

## FOREWARD

### 1 Revenue Budget 2007/08

- 1.1 The Medium Term Plan sets out the financial strategy for the Council, identifying cost pressures, potential use of reserves and a range of assumptions. Historically the two most difficult areas to forecast are government funding and council tax levels. However, the government has stuck by its two year commitment on grant levels, so the Council has been able to plan effectively since the budget process commenced in July 2006.
- 1.2 Included in the medium term plan and the proposed General Fund revenue budget for FY 2007/08 are a number of assumptions:
- a) An assumed pay award of 3%. This is not a known figure, and the final settlement if in excess of 3% would clearly cause budget difficulties. It is anticipated that this figure will not be agreed until well into FY 2007/08.
  - b) Inflationary increases of 2% across all other expenditure budgets, and 2.5% across income budgets. Which budgets this increase is allocated is left to the discretion of Heads of Service, as certain budgets face greater inflationary pressures than others.
  - c) An increase of 1% in the Council's contribution rate to the Superannuation Fund. The next statutory valuation will be known in November 2007, in time to inform the FY 2008/09 revenue budget.
  - d) An assumed interest rate on investments of 4.75%, generating a base budget increase of £30,000. In the current economic climate this is not considered a risk, as short and long-term interest rates are at present exceeding 5%.
  - e) The full impact of the loss of Service Level Agreements (SLAs) with Saffron Housing Trust in respect of moving out of South Norfolk House will mean a loss of income of £242,000 compared to the FY 2006/07 base budget.
  - f) Housing Benefit Administration Grant- the Council is receiving an increased level of government grant for administration costs and towards the Council's fraud work. For FY2007/08 an additional £160,000 is projected.
  - g) Removal of Growth – One off Growth funded in last year has now been removed from the Budget (£40,000). This includes £15,000 to fund a post for the Housing Market Assessment, and £25,000 to fund a post for the implementation of the Strategic Housing Choice Based Letting System.
  - h) Street Cleaning Service- this service has suffered from a level of underfunding over recent years, and an additional provision of £92,000 is being made to reflect the full costs of the service.
  - i) Concessionary Fares- The base budget in FY2006/07 is based on the level of government grant received, and the projections of costs from consultants. Demand and the level fares have been higher than budgeted for.
  - j) Contribution to LAMP Reserve- Although higher income has always been budgeted for, the contribution to the Reserve has not kept pace with that figure.
  - k) Internal Audit – There will be additional costs due to the predicted increase in price of the Internal Audit Contract.

- l) Best Value Review of Support Services Savings- Cabinet approved a three year profile of budget reductions at its meeting in December 2005. The first year savings were taken from revenue budgets in FY 2006/07, the second year budget reductions total £288,000, and will be taken from revenue budgets in FY 2007/08.
- m) Wymondham Leisure Centre- the transfer of this facility to “in-house” direct management will generate savings to the Council. It has been assumed that savings of £74,000 are generated in FY 2007/08. This saving is net of a small increase in support service costs in Financial Services (£10,000) and Human Resources/ Payroll (£10,000).
- n) Collection Fund- the projected deficit of £33,000 will be financed from one-off additional investment interest (as was the approach in FY 2006/07).
- o) Other – This includes additional utility costs (£20,000); a saving due to the drop out of first time rural sewerage schemes (£37,000); and a saving on operating leases (£66,000).

1.3 The grant settlement for FY 2007/08 is the second year of the two year settlement announced last year. This is a favourable settlement, which was confirmed by the DCLG in January 2007:

	2006/07	2007/08
	£ million	£ million
Revenue Support Grant	1.199 (16.2%)	1.134 (14.4%)
Redistributed National Non-Domestic Business Rates	6.214 (83.8%)	6.759 (85.6%)
Total	7.413	7.893

1.4 The Council receives a number of other grants, described below:

- a) Planning Delivery Grant- it has been assumed that Planning Delivery Grant of some £200,000 will be received, being £150,000 to be used for revenue expenditure and £50,000 to support capital expenditure. Additional income from planning fees (£100,000), plus the PDG revenue element of £150,000, will be sufficient to finance employee costs of £245,000 in the Planning Service.
- b) Waste Management Efficiency Grant- the Council has again received a grant of £98,000. Of this sum, half can be used for capital expenditure, the remainder for revenue expenditure. The base budget in FY 2006/07 has just £10,000 built in, so this has been increased to £48,000.
- c) Homelessness Grant- the Council has been awarded grant of £120,000.
- d) Implementation of Smoke-free Legislation- the Council has received a new grant of £10,000 In FY 2006/07 and £50,000 In FY 2007/08. This will be used to fund the action plan approved by Cabinet at its previous meeting.

- e) Beacon Status – in March 2006 the council was awarded Beacon Status for its work on Positive Youth Engagement £62,000.
  - f) Poringland Integrated Urban Drainage Project – This project commenced in November 2006 and is scheduled to finish in April 2008, and has received a grant of £30,000 in 2006/07 and there will be a further £70,000 in 2007/08.
  - g) Any Public Service Agreement (PSA) funding which the Council may receive in FY 2007/08 in respect of its recycling work has not been assumed in the budget.
- 1.5 The projected taxbase for FY 2007/08 is 43,190, with officers confident that the actual taxbase will match this. Once there is evidence of this during FY 2007/08, there would be a small surplus and higher taxbase to assist in setting the FY 2008/09 and future years revenue budgets
- 1.6 The changes to the base budget described above are summarised as follows, clearly those items which do not affect the base budget are not shown below:

	£'000
Base Budget 2006/07	12,982
Pay award	320
Inflation	120
Employers' pension contribution	90
Additional Interest Receivable	(62)
LSVT – increases impact to full year re Loss of SLAs	242
Additional Housing Benefit Grant	(160)
Removal of growth relating to 2006/07 only	(40)
Street Cleaning Service	92
Concessionary Fares	100
Contribution to LAMP Reserve	100
Internal Audit Service	30
Best Value Review Savings	(288)
Reduced Subsidy on Wymondham Leisure Centre	(74)
Collection Fund Deficit	33
Other	(54)
Reduced Planning Delivery Grant	100
Increased Planning Fees	(100)

DEFRA Grant	(38)
Base Budget 2007/08	13,393
Revenue Support Grant and Redistributed Business Rates	(7,893)
Street Lighting Precept	(77)
Amount to be Financed From Council Tax	5,423

- 1.7 Heads of Service have submitted growth bids through service plans. These have been analysed against the corporate objectives, and those which contribute most significantly to those corporate objectives are described below:

<b>Growth Item</b>	<b>Bid £000</b>	<b>2007/08 Base Budget £000</b>
24/7 Debit Card hotline facility (to be funded from the Invest to Save Reserve)	10	
Property and Facilities Service- to maintain ability to provide advice on request from Planning Services re property valuations/building cost assessments associated with applications.	40	20
Greater involvement in Childrens Services provision and activity – The Every Child Matters legislation makes it clear that the District Council must be fully involved in helping to deliver better services for young people.	20	20
Ecologist post. In the past 18 months several pieces of advice and legislation have come from central government, placing ever more emphasis on protection and enhancement of biodiversity in local authorities processes and activities.	30	15
Equalities budget- £5,000 for training on new legislation/ seminars/ funding for Disability Forum/licence fees and publications. There is also a cost of £6,000 to reach Level 3 of the Equality Standard.	11	11
Full time post of Neighbourhood Safety Officer	38	30
Play site – improved inspection regime	6	5
Part time post of Youth Involvement Officer	25	20
<b>Total- New Service Growth</b>		<b>121</b>

- 1.8 In addition, Council has approved changes to the members allowances scheme which is estimated to require an increase of £51,000 on the FY 2007/08 revenue budget.

- 1.9 Part of the total growth of £172,000 can be funded by additional savings identified:

<b>Additional Savings Identified</b>	<b>Include in FY 2007/08 Base Budget £000</b>
Savings from new Casual Users Scheme	(20)
Print Review	(40)
Savings Arising from departure of Head of Property and Facilities	(27)
<b>Total Funding</b>	<b>(87)</b>

- 1.10 If all of the above are taken into account, the revenue budget and council tax requirement would be as follows:

	£'000	£'000
Council Tax Requirement		5,423
Service Growth	121	
Members Allowances	51	
Additional Savings Identified	(87)	
Net Increase		85
Council Tax Requirement FY 2007/08		5,508

- 1.11 A liability to upgrade the sewage treatment plants was created on the transfer of the housing stock to Saffron. A provision has been made to meet this liability in 2007/08 for £1,994,000 in the revenue budget. This means that net revenue expenditure will be shown as £1,994,000 greater than in FY 2006/07, but is fully funded within the service from the Provision established.

- 1.12 The budget assumes all fees and charges to increase by 2.5% across the board. This has been applied to all fees and charges. However, in respect of the Council owned Leisure Centres, officers intend to increase fees by 5%, to reflect the increased utility costs, keep pace with market prices and recognise service improvements and associated added value that have been delivered by the Leisure Team.

## **2 Reserves**

- 2.1 The revenue budget has no requirement to draw on the General Revenue Reserve. Previous practice has been to use £150,000 each year to support the budget. However, the level of this reserve is low, and it is not prudent to rely on using this reserve each year. So it is a significant step forward that South Norfolk Council no longer relies on utilising reserves in order to support ongoing expenditure and restrain council tax levels. The forecast balance on the General Revenue Reserve as at 31 March 2008 is £557,000.

### 3 Council Tax

3.1 Dividing the Council Tax Requirement shown above of £5.508 million by the Council Tax base of 43,190 results in a council tax for a Band D property of £127.52. This compares to a council tax of £123.93 in 2006/07, representing an increase of 2.90%. This compares to the council tax increase in FY 2006/07 of 3.85%.

3.2 The table below shows the precepts made from each body, and the Band D equivalent Council Tax:

	Precept £	Band D £
Norfolk County Council	45,440,199	1,052.10
Norfolk Police Authority	7,121,167	164.88
South Norfolk Council	5,507,589	127.52
Parish/ Town Councils	2,004,448	46.41
Total	60,073,403	1,390.91

3.3 The Local Government Act 2003 places two specific requirements on an authority's section 151 officer in determining the councils budget and council tax. Firstly, under section 25, the section 151 officer must advise on the robustness of the estimates included in the budget. The advice given to the Council on these issues is that the estimates have been produced on a prudent basis, with an emphasis on identifying existing cost pressures that the Council faces. There are two potential risks in the robustness of the estimates. Firstly, that managers are unable to deliver the savings required under the Best Value Review of Support Services. Secondly, there are an increasing number of risks surrounding activities which are difficult to predict: take-up of concessionary fares service, outcome of the pay award negotiations. Officers and members will therefore need to be mindful of this when committing expenditure during FY 2007/08, as it may prove necessary to reduce budgets during the course of the year should any of the risks identified occur.

3.4 The section 151 officer must also report on the adequacy of reserves. At headline figures the level of reserves are projected to marginally decrease in FY 2007/08.

3.5 The medium term plan is based on a number of assumptions which are shown below:

- a) Growth in properties/population will place pressures on many frontline services (eg refuse collection). No additional funding has been allocated to this.
- b) Inflation pressures on the Council for both pay and non-pay budgets are 3% per annum, and fees and charges are able to rise by 3% without impacting on volume levels;

- c) A further correction is required to restate the financing to the LAMP Reserve by an additional £100,000 per annum;
- d) The pension fund valuation to be undertaken as at 31 March 2007 will not require an increased contribution from FY 2008/09 over and above that already built in following the 2004 valuation. The Medium Term Plan assumes a further increase of £30,000 on top of the £90,000 required each year;
- e) The full year effect of the new street cleansing service will place an additional cost of £30,00 per annum (bringing the total annual increase to £92,000 in FY 2007/08 and £30,000 in subsequent years);
- f) Planning Delivery Grant ceases on 31 March 2008, and savings are made and/ or planning fees increased so that none of the costs of employees funded from this source falls on the General Fund budget;
- g) No service growth will be included in the FY 2008/09 nor future years budgets;
- h) The final year of the Best Value Review savings will be implemented in FY 2008/09 will depend on the ability to deliver savings in the senior management restructuring and efficiency savings in respect of refuse collection. Neither of these savings can be assumed with any certainty at this stage, but without equivalent savings being made in the budget it will not be possible to produce a balanced budget in FY 2008/09;
- i) Further efficiency savings to the value of £100,000 are delivered in FY 2009/10, with a further £200,000 delivered in FY 2010/11;
- j) The use of the General Revenue Reserve returns to £150,000 per annum in future years;
- k) Government grant increases by £202,000 in FY 2008/09, which is below the rate of inflation predicted. This is based on a 2.5% increase in grant. The Comprehensive Spending Review 2007 (CSR07) is predicted a tough settlement for local authorities. This, alongside the dependency to make the final years Best Value Review savings, are the two biggest risks the future budgets face;
- l) The taxbase increases by 1% per annum;
- m) Council tax levels are assumed to increase by 3% per annum. This is likely to be higher than the Council would wish to set, but for planning purposes has to be assumed as a likely increase pending further information on the risks highlighted earlier in this paragraph.

#### **4 Parish Precepts**

- 4.1 The average Band D parish council tax is £46.41 an increase of 8.5% over the 2006/07 level of £42.76. South Norfolk Council has no influence over the level of these precepts.

#### **5 Housing Revenue Account**

- 5.1 Although the Council no longer manages it's own housing stock, the Housing Revenue Account remains in operation. Most authorities seek closure soon after transfer has occurred. However, in our case, there are outstanding debt premia of £415,660 as at 31 March 2007, which will be charged to the Housing Revenue

Account and be fully funded under existing housing subsidy arrangements over the next 7 years.

## **6 Capital Programme 2007/08 to 2009/10**

6.1 The schemes can be analysed as follows:

- Housing- the enabling (private sector) function. The costs of the landlord function ceased following LSVT. Affordable housing schemes are shown, but Cabinet approval is required to release resources for Phase 2 of this project, beyond the £2.4 million previously approved.
- Aids and Adaptations, Housing Renewal Grants and Loans and Disabled Facilities Grants.
- Asset Management- works to Ketteringham depot, leisure centres, car parks and business centres.
- Implementing E-Government- delivering a range of schemes to build on the progress made in the provision of services electronically
- Other Schemes- primarily vehicle and equipment replacements which are replaced on a cyclical basis.

6.2 The capital programme includes the £0.215 million approved as part financing of the Loddon All Weather Pitch. The Opportunity Land Purchase budget has been established at £0.200 million in FY 2007/08, financed from the proceeds of the land transaction at Friarscroft Lane, Wymondham. Affordable housing is a significant factor in the proposed capital programme. There is the potential for further land sales, which could be used to either increase the Affordable Housing budget, or free up resources to fund other capital schemes. The present policy is that any housing land sales generated should in the first instance be considered for affordable housing schemes.

## **7 Financing the Programme 2007/08 to 2009/10**

7.1 The Prudential Code has brought about more freedoms for Councils in determining how to finance their capital programme. In the past Councils have been given a limit on the amount they can borrow to finance their capital programmes, this regime no longer exists. Instead Council's determine how much they want to borrow and set their own limits, as long as they are affordable and prudent, thus clearly linking the financing of capital with the Treasury Management Strategy and the preparation of revenue budgets.

7.2 The Council can finance its capital programme from various sources as outlined below:

- Revenue- General Fund revenue resources can be used.
- Balances - from time to time existing balances are used to fund specific projects, although the level of balances presently held are not considered sufficient to use to fund the capital programme.
- Receipts from General Fund Assets can be fully retained and utilised.
- Right to Buy Receipts – as part of the LSVT agreement the Council will continue to receive income from the sale of right to buy properties.

- LSVT Receipt – The Council received £31,659,527 from the transfer. Once a provision was established in respect of the Sewage Treatment Works, and sums set aside to finance future liabilities in respect of Aids and Adaptations, the balance has been used to finance replacement vehicles which had previously been financed through lease.
- Replacement Programme- officers have produced a ten year fully costed and funded replacement programme.
- Leasing- the Council has a policy of no longer using leasing as a method of financing the acquisition of assets.
- Grants - as well as government grants the Council has taken advantage of lottery and any other grants in the past.
- VAT Shelter – Revenues and Excise have agreed that Saffron Housing Trust can reclaim the input VAT incurred on work carried out to ensure the housing stock meets the Decent Home standard.
- The Council has signed a contract with MacDonald Dettwiler to bring the Council's land and property systems up to date and to enable the Council to comply with the government targets of being fully electronic by 2005.
- Capital Receipts from HRA Land Sales– From 1 April 2004 the government has introduced a pooling systems in relation to receipts from housing assets. The Council can only retain a percentage of the income from the disposal of the assets, this percentage differs according to the type of asset disposed, eg land is 50%.

## 8 Treasury Management Strategy

- 8.1 The Prudential Code for Capital Finance in Local Authorities (the Code) became effective from 1 April 2004. This is a professional Code that sets out a framework for self-regulation of capital spending, in effect allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. Due to the diseconomies arising from the LSVT process it has proved necessary to retain the receipt as part of the Council's Investment Strategy to earn interest to the benefit of the General Fund and thus the council tax level. The Treasury Management Strategy continues to assume that this is the case, until affordability and prudence enables an alternative strategy to be pursued.
- 8.2 Members' involvement through the process is essential in order that the Council can demonstrate that capital expenditure plans are affordable, financing plans are prudent and sustainable and that treasury decisions are taken in accordance with good practice.

## 9 Capital Expenditure and the Capital Financing Requirement

- 9.1 The expected movement in the CFR over the next three years is dependent on the level of supported and unsupported capital expenditure decisions taken during the budgeting cycle. The unsupported element is the capital expenditure freedom allowed under the Prudential Code. The Prudential Code anticipated that these new freedoms would enable the Council to enter into projects such as spend to save schemes (which may have previously been limited by the credit approval limits), or decisions to allocate additional resource from revenue to capital to enable service enhancements.
- 9.2 The Council's expectations for the CFR in the next three years are shown in the table below, with the associated expectation for funding for the movement. This forms one of the required prudential indicators. Included also is the related capital expenditure figures for each year, split between supported and unsupported spending, and the expected external debt for each year. Both of these are mandatory prudential indicators.

	2005/06 Actual £000	2006/07 Revised £000	2007/08 Estimate £000	2008/09 Estimate £000	2009/10 Estimate £000
<b>Capital Expenditure</b>					
Supported spend	4,199	5,873	7,067	3,301	3,235
Unsupported spend	0	0	0	0	0
Total spend	4,199	5,873	7,067	3,301	3,235
Financed by:					
Borrowing	0	0	0	0	0
Capital receipts	5,043	5,069	6,566	2,973	2,859
Capital grants	1,306	715	501	328	376
Capital Reserves	0	49	0	0	0
Revenue	0	40	0	0	0
<b>Capital Financing Requirement</b>					

Net movement in CFR	(2,150)	0	0	0	0
<b>Total CFR</b>	0	0	0	0	0
External Debt					
Borrowing	0	0	0	0	0
Other long term liabilities	0	0	0	0	0
<b>Total Debt 31 March</b>	0	0	0	0	0

## 10 Investment Strategy 2007/08 – 2009/10

- 10.1 Expectations on interest rates, on which investment decisions are based, show a strong likelihood of increasing interest rates. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.
- 10.2 The interest rate forecasts above shows a firming of forecasts in the market. It is recommended that the approach adopted in 2006/07 continues i.e. that investments are made based on interest rate forecasts at the time, and that the maturity profile is spread evenly over the years so that the Council does not become too exposed to interest rate volatility in the months and years ahead.
- 10.3 The base budget for 2007/08 assumes an average interest rate of 4.75% on investments in that year, and that the capital programme for 2006/07 and 2007/08 is fully spent by 31 March 2008. Previous budgets have assumed an interest rate of 4.50%, but as the markets are forecasting base rates in excess of 5.00% over the next three years, it is considered prudent to increase the budget at this time.
- 10.4 The FY 2007/08 budget assumes the following levels of investment interest:

	£
Base Budget FY 2006/07	1,168,650
Increase in Base Budget	30,000
Removal of Short-term (One-off) Increase in Investment Interest to Finance Collection Fund Deficit in FY 2006/07	(78,000)
Use of Short-term (One-off) Increase in Investment Interest to Finance Collection Fund Deficit in FY 2007/08	33,000
Base Budget FY 2007/08	1,153,650

(The first call on any additional interest earned will be to the Sewage Treatment Plants and Aids and Adaptations provisions.)

## 11 Broadening Our Investment Strategy

- 11.1 The base assumption being made in seeking to broaden our Investment Strategy is that the Council would consider a marginal increase of volatility in return, on the assumption that:

- a) Over the medium term (3 years) returns exceed what the existing Investment Strategy would provide, and
- b) There is no increased risk to the capital value of our investment.

It is recommended that these are the two key criteria in considering business cases for “Invest To Save” schemes which would count as capital expenditure.

- 11.2 Investments up to a total value of £10 million will be put into our own asset development, to a Property Unit Trust and a REIT. This will take place during FY 2007/08. Such investments will only be made in consultation with our Treasury Management Advisers (Butlers) and the Portfolio Holder (Resources) on each and every investment decision.

	Limit
Maximum investment in Structured Deposits	£3 million
Maximum investment in Reserve Accounts	£3 million
Maximum investment in REITs, Property Unit Trusts and “Invest to Save” schemes	£10 million
<b>Limit on Variable Interest Rates</b>	<b>£16 million</b>
Investments in short-term fixed deposits (up to 1 year)	£19 million
Investments in fixed deposits in excess of 1 year and up to 3 years	£10 million
<b>Limit on Fixed Interest Rates</b>	<b>£29 million</b>
Investments in non-credit rated Building Societies	50% of overall fund

**“A Thank you to Management Team, Members, and the Financial Services Team in working together to produce this Budget.”**

Andy Radford

Head of Finance and Property