# KENNET DISTRICT COUNCIL

## RESOURCES EXECUTIVE COMMITTEE
## To be held on Tuesday, 30th August 2005

## JOINT REPORT OF THE CHIEF EXECUTIVE AND THE DIRECTOR OF RESOURCES

# FINANCIAL PROSPECTS 2006/07

### 1. Introduction

The purpose of this report is to allow the Committee to make recommendations to the Council as to the approach that should be adopted by Committees in formulating budget proposals for financial year 2006/07.

### 2. Financial Year 2005/06

Members will recall that in adopting its budget for 2005/06 in February the Council set its Council Tax for 2005/06 at £117.84, a 5% increase over the level of council tax in 2004/05. This was only achieved by withdrawing £227,000 from revenue balances, despite having identified substantial budget reductions over the previous four months.

Nothing has happened in 2005/06 to date to suggest that it will not be necessary to withdraw £227,000 from balances in that year, and continue to seek savings for 2006/07.

### 3. Cost Drivers in 2006/07

Elsewhere on the agenda consideration is to be given to a proposed medium term financial strategy. Appendix E to the financial strategy demonstrates a need to make savings of well over £0.5m if the council tax increase for 2006/07 is to be limited to 5% again.

The main cost drivers for 2006/07 will be:

- Inflation on staff and other costs £380,000
- Increased contributions to the Wiltshire Pension Fund £140,000
- The need to reduce reliance on balances and reserves £127,000
- The need to increase net expenditure in a number of service areas £150,000, (including £45,000 for fees in respect of a job evaluation

exercise; £32,000 for possible loss of rent from a commercial premise in Devizes; £35,000 for additional grass cutting resources to maintain additional grassed areas obtained through planning agreements).

Some of the increased costs will be offset to a certain degree by funding some staffing and other costs in the Planning Service that are included in the base budget from Planning Delivery Grant. (Rather than spend Planning Delivery Grant as it is received, significant amounts have been set aside to meet costs in future years.)

The Budget Reductions Sub Committee will now be convened to examine ways of producing a balanced budget for 2006/07.

## 4. Revenue Support Grant

Early "straws in the wind" indicate an increase in grant of 1.7%, (just £79,000 in cash terms), a sum that is wholly inadequate in relation to the cost drivers shown above. A number of colleague district council finance officers are assuming no increase in grant.

Certainly, no significant financial relief from this source should be anticipated when formulating the Council's guidance to Committees.

## 5. Investment Income

Over the last few years the Council's financial problems have been compounded by falling investment yields. The investment interest budget for 2005/06 is £1.55m but there is likely to be a shortfall. At the time of writing the report an interest rate cut is widely predicted, with the Market predicting a further cut later in the calendar year.

In addition, the amount of money invested will fall over the next few years. Although the Council has identified a number of assets that can be sold, the income from those sales will not be sufficient to meet planned, heavy capital expenditure in a number of key areas, recycling, leisure centre refurbishment, social housing and e-government.

In short, investment income will reduce in 2006/07.

## 6. Conclusions and Recommendations

The Council is faced with another difficult financial year in 2006/07. It is already clear that spending pressures will exceed likely available income, and savings will need to be made. No relief can be expected from government grant or from increased investment income.

In the light of the above it is **RECOMMENDED THAT** the Council be recommended to set the following guidelines for the Executive Committees in framing the budget for 2006/07:

1. Expenditure growth should be minimised, consistent with the need to maintain essential, core services.
2. All sources of income and expenditure should be critically examined with a view to achieving savings such as to produce a balanced budget in 2006/07 that conforms to the Council's medium-term financial strategy.
3. Staff structures and staffing levels should be kept under review and opportunities taken in association with the Human Resources Committee to reduce staff costs, consistent with the need to maintain priority services.

<u>Chief Executive</u> <u>Director of Resources</u>