



Committee report

Committee	CABINET
Date	5 FEBRUARY 2008
Title	MEDIUM-TERM REVENUE AND CAPITAL BUDGET STRATEGY 2008/09- 2010/11 AND COUNCIL TAX 2008/9
Report Author	Dave Burbage, Interim Director of Finance
Purpose	<ol style="list-style-type: none">1. This report outlines the Council's Revenue and Capital Budget position covering the next three years. In particular it highlights the Medium-Term Financial Plan for the Council which sets out the projected resources and costs based on the Revenue Support Grant, Council Tax at RPI, assumed levels of inflation and known service pressures.2. It recommends an overall Strategy that directs and redirects resources over time to meet the Councils Vision and strategic Objectives and the priorities within them whilst balancing the Budget Gap.3. Specifically the report makes proposals for :-<ol style="list-style-type: none">a) The level of Capital investmentb) Where revenue resources need to be redirected to new pressures and prioritiesc) The level of savings to be achievedd) The level and timing of use of balancese) The Council Tax increase for 2008/94. The Council at its meeting on 20th February will need to agree the overall Revenue Budget and Council Tax level for 2008/9 and therefore Cabinet needs to recommend the appropriate levels for consideration by Council.

Background

5. The Provisional Revenue Support Grant Settlement was announced on the 6th December and this set out the level of resources that the Council would receive over the next three financial year's .This includes the Revenue Support Grant and income set and distributed by the Government from Business rates.

Proposed Strategy

6. The Final Settlement was announced on 24th January 2008 but this only changed the level of resources marginally (£121k downward).

7. In developing the overall approach there are a number of elements that need to be considered :-

(a) The Council's Vision and Strategic Objectives.

(b) The results of Budget Consultation and previous resident's surveys.

(c) The Medium Term Financial Plan (MTFP) which sets out the projected resources and costs of existing services over the next three years and therefore the overall financial position facing the Council. This reflects known pressures in the current year and future projected inflation and service pressures.

(d) The Medium –Term Revenue and Capital Strategies that should, within the MTFP framework, enable the Council over time to redirect those resources it has to its strategic objectives and priorities for improvement.

(e) The overall deliverability of the strategy, including maintaining a sustainable level of reserves and balances, and meeting legal and financial constraints in order to agree a legally and financially sound budget and Council Tax level.

(a) Vision

8. Cabinet considered a report on the Island Vision at its meeting on the 11th December. It agreed to endorse and adopt the Eco Island Vision and Values, to endorse the development of the One Island Programme as the mission for the Council and the adoption of internal values of SUCCESS.

9. Thus the One Island Programme projects will respond to the resident's survey in delivering the Eco Island Vision. Key outcomes will be linked to four themes of a thriving Island, a safe and well kept Island, a healthy and supportive Island, and an inspiring Island.

10. The way we do business will be driven by our One Council approach to modernise services and our processes in line with customer needs.

(b) Consultation

11. It is essential therefore that both the Revenue Budget and Capital Programme directly reflect what these objectives and priorities are. This should be seen in the investment that is made and in the redirection of resources over time.
12. As part of Budget Consultation a full page Questionnaire was placed in the County Press in December which enabled residents to send in their views on priorities etc. In addition focus groups have been held with the Voluntary Sector, Business, Youth and Older Voices. Previous resident's surveys will also inform priorities. (A summary of the results of the consultation is attached at Appendix 1(b) and this needs to be taken into account when considering the detailed proposals).
13. Cabinet member for Residents and Resources and the Interim Director of Finance gave an overview of the Council's financial position and the overall approach being adopted for the Medium-Term Financial Plan (MTFP) to the Scrutiny Committee on the 6th December 2007.
14. This was followed up with a detailed report to the Scrutiny Committee on the 17th January 2008 on the overall Budget and Council Tax Strategy and they were invited to submit their views and comments to the Cabinet. The relevant minute is attached at Appendix 1(a)

(c) Medium-Term
Financial Plan

15. The Local Government Finance Settlement covers the next three financial years and sets out the amount of Revenue Support Grant (RSG) and Business Rates that the Council will receive. After this the Council has to meet its costs either from Council Tax, Fees and charges, or its reserves. Appendix 2 sets out the Council's position as set out in the Final Settlement.
16. In overall terms it is a poor settlement and gives little scope for growth over the coming years. The position is made worse by the significant level of grant that is taken away through "damping". For the IOW this is a staggering £11.658m over the three year period. This represents resources that are rightly due to the Island based on the Governments formulae but are taken away to help fund other Councils who would otherwise lose more grant if the formulae was rigorously applied.
17. The Medium-Term Financial Plan (MTFP) sets out these resources and the projected costs of services over the next three years. It includes a range of assumptions about inflation and service pressures. It also includes provision for :-
 - Costs of current recurring budget pressures such as Concessionary fares,
 - Volume increases related to Placement of Children and Adults in care
 - Initial growth and savings for strengthening key areas such as

Planning, Finance, Legal, Engineering services and customer services

- The revenue costs of the Capital Programme
- A provision for new growth to direct more resources to the Vision and priorities
- Savings targets from efficiencies and modernisation
- Council Tax at Retail Price Index (RPI)
- The use of balances to balance the remaining shortfall

18. The detailed figures are set out in Appendix 3 and the base assumptions Appendix 4

19. In summary the overall position is :-

	2008/9	2009/10	2010/11
	£'000	£'000	£'000
Base Budget	118,238	127,612	132,278
Inflation/increased costs	4,857	3,118	3,645
Initial Growth/savings	5,284	2,732	2,438
Redirection	1,000	2,000	2,000
Capital Programme- prudential Borrowing	233	966	943
Total	129,612	136,428	141,304
RSG	8,023		
Less Damping	<u>-4,254</u>	<u>-3,861</u>	<u>-3,543</u>
	3,769		
Service Grants	3,165		
Business Rates	<u>49,813</u>		
Total Support	56,747	59,130	61,397
NET	72,865	77,298	79,907
Savings	2,000	4,150	6,220
Council Tax	65,865	69,248	72,387
Use of balances	5,000	3,900	1,300

(d) Medium –Term Revenue and Capital Strategies

20. Although the Council can only set its Budget and Council Tax for 2008/9 at this stage it needs to do this in the context of the three year position. A consistent deliverable strategy for Council Tax levels, investment and savings can only be achieved through Medium–Term planning.

21. Essentially the Strategic Budget choices facing the Council relate to a balancing act between a number of factors:-

- Capital investment
- Service improvement and growth
- Redirecting resources to new priorities

And meeting the resource gap through

- Council tax increases

- Savings, efficiencies and reductions
- Increase in fees and charges
- Use of reserves

22. It also needs to consider the relative impact of these on residents, Council Tax Payers, service users, Business, Voluntary sector and on the outcomes it is trying to achieve through the Vision.

Capital Investment

23. The level of Capital investment is dependent upon the resources available. These are essentially direct grant and support for specific schemes from Government and other parties, Capital Receipts from disposal of assets, prudential borrowing and revenue contributions.

24. Whatever the resources available ,however, the overall programme needs to directly reflect :-

- (i) The Council's Vision and strategic objectives
- (ii) The Capital Strategy that will help deliver them
- (iii) The relationship to the revenue budget strategy and Medium-Term Financial Plan

25. The Capital Strategy will set out the direction and criteria for Capital investment and in particular will link directly with the Asset Management Strategy, the Strategic Property Review and the Vision and Strategic Objectives. It will also provide for:-

- The prioritisation of individual Projects that should be implemented to achieve the outcomes required
- The process by which projects are implemented and monitored in order to deliver the projects on time, within budget of the right quality and achieve Value For Money.
- Risk analysis and management

26. Officers have undertaken a review of the Capital Programme and put forward a range of projects that should be considered for funding. A Capital Star Chamber process was adopted and Directors Team has considered detailed reports on the Capital Programme and overall strategy.

27. In line with the overall Strategy schemes have been categorised as follows:-

- a) Children's Services /Schools – Projects to be met from specific funding allocations
- b) Local Transport and other Capital projects with specific allocations/grants

- c) Core Programme linked to Asset Management and Efficiency and modernisation
 - d) Main Programme – Projects directly linked to the Council's Vision and priorities
28. Having reviewed the bids and likely level of resources it was clear that only the first two categories could be fully funded. Capital receipts from disposals would only partly fund the third with no resources available for the Main Programme bids at all. The specific allocations received so far are set out in Appendix 5.
29. In order to provide for a Main Programme that enables Capital projects to go ahead that meet the Council's vision and priorities it will be necessary to undertake prudential borrowing.
30. This will clearly have revenue implications and we will need to demonstrate that the level of prudential borrowing is affordable and in line with prudential indicators set out in the statutory guidance. These are set out in Appendix 6
31. It is proposed that over each of the next three years £10m of prudential borrowing should be utilised. This is felt to be prudent and affordable in line with Appendix 6
32. The table below sets out the overall resources position for the discretionary projects for which the Council has to fund itself:-

	2008/9 £000s	2009/10 £000s	2010/11 £000s	Total £000s
c) Core Programme	6,425	4,965	5,235	16,625
Capital Receipts	5,520	3,950	2,894	12,364
Net resources	-905	-1,015	-2,341	-4,261
Prudential borrowing	10,000	10,000	10,000	30,000
(d) Balance for Main Programme	9,095	8,985	7,659	25,739

33. Thus there would be just over £25m available for main programme projects. This would cover a range of priorities such as Roads, Housing, Public conveniences, speed management etc.
34. Specific project proposals will be reported and agreed by Cabinet in March.

35. The revenue impact of this level of programme is significant but affordable as follows:-

	2008/9 £000s	2009/10 £000s	2010/11 £000s
8/9 £10.m	230	970	940
9/10 £10.m		230	970
10/11 £10.m			230
Total Prudential Borrowing	230	1,200	2,140
Base Programme*	1,300	2,700	3,300
Total revenue cost	1,530	3,900	5,440
* Base programme revenue impact is included in RSG			

36. Capital Receipts disposals have been based on a programme of identified sites and their potential proceeds. This is set out in Appendix 7. They do not include at this stage any assumptions about the potential for further capital receipts that may be identified as part of the Strategic Property Review.

Service improvement and growth

37. In line with previous reports on improvement priorities, inspections and Audit Commission reports, the Undercliffe Drive improvement plan etc. the budget includes additional resources in a number of areas. This is intended to strengthen corporate support, compliance and controls through Legal, Finance, HR and provide extra resources to direct service delivery in Planning, Engineering services and in customer services.
38. In addition a number of budget pressures have arisen this year such as Concessionary fares and increased cost of placements and these have been reflected as well. To help offset these costs a number of savings have been identified some of which will require decisions on increased charges.
39. A summary of the initial growth and savings is set out in Appendix 8.

Further growth for priorities

40. In addition to the initial growth and savings there is a need to provide additional resources for new and continuing priorities particularly in relation to the Residents Survey, Budget consultation and the Eco Island Vision.
41. Within the MTFP provision has been made for £1m in 2008/9 with a total of £5m over the next three years.
42. Council will need to decide where specifically this should be targeted.

Council Tax

43. The strategy assumes that the Council Tax increase will be in line with inflation as measured by the Retail Price Index at September each year. For 2008/9 this was 3.9%. This would be in line with the Council's declared strategy and in keeping with the results of the Budget consultation. The Government has indicated that they will cap increases of over 5%. The formal Council Tax resolution will be reported to Council along with the final precept figures. At 3.9% a band D property would be £1,215.80p. The other bands are illustrated in Appendix 13. On top of this would be the Police precept and parish precepts.

Savings and reductions

44. After taking into account the suggested level of prudential borrowing, initial growth and savings, new growth, Council tax at RPI there is a revenue gap of some £7m.
45. It is unlikely to be achievable to deliver £7m of savings next year on top of what has already been done. In any event this would lead to decimating services and lead to knee-jerk cuts. It would invariably mean that resources would not be directed to priorities and the Council as a whole would be unable to sustain the significant improvement it has made or meet resident's needs and priorities.
46. The strategy is aimed at concentrating savings on efficiencies and through modernisation rather than cutting front line services. The main savings will require a planned approach and will only be realised over a three year period. For next year the concentration will be on savings through better procurement and through reducing spend on supplies. The overall target areas are set out in Appendix 9.
47. The Government assume that Councils will achieve value for money and demonstrate efficiency savings of at least 3% a year in any case. For the IOW this would be around £15m over the three year period in any event some £12m revenue and £3m capital.
48. It is essential that this is driven forward with clear specifications and implementation plans. The Chief Executive and all directors will be responsible for this supported by the Director of Customer Services and the Interim director of Finance in particular through a Modernisation Board.

Increase in Fees and charges

49. Income from fees and charges for Council services is assumed to rise by inflation year on year and is based on a local inflation factor broadly equivalent to the Retail Price Index (RPI) excluding mortgage interest payments and indirect taxes at 30 September. Fees and charges for all Council services are subject to such an

inflation factor except where specific circumstances dictate otherwise. For example, certain fees and charges are set by statute and the Council is obliged to use those statutory fees when charging for those services. With regard to locally set fees and charges, the Council may choose to levy more, or less, than the assumed rate of inflation for particular categories of income in any given financial year.

50. There are no specific proposals in the report to increase charges further. However as part of the initial savings certain areas are assumed to generate more income particularly on parking. In addition Concessionary fares and student rider are causes for concern particularly in relation to Southern Vectis price rises.
51. Further information will be available at Council in relation to these areas.

Use of Reserves

52. The overall strategy over the next three years would require using £10.2m of balances of which £5m would be used next year. At present it is projected that we will have £15.2m of general fund balances available. Thus there would still be a balance of £5m remaining as a minimum. In addition there are a number of other specific provisions set aside for known risks.
53. A summary of the reserves position is set out in Appendix 10 with a risk assessment set out in Appendix 11.
54. The use of the general fund balances in this way enables the Council to deliver a coherent strategy, invest in priorities, modernise in a planned way and deliver a Council Tax increase in line with inflation over time.
55. It also follows a prudent path and sustains a healthy level of reserves.
56. The summary of the overall cash limits for 2008/09 incorporating all the proposals in the report is set out in Appendix 12

Conclusion

57. The Council faces a tight financial position as a result of the RSG Settlement. This is made significantly worse by “damping” imposed by the Government to take resources away from areas where need has been recognised in the formulae to protect Councils whose need has reduced.
58. In addition the other most significant pressure relates to Concessionary fares and the high level of reimbursement to Southern Vectis and the recent and potentially future fare increases by Southern Vertis.

Legal Implications

59. The proposed strategy strikes a balance between, the need to invest in capital infrastructure and to improve services and direct resources to the vision and priorities and the Council Tax increase, increase in fees and charges, savings and use of balances.

60. The Council needs to set a balanced budget and Council Tax levels for 2008/9. In doing this it needs to ensure that it meets its statutory duties in relation to provision of services and in any change it introduces. The Government have indicated that Council Tax rises above 5% will be capped. Members should have regard to the personal duties placed upon the Director of Finance as Chief Financial Officer. The Council may take decisions which are at variance with his advice, providing there are reasonable grounds to do so. However, Members may expose themselves to risk if they disregard clearly expressed advice, for example as to the level of provision required for contingencies, bad debts and future liabilities.

Options

61. There are a number of options open to the Council in relation to the Strategic Choices it has particularly in the level of new growth, the level of Capital investment, Council Tax increase, savings etc. The report highlights these choices and proposes an overall strategy to balance them.

Evaluation/Risk Management

62. The key risks of this strategy relate to Budget pressures being even higher than anticipated; savings and efficiencies not being achieved; proposed income levels not being achieved, inflation higher than expected. These risks are contained in the strategic risk register. The risk assessment set out in Appendix 11 attempts to match the potential financial risks to reserves available to meet them.

63. General fund reserves of at least £5m will be maintained on top of earmarked reserves. Savings implementation plans will be adopted and rigorously monitored and Budgetary Control and reporting will be strengthened. If savings from efficiencies and modernisation are not achieved to the levels required then a commensurate reduction in growth for redirection and direct service cuts will have to be made instead.

Recommendations

64. Cabinet is asked to recommend to Council the overall Budget and Council Tax Strategy and in particular :-

- (a) The Medium-Term Financial Plan as set out in Appendix 3.
- (b) The use of £10.2m of balances over the next three financial years.
- (c) A savings target of £12.37m over the next three financial years.
- (d) Prudential borrowing of £10m in each of the next three financial years to fund Capital Investment.
- (e) An increase in the IOW Council element of Council Tax of 3.9% for 2008/9
- (f) The Prudential Code Indicators, Treasury Management

Strategy and Investment Strategy as set out in Appendix 6.

65. To consider what to recommend to Council in respect of :-
- (a) Fees and charges in respect of parking and concessionary fares
 - (b) The allocation of new growth of £1m in 2008/9
 - (c) The allocation of Capital resources to specific projects

Background
Papers

66. Local Government Finance Settlement 2008/9 -2011/12
Presentation to Scrutiny Committee 6th December 2007
Report to Scrutiny Committee 17th January 2008

Appendices
Attached

- [Appendix 1a](#) - Views of Scrutiny Committee 17th January 2008
- [Appendix 1b](#) - Budget Consultation Results
- [Appendix 2](#) - Local Government Finance Settlement 2008/9 – 2010/11
- [Appendix 3](#) - Budget Forecast Summary
- [Appendix 4](#) - Budget Strategy 2008/9 to 2010/11 Inflation Assumptions
- [Appendix 5](#) - Capital Allocations
- [Appendix 6\(1\)](#) and [\(2\)](#) - Prudential Borrowing Indicators
- [Appendix 7](#) - Capital Disposals
- [Appendix 8](#) - Initial Growth & Savings
- [Appendix 9](#) - Overall Savings Targets
- [Appendix 10](#) - Reserves and Balances Analysis
- [Appendix 11](#) - Risk Assessment
- [Appendix 12](#) - 2008/09 Budget Forecast – Cash Limits - Summary
- [Appendix 13](#) - Council Tax – Property Bandings

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