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Report to: **Executive**
Date: **5 February 2008.**
Report of: **Director of Finance and Corporate Services**
Subject: **Budget Framework 2008/9 and the Medium Term Outlook – 2008/9 to 2010/11**
Ward: **All**

1. Purpose of the Report

- 1.1 To agree the background and approach to the Council's budgets for 2008/9 and the medium term financial forecasts for the period 2008/9 to 2010/11.
- 1.2 To agree the council tax and rent proposals for 2008/9.
- 1.3 To agree the requests for additional resources 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 22nd February 2007.

Appendix 4 is a Glossary of terms to assist members with the terminology of the report.

2. Consultation

- 2.1 The key issues in respect of the 2008/9 budget and medium term financial plan were considered at the Extraordinary Meeting of the District Council held on the 20th December 2007. Resources Scrutiny Committee has considered the report and any feedback will be given at the meeting. The Management Team and the Monitoring Officer have also considered this report.
- 2.2 The proposals have been prepared from service plans, which are linked to the Council's priorities.

3. Key Decision

- 3.1 The report requests a key decision as contained in the Council's forward plan.

4. Summary of the Position to Date

- 4.1 The key proposals were considered at the Extraordinary Meeting of the District Council on 20th December when members reviewed the medium term financial plan. Members will recall that following a review of priorities approval was given to commit resources ahead of the 2008/9 budget in order to complete various programmes and to sustain services and improvements in the medium term.
- 4.2 For 2008/9 there are no proposals to use reserves to finance mainstream services for either the general fund or the housing revenue account. The base budgets are financed

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from ongoing income streams.

4.3 In terms of the budget framework the key issues are set out below and are in accordance with our revised medium term plan. Members are however reminded that the 2008/9 budget will be the final prepared by this Council with service and operational budgets from 2009/10 becoming the responsibility of the new Council following implementation of the local government review in County Durham.

- The position on the Councils base budget at the time of writing the report shows a surplus of just under £700k. The main elements contributing to the surplus are: increased investment returns (£385k) due to increases in interest rates and an improved end of year return for 2006/7, and democratic service savings of over £100k due to staff vacancies and election expenses. The remainder is due to reduced salary and wages costs in relation to savings in respect of vacant posts across the Council.

The indications for 2008/9 are that we will be able to set balanced base budgets for both the general fund and housing revenue accounts.

- In the provisional local government finance settlement the Council received £170,000 (1.4% increase) in additional grant for 2008/9. The settlement amounted to £12.182m.
- Within the proposals the Council will have the option of considering a council tax increase of 2.5% for 2008/9. If formalised in March when the budgets are finalised it will be the third consecutive year we have held the increase at this level. This increase is the well below the current level of inflation, which is running at over 4%. (Retail price index measure).
- Requests for additional resources total £486k of which £276k will impact in future years. The detail is set out in appendix 1.
- Members are asked to note that the resource approvals agreed in December amounting to £984k (appendix 3 item B) will be included in the 2008/9 budgets. In addition we will use further reserves of £847k (appendix 3 item C) to complete the 3-year programme of initiatives agreed in 2005 where £1.5m of reserves were released. The Executive Committee monitors this programme.
- As in previous years specific reserves will be used to pump prime and in some cases maintain service improvements and these total £363k. The use of the planning reserve is a typical example and it is important to note use is one off and will not affect future base budgets.
- Efficiencies of around £350k have been realised to support the 2008/9 budget with a further £69k being released into the collection fund as a result of improved council tax returns and a further reduction of £500k in the bad debts provision due to effective debt management. The £500k is of a one off nature and shared between the precepting authorities, the Council's share is around £100k.
- 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 £5.4m with housing supported borrowing of around £1m, however we anticipate a smaller capital programme, around £16m, in comparison to previous years as capital receipts a major source of capital funding slow down.
- At the time of writing the housing revenue subsidy settlement was not finalised

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however the settlement is positive and will allow us to balance the HRA budget without using general reserves. Within the budget a rent increase of 4.5% will be proposed which ensures the Council maximises subsidy and is in accordance with the rent restructuring formula.

- A key priority for the Council and its partner East Durham Homes is to eradicate the deficit in the current year and to give the Company financial sustainability in the medium to longer term. At this point it is expected that the deficit can be eradicated by using the HRA (Housing Revenue Account) surplus emerging in the current year. In terms of the future financial sustainability the Council will have the option to increase the management fee by around £1.5m for 2008/9 which if agreed will be the basis upon which a 5 year financial plan can be developed. The Chief Executive of the Company will address members at the time the budget is set to outline the Company's future plans.

5. Grant Settlement/Comprehensive Spending Review 2008/9 – 2010/11

- 5.1 The financial settlement was in accordance with the Comprehensive Spending Review proposals and was fixed for 3 years. The headline increase for 2008/9 was 1%, with increases of 0.5% for each of the following 2 years. Members may wish to note that as the local government restructuring proposals are effective from April 2009 then grant for 2009/10 and 2010/11 will be transferred to the new council.
- 5.2 For 2008/9 the Council's grant increased by £170,000, from £12.011m to £12.181m equating to 1.4%. Around £50k or 0.4% of this related to a formula adjustment.
- 5.3 There is no change to the grant system, which is broadly 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
- 5.4 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.
- 5.5 The minimum headline increase for authorities for 2008/9 was fixed at 1%. The government has again prioritised Childrens' and Adult (social) services ahead of services such as those delivered by Districts in the environmental, protective and cultural services (EPCS) block.

Concessionary Fares Update

- 5.6 Special grant of £1.471m has been allocated to the Durham Districts to implement the new national scheme from April 2008. Although the negotiations with the Bus Companies are not finalised it is expected that an affordable scheme will be agreed with grant pooled as in 2006. Plans for implementing the revised scheme are on schedule.

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Efficiency Reporting 2008/9 to 2010/11

- 5.7 The government has again set a target for local government to achieve a further 3% per annum efficiency gains over the 3 year-period of the Comprehensive Spending Review 2007.
The position varies from CSR2004 in that the gains have to be cashable.
- 5.8 As in the previous review the efficiencies have to be reported but there is no specific target. Instead the government have taken account of the efficiencies in the 3-year grant settlement recognising Council's will need to make efficiencies if they are to improve services and meet cost pressures. For example over the next 3 years the Council's increased grant allocation should have been around £1.1m for the period had the government applied its 2.8% inflation figure to the minimum increase. However the increase over the next 3 years is projected to be around £240k meaning the Council will have to make efficiencies of at least £860k to stand still. The cost of growth in future services will need to be added to that figure.
- 5.9 Reporting methodology is similar to previous years and members may wish to note that any cashable efficiency made over and above our last target can be carried forward.
- 5.10 Clearly from 2009/10 the new council will need to consider the overall efficiency position for County Durham.

6. Review of the Medium Term Financial Plan

- 6.1 As reported earlier the approvals agreed by Council in December when reviewing the medium term financial plan are reflected in this report. =

7. Budget proposals – 2008/9

- 7.1 The key issues affecting the 2008/9 budget proposals are as follows: -

Estimated Cost Pressures

- 7.2 Within the proposals cost pressures of around £1m have been addressed including the following: -

- Salary and wage related increases (2.5% assumption) - £560,000.
- Pension increases included in the salaries and wages costs are subject to finalisation.
- Utility Cost Increases - £60,000.
- General inflation estimated at £400,000

Areas identified for additional resources

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- 7.3 The table in appendix 1 details areas for additional resources. Requests total £486k of which £210k is of a one-off nature. The difference of £276k will impact on the base budget for future years but is fully resourced. The request to extend the green waste service is subject to a separate report.
- 7.4 Within the budget process the corporate management and democratic services recharges to the Housing Revenue Account have been reviewed and reduced by over £400k. The review is as a result of a commitment given previously and reflects current circumstances. Should future additional costs be incurred in respect of HRA work then

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reimbursement will be agreed on a one off basis.

Utilisation of Reserves – General Fund

- 7.5 As in previous years it is proposed to utilise reserves to improve services, deliver programmed initiatives and address capacity pressures, which may evolve. However it is important to note that there is no proposal to use reserves to finance mainstream services or balance the base budget as these are fully financed. Reserves will be utilised for issues of a one-off nature in accordance with our medium term financial strategy.
- 7.6 As a reminder to members Appendix 2 is a table of initiatives agreed by Council in December. The initiatives are programmed over 3 years and are fully financed from specific and earmarked reserves.
- 7.7 Appendix 3 is a further table, which sets out details of the overall reserves to be utilized in 2008/9 budgets. The overall total amounts to £2.2m, in 2007/8 we utilised £1.5m. From that total we are using specific reserves of around £1.6m the majority of which is contained in medium term plans from prior years.
- 7.8 The proposals at this stage exclude potential revenue contributions, which may be necessary to finance the capital programme, which is still under consideration. In addition should further revenue initiatives be approved then the financial implications will be fed into the budget report to be considered in February.

Council Tax Proposals

- 7.9 For 2008/9 it is proposed to increase council tax council tax by 2.5% in line with our medium term financial plan. If agreed the increases equate to an increase of £4.33 per annum on a Band D property with £2.88 on a Band A.
- 7.10 If accepted the increase in 2008/9 will be the 5th consecutive year of low increases and reflects the hard work in stabilising 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. In 2007/8 the district’s council tax was the lowest in County Durham and this is likely to be the case in 2008/9.
- 7.11 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 (%)
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
2007/2008	5.0 (cap)	2.5	3.8	4.2

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<i>Cumulative</i>	<i>20.0</i>	<i>10.8</i>	<i>16.8</i>	<i>18.6</i>
<i>Average Annual Increases</i>	<i>5.0</i>	<i>2.7</i>	<i>4.2</i>	<i>4.65</i>

Source: Council Tax Demands and Precepts 2004/5 – 2007/8 - CIPFA

Financing the proposals

7.12 The estimated increased costs of financing the base budget, which basically is the cost of running day-to-day services, are well in excess of £1.2m. and are broadly funded as follows.

- Additional Formula grant - £170,000.
- Special Grant – Concessionary Fares Scheme - £243k
- Additional Council tax income - £200,000
- Collection fund surplus - £169,000 (£100k is one off)
- Directorate general efficiencies - £150,000 to date.
- Increase in Recovery of Benefit Fraud/Overpayments - £100,000 (reduced Bad debts provision)- One off
- Additional Investment Income - £70,000
- Increased Miscellaneous Income – estimated £200,000.
- Fixed term posts – Transferred from base budget to specific reserve. (£236K)

8. Revised Medium Term Position. =

8.1 Although 2008/9 will be the Council’s final budget resources are committed over the next 3 years. As plans are fully resourced it is assumed the new council will honour the commitments.

8.2 The forecasted position on the general fund over the next 3 years are set out in the tables below:

Table1 reflects the position as if we were continuing in business beyond April 2009 and although merely illustrative at this point will be useful in preparing budgets for the new unitary Council. The deficits, which when rolled forward 2 years amount to just over £0.5m are understandable given grant pressures but will be eradicated by savings following implementation of the local government review.

Table 1. Medium Term Financial Position 2008/9 – 2010/11

Budget Position	2008/9	2009/10	2010/11
Surplus	0		
Shortfall	0	£0.39m	£0.51m
*Level of Reserves	£3.4m.	£3.0m	£2.5m

**Includes prudent balance of £1.5m*

9. Conclusion – General Fund

9.1 If the proposals outlined above are agreed the 2008/9 budget will be balanced and our medium term financial plan will reflect planned commitments for years 2009/10 and

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2010/11.

10. Capital Programme - Main Issues

- The programme currently being considered for 2008/9 is valued at around £16m however a major concern is the availability of future funding. Capital receipts generated from asset and land disposals have been a major source of funding in previous years and are now becoming less reliable as completions slow down making it difficult to synchronise finance to capital expenditure.
- Housing Capital Allocations for 2008/9 are anticipated to be £1m. This is the amount of supported borrowing where the government finances the principal and interest repayments.
- The Council's major repairs allowance for 2008/9 is expected to be around £5.37m. This is to be spent on the council's housing stock. This is slightly up on last year where the allowance was £5.0m.
- Although at this stage it is not anticipated that prudential borrowing will be necessary because of the position on capital disposals there is a risk that short term gap funding may be necessary. If that were the case borrowing would be an option to finance the gap until capital receipts are realised.

11. Housing Revenue Account (HRA) – 2008/9

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

Subsidy Position

- Management and Maintenance allowances have increased by 10% and 15% respectively.
- Rent increases must be increased in accordance with subsidy directions and the rent restructuring formula.

Proposed Rent Increase

- It is proposed to increase rents by 4.5%, an average increase of £2.40 per week over 48 weeks.

Other Issues

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- The HRA minimum reserve will be recommended at around £1m.
- A management fee will need to be agreed with the Company in conjunction with the HRA Financial Plan and the Company's business plans. As a key priority of the Council is to secure the future financial sustainability of the Company there will be an option to increase the fee by £1.5m.

HRA Business Plan

- The HRA plan is basically a 5-year projection of the Housing Revenue Account and is developed between East Durham Homes and the Council. The plan itself will give an

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indication of the future position of the HRA and also acts as a reference for the Company as they prepare their business plan and financial strategy. The plan will need to be reviewed and updated on a regular basis but will allow both the Company and the Council to take a longer term view on finance ensuring plans are put in place to effectively manage future financial pressures.

- When finalised the plan will be submitted to the Council for approval.

12. Local Government Review

12.1 Members may be aware that the government is currently issuing ministerial orders, which are likely to require those authorities being abolished in the review to seek approval from a relevant person or persons where reserves are used for 2008/9 budgets.

12.2 As the proposals in the report include the use of reserves it is likely we will be affected by the orders and therefore at this stage it is assumed that approval will be granted

13. Implications

13.1 Policy

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

13.2 Legal

The budget will be prepared according to the statutory requirements.

13.3 Financial

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

13.4 Risk

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

13.5 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 tenants.

13.6 Corporate Plan and Priorities

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

13.7 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.

13.8 E Government

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

13.9 **Procurement Issues**

Procurement arising from the budget will be conducted in accordance with the procurement strategy and agreed Code of Practice.

13.10 **Equality and Diversity**

None.

14. Recommendations

14.1 The Committee is asked to agree the proposals as a basis for the 2008/9 budget and the medium term financial plan covering the period 2008/9 to 2010/11.

14.2 If agreed the proposals will be reflected in the budget report for consideration by Full Council on the 22nd February 2008.

Background Documents

Grant Settlement Notification from ODPM – November 2007

Out turn Report to Executive – 25/6/07

Budget Report to Extraordinary District Council – 25/2/07

Bi Monthly Budget monitoring Reports to Executive – 2007/8 financial year

Capital Allocations from the regional Housing Board-ODPM – December 2007

Review of Medium Term Financial Plan – Extraordinary Meeting of the Council – 20/12/2007

Provisional Draft Housing Subsidy Allocations - 2008/9.

Draft Orders – Local Government restructuring Proposals in County Durham.

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