

WEST DUNBARTONSHIRE COUNCIL

Report by Chief Executive

Council : 8 February 2007

Subject: General Services Revenue Estimates and Council Tax

1. Purpose

1.1 The purpose of this report is to provide Members with sufficient information to allow them to agree:

- the General Services Revenue Estimates for 2007/08
- the level of prudential reserves for 2007/08
- the council tax level for 2007/08

2. Background

2.1 Members received a copy of the draft revenue estimates book on 10 January 2007 together with an explanatory report. The report identified a funding gap of £40.815m which is required to be closed by the application of budget savings options, the utilisation of balances and the setting of a council tax increase.

2.2 To assist with the closure of this gap, Members also received on the 18 January 2007 a package of budget savings options which totalled £3.556m and which have been recommended by the Corporate Management Team

2.3 Budgets for capital and the HRA have also been considered to ensure that the full impact of the Prudential Code for Capital Investment and the interrelationship between the general fund and the HRA are fully reflected in the draft General Services budget. Reports on both the General Services capital Plan 2007/08 and the HRA Estimates 2007/08 are presented elsewhere on this agenda.

3. Main Issues

Revenue Estimates 2007/08

3.1 The revised net expenditure, based on a standstill budget, is £215.264m which requires a funding gap of £41.905m. Without savings or reserves, a council tax increase of 12.13% would be required to fund this expenditure. Although the Council chose not to set an indicative Council Tax for 2007/08, this increase would be greater than the 5% maximum which the Council had previously indicated on 13 February 2003. Table 3.1 shows the amount of savings which would need to be made for tax increases between 0% and 5%.

Table 3.1: Options to meet the £41.905m funding requirement

Council Tax Increase	Band D Tax £	Council Tax Income £	Savings/Balances Required £	Funding Requirement £
0.0%	1,138	37,383,300	4,521,250	41,904,550
0.5%	1,144	37,580,400	4,324,150	41,904,550
1.0%	1,149	37,744,650	4,159,900	41,904,550
1.50%	1,155	37,941,750	3,962,800	41,904,550
2.00%	1,161	38,138,850	3,765,700	41,904,550
2.50%	1,167	38,335,950	3,568,600	41,904,550
3.00%	1,172	38,500,200	3,404,350	41,904,550
3.50%	1,178	38,697,300	3,207,250	41,904,550
4.00%	1,184	38,894,400	3,010,150	41,904,550
4.50%	1,190	39,091,500	2,813,050	41,904,550
5.00%	1,195	39,255,750	2,648,800	41,904,550

- 3.2** Savings range from £2.649m to £4.521m. Therefore, even for the maximum increase previously indicated by the Council of 5%, savings of £2.649m would be required.
- 3.3** In September 2006 budget guidance was issued to departments to prepare the budget on a standstill basis. This means that the budget is based on the approved activity levels of 2006/07 (except where growth has been specifically approved by the Council or included in the AEF from central government). If Members wish to build in more growth to the budget, further savings will be required.
- 3.4** To supplement the limited resources available within the Capital Programme, the Corporate Management Team is recommending the inclusion of £0.410m of prudential investment to increase the available balance by £4,100,000. This recommendation has not been included within the draft budget and, if approved, would increase the savings required in Table 3.1.
- 3.5** It should be noted that the figures in Table 3.1 exclude water and sewerage charges. The Council has no control over these charges although they are collected along with council tax. The 2007/08 charges have yet to be announced by Scottish Water.
- 3.6** As a result of a consistently improved Council Tax Collection performance, together with both a further review of Council Tax processes and efficiencies resulting from the introduction of DIP and Workflow, it is recommended that the budgeted Council Tax collection rate is increased from 96.0% to 96.75% for 2007/08. This recommendation has been incorporated within the draft budget.

Prudential Reserves

- 3.7** In 2003, the Council approved a prudential reserves target of 2% of net expenditure. The purpose of prudential reserves is to safeguard the Council against financial risk. Based on the net expenditure total quoted in paragraph 3.1, the target level of reserves for 2007/08 is £4.305m.
- 3.8** The draft budget includes full provision for the estimated cost of securing a single status agreement in line with the proposal approved by Council on the 20 December 2006. This also required an increase of £2.4m to the provision made in the current year's (2006/07) budget. Action was taken by the Corporate Management Team on the 16 November 2006 to introduce spending restrictions to address this pressure.
- 3.9** To enable the Council to work towards the restoration of balances to a prudential level over a three year period, a contingency provision of £0.736m has been included within the draft budget for 2007/08. As a result a draft balance of £3.6m is forecast at March 2008. The maximum balance that should be included within council tax setting for 2007/08 is £0.500m which would leave a forecast balance of around £3.100m at March 2008 which would equate to 72% of the targeted prudential level of £4.305m.
- 3.10** In addition, the HRA holds a reserve of £2.466m at 31 March 2006. The surplus was not planned but has arisen mainly as a result of revised internal accounting practices, together with efficiencies secured in relation to debt management and insurance. It is proposed to transfer £1.5m of this balance to the General Fund during the current year. After this transfer the remaining HRA balance would still be significantly in excess of its targeted prudential level of £0.611m.

Revenue Estimates 2007/08 and 2008/09 and 2009/10

- 3.11** Because the council tax has still to be set, detailed revenue estimates have only been produced for 2007/08. However, to meet the Council's requirement for medium term budgets, it is proposed that departments should plan to produce the same level of service implicit in the 2007/08 budget. The Council intends to include indicative budgets for both 2008/09 and 2009/10 within the 2007/08 Revenue Estimate book.
- 3.12** Although details of the AEF for 2008/09 will not be finalised until after the 2007 spending review, it is anticipated that the indicative budgets for both 2008/09 and 2009/10 will show a significant funding gap.

4. Personnel Issues

- 4.1** There are no personnel issues.

5. Financial Implications

- 5.1** As detailed in the report.

6. Risk Analysis

- 6.1** The Council, in setting this budget, is required to give due regard to the significant financial pressures facing the Council in the medium term. Given the uncertainties regarding the final cost of single status and significant budget pressures such as fostering, residential placements and energy costs, the level of prudential reserve outlined in paragraph 3.9 is considered to be the minimum required to safeguard the Council against financial risk.

7. Conclusions

- 7.1** Based on a budget of £215.264m, the Council would have to increase the council tax by 12.13% in 2007/08 to maintain services at current levels. This is greater than the maximum increase set by the Council of 5%. Savings of £2.649m would be required in order to constrain the tax increase at 5%. Due to the anticipated impact of financing a single status agreement, the Council's forecast reserves are considerably less than the prudential target of 2% (£4.305m) and it is recommended that a maximum balance of £0.500m be applied to the 2007/08 budget.
- 7.2** The figures assume no additional borrowing costs due to prudential investment in General Services Capital. Should the Council approve the recommendation outlined in para 3.4, then further savings would be required.
- 7.3** Following consideration of the budget pressures facing the Council together with the savings options identified whilst also maintaining the Council's commitment to keep council tax levels as low as possible, a budget based on a 2.5% council tax increase is recommended. This will allow the Council to continue to work towards the restoration of balances to a prudential level.
- 7.4** The Council is committed to medium term budgeting and once the council tax is set for 2007/08, indicative revenue and capital estimates will be produced for the following year.

8. Recommendations

- 8.1** Following consideration of budget information provided, Members are recommended to -
- Set the band D council tax level for 2007/08 at £1.167 which represents a 2.5% increase and assumes a collection rate of 96.75%.
 - Agree to transfer £1,500,000 from the HRA Reserve to the General Fund and apply total balances of £2,000,000 to the 2007/08 budget.
 - Agree net efficiencies of £1,568,600.

- Agree to continue to work towards the restoration of balances to a prudential level of 2% of net expenditure.

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Date: 2 February 2007

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Appendices: None

Background Papers: Reports to Members:
Local Government Finance Settlement 2007/08 – 18 December 2006
Revenue Estimates 2007/08 – 10 January 2007
Savings Options – 18 January 2007

Wards Affected: All