

REPORT TO THE COUNCIL

Report No. 8a

Date of Meeting	22 February 2007
Title of Report	Council Wide Revenue Budget 2007-10
Link to Corporate Priorities	All
Public Report	Yes

Summary of Report

To bring before the Council the proposed 2007-08 revenue budget and following two year's forecasts.

The Section 151 Officer's opinion on the adequacy of balances and the robustness of the budget, set out at Annex C and Annex D of the Council Tax report elsewhere on the agenda

Officer Recommendations

That the Council,

- 1 agree a General Fund Budget for 2007-08 consisting of,
 - a) The net base budget of £18,327k (Table 2 line 3) and the income from Government, Council Tax and the Collection Fund (Table 2 line 19);
 - b) The addition of Inflation (Annex 3), Cost Pressures (Annex 4), Business Critical Growth (Annex 5), Efficiencies (Annex 6), Savings (Annex 7) and Growth (Annex 8),
 - c) That the Bid 43 £65k be the first call on 2007-08 LAGBI funds, that are in excess of the budgeted £245k.
 - d) That any further LAGBI funds be used to fund the deficit in the 2008-09 budget and 2009-10 budget.
- 2) The unallocated inflation be held as a contingent budget, to be allocated by the Executive through the 2007-08 budget monitors;
- 3) The minimum level of Reserves be set at £3.5m for 2007-08;
- 4) The statement of the Robustness of Budget Estimates and the Adequacy of Reserves (Annex C & D elsewhere on the agenda) be noted;
- 5) A report be presented, before March 31st 2007 to the Executive , on the use of reserves in excess of the minimum level.
- 6) Agree an increase in the Council Tax by 5% for 2007-08, for its own purposes;
- 7) Agree to the policy changes, implied by the budget.

Other than those implications agreed with the relevant Officers and referred to below, there are no other implications associated with this report.

Financial Implications	Legal Implications	Community & Environmental Implications	Human Resources Implications	Equality & Diversity Implications
Yes	Yes	None	None	None

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1 Introduction

1.1 Following consideration by the

- Executive (Nov 16, Dec 14, Feb 1, Feb 8),
- the Budget & Strategic Planning Working Group (Nov 30, Dec 6, January 18),
- political briefings (Jan 3rd, 8th and 19th),
- Member development days (Jan 11th, Feb 6)
- and Overview, February 7th

the outline revenue budget for the three years 2007-10, is proposed. These events were supported by parallel officer processes - the Corporate Management Board (November - February), a challenge by the Team Leaders Review Group (November 22, 24 and January 17), plus five e-mail briefings to all Members. There has also been consultation – see paras 3.18-3.19 - which has helped shape the proposals.

2. Options and Options Appraisal

- 2.1 Option 1: That the Council note the report and agree the recommendations;
- 2.2 Option 2: That the Council propose alternatives.

3. Background information

National events

- 3.1 The Lyons Commission was due to report to the Government by December 21, 2006 on the future shape of local government finance. However, the Chancellor asked Sir Michael Lyons to postpone publication of his report until the Budget, in order to consider the implications of three reports, Eddington [transport], Barker [planning] and Leitch [skills]. Consultation on these issues closed on January 18, 2007. Whilst this might give the Council new opportunities and new challenges, the results will be too late for inclusion in this budget process.
- 3.2 The Government, through the Department of Communities and Local Government (DCLG), announced the provisional Revenue Support Grant (RSG) for 2007-08 on November 28th 2006. At the same time, the Minister stated the maximum level of council tax increase (the capping guideline) he was prepared to accept, was an average of +5%. The final settlement proposals for 2007-08 were confirmed by the DCLG on January 18th 2007.

Local Preparations

- 3.3 During the preparation of the forthcoming budget, the main highlights have been:

(a) The Executive decided:

- that priorities would be guided by the existing Council strategies;
- the starting point for budget building, would be the 2006-07 original budget, and the information from the previous round of medium term planning.
- the continued development of medium term planning.
- a timetable which sought to generate Executive proposals before Christmas 2006, so that there would be consultation with partners and stakeholders, in accordance with the Constitution of the Council, prior to Executive recommending a budget at its meeting on February 1st 2007. The proposed budget would be reviewed by Overview (Feb 7), whose deliberations would be considered by the

February 8th Executive, prior to finally recommending a budget to the February 22nd Council.

a) Officers then sought to generate the “base budget”, and proposals for savings and growth. Due to the turnover of senior finance staff, resolved in Sept/Oct, this process started late. It was not until November 30th that Members saw the base budget, growth lists, efficiencies and savings lists for the first time. The information continued to be refined and the main shape of the budget is now clear. The only outstanding issue is the final determination by the Government of LABGI, due in late February; it is proposed that any surplus funds be used to fund the deficit in the 2008-09 budget and 2009-10 budget.

(b) The budget has been analysed over the following headings:

- cost increases over three headings, (inflation, growth to put budgets into line with demand [cost pressures], and demographic & unavoidable growth [business critical growth]);
- reductions, (efficiencies, and, in one Annex, other savings, additional income, and service reductions), and;
- growth.

(c) A feature of the budget process was the emergence of three major issues. They were:

- the deteriorating trading position of North Wilts Leisure Limited, who went into liquidation on February 16, 2007.
- the Pay and Rewards process, which is in train and will not be finalised until the summer of 2007; and,
- the management re-structure which, again, is in train and for which broad assumptions have been incorporated.

The first two were not part of the February 2006 MTFP. The possible effect, and a possible overspend in 2006-07, was included in a revised MTFP forecast, which was reported to all Members on November 3rd. The last item was incorporated in the December 14 report. They are also reflected in the risk analysis.

(d) A new issue emerged by mid-January, the “unitary” proposal by Wiltshire County, which would see the demise of the four Districts. Whilst it is reflected in the risk analysis, no budgetary impact has been regarded as necessary – the Government will not confirm acceptance until July 2007.

(e) Remedial action, to contain the overspend in 2006-07 was put in place by early-November; it is reported elsewhere that the overspend has been reduced from £620k (at Month 6) to £49k (at Month 7), £32k at Month 8 and £17k at Month 9. There are strong reasons to believe the budget will be in balance by March 2007 and therefore there is no impact on 2007-08.

Income

3.4 After taking account of specific grants, the Council depends on three main forms of income. These are,

- firstly, from the Government – Formula Grant [Revenue Support Grant, and redistributed Business Rate] and Local Authority Business Growth Incentive - which accounts for 57% of the 2007-08 net budget.

- secondly, Council Tax, at 43% of the 2007-08 net budget.
- And thirdly, specific grants, fees and charges.

The main highlights to consider are:

- (a) Formula Grant – The Government’s revenue support for 2007-08, was announced as part of last year’s settlement at £7,977k. This was re-confirmed on November 28 2006 at £7,992k, a gain of £15k. The final settlement was announced on January 18, 2007. The following two years figures are our own estimate, for the Government has to agree its Spending Review 2007, before it can announce its allocation to Councils.

Table 1: Government Revenue support Settlement £000’s

Year	Forecast	Status	Basis
2006-07	7,666	Actual	Actual
2007-08	7,992	Actual Nov 28 (Final)	+5.5% adjusted; +4.3% cash
2008-09	8,192	NWDC Forecast	+2.5%
2009-10	8,397	NWDC Forecast	+2.5%

- (b) LABGI [Local Authority Business Growth Incentive] – the Government introduced this scheme to share the increase in business rate, deriving from growth, with local authorities. It amounts to £1bn over the three years 2005-08, with only £127m being distributed in the first year. Whilst the scheme is complex and uncertain, with the reward for 2007-08 only to be announced in early February 2007, the rules have been relaxed to increase the payout (abolishing ceilings and scaling). The planning assumption remains unchanged at £245k in 2007-08 and nothing in the following years. The Executive agreed growth of £65k as a first call on funds in excess of £245k. Were the income to be even higher, the recommendation is to carry the excess into the following years 2008-10, to eliminate the deficit and provide funds and certainty for those year’s budgets.
- (c) Council Tax - every 1% increase in Council Tax would generate £60,800 of additional income in 2007-08. A Collection Fund surplus of £230k was reported on February 1st. Two ways of increasing the productivity of Council Tax were put into place in November, with the third agreed as part of the process:
- Reduce the discount on Second Homes – agreed at the November 16 Executive;
 - Improve the collection rate – an improvement from 98% in 2006-07, to 98.5% in 2007-08, was agreed as part of setting the Council Tax Base at the November 16 Executive;
 - Bring forward the instalment date from the 15th of the month to the 1st of the month; this is one of the savings proposals.

Having taken the 2006-07 Collection Fund surplus into account when setting the 2007-08 budget and Council Tax, there would be a resulting total Council Tax income of £6.080m, before any increase. A 5% increase in Council Tax would generate a further £304k.

The Collection Fund valuation, undertaken at January 15 2007, shows a one-off addition of £181k, to the £50k surplus that had been advised at Month 6.

- (d) Fees and charges – the main area to consider, beyond a normal inflationary uprating of the charges, is to restructure car parking charges. These form part of the savings proposals.

Expenditure, Underlying Trends

- 3.5 The aim of the process was to arrive at a sound three year budget, that sought to improve services in the priority areas, consistent with maintaining a low Council Tax. A package was developed that traded service cuts and tax increases. As Table 2 shows, the budget is in balance for 2007-08, but in deficit in the following two years, by manageable sums of £356k and £247k, which LAGBI addresses.

At the same time, there were other major areas of cost which were known and to which values were ascribed. These were:

- a) the deteriorating trading position of North Wilts Leisure Limited. The Council set the boundaries of its support for the future years. The current projection repeats the existing subsidy of £820k;
 - b) the Pay and Rewards process, which is in train and will not be finalised until the summer of 2007. An upward increase of 4% has been assumed;
 - c) the management re-structure which, again, has just commenced. A very early, and prudent, ball-park figure of £250k savings has been assumed;
 - d) Capital Programme – the Council funds its Capital Programme from the sale of assets and its equipment programme via a revenue contribution. The option of using prudential borrowing and leasing was explored. The details are set out in the Capital report, para 4.4, elsewhere on the agenda. The outcome is that it creates £100k of additional income, to support the revenue budget.
 - e) Pension Fund Revaluation – new contribution rates will take effect in April 2008, following the Revaluation during 2007-08. No change in the employers rate of 26.1% has been assumed for 2007-08. A precautionary 1% has been added for the later two years.
- 3.6 There are three planning assumptions that must be made plain. The first, is that 2006-07 will break even – the current moratorium on expenditure supports this assumption. The second, is that the amount of expenditure that could be funded in other ways – capitalisation – has been fully explored, consistent with the limited level of capital resources; the Capital Programme is the subject of a separate report to this Executive. The third, is that better information will become available between now and when the Council Tax is set on February 22nd, which will be incorporated into the budget.
- 3.7 Finally, the Local Government Act 2003 Section 25 places a duty on a Chief Finance Officer (CFO) to comment on “the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides” This is explored more fully at Section 4. The comments previously reported have been developed and are set out at **Annex C**. The level of Reserves is now analysed in terms of Risk, this is set out at **Annex D**.
- 3.9 Section 26 of the Act gives the Secretary of State power to set a minimum level of reserves. The Medium Term Plan assumes Reserves will remain above the level that has previously been agreed as adequate.

Expenditure, Proposals

- 3.10 The proposed 2007-10 spend, and income is set out in the following table. The details are set out in the subjective and objective budget summary at **Annex 1**, with supporting Tables at **Annexes 3 to 7**. The budget requirement includes the Parish Precepts [which are then extinguished by an equal income assumption].

Table 2: Summary of proposed budget £000's

	2007-08 £000's	2008-09 £000's	2009-10 £000's
Expenditure			
Base budget:			
1 ?5Service Spend	19246	20650	21212
2 ?0Other costs, including parish precepts	-919	-579	-262
3 ?j Total Base budget	18327	20071	20950
Cost increases:			
4 ?9Inflation	691	559	574 Annex 3
5 ?xCost pressures	713	1	1 Annex 4
6 ?t Business critical growth	870	771	771 Annex 5
7 Discretionary Growth	516	807	853 Annex 8
	21117	22209	23149
8 Savings:			
9 ?âEfficiency	-517	-642	-857 Annex 6
10 ?€Level 1 to 3 Reductions	-1487	-1879	-1988 Annex 7
11 Total Net budget	19113	19689	20304
Funding			
12 Govt funding	-7992	-8192	-8397
13 LAGBI	-245	0	0
14 Parish Precepts	-4241	-4453	-4676
15 Council Tax base	-6080	-6412	-6696
16 Council Tax - 2nd homes	-20	-20	-20
17 Council Tax increase (5%, 4%, 4%)	-304	-256	-267
18 Collection Fund	-231	0	0
19 Total income	-19113	-19333	-20057
20 Deficit +/- Surplus -	1	356	247 Annex 2

Council Tax proposals

- 3.13 The Council's proposed 2007-08 Band D Council Tax is for NWDC purposes is £127.88. The total Council Tax for North Wilts is as follows:

Table 3: 2007-08 Council Tax

Band Council Tax	2006-07 £:p	2007-08 £:p	% Increase
North Wilts District Council	121.79	127.88	5.00
Parish Precepts (average)	80.39	84.39	4.98
Wiltshire County Council	929.25	973.85	4.80
Wiltshire Police Authority	132.84	139.35	4.90
Wiltshire & Swindon Fire Authority	52.80	55.39	4.91
Total	1317.07	1380.86	4.84

- 3.14 The existence of the 'capping' regime, means that a Council cannot catch up if it wants a higher Council Tax increase, after setting a series of low increases. The prudent approach would be to set the Council Tax at the Government maximum. Table 2 follows this approach, and illustrates 5% in 2007-08 and 4% for the remaining two years.

3.18 The Medium Term Plan requires the Council to look ahead. Whilst the budgets for years 2 and 3 have been better prepared than previously, they inevitably do not take into account opportunities to reduce expenditure that will arise in the future, or changes to the Government funding arrangements. The three year prognosis is that, on the basis of current work, and with the caveats outlined above, the level of expenditure will require further reductions.

Reserves

3.17 The level of Reserves by March 2007 is predicted to be £3.577m This is above that calculated in the risk analysis, set out at **Annex D**, at £3.5m. A further report, to a future meeting, will consider the options with regard to the excess of Reserves, above the calculated risk level.

Consultation

3.18 The timetable for the process is set out below. A key element was/is the review by partners and the Overview & Scrutiny Committee:

- | | |
|--------------------------------|---|
| (a) December 21-January 25 | Discussions with partners and residents |
| (b) January 18 th . | Budget & Strategic Planning Working Group |
| (c) February 1 | Executive |
| (d) February 7 | Overview & Scrutiny Committee |
| (e) February 8 | Executive |
| (f) February 22 | Council |

3.19 External consultation took place through three mechanisms. Area Committees, Website feedback, Peoples Voice feedback. In summary the results were:

Table 4: Results of external consultation

<ul style="list-style-type: none">• Make savings on:<ul style="list-style-type: none">• North Wiltshire Festival• Increase income on:<ul style="list-style-type: none">• Car Parking Charges• Second wheeled bins• Car park season tickets• New and lost wheeled bins• Close information points• Increase Council Tax

4 Financial Implications

4.1 The whole report is concerned with the Finances of the Council. The level of Reserves is sufficient, using a risk based assessment.

4.2 The capping criteria is usually twofold - that a budget should increase by less than a certain percentage, and the council tax should increase by less than a certain percentage, for 2007-08, an average of 5%.

4.3 The issue of the robustness of the budgets is set out below:

Robust budgets

“What is required is the professional advice of the CFO on these two questions. Both are connected with matters of risk and uncertainty. They are interdependent and need to be considered together. In particular, decisions on the appropriate level of reserves should not be based on a rule of thumb, but should be guided by advice based on an assessment of all the circumstances considered likely to affect the authority.

“Section 25 requires the report to be made to the authority when the decisions on the calculations are formally being made. However, those decisions are the conclusion of a process involving consideration of the draft budget by various parts of the organisation, including the executive, member committees and officers. The CFO should ensure that appropriate information and advice is given at the earlier stages on what would be required to enable a positive opinion to be given in the formal report.

“There is no reason why the section 25 report should not form part of a report also dealing with other issues. But it should be possible to identify the sections of a composite report that are made under section 25, so that the authority is able to discharge its duty to take account of the statutory report under section 25(2).” [ODPM November 17]

4.4 The Council has been through an extensive and rigorous budget process; after much debate, a carefully balanced budget was proposed for revenue and capital by the February 8th Executive. The S151 officer has signalled that any change to the proposals has to have the same degree of rigour that the rest of the budget enjoys.

4.5 The scope for change is highly constrained. The budget proposals contain considerable reductions – over £2m – and finding more, at short notice, would be unsound. All the easy options have already been taken; it is highly likely that any new proposed reduction would have a significant policy impact, that up to now, has been considered by Members to be unacceptable.

4.6 Further, the level of Reserves, which in the past have been sufficient to soak up sudden fiscal shocks, will be at the ‘minimum recommended’ level by March 31, 2007. The level of Reserves is calibrated in relation to the soundness of the budget. This fulfils the requirement of Section 25 of The Local Government Act 2003. Any move away from a robust budget, could only be compensated by an increased level of Reserves. Was this balance not to be maintained, the budget would cease to satisfy the provisions of S25. This then takes us to The Local Government Finance Act 1988, Section 114. This provision considers the position of an authority that is moving into unlawfulness, either immediately, or “if pursued to its conclusion, would be unlawful”. The S151 officer would have to make a report, which would have to be considered at a meeting of the Council within 21 days of the issue of the report. In the meanwhile, a “prohibition” period would exist, during which time “the authority shall not enter into any new agreement which may involve the incurring of expenditure”. In this context, it is a variation to the proposed budget that would reduce the robustness, or/and, require a higher level of Reserves.

4.7 It is therefore imperative, that any proposal to change the recommended budget has the same level of rigour, backed by the appropriate level of Reserves.

5 Legal Implications

5.1 The Council is required to set its Council Tax before March 11th.

5.2 The District Auditor (Feb 2007) has commented,

- If Members were to make a decision that resulted in the Council incurring significant additional costs that are not already built into the budget, the section 151 officer would need to consider issuing another Section 25 report on the robustness of the budget.

- If Members made a decision resulting in significant additional costs resulting in the level of reserves being insufficient to cover any reasonable eventuality and no steps were proposed to address the situation, the S151 would have to consider issuing a section 114 report.

6 Risk Analysis

6.1 Risks will be assessed as part of the process. Action was taken in early November 2006 to bring the 2006-07 budget back into line, so that it did not affect the 2007-08 budget. There is also a risk based approach to the budget and the resultant Reserves requirement, which is set out at **Annex D**.

Annexes

Annexes:	<ol style="list-style-type: none"> 1. Subjective and Objective Budget summary 2. Changes since December 14 [shortened MTPF]; 3. Inflation; 4. Cost pressures; 5. Business critical growth; 6. Efficiencies; 7. Savings Levels 1 to 3; 8. Growth
Background Documents Used in the Preparation of this Report:	Government announcements

Previous Decisions Connected with this Report

Report	Committee & Date	Minute Reference
Council Wide Revenue Budget 2007-10	Executive – November 16, 2006	
Council Wide Revenue Budget 2007-10	B&SP WG – November 30, 2006	
Council Wide Revenue Budget 2007-10	Executive – December 14, 2006	
Council Wide Revenue Budget 2007-10	B&SP WG – January 18, 2007	
Council Wide Revenue Budget 2007-10	Executive – February 1, 2007	
Council Wide Revenue Budget 2007-10	Overview & Scrutiny – Feb 7, 2007	
Council Wide Revenue Budget 2007-10	Executive – February 8, 2007	