

SHADOW COUNCIL
26 FEBRUARY 2009

SUBJECT	UPDATE TO REVENUE BUDGET 2009/10 AND MEDIUM TERM FINANCIAL PLAN The report provides an update to the previously circulated budget report and sets out the implications of two alternative Council Tax strategies as requested by Shadow Executive.
REPORT OF	Director of Corporate Resources
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IMPLICATIONS

SUSTAINABILITY	The budget and five-year plan agreed must be sustainable and achievable
FINANCIAL	The proposals agreed must be financially sound
LEGAL	No
PERSONNEL/EQUAL OPPORTUNITIES	No
COMMUNITY DEV/SAFETY	No
TRADES UNION	No
HUMAN RIGHTS	No
KEY ISSUE	Yes
BUDGET/POLICY FRAMEWORK	Yes

OTHER DOCUMENTS RELEVANT TO REPORT

None.

RECOMMENDATION(S):

It is recommended that Council:

1. Consider the update to the previously circulated revenue budget for 2009/10 and the medium term financial plan 2009/10 to 2013/14
2. Confirm which of the strategies it wishes to adopt and
3. Agree a band D Council Tax for former Mid Beds residents and former South Beds residents accordingly.

Reason for Recommendations: To enable Central Bedfordshire to set legal and robust revenue and capital budgets for the forthcoming year and to set a medium term financial plan for the subsequent four years.

Introduction

1. Proposals for the 2009/10 budget and the five-year Medium Term Financial Plan have previously been circulated to members for consideration at the Shadow Council meeting.
2. Since writing the report, meetings of both Shadow Executive and Shadow Scrutiny have taken place, both of which have considered the budget proposals and the associated report. The proposals were based on a net budget of £165.8m, reserve levels returned to 'policy' level by the end of 2010/11 and a Council Tax increase which averaged 3.27% (3.50% for Mid Beds and 3.00% for South Beds residents).
3. At these meetings, officers were asked to consider additionally the implications of two alternative strategies relating to
 - i. A first year Council Tax increase of 2.5% for residents of both the former Mid Beds and South Beds District Councils;
 - ii. A first year Council Tax increase of 1.0% for residents of both the former Mid Beds and South Beds District Councilsand to report their finding back to the Shadow Council meeting.
4. As this is the first budget for the newly created Central Bedfordshire Council and is taking place with the added challenge of the current economic climate, officers have taken the opportunity to review key assumptions and look again at ways of accounting for expenditure to help ease the transition to a new authority and to protect reserve levels. Changes, which impact over the life of the medium term financial plan, have been made which can be summarised as:-
 - Reserves inherited from the three predecessor authorities reviewed thoroughly and as a result, reduced from £20m to £14.96m based on actual expected sums receivable;
 - Invest to save reduced from £3m to £1.5m each year for the first 2 years, **saving £3m**;
 - Provision for future growth reduced by £500k to £750k in 2010/11 and on a sliding scale thereafter (compared with a previous assumption of £1.25m in each year), **saving £1.75m**;

- Capitalising ICT spend where it relates to hardware and software, i.e. not done merely as transition requirement but where long term benefit can be shown. **This saves £4.4m and has an immediate and positive impact as it reduces the call on reserves to fund transitional costs.** However it should be noted that this will result in additional borrowing costs of £1.3m per annum from year 4 which will, all other things being equal, impact on Council Tax levels from year 4 onwards.
5. The outcome of these changes has been to reduce transition funded by revenue reserves from £19.9m to £15.5m and hence to improve the overall financial strength of the new authority. This enables an improved balance to be struck between protecting overall budget levels in what is a high-risk year, maintaining reserves at levels which aid financial stability and maintaining Council Tax increases to levels below the nationally assumed average of 3.5% (3.8% in the East Region).

Alternative Strategy – 2.5% Council Tax

6. The first alternative Council Tax strategy which members asked officers to consider was based on a flat-rate 2.5% Council Tax increase in 2009/10 and the equalisation of Council Tax between the former districts by the time that the 2011/12 bills are issued.
7. The summary results of this analysis are shown in Annex 1 and include the revenue account, reserves and Council Tax position.
8. Given the changes noted in paragraph 4 above, it has been possible to produce a budget forecast in line with the original proposal with no cuts to services (i.e. at £165.8m) whilst achieving the Council Tax requirement of 2.5%.
9. Under this option, 2009/10 reserves are somewhat stronger with a year-end position of £2.6m. Although short of the £4.7m policy target, this is a considerable improvement on the original proposal which saw reserves at around zero at the same point.
10. The impact on annual Band D Council Tax (excluding precepts) levels would be
- i. Mid Beds – an increase of 2.5% from £1,232.70 to £1,263.52 (this is an increase of £30.82 or approximately 59p per week).
 - ii. South Beds – an increase of 2.5% from £1,282.06 to £1,314.11 (this is an increase of £32.05 or approximately 62p per week).
11. As with all options considered, 'Invest to Save' funding would be reduced from £3.0m to £1.5m

Alternative Strategy – 1.0% Council Tax

12. The second alternative Council Tax strategy which members asked officers to consider was based on a flat-rate 1.0% Council Tax increase in 2009/10 and the equalisation of Council Tax between the former districts by the time that the 2011/12 bills are issued.
13. The summary results of this analysis are shown in Annex 2 and include the revenue account, reserves and Council Tax position.
14. Despite the changes noted in paragraph 4 above, it has not been possible to produce a budget forecast in line with the original proposal without cuts to services whilst achieving the Council Tax requirement of 1.0%.
15. Based on financial analysis undertaken, to achieve this level whilst maintaining a similar reserves profile and equalising Council Tax level by the time that the 2011/12 bills are issued would require cuts to services of £1.6m for a full year (in practice savings will not all materialise on 1 April 09 and a much larger cut would be needed to achieve £1.6m of savings in the next financial year).
16. Under this option, 2009/10 reserves are also stronger than the original proposals with a year-end position of £2.4m. Although short of the £4.7m policy target, this is a considerable improvement on the original proposal which saw reserves at around zero at the same point.
17. The impact on annual Band D Council Tax (excluding precepts) levels would be
 - i. Mid Beds – an increase of 1.0% from £1,232.70 to £1,245.03 (this is an increase of £12.33 or approximately 24p per week).
 - ii. South Beds – an increase of 1.0% from £1,282.06 to £1,294.88 (this is an increase of £12.82 or approximately 25p per week).
18. As with all options considered, 'Invest to Save' funding would be reduced from £3.0m to £1.5m.
19. It should be stressed that the proposed budget of £165.8m is considered a prudent and realistic baseline on which to go forward. It is based upon the work undertaken by officers to establish expenditure and funding proposals which seek to protect service levels whilst at the same time ensuring medium term financial stability and resources to bring about genuine value for money in service delivery and support. It

also incorporates considerable savings when compared with the financial position of the predecessor authorities.

Robustness of Estimates

- 20 Setting a budget and long term financial plan at the present time is challenging and presents a considerably higher risk than in normal years for three reasons
 - i. It is done without ever having operated conjoined services or having any previous financial history upon which to base reasonable estimates.
 - ii. It is done against the backdrop of arguably the most challenging economic circumstances, for individuals, businesses and local authorities, for decades;
 - iii. It is done before the new Council has come into existence.

- 21 The budget has therefore had to be proposed on clear principles which seek to manage and minimise risk
 - i. Revenue and Capital estimates must be grounded in the budgets of the predecessor authorities with reasonable estimates of growth pressures, diseconomies of transition and efficiency savings;
 - ii. They must be reviewed and agreed by experienced Directors and their teams to ensure that they are sufficient for delivery;
 - iii. Reserves must be at or above policy level by the end of 2010/11;
 - iv. Council Tax increases must be kept to the minimum necessary to achieve i – iii above bearing in mind capping criteria.

- 22 The very nature of the budget build has, therefore, been challenging but there have been a number of actions to mitigate the risks and ensure there is a robust budget in place for 1 April 2009. The chief action has been a series of three budget challenge days in November for the Chief Executive and directors led by the finance team. This work was supplemented by a challenge day by the Finance Team in early January and by using experienced and qualified financial staff to support Directorate staff.

- 23 Turning to the outcomes, each of the two alternative options can produce a 209/10 balanced budget and acceptable levels of Council Tax.

- 24 The 2.5% option does so within the same parameters as the original officer proposals and represents a good balance of risk and reserves for the proposed tax level.
- 25 The 1% option requires significant cuts to services to achieve the same financial outcomes and this inevitably, in such a challenging year, gives rise to increased risk or, without these cuts, a financial position which is unsustainable over the medium term.
- 26 In such a year of unknowns and until CBC has been operating for some time, members should consider the level of risk that they are prepared to bear when setting the appropriate Council Tax strategy and budget.

Fees & Charges

- 27 The budget report proposes recommendation of the schedule of fees and charges for the authority.
- 28 At its meeting of 17th February, Shadow Executive asked that all such charges be rounded to avoid confusion.
- 29 As this schedule is extremely lengthy and the amendments are minor, rather than re-issue the whole schedule, copies will be available for inspection before the meeting should members wish to review these.