KENNET DISTRICT COUNCIL

RESOURCES EXECUTIVE COMMITTEE
To be held on Tuesday, 29th August 2006

JOINT REPORT OF THE CHIEF EXECUTIVE AND THE DIRECTOR OF RESOURCES

FINANCIAL PROSPECTS 2007/08

1. Introduction

The purpose of this report is to allow the Committee to make recommendations to the Council as to the approach that should be adopted by Committees in formulating budget proposals for financial year 2007/08.

2. Financial Year 2006/07

Members will recall that in adopting its budget for 2006/07 in February the Council set its Council Tax for 2006/07 at £123.38, a 4.7% increase over the level of council tax in 2005/06. This was only achieved by withdrawing some £39,000 from revenue balances, and after having identified substantial budget reductions over the previous four months.

Nothing has happened in 2006/07 to date to suggest that it will not be necessary to withdraw the £39,000 from balances in that year, and it will certainly be necessary to seek savings for 2007/08.

3. Cost Drivers in 2007/08

Early indications are that savings of approximately £1m will need to be made on current revenue if the council tax increase for 2007/08 is to be limited to 5% again.

The main cost drivers for 2007/08 will be:

- Inflation on staff costs £300,000
- Inflation on other costs, especially fuel and power £80,000
- Increased contributions to the Wiltshire Pension Fund £130,000
- The need to reduce reliance on balances and reserves £39,000

- The need to increase net expenditure in a number of service areas £200,000, (including £100,000 for the full effect of concessionary fares).
- The effect of the pay and grading review to be implemented from 1st April 2007 £350,000
- Reduced investment income and loss of MoD refuse contract £234,000.

Some of the above increases in net revenue expenditure will be offset by additional Revenue Support Grant of £113,000, and a 5% council tax increase would yield some £190,000

The Budget Reductions Sub Committee will now be convened to examine ways of producing a balanced budget for 2007/08.

4. Revenue Support Grant

When announcing the Revenue Support Grant settlement for 2006/07, the figure for 2007/08 was also given in advance, and the additional £113,000 mentioned above assumes that the figure announced in February 2006 will be honoured. Members will note that an additional £113,000, whilst useful, is a small amount relative to the cost-drivers facing the Council.

5. Investment Income

The markets are anticipating a small increase in interest rates by the end of the year, which will be helpful. However, the amount of money invested will fall over the next few years. Although the Council has identified a number of assets that can be sold, the income from those sales will not be sufficient to meet planned, heavy capital expenditure in a number of key areas, recycling, leisure centre refurbishment, social housing, public conveniences and e-government.

In short, investment income will reduce in 2007/08.

6. Conclusions and Recommendations

The Council is faced with another difficult financial year in 2007/08. It is already clear that spending pressures will exceed likely available income, and savings will need to be made. No relief can be expected from government grant or from increased investment income.

In the light of the above it is:

RECOMMENDED THAT the Council be recommended to set the following guidelines for the Executive Committees in framing the budget for 2007/08:

1. Expenditure growth should be minimised, consistent with the need to maintain essential, core services.
2. All sources of income and expenditure should be critically examined with a view to achieving savings such as to produce a balanced budget in 2007/08 that conforms to the Council's medium-term financial strategy.
3. Staff structures and staffing levels should be kept under review and opportunities taken in association with the Human Resources Committee to reduce staff costs, consistent with the need to maintain priority services.

Chief Executive | Director of Resources