

# **ROYAL BOROUGH OF KENSINGTON AND CHELSEA**

## **Meeting of the Council – 7 March 2007**

### **Item 6 – Submissions from the Cabinet**

The following budget, plans and strategies were considered by the Cabinet at its meeting on 22 February 2007 and are now submitted to full Council for approval and adoption in accordance with Standing Order 20.

#### **1. CABINET BUSINESS PLAN 2007/08 - 2009/10**

- 1.1 The attached Cabinet Business Plan for the period 2007/08 to 2009/10 sets out the Cabinet's views on the context in which the Council must operate, the spending pressures and changes in external finance it faces, and the proposed budget and service priorities. It incorporates the views made by Overview and Scrutiny Committees and other consultees on an earlier draft, together with some last minute suggestions made by Members, residents, businesses and partners which were tabled at our meeting.

#### **Recommendation**

- 1.2 The Council is RECOMMENDED to adopt the Cabinet Business Plan 2007/08 - 2009/10 as the Business Plan for the Council and approve its publication before 31 March.

#### **2. REVENUE BUDGET AND COUNCIL TAX 2007/08**

- 2.1 The proposals for this year's budget are based on the Local Government Finance Settlement, the Cabinet Business Plan proposals for discussion, approved by Cabinet on 15 January 2007, and the Business Group revenue estimates considered by Overview and Scrutiny Committees during January 2007.
- 2.2 In making its budget recommendations, the Council will need to take into account the following:
- The Council's strategic objectives, including the Borough aims and the Community Strategy;
  - The overall resource position and Government guidelines on Council Tax increases;
  - The outcome of consultation exercises with the public and other service stakeholders;
  - The background of the 2006/07 financial position;
  - The potential for improvements in cost effectiveness and the Government's current target for efficiency savings each year;

- The robustness of the estimates and budgetary risks;
- The position on contingencies and reserves;
- Implications for Council Taxpayers;
- Medium term budget prospects.

### Medium term budget prospects

2.3 The Local Government Finance Settlement 2007/08 was issued on 18 January 2007. The key points were:

- The Royal Borough's grant allocation is confirmed at £96.5 million, as proposed at this time last year. This is a cash increase of £4.5 million.

<b>Table 1 Formula Grant</b>	<b>£m</b>
2006/07 Formula Grant	92.0
Baseline Adjustments	-0.6
Adjusted 2006/07 Formula Grant	91.4
Grant Change £m	5.1
2007/08 Formula Grant	96.5
Grant Change %	5.6%
Cash Grant Change £m	<b>4.5</b>
Cash Grant Change %	<b>4.9%</b>

- The Royal Borough has the second highest percentage grant increase in London. The Council is now contributing £5.9 million to the cost of the grant floor protection for other local authorities. London overall had a below average grant settlement for 2007/08, with 20 Councils receiving only the minimum 'floor' increase of 2.7 per cent.
- The calculation of the Royal Borough's grant allocation is shown below.

<b>Table 2 2007/08 Formula Grant Breakdown</b>	<b>£m</b>
A basic amount of £168 for every resident	34.3
A top-up for relatively high local services needs	118.5
A deduction for the relatively high local tax resources	-50.5
A deduction for our contribution to the grant floor safety net for other authorities	-5.9
<b>Total Formula Grant</b>	<b>96.5</b>
Which consists of:	
Our share of Business Rate (allocated on a per head basis)	82.6
Our share of Revenue Support Grant (balancing figure)	13.9

- The grant increase is largely driven by the population estimates produced by the Office for National Statistics, which extrapolate

past trends. The methodology underpinning these estimates is being reviewed and this creates significant uncertainty for future year grant allocations.

- The Council is protected from losses to Formula Grant of about £19 million from the formula for Children’s and Younger Adults Personal Social Services (PSS). **Table 3** below shows a rough estimate of the impact of removing this damping, all other things being equal. Without this damping the Royal Borough would receive only the minimum grant increase of 2.7 per cent. The formula change remains a concern for the long term if the safety net is removed.

<b>Table 3 Grant System Damping</b>	
	<b>2007/08 £m</b>
System Grant With PSS Damping	102.4
Less Floor Damping Block	-5.9
<b>Grant With SS Damping</b>	<b>96.5</b>
System Grant Without PSS Damping	83.1
Add Floor Damping Block	10.7
<b>Grant Without SS Damping</b>	<b>93.9</b>
<b>Formula Grant Difference: no protection</b>	<b>-19.3</b>
<b>Grant Difference with floor protection</b>	<b>-2.7</b>

- The Government has confirmed its intention to cap authorities whose Council Tax increases are regarded as excessive:

*"...we expect again to see the council tax increase in England below 5 per cent. As in previous years, we are prepared to take capping action to deal with excessive increases"<sup>1</sup>*

2.4 The Royal Borough responded to the provisional local government finance settlement consultation. The key points made in the response were to:

- welcome grant predictability and stability and the confirmation of three year grant allocations in the future
- welcome the continuing confirmation of the funding floor but regretting that the level set is inadequate to meet spending pressures
- reconfirm our strong opposition to the implementation of the new Children’s and Adults Personal Social Services formulae and press for continuation of damping of the impact
- state our concerns with respect to grant baseline adjustments which are not transparent or clearly explained.

<sup>1</sup> 18 January 2007 Communities and Local Government press release:  
<http://www.communities.gov.uk/index.asp?id=1002882&PressNoticeID=2335>

- restate our strong opposition to the threat and use of reserve powers to limit budget and Council Tax increases.
- 2.5 For the fifth year the Royal Borough has used budget consultation to inform service priorities and the level of Council Tax to be set for 2007/08 and beyond. The consultation results were reported to Cabinet on 15 January 2007.
- 2.6 The Council consulted the Residents' Panel to seek views on budget priorities. The large majority of residents, 79 per cent, agreed with the Council's plan to freeze the Council Tax for the second year running. 60 per cent of residents in the sample believed that the Council offers value for money.
- 2.7 When asked about budget priorities, residents generally wanted to see services maintained at current levels, but priorities for increased spending were identified. These were community safety, services for children and families, social care for older people and mental health, and waste management. The spending priorities accord well with the Council's proposals to increase spending on children's services and schools (the latter funded from government grant), to fund local Police and Community Safety Officers and to protect older people's services. Residents were willing to see spending on central services reduced.
- 2.8 Spending and savings proposals are detailed in the Cabinet Business Plan and have also been open to comment by local interest groups and Overview and Scrutiny Committees (OSC). The majority of the savings and growth proposals were also published in the November Cabinet report on medium term planning. Overall, services that are protected, budget growth and savings broadly correspond with the options preferred by residents.

## **BUDGET PROPOSALS**

- 2.9 The proposed revenue budget for 2007/08 totals £494 million, offset by £106 million from fees, charges and other income and £220 million from specific Government grants to services. The budget requirement to be met from Government Formula Grant and from Council Tax is £168 million. Some background on the total budget and on Council Tax figures is given in the Revenue Budget Book with further information in the Council's digest of financial information – 'Vital Finances'<sup>2</sup>.

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<sup>2</sup> This can be found at:

<http://www.rbkc.gov.uk/yourcouncil/councilfinances/vitalfinances.asp>

2.10 The budget includes the following for 2007/08:

- Confirmation of the second year of a freeze in the Borough's element of Council Tax for 2007/08. This should maintain the Council's position as one of the lowest Council Tax rates in the country
- Growth in spending worth £3.5 million, of which £1.2 million is funded internally by Business Groups
- £6.2 million of pay and price inflation, partially met by the £4.5 million increase in government grant
- An increase in funding for schools of 6.2 per cent per pupil, met from ring fenced grant
- Savings and extra income totalling £3.5 million
- £2 million previously contributing to reserves has been redirected to support higher spending and to keep down Council Tax
- An ambitious capital investment programme, supported through an affordable level of revenue contributions
- Maintaining a strong balance sheet.

2.11 Service highlights from the budget include:

- £319,000 for transport of pupils with a Special Educational Need
- £240,000 to improve services for children with a disability, of which £100,000 is new funding
- £105,000 extra funding for maintaining museums and the arts
- £430,000 to protect services for older people provided jointly with the Primary Care Trust
- 130 Police Community Support Officers patrolling the borough, 76 funded by the Borough. The Metropolitan Police have reduced the cost of employing a Police Community Support Officer by £13,000 each, so the Council is now able to consider paying for other activities such as new neighbourhood safety posts and assistance with crime detection.
- £180,000 to pay for area-based initiatives, to respond to local issues in six Borough wards. This is £60k higher than was included in the draft budget reported to OSC.

2.12 Other amendments since preparing the budget for OSC include £170k for Adult Social Services in respect of pay harmonisation for manual workers under a national scheme. A further £200k will be absorbed by efficiency within the service. £130k has also been added for the Election Administration Act 2006, of which £25k is a recurring additional contribution to the election cost-smoothing reserve. Grants for Planning Delivery (£65k), children's services

(£330k) and smoke-free legislation (£203k) have been received and at the moment the corresponding expenditure budgets are being held centrally pending allocation. The grants are not ring fenced. On-street parking income now reflects current income levels and takes account of the expected London-wide increase in penalty charges.

- 2.13 The Council will benefit from £3.2 million of Reward Grant from achieving stretched targets in the Local Public Service Agreement, which ran from 2003/04 to 2005/06. The first tranche of £1.6 million will be received in 2006/07 and is being held as 'Excellence for All' funding. This is already being recycled into a £3 million improvement programme through the Local Area Agreement. This will be delivered with our Local Strategic Partnership over the next three years.
- 2.14 In late February we expect to hear whether we will receive an allocation from the national Local Authority Business Growth Incentive scheme for 2006/07. This shares with local councils the benefit of the tax yield from an upward trend in business rateable value locally. The national scheme has been trebled in size since 2005/06.
- 2.15 Detailed service budgets for operating expenditure are set out in the Revenue Budget Book and in **Tables 4 and 5** alongside centrally held budgets such as contributions to provisions and reserves.
- 2.16 A national change in accounting practice means that in 2007/08 services will no longer be charged with a notional interest cost for their use of capital assets. In the table below the 2006/07 figures have been adjusted to put the two years on a comparable basis.

<b>Table 4</b>	<b>2006/07</b>	<b>2007/08</b>
	<b>£m</b>	<b>£m</b>
Family and Children's Services	44.611	45.394
Housing, Health and Adult Social Care	59.022	62.011
Planning and Conservation	5.525	5.549
Transport, Environment and Leisure Services	15.872	17.583
Corporate Services	17.209	18.139
<b>Total Service Costs</b>	<b>142.240</b>	<b>148.676</b>
Charges for Capital Assets and Financing	1.952	3.565
Pension Fund Liabilities 1	6.566	5.972
Contingencies and Provisions	2.889	3.245
Interest 2	-6.700	-8.200
Levies	3.417	3.501
Revenue Reserves	8.961	5.981
Capital Reserves	5.545	5.500
<b>Total Spending</b>	<b>164.870</b>	<b>168.240</b>

**Notes:**

1 This represents the amount agreed with the actuary as required to repay the Royal Borough's share of Pension Fund deficit over 13 years. The figure is revalued every three years and will be changed for 2008/09.

2 Interest has increased due to higher levels of cash balances and investment returns above budget.

2.17 The main reasons for the change from the 2006/07 budget are summarised in **Table 5**. Further details are given in the Revenue Budget Book.

<b>Table 5</b>	<b>£m</b>	<b>£m</b>
2006/07 Budget (including Garden Square Levies)		164.870
Pay and Price Inflation		6.184
Corporately Funded Growth	2.343	
Business Group Internally Funded Growth	1.151	
Growth		3.494
Savings		-3.522
One-Off Budgets Dropping Out		-0.820
Financing and Other Budget Changes		-1.966
<b>Total Budget Changes</b>		<b>3.370</b>
<b>Total 2007/08 Budget Requirement</b>		<b>168.240</b>
Less Formula Grant		-96.518
Add Collection Fund balance		0.248
<b>Council Tax 2007/08</b>		<b>71.970</b>
Taxbase		97,328
Band D Council Tax including Garden Square Levies		£739.45
<b>Band D Council Tax</b>		<b>£727.27</b>
<b>Increase £ at Band D</b>		<b>£0</b>
<b>Increase % at Band D</b>		<b>0%</b>

Details of growth, savings and one-off budgets dropping out are shown in **Appendix D**

2.18 The budget proposals identify £3.5 million of efficiency and other savings. £1.2 million has been recycled by Business Groups to fund

local priorities and £2.3 million has been corporately funded – giving total growth of £3.5 million. The changes are listed in the Revenue Budget Book and in the Cabinet Business Plan. Savings are informed by a review of likely areas of underspending in 2006/07 as well as savings initiatives such as procurement reviews that have been undertaken during the past year. Particular areas of underspending reviewed include:

- Police Community Support Officers – where recruitment levels have improved, and the price has been renegotiated.
- Benefits, where administration and other grants have reduced, and the impact of rent rises will be absorbed within existing budgets.
- Current land charges additional income has been vired to assist a shortfall in halls lettings income, although fresh halls marketing impetus should also help to address this.
- Income from temporary housing has been redirected to initiatives to prevent homelessness, although the budget also reflects a reduction in government subsidy.
- Parking income reflects a review of current levels being achieved, together with an increase in the London-wide charge for penalty notices. The budget has had to take account of the congestion charge impact, which is hard to call at this time.

2.19 The real terms General Fund growth and savings by Business Group are summarised in **Table 6** below. As far as possible front line services have been protected and savings sought from management and administration. Cashable savings in 2007/08 are not expected to meet the Treasury guideline of 1.25 per cent. However the Council should exceed the cumulative target for the three year period to the end of 2007/08.

<b>Table 6</b>	<b>Locally Funded Growth</b>	<b>Savings</b>	<b>Subtotal</b>	<b>Centrally Funded Growth</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Family and Children's Services	0.180	-0.726	-0.546	0.580	0.034
Housing, Health and Adult Social Care	0.158	-0.587	-0.429	0.623	0.194
Planning and Conservation	0.100	-0.220	-0.120	0.000	-0.120
Transport, Environment and Leisure	0.170	-0.875	-0.705	0.270	-0.435
Corporate Services	0.543	-1.114	-0.571	0.870	0.299
<b>Total General Fund</b>	<b>1.151</b>	<b>-3.522</b>	<b>-2.371</b>	<b>2.343</b>	<b>-0.028</b>

2.20 Changes in levies from external bodies are set out in **Table 7**.

<b>Table 7</b>	<b>2006/07</b>	<b>2007/08</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>%</b>
London Boroughs Grants	0.657	0.693	5.5%
Environment Agency	0.112	0.179	59.8%
London Pensions Fund Authority	1.525	1.443	-5.4%
Garden Square Levies	1.085	1.186	9.3%
<b>Total</b>	<b>3.379</b>	<b>3.501</b>	<b>3.6%</b>

## **BUDGETARY RISKS**

- 2.21 This year's budget needs to be set in the context of an assessment of the future year's risks.

### **Grant risks**

- 2.22 Specific grants for 2007/08 have been closely in line with expectations, although a number are set at lower levels than previously. Grants can sometimes be changed mid-year, as has happened with Asylum Grants in the past, and has been suggested in relation to temporary accommodation subsidy. The Revenue Budget Book lists the grants included in the budget.

### **Demand risks**

- 2.23 Significant progress has been made in managing the children's and adults' social care budgets that have overspent in previous years. However it is not always possible to control fluctuations in numbers of high cost placements, such as children referred by the courts to secure accommodation. The cost of special educational needs transport has grown rapidly in the past year, and this will be reviewed during 2007/08.
- 2.24 There are risks to income from demand changes, particularly in areas such as land charges, hall lettings, building control and planning income, which are sensitive to the economic cycle. There are financial and environmental benefits from bringing commercial waste collection back in-house but, this also exposes the Council to income risks previously taken by the Council's waste contractor. The most significant income risk remains the extension of the congestion charge which is tentatively estimated to have approximately £4 million full-year impact.
- 2.25 Cost increases arising from pay and prices changes are covered in-year from the annual contingency budget e.g. continued uncertainty over the impact of the next pay round; catch-up changes arising on the re-tendering of contracts and uncertainty over interest rates. Pay awards are assumed at 2.5 per cent, higher than the Chancellor's guideline of two per cent, but below

the current level of inflation, with the Retail Price Index running at 4.4 per cent in December 2006.

### **Service Risks**

- 2.26 As part of its routine risk management, the Council's Management Board regularly reviews 'unplanned service risks' as a corporate exercise. Scanning the horizon in this way is part of the Council's risk mitigation process, but the budget also includes a contribution (£625k) to address in-year problems. As an example, the Government has recently published a consultation on Home Information Packs that could lead to changes in the basis of charging for land charge searches.

## **CONTINGENCIES AND RESERVES**

### **Contingencies and Central Provisions**

- 2.27 The budget contains contingency provision for uncertainties and central provisions where it is not possible at this stage to identify specific Business Group budgets to which to allocate expenditure. The amounts for 2006/07 and estimate for 2007/08 are shown in **Table 8**.

<b>Table 8</b>	<b>2006/07</b>	<b>2007/08</b>
	<b>£m</b>	<b>£m</b>
<b>Contingencies</b>		
General Contingency (includes pay and prices)	2.600	2.600
Licensing appeals	0.200	0.200
Planning costs	0.050	0.050
<b>Total Contingencies</b>	<b>2.850</b>	<b>2.850</b>
<b>Centrally held budgets</b>		
Unallocated Grant - net expenditure	0.039	0.395
<b>Total Centrally held</b>	<b>0.039</b>	<b>0.395</b>
<b>Total Contingencies and Centrally held</b>	<b>2.889</b>	<b>3.245</b>

### **Reserves**

- 2.28 The budget contains central provisions, contingencies and earmarked reserves that help to ensure that risks do not de-stabilise service provision during the year.
- 2.29 The Council's financial environment is constantly changing, as are the demands on services and the needs of the Borough. The Council continuously reformulates its priorities in response to these issues.
- 2.30 Reserves therefore remain an important part of the Council's financial strategy. They are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its

strong financial standing and resilience in the face of risks to its income sources.

- 2.31 The Council therefore holds revenue reserves in order to mitigate future risks, such as increased demand and costs; to help absorb the costs of future liabilities, such as insurance or pensions; and to enable the Council to resource policy developments and initiatives without a disruptive impact on Council Tax. Some expenditure, e.g. building maintenance, is managed through reserves to avoid the impact of lumpy spending patterns. At the same time, the Council relies on interest earned through holding reserves to support its general spending plans.
- 2.32 A full list of reserves, projected over the next three years, is given in the Revenue Budget Book together with a statement of the Council's formal policy on reserves.
- 2.33 Capital reserves represent a large part of the total. They play a crucial role in funding the Council's capital investment programme, and renewing assets while avoiding expensive borrowing costs. The planned use of the Capital Expenditure and Car Parking reserve to meet capital investment is set out in the Capital report on this agenda.
- 2.34 **Table 9** shows budgeted revenue movements on reserves.

<b>Table 9</b>	<b>2006/07</b>	<b>2007/08</b>
	<b>£m</b>	<b>£m</b>
Pensions Reserve	-0.074	
Specific Grant Loss Reserve	0.660	
Demand Growth Reserve	1.350	
Service Risks Reserve	0.625	0.625
Local Initiatives Reserve	-0.075	
Economic Development Reserve	-0.100	
Better City Life Reserve	0.600	0.600
Severance Reserve	0.500	0.500
Business Group Specific Reserves	0.649	0.600
Sub Total	<b>4.135</b>	<b>2.325</b>
Car Parking Reserve (Revenue)	4.826	3.656
<b>Total Revenue Reserve Movements</b>	<b>8.961</b>	<b>5.981</b>
Capital Expenditure Reserve	5.545	5.500
<b>Total Reserve Movements</b>	<b>14.506</b>	<b>11.481</b>

- 2.35 The use of the Car Parking Reserve is governed by legislation, but surpluses held in the reserve can be used to help pay for highway maintenance and improvements, public transport services, off-street parking, spending in support of the Mayor of London's Transport Strategy, and environmental improvements including parks, open spaces and the street scene.

2.36 The amount of the reserve planned to be released in 2007/08 is £18 million and forecast future year releases are shown in **Table 10**. The potential use that could be made, within the extended freedoms, is £34 million as detailed in the Revenue Budget Book. However, the reserve continues to be used with great caution while we await the impact of the Congestion Charge zone expansion.

<b>Table 10</b>	<b>Forecast 2006/07 £m</b>	<b>Forecast 2007/08 £m</b>	<b>Forecast 2008/09 £m</b>	<b>Forecast 2009/10 £m</b>
Balance Brought Forward	36.3	36.6	33.4	26.8
Add surplus from On-Street Car Parking	22.5	21.5	21.4	21.1
Less Funding of Revenue Expenditure	-17.4	-17.9	-18.4	-19.0
Less Funding of Capital Expenditure	-4.8	-6.8	-9.6	-6.4
<b>Total Movement</b>	<b>0.3</b>	<b>-3.2</b>	<b>-6.6</b>	<b>-4.3</b>
Balance Carried Forward	36.6	33.4	26.8	22.5

Note: Figures may not sum exactly due to rounding.

Capital funding for 2008/09 and 2009/10 includes £2.7 million in each year for the continuation of the programme of York Stone Paving which is only included in the capital programme if funds are sufficient.

### **Working Balance**

2.37 The Council's working balance at the end of 2005/06 was £13.2 million, 2.3 per cent of the gross cost of services and eight per cent of the net budget requirement. Based on the indicative out-turn for 2006/07 it is expected that the reserve can continue to be maintained at a constant proportion of the budget i.e. £13.5 million.

2.38 Business Groups are reviewing the carry forward budgets remaining unused from 2004/05 on the basis that they will be released back to the General Fund after two years if unspent, unless exceptional circumstances apply.

2.39 The Cabinet is requested to confirm for the Council's budgetary framework, that the minimum level of working balance should be £10 million. This means that Council approval is required to reduce the working balance below that level.

### **Robustness of the budget**

2.40 The Executive Director for Finance, Information Systems and Property is required formally to advise on the robustness of the budget figures used to calculate the Council Tax, and on the adequacy of reserves. I am satisfied that the Budget calculations are robust and that the budget takes account of liabilities and financial risks, but in particular assumes that we will not rely on withdrawals from reserves to meet recurrent revenue commitments. I consider that current levels of unallocated

reserves are strong, and contribute to the Royal Borough's sound financial position, taken into account in both the Standard & Poor's AAA credit rating and our reconfirmed external auditor's level 4 assessment of financial standing as part of the Comprehensive Performance Assessment (this is the highest rating).

## ROYAL BOROUGH COUNCIL TAX

- 2.41 The budget proposals outlined above and summarised in the Revenue Budget Book produce a Council Tax freeze - a Band D figure for the Royal borough's element of the tax of £727.27, excluding Garden Squares.
- 2.42 Just over half of the budget requirement comes from local taxes, with 43 per cent coming from Government Formula Grant. This means that varying spending by one per cent increases the Council Tax by 2.3 per cent. Varying spending plans by £1 million would add £10 (1.4 per cent) to the Band D Council Tax.
- 2.43 **Table 11** below shows the proposed tax calculation for the Royal Borough's own expenditure, excluding Garden Squares and the Greater London Authority precept. This also takes into account an estimated £248k shortfall on the collection of Council Tax for past years. There will be an additional payment for properties where the Garden Square also makes a levy.

<b>Table 11 Royal Borough Council Tax</b>		<b>£m</b>
Budget requirement 2007/08		168.240
Less Garden Square Levies		-1.186
Add Council Tax Collection Deficit		0.248
	Subtotal	<b>167.302</b>
Funded by Formula Grant		-96.518
Leaving Funding Required from Council Tax		<b>70.784</b>
Divided by Band D Equivalent Taxbase		97,328
<b>= Council Tax at Band D 2007/08</b>		<b>£727.27</b>
Council Tax at Band D 2006/07		£727.27
<b>Increase £</b>		<b>£0</b>
<b>Increase %</b>		<b>0%</b>

- 2.44 The Council agreed the tax base of **97,328** on the 24 January 2007. At the same time the tax bases for the Garden Squares were agreed. However the tax base for four of the Garden Squares has subsequently been revised following notification of changes since the tax bases were set:

Collingham Gardens	increased from 189 to <b>190</b>
Iverna Court	increased from 237 to <b>240</b>

Nevern Square increased from 329 to **334**  
Stanley Crescent increased from 191 to **193**.

The Royal Borough Council Tax for each Band is detailed in the Revenue Budget Book.

### TOTAL COUNCIL TAX

- 2.45 The Greater London Authority has finalised its 2007/08 precept, the amount it is asking the Borough to collect on its behalf, at the London Assembly meeting on the 14 February 2007. **Table 12** shows the consultation Band D Council Tax figure for 2007/08.

<b>Table 12</b>	<b>2006/07</b>	<b>2007/08</b>	<b>Change</b>
	<b>£</b>	<b>£</b>	<b>%</b>
Metropolitan Police	210.82	223.60	6.1
London Fire and Emergency Planning	45.63	47.12	3.3
Transport for London	4.16	4.13	-0.7
Greater London Authority*	29.32	30.00	2.3
+Deficit/-Surplus on Collection Funds	-1.32	-0.97	-26.5
<b>Total GLA Precept Band D</b>	<b>288.61</b>	<b>303.88</b>	<b>5.3</b>

\* Includes £20 funding for the Olympic and Paralympic Games

- 2.46 The estimated total Council Tax increase (excluding Garden Square levies) is shown in **Table 13**.

<b>Table 13</b>	<b>2006/07</b>	<b>2007/08</b>	<b>Change</b>
		<b>£</b>	<b>%</b>
The Royal Borough	727.27	727.27	0.0%
Greater London Authority Precept	288.61	303.88	5.3%
<b>Total Council Tax Band D</b>	<b>1,015.88</b>	<b>1,031.15</b>	<b>1.5%</b>

- 2.47 Royal Borough and total Council Tax rates for each Band are shown in the **Table 14**. The table shows the percentage of dwellings falling under each band, and that Band G is the most common. For properties in areas covered by Garden Square levies the amounts for each band are detailed in the Revenue Budget Book.

<b>Table 14</b>	<b>Royal Borough</b>	<b>Greater London Authority</b>	<b>Total</b>	<b>% of Dwellings in Band</b>
<b>Band</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>%</b>
A	484.85	202.59	687.44	1%
B	565.65	236.35	802.00	4%
C	646.46	270.12	916.58	10%
<b>D</b>	<b>727.27</b>	<b>303.88</b>	<b>1,031.15</b>	<b>16%</b>
E	888.89	371.41	1,260.30	15%
F	1,050.50	438.94	1,489.44	14%
G	1,212.12	506.47	1,718.59	23%

H	1,454.54	607.76	2,062.30	17%
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## **MEDIUM TERM FINANCIAL PLAN**

2.48 The medium term financial plan extends the financial planning horizon to 2009/10. It is based on the following elements:

- A review of significant external changes likely to impact
- A framework of medium term financial planning principles
- And a projection of the Council's spending and resources.

### **External drivers**

2.49 The Government's Comprehensive Spending Review 2007 (CSR 2007) will set out the proposals for public expenditure for 2008/09 to 2010/11. The Pre-Budget report in December 2006 provided early warning of a target of three per cent cashable efficiency gains for public services. This could translate into roughly £5 million a year for the Royal Borough. This is considerably greater than the level of service budget reductions planned in the current budget.

2.50 CSR 2007 will set spending and grant totals for local government for three years ahead and correspondingly the Council will be expected to formulate three-year spending and tax plans. Minimum funding guarantees and damping arrangement formally expire at the end of 2007/08. The Council's government grant allocation is at risk from three factors – the potential unravelling of internal damping for adverse formulae changes, negative changes to key data such as resident population estimates and a lower funding floor for future years' settlements. Technically the Government could review population and grant retrospectively, through Grant Amendments, but this is considered unlikely.

2.51 The Council also relies on £48 million of specific grants excluding Benefits Grant and Dedicated Schools Grant. This poses a risk where grants may be discontinued or where distribution mechanisms change, e.g. Supporting People Grant for assisted housing which continues to fall annually. Some specific grant allocations are currently protected by damping to Children's and Adults Personal formulae and are therefore at risk in future years. The Council can influence the level of its specific grant only at the margin, and a large portion of its core resourcing is therefore outside its direct control.

2.52. The Revenue Budget Book lists the grants that are built into the Council's budget plans for 2007/08. There are no guaranteed future year allocations until the next round of funding announcements in autumn 2007 after the summer 2007 CSR. Given the pending review of the population estimates, it is possible

that the Council will return to minimum annual grant increases, and will see a grant standstill. As we found at the time of the last Census, our grant entitlement is particularly sensitive to shifts in the population estimate. This reinforces the need for the Council to maintain flexibility in its own budgeting.

- 2.53 The absence of Government forward planning guidelines beyond 2007/08 makes it difficult to predict how other damping arrangements will be carried forward, especially the impact of the formula changes for social services children and young adults, which together lock in around £19 million of potential grant losses in damping arrangements.
- 2.54 Schools minimum funding guarantees also expire in 2008/09. The Department for Education and Skills is in the process of reviewing the Dedicated Schools Grant distribution formulae and this poses a potential threat to the current allocation.
- 2.55 Other budget risks include:
- The Landfill Allowances Trading Scheme. Due to the delay in granting planning permission for an incinerator, the Western Riverside Waste Authority is likely to face a shortfall in its Allowances compared with the amount of waste it takes to landfill. The potential impact for the Council is up to £3 million a year from 2009/10, which will be time limited if the incinerator is approved.
  - The capital programme will eventually run down interest income as the capital expenditure reserve is depleted. However, voluntary debt payments previously set aside should enable the Council to absorb the impact of the new capital programme over the next three years.
  - The Government is planning to review the threshold for temporary accommodation subsidy, and is likely to reduce current levels of income in this service area.
  - A further Pension Fund Revaluation will come into effect in 2008/09 and it is possible that increasing longevity will increase liabilities. Employees will also be making increased pension contributions from 2008/09.
- 2.56 Over the medium term radical changes in local government funding are possible, driven by the Government's response to the Lyons Inquiry (reporting spring 2007) and the recent Local Government White Paper. It is also possible that Local Area Agreements including statutory targets will play a greater role in channelling grant allocations than hitherto.

## **MEDIUM TERM FINANCIAL PRINCIPLES**

- 2.57 The Borough's residents expect Council services of a high standard. The challenge is to meet this expectation within affordable limits. The Council therefore ensures that it plans for the future and makes provision for both known and likely increases in its costs. The Council's financial planning is guided by medium term financial principles, and these are unchanged from 2006/07. These are set out in the Cabinet Business Plan, and reproduced in the Revenue Budget Book.

## **THE COUNCIL'S RESOURCES AND PLANS**

### **Spending projection**

- 2.58 **Table 15** projects the budget requirement over the next three years. These figures are for illustration and will vary as new information emerges during the planning period. Assumptions include:
- cost increases due to inflation of 2.5 per cent. There is some limited additional headroom for potential market increases. The Grounds Maintenance contract will impact further in 2008/09.
  - an illustrative £3.5 million cashable savings (although this is unlikely to meet the potential new government cashable efficiency target of three per cent).
  - an illustrative £2.5 million growth estimate from new demands, policy initiatives and commitments.
  - specific grant changes are financially neutral, with losses matched by spending reductions.
  - pension costs do not increase significantly and that immediate impacts can be absorbed by using the balance of the Pensions reserve created to cushion the impact of change.
  - budget sharing with the Primary Care Trust (PCT) is profiled as planned with the 2007/08 additional contribution dropping out.
  - extra financing costs of capital investment are absorbed for the next three years.

- losses in specific grants are matched by expenditure reductions. This could require some hard choices, for example, free recycling bags have been funded from waste performance grant.
- no increase in Formula Grant – i.e. the council is held at the grant floor. If not at the floor the estimated grant increase would be two per cent - £1.9 million. This would reduce the Council Tax projection by 2.7 per cent.

2.59 The projection focuses on the budget requirement. **Table 15** does not take specific account of future policy growth where commitments have not yet been made. There may be additional funding from a further year of the Local Authority Business Growth Incentive scheme grant payable in 2007/08.

<b>Table 15</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Starting Budget including Garden Squares	164.9	168.2	171.7
Cost Increases	6.2	6.3	6.5
Growth	3.5	2.5	2.5
Less Savings	-3.5	-3.5	-3.5
One-off budgets dropping out	-0.8	-0.3	-0.5
Financing Changes and Other	-2.1	-1.5	-0.5
<b>Budget Requirement</b>	<b>168.2</b>	<b>171.7</b>	<b>176.2</b>
Less Formula Grant	-96.5	-96.5	-96.5
Collection Fund Balance	0.2	0.0	0.0
<b>Projected Council Tax</b>	<b>71.9</b>	<b>75.2</b>	<b>79.7</b>
Tax Base	97,328	97,820	98,300
Projected Council Tax Increase	0%	4%	5%

### **Reserves**

- 2.60 Reserves play a pivotal role in the medium term planning for financial sustainability. Details of projected reserve balances and movements are shown in the Revenue Budget Book. The biggest reserves are the Capital Expenditure Reserve and the Car Parking Reserve both of which will play a large part in financing the Council's ambitious capital investment plans.
- 2.61 Over the next three years, the Council expects to rely heavily on the Capital Expenditure Reserve to fund some £47 million of investment, with a further £23 million to be drawn from the Car Parking Reserve for capital investment. Release of reserves will be at a measured pace as the Council's revenue budget currently relies on the interest generated on cash balances.
- 2.62 The Council is also planning to release other reserves held to meet future liabilities, such as the annual reduction in Supporting People Grant.

## **Conclusion**

- 2.63 The Council faces external risks to its resource base and continuing pressures and risks from demand led budgets. It will strive to deliver demonstrably high standards of service to residents, responding to community issues. It takes a medium term approach to its finances. Its financial position is soundly based and the Council will continue its aim to deliver a relatively low Council Tax.

## **LEGAL IMPLICATIONS**

- 2.64 The Council is required to set a balanced budget. The Chief Finance Officer is also required, under the Local Government Act 2003, Part 2, Section 25, to report on the robustness of the estimates made for the purpose of calculating the Council Tax and the adequacy of reserves. These requirements are met as set out in the report.

## **EQUALITIES IMPLICATIONS**

- 2.65 Assessments of the equalities implications for budget items are included in the Service Budget Reports submitted to Overview and Scrutiny Committees or will be included in more detail in relevant key decision reports.

## **2.66 RECOMMENDATIONS**

- (i) The Council is recommended:

(a) **To approve** the revenue estimates for 2007/08 as submitted in the Revenue Budget Book 2007/08;

(b) **To agree** that the General Fund Working Balance should not be reduced below £10 million in 2007/08 within the budgetary framework;

- (ii) **To approve** the revised Band D equivalent tax bases in respect of:

Collingham Gardens	(190)
Iverna Court	(240)
Nevern Square	(334)
Stanley Crescent	(193)

- (iii) **To note** that at the Council meeting on 24<sup>th</sup> January 2007 it calculated the following amounts for the year 2007/08 in accordance with regulations made under Sections 33(5) and 34(4) of the Local Government Finance Act 1992:

- (a) **97,328** being the amount calculated by the Council, in accordance with regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992, as its Council Tax base for the year; and
  - (b) the amounts as set out in column three of the table on page xi of the Revenue Budget Book being the amounts calculated by the Council, in accordance with regulation 6 of the Regulations as the amounts of its Council Tax base for the year for dwellings in those parts of its area to which one or more special items relate. This already takes into account the amendment at resolution (ii) above.
- (iv) **To agree** that the following amounts be now calculated by the Council for the year 2007/08 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992 (the Act):-
- (a) £168,239,883 being the amount by which the aggregate of the amounts which the Council estimates for the items set out in Section 32 (2) (a) to (e) of the Act; exceeds the aggregate of the amounts which the Council estimates for the items set out in Section 32 (3) (a) to (c) of the Act; calculated by the Council in accordance with Section 32(4) of the Act as its budget requirement for the year.
  - (b) £96,270,693 being the aggregate of the sums which the Council estimates will be payable for the year into its General Fund in respect of Formula Grant, reduced by the amount of the sum that the Council estimates will be transferred in the year from its General Fund to its Collection Fund in accordance with Section 97 (4) of the Local Government Finance Act 1988 and any sums relating to the difference between amounts in respect of community charges credited and charged to the revenue account for any earlier financial year, and any sums pursuant to the direction that is contained in the Collection Fund (Council Tax

Benefit)(England) Directions 2001.

- (c) £739.45 being the amount at (iv)(a) above less the amount at (iv)(b) above, all divided by the amount at (iii)(a) above, calculated by the Council, in accordance with Section 33(1) of the Act, as the basic amount of its Council Tax for the year;
- (d) £1,185,853 being the aggregate amount of all special items referred to in Section 34(1) of the Act and listed in column four of the table on page xi of the Revenue Budget Book;
- (e) £727.27 being the amount at (iv)(c) above less the result given by dividing the amount at (iv)(d) above by the amount at (iii)(a) above, calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no special item relates;
- (f) the amount as set out in the table on page xi of the Revenue Budget Book opposite each garden square listed in column two, being the amount given by adding to the amount at (iv)(e) above the amount of the special item or items set out in column four relating to dwellings in each of the garden squares divided in each case by the amount set out in column three, calculated by the Council in accordance with Section 34(3) of the Act as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which one or more special items relate; and
- (g) the amounts as set out in page xii of the Revenue Budget Book being the amounts given by multiplying the amounts at (iv)(e) and (iv)(f) above by the number which, in the

proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in the proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

- (v) **To note** that for the year 2007/08 the Greater London Authority has stated the following amounts in precepts issued to the Council in respect of the functional bodies under its control, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:

<b>VALUATION BAND</b>	<b>Greater London Authority Council Tax</b>
	<b>£</b>
A	202.59
B	236.35
C	270.12
D	303.88
E	371.41
F	438.94
G	506.47
H	607.76

- (vi) Having calculated the aggregate in each case of the amounts at (iv)(g) and (v) above, in accordance with Section 30(2) of the Local Government Finance Act 1992, to agree to set the following amounts as the total Council Tax for 2007/08 for each of the categories of dwellings shown below:

<b>VALUATION BAND</b>	<b>Total Council Tax (Not in Garden Squares)</b>
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	<b>£</b>
A	687.44
B	802.00
C	916.58
D	1031.15
E	1260.30
F	1,489.44
G	1,718.59
H	2,062.30

with the amounts shown in the table at page xiii of the Revenue Budget Book set as the amounts of Council Tax for those dwellings where special Garden levies apply.

**FOR DECISION**

**Background papers**

Budget files

Local Government Finance Settlement files (grant notifications for 2007/08). Details can be found at:

<http://www.local.odpm.gov.uk/finance/0708/grant.htm>

Council Tax Consultation 2007/08 – report to Cabinet 15 January 2007

Council Tax Base 2007/08 – approved by Council 24 January 2007

Vital Finances – digest of financial material. This can be found at:

<http://www.rbkc.gov.uk/yourcouncil/councilfinances/vitalfinances.asp>

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