

SOUTH HAMS DISTRICT COUNCIL

DRAFT BUDGET PROPOSALS

2008/2009

EXECUTIVE 24th JANUARY 2008

1 Statutory Powers and Purpose of the Report

1.1 Statutory Powers:

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

1.2 Purpose of the Report

To set out the Council's financial position over the medium term and to act as a framework for developing final budget proposals. These will include the appropriate level of council tax and service provision. The Executive's recommendations will be considered by full Council on 7th February 2008, when Government grants should be known with certainty.

1.3 Background

This report is one of the final stages of a process that started last summer with the identification of service and other financial pressures together with possible options for reducing expenditure. In December 2007, the Executive considered draft budget proposals together with the views of the Town and Parish Councils, Businesses, the public and young people. Since then the views of the Policy Development Groups and Scrutiny, have been sought.

1.4 Key issues to be considered

- The core budget pressures facing the Council in 2008/2009 (section 4)
- The overall level of service bids to allow in next year's budget (section 5)
- The increase in the level of council tax to be set by this Council

The overall process of balancing next year's budget may be expressed as follows:

Core budget pressures		Budget savings
		+
	+	Income opportunities
		+
New service pressures	=	Additional council tax

2 Recommendations to Council on the 2008/2009 budget

- a. That the following sums should be included in the overall budget as set out on Appendix B.

	£
• Provision for inflation	620,000
• Budget contingency – service pressures	100,000
• Existing bids approved in previous years	62,550
• External Interest receivable	1,150,000
• Reversal of capital charges and Pension charges (FRS17)	2,241,900
• Net contributions to Reserves (Appropriations)	1,141,450
• Collection Fund surplus	70,000

- b. That the following options to close the budget gap be approved:

	£
Savings identified by the Corporate Management Team that are already achieved or can be implemented by managers without a significant impact on service delivery	405,200
Saving decisions by Members	tba

- c. That the Executive determine the amounts for bid items to be included within the Authority's budget as follows:

- Provision for bid items to be financed from the General Fund
- Provision for bid items to be financed from planning Delivery Grant, reserves or self financing

- d. That the level of reserves as set out within Section 4 of this report and the assessment of their adequacy and the robustness of budget estimates be noted. (Section 8) This is a requirement of Part 2 of the Local Government Act 2003.

- e. That the minimum level of the General Reserve balance be maintained at least to the equivalent of 20% of the net revenue budget.

- f. That the future Pension Fund employer contribution rates be set at 10.1% in 2008/09; 10.5% in 2009/10 and 11.0% in 2010/11 at a cost of £50,000 in 2008/09.

- g. That, under Part 1 of the Local Government Act 2003, the Prudential Indicators and limits set out within Appendix J is approved.

- h. That the Treasury Management Strategy Statement and Annual Investment Strategy for 2008/09 set out in Appendix K be adopted.

- i That the Council should set its total net expenditure for 2008/09 at £TBA, subject to final confirmation of Government Grant. If the Government changes the Grant, delegated authority be given to the Strategic Director (Resources) to make a corresponding amendment to the contributions to Reserves to bring the total net expenditure back to that agreed by the Executive.

3 **Introduction**

- 3.1 Budgeting is the means by which the Council brings together its plans to implement strategies, achieve key objectives, improve performance and to react to changes in service demands and available funds. Under the Local Government Act 1992, the Council is required to adopt a balanced budget and to set the council tax by 11 March of each year.
- 3.2 The Medium Term Financial Strategy for the five years to 2012/2013 (Appendix A) has been developed to assist us in adopting a budget within a longer term prudent financial framework. The forecast summarises the financial impact of our goals and objectives and determines the sustainability of these plans. The annual budget is framed within the Medium Term Financial Strategy taking into account those activities included within service plans that contribute towards strategic objectives.
- 3.3 In addition to savings required for 2008/09 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 included efficiency saving targets of 3% of revenue and capital expenditure per annum for three years.
- 3.4 This is an increase from the target set for the previous three years of 2.5%. The new target is made even more challenging by the requirement to deliver entirely cashable savings. 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.
- 3.5 If we were to achieve our targets most of our budget problems would likely be resolved. However, it is unrealistic to expect the full target to be met because we are already a low cost council. It must be stressed that even if all services currently being appraised for partnership working with Teignbridge and West Devon are successful and deliver savings, these alone would be insufficient to meet the 3% efficiency target. It is more likely that future budgets will be balanced using a mixture of efficiencies and reductions in service.

- 3.6 **Shared Service Provision** - The 2008/09 budget includes savings of £80,000 relating to the shared working with West Devon for the Chief Executive and the Improvement Unit. Work is at an advanced stage with regard to joining the Personnel and Payroll Services. We have a new shared Head of Service with West Devon and the new staffing structure is currently being finalised including managing the Teignbridge payroll.
- 3.7 Similarly, joining the Environmental Services teams with West Devon under one Head of Service is nearing completion; this also will result in efficiency savings. We also have a joint Procurement Officer with our two partners who is actively promoting electronic procurement and new contracting arrangements with our suppliers. Savings from these initiatives will be built into the budget as they arise.
- 3.8 Subject to final agreement by West Devon our Head of Financial Services is also entering into a temporary arrangement to cover maternity leave for their Head of Finance for up to a year. This is not a shared service as such but will provide valuable experience into how a shared service might work in this area.
- 3.9 Business plans are actively being progressed with regard to Internal Audit, Financial Services, ICT, Legal and Property Services. Efficiencies will be identified during the year as service business cases are completed and agreed. Other shared working arrangements will also be progressed as opportunities arise during the year.
- 3.10 An important aspect of the budget process is budgetary control during the financial year. It is vital that budgetary control operates effectively at all times if maximum effectiveness is to be achieved. Monitoring of both income and expenditure will take place throughout the financial year with reports made to the Strategic Management Team and to The Executive.

4 The Core Budget and main issues for the Council in 2008/2009

- 4.1 The General Fund Summary together with the service budgets are presented within Appendix B. Appendix C summarises the main reasons for the funding gap which remain similar to that reported to the Executive in December 2007 except for the pension revaluation which is discussed below. This shows the core budget pressure of £176,000 before taking into account an increase in council tax, new bids or savings to be approved by Members.

- 4.2 Members are reminded that a 1% increase in council tax will generate approximately £46,500. Government have again informed local authorities that they will use capping powers next year to deal with excessive budgets. The Minister for Local Government, John Healey MP has written to all local authorities warning that he will be tougher than in previous years on councils who set above inflation increases. To quote from his statement to the House of Commons “We expect the average council tax increase in England to be substantially below 5% next year. Let me be clear: we will not hesitate to use our capping powers as necessary to protect council tax payers from excessive increases”. Commentators are advising that 4.5% should be seen as the upper limit but the Government have not been specific about a capping level.
- 4.3 The service estimates have been prepared in accordance with the Best Value Accounting Code of Practice published by the Chartered Institute of Public Finance and Accountancy and approved by the Secretary of State as the appropriate accounting and budgeting framework for local authorities.
- 4.4 **Formula Grant (formerly Revenue Support Grant)** - The amount included in the budget for 2008/09 is the provisional announcement received in December and amounts to a 1% increase over 2007/08. The final details will be confirmed by Government in late January. This is a derisory increase and amounts to a cut in real terms of over 3% when compared to RPI inflation currently at 4.3%. We have received the lowest increase in Devon.
- 4.5 Fortunately we anticipated a bad settlement and only included a 1% increase in our Medium Term Financial Strategy so we are well placed to deal with this bad news. We planned for this and, as detailed later in this report; we have identified a number of options to balance the budget. This doesn't make the situation any fairer but we are not in the position of having to make last minute decisions.

4.6 At the national level The Formula Grant settlement has redirected resources to upper tier authorities who have responsibility for Education and Social Services. Most District Councils have received below inflation increases averaging 1.7% with the highest award in Devon being only 3%. The Government have also announced the grant for the next two years; the proposed settlement is equally as disappointing but at least we are able to plan with some certainty:

	Grant £000	Increase
2008/09	5,452	1%
2009/10	5,480	0.5%
2010/11	5,549	1.3%

4.7 The Government have included in the Formula Grant £36,000 which was formerly distributed as Waste Performance and Efficiency Grant. We used to have to apply for this every year and it has now been included in the base budget. In addition, £5,000 of funding has been included for new responsibilities for stray dogs which were formerly the responsibility of the Police.

4.8 **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. We have been awarded additional grant of £403,000 which is the highest of the four options consulted on by Government. When added to our 2007/08 budget it results in a new budget of £1,153,000. Disappointingly this grant will not relate to the actual additional costs for each local authority but be based on a formula.

4.9 Estimating the extent to which the new scheme 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.

4.10 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.

4.11 **Triennial Pension Revaluation** – The Pension Fund has been revalued this year and the results show that we need to increase our contribution rate to bring the fund back into balance. The Devon Fund has outperformed the investment return assumptions that the Actuary made three years ago with a return of 50% compared with the estimated 23%. However, this is more than offset by the additional liabilities because of increased life expectancy and higher long term inflation expectations. It should be noted that the employee contribution rate have also been increased from 6% to a sliding scale between 5.5% and 7.5% depending on salary.

4.12 We have been informed that our current employer contribution rate of 9.6% of pensionable pay has to increase to 10.9% for 25 years to bring the Fund back into balance. To mitigate the additional cost of this having to be met immediately we have been offered the opportunity of phasing this increase in over three years as follows:

2008/09 10.1%
 2009/10 10.5%
 2010/11 11.0%

The final contribution rate is 0.1% higher by choosing this option to catch up for the lower rates in the first two years. The financial effects of these options is as follows:

Table 1. Employer Contribution Rates

			Additional cost £
Current Employer Contribution Rate		9.60%	
New Rate if implemented in 2008/09		10.90%	130,000
Stepped increase over 3 years	2008/09	10.10%	50,000
	2009/10	10.50%	90,000
	2010/11	11.00%	140,000

4.13 It can be seen that in the first two years there are considerable savings if we implement the stepped increase but there will be an ongoing additional cost of £10,000 per annum for the remainder of the 25 years. A discounted cash flow calculation has been made to determine the lifetime cost taking into account the future value of money and it amounts to a Net Present Value (NPV) of £67,000. In NPV terms over 25 years this is a very small sum and taking into account our budget pressures over the next few years it is recommended that the stepped option be taken. In addition, the Fund will be revalued again in three years time so the rate will inevitably change again.

- 4.14 **Balances and 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.
- 4.15 The budget and medium term financial strategy are based on forecasts of inflation, pay awards, Government funding, interest rates and the level of services to be provided. The existence of balances provides for the unexpected, including changes to these forecasts. Reserves are built up to meet anticipated future requirements. The provision of an appropriate level of balances is a fundamental part of prudent financial management. The existence of specific reserves allows the Council to meet known future financial commitments such as the replacement of refuse vehicles or items of plant.
- 4.16 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 through the Local Area Agreement, 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.
- 4.17 These balances and reserves are set out in Appendix D and amount to £7.4m (Estimate 1.4.2008).
- 4.18 **Adequacy of Balances and Reserves** – At 1 April 2008 the level of General Reserve is estimated to be nearly £2.2m, and the level of earmarked reserves estimated to be £5.2m. Cashflow requirements, liabilities, future commitments and contribution levels indicate this generally represents an adequate level on the basis of current knowledge.
- 4.19 Taking these matters into account, the Strategic Director (Resources) regards the level of reserves as an appropriate and prudent level for the Council both for the forthcoming year and in the context of the Medium Term Financial Strategy. The Comprehensive Performance Assessment (CPA) guidelines require authorities to have a written policy with regard the level of the General Reserve balance. The guidelines recommend that the balance should be between 5% and 100% of an authority's net revenue budget, for us this is between £0.5m and £10m. As stated above our current balance is £2.2m and it is recommended that our policy should remain that it should not fall below 20% of our net revenue spend.

5 Consultation, Options to Close the Budget Gap and Bids for Additional Resources

- 5.1 Section 4 outlined the core budget pressures which face the Council and the funding gap between the resources required and those available. The purpose of this section is to receive feedback on consultation and to summarise the bids for additional resources together with the options to close the budget gap that have been identified by the Corporate Management Team.
- 5.2 **Consultation** - The budget proposals were previously considered by the Executive on 6 December 2007 who resolved to subject them to consultation by the Policy Development Groups (PDG's) and Scrutiny. The minutes of their meetings will be circulated before the Executive summarising their views.
- 5.3 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 E. 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.
- 5.4 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).
- 5.5 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.
- 5.6 **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.
- 5.7 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%.

- 5.8 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.
- 5.9 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.
- 5.10 **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. 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.
- 5.11 **Options to balance the budget** – Corporate Management Team were requested to identify efficiencies and any other budget reductions or additional income that could be considered for approval. Appendix F 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.
- 5.12 Appendix G provides full details explaining the savings that need Member approval. It also indicates which saving was supported by individual PDG's. In addition, the Environment PDG proposed a saving of their own for the Executive to consider, namely that the number of copies of South Hams Matters published is reduced to twice yearly. The full minutes of the PDG meetings will be available prior to the Executive meeting. The Scrutiny meeting was held after the agenda was sent out and the results will be circulated before the Executive.

- 5.13 Table 2 summarises the options to close the budget gap which, in total amount to £553,200.

Table 2. Options to close the budget gap.

	2008/09 £
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

- 5.14 **Bids for additional resources** - Redirecting resources towards our key priorities will continue the policy from previous years of allocating 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.
- 5.15 Appendix H summarises the service bids which have been analysed between recurring and non-recurring expenditure and those that can be funded from Planning Delivery Grant, to help assess the impact on future year's council tax.
- 5.16 Appendix I includes full details explaining each bid. In total the 2008/09 schedule amounts to £217,000 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. The results of the PDG consultations are also included in the appendix. Scrutiny met after the agenda was sent out and the results will be circulated before the Executive.
- 5.17 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%.

6 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 accepting all the bids and savings or the maximum bids and minimum 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 amount of bids and savings	£ Maximum bids, minimum savings
Increased expenditure		
Arising from:		
Budget pressures net of increase in government grant	581,655	581,655
Savings identified by the Corporate Management Team that are already achieved or can be implemented by managers without a significant impact on service delivery	(405,200)	(405,200)
Bids for additional resources to be funded from council tax, (excludes amounts to be funded from grant) -		
Recurring expenditure (table 2)	72,500	72,500
Non-recurring expenditure (table 2)	50,000	50,000
Total increased expenditure	298,955	298,955
Must be balanced with		
Increase in council tax	To be agreed by Members	
Savings requiring Member approval (Table2)	(148,000)	0
Potential Budget shortfall	150,955	298,955
Potential Council Tax increase	3.2%	6.4%

7 Prudential Borrowing Code Indicators and Treasury Management Strategy Statement

- 7.1 Attached as Appendix J are the Prudential Borrowing Code's indicators which must now be reported as part of the annual budget report. The Council is asked to agree the limits set out in the Appendix and to note the reported indicators.
- 7.2 The overriding thrust of the Prudential Borrowing Code is that new borrowing is affordable, prudent and sustainable. Treasury management decisions must be made with good professional practice and in a manner that supports prudence, affordability and sustainability. The Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.
- 7.3 The Treasury Management Strategy Statement in Appendix K sets out the expected activities of the Treasury function for 2008/09. Its production and consideration is a requirement of the formal Guidance issued by the Secretary of State under section 15 of the Local Government Act 2003.

8 The Strategic Director (Resources) Report on the Robustness of the Estimates

- 8.1 Under Section 25 of the Local Government Act 2003, I am required to report to Council on the following matters:
- the robustness of the estimates made for the purpose of budget calculations, and
 - the adequacy of the proposed financial reserves
- 8.2 The Council's budget is based on a number of assumptions including the level of inflation, income from government grants and prevailing economic conditions. The Council faces the risk that events may differ from expectations. These risks are managed by:
- Reviewing the sustainability of plans over the medium term including an assessment of the impact of interest rate movements on affordability, a review of the potential for increases in service demand or new services and by assessing the revenue impact of capital investment
 - Member involvement in developing budget proposals including consultation with relevant groups
 - Preparing estimates on a prudent basis, making use of professional data sources where possible
 - Discussing forecasts with budget holders to ensure that budget pressures are identified at the earliest opportunity
 - The adoption of robust financial management arrangements, including option appraisal, adoption of financial standards, risk assessment and financial

- monitoring (supported by quarterly reports to Members)
- Continual performance monitoring and review of the key assumptions with updates to members as appropriate
- Established processes for capital investment planning and option appraisal

8.3 If Members decide to balance the 2008/09 budget over a longer timeframe by drawing on more Reserves, there is a further risk that budget pressures will be increased by unforeseen events or new service or statutory demands leading to a widening gap. Consequently, any short-term use of reserves must be approached prudently.

8.4 Taking account of the risk management arrangements outlined above and the level of reserves, I believe that the estimates made for the purposes of budget calculations are robust and that financial reserves are adequate.

9.0 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</p>

		<p>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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10 Conclusion

- 10.1 The contents of this report summarise the overall position faced by the Council and the matters that the Executive needs to consider in arriving at its final proposals to achieve a balanced budget, including the outcomes of consultation.
- 10.2 This year has seen the worst ever Revenue Support Grant settlement for district councils with South Hams only receiving a 1% increase compared with the November Retail Price Inflation of 4.3%. This represents a cut in real terms of 3.3% which we have to make up with savings on our services and/or increasing council tax.
- 10.3 The grant announcements for the next two years are also absolutely dreadful; £28,000 extra in 2009/10 and £69,000 in 2010/11. The average increase over the three years is only 0.9%. This must be viewed against the expectation of continuing service improvement by the public; unavoidable pressures faced by the Council such as inflation and preparing for the new Sherford community; Government imposed pressures such as recycling targets, single status and concessionary bus fares.
- 10.4 It is therefore imperative that we continue to find new ways of working and efficiencies that are achievable over the coming five years to avoid short term problems and make the annual budget setting process smoother.
- 10.5 The Executive's final recommendations are now sought as to how it wishes to reconcile the competing demands of additional expenditure, improved service provision and sound financial management.

John Foxworthy
Head of Financial Services

Executive
24 January 2008

Mark Seymour
Strategic Director (Resources)

Background Documents

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

Draft Budget Proposals 2008/09 – Executive December 2007

Declaration of the Council Tax Base 2008/09 – Council December 2007