

**Council Revenue Budget 2007/8  
Operations Committee**

**Committee:** Full Council  
**Date:** 15th February 2007  
**Title:** General Fund Budget 2007/08  
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01799-510670

**Agenda Item**

**8 B**

Item for  
decision

**Summary**

- 1 This report summarises the draft General Fund Revenue Budget for 2007/08. It includes all budgeted related recommendations from the current cycle of committee meetings and reflects final technical adjustments and the recommended Council Tax increase of 4.5%. The cancellation of the Operations Committee on 8<sup>th</sup> February 2007 due to bad weather conditions means that this report has been brought direct to Full Council rather than having recommendations made from the Operations Committee. Should the Full Council agree to the recommendations in this report then agenda item 9 which follows will still represent the formal approval of the budget and council tax required by legislation.
- 2 This is the final opportunity for the Council to confirm items to be included in the General Fund revised estimates for 2006/07 and the 2007/08 estimates, together with the council tax increase it wishes to set when dealing with the report under item 9 of this agenda.
- 3 Results of the public consultation exercise on the council tax level are included in the report.
- 4 The appendices to the report cover:
  - The budget summary (Appendix 1)
  - Details of transfers to and from reserves (Appendix 2)

**Recommendations**

**RECOMMENDED** that, subject to any final changes made at this meeting,

- 1) Final approval be given to the contributions to and use of Earmarked Reserves in 2006/7 and 2007/8 summarised in Appendix 1 and shown in detail in Appendix 2 to this report
- 2) Final approval is given to the General Fund Revenue Revised Estimates 2006/07 and the General Fund Revenue Estimates 2007/08 as detailed in Appendix 1
- 3) Final approval is given to a Council Tax increase of 4.5% for 2007/08 based on a District Council Requirement of £8,120,298.

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### Background Papers

5 Budget Working papers and files

#### Impact

Communication/Consultation	This report includes the results of public consultation on the budget
Community Safety	No specific implications
Equalities	No specific implications
Finance	This report concerns the Council's whole General Fund budget
Human Rights	No specific implications
Legal implications	The Council's budget reflects the statutory need to spend
Ward-specific impacts	The Council's budget has wide-ranging implications for all wards. No specific ward issues can be highlighted although proposals are contained regarding the devolvement of budgets to Area Panels
Workforce/Workplace	Ongoing communication and consultation with staff and unions continues

#### Situation

#### Background

6 At its meeting on 28<sup>TH</sup> September 2006 the Operations Committee considered the overall position on the General Fund and agreed a six point strategy for balancing the General Fund budget within the previously targeted 4.5% council tax increase. The strategy involved:

- a) A re-examination of the need/justification for inflationary increases in the cost of controllable budgets.
- b) A fresh examination of the Council's procurement practices, looking closely at a few of the highest value contracts
- c) Close scrutiny of the new spending pressures identified, which added up to £302, 200.
- d) Looking to maximise scope for fees and charges income, where acceptable
- e) Further examination of the potential loss of land charges income to see whether the Council was accounting fully for the cost of the service
- f) Providing a mechanism for services to put forward both painless efficiencies and exemplifications of the potential effects of real reductions in services, if these proved necessary.

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- 7 The intention from the commencement of the budget process has been to target a council tax increase of 4.5%. This figure balances the need to keep the council tax level at a reasonable level (probably still the lowest for a district council in Essex for 2007/08) and within Government 'capping' criteria (5% is the 'average' that the Government is targeting) while providing the underlying increase in taxation yield to fund the increasing demands being placed on the Council's budget.
- 8 In September 2006 the targeted council tax increase looked likely to involve savings in the region of £952,000 being made, alongside an overall increase in the yield from fees and charges of 3%.
- 9 Since September 2006 the following changes and proposals regarding the budget have emerged:
- Clarification that a potential loss of income from land charges amounting to £100,000 will not now happen
  - An estimated saving of £130,000 per annum following the management restructure
  - A review of certain central recharges to the Housing Revenue Account which has transferred a significant level of costs from the General Fund
  - Further analysis of the Council's scope to save money in its procurement practices, which will save approximately £72,000 per annum
  - Completion of the work of the Executive Programme Office, freeing up annual budgetary provision for research of £55,000 per annum
  - Likely increased income via the Business Growth Incentive Scheme, although confirmation of the figures involved is awaited
  - A review of staffing budgets, leading to a new targeted annual saving via turnover of approximately 5%. This is a challenging figure but is considered achievable with proper management.
- 10 In addition, during this committee cycle committees have now considered their base budgets, spending pressures, scope to save and income streams.
- 11 Essex County Council, the Essex Police Authority, and the Essex Fire Authority should all have finalised their budget requirements and precept demands. The precept demands from each of these authorities are incorporated into the formal resolution at agenda item 9. Any changes to the final requirement of these authorities will be notified at the meeting and revised figures circulated accordingly. The precept requirements of Parish and Town Councils are already included in the Budget Summary in Appendix 1.

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- 12 Members may be interested to know that the proposed increases in the council tax at band D of each of the major precepting authorities were as follows:

	%	£ per annum increase	Final decision due
Essex County Council	4.5	43.56	13 <sup>th</sup> February 2007
Essex Police Authority	4.95	5.49	12 <sup>th</sup> February 2007
Essex Fire Authority	2.9	1.71	14 <sup>th</sup> February 2007
Uttlesford DC	4.5	5.76	15 <sup>TH</sup> February 2007

These increase are added to by any increased demands from individual parishes or town councils.

### Committee Base Budgets

- 13 All committees have now agreed their revised 2006/07 and draft 2007/08 budgets, subject to final views and decisions of this Committee.
- 14 The key drivers for the overall increase in the revised 2006/07 base budget are as follows:

Drop in planning fee income	£117,000
Increase in insurance costs after return of refuse fleet in-house, plus other premium increases	£94,000
Reduction in interest on balances as capital receipts fall and accumulated capital receipts are used up	£150,000
Overspend within Financial Services following need to employ agency staff to fill vacancies	£186,000
Switching of planned repairs previously charged to capital into revenue financing as a result of changed accounting and audit code requirements	£70,000
Net cost of the Lebanon evacuation in terms of one-off emergency costs and the net drain on the Homelessness budget after receipt of benefits	£80,360
Total of major variations on revised 2006/07 budget	<b>£697,360</b>

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- 15 This level of overspend is highly significant in terms of the Council's budget, necessitating a major drawdown on reserves. This will be considered later in this report when reserves are examined.

### **Below the Line Updates**

- 16 This term refers to those budgets which are not directly linked to a particular committee and appear in the budget summary (Appendix 1) below the committee spending totals. The main factors are:
- **Interest on balances (line 9)**  
This is the income the council receives from investing reserves, unused capital receipts and day-to-day cash flow. It is a difficult figure to estimate with great accuracy, as cash flow and interest rates can vary significantly. Although interest rates are projected to rise in the months ahead, the continued use of capital receipts for capital programme purposes means that a reduction in the previous forecast has been made. A full report on the Council's approach to treasury management activities is included as item 13 on this agenda.
  - **Additions to and funding from reserves (lines 13 and 14)**  
The budgeting and accounting rules governing the Council's finances dictate that movements into and out of reserves need to be first shown in revenue budgets and actual spends and then explicitly adjusted below the line. The figures shown in the Budget Summary reflect this approach. Appendix 2 contains details of the proposed use of reserves.
  - **Contribution to Capital (line 17)**  
The previous practice of putting £35,000 p.a. of revenue funding into the light vehicle replacement programme is recommended for discontinuance to make a clear distinction between capital and revenue financing.

### **Overall Budget Summary**

- 17 The overall budget summary is contained in Appendix 1 attached to this report. The summary shows the total spending pressures and savings proposals by committee. Final revisions have been made to reflect the up to date position on 2006/07 budgets, the latest position on Integrated Customer Management and Organisational Re-Engineering, any associated effect on 2007/08 budgets and the first appearance of a savings target (£50,000 in 2007/08) for the Uttlesford in 2011 Transformation Programme. The budget summary, if agreed, will be incorporated into committee totals in what has traditionally been called The Budget Book when that document is published during March 2007. The Committee is asked to note the intention to merge this document with the Medium Term Financial Strategy contained as item 14 on this agenda

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- 18 No forecast year figures are included for 2008/09 and beyond in the Budget Summary in Appendix 1. These are included in the Medium Term Financial Strategy.

#### **Potential Capping of the Council Tax Level**

- 19 Members will be aware that the government used capping powers to limit the 2005/06 and 2006/07 council tax increases in several councils. The Local Government Finance Settlement for 2007/08 included an indication that 'average' council tax increases should again not exceed 5%. Members will be aware that this Council has the lowest council tax level of all district councils in Essex. The Local Government Association has just published a survey indicating that the average council tax rise in district councils will be approximately 3.1% for 2007/08.

#### **Earmarked Reserves**

- 20 As part of the overall budget strategy, all Earmarked Reserves have been reviewed. Members will be aware that this Council actively uses Earmarked Reserves to smooth out peaks and troughs in what would otherwise be uneven spending between financial years. This allows proper long term financial planning to take place, and keeps the council tax changes at consistent levels. The Council's reserves also act as an aid to effective risk management, covering unexpected items of spending and again keeping council tax levels stable. These reserves have now been reviewed and it is proposed that a greatly simplified structure is adopted.
- 21 Several reserves are recommended for consolidation into the Financial Management Reserve to pay for the overspend on the budget for 2006/07. Some are considered as clearly linked to the source of the overspend and should therefore be used for that purpose. These include the Planning Delivery Grant reserve (£117,000, including the balance brought forward at 1<sup>st</sup> April 2006 plus some of the grant due for 2006/07) to fund the planning fee loss, the Chief Financial Officer Reserve (£17,200) to contribute a small sum towards the overspend within Financial Services, the Property Reinstatement Reserve (£15,964) to assist with the accounting change relating to planned repairs and the Homelessness reserve (£55,000) to help offset the Lebanon costs. Other reserves are also recommended for consolidation into the Financial Management Reserve either because they are no longer relevant or because the services involved already have adequate budgets. Examples here are the Quality of Life Reserve (£42,000), the IT Projects Reserve (£20,000), the Golds Nursery Reserve (£16,000), the Staff Training Reserve (£11,500) the Vehicle Reserve (£73,256), the Vehicle Leasing Reserve (£20,000), the Resources Project Reserve (£5,000) and the two Best Value Reserves (£60,466). A full analysis of these movements is shown in Appendix 2.

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22 This approach would leave:

- 1) Eleven earmarked reserves needed to smooth out peaks and troughs in spending. These are shown in Appendix 2
- 2) The Financial Management Reserve to fund policy initiatives and unforeseen events. This is examined in paragraph 23 below.
- 3) The General Fund Balances of £1,200,000 as the ultimate buffer against financial hardship

### **The Financial Management Reserve and one-off spending pressures**

- 23 The Financial Management Reserve represents the main funding source available to support one-off spending pressures. It has been built up over the years by specific budgetary decisions, year-end under-spends, and fortuitous income. The aim is for the balance on this reserve to avoid being either too high or too low. A very high figure could indicate unnecessary retention of surplus sums, whereas a very low figure could prevent the Council coping with unexpected one-off spending needs or peaks and troughs of spending.
- 24 The latest projections show the Reserve projected to be £197,642 at 31st March 2007 and £131,760 at 31st March 2008. There is no rule as to the level that such a reserve should be held. However bearing in mind the slimming down of earmarked reserves it would seem wise to take steps to replenish the Financial Management Reserve over the next few years. Proposals regarding this are included in the Medium Term Financial Strategy.

### **Other Budget Uncertainties**

- 25 The 2006/07 revised budget and 2007/08 original budget currently include (Line 16 of Appendix1) continued assumed funding via the Local Government Business Growth Incentive Scheme, which rewards councils for policies which encourage economic growth. The scheme looks at rateable values over the long term, and allocates government funding on a formula basis. All sums included for income from this scheme are subject to finalisation of the figures involved in the formula, so are still estimates. However, the government has trebled the sum available via this scheme and taken away the previous ceiling on benefiting authorities. On this basis, a sum of £600,000 has been included for both years two and three of the scheme with some confidence prior to the announcement for individual authorities due later in February. The scheme is only currently confirmed as continuing up to and including the financial year 2007/08, although there are government indications of a 'similar' scheme being in place beyond 2007/08.
- 26 A normal part of the budget process is to update the position on the Collection Fund. The Collection Fund is a statutory account managed by this authority as the council tax and business rate billing authority for the Uttlesford area. The Collection Fund is where all income from these sources and the government's

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re-distribution of business rates is collected and then handed out to precepting authorities, comprised of the county council, fire and police authorities, parish and town councils, and the district council itself. Any surplus or deficit on the Collection Fund, due to non-collection, debts written off or adjustments to the actual council tax base, is either paid to or recovered from those precepting authorities. The latest indication is that the district council will face an £59,947 share of the deficit on the Fund as at 31<sup>st</sup> March 2007. This will be funded from reserves and has been built into the figures accordingly.

- 27 The first payment regarding rewards for performance under the Local Area Agreement (LAA) has been included in the budget for 2007/08 at a total of £45,000 on line 33 of Appendix 1. Further details are awaited and the scheme could yield even more significant sums in future years. Similarly, the second and final reward grant under the Public Service Agreement scheme has been included in line 34 at the confirmed figure of £53,011.
- 28 The figure for Planning Delivery Grant for 2007/08 has still to be confirmed.

### **Devolvement of Budgets to Area Panels**

- 29 The General Fund budget includes proposals to delegate a total of seven budgets to Area Panels. These budgets are:

- Grants to outside bodies
- Community Safety
- Drug Awareness
- Day Centres
- Public Conveniences
- Local Amenities
- Saffron Walden Cemetery

Detailed work is progressing to make this delegation effective from 1<sup>st</sup> April 2007.

### **BUDGET CONSULTATION**

- 30 The Council will recall that questionnaires concerning the budget were sent to town and parish council clerks and that a presentation on the Council's budget was made at Area Panels in January. Members of the public could also complete the questionnaire on-line or via hard copy and several did this. Town and parish council clerks were encouraged to seek views from all their members and to give a collective view, making the total responses received of 88 completed questionnaires more like the collective views of 150-250 people. This exceeds the number of responses when a similar questionnaire was issued via Uttlesford Life two years ago. The Community and Environment committees were informed of the responses relevant to their new spending pressures. For this report the main relevance of the responses is in regard to



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council tax levels. The following views were received regarding the proposal to increase the council tax level by 4.5%:

That 4.5 % is too high	54	(61%)
That 4.5% is too low	1	(1%)
That 4.5% is about right	33	(38%)
Totals	88	100%

It is for the Council to take any action it considers appropriate based on these figures. Other information received in the survey will be used for future planning.

**CONCLUSION**

- 31 The General Fund budget process has progressed to a stage where the Council can make decisions on the 2007/08 Budget Requirement and Council Tax level.

**Risk Analysis**

Risk	Likelihood	Impact	Mitigating actions
Failure to identify all new spending pressures	Low	Medium	The budget has been examined closely and appears robust. Any variations can be dealt with through virement or authorised use of reserves.
Failure to identify potential efficiencies	Low	Medium	The budget process has involved a close look at all Council budgets. Savings in excess of those declared would have an adverse effect on services