DERBY CITY COUNCIL

COUNCIL CABINET
27 SEPTEMBER 2005

Cabinet Member for Corporate Policy

Budget Strategy 2006/7 to 2008/9

SUMMARY

1.1 This report sets out the current budget position faced by the Council.

1.2 The original published budget strategy of the previous administration published in March 2005 included a budget gap of £2.3m in 2006/7 at an assumed council tax of 5%.

1.3 The intention of the new administration to limit council tax increases to inflation or below will widen this gap.

1.4 It is therefore proposed to commence a full and detailed review including:

- line by line scrutiny of all budget areas
- a tightening of rules for changes to staffing establishments and vacancy control to make sure no posts are filled unnecessarily
- an assessment of the efficiency savings already identified by the Gershon review and not included in current budgets
- opportunities for 'spend to save' investment through prudential borrowing
- opportunities for increasing income generation, particularly through sponsorship and advertising
- an assessment of the impact of the new Dedicated Schools Grant.

1.5 The new administration is also intending to identify funding to create headroom to fund further priorities in the current year.

1.6 It is important to make sure that the Council continues to develop the Corporate Plan alongside the budget as approved by Cabinet on 12 July, but there needs to be a greater focus on:

- delivering the manifesto commitments of the new administration
- to make sure any indicative commitments are both affordable and continue to be priorities
- to make sure a close correlation between the Council's priorities and those of Derby City Partnership in channelling the resources available through the Neighbourhood Renewal Fund and other Local Area Agreement budgets.

1.7 Subject to any issues raised at the meeting, I support the following recommendation.

RECOMMENDATION

2.1 Cabinet is asked to agree to the strategy to be following in preparing revenue and capital budgets for 2006/7 and indicative budgets for 2007/8 and 2008/9 as set out in this report, including specifically:

- a line by line budget review across all Council departments to deliver budget savings, through efficiency savings where possible, and other measures to support the delivery of savings (paras 4.2 to 4.7)
- review processes that ensure consistency between the Corporate Plan and budget planning (paras 5.1 to 5.2)
- establishment of a process to ensure that Derby City Partnership decision making is closely coordinated with the Council's decision making on its budget (paras 6.1 to 6.2)
- the timetable set out in para 8.

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27 SEPTEMBER 2005

Report of the Director of Finance

Budget Strategy 2006/7 to 2007/8

SUPPORTING INFORMATION

Introduction

1.1 The purpose of this report is to seek approval for the strategy that the Council will follow in preparing its 2006/7 budget and indicative budgets for 2007/8 and 2008/9, and to detailed aspects of the budget planning process.

1.2 The revenue budget represents a balance between the provision of local government services and what is considered to be an acceptable net cost of that provision in terms of council tax. Derby has a relatively low council tax – the area council tax at Band D is £86 below the England average and Derby has had the lowest tax for a given band in the whole East Midlands area since 2002/3.

Overall Financial Position

2.1 In March 2005, the Council approved indicative forward budgets for 2006/7 and 2007/8. Those budgets identified that, to contain the Council tax increase to 5% in both years, spending in both years would need to be reduced further below the levels indicated in the budget. The main elements of this shortfall are as follows:

	2006/7	2007/8
	£000	£000
Savings across all budgets	1,765	2,970
Additional savings in Social Services	500	1,000
Total	2,265	3,970

2.2. The Cabinet has not subsequently received any reports in 2005 containing specific proposals that would address this shortfall.

2.3 The forward budget is now being planned on the basis of a slightly more favourable grant settlement than was assumed previously, which slightly moderates these pressures, for reasons discussed below. However, a more realistic allowance also needs to be made of the likely effect of inflation, as it impacts on local authority services.

2.4 Following the change in political control of the Council in August 2005, the Council has approved a further commitment which will increase the savings that need to be found to deliver acceptable council tax levels. This is the Cabinet decision (6 September) to end charges on home care.

2.5 Taking account of this, the revised budget shortfall is £2.545m and £4.450m in 2006/7 and 2007/8 respectively.

2.6 In addition, the new controlling group is concerned that the planning level of 5% for 2006/7 council tax remains significantly above inflation and is looking to contain the tax increase to below that level.

2.7 The table below shows the derivation of the budget shortfall and how it would increase with a council tax increase limited to below 5% in 2006/7 only:

	2006/7 £000	2007/8 £000
Budget shortfall at 5% tax increase 2006/7 – as projected at March 2005	2,265	3,970
Improved share of national grant funding	-870	-870
Revised net inflationary pressures	250	450
Home care charge abolition	900	900
Revised budget shortfall at 5% tax increase	2,545	4,450
Revised budget shortfall at 4% tax 6/7, 5% in 7/8	3,192	5,130
Revised budget shortfall at 3% tax 6/7, 5% in 7/8	3,839	5,810
Revised budget shortfall at 2.5% tax 6/7, 5% in 7/8	4,162	6,150

External Funding

3.1 The Council's external funding position is volatile. 2006/7 will see the implementation of the first major review of the revenue support grant system for 3 years, and it is clear that there will be major changes to the grant formula. The Finance Directorate's officers have participated very actively in the review, having submitted technical papers to and attended at the ODPM working group considering options for change, and having already persuaded ODPM to modify some formula options being consulted on. The Council needs to formally respond to the current consultation options by 10 October. On the basis of what has been published to date, and other changes to underlying data, the 'most likely' settlement outcome is currently that the Council can expect a moderate increase in its share of the national grant cake and an improved share of £870,000 is assumed in the projections. It must though be stressed that with some 40 different change options being considered across various services, this projection is very tentative. There is still scope for the Council to find that its share of grant has fallen rather than increased, when the provisional 2006/7 settlement is published.

3.2 The Government has also commissioned Sir Michael Lyons to undertake a review of council tax. The revaluation was scheduled for 2007/8, but the media is now reporting a postponement. The findings of the Lyons review were expected to be published around December 2005. Council tax has not changed fundamentally since its introduction in 1993, and is widely acknowledged to be a regressive tax. The problems are exacerbated by the absence of a revaluation as the tax's incidence has become more arbitrary. The Council's policy stance on council tax levels is informed by these problems, but that stance will need to be reviewed if there is the prospect of the council tax changing significantly.

3.3 The Government used its capping powers widely in 2005/6. Revaluation or major reforms to council tax could lead to a significant increase in grant in Derby in 2007/8 or 2008/9. The Council will however be constrained in its ability to use any increase in grant to significantly support Council services, as the base for capping decisions will be adjusted. The Government in 2005/6 made more extensive use of its capping powers than in recent years. Consequently, no account of this is taken in projecting the budget shortfall in 2007/8.

3.4 The DfES will also in 2006/7 complete the separation of schools funding from the rest of the revenue support grant system, the initial level of which will be largely dependent on 2005/6 budgeted spending. The approach being taken in budget planning is that from 2006/7 the Schools Budget will be set to match the level of the new Dedicated Schools Grant. The effect is assumed to be neutral on both schools spending and the Council's remaining budgets but this will be confirmed when the Government's provisional grant settlement is published.

Budget Planning Process

4.1 The initial revenue budget shortfalls identified for 2006/7 and 2007/8 are significant. Furthermore, although these figures take into account some growth in expenditure previously planned for, experience in previous budget rounds has been that new pressures can emerge as the budget process takes its course.

4.2 The initial focus of revenue budget planning is therefore being focused on a process to deliver significant savings. This involves extending the planned base budget review programme into a line-by-line review across all budgets. The savings will be achieved through efficiency measures if possible. Nonetheless, departments are also being asked to examine options that could impact to a limited degree on service provision, outside of priority front line services. This is in case efficiency savings alone will be insufficient.

4.3 To create some immediate headroom in approved budgets, that might potentially also be available to support new initiatives, departments are also being asked to review all existing 2005/6 budgets and identify immediate savings equivalent to 1% over a full year.

4.4 Whilst these reviews continue, there is a risk that new commitments could be made under normally delegated powers that would eliminate some existing potential for achieving savings that would not impact on service budgets. Additional controls need to be brought in to ensure that changes to and within departmental staffing establishments do not jeopardise this, and ensure that Cabinet member approval is also sought for changes.

4.5 There are a number of future developments allowed for in the existing indicative 2006/7 and 2007/8 budgets. Resources identified in the corporate capital programme have also been fully committed prior to 2007/8. A review of these is also being conducted, to confirm that they remain priorities.

4.6 Other initiatives now under way to assist in delivery of these savings, whilst minimising impact on services, are as follows . . .

- Departments are being asked to clarify the impact of those 'cashable' efficiency savings declared in the April 2005 budget returns to ODPM that were not disclosed in the Council's 2005/6 budget.

- Opportunities for good practice are being identified from the methods used in other authorities to achieve savings, as shown on the national Gershon returns, and these are being followed up and their relevance to Derby established.

- Opportunities for 'spend to save' initiatives using prudential borrowing are similarly being identified through national examples of good practice.

- A corporate review is taking place to identify opportunities for increasing external income including an extension of sponsorship.

- Budgetary mechanisms are being introduced to ensure that the financial effect of savings that have been achieved or can be relied upon to be secured through specific procurement initiatives are reflected in future budget planning.

- Benchmarking information including that published by the Audit Commission will be used to focus subsequent review work, although as most services in Derby tend to be delivered at average or below average costs, the areas for further attention will be relatively focused.

- Corporate provisions will be reviewed, including the provision for potential costs associated with single status job evaluation.

4.7 To the extent that these processes release resources available to support developments of services, beyond the need to deliver savings and fund pressures within existing services, the allocation of these extra revenues will be determined in the later stages of budget planning.

Corporate Plan

5.1 Cabinet on 12 July approved an approach to integrate Corporate Plan priorities with the budget planning process, and the Plan is now subject to a parallel review process. The emphasis of the Plan review is to:

- focus clearly on delivery of the savings
- provide a clear action plan for delivery of neighbourhood working
- revisit previous plan priorities to ensure that they are consistent with both of the above points, and are affordable, including previously unfunded priorities
- reflect the revised manifesto priorities following the change in political control of the Council

- make sure the plan is aligned to the Derby City Partnership (DCP) Community Strategy and Local Area Agreement (LAA).

5.2 Clearly the Council's financial position has significant implications for the Council's ability to fund any new priorities without a first undertaking a full review of the existing Plan. The existing and new priorities in the updated Plan will need to be fully consistent with the outcome of budget planning.

Neighbourhood Renewal Fund and the LAA Stronger and Safer Communities Fund

6.1 Outside of the main revenue support grant settlement, the Government has also announced for 2006/7 and 2007/8 a revised allocation of the Neighbourhood Renewal Fund and new resources within the Stronger Safer Communities Fund. Derby has been a significant beneficiary of this, the outcome being that Derby will receive…

- NRF resources will increase from £3.25m in 2005/6 to £3.689m in 2006/7 and £4.302m in 2007/8.

- New funding of £0.929m in total across 2006/7 and 2007/8 of funding for deprived small neighbourhoods under the Neighbourhood Element of the Stronger and Safer Communities Fund.

- New funding of £2.1m in total across 2006/7 and 2007/8 of funding to improve the quality of public space, most of which is capital funding, under the Cleaner Safer Greener Element of the Stronger and Safer Communities Fund.

6.2 These funding streams are paid to the Council but fall within the voluntary framework of the Local Area Agreement, which is managed through Derby City Partnership. The growth contrasts with the pressure on the Council's core budgets. There is a need to ensure that partnership decisions on the allocation of funding support the achievement of the Council's priorities as well as the DCP Community Strategy, and that any reallocation of existing resources does not add to core budget pressure. The Council will need to reach agreement with Derby City Partnership on a process to coordinate decision making with its budget process for 2006/7.

Capital

7. Most available corporate capital funding was fully committed up to 2007/8 by the decisions taken in March 2005, including those on the indicative 2006/7 and 2007/8 programme. Consequently, the initial stages of the planning process require a review of the corporate capital resources and of the affordability involve a full review of the affordability of existing planned capital schemes and the corporate resources available to support them, linked to an update of the Asset Management Plan.

Timetable

8. The outcomes of these processes will be reported through as follows:

- Cabinet will be updated on 8 November on progress with planning the revenue budget and with updating the Corporate Plan, and will be asked to approve an updated Capital Strategy.

- Council on 23 November will amend the approved 2005/6 budget to take account of the 1% savings exercise for 2005/6.

- Cabinet will receive a report on the provisional revenue support grant settlement on 20 December, and the implications for budget planning.

- Consultative 2006/7 budget proposals will be published in late December 2005 or early January 2006.

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Background papers:	None
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

1. As set out in the report.

Legal

2. The Council is required to set balanced revenue and capital budgets for 2006/7 by March 2005. Under the Prudential Code established by the Local Government Act 2003, it is also required to demonstrate the affordability of its revenue budget for the two subsequent financial years, after taking into consideration its plans for capital expenditure.

Personnel

3. None directly arising.

Equalities impact

4. No direct impact.

Corporate objectives and priorities for change

5. The report addresses the need to ensure that budget planning priorities are consistent with wider corporate objectives and planning.