

Taunton Deane Borough Council

Executive – 2 February 2010

General Fund Revenue Estimates 2010/2011

Report of the S151 Officer and Financial Services Manager

Report of the Legal Services Manager

(This matter is the responsibility of the Leader of the Council, Councillor Ross Henley)

Executive Summary

This report presents the Executive's final 2010/2011 budget proposals. These are submitted for consideration prior to submission to Full Council on 16 February 2010 for approval. This report contains details on

- 1 The General Fund Revenue Budget proposals for 2010/2011, including the proposed Council Tax Increase and Prudential Indicators.
- 2 Draft figures on the predicted financial position of the Council for the following four years within the Medium Term Financial Plan.

1 Purpose

- 1.1 The purpose of this report is for the Executive to present its final General Fund Revenue Budget proposals for 2010/2011.
- 1.2 All Councillors were presented with the Draft Budget Consultation Pack in December, which contained details of the draft General Fund Revenue and Capital budgets, along with updated Savings Delivery Plans. Councillors were requested to feedback their views on the budget plans to the Executive so they could be taken into account before their final budget was presented for approval.
- 1.3 The Executive have considered the feedback made by individual Councillors and Corporate Scrutiny Board, and now present their final General Fund Revenue budget proposals for 2010/2011.

2 Budget Strategy

- 2.1 Each year the Council sets an annual budget, which sets out in detail the resources needed to meet operational requirements. The Council's approach follows key objectives of the Budget Strategy which are to:
 - Maintain an affordable and sustainable Council Tax position
 - Run an inclusive, open and transparent budget setting process
 - Ensure budgets are realistic, balanced, sustainable, and support corporate priorities

- Maintain a strong balance sheet position
- Manage spending within budgets
- Deliver year on year cash and non-cash efficiency savings in line with Government targets
- Continue to improve on Financial Management, Use of Resources, and Value for Money assessments
- Maintain General Fund Reserves at a minimum of £1.25m (or £1m if being replenished via invest to save initiatives)
- Maintain Housing Revenue Reserves at no less than £150 per dwelling.

2.2 The Medium Term Financial Plan (MTFP) is set out within the Financial Strategy Framework, which is a key link between the Corporate Strategy and financial planning, and recognises the difficult issues and challenges facing this Council. The annual budget is also prepared within the context of the MTFP, and is essentially focussed on setting the budget for the first year of a 5-year rolling financial plan.

2.3 The context for budget setting this year is considerably influenced by the overall global and UK economic climate and the major changes faced by the organisation e.g. the Core Council Review. The investment in services and consideration of savings targets and delivery plans aims to ensure that the Council is directing resources towards its highest priorities.

3 Budget Process

3.1 There are two main aims of this budget setting process – to ensure the increase in council tax is minimised, and, at the same time to try and maintain good front-line service provision.

3.2 The MTFP was updated over the summer to reflect the latest estimates from officers reflecting demographic, legislative and other known changes considered to be unavoidable. The initial view of the General Fund financial position was subsequently presented to Corporate on 1 October 2009.

3.3 The initial Budget Strategy for 2010/11 was presented to Corporate Scrutiny on 29 October, which set out to identify options to close the General Fund Budget Gap which at that time stood at close to £1.4m. The three key options were:

- The Core Council Review (CCR) was confirmed as an essential vehicle for identifying sustainable budget savings.
- Corporate Management Team and Executive Members issued savings targets to managers, who were tasked with developing Savings Delivery Plans to provide options for meeting the targets.
- A comprehensive review of Fees and Charges would consider ways of generating additional income.

4 The General Fund Grant Settlement

Background

- 4.1 The General Fund Revenue Account is the Council's main fund and shows the income and expenditure relating to the provision of services which residents, visitors and businesses all have access to including Planning, Environmental Services, Car Parks, Leisure Services, certain Housing functions, Community Services and Corporate Services.
- 4.2 The Council charges individual consumers for some of its services, which means that less has to be funded from local taxpayers and central Government. The expenditure that remains is funded by central government via the Revenue Support Grant and Business Rates, and the Council Taxpayer.

Local Government Finance Settlement 2010/2011

- 4.3 In 2009/2010 the Council received a total of £8.536m from Central Government via the Finance Settlement. On 20 January the Council received the final settlement figures from Central Government for 2010/11 and these are unchanged to the draft settlement figures received prior to Christmas, and from those announced in January 2008. As 2010/11 is the final year of the current three-year settlement, we do not have draft figures from Government for future years. For the purposes of the MTFP we are predicting a fall in funding during the next three year financial settlement period (see section 16 below).
- 4.4 Part of the methodology ensures that each local authority receives a minimum increase in cash granted: this is known as the "floor". For 2010/11 the floor in place for district tier councils is 0.5%, as included in the following table.

	Floor 2008/09 %	Floor 2009/10 %	Floor 2010/11 %
Shire Districts	1.00	0.50	0.50
Education / Social Services Authorities	2.00	1.75	1.50
Police Authorities	2.50	2.50	2.50
Fire Authorities	1.00	0.50	0.50

- 4.5 In total, the Government's contribution towards TDBC's spending requirement has risen from £8,536,140 in 2009/2010 to **£8,721,220** for 2010/2011, an increase of **£185,080 (2.17%)**.
- 4.6 The following table summarises the grant settlements across Somerset local authorities:-

RSG/NNDR Increases 2009/10 to 2010/11

	2009/10 £m	2010/11 £m	Increase %	£ Per Population
Mendip	8.312	8.419	1.29	75.33
Sedgemoor	9.902	10.083	1.83	87.28

South Somerset	10.984	11.128	1.31	68.59
Taunton Deane	8.536	8.721	2.17	77.04
West Somerset	3.277	3.300	0.71	91.04
Somerset CC	104.129	109.897	5.54	203.90

4.7 The DCLG have confirmed that they do not 'expect' to see Council Tax increases above 3%.

5 The Executive's Budget Proposals 2010/11

5.1 The main changes within the Budget Proposals for 2010/11 are summarised as follows:-

	£'000	£'000
Budget Requirement 2009/10 (excluding parishes)		14,216
General Inflationary increases	386	
Unavoidable increases		
Ongoing impact of 2009/10 pressures/savings	271	
Loss of car parking income (impact of P&R / Project Taunton)	257	
Waste service contract inflation / reduced Recycling Credits	136	
Removal of DLO contribution to general fund (2009/10 only)	112	
Impact of VAT increase from 15% to 17.5%	73	
Loss of income from market site	21	
Repayment of capital borrowing (MRP)	10	
New initiatives / spending on services		
Waste service enhancements and withdrawal of bring banks	84	
Reinstatement of 'frozen' staff posts	133	
Removal of grant income for posts removed in the CCR	100	
Removal of vacancy factor	50	
Software licences for system enhancements (QAS/GIS)	26	
Castle Green maintenance	22	
Youth initiatives (includes £15k one-off)	30	
Statutory BV Place Survey	11	
Tree planting (one-off)	10	
Parish precepts	13	
Other	25	
Revenue Financing of Capital Programme	49	
Savings		
Core Council Review	(450)	
Income generation - fees and charges	(478)	
Savings Delivery Plans	(315)	
HB Administration Subsidy	(71)	
Reduction in Discretionary Rate Relief budget	(49)	
Concessionary travel demand	(40)	
Removal of Deprived Areas Fund	(36)	
Reduced maintenance following cremator enhancements	(44)	
Other Savings	(98)	
Net change in interest costs and investment income	58	
Increase in Net Operating Costs		296
Budget Requirement 2010/11		14,512
Net increase to be met by:		
Government grants and taxation base budget		14,216
Government grant increase	185	
Increase/decrease in Collection Fund surplus / (deficit)	(48)	
Impact of change in Tax Base	(2)	
Parish Precepts and Special expenses	30	
Council tax	131	
	<u>131</u>	
		<u>296</u>
		<u>14,512</u>

6 Inflationary Costs

6.1 The budget estimates for next year (before growth and savings) have been based on the following assumptions for inflation.

	Assumed Inflation	Non-contract inflation	Assumed Inflation
RSG/NNDR	2.17%	Electricity	10.0%
Council Tax Base	-0.04%	Gas	10.0%
Pay Award/Increments	1.5%	NNDR	5.9%
Members' Allowances	2.0%	Water	10.0%
Superannuation Rate	15.0%	Insurance	3.0%
		Other	2.3%

6.2 These general inflationary increases add £386,000 to the budget requirement for 2010/11.

7 Inescapable Budget Pressures

7.1 In addition to general inflationary pressures on the Council's expenditure, there are other inescapable factors affecting the budget for next year.

7.2 **Ongoing impact of 2009/10 budget pressures and savings:** add £271,000 to the budget requirement for 2010/11:

- **Falling income from Planning Fees and Land Charges:** An ongoing loss of income of £290,000 is predicted due to the impact of the recession in the housing and construction sector.
- **Waste Collection and Recycling:** Increased contract costs of £101,000 in 2009/10, due to an acceleration of the phased introduction of enhanced recycling services (see also 8.1 below), will have an ongoing impact on the base budget requirement.
- **Staff Pay Award:** The staff pay award in 2009 was settled at 1%, which is 1.5% lower than the Council allowed for in the 2009/10 budget, and provides a base budget saving of £120,000 (before the 2010 Award).

7.3 **Loss of Car Parking Income:** The introduction of the second Park & Ride site by M5 Junction 25 and the extension of the Silk Mills site, together with the impact of Project Taunton on parking in/near the town centre, are expected to reduce parking income by £257,000.

7.4 **Waste Collection and Recycling:** TDBC's share of the expected decrease in Recycling Credits, together with price inflation on the contract, will add a combined estimated £136,000 to the cost of these services.

8 New Initiatives and Increased Spending on Services

8.1 **Recycling Service:** As agreed when the 2009/10 Budget was approved in February 2009, the implementation of the enhanced recycling service is being phased over two years (2009/10 – 2010/11). The cost of the enhanced service is partially offset by the withdrawal of the Council's

existing bring banks. In addition to the ongoing impact from 2009/10 (see 7.2 above), a further budget increase of £84,000 is required in 2010/11.

- 8.2 **Reinstatement of 'frozen' posts:** A total of 8 posts that had previously been held vacant are reinstated within the 2010/11 budget proposals. The posts are within the following service areas: parking administration, environmental health, planning, TIC, housing and economic development.
- 8.3 **Removal of Grant income:** Two posts within Development Control and Forward Planning are being deleted from the Establishment as a result of the Core Council Review. These were funded by non-recurring grant income in 2009/10 therefore the grant income is also removed from the budget.
- 8.4 **Vacancy factor:** It is proposed to remove the £50,000 vacancy factor budget in recognition of the reduction in the overall establishment and the need to provide temporary cover for vacant posts in order to maintain services.
- 8.5 **Software Maintenance:** There is an annual license maintenance cost related to investment in new Quick Address System (QAS) and Geographical Information System (GIS) software.
- 8.6 **Castle Green Maintenance:** Increased maintenance costs related to Castle Green new open space development.
- 8.7 **Youth Initiatives:** The Executive is minded to include a new budget of £30,000 in 2010/11 to support youth initiatives in the Borough. This will comprise: £15,000 one-off amount to support one-off initiatives, to be part-funded by a £10,000 use of GF Reserves; and £15,000 ongoing support to initiatives in the unparished area of Taunton, which it is proposed to fund through an increase in the Special Expenses Rate (see paragraph 17 below). If approved, robust governance arrangements will be established to prioritise the use of these funds.
- 8.8 **BV Place Survey:** There is a statutory requirement to undertake a Best Value Place Survey every two years, with the next one due in 2010/11 with an estimated cost of £11,000.
- 8.9 **Tree Planting Scheme:** The Executive is minded to provide an additional £10,000 one off budget in 2010/11 for a tree planting scheme, and it is proposed to fund this from GF Reserves.
- 8.10 **Revenue financing of Capital Programme:** As commented within the Capital Programme Report which is reported separately on this agenda, it is proposed to continue to fund recurring capital schemes by revenue contribution. The increase of £49,000 for 2010/11 relates to investment in information technology infrastructure and building control software.

9 Savings Proposals

- 9.1 The Council needs to consider a range of savings options in order to balance the budget, and these have been widely reported and considered through the budget setting process.
- 9.2 **Core Council Review.** Proposals for Themes 2 and 4 were approved by the Executive on 11 November and by Full Council on 23 November. The proposals are expected to contribute £450,000 savings from 2010/11 onwards.
- 9.3 **Fees and Charges:** Whilst the Council would aim to limit price increases in the current economic climate, the recession has had a significant impact on demand in some areas – notably related to the construction and housing markets – and means we must look at opportunities to protect this source of funding for Council services. Proposals for revisions to fees and charges were considered by the Executive on 2 December. In addition, car parking fee increases were approved by the TRO Panel on 18 January 2010 following a period of consultation. Increases in fees and charges will generate an estimated additional £478,000 income for the Council in 2010/11.
- 9.4 **Savings Delivery Plans (SDPs):** As part of the Budget Strategy for 2010/11, savings targets were issued to managers to identify options for savings within services. These have been widely reported and debated, culminating in latest proposals totalling £352,890 being submitted to Corporate Scrutiny Board for comment earlier this month. **There are three changes to the proposals as at 13 January, presented to Corporate Scrutiny at the meeting on 21 January** as follows, which reduce the overall savings proposals to £315,140.
- a) Grass cutting: The Executive has confirmed its intention not to support the proposals to seek to transfer grass-cutting services back to Somerset County Council. This potential £41,000 saving has therefore been removed from the SDPs.
 - b) Public conveniences: The costing for the savings related to potential transfer to parishes or closure of public conveniences have been finalised, with the saving increased by £13,250, to £20,100 in total.
 - c) Parking: The option to introduce parking charges in Wiveliscombe is not recommended by the Executive; therefore the potential saving of £10,000 through additional income has been removed from the SDPs.
- 9.5 **HB Administration Subsidy:** The Council will receive an additional £71,000 income from the government related to housing benefit administration costs.
- 9.6 **Discretionary Rate Relief:** The discretionary rate relief budget is projected to be underspent in the current year, and updated estimates suggest this underspend will continue in 2010/11.

9.7 **Concessionary Fares:** The expenditure estimates included in the draft 2010/11 budget, up to the report to Corporate Scrutiny on 21st January 2010, anticipated an increase of £110,000. However, **officers have received an updated projection** which suggests there will actually be a saving of £40,000 next year. The County Council have negotiated fixed fare arrangements with operators for the majority of usage which are better than previously anticipated.

9.8 **Deprived Areas Fund:** It is proposed to remove this discretionary budget in 2010/11, which will provide a budget saving of £35,000.

9.9 **Cremators maintenance:** The capital programme includes an £1m investment at the Taunton Deane Crematorium (see separate Capital Programme report on this agenda). The annual maintenance costs of the crematorium will be reduced by £44,000 per annum as a result.

10 Investments, Borrowing and Capital Financing Costs

10.1 The Council manages its investment and borrowing activity in line with the Treasury Management Strategy, and controls this activity through the application of the approved Treasury Management Practices.

10.2 Movement in interest rates has a direct impact on the revenue budget for the Council. The current low interest rates are predicted to continue at least for the majority of 2010/11, and the Council is currently taking advantage of low variable rate borrowing with a positive impact on the revenue budget. Although borrowing costs are lower, investment interest income is also expected to fall below current year budgeted levels due to low interest rates. The net change in interest costs and income estimates requires a budget increase of £58,000 in 2010/11.

10.3 Where the Council undertakes prudential borrowing, the repayment of the borrowing is a charge to the revenue account. This is known as Minimum Revenue Provision (MRP). The MRP budget is increasing by £10,000 in 2010/11, however this is £18,000 less than previously estimated within the MTFP.

11 Budget Gap – Amendments to Proposals in the Scrutiny Budget Report

11.1 The Budget Gap reported to Corporate Scrutiny Board on 21 January 2010 for the draft proposals under consideration was a £23,000 surplus.

11.2 The various changes to estimates information and proposals up to this point are clearly presented and summarised within that report. The budget proposals have been updated further as expenditure and income estimates, and budget proposals have been finalised. The changes to the Budget Gap since the report was submitted to Scrutiny are shown in the table below. The overall impact of the proposed changes **results in a nil budget gap**, with explanation for the changes provided after the table.

	£000	£000
Budget Gap Reported to Scrutiny 21 January 2010		-23
Collection Fund Deficit – updated forecast	18	
Grass Cutting – savings option not recommended	41	
Public Conveniences – estimated savings updated	-13	
Concessionary Travel – updated forecast	-150	
DLO – Remove one-off item from Base Budget	112	
Tree Planting – one-off item from GF reserves	10	
Youth Projects – one-off item from GF reserves	15	
Youth Initiatives in unparished area of Taunton	15	
Car parking – Remove proposal to introduce parking fees in Wiveliscombe	10	
One-off transfer from GF Reserves	-25	
Increase Special Expenses for Youth Initiatives	-15	
Net impact of changes		23
Budget Gap		0

- 11.3 Collection Fund Deficit: As the billing authority for Somerset, the Council is required calculate the projected surplus or deficit on the Collection Fund based on data as at 15 January each year. The forecast deficit has increased compared to previous estimates, reflecting the impact of the recession on collection rates. TDBC's budget requirement for its share of the deficit has therefore increased by £18,000, to £130,000 for 2010/11.
- 11.4 Concessionary Travel: Through the budget monitoring process for 2009/10 the current demand trend for concessionary travel is not expected to reach previously estimated levels, based on information received from the administering authority for this service – Somerset County Council. Officers have therefore reduced the estimated budget requirement for 2010/11 by £150,000.
- 11.5 DLO: During the 2009/10 budget setting, the DLO budget included a contribution to the general fund of £112,000. Given the overall trading environment, and the proposals for the DLO under consideration through the Core Council Review process, it is prudent to remove this contribution from the 2010/11 DLO budget.
- 11.6 Youth Initiatives and Tree Planting: see 8.7 and 8.9 above.
- 11.7 Grass cutting, public conveniences and car parking: see 9.4 above.

12 Corporate Scrutiny Comments

12.1 The Corporate Scrutiny Board considered the Executive's draft budget proposals at their meeting on 21 January 2010. During the discussion of this item, Members made the following comments:

- The proposal to cease the Council's contribution to Somerset County Council highway grass cutting should not be supported;

- The work that was done with the Youth Liaison Group was to be commended and the grant should not be cut. Consideration should also be given to disaffected and disadvantaged youths in Wellington;
- Moving the start time of the Planning Committee to 6.15pm and cessation of teas should not be supported;
- A review of Reserves should be carried out to determine whether they can contribute to funding.

12.2 The Executive have considered these comments in relation to completing the final Proposed Budget contained in this report.

13 Council Tax

13.1 In order to balance the budget for 2010/11, the Executive recommends that Council Tax is increased by 2.5%.

Proposed Total Council Tax Increase = 2.5%

13.2 The council tax calculation and formal setting resolution is considered in a separate report on the agenda. The proposed budget for Taunton Deane (shown below) will result in a **Band D Council Tax of £135.19**, an increase of £3.30 on 2009/10.

13.3 This represents an increase of 6 pence per week. The Band D taxpayer will receive all the services provided by the Borough Council in 2010/11 at a cost of £2.59 per week.

14 General Fund Budget 2010/11

14.1 The following table compares the 2010/11 Proposed Budget with the 2009/10 Original Budget, based on the information contained in this report.

	Original Estimate 2009/10 £	Proposed Budget 2010/11 £
Total Spending on Services	15,280,880	15,500,550
Capital Charges Credit	(1,930,000)	(1,930,000)
Interest payable on Loans	266,090	226,430
Minimum Revenue Provision	332,910	342,500
Interest Income	(167,000)	(69,000)
Contribution from G Fund Balances	0	(20,000)
AUTHORITY EXPENDITURE	13,782,880	14,050,480
Less: Revenue Support Grant	(1,600,772)	(1,105,826)
Less: Contribution from NNDR Pool	(6,935,368)	(7,615,394)
Surplus/Deficit on Collection Fund	81,600	130,210
Expenditure to be financed by District Council Tax	5,328,340	5,459,470
Divided by Council Tax Base	40,399.85	40,384.49
Council Tax @ Band D	£131.89	£135.19
Cost per week per Band D equivalent	£2.54	£2.59

14.2 Appendix A provides a more detailed analysis of the general fund budget by service. Once the final budget has been considered and approved by Full Council on 16 February, the officers will produce a detailed Budget Book for information.

14.3 Housing Revenue Account and Capital Programme estimates are included within separate reports on the agenda.

15 General Fund Reserve Position

15.1 The 2008/09 Statement of Accounts has been formally signed off by our Auditor and has received an unqualified audit opinion. This confirms the General Fund Reserve balance as at 1 April 2009.

15.2 The following table sets out a summary of the current predicted General Fund Reserve position as at 31 March 2010, which therefore represents estimated general balances prior to the 2010/11 Budget setting decision.

	£
Opening Balance at 1 April 2009	1,574,008
Less: Supplementary Estimate – Core Council Review	-148,000
Less: Q2 Budget Monitoring Forecast Outturn deficit	-220,000
Less: Core Council Review costs (worst case)	-592,000
	<hr/> 614,008
Add: Windfall VAT receipt (ring-fenced for CCR costs)	649,119
Add: repayment to reserves for early retirements granted in recent years	145,634
Add: repayment to reserves for new Christmas lights supplementary estimate	4,750
Add: repayment to reserves for DLO Highways restructure costs in 2008/09	5,365
Predicted General Reserve Balance 31 March 2010	<hr/> 1,418,876 <hr/>

- 15.3 The current predicted balance of £1.42m may change between now and the end of the financial year. The above table includes a worst case scenario for the costs of CCR implementation in 2009/10, and the forecast outturn deficit as at Quarter 2 budget monitoring. As noted in the Executive Report on the CCR Proposals issued to the Executive on 11 November 2009, the estimated CCR implementation costs range from £134k to £592k. The actual costs are unlikely to be known with certainty until March 2010, which will be after the budget for 2010/11 has been set, however current cost estimates are very close to the £592k worst case.
- 15.4 Whilst the forecast position is currently above the minimum amount in the budget strategy, Members are advised that maintaining a strong general reserves position is prudent in the current economic climate and in view of the medium term reserves forecast provided later in this report.
- 15.5 A review of Earmarked Reserves will be undertaken shortly, and is due to be reported to the Executive in March. At this point in time there is no reason to suggest these funds are not required for the purposes for which they were originally set aside. The statement of the S151 Officer regarding the robustness of the estimates, included in Appendix C, comments further on this matter. Members are advised that funds set aside in earmarked reserves are 'one-off' funds set aside for specific purposes, and should not be used to fund ongoing/permanent budget commitments.
- 15.6 The impact of the 2010/11 Proposed Budget on the predicted general reserves position is included in the next part of this report.

16 Medium Term Financial Plan

- 16.1 As stated earlier in this report, the Council prepares its annual budget within the context of the Medium Term Financial Plan. This provides estimates of the budget requirement and budget gap into future years. The following table provides a summary of the current indicative MTFP. The budget requirement figure on the following table includes parish council precepts in addition to this Council's expenditure.

Indicative MTFP Summary

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Expected Budget Requirement	14.513	15.109	16.763	17.268	17.820
<i>Financed By:</i>					
External Government Support	8.721	7.849	7.457	7.457	7.457
Council tax (increase assumed 2.5% each year)	5.922	6.058	6.198	6.342	6.489
Predicted Budget Gap	0	1.289	3.152	3.470	3.875

Note: negative budget gap figure equals a surplus.

General Reserves Forecast

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Estimated Balance B/F	-1.419	1.703	0.515	2.596	5.991
Planned Transfers to / from Reserves	-0.284	0.101	0.04	0	0
Predicted Budget Gap	0.000	1.289	3.152	3.470	3.875
Estimated Balance C/F	-1.703	-0.515	2.596	6.066	9.941

Note: Negative reserve figures equal amounts in hand.

- 16.2 Members should note that the table above has been prepared on the assumption of a 2.5% increase in Council Tax each year within the MTFP period.
- 16.3 The MTFP also assumes that Government support will be hit hard in the next 3-year financial settlement, due to the overall state of the economy and pressures on government spending and debt. The LGA holds the opinion that councils we face a 15% reduction in funding in the period 2011/12 – 2013/14. At this stage we are planning on the basis of a 10% reduction in 2011/12 followed by a further 5% reduction in 2012/13. The Council would expect to have a clearer idea of funding prospects in the latter part of 2010.
- 16.4 As in previous years the MTFP will be updated over the summer and the results reported to Members.

17 Special Expenses - Taunton Unparished Area

- 17.1 The Executive are minded to increase expenses chargeable to the non-parished area of Taunton in 2010/11 to £47,050, an increase of 50% on the Band D equivalent, and this forms part of the total expenditure of the Council. The precept in 2009/10 was £30,620, representing the costs arising in respect of street/footway lighting and bus shelters. The proposed increase in 2010/11 incorporates enhanced funding for youth initiatives in the Taunton unparished area. At the time of submitting this report, the Council is still waiting for precept demands from 4 parishes, and this proposal will need to be considered in light of this information when it is received. Finance officers are requesting this information as a matter of urgency.

18 Deane DLO

18.1 Budgets have been prepared for the Deane DLO. Figures for each business unit are shown in the table below. DLO managers will charge work to clients on the basis of recovering this expenditure and with the aim of breaking even or making a modest surplus. However it should be noted that due to the uncertainty of their income sources – they are trading services operating in a competitive environment – these figures are very much an estimate and are based on the best information at this time.

	Gross Expenditure £	Gross Income £	(Surplus) / Deficit £
Highways	682,190	-682,190	0
Grounds	2,685,730	-2,685,730	0
Buildings	4,056,970	-4,056,970	0
Cleansing	777,510	-777,510	0
Nursery	110,160	-110,160	0
Transport	116,630	-116,630	0
	8,429,190	-8,429,190	0

18.2 The DLO is currently being reviewed as part of the Core Council Review, and a report is being considered at Corporate Scrutiny Board on 28 January 2010.

19 Additional Information

19.1 The Executive is minded to support a number of further proposals.

19.2 **Brewhouse Theatre Grant / Carbon Neutral Projects:** The Executive is minded to provide an additional £50,000 one off budget in 2010/11 for each of these (£100,000 in total). These are not included within the Proposed Budget, but further reports will be submitted after the 2009/10 accounts, to confirming the need for funding and the availability of Council funds to support this cost.

19.3 **Taunton East and Taunton North:** The Council is in early stages developing proposals, subject to the development of 3-year service level agreements (SLAs), to provide support to Taunton East Development Trust and North Taunton Partnership. The total funding sought is in the region of £130,000 over the three year period. It is proposed that £10,000 per annum for each area will be provided by the HRA (£60,000 in total over three years), £10,000 per annum (£30,000 in total over three years) from the Community Leadership existing budget. Opportunities to obtain contributions for the balance from other partner organisations through the LSP are being explored. The Executive is also minded to allocate a further £35,000 in total from existing Economic Development budgets, not towards the SLA but to support specific and related projects.

20 Prudential Indicators 2009/10 to 2012/13

20.1 As part of the Prudential Code for Capital Finance there is a requirement for Full Council to approve the indicators as shown in Appendix B. The Prudential Indicators are important as they detail the expected borrowing requirement for both the General Fund and the Housing Revenue Account. They also set the operational boundaries for borrowing and investment levels and the interest rate exposure for the Council.

21 The Robustness of the Budget Process

21.1 The Local Government Act 2003 (Clause 25) requires a report on the adequacy of the Council's financial reserves; this Act also introduces a requirement for the S151 Officer to report on the robustness of the budget plans. The S151 Officer's statement is shown as Appendix C.

22 Recommendation

22.1 The Executive is asked to recommend to Full Council the budget for General Fund services for 2010/11 as outlined above. In particular the Executive is requested to recommend to Full Council to:

- a) Approve the transfer of any potential underspend in 2009/10 to the General Fund reserves.
- b) Approve the 2010/11 Proposed Budget and recommend approval of the same to Full Council, being Authority expenditure of £14,050,480 and Special Expenses of £47,050 in accordance with the Local Government Act 1992.
- c) Note the predicted General Fund Reserve balance of £1.419m at 31 March 2010.
- d) Note the forecast budget position within the Medium Term Financial Plan.
- e) Recommend the Prudential Indicators for 2010/11, as set out in Appendix B, for approval by Full Council.

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General Fund Summary Page

Description
Communications Community Leadership Corporate Resources Economic Development & the Arts Environmental Services General Services Housing Services Planning Policy & Transportation Sports, Parks & Leisure
Total Services Expenditure
Asset Management Revenue Account Capital Charges Credit Interest Payable on Loans Minimum Revenue Provision Interest Income Contribution to GF Balances from previous Invest to Save Schemes Contribution from GF Balances - Sup Est Agreed by Full Council 09/10 Contribution from GF Balances
Authority Expenditure
Special Expenses: Taunton Area
Borough Expenditure
<i>Parish Precepts (draft)</i>
Budget Requirement
Contribution from NNDR Pool Revenue Support Grant <u>Surplus on Collection Fund</u> Community Charge Council Tax

Net Expenditure to be raised by Council Tax

Appendix A

Original Estimate 2009/10 (£)	Current Estimate 2009/10 (£)	Forward Estimate 2010/2011 (£)
0	(71,780)	11,000
769,860	987,210	988,110
1,427,290	1,560,760	1,570,370
1,025,060	1,035,340	1,085,750
4,651,360	4,659,940	4,639,140
1,021,470	1,161,940	1,010,630
2,595,880	2,588,330	2,486,620
817,060	649,390	824,930
2,817,150	2,738,000	2,773,180
15,125,130	15,309,130	15,389,730
0	0	0
(1,930,000)	(1,930,000)	(1,930,000)
266,090	266,090	226,430
332,910	332,910	342,500
(167,000)	(167,000)	(69,000)
155,750	155,750	110,820
0	(148,000)	0
0	0	(20,000)
13,782,880	13,818,880	14,050,480
30,620	30,620	47,050
13,813,500	13,849,500	14,097,530
402,703	402,703	415,320
14,216,203	14,252,203	14,512,850
(6,935,368)	(6,935,368)	(7,615,394)
(1,600,772)	(1,600,772)	(1,105,826)
81,600	81,600	130,210

5,761,663	5,797,663	5,921,840
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Communications

Cost centre Code	Description	Original Estimate 2009/10 (£)	Current Estimate 2009/10 (£)	Forward Estimate 2010/2011 (£)
102783	Public Relations	0	(71,780)	11,000
	Total	0	(71,780)	11,000

Community Leadership

Cost centre Code	Description	Original Estimate 2009/10 (£)	Current Estimate 2009/10 (£)	Forward Estimate 2010/2011 (£)
103518	Strategy	0	307,210	0
101819	Housing Strategy	0	(4,470)	184,140
102100	LDF	0	88,260	170,060
109257	Community Grants	0	192,380	202,570
102129	Shopmobility	65,270	65,230	76,120
101570	Community Safety	704,590	338,600	355,220
	Total	769,860	987,210	988,110

Corporate Resources

Cost Centre	Description	Original Estimate 2009/10 (£)	Current Estimate 2009/10 (£)	Forward Estimate 2010/2011 (£)
101070	Council Tax Collection	647,280	647,280	708,780
101117	Council Tax Benefit Admin	0	158,030	171,990
101148	Council Tax Benefit	103,030	(55,000)	(55,000)
101149	NNDR Collection	144,650	144,650	121,340
101192	Register of Electors	163,150	139,790	141,030
101203	Conducting of Elections	0	21,530	21,530
101273	Local Land Charges	0	0	(5,960)
101825	Housing Advances	11,980	11,980	13,140
102019	Rent Allowances	382,050	382,050	357,420
102029	Rent Rebates	155,760	155,760	149,560
102155	Property	(116,100)	(116,150)	(80,100)
102276	ICT	0	(35,180)	0
102281	Retained ICT	0	34,000	0
102310	Facilities Management	0	0	0
102312	Property Management	0	(11,060)	0
102329	Retained Property	0	10,000	0
102417	Wellington Office	34,170	34,170	30,390
102418	Deane House	13,920	13,920	0
102459	Flook House	0	(70)	0
102461	Procurement	0	(330)	0
102535	Design and Print	0	0	0
102567	Legal Services	0	(460)	0
102571	Democratic Services	0	(520)	0
102580	Customer Contact	0	0	0
102588	HR	0	(126,780)	0
102606	Retained HR	0	90,650	0
102627	Finance	(112,600)	405,600	0
102649	Retained Finance	0	(406,350)	0
102679	Insurance	0	0	0
102686	Treasury Management	0	0	0
102693	CTAX	0	(910)	0
102754	Benefits	0	(600)	10
102755	Performance	0	(22,970)	(5,180)
102769	Client	0	75,240	620
102797	Training and OD	0	36,130	0
102803	CEO	0	(11,070)	800
102807	Director	0	(770)	0
102819	Director	0	(630)	0
102832	Director	0	(10,680)	0

102834	Director	0	0	0
102839	PAs	0	(490)	0
102857	Change Managers	0	0	0
	Total	1,427,290	1,560,760	1,570,370

Economic Development and Arts

Cost centre Code	Description	Original Estimate 2009/10 (£)	Current Estimate 2009/10 (£)	Forward Estimate 2010/2011 (£)
103532	Economic development	748,100	454,500	379,990
102190	Theatre & Public Entertainment	0	152,000	152,000
102270	Visitor Centre (TIC)	97,800	97,780	110,880
102267	Visitor Centres (STP)	0	106,340	166,900
102157	Project Taunton (TDBC)	104,400	104,400	96,860
102188	Art Development & Support	0	35,010	71,690
102152	Market Undertakings	3,840	3,840	23,100
101281	General Grants	70,920	81,500	84,330
102407	Priory Depot	0	(30)	0
	Total	1,025,060	1,035,340	1,085,750

Environmental Services

Cost centre Code	Description	Original Estimate 2009/10 (£)	Current Estimate 2009/10 (£)	Forward Estimate 2010/2011 (£)
101458	Crematoria	(588,230)	(589,100)	(619,330)
101431	Cemeteries	219,280	239,210	190,900
101328	Cleansing	0	0	0
101689	Household Waste	2,594,540	1,129,310	1,279,730
101726	Recycling	0	1,465,230	1,389,080
101640	Flood defences	217,890	217,890	229,720
101495	Pest Control	74,880	74,880	72,690
101563	Public Conveniences	333,090	332,730	307,750
101533	Dog Wardens	73,060	73,060	68,220
101464	Pollution Reduction	524,120	522,630	589,250
101542	Licensing	26,720	26,230	49,850
101648	Street Cleaning	660,710	653,860	653,720
101478	Health & Safety	187,290	187,040	179,420
101458	Food Safety	328,010	326,970	248,140
	Total	4,651,360	4,659,940	4,639,140

General Services

Cost Centre	Description	Original Estimate 2009/10 (£)	Current Estimate 2009/10 (£)
101015	Democratic Representation and Management	768,740	768,740
101017	Corporate Management	66,900	66,900
101055	Non Distributed Costs	122,430	122,430
101232	Emergency Planning	63,400	62,860
101287	Precepts and Levies	0	56,710
102791	Internal Audit	0	0
109236	Appropriations	0	(119,700)
109237	Core Council Review	0	204,000
	Total	1,021,470	1,161,940

Forward Estimate 2010/2011 (£)
729,250
54,800
125,650
62,340
53,290
0
(14,700)
0
1,010,630

Housing Services

Cost Centre	Description	Original Estimate 2009/10 (£)	Current Estimate 2009/10 (£)	Forward Estimate 2010/2011 (£)
101291	Building Maintenance	0	(2,790)	0
101468	Housing Standards	167,530	163,130	130,490
101838	Cont. to HRA re Shared	660,390	660,390	301,150
101944	Admin of Ren & Imp Grants	1,036,300	1,035,580	1,047,670
101974	Control & Closing Orders	0	4,140	4,140
101987	B&B Accommodation	0	358,900	371,400
101822	Housing Advice	0	0	548,030
102007	Homelessness Admin	731,660	372,760	17,630
103547	Deane Helpline	0	(3,780)	0
109226	Housing Enabling	0	0	66,110
		2,595,880	2,588,330	2,486,620

Planning and Transport

Cost centre Code	Description	Original Estimate 2009/10 (£)	Current Estimate 2009/10 (£)	Forward Estimate 2010/2011 (£)
101785	Concessionary Travel	1,862,780	1,862,780	1,824,910
101809	Co-ordination	120,550	99,970	110,240
102058	Advice	0	12,960	515,490
102059	Dealing with Applications	672,590	668,370	40,470
102093	Regional Planning	425,830	250,390	536,320
102083	Enforcement	0	0	78,730
102104	Sustainable Development	0	104,030	42,770
102045	Building Control - Fee Earning	0	58,200	0
102053	Building Control - Non Fee Earning	114,190	53,580	124,030
101734	On Street Parking	133,920	132,460	210,650
101779	Off Street Parking	(2,839,220)	(2,843,940)	(2,931,670)
102103	Conservation & Listed Buildings	326,420	250,590	272,990
	Total	817,060	649,390	824,930

Sports Parks and Leisure

Cost centre Code	Description	Original Estimate 2009/10 (£)	Current Estimate 2009/10 (£)	Forward Estimate 2010/2011 (£)
102243	Golf Courses	17,310	17,310	18,250
102256	Allotments	4,080	4,080	4,500
101317	Grounds Maintenance	31,880	(1,420)	0
102212	Indoor Sports	489,570	513,070	477,950
101384	Vivary Park Trading Acc	26,380	26,380	30,620
101338	Highways	0	(1,290)	0
101818	Environmental Maintenance	0	41,880	46,700
102246	Community Open Spaces & Parks	0	1,143,250	959,400
102216	Outdoor Spots	1,131,870	6,360	160,770
102196	Sports Development	1,116,060	988,380	1,074,990
	Total	2,817,150	2,738,000	2,773,180

PRUDENTIAL INDICATOR	2008/09	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000	£'000
	outturn	estimate	estimate	estimate	estimate
Capital Expenditure					
General Fund	£8,506	£3,088	£2,852	£2,528	£1,785
HRA	£5,428	£6,724	£4,560	£4,300	£4,399
TOTAL	£13,934	£9,812	£7,412	£6,828	£6,184
Ratio of financing costs to net revenue stream					
General Fund	-3.28%	1.08%	1.07%	1.13%	1.15%
HRA	2.57%	1.83%	1.82%	1.47%	1.24%
Net borrowing projection					
brought forward 1 April	£9,425	£9,900	£10,520	£11,910	£13,274
Carried forward 31 March	£9,900	£10,520	£11,910	£13,274	£13,894
in year borrowing requirement	£475	£620	£1,390	£1,364	£620
Capital Financing Requirement as at 31 March					
General Fund	£8,354	£8,594	£9,021	£9,448	£9,867
HRA	£14,451	£14,451	£14,451	£14,451	£14,451
TOTAL	£22,805	£23,045	£23,472	£23,899	£24,318
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p
Increase in council tax (band D)	0.65	0.86	0.83	0.15	0.03
Authorised limit for external debt -					
TOTAL	£40,000,000	£40,000,000	£40,000,000	£40,000,000	£40,000,000
Operational boundary for external debt -					
TOTAL	£30,000,000	£30,000,000	£30,000,000	£30,000,000	£30,000,000
Upper limit for fixed interest rate exposure					
Net interest re fixed rate borrowing/ investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net interest re variable rate borrowing/ investments	50%	50%	50%	50%	50%
Maturity Structure of Fixed Rate Borrowing					
(Upper and lower limits)					
under 12 months	0% to 50%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
12 months and within 24 months	0% to 50%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
24 months and within 5 years	0% to 50%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
5 years and within 10 years	0% to 50%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
10 years and above	20% to 100%	20% to 100%	20% to 100%	20% to 100%	20% to 100%
Upper limit for total principal sums invested for over 364 days					
(per maturity date)	£2m or 20%	£2m or 20%	£2m or 20%	£2m or 20%	£2m or 20%

Appendix C

Robustness of Budget Estimates and the Adequacy of the Council's Reserves

Statement by the S151 Officer

1 Introduction

1.1 The purpose of this appendix is to outline and meet the statutory requirements contained in the Local Government Finance Act 2003 which requires the Council's Section 151 Officer to report to Members on:

- The robustness of budget estimates; and
- The adequacy of proposed reserves

1.2 This appendix provides evidence of assessment of the levels of the non-earmarked General Fund Reserve, specific earmarked reserves, and usable capital receipts and also makes comment on the Housing Revenue Account reserves.

2 Robustness of the Estimates

2.1 The proposed budget for 2010/11 (and the forecast position for future years) is the financial interpretation of the Council's strategic priorities and, as such, has implications for every citizen of Taunton Deane together with all other stakeholders.

2.2 In commenting on the robustness of the budget and level of reserves and balances, the following factors have been taken into consideration and are considered in the remainder of this appendix:

- Government funding
- Capital programme funding
- Inflation and other key assumptions
- Treatment of savings
- Risks and opportunities with partnerships
- Financial standing of the Council (level of borrowing, debt outstanding)
- Track record in budget management & in-year budget pressures
- Virement and control procedures
- Risk management procedures
- Key risk issues in 2010/11 budget

3 Government Funding

3.1 The Government now provide three-year indicative settlements to local authorities. This provides the Council with a greater degree of certainty on future Government funding, but requires Councils to consider their potential tax positions over a longer term period.

3.2 The Government has declared that it does not expect to see Council Tax increases in England for 2010/11 above 3%.

4 Capital Programme Funding

- 4.1 The Prudential Regime came into force in 2004 and requires Councils to publish and monitor a set of Prudential Indicators. These must be taken into account when formulating capital spending plans. The underlying principle of the regime is that there will be less central control and more local discretion in determining investment strategies. Local authorities are allowed to self regulate their approach to funding capital spend through borrowing, based on the principles of affordability, sustainability, and prudence.
- 4.2 The system works within a framework of principles – namely that the:-
- Council will maintain a balanced budget
 - The impact of the capital programme will be reflected in the medium term financial plan
 - The prudential indicators will be used to provide performance measurement in managing key investment decisions.
- 4.3 The Council is following the principles of the Prudential Code, and the latest Prudential Indicators are shown in Appendix B of this report.

5 Inflation and Other Key Budget Assumptions

- 5.1 I have reviewed the budget proposals and confirm the following key assumptions:-

Area of Budget	How is this addressed within the TDBC budget process?
Inflation assumptions	Inflation has been provided for in the budget at the following rates: General – inflation has not been applied to budgets unless there is direct justification ie as a contract condition. Salaries – 1.5% for 2010/11, 2% thereafter. Insurance – 3% (based on current market conditions) Utilities - based upon known contract increases Pension Contributions – 15.0%
Income Levels	Income projections are based on realistic assumptions, current usage levels and the most recent Government guidance on fee levels. They also take into account historic trends and current year variations against budget.
Economic assumptions	Investment interest assumptions are based on independent economic forecasts provided by our advisors Arlingclose.

Area of Budget	How is this addressed within the TDBC budget process?
Salaries Budgets	As one of the largest areas of spend, the salaries budgets have been reviewed in detail. They have been built up by costing each individual post. These have been discussed in detail and agreed with individual Service Managers. The impact of the phase 2 & 4 of the Core Council Review has been costed in detail.
Growth in service requirements	The MTFP identifies service growth areas ie refuse collection; this is then firmed up by detailed discussions with Managers during the budget process. Growth assumptions for future years in the Council Tax base have been revised downwards to reflect the current economic slump
Efficiency Initiatives	The Council is involved in several initiatives, which will benefit the Council, for example the Southwest One contract – the negotiated fixed price of support services has been included in the budget.
Significant Budget areas which are subject to change during the year	The high risk/high value budgets of the Council are rigorously examined and only prudent increases built into them. In addition when forecasting, the performance in both previous and current years is taken into account.
Choices available to Members	All Members have been presented with extensive options for closing the budget gap through the Savings Delivery Plan process. The Core Council Managers Group and Corporate Management Team have also rigorously examined these.
Changes in Legislation	Legislative changes are analysed by officers and their effect built into the MTFP and budget.
Sustainability	The proposed budget outlined in section 14 takes into account the future financial pressures faced by the Council. Effective financial planning for the medium term is in place. The forthcoming implementation of phase 2 & 4 of the Core Council review will help with the Council's ongoing financial position, and the development of phases 3 & 5 of the review will be reported once known.
Sensitivity Analysis	The financial planning model allows the Authority to predict the likely outcomes of changes to key data ie inflation, council tax, government grant etc.
Prudential Indicators	Have been revised during 2009/10 and their results have informed the setting of the 2010/11 indicators.

Area of Budget	How is this addressed within the TDBC budget process?
The impact of the Capital Programme on the Revenue Budget	The MTFP identifies changes to the base budget as a result of the capital programme.

6 Treatment of Savings

- 6.1 All Managers are responsible for ensuring the savings ideas presented to Members are realistic and deliverable in terms of the level of savings and the timing.
- 6.2 All savings proposals have been reviewed for robustness – and will continue to be monitored during 2010/11 to ensure the benefits are realised.

7 Partnership Risks & Opportunities

- 7.1 The Council has several key partnership arrangements in place to support our ambitions and deliver key services. These are supported by contractual arrangements. There are performance management arrangements in place on each partnership to ensure the Council's interests are protected, and that the expected benefits are fully realised. Risk registers are kept for each key partnership and are regularly reviewed by lead officers.

8 Financial Standing of the Council

- 8.1 The Council fully complies with the Prudential Code.
- 8.2 The Council has a recently updated Financial Strategy in place and is operating within the agreed parameters.
- 8.3 The Council has an up to date Treasury Management Policy in place and is operating within the agreed parameters. The Council currently has £15m of outstanding debt (which is within our maximum borrowing level of £30m). The Council currently has £17.8m of investments placed in the markets in accordance with our policies.
- 8.4 The Council's Treasury Management Practices are prudent and robust, ensuring the Council is not exposed to unnecessary risk in terms of its investment policies. This does mean lower interest rates, but the first priority must be to protect the capital invested.
- 8.5 The adequacy of the Council's reserves is discussed later in the appendix.

9 Track Record in Budget Management & In Year Budget Pressures

- 9.1 The Council has an excellent track record in budget management. The most recent years have resulted in the following outturn positions:-

Year	£Variance	%Variance of Approved Budget
2004/05	(£163,000)	(1.49%)

2005/06	(£45,000)	(0.39%)
2006/07	£242,000	1.9%
2007/08	£49,000	0.37%
2008/09	£46,000	0.09%

9.2 In the context of a gross expenditure budget of £51m, the above results are pleasing and reflect the robust budget management arrangements in place. Members are provided with regular in-year updates on key budget variances

10 Virement & Control Procedures

10.1 The Financial Regulations contain formal rules governing financial processes and approvals (virements are simply transfers of budget between departments).

10.2 The Council updated its Financial Regulations during 2008 to ensure they will still fit for purpose. The Financial Regulations are being complied with throughout the organisation.

11 Risk Management

11.1 The Council has a Risk Management Policy in place which defines how risk is managed at different levels in the organisation. It defines roles, responsibilities, processes and procedures to ensure we are managing risk effectively.

11.2 The Council operates a self-insurance fund and has recently reviewed the level of funding required for this.

11.3 The Council changed its insurance provision arrangements during 2008. As part of this, the Council thoroughly reviewed its exposures to risk and made appropriate arrangements to mitigate this where possible. I am satisfied that the Council has adequate insurance arrangements in place, and that the cover is structured appropriately to protect the Council.

12 Key Risk Issues In 2010/11 Budget

12.1 There are some areas of the proposed budget for 2010/11 where uncertainty exists. They are detailed below for Members attention. The figures in the proposed budget for 2010/11 are based on our best estimates. These will require intensive monitoring throughout the year, and swift corrective action taken should they vary from budget. The issues I need to bring to Members attention are:-

- **Concessionary Travel** – the success of the scheme within the Borough is welcomed, however the expected level of growth in the scheme for 2010/11 is based on estimates received from the administering authority, Somerset County Council. The budget takes into account expected fee increases from First Bus, however actual

passenger usage is estimated. This will be monitored closely throughout the year and regular updates provided to Members.

- **Housing & Council Tax Benefit Subsidy** - The funding regime for housing benefit and council tax benefit subsidy has remained constant for 2010/11. However, the subsidy budgets are difficult to estimate due to the fluctuating volume of claims received and the different levels of subsidy payable of types of claimant error. This will be difficult to predict accurately due to the expected growth in claims arising from the current economic slump. The total benefit subsidy budget is in excess of £23m – and *therefore small fluctuations in this budget can have a big impact on the budget of the Council.* Systems are in place to ensure this is monitored on a monthly basis. In addition assumptions on the level of subsidy payable on Local Authority overpayments is at a prudent level.
- **Interest Rates** - The interest rates for 2009/10 have had a radical impact on the on the Council's budget. With assumptions on investment returns remaining low. However the budget has been based on cautious and prudent assumptions on interest rate movements taken from forecasts issued by our Treasury Management advisors, Arlingclose.
- **Impact of Economic Changes** – the Councils budgets reflect our best estimates of the impact of the continuing downturn in the general economy. This has affected income levels on some services in the current year, and our view is that this is likely to continue in 2010/11.
- **Procurement Savings** - The funding of the Southwest One transformation projects has been initially financed by prudential borrowing. The strategy is that this debt will be repaid once the procurement strategy of the council, in partnership with Southwest One, begins to deliver savings. This is dependant on cashable savings being identified and whilst the Council is confident of this strategy, progress in 2009/10 was not as good as anticipated and plans are being drawn to ensure that the savings are o track in 2010/11. This remains an area of risk.
- **Waste Collection Contract** – at the time of writing this report the contract negotiations by the Somerset Waste Partnership with the contractor May Gurney are still ongoing. This means that the final contract price for 2010/11 is not yet firm and based on best estimates.
- **Core Council Review** – The figures in the budget proposal for 2010/11 reflect the savings that can be delivered from theme 2 and theme 4 of the Core Council Review. The cost of facilitating these savings will not be known with certainty until the recruitment process is complete. The sensitivity analysis carried out on these costs suggest a best case of £134k and worst case of £592k. I recommended that the Council makes provision for £592k of one-off costs from the

General Fund Reserves. This gives Members some assurances on affordability and value for money.

13 Adequacy of Reserves

- 13.1 With the existing statutory and regulatory framework, it is my responsibility as s151 Officer to advise the Council about the adequacy of the Council's reserves position.
- 13.2 All reserves are reviewed at least annually and my opinion updated during the budget setting process each year. The annual review considers not only the adequacy but the necessity of the reserves. Reserves are not held without a clear purpose.
- 13.3 My opinion is given in the knowledge that known risks (strategic, operational and financial) are managed and mitigated appropriately in line with the Council's policies and strategies.
- 13.4 The headlines of my findings on each key reserve are set out in section 14 – 16 below.
- 13.5 My opinion is set out in section 17 below.

14 General Fund Reserve

- 14.1 The predicted General Fund Reserve position is set out in section 11 of the main report. The Proposed Budget includes the use of £25,000 from general reserves to support one-off items only.
- 14.2 The predicted balance on this reserve, having set the 2010/11 budget is £1.7m.
- 14.3 CIPFA make it clear in LAAP Bulletin No.77 (Nov 08) that the level of reserves for each Authority cannot be decided by the application of a standard formula and each authority must assess their own reserve levels based on the specific risks and pressures which they face. This has been done and is clearly set out in the Council's Financial Strategy.
- 14.4 The Financial Strategy approved during 2008/09 states that General Fund Reserves should be maintained at a minimum of £1.25m (or £1m if being replenished via invest to save initiatives).

15 Housing Revenue Account Reserve

- 15.1 The housing Revenue Account balance is forecast to be £2.393m at 31/03/2011. The current funding arrangements for local authority housing are under review and make forward planning fairly challenging. The medium term financial plan for the HRA predicts as follows:

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Total Income	(15,658)	(16,155)	(16,669)	(17,201)
Expenditure	14,004	15,337	15,263	15,648
Capital Financing/ Contributions to Reserves	1,865	865	563	449
Repayment of 'invest to save' to reserves re ISIS Transformation		(200)		
(Surplus)/Deficit	211	153	(843)	(1,104)
Working Balance b/f	2,757	2,546	2,393	3,236
Working Balance c/f	2,546	2,393	3,236	4,340

15.2 The Council aims to preserve this reserve at no lower than £150 per dwelling (which would be the equivalent of £0.9m).

16 Earmarked Reserves

16.1 At 31 March 2010, the Council expects to have £7m in earmarked reserves. The main reserves include the self-insurance fund, capital financing, and housing enabling reserves.

17 Conclusions

17.1 **My professional opinion is based on the Council's circumstances at this time, having due regard to future plans, and the risks inherent within any budget setting process.**

17.2 **The Council is facing a very challenging year ahead, and the robustness of the budget depends on the accuracy of some key assumptions.**

17.3 **Based on the above factors, and my knowledge of our insurance cover, my view remains that the Council needs, within the medium term financial period a prudent level of non-earmarked reserves of at least £1.25m – no change from the recommendation set out in the Councils Financial Strategy. The adequacy of the reserves over the medium term will be reviewed again as each phase of the Core Council Review is presented to Members for approval.**

17.4 **Based on the above, I am pleased to report that I believe the Council's reserves to be adequate and the budget estimates used in preparing the 2010/11 budget as robust as possible at this time.**

**Maggie Hammond
Acting S151 Officer**