

Item 4

KEY DECISION

REPORT TO CABINET

12TH JANUARY 2006

REPORT OF DIRECTOR OF RESOURCES

Portfolio: RESOURCE MANAGEMENT

BUDGET FRAMEWORK 2006/07

1. SUMMARY

- 1.1 This report sets out a budget framework for 2006/07 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 (MTFP), which sets out the framework for developing annual revenue and capital budgets over the medium term. The MTFP will be fully updated in the light of the formally agreed Budget Framework for 2006/07.

The proposals are subject to consultation through Scrutiny Committees, through Council Tax Focus Groups for General Fund services and for the Housing Services through the Tenant's Housing Services Group.

- 1.2 The Budget Framework 2006/07 includes significant service growth in key priority areas in accordance with the approved Corporate Plan. The growth is funded from a mixture of a better than average RSG settlement, efficiency savings and the reallocation of resources to meet priorities and a proposed Council Tax increase of 3%.

2. RECOMMENDATION

- 2.1 That the Budget Framework 2006/07 be approved and be consulted upon in accordance with the timetable previously published.

3. BUDGET FRAMEWORK 2006/07

3.1 Background

- 3.2 The Government's proposed settlements in relation to the following key components of the 2006/07 budget have now been received although allocations through the Regional Housing Board will only be considered on 13th January 2006:-

Spending Area

*General Fund Services
Housing Revenue Account
Capital Spending Programmes*

Government Settlements

*Revenue Support Grant/Business Rates
Housing Subsidy
Supported Capital Allocation*

3.2.1 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.
- 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 impact of efficiency savings achieved and the overall need to demonstrate that value for money principles have been applied.

3.2.2 This report will look at each of the spending areas set out above and make proposals on levels of expenditure for 2006/07, together with their impact on Council Tax and rent levels.

3.2 General Fund Services

3.2.1 The Council has been provisionally notified that it will receive £9,131,583 of external Government support for 2006/07 after accounting for a claw back in grant of £30,067 for earlier years. This represents a very substantial increase of £1,551,133 over the 2005/06 settlement and takes into account the following key changes in the grant structure:-

- A major review of the grant framework has taken place to ensure that it focuses more on grant distribution and not on national measures of spending and council tax. The new system now consists of four separate funding elements as follows:-
 - *Relative needs amount (based on amount per head adjusted to reflect local circumstances including deprivation and area costs).*
 - *Resource amount (to take account of different capacities to raise council tax).*
 - *Central allocation amount (allocated on a per head basis).*
 - *Floor damping amount (to help ensure all authorities receive a minimum increase in grant).*
- The Council's share of the £350M made available nationally to improve the statutory minimum concessionary fares scheme from half fare to free fare.

(The above changes were reflected in base adjustments, which accounted for £1,085,000 of the extra grant and whilst it is impossible to break down the figures a very high proportion of the extra grant relates to the changes to the concessionary fares scheme for which provision will need to be made to meet the Council's statutory responsibilities).

- A year on year increase in grant of 5.4% or £467,000 above the base adjustments in accordance with the new distribution framework.

This latter increase i.e. the normal grant change, must be welcomed as it significantly exceeds the 'floor' increase of 3% which the Council has been used to receiving in previous years. Indeed authorities which receive more grant than the 'floor' increase have to contribute to the cost of maintaining the 'floor' which has meant that a further £214,000 has been withheld from Sedgefield which would have made the settlement more advantageous.

As part of the settlement the Council has also been notified of its provisional grant settlement for 2007/08. This shows a further 'above floor' increase of 4.7% and amounts to a year on year increase of £433,000. This advance notification is also to be welcomed and will allow the Council to plan its future spending with a greater degree of certainty and will be extremely useful as the MTFP is refined towards the end of this budget cycle.

- 3.2.2 Notwithstanding this relatively good settlement the Council does face some significant budget pressures not least that of pay inflation. The pay settlement effective from 1st April 2006 has already been agreed as part of an earlier 3 year deal at 2.95%, a similar sum has been set aside to meet the ongoing cost of job evaluation and the second stage of the stepped increases in our contribution to the Pension Fund will add a further 1.5% to the total pay bill. All in all an increase in pay costs of almost 7.5%. In addition a number of initiatives designed to build and maintain strong cohesive communities in order to tackle deprivation and social exclusion have relied on external finance streams many of which draw to a close in March 2006. Account has therefore had to be made of the fall out of grant/support in this important area. Fuel price inflation will also significantly add to costs particularly in the areas of high-energy use e.g. leisure centres.
- 3.2.3 Members will recall that the current budget framework 2005/06 included significant budget growth largely financed by an expected increase in investment income arising from major land sales. Whilst there were initial delays in receiving those receipts appropriate risk management measures were incorporated into the budget, which mitigated the impact in the current year. However the Council now faces further delays in the release of the next site at Cobblers Hall, Newton Aycliffe because investigations into the possibility of newts being present on the site will have to be undertaken in the Spring of 2006. As a result no major land disposal receipts are anticipated during 2006/07 and the revenue budget for investment income therefore reflects this.
- 3.2.4 The Budget Framework 2006/07 has been prepared to take into account the above financial issues and pressures and to reflect the Council's key priorities set out in the Corporate Plan. The key changes can be summarised as follows:-

Environment – Protection of the environment and the standard of ground maintenance has always been a high priority for members and continues to be a key concern of residents as raised in public consultation exercises. The budget reflects this and amongst other things extends the principle of Civic Pride teams and shows a further real term increase of £300,000 (or 6.8% in addition to inflation).

In contrast the loss of recycling credits in relation to the Council's pilot green waste collection service in Newton Aycliffe will mean that the scheme will have to be shelved and reconsidered as part of a fundamental review of our approach to waste/recyclable collections.

Community Safety – The Council has gone through the process of transforming its community safety service following a fundamental review. The emphasis is now on the use of neighbourhood wardens across the Borough, targeting the areas most in need. The budget reflects the fact that community safety is a high priority for the Council and therefore 6 wardens previously funded by external finance have been fully incorporated. There is now a total provision of 22 wardens compared to 11 only 3 years ago.

Supporting People – Two major changes have been reflected here; benefits administration and the new responsibilities for concessionary fares. In terms of benefits the arrangements introduced two years ago that saw rent rebates removed from the Housing Revenue Account are fully reflected. Now that the transitional arrangements have unwound the budget anticipates that both the costs of administering benefits and cost of paying benefits have a cost neutral impact on the local Council taxpayer.

As previously mentioned the Government has extended the statutory minimum concessionary fares scheme from a one of half fare to free fare with effect from 1st April 2006. Members need to be aware however that the statutory scheme and therefore the funding to run it only relates to free fare within a local authority's boundaries. Sedgfield, along with all County Durham Districts currently offers a more generous scheme, which may prove difficult to fully replicate as we move to a free fare regime. Detailed discussions are currently being held with the other Districts and the Bus Companies to determine the level of scheme that can be offered within the finances available. An additional budget provision of £700,000 on top of the current £500,000 has been initially set aside within next year's budget framework.

Leisure – In accordance with the MTFP, leisure services has, in the main only been provided with an inflationary increase. In addition target spending figures have been established within the four leisure centres.

- 3.2.5 The Budget Framework 2006/07 shows another year of spending growth assisted by a relatively good RSG settlement and the reallocation of available resources to help achieve Council priorities. However, notwithstanding a reasonable indicative grant settlement for 2007/08, it should be noted that there will be little scope for further additional growth in spending in later years. Furthermore all areas of Council spending are expected to continue to contribute to the achievement of efficiency savings. By the end of 2007/08 efficiency savings of at least £500,000 must be achieved to maintain spending levels and keep council tax increases low, as the use of the budget support fund is withdrawn.

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

- 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*

3.2.7 Detailed budgets, which will be circulated to Overview and Scrutiny Committee's have been prepared to meet the following target figures:-

<u>Portfolio</u>	<u>Current Budget 2005/06</u> £	<u>Target Budget 2006/07</u> £	<u>Change in Budget</u> £
<i>Resource Management</i>	(1,995,060)	(2,136,000)	(140,940)
<i>Performance Management</i>	1,327,700	1,635,990	308,290
<i>Welfare and Communications</i>	1,385,730	1,468,560	82,830
<i>Culture and Recreation</i>	3,797,340	3,799,870	2,530
<i>Environment</i>	4,597,820	5,192,350	594,530
<i>Housing</i>	505,750	547,360	41,610
<i>Regeneration</i>	1,564,050	1,473,480	(90,570)
<i>Community Safety</i>	703,840	808,100	104,260
<i>Supporting People</i>	1,023,370	1,511,290	487,920
¹ <i>Contingency</i>	519,460	503,000	(16,460)
<i>Salary Saving @ 2.5%</i>	(220,000)	(260,000)	(40,000)
	<u>13,210,000</u>	<u>14,544,000</u>	<u>1,334,000</u>
² <i>Use of Balances</i>	(800,000)	(500,000)	300,000
<i>Net Spending</i>	<u>12,410,000</u>	<u>14,044,000</u>	<u>1,634,000</u>

3.2.8 It should be noted that the increase in net spending shown in the above table will be largely met by additional grant.

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. Within the figure provided for 2006/07, £350,000 has been specifically set aside to meet the costs of job evaluation in the General Fund.*
2. *The use of earmarked balances continues the policy to provide budget support in the medium term. Support in 2005/06 was increased by £300,000 to reflect the loss of potential investment income resulting from delays in major land sales. This has now been fully reflected in the budget allowing the use of balances to be reduced to the original target.*

3.2.9 Careful planning of the budget means that the commitment made in the MTFP to restrict council tax increases to 3% can be delivered in 2006/07. The substantial additional investment in Council services will add only £5.27 per year or 10p per week to the Band D Tax. The cost to the Band A taxpayer will be £3.50 per year or 7p per week. Overall since 2002/03 total net spending has increased

significantly in order to meet the Council's key priorities whilst Council Tax will have risen by around 15% over the full 4 years.

Risk Assessment – General Fund Budget

3.2.10 The Budget Framework 2006/07 has been prepared on a low risk basis. No account has been taken of any significant capital receipts that would lead to additional investment income, provision has been made for the anticipated costs of job evaluation and pay awards and account has been taken of the loss of external finance streams where appropriate. Whilst discussions continue in regard to the future shape of the concessionary fare scheme a substantial budget provision has been made within which any new scheme will have to be managed.

3.3 Housing Revenue Account

3.3.1 The structure of the Housing Revenue Account (HRA) has changed significantly in recent years with the introduction of the Supporting People Grant for Carelink services, rent restructuring and the transfer of rent rebates to the General Fund. In addition the subsidy settlement has undergone major methodology changes particularly with respect to how certain allowances are calculated.

3.3.2 For 2006/07 further significant changes have been made to the rent restructuring model which will lead to more substantial rent increases for most tenants over the next few years so that full convergence with housing association rents can be achieved by 2012. The impact of these changes is considered in some detail in paragraph 3.3.5 to 3.3.7 below.

3.3.3 In terms of spending, the Council's management and maintenance allowances have again been increased well above inflationary levels. The management allowance has gone up by 9.7% and the maintenance allowance shows an increase of 6.4%. In addition the Major Repairs Allowance has been increased by 4.1%, which gives a grant figure of £5.043M for 2006/07.

In contrast the level of Supporting People Grant continues its downward trend as part of the Governments drive for greater efficiency and partnership working. The Council's grant is expected to be reduced by around 12.5% and it is expected that grants will be reduced further in future years as sheltered housing costs become ineligible. Fortunately the Council has positioned itself so that it is able to respond to the partnership agenda and continues to actively pursue new agreements.

3.3.4 The extra spending capacity from increased allowances and the redistribution of monies previously committed to LSVT has allowed some budget growth to be included, particularly in terms of maintenance and adaptations to the housing stock. This can be achieved without the need to draw on reserves, which stand at a relatively healthy level. As a result it will allow some enhancement to the traditional capital spending programme and one-off resources to fund the Service Improvement Plan, which will be considered in due course.

Provision has also been made within the contingency to meet the HRA's share of the anticipated cost of job evaluation.

3.3.5 As indicated earlier the major change in the housing subsidy settlement relates to rent restructuring. Members will recall that when the policy was first introduced in April 2002 the Council was well placed to meet target rents by March 2012. Indeed the average rent within the HRA at that time was very close to target and therefore the real focus was on moving individual rents up and down the scale so that individual target rents could be achieved. The policy adopted by the Council

has worked well and in the current year 4,905 tenancies are at current target rents which was expected to rise to 6,124 in 2006/07 had the current policy been retained.

However, under the new proposals only 174 tenancies are expected to be at target once the rent changes have been applied in 2006/07. Therefore many thousands of tenants who were looking forward to only the standard rent increase of inflation + 0.5% (which is retained under the new system) will now see further additional adjustments of + £2.00 per week per year for a number of years to come.

- 3.3.6 Basically the Government has realised that under the present restructuring model local authority sector rents will not converge with the Registered Social Landlord sector by 2012 and therefore the model has had to be adjusted to achieve this. The Government recognise that this will cause difficulties as a significant number of tenants face very substantial rent increases for many years to come and it therefore intends to cap the average rent increase within the Housing Revenue Account at 5% for the next two years.

What this means in practice is that whilst individual rents can rise by more than 5% under the formula "inflation + 0.5% (i.e. 3.2%) + £2.00" the average rent increase across the whole of the Council's stock cannot be more than 5% i.e. from the current £51.04 to £53.59. Any tenant whose rent should be reduced under the new policy can have the full reduction applied in April 2006 – it is anticipated that there will be 42 tenancies falling into this category.

- 3.3.7 Whilst this capping arrangement provides some cushioning of the impact of the changes for the first two years it is not sustainable in the long term if convergence is still to be achieved by 2012. In our case as many as 3,097 tenancies would not have achieved target rent by 2012 under the new proposals.
- 3.3.8 As a result of these proposals by the Government there is therefore the prospect of some very significant future rent increases for many of the Council's tenants. Applying the formula in 2006/07 will see rent changes ranging from – 4.9% to + 7.3% and as indicated earlier only 174 tenancies will have achieved target status.
- 3.3.9 So whilst the subsidy proposals will allow for increased investment in maintaining and managing the housing stock it will be at a cost of above inflation rent increases for many tenants and for many years to come. Overall the Housing Revenue Account remains in a negative subsidy position and indeed this has worsened under the new proposals. In 2005/06 £1.9M is being paid over to the Government and this increases to around £2.7M in 2006/07. So in effect £800,000 of the additional rent increase to be raised next year will be transferred to the Government to assist with social housing in other parts of the country.

Risk Assessment – Housing Revenue Account

- 3.3.10 The LSVT no ballot removed a great deal of uncertainty surrounding the future of the Councils' housing stock. The service is being fully reassessed and a Service Improvement Plan will be considered very shortly. This will inevitably require some short-term resource input but the Housing Revenue Account is in a relatively healthy position and it will be possible to make some short-term finance available. There will need to be a concentrated effort in achieving the Decent Homes Standard, which will need to be fully addressed in future capital programmes. However it is felt that this budget provides the right balance of revenue support to help meet that standard.

3.4 Capital Spending Programmes

3.4.1 Government allocations towards capital spending programmes for 2006/07 have unfortunately not all been confirmed. The largest of these, the Major Repairs Allowance, was mentioned earlier in the report and has been confirmed at £5,043,000. A Supported Capital Expenditure Allocation to assist in meeting Decent Homes has also been confirmed at £213,000. So far as Private Sector Supported Allocations are concerned, these are still subject to discussions at the Regional Housing Board and will not be known until the 13th January 2006. The figures included in this report therefore represent bids submitted in accordance with guidelines and scoring methodology issued by the Board.

3.4.2 The allocations from Government for 2006/07, together with current year comparisons, can be summarised as follows:-

<u>Type of Allocation</u>	<u>2005/06</u> <u>£000</u>	<u>2006/07</u> <u>£000</u>
Major Repairs Allowance	5,037	5,043
Supported Capital Expenditure	671	213
Disabled Facilities Grant	185	200*
SHIP Grant	600	1,200*
IEG Grant	150	0
	<u>6,643</u>	<u>6,656</u>

*Bids only at this stage**

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 £1.4M unused from the current year, are forecast to be £4.4M. The General Fund Capital Programme relies almost entirely on capital receipts being generated particularly in relation to Right to Buy sales. As these are subject to market forces it would not be prudent to commit all available resources next year and in line with previous programmes it would be appropriate to allocate £3M in 2006/07.

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. As previously indicated no significant receipts of this type are expected to be received during 2006/07. In view of this and the fact that the project team is still to be recruited it is felt that resources of around £3.75M should be made available to support spending on special regeneration projects in 2006/07 as opposed to the sum of £5m previously identified. A detailed report will be prepared setting out how the allocation will be used, but in accordance with policies previously agreed, it is anticipated that a further significant allocation will be made for Private Sector Housing Renewal. In addition, because of the need to achieve a smooth transition to the Council Housing Capital Programme, as discussed in para. 3.4.6 below, a sum of £300,000 should also be earmarked for this Programme.

3.4.6 For a number of years the Housing Capital Programme has been set at around £7M by using a mixture of Major Repair Allowance and revenue contributions. This can be achieved again in 2006/07 but as has previously been mentioned the programme now needs to focus on the Government's requirement of meeting the Decent Homes Standard by 2010. This will inevitably mean a reduction in

funding available to provide for some popular parts of the existing programme e.g. Tenant Led Improvements. It is felt that there needs to be a smooth transition from the current programme to a more decent homes orientated programme and to help this it is proposed that over the next 2 years initially a sum of £500,000 each year should be transferred from reserves. Together with the £300,000 identified in para. 3.4.5 above, this will take the Capital Programme to £7.8 million, which will help with this transition.

3.4.7 The total level of capital spending proposed for 2006/07 is therefore as follows:-

	<u>Housing</u>	<u>General</u>	<u>Total</u>
	<u>£000</u>	<u>Fund</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<i>GOVERNMENT ALLOCATIONS / GRANTS</i>			
<i>Major Repairs Allowance</i>	5,043	-	5,043
<i>Decent Homes</i>	213	-	213
<i>Private Sector Renewal</i>	-	1,400*	1,400
<i>Revenue Contributions</i>	1,744	-	1,744
<i>Contribution from HRA Reserves</i>	500	-	500
<i>Capital Receipts</i>	-	3,000	3,000
<i>Capital Receipts earmarked for regeneration</i>	300	3,450	3,750
	<u>7,800</u>	<u>7,850</u>	<u>15,650</u>

*Bid only at this stage**

3.4.8 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

3.4.9 The capital investment provisions set out in this report have been made in the light of known resources and a realistic assessment of capital receipts. The revenue impact of all Programmes have been fully accounted for.

4. 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 Council on the 24th February 2006.

5. 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 has been consulted on all aspects relating to the Housing Revenue Account.

6. OTHER MATERIAL CONSIDERATIONS

6.1 *Links to Corporate Objectives/Values*

The Council's Corporate Objectives and Values have guided the preparation of the 2006/07 Budget Framework throughout. Resource availability has been fully re-assessed and directed to assist in achieving the Council's key priorities as set out in the Corporate Plan. Particular emphasis has been placed on the following Corporate Values:-

- *Be responsible with and accountable for public finances.*
- *Consult with service users, customers and partners.*

6.2 *Risk Management*

The Budget Framework 2006/07 has been prepared on a low risk basis to ensure that the Council effectively balances levels of service provision/spending on services with sustainable income levels to assist in achieving the Council's ambitions. For clarity individual risk assessment statements have been set out in the main body of the report for all three major areas of spending.

6.3 *Health and Safety*

No additional implications have been identified.

6.4 *Equality and Diversity*

No material considerations have been identified.

6.5 *Legal and Constitutional*

The Budget Framework has been prepared in accordance with the Council's Constitution and full account has been taken of new statutory requirements, e.g. the new statutory minimum concessionary fares scheme. No other legal or constitutional implications have been identified.

6.6 *Other Material Considerations*

No other material considerations have been identified.

7. 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 Council's Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's Section 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 2006/07
PROPOSED TARGET SPENDING LIMITS

	<u>£000</u>	<u>£000</u>
HOUSING		
<i>Council Housing</i>	7,800	
<i>Private Sector Renewal</i>	1,800	
	9,600	9,600
RESOURCE MANAGEMENT		
<i>ICT</i>	900	
<i>Offices and Depots</i>	330	
	1,230	1,230
REGENERATION		
<i>Special Provision for Regeneration Initiatives</i>	3,450	
<i>Economic Development</i>	300	
<i>Town Centre and Other Works</i>	300	
	4,050	4,050
CULTURE AND RECREATION		
<i>Asset Management Plan works in Leisure Centres</i>	450	
<i>Other Leisure Initiatives</i>	150	
	600	600
ENVIRONMENT		
		70
COMMUNITY SAFETY		
		75
SUPPORTING PEOPLE		
		25
		15,650