

Budget Report

BABERGH DISTRICT COUNCIL

FROM: Strategy Committee REPORT NUMBER

TO: Council DATE OF MEETING 24 February 2009

BUDGET 2009/10

1. PURPOSE OF REPORT

- 1.1 To approve the Budget for 2009/10 and a Council Tax increase for this Council's purposes of 2.9%.
- 1.2 To give a possible indication of the financial position for future years in terms of a Medium-Term Financial Projection for the next 3 years.

2. RECOMMENDATIONS

- 2.1 That Council Tax be increased by 2.9% for 2009/10
- 2.2 That revised charges for 2009/10 are implemented with effect from 1 April 2009.
- 2.3 That the Budget Risk Assessment in Appendix D be approved.
- 2.4 That the prudential indicators for capital finance and treasury management and Minimum Revenue Provision policy statement set out in Appendix E be approved.
- 2.5 That, where expenditure is included within the approved budget, the Director of Finance, be authorised to:-
 - Vary the timing of revenue and capital payments from the between financial years in accordance with Financial Regulations and Council resolutions.
 - Vary the method of financing capital schemes, if he is satisfied that it is in the financial interest of the Council to do so.

3. FINANCIAL IMPLICATIONS

- 3.1 These budgets determine the level of service provision, Council Tax, Council House rents and charges for the coming year.

4. RISK MANAGEMENT

- 4.1 The Policy and Budget Framework is underpinned by a detailed budget risk assessment.

- 4.2 There is a process for managing and monitoring the budget throughout the year, with quarterly reports to the Overview and Scrutiny (Stewardship) Committee. This will need to be very rigorous due to the uncertainties of the economic downturn, which could continue to impact detrimentally on the finances of the Council.
- 4.3 The Budget links to Significant Business Risk No. 7, Financial Performance and Risk Management and No. 8 – Efficiencies and savings. Key risks are highlighted below:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Key budget assumptions eg on fee income, inflation, interest rates do not match what happens during the year. Unexpected costs arise during the year that cannot be met from savings or reserves.	Significant	Marginal/ Critical	Monthly monitoring of key risk areas by officers with quarterly reports to Members.
The required savings, efficiencies and additional income identified in the budget are not achieved.	Low	Marginal/ Critical	Clear arrangements to identify and achieve the planned levels of savings, efficiencies and additional income to be put in place.

5. **KEY INFORMATION**

- 5.1 This report highlights the key points for the General Fund Budget, the Capital Programme and Council Tax. The budget reflects what the Council is aiming to achieve in its Strategic Plan, the One Year Delivery Plan and the Council's Financial Strategy.

2009/10 Budget and Council Tax

- 5.2 The Council's Financial Strategy for the last 5 years has been "to do our best to keep our Council Tax increases to no more than the rate of inflation", as measured by the increase in the September Headline Retail Price Index. The RPI increase in September 2008 was 5% and that is the rate used by the Government to increase state pensions and business rate bills.
- 5.3 For this year, however, The Strategic Financial Planning Task Group and Strategy Committee realised that this particular index and timing for this year's Budget was far less appropriate, given the volatility that

has occurred in the last year and that an increase should be based on striking the right balance between service provision and improvements to meet the Council's strategic priorities and the financial position.

- 5.4 Members and officers have worked together to achieve that goal, which has proved extremely difficult due to the detrimental impact of the economic downturn on the Council's finances of around £700,000 and the need to identify efficiencies, savings and additional income of over £1M next year.
- 5.5 In addition, the attached Revenue Budget has only been possible by also being able to use around £700,000 from general reserves, mostly as a result of actual and estimated savings from the current and previous year
- 5.6 Based on the above, a Council Tax increase of 2.9% is being recommended for 2009/10.**
- 5.7 With regards to consultation on the budget proposals, the position is as follows:-

Consultation/Scrutiny	Outcome
<ul style="list-style-type: none"> • General Fund Budget and level of Council Tax - the two Overview and Scrutiny Committees on the 29th January/3rd February and Business Ratepayers, also on the 3rd February. 	<ul style="list-style-type: none"> • The Overview and Scrutiny (Stewardship) Committee were satisfied with the overall budget proposals • The Overview and Scrutiny (Community Services) Committee views were accepted • Business Ratepayers accepted the budget proposals
<ul style="list-style-type: none"> • Council Housing budget, rents and charges - the Housing Panel on the 30th January and the Overview and Scrutiny (Community Services) Committee on the 3rd February. 	<ul style="list-style-type: none"> • The Housing Panel reluctantly accepted the average rent increase of 6.7% and an increase in heating/lighting charges of 30% in sheltered accommodation. • The Overview and Scrutiny (Community Services) Committee accepted the budget, including changes agreed by the Housing Panel.

- 5.8 So, for a Band D property the current charge of £131.16 will increase by £3.80 a year (around 7p a week) to £134.96, which is £2.60 a week for all of the services Babergh provides.
- 5.9 This will mean that the Council will have achieved an increase in Council Tax over the last 6 years that has not exceeded inflation (as measured by the headline RPI increase in September each year). Babergh will still have the second lowest Council Tax in Suffolk and should remain in the lowest 20% nationally.
- 5.10 A brief summary of the overall comparison of the General Fund revenue budget for 2009/10 with the current year is set out in the following table:

	2008/09 £000	2009/10 £000
Council's Budget Requirement	10,310	10,532
Deficit/Surplus on Collection Fund	-10	+21
Government Formula Grant	-6,005	-6,123
Council Taxpayers	4,295	4,431
Council Tax base	32,750	32,830
Council Tax for Band D Property	£131.16	£134.96

- 5.11 The very low increase in Government Formula Grant of 2% adds additional pressure to the budget and takes no account of the economic downturn. The increase for 2010/11 is also fixed at 2%.
- 5.12 An explanation of the main reasons for the overall increase in the Council's Budget Requirement is provided below:-

Reason for Change in Budget Requirement	£000
Base Budget 2008/09	10,310
• Inflation (includes major contracts)	+490
• Cost pressures (including economic downturn)	+853
• Strategic priorities	+141
• Prudential Borrowing	+150
• Efficiencies, savings and additional income	-1,038
• Additional use of reserves (incl. £555k savings)	-374
Budget requirement 2009/10	10,532

Review of Charges

- 5.13 Discretionary charges have been reviewed in the light of the Council's Strategic Charging Policy. Main areas to note are:

- Some charges are not being increased to ensure they remain affordable and, where necessary, competitive
- Where there are increases, these have generally been limited to no more than 3% unless there are good reasons for a different level of increase eg landfill tax increases that affect trade waste charges
- The charge for the Green Waste service should increase from £30 to £40 to align the charge with Mid Suffolk in terms of the joint waste partnership

5.14 Changes to statutory charges will be implemented as and when these are notified to the Council.

Reserves

5.15 In terms of general reserves and their use, the following approach, as set out in previous reports is proposed. This is in line with the Council's previous strategy:

	Amount £000	Comments
Actual as at 31/03/08	2,838	
Estimated general use in 2008/09	-606	
To Earmarked reserve	-150	Potential costs re. legal cases
Estimated Balance 31.03.09	2,082	
Transfer from Earmarked Reserves	+25	
Proposed general use in 2009/10	-710	Includes £205k actual savings from 2007/08 and £350k from forecast 2008/09 savings
Estimated Balance 31.03.10	1,397	
Potential use:		
- 2010/11	-97	
- 2011/12	-70	
- 2012/13	-30	
Approved minimum balance	1,200	

5.16 An important factor in relation to the above is the Council's approach to the use of reserves. The Council has adopted a clear strategy of a phased and careful reduction in the use of reserves until the point is reached over a number of years when there would be £1.2M in

reserves and those reserves would not then be reduced any further. This level of reserves is over 10% of the net annual revenue budget, which is seen as a prudent level.

5.17 As will be seen, there will be a dramatic reduction in the availability of reserves from 2010/11 onwards, which will place significant further pressure on the budget. The position in relation to earmarked reserves and the planned use in 2009/10 is set out in the detailed Policy and Budget Framework.

Capital Programme

5.18 In terms of the capital programme, this is based on projects that meet the Council's strategic priorities and details, including how the 3-year programme could be financed, are provided in pages 49 –53 of the Policy and Budget Framework.

5.19 This includes a number of non-committed schemes and programmes, which are dependent on there being sufficient funding. There is uncertainty and risk on assumed capital receipts of up to £2m in 2009/10, which could result in significant reductions in the capital expenditure plans being necessary.

Medium-Term Financial Projection

5.20 The financial position for future years is a difficult one to assess as it depends greatly on how long the economic downturn continues. Further work, assessment and consideration of the position will, therefore, be needed. The table below provides a possible indication but other planning scenarios are just as likely. These will be modelled and, based on the results, alternative strategies will need to be considered accordingly.

	2010/11 £000	2011/12 £000	2012/13 £000
Base budget from previous year	11,242	10,924	11,195
Inflation	+300	+400	+400
Commitments/cost pressures	+200	+250	+250
Strategic/Service Priorities	+100	+200	+200
Prudential borrowing	+250	+100	+100
Efficiencies, Savings and Additional Income	-1,168	-679	-685
	10,924	11,195	11,460
Use of Reserves	-97	-70	-30
Budget Requirement	10,827	11,125	11,430
Formula Grant (approx. +2% per annum)	-6,240	-6,365	-6,490
Council Taxpayers	4,587	4,760	4,940
Council Taxbase	33,000	33,250	33,500
Council Tax for Band D Property (based on 3% inflation increase)	£139.00	£143.17	£147.47

5.21 From this, it can be seen that the potential budget gap in 2010/11 could be over £1m. Assuming the economic downturn begins to improve early in the year, some of this would be achieved by income levels (planning, land charges and possibly investment income) beginning to recover.

5.22 Much will depend also on inflation rates during 2009 and early 2010 and the extent to which prudential borrowing to support the capital programme is required over the next 2 years.

6. **APPENDICES**

A – Commitments and cost pressures

B – Medium-Term Plan/One year Delivery Plan – additional funding

C – Efficiencies, Savings and additional income

D – Budget Risk Assessment

E – Prudential indicators for capital finance and treasury management and Minimum Revenue Provision policy statement

7. **BACKGROUND PAPERS REFERRED TO:**

None.

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