



Joint Report of the Chief Executive , the
Corporate Director of Corporate and Adult
Services and the Corporate Director of
Resources

Issues to be taken into account in approving the Revenue Budget and Council Tax for 2009/10

SUMMARY

1. This report from the Council's three statutory officers sets out a number of salient issues of which members need to be aware before setting this year's council tax, particularly if a reduction below the proposed 4.25% increase is considered.

RECOMMENDATION

2. To note the conclusion of the report at paragraph 3.5 and to take it into account the potential impact when approving the Council's revenue budget and council tax levels for 2009/10.

SUPPORTING INFORMATION

- 3.1 We should bring to your attention some of the salient issues that you should know about for the Council meeting in relation to the 2009/10 budget and council tax setting agenda item.
- 3.2 We have also offered you below some personal advice in relation to some of the serious financial consequences that we will face should the Council decide to set a council tax below the 4.25% increase approved by Cabinet on 17 February 2009.
 1. Our medium term financial strategy that was approved by the Council in March 2008 was reliant on a council tax increase of 5% for 2009/10 and 2010/11. This strategy was agreed in the knowledge that Derby is the lowest council tax authority in the East Midlands region.
 2. Our strategy recognised that this level of council tax increase was just below the Government's 'Capping' limit for council tax increases but the Cabinet decided that this was justified on the basis that the Government was withholding very significant amounts of our Revenue Support Grant entitlement over the three year period to support other Councils who are now entitled to less following a review of the grant formula.

3. This transitional arrangement is costing the Council nearly £6m in 2009/10. So even at a council tax increase of 4.9% which generates income of just under £4m, our total income in 2009/10 is still £2m less than what the Government's own formula says we need to provide the same level of service as other local authorities.
4. Cabinet amended our medium term financial strategy and reduced our council tax increase to 4.9% for 2009/10 in time for the budget consultation process starting on 12 January 2009. The cost of this 0.1% reduction of £80,000 was met from corresponding savings targets in order to balance the budget.
5. For your information, a 1% increase in council tax equates to additional permanent income for the Council of £800,000 a year. Correspondingly, a 1% reduction in council tax therefore means we need to find permanent savings of £800,000 every year in order to balance our budget.
6. By the Cabinet reducing the council tax increase from 4.9% to 4.25% after the consultation period ended at the Cabinet Meeting on 17 February 2009, we now have a funding gap of £713,000 in our base budget and the Cabinet recommendation is that we meet this shortfall in 2009/10 from the Council's financial reserves. We also need to deliver over £11m of very challenging savings in 2009/10 to bring our budget into balance.
7. All councillors need to be aware that this £713,000 is a permanent funding gap, and whereas we have enough reserves to meet this gap in 2009/10, this is not a sustainable position and we have had to identify further savings to meet this gap from 2010/11.
8. To balance our budget in 2010/11, our Transforming Derby programme has been set a savings target of at least £884,000. The programme will focus on reviewing corporate and transactional services, support services and 'back office' services. Whereas, we are confident the Transforming Derby programme will deliver this level of savings, it will require structural change, a reduction in jobs through more efficient ways of working but could also have an impact on services.
9. Our budget for 2011/12 requires further savings of £2.4m to balance. 2011/12 is the first year of the Government's next three year Comprehensive Spending Review and all the signals coming from Government are suggesting a very tight Revenue Support Grant Settlement. Our budget strategy is forecasting a grant increase of 2.15% (+£2.6m in cash) but if it is a zero increase (which it could well be), we will be faced with an increased funding gap of nearer £5m in 2011/12.
10. From 2011/12 we will be facing even more difficult budget problems than we do now. The resolution of these problems will require even more radical and difficult savings to be taken which will inevitably lead to cuts in service.

3.3 Derby City Council has a low Council Tax base. All parties have acknowledged that we have lean budgets but that does not mean that we cannot achieve reductions, indeed reductions are inevitable and will be achieved. We are not saying that there will be no staff economies and all the proposals contain reductions in staff levels. Furthermore our Transformation programme will inevitably mean reductions in staffing levels. Further reductions in expenditure and staff numbers will not be achieved merely on the basis of back office efficiencies although these will make a significant contribution. In the past, we have been able to manage any staff reductions largely through natural wastage and voluntary redundancies. That will probably not be possible on the scale that we now need to achieve and will be unlikely should the 2009/10 council tax be reduced even further.

3.4 Proposals need to be worked through properly so that we can deal with the necessary staffing issues and determine how services will be affected. Because of the political uncertainty we have, we can only do that after the budget has been set. It is our genuine concern that on the night of the Council meeting members will not be fully aware of the consequences of proposals that may be made and potentially agreed. All this advice seeks to achieve is to advise members of the possible consequences. As always it is for members to set the budget and for officers to deliver.

3.5 **CONCLUSION**

- (a) To balance our budget in 2009/10 based on a council tax increase of 4.25% will be a significant challenge and will require delivering over £11m of savings.
- (b) Should Council consider reducing the council tax increase below 4.25%, Council need to be aware this will require us to deliver further savings of £800,000 a year for each 1% reduction, in addition to the £11m.
- (c) Any reduction of the council tax increase below 4.25% will make our forecasted, much tighter financial position in 2011/12 much more difficult to achieve than otherwise would have been required.

IMPLICATIONS

Financial

1. As set out in the report.

Legal

2. Section 25 Local Government Act 2003 requires the Corporate Director of Resources, as chief finance officer, to report on the robustness of estimates made for the purpose of council tax calculations and the adequacy of proposed reserves.

Personnel

3. None directly arising.

Equalities Impact

4. None directly arising.