

TO: THE EXECUTIVE
DATE: 12 DECEMBER 2006

**GENERAL FUND REVENUE BUDGET 2007/08
(Chief Executive/Director of Corporate Services)**

1. PURPOSE OF DECISION

- 1.1 The Provisional Local Government Finance Settlement was announced on 28 November and establishes the Council's general grant allocation for 2007/08, with the Dedicated Schools Grant subsequently being announced separately.
- 1.2 This report summarises the Government's provisional proposals and considers their impact on the Council's own budget for 2007/08, as far as they can reasonably be determined at this early stage. The Executive will need to consult on its detailed budget proposals with the Council's Overview & Scrutiny Commission and other interested parties during the next six weeks.
- 1.3 All comments received on these budget proposals will then be submitted to the Executive on 13 February. This will allow the Executive to determine its final budget package and recommend the appropriate Council Tax level to Council, who will formally approve the 2007/08 budget and Council Tax on 28 February.

2 RECOMMENDATIONS

That the Executive:

- 2.1 **Approve the revised Commitment Budget at Annexe A;**
- 2.2 **Note the provisional Local Government Finance Settlement and agree the draft budget proposals for 2007/08 as the basis for consultation with the Overview & Scrutiny Commission and other interested parties.**

3 REASONS FOR RECOMMENDATIONS

The recommendation is designed to allow the Executive to consult on its draft budget proposals as required by the Local Government Act 2000.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The range of options being considered is included in the report and its Annexes.

5 COMMITMENT BUDGET 2007/08 – 2009/10

- 5.1 Initial preparations for the 2007/08 budget have focussed on the Council's Commitment Budget for 2007/08 – 2009/10. This brings together the Council's existing expenditure plans, taking account of approved commitments and the ongoing effects of service developments and efficiencies that were agreed in March 2006. The table below summarises the Commitment Budget position with base expenditure of £64.625m next year, before any new changes are considered in the light of the Provisional Finance Settlement. This is shown in more detail in Annexe A.

Table 1: Summary Commitment Budget 2007/08 – 2009/10

Planned Expenditure			
	2007/08 £000	2008/09 £000	2009/10 £000
Base Budget	62,450	64,625	66,477
<i>Movements in Year:</i>			
Chief Executive / Corporate Services	336	-117	-105
Education, Children's Services & Libraries (excluding schools)	395	-326	-78
Environment & Leisure	609	670	337
Social Services & Housing	261	-125	0
Non Departmental / Common	574	1,750	1,086
<i>Total Movements</i>	2,175	1,852	1,240
Adjusted Base	64,625	66,477	67,717

5.2 A number of changes are proposed to the Commitment Budget since it was last considered by the Executive in July. Some of these simply represent allocations to individual departments of items previously included as "Non Departmental/Common" commitments, such as the impact of the increase in pension contributions. However, the changes which affect the overall level of commitments are set out below:

- It was originally planned that the music festival organised by the Education, Children's Services and Libraries department would be held in late 2006/07. However this is now likely to be in early 2007/08. This makes a small change (£10k) to the profile of spending over future years.
- Planned savings of £0.240m in 2007/08 through the recommissioning of adult social services were included in the Social Services & Housing budget proposals. This was the second part of a two year savings target agreed in 2004 which for a number of reasons it has not been possible to deliver. The department is now committed to developing and delivering a comprehensive Older People's Strategy, drawing on national best practice, which will result in a wide range of service modernisation proposals in the coming year. A report is planned for the Executive in early 2007 which will set out the case for improved service outcomes from 2008/9. However, at this stage, no provision can realistically be made in the commitment budget until the report has been considered by the Executive.
- The main Energy contracts were renegotiated from November 2006. The estimate made in July has now been revised to reflect the new prices and has resulted in a reduction in the anticipated pressure by £0.059m.
- The detailed calculation of the impact in 2007/08 of the planned increase in employer pension contributions, which were the result of the pension fund valuation in April 2004, has resulted in a reduction of this pressure of £0.046m.

- There has been a major revaluation undertaken by the Valuation Office of all office accommodation within Bracknell. This results in lower rateable values for the Council's three main office buildings. Therefore the Business Rates chargeable on the Council owned properties reduces by £0.032m.

5.3 Taking account of these changes, Table 1 shows that base expenditure (excluding schools) is planned to rise by £2.175m next year before consideration is given to allowances for inflation and budget proposals identified by individual Departments in 2007/08.

6 PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2007/08

National Perspective

6.1 The key points in the provisional settlement from the national perspective are as follows.

- **Increase of 3.7% (2006/07 was 3.1%) in Formula Grant for 2007/08**
Formula Grant is primarily made up of Business Rates, Revenue Support Grant and Police Grant.
- **Assumed Capping Rate of 5%**
The Minister reiterated the Government's expectation that the average council tax increase in England for 2007/08 should be less than 5%.
- **Authorities with Education and Social Services responsibilities guaranteed at least 2.7% increase in grant compared with 2006/07 "adjusted" grant.**
The Government grant system was fundamentally changed in 2006/07 and the resultant calculation would have led to a significant reduction in the level of grant that a number of local authorities including Bracknell Forest received. In recognition of this fact these Councils are given protection by applying a minimum percentage increase on government grant of the previous year. Authorities in this situation are referred to as being "on the floor".

Local Perspective

6.2 For 2007/08 the Government has announced that the guaranteed increase for those councils on the floor will be 2.7%. However this increase is to be applied to the "adjusted grant" rather than the actual grant for 2006/07. The "adjusted grant" represents the previous year's cash grant, reduced as a result of the changes in funding for capital at a national level. (Funding for some capital schemes has been transferred from the general grant to specific grants.) For Bracknell Forest the reduction to arrive at the "adjusted grant" is £0.215m. Unfortunately, the Council does not receive a like for like benefit from the specific capital grants. Therefore the forecast for the 2007/08 government grant is £23.322m. This represents a cash increase of only £0.405m or 1.7%. This level of increase is very disappointing when considered against the current level of inflation and, particularly the severe cost pressures which local authorities with the responsibility for social services are facing.

6.3 The Government is currently preparing for the next comprehensive spending review, which is due in 2007 (CSR07). This will not affect the level of the grant until after 2007/08, but early indications are that Councils cannot assume any real increase in funding during the period covered by CSR07 i.e. the three years from 2008/09.

Local Authority Business Growth Incentive (LABGI)

- 6.4 The Council was notified in February 2006 that it had been awarded £0.688m for 2005/06 through the LABGI scheme and this was added to the general reserves. The scheme provides an incentive for local authorities to promote economic growth in their area based on retaining a share of the previous year's increase in Business Rates. This income helps the Council meet its commitments on economic development. The major project within the economic development sphere in Bracknell Forest is, of course, the Town Centre Redevelopment.
- 6.5 The current LABGI scheme has been reviewed by the Government although the final details of the revised scheme are not yet available. Based on the headline announcement by the Minister made in November 2006 the Council could expect to receive between £0.9m and £1.3m (say £1m) in Feb 2007. This receipt cannot be guaranteed until the final details of the scheme are published in January 2007.

Council Tax

- 6.6 The Council currently levies the lowest Council Tax of all Unitary Councils in the country. Council Tax at current levels will generate total income of £38.710m in 2007/08. This includes an estimate for new properties that will be completed during 2007/08. In addition, there is a surplus on the collection fund arising in the current year and the Council's share of this surplus is estimated to be £0.112m. The Minister for Local Government in announcing the provisional finance settlement, confirmed that he expected to see the average Council Tax increase to be below 5% and any authority which breached this limit would be subject to the use of Council Tax "capping" powers. The Executive at its meeting in February will recommend to Council the level of Council Tax in light of the final settlement, the results of the consultation and the final budget proposals. However, it is extremely unlikely that any increase in excess of 5% will be supportable, no matter how well justified.

7 BUDGET PROPOSALS 2007/08

- 7.1 Details of the specific service pressures, developments and economies that have been developed by individual Departments together with a number of corporate issues are set out in the sections below.

Service Pressures, Developments and Economies

- 7.2 In preparing the 2007/08 draft budget proposals, informal groups of Leading Members and Officers have met to review each Department's budget in detail and to discuss probable areas of service pressure, service development and economies. This exercise has been undertaken in the context of the estimated £13.4m gap (£7.4m after allowing for Council Tax increases in line with the Government's assumptions) between expenditure and income over the next three years, that was reported to the Executive in July 2006 when the commitment budget was last formally updated. The findings of these groups are reflected in the following sections on service pressures and economies.
- 7.3 The consultations on the Executive's proposed budget will involve the Overview & Scrutiny Commission and a number of other interested parties, most of which are likely to consider various elements of the proposals in isolation. It is important, therefore, to consider the overall budget strategy as outlined in the separate covering report by the Chief Executive to allow subsequent discussions to take place in the appropriate context.

- 7.4 In order to inform the budget process it is necessary to review the current year's performance against budget. It is essential for the Council's financial strategy that the 2006/07 budget is not over spent. The Council has continued to face significant pressures in the current financial year from demand led placements in children's services, for adults with learning disabilities and for services for older people. This is despite adding significant sums to the 2006/07 budget. In addition, the Council necessarily incurred considerable expense in obtaining the necessary legal and financial advice to complete the RE3 Waste PFI deal. The Executive and Corporate Management Team has put in place a range of measures to balance the current year's budget. Some of these measures to balance the current year's budget are incorporated into 2007/08 proposals. However, the underlying pressures in demand led services will continue into 2007/08 and potentially beyond this.
- 7.5 In order to maintain the medium term financial strategy to bring spending to a level that can be sustained by annually generated revenue, a range of economy measures have been sought alongside the identification of priority investment areas. As in previous years, these economies focus as far as possible on central and departmental support rather than on front-line services and this has been an important principle in the budget preparations over recent months.
- 7.6 Within this general framework, the potential changes which the Executive are considering for each Department are outlined in Annexe C and are summarised in the table below. Inevitably some of the savings proposals included in Annexe C will impact on service provision, although this has, as indicated above, been minimised.

Table 2: Draft Budget Proposals: Net Investments and Economies

Department	2007/08
	£'000
Chief Executive / Corporate Services	-347
Education, Children's Services & Libraries	115
Environment & Leisure	339
Social Services & Housing	984
Other Corporate initiatives	-140
Total	951

Spending on Schools

- 7.7 The Schools Budget – both delegated school funding and centrally managed items such as Special Educational Needs placements made outside of the Borough - is funded by a specific Dedicated Schools Grant (DSG). The DfES has announced provisional allocations of DSG for 2007/08 that shows a 5.9% cash increase on the current year's spending which, because of an anticipated fall in pupil numbers, equates to a 6.8% per pupil increase. Within this increase, extra funds have been allocated to implement new pressures around personalised learning, practical learning options for 14 year olds and expanding the number of early years placements made in private, voluntary and independent sector settings.
- 7.8 Local Authorities have a legal duty to set the overall level of Schools Budget and individual budgets for each of their schools by 31 March. This must be no lower than the level of anticipated DSG, but can be higher, if the Council decides to add a top up.

- 7.9 As the level of DSG is calculated from actual January pupil numbers, and the DfES does not expect to be able to confirm its provisional amounts until May, to meet the statutory budget deadline, the Schools Budget will have to be set on the basis of the estimated level of DSG. Given the relatively generous settlement for schools compared with all other services, the draft budget proposals assume the Schools Budget is set at the level of DSG, as estimated by the Council from the draft January pupil numbers.
- 7.10 Decisions around the final balance of the budget between spending by schools and that on pupil services managed by the Council is the responsibility of the Executive Member for Education and Libraries, although the Schools Forum must be consulted and, in certain circumstances, agree to spending increases on the services managed by the Council.

Corporate Issues

- 7.11 Apart from the specific departmental budget proposals there are some corporate wide issues affecting all departments' budgets which need to be considered. The precise impact of these corporate budgets is likely to change before the final budget proposals are recommended. However the current view on these issues is outlined in the following paragraphs:

a) Capital Programme

The scale of the Council's capital programme for 2007/08 will impact upon the revenue budget and will itself be subject to consultation over the coming weeks. As the Council no longer holds accumulated capital receipts, all new spending on non-Housing services will henceforth need to be funded from borrowing (either from internal revenue funds or external sources). The proposed capital programme of £13.971m (£8.471m general fund, £5.500m housing) for 2007/08 contained in a separate report on tonight's agenda would result in additional revenue costs of £0.243m in 2007/08 and a further £0.665m in 2008/09, if approved.

b) Corporate Contingency

A sum of £0.400m is currently included in the base budget to meet the cost of unpredictable or unforeseen items that would represent in-year budget risks. The Executive will need to make a judgement on the appropriate level of contingency at its February meeting, taking advice from the Borough Treasurer who will need to certify the robustness of the overall budget proposals in the context of the Council's remaining general and earmarked reserves, all of which will be reviewed to ensure that they are sufficient to manage the financial risks facing the Council in the coming years. Particular concerns around the level of contingency relate to the potential increase in demand for service in adults and children's social care which show no sign of having peaked.

c) Provision for Inflation and Pay Awards

The Commitment Budget excludes the cost of inflation on both expenditure and income. With retail price inflation (RPI) currently running at around 3.6% inflation will clearly impact on budgets, although it is widely anticipated that the headline inflation rate will reduce over the coming months.

In past years, the Council has restricted the provision for inflation on prices as a general economy measure, to help address the underlying budget gap, although pay awards have been fully funded. In the context of the Council's overall financial position, it is again prudent to consider where the provision for inflation on prices can be limited as an economy measure, although some exceptions will be necessary to reflect actual increases that will not be containable without real service reductions.

At this stage the inflation provision is not finalised, although based on the Council's expenditure requirement and current rates of inflation this could mean £2.326m needs to be added to the budget. The Executive will need to consider where it is appropriate and necessary to provide for inflation over the coming weeks so that the actual inflation provision can be added to the final budget report in February 2007.

d) Fees and Charges

The Council established a policy for the review of fees and charges when setting the 2001/02 budget. This requires each Department to consider the level of charges against set criteria. It is estimated that most prices, where the Council charges users of services a fee for that service, will need to increase by around 5% to cover increases in costs from inflation and other pressures. On the basis that this figure is used as a basic standard, proposed fees and charges are shown at Annexe B. Any significant variances from the standard 5% increase which would have a material impact will be resubmitted to the Executive in February for further consideration at the same time as it considers its recommendation for the 2007/08 budget to Full Council following its budget consultations.

Summary

7.12 Adding the draft proposals to the Commitment Budget and taking account of the corporate issues identified above would result in total expenditure of £68.145m as shown in the table below. Members are reminded that this simplified presentation masks a large scale refocusing of expenditure, with savings identified in the draft 2007/08 proposals of £1.683m offset by increased spending of £2.634m in priority or otherwise unavoidable areas.

Table 3: Summary of proposals:

	£m
Commitment Budget	64.625
Corporate Issues:	
Capital Programme	0.243
Inflation Provision (up to)	2.326
2007/08 Net Draft Budget Proposals	0.951
Draft Budget Requirement 2007/08	68.145

7.13 The Council can anticipate income before any Council tax increase of up to £63.144m. This arises from Government grants (£23.322m), LABGI (say, £1m), Collection Fund surplus (£0.112m) and Council Tax at current levels (£38.710m). However, with the potential overall cost of the budget package being consulted in the region of £68.145m, this leaves a potential gap of around £5m. As such, the potential

economies outlined in Annexe C should be seen as a “core package” that may well need to be built upon. Options to bridge the gap are discussed further in the Chief Executive’s overview report. Nevertheless consultees’ views on the relative priorities of the various items in the overall package would be particularly helpful in assisting the Executive to finalise the budget at its meeting in February.

8 BALANCES

- 8.1 General reserves are estimated to be £6.8m by 31 March 2007, providing the in year savings plan put in place to balance the 2006/07 budget is successful. The level of balances does still afford the Council some flexibility in setting its budget strategy, as they can be used to support a level of expenditure which exceeds the resources generated during the year. In simple terms, balances can be used to help reduce the remaining £5m gap. However, this cannot disguise the fact that projected expenditure, even after the potential reductions offered in the draft proposals outlined above, significantly exceeds the Council’s current resource base. With the Council similarly affected by the grant floor in 2008/09, further major reductions would be needed next year with limited flexibility to use balances if the full amount is used to bridge the budget gap.

9 CONCLUSION

- 9.1 The Council’s constitution requires a six week consultation period on the draft budget proposals. At this stage, detailed information is still not available on grant funding transfers. In this context, it is inevitable that, of the broad range of options proposed for consultation, not all will necessarily be included in the final package. It is also likely that some further issues will arise between now and February.
- 9.2 When the final settlement is known, the Executive can consider the prudent use of revenue balances and appropriate level of Council Tax to support expenditure in line with the overall medium term financial strategy along with further possible reductions to augment the “core package” in Annexe C. In doing this, it will be important to manage the budget process effectively so that the inevitable important service pressures can be responded to whilst, as far as possible, front-line services are maintained with minimal disruption and without creating long term problems for the Council.
- 9.3 It is suggested, therefore, that the Overview & Scrutiny Commission reviews the overall budget package and determines whether any specific issues should be considered further by the overview and scrutiny panels, at their meetings in January and February.
- 9.4 All comments from the Overview & Scrutiny Commission, overview and scrutiny panels and others on the revenue budget proposals will then be submitted to the Executive on 13 February 2007. This will allow the Executive to determine the final budget package and recommend the appropriate Council Tax level to the Council on 28 February.

10 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 10.1 The Local Government Finance Act 1992 requires the Council to set the level of the Council Tax by 11 March each year. It is impossible to achieve this without having agreed an affordable revenue budget for the year in question.

Borough Treasurer

- 10.2 The financial implications of this report are included in the supporting information.

Impact Assessment

- 10.3 The Council's final budget proposals will potentially impact on all areas of the community. A detailed consultation process is planned in order to provide individuals and groups the opportunity to comment on the draft proposals. This will ensure that in making final recommendations the Executive can be made aware of the views of a broad section of residents and service users.

Strategic Risk Management Issues

- 10.4 As has been explained previously the demand led budgets both in Adult and Children's Services have faced significant pressures. If the trend of increasing demand for these services continues into 2008/09 then the Council could face at least an additional £1m of pressures (not allowed for in current budget forecasts for 2007/08). This is by no means certain as experience has shown over the past eight years that these budgets can go down as well as up. In fact there have been two separate occasions when these budgets have decreased. However, as indicated above, there is no sign of that happening at the moment. As is the normal practice these future pressures are not included in the budget. The Council provides for this type of pressure within the general contingency.
- 10.5 A sum of £0.4m is currently included in the base budget to meet the costs of unpredictable or unforeseen items that would represent in year budget risks. The Executive will need to make a judgement on the level of contingency at its meeting in February.
- 10.6 The Borough Treasurer, as the Council's Chief Finance Officer (section 151 officer) must formally certify that the budget is sound. This will involve identifying and assessing the key risk areas in the budget to ensure the robustness of estimates and ensuring that appropriate arrangements are in place to manage those risks, including maintaining an appropriate level of reserves and contingency. This formalises work that is normally undertaken each year during the budget preparation stages and in monthly monitoring after the budget is agreed. The Borough Treasurer will report his findings in February, when the final budget package is recommended for approval.

11 CONSULTATION

Principal Groups Consulted

11.1 Consultation arrangements are set out in the Chief Executive's overview report.

11.2 The timetable for the approval of the 2007/08 Budget is as follows

Executive agree proposals as basis for consultation	12 December
Consultation period	13 December - 26 January
Executive considers representations made and recommends budget.	13 February
Council considers Executive budget proposals	28 February

Background Papers

None

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