



**NORTHAMPTON**  
BOROUGH COUNCIL

<b>Name of Committee</b>	<b>Council</b>
<b>Directorate:</b>	Governance and Resources
<b>Director:</b>	Ian Thompson
<b>Date:</b>	13 <sup>th</sup> February 2007

<b>Report Title</b>	Budget 2007/08
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<b>Key Decision</b>	Yes
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### 1. Recommendations

1. Note the comments of the Acting Section 151 Officer set out in the report, particularly in relation to the robustness of the estimates and the adequacy of the proposed financial reserves.
2. Note the results of the budget consultation exercise (circulated separately).
3. Approve the Revenue Budget for 2007/08 as recommended by Cabinet and as set out in the appendices.

### 2. Summary

The report covers the budget for 2007/08 recommended by Cabinet on 5<sup>th</sup> February. Prior to approving the budget, Council is required to have regard to the outcome of the consultation exercise together with the advice of the Council's Section 151 officer as to the robustness of the estimates and the adequacy of the level of general reserves to be retained in support of the budget.

### **3. Report Background**

## *Introduction*

- 1.1 As part of the budget preparation process, during December 2006 and January 2007 Cabinet received a sequence of reports outlining the requirement to set a balanced budget for 2007/08 and later years and suggesting a range of options for bringing draft budgets in line with forecast available resources. These reports also made reference to the statutory framework for establishing a budget that is both robust and balanced as well as the requirement to consult widely on the budget and related service delivery proposals and to have regard to the response.
- 1.2 Cabinet on 8<sup>th</sup> January agreed a schedule of optional service reductions that was subsequently used as the basis for an extensive albeit time-limited consultation exercise involving staff, partners and the general public. The schedule amounted to £3.95m. in total and reflected the identified requirement to meet a funding shortfall of £3.15m. after incorporating into the base budget an efficiency savings target of £1.115m. (subsequently revised to £1.465m.).
- 1.3 The results of the consultation exercise were summarised and reported to Cabinet on 29<sup>th</sup> January. The same information has been made available to all Council members in advance of this key Council meeting of 13<sup>th</sup> February together with a copy of the high level Equalities Impact Assessment carried out in relation to the cabinet budget proposals of 29<sup>th</sup> January. In addition, Cabinet received verbal representation from members of the public and representatives of interested groups at its meetings of 29<sup>th</sup> January and 5<sup>th</sup> February.
- 1.4 This report now carries forward the formal recommendation of the Cabinet meeting of 5<sup>th</sup> February in relation to setting a balanced and robust budget for 2007/08.

## *Statutory and Policy Framework*

- 1.5 In terms of process, the Council's Constitution incorporates the 'Budget and Policy Framework Procedure Rules'. These state that at the end of the appropriate budget consultation period, the Cabinet will draw up firm proposals for consideration by Council having regard to the consultation responses. Provision is made for Council to amend the proposals and in such a case, there is a grace period of five days after which the Council decision becomes effective. The exception to this is where the Leader may enter a formal objection within three days of the Council amendment and in such circumstances, a further meeting of council is required in order to finally determine the budget.
- 1.6 The timing of this Council Budget Meeting has regard to the above and in particular the need to formally determine the Council Tax no later than the end of February in order to facilitate the printing and distribution of bills. This in turn is time critical in that adequate notice has to be provided to instalment payers if the April 1<sup>st</sup> instalment collections by direct debit are to be valid. Any delay has significant cash flow implications for the Council.
- 1.7 In terms of officer responsibilities, there are two key legislative requirements. The Council's Financial Procedure Rules refer to the Local Government Finance Act 1988 which imposes a responsibility upon the 'Section 151 Officer' to ensure that budgeted expenditure does not exceed total resources available. In addition, the Local Government Act 2003 requires the officer to report on the 'robustness' of the budget and the adequacy of the proposed financial reserves

and for the Council to have regard to that report accordingly. This is covered in more detail below.

### *Budget Preparation Process*

- 1.8 It can be recalled that as part of the 2006/07 budget preparation process, a major exercise was undertaken to realign budgets with discrete areas of management responsibility for the first time. This was seen as a fundamental basis for securing accountability for resources on the part of service managers. One of the benefits has been more effective hands-on budget management and monitoring as the financial year has progressed together with an increased level of confidence in the financial forecasts.
- 1.9 However, it has also become clear over the course of the year that the agreed budget for 2006/07 incorporated a number of risks that had not been fully appreciated. In some cases, for example, it has emerged that underlying base budgets brought forward from previous years did not adequately reflect levels of service commitment or achievable income. This is disappointing in that there were a number of areas where such discrepancies *had already* been identified and the budget for 2006/07 realigned accordingly.
- 1.10 The budget preparation process for 2007/08 has therefore taken into account any identified areas where such additional discrepancies have come to light. Having said that, it must be acknowledged that a number of budgeted services are subject to fluctuating or uncertain demand and the level of general reserves to be retained in support of the budget has regard to this.
- 1.11 As indicated above, the budget finally considered by Cabinet identified a requirement for £3.15m. of service reductions in addition to an efficiency savings target of £1.465m. Having considered the financial position and having had regard to the consultation exercise, Cabinet on 5<sup>th</sup> February recommended a balanced budget based on £2.91m of service reductions and other adjustments (see Appendix 3) supported by identified efficiency savings of £1.64m with a further £50k to be identified. However, as these savings are not achievable in full until 2008/09, there is a requirement to contribute £817k from reserves to bridge the funding gap for 2007/08. This position is summarised in the appendices and it can be noted that additional efficiencies in support services have been included to meet the required £50k (see Appendix 4).
- 1.12 It can be noted here that included in the schedule at Appendix 3 is a recommendation for Northampton Borough's council tax increase to be 4.95%, within the Government guideline limit of 5%. The draft base budget was prepared on a working assumption of a council tax rise of 3%, broadly in line with inflation. The additional increase of 1.95% generates an additional £260k (approx.) of revenue.

### *General Fund Reserves*

- 1.13 The 2006/07 budget monitoring report presented to Cabinet on 19<sup>th</sup> December 2006 forecast that the year end position would be an overspend relative to the approved budget of £1.9m. The consequence would be that the council's general fund reserves would be reduced to the order of £1m. However, the report also identified that there were a number of one-off actions that would release an additional £1m thereby enabling the reserves to be restored to £2m.

in support of the 2007/08 budget.

- 1.14 Given the risks inherent in the draft budget, however, it was recognised that a sum of this order would not be sufficient. It was considered prudent to make provision for a contribution to reserves of a further £1m and this was built into the overall budget presented for consideration by Cabinet on 19<sup>th</sup> December. The budget recommended for approval by Council includes this sum, identifiable as the 'Additional Contingency Provision' at Appendix 1.
- 1.15 In addition to the above, it became clear on closing the council's 2005/06 accounts that the earmarked Insurance Reserve was in surplus by about £1.3m. However, it was considered prudent to retain this to offset a number of unfunded liabilities that had also become apparent, not least the potential clawback of overpaid benefit subsidy from previous years. During the current financial year, work has continued to finalise the sums owed and the current estimate of subsidy clawback is about £0.5m. The balance of £0.8m. is therefore available to supplement the council's general reserves.
- 1.16 Paragraph 1.11 above identifies the requirement to contribute £817k from reserves in 2007/08 in order to balance the budget position pending the full year impact of efficiency savings and service reductions being realised in 2008/09. This can be achieved therefore without compromising the requirement to retain a prudent £3m. of reserves in support of the 2007/08 budget.

#### *Robustness of Budget*

- 1.17 Paragraph 1.7 above refers to the responsibilities of the council's 'Section 151' officer under the terms of the Local Government Act 2003. Whilst it would never be possible to be completely satisfied that the annual budget is without some element of risk and uncertainty, the extent to which the budget can be regarded as robust is influenced by the degree of direct engagement in the process of key budget managers working closely with finance support staff.
- 1.18 In particular, there has been close involvement of all budget managers in determining the options for service reductions and efficiencies and, subject to formal approval by Council, the management arrangements have been set in place to ensure that these are delivered in practice with corporate directors taking a leading role. Where the budget monitoring for 2006/07 has identified overspending relative to the agreed cash limit, budgets have been adjusted accordingly. The extent of any residual risk has been assessed and this is reflected in the provision within the base budget of an additional £1m. contingency sum.
- 1.19 However, it is important to note that there are other risks facing the council that it is not possible to quantify at this stage. In particular, the Cabinet report of 29<sup>th</sup> January drew attention to risk of retrospective claims arising from the Pay & Grading Review. There is also a need to undertake a review of the basis for internal recharges between the General Fund and Housing Revenue Account, recognising that this has not been scrutinised for some time, with the attendant risk that this may have a detrimental effect on the General Fund.
- 1.20 One further issue concerns the Medium Term Financial Plan (MTFP), the relationship to service plans and the overall 'value for money' strategy that in turn impacts on the 'Use of Resources' assessment and the council's Comprehensive Performance Assessment. It will be necessary to revise the MTFP in the light of having agreed a robust balanced base budget for 2007/08

and in doing so, to have regard to the potential level of available financial resources in future years and Government expectations of future efficiency targets.

1.21 Taken overall, the view of the Acting 'Section 151' officer is that the budget recommended by cabinet for 2007/08 can be regarded as robust, in particular having regard to the target level of reserves of £3m.

#### *Recommendation of Cabinet*

1.22 Cabinet on 5<sup>th</sup> February recommended that the budget set out in the appendices to this report be adopted by Council and that the target level of reserves to be retained in support of the budget should be not less than £3m.

#### *Other Matters*

1.23 This report deals only with the Council's budget and the level of council tax increase that results. A further meeting of Council has been arranged for 28<sup>th</sup> February to deal, inter alia, with the formal setting of the Council Tax. This is necessary because of the requirement to incorporate into the overall bills the precepts levied by the county Council, the Police and the parish councils within the Borough.

1.24 The opportunity will be taken to present to the next meeting the detailed budget analysed across key service areas and incorporating the changes approved by this meeting.

## **4. Options and Evaluation of Options**

An extensive public consultation exercise on a range of options for service reductions etc. has been conducted as a key part of the budget exercise.

## **5. Resource Implications (including Financial Implications)**

The recommended budget can be regarded as 'balanced' and deliverable within the total resources estimated to be available to the Council.

## **6. Risk and Opportunity Issues**

The report highlights a number of areas of risk and uncertainty and recommends that the level of reserves in support of the budget be not less than £3m.

## 7. Consultees (Internal and External)

<b>Internal</b>	Staff and trades unions.
<b>External</b>	Extensive consultation with the public and key stakeholders.

## 8. Compliance Issues

### A: How Proposals Deliver Priority Outcomes

<b>Recovery Plan</b>
A balanced budget is fundamental to the delivery of the recovery plan.
<b>Corporate Plan</b>
As above.

### B: Other Implications

<b>Other Strategies</b>
N/a

<b>Finance Comments</b>
Included in the report.

<b>Legal Comments</b>

## 9. Background Papers

<b>Title</b>	<b>Description</b>	<b>Source</b>

Ian Thompson ext 8744

<b>Name</b>	<b>Signature</b>	<b>Date</b>	<b>Ext.</b>
<b>Author</b>			
<b>Corporate Manager</b>	<b>N/a</b>		
<b>Director</b>			
<b>Monitoring Officer or Deputy (Key decision only)</b>			
<b>Section 151 Officer or Deputy (Key decision only)</b>			