

Executive – 4 December 2008

DRAFT BUDGET PROPOSALS 2009/10

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 bid for additional resources for 2009/10;**
- 2. Request the view of the Scrutiny and Policy Development Groups on the budget issues contained within this report;**
- 3. That the Concessionary Car Parking for Residents one year trial be financed from the Economic Initiatives Reserve. Should the reserve have insufficient monies during next year, money be transferred into it from the General Reserve as part of the budget monitoring process;**
- 4. In view of Government guidance, and identified future pressures, it is recommended that the Housing Planning Delivery Grant of £1m is invested in the Local Planning Reserve;**
- 5. That the unspent Regional Housing Pot of £411,000 be added to the approved Private Sector Renewal and Disabled Facility Grant budgets as detailed in section 6 of the report, with delegated approval to the Head of Environmental Health and Head of Financial Services to transfer funds between the budgets as demand requires;**
- 6. That the vehicle replacement programme to be funded from the Vehicles and Plant Renewals Reserve and capital, as set out in Appendix F be approved. That the Head of Environment Services and Head of Financial Services be authorised to vary the programme (in terms of year of replacement/vehicle type/purchase cost) according to the demands of the service, but within the overall approved capital budget over the period of the programme.**

1.0 Introduction

- 1.1 This report provides Members with an updated forecast of the financial situation for 2009/10 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 It is a particularly difficult year for preparing budgets with many aspects of our income and expenditure still unclear. The economic situation is changing daily and before this report is considered by the Executive the Chancellor will have made his Pre Budget Report which is widely expected to affect local authorities. The banking crisis and general economic slowdown make forecasting very difficult and as discussed later in this report impacts on the Council in many ways; all negative.
- 1.3 This year we also have the uncertainty of Local Government Review hanging over the Council. This could be the our last budget as a District Council but the Secretary of State will not be making a decision about our future until February 2009 at the earliest, just when we will be finalising our 2009/10 budget. In the meantime we must plan as if South Hams District Council will continue to provide services in the area and set a sustainable budget.
- 1.4 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 and inflation		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 feedback from the Town and Parish Council evening showed a preference that increased priority is given to street cleaning and providing affordable housing for local people, although votes were also cast for eight other services. Similarly the voting was well spread over services to have a lower priority with the most votes given to reducing our spending on reducing our carbon footprint.

- 2.3 The Business Forum was attended by delegates who represented over 670 businesses in the County through the Federation of Small Businesses and Totnes Chamber of Commerce. The meeting welcomed the concessionary car parking initiative and a business from Lee Mill Employment Estate made reference to the positive aspects of the free car parking in Ivybridge. However, it was suggested that car parking fees might have reached a peak within the district and was therefore not encouraging visitors/locals to shop within the market towns of the South Hams. Reference was also made to the ease of large supermarket grocery shopping facilities on-line and the impact they are having on local businesses.
- 2.4 **South Hams Magazine and Web survey -**
A budget survey to identify the public's priority and non-priority services is being conducted through our magazine and website. The closing date for responses is December 19th and the results will be included in the next budget report to the Executive on 22 January 2009.

3.0 The latest assessment of core budget pressures

- 3.1 The medium term financial strategy was presented to the Executive in September 2008 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, investment interest, income levels and other known changes to service provision. Appendix B summarises the budget pressures which total £1,053,000. From this must be taken the savings already identified by CMT of £494,000; and added a budget bid of £10,000 (subject to Member approval) resulting in a potential budget gap of £569,000.
- 3.2 There are still many uncertainties concerning the budget, including the impact of the Chancellors Pre Budget Speech, government grants, interest rates and the impact of the economic downturn on our services and income. However, at the moment it is proposed to balance the budget by increasing council tax, reassessing our reserve contributions and using a possible underspend on concessionary bus fares. The following paragraphs discuss this and the other main issues in more detail.
- 3.3 **Investment Interest** – This is a particularly difficult time to make investments or forecast returns due to the uncertainty regarding individual banks credit worthiness. Interest rates are also falling, the Bank of England reduced the base rate to 3% in November and further reductions are forecast. Investment income plays an important in keeping council tax down, the estimated income for 2008/09 is £1.3m, equivalent to £35 (27%) for a band D taxpayer. We have a number of long term fixed investments, so for next year we are protected to some extent but have used our advisors latest average forecast of 3% for new deposits.
- 3.4 Until the economic situation regarding the banks becomes safer we are following an ultra cautious investment policy and we will bring the 2009/10 Treasury Management Strategy to the Executive in January. We have opened an account with the Debt Management Office (DMO) which is virtually risk free because it is part of the Government. However, the interest rates offered are particularly low due to the high level of security. At the time of writing the DMO account offers 1.75% which is over 2% lower than can be obtained in the money market.

- 3.5 Using the new DMO account will have little impact on our overall finances in the current year as we are already forecasting investment income of £150,000 over the budget target. However, it is a major issue in the long term; our average investments this year is some £26m; if we were to only invest in the risk free DMO account we would receive £520,000 per annum less interest than if we invested in the money market. £520,000 is equivalent to £14 (11%) on an average band D property. To replace this lost income would require other increases in charges or reduced services. This issue will be discussed in more detail in the 2009/10 Treasury Management Strategy but it will require a balanced view to be taken, taking into account risk and investment returns.
- 3.6 Members will be aware that we have £1.25m invested in Heritable Bank which is UK registered and regulated but a subsidiary of one of the Icelandic Banks that have been affected by the world economic crisis. The deposit is not due back until 22 December and we have not yet been informed when the Administrators will be in a position to settle creditor's claims. They have said that their initial investigations indicate that the liabilities are broadly equal to the assets; a statement that the Local Government Association regard as positive. A further update will be made to the Executive at the next budget meeting on 22 January 2009.
- 3.7 **Economic Situation** – The state of the general economy impacts on the Council in many ways from increased demand for our services to reduced income for the services that we provide. Included in the budget pressures in reduced income of £31,000 from Land Charges due to the slowdown in the housing market. Car parking income is also down this year and we will be reviewing the appropriate level for the 2009/10 budget in the next two months. Planning fee income is holding up this year but the future remains uncertain due to the slump in the property market.
- 3.8 Demand for our housing services are likely to increase in Housing Advice, Homelessness and Benefits. Businesses will also require help to see them through the economic downturn. All this puts pressure on our services at a time when our income may be reducing and there is no additional help from Government.
- 3.9 **Government Grant Settlement** - The Government has made a provisional announcement for the 2009/10 and 2010/11 grant settlements as shown below. However, it is still possible for these sums to be reduced and we will know more following the Chancellors Pre Budget Report which will have taken place by the time the Executive meet.

	Amount	Increase over the previous year	
	£000	£000	%
2009/10	5,480	28	0.5%
2010/11	5,549	69	1.3%

This is a particularly poor settlement and means that the Council is under considerable pressure to find savings so that the increase in council tax can be kept below Government targets. With RPI inflation running at over 4% this level of grant increase goes nowhere near meeting our unavoidable inflationary cost pressures of £350,000 for 2009/10.

- 3.10 **Trade Waste** – We are currently experiencing a downturn in our trade waste service and are forecasting a reduction of £74,000 in next year’s budget. The reasons are two fold in that we have seen a downturn in the tourism industry which has had to be reflected coupled with the entry to the market of a new supplier, They have taken a significant number of our clients. We are forecasting an overall reduction in tonnage terms from 6,226 tonnes in 2008/09 to 4,250 tonnes in 2009/10, a drop of 32%. The Head of Service is identifying the most appropriate action to take to offset this loss of income.
- 3.11 **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 31st March 2007.
- 3.12 Drawing on experience from other local authorities who have completed their reviews we provided £300,000 for 2007/08; £350,000 in 2008/09 and £400,000 in 2009/10. As Members may know the timetable for the project has slipped and is still not completed 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. However, Members may need to review this later in the year. Early indications from the pay modelling exercise suggest that it may be difficult to keep to within these budget constraints on the one hand and produce a grading structure that is capable of dealing with the diverse nature of jobs within the Council.
- 3.13 **Housing Benefit subsidy** – Government have informed local authorities that they will be reducing the administration subsidy by 5% per year. For us this amounts to a loss of £31,000 in 2009/10 and an estimated £93,000 over 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.
- 3.14 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 representatives of the Council 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 made strong representations to Government but the DWP imposed these cuts despite all the representations. In addition to the loss of administration subsidy we will be making a net loss of a further £29,000 in Housing and Council Tax Benefit due to a higher caseload.
- 3.15 **Triennial Pension Revaluation** – The Pension Fund is revalued every three years with the last revaluation taking place at the beginning of this year. The employer’s contribution increase was phased in over three years and the additional sum required for next year is £38,000.

- 3.16 **Concessionary Bus Fares** - A new national scheme was introduced from April 2008 which allows people over 60 and eligible disabled people free travel on all local buses in England. Councils in Devon were very apprehensive about the impact of the scheme on their budgets because we are a tourist area with large numbers of visitors in the summer. Details of trip information to date suggest that the rural districts costs have reduced at the expense of the urban areas. However, the Judicial Review regarding the 2007/08 reimbursement rate and an appeal against the 2008/09 reimbursement rate are still outstanding and their outcome will impact on the 2008/09 and 2009/10 costs, making predictions of costs difficult.
- 3.17 Making a balanced judgement on the information available to us we should see a budget saving of £250,000 next year. However, it is also a possibility that Government will claw back the underspend by reducing the amount of grant they pay us. They are currently gathering data from councils about the financial impact of the new scheme. It is speculated that this is because some councils are facing major overspends and Government may wish to redistribute the grant to them. Members may recall that Government distribute the grant on a formulae basis regardless of the actual cost of the service. Indeed, they have already notified us of the special grant amounts for 2009/10 and 2010/11 at £413,000 and £424,000 respectively.
- 3.18 It will be grossly unfair if grant is now clawed back; in past years the council tax payer in South Hams has had to fund part of the concessionary bus fare scheme. An estimated £374,000 in 2006/07 and £21,000 in 2007/08. There have always been 'winners and losers' in the grant distribution and in the past the Government have ignored pleas of unfairness.
- 3.19 **Specific Reserves** - The decision on the contributions to and level of reserves is one of several to be taken during the formulation of next year's budget. Reserves are built up to meet anticipated future requirements and their investment earns approximately £30,000 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.
- 3.20 It is intended to examine the level of, and contributions to all reserves and make recommendations to amend them to the Executive at its January budget meeting.
- 3.21 The Council has been awarded a very significant Housing and Planning Delivery Grant (HPDG) based on the progress it has made with its Local Development Framework (LDF) Core Strategy and the Sherford Area Action Plan (AAP). The grant has been capped at £1million and good development control performance results in no abatement of the award. The award is ninth highest in the country and third highest for plan making. The grant is not ring fenced but the Council is strongly encouraged by the Government to invest money in its planning services, with the aim of generating service improvement in order to counteract long-standing under-investment nationally in planning.
- 3.22 The demands of the LDF system continue to grow, and it is to the Council's credit that it has achieved pathfinder status alongside a relatively small number of other planning authorities. It is also pleasing that some of the costs associated with securing that place have been recouped in the HPDG award. However, the challenges of maintaining essential progress and the associated resource requirements are set to become no less challenging in future.

- 3.23 The Council has recently revised its LDF programme to prioritise progress with site allocation Development Plan Documents (DPD) for each of the main towns and for the rural areas (minute E.26/08). In addition, DPDs are scheduled or required to cover Development Policies, Gypsies & Travellers, and the Plymouth Urban Fringe. There is also a need to produce a range of Supplementary Planning Documents (SPD), such as that for Planning Obligations. Other pressures include the requirement to make the Development Control Service more responsive to Customer First initiatives while maximising efficiency, and the need to support other services involved in supporting the overall planning process, for example Environmental Health, Landscape and Leisure and Legal Services.
- 3.24 In view of Government guidance, and identified future pressures, it is recommended that the HPDG is invested in the Local Planning Reserve.
- 3.25 **Concessionary Car Parking for Residents** – The Council is introducing a trial scheme for one year offering free off street car parking. Residents will have the opportunity to purchase a permit for £10 which will allow free parking between 4 p.m. and 10 a.m. the following day. This is a good opportunity for local businesses to benefit from the scheme; shops early in the morning and later in the afternoon and pubs and restaurants in the evenings.
- 3.26 It is not clear how much this will cost because it will depend how many residents purchase the permit but it is estimated that the scheme will cost up to £200,000 per annum. As this is a trial it is proposed to finance this in the first instance from the Economic Initiatives Reserve. Should the reserve have insufficient monies in it next year it is proposed to transfer money into it as part of the budget monitoring process. It should be remembered that if the Council wishes to continue with the scheme beyond 2009/10 the costs will fall on the base budget and have to be financed from the council tax or an increase in general car park charges.
- 3.27 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 C 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 £49,000. Government have not yet set a target but last year they wanted to keep council tax rises below 4.5% and have said that they are prepared to use their capping powers to keep council tax increases low.
- 4.3 **Partnership working, efficiency and budget savings** – We have already put in place a number of partnership arrangements with Teignbridge District and West Devon Borough Councils and are currently exploring further opportunities for joint provision of services.

Elsewhere on the agenda is a report proposing a shared Revenue and Benefits Service with West Devon which is a major step forward and in future year's results in substantial efficiencies. If Local Government Review doesn't result in a Unitary Council the shared service agenda will increase in importance and additional effort and resources applied to deliver even more cost benefits and efficiencies. This will provide one of the few opportunities for district councils to save money without affecting the quality of front line services.

- 4.4 Heads of Service were requested to identify efficiencies and other budget savings or additional income. Appendix D shows £493,550 of savings that have already been achieved or managers can implement without a significant impact on service delivery.
- 4.5 Included within the savings is a sum of £50,000 for the non filling of vacant posts. Based on sound management principles SMT are scrutinising all vacancies as they arise and where possible make other arrangements to cover the duties of that post.
- 4.6 The Development Control Service has found it difficult to meet its annual budget savings. A process review was established to improve efficiency within the service with updated progress reports to the Executive on 7th June 2007, 4th October 2007, and 3rd January 2008. A total of £20,000 in savings has been identified through restructuring of the teams, and income generation. The need for the service is demand led, and despite the economic situation, the number of applications has remained reasonably stable, but it is being carefully monitored. The service will be subject to a further review in the new year with the objective to improve its customer focus. The outcome of the review may have future budget implications.
- 4.7 **Reserve Contributions** - As discussed above it is also proposed to reassess the level of, and contributions to our reserves for the coming year.

5.0 Additional pressures for resources

- 5.1 It is important that we deliver 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. However, due to the difficult financial circumstances that the Council finds itself in CMT have not felt it prudent to submit many bids.
- 5.3 Appendix E provides details explaining the bid to come from CMT. It will be for members to approve the bid taking into consideration the complete budget position.

6.0 Private Sector Renewal/Disabled Facilities Grants

- 6.1 The Council has an unspent allocation from the Regional Housing Pot (RHP) for Private Sector Decent Homes of £411,000. This has arisen because of the significant increase in funding achieved from Government. This situation coincided with encouragement from Government to move from a grant scheme to a loan scheme, which reduced the uptake of the funding for a period. The Council will shortly be reviewing its grant policy in the context of the updated house condition survey, and as explained below, it is anticipated that this sum will be fully utilised.
- 6.2 The Council's 2008-09 budgets for both Private Sector Renewal (PSR) and mandatory Disabled Facilities Grants (DFG) are now fully committed. There is a strong likelihood that we will need further funding to cover payments due to be made during 2008-09. In addition, there are applications pending for both forms of assistance and there will, as in previous years, be a commitment carried over to 2009-10. Further demand will be received but it is impossible to quantify the amount as applications are demand led.
- 6.3 The procedure for allocating the RHP has now changed, and for the first time in 2009-10 the Council's funding will be partly based on bids in addition to a formula based allocation. For forthcoming years it is proposed that the proportion of the pot allocated through the bidding process will increase; 50% bid: 50% formula allocation for 2010/11. One of the factors in determining the success or otherwise of bids will be past performance including whether or not previous funding has been spent. It is considered that previously unspent allocations will adversely influence future bids for the RHP.
- 6.4 In addition to the PSR and DFG work there are various initiatives including work within the Devon Warm Zones targeting fuel poverty and Home Energy Efficiency that can be supported through the use of the unspent RHP detailed above.
- 6.5 It is proposed that the unspent RHP of £411,000 be added to the approved PSR and DFG budgets as detailed below, with delegated approval to the Head of Environmental Health and Head of Finance to transfer funds between the budgets as demand requires.

	Approved 2008-9	Revised 2008-9
Gross Spend		
Private Sector Renewal Scheme	330,000	601,000
Disabled Facilities Grant (DFG's)	356,000	496,000
	686,000	1,097,000
Funded by		
Government grant (DFG's)	214,000	214,000
Capital Receipts	142,000	142,000
Regional Housing Pot (cash grant from Central Government)	330,000	741,000
	686,000	1,097,000

7.0 Vehicle and Plant Replacement Programme

7.1 Every year members are asked to approve a five year rolling programme for the purchase of vehicles and plant, details of which are attached as Appendix F. The cost of the vehicles and plant is met from the Vehicle and Plant renewals reserve and capital funding. The programme is based on the estimated useful life of different types of vehicles which strikes a balance between the increasing repair and maintenance costs and unreliability of older vehicles against the cost of new ones.

8.0 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>Using investment income to help support the level of council tax.</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 failure of an investment counter-party to repay the debt or falling interest rates.</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> <p>To protect our investments the Treasury Management Policy is revised and approved each year as part of the budget process in accordance with The Guidance on Local Government Investments issued by the Office of the Deputy Prime Minister (ODPM) and the CIPFA Code of Practice for Treasury Management.</p>
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9.0 Next steps - achieving a balanced budget and Conclusion

- 9.1 Using this report as an aid, over the coming months Members will have the difficult task of deciding:
- the level of bids to include in next year's budget
 - the desired level of, and use of reserves
 - the desired increase in council tax
- 9.2 This report provides a framework for consultation with the Scrutiny and Policy Development Groups during December and January. The report and consultation process will help the Executive identify priorities, prepare the budget and maximise the use of resources at the budget meeting on 22 January 2008.
- 9.3 Each year the preparation of annual budgets becomes more challenging than before; this year is particularly difficult due to the general economic conditions, uncertainty in financial markets and falling interest rates. Uncertainty also exists over the future funding and structure of local government. Central Government are 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
4 December 2008

Mark Seymour
Strategic Director (Resources)

Background documents

Financial Forecast 2009/10 to 2013/14 – Executive September 2008