

**Committee:** OPERATIONS  
**Date:** 28<sup>th</sup> June 2007  
**Title:** General Fund Strategic Budget Report  
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**Agenda Item**

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Item for decision

### Summary

- 1 This report looks at the overall position in relation to the Council's General Fund budgets and reserves. It contains:
  - An progress report in relation to control of the 2007/08 budget
  - An update to the Medium Term Financial Strategy agreed at the Full Council in February 2007
  - A proposal to set the detailed budget timetable for 2008/09, including consultation with council tax payers and business rate payers at the meeting of this Committee on 20<sup>th</sup> September.

### Recommendations

- 2 It is recommended that this Committee:
  - Notes the updated position in relation to the 2007/08 budget
  - Approves the updated Medium Term Financial Strategy figures as the basis for the budget process for 2008/09 and beyond
  - Agrees that the budget timetable for 2008/09, including public consultation, be set at this Committee's meeting on 20th September 2007

### Background Papers Background Papers

- 3 Background Papers: Budget Working Papers 2007/08, Budget Book 2007/08, Budgetary Control Reports 2007/08, Medium Term Financial Strategy 2007/08 to 2011/12.

### Impact

Communication/Consultation	The Council's budget process will include both external and internal consultation.
Community Safety	No direct implications, subject to any specific issues which arise during the budget process
Equalities	No direct implications, subject to any specific issues which arise during the budget process
Finance	This report considers the Council's whole

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	General Fund budget
Human Rights	No direct implications
Legal implications	No direct implications, subject to any specific issues which arise during the budget process
Sustainability	No direct implications, subject to any specific issues which arise during the budget process
Ward-specific impacts	No direct implications, subject to any specific issues which arise during the budget process
Workforce/Workplace	Consultation with staff and unions will be part of the budget process

### Situation

#### **2006/07 Outturn**

- 4 The report elsewhere on this agenda in relation to the 2006/07 Statement of Accounts contains a summary of the 2006/07 budget outturn position. This analysis was still being finalised at the time of the completion of this report. Any effects on the budgetary control position for 2007/08 or the Medium Term Financial Strategy scenario will be tabled at the meeting of this Committee.

#### **Budgetary Control 2007/08**

- 5 The 2007/08 General Fund budget was agreed at Full Council on 15<sup>th</sup> February 2007. It is still too early in the financial year to give meaningful figures on progress of the budget, especially as many entries will still be clearing from the closedown process of 2006/07 which is currently being finalised. The budget does however contain several challenging targets which require close monitoring over and above the routine budgetary control that is taking place in relation to all budgets. Below is a brief summary of the position in relation to the major budget uncertainties:

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Type of saving	Savings target in 2007/08 £	Timescale/action
Officer restructuring	130,000	Report to go to Full Council in July 2007 with details.
Procurement savings	72,000	Sum already taken from budgets. Work proceeding to get managers to buy via Essex Procurement Hub where appropriate.
Staff turnover savings	472,000	Sum broken down into individual budgets. Heads of Division meetings collectively approving the filling of vacancies. Ongoing monitoring of progress. Proposal for consultation with senior members regarding filling of vacant posts (see paragraph 11 below)
Organisational re-engineering	246,450	Revenues and Benefits and Housing elements to be implemented shortly. Remainder of programme to be re-focused on quick 'cash' wins.

- 6 The monitoring of progress in relation to these targets is a key priority for Heads of Divisions, the Strategic Management Board and the Financial Services Unit.
- 7 Appendix 1 to this report contains details of the action plan to ensure good budgetary control is maintained during 2007/08 and that improvements are made to the Council's approach during and beyond that time.
- 8 The 2007/08 budget position is or will be affected by:
  - The likely reduction in the sum received during 2007/08 under the Local Authority Business Growth Incentive Scheme. The report to Full Council in April 2007 indicated that it would be prudent to reduce the estimated receipt from £600,000 to £350,000, making a shortfall of £250,000 likely. Members are reminded that there may yet be a supplementary payment of around £90,000 from the government in respect of an intended deletion of the scaling factor previously used in the LABGI scheme which had been retained pending legal action by two councils. Information on this is expected in the next month or so.

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- The supplementary budget exercise undertaken to address the LABGI issue. The outcome of this review was taken to Full Council in May 2007 and indicated savings of £260,930 could be made on 2007/08 budgets.
- The likely shortfalls on the organisational restructuring and the organisational-re-engineering programme savings, both of which are now unlikely to achieve their original full year effect target. Proposals will be taken to Full Council in July which will indicate an implementation date for the final organisational changes of 1<sup>st</sup> October 2007. These changes, along with savings from the decision not to appoint a Head of Human Resources until 1<sup>st</sup> January 2008 and possibly not at all if a suitable partnership arrangement with another council can be arranged will yield approximately £80,000 during 2007/08, although the full year figure of £130,000 will be achieved from 2008/09 onwards. The shortfall on the 2007/08 budget will therefore be in the region of £50,000. The organisational re-engineering programme will have a shortfall of £40,000 due to delayed implementation of some actions.
- Negotiations continue regarding the local government pay award that was due from 1<sup>st</sup> April 2007. The Council's budget for 2007/08 assumes 2% in line with the strong indication given in the autumn of 2006 that public sector pay awards would be limited to this figure. In fact the unions have now turned down an offer of 2.25% and talks are taking place about a 2.5% settlement. An extra 0.5% above budget would cost approximately £50,000 on the General Fund.
- There are no other known variations on the 2007/08 budget as yet pending fuller consideration of the 2006/07 budget outturn. One area that will require more analysis is the pension deficit contribution which was higher than budgeted in 2006/07 and could again prove a problem for the 2007/08 budget provision. Information on the interim revaluation of the Fund will be available for the September 2007 meeting of this Committee.

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9	Summary of the 2007/08 budget position:	£
	Expected shortfall on LABGI	250,000
	Organisational restructure shortfall	50,000
	Organisational Re-Engineering shortfall	40,000
	Potential increased cost of pay award	50,000
		390,000
	Less:	
	Savings achieved by re-budgeting exercise	260,930
	Previously agreed deletion of annual contribution to District Plan Reserve	13,000
		273,930
	Potential Budget overspend 2007/08	106,070

#### 10 Comment on the budget position for 2007/08

The figures in paragraph 9 show the latest savings target for the Senior Management Board to address. It is not intended to distribute a new savings target to meet this sum as in the overall context it is fairly small, but the figure and the rationale behind it will be widely circulated and opportunities to make additional savings will be taken as they occur during the remainder of the financial year. The ongoing monitoring of the budget during the year will be a key tool in identifying ways to get the budget back in balance. The figure assumes that all the procurement and staff turnover savings targets outlined in paragraph 5 are met.

- 11 As an additional control on spending and to ensure that the Council's budget reflects its priorities it is proposed that any staffing vacancies will be discussed with the Leader of the Council and the Chairman of this Committee prior to being filled by officers.

#### **Medium Term Financial Strategy Update**

- 12 The Medium Term Financial Strategy (MTFS) was approved at the Full Council on 15<sup>th</sup> February 2007.
- 13 Since the MTFS was approved the following changes have taken place or are notified as possibly requiring inclusion during the next review of the MTFS planned for September 2007:

- The supplementary budget exercise undertaken based on the shortfall arising from a lower than expected share of funding from the government's LABGI scheme. This exercise resulted in ongoing savings of £237,700 which reduce the original savings target for 2008/09.

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- Two potentially significant changes to the employees pension fund. One relates to the national changes to the scheme which will see both employees and employers pay more from 1<sup>st</sup> April 2008 to improve the position of funds around the country and maintain the affordability of the benefits within the scheme. The second change, effective from the same date, is the 3 yearly Actuarial valuation of the Fund which will dictate the deficit contributions for 2008/09 to 2010/11 inclusive. No figures can yet be given.
- Updated information on the likely savings yield from the 2011 Transformation Programme and in particular the organisational re-engineering programme
- Potential increased cost of April 2007 pay award (£50,000 at 2007/08 prices)

14 The following summarises the updated position on the MTFs:

	2008/09	2009/10	2010/11	2011/12
	£M	£M	£M	£M
Original savings required per MTFs	1.385	1.605	1.865	2.195
+ ongoing costs of increased pay away	0.050	0.050	0.050	0.050
Less:				
- Savings from re-budgeting				
Exercise and minor reserve				
Change (paragraphs 9 & 13)	0.251	0.251	0.251	0.251
- assumed saving from previous years	0	1.184	1.404	1.664
Saving requirement in year	1.184	0.220	0.260	0.330
Total 4 year saving requirement				1.994

15 The table in paragraph 14 shows that the savings recently identified for the 2007/08 financial year work through to reduce the savings target for 2008/09 by £201,000 net of the other variations. However, on the basis that the Council does identify fewer savings than previously thought necessary that year, the target for the following years remains unchanged.

16 The Committee is reminded that the main assumptions contained in the original MTFs projections are as follows:

- 2.25% pay settlements
- Inflation projections varying between 2.0 and 2.5% over the 4 year period

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- Continued use of a 5% staff vacancy factor
- No increase in pension deficit payments following the Actuarial valuation of the Fund to take effect from 1<sup>st</sup> April 2008
- Spending pressure provision of £200,000 per annum for ongoing needs and £100,000 per annum for one-off purposes
- Reserve replenishment of £200,000 in 2008/09 and £150,000 for the following 3 years
- Revenue provision to repay anticipated capital borrowing scheduled from 2008/09 onwards
- Investment income on cash flow based on economic forecasts and interest rate movements
- Fees and charges increases in line with inflation
- No change in Local Area Agreement funding beyond 2007/08
- Reduced Planning Delivery Grant (via successor mechanism) of £100,000 per annum
- No funding via the Local Authority Business Rates Retention Scheme or any successor regime beyond 2007/08
- A 1% per annum increase in government funding
- Council tax increases of 3.5% per annum. Each 1% increase yields approximately £40,000
- No change in net costs of the concessionary fares scheme
- No change in the projected costs of the Waste Management budget

#### **Strategy to address the MTFS target savings**

- 17 The savings targets set out in paragraph 14 represent a major challenge to this Council, with the 2008/09 figure being a very difficult task to achieve.
  
- 18 However, the organisational re-engineering programme is scheduled to deliver significant savings and there are a variety of other cost reduction and income generation possibilities being examined, including shared services with other councils. The overall position with regard to these initiatives will be reported to this Committee in September when detailed savings targets are examined but it is important that members realise that these ideas are being worked on now rather than being deferred to the 'traditional' start of the budget process.

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#### **Reserves and Balances**

- 19 The position regarding reserves and balances will become apparent once the 2006/07 final accounts have been finalised. Any implications for budgetary purposes will be highlighted at the Committee's September meeting.

#### **Budget Prioritisation**

- 20 The Council has previously favoured use of prioritisation in making budget decisions. It is likely that the new controlling administration of the Council will wish to continue this practice. Details of any proposed approach to prioritisation will be brought to this Committee on 20<sup>th</sup> September when the detailed budget strategy is outlined and specific savings targets are set.

#### **Capital Programme**

- 21 Work will shortly commence to update the Council's establish the Council's medium to long term capital financing requirements. The Committee is reminded that the Medium Term Financial Strategy assumes an end to the Council's debt free status during 2008/09.

#### **Housing Revenue Account**

- 22 The Housing Revenue Account budget process will conclude with a report to the Community Committee and Full Council in January/February 2008. The Housing Revenue Account has difficult financial challenges which need to be considered during the budget cycle.

#### **Consultation**

- 23 Plans to engage council tax payers and business rate payers will be brought to this Committee in September 2007.



**Risk Analysis**

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Risk	Likelihood	Impact	Mitigating Actions
Failure to identify all new spending pressures	Low, because the budget process will identify these	Medium	Continual review of likely spending pressures for each service
Significant damage to services through the need to save money	Medium, because savings targets in 2008/09 are likely to be very high	High	The strategy outlined will attempt to protect Council priorities