



Budget Strategy and Priorities 2007/8 to 2009/10

SUMMARY

- 1.1 I am determined to ensure that the Council continues to deliver high quality services and value for money, but the financial situation facing the Council from 2007/8 is a particularly challenging one. There are a number of major pressures emerging over those already planned for. These include:
- job evaluation costs higher than anticipated in the worst case
 - capital investment in waste disposal
 - escalating energy costs
 - funding housing benefit costs for previous no board residential accommodation.
- Improvements to the public realm are also required and funding for a 10 year investment programme needs to be identified in parallel with match funding from partner organisations.
- 1.2 The external resources available in 2007/8 are reasonably predictable, so the Council must look to contain its expenditure to cope with this situation and keep our commitment to maintain a low council tax.
- 1.3 I have authorised an exercise to look at options to deliver savings amounting to 10% of net budgets over the three years to 2009/10, integrated with scrutiny of all areas of the budget, various aspects of which are set out in the attached report by the Corporate Director for Resources and Housing. Council Cabinet members will therefore need to work with Chief Officers on these savings and income opportunities. The results from the exercise will be brought back for consideration to a later Cabinet. Plans for capital expenditure will also be subject to review and tight control will be maintained on the 2006/7 approved budget.
- 1.4 The current corporate plan is due for annual review by March 2007 in line with our planning framework. It is proposed to retain the agreed corporate priorities but further work will be done to refine the outcomes supporting these priorities. Development of the corporate plan will be closely integrated with budget planning.
- 1.5 Subject to any issues raised at the meeting, I support the following recommendations.

RECOMMENDATION

- 2.1 To note the financial situation facing the Council from 2007/8 onwards.
- 2.2 To approve the strategy to be followed during the initial stages of preparing budgets for 2007/8 and the indicative planning budgets for 2008/9 and 2009/10, as set out in this report.
- 2.3 To confirm the Council's four corporate priorities for 2007/8 and the process of integration of those priorities and the Corporate Plan to budget planning.



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SUPPORTING INFORMATION

1. Introduction

- 1.1 The purpose of this report is to seek approval for the approach that the Council will follow in preparing its 2007/8 budget and indicative planning budgets for 2008/9 and 2009/10, with a particular emphasis on the process for delivery of necessary budget savings. It sets out the financial situation facing the Council, the savings process needed to address that situation, and how the budget choices are to be linked with the process of wider corporate planning and priority setting.
- 1.2 The 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 an exceptionally low council tax relative to other councils – the area council tax at Band D is £109 below the England average and Derby has had the lowest tax for a given band in the whole East Midlands since 2002/3.

2. The Council's Financial Situation

- 2.1 When approving the 2006/7 budget and tax increase, a planning budget was set for the next two years. These identified a £2.2m ongoing gap from 2007/8 and £0.5m in addition in 2008/9 when a 5% tax increase was modelled. To bridge this gap would require 1.7% savings over the two years.
- 2.2 The resource position available to the Council is, for 2007/8, reasonably predictable with the advent of two year grant settlements. Financial planning is based on the 4.4% adjusted 2007/8 formula grant increase confirmed in January 2006, with the prospect of only minimal changes. The most important specific grants have also been the subject of two year settlements. The position from 2008/9 is far more difficult to gauge and will depend on the outcome of the Comprehensive Spending Review 2007. However, the 3.5% formula grant increase assumed for 2008/9 in earlier planning is comparable with the precedent of other recent settlements (after excluding schools funding).
- 2.3 All of this means that the Council needs to rely on its own efforts to contain expenditure in order to contain the budget gaps.

- 2.4 Since the budget was approved on 1 March, the future planning position from 2007/8 onwards has deteriorated. There are now a series of major pressures not reflected in the position projected in March. Major strategic issues include the following ...
- The latest evidence of job evaluation settlements being reached in other local authorities now suggests that the worst case scenario of costs could be significantly more than the £2.5m of ongoing costs provided for from 2007/8 in the indicative forward budget.
 - The forward capital programme takes no account of the costs of the future joint waste disposal capital investment now being planned jointly with Derbyshire County Council, which would impact on the revenue budget from 2008/9. The alternative to this investment would be an equivalent increase in landfill costs. In both cases the eventual ongoing net revenue costs would be above £2m, and without any major changes in Government policy would need to be contained.
 - Each budget planning cycle regularly sees the emergence of a variety of new medium size pressures beyond those already allowed for in forward planning. It will be harder for departments to manage these sort of pressures within budgets now that the more immediate savings opportunities have been realised. A further series of pressures is starting to emerge for the 2007/8 round. Escalating energy costs and the unexpectedly early ending of no-board residential accommodation are early examples.
 - The starting budget position depends on the delivery of savings planned for 2006/7 and the containment of any new unplanned pressures. 2006/7 budget monitoring is starting to indicate that this year's budget is under pressure. The overall position will be reported through to the September Cabinet in detail together with any mitigating actions that need to be put in place. Particular emphasis is being placed on ensuring that savings planned in 2006/7 are being delivered.
- 2.5 There is also a desire to put in place a long term programme to create significant capital investment in the City to both address the future 'Public Realm Strategy' and to address some of the future issues with public buildings. This would involve a major investment in the public realm programme over 10 years, plus further investment in public and service buildings to bring these up to a decent level, including delivery of the Council's accommodation strategy. We would hope to be able to at least match the Council's own investment through grants and partner contributions over the 10 years.
- 2.6 Finally, there is the issue of council tax. Current projections are based on a 5% increase in 2007/8. The total Band D Derby area council tax in 2006/7 is £1,159 compared to an average Band D tax for England of £1,268. A £58 increase in taxes would therefore represent a 5% increase in Derby but only 4.57% in the average English local authority.

2.7 The options for members on council tax are limited ...

- The Government capped tax increases that were above 5% in 2006/7. Although no local authority was in the end required to withdraw its tax bills, two authorities (Medway and York) were given advance notice of limits to their maximum budget for 2007/8. The Government has also announced that its tax expectations for both 2006/7 and 2007/8 are the same. So it is realistic to expect taxes above 5% to be capped in 2007/8 also.
- If members did though wish to keep tax increases below 5%, then each 1% tax reduction will cost £0.6m, 0.4% of the net budget, and would have to be maintained into future years. A tax increase below 5% could only be contemplated if the Cabinet were confident that it could find savings to contain all of the above pressures and the potential developments that it prioritises, as well as the savings necessary to reduce the tax. Without this the Council would be unable to deliver its statutory duty to set a balanced budget.

2.8 The above additional pressures and developments have the potential to eventually add more than 10% to the Council's annual base budget over the three years to 2009/10, and if the planning assumption for council tax increases were to be reduced this would add to that figure.

3. Initial Savings Stage of the Budget Planning Process

- 3.1 The budget situation is more difficult than that faced by the Council in previous budget rounds. This means that the approach to planning corporate priorities, set out in the subsequent sections of this report, will to a significant degree be determined by the choices made to limit expenditure in the budget process.
- 3.2 The initial stages of the budget planning process will therefore need to focus on a robust process for generating options for savings. The extent to which any new developments proceed will depend upon the robustness of this process. The main elements of this proposed process are set out below.
- 3.3 Chief Officers have already started an exercise to identify options for generating net budget savings of 10% over 3 years including 3.5% savings in 2007/8 as a result of the emerging budget position. This has been started early in order to ensure that as many options as possible can be properly worked up for consideration by members. There has to date been no prioritisation of options or services in the absence of consideration of this process by members and one purpose of this report is to seek confirmation over how this process is to proceed.
- 3.4 The options being developed need to be integrated with a process of line-by-line scrutiny of the budget. It is particularly important to ensure that at this early stage all budgets are the subject of a robust re-examination. This means making sure that budgets which might not initially be the subject of significant savings proposals are subject to further challenge, with heads of service being required to justify and re-examine their position including clarifying policy choices over methods and scale of service provision. This process is at least as important as the process of reviewing options that do come forward, in order to generate the widest possible set of options for members to prioritise. It would be premature to bring forward any proposals for 2007/8 to Cabinet until this process has progressed much further, but Cabinet

members will want to ensure that line-by-line scrutiny progresses in their areas of responsibility.

3.5 Other aspects of this process are the following ...

- Emphasis within the review process on the benchmarking of processes and forms of service delivery against practice in other local authorities, to ensure that opportunities identified elsewhere are properly considered.
- Support services including the line management of front line services will need to be given particular attention and if necessary members may wish to examine establishments and the role of posts or groups of posts. The ability to realise savings through business re-engineering in parallel with ICT investment is a major issue for support services.
- Various income opportunities identified in the budget reviews during 2005 need to be followed up in so far as they were not fully developed during the 2006/7 budget process.
- Now that the 2005/6 accounts are closed, there is the opportunity to follow up key variances from 2005/6 to re-examine underspending base budgets. This may give cause to question the scale of budgetary pressures now being reported through for 2006/7. Where underspending has occurred against establishments due to persistent vacancies, those establishments need to be reviewed.
- The percentage savings targets are calculated against the Council's net revenue budget of £156m in 2006/7. The percentage savings required are smaller when calculated against gross spending funded from grants and other income. Some of the grants within the gross budget are not tightly ring fenced to specified particular uses. The budget review does need to be extended to activities delivered from such funding and any headroom available from that funding, with a view to using that headroom to reduce commitments on the core net revenue budget. Discussions are needed with Derby City Partnership on how its decision making processes might be integrated with the Council's own budget planning needs and those of its other partners.
- Service reviews need also to be focused on achieving targets in areas which are not currently subject to devolved budgets but which are still a demand on corporate resources. In the absence of budgets, it is planned to extend the savings exercise to seek proposals from departments for means of reducing demands on corporate resources. There are also devolved budgets where coordinated reviews may be needed. Possible areas for such service reviews may include:
 - devolved space savings targets for use of office accommodation
 - reappraisal of telecommunications requirements
 - extent of workplace car parking (as an opportunity cost)
 - IT infrastructure and other devolved IT budgets
 - specific targeted aspects of procurement (to supplement the very limited central review capacity).

The Council's Efficiency and Procurement Board will consider the scope and extent of corporate coordination for such reviews.

- Future pressures already included in indicative forward budget planning will need to be re-examined. There is no special status or approval given to such planned future pressures.

- 3.6 Existing plans for capital expenditure also need to be re-examined for general affordability and the pace of implementation. This is particularly important in so far as borrowing outside of the housing revenue account is largely unsupported in its initial years under the revenue grant system from 2006/7. We can no longer assume that the announcement of government 'support' for a scheme means that borrowing costs are affordable. The process will be addressed in more detail in the Capital Strategy report to be brought subsequently to Cabinet.
- 3.7 It would be unrealistic to plan entirely on the basis that required savings can in all cases be generated by more efficient working without some impact on service delivery. There is a need for contingency plans to be drawn up for more difficult service cut decisions.
- 3.8 In parallel with this process, it is important to deliver a balanced 2006/7 budget. The changes to Financial Procedure Rules agreed by Council on 19 July 2006 have clarified responsibilities of officers to manage budgets responsibly, so that for example new commitments are avoided without Cabinet authorisation and unplanned income is reported before any decision is taken on its use. Budget monitoring procedures for 2006/7 are also being developed to give greater focus on defined risk budgets to focus management attention and give early warning of variances. There is a need to ensure that approved 2006/7 savings are being delivered and risk budgets are focused as necessary.
- 3.9 If 2006/7 monitoring does confirm overspending or if the 2007/8 targets look particularly difficult to achieve we cannot at this stage rule out the bringing forward of savings into 2006/7, possibly on a similar basis to the 1% exercise conducted in 2005/6.

4. Service Planning and Priorities

- 4.1 Progress on the savings exercise will be reported back in the Autumn at which point it will be apparent as to the extent to which savings are likely to be available without real service cuts that would impact adversely on the Council's service priorities.
- 4.2 At that stage it will also be necessary for Cabinet to consider how to best to prioritise the resources available to address unavoidable pressures and to meet priority service developments. Prior to this we will seek where possible to hold back on new spending commitments at September and early October Cabinet to enable them to be subject to relative prioritisation by members.
- 4.3 The Council's four priorities and thirteen key outcomes must also influence final decisions on resource allocation and more detailed service planning to promote improvements in service delivery. These are shown for reference in Appendix 2. In the context of limited resources, it is important that the corporate/service planning and budgeting processes are closely aligned to ensure funding is matched against priorities. Going forward into 2007/8, it is proposed to retain these four priorities as they remain relevant to both local/national contexts and are consistent with the Community Strategy and Local Area Agreement. There does need to be some

refinement of key outcomes included within each of these priorities and it is intended to review these over the summer, with approval by Cabinet in Autumn 2006. One issue is how the outcomes should be adapted in the event of the strategic investment in the economic development of the City Centre considered earlier.

- 4.4 Relevant trends will need to be examined to address how far decisions based on these priorities will also need to be adapted to changing patterns of demand when allocating resources. This particularly applies to demographic trends in terms of the relative age of the population, with the elderly population of Derby predicted to grow while the younger population falls. Changing patterns of service take up also need to be taken into account in a situation where for the majority of the population real incomes have risen and new technology is often changing needs and demands. This process will run in parallel with the savings review so that the results are available to guide choices in the Autumn.
- 4.5 Corporate planning has to be sensitive to the financial constraints facing the Council and value for money is in itself a priority. It is intended to build the agreed efficiency measures into the Corporate Plan to show how the Council is planning to make services more cost effective, whilst also highlighting areas for service improvement. Departments will review and develop plans and actions to support the priorities and key outcomes, linked to performance measures so we can track progress. Final reappraisal of the Corporate Plan will take place in January and February in parallel with the timetable for scrutiny of budget proposals.

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Background papers: None

List of appendices: Appendix 1 – Implications

Appendix 2 – Current Corporate Priorities and Key Outcomes

IMPLICATIONS

Financial

1. As set out in the report.

Legal

2. The Council is required to set balanced revenue and capital budgets for 2007/8 by March 2007. 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 account its plans for capital expenditure.

Personnel

3. Budget reductions on the scale suggested in this report clearly cannot be achieved without a significant reduction in employee costs. We shall need to work closely with the trade unions to manage these pressures and try to ensure that redeployment and retraining are used wherever possible to mitigate the impact on staff.

Equalities impact

4. None directly arising.

Corporate priorities

5. As set out in the report.

CURRENT CORPORATE PRIORITIES AND KEY OUTCOMES

To 2006/9 as approved in 2005/6

Priorities	Key outcomes
1. To improve the quality of life in Derby's neighbourhoods	<ul style="list-style-type: none"> • To reduce crime and anti-social behaviour • To reduce inequalities between neighbourhoods • To reinvigorate the city centre and river areas • To make Derby cleaner and greener • To provide greater opportunities for people to participate in decisions about the area they live in
2. To encourage lifelong learning and achievement	<ul style="list-style-type: none"> • To provide early and effective support for under performing schools to reduce the number of 'causing concern' schools • To improve educational attainment at Key Stage and GCSE levels • To raise skill levels to improve the chances of securing employment
3. To build healthy and independent communities	<ul style="list-style-type: none"> • To promote healthy communities • To improve the standard of social care for vulnerable adults and older people • To deliver joined up services for children and young people that meet the needs of the local community
4. To deliver excellent services, performance and value for money	<ul style="list-style-type: none"> • To reduce inefficiency by improving business processes and ability to perform • To minimise Council Tax levels and increase value for money