

Date of Meeting	14 December 2006
Title of Report	Budget 2007/08 and 2008/10 Forecast - Revenue
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 strategy and choices of 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 1

Officer Recommendations

That the Executive agree,

- 1. the base budget, cost pressures, business critical growth, savings, and efficiencies;**
- 2. the proposed level of Council Tax;**
- 3. any growth bids;**
- 4. the statement of the Robustness of Budget Estimates and the Adequacy of Reserves (Annex 1);**
- 5. the proposed 2007-08 revenue budget and following two year's forecasts for 2008-10, for consultation;**
- 6. the consultation process [para 3.15], the results of which will be reported to the Executive of February 1st;**
- 7. to receive a further report, to agree the 2007-08 revenue budget and following two year's forecasts for 2008-10, at the Executive of February 1st.**

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

Contact Officer	Peter Timmins, Interim Section 151 Officer, 01249 706219 ptimmins@northwilts.gov.uk
------------------------	--

1 Introduction

- 1.1 The draft revenue budget for the three years 2007-10, is proposed for consultation, following consideration by the Executive (Nov 16), the Budget & Strategic Planning Working Group (Nov 30/Dec6), and officer processes - the Corporate Management Board (November), and a challenge by the Team Leaders Review Group (November 22 & 24). The Executive will consider the results of the consultation at its February 1st meeting, when it will agree the revenue budget, and the proposed level of Council Tax.

2. Options and Options Appraisal

- 2.1 Option 1: That the Executive note the report and agree the recommendations;
- 2.2 Option 2: That the Executive 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 will close on January 19, 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 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%.

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.
- (b) Officers then sought to generate the "base budget". Due to the turnover of senior finance staff, recently resolved, 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 will still develop over the coming months, as the consultation responses are made known and outstanding work is delivered [see Annex 1, Table 1, items 2 & 11] which will then be 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, and the resolution by the November 23rd 2006 Executive to remove any requirement to provide the services at three leisure centres. NWLL are due to provide their business plans, for 2007-10 and an update on 2006-07, on December 15th, 2006;
- 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, 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 has now been incorporated into this report.

(d) Remedial action, to contain the overspend in 2006-07 was put in place by early-November; it is reported elsewhere on this agenda that the overspend has been reduced from £620k (at Month 6) to £49k (at Month 7), with the expectation that it will be in balance by March 2007.

(e) As a consequence, the focus shifted from Growth to Savings. The first list of Growth items, was reduced from 56, to the 6 that are business critical. An initial target of £1m for reductions was set, although reductions in excess of that figure were generated, prioritised into three levels. An officer challenge process then took place on November 22 (reviewing inflation and growth), and then November 24 (reviewing the reductions). Although good progress has been made, more work is in train. It has subsequently been identified that savings had been included as a result of IT driven improvements, but the spend had remained in the Growth bids; the spend has been added to the Business Critical list, increasing the items to 7.

(f) While the final decision on what reductions will be taken remains with the Executive, the Budget & Strategic Planning Working Group's views have been taken into account, by excluding two savings items (now at Level 4) that are premature, and moving items between the levels. The Executive is asked to review and comment on Annexes 3 to 7 (Recommendation 1).

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. It will be finalised in early-February 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 local government.

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 (Provn)	+5.5% adjusted; +4.3% cash
2008-09	8,176	NWDC Forecast	+2.5%
2009-10	8,381	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 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 £60,800 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 7. Two ways of increasing the productivity of Council Tax were put into place in November, with the third proposed in the savings lists:
- 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 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 3% increase in Council Tax would generate a further £183k; at 5%, it would be £304k.

- (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 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. 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 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% 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”

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]

- 3.8 Initial comments are set out at **Annex 1**. Of particular concern is the work on the compilation of the base salaries, an exercise that has unexpectedly been delayed (see 4.2 and 4.11 of Annex 1). 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.
- 3.9 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. This level will be reviewed, to move from a percentage basis to a risk basis of calculation.

Expenditure, Proposals

- 3.10 The proposed 2007-10 spend, including all the reductions, is set out in the following table. The details are set out in the MTFP at **Annex 2**. The budget requirement includes the Parish Precepts [which are then extinguished by an equal income assumption (see Table 4)].

Table 2: Summary of latest budget position £000's

	2007-08	2008-09	2009-10
Base budget:			
• Service Spend	19,246	20,670	21,211
• Other costs; precepts etc	-829	-394	-83
Cost increases:			
• Inflation	671	539	554
• Cost pressures	753	1	1
• Business Critical growth	823	726	726
To be Financed - MTFP	20,664	21,543	22,409
Savings:			
• Efficiency	N/a	N/a	N/a
• Level 1 to 3 Reductions & Effic	-2,181	-2,554	-2,819
Revised base budget – to Table 4	18,483	18,989	19,590
Growth - top priorities	351	538	341
Growth – the remainder	747	598	495
Level 4 Reductions - rejected	219	247	224

- 3.11 The change in budgets, by service areas are set out in detail in **Annexes 3 to 7**. The savings set out at Annex 5 contain the Efficiency savings that will be moved to Annex 6 in the next iteration. An analysis of the savings compared to the Gershon target will be provided to the December 14 meeting.

Council Tax proposals

- 3.12 The Council's current Band D Council Tax is £121.79 in 2006-07. The total Council Tax for North Wilts is as follows:

Table 3: 2006-07 Council Tax

Band D Council Tax	2006-07 £	% of total
North Wiltshire District Council	121.79	9.25
Wiltshire County Council	929.25	70.55
Wiltshire & Swindon Fire Authority	52.80	4.01
Wiltshire Police Authority	132.84	10.09
Parishes [Average]	80.39	6.10
Total	1,317.07	100.00

- 3.13 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. The Table below follows this approach, and illustrates 5% in 2007-08 and 4% for the remaining two years.
- 3.14 Taking the expenditure in Table 2, with no discretionary growth and all the reductions, and assuming a 5% Council Tax and the other income, there remains a gap to be funded. At this stage, the Members should look for further solutions before considering the use of Reserves.

Table 4: Spending, Income and the proposed Council Tax 2007-10

	£000	£000	£000
Spending proposals – para 3.10, no growth	18,483	18,989	19,590
Income			
• Formula grant para 3.4	7,992	8,192	8,397
• LABGI	245	0	0
• Parish Precepts Council Tax	4,131	4,338	4,555
• Council Tax base	6,080	6,412	6,696
• Council Tax at 5%, 4%, 4%	304	256	267
• Collection Fund	50	0	0
• Total income	18,802	19,198	19,915
Gap [“-“ is a surplus]	-319	-210	-325

- 3.15 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.

Consultation

- 3.16 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 Executive will recommend a budget at its meeting of February 1st, 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

- 4.1 The whole report is concerned with the Finances of the Council. The level of Reserves is sufficient, using the existing Criteria. A risk based assessment will be incorporated into the February 1 report.
- 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 2000-08, an average of 5%.

5 Legal Implications

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

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.

Annexes:	<ol style="list-style-type: none"> 1. Robustness of Budget Estimates And Adequacy of Reserves – at November 28, 2006 2. Medium Term Financial Plan 3. Cost pressures, 4. Business critical growth, 5. Savings Levels 1 to 3 and Efficiencies 6. Growth bids, top 6 and the rest 7. Savings Levels 4
Background Documents Used in the Preparation of this Report:	None

Previous Decisions Connected with this Report

Report	Committee & Date	Minute Reference
Council Wide Revenue Budget 2007-10 Council Wide Revenue Budget 2007-10	Executive – November 16, 2006 B&SP WG – November 30, 2006	