

WEST DUNBARTONSHIRE COUNCIL

Report by Director of Corporate Services

Council : 9 February 2006

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 2006/07
- the level of prudential reserves for 2006/07
- the council tax level for 2006/07
- the indicative council tax increase for 2007/08.

2. Background

- 2.1 Members received a copy of the draft revenue estimates book on 26 January 2006 along with an explanatory report from the Director of Corporate Services. The report identified a funding gap of £40.815m to be met from council tax income and/or savings and reserves.
- 2.2 Officers have continued to review budgets and have assessed the implications of new information coming from the Scottish Executive. This has resulted in some changes to the figures contained in the draft estimates book. These changes are shown at Appendix 1.
- 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. A report on the General Services Capital Programme will be brought to the next Council meeting.

3. Main Issues

Revenue Estimates 2006/07

- 3.1 The revised net expenditure, based on a standstill budget, is £206.723m and the funding gap has reduced to £40.209m. Without savings or reserves, a council tax increase of 11.14% would be required to fund this expenditure. Although the Council chose not to set an indicative Council Tax for 2006/07, 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 £40.209m funding requirement

Council Tax Increase	Band D Tax £	Council Tax Income £	Savings Required £	Funding Requirement £
0.0%	1,113	36,188,080	4,021,130	40,209,210
0.5%	1,119	36,383,170	3,826,040	40,209,210
1.0%	1,124	36,545,740	3,663,470	40,209,210
1.50%	1,130	36,740,820	3,468,390	40,209,210
2.00%	1,135	36,903,390	3,305,820	40,209,210
2.50%	1,141	37,098,470	3,110,740	40,209,210
3.00%	1,146	37,261,040	2,948,170	40,209,210
3.50%	1,152	37,456,130	2,753,080	40,209,210
4.00%	1,158	37,651,210	2,558,000	40,209,210
4.50%	1,163	37,813,780	2,395,430	40,209,210
5.00%	1,169	38,008,870	2,200,340	40,209,210

- 3.2 Savings range from £2.200m to £4.021m. Therefore, even for the maximum increase previously indicated by the Council of 5%, savings of £2.200m would be required.
- 3.3 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. For 2006/07, the charge for a Band D property will be £354.60; an increase of 1.97 % on the previous year's charge.
- 3.4 In September 2005 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 2005/06 (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.
- 3.5 As a result of a consistently improved Council Tax Collection performance, together with further efficiencies resulting from both the Council Tax Process Review and the introduction of DIP and Workflow, I recommend that the budgeted Council Tax collection rate is increased from 95.5% to 96% for 2006/07. This recommendation has been incorporated within the draft budget.

Prudential Reserves

- 3.6 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 is £4.134m.

- 3.7 The Council is endeavouring to reach an agreement with its employees who may have a valid equal pay claim. Subject to agreement, it is anticipated that compensation payments will be made in the current financial year and that this will be funded from available resources. As a result, I am unable to recommend the utilisation of any balance to the Council Tax budget for 2006/07.
- 3.8 As a result of the above liability, the general fund reserve at March 2006 is expected to be considerably less than the prudential target indicated in 3.6 and it is recommended that actions are taken to restore balances to a prudential level over a three year period. As a result, a contingency provision of £1.3m has been included within the draft budget. In addition, the HRA holds a reserve of £2.162m at 31 March 2005 and it is proposed to transfer £1.25m 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 £0.620m.

Revenue Estimates 2006/07 and 2007/08

- 3.9 Because the council tax has still to be set, detailed revenue estimates have only been produced for 2006/07. 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 2006/07 budget.
- 3.10 On the basis of known future service charges and estimates of wage and cost inflation, expenditure totals for 2007/08 are expected to increase by substantially more than the percentage increase of Aggregate External Finance allocated to the Council for that year of 1.7%.
- 3.11 Further substantial efficiency savings and cuts in service provision will be required to contain the increase in council tax levels in 2007/08 to the level of 2.5% assumed within the finance settlement.

General Services Capital

- 3.12 2006/07 is the third year of the prudential capital regime, which gives the Council the ability to determine its own level of capital expenditure based on what it can afford to repay. A separate report will be produced on the capital budget for the February Council meeting but the revenue estimates do not assume any additional expenditure beyond the base amount of £17.087m. Additional capital expenditure would require an increase in the budget for loan charges.

Housing Capital and Revenue

- 3.13 Although the Housing Capital and Revenue Accounts are distinct from the General Services Capital and Revenue Accounts, they are linked. For example, rent increases have an impact on benefit subsidy levels, which fall on the general fund, and corporate recharges impact on the cost side of the HRA. Separate reports are being submitted to the Council on the HRA and the figures in this report are based on the capital and revenue budgets set out in these reports.

4. Conclusions

- 4.1 Based on a budget of £206.723m, the Council would have to increase the council tax by 11.14% in 2006/07 to maintain services at current levels. This is greater than the maximum increase set by the Council of 5%. Savings of £2.200m would be required in order to constrain the tax increase at 5%. Due to the anticipated impact of financing equal pay compensation payments, the Council's forecast reserves are considerably less than the prudential target of 2% (£4.134m) and it is not recommended that any balance be applied to the 2006/07 budget.
- 4.2 The figures assume no additional borrowing costs due to prudential investment in General Services Capital. Should the Council take decisions at variance with these assumptions, the impact on the General Services Revenue Estimates will need to be reassessed.
- 4.3 The Council is committed to medium term budgeting and once the council tax is set for 2006/07, indicative revenue and capital estimates will be produced for the following year.

5. Recommendations

5.1 Council is recommended to:

- approve the transfer of £1.25m from the HRA Reserve to the General Fund Reserve.
- decide what level of council tax increase should be applied and agree sufficient savings to achieve that level;
- decide whether to build growth into the budget and if so, identify the sources of funds for the growth;
- consider any increase in prudential borrowing and if so, identify sources of funds for this expenditure;
- consider what level of indicative increase to council tax they wish to set for 2007/08.



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General Services Revenue Estimates

Schedule of Management Adjustments :

	£	£
1 Increase to band D properties		(25,100)
2 Additional AEF to partially support class contact time	(395,000)	
- Further increase to budget	<u>195,000</u>	(200,000)
3 SPT Concessionary fares requisition	(1,896,000)	
- AEF Clawback	<u>1,665,000</u>	(231,000)
4 Social Work - revised provision to other LA's		(200,000)
5 DES - Halls & Events - revised provision - POBP		25,000
		<u>(631,100)</u>

Effect on Draft Estimate Book :

	Estimate Book £	Management Adjustments £	Revised Budget £
Net Cost of Services	208,598,540	(1,876,000)	206,722,540
AEF	(167,783,330)	1,270,000	(166,513,330)
Funding Gap	<u>40,815,210</u>	<u>(606,000)</u>	<u>40,209,210</u>
Council Tax	(37,073,370)	(25,100)	(37,098,470)
Savings required	<u>3,741,840</u>	<u>(631,100)</u>	<u>3,110,740</u>