The allocations from Government for 2005/06, together with current year comparisons, can be summarised as follows:-

<u>Type of Allocation</u>	<u>2004/05</u>	<u>2005/06</u>	
Major Repairs Allowance	4,923	5,037) Note 1.
Credit Approval/Supporting Borrowing	655	671	
Disabled Facilities Grant	182	185	
IEG Grant	350	150	
	<u>6,110</u>	<u>6,043</u>	

Note 1.

These allocations total £856,000 and the Council has previously agreed to make these wholly available for Private Sector Housing Renewal.

3.4.3 In addition to capital allocations the Council also has access to capital resources from capital receipts from the sale of land and property and revenue contributions (housing).

3.4.4 Total capital receipts available next year, including £1m unused from the current year, are forecast to be £3.431m. It is anticipated that not all of these resources will be needed to finance the capital programme, enabling funds to be carried forward to support commitments in future years.

3.4.5 In addition to these resources, the Council has already resolved to make 100% receipts from housing land available to meet the regeneration and affordable housing initiatives. Whilst receipts of this type are expected to be received during 2005/06, they will be earmarked for specific projects and not available to support general capital spending. It is expected that resources of around £5m will be available to support spending on special regeneration projects.

3.4.6 The total level of capital spending proposed for 2005/06 is therefore as follows:-

	<u>Housing</u> <u>£000</u>	<u>General Fund</u> <u>£000</u>	<u>Total</u> <u>£000</u>
Major Repairs Allowance	5,037		5,037
Revenue Contributions	1,875		1,875
Government Allocations - Private Sector Renewal		856	856
IEG Grant		150	150
Capital Receipts	88	2,794	2,882
Capital Receipts earmarked for Regeneration		5,000	5,000
	<u>7,000</u>	<u>8,800</u>	<u>15,800</u>
Compared to 2004/05	7,200	3,000	10,200

3.4.7 Careful examination has been made of the capital spending bids submitted on behalf of each portfolio area, taking into account asset management requirements, service needs, ongoing commitment, etc., assessed in accordance with agreed criteria. Individual service targets for each portfolio are set out in the Appendix attached. Grant funding from various sources may assist some schemes and, where this is the case, the grant will be fully additional to the resources earmarked to portfolio areas set out in the Appendix.

Risk Assessment – Capital Spending Programmes

- 3.4.8 The enhanced capital investment provision made for regeneration projects is subject to the receipt of major capital receipts by the Council. As with the General Fund, the same risks apply to the implications of a delay in these land sales. Implementation of the £5m capital receipts funded Regeneration Programme can only commence once the major receipts have been received by the Council.

4.0 RESOURCE IMPLICATIONS

- 4.1 The financial implications are summarised at each stage of this report and following consultation will be clearly set out in final budget report to Special Council on the 25th February 2005.

5.0 CONSULTATION

- 5.1 The Council's three Overview and Scrutiny Committees will be fully consulted on these proposals in accordance with the published timetable. In addition, a series of Council Tax Focus Groups, consisting of a representative sample of interested Council Taxpayers will be held during January. Similarly the Tenants' Housing Services Group will be consulted on all aspects relating to the Housing Revenue Account.

6.0 OTHER MATERIAL CONSIDERATIONS

- 6.1 There are no other significant material considerations arising from the recommendations contained in this report. The risk assessment undertaken in the main body of the report outlines the implications for both General Fund and Capital Programme spending if delays are encountered in receiving major capital receipts in the current financial year.

7.0 OVERVIEW AND SCRUTINY IMPLICATIONS

- 7.1 As mentioned above, full consultation and engagement will be undertaken with all three Overview and Scrutiny Committees.

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BACKGROUND PAPERS

1. Revenue Support Grant Settlement, Housing Subsidy Settlement and Capital Allocations received from the Office of the Deputy Prime Minister.
2. Detailed budget proposals.
3. Medium Term Financial Plan 2005/06 – 2007/08

Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Councils Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Councils S.151 Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team	<input checked="" type="checkbox"/>	<input type="checkbox"/>

CAPITAL PROGRAMME 2005/06
PROPOSED TARGET SPENDING LIMITS

	<u>£000</u>	<u>£000</u>
HOUSING		
<i>Council Housing</i>	7,000	
<i>Private Sector Renewal</i>	1,000	8,000
RESOURCE MANAGEMENT		
<i>ICT</i>	1,000	
<i>Offices and Depots</i>	240	1,240
REGENERATION		
<i>Special Provision for Regeneration Initiatives</i>	5,000	
<i>Economic Development</i>	200	
<i>Town Centres</i>	180	
<i>Other Works</i>	220	5,600
CULTURE AND RECREATION		
<i>Asset Management Plan works in Leisure Centres</i>	415	
<i>Other Leisure Initiatives</i>	85	500
ENVIRONMENT		
		120
COMMUNITY SAFETY		
		80
SUPPORTING PEOPLE		
		70
CONTINGENCY		
		190
		<u>15,800</u>