

# **KENNET DISTRICT COUNCIL**

## **JOINT MEETING OF THE RESOURCES, PLANNING POLICIES AND COMMUNITY DEVELOPMENT EXECUTIVE COMMITTEES**

**to be held on Tuesday, 3<sup>rd</sup> February 2004**

### **JOINT REPORT OF THE CHIEF EXECUTIVE AND THE DIRECTOR OF FINANCIAL SERVICES**

## **BUDGET STRATEGY 2004-05**

### **1. Introduction**

The purpose of this report is to introduce and explain the Council's estimated financial position for 2004/05 and make recommendations arising from that position, including the level of Council Tax to be recommended to the Council at its meeting on 24<sup>th</sup> February, 2004.

This report will also be presented to the Budget Reductions Sub Committee at its meeting on 28<sup>th</sup> January, as the Sub Committee tasked with taking a particular interest in the budget for the coming year.

### **2. Background**

At its meeting in July 2003 the Resources Executive Committee was made aware of the financial difficulties facing the Council in 2004/05. As in the previous year the Committee responded by creating a Sub Committee, the Budget Reductions Sub Committee, to consider the problems in detail and to give direction to the Officers on how those problems should be addressed.

At that time the prognosis was that savings of the order of £525,000 would be needed if the Council was to conform to its medium-term financial strategy of equalising spending with the Council's 'Formula Spending Share', (the amount the Government says the Council should be spending) over a four year period. This in turn implied a Council Tax increase of 15% for 2004/05.

In arriving at the figure of £525,000 the assumption was made that there would be an increase in external Government financial support of 3%, i.e. £153,000. It later transpired that external support would be reduced by £613,400. This was partly offset by additional housing benefit subsidy which is estimated as an extra £468,450. Therefore, instead of plus £153,000 in additional Government support the Council will receive minus £144,950, an adverse 'swing' from expectations of £297,950, (£153,000 plus £144,950).

Thus, from a difficult position of having to try and save £525,000 the Council now found itself faced with the need to save £822,950, (£525,000 plus £297,950) in order to be able to contain the Council tax increase to 15%.

At the time the Budget Reductions Sub Committee was directing the officers on how to achieve a £525,000 reduction it gave instructions that:

- (a) the introduction of universal kerbside newspaper collection should be delayed;
- (b) new service developments should be limited to £50,000 rather than £100,000, (plus £45,000 for recycling in both cases);
- (c) staff savings of £100,000 should be identified;
- (d) other cost savings of £150,000 should be identified; and
- (e) income increases of £100,000 should be identified.

All those instructions have been followed.

Faced with the additional problems caused by the adverse Government Grant position the Budget Reductions Sub Committee then decided that:

- (1) The Council should eliminate the deficit on the Kennet part of the Wiltshire Local Government Pension Fund as a means of helping to produce a balanced budget in 2004/05, and because this was also the right and prudent thing to do in the longer-term. This particular issue is discussed as part 7 of the report.
- (2) Sports centre capital improvements should be carried out in one year, (2005/06) to avoid loss of VAT exemption for more than one year, (each year of loss of exemption costing the Council £80,000).

The next 5 sections of the report, sections (3) to (7) inclusive, discuss the budget as if the Council should stick to its medium-term financial strategy, and impose a Council Tax increase of 12.36% for 2004/05, within the 15% planned in the medium-term financial strategy. Section 8 of the report challenges whether that position is in fact sustainable and examines the issue of whether further budget savings should be made.

Section 9 of the report discusses the issue of the preparatory work that needs to begin now in anticipation of a further difficult year in 2005/06.

Section 10 of the report examines the capital programme envisaged for 2004/05, and Section 11 of the report makes explicit the risks built into the budget that will be recommended.

Section 12 of the report draws the issues together and make recommendations concerning the budget, and in particular recommends a Council Tax level which the joint meeting is invited to recommend to the Council.

### **3. Revised Estimate 2003/04**

Appendix A to the report summarises the Council's estimated revenue budget position for 2003/04 and 2004/05.

In 2003/04 the Council will need to take £489,950 from reserves to balance its revenue account. That figure is almost exactly equivalent to the loss on investment income during the current year. In short, investment returns were 1.25% less than budgeted (3.75% as opposed to the estimated 5%)

That explanation of the variation between the 2003/04 original and revised estimates is of course an over-simplification. In fact there were many budget variations in addition to this, but action by the officers has ensured that those variations did not further adversely effect the Council's financial affairs.

### **4. Summary Position 2004/05**

The summary budget position is given at Appendix A. This reveals that the budget as currently drawn necessitates a Council Tax of £120.11, an increase of 12.36% over the 2003/04 Council Tax of £106.89.

This conforms to the Council's current medium-term financial strategy, and conforms to the strategy towards the budget directed by the Budget Reductions Sub Committee.

Appendix B to the report sets out the principal reasons for the increase in the amount potentially demanded from council tax payers.

Much of that increased costs is due to factors outside the Council's control, the only exception being the service development items listed at Appendix B.

In order to conform to its medium-term financial strategy, a number of costs of service development have had to be postponed, totalling £280,000. The Council has also had to find savings of some £705,000 in order to get down to a level of expenditure that permits a council tax increase of 12.36%.

Such a reduction represents a major achievement, especially following the savings of £1.2m that had to be made in respect of 2003/04.

### **5. Decisions Anticipated**

In arriving at the budget position summarised at Appendix A we have had to assume that a number of decisions would be taken by members. Most of those decisions are set out at Appendix C to the report. In addition, of course, we have anticipated that the combined executive committees would endorse the decision of the Budget Reductions Sub Committee to pay off the deficit on the pension fund, as discussed at section (7) of the report.

In a normal year the decisions anticipated in forming the budget proposals would have been discussed at an earlier stage. However, one has to appreciate that all the Council's plans and strategies in respect of the budget were thrown into disarray by the adverse revenue support grant settlement as described above, and a great deal of revised thinking has had to take place in a very short time in order to be able to place a balanced budget before Members. The problems faced in respect of the 2004/05 budget are, in our experience, unprecedented, hence the unusual necessity to ask for decisions to be confirmed at such a late stage in the budget setting process.

Most of the decisions anticipated, as described at Appendix C are not, in our view, controversial. However, members will be aware that a time-limited sub committee of the Overview and Scrutiny Management Board has been examining the Council's involvement with, (and funding of) public transport. The budget summarised at Appendix A assumes that the sub committee will recommend that the Council continue to fund local, rural, community-based transport initiatives in addition to fulfilling its statutory obligations to provide a half-fare concessionary bus passes scheme. However, it further assumes that the sub committee will conclude that the Council should not continue to support normal scheduled bus services. We may be wrong in that assumption. The Transportation Sub Committee is meeting on 19<sup>th</sup> January, and its views will be made known to the joint executive committees meeting on 3<sup>rd</sup> February. Our working assumption is informed by the following factors:

- the County Council is the statutory body primarily responsible for bus subsidies;

- the County Council receives revenue support grant to help it fund subsidies but Kennet does not;

- the County Council will receive an additional £200,000 from council tax on second homes from which it could choose to replace the current Kennet funding of bus subsidies;

- very few district councils in England support scheduled bus services, confining themselves to providing concessionary fare schemes.

The reduction of £105,000 in support for bus subsidies is critical to the budget strategy for 2004/05, and other sources of budget reductions would have to be found if this particular reduction is rejected by Members.

## **6. Revenue Reserves**

When setting its budget for 2003/04 the Council anticipated that its revenue reserves at 31<sup>st</sup> March 2004 would have fallen to some £3.585m, as set out at the top half of Appendix D. Even with the need to call on reserves to fund the shortfall in investment income in 2003/04 the estimated reserves in hand at the end of financial year 2003/04 are £3.888m. Please see the bottom half of Appendix D. The estimated reserves at the end of 2004/05 are some £3.699m. The position on reserves is better than expected because of a successful challenge to leisure centre rating values, and because it was possible to capitalise some early retirement costs which had been budgeted to be met from revenue reserves.

Whilst the Council's position in respect of its revenue reserves is better than expected, we strongly advise that the Council should not have recourse to further withdrawals from reserves in 2004/05 to fund current expenditure because:

Such a withdrawal would mean having to find savings equivalent to the withdrawal in the following year;

The need for substantial reserves has been reinforced by the substantial shortfall in investment income in 2003/04; and

Reduced revenue reserves generate reduced investment income to be credited to the revenue account.

## **7. Investments and the Pensions Fund Deficit**

The arguments for investing part of the Council's capital reserves in the Kennet part of the Wiltshire Local Government Pension Fund were rehearsed in a report to the Budget Reductions Sub Committee at its meeting on 17<sup>th</sup> December, and we do not propose to reiterate those arguments here. The extinguishment of the pension fund deficit is the right thing to do for the long-term benefit of the taxpayers of Kennet, and it has the added advantage of contributing significantly to producing a balanced budget in 2004/05. The financial implications of a capital contribution to the pension fund are set out at Appendix E to the report.

Having said that, making a capital payment to the pension fund needs the approval of the Local Government Minister. The Budget Reductions Sub Committee wanted to pay off the current estimated deficit on the pension fund in the sum of £8.6m. The Minister is only prepared to allow a payment of £6.3m at this stage, being the deficit as at the date of the last valuation of the Fund, (1<sup>st</sup> April 2001). Approval for a further capital payment in respect of the estimated balance of the deficit, (£2.3m) will be sought in 2004/05 when the next actuarial valuation as at 1<sup>st</sup> April 2004 is available.

Without the capital payment of £6.3m into the pension fund the Council would need to find an alternative £240,000 of savings in 2004/05 to be able to approve a budget which conforms to the medium-term financial strategy and is balanced.

## **8. Council Tax and Capping**

Members will be aware of a general movement amongst council tax payers, particularly but not exclusively pensioners, opposed to large year-on-year percentage Council Tax increases. That movement appears to have alarmed Ministers. The Local Government Minister has made it very clear that he is prepared to use his reserve capping powers where he considers that local authorities have imposed large tax increases, especially where these follow large increases in previous years.

Our view is that Kennet's Council tax increase at 12.36% exposes the Council to the threat of capping, following on as it does a 14.5% increase for 2003/04.

Members will be aware that capping powers are exercised after a local authority determines its Council Tax level, and more particularly after it has sent out its bills. Capping would lead to bills having to be re-issued and in the meantime, on past experience elsewhere the taxpayers hold back payment because of the invalidity of the original bills. Computer systems would have to be re-written to cope with the cancellation of existing bills and their replacement with amended bills, and all the costs of producing and despatching bills would be duplicated. In short capping is a financial and administrative nightmare which the Council should avoid if at all possible.

Faced with the threat of capping Members may well argue that the Council has been hard-hit by Revenue Support Grant settlements for the current and next year, and that it has made noble efforts to keep Council Tax increases to the minimum in the circumstances. No doubt reference would be made to the fact that the Council's budget as currently drawn provides for a level of net expenditure and consequential Council Tax well within the guidelines implicit in the Revenue Support Grant settlement for 2004/05, as illustrated at Appendix F to the report. We doubt whether such arguments would hold sway with a Minister determined to impose limitations on Council Tax increases.

Apart from the issue of capping, changes to the Revenue Support Grant mechanism will necessitate a review of the Council's medium-term financial strategy. The Council had intended to bridge the gap between the Government's Assumed Council Tax for Kennet and its actual Council Tax by stepped 15% increases over a four-year period starting in 2003/04. Appendix F.1 illustrates the fact that in the new Revenue Support Grant environment the Council's expectation of Council Tax increases will need to be more modest in the future when moving actual Council Tax to a position where it converges with Government expectations.

The question does of course arise as to what the Council might do to minimise the threat of capping. The answer is of course simple, if unpalatable, i.e. to reduce the 2004/05 budget even further to contain the Council Tax increase to below 10%. Even that would not guarantee that the Council will not be capped, but it would obviously reduce the risk.

The further question then arises as to how to reduce the budget for 2004/05 still further. A reduction of some £79,000 would be necessary to reduce the Council Tax increase for 2004/05 below 10%. The suggested means of doing so is given at Appendix G to the report, and the matters included in that appendix will be recommended at the end of this report. If the further reductions at Appendix G to the report were adopted, then the Council Tax at Band D for 2004/05 would be £117.45, and increase of £10.56, or 9.9%. The additional weekly amount payable for a tax payer at Band D would be 20.3p.

## **9. Anticipating the Future**

Over the last three years the Council's financial position has become increasingly difficult. Whilst it is possible to construct an argument that the situation can not

become much worse we are of the view that work needs to start now to examine new ways of saving money in good time for the 2005/06 budget setting process.

A whole raft of issues will need to be explored, a selection of which is given at Appendix H to the report. We must stress that the items at Appendix H are only a selection, and we must further stress that they are merely areas for consideration at this stage. Some will lead to economies being made, but some will not. The purpose for mentioning them at all is as a prelude to a recommendation in this report that the Council instruct the officers now to begin looking at areas for possible savings for the 2005/06 budget.

## **10. Capital Programme**

The current medium-term financial strategy concerning capital expenditure is that new capital expenditure should not, over time exceed new capital receipts. This rule was adopted to avoid a position where, over time, the Council would eat into its capital reserves, which would in turn lead to reduced investment income and therefore additional problems on revenue account.

Appendix I.2 to the report sets out the capital programme requested by service managers over the next few years.

Our first concern is with 2004/05, and the capital programme at Appendix I.2 exceeds the estimated capital receipts arising in that year, with the same problem likely to arise in the following two years. In short, our view is that the original programme as at Appendix I.2 is simply not affordable. It is therefore the programme at Appendix I that will be recommended. Appendix I.2 gives a rough indication of the council tax implications of the two capital programme options.

Members should be aware that amongst the changes between the two programmes are:

- A. The elimination of footway lighting capital funding. Footway lighting is a parish council function from which the Council has relieved them (except Ogbourne St. George). In addition to paying £54,000 maintenance and energy costs the parishes expect Kennet to make provision for new lamps. Implicit in this cut in the capital budget is the suggestion that where parishes want new lamps they should be asked to pay for them.
- B. The removal of major public convenience refurbishment at Aldbourne, the Town Hall, Marlborough and Station Road Marlborough. The assumption being made here is that a fundamental review of public convenience provision will lead to a reduction in the total number of conveniences, and refurbishment of any public conveniences should be delayed until the review is complete.

## **11. Budget Risks**

There are a number of risks included in the budget, as is always the case.

The most notable risk is further reductions in investment income. However, anticipated income is now such that it is very unlikely that the sort of reductions experienced in the last few years will occur on the same scale again. Investing in the pension fund will help to minimise that risk, as will limiting the capital programme to the level of anticipated capital receipts in 2004/05.

There is a risk that vacant posts will not occur at the level anticipated in the budget. This risk will be minimised by close monitoring of the situation and corrective action by us if necessary. The same applies to salary capitalisation.

There is a risk that increases in fees and charges will meet consumer resistance and not generate the additional income anticipated at Appendix C.

Staff pay awards of 3% have been built into the budget, but the level of the award will not be known until after the budget has been set. A 1% variation in the pay award equates to a £70,000 cost.

In all cases, and in the final analysis the holding of adequate revenue reserves allows the Council to bear some risks that it might otherwise have to eliminate from the budget by increasing net expenditure and therefore Council Tax levels.

## **12. Conclusions and Recommendations**

Once again the Council has been faced with a difficult budget round, and once again the Council has responded by making significant savings in order to be able to produce a balanced budget, and one which should lead to a Council Tax not only well within the limits imposed by the Council's medium-term financial strategy but which also should avoid the threat of capping.

The Joint Committees are RECOMMENDED TO:

- (1) confirm the decisions anticipated in producing the 2004/05 budget, as set out at Appendix C to the report;
- (2) endorse the recommendation of the Budget Reductions Sub Committee to eliminate the deficit on the Kennet part of the Wiltshire Pensions Fund;
- (3) approve the further budget reductions proposed at Appendix G to the report designed to achieve a Council Tax of increase of less than 10%;
- (4) instruct the officers to carry out a range of investigations designed to anticipate and mitigate further budget difficulties in 2005/06;
- (5) approve the capital programme set out at Appendix I to the report: and
- (6) recommend to the Council a Band D Council Tax for 2004/05 of £117.45.

If the above recommendations are adopted, then Appendices J.1 through to J.4 would replace Appendices A, B, F and F.1.

Chief Executive

Director of Resources