

BABERGH DISTRICT COUNCIL

FROM: Strategy Committee

REPORT NUMBER

TO: Council

DATE OF MEETING 22 February 2008

2008/09 BUDGET AND FINANCIAL STRATEGY FOR FUTURE YEARS

1. PURPOSE OF REPORT

- 1.1 As a result of a rigorous exercise to identify savings and additional income, the Council will be able to set a Budget for 2008/09 that delivers its emerging Corporate Plan and service priorities and achieves, as has been the case over the last four years, a Council Tax increase of no more than the rate of inflation.
- 1.2 The report also explains the pressures in relation to the Council's Medium-Term Financial Strategy.

2. RECOMMENDATIONS

- 2.1 That Council Tax be increased by 3.9% for 2008/09 and the General Fund revenue budgets and capital programme be approved.
- 2.2 That the revised General Fund charges for services are implemented with effect from the 1 April 2008.
- 2.3 That the temporary amendments to the staffing establishment and arrangements for utilising the funding for Chilton Woods and Planning staffing resources set out in paragraph 5.16 of the report be approved.
- 2.4 That the budget risk assessment and prudential indicators for capital finance and treasury management set out in Appendices 4 and 5 to this report be approved.
- 2.5 That where expenditure is included within the approved budget, the Head of Finance be empowered to:-
 - (a) Vary the timing of revenue and capital payments from the current financial year to 2008/09 or vice versa in accordance with Financial Regulations and Council resolutions.
 - (b) Vary the method of financing capital schemes, if he is satisfied that it is in the financial interest of the Council to do so.
- 2.6 That the Head of Finance be authorised to amend the annual amounts of Council Tax payable in accordance with any changes notified by Suffolk County Council, and/or Suffolk Police Authority to the precepts issued by them.

3. FINANCIAL IMPLICATIONS

- 3.1 These budgets determine the level of service provision, Council Tax, rents and charges for the coming year. The budget enables the Council to meet its emerging Corporate Plan and Financial Strategy and, specifically, the aim of increasing Council Tax by no more than the rate of inflation in 2008/09.
- 3.2 This is despite a poor Formula Grant settlement for 2008/09 that sees the Council's grant only increasing by 2.9% in cash terms. Allowing for certain specific grants and other adjustments that have now been included in the Formula grant, the real increase is only 2.1%.
- 3.3 This follows the Government's 2007 Comprehensive Spending Review, which has resulted in grant indications for the next 3 years. District Councils have fared very poorly overall. Although this was anticipated, and it reflects the new 3% cashable efficiency target for the next 3 years, the very low grant increases will place significant additional pressures on the Council's future finances.
- 3.4 Therefore, beyond 2008/09 and in addition to continuing the drive for efficiencies and savings, the Council needs to consider options for generating additional income in future years as part of its overall financial strategy.

4 RISK MANAGEMENT

- 4.1 The report is linked to the Council's significant business risk No. 8 – Comprehensive Spending Review. Key risks are detailed in paper G158, considered by the joint Overview & Scrutiny Committees on the 11 December 2007.
- 4.2 Members attention is drawn to the Budget Risk Assessment set out in Appendix 4.

5 KEY INFORMATION

Background

- 5.1 During the year there has been an integrated approach to the review of the Corporate Plan, consultation and the formulation of the budget for 2008/09. The Service and Financial Planning (SFP) Group has worked closely with the Corporate Plan Working Group and with officers over the last few months to arrive at proposals which support the development of the Council's priorities.
- 5.2 Further, in order to streamline and integrate arrangements further next year, a single combined Corporate Plan and SFP Group is to be established early in 2008/09 to ensure plans for resource allocation for the 2009/10 Budget and beyond are considered in the context of the resources available and the priority outcomes the Council wants to achieve.
- 5.3 The aim for this year's budget considerations has been to meet the Council's current Financial Strategy of 'doing its best to achieve a Council Tax increase at no more than the rate of inflation' for next year. That has not been easy and a number of assumptions have been necessary involving some uncertainties

and understood risks in terms of predicted costs, savings and additional income.

- 5.4 The SFP Group's report (Paper G158) was considered by a joint meeting of the two Overview and Scrutiny Committees on the 11 December 2007 who supported the group's overall proposals, and these are included in the Budget for 2008/09.
- 5.5 In terms of the Medium-Term Financial Strategy, key issues are covered in paras. 5.25 to 5.30 of Paper G158.
- 5.6 Key details of the General Fund Revenue Budget are attached in Appendices 1 to 3. Key points relating to the General Fund Budget detailed on pages 34-48 are highlighted below:
- The total cost of services provided is summarised on page 34. Pages 35 to 37 provide further details of the total costs of each service
 - Pages 41 to 48 give details of the net direct costs and income of each individual service excluding staff management and support (operational and support services) and capital charges These are shown separately for each main service area.
 - The 2007/08 Revised Budget includes approved sums carried forward from 2006/07 and other expenditure/income variations that have arisen.

2008/09 Revenue Budget and Council Tax

- 5.7 **The Budget for 2008/09 is based on the SFP Group and the O&S Committees proposals to support a Council Tax increase of 3.9%.** A 1% variation would amount to just over £40,000 a year.
- 5.8 The Council has previously based any Council Tax increase on the Retail Price Index in September which, in 2007, was 3.9%. This is again felt to be appropriate this year as this is the basis used by the Government to increase state pensions and business rates.
- 5.9 The statutory consultation with Business Ratepayers took place on the 5 February 2008 and there were no observations on the budget or the proposed Council Tax increase for 2008/09 of 3.9%.
- 5.10 If approved, this will mean that the Council will have achieved an increase in Council Tax over the last 5 years that has not exceeded inflation (as measured by the headline RPI increase in September each year).
- 5.11 A summary of the overall Budget and the change from 2007/08 to 2008/09 is set out below:-

	2007/08 £000	2008/09 £000	Change
Net revenue expenditure	10,391	10,646*	+2.5%
Use of reserves:			
– 2008/09	-414	-231	-44.2%
– From 2006/07 savings	-	-105	-
Collection Fund Surplus/Deficit	-33	-10	-69.7%
	9,944	10,300	+3.6%
Government Support	-5,836	-6,005	+2.9%
Council Tax payers	4,108	4,295	+4.6%
Council Taxbase (Band D equivalent)	32,539	32,750	+0.6%
Council Tax for Band D property	£126.24	£131.16	
Council Tax increase	2.9%	3.9%	

* Includes £105,000 approved allocation from savings and higher reserves in 2006/07.

5.12 The Government's Formula Grant of £6,005,000 for 2008/09 is, as expected, very disappointing. The real increase of only 2.1% is wholly insufficient to cover inflation and other cost pressures.

5.13 The explanation for the change in net revenue expenditure is shown below:

See Appendix	Reason for Change in Budget	£000
	• Net revenue expenditure 2007/08	10,391
	• Items from 2006/07	+105
	• Inflation	+400
1	• Commitments	+355
2	• Service priorities/growth	+19
	• Prudential Borrowing	+50
3	• Savings, efficiencies and additional income	-614
	• CAST	-60
	• Net revenue expenditure 2008/09	10,646

5.14 The budget reflects the estimated net revenue costs of the CAST project of £55,000 in 2008/09, which is to be met from reserves. The variation shown above relates the reduction in planned net revenue expenditure (after efficiency savings) in 2008/09 compared to the 2007/08 original budget.

5.15 In addition to CAST, the proposed use of reserves to support the budget generally amounts to £176,000, in line with the amount planned in the Financial Strategy (including the £105,000 referred to in the tables above, this takes the total use of general reserves to £281,000 in 2008/09). This use of reserves is substantially lower than the amount available for use in 2007/08. The overall reserves position is explained more fully later.

5.16 There are no increases in the permanent staffing establishment proposed for next year. Approval is sought, however, to the following temporary amendments to the establishment:

Area	Details
Chilton Woods/Temporary Planning Resources	£50,000 addition to Chilton Woods allocation of £100,000, funded from Business Rates Growth reserve. Head of Natural & Built Environment to determine the use of the £150,000, including for additional temporary staff, in consultation with Corporate Director.
Licensing Administration	0.5 fte temporary post to continue for 2008/09 to deal with further statutory duties including the new Gambling Act - funded by higher fee income.
Homelessness Officer	Temporary post to continue for 2008/09 and subsequent years, subject to Government Funding continuing.
Play Worker	Post for 2 years, which is part of the £200,000 Big Lottery funding that has been received to develop opportunities for play in the District.

5.17 Attention is drawn to concessionary fares, where there are still substantial risks and uncertainties:

- A contingency has been made for potential costs in 2007/08 and 2008/09. Actual costs could be more or less than this.
- Costs beyond 2008/09 will be subject to the same uncertainties although it would be hoped that usage and the new national scheme should have stabilised by then
- The LGA are pressing for a review of the distribution of Government grant following operation of the new scheme in year 1. That could result in Babergh losing some or all of the grant allocation in future years
- Although the LGA's stance is very sound, such a review could have serious financial implications for Babergh and that would need to be factored into future years' budget planning.

5.18 Attention is also drawn to a proposed increase in Audit Commission fees. They are currently consulting on these, with increases of 33% being suggested over the next 3 years. This is to cover increased work on Use of Resources and new accounting/auditing standards. A response has been sent that strongly challenges the need for such increases, especially at a time when District Councils grant settlements are being reduced so markedly.

5.19 On the new Housing & Planning Delivery Grant, the budget assumes a lower amount for the Planning element for next year, but the actual sum won't be known until announcements of the amounts payable are made later in the year. If the amount is higher, this will provide additional money to invest in planning delivery. No provision has been made for the Housing element,

again on the understanding that whatever is received can then be used to further our Affordable Housing plans.

Review of Charges

5.20 Charges have been reviewed in the light of the Council's Strategic Charging Policy. Main areas to note are:

- Proposed increases in taxi and hackney carriage licences of around 10% in accordance with the agreed strategy to gradually recover more of the costs. These are subject to consultation.
- Trade Waste – Introduction of a separate, lower charge to collect recycled as opposed to mixed waste as part of overall waste and recycling strategy. This is proposed on a cost-neutral basis in that waste disposal charges will reduce and an assumption that the numbers subscribing to the service will increase.
- No increases in some charges, notably land charge searches in view of market conditions.

Budget Risk Assessment

5.21 The budgets have been formulated on the basis of a careful assessment of the likely level of expenditure and income required to meet the Council's priorities and Corporate Plan. However, the position can change and there are more risks and uncertainties attached to the Budget than in previous years. These are, however, seen as manageable and a detailed Budget Risk Assessment setting out the issues in more detail is attached at Appendix 4.

Financial Strategy - Position for Future Years

5.22 When deciding on the budget and the level of Council Tax for 2008/09, it is important to do so in the context of the possible financial position in the longer term.

5.23 That position is clearer now that the results of the Government's Comprehensive Spending Review and likely grant settlements for the next 3 years are known.

5.24 The Council has adopted a clear financial strategy over the years of maintaining adequate levels of General Fund reserves and a prudent approach to their use. The intention is that there should be a carefully phased reduction in their use, with a view the level being reduced to no less than £1.2m over a number of years. That level of reserves would not then be reduced any further.

5.25 In addition, there are a number of earmarked reserves for specific purposes, most notably a Capital Reserve of just over £700,000 and a Business Rate Growth Income reserve of approaching £300,000. In addition and pending a decision on the possible introduction of a third bin for recycling kitchen waste, a further £100,000 in relation to recycling credits is also being set aside in an earmarked reserve.

5.26 The position on reserves has improved as a result of lower net revenue expenditure in 2006/07 compared to budget and the revised budget for the current year. The O&S Committees have been carefully monitoring the position during the year.

5.27 It should, however, be noted that (linked to the risk assessment set out at Appendix 4) there could always be unexpected costs that cannot be budgeted for, for example on legal cases. If any such costs arise, consideration will be needed in relation to whether these need to be met from reserves.

5.28 A summary of the revised position on reserves and how they might be used over a number of years is set out below:

	Note	Last year £000	Now £000
Reserves at 31 March 2007	1	2,150	2,785
General use in 2007/08	2	-301	-755
		1,849	2,030
CAST	3	-320	-209
		1,529	1,821
Phased general use of reserves			
2008/09	2	-169	-281
2009/10		-110	-130
2010/11		-50	-100
2011/12		-	-70
2012/13			-40
Minimum level of reserves		1,200	1,200

Notes:

1. After transfers to earmarked reserves of £775,000 for capital projects; £50,000 for efficiency projects on an 'Invest to Save' Business Case basis; and £75,000 for an Insurance claim.
2. Including carry forwards and allocation to priority projects – see Paper G40.
3. Broad assessment based on costs to date. More detailed assessment being undertaken.

Capital Programme

5.29 The proposed 3-year General Fund Capital Programme and its potential financing is summarised below. A provisional non-committed capital sum of £3.6m is included for 2008/09 and future years for Community Facilities in Hadleigh. Clearly, the nature, timing and cost of this project are subject to further consideration and Member decision.

5.30 There is no provision in the capital programme for any capital contribution towards the University Campus Suffolk, although it is accepted that a request for funding towards this is likely to need consideration in the near future:

Service Area	2007/08 £000	2008/09 £000	Following 2 years/reserve £000
Information Management/ICT	936	821	758
Contract and Asset Management	310	432	1,479
Community Development	187	1,453	3,605
Natural & Built Environment	242	-	-
PrivateSector/Affordable Housing	505	859	1,580
	2,180	3,565	7,422
Financing:			
Prudential Borrowing	139	2,559	1,801
Capital Receipts/Reserve	1,354	642	4,786
External grants and contributions	687	364	835
	2,180	3,565	7,422

- 5.31 As regards the financing of these capital investment plans, it can be seen that there will be a need for substantial borrowing to undertake the programme. That was always anticipated as other sources of capital finance ie capital receipts has fallen and the Government has reduced the proportion of those receipts that the Council can spend.
- 5.32 The Programme depends on using capital receipts from Council House sales. It is proposed that this continues but is subject to a review as part of the 2009/10 service and financial planning process.
- 5.33 There will of course be a revenue cost of prudential borrowing in future years, which will put pressure on future years' budgets. But without borrowing the Council will have to reduce capital investment and have a more restricted General Fund Capital Programme.

Longer-Term Financial Projection

- 5.34 An indication of the possible financial picture for the next 3 years is given below. Clearly, even with the increased certainty on Formula Grant, this can only be seen as a general indication of the position.
- 5.35 On the basis of this very general assessment, it can be seen that there is likely to be an ongoing requirement for efficiencies, savings and additional income (a 'budget gap') of around £700,000 - if service improvements and a Council Tax increase at the rate of inflation are to be achieved.

	2009/10 £000	2010/11 £000	2011/12 £000
Base budget from previous year	10,541*	10,710	10,965
Inflation	+400	+410	+425
Commitments	+300	+300	+300
Service Priorities	+200	+150	+100
Prudential borrowing (excl. CAST)	+50	+100	+150
CAST Project	-115#	-	-
Efficiencies, Savings and Additional Income (to achieve Council Tax inflation increase)	-666	-705	-705
	10,710	10,965	11,235
Use of Reserves	-130	-100	-70
Budget Requirement	10,580	10,865	11,165
Formula Grant (approx. +2% per annum)	-6,122	-6,239	-6,364
Council Taxpayers	4,458	4,626	4,801
Council Taxbase	33,000	33,250	33,500
Council Tax for Band D Property (based on 3% inflation increase)	£135.09	£139.15	£143.32

* Excludes the £105,000 non-recurring items funded from 2006/07 savings.

£55,000 use of reserves that are not required once the project is complete and an assumption that ongoing annual efficiency savings of £60,000 (out of the total £114,000 planned CAST efficiency savings) will benefit the General Fund, with the remainder benefiting the HRA. The actual position may vary from this assumption.

- 5.36 The projection makes some allowance for potential service improvements, such as a third recycling bin for kitchen waste. Proposals in relation to this are currently being assessed by a joint Task Group with Mid Suffolk DC. Depending on the outcome, this could require additional potential expenditure in 2009/10. Funding for other service priorities is likely to be minimal, even if the significant budget gap can be addressed.
- 5.37 In addition to continuing with our drive for efficiencies and savings, it is essential that the Council consider the scope for generating additional income. Paper G158 (paras 5.25 to 5.30) sets out the two key issues in relation to this and the Council's financial capacity over the next 3-4 years, namely whether Council Tax increases above inflation and/or additional income, for example, from car parking charges will be required over that period. The joint O&S Committees accept that a strategic review of these two key issues is needed.
- 5.38 This will then feed into a new Medium-Term Financial Strategy for 2009/10 onwards. It is essential that consensus is reached on these issues before the next budget cycle starts. Having a clear Financial Strategy is a key criterion of the Audit Commission's Use of Resources Assessment.

6. **APPENDICES**

- 1 – Commitments
- 2 – Service Priorities
- 3 – Savings, efficiencies and additional income
- 4 – Risk Assessment
- 5 – Prudential Indicators

7. **BACKGROUND INFORMATION**

1. Government Grant Settlement
2. Service and Financial Planning Group agendas and notes of meetings

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