

Key Decision Required:	Yes	In the Forward Plan:	Yes
------------------------	-----	----------------------	-----

**CABINET
6 JANUARY 2006**

REPORT OF HEAD OF FINANCIAL SERVICES

A.2 INITIAL BUDGET PROPOSALS FOR A REVISED BUDGET 2005/06 AND ORIGINAL BUDGET FOR 2006/07

(Report prepared by K Neath, R Barrett, J Smetherham and Accountancy Team)

1.0 PURPOSE OF THE REPORT

To set out and seek approval of a balanced General Fund Revenue Budget and Capital Programme, including the Housing Investment Programme (HIP), as Cabinet's initial proposals for:

- 2005/06 Revised Budget
- 2006/07 Original Budget

2.0 BACKGROUND

The original net expenditure budget for 2005/06 was **£17.349m** and after taking account of use of reserves of **£0.681m**, the overall budget requirement totalled **£16.668m**.

The Original Budget 2006/07 is prepared within a Financial Strategy Framework. This framework was set out in the report ***“Initial Financial Forecast and Initial Financial Strategy 2006/07 and Beyond”*** which Cabinet approved on 20 July 2005 (Minute 37 refers). The detailed budget proposals presented for 2006/07 are therefore consistent with this strategy which has been revised and appears earlier in your agenda as a report titled ***“Revised Initial Financial Strategy for 2006/07 and Beyond”***

3.0 BUDGET SUMMARY

3.1 General Fund Revenue Summary – 2005/06 Revised and 2006/07 Original

The Summary of the 2005/06 revised and 2006/07 draft estimates is shown in Appendix A, Section E. This section of the same appendix also shows the detailed figures along with additional notes. These explain significant changes which have been incorporated into the budgets, including all items identified in the Initial and Revised Initial Financial Strategies. The overall position can be summarised as follows in Table A: -

Table A

General Fund Budget

	2004/05 Actual £000	2005/06 Original £000	2005/06 Revised £000	2006/07 Original £000
Service costs	18,390	19,034	20,820	20,172
Revenue support for capital investment	518	854	1,694	1,130
Financing items	(3,723)	(2,539)	(3,242)	(2,775)
Net Expenditure	15,185	17,349	19,272	18,527
Contribution to /(from) Uncommitted Reserve	(417)	0	0	0
Net Use of Earmarked Reserves	1,113	(681)	(2,604)	454
	15,881	16,668	16,668	18,981

Financed by

Government Grant – NNDR	3,813	4,069	4,069	10,281
Government Grant - RSG	6,042	6,230	6,230	1,974
Council tax	5,871	6,249	6,249	6,596
Collection fund surplus	155	120	120	130
	15,881	16,668	16,668	18,981

3.2 General Fund Revenue – Revised Budget 2005/06

The increase in net expenditure between the 2005/06 original and 2005/06 revised budget is **£1.923m**.

However this is offset by a change in the use of earmarked reserves. The increase in the actual use of earmarked reserves totals **£2.410m** although after taking into account additional contributions to earmarked reserves of **£0.487m** the net increase is **£1.923m** a breakdown of which is as follows:

Additional Use of Reserves

- revenue/capital commitments carried forward from 2004/05 - **£2.147m**
- additional cost of job evaluations - **£0.076m**
- additional expenditure on building structural and refurbishment work - **£0.038m**
- contribution to CCTV capital project - **£0.050m**
- approved allocations met from S106 contributions - **£0.099m**

Additional contributions to Reserves

- Amount carried forward from 2004/05 to fund the Jaywick Project Officer - **£0.019m**
- S106 contributions received in the year - **£0.068m**
- Contribution to the Contact Management / Development Reserve - **£0.400m** transferred via the Service Improvement Budget following receipt of income in relation to Coast Protection, Highways Agency Reimbursement and Local Public Service Agreement (LPSA).

Additional adjustments have also been made within services for items that are either one-off items affecting 2005/06 only or items occurring in 2005/06 that are anticipated to reoccur and so need to be included in the 2006/07 budget. These are explained later on in this report.

3.3 General Fund Revenue – Original Budget 2006/07

The increase in net expenditure between the 2005/06 original and proposed budget for 2006/07 is **£1.178m**.

After taking into account the net movement in the use of reserves totalling **£1.135m**, the budget requirement for 2006/07 is **£18.981m**, a total movement on the 2005/06 Original Budget of **£2.313m**. This is fully funded with a council tax increase of 4.9% as assumed in the calculations in the **Revised Initial Financial Strategy**.

Detailed explanations for items such as priority 1 growth items and savings and increased income are included in the **Revised Initial Financial Strategy** presented earlier on the agenda.

Further details are shown in the draft budget book attached as **Appendix A** which follows the same format as the Council's Members' book and reference numbers relate to the various sections in the budget book.

However additional information for significant items arising from the estimates process including those identified as being recurring from 2005/06 are shown below where information on fees and charges is also provided.

3.4 Local Government Finance Settlement 2006/07 and 2007/08

Details of the Local Government Finance Settlement for 2006/07 and 2007/08 are detailed in section 5.1 of agenda item A1 earlier in your meeting.

3.5 Significant Items Arising from the Estimates Process

As mentioned above there have been changes to service budgets that are either:

- One off items in 2005/06 which affect the revised budget for 2005/06 only.
- Items affecting 2005/06 but are ongoing so also need to be taken into account in the 2006/07 original budget.
- Additional items arising in 2006/07 which have been included in the 2006/07 original budget only, including fees and charges proposals.

The following provides further details of these changes. Also shown below is the affect of these changes on the underspend provisions included in the original 2005/06 budget.

3.5.1 Items Affecting 2005/06 Revised Budget Only

- **Recruitment Advertising** costs are anticipated to exceed the original budget by **£0.020m** by the end of the year and have therefore been taken account of in the revised budget. Considerable recruitment activity has occurred in 2005/06 and it is important to maintain good quality advertisements to attract appropriate staff to various posts. For 2006/07 it is anticipated that this increased cost can be addressed via a recently introduced central contract for advertising through the Essex Procurement Agency.
- **The Public Liability Insurance Premium** is anticipated to reduce by **£0.100m** mainly due to the transfer of the Highways Agency to ECC. It is uncertain whether this will continue in future years as it is anticipated that insurance costs are likely to increase significantly when the council renews its insurance policies in 2006.
- **Housing Grants** relating to transitional compensation are due to local authorities for social housing grants paid out by them in 2003/04 and 2004/05. This totals **£0.040m** for this Council in 2005/06.
- **Car Parking Income** is expected to be **£0.040m** higher than budgeted. This is due to increased usage in addition to an increased contribution from ECC to support additional expenditure on the on-street account.
- **Salary Costs** have reduced overall by **£0.128m**. This is due to a proactive approach to managing vacancies although this is partly offset by a **£0.076m** increase in costs following job evaluation appeals. The cost of the job evaluation appeals will however be met by calling on earmarked reserves as mentioned above.
- **Various Other Items** have been revised resulting in a net saving of **£0.213m**. This includes increased income from net return on investments (**£0.036m**), various fees and charges (**£0.083m**), income from court costs (**£0.030m**) and grants (**£0.054m**).

3.5.2 Significant Recurring Items affecting 2005/06 Revised and 2006/07 Original Budgets

An explanation of each item and the effect in 2005/06 and 2006/07 is as follows:

- **Utility Costs**

2005/06 £0.080m 2006/07 £0.090m

Significant increases have recently been reported in the energy market with some increases expected in the region of 50% when contracts are renewed.

- **Homelessness Accommodation**

2005/06 £0.040m 2006/07 £0.033m

This is a demand led service and the council has to date experienced an increase in the number of people especially families presenting themselves as homeless. This service therefore needs to balance the anticipated demand with available resources / capacity and it is anticipated that the current level of demand will continue into 2006/07.

- **Concessionary Fares Costs**

2005/06 £0.145m 2006/07 £1.159m

For 2005/06 a half fare bus travel scheme is provided to people over 60 and to people with specific disabilities. The cost of this scheme is based on the number of journeys undertaken by users of the service. For 2005/06 the usage is expected to increase with a resulting additional cost of **£0.145m**. For 2006/07 a new full fare paid scheme is to be implemented. This will be supported by the government through the annual financial settlement formula and the exemplification in the settlement consultation indicates a figure of **£1.159m** which has been built into the 2006/07 budget.

- **Land Charges Income**

2005/06 £0.106m 2006/07 £0.050m

With the slowing down of the housing market and increased competition from the private sector, income has significantly reduced. This is however partly offset by reduced expenditure associated with carrying out land searches. Therefore the figures shown above are the net reduction in income. The service has recently been reviewed and the proposal to increase charges alongside an agreed action plan has been approved to start to recover the position as set out in the original budget for 2005/06. This item has been included in the 2006/07 budget as a priority 1 growth item.

- **Regeneration Services Items**

2005/06 (£0.010m) 2006/07 £0.150m

The net saving in 2005/06 is due to reduced expenditure for advertising and legal fees in the Development Control service which is also taken account of in 2006/07 as it is expected to continue.

Also the number of building regulation applications has recently reduced in 2005/06 due to the decline in the property market and increased competition from the private sector. It is not expected that this will turnaround in the short term so it has also been taken into account in the 2006/07 budget.

However there are other significant changes although they do not have a net revenue cost in the year. These include the introduction of two new posts. The full annual cost of the Jaywick Masterplan Project Officer (along with associated expenditure) is **£0.100m** and the Anti Social Behaviour Officer (ASBO) is **£0.025m**. The Jaywick master plan post is to be funded from earmarked reserves and external partner contributions whilst the ASBO post is fully funded by external contributions from the Crime and Disorder Reduction Partnership (CDRP).

For 2006/07 additional expenditure of **£0.388m** will be incurred on significant projects associated with the Jaywick master plan in addition to the continuing cost of the Project Officer and ASBO post mentioned above. These projects will

be funded by grant contributions from the Safer and Stronger Communities Fund.

In 2006/07 additional budget provision of **£0.050m** has been made for regeneration consultancy costs to support the local plan process. There is also the potential for the future incorporation of the Haven Gateway Partnership flowing from possible designation of the area as a Growth Point. At this stage a contribution of **£0.075m** has been made to earmarked reserves to meet this Council's contribution of the running costs of any new body for one year.

3.5.3 Underspend Provisions 2005/06 Revised Budget

The original budget for 2005/06 included underspend provisions totalling **£0.469m** (made up of **£0.219m** for vacancies and **£0.250m** for general underspending). Significant underspends on salaries have been achieved and to date have almost met the full year vacancy provision of **£0.219m**. However this has been offset by the significant items of expenditure identified during the revised budget process. This has resulted in an overall net underspend of **£0.192m** to date which has therefore been included in the 2005/06 revised budget. An underspend provision of **£0.277m** to be achieved by the end of the financial year still remains in the revised budget.

3.5.4 Items that have been included in the 2006/07 Original Budget Only

Although a number of changes have been identified as ongoing from the revised estimates process for 2005/06 as identified above, the following are items that have been included from 2006/07 onwards:

- **Efficiencies** - As part of the Gershon efficiencies framework a number of items such as savings from contracts and restructures have been included which total **£0.008m**. A further **£0.051m** has been identified as part of the Financial Strategy Process.
- **Salary Related Estimates** – On completion of the detailed salary estimates it was identified that there was an additional cost of **£0.043m** over and above the inflation and increment allowance included in the Initial Financial Strategy. This has mainly been due to the cost of the recent job evaluation process which has resulted in the requirement to use **£0.031m** from earmarked reserves that were specifically set up in 2004/05 to contribute to this cost. As the full cost of job evaluations have now been included in services salary budgets directly, an amount of **£0.020m** previously built into the base budget to support the cost of job evaluations has now been removed. Also an additional **£0.063m** has been included in the budget to reflect inflation on pension deficiency contributions.
- **Council Tax Income from Second Homes**
Collection rates for council tax on second homes has steadily increased and it is now expected that it will match the rate achieved for general council tax collection. With the introduction of the reduced discount on second homes to 10% this has resulted in an additional allowance of **£0.050m** from ECC who under the terms of an agreement allow 60% income on second homes to be retained by this Council. The precise figure will not be known until ECC have set their council tax level for 2006/07.
- **Planning Delivery Grant and Contributions to Earmarked Reserves** – A grant of **£0.400m** is anticipated to be received in 2006/07 which has allowed a contribution to be made to an earmarked reserve to support a Contact Management / Development fund programme. This will be available to support the council's priorities in investing in IT for the delivery of future efficiencies.
- **Additional External Income** – Grant income totalling **£0.309m** expected for coast protection, LPSA and Highways Agency has been included to support the 2006/07 budget.

- **Other General Income Items** – Excluding specific Initial Financial Strategy items, there has been a reduction in income of **£0.057m** which primarily takes account of reduced rent arising from the anticipated disposal of assets (primarily land), included in the key asset disposal schedule as reported to Cabinet on 2nd December 2005. This figure does not reflect the change in fees and charges for 2006/07 which are explained in more detail later in this report.
- **Benefits Administration Grant** – Recent information received from the government has indicated that under the new regime of bringing together various types of benefit administration grants into one payment, the total due to the council has increased by **£0.081m**.
- **Capital Priority Schemes** – In accordance with Council's decision on 13th December 2005 (minute 83 refers) borrowing of up to **£2.000m** was approved to fund the initial phases of the estimated **£3.500m** expenditure on Member Priority Capital Projects (Clacton Town Centre Improvements, Public Convenience at Frinton and Lifestyles at Clacton Leisure Centre). Revenue costs of **£0.200m** have therefore been included in the budget to support borrowing including the **£2.000m** for one year only pending the potential receipt from asset sales. In addition, **£1.000m** has been included in the 2006/07 budget as a revenue contribution towards the total cost of the 3 proposed schemes.
- **Service Improvement Budget** – A small Service Improvement Budget of **£0.012m** has been identified as a balancing figure.

3.5.5 Fees and Charges

Each year the Council's fees and charges are reviewed for a range of services. The proposals are set out in sections C and D of the draft budget book.

Section D of the draft budget book details all those fees and charges that are either delegated to officers or are statutory fees.

Unless subject to statutory requirements the proposed increases are in line with the Financial Strategy which requires:

- A general 2% inflationary increase on all fees and charges (subject to rounding requirements where necessary and statutory fees)
- Some fees and charges to be increased above the 2% inflation figure to meet the Savings / Increased Income requirements.
- Some fees and charges to be increased above 2% inflation figure to fund the managed responses for growth bids that have not been included in the Revised Initial Financial Strategy.

There are 4 areas where an increase has been applied to meet the Savings / Increased Income requirements of the Financial Strategy.

1. Cemeteries – Increases of up to 5% have been proposed to raise additional income of **£0.010m**. After taking into account additional costs of **£0.003m** for repairs and maintenance the net additional income is **£0.007m** in line with the Revised Initial Financial Strategy.

2. Crematorium – The increases proposed are up to 5%. This is estimated to raise additional income of **£0.035m** although after taking into account additional repairs and maintenance costs, the additional net income is **£0.032m**. The charge of **£44.00** for adult cremations that was introduced in 2005/06 will continue to enable contributions to be made to earmarked reserves to help fund planned works to meet emissions regulations in 2010.

3. Beach Huts – These are proposed to be increased overall by 15% to raise additional income of **£0.060m**.

4. Leisure Charges – These are proposed to be increased by an average of 10% which results in an additional **£0.080m** of income available to meet repair and maintenance costs of sports facilities which has been included as a cost pressure in the Revised Initial Financial Strategy.

There are 2 areas where an increase has been applied to meet the managed response in the Initial Financial Strategy (20th July 2005)

1. Princes Theatre Charges – These are proposed to be increased above inflation to enable additional income to be phased in to meet the costs of replacing equipment and fittings anticipated in the next few years.

2. Crematorium – Fees have been increased by a further **£11.00** per adult cremation to cover additional costs expected of **£0.019m** for statutory medical referee's fees.

3.6 Use of Reserves

The position regarding reserves is set out in full in **Appendix B**. This shows a net contribution to earmarked reserves of **£0.454m** for 2006/07, which includes a contribution to the Contact Management / Development Fund reserve and Haven Gateway Partnership reserve included in the Revised Initial Financial Strategy and mentioned above.

3.7 Collection Fund

The anticipated surplus on the collection fund to support the budget for 2006/07 is **£0.130m**. The Finance Portfolio Holder approved the Council Tax base of 49,930 for 2006/07 on 14th December 2005. This continues to take into account the allowance for the discount on second homes and long-term empty properties being 10% as introduced in 2005/06 and approved by Council on 13th December 2005 (minute 83 refers).

3.8 Special Expenses

Special expenses calculations will be included in the formal Budget Report to Council on 16th February 2006. This will incorporate any changes to the proposed budgets resulting from any decision in respect of the financial strategy earlier in your meeting (agenda item A1) to amend budgets in discretionary areas such as car parks, open spaces, and recreation areas etc.

However, in order to ensure that Overview and Scrutiny Committee have the latest information on special expenses when they consider the Cabinet's budget proposals, it is proposed that the Finance Portfolio Holder agrees a report for consultation with Overview and Scrutiny Committee.

3.9 County Council, Police, Fire and Town Council / Parish Precepts

There is no information available at this point on the likely level of precepts and their impact on Council Taxes in the District. This information will be available in February 2006.

4.0 Capital Programme Summary (including Housing Investment Programme (HIPS))

4.1 The proposed detailed Capital Programme is set out in section F of the draft budget book. The summarised position is as follows: -

Table B – Summary Capital Programme

	2005/06 Revised Budget £000	2006/07 Original Budget £000
<i>EXPENDITURE</i>		
Housing Investment Programme	4,766	4,311
Other Programmes	3,874	4,832
<i>Total Expenditure</i>	8,640	9,143
<i>FINANCING</i>		
Housing Investment Programme		
Borrowing	1,274	950
Capital receipts	1,052	989
Government grants etc	385	253
Major Repairs Allowance	2,055	2,119
	4,766	4,311
Other Programmes		
Borrowing	507	2,236
Government grants etc	750	970
External Contributions	73	0
Capital receipts from sale of assets	439	220
Revenue Contributions	143	1,130
Reserves	1,551	0
Leasing	411	276
	3,874	4,832
<i>Total Financing</i>	8,640	9,143

The government does not support borrowing through revenue support grant except for areas such as the Housing Investment Programme or coast protection approved schemes. The borrowing of **£2.236m** (which includes up to **£2.000m** for the Member Priority Capital Schemes) shown in the above table for 2006/07 is therefore unsupported. However the full revenue cost of this borrowing has been built into the General Fund Revenue Budget for 2006/07.

The funding of the capital programme still relies on ongoing funding of **£0.220m** per annum from capital receipts. To mitigate the fact that a lower level of receipts may be received or delayed a capital investment reserve was set up in 2004/05 with contributions to it totalling **£0.220m**. To date there has not been a requirement to call on this earmarked reserve and it is expected to remain at this level going into 2006/07. It is assumed that the full value of the capital receipts necessary to fully fund the 2006/07 capital programme will be received by the end of March 2007. It is possible that this reserve may need to be called on to fund agent costs in relation to key asset disposals as reported to Cabinet on 2nd December 2005.

In addition to this, in line with Council's decision on 13th December 2005 (minute 83 refers) borrowing of up to **£2.000m** has been approved against capital receipts from land sales over and above **£0.220m** being achieved.

4.2 Housing Investment Programme (HIP)

The most significant element of the HIP for 2006/07 is in respect of stock improvements especially with the need to deliver a decent homes programme within the required timescales and in accordance with the approved options appraisal.

In respect of disabled facilities grants, amounts allocated to individual councils are now at the discretion of GO East rather than ODPM following a transfer of responsibilities. In previous years the grant awarded would have been 60% of the bid made. This allocation basis has been revised and now only 70% of grant that would have been awarded under the previous calculations is available. For 2006/07 the figures announced by GO East reflect this revised approach with the resulting reduction in grant awarded.

The proposed capital programme is based on an assumed level of supported borrowing which is subject to change when final announcements are made in the new year.

4.3 General Fund Capital Schemes

4.3.1 Capital Priority Schemes

The level of unsupported borrowing mentioned above includes **£2.000m** to support the 3 proposed schemes pending key asset disposals. Taking the revenue contribution of **£1.000m** into account, **£3.000m** has been included in the capital programme for 2006/07 for these schemes.

4.3.2 Safer Stronger Communities Funded Schemes

A capital grant of **£2.100m** is due to support the significant programme of work anticipated in respect of the Jaywick Master Plan. Of this **£0.970m** has been included for 2006/07. A full programme of schemes will be proposed within the overall Master Plan framework.

5.0 IMPLICATIONS

5.1 Corporate and Community Strategies

Careful planning to ensure financial stability underpins the Council's capacity to achieve the objectives set out in the Corporate Strategy. Individual elements of the strategy and consequent budget proposals are risk assessed against the aspirations of the Council, as well as statutory service requirements. The approach for 2006/07 builds on previous successful financial planning and is key to the Council's aim to be a modern, healthy and well managed organisation.

5.2 Financial

All financial information is set out in this report and its Appendices.

5.3 Legal

The Council is legally required to calculate a budget requirement and set a council tax levy for each financial year.

5.4 Crime and Disorder

Specific budgets supporting the Council's crime and disorder activities are included within Section E of Appendix A.

5.5 Wards Affected

All.

6.0 CONCLUSION

The General Fund Revenue and Capital budgets for 2005/06 (revised) and 2006/07 (original) set out detailed estimates in accordance with the Council's Revised Initial Financial Strategy, including fees and charges, use of reserves and a funded capital programme.

7.0 RECOMMENDED

- a) That subject to the Cabinet's agreement of the Revised Initial Financial Strategy earlier in this meeting the initial budget proposals are recommended to the Overview and Scrutiny Committee for consultation.
- b) That subject to a) the Finance Portfolio Holder agrees the special expenses report for consultation with Overview and Scrutiny Committee.
- c) That all future expenditure in 2005/06 be in line with the proposed revised budget set out in Appendix A, subject to final approval by Council on 16 February 2006, and the corporate financial system is amended accordingly.

KAREN NEATH
HEAD OF FINANCIAL SERVICES

CABINET

6 JANUARY 2006

BACKGROUND PAPERS LIST FOR REPORT OF

HEAD OF FINANCIAL SERVICES

A.2 INITIAL BUDGET PROPOSALS FOR REVISED BUDGET 2005/06 AND ORIGINAL BUDGET FOR 2006/07

Working papers held in Financial Services