

 Executive 23 July 2008		Agenda Item No.
Title	Financial Strategy and Budget Prospects	
For further information about this report please contact	Mike Snow or Mary Hawkins	
Service Area	Finance	
Wards of the District directly affected	All	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	
Date and meeting when issue was last considered and relevant minute number	11 February 2008	
Background Papers	Budget Report February 2008	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes

Officer/Councillor Approval		
With regard to officer approval all reports <i>must</i> be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
Officer Approval	Date	Name
Relevant Director	3 July 2008	Mary Hawkins
Chief Executive	4 July 2008	Chris Elliott
CMT	26 June 2008	
Section 151 Officer	3 July 2008	Mary Hawkins
Legal		
Finance		
Portfolio Holder(s)		Michael Doody
Consultation Undertaken		

Please insert details of any consultation undertaken with regard to this report.

Final Decision?

Yes/No

Suggested next steps

To bring forward base budget, fees & charges proposals, consultation on budget proposals and a final budget report to a variety of future CMT and Scrutiny/Policy Committee meetings.

1. SUMMARY

- 1.1 This report updates members on the Council's financial projections and the outlook facing the Council. It also proposes the approach to managing the 2009/10 budget and service plan process.

2. RECOMMENDATION

- 2.1 In preparing fees and charges the higher of the following should be used - 4% or an increase of up to 10% where our charges are below appropriate comparators.
- 2.2 CMT and Portfolio holders bring forward proposals for the 2009/10 budget with a Council Tax increase at the 4.5%. In looking for savings these should be concentrated on areas of expenditure that are above other Councils average or above average cost, and areas of consistent net under-spending over previous years.
- 2.3 Members agree the outline of the process in Paragraph 8.

3. REASONS FOR THE RECOMMENDATION

- 3.1 The Executive can give clear guidance to CMT on the nature of proposals and process it wishes to see come forward as part of the 2009/10 budget process.

4. ALTERNATIVE OPTION CONSIDERED

- 4.1 The Executive could leave it to CMT to decide all these matters. However given the importance of the budget it is felt that the Executive should consider these matters, and ensure that all matters it might want to take into account are considered as part of the budget process.

5. BUDGETARY FRAMEWORK

- 5.1 The Budgetary framework is the resource strategy for implementing the Council's corporate strategy. The Budget is informed by and informs what the Council can do. The service planning process is the basis for the development of the budget.

6. POLICY FRAMEWORK

- 6.1 Comment on the Policy Framework, Community Plan, specific policies and whether they have any environmental impact.

7. BACKGROUND

- 7.1 The projections attached were last considered by Members in February 2008 as part of the 2008/09 Budget/Council Tax setting report. At that time projections were agreed that allowed for a target Council Tax increase for the period 2008/09 to 2011/12 of 4.5% per annum. These increases relied upon savings to be made in future years, and use of General Fund Balance. The table below shows the assumed figures, these are updated later in the report:-

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Contribution from General Fund Balance	467	226	307	
Assumed Savings and Efficiencies			148	826

The revised estimates for 2007/08 enabled £1m to be set aside in the General Fund Balance. This £1m was then agreed to be used in the following three years towards helping to limit future Council Tax increases as set out in the first row of the table above.

The assumed savings included within the projections are significant. It has to still be determined precisely where these savings may be found. It will be a challenge to bring forward acceptable savings proposals to meet the Council Tax target. At the April Executive it was agreed to set up several budget working groups to endeavour to secure suitable savings.

In coming to these projections, minimal known unavoidable budget pressures have been included. However, no discretionary growth has been allowed for future years.

- 7.2 Major changes reported in the budget monitoring report elsewhere on the agenda have been fed into the financial projections. These show that for 2008/09 an underspend of £166,000 is projected. Full details of these changes may be found in that report. Also, the changes may be seen within Appendices A, B, C and D.

7.3 The main items of unavoidable growth and changes previously included within the forecasts for 2009/10 are:-

- Pension fund increases following triennial valuation (£77,000, this figure having reduced since the 2008/09 budget was agreed from £104,000).
- cost of Planning posts no longer met by Planning Development Grant (£85,000).
- Waste collections and street cleansing from new properties and roads (£23,000).
- Reduction in Housing Benefit Subsidy (£20,000).
- Increased Land Rental (£90,000 income).
- Increase in Magistrates Courts Fees (£90,000 income).
- Savings from implementing the building on Excellence changes (£315,000)
- Future increase income from car parking (£185,000). This figure reflects the proposed changes to charges elsewhere on this agenda, but the figure still needs to be reviewed as part of the review of the Car Parking Strategy.

In addition further unavoidable changes are also proposed to be included within the projections:-

- Planning fees – the increased in fees from 2008/09 was compensated for with additional one off expenditure in that year. The full benefit of the increase will apply from 2009/10.
- Saving on the CRM contract £11,500.
- Inflation contingency £150,000 (see paragraph 7.4).

All these changes are listed within Appendix C.

7.4 Inflation

In setting the 2008/09 Budget, the financial projections included 3% for inflation (on income and expenditure) for all years. The only notable exception to this is 2.6% being allowed for the 2008/09 pay award.

In recent months inflation has continued to rise. The Retail Prices Index (RPI) for May 2008 was 4.3%, whilst the Consumer Prices Index (CPI) was 3.3%. It is usually believed RPI more closely reflects the price increases faced by the Council. This will no doubt put increased pressure on the Council for the current year. However, it should be noted that for the new Integrated Waste contract that started in April, no inflationary increase will be due to be paid until April 2009.

Inflation is predicted to continue rising during the current year but then fall during 2009 (Quarter 4 2009 RPI – 2.4%, CPI – 1.5%). At this stage it is believed necessary to maintain 3% for inflation within the projections from 2009/10. In addition, in view of the current differential between the Council's allowance for inflation and the current increases, an inflation contingency of £150,000 has been included within the 2009/10 projection. The need for this provision will be reviewed as work on the Budget progresses. This figure represents a further 1% on costs.

7.5 All of these changes have been fed into the financial projections summarised in Appendix A. At this stage no changes have been made to the contribution from the General Fund Balance and the target level of council tax increases. However, in

order to achieve this, the assumed savings to be identified must be increased as set out below:-

	2009/10 £'000	2010/11 £'000	2011/12 £'000
Original Assumed Savings and Efficiencies		148	826
Further Assumed Savings and Efficiencies	23	263	525
Total Assumed Savings	23	411	1,351

The main reason for these increased savings requirements in future years relate to inflation. This includes the inflation contingency (£150,000), and further increases in fuel costs (£502,000). To offset these, the benefit of the increased planning fees income has been included within the projections.

7.6 Capping

For 2008/09 the Government said it was expecting council tax increases to be significantly below 5%. Following the setting of their budgets, 8 authorities were considered for capping by the Government. 7 of these are police authorities (including Warwickshire Police Authority) and one unitary authority. The increases in their council tax for 2008/09 ranged from 5.04% to 78.9%.

A recent Government announcement said that for 2008/09 only Lincolnshire Police Authority is to be capped. The remaining authorities have had tight limits on their budget and council tax increases for future years.

For future years, it is assumed that the Government will be expecting to keep council tax increases below 5% again.

7.7 The Council is still in the position where it levies a relatively low level of Council Tax. If we levied at the average for all district councils we would raise an additional £1m.

7.8 Revenue Support Grant

In announcing the 2008/09 Revenue Support Grant, the Government also provided details of the support to be given for the subsequent two years. For 2008/09 the Council received an increase in grant the equivalent of 1%. For 2009/10 and 2010/11 the increase will be 0.5% per annum. Whilst these figures will need to be confirmed in due course, there is no reason to suppose that the final figures will be any different to those announced earlier. With inflation running at over 3%, these increases do represent a reduction in real terms, contributing to the significant savings that the Council is having to find. Whilst the increases do present challenges for the Council, local authorities are for the first time in the position of knowing their grant settlements for the next two years well in advance and are so able to plan with a degree of certainty.

7.9 General Fund Balance

In closing the 2007/08 accounts, the Council was able to allocate an addition £1.4m to the General Fund Balance. This additional sum primarily related to the Council's allocation of 2007/08 Local Authority Business Growth Incentive (LAGBI) grant. This brought the General Fund Balance to £3.517m. The use of this balance is set out below:-

- £1m to subsidise the General Fund Expenditure 2008/09 to 2010/11 (as in paragraph 7.1).

- £1.1m contingency to finance extreme risks the Council may face
- £1.417m additional surplus from 2007/08, usage of which to be considered as part of the budget process

7.10 Further Assumptions

- The assumed level of investment return is 5.0% from 2008/09, although this will need to be reviewed in view of recent changes in base rate.
- The projections are based on the inclusion of the car parking strategy which is due to be updated. Whilst car park income is below the agreed car park strategy for 2008/09, it is still assumed that there will be increased income in future years.
- No allowance has been made for funding any posts which are externally funded where the funding may cease.

In considering future options members may wish to take into account that every £100,000 additional spending represents £1.92 on Council Tax and a 1% increase in Council Tax will raise £71,800. There is a one-off contingency with the unallocated balance currently standing at £149,000 in 2008/09 (assuming the other Contingency approvals recommended to the July 2008 Executive are approved. No provision has been allowed for within the projections for a general contingency in future years.

7.11 Risks

There are always risks in the budget and this is an opportunity to consider short-term and longer term risks

This year/Next year	Longer-term
General Economic climate – inflation, interest rates, demand for services, bad debts	Other planning enquiries
Concessionary fares – we have to pay the estimated costs and the government grant is not ‘demand led’	Planning development grant not being compensated for by increased fee income
Car park income	Concessionary fares costs not fully met
	Interest rates are lower

7.12 Capital Budget

When the 2008/09 Budget was set the Capital Investment Reserve was forecast to dip below its long-term target level of £2million over the next few years. However, additional receipts received during 2007/08, notably additional overage for Site E, mean that the Council had an additional £600k of capital resources so enabling the level on the Capital Investment Reserve to be reinstated to over £2m after allowing for the financing of Oakley Wood.

Other sources of capital funding are also very limited. If external capital receipts or grants are not forthcoming, maintaining a capital programme (of whatever level) will put increased pressure on the revenue account to fund (by way of increased revenue contributions or prudential borrowing). The Council has practically no new capital receipts coming forward to finance capital expenditure, and very few assets that could generate capital receipts.

Whilst the Council does have £600,000 capital resources not allocated to schemes at present, this money is able to earn investment interest of around £30,000 per annum.

8. Process

8.1 There are a number of different elements to the process of budget setting. They are:

- The service plan process including the identification of unavoidable service growth items, efficiency savings and possible service reduction proposals.
- Detailed preparation of fees and charges
- The base budget process, which includes a detailed analysis of all items in the budget
- The political process of considering options, consulting on options and making proposals

The service plan and political process

8.2 All proposals for growth, efficiency savings and reductions in service must come through the service planning process. In April 2005 CMT agreed that all services should identify efficiency savings of 2.5% per year of which 1.25% should be cashable and further possible reductions in service of 7.5% over the following three year period should be identified. In practice services have found it difficult to identify this level of savings, and this is because many of them already operate at expenditure levels in the lowest quartile of all Councils.

8.3 Immediately after the deadline at the end of September, Finance collate all the information from the service plans into spreadsheets and CMT review the information, ask for further information and make initial proposals to portfolio holders.

8.4 The portfolio holders will consider the initial information in October and will again ask further questions and normally want more information on certain issues.

8.5 By early November a package of ideas is coming together, and issues for consultation are becoming clearer. The consultation is carried out with:

- Citizens panel (via focus groups)
- Local chambers of trade
- The LSP and other key partners, by written communication
- Trade Unions, by written communication,
- The wider membership of the Council

A copy of consultation material will also be put on the intranet.

8.6 At about the same time as the consultation finishes the Government confirms the amount of Revenue Support Grant, although no changes from the amounts previously notified for 2009/10 are expected.

Fees and charges

8.7 Fees and charges are prepared in detail ahead of the main budget. In considering what policy to set it is recommended that we should at least be in line with local comparators, as we are a well-off district with a high degree of concessions. In preparing fees and charges the higher of the following should be used - 4% or an increase of up to 10% where our charges are below appropriate comparators. Services need to make sure they have up to date comparators for all major

elements of income, and this needs to be incorporated into the fees and charges report, and is an important part of demonstrating value for money.