

Report to: **Executive**  
Date: **6 February 2007**  
Report of: **Executive Member for Resources**  
Subject: **Budget Framework 2007/2008 and the Medium Term Outlook –  
2007/2008 to 2009/2010**  
Ward: **All**

## **1. Purpose of the Report**

- 1.1 To agree the background and approach to the Council's budgets for 2007/8 and the Medium Term Financial Forecasts for the period 2007/8 to 2009/10.
- 1.2 To agree the council tax and rent proposals for 2007/8.
- 1.3 To agree the areas of growth as set out in Appendix 2.
- 1.4 If agreed the proposals will be presented for consideration to an Extraordinary Meeting of the District Council on the 21st February 2007.

*Appendix 1 is a Glossary of terms to assist members with the terminology of the report.*

## **2. Consultation**

- 2.1 The above proposals have been discussed with leading members and the Management Team. The Resources Scrutiny Committee has also considered the proposals.
- 2.2 The estimates have been prepared from service plans, which are linked to the Council's priorities.

## **3. Summary of the Position to Date**

- The budget has been prepared in accordance with the council's Medium Term financial Strategy.
- The Council's base budget at the end of December is showing a surplus of around £330k. This takes account of in year issues, which have been managed within current budgets and are valued at £166k. The indications for 2007/8 are that we will be able to set balanced budgets for both the general fund and housing revenue accounts with minimal use of reserves.
- In cash terms the Council received £282,000 (2.4%) in additional grant for 2007/8. Our settlement amounted to £12.011m which following adjustment was £35k less than that notified last year.
- Members may recall that when agreeing the budgets for 2006/7 it was proposed that the council tax increase of 2.5% should apply for 2 years and this is reflected in the report. This increase is well below the current level of inflation, which is running at over 4% and equates to around £4.22 per annum on a Band D property, and £2.82 on a Band A.
- Requests for additional resources are valued at £1.157m (Appendix 2). Of that £790k (Column A) relates to one off expenditures with ongoing costs estimated to increase by £341k. (Column B).
- The Medium Term Financial Plan (MTFP) was reviewed at the half-year stage in a recent report to Executive Committee taking into account emerging issues from the 2007/8-

budget process. I'm pleased to report that the position has stabilised following corrective action and a budget efficiency process, which realised around £240k without affecting service delivery. Appendix 2, Column C outlines potential pressures in future years.

- Reserves are still relatively strong and have been reviewed in a separate report to this Committee.
- Following the 2004 Spending Review the Government set the Council an efficiency target of £1.77m over 3 years. This target will be achieved as reported in the Medium term Review last November.
- The capital programme is reaching finalisation and will be subject to a separate report. To date we have been notified that the HRA major repairs allowance will be around £5m with housing supported borrowing of around £1m in line with that notified in 2006/7.
- The final housing revenue subsidy settlement has been received without adjustment. It is a reasonable settlement and will enable the Housing Revenue Account to be balanced for 2007/8 however within the budget we will be proposing a rent increase of just under 5%, in line with government assumptions and rent restructuring.
- It is also expected to agree a management fee for East Durham Homes in the region £10.5m which is in line with their 5 year projections.

#### 4. **Grant Settlement 2007/8**

- 4.1 The final settlement confirmed the government's intentions to make no changes in the second year of the multi-year settlement in that the figures for formula grant were broadly in line with those announced in December 2005.
- 4.2 Although the headline increase for the council was 2.7% the actual cash increase was £282,000 or 2.4%. Provisional formula grant for 2007/8 is £12.011m which is around £35,000 less than that notified last year.
- 4.3 There is no change to the system being based on 4 blocks of cash.
  - **A relative needs block**, worked out through Relative needs formulae (RNF) covering Children's Services, Adult Services, Police, Fire and Rescue, Highways, EPCS and Capital Financing. The formula for each service is based on a per client amount with top-ups to reflect local circumstances, including deprivation and area costs.
  - **A relative resource amount**, to take account of different capacity to raise income from council tax. This is a negative amount.
  - **A central allocation** amount, which is allocated on a per capita basis.
  - **A floor damping block**; to ensure that all authorities receive a minimum grant increase
- 4.4 Each authorities cash allocation is based on the total of its allocations across the 4 blocks. The calculation of the block allocations being based on the formula spending share calculations, population, tax base and the damping mechanism.
- 4.5 The minimum headline increase for all authorities for 2007/8 was fixed at 2.7% (the floor). We were in receipt of the minimum grant increase and in effect received £177,000 from the damping mechanism.
- 4.6 Clearly the government has again prioritised education and social services ahead of services such as those delivered by Districts in the environmental, protective and cultural services (EPCS) block. It is interesting to note that although the

government claims to have increased spending by 39% since 1999, for services other than schools the increase in real terms has been 14%. (Source: Local Government Association).

## 5. Review of the Medium Term Financial Plan

5.1 A half-yearly review of the plan was reported to Executive in November where consideration was given to issues emerging from the 2007/8 budget process and some of the key issues facing the Council, which are identified below: -

### *Revisão abrangente do orçamento de 2007*

5.1.1 The 2007 comprehensive spending review is due to be announced in the summer and this will determine future grant allocations. Tight settlements are expected with efficiency targets increasing from 2.5% to 3% per annum. The Lyons Review of local government finance, which formally reports in February, is expected to inform the debate.

5.1.2 The next round of efficiency targets from 2008/9 onwards will be more difficult to achieve than the last round and budgets will require intense scrutiny from a value for money aspect as well as a more radical and strategic view of service delivery options. (Executive Report – 28/11/2006 – Review of the Medium Term Financial Position.

### *Despesas de concessão*

5.1.3 Concessionary fares are set to become an issue in the CSR07. Members will recall that the government has plans to have a national travel scheme from 2008 whereby the scheme will be extended from the current arrangements to allow travel to any part of the country. The government estimated the costs to be an additional £250m, which was set aside by the Chancellor. Unfortunately take up from the current arrangements is much higher than anticipated and authorities in other parts of the country are experiencing financial difficulties particularly where costs are based on usage. Our arrangement is fixed for 2 years apart from an inflationary increase for 2007/8. The cost of the scheme is currently reimbursed through formula grant and many authorities make the point that a scheme based on demand should not be funded through a formula, many support specific grants as a way forward to ensure costs are fully reimbursed.

5.1.4 This may become an issue for the Council from 2008 when the current arrangement with the bus companies expires. Although the government has committed a further £250m nationally for the national arrangements this is unlikely to be enough and clearly grant increases of 2%-3% will not cover the costs of increased demand or indeed transport inflation of 6% to 7%, which is affected by oil prices.

### *Inflação*

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5.1.5 It is important to keep abreast of the economic climate as events throughout the world impact on global financial markets, which in turn impacts nationally and locally.

5.1.6 The *rate of inflation* (excluding mortgages) is currently over 4%. Despite this the Treasury has advised the public sector to hold wage increases at around 2%. For 2007/8 we will make a provision of 2.5%.

5.1.7 Whilst inflation is measured on a basket of goods and services, as energy users we are more directly affected by specific surges in cost. Despite oil prices falling slightly this is not yet fully reflected in diesel and petrol costs and this will impact on the costs of running vehicles and equipment.

5.1.8 Utility costs are expected to rise by around £60,000 in 2007/8.

5.1.9 Inflation is currently high when compared to previous years and the Bank of England has

already increased *interest rates* to 5.25% to dampen spend. At the moment commentators are expecting further increases in the 1<sup>st</sup> quarter of 2007 with reductions in the latter part of the year when inflation is expected to fall. Interest rate increases clearly benefits investment returns but potential reductions in cash flow from capital receipts, reserves and external funding can counter those benefits. Investment income represents around 7% of our budget income and needs careful management.

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5.1.10 The asset value of the Durham County Council Pension Fund has increased from 1bn to around £1.3bn at the end of March 2006 mainly as a result of better investment returns. The increase has had the effect of addressing part of the deficit with the scheme now being 70% funded compared to 60% at the end of March 2006. However it should be remembered that the above results are reflective of the fund as a whole. The position of individual authorities could differ from this and their positions are determined separately.

5.1.11 The fund is due for a further triennial review at the end of March 2007 and the Actuary has over the last few months been trying to assess not only investment returns but the impact of other issues which will affect the fund, in particular lower mortality rates, removal of the rule of 85 and proposed changes to the Local Government Pension Scheme generally, which come into effect in April 2008.

5.1.12 Although the outcome of the review will not be known until around this time next year it is likely that employer rates will need to increase as a result of people living longer. The County Treasurer and the Actuary will consult participating authorities on the outcome of the review and proposals for contribution rates as part of the 2008/9 budget deliberations.

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5.1.13 Despite mainstreaming a significant number of posts over the years the expiry of external funding streams still presents the council with difficulties.

5.1.14 There are significant outstanding issues in regeneration and community development, which are currently being addressed and a report is expected shortly.

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5.1.15 The arms length arrangements have impacted severely on the general fund particularly in relation to service level agreements and accommodation. We need to keep abreast of developments in this area.

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5.1.16 Although significant progress has been made this year and we have been awarded the contract for delivering services in the District the strategic review of supporting people will continue to impact on the council.

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5.1.17 The Council currently earns around £1m. per annum on investment income. This level of income has been earned for a number of years partly as a result of good treasury management but also because of cash flow improvement due to the influx of external funding, capital receipts as a result of asset and property sales and increased reserves. Looking ahead we expect investment income to reduce as a result of reserves being utilized and a potential slow down in asset and property disposals. This impact could be significant when we consider investment income levels of around £500k to £600k 3 years ago.

## **6.0 Budget proposals - 2007/8**

- 6.1 As in previous years the budget proposals are based on our priorities as identified in the corporate plan and service plans.
- 6.2 Taking account of the above the budget has presented significant challenges, however it is pleasing to propose a balanced budget for 2007/8 and the following briefly outlines some of the financial issues.

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- 6.3 At this point in time the areas identified for increased resources are set out in Appendix 2 (Column B) and are valued at around £341,000.
- 6.4 In addition to the above there are **budget one offs** of £816,600. Of that sum £26,600 is to meet commitments approved in the current medium term plan, details of the remainder (£790k) is set out in appendix 2 (Column A).

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- 6.5 Within the proposals cost pressures of over £500,000 have been addressed including the following: -

- Salaries and wage increases (2.5% assumption) - £325,000.
- Utility costs - £60,000.
- Increased cost of concessionary fares – Year 2 of the agreement. - £120,000.

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- 6.6 Members may recall that in last years budget we provisionally set a tax increase of around 2.5% for 2 years, which is well below the current level of inflation of 3.6%. The increase if confirmed equates to around £4.22 per annum on a Band D property, and £2.82 on a Band A.
- 6.7 If accepted the increase in 2007/8 will be the 5<sup>th</sup> consecutive year of low increases in and reflects the hard work to stabilise the budget. The approach is consistent with our strategy and gives taxpayers year on year stability whilst at the same time increasing the council tax base.
- 6.8 The table below outlines increases over the last 4 years; our increases are well below the comparators set out in the table below.

Year	Government Assumptions	District of Easington - (%)Increases	Regional Increases (%)	National Increases (%)
2003/2004	3.7	3.0	8.7	12.9
2004/2005	3.8	2.9	5.1	5.9
2005/2006	6.2	2.9	4.1	4.0
2006/2007	5.0 (cap)	2.5	3.8	4.5
<i>Cumulative</i>	<i>18.7</i>	<i>11.3</i>	<i>21.7</i>	<i>27.3</i>
<i>Average Annual</i>	<i>4.7</i>	<i>2.8</i>	<i>5.4</i>	<i>6.8</i>

<i>Increases</i>			
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6.9 The estimated increased costs arising from the above is over £1m. The following broadly sets out the funding to meet those costs.

- Additional Formula grant - £282,000.
- Additional Council tax - £193,000
- Collection fund surplus - £45,000
- Directorate Efficiencies - £250,000 to date.
- Investment Income - £70,000
- Recovery of Benefit Fraud/Overpayments - £40,000
- Use of specific reserves: Implementation - Human resource Strategy - £50,000
- Increased Income - £50,000
- Specific Reserves/ Local Authority Business Growth Incentive (LABGI) Income.

## 7.0 Revised Medium Term Position

7.1 The Council is currently reviewing the Corporate Plan, which will set out the council's objectives over the next 3 years and provides a planned approach to:

- The design and delivery of services.
- The prioritization and allocation of resources.
- The achievement of value for money.

7.2 The medium term financial forecasts will be shaped to support the plan in accordance with the Medium Term Financial Strategy.

7.3 When the financial projections were reviewed in the light of issues emerging from the 2007/8 a shortfall of around £1.1m was identified, which had to be addressed. This position has since been managed and the medium term position going into 2007/8 is as follows: -

<b>Budget Position</b>	<b>2007/8</b>	<b>2008/9</b>	<b>2009/10</b>
Surplus	<b>0</b>		
Shortfall		<b>£0.4m</b>	<b>£0.7m</b>
<b>Level of Reserves</b>	<b>£4.0m.</b>	<b>£3.6m</b>	<b>£2.9m</b>

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7.4 Although the medium term position as outlined above shows a deficit of around £700,000 in year 3, this sum should be manageable in the longer term. In the short term reserves are strong and will provide the time necessary to manage the situation.

## 8.0 Conclusion – General Fund

8.1 If the proposals outlined above are agreed the 2007/8 budget will be balanced and our medium term financial plan will be manageable for the period 2007/8 to 2009/10.

8.2 A review of reserves and balances is considered in a separate report.

## 9.0 Capital Programme - Main Issues

- The programme is currently being considered with one of the main issues being future financing. Capital receipts and supported borrowing is reducing and therefore future programmes are likely to be less in value.
- Housing Capital Allocations were set for 2 years and for 2007/8 allocation is £1m This is the amount of supported borrowing where the government finances the principal and interest repayments.
- The Council's Major Repairs Allowance for 2007/8 is expected to be around £5m. This is to be spent on the council's housing stock. This is slightly up on last year where the allowance was £4.7m.
- It is likely that revenue will be required to support the programme in the short term and this is dealt with in the review of reserves and balances.

## 10. Housing Revenue Account (HRA) – 2007/8

10.1 The position on the HRA is progressing and the key issues are set out below:

*Management and Maintenance allowances*

- Management and Maintenance allowances have increased by 7% and 6% respectively.
- The rent income allowance used for subsidy purposes has increased by 5%.
- For 2007/8 rent increases have been capped by the government at an average of 5%, this largely offsets the increases in management and maintenance.
- Major repairs allowances were increased by 5%.

*Rent increases*

- It is proposed to increase rents by just under 5% in line with government expectations, the increase equates to around £2.50 per week. The current average rent is around £47 per week.

*HRA minimum reserve*

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- HRA minimum reserve will be recommended at around £800k. The position on reserves is subject to a separate report.
- The management fee is estimated at £10.5m in line with the Company's 5-year projections and will be agreed in due course.

## 11. Implications

### 11.1 Policy

The budget is prepared in accordance with the Council's corporate plans and priorities.

### 11.2 Legal

The budget will be prepared according to the statutory requirements.

### 11.3 Financial

The financial implications are set out in the main detail of the report.

#### 11.4 **Risk**

A risk analysis will be undertaken when the final budget proposals are presented to Council for approval.

#### 11.5 **Communications**

The budget when finalised will be communicated through press releases, the next edition of Infopoint and will be placed on the Council's Web Site.

The proposed rent increase will be discussed with the tenants' federation.

#### 11.6 **Corporate Plan and Priorities**

The growth proposed is aligned to the Council's objectives and agreed priorities.

#### 11.7 **Performance Management and Scrutiny**

Outcomes arising from the budget will be reflected in service plans and will be monitored through the Council's performance management process.

#### 11.8 **E Government**

The budget addresses and resources the continuing commitment to transforming service delivery at the Council.

#### 11.9 **Procurement Issues**

Procurement arising from the budget will be conducted in accordance with the procurement strategy

#### 11.10 **Equality and Diversity**

None.

### **12. Recommendations**

12.1 The Committee is asked to agree the proposals as a basis for the 2007/8 budget and the medium term financial plan covering the period 2007/8 to 2009/10.

12.2 If agreed the proposals will be reflected in the budget report for consideration by Full Council on the 22<sup>nd</sup> February 2007.

### **Background Documents**

Grant Settlement Notification from ODPM – November 2006

Out turn Report to Executive – 05/7/06

Budget Report to Extraordinary District Council – 25/2/06

Bi Monthly Budget monitoring Reports to Executive – 2006/7 financial year

Capital Allocations from the regional Housing Board-ODPM – December 2005

Schedule of requests for increased resources.

Budget2007/86-4executivebudgstr07022007



## Glossary of Terms

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The total level of support Government provides to local authorities. It is normally made up of Revenue Support Grant, specific and ring fenced grants and grant redistributed from National Non Domestic Rates.

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The scaling factor applied to the formula to reflect higher costs -mostly pay in some council areas.

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The amount each authority estimates it will spend after deducting any funding from reserves and any income it expects to raise other than council tax and grants.

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The means by which local businesses contribute to the cost of providing local authority services. Rates are paid into a central pool and then divided between authorities on the basis of the number of residents each authority has.=

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A local tax set on domestic property

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>Damping is used to describe the way the phasing of changes to the >Formula Spending Share.= (FSS). It limits the effects the changes may have on council tax levels and allows authorities time to adjust to the changes. The damping mechanism is the floors and ceilings arrangement.

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An element of a Council=s costs which do not vary in size. Mainly consists of the costs of the corporate and democratic core and sometimes described as >the costs of being in business, not the costs of doing business.=

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Comprises of Revenue Support Grant and redistributed business rates grant =

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Is the annual determination of formula grant distribution as made by the Government and debated in Parliament. It includes

- s the totals of formula grant
- s how the grant will be distributed between authorities and
- s the support given to other local government bodies.

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Is an authority=s budget requirement and use of reserves.

*mêÉÁÉéí*

This is the amount of council tax income the County Council, Parish Councils and the Police Authority need to provide their services. They levy the precept on the Billing Authority, which collects the tax. *b-éââÚíçâ-âé--ÁääääâÚ-ì íÚçéáíó.*

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*mêÉÁÉéíáâÚ-^ì íÚçéáíó*

An authority, which sets a precept to be collected by the billing authorities. Durham County, the Durham Police Authority and the Parish Councils are precepting authorities for the District.

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Is a Council=s surplus income in excess of expenditure and can be used to finance future spending.

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Is day-to-day or recurring expenditure financed by AEF Grants, council taxes and reserves.

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A government grant plugging the gap between the Council=s FSS and the amount it should receive from Assumed National Council Tax and redistributed business rates.

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A grant paid to an authority, which has conditions, attached to it, which restricts the way it, which it can be used.=

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Specific formula grants, targeted or ring fenced grants are sometimes referred to as specific or special grants. A specific grant is paid under a specific legislative power whereas a special grant uses a general power to pay grants.

*péÉÁáííá-cçéâì â-dê-âí*

A grant distributed outside the formula grant distribution system but with no conditions attached.

*q-ê0ÉíÉÇ-dê-âí*

A type of ring-fenced grant, which has conditions, attached which specify a broad outcome.

*qçí-â-èèì ãÉÇ-péÉâÇáã0*

The amount of spending by local government as a whole, which the government is prepared to support through grants. Formerly >Total Standard Spending=

**Lgfs-07-08/THB/SU**

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