KENNET DISTRICT COUNCIL

RESOURCES EXECUTIVE COMMITTEE
To be held on Tuesday, 18th September 2007

JOINT REPORT OF THE CHIEF EXECUTIVE AND THE HEAD OF FINANCIAL SERVICES

FINANCIAL PROSPECTS 2008/09

1. Introduction

The purpose of this report is to establish and make recommendations to the Council as to the approach that should be adopted by Committees in formulating budget proposals for financial year 2008/09.

The report also considers some of the financial pressures facing the council during the coming financial year.

2. Financial Year 2007/08

For many years the Council has struggled with difficult Government grant settlements and other external cost pressures, and has needed to make substantial budget savings. The gearing effect (1% increase in spending equates to 4% increase in council tax) and the treat of capping have also been issues to bear in mind when setting the council tax level.

The 2007/08 budget was a particularly difficult exercise requiring savings in excess of £1 million and a council tax increase of 4.9% (Band D council tax for 2007/08 is £129.43) to produce a balanced budget. That said, whilst some expenditure pressures and risks have materialised that were not identified at the time of setting the budget in February 2007, savings have offset these. The Local Authority Business Growth Incentive Scheme LABGI has been of some assistance to Kennet in this regard over the last 2 years although the scheme is scheduled to end in December 2007 and any successor arrangements are not yet clear.

Overall the 2007/08 ‘bottom line’ budget is on target and in line with expectations.

3. Wiltshire Unitary Bid

Members will be aware that on 25th July 2007 John Healy, the Minister for Local Government announced that the Secretary of State was minded to accept the Unitary proposal put forward by Wiltshire County Council. The County are currently proposing that vesting day for the new authority will be in August 2008, although this has yet to be agreed and could well be delayed until April 2009.

What is clear is that once the transitional council is in place, Kennet along with the other Districts will no longer have the power to

- Prepare budgets or plans
- Consult any person in connection with the preparation of such plans
- In respect of functions that after the vesting date will be discharged by the new authority. The transitional authority will become responsible for meeting this requirement.

However, Kennet are currently quite clearly responsible for setting the 2008/09 revenue and capital budget and at this stage the approach taken must be such that Kennet are a continuing authority and prudence would dictate that savings are required to offset any cost pressures.

Clause 24 of the Local Government and Public Involvement in Health Bill (LGPIH Bill) includes provisions designed to prevent the new unitary authority becoming responsible for long term liabilities that are not consistent with their plans for the future. Whether the provisions will be issued is yet to be decided but the provisions are not intended to prevent the legitimate on going business of local government.

The following are the provisions as set out in clause 24, which enable the Secretary of State to direct that a relevant authority may not without the written consent of a specified person:

- Dispose of land if the consideration for it exceeds £100,000;
- Enter into a capital contract where the authority concerned would be required to pay consideration of more than £1,000,000 or where the contract includes a term allowing the consideration to be varied;
- Enter into any non-capital contract where the consideration exceeds £100,000 and the contract extends beyond a date specified in the direction, or under the terms of the contract, the period of the contract may be extended beyond that date;
- Include an amount of reserves in the calculation of its budget requirement for council tax purposes.

The last point is particularly pertinent to setting the 2008/09 budget. Whilst the exact interpretation is yet to be defined, again prudence would dictate that a balanced budget is set without recourse to the use of revenue reserves.

4. Cost Drivers in 2008/09

Early indications are that savings of approximately £539,000 will need to be made on current revenue if the council tax increase for 2007/08 is to be limited again to a maximum of 5% in line with the Medium Term Financial Strategy.

The main cost drivers for 2008/09 will be:

- Inflation on staff costs £345,000 (assuming 3% pay settlement)
- Inflation on other costs, especially fuel and power £50,000
- Increased contributions to the Wiltshire Pension Fund £150,000
- The need to reduce reliance on balances and reserves £60,000
- The need to increase net expenditure in a number of service areas £275,000, (including £100,000 for the effect of extending concessionary fares nationally from 1 April 2008).
- The effect of the next stage of the pay and grading review one year on £140,000
- Reduced investment income £172,000.

The above items total £1,192,000

Some of the above increases in net revenue expenditure will be offset by the impact of staffing changes agreed during February 2007 (£168,000), removing the non growth item concerning the May 2007 elections (£86,000) and a 5% council tax increase would yield some £201,000, and other potential savings amounting to £95,000. The total of these items is £550,000

The Budget Reductions Sub Committee has been convened to examine ways of producing a balanced budget for 2008/09.

5. Revenue Support Grant

With effect from 2006/07, the government introduced the principle of three year settlements to give local authorities more certainty in their budget planning. These settlements are linked to the period covered by the Comprehensive Spending Review (CSR). The existing CSR ended in 2007/08 so the first announcement under the new arrangement related to a two year rather that a three-year period, covering 2006/07 and 2007/08.

Indications coming out of the CSR 2007 are that finances are very limited and the Government has been preparing Local Government to expect a poor grant settlement, but at this stage it has been assumed that increased government support of around 2% may be forthcoming amounting to £103,000.

The grant announcement is expected towards the end of November.

6. Investment Income

Over recent months we have seen a steady rise in interest rates, which has been helpful. However, the amount of money invested will fall over the next year due to the capital programme expenditure and interest rates are forecast to fall slowly by the end of the current financial year. Although the Council has identified a number of assets that can be sold, these sales may not take place before the Local Government Bill is enacted and permission may or may not be forthcoming from the Secretary of State for such sales.

In short, investment income will reduce during 2008/09 by some £172,000.

7. Conclusions and Recommendations

The Council is faced with another difficult financial year in 2008/09, although not as severe as it faced in 2007/08. The year is exceptional in that it may well be the last for Kennet District Council before it is merged to form the new Unitary Wiltshire Authority. 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. It is also likely that the Local Government Bill once enacted will require the Council to produce a balanced budget without recourse to the use of reserves

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 2008/09:

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 2008/09 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 Head of Financial Services