



**REPORT:**

**FROM:** Strategy Committee

**COMMITTEE:** Council

**DATE:** 26 February 2004

**BUDGET 2004/05**

**1 INTRODUCTION/BACKGROUND**

1.1 Since the election of a new Council in May, a great deal of work has been done to identify the public's priorities and to establish the Council's strategic direction for the future.

1.2 This culminated in the "State of the District" debate at Council in October, when the following broad framework for developing the Council's future vision and strategic direction was approved:-

- The Council should do its best to achieve Council Tax increases that do not exceed the rate of inflation.
- Achievement should be concentrated on the following priorities:-
  - Strong and sustainable communities.
  - Affordable housing with a major project to identify options and opportunities.
  - Youth Strategy and facilities for young people.
  - A clean environment.
  - Recycling and green waste.
  - A Health Strategy.
  - Communication with and listening to the public.
  - Public accessibility and service provision through E-Government.
- Recognition that if the above is to be achieved, there will be a need for savings and additional income to be identified through a combination of:-
  - Re-assessment of which services should be provided and at what level.
  - Charging.
- Establishment of a culture of improvement and appropriate change with:-
  - An examination and re-assessment of staff roles to see if staff resources can be released for redirection to work of a greater priority.
  - Improved flexibility between divisions.
  - Consideration of the best way to provide services.
  - Partnership working.
- Replacement of the current Vision, Purpose and Aims with statements and targets in a Corporate Plan that better portray what is important and relevant for the public.

1.3 The Overview and Scrutiny Committees were asked to:-

- Suggest which service priorities should be supported.
- Identify additional financial resources to at least match that additional cost.

1.4 The Council's Vision, Values and Priorities were considered at the meeting of the Strategy Committee on 26 January 2004. This will feed into a Corporate Plan, which will set out the Council's short and long-term aims and targets related to these.

## 2 **CONSULTATION**

2.1 The Council considered the outcome of consultation with the public and our other partners in the past 3 years in October. That consultation led to these aims and priorities and, following the “State of the District” debate at Council in October, there has been further consultation with the public through the autumn edition of “Babergh Matters”. In total 4,200 replies (11%) have been received and the overall position on service provision and Council Tax is summarized below.

- Does Babergh provide its services efficiently and effectively?

Answer	Replies	
	Number	%
Yes	2,541	58
No	934	22
Don't know	606	15
No reply	216	5

- On the basis of your current knowledge or use of Babergh services, and recognizing that improvements increase the cost of Council Tax, do you think that the following services should be improved, reduced or left at the current level?

Service	Number Supporting		
	Improve	Reduce	Current level
Leisure facilities	754	389	2,461
Refuse collection	1,164	138	2,640
Recycling	1,138	161	2,566
Street cleaning	1,135	142	2,389
Public conveniences	789	233	2,715
Car parking	1,417	235	1,940
Facilities for young people	1,005	246	2,389

It can be seen from these responses that, whilst the majority of residents support the current level of service provision, there are a good proportion who would like to see improvements. A much smaller number want to see a reduction in service provision.

- Bearing in mind that just to maintain services at their current level could result in Babergh's Council Tax increase being more than the rate of inflation, would you want the Council to:-

Answer	Replies	
	Number	%
• Reduce services to keep the increase to the rate of inflation?	1,083	26
• Maintain services at their current level?	1,648	39
• Make some improvements to services?	688	16
• No reply	788	19

2.2 Details of past consultation exercises follow this report.

### 3 **DELIVERING THE COUNCIL'S AIMS**

- 3.1 The identification of service priorities and additional financial resources was carried out by a Service Priorities and Financial Resources Steering Group of 6 Members – 3 from each of the Overview and Scrutiny Committees. The Group's initial proposals were supported by the Overview and Scrutiny Committees in November with only a few minor changes; and, the Council was on target to achieve its aim of only a 3% increase in Council Tax for next year, whilst still improving services in its priority areas.
- 3.2 However, a very disappointing initial announcement on Government grant in November dramatically changed that position and left a shortfall of £208,000. As a result, it was agreed that the Steering Group would have a further look at the position in the light of comments on service priorities and financial resources from the four political groups.
- 3.3 That further review was carried out on 16 December by the Steering Group, who identified the following further improvements in the financial position of £331,000:-

	<b>£000</b>
• The additional Government grant announced in December	137
• Additional savings	132
• Reductions in the cost of some of the new service priorities	62
	<b>331</b>

- 3.4 This meant that not only was the shortfall of £208,000 for a 3% Council Tax increase covered, but that there was now a further £123,000 reduction in the budget, which could potentially take the Council Tax rate below the current level.
- 3.5 The Strategy Committee considered the position at its meetings on 8 January and 10 February 2004, taking into account changes in the budget that emerged since the Steering Group meeting on 16 December 2003.

### 4 **REVENUE BUDGET**

- 4.1 The proposed General Fund Revenue Budget for 2004/05 compared with 2003/04 is set out below:-

	<b>2003/04 £000</b>	<b>2004/05 £000</b>
• Revenue service costs (net of specific Government grants)	8,915	8,746
• Direct Revenue Financing of capital schemes	120	-
	9,035	8,746
• Use of reserves	-744	-550
• Budget Requirement	8,291	8,196
• Government Support (general grant)	-4,770	-4,517
• Collection Fund Deficit	-	11
• Council Taxpayers	3,521	3,690
• Council Taxbase	31,403	32,006
• Council Tax for Band D property	£112.12	£115.30

- 4.2 **This represents a Council Tax increase of 2.8% for next year which meets the Council's aim of achieving an increase that does not exceed the rate of inflation.**

4.3 It is useful to see how this position has arisen, and a summary of the change from this year's to next year's budget is set out below:-

<b>Reason for Change in Budget</b>	<b>£000</b>	<b>%</b>
• Budget Requirement 2003/04	8,291	
• Inflation (on net expenditure of £10.3M)	+340	+4.1
• Commitments	+244	+2.9
• New Revenue Service Priorities (minimum cost)	+319	+3.9
• Savings	-710	-8.5
• Charges	-40	-0.5
• Other Additional income	-97	-1.2
• Other variations	+35	+0.4
	8,382	+1.1
• Transfer from General Grant to specific Benefit Grant	-380	-4.6
• Reduced use of reserves	+194	+2.3
• Budget Requirement 2004/05	8,196	-1.2

Further details of these are provided in Appendix 1.

4.4 The key points to note from this comparison are:-

- Very substantial savings and additional income of nearly £850,000 have been identified. This almost totally covers the additional cost of inflation, commitments and new service priorities.
- Significant new service improvements have been included and these reflect the public's and the Council's priorities.
- General Government Support has reduced with the transfer of part of that grant to a specific grant for Housing and Council Tax Benefit.
- The amount to be taken from reserves has been reduced in line with the agreed Financial Strategy.

4.5 However, the proposed budget includes a number of assumptions and uncertainties. For example, the potential savings include allowances for the possibility of savings on staff and other budgets; and, the additional income includes the assumption that next year's Planning Delivery Grant will be £60,000 more than the £75,000 received this year.

4.6 The amount to be raised from the Council Taxpayers increases from £3,521,000 this year to £3,690,000 in 2004/05. That results in a Council Tax rate for a Band D property of £115.30, and an increase in Council Tax of 2.8% for the services provided by this Council.

## **5 GOVERNMENT GRANT**

5.1 The position on Government grant requires more detailed explanation than in previous years for two reasons.

5.2 Firstly, part of the General Revenue Support Grant has been transferred to an increased specific grant for Housing and Council Tax Benefit. More details are awaited from the Department of Works and Pensions, but it is currently estimated that the additional specific grant will be about £98,000 less than is currently included in the Revenue Support Grant. However, Revenue Support Grant is increasing by 5.2% so there is an overall net increase in grant of £127,000 (2.7%). The overall change between the years is as follows:-

	<b>2003/04 Revenue Support Grant (RSG) £000</b>	<b>2004/05 RSG + Specific Grant Increase £000</b>
Benefits element	478	380
All other services (5.2% increase)	4,292	4,517
	4,770	4,897

- 5.3 Secondly, there is the issue that £347,000 of the Council's Revenue Support Grant entitlement is still being withheld. Under the Government's Formula Grant assessment for 2004/05, the Council is entitled to £4,864,000, but is being limited to £4,517,000. The increase of £225,000 from last year's £4,292,000 has been calculated as follows by the Government:-

	<b>£</b>
• Minimum increase of 3% for District Councils (£4,292,000 x 3%)	129,000
• Additional entitlement of £443,000 x 22%	96,000
	225,000

So instead of receiving all of the additional entitlement of £443,000, only £96,000 is being received and the balance of £347,000 is being withheld. Further representations have been made to the Office of the Deputy Prime Minister.

## 6 **REVISED BUDGET 2003/04 AND RESERVES**

### **Revised Budget**

- 6.1 The budget for the current year has been revised to take into account variations that have arisen since this was approved earlier this year. Net Revenue Expenditure is now expected to be just over £370,000 higher than the original approved budget. However, this largely relates to budgets carried forward from last year of £321,000.
- 6.2 After allowance is made for the savings in Direct Revenue Financing of Capital Schemes and the change in level of unfinanced capital work, estimated reserves at the end of the year are now anticipated to stand at £2,851,000, which is slightly lower than forecast in the original budget.

### **Reserves**

- 6.3 There has been a recognition for many years that reserves must be used in a controlled and prudent way. It is unwise to take very large amounts from reserves for a number of years until there is nothing left to use, and it is proposed that the Council continues with the policy of a phased reduction in the amount taken from reserves each year.
- 6.4 The Council has adopted a clear strategy of maintaining adequate levels of reserves and adopting a prudent approach to their use. The current strategy is to use £550,000 of the estimated General Fund reserves in 2004/05 and to gradually phase out this use in the next few years as follows:

	<b>£000</b>
Estimated reserves at 31 March 2004	2,851
Phased use:	
2004/05	-550
2005/06	-440
2006/07	-330
2007/08	-220
2008/09	-110
Projected balance at 31 March 2009	1,201

- 6.5 This use and projected level of reserves in 5 years' time is felt to be appropriate for this Council and takes into account the medium-term Revenue Budget forecasts and capital spending plans. Although neither the Government nor the Audit Commission specify a minimum level of reserves, a minimum of 5% of net revenue expenditure is regarded as adequate in the CPA Code of Audit Practice assessment. Allowing for inflation, the £1.2m should represent at least 10% of the annual budget by 2009. It is felt that there is limited scope to use more from reserves as this would reduce them to a level that could be seen as inadequate in the longer term.
- 6.6 This is because there are risks and uncertainties that need recognising and the level of reserves and their use has been carefully assessed with regard to the following:
- Any medium-term increase in capital spending plans can be financed by surplus capital receipts or prudential borrowing. It is felt that realistic assumptions on Council house sales have been made, but the outcome is in the hands of the tenants. There would, of course, be revenue implications associated with any increase in spending plans, which would have to be carefully considered.
  - Although there are risks attached to the achievability of revenue budgets, the Council has a good record in avoiding overspends and it delivered its financial strategy on maintaining reserves at a minimum of £2.5m at the end of 2003/04. However, there are aspects of the budget such as income from fees which are outside the Council's control and which will vary from the budget provision. In terms of the future, proposals will be submitted to the Overview & Scrutiny (Stewardship) Committee to adopt a clear risk-based approach to budget monitoring and achieving the savings allowed for in the budget.
  - Realistic assumptions have been made on inflation and interest rates in the budget forecasts and the Council's exposure to the latter is reduced by being debt-free. But both inflation and interest rates will vary and are outside the Council's control.
  - The overall financial standing of the Council is considered to be good. We are currently debt-free, Council Tax collection rates are high, sound financial information and reporting arrangements are in place and there is adequate insurance cover to protect the Council against significant losses.
  - There may be financial risks associated with any new significant partnerships or major outsourcing arrangements. There are none that are built into the 2004/05 budget, but clearly these are possible in the future and any future proposals will need careful assessment at the time.
  - Unexpected costs, such as on Planning, can arise.
- 6.7 There are, of course, pressures to maintain and improve services whilst keeping Council Tax increases low - the budget forecasts for the next 3 years illustrate the continued need to find savings or additional income. It should also be noted that the vast majority of the proposed budget for 2004/05 reflects recurring expenditure and, therefore, the use of reserves is supporting that.

## 7 **FUTURE YEARS**

- 7.1 When considering this draft budget for 2004/05, the Council also needs to think about the aim of inflationary increases in Council Tax for the following three years.
- 7.2 The budget and a low Council Tax increase for 2004/05 has only been achieved by finding very substantial savings and additional income for next year. It will be much more difficult to find a similar level of further savings in the following three years.
- 7.3 Unless additional income and Government grant are forthcoming in those years, 3% increases in Council Tax are unlikely to be achievable.
- 7.4 It is recognised that medium term financial planning and awareness is important and that next year's budget and level of Council Tax should be considered in the context of what might happen in future years. The Council can achieve a Council Tax increase of 2.8% for next year, but what does the future hold?
- 7.5 There is no definitive answer to that question because financial projections are particularly difficult when there is no certainty about factors such as legislative requirements and Government Grant in subsequent years. Nevertheless, that should not prevent an attempt at projecting the future position, and that projection and the assumptions on which it is based is provided below:-

Line	Budget	Latest Projections			
		2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000
	<b>Service Costs</b>				
1	Base budget for previous year		11,219	11,734	12,149
2	Inflation		+371	+385	+400
3	Commitments/other increases		+249	+155	+15
4	Savings/extra income		-105	-125	-125
		11,219	11,734	12,149	12,439
5	Capital charges/Asset Management and Investment Income	-2,473	-2,450	-2,400	-2,350
6	Direct revenue financing of capital schemes	0	0	0	0
		8,746	9,284	9,749	10,089
7	Use of reserves	-550	-440	-330	-220
	<b>Budget Requirement</b>	8,196	8,844	9,419	9,869
8	Government support	-4,517	-4,743	-4,956	-5,155
9	PSA Performance Reward Grant	-	-32	-32	-
	Collection Fund Deficit	11	-	-	-
	Council Taxpayers	3,690	4,069	4,431	4,714
10	Council Taxbase	32,006	32,090	32,331	32,573
11	Council Tax for Band D property	£115.30	£126.80	£137.05	£144.72
	<b>% increase</b>	<b>2.8%</b>	<b>10.0%</b>	<b>8.1%</b>	<b>5.6%</b>

Line	Budget	Latest Projections			
		2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000
	General Fund Reserves:				
12	Opening balance	2,851	2,301	1,861	1,531
13	Use of reserves	-550	-440	-330	-220
14	Closing balance	2,301	1,861	1,531	1,311

The explanations and assumptions for some of the above figures are set out below:-

Line	Explanation
2	Basic price inflation of 2.5% a year assumed. For pay and associated costs, 4.3% has been applied to cover pay awards and increments.
3	Commitments include:- <ul style="list-style-type: none"> <li>Local Plan £70,000. This will need review and reassessment during next year's service and financial planning process and a lower amount may be required.</li> <li>One-off savings in 2004/05 of £64,000 in relation to the management fee for the leisure facilities and business workspace grants that will not be repeated</li> <li>Recycling – the reduction of the three year financial support from Suffolk County Council towards the twin bin recycling scheme in 2005/06 and 2006/07 (£100,000 and £140,000 respectively)</li> <li>Increases in properties - refuse collection, and grounds maintenance areas – total cost of £15,000 p.a.</li> </ul>
4	Savings include:- <ul style="list-style-type: none"> <li>Housing needs survey, Sproughton Mill and pension enhancement £60,000</li> <li>Accountancy staffing and insurance excesses – <b>possible</b> savings of £20,000</li> <li>Hackney carriage and taxi licence fees £10,000</li> <li>Car park advertising £15,000</li> <li>Local Plan costs reducing by £125,000 in both 2006/07 and 2007/08 – as above, however, further assessment and consideration needed.</li> </ul>
5	Depends on interest rates and future use of surplus capital receipts at the end of the current year. No allowance has been made for any effect of spending the predicted surplus of £2.7m. This would result in lost interest of £126,000, based on a 4.5% interest rate. The timing of their use will, therefore, impact on the budget and Council Tax according to Members' decisions on this.
6	The provision of £120,000 was removed from the draft budget for 2004/05.
7	The Council agreed in this year's budget that the key to sound financial management is to phase and gradually reduce the amount to be taken from reserves each year and not reduce reserves to an unacceptable level.
8	Under the Formula Grant arrangements for 2004/05 there is a ceiling on the Council's grant and grant of £347,000 is being withheld. It has been assumed that the future ceiling will be 3% plus the release of the following additional amounts: <p style="text-align: center;">2005/06 £90,000 2006/07 £70,000 2007/08 £50,000</p>

Line	Explanation
9	If the Suffolk Public Service Agreement fully achieves all of the 13 “stretched” targets, the Council would directly receive £260,000 in Performance Reward Grant over 2 years. That grant has to be evenly divided between revenue and capital. For this projection it has been assumed that 50% of the maximum will be achieved. In addition, there will be a distribution of grant to the Suffolk Strategic Partnership and the Local Strategic Partnerships.
10	Long-term empty homes are not included in the taxbase from 2005/06, reducing it by 155 Band D properties, as the Government will receive the additional income from these. An annual increase of 0.75% in the Council Taxbase for new properties has been assumed. This could change dramatically in 2007/08 as a result of the 2005 revaluation of Council Tax banding. But, if it does, any change is likely to be reflected in changes to the level of Government grant.
11	This is the result of dividing the amount required from Council Taxpayers by the Council Taxbase.
12-14	The level of reserves will reduce in accordance with the agreed current strategy.

- 7.6 It can be seen that, before any account is taken of new service priorities and the possibility of savings and additional financial resources, the projected Council Tax levels for the next 3 years could be:-

Year	Council Tax at Band D		
	Level £	Increase	
		£	%
2005/06	126.80	+11.50	10.0
2006/07	137.05	+10.25	8.1
2007/08	144.72	+7.67	5.6

- 7.7 Those potential increases clearly exceed the Council’s aim of doing its best to keep Council Tax increases to the rate of inflation in future years.
- 7.8 The Overview and Scrutiny (Stewardship) Committee are proposing that for future years the Council should set a Savings target of £100,000 a year to finance new priorities.

## 8 **HOUSING REVENUE ACCOUNT AND COUNCIL HOUSE RENTS**

### **2003/04 Revised Budget**

- 8.1 More needs to be taken from Reserves this year than anticipated in the original budget due to certain changes that have arisen since the original budget was approved.
- 8.2 This income reduction does not cause a problem, however, as there was more money in reserves at the end of the previous year. In addition, we can retain the Direct Revenue Financing contribution towards capital schemes due to this healthier position
- 8.3 As a result of the above, reserves at the end of the current year are estimated to amount to £768,000 which is still £180,000 more than previously anticipated.

## 2004/05 Budget

- 8.4 The budget for next year incorporates the revenue impact of new service priorities considered and agreed by Members. It also reflects the HRA's share of commitments and savings identified during the service and financial planning process.
- 8.5 It is forecast that average rents will increase by 4.2% next year and that has also been built into the budget. The Tenants Forum considered the budget on the 5 February 2004 and have no comments on it.

## 9 CAPITAL PROGRAMME

- 9.1 The Council's overall ability to deliver its existing and new service priorities via capital investment has been improved through the achievement of debt-free status at the end of 2002/03.
- 9.2 This means that, in the next few years, there could be additional capital receipts available to put into new capital schemes such as affordable housing, youth facilities and the Hadleigh Swimming Pool.
- 9.3 The proposed Capital Programme for 2004/05 is summarised below, along with provisional indications of current intentions for spending in the following 2 years:-

	2004/05 £000	2005/06 £000	2006/07 £000
General Fund	2,387	1,678	1,254
HRA	3,290	3,423	3,294
	5,677	5,101	4,548

- 9.4 The programme is financed in a variety of ways including capital receipts, grants and contributions from other bodies and a major repairs allowance for Council Housing. An announcement by the ODPM on their grant for future E-Government work is still awaited. It has been assumed that £200,000 will be received next year. *(On 13 February the ODPM announced that the grant for 2004/05 will be £350,800. The Corporate Director is proposing to Council that the budget for e-government in 2004/05 be increased by £150,000, and the capital programme has been amended accordingly.)*

## 10 STAFFING

- 10.1 A number of variations have arisen as a result of the service priorities and savings agreed during the service and financial planning process. These budgets include a number of service priority projects which may involve additional staffing if existing resources cannot be redirected, as well as a number of areas where staff savings have been made. These are included in the recommendations.

## 11 BORROWING LIMITS

- 11.1 Whilst the Council is "debt free", the position on short-term debt and investment can vary during the year. There is a requirement for the Council to approve borrowing limits for the coming year and under the new Prudential Code for Capital Finance, other prudential indicators relating to capital financing costs and treasury management. These are attached as Appendix 2.

## 12 **RECOMMENDATIONS**

12.1 The Committee recommends to the Council that:-

- (a) The attached revenue budgets and capital programmes be approved.
- (b) The following changes be made to the staffing establishment in 2004/05 to reflect the Council's service priorities which are included in the budget, and the staff savings which have been identified:-

<b>Division</b>	<b>Staffing Establishment to Change</b>
Environmental Services	<ul style="list-style-type: none"> <li>▪ Part-time administrative post restored to full-time to strengthen the monitoring and enforcement of street cleaning, abandoned vehicles, etc.</li> <li>▪ Business Support Officer to release Environmental Health Officers to work on new licensing enforcement and other requirements.</li> </ul>
Leisure and Community Services	<ul style="list-style-type: none"> <li>▪ Part-time post to be increased to full-time to act as Project Officer for Tree Management scheme.</li> </ul>
Revenues	<ul style="list-style-type: none"> <li>▪ Debt Counselling Officer unless service provided by other means.</li> <li>▪ Offset by reductions in staffing in other areas of the Division.</li> </ul>
Legal and Administrative Services	<ul style="list-style-type: none"> <li>▪ Two permanent and one temporary member of staff to meet new statutory licensing responsibilities (existing staff to be redeployed into these roles as far as possible).</li> </ul>
Planning (Control)	<ul style="list-style-type: none"> <li>▪ Reduction of one Technical Officer post in Building Control.</li> </ul>
General	<ul style="list-style-type: none"> <li>▪ Additional allowance for the equivalent of one post not being filled during the year.</li> </ul>

- (c) For 2004/05 the necessary resolutions are passed for the making and collection of Council Tax to cover:-
- The District Council's budget requirement for general expenses of £8,195,600.
  - The special items relating to Parish/Town Council precepts.
  - Suffolk County Council's and Suffolk Police Authority's precepts.
- (d) The ten instalment dates each year for Council Tax and Business Rates should be the first of each month from 1 April to 1 January, but with the ability for Council Taxpayers who elect to pay by Direct Debit to choose between 1, 8, 15, 22 and 28 of each month. This is to be subject to the proviso that the first of each month can be revised to a later date by the Corporate Director, Geoff Kistner, in consultation with the Chairman of the Strategy Committee, if it is felt to be essential to do so.
- (e) The revised General Fund charges are implemented from 1 April 2004.
- (f) The weekly rents for the Council's dwellings and compulsorily let garages be increased on average by 4.2% and in accordance with the rent restructuring requirements with effect from Monday, 19 April 2004.

- (g) The revised Council housing charges, including the rents for garages and car ports which are not compulsorily let with dwellings are implemented with effect from Monday, 19 April 2004.
- (h) Where expenditure is included within the approved budget, the Corporate Director, Geoff Kistner, be empowered to:-
- Vary the timing of revenue and capital payments from the current financial year to 2004/05 or vice versa in accordance with financial regulations and Council resolutions.
  - Vary the method of financing capital schemes, if he is satisfied that it is in the financial interests of the Council to do so.

Geoff Kistner  
Corporate Director

Barry Hunter  
Head of Finance and Performance Review

13 February 2004

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