

TORBAY COUNCIL

Report No: **F/54/04**

Title: **Revenue Budget 2004-05**

To: Council on 4th August 2004

1. Executive Summary

- 1.1 The Council set an original net expenditure budget of £139.429m for 2004-05 at its meeting on 4th March 2004 which, for the Torbay Council element, resulted in a Council Tax rise of 9.9%. The Government subsequently indicated that this was too great an increase and following a debate in Parliament on 19th July 2004 "capped" the Council at a reduced spending level of £138.815m which is a reduction in budget of £614,000. This report proposes ways in which the Council can achieve this level of spending without further seriously impacting on services in 2004-05.

2. Relationship to Corporate Priorities

- 2.1 The Revenue Budget is used to deliver all the Council's policies and objectives.

3. Recommendation

- 3.1 That it be noted with disappointment the decision of the First Secretary of State to cap Torbay Council in the current financial year.
- 3.2 That, in order to conform with the capping order, the Council set a revised budget of £138.815m for the financial year 2004-05.
- 3.3 That services not be reduced in the current financial year to meet the shortfall in funding of £614,000.
- 3.4 That, subject to any in-year savings being identified, the shortfall in funding for the current approved budget and the cost of rebilling, be met from earmarked reserves.
- 3.5 That the Director of Finance, in consultation with the Executive Member for Finance, be authorised to determine the precise call and allocation from reserves as part of the 2004-05 closing process.

4. Reason for Recommendation

- 4.1 The Council has to set a revised budget following the designation of the Council by the First Secretary of State.

5. Background

- 5.1 The Council at its 4th March 2004 meeting set the 2004-05 budget at a level of £139.429m which it arrived at after consultation with service stakeholders and having taken into account the impact both in terms of service delivery and levels of Council Tax of other possible spending levels. In setting a budget at this level the Council was aware of the service implications and public reaction to the resultant level of car park charges and the proposals to close certain toilets bears witness to the hard decisions that were taken to achieve the original budget level.
- 5.2 On the 29th April 2004, the Council received a letter from the First Secretary of State indicating that he “formed the opinion” that the budget set was excessive and was therefore “designating” Torbay. This meant, in effect, that Torbay was going to be capped in year.
- 5.3 Those authorities facing capping in-year were deemed to have exceeded two guidelines, namely
 - (a) there was a 6½% or greater increase in the budget requirement (i.e. spending levels) and
 - (b) there was an 8½% or greater increase in the Band D level of Council Tax.
- 5.4 In Torbay’s case the figures were 7.1% and 9.9% respectively and accordingly the Secretary of State determined that the Council should reduce its planned expenditure by £614,000 which would have the impact of reducing the Council Tax increase to 8.5%.
- 5.5 It will be scant consolation to the Members of this or the other five Councils capped in 2004-05 that a further forty three authorities breach one of the two guidelines but were not capped.
- 5.6 In accordance with the options available to the Council, an appeal was lodged and a meeting with the Right Hon. N. Raynsford MP was held on 24th May to argue the Council’s case. The Council was represented by the Leader, Deputy Leader, Managing Director, and Director of Finance and was also supported by the Torbay M.P. Mr. A. Sanders who spoke of the problems capping would cause. However, this has proven unsuccessful with the Minister ignoring the issues raised by the appeal.
- 5.7 This was also the case in four of the other designated authorities, namely Nottingham City and Herefordshire unitary authorities and Shepway and Fenland District Councils. The only variations to the original order were in the cases of Telford and Wrekin (where cuts of £30,000 were required with estimated rebilling costs in excess of £100,000) and the Hereford and Worcester Fire Authority where serious front line job losses were being projected. It should be noted though that the Fire Authority has still been capped at a level which requires budget reductions in excess of £1m.
- 5.8 The Order was debated in the House of Commons on Monday, 19th July 2004 and duly approved by 278 votes to 175. Under the legislation, the Council had 21 days from that date to meet and set a new budget, along with the consequential new Council Tax levels. Failure to do so would mean that the Council would be operating illegally and would not be able to collect income in order to run services.

- 5.9 The Council therefore needs to identify net expenditure reductions of £614,000 to get down to the level required as well as budget for the additional costs of re-billing which are estimated to be in the region of £100,000.

6. Budget Proposals

- 6.1 Members of the Executive have considered a number of options for meeting this new requirement including:-
- percentage reduction against all services
 - reductions in non-statutory or lower priority areas
 - use of the general balance
 - use of earmarked reserves and
 - combinations of the above
- 6.2 Members were concerned that the first item was a “knee jerk” reaction and took no account of the needs of the service or the ability to make and impact of the proposed reductions. Accordingly they were reluctant to recommend such an action. Had such an approach been taken, then it would have required a reduction of 0.5% on all budgets, including £0.3m being taken from schools budgets.
- 6.3 Similarly, it was considered that by implementing reductions in non-statutory services would impact upon areas of service provision that the residents of Torbay valued such as beaches, cleansing, parks and gardens. Accordingly there was a reluctance to reduce expenditure in these areas without further consultation.
- 6.4 Having therefore discounted actual in-year service reductions to meet the short term problems, it is necessary to consider the use of earmarked reserves, provisions or the General Balance. If the Council were to take the £0.614m plus the cost of rebilling from the General Balance, it would leave the Council dangerously exposed to any in-year budgetary problems on top of those already identified. Such a reduction would leave the General Balance at approximately £1.5m and this would be well below any reasonable level. On the basis of current information the Council's General Balance is below the Unitary average and currently represents 1.6% of net expenditure against a guideline of 3%.
- 6.5 Accordingly it is being recommended that the shortfall in funding arising from the capping decision and the consequential cost of rebilling only should be met from earmarked reserves and that this funding must be repaid back into the reserves in equal amounts over the following two financial years.
- 6.6 Clearly, Members and Directors will be seeking ways of reducing this call on reserves by managing the current year's budget to generate in-year savings wherever possible. The Executive and Overview and Scrutiny Board have both recently received budget monitoring reports on the current years budget position and the current projection indicates a projected overspend if no remedial action is taken at the year end. This overspend is principally arising because of increased pressures within Social Services but there are also spending pressures within the Environment budgets. Both Directors, though, have indicated plans are being implemented to bring spending back into agreed budget levels. Accordingly until these pressures have been managed back to the approved levels, it would be unwise to assume any in-year savings will accrue to offset the call on reserves.

- 6.7 A review of all the Council's reserves has been undertaken. Whilst it is recommended that the final decision be left to the Director of Finance, in consultation with the Executive Member for Finance, to resolve as part of the 2004-05 closing process, the most likely source to be utilised is the Insurance Fund. This has very recently been actuarially assessed and it is estimated that the fund will stand at £2.8m at the end of 2004-05. The actuarial assessment and the future profiling of the fund supports using it to meet the revenue shortfall of upto £0.714m in the current financial year. The level of risk associated with such action is acceptable in the current year. However, the level of financial risk would rise significantly if the fund were not fully replenished; a process that ideally should be completed by the end of 2006-07.

7.0 Proposed Budget

- 7.1 In order to set a budget that meets the legal requirements set out by the First Secretary of State, the Council needs to reduce the original budget's net expenditure by £614,000. If the recommendations made in Section 6 above are accepted then the revised budget for 2004-05 will be as shown below.

	Original Approved Budget £'000	Revised Recommended Budget £'000
Expenditure		
Service Expenditure	139,429	139,529
Take from reserves		714 -
Net revenue expenditure	139,429	138,815
Funded by		
Revenue Support Grant	55,702	55,702
Non- Domestic Rates	36,254	36,254
Total National Taxation	92,256	92,256
C.T. Collection Fund Surplus	406	406
Council Tax requirement	46,767	46,153
	139,429	138,815

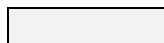
- 7.2 The net expenditure total has increased by £0.1m to cover the estimated cost of rebilling. The final cost will not be known until the exercise has been completed and the cash flow implications are known. However, the Council is already beginning to see some fall off in Council Tax income collection as a result of the Government's decision. Accordingly the budgeted call on reserves has been increased by an equivalent amount to compensate.

8 Key Risks associated with the Recommendation

- 8.1 The original report to Council on 4th March 2004, covered issues such as risk assessments, robustness of the budget and reserves and balances. The issues raised in the previous report have not changed significantly since the March report, notwithstanding the comments in paragraph 6.6.

- 8.2 The recommended course of action that the funding shortfall be met from the Insurance Fund, supported by the Actuarial assessment, suggests that there is low or an intermediate risk to the Council as indicated on the table below. There is either an “almost impossible” or “very insignificant” risk that an insurance claim came in that had to be settled within the period in question at a value greater than the balance held in the fund. In these cases the score would be either 1 or 2 on the likelihood scale but if such an event took place then the impact could be catastrophic in financial terms (scale 4 on the impact axis). This would give an overall risk assessment score of 4 or 8 which, at the worst level, would suggest an intermediate risk.

Likelihood	6	6	12	18	24
	5	5	10	15	20
	4	4	8	12	16
	3	3	6	9	12
	2	2	4	6	8
	1	1	2	3	4
		1	2	3	4
	Impact				



Low risk



Intermediate risk



High risk

9 Alternative Options

- 9.1 The Council has no option but to agree a maximum revised budget at the revised level of £138.815m if it wishes to operate legally. However, Members may wish to suggest alternative approaches to identifying the net expenditure reductions of £614,000 and funding the costs of rebilling, estimated at £100,000. These though may result in different risk analysis results from those currently shown in section 8.

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IMPLICATIONS, CONSULTATION AND OTHER INFORMATION

Part 1

These sections may be completed by the Report author but must be agreed by named officers in the Legal, Finance, Human Resources and Property Divisions. If these are not completed and agreed the Report will not be included on the agenda.

Does the proposal have implications for the following issues?

Insert name of
responsible
officer

Legal (including Human Rights)	A failure to set a new budget at the maximum level specified by the Government would lead to serious legal consequences.	Bill Norman
Financial – Revenue	See report	Richard Thorpe
Financial – Capital Plan	None identified at present	Richard Thorpe
Human resources (including equal opportunities)	None identified at present	Clare Armour
Property	None identified at present	Sam Partridge

Part 2

These sections must be completed by the author of the Report.

Does the proposal have implications for the following issues? Please give details as appropriate		
Sustainability	No	
Crime and Disorder	No	
*OfSTED Post Inspection Action Plan	No	
*Social Services Action Plan	No	
*Change Management Plan	No	

** not applicable to reports to Licensing, Development Control and Area Development Committees*

Part 3

These sections must be completed by the author of the Report.

Does the proposal have implications for the following Directorates? If so, please inform the relevant Director. Please give details as appropriate		
Chief Executive/Corporate Services	Yes	Issue of new Council Tax bills and issuing of new Council budget
Education Services	No	
Environment Services	No	
Social Services	No	
Strategic Services	No	

Part 4

Is the proposal contrary to or does it propose amendment to the Policy Framework or contrary to (or not wholly in accordance with) the Council's budget?	Yes	Fill in Box 1	No	X	Fill in Box 2
1. Details of the nature and extent of consultation with stakeholders and relevant select committees.					
2. Details and outcome of consultation, as appropriate. No external consultation possible given timescale available to council in which it has to take decision.					

Part 5

Is the proposal a Key Decision in relation to an Executive function?	Yes	Reference Number	No
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Part 6

Wards

Appendices

Appendix 1 Insert Title of Appendix 1

Documents available in Members' Room

Background Papers:

The following documents/files were used to compile this report:

TCASWK/Richard Thorpe/Draft Revenue Budget 2004 05 Report rt.doc