

COUNCIL BUDGET 2003/2004

FOREWORD

1.0 INTRODUCTION

- 1.1 The budget book sets out the projected costs of Council services in 2003/4 including Capital Programmes, as approved by Council on 5 February 2003.
- 1.2 A manpower budget and detailed analysis of the estimated administration costs of Business Units are also included in the budget book by way of supplementary information.

2.0 BACKGROUND

- 2.1 Gosport Borough Council is a multi-million pound business having an annual turnover of almost £40M, over 370 employees and assets valued at £135M.
- 2.2 This foreword focuses on those revenue and capital budgets for services impacting on the level of Council Tax in 2003/4.
- 2.3 Prior to 2003/4 the Council's financial position has been deteriorating for a number of years and has been referred to in District Audit Management Letters. A succession of administrations has, with good intentions, produced ambitious budgets that have postponed the inevitable. The pattern in recent years of overspendings becoming apparent late in the financial year have been a particular concern and is indicative of the pressures that have been building up. Eventually there will be an impact on services and/or Council Tax levels unless substantial sources of new income are identified. The Council can no longer afford to draw on reserves as balances are now below prudent levels and need restoring.

- 2.4 Although there is a need in the longer term to ensure that maintenance budgets are enhanced, the main current pressures on Council Tax levels arise from areas where Gosport differs from most other authorities:
- iv) High net economic regeneration costs, primarily due to lack of opportunity to directly benefit from the income streams arising from redevelopment.
 - v) "Free Parking".
 - vi) A Concessionary Travel scheme that is significantly costlier than the statutory requirement because of the generous Token option that is offered. With an ageing population and the new requirement to extend concessions to men from age 60, this is placing an increasing cost on local taxpayers currently equivalent to approximately 5% on Council Tax.
 - vii) A high level of externalisation of contracts, many linked to indices that consistently seem to run at well in excess of general inflation levels.
- 2.5 A budget survey was conducted in the latter part of 2002 and has helped shape the 2003/4 budget. To maintain the areas of enhanced service provision listed in para. 2.4 within a modest level of Council Tax increase, it has been necessary to continue to keep maintenance budgets at levels that may eventually be unsustainable. In order to improve future maintenance budget levels without a disproportionate rise in Council Tax, service levels will be kept under review and realigned so that the Council can continue to meet community needs and properly maintain the public assets of which it is custodian.
- 2.6 A medium term financial strategy for improving the Council's financial standing is set out in Appendix 2b and has been adopted in support of the budget for 2003/4. The strategy includes a more formal budget-monitoring regime with quarterly reports to Council Management Team and Councillors – vital if balances are to be prevented from deteriorating.
- 2.7 The total proposed net budget for 2003/4 is £10.48M and this represents an increase of £0.52M (5.2%) on the original budget 2002/3. Exchequer grant is being distributed differently from 2003/4 and Gosport's entitlement is substantially higher than forecast. Comparing on a like-for-like basis, the total grant increase is almost £0.45M, equivalent to over 6% more than 2002/3. The increase comprises an extra £0.25M general Support Grant plus almost £0.2M additional Housing Benefit Subsidy, which has now been totally disaggregated from Support Grant. In addition, a grant of £75,000 will be received towards Planning costs in 2003/4
- 2.8 No capping limits have been announced by the Government, so it is not possible to predict the level at which the budget might be deemed excessive and reserve capping powers applied. Figures inherent in the Government grant settlement data, however, imply an average national increase of over 6%pa for the next three years in the amount to be raised from Council Tax unless economies are achieved.

3.0 REVISED 2002/3 EXPENDITURE & INCOME

- 3.1 Before taking account of the use of reserves, the revised budget is over £0.34M higher than the original for 2002/3, principally due to additional net expenditure requirements on Open Market (reduced income), Homelessness, Priddy's Hard and pay awards.
- 3.2 Appendix 1 details the variations that have arisen between our original spending plans for the current year and the latest estimate of our expenditure and income. There are a number of significant variations, many of which have previously been anticipated in budget monitor reports, plus a large number of smaller variations.
- 3.3 It has not been possible to identify sufficient savings to avoid drawing further on Reserves. The £0.34.M overspend will be financed from Capital Reserve, reducing it to zero. The General Fund Working Balance will remain at approximately £0.5M at 31 March 2003, well below the £0.75M considered prudent.

4.0 BUDGET PROPOSALS FOR 2003/4

- 4.1 Extra grant of over £0.45M for 2003/4 is substantially more than anticipated. However, it is more than off set by inflation of £0.47M (pay £320K, contractors £100K and other £50K) and the cost of legislative requirements £0.1M (including Housing Benefits £52K, Concessionary Travel £40K, Comprehensive Performance Assessment etc).
- 4.2 The 2003/4 budget totals £10,477,594 including a small contribution from Working Balance, necessary to make good a grant reduction between the provisional and final settlements (it had been planned to make a contribution to balances when the budget was originally agreed). This budget total is £521,184 higher than the 2002/3 original budget, much of the increase attributable to the factors that have affected Revised 2002/3.
- 4.3 The main variations from the 2002/3 budget are detailed in Appendix 1 and details of fees and charges are contained in a separate booklet.

5.0 BALANCES & RESERVES

- 5.1 In recent years the two principal general fund provisions have been Capital/Special Maintenance Reserve and Working Balance. The total of these two funds stood at £0.92M at the beginning of 2002/3, well below the lower quartile level for shire districts. The total is expected to reduce to £0.5M by 31 March 2003 and remain at that level during 2003/4. Implementation of the financial strategy during 2003/4 should start to improve this situation.
- 5.2 Working Balance serves to ensure business continuity and safeguard against unforeseen expenditure needs, including inflation. It should not generally be used in support of budgets as it merely defers the need to reduce the base budget to an affordable figure as the cash can only be used once. The pressure on following year's budgets may then be compounded by the need to restore balances and reserves to a prudent level.
- 5.3 The minimum Working Balance of £0.5M has become increasingly uncomfortable in view of the pattern in recent years of overspendings materialising at revised budget time and during year-end final accounts processes, combined with the depletion of other reserves. There is a need to increase Working Balance to approximately 7% of net General Fund expenditure in the medium term and Appendix 2b sets out a strategy to achieve this.
- 5.4 "Capital Reserve" has generally been used to iron out peaks and troughs in the revenue financing of special maintenance needs. It would be valuable to regenerate funds for this purpose, the financing of uninsurable risks and to provide a fund from which savings initiatives might be financed. Such a fund could be more appropriately titled "Revenue Financing Reserve" and advances should generally be repayable. The fund could be built up over a period of time from budgeted contributions equivalent to annual Council Tax Collection Fund surpluses once Working Balance has been restored.

6.0 THE LONGER TERM OUTLOOK

6.1 A detailed 3 year projection of revenue commitments (summarised in Appendix 2) indicates further pressures on budgets. Early action will be taken to moderate future budget requirements in order to reduce the Council Tax rises that will otherwise result.

6.2 Projected budget totals including inflation are as follows:

	<u>Budget</u> <u>£'000</u>	<u>Budget Increase</u> <u>%</u>	<u>Potential Council Tax Increase</u> <u>%</u>
2004/5	10,936	4.4	11.1
2005/6	11,224	2.6	5.6
2006/7	11,712	4.3	9.6

7.0 THE COUNCIL'S CAPITAL PROGRAMME

7.1 The Council's capital programme for the next 6 years amounts to over £31M and is partially dependent on the raising of further external funding.

8.0 BUSINESS RATES & COUNCIL TAX LEVELS FOR 2003/4

8.1 The nationally prescribed business rate (NNDR) in the pound for 2003/4 is 44.4p.

8.2 The budget of £10.53M for 2003/4 has resulted in an increase of 4.9% in Gosport's share of the Council Tax, equivalent to an extra 11p per week on Gosport's average Band B property. When the County Council and Police Authority requirements are added in, the total tax increase required is 14.5%.

9.0 CONCLUSION

9.1 The 2003/4 budget of £10.48M is some 5.2% higher than that for 2002/3 producing an increase of 4.9% in Gosport's share of the Council Tax. This level has been reached after taking account of the results of a Residents Survey and the need to begin restoring Working Balance. The outlook for 2004/5 is further upward pressure on budgets, in excess of general inflation.

9.2 With a Comprehensive Performance Assessment due during 2003/4, it is important that the Council responds positively to its budget problems in order to demonstrate the management qualities that will count towards a "good" or "excellent" rating. The budget takes account of this by providing for essential maintenance levels whilst maintaining service levels, resulting in a modest Council Tax increase – taking account of the recent residents budget survey. A medium term strategy (Appendix 2b) to improve the Council's financial standing has also been adopted.

APPENDIX 2

a). Projected General Fund for the years to 2006/7 (at 2003 prices)

	2004/5	(£'000) 2005/6	2006/7
2003/4 Base Budget	10,478	10,478	10,478
Revenue Increases	120	-18	20
Additional Financing Charges *	50	100	150
	<hr/> 10,648	<hr/> 10,560	<hr/> 10,648
Less Revenue Decreases	112	136	136
PROJECTED BUDGET TOTALS	<hr/> 10,536	<hr/> 10,424	<hr/> 10,512

*Arising from the Capital Programme

b). Medium Term Financial Strategy (2003-2010)

i) Sustainable Service levels

In order to eventually improve maintenance budget levels without a disproportionate rise in Council Tax, service levels will be kept under review and realigned where appropriate and opportunities to generate additional income will be explored.

ii) Budgetary Control

There will be a more formal budget-monitoring regime with quarterly reports to Council Management Team and Councillors.

iii) Working Balance

The Council will not budget to draw on Working Balance in the foreseeable future. Working Balance will be restored in the medium term to approximately 7% of net General Fund expenditure, a level considered prudent. The balance will be built up from budget savings plus budgeted contributions approximately equal to annual Council Tax Collection Fund surpluses.

iv) Other Reserves

Once Working Balance reaches a prudent level, a Revenue Financing Reserve will be established from budget savings plus budgeted contributions approximately equal to annual Council Tax Collection Fund surpluses. The Fund will be used to finance special maintenance schemes, uninsurable risks and initiatives that will produce savings. Advances from the fund will generally be repayable by way of contributions over a short time scale.