

Agenda Item No: 5

Title: Budget Strategy 2002-2003

**Author: John Dickson (01799) 510300
Michael Dellow (01799) 510310**

Summary

- 1 This report provides an update of the Budget Strategy report approved by the Resources Committee on 20 September 2001. It also summarises revised estimates of direct costs and income for 2001/02 and draft estimates for next year, 2002/03. These have been prepared on the basis of existing approved levels of service and have been considered during this cycle by the Council's Committees. The figures are presented in the context of target Committee cash limits and Policy Priorities approved by the Council on 16 October 2001.

Background

- 2 The previous Budget Strategy report identified that, on the basis of initial projections, the Administration's target savings of £635,000 would permit a Council Tax increase of no more than 2½%, leaving room for manoeuvre of £170,000 to allow for growth items and the unavoidable. The Administration has since proposed a list of savings for consideration totalling £685,000.

Adjusted 2002-2003 target cash limits

- 3 The original target cash limit figures were derived using the savings targets proposed by the Administration. They also took into account estimated inflation, budget projections from February 2001 and other previously identified items. The target proposals did not allow for any new growth items.
- 4 A number of adjustments were necessary to the previously projected direct cost target limits to tweak the allocations of individual services, base and projected budgets between Committees to reflect the revised political management structures. These changes are summarised below:

COMMITTEE TARGETS	Original Targets £'000	Changes £'000	Updated Targets £'000
Community & Leisure	979	32	1,011
Development Control & Licensing	452	-5	447
Health & Housing	586	114	700
Environment & Transport	1,734	-31	1,703
Resources	<u>4,010</u>	<u>-110</u>	<u>3,900</u>
GENERAL FUND TOTAL	<u>7,761</u>	<u>0</u>	<u>7,761</u>

Summarised budget information

- 5 This table summarises the draft net direct cost service budgets as presented to Committees. The figures for 2002-03 are analysed further below and do not reflect either savings proposals or any use of reserves (see Appendix SDB2). The Revised Estimates 2001-2002 show substantial increases over Original Budgets totalling £385,000. These essentially appear unavoidable and, in one way or another, will probably all have to be met from reserves. Full details have been given in individual Committee reports.

DIRECT COST BUDGETS	Original Budgets 2001-02 £'000	Revised Estimates 2001-02 £'000	Draft Budgets 2002-03 £'000
Community & Leisure	1,075	1,116	1,159
Development Control & Licensing	416	507	454
Health & Housing	691	708	758
Environment & Transport	1,889	2,021	1,998
Resources	<u>4,031</u>	<u>4,135</u>	<u>4,261</u>
GENERAL FUND TOTAL	<u>8,102</u>	<u>8,487</u>	<u>8,630</u>

Comparisons with targets

- 6 The table below shows how the draft budgets 2002-03 for each Committee, after making adjustments for amounts expected to be met from reserves and the Administration's proposed savings, compare with the adjusted targets above. None of these figures include any new growth items or take into account any Committee determinations in respect of either the budget reports or savings proposals. The overall draft position is over target by £104,000.

DRAFT SERVICE BUDGETS	Adjusted Budgets £'000	Updated Targets £'000	Unders & Overs £'000
Community & Leisure	1,003	1,011	-8
Development Control & Licensing	448	447	1
Health & Housing	710	700	10
Environment & Transport	1,724	1,703	21
Resources	<u>3,980</u>	<u>3,900</u>	<u>80</u>
GENERAL FUND TOTAL	<u>7,865</u>	<u>7,761</u>	<u>104</u>

The differences explained

- 7 The next table shows how the £104,000 above target is explained. The projections for inflation did not allow sufficient for the large cleansing contracts and insurance premiums. However, by itself, this would be largely offset by the Administration's higher savings proposals. Most of the total difference is explained by other unavoidable increases in net service costs as detailed in the individual Committee reports.

DRAFT BUDGET ANALYSIS	Adjusted Budgets £'000	Updated Targets £'000	Unders & Overs £'000
Base budget 2001-2002	8,102	8,102	0
Previously projected items	49	45	4
Planned maintenance	-6	0	-6
Inflation	310	249	61
Administration's savings	-685	-635	-50
Unavoidable growth pressure	<u>95</u>	<u>0</u>	<u>95</u>
Draft base budget 2002-2003	7,865	7,761	104
Room for manoeuvre	<u>66</u>	<u>170</u>	<u>-104</u>
ORIGINAL TARGET TOTAL	<u>7,931</u>	<u>7,931</u>	<u>0</u>

The room for manoeuvre

8 The above table also shows how the room for manoeuvre to achieve a 2½% Council tax increase has now been reduced. The £170,000 originally projected has, after all the above factors have been taken into account, gone down to £66,000. This now represents all the leeway that exists, with that target tax increase, to cover:-

- Any service budget savings proposals that are not accepted
- Any additional service growth items
- Reducing the £55,000 subsidy from reserves for Council tax levels
- Any further unavoidable changes to "below the line" budgets
- Any other upward financial pressures unidentified as yet

The pressure on reserves

9 There are several pressures on the Council's revenue reserves which may now be identified. Those for 2002-03 are shown in Appendix SDB2:- They relate to use:-

- for unavoidable overspends against budget in 2001-2002 - £385,000
- for savings proposals not expected until 2002-2004 or later - £223,000
- for vehicle lease extensions 2002-2003 - £23,000
- for one-off expenses in 2002-2003 - £46,000 (plus see below)
- for subsidising the ongoing level of Council Tax - £55,000

10 These already total to £732,000. In addition, at least three further potential one-off demands on reserves in 2002-03 have already been identified - for the District Plan (£95,000), for external legal fees relating to Planning matters (say £60,000) and for additional transitional costs of implementing the PFI project (not yet quantified). Whatever the prudential arguments may be for using reserves for any or all of these purposes, it is obvious that continued reliance on reserves to this extent is unsustainable in practice.

“Below the line” items

- 11 “Below the line” items are non-service budgets largely determined by events and matters beyond this Council’s direct control. It is still too early to attempt any meaningful projection of all these items in advance of local government settlement and other information becoming available in December. However, some of the assumptions made previously for forward projection purposes, are now appearing rather optimistic.
- 12 Interest rates have reduced much more quickly than anticipated since the terrorist attacks on September 11. Interest earnings on balances can therefore be expected to be significantly less than originally expected for this reason alone. Also to be taken into account must be the reduced level of reserves available to earn interest, if significant sums are to be used to support revenue expenditure.
- 13 The latest available actuarial information suggests that the amount allowed in the projections for Pension Fund revaluation is also likely to be insufficient. Indications are that additional pension costs, as well as reduced interest earnings, may each on their own need more than the whole of the remaining £66,000 room for manoeuvre apparently left to the Council after the draft estimates. Much necessarily depends on the actual level of external support received from Government.

Conclusions

- 14 At the time this report was prepared, two Committees had yet to consider their draft budgets and the associated savings proposals from the Administration. These proposals, summarised in Appendix SDB1, put forward suggestions exceeding by £50,000 the original savings target. Despite that, the financial pressures are such that little or no leeway can now be envisaged to permit any additional growth items, even if all the savings proposals were accepted. One Committee has already not recommended one of the items on the list.
- 15 More information will become available during the next round of Committee meetings. It would be hoped that any reports would be presented then proposing additional growth items for inclusion in the budget. A clearer position should also be available regarding the “below the line” budgets. Further confirmation may also be received on other emerging issues such as a recent authoritative suggestion that 3% may be an unrealistic amount to allow for next year’s staff pay award.
- 16 Unless there is unexpected good news coming from the Government as far as the settlement is concerned, it would seem that one or both of the cornerstones of the Council’s budget strategy may have to be reviewed - additional savings will need to be identified and/or the 2½% target for the Council tax increase will need to be raised.

RECOMMENDED that this Committee:-

determines whether, at this stage, it wishes to recommend to Council that further savings be sought from Committees to help achieve the 2½% target for the Council tax increase.

Background Papers: None