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**REPORT TO** Cabinet

**DATE:** 4 January 2006

**REPORTING OFFICER:** Head of Financial Management  
(*Val Hunter*)

**SUBJECT:** **DRAFT GENERAL FUND REVENUE BUDGET  
2006/2007**

**WARDS AFFECTED:** *All*

**FORWARD PLAN REF:** *N/A*

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**1.0 PURPOSE OF THE REPORT**

1.1 The purpose of the report is to consider the following:

- ◆ The Revised Estimate for 2005/2006 and the resultant working balance at 31 March 2006 (section 6)
- ◆ The Budget Strategy for 2006/2007 and later years (section 7)
- ◆ Revenue Support Grant and Target Expenditure Issues for 2006/2007 (section 8)
- ◆ Budget Parameters for 2006/2007 (section 9)
- ◆ Fees and Charges (section 10)
- ◆ The Draft Revenue Budget for 2006/2007 (section 11)
- ◆ Requests for discretionary growth (section 12)
- ◆ Options for balancing the budget (section 13)
- ◆ The Capital Resource position (section 14)
- ◆ Statutory requirement for financial discipline and risk management

(section 15)

- ◆ Budget projections 2007/2008 and 2008/2009 (section 16)
- ◆ Efficiency Savings Illustrations including proposed service cuts (section 17)
- ◆ Stakeholder Consultation (section 18)

## **2.0 RECOMMENDATIONS**

- 2.1 That the Revised Estimate for 2005/2006, recommended by individual portfolio holders, is approved.
- 2.2 That the fees and charges detailed in Appendix 3 are recommended to the Council for approval.
- 2.3 That the total net budget for 2006/2007, to be recommended to the Council for approval, is determined.
- 2.4 That the budget recommended to Council is a balanced budget with no contribution from the Working Balance.
- 2.5 That a list of growth items is identified for recommendation to the Council.
- 2.6 That a list of options to balance the budget is agreed.
- 2.7 That the statutory requirements and financial risks in relation to the budget as set out in section 15 are acknowledged and noted.
- 2.8 That the budget projections for 2007/2008 and 2008/2009 as set out in section 16 are noted.
- 2.9 That the Efficiency Savings as set out in **Appendix 6** are noted and used as the basis for producing the Council's Gershon Efficiency Statement.
- 2.10 That the position on stakeholder consultation as set out in section 18 is noted.

## **3.0 RECOMMENDED REASON FOR DECISION**

- 3.1 The Cabinet is charged under Financial Procedure Rule 3.5 with the responsibility of submitting the annual Budget to Council. The Cabinet is required to recommend specific proposals.

## **4.0 ALTERNATIVE OPTION CONSIDERED AND RECOMMENDED FOR REJECTION**

- 4.1 There is no alternative.

## 5.0

### POLICY CONTEXT

- 5.1 Following the Corporate Performance Assessment and the corporate restructure, the Council has undertaken a review of its Corporate Vision, Goal, Priorities and Actions as part of revising its Corporate Planning process.
- 5.2 The Council now has three key documents:
1. Strategic Plan (approved by Council in October 2005)
  2. Corporate Improvement Plan (currently approved as a draft for consultation and will be seeking approval in February 2006)
  3. Corporate Resource Strategy (of which the Medium-Term Financial Strategy is a key part)
- 5.3 The Council considers its key decisions and resource re-allocations against these key documents.
- 5.4 The Council's Strategic Plan sets out the seven Corporate Priorities for the Council. These are:
- Affordable Housing
  - Traffic and Transport
  - Keeping the District Safe
  - Caring for the Environment
  - Supporting the Local Economy
  - First-Class Public Services
  - Organisational Improvement
- 5.5 To assist in delivering these, the Council has identified 12 Strategic Actions for the next three years. These actions are the ones that will impact upon the long-term future of the District, deliver the Council's ambition and goal and benefit/impact across a range of services.
- 5.6 The Corporate Improvement Plan focuses on improving the Council to deliver these Actions. There are a range of improvement actions within the Plan which are focused on:
- Providing clear direction
  - Improving performance
  - Delivering customer services
  - Building organisational capacity
- 5.7 The Council's Corporate Resource Strategy is to be developed in 2006/2007 but the Medium-Term Financial Strategy was approved in July 2005 and the key focus of the Strategy was to:
- Improve the Council's longer-term financial planning by aligning

- Council resources to our strategic aims
    - Maintain the General Fund balance at safe levels
    - Introduce a new Financial Management System in 2006 to control budgets and improve efficiency
    - Consult with residents on the allocation of funding for future service delivery
    - Undertake a resource re-allocation and analysis and consider options for resource re-allocation and reduction
- 5.8 The Council carried out a detailed consultation with local taxpayers in May/June 2004 using the SIMALTO system of consultation. This involved face-to-face interviews and the key outcomes were:
- Respondents were not in favour of cutting Council Tax by cutting services
  - Respondents were prepared to pay an increase in Council Tax of inflation plus £5 to fund service improvements
  - Respondents favoured service improvements in food safety, concessionary fares, play areas and public convenience refurbishment
  - Respondents did not wish to see service cuts in public toilets, sheet sweeping/litter collection, CCTV and Parks and Open Space maintenance
- 5.9 These outcomes were considered valid for this budget process and therefore the outcomes have been included as part of the budget setting process.
- 5.10 The Corporate Priorities, Corporate Improvement and the Medium-Term Financial Strategy have been the basis upon which the Draft Revenue Budget 2006/2007 has been considered and it should influence the final decision in relation to budget growth, budget reductions and resource re-allocation.
- 5.11 To assist Members, **Appendices 5A and 5B** outline the proposed growth items in relation to their contribution to the Corporate Priorities and Strategic Actions.
- 6.0 REVISED ESTIMATE 2005/2006 AND FORECAST WORKING BALANCE AT 31 MARCH 2006**
- 6.1 The following paragraphs set out the key messages relating to the Revised Estimate for 2005/2006 and the potential impact on the working balance at 31 March 2006.
- 6.2 Table 1 sets out the Revised Estimate for 2005/2006 compared to the Original Estimate as considered by Portfolio Holders:

<b>Table 1</b>			
<b>Summary of Overall Budget Position for 2005/2006</b>			
	<b>Original Estimate</b>	<b>Revised Estimate</b>	<b>Variation</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Total Spending Requirement	20,034,000	20,284,950	+250,950
<b>Less</b> Use of 2004/2005 Underspend	0	-300,000	-300,000
2005/2006 Spending Requirement	20,034,000	19,984,950	-49,050
Contribution <b>to(+)/from(-)</b> Working Balance	0	49,050	+49,050
<b>TOTAL GENERAL FUND PERMITTED EXPENDITURE</b>	<b>20,034,000</b>	<b>20,034,000</b>	<b>0</b>

6.3 The total spending requirement for 2005/2006 has increased by £250,950 from the Original Estimate of £20,034,000 to the Revised Estimate of £20,284,950. This includes £300,000 which was agreed to be funded from 2004/2005 underspends as part of the 2004/2005 Final Accounts process.

6.4 If the contribution from 2004/2005 underspends is excluded, the table indicates that there is a potential underspend in the Revised Estimate of £49,050. Although in practice, Business Unit rules will require some of this underspend to be appropriated to Business Unit Reserves, for the purpose of this report it has been assumed that a contribution is made **to** the Working Balance in respect of this potential underspending.

6.5 The main reasons for the overall movement between the Original Estimate for 2004/2005 and the Revised Estimate have been analysed. Table 2 contains a simplified summary.

<b>Table 2</b>	
<b>Summary of Major Variations between Original and Revised Estimate 2005/2006</b>	
	<b>£'000</b>
1. Treasury Management – decreased net cost	-220
2. Homelessness – increased net cost	+156
3. NNDR refund – Ripon Leisure Centre	-140
4. Vehicle Hire	+82
5. Utility Charges – increased cost	+81
6. Salary savings (net) – vacant posts	-67
7. Fuel/refuse sacks – oil price impact	+64
8. Increased pension costs	+59
9. Reduced benefit payments (net of subsidy)	-39
10. Weekly Incorrect Benefit Subsidy – correction re 2004/2005	+32
Other variations (net cost)	-57
<b>CONTRIBUTION TO WORKING BALANCE</b>	<b>-49</b>

6.6 The above table is not intended to be a complete analysis but is an indication of the major variations. A further analysis by portfolio is set out at **Appendix 2A**. As always, there are a large number of smaller variations that individually are too small in value to list.

6.7 Each portfolio holder has had the opportunity to examine the Revised Estimates for their portfolio. No amendments to the Revised Estimates have been recommended.

6.8 The last General Fund monitoring report to the Cabinet on 16 November 2005 forecast a net prospective overspend of £265,990 in 2005/2006. The forecast underspend on the Revised Estimate is £49,050, an improvement of £315,040. The main changes since the information for the last monitoring report was prepared in October are as follows:

Ground rent – income shortfall no longer anticipated	-£68,500
Further salary savings due to vacant posts	-£53,000
Reduced benefit payments (net of subsidy)	-£39,000
Land Charges income – now expected to meet budget	-£38,500
Treasury Management – further additional interest	-£20,000

6.9 The total permitted expenditure of £20,034,000 remains unchanged as the Council's demand on the Collection Fund is fixed once set for the year.

#### 6.10 Working Balance 31 March 2006

Table 3 sets out the forecast Working Balance as at 31 March 2006.

<b>Table 3</b>		
<b>Estimated Working Balance at 31 March 2006</b>		
	<b>Original Estimate £'000</b>	<b>Revised Estimate £'000</b>
<b><i>Balance 1 April 2005</i></b>	<b><i>Estimated 1,915</i></b>	<b><i>Actual 2,333</i></b>
<b><i>Use of 2004/2005 underspends</i></b>	0	-300
<b><i>Contribution to Working Balance</i></b>	0	49
<b><i>Estimated Balance 31 March 2006</i></b>	<b>1,915</b>	<b>2,082</b>

6.11 It can be seen that the Working Balance is £0.167m more than was anticipated when the Original Estimate for 2005/2006 was approved in February. The Working Balance is at the lower end of the target of £2m to £2.75m as set out in the Medium Term Financial Strategy.

6.12 Based on previous years' experience, it is likely that at out-turn stage there will be expenditure savings and increased income, which will result in an improvement on the position currently reported.

## **7.0 BUDGET STRATEGY 2006/2007 AND LATER YEARS**

7.1 It is important that the Council's budget strategy continues to focus on the medium term. The Council's financial strategy 2006/2007 to 2008/2009, which was approved by Council in July 2005 included the following key points:

- The Council's financial position is somewhat weaker than many similar councils. Although revenue reserves are close to the shire district average, capital reserves are not sufficient to meet currently identified priorities.
- Government grant per head is the second lowest in North Yorkshire and 14% below the national average for shire districts.
- There is a very substantial shortfall on the Council's share of the North Yorkshire Pension Fund. This is being addressed through phased increases in employers' contribution rates.
- Notwithstanding the above, the Council has a genuinely balanced budget and a record of keeping actual spending within budget. Strong financial discipline has significantly strengthened the Council's position over the last 15 years, which started with a negative working balance and very low reserves.
- The Council's budget was cash frozen between 1991 and 1998/99. Continuing savings exercises meant that inflation and other increased costs could be met without undue effect on public services. This means, however, that it is now very difficult, in most areas of activity, to find further meaningful savings without reducing services to the public.
- At the same time, increasing revenue spending demands are apparent in several areas. These include external pressures such as Waste Management, Access to Services (e-government), Pensions, Concessionary Fares, Job Evaluation and implementing the Council's improvement plans and priorities together with internal pressures such as the maintenance of buildings and infrastructure and resourcing the outcomes of Best Value reviews as well as other local priorities.

7.2 The medium term strategy included the following revenue budget targets:

- A target base budget of 2006/2007 of £20.634m plus resources for recycling and Access to Services at levels to be approved by Cabinet.
- A target Working Balance of between £2m and £2.75m

- Efficiency savings illustrations of 2.5% for each Department, of which 1.25% to be cash savings
- 30% of HIC efficiency savings to be returned to the General Fund, with the balance retained within HIC for reinvestment
- A 1% increase on the Leisure cash limited budget

7.3 The purpose of the budget strategy is to set the framework for making decisions on the detailed estimates, which are dealt with in the remaining sections of this report.

## 8.0 REVENUE SUPPORT GRANT (RSG) AND TARGET EXPENDITURE ISSUES 2006/2007

### Revenue Support Grant

8.1 The Office of the Deputy Prime Minister announced the **provisional** Local Government Finance Settlement on 5 December 2005. For the first time the settlement covered two financial years, 2006/2007 and 2007/2008.

8.2 For 2006/2007 onwards the Government has introduced a new system of formula grant. Under the new system of grant the previous total assumed spending and formula spending shares (FSSs) no longer exist. The intention of the new system is to focus on grant and not on notional measures of spending and council tax. There also appears to be recognition from the Government of the need to identify, quantify and **fund** new burdens. The new system is based upon four blocks of cash:

- A **Relative Needs** block, worked out through a series of formulae. This is equivalent to the FSS under the old system, but it is difficult to undertake comparisons due to the complex and opaque nature of the new system. Harrogate is relative winner from the formulae changes as two negative sub-blocks for interest on reserved capital receipts and other interest receipts have been discontinued. It should be noted that as part of the consultation on the new system, Harrogate made strong representations for their abolition.
- A **Relative Resource** block, which takes into account capacity to raise income from council tax.
- A **Central Allocation** block, which is allocated on a per capita basis
- A **Floor Damping** block to ensure that all authorities of the same type receive a minimum grant increase. For District Councils this is 3% in 2006/2007. For the first time in 5 years, Harrogate is above the floor and actually contributes £380,000 to the floor in 2006/2007.

8.3 The Council's **provisional** RSG for 2006/2007 is £10.079m. This represents an increase of £649,000 on the 2005/2006 adjusted figure of £9.430m. The

2005/2006 figure has been adjusted by £680,000 to take account of new responsibilities principally the new concessionary travel scheme (£634,000) with smaller amounts for electoral administration, civil contingencies, freedom of information and equality for disabled people. It should be noted that the grant settlement does not include any additional funding in respect of waste management burdens.

- 8.4 Harrogate's increase at 6.9% is the second highest within North Yorkshire and compares to an average for the North Yorkshire Districts of 5.1% and an average for Shire Districts in general of 4.8%. The average increase across England for Councils of all types is 3.0%. In addition to the technical changes to the capital-financing element of the Relative Needs calculation, Harrogate has also benefited from a population increase. Notwithstanding the above-average increase for 2006/2007, Harrogate's grant remains the second lowest per capita in North Yorkshire and 15% below the shire district average.
- 8.5 The Council's **provisional** RSG for 2007/2008 is £10.589m. This represents an increase of £510,000 (5.1%) on the 2006/2007 figure of £10.079m. Again this is second highest within North Yorkshire and compares to an average for the North Yorkshire Districts of 4.9% and an average for Shire Districts in general of 4.0%.

#### **Target Expenditure Limit for 2006/2007**

- 8.6 The Council in July 2005 approved a target **base** budget for 2006/2007 of £20.634m. It was estimated that subject to a 2% grant increase this would result in a provisional tax increase of 3.4% before consideration of growth. The target base budget did not make any allowance for the increased cost of the new Concessionary Travel Scheme as it was assumed that this would be fully funded and, therefore, met by additional grant.
- 8.7 The first draft budget assumes a Target Expenditure Limit of £22,000,000. This represents an increase of £1.366m on the target **base** budget and results from the inclusion of the new concessionary travel scheme together with other increased costs such as fuel/utility costs and homelessness. These additional burdens have been recognised by the Government in the grant settlement. Based on the **provisional** grant settlement, this would **provisionally** result in a tax increase of 4.5% for 2006/2007.
- 8.8 Table 4 sets out the **provisional** impact on Council Tax levels of a variety of expenditure levels.

<b>Table 4</b>		
<b>Illustrative Tax Increases</b>		
<b>Total Spend (£m)</b>	<b>Spending Increase* (%)</b>	<b>Tax Increase (%)</b>
21.800	+5.5	+2.7
21.900	+6.0	+3.6
22.000	+6.4	+4.5
22.060	+6.9	+5.0

\* Increase based on 2005/2006 adjusted spending.

- 8.9 In line with previous years, there has been no formal announcement on capping levels. However, the Local Government Minister has indicated informally, in the strongest terms, that there is no excuse for excessive rises and has warned that the Government will cap any rises over 5%.
- 8.10 With this in mind, the Council will again have to make a judgement as to what level of spending (or tax increase) is considered appropriate given local circumstances. This requires the determination of a critical and equitable balance between spending on services and the resultant demands on Council Taxpayers.
- 8.11 The budget required to achieve a **provisional** Council Tax increase of 4.5% is £22,000,000. This is indicated by the first shaded line within Table 4 and has been used as the target budget in the draft estimates. This is recommended by the Director of Resources with the support of CMT.

## 9.0

### **BUDGET PARAMETERS 2006/2007**

- 9.1 The first draft budget has been formulated based on the following guidelines, which were approved by Council in July 2005:
- Price increases - presumption of no increase in non demand-led expenditure budgets
  - Pay awards – 2.95% from 1 April 2006
  - Fees and charges increase - 3% guidance (subject to service considerations and market forces)

## 10.0 FEES AND CHARGES

- 10.1 In accordance with the revised political arrangements, responsibility for charges relating to licences, approvals, consents, permissions or registrations listed in Schedule 1 of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 is delegated to the Licensing Committee. Responsibility for setting all other charges is delegated to the relevant Cabinet Member provided that the charge agreed is within Council policy.
- 10.2 All charges for services have now been considered by either the Licensing Committee or the relevant Cabinet Member.
- 10.3 **Appendix 3** contains details of new charges and those charges where the recommended increase is not in accordance with Council Policy. Cabinet are requested to consider these charges and to make an appropriate recommendation to Council. In all cases the draft budget has been drawn up on the basis of the level of charge recommended by the Licensing

Committee or the relevant Cabinet Member.

## 11.0 DRAFT REVENUE BUDGET 2006/2007

11.1 A summary of budget requirements as submitted to portfolio holders is shown at **Appendix 1**. (Note there have been a few minor amendments to the figures.) The overall budget position for 2006/2007 is set out in the following table:

<b>Table 5</b>	
<b>First Draft Budget Overall Position 2006/2007</b>	
	<b>£</b>
1. Service Spending Totals	27,270,450
2. Asset Management Revenue Account	-4,918,440
3. <b>Total Spending Requirement</b> (from Appendix 1)	<b>22,352,010</b>
4. Less Assumed Target Expenditure	22,000,000
5. <b>Overspend against Target Expenditure</b>	<b>352,010</b>

The total spending requirement within the first draft budget considered by portfolio holders exceeded the assumed target expenditure by £352,010. Options for balancing the budget will be considered further in section 13.

11.2 The main reasons for the variations between the Original Estimate for 2005/2006 and the Original Estimate for 2006/2007 have been analysed. Table 6 is a simplified summary that provides an overview of the movement between the estimates for the two years. A further analysis by portfolio is set out at **Appendix 2B**. As always, there are a large number of smaller variations that individually are too small in value to list.

<b>Table 6</b>	
<b>Summary of Main Variations between Original Estimate 2005/2006 and Original Estimate 2006/2007</b>	
	<b>£'000</b>
<b>A</b>	<b>Unfavourable Factors:</b>
1.	Pay Awards and Inflation where unavoidable (broad estimate) +800
2.	<b>Concessionary Travel – increased cost (net)</b> +726
3.	<b>Increased employers pension contributions</b> +245
4.	Increased utility costs +198
5.	<b>Increased homelessness costs</b> +156
6.	<b>Regrades/normal increments</b> +130
7.	<b>Reduced PDG (net effect)</b> +110
8.	<b>LASHG – end of transitional relief</b> +103

9.	<i>Fuel/refuse sacks – oil price impact</i>	+89
10.	<i>Vehicle Replacement Programme – increased costs</i>	+58
<b>B</b>	<b>Favourable Factors</b>	
1.	<i>Increase in total target expenditure</i>	-1,966
2.	<i>Cash Efficiency Savings</i>	-249
3.	<i>2005/2006 one-off growth provisions</i>	-110
4.	<i>Increased parking income</i>	-74
<b>C</b>	<b>Other Budget variations (Net) (see Appendix 2B)</b>	+136
	<b>OVERSPEND AGAINST TARGET EXPENDITURE</b>	<b>+352</b>

- 11.3 The Director of Resources and Head of Financial Management have met each Director to examine and question all General Fund budgets. A number of queries were identified at those meetings. These have been resolved with the relevant officers. The Cabinet Member for Resources, Chair of the Scrutiny Co-ordinating Board and Chairs of the three Scrutiny Commissions were invited to attend these meetings as observers. Councillors Skidmore, Jones, Lewis and Bayliss were able to take up this offer and attended one or more of the meetings.
- 11.4 One issue remains outstanding in relation to the cost of the Business Support section within the Department of Community Services, which may result in a reduction to the budget. Further work is ongoing to clarify the position and Members will be updated verbally at the meeting.
- 11.5 Each portfolio holder has had the opportunity at meetings during December to examine the proposed budget for his/her portfolio. Copies of the individual budget reports are available on request from Member Services.
- 11.6 The individual budget reports, together with the recommendations of portfolio holders, will be considered by the three scrutiny commissions at the following meetings:
- 9 and 17 January – Resources Commission (Resources, Leader (Policy))  
11 and 16 January – Community Services Commission (Housing, Leader (Community Safety), Cultural Services)  
12 January – Environment Commission (Environmental Health, Planning, Transport, Leader (Economic Development/Holiday Tourism))
- 11.7 Summarised minutes of the meetings with portfolio holders are set out at **Appendix 4**.
- 11.8 Any amendments to the Original Estimate 2006/2007, which are identified

after this report was prepared, will be reported verbally at Cabinet.

## 12.0 POTENTIAL GROWTH EXCLUDED FROM THE FIRST DRAFT BUDGET

12.1 Despite the general moratorium on growth a number of growth items have inevitably and sometimes unavoidably emerged.

12.2 The growth items, which total £1,892,090 in 2006/2007 (details in **Appendix 5**) have been categorised as follows:

- A Ongoing revenue items, totalling £499,090 (maximum annual cost £506,480)
- B One-off revenue items, totalling £15,000
- C One-off capital items, totalling £1,378,000

Further information on the individual growth items is included in the reports to portfolio holders.

12.3 The schedule of discretionary growth was considered by the Corporate Management Team (CMT) at its meeting on 14 December 2004. CMT recommended that the following **revenue** growth items should be included in the draft budget for 2005/2006:

Detail	Amount £	Comment
Access to Services (A1)	50,000	Medium Term Financial Strategy (£100,000)
Electoral Services staffing (A2)	13,760	Additional RSG received
Emergency Planning (A4)	3,000	Additional RSG received
Tree Risk Management Strategy (A5)	11,920	
Dog Warden service (A8)	6,500	Function transferred from NYPA
Access to Services – Mashamshire Community Office (B1)	5,000	
<b>Total</b>	<b>90,180</b>	

12.4 CMT also recommended that the following **revenue** growth items should be funded from corporate underspends in 2005/2006.

Detail	Amount £
Corporate Improvement Fund	30,000
On-line Booking	15,000

12.5 Due to the overall financial position, CMT were unable to recommend that any additional funding be specifically approved in the 2006/2007 revenue budget in respect of recycling. Notwithstanding this, CMT acknowledge that there is an unavoidable outstanding demand on the Council to invest further

substantial sums to progress the waste management agenda, in line with Government and Council policy and to meet the Council's commitments as co-signatories to the York and North Yorkshire Waste Management Strategy. There are no additional more onerous Government targets to meet for 2006/2007 although there are almost certain to be further targets for 2007/2008. These have not yet been announced and the Government have made clear that they will be considering carefully how local authorities will be asked to meet any 'new burden'! In order to progress this matter, the Head of Environment will be reporting to Cabinet in February on options available and these will be subject to full consideration and scrutiny. The intention would then be to agree priority proposals in line with resource constraints and Government targets for implementation in 2007/2008. At present no new funds could be found from revenue resources to support new initiatives, though limited capital funds would be available. The assessment proposals will include the development of a financial strategy to deliver it.

- 12.6 Cabinet need to make a decision on what they wish to recommend to Council. Members should be aware, that in approving growth requests with financial consequences beyond one year, a commitment is being made to including the amount in the revenue budget for 2007/2008 and beyond.
- 12.7 The Corporate Management Team also recommended that, subject to the Council's overall capital resource position, the following item of **capital** growth should be included in the capital programme for 2006/2007.

Detail	Amount £
Victoria Park House - subsidence	88,000

- 12.8 Further information on the Council's overall capital resource position is set out in Section 14.

### **13.0 BALANCING THE BUDGET**

- 13.1 Appendix 1 and Table 5 show that the current overspend against target budget is £352,010. If the recommended revenue growth items set out in paragraph 12.3 are added, this overspend increases to £442,190.
- 13.2 Given that reserves and balances are at adequate levels, it is important that the revenue budget for 2006/2007 is a balanced budget with no contribution from the working balance. Proposals for achieving a balanced budget are set out in the following paragraphs.
- 13.3 **Local Authority Business Growth Incentive (LABGI)**  
The Government has recently introduced a financial incentive scheme to encourage economic growth by allowing local authorities to retain a share of increased Non Domestic Rate. The scheme is scheduled to run for three years with the first payment being due in late February 2006. The exact amount of LABGI that Harrogate will receive will not be known with certainty

until mid-February. However, based on growth trends it is estimated that income of up to £300,000 will be received. The current draft budget assumes that £12,000 of LABGI money is used to support the establishment of the new Customer Services Unit. Cabinet has previously indicated that the first £100,000 plus a third of any additional receipts over £300,000 should be set aside to be used as match funding for economic regeneration projects attracting Yorkshire Forward support. This is not currently reflected in the draft budget. It is recommended that the contribution in respect of economic regeneration should be reduced to £50,000 in 2006/2007 with a further contribution of £50,000 in 2007/2008 and that £200,000 of LABGI income should be allocated in support of the 2006/2007 revenue budget.

#### 13.4 **Concessionary Travel**

The first draft budget includes increased costs totalling £750,000 in respect of the new concessionary travel scheme. This is net of an increased contribution from on-street parking income of £25,000. The additional grant received from the Government in respect of this burden is estimated at £640,000, a gap of £110,000. Within the budget are contingency sums totalling £120,000. Whilst it is considered imprudent to delete the contingency sums entirely, the Director of Development Services has accepted that it should be possible to reduce the contingency sum to £40,000.

#### 13.5 **Car Park Income**

The annual review of parking charges was brought forward from 1 April 2006 to 1 October 2005 in order to address a predicted income shortfall in 2005/2006. The estimates for 2006/2007 have been prepared on the basis of no further increase (ie the next planned increase will be in April 2007). It is recommended that the review of parking charges should be brought forward to 1 October 2006. It is estimated that this will generate £60,000 of additional revenue.

#### 13.6 **Single Status Reserve**

The first draft budget includes a contribution to the Single Status Reserve of £318,000. This is based on the gross saving from the corporate restructure offset by Director/Head of Service agreed pay increases. It is recommended that the contribution is reduced by £18,000 in line with the commitment to contribute £300,000 from the corporate restructure towards the cost of Single Status.

#### 13.7 **Vehicle Funding**

As part of the 2004/2005 budget process £301,320 of vehicle funding was moved from revenue to capital. This was a one-off saving to support the revenue budget as provision for the purchase of vehicles would need to be restored to the revenue budget in future years. This restoration is phased from 2005/2006 to 2007/2008 with £58,000 included for 2006/2007. It is recommended that in view of the budget position for 2006/2007 that this restoration is deferred for one year.

Pending the resolution of the outstanding issue outlined in paragraph 11.4,

the identification of further cash efficiency savings within the Department of Development Services (see paragraph 17.9 below) and further options for bridging the budget gap, which Cabinet Members may wish to put forward, it is recommended that a further small contribution is made from capital towards the cost of vehicle purchases.

- 13.8 Table 7 sets out a summary of the proposals put forward to achieve a balanced budget.

<b>Table 7</b>	
<b>Summary of proposals to achieve a balanced budget</b>	
	<b>£</b>
1. LABGI	-200,000
2. Concessionary Travel – reduce contingency sums	-80,000
3. Additional car parking income	-60,000
4. Single Status Reserve – reduced contribution	-18,000
5. Vehicle purchases – defer restoration of capital funding to revenue	-58,000
6. Further vehicle purchases transferred to capital (balancing figure)	-26,190
<b>TOTAL</b>	<b>-442,190</b>

#### **14.0 CAPITAL RESOURCE POSITION**

- 14.1 The Council has begun an £8m partial restoration of the Royal Hall. This scheme will dominate the capital programme until Autumn 2007. Once current schemes are brought to conclusion, local capital resources will be at minimum prudent levels, but supplemented by annual HIC repayments of a Breakout Space Loan. The position is significantly better than predicted last year but funds are in no way sufficient to match local and national spending demands eg on Recycling, Access to Services, Car Park Provision, replacement CCTV cameras and other leisure and internal facilities. A detailed report on this subject will be presented to Cabinet in February.

#### **15.0 STATUTORY REQUIREMENTS FOR FINANCIAL DISCIPLINE AND RISK MANAGEMENT**

##### **Financial Discipline**

- 15.1 Under the requirements of the Local Government Act 2003, the Director of Resources is required to report to Council on the robustness of the budget estimates and on the adequacy of the proposed reserves. This matter will be formally dealt with in the tax resolution at Council on 1 March 2006, but it is appropriate to provide the underlying detail now.
- 15.2 In practical terms the new rules mean that there should be (a) a balanced budget and (b) reserves maintained at present levels. The detailed estimates can be considered robust, because the Director of Resources and the Head of Financial Management have examined the main features in depth at a series of meetings with Directors and Business Unit Managers.

The Cabinet Member for Resources, the Chair of the Scrutiny Co-ordinating Board and two of the Scrutiny Commission Chairs were present at one or more of the meetings.

- 15.3 What is now required is for the Cabinet and Council to agree a budget within the broad constraints set out above.

### **Risk Management**

- 15.4 A key aspect of the Council's approach to budgeting is a risk management assessment, which is carried out throughout the budget process.
- 15.5 In the case of expenditure there is little risk to most of the Council's estimates and the budget can be fairly accurately predicted, for example employee costs and most running costs. Some areas of uncertainty exist. These include the cost of maintaining major listed buildings, where urgent unforeseen spending needs emerge from time to time. The Council seeks to deal with this by regular building surveys, building repair funds and the Asset Management Plan process. In addition, the Council is faced with overlying spending demands on, for example, Access to Services, Recycling and Single Status.
- 15.6 The Council is much more dependent on income from sales, fees and charges than most other local authorities, some of which are potentially volatile eg land charges. The relatively high levels of income from leisure activities, car parking, planning and, in particular the conference and exhibition business result in greater risk to the overall budget process. In the case of HIC, the approach has been to budget for income prudently on the basis of contracted or confidently expected income. This has always enabled HIC to demonstrate a small surplus, after the required contribution to the General Fund, but with significantly higher surpluses at out-turn. This surplus has been used retrospectively to meet a planned programme of investment in the business.
- 15.7 In the case of leisure, car parking and planning fee income, this has always been carefully and prudently assessed for budget purposes by relevant managers and financial advisers.
- 15.8 The other main area of vulnerability relates to Housing Benefit, Rent Rebates and Council Tax Benefit subsidy received from central government. The rules relating to eligibility for subsidy are very complex and are being increasingly strictly applied. There is, therefore, an ever-present danger of significant loss of subsidy because of even minor infringement. For this reason, particular attention is paid both to budget preparation and to monthly monitoring, with attention to both ongoing payments and any subsidy issues arising. The Council has built up a benefit subsidy reserve, which provides some protection against variations in subsidy. Key issues are the management and control of overpayments, fraud initiatives and ongoing measurement of the accuracy of processing.

- 15.9 A key element of the risk assessment process is the review of all budgets, especially those reflecting material risk, by the Director of Resources and the Head of Financial Management in conjunction with Directors and Business Unit Managers, which takes place routinely as part of the budget preparation process.
- 15.10 There is a very low residual risk of Council Tax capping depending on the Government's view of Harrogate's Council Tax increase.

## **16.0 BUDGET PROJECTIONS 2007/2008 AND 2008/2009**

- 16.1 The Council is now required under the Chartered Institute of Public Finance and Accountancy's Prudential Code and in line with the requirements of the Comprehensive Performance Assessment to produce budgets for three years. The budget projections for 2007/2008 and 2008/2009 are set out in columns 6 and 7 of **Appendix 1**. These projections are only a very broad indication of likely expenditure and income levels and have been compiled in accordance with the guidance and parameters set.

## **17.0 EFFICIENCY SAVINGS**

- 17.1 The Medium Term Financial Strategy 2006/2007 to 2008/2009 approved by Council in July 2005 required each Department was required as part of the budget process to produce efficiency savings illustrations totalling 2.5%.
- 17.2 This is in line with the Spending Review 2004 (Gershon Review), which set each Council a target to achieve annual efficiency gains of 2.5% of their baseline (this is budget less transfer payments, rather than outturn), of which at least half should be cashable. The target for Harrogate BC has been calculated at £608,000.
- 17.3 The Cabinet Member Resources subsequently determined that for budget purposes the target should be increased to 3.5%, of which 2% to be cash savings and 1.5% to be non-cash savings.
- 17.4 The identification of efficiency savings enables the Council to reallocate resources to respond to its corporate priorities.
- 17.5 In line with Government guidance, the definition of efficiency gains includes:
- ◆ Efficiency gains that result in a cash saving (i.e. the same outputs for fewer inputs)
  - ◆ Efficiency gains that are achieved through improvement in performance but which do not result in a cash saving (i.e. more outputs for the same inputs)
- 17.6 The identification of efficiency savings has again proved difficult, with some departments struggling to reach both cash and non-cash efficiency savings targets. This is the inevitable result of many years of needing to identify

efficiency savings and the fact that saturation point is close to being reached. An overall summary of efficiency savings illustrations, totalling £1,006,050 is set out in **Appendix 6**.

- 17.7 Cash savings totalling £270,910 have been identified and these have been included in the first draft budget as they arise from decisions previously taken, increased income or other changes that will not materially affect the standard of service provision. This includes the cash contribution, which Harrogate International Centre are required to make to the General Fund and which is equivalent to 30% of their savings target. A schedule of the cash savings included is set out in **Appendix 6A**.
- 17.8 In accordance with the guidance issued, each Department has also drawn up a list of non-cash "Efficiency Gains". These do not result in cash savings but demonstrate that the Council is operating more efficiently in that it is achieving greater outputs by utilising the same resources in a more efficient way. Submissions totalling £623,110 have been identified. A schedule of the non-cash savings is set out in **Appendix 6B**.
- 17.9 Departments that were unable to identify sufficient cash efficiency savings were required to identify service cuts in order to meet their target. Potential service cuts totalling £115,030 are identified in **Appendix 6C**. The potential service cuts identified by the Department of Development Services were considered by the Corporate Management Team at its meeting on 14 December, but it was decided that they should not be recommended to the Cabinet for implementation. However, in view of the significant shortfall against target, the Director of Development Services was asked to review his department's budget submissions to identify whether any further cash efficiency savings were possible. The outcome of this review will be reported verbally at the meeting. The potential service cut identified by Harrogate International Centre was a late proposal and has not been considered by CMT. The Leader will consider this proposal on 21 December and his recommendation will be reported verbally at the meeting.
- 17.10 The efficiency savings set out in this report will be considered further by the Corporate Policy & Improvement Department, who are responsible for completing the Council's annual Gershon Efficiency Statement. To date, the savings identified will exceed the Gershon requirement in total although there is currently a slight shortfall in relation to cash savings. It is likely, however, that further analysis will result in some savings that have currently been classified as non-cash savings being allowable as cash savings under Gershon rules.

## **18.0 STAKEHOLDER CONSULTATION**

- 18.1 In accordance with its Constitution, the Council is required to consult with its local stakeholders in relation to budget policy.
- 18.2 A full consultation was undertaken with Council taxpayers in 2004 in order to obtain their views on a wide range of spending options. This consultation,

undertaken in accordance with the SIMALTO methodology was carried out by an independent company, Research for Today Ltd. The results of the survey were reported to Cabinet in July 2004 and are valid for a period of three years.

- 18.3 In recommending the Medium Term Financial Strategy 2006/2007 to 2008/2009 to Council, Cabinet recognised the success of the 2004 SIMALTO consultation and agreed that a similar exercise should be planned at the end of its three-year validity period.
- 18.4 With this in mind, it was agreed that formal consultation on the draft Medium Term Financial Strategy 2006/2007 to 2008/2009 should be limited to the District Panel. The results of this consultation are currently being analysed and will be included in the further report on the General Fund Revenue Budget 2006/2007 to be considered by Cabinet on 1 February 2006.
- 18.5 In addition to formal consultation with the District Panel, the Council has continued to consult informally on both the Medium Term Financial Strategy and budget issues through briefing meetings with the Chambers of Trade and parish consultation meetings. A copy of the District Panel consultation was also placed on the Council's intranet to allow Council employees to comment on the draft strategy.

## **19.0 CONCLUSIONS**

- 19.1 The budget position is set out in detail in the report.
- 19.2 Portfolio holders have considered the detailed budgets for 2006/2007 for the services within their portfolio. Each portfolio holder has made recommendations to Cabinet in respect of:
- The Revised Estimate for 2005/2006
  - The draft budget for 2006/2007
  - Requests for discretionary growth
- 19.3 The overall financial circumstances facing the Council for the 2006/2007 budget are very difficult and complex. It is difficult to put forward and reconcile an acceptable tax increase, an adequate response to spending demands, adequate reserves and a sustainable medium term financial position.
- 19.4 In the light of the Local Government Minister's comments about capping levels the Council must decide on a level of budget that it believes will be acceptable to both the Government and the taxpayers within the Harrogate District.
- 19.5 The prospects for 2007/2008 are of continued financial pressures coupled with requirements for a variety of new service and management initiatives not least of which is the need to implement Single Status with effect from 1 April 2007.

19.6 The identification of efficiency savings in accordance with the Council's medium term financial strategy and Gershon requirements has enabled the Council to respond to corporate priorities and to make progress towards meeting the Government's modernising agenda.

**Background Papers:** None as defined in the Act

**OFFICER CONTACT:** Please contact Val Hunter, Head of Financial Management if you require any further information on the contents of this report. The officer can be contacted at The Department of Resources, Crescent Gardens, Harrogate; by telephone on (01423) 556124 or by Email – val.hunter@harrogate.gov.uk

**SUSTAINABILITY ASSESSMENT/POLICY CONSIDERATIONS**

		Implications are		
		Positive	Neutral	Negative
A	Economy		✓	
B	Environment		✓	
C	Social Equity		✓	
(i)	General		✓	
(ii)	Customer Care/People with Disabilities		✓	
(iii)	Health Implications		✓	
D	Crime and Disorder Implications		✓	

If all comments lie within the shaded areas, the proposal is sustainable.