APPENDIX 1

Financial Planning Issues 2007/08 and future years

Section A

Council 2007/08 Budget Position

Executive Summary

1.1 The September Executive Report set out the key features of the financial plan as follows:

- That 2007/08 is the second year of a two year settlement, which means that there is relative certainty for 2007/08, but that the likely 3 year settlement from 2008/09 will be tighter than in recent years, as an outcome of the Comprehensive Spending Review

- That the financial plan parameters for service delivery planning have been updated in respect of latest information on the collection fund deficit, the council tax base, Coroner's costs, and the July council decisions in relation to the Spa project and Spa Claims Management.

- That there are a number of other potential revenue budget pressures such as:

  - Single Status
  - Pensions
  - Social Services
  - Waste
  - Other service pressures including issues arising from current year monitoring
  - Potential changes in VAT

- Maintaining the Council's commitment to not add to the capital programme significantly without additional capital receipts significantly in excess of the level already planned, and/or significant other sources of external funding. This requires an explicit balance between affordability (in relation to the revenue budget and reserves), maintenance, new service based projects, and development projects.

1.2 Through the service planning process Officers have been asked to develop proposals, which balance to their financial plan targets, which take account of the various pressures on their budget, and the overall objectives of their services.

1.3 The pressures on the revenue budget have now been fully quantified and are summarised in table 1 of the main report, and commented on below.

1.4 The on-going costs of single status have been calculated for the council as a whole and proposals put forward for changes in overtime and enhancements which will generate savings to cover the expected increase in costs on an on-going basis. These have not yet been accepted by the Trade Unions, but contingency plans are in place to ensure that single status can be implemented as required by 1 April 2007, with on-going costs covered by the above savings, such that the net on-going cost to the council (excluding the DSG) element is broadly neutral. This will avoid putting further pressure on the revenue budget with consequent adverse implications for jobs and services.

1.5 The costs of a further increase in the required pension contribution rate has been factored in to each service plan, at a total of £965k, excluding the DSG.

1.6 Further pressures totalling £13.693M have been identified, and are currently being subjected to rigorous scrutiny at both officer and member level. These include the continuing implications of pressures identified in the current year (see below).

1.7 Elsewhere on this Executive Agenda is the regular financial monitoring report which highlights on-going financial pressures arising in the current financial year. The table below, from that report, highlights the likely adverse impact in 2007/08, to a total of £2.355M.

Table 1 - Budget Position, Recovery Actions & Ongoing Effects

Strategic Director / Assistant Director	2006/07 Forecast Overspend £'000	2006/07 Recovery in Apr-Sep Figures £'000	2006/07 Net Position reported Apr-Sep £'000	2007/08 Ongoing Pressures £'000	2007/08 Ongoing Recovery Actions £'000	2007/08 Net Forecast Position £'000
Adult Care & Health Services	708	(715)	(7)	1,805	(962)	843
Children's Services	653	(357)	296	1,410	(180)	1,230
Customer Services	1,610	(786)	824	1,289	(1,050)	239
Support Services	126		126	170	(170)	
Improvement & Performance	(65)		(65)	230	(230)	
Council Solicitor	44		44	43		43
Major Projects						
Corporate & Agency	(1,187)		(1,187)			
Total	**1,889**	**(1,858)**	**31**	**4,947**	**(2,592)**	**2,355**

1.8 One element of the pressures identified is the revenue impact of the council's capital programme, which although built in to the financial plan, envisages an additional £2M of expenditure in 2007/08 compared to 2006/07, with further increases in 2008/09 and 2009/10.

1.9 Directors are continuing to identify options for balancing the budget and generating headroom to allow consideration of alternatives.

1.10 In line with the report to the September Executive (see final bullet point in 1.1 above) and in light of the pressure identified above, Directors are undertaking a further review of the capital programme both in the current year, and proposals for future years, to identify any potential financial slippage (consistent with not increasing total scheme costs), and items that can be deferred or deleted, together with options for bringing forward and further increasing capital receipts.

1.11 Other proposals already under consideration include £1.350M of cashable efficiency savings, £2.494M of additional income and £7.276M of service reprioritisation.

1.12 Directors are also examining options for cross service savings, for absorbing certain corporate pressures, and the implications for selected services of achieving savings beyond their financial plan targets.

Section B
<u>Creation of Exceptional Risk Reserve</u>

1.13 The Budget report for 2006/07 highlighted a number of potential financial risks facing the Council which should they materialise could reduce our reserves to an unacceptable level. In order to address these potential risks a number of measures have been developed to provide an exceptional risk reserve against the costs materialising in 2007/08.

1.14 The following table provides details of the measures proposed:

Table 2: Measures proposed to create exceptional risk reserve

Measure	Amount £'000
Additional capitalisation from 2005/06	521
Additional capitalisation in 2006/07	650
Fund items from capital and release ear-marked reserves: Replacement PC & Printers provision £250k Systems provision £690k Lambridge P&R Fund £427k	1,367
PSA grant – accrue to 2006/07 subject to external audit agreement.	2,050

Total proposed for exceptional risk reserve	**4,588**

1.15 It is recommended that the Council Executive agree to the measures above in light of the risks identified.

Section C

The Coroners Service

1.16 The Council has received a report from Bristol City Council which is going to its Cabinet on 23rd November 2006 (attached at Appendix 3) to seek agreement to enter into a contract to build mortuary facilities at Flax Bourton. The report also provides updated cost figures relating to refurbishing the site. Bath & North East Somerset Council Executive received a report at its meeting on 7th December 2005 which covered the refurbishment costs issue. At that meeting the Executive agreed to the refurbishment proposals subject to funding of essential works only. A sum of £8,000 was included in the budget for 2006/07.

1.17 Since the December report Bristol City Council (on behalf of the coroner) submitted a bid to the Home Office to seek funding for building a new public and forensic mortuary on the Flax Bourton site, due to a shortage of acceptable mortuary facilities in the former Avon area. The business case is included in the attached report from Bristol City Council. The Home Office has agreed to fund £864k of costs based on the provision of a forensic mortuary, in order to secure this funding contracts for building the mortuary must be entered into before the end of this financial year and Bristol City Council require agreement to proceed from our Council as well as South Gloucestershire and North Somerset.

1.18 The four Council's of the former Avon area are required to fund the costs not covered by the Home Office grant (under the existing funding arrangements for the Coroner Service, the Bath & North East Somerset share is 17.18%).

1.19 The business case for the building of the new mortuary shows that this option costs marginally less than the current costs charged by hospitals for using their mortuary facilities. As reported in the outturn report and the financial plan report in September, hospitals have substantially increased their charges for use of mortuary facilities leading to an overspend on the coroners service. Provision for these additional costs was made in the outturn report to cover 2006/07, but the ongoing costs of around £100k to this Council have had to be built into the financial plan for 2007/08 (as reported to the Executive at its meeting on 6th September 2006).

1.20 The following tables show an extract of the financial implications from the Bristol City Council Report, the proposal is that the capital costs are funded by prudential borrowing by Bristol City Council with the four Council's paying annual loan charges through revenue, so only the figures shown as annual revenue costs are relevant to this Council.

Table 3 – Coroners Accommodation – Financial Summary

Part 1 - Refurbishment of Flax Bourton	
Acquisition Costs	£400,000
Essential Works	£454,000
Desirable Works	£281,000
Total	**£1,135,000**
Annual revenue costs:	
Loan Charges all costs including desirable	£113,500
B&NES Share @ 17.18%	£19,500
Loan Charges Acquisition & Essential Works only	£85,000
B&NES Council Share @ 17.18%	**£14,600**

Part 2 - New public and forensic mortuary	
Cost of building new mortuary	£2,738,000
Home Office Contribution	-£864,000
Net Cost	**£1,874,000**
Annual revenue costs:	
Loan Charges and running costs of new mortuary	£591,200
Estimated cost of current hospital mortuary facilities*	£632,800
Saving	**-£41,600**
B&NES Council Share @ 17.18%	**-£7,147**

* Costs shown includes increased charges proposed by hospitals, funding of £100k has been built into the financial plan for 2007/08 and reported to the Council Executive in September 2006 to cover the increased charges.

1.21 After reviewing the figures in the report, both the new public and forensic mortuary and the acquisition and essential refurbishment works can be covered from the additional £100k already built into the financial plan to cover the increased mortuary fees for 2007/08, the slight saving on the mortuary scheme offsetting the increased costs of the refurbishment.

1.22 With reference to the purchase and refurbishment of the Flax Bourton site it is recommended that the Executive reaffirms its decision of 7th December 2005 to agree the proposal subject to funding of essential works only.

1.23 Regarding the proposals for Bristol City council to enter into a contract to build a new public and forensic mortuary, it is recommended that the Executive agree to the proposal on the basis that the scheme will offer marginal savings over the current mortuary provision via hospitals. This is subject to Council agreeing the financial plan proposal to include £100k in 2007/08 for the increased cost of mortuary fees as part of the budget report in February 2007.

Section D

2008/09 – onwards

Summary

1.24 In light of the scale of the financial pressures already facing the council, the likely outcome of the Comprehensive Spending Review, the uncertain outcome of the Lyons Review, and the capital agenda that would need to be developed to meet the Council's economic regeneration ambitions, it is considered that a more fundamental review of priorities, and of 'ways of doing things' is required. The objective will be to develop medium change proposals which will generate cashable efficiency savings and enhance / maintain priority services. This will need to build on and develop the council's existing change programmes, and integrate them more effectively as recommended by the Peer Review. Officers are considering how best to do this to develop options for the new Council, after May 2007. This will be a key element in the council's future Corporate & Financial plans, in the context of the LAA requirements.

1.25 The service planning process includes identification of pressures and savings opportunities over a 3 year period, and these will be set out in full as part of the February Budget Report, and will form a starting point for the further corporate review process referred to above.

1.26 Further detail is presented below in relation to the likely continued increase in pensions contributions from 2008/09 onwards, and the key national factors.

Pensions

1.27 At its meeting on 15th September 2006 the Avon Pension Fund Committee considered an interim review of the Fund's actuarial position as at 31st March 2006. The review highlighted that despite an increase in the fund's assets since the last valuation on 31st March 2004, two main factors that will lead to an increase in the employer's pension contribution from 1st April 2008.

1.28 The first factor relates to the production of a new set of mortality tables by the CMIB (Continuous Mortality Investigation Bureau) which confirms that people are living much longer, the Pension Fund liabilities need to reflect this.

1.29 The second factor is a decline in long dated gilt yields of 0.5%, on which future cash-flows are discounted to arrive at present value. The estimated impact could see the average employer contribution rate increase by between 3% and 4%. Any increase would be phased in over 3 years and the potential cost to the Council would be between £570k and £740k per annum. In the past services have been required to absorb these increases as part of the service planning process, it is proposed that this treatment is continued in future years. It should be noted that the increases are based on estimates and can be affected by a range of variables between now and 31st March 2007, including the direction of investment markets.

National Factors

1.30 While the Comprehensive Spending Review has not yet reported, it is likely that increases in non health and education budgets will be very tightly restricted from 2008/09 onwards. The expectation is that the Governments resources will be allocated to their key priorities of Education and health with increased efficiency requirements set for Councils.

1.31 The 2008/09 will be the first year in a new 3 year settlement process and so there could be a reallocation of grant between authorities starting in that year.

1.32 The Lyons review of local government finance is due to report soon and so while its outcome is currently unknown it also has the potential for significant financial implications.

1.33 The national spending round process has highlighted the pressures on local authorities, particularly in relation to waste and adult social care. The Waste report elsewhere on this agenda highlights significant additional costs that are likely to need to be incurred, but which will enable the authority to avoid significant LATS (Landfill Allowances Trading Scheme) penalties.