

TAUNTON DEANE BOROUGH COUNCIL

EXECUTIVE 4 FEBRUARY 2009

REPORT OF THE FINANCIAL SERVICES MANAGER

This Matter Is The Responsibility of Executive Cllr Henley (Leader of the Council)

GENERAL FUND REVENUE ESTIMATES 2009/10

Executive Summary

To consider the Executive's final 2009/10 budget proposals, prior to submission to Full Council on 17 February 2009 for approval. This report contains details on:

- 1 The General Fund Revenue Budget proposals for 2009/10, 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.

1. Purpose

- 1.1 All Councillors were presented with a "budget setting progress pack" over Christmas. This pack contained details of the draft General Fund Revenue and Capital budgets, along with schedules of possible savings ideas.
- 1.2 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 Financial Services Manager has attended all Group Meetings to explain the content of the pack – to ensure all Councillors are fully briefed and able to join in the budget debate.
- 1.4 The Executive have considered the feedback made by individual Councillors and Overview and Scrutiny Board, and now present their final General Fund Revenue budget proposals for 2009/10.

2. Background Information

- 2.1 Each year the Council sets an annual budget, which sets out in detail the resources needed to meet operational requirements. The annual budget is prepared within the context of the Medium Term Financial Plan (MTFP) – which is simply a 5-year rolling financial plan.
- 2.2 Previous MTFPs have predicted an ongoing budget shortfall. Members recognised this and last summer approved a Financial Strategy to set the framework for resolving this. This Financial Strategy was a key link between the Corporate Strategy and the MTFP, and recognised that there were some difficult issues for this Council to tackle – but to continue to provide the current level of services was not an option.
- 2.3 The key objectives of the Budget Strategy were to: -

- To maintain an affordable and sustainable Council Tax position,
- To run an inclusive, open and transparent budget setting process,
- To ensure budgets are realistic, balanced, sustainable and support corporate priorities,
- To maintain a strong balance sheet position,
- To manage spending within budgets,
- To deliver year on year cash and non-cash efficiency savings in line with Government targets,
- To continue to improve on Financial Management, Use of Resources, and Value for Money assessments,
- That General Fund Reserves should be maintained at a minimum of £1.25m (or £1m if being replenished via invest to save initiatives),
- That Housing Revenue Reserves should not fall below £150 per dwelling.

3. Budget Strategy 2009/10

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 Profile of Services and subsequent savings targets and delivery plans has ensured that the Council is directing it's limited resources towards our Corporate Objectives:-

- Economy – regenerating Taunton and strengthening the economy of the Borough.
- Transport – minimising the growth in traffic congestion.
- Crime – promoting safer communities and tackling anti-social behaviour.
- Healthy Living – promoting healthy and sustainable communities.
- Environment – safeguarding and enhancing the local environment.
- Delivery – delivering accessible, value for money services.

3.3 The General Fund Reserve is currently forecast to be at £1.4m at the end of March 2009. Given the limits set down in the Financial Strategy this does offer a small amount of flexibility in the budget funding decision but the overriding principle of ensuring the authority's underlying expenditure is not reliant on reserves remains. The Executive are also aware that the forthcoming Core Council review will require the use of reserves to fund some one off costs associated with the review. As a consequence a further review of reserves has been commissioned and is reported elsewhere on this agenda.

3.4 As with earlier years, there is no contingency built into the 2009/10 budget. All requests for new funding must be presented as supplementary estimates from the General Fund Reserve.

4. The Budget Setting Process 2008/09

- 4.1 The MTFP was updated over the summer to reflect the latest estimates from officers on unavoidable costs. The MTFP results for 2009/10 were presented to the Overview and Scrutiny Board on 13 October 2008. The Budget Strategy was presented to the Board on 30 October 2008.
- 4.2 The current Profile of Services is included at Appendix A, the Executive are proposing no changes to the Profile for 2009/10. The profile reflects the priorities set out in the current Corporate Strategy.
- 4.3 Using the Profile of Services as the framework for ensuring that resources would be matched to priorities in the 2009/10 budget, Corporate Management Team and Members of the Executive issued savings targets to Managers.
- 4.4 Managers were tasked with reviewing options for delivering the savings, and asked to complete a Savings Delivery Plan for each service area. The savings plans have been shared and debated widely including :-
- The Overview and Scrutiny Board 27 November 2008,
 - The Executive 4 December 2008,
 - Included in the Pre-Christmas Budget Progress Pack to all Councillors, which also included an update on the budget gap, which stood at £1.548m at that time.

5. Savings Delivery Plans

- 5.1 The full set of savings plans have already been circulated to all Members and are not reproduced here. If further copies are required then please contact Financial Services on 01823 356418. There are two changes to report since the original versions were published in December: -
- Saving “C2, Flooding Hotspots Budget - £8,000” within the Other Savings Group – the Executive propose to not take this saving but instead direct these monies towards funding the rental of land near the market site to British Waterways, this previously had a public acceptability rating of “1”. This item had been included in the budget gap shown in the Christmas Consultation Pack.
 - Saving “B2, Increase the cost of Junior Football - £1,010” within the Parks Service Group – the Executive have reconsidered this item and now propose to not take this saving. This previously had a public acceptability rating of “2”. This item was not included in the budget gap reported in the Christmas Consultation Pack.
- 5.2 The Executive propose to take public category 1 and 2 savings items, plus three category 3 items. The financial impact of the savings delivery plans is set out in the table below and take into account the changes to the plans mentioned in the paragraph above:

Public Savings Category	Amount Generated (Public Category) £000	Cumulative Amount £000	Forecast Budget Gap £000
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Current Gap			1,548
Category 1	264	264	1,284
Category 2	165	429	1,119
Category 3			
• Planning: D1 (reduction in Heritage & Landscape grants)	1	436	1,112
• Environmental Health: D6 (reduction in dog bin budget)	2		
• Policy: D3 (relocatable CCTV)	4		

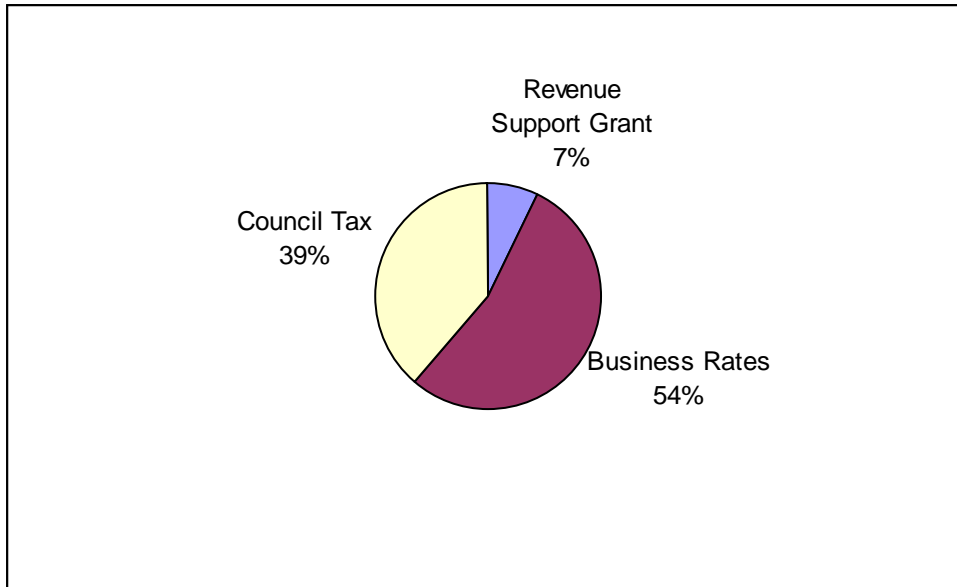
6. Budget Consultation

- 6.1 Further consultation sessions on the budget are being arranged with the Taunton Chamber of Commerce and Taunton Town Centre Company. A verbal update on their comments will be provided at the meeting.

7. The General Fund Budget - Background & Grant Settlement

Background

- 7.1 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.
- 7.2 The Council makes charges for some of its services which means that less has to be funded from general taxation the taxpayer and central Government. The expenditure that remains is funded by central government via the Revenue Support Grant, and National Non-Domestic Rates. The Council Taxpayer primarily funds the remainder. The chart below depicts the relative proportions of each for 2008/09:



Local Government Finance Settlement 2009/10

7.3 In 2008/09 the Council received a total of £8.369m from Central Government via the Finance Settlement. On 21 January the Council received final settlement figures from Central Government for 2009/10 and these are unchanged to the draft settlement figures received prior to Christmas and from that announced back in January 2008. Draft figures have also been issued for 2010/11.

7.4 Part of the methodology ensures that each local authority receives a minimum increase in cash granted: this is known as the “floor”. For 2009/10 the floor in place for district tier councils is 0.5%.

7.5 The table below summarises this the figures issued:-

	2008/09 £'000	2009/10 (Final) £'000	2010/11 (Provisional) £'000
Government Settlement (RSG and NDR)	8,369	8,536	8,721
Year on Year Change (£)		+167	+185
Year on Year Change (%)		+2.00	+2.17

In total, the Government's contribution towards our spending requirement has risen by £167k (2.00%) for next year.

7.6 The tables below summarises the draft grant settlements by type of authority and across Somerset:-

RSG/NNDR Increases 2008/9 to 2010/11

	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

RSG/NNDR Increases 2008/09 to 2009/10

	2008/09 £m	2009/10 £m	% Increase	£ Per Population
Mendip	8.209	8.312	1.25	74.91
Sedgemoor	9.720	9.902	1.87	86.48
South Somerset	10.851	10.984	1.23	68.18
Taunton Deane	8.369	8.536	+2.00	76.17
West Somerset	3.260	3.277	+0.52	90.80
Somerset CC	98.400	104.192	+5.89	194.86

7.7 The DCLG have confirmed that they expect to see Council Tax increases substantially below 5% in 2009/10.

8. The Executive's Budget Proposals 2009/10

8.1 This section outlines the new initiatives proposed by the Executive, some further information on the budget gap projection, and a summary of the overall budget proposal.

8.2 New Initiatives / Savings Proposals as Reported to Overview and Scrutiny Board

NEW INITIATIVES

Recycling Service

The current budget gap assumes the introduction of a new recycling service across the Borough from 1 April 2009. The Executive propose to implement the enhanced recycling service (SP2) on a phased basis over the period 2009/10 to 2010/11. This will include the phased withdrawal of the Council's existing bring banks. The phasing of the service over two years will mean that the demand on the Council's current budget gap will reduce by £229k. **(SEE SECTION 10.3 AS THIS HAS BEEN AMENDED IN THE LATEST BUDGET PROPOSALS)**

Sustainable Planning Initiative

The Executive are proposing to reimburse the planning fee for proposals for micro renewable power generation schemes. The expected loss of income is £3k.

Area Working

When the 2008/09 budget was set, this included £25k for Area Working.

For 2009/10 the Executive propose to increase this by £3k and to use this money to promote “Participatory Budgeting” within the Borough. This initiative is designed to give residents of the Borough more direct control of where the Council spends its money and this new budget will enable the Executive to promote the scheme within the area. Participatory budgeting will become a statutory requirement from 2012 onwards. **(SEE SECTION 10.3 AS THIS HAS BEEN AMENDED IN THE LATEST BUDGET PROPOSALS)**

Brewhouse

The current funding agreement means that grant for 2009/10 would reduce by £15,000. The Executive proposes not to take the saving and will reinstate the £15,000 into the base budget.

Agricultural Officer

This post is part funded from external sources; this funding is due to cease in 2009/10. The Executive propose to continue with this post on a full time basis and the budget gap needs to increase to take this into account. The expected cost is £20k. All posts will be reviewed as part of the Core Council Review.

SAVINGS PROPOSALS

Core Council Review

The Core Council Review is subject to a separate paper, considered elsewhere on this agenda. The expected saving from phase 1 of this review is £342k.

Vacancy Factor

A £50k vacancy factor was included in the 2008/09 budget, the Executive propose to continue with this for 2009/10.

Frozen Posts

Pending the implementation of the full Core Council review, the Executive propose to continue with the freezing of currently vacant posts into 2009/10 – this is expected to save £119k.

Car Parking Service

The Executive propose to reallocate resources within the Car Parking service – this is expected to generate savings of £25k

Revenue Contribution to Capital

At present the budget gap includes a £50k revenue contribution to capital to fund an officer bid for Energy Efficiency initiatives within our property portfolio. Given the current budget gap the Executive proposes not to support this scheme in 2009/10.

Use of Housing/Planning Delivery Grant (HPDG)

The Executive propose to use £30k unallocated HPDG to go towards the Council’s contribution towards Project Taunton.

8.3 New Information on the Budget Gap

The budget gap position has been reported to all Councillors at various

points in the budget setting process. The table below sets out the latest position for information – starting with the gap reported most recently in the Budget Consultation Pack issued in December.

	£000	£000
Budget Gap @ 27 November 2008		1,548
Savings Delivery Plans		(445)
MTFP Changes – Good News		
Car Parking Income – recommendation by the recent TRO panel (on street and off street parking)	(220)	
Recycling – latest cost estimates for an enhanced recycling service	(53)	
Impact of recent VAT changes	(73)	
Recent debt restructuring exercise	(72)	
Revised impact of Car Park closures re Project Taunton	(57)	
Taunton Market - expected additional rental Income	(21)	(496)
MTFP Changes - Bad News		
Tone Leisure Contract – reduced savings target	10	
Investment Returns – expected reduction of base rates to 1% as per our Treasury Management advisors most recent advice	80	
Concessionary Travel – SCC are now forecasting growth in 2009/10 of 28% when compared to 2007/08. Previous budget gaps had allowed only 20%	139	229
Executive Councillors Budget Proposals		
Flooding Hotspots saving no longer taken and the saving redirected towards funding rental of land near the market site to British Waterways	8	
Further allocation to Sustainable Transport Initiatives (budget now £32k)	10	

Proposed reductions to recurring capital schemes which would be funded via a revenue contribution to capital:		
• Grants to Clubs – from £59k to £45k	(14)	
• Play Equipment Grants – from £31k to £20k	(11)	
• Replacement Play Equipment – from £13k to £10k	(3)	
• New Play Equipment – from £13k to £10k	(3)	
• Car Parking Equipment – from £20k to £5k	(15)	
• Taunton Canal Grant – funded from sustainable transport budget	(10)	
• Disabled Facility Grants increase – to be funded from Regional Housing Grant	(100)	(138)
Budget Gap (as per Budget Consultation Pack)		698
New Information on the Budget Gap		
Savings Plan – Proposed Increase in the cost of Junior Football not taken	1	
Recycling – latest cost estimates for an enhanced recycling service	(21)	
General – move from MTFP to “real” budget figures	52	
Budget Gap as reported to Overview and Scrutiny Board 22 January 2009		730

8.4 Executive’s Draft Budget Proposals

Taking into account all of the above information, the draft budget proposals for consideration are as follows:-

	£000	£000
Latest Budget Gap Position		730
New Initiatives/Savings Proposals:		
Recycling Service	(229)	
Sustainable Planning Initiative	3	
Area Working Initiative	3	
Brewhouse Grant cut deferral	15	
Agricultural Officer	20	
Core Council Review	(342)	
Vacancy Factor	(50)	
Frozen Posts	(119)	
Car Parking service savings	(25)	
Reduced Revenue Contribution to Capital	(50)	
Use of HPDG to part fund Project Taunton	(30)	

costs		
PROJECTED BUDGET GAP / (SURPLUS)		(74)

As shown above this leaves a budget surplus of £74k as recently reported to the Overview and Scrutiny Board.

9 Overview and Scrutiny Comments

9.1 The Overview and Scrutiny Board considered the Executive's draft budget proposals at their meeting on 22 January 2009. The Board commented on the following items:

- That in the draft budget report there was no further financial commitment to funding for Taunton CAB,
- That in the current financial climate that the inclusion in the draft budget for Participatory Budget was not required,
- The level of savings associated with the Core Council Review and the potential drawdown on reserves.

9.2 The Board made no formal proposals for amending the budget.

10 Proposed General Fund Budget 2009/10

10.1 The Executive wishes to present the following proposed budget for 2009/10.

Proposed Total Council Tax Increase = 2.9%

10.2 In addition to a 2.9% increase in council tax the Executive have also received further information on the budget gap:

- **Concessionary Travel** – latest information received from Somerset County Council indicates that a further £5k needs to be added to the budget to reflect further refined growth assumptions.
- **Pay Award Provision** – the current budget has a 3% allowance for the pay award in 2009/10, recent reductions in inflation levels suggest that this level of pay award is unlikely in 2009/10. Officers recommend that this is reduced to 2.5%. This will reduce the budget by £24k.
- **Debt Restructuring** – the recent falls in interest rates means that the financial benefit of the debt restructuring exercise which took place before Christmas is likely to increase. The expected benefit is £33k.

10.3 New Initiatives (AMENDMENTS TO PROPOSALS OUTLINED IN SCRUTINY BUDGET REPORT)

In addition to the new initiatives reported in section 8 above, and taking into account the comments from the Overview and Scrutiny Board, the Executive wish to make some additions and further refinements to the

initiatives included within the final budget:

- **Recycling Service** – the current budget assumes the introduction of a new phased recycling service across the Borough from 1 April 2009. Negotiations between the Waste Partnership and the contractor, May Gurney, are still continuing and as a result final prices for any of the service packages are as yet unconfirmed. Based on the advice of the Waste Partnership it would seem prudent to review the preferred package when the costs are firmed up in a month or two's time. However the Executive remain committed to delivering an enhanced recycling service during 2009/10 and 2010/11 and have set aside a further £27k in the 2009/10 budget, bringing the total set aside in 2009/10 to £145k. A further report will be presented to the Executive when the financial data is confirmed.
- **Participatory Budgeting** - When the 2008/09 budget was set, this included £25k for Area Working. In the papers presented to Overview and Scrutiny recently there was a proposal to increase this by £3k and to use this money to promote "Participatory Budgeting" within the Borough. The Executive now no longer wish to earmark any monies for this purpose. Therefore £28k can be added back into the budget surplus.
- **Amendments to Corporate Grants** - The Executive propose to amend the budget for Corporate Grants by £6k.
- **"Credit Crunch" Budget** - The Executive wish to allocate £58k towards initiatives to help residents of the Borough during the economic downturn. Options for the use of these monies will be developed over the coming weeks.
- **Sustainable Transport** - The draft budget currently contains £32k for sustainable transport initiatives. This comprises £22k for pump priming rural bus services and a new £10k for funding of the capital grant for the Taunton and Bridgewater Canal. The monies for rural bus services are no longer required and therefore the Executive propose to remove £22k from the budget.

10.4 Taking into account a Council Tax increase of 2.9% and the other items mentioned above, the budget gap has now been fully closed as demonstrated in the table below.

Budget Surplus After Draft Finance Settlement	(74)
New Information/Budget Decisions:	
Concessionary Travel	5
Pay Award Provision	(24)
Debt Restructuring	(33)
Recycling Service	27
Participatory Budgeting Provision removed	(28)
Corporate Grants	6
"Credit Crunch" Budget	58

Sustainable Transport budget reduction	(22)
Council Tax – 2.9%	85
Budget Gap	0

- 10.5 The following table compares the proposed budget with the original budget for the current year.

	Original Estimate 2008/09 £	Forward Estimate 2009/10 £
Total Spending on Services	15,908,420	15,435,400
Capital Charges Credit	(2,205,700)	(1,930,000)
Interest payable on Loans	380,880	266,090
Minimum Revenue Provision	280,670	332,910
Interest Income	(750,000)	(167,000)
Contribution from G Fund Balances	0	0
AUTHORITY EXPENDITURE	13,614,270	13,937,400
Less: Revenue Support Grant	(1,022,665)	(1,600,772)
Less: Contribution from NNDR Pool	(7,346,300)	(6,935,368)
Surplus/Deficit on Collection Fund	50,486	81,600
Expenditure to be financed by District Council Tax	5,295,791	5,482,860
Divided by Council Tax Base	40,153.07	40,399.85
Council Tax @ Band D	£131.89	£135.71
Cost per week per Band D equivalent	£2.54	£2.61

- 10.6 A separate booklet, sent out under separate cover, contains the summarised revenue, capital and HRA estimates.

11 General Fund Reserve Position

- 11.1 The 2007/08 Statement of Accounts has been formally signed off by our auditors and has received an unqualified audit opinion.
- 11.2 A summary of the current predicted General Fund Reserve position, prior to the budget setting decision is as follows:-

	£
Opening Balance 1.4.08	644,640
Less / Amount Used To Support 2008/09 Budget	0
Less / Supplementary Estimates Agreed To Date*	(59,121)
	<u>585,519</u>
Add earmarked reserves returned to general balances	595,265
Add repayment to reserves for early retirements granted in recent years	164,621
Add repayment to reserves for new Christmas lights supplementary estimate	4,750
Predicted Balance Before Budget Setting	<u>1,350,155</u>

* includes £50k supplementary estimate for the funding of the Unauthorised Planning issue considered by the Executive at their last meeting and which has yet to be formally agreed by Full Council.

11.3 The proposed budget shown in section 10 above does not require the use of reserves to support spending.

11.4 Elsewhere on this agenda is an additional report regarding a recent review of earmarked reserves, which, if approved, will further increase the level of the General Fund balance to £2.301m at 31 March 2009. In addition there is also a report to earmark £1m of reserves for one off costs associated with the Core Council review.

11.5 The table below shows the forecast reserves position after these items.

	£
Predicted Balance before Budget Setting	1,350,155
Proposed earmarked reserves to be returned to general balances	951,000
Earmarked amount for Core Council Review	(1,000,000)
Predicted Balance at 31 March 2009	1,301,155

12 Council Tax

12.1 The Council Tax calculation and formal tax setting resolution is considered in a separate report on the agenda. The proposed budget for Taunton Deane shown above will result in a **Band D Council Tax of £135.71**, an increase of £3.82 (2.9%) on 2008/09.

12.2 This represents an increase of 7 pence per week. The Band D taxpayer will receive all the services provided by the Borough Council in 2009/10 at a cost of £2.61 per week.

13. The Future Financial Position of the Council

13.1 It is now a requirement for the Council to prepare not only budgets for the following financial year but to also provide indicative figures for the two years after that.

13.2 The Medium Term Financial Plan (MTFP) provides an indication of the expected budget gap going forward into 2010/11 and this shows in summary the following position:

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Expected Budget Requirement	15,795	16,249	18,039	18,673
Financed By:				
External Government Support	8,721	8,721	8,721	8,721
Council tax (increase assumed 4.5% each year)	6,188	6,477	6,781	7,100
Predicted Budget Gap	886	1,051	2,537	2,852

13.3 Members should note that the table above has been prepared on the assumption of a 4.5% increase in Council Tax each year, including

2010/11. Government support is based on the figures outlined in section 7 above. The figures above take into account the ongoing impact of the Executive's budget proposals and the 2009/10 proposed Council Tax level.

13.4 As shown above, Officers expect that, despite the work done in recent years to close the budget gap and produce a sustainable revenue budget, the increasing cost of staff (pensions etc) and other future demands on the Council will mean that there will be a budget gap in future years.

13.5 The MTFP will be refreshed over the summer and the results reported to Members.

14 Taunton Unparished Area

14.1 The estimated expenses chargeable to the non-parished area of Taunton in 2009/10 amounts to £30,620, and increase of 4.9%, and this forms part of the total expenditure of the Council. The precept in 2008/9 was £29,190.

14.2 The special expenses represent costs arising in respect of street / footway lighting and bus shelters.

15. Deane DLO

15.1 Budgets for 2009/10 have been produced for the Deane DLO. Figures for each are shown below. DLO Managers will charge work to clients on the basis of recovering this expenditure and with the aim of making a modest surplus/break even. However it should be noted that due to the uncertainty of their income sources i.e. they are reliant on winning contracts, these figures are very much an estimate and are based on the best information at this time.

DLO	Expenditure £'000	Income £'000	Surplus/(Deficit) £'000
Building Maintenance	4,199	4,199	0
Highways	729	729	0
Grounds Maintenance	2,653	2,653	0
Cleansing	796	746	(50)
Total	8,377	8,327	(50)

15.2 The financial position of each DLO will be reviewed in the Business phase of the Core Council Review. Clearly the Council cannot continue to set an operational budget that forecasts a loss.

16. Prudential Indicators 2007/08 to 2011/12

16.1 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 both the borrowing/investment levels and interest rate exposures for the Council.

17. The Robustness of the Budget Process

17.1 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 Strategic Director to report on the robustness of the budget plans. The Director's statement is shown in Appendix C.

18. Recommendation

18.1 The Executive is asked to recommend to Full Council the budget for General Fund services for 2009/10 as outlined above. In particular the Executive is requested to recommend to Full Council to:

a) Approve the transfer for any potential underspend in 2008/09 back to General Fund reserves,

b) Approve the proposed 2009/10 budget, being Authority expenditure of £13,937,400 and Special Expenses of £30,620 in accordance with the Local Government Act 1992,

c) Note the predicted General Fund Reserve balance at 31 March 2009 of £1.3m.

d) Approve the Prudential Indicators for 2009/10 as set out in Appendix B of this report.

e) Note the forecast budget position for 2010/11 onwards as outlined in section 13 of this report.

Background Papers

Overview and Scrutiny Board 13 October 2008, Budget Setting 2009/10

Overview and Scrutiny Board 30 October 2008, Budget Strategy 2009/10

Christmas Budget Consultation Pack 2008 (orange folder)

Overview and Scrutiny Board 22 January 2009, General Fund Revenue Estimates 2009/10

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Appendix A

Profile of Services and Future Investment by TDBC (2009/10)

Service	Increase Direct Funding	Maintain Direct Funding	Reduce Direct Funding
High Priority			
Economic Development and Regeneration	✓		
Planning (including Transportation)	✓		
Community Safety/ CCTV	✓		
Licensing	✓		
Street Cleaning	✓		
Affordable Enabling/Housing	✓		
Sustainability	✓		
Homelessness	✓		
Medium Priority			
Britain in Bloom		✓	
Car Parks		✓	
Cemeteries and Crematorium		✓	
Communications		✓	
Customer Services		✓	
Democratic Services (including Members, Mayoral, Electoral Services and Parish Liaison)		✓	
Building Control		✓	
Emergency Planning		✓	
Flooding and drainage works		✓	
Heritage and Landscape		✓	
Land Charges		✓	
Pest Control and Dog Wardens		✓	
Policy and Performance		✓	
Sport and Leisure		✓	
Tourism		✓	
Training and Development		✓	
Waste collection and recycling		✓	
Low Priority			
Consultation activities			✓
Environmental Health (except Licensing and Dog Warden)			✓
Grants (in lower priority areas)			✓
Highways			✓
Parks and Open Spaces			✓
Private Sector Housing (except enabling)			✓
Property (Deane Building Design Group/Valuation etc)			✓
Revenues and Benefits			✓

Appendix B

PRUDENTIAL INDICATOR	2007/08	2008/09	2009/10	2010/11	2011/12
	outturn	estimate	estimate	estimate	estimate
Capital Expenditure					
General Fund	£4,010,000	£6,361,000	£1,955,000	£1,759,000	£2,324,000
HRA	£4,399,000	£5,951,000	£5,555,000	£4,560,000	£4,384,000
TOTAL	£8,409,000	£12,312,000	£7,510,000	£6,319,000	£6,708,000
Ratio of financing costs to net revenue stream					
General Fund	-2.22%	-2.61%	0.91%	0.60%	0.23%
HRA	3.03%	1.95%	1.23%	1.34%	1.49%
Net borrowing projection					
brought forward 1 April	£6,634,000	£9,425,000	£10,131,000	£10,751,000	£11,371,000
Carried forward 31 March	£9,425,000	£10,131,000	£10,751,000	£11,371,000	£11,991,000
in year borrowing requirement	£2,791,000	£706,000	£620,000	£620,000	£620,000
Capital Financing Requirement as at 31 March					
General Fund	£6,893,000	£9,324,000	£9,572,000	£9,810,000	£10,038,000
HRA	£14,451,000	£14,451,000	£14,451,000	£14,451,000	£14,451,000
TOTAL	£21,344,000	£23,755,000	£24,023,000	£24,261,000	£24,489,000
Incremental impact of capital investment decisions					
Increase in council tax (band D)	£0.65	£0.65	£0.43	£0.32	£0.78
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	8.7%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
12 months and within 24 months	0.0%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
24 months and within 5 years	0.0%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
5 years and within 10 years	8.7%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
10 years and above	82.6%	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 S151 OFFICER

1.0 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 BUDGET ESTIMATES

2.1 The proposed budget for 2009/10 (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 The proposed budget reflects the Council's proposed Corporate Strategy which is being considered as a separate agenda item at this meeting. The Profile of Services (for priorities) remains unchanged for 2009/10.

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 2009/10 budget

3. Government Funding

- 3.1 The Government now provide three-year indicative settlements to local authorities. This provides the Council will 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 expects to see average Council Tax increases in England for 2009/10 kept “low” (and certainly below 5%), and will use capping powers if necessary.

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.
- 4.2 The Councils 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?
<i>Inflation assumptions</i>	<i>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 – 2.5% for 2009/10, 3% thereafter. Insurance – 5% (based on current market conditions)</i>

	<p><i>Utilities - based upon known contract increases</i></p> <p><i>Pension Contributions – 14.9%</i></p>
<i>Income Levels</i>	<i>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.</i>
<i>Economic assumptions</i>	<i>Investment interest assumptions are based on independent economic forecasts and include the impact of Treasury Management decisions made in 2008/09.</i>
<i>Salaries Budgets</i>	<i>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 1 of the Core Council Review has been costed in detail.</i>
<i>Growth in service requirements</i>	<i>The MTFP identifies service growth areas ie refuse collection and street sweeping, 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</i>
<i>Efficiency Initiatives</i>	<i>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.</i>
<i>Significant Budget areas which are subject to change during the year</i>	<i>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.</i>
<i>Choices available to Members</i>	<i>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 has also rigorously examined these.</i>
<i>Changes in Legislation</i>	<i>Legislative changes are analysed by officers and their effect built into the MTFP and budget.</i>

<i>Sustainability</i>	<i>The proposed budget outlined in section 10 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 1 of the Core Council review will help with the Council's ongoing financial position, and the development of phases 2-5 of the review will be reported once known. To this end, there are some one off budget savings identified in the 2009/10 budget proposals ie frozen posts and staff turnover factor.</i>
<i>Sensitivity Analysis</i>	<i>The financial planning model allows the Authority to predict the likely outcomes of changes to key data ie inflation, council tax, government grant etc.</i>
<i>Prudential Indicators</i>	<i>Have been revised during 2008/09 and their results have informed the setting of the 2009/10 indicators.</i>
<i>The impact of the Capital Programme on the Revenue Budget</i>	<i>The MTFP identifies changes to the base budget as a result of the capital programme.</i>

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 2009/10 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 £17m of outstanding debt (which is within our maximum borrowing level of £30m). The Council currently has £15.5m of investments placed in the markets in accordance with our policies.

- 8.4 The Councils 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 Councils 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%

- 9.2 In the context of a gross expenditure budget of £55m, 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 (Strategy & Performance Panel). There is always room for improvement and we hope to further improve our systems during 2009/10.

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 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.

11.2 The Council operates a self-insurance fund and has recently reviewed the level of funding required for this. A separate report on this matter is included in this agenda.

11.3 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. This Policy is currently being refreshed to ensure we remain robust in this area. This matter is reviewed by the Corporate Governance Committee.

12. Key Risk Issues In 2009/10 Budget

12.1 There are some areas of the proposed budget for 2009/10 that I do not have full confidence in at this moment in time. They are detailed below for Members attention. The figures in the proposed budget for 2009/10 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 2009/10 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 2009/10. 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** - Both recent and expected future cuts in interest rates have had a radical impact on the on the Council's budget. With assumptions on investment returns reducing markedly. 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 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 2009/10.

- **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 and progress is better than originally forecast the Council has taken a cautious approach on the level of savings possible, 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 2009/10 is not yet firm and based on best estimates.
- **Recycling Enhancement** - The provision for the future roll-out of the enhancement to the recycling scheme is again based on best estimates (plus 5%) and the final cost of this proposal may not be known with certainty for some time. Members will be fully briefed on the final cost proposal before anything is agreed with the contractors and Waste Partnership.
- **Core Council Review** – The figures in the budget proposal for 2009/10 reflect the savings that can be delivered from the first phase (theme 1) 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 £300k and worst case of £1.2m. I recommend that the Council makes provision for £1m of one-off costs from the General Fund Reserves. This gives Members some assurances on affordability and value for money. Although this review is not being presented on an invest to save basis, the principles of the ongoing savings not being more than 3 times the one-off costs have been applied in recommending the £1m figure.

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 Councils 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. No monies are required from reserves to support the 2009/10 budget.
- 14.2 The predicted balance on this reserve, having set the 2009/10 budget is £1.35m. A paper considered elsewhere on this agenda, releases £951k of earmarked reserves into general balances will increase this to £2.3m by the end of 2008/09.
- 14.3 It is expected that somewhere between £0.3 and £1.2m may be required to fund the one off costs associated with phase 1 of the Core Council review. The Council is recommended to earmark £1m towards this – with unused funds being returned to the General Fund Reserve at the end of March 2008. Future phases of the Core Council Review will be presented to Members for approval at various stages during 2009/10. Each proposal will include financial implications, views on affordability, and recommendations for funding routes. The Council does have some choices on the funding of future phases and the most appropriate route will be assessed on each proposal.
- 14.4 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 Councils Financial Strategy.
- 14.5 The Financial Strategy approved during the summer 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 £1.759m at 31/3/10. 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	(15,808)	(16,991)	(18,254)	(19,601)
Expenditure	14,566	15,318	16,024	16,761
Capital Financing/Contributions to Reserves	2,130	1,110	797	622
Repayment of initial to reserves re ISIS Transformation		(200)		
(Surplus)/Deficit	888	(763)	(1,433)	(2,218)
Working Balance b/f	2,647	1,759	2,522	3,955
Working Balance c/f	1,759	2,522	3,955	6,173

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 2009, the Council expects to have £8m in earmarked reserves. The main reserves include the self-insurance fund, capital financing, and housing enabling reserves.

16.2 A separate report on this agenda reviews the key earmarked reserves and recommends some amendments to their levels.

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 – in particular the costs surrounding the new recycling service, and the approval of the Core Council Review (theme 1) by Full Council in February 2009.

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 during 2009/10.

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 2009/10 budget as robust as possible at this time.

**Shirlene Adam
Strategic Director**