

|                          |                                     |
|--------------------------|-------------------------------------|
| <b>NAME OF COMMITTEE</b> | <b>Council</b>                      |
| <b>DATE</b>              | <b>14 February 2012</b>             |
| <b>REPORT TITLE</b>      | <b>Revenue Budget for 2012/2013</b> |
| <b>Report of</b>         | <b>Head of Finance &amp; Audit</b>  |
| <b>WARDS AFFECTED</b>    | <b>All</b>                          |

**Summary of report:**

To provide an updated forecast of the financial situation for the Revenue Budget for 2012/2013. The forecast is intended to provide a framework within which decisions can be made regarding future service provision and council tax levels.

**Financial implications:**

The report shows a balanced budget for 2012/2013 if the recommendations contained within this report are adopted.

**RECOMMENDATIONS:**

It is recommended that Members agree:

1. To set a 2.5% increase in Council Tax for 2012/2013 (the Band D Council Tax for West Devon Borough Council will be £196.95 for 2012/2013, an increase of £4.80 per year or 9 pence per week) as per Section 5.6
2. That the financial pressures in Appendix A should be accepted (total of £197,500).
3. To agree the schedule of savings identified in Appendix A, totalling £469,398.
4. To agree to use £200,000 of funding from the New Homes Bonus Scheme as per 7.5
5. To agree the details set out in Section 4.8 on the fees and charges which the Council has the discretion to levy
6. To set a target for additional savings from shared services of £50,000 for 2012/2013 as per Section 4.5
7. To allocate £40,250 of the New Homes Bonus to the Dartmoor National Park Authority

8. The Discretionary bids should be accepted (as shown in Appendix A totalling £12,500).
9. A consequential General Fund Budget Requirement for 2012/2103 of £7,329,105 as shown in Section 6.3.
10. That the minimum level of unearmarked reserves be maintained at £700,000.
11. That the level of reserves and the assessment of their adequacy and the robustness of budget estimates be noted. This is a requirement of Part 2 of the Local Government Act 2003.

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**1. BACKGROUND**

- 1.1 At a meeting of the Strategies & Resources Committee on 5 July 2011, it was resolved that:

Members recommend to Council that:

- The Financial Strategy is accepted as a foundation document for the Council's budget setting process.
- The Council's policy should be to set a minimum level of unmarked revenue reserves of £700,000

And Members note:

- That the Senior Management Team is tasked with identifying options for savings necessary to balance the 2012/13 budget.
- The schedule of Earmarked Reserves

- 1.2 The forecast was intended to provide a framework within which decisions could be made regarding future service provision and council tax levels.
- 1.3 The Medium Term Financial Strategy for 2012/2013 to 2015/2016 was presented to Members on the 5<sup>th</sup> July 2011.
- 1.4 On 15 September a Medium Term Financial Strategy Workshop was held for Members. Ideas for how savings could be achieved over the next four years of the Council were discussed.

1.5 On 15<sup>th</sup> November 2011, the Strategies & Resources Committee considered a report on the Revenue Budget position for 2012/2013. This provided an updated forecast of the financial situation for the revenue budget for 2012/2013.

1.6 Further, at a meeting of the Strategies & Resources Committee on the 24<sup>th</sup> January 2012, it was resolved that:

Members recommend to Council:

- That in order to set a Balanced Budget for 2012-2013, an increase in Council Tax of 2.5% will be set (the Band D Council Tax for West Devon Borough Council will be £196.95 for 2012/2013, an increase of £4.80 per year or 9 pence per week) as per Section 5.6 of the presented report,
- That the financial pressures in Appendix A of the presented report should be accepted (total of £197,500),
- To agree the schedule of savings identified in Appendix A, totalling £469,398,
- To agree to use £200,000 of funding from the New Homes Bonus Scheme as per paragraph 7.5 of the presented report,
- To agree the details set out in Section 4.8 of the presented report on the fees and charges which the Council has the discretion to levy,
- To set a target for additional savings from shared services of £50,000 for 2012/2013 as per Section 4.5 of the presented report,
- To allocate £40,250 of the New Homes Bonus to the Dartmoor National Park Authority, and
- That the Discretionary bids should be accepted (as shown in Appendix A of the presented report totalling £12,500).

1.7 The determination of the Council's budget is guided by the Council's Constitution. Whilst the Strategies & Resources Committee may advise Council concerning the budget, it is nevertheless the responsibility of Council to actually approve the General Fund and Capital budgets. In addition, the allocation of the Council's resources must be driven in such a way as to ensure that funds are directed towards the Council's corporate priorities.

1.8 It is, therefore, essential that we continue to set our annual budget within the context of a rolling four-year financial strategy. A longer term strategic view must be taken when decisions are made that have a financial impact beyond the annual budget as it enables us to assess the sustainability of such decisions.

## **2. BUDGET PREPARATION: PROGRESS TO DATE**

- 2.1 Members accepted the Financial Strategy as a foundation document for the Council's budget setting process.
- 2.2 The Senior Management Team have carried out a robust process of challenging the base budget and questioning each of the financial pressures shown within the Financial Strategy.
- 2.3 The Senior Management Team is also monitoring the base budget spend continually, using the Council's budget monitoring reports.
- 2.4 The latest revenue budget monitoring report considered by the Strategies & Resources Committee on 24 January 2012, showed that revenue expenditure is predicted to be under-spent by £75,000 at the year end. This represents approximately 1% of the total net budget for the year of £7.8 million. The Gross Budget of the Council is over £28 million.

### **FORMULA GRANT FUNDING**

- 2.5 Our Government Grant was reduced by 27% over the two years 2011/2012 and 2012/2013. In 2012/2013, our Government Grant reduces from £3.408 million (Adjusted figures) to £2.975 million – a reduction of £430,000. The current year freeze grant for 2010/2011 of £100,162 is now included within Formula Grant for 2012/2013 onwards.
- 2.6 We have not had any indication of the funding that may be available for 2013/2014 onwards. Formula Grant is likely to be replaced with Business Rates retention and New Homes Bonus. Therefore grant estimates based on those indicated in the Comprehensive Spending Review nationally have been included in the financial modelling. As more information becomes available as to how the new scheme will work, these estimates will be revised.

### **3. BUDGET PRESSURES AND OVERALL FINANCIAL FORECAST**

- 3.1 Appendices A and B1 illustrate the financial impact of the budget pressures on the Council's financial position for the four years to 2015/2016. The main considerations included in the appendices are as follows:
- 3.2 **Price Inflation** – To be able to produce a meaningful resource plan, a number of assumptions have to be made regarding prices. Consumer Price Inflation (CPI) in December 2011 was 4.2%, down 0.6% on the November figure and this is the largest fall in inflation since December 2008. The Retail Price Index was 4.8%, down from 5.2% in November 2011. The Government has an annual target for inflation of the Consumer Prices Index of 2%.
- 3.3 **Inflation on the Waste, Street Cleaning and Public Conveniences Contract** – An estimate of 1.47% on £1.7 million (£25,000) has been included within Appendix A as a budget pressure. This is a reduction of £9,000 on the budget pressure highlighted in the previous budget report.

- 3.4 **Inflation on contracts, goods and services** – A budget pressure of £70,000 has been included within Appendix A to cover inflation in all service areas and including increases for rates, utilities and maintenance. This is a reduction of £10,000 on the previous budget report.
- 3.5 **Housing and Council Tax Benefit Administration Grant** – A budget pressure of a 5% reduction in the grant has been included in Appendix A, which totals £17,000 (the grant is £340,000 for 2011/2012).
- 3.6 **Pay Inflation** – The November 2011 Autumn statement suggested imposing a public sector pay cap of 1% at the end of the current three year pay freeze from 1 April 2013. The Government does not have direct control over local authority pay rates and it will be up to the employers and unions to negotiate a national pay award. In February 2011, the Local Government Employers announced they could not offer any pay offer for 2011/2012. For budgeting purposes, the Council has modelled a Nil pay offer for 2012/2013.

Some staff will go up to the next incremental grade within the year. A budget pressure of £25,000 has been added to Appendix A.

- 3.7 **Triennial Pension Revaluation** – The Council's Pension Fund is valued every three years by actuaries. A revaluation was undertaken in March 2010. Although the actuaries confirmed that employer contribution rates could stay broadly the same, they have given the Council a target amount for annual payments. A budget pressure of £40,000 a year has been built in so that the Council can remain on track with this target.
- 3.8 **Discretionary Budget bids** – Two bids have been received as below:-

**Elector Fund aimed at supporting local projects** – This is a bid to match fund Devon County Council's proposals to set up a discretionary fund aimed at supporting local projects. The aim is to support Devon's communities to achieve their ambitions and build resilience – with decisions about how it is spent being shaped by the views and the priorities of local communities. The money could be used to fund clusters of parishes working together on a shared issue. Devon County Council are committing £1 per elector to the fund and District Councils are being requested to match fund this initiative with 10 pence per elector. This would equate to approximately £5,000 for the Council.

**Anti-Social Behaviour (ASB) Officer** – This is a bid to fund the Anti-Social Behaviour (ASB) Officer which is joint-funded with South Hams District Council (SHDC). The post works 2.5 days for SHDC and 1.5 days for WDBC. The bid is for £7,500 (£20,000 total cost less £12,500 recharged to SHDC, to be approved). Although the Council has only been directly funding the post since 2009, the post has been in existence for a number of years. Funding streams via the Home Office and the Safer Devon Partnership have now ceased.

A significant amount of the officers' work is targeted at early intervention, working with other agencies in ensuring that early action is taken to prevent ASB

escalating within communities. This process has been very successful in reducing the amount of ASB that communities suffer. In the few cases that are not resolved informally, then the officer will apply for ASB Orders to be issued.

The officer will also play a key role in driving forward the Government ambitions in tackling families with complex needs, ensuring an effective multi-agency approach to tackling families who disrupt community life.

The workload for West Devon is illustrated below during 2010/2011.

|                                  |    |
|----------------------------------|----|
| Referrals                        | 76 |
| 1 <sup>st</sup> Instance Letters | 30 |
| 2 <sup>nd</sup> Instance Letters | 6  |
| Alcohol letters                  | 39 |
| Acceptable Behaviour Contracts   | 9  |
| ASBO applications                | 2  |

There are a number of statutory requirements placed on the Community Safety Partnership (CSP) Members through the Police and Justice Act 2006.

#### **4 BUDGET SAVINGS & INCOME GENERATION IDENTIFIED**

- 4.1 A schedule of savings and potential income generation can be found in Appendix A. West Devon Borough Council is annually saving £600,000 from shared services with South Hams District Council.
- 4.2 **Senior Management Review** – In November 2010, the Chief Executive carried out a senior management review to rationalise the senior staffing structure and achieve efficiency savings. Two Corporate Directors and seven Heads of Service are now working across both Councils and the new team replaces four Corporate Directors and fifteen Heads of Service.
- 4.3 The total savings arising from the Senior Management Review for West Devon Borough Council and South Hams District Council is £437,000. West Devon Borough Council's share of these savings is £175,000. Changes to the base budget for salaries equate to £80,000 for 2012/2013, being the amount over and above the previous target set for 2011/2012.
- 4.4 **Middle Manager Review** – Following the Senior Management Review in the Spring 2011, a complete review of all of the middle management positions was undertaken by the Heads of Service. New operational structures were created and these have been in place since the 1<sup>st</sup> October 2011. A small number of posts within the new structures were no longer required and as a result West Devon Borough Council's share of the savings equate to £30,000.
- 4.5 It is intended to set a £50,000 target in 2012/2013 for future savings from shared services.
- 4.6 There is a £30,000 reduction on the budget for the revenue and benefits service due to a £20,000 saving on the Information Technology maintenance support

costs for Academy (the revenue and benefits software system). In addition, £10,000 of the £30,000 outreach budget can be offered as a saving.

- 4.7 At the Environment and Community Committee meeting on the 15<sup>th</sup> June 2010, a funding solution for the interim payment of £150,000 which resulted from the delay in the roll out of the waste contract was approved. A payback scheme is in place to replenish reserves from recycling credits achieved over 54% until the £150,000 is paid back (approved by Environment & Community Committee on 15<sup>th</sup> June 2010 and Council on 29<sup>th</sup> June 2010).

The Council is currently achieving a recycling rate of 62%. Each percentage equates to around £7,500. Therefore the Council could decide to increase the recycling credits income target in the base budget rather than replenishing reserves. This would have the effect of increasing recycling credits income by £60,000 in the base budget. It is recommended that this approach is taken to help meet the budget gap for 2012/2013.

**4.8 Income Streams Before Costs:**

The following table gives an indication of the level of Council generated income (other than Council Tax) that is currently supporting the budget. As is demonstrated below, the Council's income streams have been adversely affected by the economic downturn. However, due to the increased recycling credits, the overall projected income to be received in 2011/12 is £50,000 less than budgeted in total.

| Significant Income Streams                                       | Budget £         | Projected Actual £ | Projected Budget £ |
|--|------------------|--------------------|--------------------|
|  | 2011/2012        | 2011/2012          | 2012/2013          |
| Car Park Income  | 844,920          | 809,623            | 849,920            |
| Recycling Credits  | 395,050          | 455,050            | 455,050            |
| Taxis & Liquor Licensing   | 106,911          | 106,911            | 106,911            |
| Investment Income  | 65,321           | 65,321             | 65,321             |
| Planning Fees  | 301,113          | 226,113            | 301,113            |
| Estate Management  | 157,525          | 157,525            | 157,525            |
| Building Control Fees (part of the Building Control Partnership) | 228,550          | 228,550            | 228,550            |
| <b>Total</b>   | <b>2,099,390</b> | <b>2,049,093</b>   | <b>2,164,390</b>   |

**5. COUNCIL TAX IMPLICATIONS FOR 2012/2013**

- 5.1 On October 2011, the Government announced that it will use £805 million of central funding to extend the council tax freeze grant to 2012-2013.

- 5.2 A new grant scheme will be open to all billing and major precepting authorities, including police and fire authorities, which decide to freeze or reduce their council tax next year.
- 5.3 The Council agreed a nil increase in Council Tax for 2011/2012 (Band D of £192.15) and will receive £100,162 in council tax freeze grant. This current year freeze grant is now to be included in formula grant from 2012/2013 onwards.
- 5.4 If the Council were to freeze Council Tax levels for 2012/2013, the Council would be eligible for an additional council tax freeze grant of £101,623 for 2012/2013. This would be in addition to the council tax freeze grant of £100,162 which the Council will already receive for freezing council tax levels in 2011/2012.
- 5.5 The risk with taking advantage of the council tax freeze grant is that the Council will have less funding from council tax income for every subsequent year, due to not increasing the council tax in 2012/2013. As previously mentioned, a 1% increase in council tax equates to around £40,000 in council tax income for West Devon Borough Council.
- 5.6 An alternative would be to increase Council Tax by 2.5% to protect income in the longer term. The Band D Council Tax for West Devon Borough Council would be £196.95 for 2012/2013, an increase of £4.80 per year or 9 pence per week. The advantage of this approach would be that the Council's income from council tax would be permanently increased by 2.5%. The Council Tax Freeze Grant being offered by the Government only compensates the Council for loss of income from council tax for one year, so the Council would have to make up this shortfall of £101,623 when setting the subsequent year's Budget for 2013/2014. A comparison of Appendix B1 and B2 demonstrates the impact on the budget for future years either
- 1) if the Council raises Council Tax by 2.5% in 2012/2013 (Appendix B1)
  - or
  - 2) if the Council freezes Council Tax for 2012/2013 (Appendix B2).
- 5.7 The Localism Act has introduced the power for the Secretary of State to set principles each year under which council tax increases are determined as excessive. This can apply to West Devon Borough Council, Devon County Council, Fire, Police or Towns and Parishes (this will not apply to Town and Parishes in 2012/2013 as below). In all such cases, West Devon Borough Council has to make arrangements to hold a local referendum for residents. Costs can be recovered from the relevant precepting authority. For 2012/2013 the limits have been set at 3.5% for principal authorities such as West Devon Borough Council and 4% for Police and Fire. No equivalent limits have been set for Town and Parish Councils for 2012/2013, although they may in future years.
- 5.8 A 1% increase in council tax equates to around £40,000 in council tax income for West Devon Borough Council.



- 5.9 It should be noted that of the current council tax collected, West Devon Borough Council keeps just 12% or £3.70 per week for its services (per Band D property). This is illustrated below.

| <b>Precepting Authority</b>     | <b>Band D Council Tax for 2011 – 2012 (£)</b> |
|---------------------------------|---|
| Devon County Council            | 1,116.36                                      |
| West Devon Borough Council      | 192.15  |
| Police                          | 156.60  |
| Fire                            | 71.77   |
| Average Town and Parish Council | 47.26   |
| <b>TOTAL</b>                    | <b>1,584.14</b>                               |

- 5.10 The table below gives a brief outline of the council tax over the last few years and the year-on-year percentage increases.

|         | <b>Band D council tax for WDBC, £</b> | <b>Percentage rise from previous year</b> |
|---------|---------------------------------------|---|
| 2007/08 | 174.01                                | 4.9%                                      |
| 2008/09 | 181.84                                | 4.5%                                      |
| 2009/10 | 187.30                                | 3.0%                                      |
| 2010/11 | 192.15                                | 2.59%                                     |
| 2011/12 | 192.15                                | Nil                                       |

### **COUNCIL TAXBASE AND COUNCIL TAX SURPLUS CALCULATION**

- 5.11 The Taxbase is the number of Band D Equivalent properties chargeable to council tax. This calculation is undertaken at 30 November each year. The Taxbase for West Devon Borough Council has now been confirmed at £21,019.39. This figure is multiplied by the Band D council tax of £192.15 to provide an estimate of the council tax income to be achieved for 2012/2013. The estimate of council tax income is £4,038,876. This will produce slightly less income (£5,882) than we predicted in the previous budget update report.
- 5.12 Any increase in taxbase is taken into account in the government grant settlement each year. The Council Tax Surplus calculation is the amount of council tax that has been collected over the target of 98%. Each major precepting authority receives a share of this income back. An initial estimate of £50,000 had been included in previous budget reports, but this is now confirmed at a level of £114,000. This will drop back down again to levels around £50,000 in future years.

## **6. BALANCING THE BUDGET**

- 6.1 **Overall position** – Appendix B1 illustrates the overall financial forecast for the forthcoming four years based on a 2.5% council tax increase for 2012/2013. Although the Council's net budget is in the region of £7.8 million, the Gross expenditure of the Council is around £28 million.
- 6.2 Through a series of informal and formal Committee meetings and with Members and Officers working closely together, the following position has been reached to date. A summary forecast is shown below of the potential budget situation if all of

the financial pressures in Appendix A were approved and the savings and income generation in Appendix A were realised.

|  | <b>Amount (£)</b> |
|--|-------------------|
| Net Base Budget for 2011-12                            | 7,788,503         |
| Add financial pressures as per Appendix A              | 197,500           |
| Add Discretionary Bids as per Appendix A               | 12,500            |
| Less savings and income generation – as per Appendix A | (469,398)         |
| <b>Total Net Base Budget for 2012/13 (A)</b>           | <b>7,529,105</b>  |

The sensitivity analysis shown in Appendix B1 shows how changes in spending decisions equate to a level of council tax, with a £40,389 variance amounting to 1% change in council tax.

6.3 The funding available, **including a 2.5% increase in Council Tax for 2012/2013** is as follows:-

| <b>Funding available:</b>  | <b>Amount (£)</b> |
|--|-------------------|
| <b>Government Grant</b><br>(Revenue Support Grant and Business Rates)  | 3,074,762         |
| Collection Fund Surplus  | 114,574           |
| <b>Income from Council Tax</b><br>Includes a 2.5% increase in council tax for 2012/2013<br>(The Band D Council Tax for West Devon Borough Council would be £196.95 for 2012-13, an increase of £4.80 per year or 9 pence per week) | 4,139,769         |
| Sub – Total<br>Net Budget Requirement (total of the above)   | 7,329,105         |
| Funding from New Homes Bonus (see section 7.4)   | 200,000           |
| <b>Total funding available for 2012/2013 (B)</b>   | <b>7,529,105</b>  |
| <b>CURRENT BUDGET GAP (A – B)</b>  | <b>Nil</b>        |
| <b>This would equate to a balanced budget</b>  |                   |

## 7. OTHER BUDGET CONSIDERATIONS

7.1 **New Homes Bonus Scheme** – This grant was introduced in 2011/2012 and provides incentives for local authorities and local communities to be supportive of housing growth. The key elements are as follows:-

- The Government will match fund the council tax raised on each new home
- Bonus is payable for a six year period
- National average council tax bands will be used to calculate the bonus
- Band D home would attract an annual bonus of £1,439 per home
- Additional payment of £350 per year for affordable homes
- Bonus to be funded through Formula Grant
- In two tier areas 80% will be paid to Districts and 20% paid to Counties
- Bonus grant will not be ring fenced so can be spent on anything

7.2 The Council's allocation for 2011/2012 was £323,920 and the allocation for 2012/2013 is £892,542. These are the confirmed figures to date.

|                      | 2011-12<br>(£) | 2012-13<br>(£) | 2013-14<br>(£) | 2014-15<br>(£) | 2015-16<br>(£) | 2016-17<br>(£) | 2017-18<br>(£) |
|----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Year 1               | 323,920        | 323,920        | 323,920        | 323,920        | 323,920        | 323,920        |                |
| Year 2               |                | 568,622        | 568,622        | 568,622        | 568,622        | 568,622        | 568,622        |
| TOTAL<br>per<br>year | 323,920        | 892,542        | 892,542        | 892,542        | 892,542        | 892,542        | 568,622        |

7.3 A bonus is payable for a six year period and therefore West Devon Borough Council received £323,920 in year one and will receive at least £892,542 for the next five years. The Council will receive a further payment in 2013/2014, in addition to the £892,542 shown, which will be linked to the increase in the number of new homes between October 2011 and October 2012. This happens in each subsequent year. The grant is cumulative and a bonus is payable for a six year period. As stated in 2.6, Formula Grant is likely to be replaced with business rates retention and new homes bonus from 2013/2014 onwards.

#### 7.4 Proposed Allocation of the New Homes Bonus (NHB) for 2012/2013

|  |                 |
|--|-----------------|
| <b>Total Allocation for 2012/2013</b>  | <b>£892,542</b> |
| Funding the 2012/13 Revenue Base Budget of the Council   | £200,000        |
| To use to fund the Capital Programme for 2012/2013<br>(This is mainly funding Disabled Facilities Grants, Private Sector Renewal Grants and Affordable Housing capital projects as per the report on the Capital Programme on this agenda) | £600,000        |
| Provision for a share of the NHB for the Dartmoor National Park Authority  | £40,250         |
| <b>Unallocated amount remaining</b>  | <b>£52,292</b>  |

As part of the budget setting process for 2011/2012, the Council committed to use £150,000 of the New Homes Bonus grant to fund the revenue base budget of the Council for 2011/2012. This decision was taken in view of the level of formula grant reductions suffered by the Council in 2011/2012, due to the front-loading of grant reductions.

- 7.5 As part of the Budget Setting Process for 2012/2013, Members will need to consider how this money should be used in the future. It is recommended that £200,000 of New Homes Bonus is used to fund the Revenue Base Budget for 2012/2013.
- 7.6 The Council has very little remaining capital resources and this New Homes Bonus Scheme may provide a partial funding solution for the capital programme in the longer term, in particular for Disabled Facilities Grants and Private Sector Renewal Grants.
- 7.7 Further reports regarding the Capital Programme for 2012/2013 are also included in this agenda. There is a separate recommendation on the Capital Programme 2012/2013 report to use £600,000 of New Homes Bonus to fund the Capital Programme.

## 8. EARMARKED AND UNEARMARKED RESERVES

- 8.1 **Specific Earmarked Reserves** - The level and commitments for each reserve are kept under review each year to make sure the uncommitted balance is adequate for its purpose. A schedule of Earmarked Reserves is attached as Appendix C which includes comments on their proposed use.
- 8.2 **Unearmarked Revenue Reserve** – The guidance from the Audit Commission suggests that the general fund balance should be between 5% and 10% of net operating expenditure. The Council's net operating expenditure is £7,788,503 for 2011/2012 so this would be in the region of £390,000 to £780,000. Therefore the Council is still within a prudent level of reserves. The Council's policy should be to set a minimum level of unearmarked revenue reserves of £700,000.
- 8.3 The uncommitted Unearmarked Revenue Reserve balance at 31<sup>st</sup> March 2012 is estimated to be around **£948,000** as below.

|   | £              |
|---|----------------|
| <b>Unearmarked revenue reserves at 1<sup>st</sup> April 2011</b>                      | <b>833,000</b> |
| Less: Provision for improvements to Broadband in West Devon<br>As approved by Council | (20,000)       |
| Add: Predicted revenue budget underspend for 2011-12                                  | 75,000         |
| Add: Recycling credits generated in 2011-12 replenishing reserves                     | 60,000         |
| <b>Forecast level of unearmarked reserves</b>   | <b>948,000</b> |

- 8.4 Our financial strategy recognises the need to maintain Unearmarked Revenue Reserves to provide stability for both medium and longer term planning and to provide a contingency against unforeseen events. In setting the minimum level at £700,000 the following have been taken into account:
- The size of the authority
  - The volatility of some income and expenditure budgets due to a dependency on the weather, tourism and state of the economy

- The risks faced by the Council with regard to funding unforeseen events
- The level of investment income used to support council tax arising from our reserves
- Uncertainty over future Government grant

8.5 The Council can take comfort that our predicted Unearmarked Revenue Reserves of £948,000 stand above the minimum balance set of £700,000. They act as a safeguard should any of our specific reserves prove too low.

## **9. ROBUSTNESS OF ESTIMATES AND THE ADEQUACY OF RESERVES**

9.1 Under Section 25 of the Local Government Act 2003, the Head of Finance (the Chief Finance Officer) is required to report to Council on the following matters:

- The robustness of the estimates made for the purpose of the budget calculations, and
- The adequacy of the proposed financial reserves.

9.2 The Council's budget is based on a number of assumptions including inflation, UK interest rates and income from Government grants. The risks presented by these factors are managed by:

- Seeking advice from the Council's Treasury Management consultants and reviewing the forecasts from the Bank of England
- Developing cost estimates with Heads of Service and other providers on a prudent basis, making use of professional data sources where possible
- Carrying out a circular process of service planning, medium term planning and budget setting whereby each stage refines the information from the previous stage
- Reviewing the sustainability of plans over the medium term including an assessment of the impact of interest rate movements on affordability, a review of the potential for increases in service demand or new services and by assessing the revenue impact of capital investment

- The adoption of robust financial management arrangements including the 'buddy system', Finance Rules of Procedure, option appraisal, risk assessment and budget monitoring information reports to Members and continuous performance monitoring (with review of key assumptions).

9.3 The preparation of the budget for 2012/13 has been based on a detailed assessment of the risks associated with each budget and the targets and objectives included within the Council's Corporate Plan.

- 9.4 Appendix E sets out the detailed risk assessment which has been undertaken on the level of unearmarked revenue reserves. This shows that it is still appropriate to maintain a minimum level of £0.7 million (10%) of net expenditure in unearmarked revenue reserves. The availability of general balances to meet any unforeseen liabilities and provide flexibility during a period of change is a key element of prudent financial management.
- 9.5 In addition to unearmarked revenue reserves, the Council also holds earmarked reserves for specific purposes. The level of earmarked reserves is shown in Appendix C and is predicted to be £719,000 at 1st April 2012. These earmarked reserves have been reviewed as part of the budget setting process.
- 9.6 The level of unearmarked revenue reserves and earmarked reserves are judged to be appropriate in the context of the Council's overall Financial Strategy. The Council has in place a risk management strategy and a system of internal control.
- 9.7 Of particular importance in this context is the Council's budget monitoring policy. It ensures that regular budget monitoring is carried out and that budget monitoring experience in 2011/2012 provides an indication of the pressures facing the Council in 2012/2013. The Council has a good record in terms of identifying budget pressures and taking remedial action.
- 9.8 These existing systems, controls and procedures provide a firm foundation from which the need for reserves and balances can be calculated within a reasonable level of confidence.
- 9.9 It is the view of the Head of Finance that the budget proposed for 2012/2013 represents a sound and achievable financial plan for 2012/2013. The total level of reserves and balances has been based on a comprehensive risk assessment shown in Appendix E and is judged adequate to meet all reasonable forecasts of future liabilities.

## **10. LOOKING FORWARD TO 2013/2014**

- 10.1 Each year the preparation of annual budgets becomes more challenging than before. Appendix B1 shows a budget gap of at least £397,417 for 2013/2014 (if a council tax increase of 2.5% is set in 2012/2013 and a nil increase in council tax is modelled thereafter). However, if the Council freezes Council Tax (as demonstrated in Appendix B2), the budget gap increases to £499,345, an increase of £101,928.

## **11. SUMMARY, NEXT STEPS AND CONCLUSION**

- 11.1 **Benchmarking comparisons** – As in previous years, we will continue to make broad comparisons of our expenditure with similar authorities. This will enable us to investigate whether expenditure is reasonable and in accordance with corporate priorities, raising questions where necessary.
- 11.2 **Consultation** – We have consulted with all stakeholders including town and parish councils, the business community and the general public on expenditure priorities.

- 11.3 **Public Event** – We have held two public events one in Tavistock (28<sup>th</sup> November 2011) and one in Okehampton (5<sup>th</sup> January 2012) to involve our communities and residents as part of the budget setting consultation process.
- 11.4 **Online Survey** – The Council also had an on-line website survey on the Budget available since the end of November.
- 11.5 **Business Voice Event – Monday 9<sup>th</sup> January 2012 at 6.30pm** – A Business Voice event was held in January to consult with businesses on the Council's budget.
- 11.6 The feedback from all of these events is attached at Appendix D. We will send the results back to residents who attended the meetings and include this on our website and in the next edition of the Council magazine.
- 11.7 **Partnerships** – It is important that financial performance of significant partnerships is regularly reviewed, linked to outputs and the results shared with partners and acted upon. Each Year in March, the Overview & Scrutiny Committee receive a report detailing the latest position for our significant partnerships.
- 11.8 **Financial Strategy assumptions** – These will be kept under review over the coming months and any new information will be amended in the forecast.

11.9 **Budget Timetable** - A timetable is set out below for the budget setting process:-

| <b>Date</b>               | <b>Committee</b> | <b>Action</b>  |
|---------------------------|------------------|--|
| March 2011                |                  | Service Plans are compiled with targets and PI's   |
| 5 July 2011               | S & R            | Setting of the financial strategy – 'painting the picture' - Decide the strategic approach to the budget                                     |
| 26 July 2011              | Audit            | Confirmation of previous year's outturn and variances – consideration of the unaudited Final Accounts for 2010/2011                          |
| 15 November 2011          | S & R            | Budget Update report   |
| <i>November - January</i> |                  | <i>Consultation exercise on the budget</i>   |
| December                  |                  | The Government will confirm the provisional grant allocation for 2012/2013   |
| 24 January 2012           | S & R            | To consider the progress of the Capital and Revenue Budget Setting process for 2012/2013 and future years.                                   |
| <b>9 February 2012</b>    |                  | <b><i>Date which Council Procedure Rule 16 applies (see explanation below in 11.10)</i></b>  |
| 14 February 2012          | Council          | To agree the Revenue and Capital Budgets for 2012/13 onwards and the consequential level of Council Tax proposed for adoption on 23 February |
| 23 February 2012          | Council          | To agree the Council Tax for 2012/2013   |

11.10 Council Procedure Rule 16 states that "Where a Member intends to move a motion or amendment in relation to the Budget, the text of that motion or amendment must be put in writing and submitted to the Chief Executive by 9.00 am on the third working day before the meeting in order that officers may have sufficient time to consider and advise the Council of the financial implications of any such motion or amendment." As per the timetable above, this would need to be submitted by 9.00 am on 9<sup>th</sup> February 2012.

11.11 There is a legal requirement for the Council to have formally approved the Council Tax by the 11<sup>th</sup> March 2012.



## 12 STRATEGY LOOKING AHEAD

12.1 Appendices B1 & B2 clearly demonstrate that a combination of reducing government funding together with other financial pressures results in a budget that is not sustainable. We should be implementing a budget strategy that seeks to balance the budget over the longer term period. This strategy will include:

- Shared services with South Hams District Council
- Other efficiency savings
- Partner working with other organisations
- Rationalising asset use
- Reviews of service provision to identify new ways of working
- Seeking new income opportunities

## 13. LEGAL IMPLICATIONS

13.1 Council is responsible for approving the policy framework and budget within which its Committees operate. It is also responsible for approving and monitoring compliance with the Council's overall framework of accountability and control, which includes these Financial Procedure Rules.

## 14. FINANCIAL IMPLICATIONS

14.1 This report shows how a balanced budget for 2012/2013 could be achieved as set out in Section 6 of the report.

## 15. RISK MANAGEMENT

| <b>Opportunity</b>  | <b>Benefits</b>  |
|---|--|
| <p>The Council sets adequate budgets to provide services that meet Council priorities.</p> <p>The Council provides value for money services within budgets.</p> | <p>The Budget is compiled in accordance with best practice guidelines issued by CIPFA and the Government. The final budget report includes an assessment from the Section 151 Officer on the adequacy of the Council's reserves and the robustness of the estimates made for the purpose the budget calculations. The budget process is laid down in the Council's Constitution. Strategies &amp; Resources Committee and Council meetings are timetabled to meet the Statutory deadlines for setting the Council Tax.</p> <p>The Council prepares a Financial Strategy covering a four year period. The strategy provides a framework within which decisions can be made regarding future service provision and council tax levels.</p> |
| <b>Issues/Obstacles/Threats</b>   | <b>Control measures/mitigation</b>   |
| <p>Failure of Council to set lawful budget.</p>   | <p>The Council must set the Council Tax by 11 March 2012. The timetable for the budget</p>   |

|  |  |
|--|--|
| Failing to target budgets to service priorities.   | setting process takes this into account and allows sufficient time for the significant amount of work involved. All budget bids and reductions include a section on their impact on council priorities and a risk assessment. The budget is subjected to consultation with all Members, the public and the business community. |
| Failure to maintain a comprehensive budgetary control review system. Including monitoring of material items of income and expenditure. | Adequate levels of appropriately trained staff. Thorough planning and quarterly monitoring of performance to management and the Strategies & Resources Committee.  |
| Reducing level of Government grant   | The Council prepares a Financial Strategy covering a four year period. The strategy provides a framework within which decisions can be made regarding future service provision and council tax levels.   |

## 16. OTHER CONSIDERATIONS

|  |   |
|--|---|
| Corporate priorities engaged:                | All   |
| Statutory powers:                            | Local Government Act 1972, Section 151  |
| Considerations of equality and human rights: | A 360 degree assessment has been conducted and has shown no negative impact. This document is available upon request.   |
| Biodiversity considerations:                 | None directly related to this report.   |
| Sustainability considerations:               | None directly related to this report.   |
| Crime and disorder implications:             | None directly related to this report.   |
| Background papers:                           | Strategies & Resources Committee:–<br>5 July 2011 – Financial Strategy 2012/13 to 2015/16<br>15 November 2011–Revenue Budget Update for 2012-13<br>24 January 2012 – Revenue Budget for 2012-13   |
| Appendices attached:                         | Appendix A – Budget Pressures and Savings Identified<br>Appendix B1 & B2 - Modelling of the Financial Strategy<br>Appendix C – Schedule of Earmarked Reserves<br>Appendix D – Budget Consultation responses<br>Appendix E – Financial Risk Assessment<br>Appendix F – Committee Summary |