

**ITEM**

**ITEM**

**Executive – 6 December 2007**

## **DRAFT BUDGET PROPOSALS 2008/09**

### **Report of the Strategic Management Team**

#### **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 and reductions for additional resources for 2008/09.**
- 2. Request the view of the Scrutiny and Policy Development Groups on the issues contained within this report.**

#### **1.0 Introduction**

- 1.1 This report provides Members with an updated forecast of the financial situation for 2008/09 and over the medium term. It is divided into sections which identify:
- Consultations with the Town and Parish Councils, Business Forum and Members of the Council and the public
  - The latest assessment of the core funding gap faced by the Council
  - Options to address the funding gap, including 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

- 1.2 This year is a very challenging year for budget planning due to a number of key pieces of information not being available. We still await notification of the Formula Grant (Revenue Support Grant) and Concessionary Bus Fare Grant from Government. In addition the actuary has not yet completed the revaluation of the pension fund. Anyone of these figures can have a material impact on the budget but to have all three outstanding makes forecasting difficult. Nevertheless assumptions have been included within the report based on the latest interpretation of the situation and which err on the side of caution.
- 1.3 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 be 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 and efficiencies
			+	
+		=		Income opportunities
			+	
New service pressures				Additional council tax

## 2.0 Consultation

- 2.1 **Business Forum and Town and Parish Councils -**  
 This year consultations have already been held with the Business Forum and Town and Parish Councils and a summary of the latter's views are 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 evenings and are not those of all Towns, Parishes and businesses within the district.
- 2.2 The Town and Parish Councils received a presentation and then split into groups to discuss service priorities and non-priorities. There was little consensus among the delegates for either priorities or non-priority services except that there was strong support for reducing the amount of communication using the South Hams magazine. The majority of groups supported increasing council tax and charges by inflation (only one group voted to increase council tax by more than inflation).
- 2.3 The Business Forum was a very well attended event with over 50 attendees. They received presentations on trade waste and electronic procurement in addition to the budget issues. Delegates were enthusiastic about the presentations and there was a lot of discussion and questions. However, there was little specific feedback on our budget other than they expressed a view asking that we adopt policies that encourage people to visit and shop in our town centres and not increase car parking charges for example.

- 2.4 **Web based survey -**  
A web based survey was conducted on our behalf which asked people to indicate their spending preferences over 14 service areas with three levels of council tax increase (2%, 4% & 5%). Only 118 people took part which lessens the validity of the results. We will be reviewing the exercise to see what lessons can be learned for future years.
- 2.5 A full copy of the report is available in the Members room. In summary 54% of respondents wanted council tax at the lowest level offered (2%) with 25% indicating that they would like the budget to increase by 4% and 13% by 5%.
- 2.6 The majority of respondents were in favour of budget increases in youth facilities, youth leisure and social housing. Younger people (aged 26-44) appeared to be the most likely to increase spending in promotion of jobs, environmental initiatives, parks and open spaces and social housing. Older people (particularly 65+) were most likely to want to see spending increased in planning, transport (ring and ride) and communication.
- 2.7 The areas that had the highest numbers of respondents considering reductions were communication and discretionary benefit awards. Younger people appeared to be the most likely to opt for reductions in communication; older people were less in favour of reducing the discretionary benefit awards.
- 2.8 **Student Questionnaires -**  
For the first time we have specifically consulted young people. In total, 166 students completed the questionnaire over five sessions (at all four Community Colleges in the district and the Steiner School) between 8 and 17 October 2007. A table showing the combined session results of the budget setting student questionnaires is included as Appendix B. They indicated a preference to reduce communication and increase spending on youth facilities and transport. The majority indicated that they wanted no change in the other services.

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

- 3.1 The medium term financial strategy was presented to the Executive in September 2007 and included the budgetary issues that were expected to impact on us next year. Since that time the detailed base budgets have been updated for inflation, pay awards, increased charges which have already been approved, income levels and other known changes to service provision. Appendix C summarises the pressures which total £588,000 and the following provides a narrative of the main issues.

- 3.2 **Concessionary Bus Fares** - There will be a new national scheme introduced from April 2008 which will allow people over 60 and eligible disabled people free travel on all local buses in England. Because we are a holiday area and have a high proportion of retired residents it is likely that we will see an increase in the use of local buses. Estimating the extent to which these changes will impact on our budget is very difficult especially as there is an outstanding appeal against the reimbursement rate by the bus operators. The Department of Transport have not indicated when the appeal will be heard, but if the appeal goes against the partnership, and depending on the percentage reimbursement rate determined, it could materially affect our budget provision.
- 3.3 There has been considerable lobbying of the government by the Partnership, South Hams and local government in general to ensure a fair and equitable distribution of resources to pay for the national scheme. Members will recall that in previous years government used the RSG to reimburse local authorities which didn't relate to the actual costs of the scheme in each area. In our case we have to meet a shortfall in funding of £130,000 in 2007/08.
- 3.4 Government have decided that the extra costs of introducing the new national scheme will be paid for by a specific grant. Disappointingly this grant will not relate to the actual additional costs for each local authority but be based on a formula. To date we do not know the amount of our additional grant but when we are notified this will be added to the 2007/08 budget of £750,000 to form our new 2008/09 concessionary fare budget. As stated above we do not know the impact of the scheme and it is unlikely that we will know the true position until it has been in operation for at least six months.
- 3.5 **Single Status** - The term Single Status is used to describe the harmonisation of pay and conditions for all of our employees. It covers a wide range of issues including pay grades, productivity, flexible and variable working arrangements, training and learning. All local authorities had to complete the review by 31<sup>st</sup> March 2007.
- 3.6 Drawing on experience from other local authorities who have completed their reviews we provided £400,000 in our MTFS last year. £300,000 was included for 2007/08 and a further £50,000 in each of 2008/09 and 2009/10. As Members may know the timetable for the project has slipped and may not be completed until next spring so we do not yet know the final cost. The original budget provisions have therefore been retained in the Strategy and will be carried forward to be used when the exercise is complete.

- 3.7 **Local Authority Business Growth Incentive Grant (LABGI)** – this is a grant given to local authorities based upon the year on year increase in business rateable values. The grant will not be paid next year while the Government consult on a new scheme. Therefore the £100,000 that was included in the 2007/08 budget for this grant will not be available in 2008/09.
- 3.8 **Income** – Additional income from commercial rent reviews of £263,000 is offset by reduced income from Land Charges of £49,000 following the introduction of the new Government charging regime
- 3.9 **Triennial Pension Revaluation** – The Pension Fund is revalued every three years and is due again at the end of this year. A sum of £100,000 has been included in the forecast. This is a very rough figure and based on advice received from the Actuary in advance of their detailed work. In general terms increased costs are expected because of increased life expectancy and higher long term inflation expectations which are likely to more than offset recent gains in stock markets. The final amount will depend on a large number of factors including, inflation, interest rates, investment returns, life expectancy and changes to the benefits of the scheme.
- 3.10 **Housing Benefit Administration subsidy** – Government have informed local authorities that they will be reducing this by 5% in each of the next three years. For us this amounts to an estimated £96,000 over the three years. The Department of Work and Pensions have to achieve a 5% efficiency saving and the transfer of this responsibility is one method that they are using to achieve their target.
- 3.11 This course of action hits us twice, in addition to our own efficiency target of 3% we will have to make up this shortfall. This is particularly unfair and we have raised this at the Devon Districts Forum and the District Sounding Board expressing our concern at this course of action. In addition, the LGA is continuing to make strong representations to Government but at the moment the DWP seem determined to impose these cuts.
- 3.12 **Leisure Centres** – The transfer of the leisure facilities should provide us with a significant financial benefit enabling us to reduce our budget deficit and make resources available to spend on our other corporate priorities. The 2007/08 budget included savings of £204,000, further savings will be deliverable within our 5 year forecast and £45,000 is included for 2008/09.

- 3.13 **Specific Reserves** - The decision on the level of balances and reserves is one of several to be taken during the formulation of next year's budget and the medium term financial strategy. Reserves are built up to meet anticipated future requirements and their investment earns approximately £60,000 for every £1m held. However, it is important to recognise other opportunity costs of holding reserves and ensure that they help meet our key priorities.
- 3.14 £90,000 of the Trading Account Surplus of Former DSO's and the Print Reserve were utilised in 2007/08 and this money is not available for use in 2008/09.
- 3.15 It is proposed to include a contingency reserve of £100,000 to act as a financial safeguard for next year. There are a number of uncertainties about the 2008/09 budget including; uncertainty regarding Government funding support for districts, income levels for the ferry and car parks; demand for concessionary bus fares; achieving all the budget savings and the proposed round restructuring for waste collection. These budgets are all significant and it is considered prudent to provide this contingency to help make sure that we have a balanced budget next year.
- 3.16 **The position relating to government grant** - The recent Government announcement on the Comprehensive Spending Review saw local government receiving a very small "slice of the cake" compared with other parts of the public sector. The total spend on local government is to be limited at 1% increase in real terms next year ( the Government have assumed inflation to be 2.75%, added on the extra 1% 'real increase' to make a total increase of 3.75% in cash terms). At the time of writing we do not know how much the Government grant will be but have cautiously assumed a 1% cash increase (this compares to the current Retail Price Index of 4.2%) because the priority areas for local authorities relate to services covered by Unitary and County Councils such as education, adult and child services.
- 3.17 Government also announced that they will increase our efficiency target to 3% and more importantly, that it will all have to be cash efficiencies. Again details for individual councils are not yet known but based on previous experience the target could be £500,000. This will be a daunting target for an efficient, well run authority to achieve. If we were to achieve our targets most of our budget problems would likely be resolved. However, particularly for 2008/09, it is unrealistic to expect the full target to be met because we are already a low cost council. In addition, to make such significant savings is likely to require substantial up-front investment and the resultant payback can take a number of years.
- 3.18 The remaining sections of this report identify the key issues and options that Members need to consider when setting the budget.

## 4.0 Options to balance the budget

- 4.1 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 and charges
  - savings, efficiencies and additional income
  - use of reserves
- 4.2 **An increase in council tax** – Appendix D summarises the overall position of our budget over the medium term. It also provides some sensitivity analysis concerning a range of council tax increases. Members are asked to consider the appropriate level of council tax and are reminded that a 1% increase will generate approximately £46,000. Government have indicated that they want to keep council tax rises below 5% next year and have said that they are prepared to use their capping powers to enforce this.
- 4.3 **Partnership working, efficiency and budget savings** – We have already put in place some partnership arrangements with Teignbridge and West Devon District Councils and are currently exploring further opportunities for joint provision of services. Savings arising from these initiatives will be built into the budget as they are identified and will help us to achieve both our efficiency target and balance the budget. However, it must be stressed that these savings on their own will not be sufficient to meet these targets over the next three years.
- 4.4 Heads of Service were therefore requested to identify efficiencies and any other budget reductions or additional income which could be considered for approval. Appendix E analyses the savings between those that need Member approval and those that have already been achieved or managers can implement without a significant impact on service delivery. Appendix F provides full details explaining the savings that need Member approval.
- 4.5 It is now becoming increasingly more difficult to identify savings after several years of budget restrictions. CMT feel that there is little more scope for savings to be delivered in the existing manner without answering the fundamental question of whether we continue to provide all of our current services in the existing way, or indeed if we provide them at all.
- 4.6 Table 1 summarises the options to close the budget gap which, in total amount to £553,200.

Table 1.Options to Close the Budget Gap (Appendix E)

Savings requiring Member approval	£ 148,000
Savings already achieved or can be implemented by managers without a significant impact on service delivery.	405,200
Total	£553,200

## **5.0 Additional pressures for resources**

- 5.1 It is important that we are seen to have a continuous improvement in our services. There will be services which will require investment to improve or meet new responsibilities. The Medium Term Financial Strategy identified the possibility of redirecting money towards bids to help achieve our key corporate priorities. Members are requested to prioritise bids, not only against other bids but indeed, compared to suggested budget cuts.
- 5.2 This will continue the policy from previous years of redirecting resources to facilitate a continuous improvement in our services to the public. Bids have been invited from CMT that either demonstrate an improvement in our key priorities, are statutory or seen as critical to the maintenance of the service. 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.
- 5.3 Appendix G summarises the service bids which have been analysed between those that are recurring, non-recurring and that can be funded from Planning Delivery Grant to help assess the impact on council tax. As an aid they have been prioritised in high, medium and low priority but the final recommendations will be one for Members to make. Appendix H provides full details explaining each bid. Table 2 shows that in total, the 2008/09 schedule amounts to £217,000 and it will be up to Members to determine which bids, if any they wish to support having regards to the final level of council tax they wish to approve.
- 5.4 Members should also be aware that if the bids to be funded from Planning Delivery Grant are supported there will be further budget pressure in three years time when the cost will fall back on the General Fund. If the full £94,500 is supported this will increase the council tax by 2%.

Table 2. Summary of 2008/09 Bids

Recurring expenditure	£ 72,500
Non- recurring expenditure	50,000
Funded from Planning Delivery Grant (PDG) for two years before becoming part of the base budget	94,500
<b>Total</b>	<b>£217,000</b>

## 6.0 Next steps - achieving a balanced budget

- 6.1 Using this report as an aid, Members now have the difficult task of deciding:
- the level of bids and savings to include in next year's budget
  - the desired increase in council tax
- 6.2 A range of possible figures is illustrated in Table 3 which shows the sensitivity of differing levels of accepted bids and savings. It can be seen how different decisions regarding individual bids and savings can impact on the potential budget shortfall which has to be funded from council tax.

Table 3. Balancing the 2008/09 budget

	£ Maximum amounts of bids and savings	£ Minimum amounts of bids and savings	£ Maximum bids and mid range of savings
<b>Increased expenditure</b>			
Arising from:			
Budget pressures net of increase in government grant (Appendix C)	588,000	588,000	588,000
Bids for additional resources to be funded from council tax, (excludes amounts to be funded from PDG)-			
Recurring expenditure (table 2)	72,500	0	72,500
Non-recurring expenditure (table 2)	50,000	0	50,000
<b>Total increased expenditure</b>	<b>£710,500</b>	<b>£588,000</b>	<b>£710,500</b>
<b>Must be balanced with</b>			
Increase in council tax	To be agreed by Members		
Options to close the budget gap (Table 1)	553,200	405,200	480,000
<b>Potential Budget shortfall</b>	<b>£157,300</b>	<b>£182,800</b>	<b>£230,500</b>

## 7.0 Risk Assessment

The following are the significant risks and opportunities identified:

Opportunity	Issues/Obstacles	Benefits/Mitigation
<p>The Council sets a lawful budget.</p> <p>The Council sets adequate budgets to provide services that meet Council priorities.</p> <p>The Council provides value for money services within budgets.</p>	<p>Failure of Council to set lawful budget.</p> <p>Failing to target budgets to service priorities.</p> <p>Failure to maintain a comprehensive budgetary control review system. Including monitoring of material items of income and expenditure.</p>	<p>The Budget is compiled in accordance with best practice guidelines issued by CIPFA and the Government. 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.</p> <p>The Council prepares a Medium Term 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.</p>

		<p>Adequate levels of appropriately trained staff. Thorough planning and monthly monitoring of performance to management, quarterly to the Executive.</p> <p>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.</p>
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## 8.0 Conclusion

- 8.1 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 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.

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Executive  
6 December 2007

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Strategic Director (Resources)

### Background documents

Financial Forecast 2008/09 to 2012/13 – Executive September 2007