

**ITEM**

**ITEM**

**Executive – 8 December 2005**

**DRAFT BUDGET PROPOSALS 2006/07**

**Report of the Head of Financial Services**

**Statutory Powers:**

Local Government Act 1972, Section 151  
Local Government Finance Act 1992  
Local Government Act 2003

**Financial Implications:**

This report presents the latest assessment of the budget position facing the Council, outlines bids for additional expenditure and the options that are available to address the funding shortfall.

**Purpose:**

This report updates Members on the budget position and provides a framework for consultation with the Scrutiny and Policy Development Groups. The report and consultation process will help the Executive identify priorities, prepare the budget and maximise the use of resources. Budget considerations are directly linked to CP6 – ‘the improvement of core services in a cost effective way’.

**RECOMMENDATIONS**

**That the Executive resolves to:**

- 1. Accept the report and indicate their initial views concerning the bids for additional resources for 2006/07.**
- 2. Request the view of the Scrutiny and Policy Development Groups on the issues contained within this report.**

**Introduction**

- 1 This report provides Members with an updated forecast of the financial situation for 2006/07 and over the medium term. It is divided into four parts which identify:
  - Consultations with the Town and Parish Councils, Business Forum, residents and Members of the Council
  - the latest assessment of the core funding gap faced by the Council
  - options to address the funding gap, including efficiency savings and an increase in council tax levels
  - additional resources required to address service pressures or to enhance provision

- Next steps - achieving a balanced budget

2 The structure of the report is intended to help Members make decisions on service provision and to set a balanced budget which makes the best use of resources. It is recommended that Scrutiny and the Policy Development Groups are invited to submit views on the issues discussed. These views should have regard to the need to bring the various elements into balance, i.e.

Core budget pressures				Savings from efficiencies
	+		=	+
				Income opportunities
				+
New service pressures				Additional council tax

### **Consultation**

3 Last year we undertook consultation with Town and Parish Councils, the business community and residents. We commissioned a research company to undertake a detailed survey of residents using a statistical sampling technique called SIMALTO.

4 It is not intended to undertake the SIMALTO consultation exercise every year with the residents because the information gained was very detailed and is considered valid for two to three years.

5 The results of this survey indicated that residents wanted more money spent on economic regeneration and anti-social behaviour (e.g. graffiti, litter and dog fouling). In response to this survey we allocated £49,000 of new money to help improve these services. In particular we have introduced waste and street scene enforcement polices and reorganised how we manage the street scene related activities. In addition, money has been awarded to the CAB as extra funding to undertake a benefit take up campaign within the district.

6 This year consultations have already been made to meetings of the Business Forum and Town and Parish Councils and a summary of the views of the latter is included in Appendix A. When considering the results of the consultation it must be remembered that these are the views expressed by those who turned up on the evening and are not those of all Town and Parishes within the district. The meeting received a presentation and was then split into groups to discuss service priorities and non-priorities. The top two priority services which were some way ahead of the rest were voted to be Social Housing and Street & Beach cleaning. The non priority service which received by far and away the most votes was Promotion of Tourism, with nine more votes than the next lowest priority, which was Grants to Outside Bodies.

7 Consultations on priorities have also been undertaken through Member workshops, and as part of the review of the Community Strategy. A Member workshop was held in June. The conclusion was that the

ranked priorities established in 2002 (CP1 to CP6) should remain unchanged, but with some increased emphasis given to climate change, the needs of younger people, and facilitating a healthier community. These additional themes would not be established as new priorities but actioned within the existing priorities. This is likely to occur by incorporating the new themes within revised targets under the existing corporate priorities. Members may wish to bear this work in mind in the Policy Development Group discussions.

- 8 As part of the budget process, we have reviewed the feedback from recent community consultations. The consultations were primarily undertaken to support an up-date of the Community Strategy. Affordable housing and employment / skills continue to be the priority themes for the local community. A useful summary of the questionnaire results are also included in Appendix A.

### **The latest assessment of core budget pressures**

- 9 The medium term financial strategy was presented to the Executive in September 2005 which, before taking into account an increase in council tax, indicated a shortfall for 2006/07 of £446,000.
- 10 Since that time the detailed base budgets have been updated for 2005 inflation, pay awards, increased charges which have already been approved, income levels and other known changes to service provision. The updated forecast shown in Appendix B indicates a shortfall of £528,000 which is mainly due to the assumptions made relating to concessionary fares and government grant which is discussed below.
- 11 **The position relating to government grant.** At the time of writing no announcement has yet been made for the 2006/07 grant distribution, the provisional announcement is expected sometime in early December with the final details confirmed in January. A general year on year increase of 1.5% has been included but there are great uncertainties regarding grant allocations. Last year included a 'one-off' amount to help keep council tax increases down and no announcement has been made if it is to continue. In addition, a number of changes to the distribution methodology have been implemented which will affect individual authority grant levels but until the announcement is made we will not know the implications.
- 12 A major issue that will affect us concerns changes to the concessionary bus fares scheme. In his 2005 budget speech, the Chancellor announced that free off-peak local bus travel, rather than the current half-fare arrangement, would be provided for disabled people and those aged 60 and over. The new arrangements take effect from April 2006 and the Government will increase funding to local authorities by £350M per year from 2006/07, to meet the additional costs.
- 13 We are a member of the Devonwide Concessionary Fares Partnership

and they have estimated that the budgeted cost for us in 2006/07 is £650,000, an increase of £502,000 over the current budget of £148,000. They have also made a very approximate estimate of the likely increase in government grant of £440,000 a shortfall of £62,000. It must be emphasised that a final decision has not yet been made how the extra funding will be allocated to authorities so there is a high risk that the figure will change due to the way grants are calculated. Consultations have taken place regarding the exact calculations to be used and the Partnership has carried out considerable research into the issue and has lobbied the Government to protect the interests of the Councils in Devon.

- 14 The remaining sections of this report identify the key issues and options that Members need to consider when setting the budget.

### **Options to balance the budget**

- 15 The overall funding gap arising from unavoidable budget pressures and any bids that Members support must be addressed through a combination of:
- an increase in council tax
  - efficiency savings
- 16 **An increase in council tax** – Appendix C summarises the overall position of core budget pressures and the underlying assumptions which underpin the forecast over the medium term. Members are asked to consider the appropriate level of council tax and are reminded that a 1% increase will generate approximately £42,000. Government have indicated that they want to keep council tax rises low next year and have said that they are prepared to use their capping powers but to date have not been specific.
- 17 **Efficiency savings** - We are required to achieve a £320,000 (2.5%) efficiency target set by Government. Whilst only half of this is required to be cashable (as opposed to non cashable – providing more service for the same cost), to help balance the budget most of our efficiency savings will be cashable.
- 18 Efficiency is not about cuts, but about raising productivity and enhancing value for money.
- Reducing inputs (money, people or assets) for the same outputs
  - Reducing prices (procurement, labour etc.) for the same outputs
  - Getting greater outputs or improved quality (extra service, productivity) for the same inputs
  - Getting more outputs or improved quality in return for an increase in resources that is proportionately less than the increase in outputs or quality
- 19 Heads of Service were therefore each given efficiency targets to

achieve for next year amounting in total to £250,000 and these are shown in Appendix D. These efficiency savings will be automatically built into the core budgets in due course as they will not affect the level of service provided to users and will not reduce services. In addition, £50,000 has already been reduced from the core budgets for efficiencies arising from procurement and productive time reviews, making a total efficiency saving to be included in the budget of £300,000.

- 20 Efficiency savings in excess of the target were identified but they have been scaled back to the original target. Some of the efficiencies will not be possible to achieve immediately because of the work involved in the business process reengineering required. Indeed, it may also be found that not all efficiencies are achievable once the detailed assessments have been undertaken. It is therefore prudent to allow some headroom in the figures to allow for these contingencies.
- 21 **Use of Reserves** - From next year it is proposed to cease paying interest into our reserves except for specific vehicle and plant replacements (to maintain the real value of money to buy the new vehicle). This will free up £84,000. The level and commitments for each reserve are kept under review each year and in future budget cycles it is intended to recommend specific payments into them to ensure they are adequate for the purpose for which they were established.
- 22 We also have a Building Control reserve comprising surpluses made in earlier years. Previous guidance stipulated that this money should be ring fenced and could not be used for general expenditure. However, we have now received written guidance to the contrary and propose to release £55,000 per year for three years into the General Fund accounts. Elsewhere on the agenda is also a report requesting the use of this reserve to help meet the set up costs of a new Building Control partnership.

Table 1. Possible reductions in expenditure

	2006/07
Efficiency savings recommended for implementation	250,000
Use of reserves	139,000
Total	£389,000

- 23 **Medium to long term changes to the budget** – In addition to reductions identified for next year it is imperative that we plan for efficiencies that are achievable over the coming two to five years. Budget shortfalls are forecast over the medium term and the Government’s Spending Review also included efficiency saving targets for all areas of the public sector of 2.5% per annum for three years. Government expect efficiencies to be achieved through:

- maintaining the same level of service provision while reducing the resources needed.
  - Producing additional outputs such as enhanced quality or quantity of service for the same resource
- 24 **‘Blue Sky’ new ways of working** – The July Executive approved a proposal to explore new ways of providing our services to the public including partnership working with local authorities and other bodies. Although it is too early to predict which services will be changing or any financial implications, the Medium Term Financial Strategy includes savings of £50,000 per annum from 2007/08, increasing to £75,000 in 2009/10.
- 25 This process will enable Members to switch funds between competing demands and to refocus existing resources on key priorities.

### **Additional pressures for resources**

- 26 The financial strategy presented to the Executive in September identified the possibility of redirecting £100,000 towards our key priorities. This will continue the policy from previous years of redirecting resources to facilitate a continuous improvement in our services to the public. It is important that we continue to redirect resources to improve key service priorities otherwise we are in danger of standing still as a council.
- 27 Appendix E summarises the service bids which have been analysed between recurring, non-recurring expenditure and that which can be funded from reserves, to help assess the impact on future years council tax. Appendix F includes full details explaining each bid. In total the 2006/07 schedule amounts to £283,950 and it will be up to Members to determine which bids they wish to support having regards to the final level of council tax they wish to approve.

### **Next steps - achieving a balanced budget**

- 28 Using this report as an aid, Members now have the difficult task of deciding:
- the level of bids to include in next year’s budget
  - the desired increase in council tax

29 A range of possible figures are illustrated in Table 2.

Table 2. Balancing the 2006/07 budget

	£000's
<b>Increased expenditure</b>	
Arising from:	
Budget pressures net of estimated possible increase in government grant	528,000
Bids for additional resources to be funded from council tax, (excludes amounts to be funded from reserves)-	
Recurring expenditure	155,000
Non-recurring expenditure	38,950
<b>Total increased expenditure</b>	<b>£721,950</b>
<b>Must be balanced with</b>	
Increase in council tax	To be agreed by Members
Use of reserves	139,000
Efficiency savings identified	250,000
<b>Total savings</b>	<b>£389,000</b>
<b>Potential Budget shortfall</b>	<b>£332,950</b>

### 30 Risk Assessment

Risk	Mitigation
Failure of Council to set lawful budget	The Budget is compiled in accordance with best practice guidelines issued by CIPFA and the ODPM . The final budget report includes an assessment from the Section 151 Officer on the adequacy of the Council's reserves and the robustness of the estimates made for the purpose the budget calculations. The budget process is laid down in the Council's Constitution. Executive and Council meetings are timetabled to meet the Statutory deadlines for setting the Council Tax.
Failing to target budgets to service	The Council prepares a Medium Term

priorities	Financial Strategy covering a five year period. The strategy provides a framework within which decisions can be made regarding future service provision and council tax levels. All budget bids and reductions include a section on their impact on council priorities and a risk assessment. The budget is subjected to extensive consultation with all Members, the public, business community and Parish and Town Councils.
Failure to maintain a comprehensive budgetary control review system. Including monitoring of material items of income and expenditure.	Adequate levels of appropriately trained staff. Thorough planning and monthly monitoring of performance to management, quarterly to the Executive.
The financial strategy is based on a number of assumptions which include: Inflation rates, interest rates, the level of Government grant received, the level of unavoidable budget pressures facing the Council, and the result of the actuarial review of the pension fund.	Adopting a prudent approach to financial forecasting which involves obtaining information from external professional sources. Continuous monitoring and review of the key factors which involves regular reports to Members on any major issues.

## Conclusion

- 31 Each year the preparation of annual budgets becomes more challenging than before, and this will not change over the foreseeable future. Uncertainty exists over the future funding and structure of local government. Central Government are imposing costly recycling targets, new licensing functions and extending the concessionary bus fare scheme without any guarantee of underwriting the cost, whilst at the same time awarding the Council low increases in revenue support grant and insisting on low single figure increases in council tax levels. Members' views are now sought as to how they wish to reconcile the competing demands of additional expenditure, service provision and sound financial management.

John Foxworthy  
Head of Financial Services

Executive  
8 December 2005

Mark Seymour  
Strategic Director (Resources)

**Background documents**

Financial Forecast 2006/07 to 2010/11 – Executive 8 September 2005  
Financial Services Files