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**REPORT TO: CORPORATE SCRUTINY**

**AGENDA ITEM: 6**

**DATE OF MEETING: 28<sup>th</sup> October 2002**

**CATEGORY: Delegated**

**REPORT FROM: CHIEF FINANCE OFFICER**

**MEMBERS' CONTACT POINT: Terry Neaves (x5800)**

**DOC: s:\cent\_serv\committee reports\corporate scrutiny\28oct 2002\fmc budget process 2003.doc**

**SUBJECT: BUDGET PROCESS 2003/4**

**REF: TN**

**WARD(S) AFFECTED: ALL**

**TERMS OF REFERENCE: FM08**

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## **1. Recommendations**

Members are asked to:-

- Note the financial projections set out at Appendix A and Appendix B
- Approve the budget timetable set out at Appendix C
- Approve the creation of the Service and Financial Planning Working Group
- Consider any changes it wishes to make to the assessment criteria for revenue bids (Appendix D)
- Consider any changes it wishes to make to the assessment criteria for capital bids (Appendix E).

## **2. Purpose of Report**

- 2.1 This report provides Members with the base financial projection for the next three years. This provides the financial context for setting next year's budget.
- 2.2 The report also asks Members to agree the budget process for setting the Capital and Revenue Budget for 2003/4 and beyond.

## **3. Executive Summary**

- 3.1 As part of the Council's financial strategy it has committed itself to ensuring that balances do not fall below £500,000 over the three year financial planning period.
- 3.2 This report provides the most up to date projection at the start of the budget process which rolls forward Council spending plans by a further year.
- 3.3 The basis of the projection is explained in some detail below. In essence it shows that, while balances are currently at a healthy level of £1.5m, they could fall as low as £340,000 on the basis of known spending commitments over the next three years.

- 3.4 This means that as part of the budget process, the Council will need to consider what action it is going to take to ensure that balances do not fall below £500,000 over the three year financial planning cycle.
- 3.5 The report then moves on to consider the budget process itself. Last year the Council introduced new modernised arrangements for setting its budget which provided for:-
- Scrutiny of Council spending plans through the Council's scrutiny process
  - Greater consultation with the public on Council spending proposals via area committees
  - Linking spending decision more closely to Council aims and objectives as set out in its first corporate plan.
- 3.6 Broadly this approach was considered successful, although the Scrutiny Committee suggested that there should be greater Member involvement in assessing revenue and capital bids.
- 3.7 This was recognised in June when a group of Members met to consider bids for additional resources that arose from the budget underspend. It is proposed that this approach will be followed for this budget round, although Members may wish to take the time to review the basis under which bids for new funds are scored.

#### 4. Detail

##### Financial Projection

- 4.1 The financial projection for the next three years 2003-6 is summarised in the table below:

BUDGET PROJECTION 2003-6	Budget	FORECAST		
	2002/3 £'000	2003/4 £'000	2004/5 £'000	2005/6 £'000

<b>Net Committee Spending</b>	<b>7,760</b>	<b>8,143</b>	<b>8,442</b>	<b>8,701</b>
- Contingencies	72	213	-9	81
- Known Variations	101	198	153	131
- Approved Service Developments during year	30	30	30	30
- One-off developments approved January 02	0	-40	-40	-40
- Ongoing cost of capital projects (Jan 02)	0	25	49	49
- Developments approved in July 02	80	44	45	45
- Ongoing cost of capital projects (July 02)	3	4	4	4
<b>Total Estimated Cost of Services</b>	<b>8,047</b>	<b>8,617</b>	<b>8,674</b>	<b>9,001</b>
Total Income	7,980	8,238	8,558	8,893
<b>Reduction in Reserves</b>	<b>67</b>	<b>378</b>	<b>116</b>	<b>107</b>

<b>Balances as at 1<sup>st</sup> April</b>	<b>1,905</b>	<b>1,517</b>	<b>873</b>	<b>581</b>
- General Fund Deficit	-67	-378	-116	-107
- Contribution to Commutation Reserve	-321	-266	-176	-133
<b>Balance at 31<sup>st</sup> March</b>	<b>1,517</b>	<b>873</b>	<b>581</b>	<b>340</b>

- 4.2 Further detail is set out in Appendix A.

- 4.3 The projection takes into account spending approved by Members to date. This includes:
- Additional spending agreed in July 2002 to commit resources arising from the budget underspend.
  - Additional spending approved during the current financial year.
- 4.4 Key factors that have had an adverse impact on the projection are:
- Increased insurance costs mainly result in the Council's poor claims history.
  - Reduced income from planning fees, which has been partially offset by extra investment income.
- 4.5 Together the above costs account for £100,000 in each year or £400,000 taking into account this year and up to the end of the three-year planning period. Without these adverse factors the Council would have projected healthy balances of over £700,000.
- 4.6 Action will clearly be taken to stem the adverse impact of both of these changes but it would not be prudent to plan on this basis at this stage.
- 4.7 Clearly the Council will need to identify savings in excess of £50,000 per year over the three year planning period. This is before it identifies any additional funds for new spending pressures.
- 4.8 The message is quite clear, the Council will need to identify savings during this financial year to maintain stable finances and release money to invest in new spending projects.
- 4.9 This puts us in a similar position to many other Councils. At the same time we are planning responsibly over a three year period, which gives us sufficient advance warning to plan how we will address the need to make savings.

### Housing Revenue Account

- 4.10 The table below summarises the 3 year projection for the Housing Revenue Account.

BUDGET PROJECTION 2003-6	Budget 2002/3 £'000	FORECAST		
		2003/4 £'000	2004/5 £'000	2005/6 £'000
Gross Spending	10,335	10,567	10,805	11,049
Gross Income	-10,284	-10,410	-10,562	-10,702
<b>Net Spending</b>	<b>51</b>	<b>157</b>	<b>244</b>	<b>347</b>
- Additional items	185	25	44	25
<b>Deficit for the Year</b>	<b>235</b>	<b>182</b>	<b>268</b>	<b>372</b>
<b>Balances as at 1<sup>st</sup> April</b>	<b>1,262</b>	<b>1,027</b>	<b>845</b>	<b>577</b>
- Housing Revenue Account Deficit	235	182	268	372
<b>Balance at 31<sup>st</sup> March</b>	<b>1,027</b>	<b>845</b>	<b>577</b>	<b>205</b>

Further information is provided at Appendix B.

- 4.11 The above projection assumes that housing rents rise in line with Government assumptions i.e. at 2.5% per annum.
- 4.12 Effectively this produces an underlying deficit within the Council's housing revenue account. The long term impact of this is to reduce balances to around £200,000 over the three year planning period.
- 4.13 Again it will be necessary to consider what steps need to be taken to bring the Housing Revenue Account closer to balance so that balances can be maintained at a more prudent level above £500,000.
- 4.14 The above figures do not take into account the impact of supporting people and as this becomes clearer this will be reported to members.

### **Budget Timetable**

- 4.15 The budget timetable for 2003/4 is attached at Appendix C. This also includes the production of service plans, which are now becoming an integral part of this budget process.
- 4.16 During the November committee cycle all policy committees, including Finance & Management, will consider service plans for the services covered within their committee.

### **Savings & Growth Proposals**

- 4.17 It has already been stated that these service plans form an integral part of the budget process. When Members consider these plans they are asked to:-
- Highlight any revenue spending pressures that they wish to be addressed within the budget process
  - Identify areas where they would wish officers to look closely to identify savings within the revenue budget process
  - Propose any capital projects that they consider appropriate.
- 4.18 Clearly all of these proposals, together with information from managers on service pressures and savings, will need to be considered in the context of the overall limited resources available to the Council.

### **Service and Financial Planning Working Group**

- 4.19 In previous years, a special Service and Financial Planning Working Group was established to consider budget proposals at a reasonably early stage.
- 4.20 It is proposed that a similar politically balanced group of 7 Members should be established for considering:-
- Revenue Budget Spending pressures
  - Savings proposals
  - Future Capital Schemes.
- 4.21 It is proposed that this meeting should take place 11<sup>th</sup> December 2002 after the Government Grant Announcement but prior to Policy Committees considering budget proposals for their individual committee.

## **Assessing Proposals**

- 4.22 To assist this process it is proposed that all bids be scored based on existing criteria for scoring capital bids and proposed criteria for scoring revenue bids, which are attached at Appendix D and E. The scoring will be completed prior to the Service and Financial Planning Working Group and serve as a guide for assessing proposals.
- 4.23 Appendix F provides the results of initial consultation on spending priorities via area meetings and the Citizens Panel. Members may wish to consider this alongside the scoring criteria.

## **5. Financial Implications**

- 5.1 As set out within this report.

## **6. Conclusions**

- 6.1 The budget process proposed this year builds on the successful process followed by this Council in setting its budget for 2002/3.
- 6.2 The projection indicates that there is now some more work that needs to be done to address new spending and income generation pressures facing the Council.
- 6.3 It would be unrealistic for the Council not to face certain new spending pressures. This time increased insurance costs and a projected drop in planning fee income are areas that we need to address.
- 6.4 The current three year planning period allows us to address these issues at an early stage while still maintaining stable finances. However it does require us to exercise a degree of restraint on new spending and ensure that this will be covered by savings elsewhere within the services that we provide.

