

Committee:	Executive	Agenda Item No.:	12.
Date:	30 <sup>th</sup> November 2009	Status	Open
Category	3. Part of the Budget and Policy Framework		
Subject:	Future Year Budget Assumptions (Budget Reports – 2009/10 Revised and Provisional 2010/11 onwards)		
Report by:	Director of Resources		
Other Officers Involved	Head of Finance & Revenues		
Director	Director of Resources		
Relevant Portfolio Holder	Leader of the Council		

## **RELEVANT CORPORATE AIMS**

STRATEGIC ORGANISATIONAL DEVELOPMENT – Continually improving our organisation.

**TARGETS** - None

**VALUE FOR MONEY** – Resource allocation needs to be matched to priorities based on known needs. By planning for the future services can be adjusted to the resources available.

## **Introduction**

1. Local Government finance has like all aspects of the economy has been caught up in a period of great change due to a variety of reasons but also in no small way to the recent recession.
2. The Council has seen this impact in a variety of different ways:
  - Significant reductions in demand for services that the Council receives an income from (e.g. Planning, Land Charges etc)
  - Significant extra demand for certain statutory services (e.g. benefits)
  - Potential changes in Government funding
  - Reduction in interest rates and resulting uncertainty from the Icelandic banking crisis

3. It is against such an agenda the Council will be seeking to set its budgets for 2010/11 onward in the coming months, which will bring with it uncertainties e.g. parliamentary elections.

### **Government Grant Settlements**

4. The Comprehensive Spending Review announced by Government in 2007 provided a three year Government grant settlement
5. The Government are still to announce details of the Comprehensive Spending Review which was due in 2009 for the period 2011/12 to 2013/14.
6. It is evident that the current economic downturn will produce a slowdown in public sector spending with downward pressure on grant settlements, specific grants, and council tax. Specific details are not known at this time.
7. The three-year local government settlement announced provisional allocations for 2010/11. As part of the Budget 2009, the Government confirmed that the provisional settlement for 2010/11 would not change from that announced in December 2007. The Council has now received notification that the formula grant from the Government in 2010/11 will be £7.9m. A 1% cash decrease in formula grant allocations per annum is assumed from 2011/12 onwards to reflect a real terms decrease of 10% over three years that is generally forecast.
8. In addition to the Formula Grant, the Council also receives Area Based Grant. No increase above that previously notified has been assumed from 2010/11 onwards, nor have any planned changes of funding from Specific Grants to Area Based Grants. The element of Specific Grant for Concessionary Travel is currently out for consultation but the proposals being consulted upon do not change the grant due to the Council but do benefit other Derbyshire councils that incurred increased costs in recent years.

### **Efficiency targets**

9. The Pre Budget Report 2008 announced an additional £5 billion public sector value for money target for 2010/11. The Government's Budget in 2009 confirmed that Local Government's 3% CSR07 efficiency target had been increased from £4.9bn to £5.5bn, with councils expected to find 4% efficiency savings in 2010/11.

### **Pay awards assumptions**

10. Pay awards assumptions are for 2% per annum increases. Pressure remains in the national economy to keep public sector pay increases to a minimum. Within Derbyshire the range is from 1.5% to 3.0%.

11. If the budget were be prepared on an assumed 0% increase in 2010/11 or subsequent years this would reduce the projected expenditure by approximately £280,000. It would be prudent to create an in year contingency of an amount up to the value of the saving to minimise the impact of any pay award that may result. If the contingency was not needed during the year then this could then be used to address other budget pressures / potential developments.

### **National Insurance Contributions**

12. Employers National Insurance contributions are due to increase by 0.5% from April 2011 based on the Government's Budget 2008 announcement.

### **Superannuation Employer rates**

13. Superannuation Employer rates are assumed to increase by 1% each year. This is determined by the actuarial review which takes place every 3 years, the next review will impact on 2011/12. Further increases are anticipated, unless the rules for achieving solvency or other adjustments are agreed nationally or recovery in investments continues to strengthen.

### **General Inflation**

14. General Inflation has in recent years not been provided for on supply and service budgets. No specific cases have been made to indicate this would be a problem to services. Within Derbyshire the range is from 1.5% to 2.5%.

### **Energy costs**

15. Energy costs have not been increased. It is expected that the unit prices will be constant throughout 2010/11 based on the framework agreement with Nottinghamshire County Council. Council's that previously joined other framework contracts have seen reductions in gas and electricity prices of between 10% and 35%. The recent approval of the new purchasing arrangements for 2011 onwards should go some way to keep costs as low as possible.

### **Investment Interest**

16. Investment Interest is under pressure at 2% in the current year, as detailed in the budget report for April to September. Assumptions for future years have taken into account advice from the Council's treasury advisors and other brokers and the levels of interest have been modelled on investment returns of 2% in 2010/11, 2.5% in 2011/12 and 5% in 2012/13.

17. The recent volatility in the money markets has indicated that it would be prudent for the Council to seek to get to a position where investment interest does not fund recurring in year expenditure but rather is used to fund one off developments or to pump prime saving initiatives.

### **Income levels**

18. Income levels are assessed on a Service by Service basis as certain activities cannot easily pass on an increase e.g. Land Charges, whereas others are expecting to see an increase e.g. Planning. In general, where this is not at statutory fee and the market place is not distorted there has been increase of approximately 3%. Within Derbyshire 2.5% is the norm.
19. If the Executive accept the report by PPMG 2 in this area, this will be considered and reported to a future meeting of the Executive.

### **Debt Charges**

20. Debt Charges are expected to increase in 2010/11 ongoing due to the Commutation adjustment reserve ending.

### **Council Tax**

21. Council Tax increases will be a matter for Council to determine. The current level of Council tax at band D is £155.20 per annum, making up 10% of the total bill. The table below illustrates the impact of different increases assuming no increase in the taxbase.

<b>Type of Increase</b>	<b>Actual Increase £</b>	<b>Total Band D £</b>	<b>Revenue generated £</b>
1.0%	1.55	156.75	34,925
1.5%	2.33	157.53	52,500
2.0%	3.10	158.30	69,849
2.5%	3.88	159.08	87,424
3.0%	4.66	159.86	104,999
£0.50	0.50	155.70	11,266
£1.00	1.00	156.20	22,532
£2.00	2.00	157.20	45,064
£3.00	3.00	158.20	67,596
£4.00	4.00	159.20	90,128

22. The Government continue to scrutinise Council Tax increases and will review any excessive increases, as evidenced by the experience of Derbyshire Police Authority. This would normally be an issue for increases in excess of 4%.

23. The Council does have the option not to increase the Council Tax. The amount of revenue lost in the immediate year may not be significant but it does impact on the levels of future year increases as year on year that revenue has been lost and future increases will be from that lower starting point. Any attempt to then recover such an increase would be limited to the levels acceptable by Government and community interaction.

### **Council Taxbase**

24. Council Taxbase increases, if any, are expected to be lower than previous years, reflecting the downturn in the economy. This will be reported to Council later in the financial year. In addition, the taxbase will be set in the context of the ongoing collection fund deficit.

### **Collection Fund**

25. The Collection Fund has been carrying a deficit for a number of years which has slowly been growing. This will be reviewed in January and consideration given to declaring a deficit to the precepting authorities. This also, to a lesser amount, puts a cost on the General Fund.

### **Other budget considerations**

26. Certain budgets are under significant pressure in the current year and separate reports are being sought by SMT to bring to Cabinet options for current and future year levels of income and expenditure. These reports will focus on:
- Planning
  - Bulky waste
27. Carbon Reduction Commitment is a new mandatory scheme intended to drive energy efficiency in both the private and public sectors, including local authorities. At this time the Council is exempt from such costs but limits in future years may result in the Council needing to purchase 'carbon allowances' to cover its energy-related emissions.
28. South Normanton Joint Service Centre annual revenue costs of £70,000 added to the budget, less savings from the transfer from the existing premises.
29. Concessionary Travel will no longer be a cost to the Council from April 2011 when responsibility will return to Derbyshire County Council. The budget assumptions at this time assume that the reduction in funding will mirror a reduction in expenditure. Government consideration after consultation with the Council's affected is still awaited.
30. Job Evaluation (generally & specifically for Craft employees) and the resulting equal pay audits will see continued increases in costs.

31. Icelandic investments and any return from them that is not 100% of the investment made will result in the Council having to account for an impairment of the asset. Whilst this cost can be spread over a number of years it remains an uncertainty for the purposes of preparing the budgets at this time. In addition, requests are being made to Government that any impact be deferred for a further year, as was the case in 2009/10.
32. The International Financial Reporting Standard has an increasing impact on the Council each year until full conformity is achieved. We await confirmation that the latest guidance from Government does not require any budgetary provision.
33. Land Charges income from personal searches is subject to a number of Counsel Opinions dealing with a national issue that the Local Government Association is involved with. If the current basis of charging was to be removed a significant element of the Council's Land Charges income would be at risk. This matter is not yet resolved.
34. The work of the PPMGs if accepted by the Executive will need to be evaluated in detail and changes considered for the budget.
35. The budget will continue to be developed based on assumptions agreed with the Executive. The refinement of the budget to the Council's level of available resources and to its priorities will be on an ongoing basis in consultation with Cabinet and updates to the PPMG's leading to future reports to Executive and then to Council.

### **Overall Position**

36. These assumptions are subject to fluctuation as further information arises on future Government spending plans, service demands, pay and price inflation over the next four years. Planning for the tougher times ahead is clearly a priority.
37. The impact of the economic downturn has led to an increase in demand for some Council services, this may well continue for a number of years. There is a level of unpredictability about the Council's forward financial plan caused by the current pressures in the economy. The certainty the Council does face at the moment is that the financial position of the Council is going to be very challenging with the Council having to meet ongoing costs and service pressures against a background of much less government support.

## **IMPLICATIONS**

Financial: The report outlines the many issues under consideration for future years budgets. This report will also be presented to the Scrutiny Committee on 7<sup>th</sup> December 2009.

Legal: None

Human Resources: None

## **RECOMMENDATIONS**

- 1. That the assumptions detailed in the report be noted**
- 2. That indicative levels of Council Tax are noted and inform future decisions for Council Tax setting**

## **REASON FOR DECISION TO BE GIVEN IN ACCORDANCE WITH THE CONSTITUTION**

The Council's budget needs to reflect local decision making.

ATTACHMENTS: **N**

FILE REFERENCE:

SOURCE DOCUMENT: