

REPORT TO THE EXECUTIVE

Report No. 8a

Date of Meeting	16 November 2006
Title of Report	Council Wide Revenue and Capital Budgets 2007-10 (Identification of major issues and scene setting)
Portfolio	Leader's Responsibilities
Link to Corporate Priorities	All
Key Decision	Yes
Executive Workplan Ref	A2
Public Report	Yes

Summary of Report

To bring before the Executive the latest information concerning the proposed 2007-08 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 1.

Officer Recommendations

To note the progress in compiling the proposed 2007-08 budget and the following two year's forecasts, and that a further report will update the Executive on progress on December 14th.

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 This is the start of the budget process for compiling the proposed 2007-08 budget and the following two year's forecasts.

2. Options and Options Appraisal

- 2.1 Option 1: That the Executive note the report and agree the approach
- 2.2 Option 2: That the Executive propose alternatives.

3. BACKGROUND INFORMATION

3.1 Policies and Process

National events

The Lyons Commission is due to report in December 2006 on the future shape of local government finance. This might give the Council new opportunities for raising income. At the same time, it might present new challenges, particularly in relation to the number of tiers of local government in an area.

It is expected that the Government capping of council tax increases, will continue. 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. As yet, Ministers have not made their expectation clear.

Local Preparations

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.

(b) Officers then sought to generate the "base budget". Due to the turnover of senior finance staff, recently resolved, this process is currently behind schedule. The information is very preliminary; the intention is to swiftly verify and challenge the work so far and then present it analysed over the following headings.

- cost increases over three headings (Inflation, demographic & unavoidable growth, and growth to put budgets into line with demand), and;
- reductions (efficiency & other savings, additional income, and service reductions).

(c) A feature of the budget process has been the emergence of three major issues. They are:

- the deteriorating trading position of North Wilts Leisure Limited;
- 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, has just commenced.

The first two were not part of the February 2006 MTFP. The possible effect was included in a revised forecast for 2006-07 and the later years, which was reported to all Members on November 3rd. Remedial action, to contain the overspend in 2006-07 has begun, but it is too early to say whether there will be an impact on 2007-08.

- (d) As a consequence, the focus has shifted from Growth to Savings. The first list of Growth items, has been reduced from 56, to the 5 that are business critical, whilst the budget corrections will be heavily scrutinised. A target of £1m for reductions has been set, and although good progress has been made, a further week of work is required. It is the intention to prioritise the savings by officers into three levels. The final decision on what reductions will be taken remains with the Executive.

3.2 Income

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 % of this year's 2006-07 budget. Secondly, Council Tax, at % of this year's budget. And thirdly, 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. This will be initially confirmed in late November, and finalised in February 2007. The following two years figures are our own estimate, for the Government has to firstly agree its Spending Review 2007, before it can announce its allocation to local government.

Table 1: Government Revenue support Settlement £000's

Year	Forecast	Status
2006-07	7,666	Actual
2007-08	7,977	Government Forecast
2008-09	8,176	NWDC Forecast
2009-10	8,381	NWDC Forecast

- (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 February 2007, the rules have been relaxed to increase the payout (abolishing ceilings and scaling). An estimate of £247k was included in the 2007-08 MTFP, with nothing for the following years.
- (c) Council Tax - every 1% increase in Council Tax would generate £57,000 of additional income in 2007-08. The amount collected so far, and predicted to be collected by March 2007, is an element in the Council Tax calculation. A collection fund surplus of £50k was estimated for 2006-07 at Period 6. There are three immediate ways of increasing the productivity of Council Tax:

- Reduce the discount on Second Homes – a report is on your agenda to this end;
- Improve the collection rate – an improvement from 98% in 2006-07, to 98.5% in 2007-08, has been advised as being achievable;
- Bring forward the instalment date from the 15th to the 1st of the month; Council Tax are considering this initiative.

Having taken the 2006-07 surplus into account when setting the 2007-08 budget and Council Tax, there would be a resulting total Council Tax income of £xm, before any increase. A 3% increase in council tax would generate a further £Ym.

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

3.3 Expenditure, Underlying Trends

The aim of the process is to arrive at a sound three year budget, that seeks to improve services in the priority areas, consistent with maintaining a low Council Tax. A package will be developed that trades service cuts and tax increases.

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

- a) the deteriorating trading position of North Wilts Leisure Limited. The Council has to 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. Guidance is required as to the outcome required. No change 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 of £500k. The option of using prudential borrowing and leasing will be explored, for it might create a short term revenue relief.
- 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% as been assumed for 2007-08. A precautionary 1% has been added for the later two years.

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 following the Government announcements post-Christmas. 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.

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”

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]

- 3.4 Initial comments are set out at **Annex 1**. However, the statutory requirement is to include a statement at the February Council meeting. Also, if any proposal is forthcoming, at that meeting, that is additional to the printed report, it will be necessary to draw to Members’ attention to any failure of the soundness of a proposal.
- 3.5 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. This level will be reviewed, to move from a percentage basis to a risk basis of calculation.

3.6 Expenditure, Proposals

The proposed 2007-10 spend, including all the reductions, is set out in the following table. This is equivalent to Line X of the budget book, the budget requirement excluding Parish Precepts.

	2004-05	2005-06	2006-07	2007-08
Spend £m				
% increase	n/a			

The change in budgets, by service areas are set out in detail in **Annexes Z to X**

3.7 Council Tax proposals

The Council’s current Band D Council Tax is £121.79 in 2006-07. The total Council Tax is as follows:

Band D Council Tax	2006-07 £
North Wiltshire District Council	121.79
Wiltshire County Council	929.25
Wiltshire & Swindon Fire Authority	52.80
Wiltshire Police Authority	132.84
Parishes [Average]	80.39
	1,317.07

Table: Spending, Income and the proposed Council Tax 2007-08

	£m	£m	%
Spending proposals – para			
Income – para 3.2:			
<ul style="list-style-type: none"> • Formula grant • Council Tax at 3% • Total income 			
Gap [£ or % additional Council Tax]			

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 and with the caveats outlined above, the level of expenditure and Council Tax in years 2 and 3 will be as follows if no further work ensues:

	2007-08	2008-09 Year 2	2009-10 Year 3
Expenditure £m			
Council Tax	X%	Y%	Z%

3.8 Consultation

The timetable for the consultation is set out below. A key element is the review by partners and the Overview & Scrutiny Committee, as follows:

- (a) December 21-January 25 Discussions with partners
- (b) January 25th 2007 Overview & Scrutiny Committee

The Executive is keen to listen to the debate on the budget proposals for North Wilts District Council. This debate takes place at a time when the issue of good public services and the level of taxation are to the fore. Following receipt of the first consultation, the Cabinet will recommend a budget at its meeting of February, 2007, for consideration at the February 22nd Council. This final agreement to the budget and the level of Council Tax, includes the Police, Fire and Parishes.

4 Financial Implications

The whole report is concerned with the Finances of the Council

5 Legal Implications

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

6 Risk Analysis

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.

Appendices:	<ul style="list-style-type: none"> Annex A - Robustness Of Budget Estimates And Adequacy Of The Reserves - At November 16, 2006,
Background Documents Used in the Preparation of this Report:	<ul style="list-style-type: none">

Previous Decisions Connected with this Report

Report	Committee & Date	Minute Reference
<ul style="list-style-type: none"> Please list any previous reports or state None. 		