



WALSALL COUNCIL

An introduction to local government finance and the financial position of the Authority

**Walsall
Council**

1. **INTRODUCTION**

This paper provides a brief overview of the local government finance framework, and Walsall council's own financial position.

2. **STATUTORY CONTEXT**

The powers granted to local authorities and the functions that can be undertaken are laid down in statute. However, there is an element of discretion about how local authorities carry out those functions. This discretion has been limited to greater or lesser extents by successive governments, and in any case is regulated within a controlled financial environment.

3. **THE NATIONAL CONTEXT OF FUNDING**

Total local government spending represents around a quarter of total public expenditure. The majority of council funding comes from Government grants of one form or another. Several factors determine total funding for all local authorities. Ministers make the final decisions on funding levels based on the advice of working groups within the civil service, who take account of recent financial information, future changes, and prevailing national policies and priorities. The relative spending on local government is decided within the overall priorities of the national Government of the time, known as the comprehensive spending review (CSR). The allocation to councils will be balanced with the allocation to the health service, the armed forces, the civil service and other Government departments.

4. **COUNCILS' FUNDING**

Councils' financial years start on 1 April. Each council is advised of its draft revenue formula grant settlement early in December which then allows 3 months deliberation prior to the setting of following year's council tax. The final grant settlement is advised during early February. During the consultation period, authorities check source data and calculations, and can appeal for higher funding or a relaxation of regulations. Any appeal based on an authority's own consideration of its need for additional funding is most unlikely to succeed unless it is related to incorrect data. Around the same time each year, councils are advised of their capital funding allocations (known as supported borrowing) and the levels of specific grants.

Councils' expenditure can be divided into two broad categories:

- **REVENUE** - day to day expenditure on items such as employees, supplies, services and other running costs. The cost of these items is either accounted for in the general fund or for a housing function in housing revenue account (HRA).
- **CAPITAL** - expenditure on the acquisition or enhancement of assets. This is dealt with in the capital programme/strategy.

General Fund

The general fund is the name given to the council's main revenue account. Day to day spending on the net expenditure of services (e.g. Social Care and Supported Housing, Lifelong Learning and Community, Regeneration, Corporate Support Services etc) and internally traded services, such as catering, cleaning, grounds maintenance, is met from this fund. Most housing expenditure, including all spending relating to a council's housing stock, must be accounted for separately in the HRA (see below).

Housing Revenue Account

For councils that have a housing function they must maintain a separate account for expenditure and income relating to their housing stock (e.g. rents and repairs to council houses). All other housing services are charged to the general fund (e.g. housing benefits to people who don't live in council houses, homelessness, and disinfestations).

Walsall transferred its council house stock with effect from 27 March 2003 to Walsall Housing Group (WHG) and Walsall Alliance of Tenant Management Organisations (WATMOS). Following the transfer, the council is no longer required to maintain an HRA and therefore applied for and received Office of the Deputy Prime Minister (ODPM) consent to close the HRA with effect from 31 March 2004.

5. REVENUE FUNDING

General fund revenue spending is supported by **FORMULA GRANT** which comprises; revenue support grant (RSG) and contributions from the national non domestic rates (NNDR) pool; specific grants earmarked for particular activities; fees and charges and council tax. All these methods of support are explained below.

FORMULA GRANT

The government in its settlement for 2006/7 introduced a new mechanism to distribute funds to local government known as the four block model. The system is based upon four blocks of cash:

- **RELATIVE NEEDS AMOUNT**; this takes account of a council's individual circumstances by modeling local data such as population and road lengths.
- **RELATIVE RESOURCES AMOUNT**; assesses a council's ability to raise income locally from its council tax payers.
- **CENTRAL ALLOCATION**; after taking account of relative needs and resources there is still an amount of money left in the overall grant pot for distribution to local authorities.

- **FLOOR DAMPING;** safeguards authorities receiving less than the minimum grant (floor) increase. It is funded from within the pot by scaling back increases (damping) to those above the floor in order to fund those authorities not receiving the minimum floor guarantee.

From formula grant Walsall will receive £113.151million in 2006/7. Moving towards three year settlements the government has advised a provisional figure of £117.009 million for 2007/8. Formula grant is paid from two sources: revenue support grant and national non-domestic rates.

◆ **Revenue Support Grant (RSG)**

From 2006/7 the magnitude of this aspect of formula grant has dramatically reduced because the financing of Education has moved from formula grant to a specific grant known as dedicated school's grant (DSG). The actual amount received is calculated with reference to our total formula grant and the amount of national resources available. Walsall's revenue support grant for 2006/7 is £18.3million from a national resource of £3.4 billion.

◆ **National Non-Domestic Rates (previously Business Rates)**

Before 1990, rates applied to occupiers of both domestic and non-domestic property. In 1990 domestic rating was abolished and replaced by community charge/poll tax, which was in turn replaced by council tax in 1993. The rating of non-domestic properties was retained, but authorities lost the power to set their own business rates. The Secretary of State now sets a single national "multiplier". The multiplier is a £ value that is multiplied by the rateable value of all non-domestic property throughout England. Premises are valued by the District Valuer, and these values are used to set the rates payable for each property.

Councils levy and collect the national rate for every non-domestic property in their area. All rate income collected is paid into a national rating pool, and redistributed to councils in proportion to their formula grant to national resources. The pool is intended to even out major differences in the distribution of non-domestic properties across the country to ensure that businesses and councils are protected from the consequences of the wide disparity in the local rate bases. Walsall Council receives more from the NNDR pool than it collects from local business rates, and will receive £94.843m from the pool in 2006/7 compared with £84.114m in 2005/6. For 2006/7 NNDR national resources to be distributed for this aspect of formula grant are fixed at £17.5 billion.

◆ **Specific Grants**

Authorities receive specific grants earmarked for use on particular services or issues. Examples include: various social services grants; benefits administration; and specific grants in education. From 2006/7 the government has removed the funding of Education from formula grant to specific grant known as **DEDICATED SCHOOLS GRANT (DSG)**. The council no longer needs to include Education in the council's budget requirement since the service is funded 100% from this specific grant.

The council will receive DSG of £158.28m in 2006/7 and provisionally £168.873m in 2007/8. Expenditure against grants is closely monitored by the relevant Government or European department and regular grant claims and reports have to be submitted. It is important that spending against grants is maximised to ensure that this valuable source of funding is fully utilised. Over recent years, the underlying trend has been for an increase in specific grants and a reduction in more general grants. This approach can assist governments to ensure that

local authorities' spending aligns with the national priorities and policies of Government. The council receives over £320m from this source when the new dedicated schools grant is included.

◆ **Fees and Charges**

Councils are allowed to charge users for some services. The levels of some of these charges are determined by statute, and authorities have little or no discretion (e.g. planning fees). With others, councils have considerable discretion to set charges, (e.g. for the cemeteries and crematorium service, use of leisure facilities; car parking charges, and some licences). The council receives around £55m from this source.

◆ **Traded PSE Surpluses**

Throughout the financial year, Public Service Enterprises (PSE's) charge other service areas, capital schemes, companies (for example, trade waste) and members of the public (for example for sports centre activities) for work they undertake. The income received is intended to offset the total cost of each PSE (i.e. wages, salaries, materials, equipment and recharges). If the income received is greater than the total cost, a surplus is generated. In accounting and financial terms, PSE's are treated in the same way as all other services, and any planned surpluses are almost always used to support the total revenue expenditure of the council. Any surplus generated above the pre-determined target can either be used to support the council's financial position or could be reinvested in the service. A formal decision on this would need to be taken on each case by Council.

◆ **Other Income**

This includes interest from the short and long term investment of council's balances and income generated from charges to other bodies e.g. Health Authority.

◆ **Council Tax**

There have been three systems of local taxation over the last fifteen years: domestic rates; community charge/poll tax introduced in 1990 and council tax since 1993. The community charge aimed to rectify the perceived inequity and lack of accountability of the former rating system. In turn, the council tax was introduced to alleviate the great administrative burden, unpopularity, and resulting low collection rates of the community charge. The relationship that council tax has with property and residency means that the charge is understood; relatively stable and collection rates nationally are high.

With council tax, occupiers receive a single bill for each household based on the value of their home (as fixed by the District Valuer - not the council) and the number of individuals living in it. All homes are placed in one of eight bands (A to H) according to their capital value in 1991. The next revaluation was due in 2007 but it has been postponed until the outcome of Sir Michael Lyons report into the future of local government funding is published late in 2006. There are ratios for each band, which are the same across the country. There is also a personal element with discounts for single-occupant homes, and a range of exemptions and other discounts. People on low incomes receive help through council tax benefit, which is credited to individual council tax accounts.

Band ratios are calculated on the assumption that a Band d property is the national average band of all houses in England. In Walsall area almost 69% of properties fall into the lowest two bands and only 8.7% in Band d. The whole of Walsall's residential housing is used to

calculate band d equivalents for the purposes of calculating the council tax. Currently Walsall has 76,095 band d equivalents. Whilst setting a low council tax increase appears attractive, income from the council tax provides significant and essential funding for the services the council provides. Therefore, decisions must only be taken in full knowledge of the council's future spending needs and plans, the financial position of the council, and the recommendations of outside bodies such as the Audit Commission. The following table shows details for Walsall council for 2006/7 compared with 2005/6.

BAND RATIO	A 6/9	B 7/9	C 8/9	D 9/9	E 11/9	F 13/9	G 15/9	H 18/9
% OF PROPERTIES IN BAND	45.84%	22.55%	15.21%	8.77%	4.88%	2.04%	0.66%	0.05%
C. TAX - WMBC	800.12	933.47	1066.82	1200.17	1466.88	1733.58	2000.29	2400.35
C. TAX - POLICE	58.42	68.16	77.89	87.63	107.10	126.58	146.05	175.26
C. TAX - FIRE/CIVIL DEFENCE	28.79	33.59	38.38	43.18	52.78	62.37	71.79	86.36
TOTAL 2006/7 COUNCIL TAX 2005/6 INCREASE (3.83%)	887.33	1035.22	1183.09	1330.98	1626.76	1922.53	2218.31	2661.97
	854.56	996.97	1139.40	1281.83	1566.67	1851.52	2136.38	2563.65
	32.77	38.25	43.69	49.15	60.09	71.01	81.93	98.32

Walsall council also collects income on behalf of two precepting authorities: the West Midlands Police and West Midlands Fire & Civil Defence Authorities. In 2006/7, the council is due to collect £6.662 m and £3.286 m respectively on behalf of these organisations compared with £6.359 m and £3.132 m in 2005/6. In 2006/7 these two precepting authorities increased their elements of the council tax over last year by 4.72% and 4.78% respectively.

CAPPING (of council tax increases)

The minister for local government has for the past two years indicated that council tax increases should be contained within and not exceed 5%. Central Government still has a reserve power to "call in" those councils it considers to have set a high council tax level and require them to explain the reasons for their increase. It can also require them to set a lower requirement if it considers the council tax is excessive, preventable and unjustified. In 2005/6, the government took capping action against 9 councils. Capping criteria for 2006/7 is that the net budget requirement should not increase by more than 6 percent and council tax must not increase by more than 5 percent. Under this regime two unitary councils (Medway and York City) were capped in 2006/7.

WALSALL'S COUNCIL TAX COMPARED

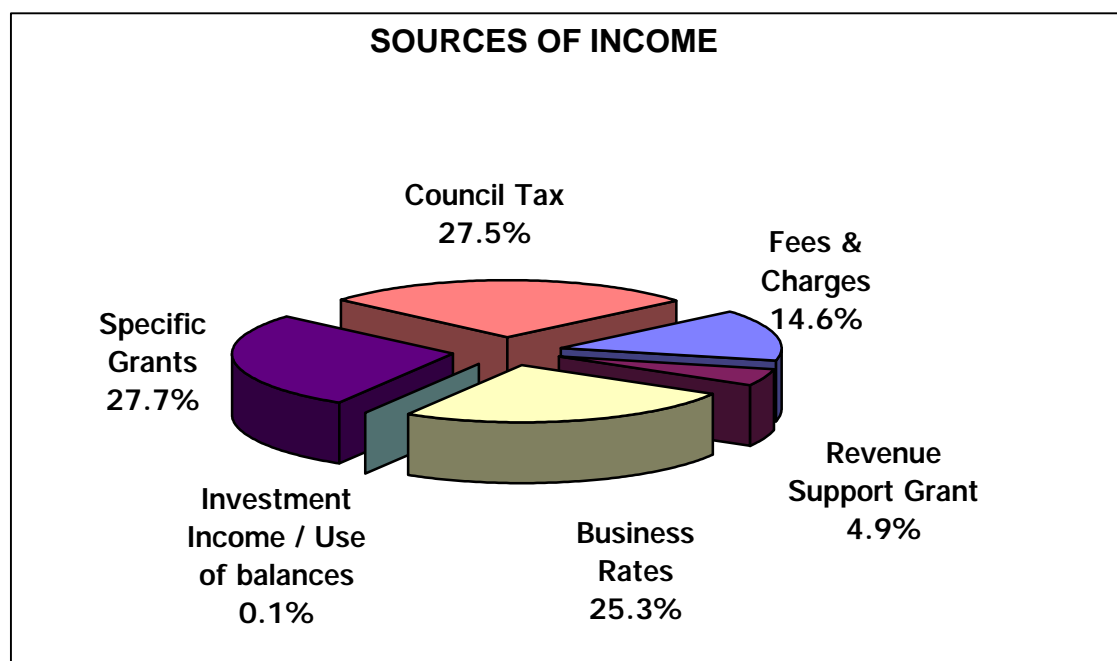
At 3.83% (including precepts) Walsall's council tax increase in 2006/7 was a reasonable increase and well within the Government guideline ceiling for increases.

Walsall's Band d charge rose from £1,281.83 in 2005/6 to £1,330.98 in 2006/7. This is the 6th highest metropolitan charge and the highest of the West Midlands Districts by £27 (£24 in 2005/6). The metropolitan simple average for 2006/7 is £1250.97. For Walsall to be at this level would require cuts of around £6m.

National picture shows that of the 354 councils that levy a council tax, Walsall's band d charge, £1,330.98 is the 87th highest, £159 less than first place district council (Sedgefield).

Pictorial Representation of General Fund Sources of Income in 2006/7:-

□



6. REVENUE SPENDING

This is expenditure on day to day items such as salaries, wages, supplies, running expenses and debt charges. This is then reduced by all the income from fees, charges and specific grants leaving a net revenue 2006/7 budget requirement of £203.979m. The table shows that 92% of the council's own expenditure for 2006/7 is incurred directly by service areas. In addition, there are various corporate costs such as the costs of capital financing (debt interest); central contingencies; and contributions to balances.

SERVICE / LEVY	£m	%
Corporate Services	15.085	
Social Care and Inclusion	62.259	
Children and Young People	38.554	
Neighbourhood services	57.240	
Regeneration	2.498	
Capital Financing and central items	15.349	
Net Cost of Services	190.985	93.63
Central Contingency Provision	0	0
Contribution to/from reserves	0.355	0.17
TOTAL OWN EXPENDITURE	191.340	93.8
Passenger Transport Executive Levy	12.557	6.16
Environment Agency Levy	0.082	0.04
NET BUDGET REQUIREMENT	203.979	100.00

The West Midlands Passenger Transport Authority and the Environment Agency have no powers to collect income so their budget requirements are added to the council's to be collected as part of council's overall budget requirement.

◆ **Central Contingency Provision**

This is an amount set aside centrally to fund unexpected expenditure that is not included in or able to be accommodated from other budgets. The Council established a central contingency of £370k for 2006/7. This is strictly controlled, and services are required to accommodate spending pressures from within their own cash limits wherever possible. The contingency represents a very small proportion of the council's total expenditure. In recent years, the entire contingency fund has been exhausted by the end of the financial year to which it relates.

◆ **Working Balance**

It is prudent for councils to maintain an adequate "working balance" which is part of general reserves. A risk assessment approach is used to determine the required level of general reserves and provisions. Our combined medium term financial strategy (MTFS), decision conferencing and budget preparation processes were identified by the Audit Commission as areas of best practice to be shared nationally. The strategy is to end each year with the working balance intact and to commence 2006/7 with general reserves of £4.6 m.

Examples of potential uses of the working balance include:

- Price increases or pay awards in excess of the amounts budgeted;
- Unfavourable movements in interest rates;
- Possible shortfalls in income;
- Increased take-up of demand led services;
- Redundancy costs from lost contracts or other matters;
- Legal costs being awarded against the Council;

If called upon, the working balance should ideally be replenished in-year by identifying and implementing alternative savings.

◆ **Capital Financing Costs**

Capital financing costs are budgeted for separately, and include items such as interest on borrowing and debt management expenses, offset by interest received on investments.

◆ **Revenue Reporting**

Throughout the year, comparisons of actual expenditure and income with estimates are regularly undertaken. This is reported to management teams (including the Executive Management Team) approximately monthly, more frequently if issues are identified. Last year, this was also reported to cabinet on an approximately quarterly basis.

The budget is set every year. For the revised 2005/6 and base 2006/7 budget, this started with detailed budget guidelines being published. Detailed work on the budgets took place over the summer and autumn, with aggregate consolidated draft budgets reported to cabinet in the autumn and winter. Extensive work between officers and members takes place behind the scene throughout the process. Decision conference events were held in November and December to align council priorities with the budget process. Scrutiny and performance panels had an opportunity to comment on the draft service budget proposals and the overall budget.

The overall budget was considered by full council on 6 March 2005 (this must be undertaken in advance of the following financial year). In law, councils are required to set a budget by March 10.

In setting the budget for a particular year, it is essential that the council has regard to its medium term financial outlook and considers implications for a minimum period of 5 years. The medium term financial plan is a key policy document and will be considered regularly by cabinet.

7. HOUSING

The council transferred its housing stock to Walsall Housing Group (WHG) and (WATMOS) in March 2003. This resulted in the council ceasing to be a provider of social housing. The council now concentrates on its strategic function of becoming an enabler rather than a provider. The following is a list of housing functions that the council performs:

- Housing Strategy
- Urban Renewal
- Residential Services
- Housing Benefits
- Homelessness
- Disinfestation

8. CAPITAL EXPENDITURE

This is defined by statute and relates to expenditure on the acquisition or enhancement of assets. Examples include the purchase of land, buildings, vehicles or other major items of equipment, or improvements to buildings which increases their value. Each year, Council approves a capital programme (i.e.: a detailed list of all capital schemes showing estimated costs) at its annual budget-setting meeting. The following table details the history of the capital programme since 2001/2.

2001/2	2002/3	2003/4	2004/5	2005/6	2006/7
£51m	£48.5m	£52.2m	£86.m	£102.7m	£79.88

Throughout the year capital financing reports (CFR) are written as each scheme is ready to proceed. A CFR seeks approval for expenditure against the scheme to be committed. These reports provide information including: background details about the project, the cost of the scheme compared with the amount in the capital programme, how the scheme is going to be funded, and may show the outcome of competitive tendering exercises if the work is to be undertaken by external organisations. Where capital schemes are in the approved programme or relate to capital expenditure that is self-funded, they are approved under officer delegations.

9. CAPITAL FUNDING

Capital expenditure was traditionally financed from five sources: credit approvals, basic and supplementary; capital grants, capital receipts; leasing; and revenue contributions. The Government replaced the current system of capital finance in time for the 2004/5 capital programme. This allowed the council to borrow funding to finance capital expenditure based on

the amount it could afford to fund through increases in the council tax. Credit approvals were abolished with effect from 1 April 2004 and were replaced by supported borrowing.

The following table provides details of funds available to support the council's capital programme in 2006/7.

SOURCE OF FUNDING	2005/6	2006/7
	General Fund	General Fund
	£M	£M
Supported Borrowing	11.044	9.862
Capital Grants	58.008	42.067
Estimated Capital Receipts	14.015	12.364
Unsupported Borrowing	12.540	7.219
Leasing Programme	11.547	8.375
FUNDING TOTAL	107.154	79.887

◆ **Supported Borrowing**

From 2004/5 central Government support for the council's mainstream capital programme comes from supported capital expenditure (revenue), known as SCE (R). The Formula Grant Settlement includes supported borrowing as part of the relative needs amount calculations for the authority.

◆ **Capital Grants**

Capital grants are usually given in respect of particular schemes and can only be spent on the scheme for which they are issued, or occasionally on schemes of a very similar nature to the original approval.

◆ **Capital Receipts**

Primarily proceeds from the disposal of land or other assets. Capital receipts can only be used to fund new capital expenditure and cannot be used to finance revenue expenditure. The nature of capital receipts can make it difficult to accurately predict the exact value and timing of an individual receipt. In recent years the mainstream element of the capital programme has been extremely reliant on predicted capital receipts and capital receipts have also previously supported the revenue account over the years by a process known as capitalisation.

◆ **Unsupported Borrowing**

The new capital guidelines were implemented in April 2004 and includes a key freedom:

“Local Authorities will be free to raise finance for capital expenditure without government consent where they can afford to service the additional debt without government support.”

The Prudential Code provides an opportunity for the authority to raise extra resources provided that it is undertaken within a defined framework that demonstrates affordability, sustainability and prudence. A framework document exists which is aligned to the treasury management strategy of the council. In 2006/7, the council has approved £7.219m of

unsupported borrowing within its budget to fund some capital schemes. The cost of supporting this borrowing is included within the revenue budget (£372k). This compares with unsupported borrowing in 2005/6 of £12.540m (£429k).

◆ **Leasing**

Defined as the hiring of equipment, such as vehicles, computers or machinery to avoid the capital cost involved in owning it. The equipment is then an asset of the leasing company rather than the council with resultant annual leasing rentals being charged to the appropriate service revenue account.

◆ **Revenue Contributions**

Known as direct revenue financing or sometimes revenue contributions to capital outlay. These are resources provided from the authority's revenue budget to finance capital expenditure. However the pressure on revenue means that this is a minor source of funding, in 2004/5 only £32k was made available.

◆ **Other Sources**

As traditional sources of capital financing are reducing, it will be increasingly important for authorities to pursue funding from public / private partnerships (PPP's / PFI's) and from joint ventures, and national grants (e.g. lottery).

Funding Maximisation

At year end the capital accountant utilises all the sources of funding to maximise the availability of financing for the capital programme. This is why mainstream CFRs throughout the year will not specify exactly where the financing will come from, as it is not until the year-end that it is possible to finalise this activity, even though regular monitoring takes place throughout the year.

Resources Used to Fund the Mainstream Capital Programme

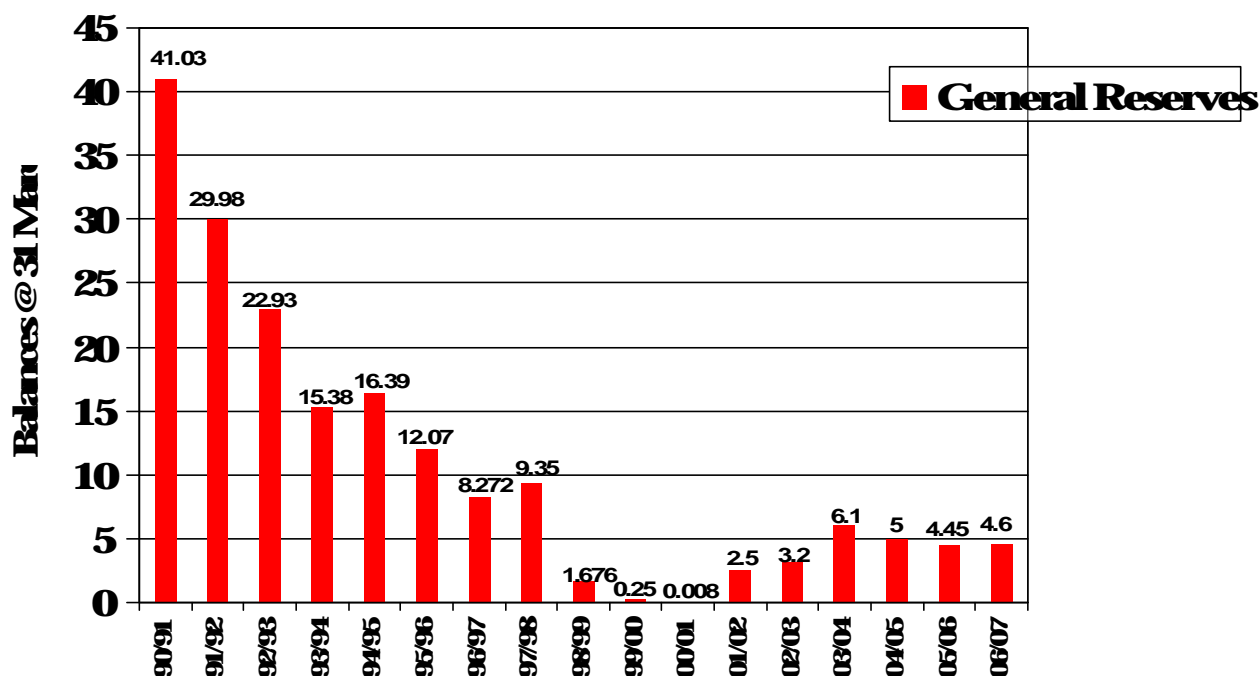
When the draft capital programme is being put together each year, services are asked to submit bids for the resources available. This is done using various categories and seeking information that enables each bid to be prioritised against all other bids. Each bid must demonstrate how it supports the corporate vision and council pledges. This objective approach is essential because there is never enough resource available to fund all the bids that services put forward. It is important for services to pursue capital grants, lottery bids and other capital funding approaches to attempt to maximise the funds available.

The nature of capital schemes means that it is common for spending on schemes to span one or more financial year. In addition, capital spend is at high values. For these two reasons it is essential to closely plan and monitor spending to ensure that any "slippage" between financial year is properly managed. This means that sometimes schemes may have to be slowed down at the end of a year, to ensure the council is able to fund them properly. It is also important that any new capital resources that unexpectedly become available in a financial year (e.g. a new receipt arising from the sale of a council asset) is considered in the light of the council's overall capital strategy and the prevailing financial position of the council.

10. THE COUNCIL'S OVERALL FINANCIAL POSITION

The council's revenue and capital budgets are always under increasing pressure as service level expectations always outstrip available resources. Walsall Council has worked hard to stabilise its financial position ensuring that it has balances commensurate with those expected for a council of its size. Our balances are now maintained at a prudent level of £4.6m which is a significant improvement from the almost zero levels of 2000/1. It is essential that these levels of balances are maintained for the financial well being of the council and to demonstrate sound financial practices.

The council has worked very hard to stabilise its previously declining balances



This improved position has required a series of significant budget cuts over the years. The 1999/2000 revenue budgets included cuts of almost £6m. The 2000/1 budget included further cuts of £9.5m. Significant budget cuts and scaling back of growth bids have continued as an integral part of the annual budget process.

FINANCIAL HISTORY:**How Walsall fought off the Spectre of a S114 Local Government Finance Act 1988 Report**

During 2002/3, it became clear that the council was facing a possible section 114 position. The Chief Financial Officer (CFO) must issue a S114 report if expenditure is likely to exceed resources available in the year. A predicted large year-end deficit arose almost entirely due to issues arising in 200/3 which could not have been foreseen at the point the budget was set, and included a large social services overspend and costs arising from various inspections and their recovery plans in 2002.

The implications of issuing such a report are as follows;

- Full Council must meet within 21 days of issue to consider the report.
- During these 21 days, there is a “prohibition period”, during which the council
 - cannot enter into any new agreement which may incur expenditure by the authority,
 - cannot engage new staff, and
 - cannot incur new expenditure on new works.

The consequences of the above are extreme and long lasting and must be avoided.

The council took a number of immediate and more long term steps to avoid the issuing of a S114 notice. The immediate steps included;

- Immediate recruitment freeze
- Cessation of all non-essential expenditure
- Cessation of spend against uncommitted growth
- Identification and implementation of immediate in-year savings

In addition, cabinet approved a range of decisions, including;

- A range of policy framework measures in respect of the 2003/4 budget setting process
- Identification of savings to be implemented in 2003/4 and permanent removal of substantial spending
- A review of fees and charges
- A significant council tax increase

As a result of the above action, the S114 position was successfully tackled and a financially prudent balanced budget was set for 2003/4. Subsequent budgets since have successfully built on the policy led approach used in setting the 2003/4 budget.

Within the national and local context of scarce council resources, it seems likely that this council will continue to need to exercise restraint in setting future budgets. The medium term financial strategy is the council’s prime document for controlling and analysing the future financial health of the authority.

11. MORE SOURCES OF INFORMATION

Local government finance is a very complex subject, and this paper is intended to only provide the briefest of introductions. Each year, the Finance service offers financial training to all elected members, irrespective of experience and time served. These sessions are held both during the day and in the evenings and last about two hours. They are either advertised in the members training booklet or by letter from the Head of Corporate and Strategic Finance. The following module is available:

- **A general introduction to council finances & the budget process** – and includes how this council deals with its finances, its overall financial position, and a bit of essential theory and background.

We also offer tailor made programmes for particular groups of members on request.

The Finance service also has an intranet website showing the latest statement of accounts, council tax details and useful information on what the service does. In addition there are some corporate folders on Exchange (the internal email system) which provide copies of latest reports and documents and other bits of financial information. This can be found under *Public Folders > All Public Folders > Council Information > Corporate Financial Information*. Once you have located it for the first time, it can be set up as one of your “favourites” for easy access in the future.

Regular financial reports are brought to members. This is done formally through the cabinet system with all reports being available via the committee information system (CMIS) through the council’s intranet.

The following documents are available on request:

- Detailed Budget report for 2006/7
- Medium Term Financial Strategy
- Statement of Accounts 2004/5
- Budget Management & Control Manual
- Annual Budget Guidelines
- Treasury Management Strategy
- Capital Strategy
- A list of definitions of commonly used financial terms and phrases

We provide a system of briefing notes on particular topics for members on request.

To access any of the above information referred to in this note, please contact:

Vicky Crowshaw,
Head of Corporate and Strategic Finance
 ☎ 01922 652349

Other information can be obtained from Carole Evans, Executive Director for Corporate Services ☎ 01922 652910 or Andy Burns, Assistant Director ☎ 01922 653554.



Overview of Budget Setting

Vicky Crowshaw
Head of Corporate and Strategic Finance
Corporate Services

21 June 2006



Walsall Council

Aims of the session

To give a general understanding of:

- How local government finance works
- The Council's financial health - past and present
- Financial context and framework
- Our budgets - our income and spending
- The budget process and council tax



Walsall Council



Today's session will cover:

- **National context for local government finance**
- **A bit of theory and a few definitions**
- **An overview of Walsall Council's financial situation and the challenges we have recently faced**
- **A brief look at our budget and how the financial position has stabilised**
- **Balancing the budget**
- **Future financial prospects**
- **Questions and comments are welcome....**



Walsall Council



National Funding Arrangements

- **Local government spending = 1/4 of total public expenditure.**
- **Most Council funds come from central Government grants**
- **Ministers take final decisions based on advice of working groups.**
- **Relative local government spending is balanced with the overall Government priorities - eg: education, health, defence, police, transport, pensions, overseas aid, etc.**



Some Definitions....

- **REVENUE** - day to day spending on: Education, social care, the environment, highways, support services, etc – includes spend on salaries, supplies and services, running costs - £204 million (net) for 2006/7
- **CAPITAL** - expenditure on acquisition or enhancement of assets e.g. land, buildings, vehicles, £79.88m in 2006/7
- **GENERAL FUND** - main revenue account for service committees spend and income



Funding Sources

- **REVENUE**

- Revenue Support Grant (RSG)
- Business Rates (NNDR)
- Specific Grants
- Fees & Charges
- 'PSE' Surpluses
- Council Tax

- **CAPITAL**

- Capital receipts
- Special grants for particular schemes
- Contributions from revenue
- Contributions from partners
- Supported Borrowing approvals





Formula Grant is used by the Government to fund Council spending

Four Block Option

- The method the government use to allocate central funding to councils.
- Calculated using a very complex formula whereby councils receive money via basic amounts per client group e.g pupils plus various top ups for deprivation, sparsity, etc
- Relative needs, floor damping, Central Allocation

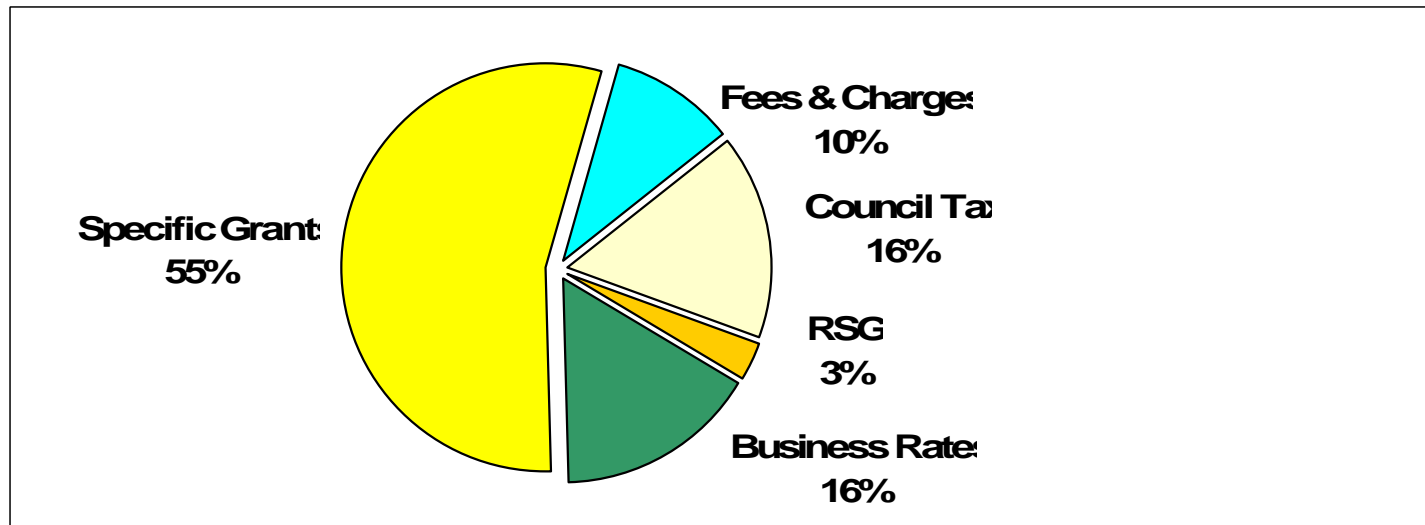
Formula Grant

- The main council grant - paid to all councils by the Government.
- We will receive £113m in 2006/7 comprising £18m revenue support grant and £95m from business rates
- Other income sources are grants, council tax, interest, fees and charges.
- We will collect £91m council tax in 2006/07.



Revenue Funding 2006/7

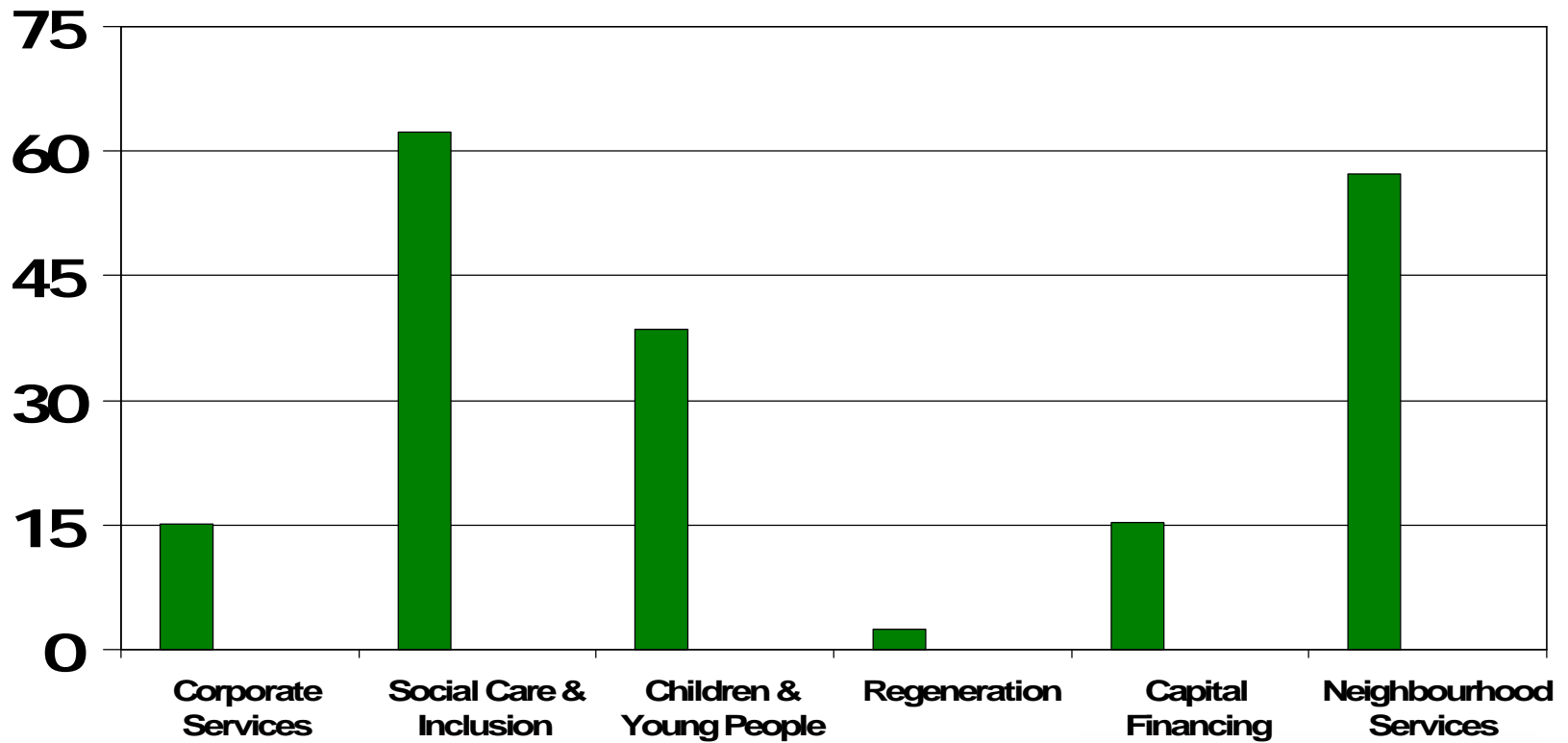
74% of funding comes from outside the Council



Financial context – Relative Revenue Spending 2006/7

Net Expenditure by Service 2006/7

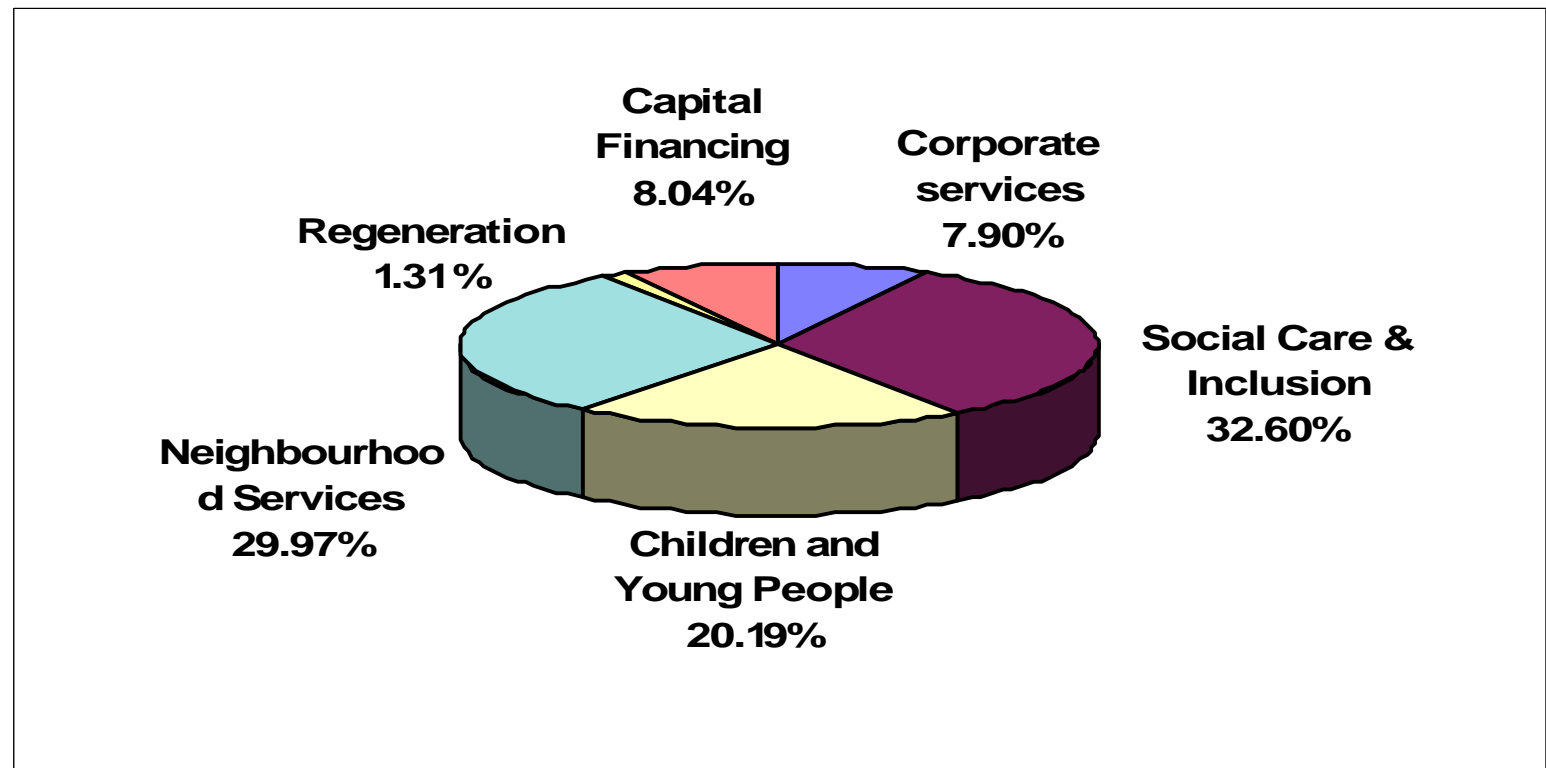
£'m



Walsall Council

Results of Budget 2006/7

Most of our spending is on front line services



Walsall Council

Analysis of Spend	
4,475	(1.38%)



Capital Funding

Funded via:

- **Supported Borrowing – through revenue support grant**
- **Unsupported Borrowing – new from 2004/05**
- **Capital Receipts**
- **Specific Capital Grants**
- **Leasing and**
- **Revenue Contributions**



Council Tax

- Council Tax funds only **15%** of Walsall MBC gross spending
- Increasing spending by **1%** puts **2%** on the Council Tax
- **3.83%** increase in 2006/7
- Govt has right to “Cap” Councils with Council Tax increases above **5%** and budget increases above **6%**





Walsall Council historically faced financial difficulties – why?

- “Tight” budgets for many years
- Several years of cuts
- Low balances (reserves), which were used to reduce need for cuts or for growth.
- Reducing general capital resources
- Below-average levels of general resources
- Protecting Education & Social Services budgets
- Trend from general to specific funding
- Increased spending pressures
- Changes in political control and resulting service priorities





What are the options for tackling financial challenges?

➤ **Increase Income**

➤ **Reduce Expenditure**

➤ **A combination of the two**

- Increase/realign fees and charges
- Eliminate discretionary Growth
- Make “economies and efficiencies”/unspecified target savings
- Set higher Council Tax increases
- Provide services in different ways
- Reduce or stop certain services



Walsall Council



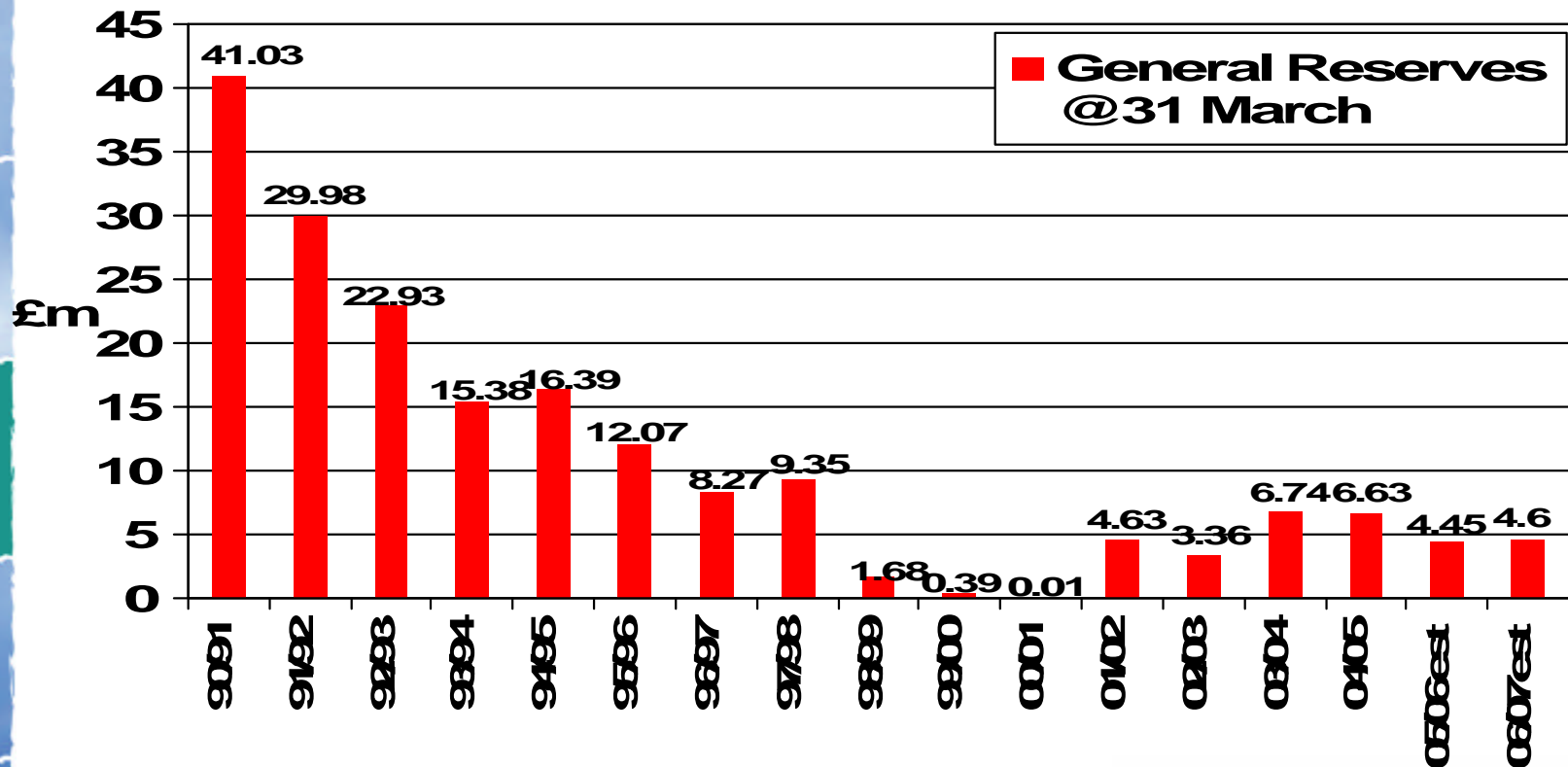
How did the Council tackle these challenges?

- Medium term framework approved, including planned replenishment of balances to a prudent level.
- Decision conferencing approach used, whereby Cabinet linked approved growth to key priorities via 'Strategic Choices'
- Significant growth approved to support recovery and improvement.
- £5m approved cuts, reinvested in key services.
- Significant Council Tax increase to stabilise finances in 2003/04



Levels of Balances

The council has worked very hard to stabilise it's previously declining balances




Walsall Council

A word about balances...

- **Balances are also called reserves.**
- **Illegal for councils to budget for a deficit/loss.**
- **Reserves can only be used once.**
- **Reserves come from underspends, PSE surpluses, windfall income, replenished from putting the council tax up by a higher amount**





How does the budget process work?....for this year 2006/7

- Budget guidelines - **June 2005**
- Medium term financial strategy/plan – **Nov 2005**
- Efficiencies/Investment ‘Strategic choices’ – **Oct/Nov**
- Summary position to Cabinet – **Dec/Jan 2005**
- Scrutiny panels – **Nov 05 and Jan 06**
- Cabinet recommendation – **8 Feb 2006**
- Council approves – **6 March 2006**
- Meanwhile - we work with elected members and General & Service Managers throughout the process.
- We consult widely with business, public, voluntary sector.





Financial Framework

Why have a medium term financial strategy?

- Provides a clear framework and reflects best financial practice
- Central government move towards 3yr+ planning
- Underpins delivery of strategic aims and objectives
- Shows financial impact of Councils decisions on service delivery
- Ensures Council remains financially stable into the future
- Highlights emerging pressures
- Effective management of financial risk



Walsall Council

Financial Framework

Council Vision/Corporate Plan

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

CAPITAL STRATEGY

**MTF Framework
- budget process**

**MTFP
Outlook**

**Budget
Guidelines**

**Capital
Guidelines**

DRAFT BUDGET

ENGAGE SCRUTINY AND CONSULTATION



Walsall Council

Financial Strategy and Budget Principles (1)

- Medium term financial strategy in place/used and a policy led approach
- Funding and investment follows priorities
- Reflect financial stability – appropriate level of reserves
- Budget reflects mixed economy of service delivery
- Robust data and assumptions – budget refresh
- Seek to maximise external funding
- Identify, consider and cover appropriate risks
- Modest council tax increase (ex precepts)
- Appropriate use of the prudential code





Financial Strategy and Budget Principles

- Continue to secure low cost borrowing to fund capital investment
- Seek to deliver value for money: identifying efficiencies and service improvements

Along with:

Linkages to performance measures to assess effectiveness of resource allocation

- Managers will be accountable for delivering services within budget
- Comprehensive consultation arrangements to inform final budget
- Maintenance of sound systems of internal control



Budget Process – More detail (1)

- Process undertaken within a financial window – rolling 5 year medium term financial outlook
- Budget guidelines – previous yrs cash limited budget, budget refresh, identify emerging corporate and service pressures, financial risks, efficiency drivers (Gershon/vfm), known changes in funding – loss of grant, etc.
- Budget briefing with cabinet
- Decision conferencing – portfolio holder and senior officers – develop priorities and consider strategic choices options



Strategic Choices – first introduced 2003/4

**START A
SERVICE**

Something new to meet changing priorities or meet new demand or generate improvement

INVESTMENT SCOPE

**DO MORE
OF A
SERVICE**

Grow a service to meet increased demand or improve or change for the better

**STAY THE
SAME AS
NOW**

Do nothing - but we will need to consider carefully the opportunity cost of "no change".

CONTINUITY

**DO LESS
OF A
SERVICE**

Do it differently, to a lower level, prioritise differently, perhaps with a partner or outsource

SAVINGS SCOPE

**STOP A
SERVICE**

Total divestment/cessation



Walsall Council

Budget Process – More detail (2)

- Draft investment and efficiency/savings options
- Draft settlement received – late nov/early dec
- Draft budget produced basis on ongoing work above
- Consultation commences
- Scrutiny to inform budget
- Final settlement late January/early February
- Cabinet receive final report February and refer to Council for approval in March



2006/2007 Budget - headlines

Prudence, stability, investment, efficiency

- Front line services maintained and modernised.
- Pump priming for new initiatives and investments.
- Realistic inflation
- Increased balances
- Prudent contingencies
- Stabilised position
- Growth aligned to corporate priorities
- Sustainable corporate position
- Council Tax Increase of 3.83%
- Revenue budget increase from 2005/6 to 2006/7 of £20m (excl schools)
- Inflation and pay award built in
- Dedicated Schools Grant - ringfenced grant to fund Schools (£158m)



2006/7 revenue budget

2005/6 BASIC FORECAST - £342.470 MILLION

- Change in funding schools from RSG to DSG – move to ringfenced specific grant (£158.280 m)
- Budget refresh (inflation etc) £24.945 m

TOTAL BASIC FORECAST 2006/7 - £203.135 m

- LESS: budget reductions (£8.061m)
- PLUS: Investment in services (£2.905m)

TOTAL BUDGET - £203.979 MILLION (3.74% excluding precepts, 3.83% c/tax increase including)



Walsall Council

Future Financial Prospects

- **Locally, in Walsall**
 - Difficult settlement 2006/7 due to new formula funding and floor damping – loss of £3m grant due to damping
 - Continuing financial stability
 - Medium term, policy led approach continues to be built upon
 - Vision 2008 and key pledges

- **Nationally, for local government**
 - 3 year revenue and capital settlements expected
 - ‘Gershon’ efficiency savings targets will continue
 - Threat of capping to continue
 - Balance of funding review - alternatives to council tax....?



For more information.....

TRAINING

- Can be “tailor made” for groups and/or individuals
- External training available

Contacts:

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INFORMATION

- Intranet Website
- *Council Information*
- *Financial Folders*
- *“Corporate Financial Information”*
- *Members Pack*
- *Councillors Guide to LG Finance*
- crowshawv@walsall.gov.uk



Walsall Council