

Highland Council

12 February 2009

Agenda Item	
Report No	

Revenue Budget and Council Tax 2009/10 – 2010/11

Report by Depute Chief Executive and Director of Finance

Summary

This report sets out information to allow the Council to agree its revenue budget and council tax level for 2009/10, and also saving proposals relating to 2010/11.

The enclosed booklets set out the Administration's budget proposals in relation to service growth and pressures (booklet A) and efficiencies and savings (booklets B, C and D).

1. Introduction

- 1.1 The Council has traditionally agreed its General Fund revenue budget on an annual basis. Over the past 6 months the Council has sought to improve its financial planning processes, and introduce multi-year budgeting for two forward financial years; 2009/10 and 2010/11. In taking forward its budget for these years, Services have also been considering longer-term saving options for development at this time, where the saving payback may fall outwith the next two years.
- 1.2 This report sets out information to allow the Council to agree its budget and council tax for the forthcoming financial year, 2009/10. Saving proposals for 2010/11 are also set out for approval, as forward planning for this second year will give the Council greater certainty and stability in delivering its budget.
- 1.3 Financial years 2009/10 and 2010/11 represent years two and three of the current three-year settlement covered by the 2007 Spending Review (SR07). Since the initial SR07 announcements in November and December 2007, considerable change has taken place in the wider financial environment, the effects of which the Council has not escaped.
- 1.4 The implications of the economic downturn are discussed later within this report, but in addition to the direct impact upon the Council's budget plans, the 2010/11 grant settlement from the Scottish Government has also been affected. While firm grant figures for 2010/11 had been announced in November/December 2007, as a result of the economic downturn and the Chancellor's Pre-Budget Report (PBR) in November 2008, revised figures were withheld in December 2008 when the Scottish Government updated the grant settlement. It is understood that the Scottish Government will see a reduction in their overall settlement from the UK Government for 2010/11 as a result of the PBR, although the implications for Local Government and individual Council are as yet unclear.

2. The Economic Downturn

2.1 The Council has not escaped the effects on the wider economy over the past 12 months. Set out within the budget proposals are the financial implications of the economic downturn on the Council's budget plans, and the actions proposed within the budget proposals to mitigate the effects.

2.2 In addition to the uncertainty relating to the 2010/11 grant settlement as highlighted in the previous section, the current economic position has had a range of implications for the Council's budget, both positive and negative, including:-

- Significant increase in fuel and energy costs.
- Slowdown in house building and completions, with negative implications for growth in council tax income.
- Potential for decrease in income collection levels, and increase in debtors.
- Decrease in interest rates, leading to opportunities to marginally reduce the costs of borrowing for capital investment, but also resulting in decreased income returns for any monies lent out by the Council.
- Likely slowdown in the value and volume of asset sales, with potential implications for funding future capital investment.
- Downturn in fee income for the Planning and Development Service, resulting in a budget pressure.
- Decrease in UK inflation, easing pressure on some aspects of the Council's budgets.
- Potential greater demand for support services to the community.

2.3 The Council has undertaken a range of actions to address the implications of the economic downturn, and provide support to those most affected by the issue. In December 2008 the Council agreed an action plan in response to the economic downturn, and a member leadership group to take forward the plan with senior officials. Within the budget report, specific proposals include:-

- Additional investment to support the promotion of benefits uptake.
- Additional investment to support the extension of free school meals entitlement to those families in receipt of Working Families Tax Credit.
- Also, the Council will be making significant investment through its capital programme, agreed in September 2008. From that programme, a total of £336m (gross) investment across 2008/09 to 2011/12 is planned, with £79m (gross) in 2009/10.

2.4 While the Council has taken action within its budget to take account of current and potential implications from the economic downturn, the budget position will be monitored throughout the year in order that the Council can respond to any further implications that may arise.

3. Grant Settlement

3.1 The revised grant settlement announced in December 2008 resulted in changes to the figures for 2009/10 previously notified 12 months earlier. In certain instances the changes reduced the Council's available grant as a result of adjustments and

corrections to the settlement, and the transfer of functions e.g. corrections to I.T. contract level playing field support and the centralisation of certain Police functions. In other instances additional resources have been incorporated to reflect new initiatives or further Government funding e.g. additional Free Personal Care funding. The details of the grant settlement have been considered by the Budget Information Group during January 2009.

3.2 The grant settlement, and effect of changes from the last notified position are shown below.

As stated earlier, the grant settlement for 2010/11 remains unclear, pending clarification of the impact of the Pre-Budget Report on the Scottish Block, and in turn Council grant settlements.

	£m	2009/10 £m
Total Revenue Support notified March 2008		483.400
Changes notified in December 2008:-		
- Free Personal Care Funding Addition	1.614	
- Police ICT Transfer	(1.794)	
- ICT Contract LPFS Correction	(1.400)	
- Schools Fund transfer to Revenue for PPP	3.851	
- Teacher Pensions Funding Addition	0.875	
- Fire Pensions Funding Addition	0.482	
- SNH transfer of funding to Councils	0.255	
- District Courts transfer away from Councils	(0.308)	
- Hostels grant reduction	(0.229)	
- Police Loan Charges support grant correction	(0.348)	
- Other minor funding additions/adjustments	0.243	3.241
Revised Revenue Support Circular 5/08		486.641
Changes assumed but still to be formally advised:-		
- Zero Waste Fund Funding Addition	0.952	
- Adult Support & Protection Addition (est.)	0.450	
- Correction to District Courts transfer	(0.063)	
- Adjustment to Police Specific Grant	0.212	1.551
Revised Revenue Support for Budget		488.192
Increase on prior year		20.248 4.3%

3.3 The 2009/10 grant settlement includes further funding of £3.235m to support the Council in freezing the council tax at 2007/08 and 2008/09 levels. This grant funding is included within the table above, but will be conditional on the council freezing council tax. Council tax for 2009/10 is discussed later within this report.

3.4 The expectation is that there may well be a reduction in the 2010/11 grant settlement, as a result of the £5bn additional efficiency target introduced across the

UK by the Pre-Budget Report. The previously notified grant for 2010/11 was as shown below (March 2008).

	2010/11 £m
Total Revenue Support Circular 4/08 (incl council tax freeze funding)	503.935
Increase on comparable 2009/10 support	4.2%

4. Budget Process

- 4.1 In light of the prevailing economic position at the time, and the initial budget forecast, in September 2008 Services were tasked with developing saving proposals to the value of 5% of their budget for each of the financial years 2009/10 and 2010/11. Within this sum, Services were to identify efficiency savings totalling at least 2% of their budget in each year.
- 4.2 The financial outlook, and proposed saving targets were discussed by the Budget Information Group (BIG), and BIG has met on several occasions throughout the budget process to be briefed on the financial outlook and the saving proposals to meet the 5% targets. In targeting savings of 5%, this approach was intended to provide flexibility and options in arriving at a final package of savings.
- 4.3 As set out later within the report, the actual level of savings required for 2009/10 is lower, equating to on average 2.9% of Service budgets. The level of saving varies across Services, as through the budget process attempts have been made to target efficiencies, minimise frontline service impact and align budget proposals with 'Strengthening the Highlands' Programme priorities.
- 4.4 As stated earlier, the budget process has related to two forward financial years, to improve the Council's financial planning arrangements. Recognising that many savings and efficiency improvements can take longer than two years to implement and deliver in full, Services were also advised to ensure that longer term saving options were also considered as part of the budget process, and later within the report a number of areas for review are set out.
- 4.5 Following agreement of the 2009/10 budget and savings for 2010/11 at this meeting, arrangements will be put in place to further improve the budget process in order that three-year budgets can be developed in future. A three year budget process will further enhance the Council's financial planning arrangements and in particular will allow the Council to better plan for delivery of future efficiency improvements.

5. Roll Forward Budget

- 5.1 Each year there are a number of adjustments to the base budget that are necessary to take account of known cost increases and other corporate provision. For 2009/10 the adjustments recommended total £26.980m and are summarised below. **Annex 1** sets out details of these adjustments.

- Pay awards. Teaching staff at 2.5% agreed for 2009/10. Non teaching staff 2.5% estimate.
- General inflation. 2.5% general inflationary provision across all non-staff budgets.
- Energy costs. Provision for contracted or estimated prices for energy. As a result of reducing oil prices, and the procurement process, overall increase lower than estimated at September 2008. In total, energy pressures still significant at £4.5m for 2009/10.
- Job evaluation. Provision for the estimated costs of the pay and grading structure agreed by the Modernising Employment Sub-Committee in October 2008.
- Pensions. Provision for increased costs of employer pension contributions for teaching staff. Non-teaching employer contributions remain at 2008/09 levels.
- Staff increments. Provision for teaching staff pay increments (non-teaching increments provided for within job evaluation budget).
- Loan charges. Provision for the estimated costs of loan charges, to meet the borrowing costs of the Council's capital programme. Cost reduced from initial estimates in light of lower interest rates and debt rescheduling.
- Joint Boards. Provision for requisitions from Police, Fire and Valuation Joint Boards.
- Supporting People Funding. Planned change in accounting treatment of the Supporting People 'windfall' following removal of ring-fencing from 2008/09. From 2009/10, 'windfall' utilised within General Fund rather than retained by the Housing Revenue Account. As a result, HRA revenue estimates later on this agenda will require amendment.
- Other roll forward adjustments. To remove any one-off items relating to 2008/09, to build in the full year effect of 2008/09 decisions, and any other adjustments to the base budget.

6. Administration Budget Proposals

- 6.1 **Booklet A** sets out the Administration's growth and pressure proposals for 2009/10 totalling **£8.665m**. For information only, proposals have also been presented for 2010/11 totalling **£5.856m**. Growth for 2010/11 is not presented for approval pending clarification of the grant settlement for that year.
- 6.2 When added to the roll forward budget adjustments identified in section 5, the total increases in budget for 2009/10 will be **£35.645m** before savings, equating to **6.2%**.
- 6.3 **Booklets B and D** sets out the Administration's efficiency and saving proposals for 2009/10 and indicative figures for 2010/11. These proposals total £8.639m and £6.707m respectively. Indicative figures for 2010/11 are incorporated to allow forward planning for delivery of these savings, giving the Council greater stability and certainty.
- 6.4 For noting only, **booklet C** represents those savings previously approved by the Council, and representing part of the funding package for the Administration's budget proposals. Previously agreed savings total £4.262m and £3.247m for the next two years.

- 6.5 In total, taking account of all proposals within the booklets, the total efficiency and savings for the forthcoming two financial years will be **£12.901m** and **£9.954m** respectively.

Efficiency savings within the booklets total £6.6m for 2009/10. Further efficiencies relating to debt rescheduling, council tax income collection and other workstreams are also planned or identified for 2009/10, and taken together are estimated to meet the Council's 2% efficiency target (£8m). This target is formally reported on retrospectively, following closure of 2009/10 Annual Accounts.

- 6.6 In relation to the longer-term, a number of reviews are ongoing or proposed by the Administration to secure further efficiencies and savings beyond 2009/10. These reviews include:-

- ECS - Review of internal arrangements for cleaning and janitorial services.
- ECS - Review of models for delivery of community learning and leisure services.
- ECS – school estate reviews e.g. greater Fort William area pre-school/primary.
- ECS – review options for use of Floral Hall and Horticulture Training Centre, Inverness.
- SW - Review into laundry arrangements.
- TECS – Depot and store rationalisations.
- TECS – Fleet management review including procurement/funding options.
- TECS – Public convenience review.
- Corporate – reviews of; former ring-fenced funds, voluntary sector grants and services, community care and children's services.
- Corporate Improvement Programme – Customer Engagement and Assessment, Information Management, Mobile and Flexible Working, Transport, Asset Management, Procurement, Business Support, Human Resources.

7. Council Tax

- 7.1 As stated earlier, the grant settlement provides further funding of £3.235m in 2009/10 to support the freezing of council tax at 2007/08 and 2008/09 levels. The grant set out at paragraph 3.2, and the Administration's budget proposals, are based upon the freezing of council tax. As a result, the band D council tax for 2009/10 would be £1,163. Information on the tax for each band is shown below.

Band	£	Band	£
A	775.33	E	1,421.44
B	904.56	F	1,679.89
C	1,033.78	G	1,938.33
D	1,163.00	H	2,326.00

- 7.2 If the Council did not freeze council tax, the additional grant funding of £3.235m for 2009/10 would not be available. It is also unclear if this would prejudice the £3.235m provided in 2008/09, and rolling into 2009/10, for freezing tax in the current year. For information, the additional grant in 2009/10 is equivalent to a council tax increase of 3.1%.

8. Risks and Assumptions

8.1 Within any financial year's budget there are a number of inherent assumptions made in arriving at figures and budget provision, and therefore risks that may be faced if costs change or new pressures emerge. In the current difficult economic climate, and the significant emerging issues from that, risk is inevitably greater and more difficult to predict.

8.2 The following keys risks and uncertainties are highlighted in the context of the propose budget.

- Uncertainty over grant settlement for 2010/11.
- Impact of economic downturn on range of factors including; inflation, interest rates, employment, tax and income levels, service demands.
- Settlement for non-teaching pay awards.
- Job evaluation implementation and final costs, including any appeals, over and above budgeted provision.
- Costs of redundancy and retiral arising from proposals, not provided for within budget.
- Extreme weather events
- Implications from tendering for new corporate ICT contract
- Cost pressures exceeding budget estimates
- Non-delivery or late delivery of planned savings

8.3 To mitigate these and other risks, the following actions have been taken.

- Deferral of formal agreement of 2010/11 budget pending clarification on grant settlement.
- Recognition, where possible, of any quantifiable impact from the economic downturn in the budget e.g. provision for reduced planning fee income. A range of actions set out at section 2 to mitigate the effects.
- Provision for significant cost burdens such as job evaluation.
- Detailed scrutiny over a number of months of Service budget pressure and saving proposals.
- In year monitoring of performance against budget targets.
- Retention of balances to provide for unplanned or unforeseen events and expenditure. More information in the next section.

9. Balances

9.1 The Council must retain an appropriate level of reserves and balances to act as a safeguard in the event budgets are insufficient to meet current or future expenditure. While there is no prescribed sum a Council should retain, it being a matter of local judgement, the Chartered Institute of Public Finance and Accountancy (CIPFA) has a framework of guidance in place relating to reserves and balances. The Council must also ensure that it has clear strategies in place in relation to reserves and balances.

9.2 In the current economic climate, and the greater uncertainty that results, it is increasingly important that the Council retains balances against circumstances

such as those set out in the previous section, taking account of the internal and external risks the Council may be exposed to.

- 9.3 Information on the reserves and balances held, and their purpose, are set out each year within the Council's Statement of Accounts. The most recent audited statements, relating to 2007/08, are available from the following internet location. The relevant information can be found within the Accounting Policies and Balance Sheet.

<http://www.highland.gov.uk/NR/rdonlyres/6B6A791F-7C1D-45C3-8047-67A807AE9212/0/auditedaccounts0708.pdf>

- 9.4 It is forecast that the Council's non-earmarked balances at the start of 2009/10, after allowing for planned use during that year, will be £15m, which equates to around 3% of the Council's net budget. Based on the risks the Council may be exposed to (section 8) and the action to mitigate these, this level of balances represents a prudent contingency sum.

10. Equality Impact Assessment

- 10.1 Equality Impact Assessments (EQIA) are part of the legal duties on the public sector set out in the Race Relations Amendment Act and are also included under the Disability Equality duty and Gender Equality duty. An Impact Assessment is a pro-active step to ensure wherever possible preventative measures are taken to avoid discrimination or unfairness on any equality grounds before it occurs.

As part of the budget process, a screening assessment was undertaken to identify if any of the proposed savings could result in less favourable treatment of equality groups, and whether a full EQIA should be carried out on any proposal and identify any mitigating action. Screening of the Social Work and Education, Culture and Sport budgets has highlighted some proposals where a more detailed assessment has been necessary. In these instances mitigating actions have been identified to ensure the Council avoids discriminatory practices.

11. Budget Summary

- 11.1 In total, the proposed revenue budget for 2009/10 will be £597.666m. The proposed budget and funding sources are summarised below.

	2009/10 £m
Current Budget 2008/09	574.922
Roll Forward Budget Adjustments (section 5)	26.980
Administration Growth and Pressure Proposals (section 6)	8.665
Administration Saving and Efficiency Proposals (section 6)	(12.901)
Total Revenue Budget Proposed	597.666

	2009/10 £m
Revenue Support excl council tax freeze funding	484.957
Funding to support council tax freeze	3.235
Total Revenue Support (section 3)	488.192
Total Council tax income	106.371
Previously planned use of earmarked balances (for PPP2 and Scotland Excel)	2.998
2009/10 planned use of non-earmarked balances (for one-off pressures)	0.105
Total Funding Sources	597.666

11.2 The resulting net budget, and net increase in budget for each Service and budget line, will be as summarised below.

	Budget 2009/10 £m	Increase / (Decrease) £m	Increase / (Decrease) %
Education, Culture & Sport (Including Gaelic)	232.567	15.713	7.2
JCCYP	22.544	(0.452)	(2.0)
Planning and Development	7.033	1.091	18.4
Social Work	101.124	1.597	1.6
TEC Services	65.986	1.335	2.1
Chief Executive's Service	26.678	(1.286)	(4.6)
Finance Service	6.852	(0.062)	(0.9)
Housing & Property Service (including Building Maintenance)	8.575	0.252	3.0
Service sub-total	471.359	18.188	4.0
Joint Board requisitions (Police, Fire and Valuation)	64.808	0.862	1.3
Loan Charges and Interest on Revenue Balances	48.000	1.666	3.6
Sub-total	584.167	20.716	3.7
Job Evaluation Provision	10.682	3.033	17.7
Schools PPP2 earmark balances for future years	0.000	(0.604)	
Affordable housing (council tax contribution)	2.568	0.000	
Non Domestic Rate Reliefs	0.460	0.010	
Unallocated Pressures and Corporate Savings	(0.211)	(0.411)	
Total Revenue Budget	597.666	22.744	4.0

Recommendation

The Council is asked to consider this report and:-

- (i) Agree a council tax freeze, with council tax for 2009/10 set at 2007/08 and 2008/09 levels (for band D £1,163).
- (ii) Note the previously agreed savings as set out in booklet C.
- (iii) Agree the revenue budget for 2009/10, as set out in the report, annexes and booklets A, B and D.
- (iv) Agree the revenue budget savings for 2010/11, as set out in booklet B.
- (v) Note that the revenue budget and council tax for 2010/11 will be considered at a future meeting pending clarification of the grant settlement for these years.

Signature:

Designation: Depute Chief Executive and Director of Finance

Date: 5 February 2009

Ref:

Background Papers

Author: Brian Porter, Finance Manager

Author's Telephone No.: 01463 702424

**2009/10 Revenue Budget
Roll Forward Budget Adjustments**

	£m	£m
<i>Pay Awards</i>		
Teachers at 2.5%	2.906	
Other Staff at 2.5%	4.722	7.628
<i>General Inflation</i>		
Non Staff Budgets excluding Energy	3.783	
Energy Budgets	4.548	8.331
Job Evaluation Estimated Year 2 Costs		2.842
Pensions – Teaching Staff		1.345
Staff Increments – Teaching Staff		1.635
Loan Charges		1.666
Joint Boards		0.862
<i>Other Roll Forward Adjustments</i>		
Increase in Provision for PPP2	4.460	
Remove 2008/09 Earmarking for Schools PPP2	(0.604)	
Remove 2008/09 One-off ICT/LPFS Accrual Adjustment	(1.050)	
Remove 2008/09 Social Work Decant Costs	(0.536)	
Remove 2008/09 Social Work Care First Pressure	(0.200)	
Supporting People Windfall	(0.431)	
Other Minor Roll Forward Adjustments	0.183	
Increase in Fairer Scotland Fund Ring-fenced Grant	0.396	
Zero Waste Fund	0.092	
Transfer of Funding from SNH	0.255	
Other Grant Funding Redeterminations	0.106	2.671
Total Roll Forward Budget Adjustments		26.980