Agenda item No. 10

Title:	**Budget Framework Update (including Short Term Financial Plan)**
Portfolio holder:	**Cllr While – Finance Portfolio Holder**
Reporting officer:	**Ian Jamieson – Head of Finance**
Key decision:	**Yes**

Purpose

To consider the latest update of the Financial Plan, the impact on resourcing the Corporate Plan and outline the budget framework for the 2008/2009 Service and Resource Planning process.

Background

The implications for the Council's priorities and services resulting from the Local Government Reorganisation is considered in a report that appears later in the agenda. Current and future work streams have been reviewed to inform the Service and Resource Planning process for 2008/09.

The Medium Term Financial Plan agreed by Cabinet in September 2006 has been revised to take into account changes in priorities arsing from Local Government Reorganisation. This has resulted in a Short Term Financial Plan taking the Council through to a likely vesting date of 1 April 2009. (see Appendix 1)

The Comprehensive Spending Review 2007 has recently been announced with Local Government as one of the biggest losers in a very tight settlement. The review outlined the headline funding arrangements for the next 3 years through to 2010/11. This shows that Local Government will face real spending rises of just under 1%.

The detail will not be available until the grant settlement announcement in early December. The amount for West Wiltshire is likely to be reduced as grant is scaled back to fund a minimum increase for all authorities.

Key issues

Revenue Assumptions:
- Pay reform covered by existing budgets
- Inflation on contracts 2.5%
- Pay award 2.5%
- Pension fund contributions 29.5% (reduced from 32.3%)
- Investment income 5.75%

- Service developments are restricted to unavoidable expenditure
- Government grant increase 1.4%
- Concessionary fares increased cost of new scheme covered by government grant
- Contingency fund £100,000 now part of general fund revenue reserve

It is still early days as a number of major areas of uncertainty are to be resolved in the next month. In particular the government grant settlement and finalisation of manpower and salary budgets. The initial revenue projection before council tax increase and service developments is set out below:

Revenue projection	**2007/08**	**2008/09**
Estimated Grant Settlement	**8.1%**	**1.4%**
Revenue Budget Projection	**£m**	**£m**
Projected budget	14.875	15.377
Projected resources	14.875	15.123
(Surplus)/Shortfall	0	254

Service developments are estimated at £285,000.

Cabinet agreed at its meeting of 4 July 2007 to set aside a sum of £188,000 from the previous year's surplus to support the 2008/09 budget process.

A 1% increase in Council Tax will generate £65,000 of resource.

Revenue Reserve:
The level of revenue reserves has been reviewed and resulted in a reduction of £200,000 from £1.3m. The risk based recommended level now stands at £1.1m, which includes £100,000 in respect of the contingency fund.

Capital Assumptions:
- The programme is based on revised estimates submitted in the previous year
- Regional housing grant is uncertain and assumed at nil
- No capital receipts have been anticipated during the year
- Financing of the programme is likely to be through prudential borrowing in 2008/09
- Use all available capital receipts before entering into borrowing
- The Waterside project estimated at £1.250m will take place in 2009/10

The capital projection based on current and future year's expenditure being incurred as planned is set out below:

Capital Projection	**2007/08** £m	**2008/09** £m
Projected budget (net)	2.9	1.0
Resources balance (start of year)	1.8	0.1

Financing	**2007/08 £k**	**2008/09 £k**
Net cost of programme	2.927	950
Financed from:		
Vehicle replacement fund	103	0
Regional housing grant	380	0
Capital Receipts	2.444	109
Borrowing	**0**	**841**

This shows a need for borrowing during 2008/09. However, based on previous experience this may not happen due to slippage in the capital programme. The need to borrow is from a technical accounting viewpoint and not cash flow requirement.

Service and Resource Planning:

Timetable

- Service Manager and Corporate Management Team start process - 27 September 2007
- Corporate Management Team budget update - 24 October 2007
- Cabinet agrees budget framework - 7 November 2007
- Local Government financial settlement announced - early December 2007
- Corporate Management Team agree draft budget - 12 December 2007
- Cabinet agree budget - 9 January 2008
- Scrutiny consider budget - 23 January 2008
- Council approve budget and set council tax - 20 February 2008

Administration

A more streamlined approach is being taken given the background of Local Government Reorganisation. However, opportunities for redistributing resources to Corporate Plan priorities will continue to be taken.

- No revenue service development bids - only unavoidable expenditure
- No capital service development bids - update of previous years estimates to ensure resources are allocated to projects capable of being delivered by 31 March 2009
- Existing Service Plans are to be reviewed and rolled forward to 2008/09
- Moving money around within own budgets to meet changing priorities in service plans
- Consider any efficiency and other savings available

Effect on strategies and codes

The Short Term Financial Plan provides the financial framework to resource the Corporate Plan. A review of the corporate plan priorities has been carried out against a background of Local Government Reorganisation.

Risk management Implications

The Budget for 2008/09 may not be agreed, which could result in non-delivery of priority areas detailed in the corporate plan. **The likelihood is low with high impact.**

Resources may not be available to deliver the capital programme. This may be funding and/or people. **The likelihood is low with medium impact.**

Resources may not be available to deliver the revenue services. This may be funding and/or people. **The likelihood is medium with medium impact.**

Finance and performance implications

The Service and Resource Planning process directs and redistributes resources to the Corporate Plan priorities. The financial implications are summarised under Key Issues and appear in detail within the Short Term Financial Plan.

Legal and human rights implications

There are no direct legal or human rights implications.

Next Steps

The Service and Resource Planning process will be carried out in accordance with the timetable referred to above. The key announcement will be the local government finance settlement in early December as this will remove a large area of uncertainty from financing the budget.

Recommendations

That Cabinet:

1. Notes the current position.

2. Recommends to Council the reduction in the general fund revenue reserve from £1.3m to £1.1m. The surplus £200,000 is used to finance urgent health and safety related repair and improvement works to the Multi-storey car park in Trowbridge.

3. Agrees the Short Term Financial Plan.

Key Decision Box

Statement of reason for key decision	significant to council services reduction in revenue reserves change to policies
Options considered and rejected	Outlined in report
Date of implementation	1 December 2007

Background Papers:

Filename: N:\Cabinet Reports\2007-2008\7 November\Budget Framework update

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Appendix 1

Short Term Financial Plan to 31 March 2009

1 Introduction

The Corporate Plan provides future strategic direction and is resourced through the financial framework outlined in the Financial Plan. Following the Local Government Review the corporate plan has been revisited to update existing priorities.

The purpose of this document is to update the 4-year financial plan agreed by members in September 2006. The plan covers revenue, capital and reserves to assist members and officers in decision making through to 31 March 2009.

The figures do not represent a committed budget, but outline a framework within which decisions relating to future service provision should be taken. Looking into the future is always difficult and this plan is based upon the best available information at the time. It is inevitable that circumstances will change and the plan will be subject to regular review.

The financial position of the Council has been challenging over the past few years with increasing expectations and pressures to deliver more with less. The Service and Resource Planning process has clearly helped enabling resources to be targeted to the Council's spotlight areas and getting the job done as set out below:

Spotlight	***Getting the job done***
➢ Development control	➢ Sound financial management
➢ Recycling more waste	➢ A focus on priorities
➢ Meeting housing need	➢ Strong community leadership
➢ Access to recreation	➢ Efficient and effective services
➢ Improve our market towns	➢ Valued and well supported staff
➢ Putting customers first	➢ A well planned approach
	➢ Accessible democratic decision making
	➢ High quality communication with the public

It is recognised that the Council cannot do everything, and deciding upon which service areas not to allocate resources continues to be a very important part of the financial management process.

2 Financial Background

The Council was a beneficiary of the new system for distributing central government grant. However, the Government is controlling the speed at which full grant entitlement is received through a 'scaling mechanism', which adds further uncertainty and pressure to our limited financial resources.

The government grant introduced 3-year financial settlements in 2006/07. This has been achieved by a 2-year settlement in 2006-2008 followed by 3-year future settlements in line with the government spending reviews. This first of these will be 2008/09.

The Comprehensive Spending Review 2007 outlined the headline funding arrangements for the next 3 years through to 2010/11. This showed Local Government as one of the biggest losers facing real spending rises of just under 1% in a very tight settlement. The detail will not be available until the local government financial grant settlement announcement in early December.

3 Key Financial Facts as at 2007/08

- Gross Spend £56m
- Net general fund revenue budget £15.0m
- Funded from 52% central government and 48% local council tax
- Reserves £1.3m
- Capital programme £2.6m (gross) £1.7m (net)
- Capital resources £1.8m
- Every £1m capital spend will reduce revenue investment interest by £60k
- Investment Fund average balance £10.45m
- Investment Fund interest £580k
- Band D average council tax £139.50
- Every 1% increase in council tax will raise around £60k

4 Key Issues

- ***Local Government Grant Settlement***

The 2007/08 settlement was better than expected for districts, where the average grant increase was 4.7%.

However, due to the continuation of the system that ensures all councils receive a minimum grant, West Wiltshire has again not received its full grant entitlement. For 2007/2008 this was £317,000 being the 6th highest contribution withheld. Detail of grant lost in previous and future years is set out below:

2003/04	2004/05	2005/06	2006/07	2007/08
£714,000	£753,000	£555,000	£599,000	£317,000

- ***The Prudential Code***

The basic principle is that local authorities are free to invest so long as their capital spending plans are affordable, prudent and sustainable. This is decided by reference to a number of indicators measuring expenditure, debt and interest rate. The Council still has the ability to finance its capital programme from capital receipts.

The shaping of the capital programme has taken place against the background of the Corporate Plan and all capital projects were evaluated as part of the Service and Resource Planning process. The revenue consequences arising from any capital project has been built into the revenue budget.

How the project is financed is a separate decision and needs to consider the use of capital receipts and/or borrowing. A decision to borrow will need to be supported by a cash flow statement and undertaken as a treasury management decision. This will be actioned in accordance with advice from our treasury management advisors.

- ***Specific Grant Funding***

The plan includes grant funding estimates and commitments as follows:

Planning Delivery Grant	**2007/08**	**2008/09**
	£k	**£k**
revenue	54	0
capital	18	0

The Planning Delivery Grant is closely linked to achieving targets, which means the grant can also go down. The grant was made up of 75% revenue and 25% capital. This volatility needs to be recognised in setting budgets, particularly contractual commitments. The grant is being changed with stronger links to Housing. **It is assumed that no grant will be received in 2008/09**.

Waste Performance/Efficiency	**2007/08**	**2008/09**
	£k	**£k**
revenue	54	0
capital	54	0

The Waste Performance and Efficiency Grant was made up of 50% revenue and 50% capital. **This has now been incorporated into the annual revenue support grant for 2008/09 and future years**.

Concessionary Fares	**2008/09**
	£k
Option 1	226
Option 2	214
Option 3	240
Option 4	451

The new national scheme will operate from 1 April 2008. Funding arrangements are currently out to consultation. This is a major area of uncertainty with unknown expenditure and government grant funding. **It has been assumed this will be implemented with no additional cost**

Local Authority Business Growth Incentive (LABGI)	**2005/06**	**2006/07**	**2007/08**
	£k	**£k**	**£k**
Original grant	91	113	?
Additional grant paid in 2007/08	0	102	0

The Government introduced a 3 year scheme in 2005/06 giving local authorities a share of the additional growth in business rate income that is achieved each year. This is always paid in arrears in February with 2007/08 being the final year. **A new scheme is currently being consulted on and will be introduced for 2009/10. There will be no grant in 2008/09**.

- ***Future Commitments***

Pay Reform

The Council carried out a local pay review in 2006/07. The planned implementation of 1 April 2007 has been delayed due to external factors. Budgets were revised upwards in 2007/08 and on-going revenue costs have been included for 2008/09.

The Asset Management

The Waterside project and Castle Place leisure centre are progressing and are likely to give rise to future capital and revenue costs. A capital budget of £1.25m has been identified for 2009/10 for the Waterside project.

No other resources have been allocated.

Refuse and Recycling

This continues to be a growth area with the Council responding to meet national government targets, working in partnership with Wiltshire County Council on a Wiltshire wide initiative. This has resulted in the following revenue expenditure being included within the plan.

	2007/08	**2008/09**
	£k	**£k**
Recycling kerbside	297	305
Rural black boxes	36	72
Total	**333**	**377**

No allowance has been made for any additional expenditure that may be required upon the completion of the waste review.

Land Charges

New arrangements introducing the operation of a self balancing trading account were introduced in 2007/08. This sets out over a 3 year period a breakeven position should be achieved. The account currently makes a surplus. To balance the account expenditure may have to be increased or income levels reduced. Guidance is awaited from DCLG to determine what can and can not be charged against the trading account. This is not expected until early in the new year. **A revenue reduction of £200,000 has been built into the 2008/09 budget.**

Grounds Maintenance
The additional £100,000 allocated in the MTFP has now been included within the 2008/09 budget.

Public Finance Initiative (PFI)
The project is progressing to the tender stage after receiving government sign off. The set up costs are being closely monitored and the latest projection and funding arrangement is set out below:

	2007/08	2008/09		2009/10	2010/11
Revenue	**£k**	**£k**		**£k**	**£k**
Operational costs	70	28		0	0
Lost income	0	11		11	11
On-going running costs - 30 years	0	0		58	231
Capital					
Set up costs	0	0		0	0

Further work is being carried out to finalise the future revenue and capital costs. Any significant change will be reported in December.
There is potential for a capital receipt in the range of £0m - £5m arising from the revised land strategy which will involve selling land into the scheme.

- ***Budget Robustness***

The 2008/2009 budget process has been influenced by the Corporate Plan and will be delivered through the Service and Resource Planning process.

The 2007/08 base revenue budget was reviewed for known variations coming through from budget monitoring in the current year. All staffing budgets were reviewed in detail and increased for pay award and reduced for pension contributions. Inflation in accordance with contractual rules was added to all external contracts.

There were no revenue service developments other than for unavoidable expenditure. The capital programme is based on updated projects submitted and evaluated as part of the previous year's process.

The draft budget will be considered by Corporate Management Team, Service Managers, Cabinet, Scrutiny and submitted for approval by Council on 20 February 2008.

- ***Capital and Revenue relationship***

There is a direct relationship between the reduction in capital resources and our investment fund balance. Surplus capital resources are held in our investment fund, earning interest for the general fund. As capital resources reduce each year through the capital programme, this will impact on the level of investment income received by the general fund. Based on current levels of investment returns, £1m of capital resources generates £60,000 of revenue resources, supporting the revenue budget for current and future years.

- ***Key contracts***

The table below highlights the main contracts, value and renewal year. Some contracts may be deferred to take advantage of joint tendering arrangements with other authorities.

	2007/08	2008/09		2009/10	2010/11	2011/12
	£m	£m		£m	£m	£m
Grounds maintenance	1.8	-		-	-	-
Street cleansing		-		-	-	-
Refuse	-	-		-	-	1.8
Computer	-	-		0.5	-	-
Leisure	-	-		-	-	1.6
Public conveniences	-	-		-	-	0.2
Insurance	-	-		-	-	0.3

5 General Fund Revenue Assumptions

The general fund model has been set up using the 2007/08 budget as the starting point, focusing on the main 'cost drivers' of employees, premises, transport, supplies and services, contract, treasury costs and income. Flexibility has been catered for, allowing 'what if' and 'sensitivity' calculations to be made. Information will be updated from the Service and Resource Planning process.

With any model attempting to predict the future, there is an element of uncertainty and a number of assumptions have been made. The main ones are described below:

- ***Inflation***

Inflation has been included in the calculations for salaries and wages at 2.5% for 2007/08 and 2008/09. Contractual expenditure and fees and charges have been increased at 2.5%.
No increase has been made to planning fees, which are currently set by central government.

- ***Pension***

The latest 3 year actuarial valuation as at 31 March 2007 has been published. This has resulted in a 2.8% reduction in the employer contribution rate, which has fallen from 32.3% to 29.8% giving a cash saving of £158,000 compared to the previous year.

The funding of our share of the scheme has also improved with 70% of liabilities being covered compared to 63% in the previous valuation.

- ***Investment Income***

The investment fund is managed in-house with external professional advice from Butlers, our treasury advisors. The investment strategy seeks to maximise returns whilst providing certainty of capital. Estimated returns are as follows:

2007/08	2008/09
6.0%	5.75%

- ***Government Grant***

This is a major area of uncertainty due to the system of allocating and the level of scaling back. The system was revised from 2006/07 with a 2-year settlement to 2007/08, to be followed by 3-year future settlements in line with the governments spending reviews. However, the grant increase for 2008/09 is unknown, as is the level of 'scaling back'.

An 8.1% grant increase was received in 2007/08. In view of the continued uncertainty an estimate of 1.4% has been made for 2008/09.

- ***Service Growth***

There were no revenue service developments other than for unavoidable expenditure. Draft revenue bids received and reviewed by Corporate Management are listed below:

Description	**In MTFP**	**New bid**	**Total**
	£k	**£k**	**£k**
Concessionary fares current		105	105
Complete tree survey		20	20
Tree remedial works		30	30
Public conveniences contract	124		124
Decriminalised parking	47		47
Rural black boxes	37		37
Temporary staff CSU		130	130
Total	**208**	**285**	**493**

- ***Council Tax***

A 1% growth in the number of properties that give rise to the tax base has been estimated. This is used to cover the increased costs of providing services to new properties, such as refuse collection.

- ***Efficiency savings***

The Government has set a national target of 2.5% over 3 years in key areas of back office functions, procurement and transactional services. The Council must achieve £1.1m over 3 years from 2005/06 to 2007/08 and submit Annual Efficiency statements for each of these years.

The table below shows that the target will be met with further detailed work is planned as part of the 2006/07 and 2007/08 Annual Efficiency statement submissions.

Year	Target £'000		Actual £'000	One off adjustment	Cumulative £'000
2004/05	-	{	394	0	394
2005/06	362	{	447	(56)	785
2006/07	362		275	0	1,060
2007/08	362		301	0	1,361
Total	**1,086**				

The Customer First project is aiming to improve efficiency with any savings being invested in customer care.

New arrangements are being proposed for 2008/09 and future years with a 3% cash efficiency target.

After considering all the above the projected revenue outturn before any council tax increase and service growth is as follows:

	2007/08	**2008/09**
Estimated Grant Settlement	**8.1%**	**1.4%**
Revenue Budget Projection	**£m**	**£m**
Projected budget	14.875	15.377
Projected resources	14.875	15.123
(Surplus)/Shortfall	0	254

Service developments are estimated at £285,000.

Every 1% increase in the level of council tax will generate £65,000.

Cabinet agreed at its meeting of 4 July 2007 to set aside a sum of £188,000 from the previous year's surplus to support the 2008/09 budget process.

6 General Fund Reserve

A recent review of the level of the Council's reserves was undertaken in accordance with the latest professional guidance. The annual budget was reviewed and adjusted for likely overspends and what could go wrong based on past experience. This allowed a risk percentage to be calculated, which when applied to the budget figures and the history of the past few years gives a prudent forecast recommending a general fund reserve balance of £1.0m. After adding a contingency fund of £100,000 this gives a recommended reserve of £1.1m.

The calculation is annually reviewed increasing with inflation and updated for any changes in risk.

7 Capital

The draft capital programme has been based on an update of projects submitted as part of last year's process.

Capital Budget Projection	**2007/08 £m**	**2008/09 £m**		**2009/10 £m**
Projected budget (net)	2.9	1.0		1.4
Resources balance (start of year)	1.8	0.1		0.0

Financing of capital spend	**2007/08 £k**	**2008/09 £k**		**2009/10 £k**
Net cost	2.927	950		1.360
Financed from:				
Vehicle replacement fund	103	0		0
Regional housing grant	380	0		0
Capital Receipts	2.444	109		0
Borrowing	0	841		1.360

Capital Programme		**2008/09 £k**		**2009/10 £k**
Sewerage		110		110
Five Towns		100		0
Play Area refurbishment		60		0
Play area grants		21		0
Land Charges data assistants		34		0
ICT		105		0
Pumping station works		20		0
Housing Renewal grants		270		0
Open spaces access		10		0
Cemeteries		86		0
Commercial properties		10		0
Car parks		124		0
Waterside		0		1,250
Total		**950**		**1,360**

8 Policies to underpin 'Sound Financial Management'

Revenue

- General inflation to be applied to contractual commitments only
- Pay budgets to be increased in line with projected pay award
- Pension costs to be increased in line with latest actuarial valuation

- Exit strategy to be agreed before any permanent unplanned long term commitments are entered into. For example use of external funding and government grant
- Service improvement/growth to be funded from redistribution of existing resources
- Windfall revenue savings are to be held in a central corporate account for consideration by Corporate Management Team
- Increases in council tax are to be kept to single figure percentage increases subject to annual government settlement

Capital
- Asset Management Plan will be reviewed annually to identify surplus assets to generate new capital resources for future capital projects
- Capital receipts are to be held in a central corporate account to be allocated in accordance with the Council's 'spotlight and getting the job done' priorities and the Service and Resource Planning process

Reserves
- Revenue reserves will be reviewed at least annually
- Working balances to be maintained between 6% and 9% of the net revenue budget subject to the annual risk assessed calculation
- Earmarked reserves will be created for specific projects in accordance with the delivery of the Corporate Plan. All earmarked reserves will be time limited and will be regularly monitored and reviewed annually as part of the Short Term Financial Plan. The total of all earmarked reserves will not exceed 5% of net revenue expenditure

Graham Payne	Andrew Pate	Roy While	Ian Jamieson
Leader	Chief Executive	Portfolio Holder	Head of Finance

30 October 2007

Background Papers – files held in room F33
Filename – \Finance\Cabinet Reports\2007-08\7 Nov 07\shortermfp30-10-07