

	<b>AGENDA ITEM NO.</b>
<p align="center"><b>Report Cover Sheet</b></p>	
<b>Name of Meeting:</b>	Executive
<b>Date of Meeting:</b>	10 <sup>th</sup> December 2007
<b>Report Title:</b>	Approval of General Fund base estimates revised 2007/08 and original 2008/09
<b>Summary of report:</b>	This report sets out the latest projections for the General Fund revenue estimates in respect of 2007/08 and 2008/09
<b>For Further Information Please Contact (report author):</b>	Marcus Miskinis
<b>Would the recommended decision be contrary to the Policy Framework:</b>	No
<b>Would the recommended decision be contrary to the Budgetary framework:</b>	No
<b>Wards of the District directly affected by this decision:</b>	All
<b>Key Decision?</b>	Yes
<b>Included within the Forward Plan?</b>	Yes – Ref: 49
<b>Is the report Private &amp; Confidential</b>	No
<b>Background Papers:</b>	Executive 23 July 2007 – Budget Process and Prospects Executive 10 September 2007 – Off-Street Parking Strategy 2007-2012 Executive 22 October 2007 – Approval of Fees and Charges 2008/09

<b>Consultation Undertaken</b>		
Below is a table of the Council's regular consultees. However not all have to be consulted on every matter and if there was no obligation to consult with a specific consultee they will be marked as n/a.		
<b>Consultees</b>	<b>Yes/ No</b>	<b>Who</b>
Other Committees	n/a	
Ward Councillors	n/a	
Portfolio Holders	Yes	All
Other Councillors	n/a	
Warwick District Council recognised Trades Unions	n/a	
Other Warwick District Council Service Areas	n/a	
Project partners	n/a	
Parish/Town Council	n/a	
Highways Authority	n/a	
Residents	n/a	
Citizens Panel	n/a	
Other consultees	n/a	
<b>Officer Approval</b>		
With regard to officer approval all reports must be approved by the report author's relevant director, Financial Services and Legal Services.		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Relevant Director(s)	13 Nov 2007	Mary Hawkins
Chief Executive	19 Nov 2007	Chris Elliott
CMT	19 Nov 2007	CMT
Section 151 Officer	13 Nov 2007	Mary Hawkins
Legal	13 Nov 2007	Clare Flanagan
Finance	n/a	Finance Report
<b>Final Decision?</b>		Yes
<b>Suggested next steps (if not final decision please set out below)</b>		

## **1. RECOMMENDATIONS**

### **1.1 To recommend to Council:**

- (a) the revised base budget revenue estimate for the General Fund services in respect of 2007/08 as outlined in Appendix 'B';
- (b) the base budget revenue estimate for the General Fund services in respect of 2008/09 as outlined in Appendix 'B';
- (c) transfer any surplus on the Creating Uplift Provision to a new "The CUP" Reserve; and
- (d) transfer £306,857 from the Local Authority Business Growth Incentive Grant to the Renewals and Replacements Reserve.

## **2. REASONS FOR RECOMMENDATIONS**

### **2.1 The Council is required to determine its budget requirements in order to set the Council Tax for 2008/09.**

### **2.2 The report is broken down into the following sections and appendices:**

Section 5 - Background  
Section 6 - Base Budgets  
Section 7 - 2008/09 Base Estimates  
Section 8 - Revised Estimates 2007/08  
Section 9 - Capital Financing and Reserves  
Section 10 - Summary  
Appendix A - Analysis of Budget Movements from 2007/08 to 2008/09  
Appendix B - Revenue Estimates  
Appendix C - Variations from Original 2007/08 Estimates  
Appendix D - Inflation Factors 2008/09 Budget  
Appendix E - Support Services / Holding Accounts  
Appendix F - Capital and Reserve Financing Variations from Original 2007/08

## **3. ALTERNATIVE OPTIONS CONSIDERED**

### **3.1 The purpose of this report is to produce estimates as determined under the requirements of the Financial Strategy. Any alternative strategies will be the subject of separate reports.**

## **4. POLICY AND BUDGET FRAMEWORK**

### **4.1 The revenue estimates have been compiled in order to comply with the requirements of the Financial Strategy.**

## **5. BACKGROUND**

- 5.1 At its meeting on 23<sup>rd</sup> July 2007 the Executive considered a framework for a financial strategy and the Budget 2008/09 Prospects and Process.
- 5.2 The broad action plan adopted by the Council is as follows:
- The service plan process including the identification of possible service growth items, efficiency savings and possible service reduction proposals, is the integrated business planning process adopted by the authority.
  - Detailed preparation of fees and charges to be considered by Members in October 2007.
  - Use of the base budget process, which includes a detailed analysis of all items in the budget and forms the major part of this report.
  - Deliver the political process of considering options, consulting on options and making proposals.
- 5.3 This report presents the proposed Base Budget for 2008/09. These figures reflect the costs of maintaining the current level of service, and any unavoidable changes in expenditure (for example, where the Council is contractually or statutorily committed to incur additional expenditure). The report also considers the current year's budget, and includes details of proposed revision to the 2007/08 Budget.
- 5.4 Alongside the preparation of the Estimates, the 2008/09 Service Area Plans are being developed. Possible service enhancements and service reductions are being identified. These are being considered and prioritised by portfolio holders so as to enable a package of ideas for external consultation during December.
- 5.5 The effects of "Building on Excellence" have not been incorporated within this report. The result of any changes will be included in the February report referred to below. In addition further changes will be required to the estimates for areas such as Insurances and Procurement for which there should be savings. These will be included within the February budget report.
- 5.6 In February all the following information should be available:
- 2008/09 Base Budget
  - 2008/09 Revenue Support Grant Settlement
  - Results of external consultation.

The Council will be in a position to agree the 2008/09 Budget and the District Council element of the Council Tax. In addition, the total Council Tax for the District will be set, including the elements set by the County Council, the Police Authority and the parish / town councils.

## 6. BASE BUDGETS

- 6.1 The proposed Base Budgets for the 2008/09 Estimates and the 2007/08 Revised Estimates are shown below. These figures exclude all financing charges (which are dealt with in Section 9 later). Section 7 of this report considers the 2008/09 Base Estimates, with Section 8 looking at the 2007/08 Revised figures.

	ESTIMATE 2007/08 £'000	REVISED 2007/08 £'000	ESTIMATE 2008/09 £'000
<b>Net Cost of General Fund Service Expenditure</b>	20,900	24,261	22,366

## 7. 2008/09 BASE ESTIMATES

- 7.1 In preparing the 2008/09 Base Estimate the over-riding principle is to budget for the continuation of services at the existing level. The following adjustments need to be made to the 2007/08 Original Estimates.

Removal of any one-off and temporary items  
Addition of inflation  
Addition of previously agreed Growth items  
Addition of unavoidable Growth items  
Inclusion of any identified savings

- 7.2 The table below summarises how the 2008/09 base budget has been calculated. Appendix 'A' gives more details to support this.

	£	£
<b>ORIGINAL ESTIMATE 2007/08</b>		<b>20,899,800</b>
Plus Inflation net of Fees and Charges increases		580,800
Plus Committed Growth:		
- Staffing	293,500	
- Other Growth items	1,299,300	1,592,800
Less Savings:		
- One-off items falling out	(683,000)	
- Other Savings	(198,700)	
- Items to be funded from Reserves	(31,800)	
- Fees and Charges income in excess of 3% inflation	(170,300)	
- Other Income	(281,500)	(1,365,300)
Adjust for FRS 17 adjustments		725,300
Adjust for Capital Financing Charges		(136,400)
Adjust for changes in Support Service Recharges		69,400
<b>ORIGINAL ESTIMATE 2008/09</b>		<b>22,366,400</b>

### 7.2.1 Inflation

A basic rate of inflation of 3% has been applied to most budgets. Further specific indices have been applied to appropriate budgets as shown within Appendix 'D'. Some items of expenditure are projected to increase well above 3%. Major items are Concessionary Fares (+£118,000) and Repairs and Maintenance (+£89,000) offset by Fees and Charges (-£227,000).

### 7.2.2 Staffing

Staffing costs will increase above the 3% inflation factor. The increase in the employer's superannuation rate for 2008/09 will cost approximately £102,000 on the General Fund as agreed by members in February 2005. Several areas of additional staffing are funded from increased income and grant (such as Licensing, Benefits and Print Unit).

### 7.2.3 Growth

Only unavoidable and previously committed growth has been included in the Base Budget. The major items are in respect of the new Major Contracts (+£1.1m) and Concessionary Fares (+£104,000).

### 7.2.4 Items funded from Reserves

Expenditure budgets have been included for those items which will be funded from the Council's Reserves. For 2008/09 most of the changes are one-off items dropping out such as for the 2007 Elections (-£70,000) and Warwickshire Direct (-£154,000) which is now funded from Revenue contributions.

### 7.2.5 Savings

Various savings have been allowed for within the Budget. These include the one-off items included within the 2007/08 Budget (£683,000), along with a range of other savings such as reductions in NNDR (-£38,000), reduced gas and electricity costs (-£48,000) and reduced Oracle licenses (-£31,000).

### 7.2.6 Fees and Charges

2008/09 Fees and Charges were the subject of a report to the Executive in October where the proposed increases would generate an additional 3% in income or up to 10% where charges are below appropriate comparators. In addition to the inflationary increases Car Parking charges were increased by a further 7% to generate income to finance Car Parking improvements. The Local Land Charge fee was reduced to £100 for 2007/08 due to the new regulations that only allow the service to break-even. This is still to be reviewed for 2008/09 and is the subject of a separate report.

### 7.3 Appendix 'B' and Appendix 'E'

- 7.3.1 A summary of the budgets showing net expenditure or net income for all the Council's General Fund services is attached at Appendix 'B'. Whilst Appendix 'B' does include all the Council's General Fund Services, it can be difficult to understand when the net expenditure for any Cost Centre is nil.
- 7.3.2 This most commonly occurs when dealing with support service areas (e.g. Chief Executive, Finance, Legal, etc.). The nil expenditure results from all the expenditure of the support services needing to be recharged to the front line services defined under the CIPFA Best Value Accounting Code of Practice. In order to assist Members understanding the size of the budgets being approved, a separate Appendix 'E' has been enclosed showing all the separate support service and management holding accounts that are recharged.
- 7.3.3 Where there are other instances of columns showing a nil cost (or nearly nil cost), a note has been placed at the end of Appendix 'B' to explain this.

### 7.4 Appendix 'C'

- 7.4.1 Appendix 'C' is a brief summary of the main changes affecting all the services detailed in Portfolio order in Appendix 'B'.
- 7.4.2 Appendix 'C' is arranged to show, over two columns, the changes that have occurred between:
- (i) Original Estimate 2007/08 (the Base Budget)  
to  
Revised Estimate 2007/08 (Revised)  
(First column of figures)
  - and
  - (ii) Original Estimate 2007/08 (the Base Budget)  
to  
Original Estimate 2008/09 (Estimate)  
(Second column of figures)
- 7.4.3 Members have previously expressed concern about the confusing nature of explanations in Appendix 'C' that relate to two areas:
- Capital Financing
  - Movements in support service charges
- 7.4.4 In order to keep a complete picture of the movements on the budgets it is regarded as important still to include those lines in the explanations for each service. However, it is recognised that both of these areas are not directly controllable budgets for the service concerned. In order that these can be

more easily identified, they are shown in italics for each area of explanation and moved to appear as the last lines for each service.

- 7.5 Appendix 'D' lists the various inflation factors used in the budget process. This is broadly in line with the General Fund projections presented earlier.

## 8. REVISED ESTIMATES 2007/08

- 8.1 A review of the 2007/08 budget has also been carried out in order to establish revised estimates for the current year. Appendix 'B' provides an analysis of net expenditure by service in Portfolio groupings.
- 8.2 The revised estimates total £24,260,600 which is an increase of £3.3m compared with the originally approved estimate for 2007/08 of £20,899,800. The main reasons responsible for this increase are identified in Appendix 'C', which can be summarised as follows:

	£	£
<b>ORIGINAL ESTIMATE 2007/08</b>		<b>20,899,800</b>
Adjust for indirect items:		
- Changes in Support Services Recharges		(210,500)
Plus Committed Growth:		
- Increases in Expenditure	531,800	
- Reduced Income	391,800	923,600
Less Savings:		
- Increases in Income	(649,300)	
- Reductions in Expenditure	(312,500)	(961,800)
<b>TOTAL EXPENDITURE BEFORE INCLUDING ITEMS FUNDED FROM RESERVES</b>		<b>20,651,100</b>
ITEMS MET FROM RESERVES:		
- Expenditure funded from Earmarked Reserves	996,900	
- Reserves / Capital Financing items	(306,200)	690,700
- FRS17 Adjustments		687,200
Changes in Capital Financing Charges		2,231,600
<b>REVISED ESTIMATE 2007/08</b>		<b>24,260,600</b>

- 8.3 It can be seen from the table above that the cost of General Fund Services will increase by around £3.3m. Nearly all of the increase relates to items that will be financed from the Council's Reserves and the change in Capital Financing Charges.



- 8.4 The first part of the table above shows that the total expenditure, before items funded from Reserves, has reduced by £248,700. This is the result of a mixture of changes, the most notable ones being a net reduction in support service recharges (-£210k), increased costs of the Assisted Travel Scheme (£104k), additional income from recycling (-£160k), reduced Land Charges fee income (£146k) and external contributions from other local authorities in respect of Warwickshire Direct Partnership (-£137k).
- 8.5 The comments made in paragraph 7.3 concerning the content of Appendices 'B' and 'E' are equally applicable to the information provided in respect of the Revised Estimates.
- 8.6 The 2007/08 Revised position is broadly in line with the regular budget monitoring that continues to take place throughout the year.
- 8.7 Creating Uplift Provision
- 8.7.1 Several of the Projects in Leamington Old Town that have received Capital Funding from Advantage West Midlands (AWM) have commenced, or are about to.
- 8.7.2 The North Hall and West Wing of Spencer's Yard opened in May last year and is fully let. The Althorpe Innovation and Enterprise Centre (AIEC), Brunswick Enterprise Hub and the Court Street Creative Arches projects are all approved by AWM and at contract negotiation stage and will come on-stream over the next 12 months. All of these projects come under the Leamington Creating Uplift Provision Scheme (CUP) and are designed to be self sustaining.
- 8.7.3 All four projects will be managed by the AIEC management team as part of the proposed new Economic Development and Regeneration service unit.
- 8.7.4 As part of the conditions of the AWM funding, any surpluses generated from the resulting CUP revenue activities have to either cover any revenue deficit that may be incurred in the early years of the project, or be reinvested into business support activities to ensure that the Council does not infringe EU State Aid regulations.
- 8.7.5 Should any project show a net surplus at the end of a financial year, unless it is reinvested, as outlined above, it has to be returned to AWM.
- 8.7.6 In order to preserve any such surplus which can then be used to offset any deficits arising in future years, it will be necessary to "ringfence" the net position for all of these budgets at the end of the financial year, by transferring such monies into a reserve account, which can then be released into future years. This will reduce the risk of any potential deficits from the projects falling onto the tax payer.

- 8.7.7 It is therefore recommended that at the end of 2007/08 a reserve account is set up, "The CUP" Reserve and should there be a surplus from the revenue activities from these units, this be transferred accordingly.

## 8.8 LABGI Grant

- 8.8.1 The Council has also received £306,857 in respect of Local Authority Business Growth Initiative grant. For accounting purposes this is treated as a general grant towards services (similar to the Revenue Support Grant) and, accordingly, has not been included in the estimates. It is recommended that this be transferred to the Repairs and Renewals Reserve.

## 9. CAPITAL FINANCING AND RESERVES

- 9.1 In order to arrive at the position for the Council's overall net expenditure it is necessary to take account of the effects of the Council's capital financing arrangements and any transfers to and from reserves. These are summarised below:

Line Ref	ESTIMATE 2007/08 £'000	REVISED 2007/08 £'000	ESTIMATE 2008/09 £'000
<b>1 Net Cost Of General Fund Service Expenditure</b>	<b>20,900</b>	<b>24,261</b>	<b>22,366</b>
<b>Capital Financing and Reserves</b>			
2 Depreciation & Intangible Assets in Service Estimates	(3,505)	(5,739)	(3,364)
3 Loan Repayments, Revenue Contribs & Interest Paid	(207)	(207)	(209)
4 Revenue Contributions to Capital	1,103	883	573
5 Contributions to / from Reserves	(933)	(1,237)	(23)
6 External Investment Interest	(813)	(1,134)	(713)
7 Government Grants Deferred Written out	-	32	32
8 FRS17 Adjustments	-	(687)	(725)
9 Contributions to / from General Fund	400	400	-
<b>10 TOTAL CAPITAL FINANCING and RESERVES</b>	<b>(3,955)</b>	<b>(7,689)</b>	<b>(4,429)</b>
<b>11 TOTAL ESTIMATED NET EXPENDITURE</b>	<b>16,945</b>	<b>16,572</b>	<b>17,937</b>

- 9.2 Detailed explanations of the changes to items 2 to 7 are within Appendix 'F'.
- 9.3 Most of the changes to the Capital Financing and Reserves figures reflect changes in specific items within the cost of General Fund service expenditure, whereby many increases in service expenditure are met by a contribution from a specific reserve which would be included here.
- 9.4 Similarly, the notional Capital Financing Charges (line ref 2 above) reflect the change in capital charges within the cost of individual services.
- 9.5 External interest receipts (line ref 6 above) are projected to increase by £321k in 2007/08 reflecting higher balances carried forward from 2006/07,

partly relating to slippage in capital schemes. Interest receipts are expected to decrease in 2008/09 by around £100k mainly due to lower balances.

- 9.6 Financial Reporting Standard 17 (FRS 17) requires an authority to recognise the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out (line ref 8 above).

## **10. SUMMARY**

- 10.1 The proposed 2007/08 Revised estimates will present a surplus over the Original Estimate of £373,000 of which £321,000 is in respect of higher investment interest received.
- 10.2 In addition to this, the Council is now receiving an additional £306,857 in respect of Local Authority Business Growth Incentive grant. This will represent a contribution to the Council's reserves.
- 10.3 This report, in considering the 2007/08 Revised Estimates constitutes the third monitoring report for the year presented to Members.
- 10.4 The proposed 2008/09 Base Budget presents a substantial overall increase in the Council's expenditure in continuing to provide its services and meet its commitments of approximately £1m. This is in line with the financial projection proposed as part of the financial strategy. This large, compared to 2007/08, increase primarily reflects the increased cost of the new Integrated Waste Contract from 1 April 2008.
- 10.5 No service enhancements or reductions have been included in the Estimates. The extent of these will be dependent on the overall funding available – these being Government Grant and Council Tax. By the time of the Executive meeting on 10 December it is hoped that the draft Revenue Support Grant Settlement for 2008/09 will have been received. Members will be updated at the meeting on the overall position for 2008/09.