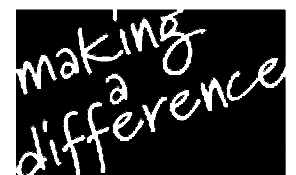


Overview and Scrutiny Committee

Wednesday, 28th April,
2010
2010
7.00 pm

Committee Room Three
Town Hall
Redditch



www.redditchbc.gov.uk

Access to Information - Your Rights

The Local Government (Access to Information) Act 1985 widened the rights of press and public to attend Local Authority meetings and to see certain documents. Recently the Freedom of Information Act 2000, has further broadened these rights, and limited exemptions under the 1985 Act.

Your main rights are set out below:-

- Automatic right to attend all Council and Committee meetings unless the business would disclose confidential or “exempt” information.
- Automatic right to inspect agenda and public reports at least five days before the date of the meeting.
- Automatic right to inspect minutes of the Council and its Committees (or summaries of business undertaken in private) for up to six years following a meeting.
- Automatic right to inspect lists of background papers used in the preparation of public reports.
- Access, upon request, to the background papers on which reports are based for a period of up to four years from the date of the meeting.
- Access to a public register stating the names and addresses and electoral areas of all Councillors with details of the membership of all Committees etc.
- A reasonable number of copies of agenda and reports relating to items to be considered in public must be made available to the public attending meetings of the Council and its Committees etc.
- Access to a list specifying those powers which the Council has delegated to its Officers indicating also the titles of the Officers concerned.
- Access to a summary of the rights of the public to attend meetings of the Council and its Committees etc. and to inspect and copy documents.
- In addition, the public now has a right to be present when the Council determines “Key Decisions” unless the business would disclose confidential or “exempt” information.
- Unless otherwise stated, all items of business before the Executive Committee are Key Decisions.
- (Copies of Agenda Lists are published in advance of the meetings on the Council’s Website:
www.redditchbc.gov.uk

If you have any queries on this Agenda or any of the decisions taken or wish to exercise any of the above rights of access to information, please contact

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e.mail: jess.bayley@redditchbc.gov.uk

Minicom: 595528

Welcome to today's meeting.

Guidance for the Public

Agenda Papers

The **Agenda List** at the front of the Agenda summarises the issues to be discussed and is followed by the Officers' full supporting **Reports**.

Chair

The Chair is responsible for the proper conduct of the meeting. Generally to one side of the Chair is the Committee Support Officer who gives advice on the proper conduct of the meeting and ensures that the debate and the decisions are properly recorded. On the Chair's other side are the relevant Council Officers. The Councillors ("Members") of the Committee occupy the remaining seats around the table.

Running Order

Items will normally be taken in the order printed but, in particular circumstances, the Chair may agree to vary the order.

Refreshments : tea, coffee and water are normally available at meetings - please serve yourself.

Decisions

Decisions at the meeting will be taken by the **Councillors** who are the democratically elected representatives. They are advised by **Officers** who are paid professionals and do not have a vote.

Members of the Public

Members of the public may, by prior arrangement, speak at meetings of the Council or its Committees. Specific procedures exist for Appeals Hearings or for meetings involving Licence or Planning Applications. For further information on this point, please speak to the Committee Support Officer.

Special Arrangements

If you have any particular needs, please contact the Committee Support Officer.

Infra-red devices for the hearing impaired are available on request at the meeting. Other facilities may require prior arrangement.

Further Information

If you require any further information, please contact the Committee Support Officer (see foot of page opposite).

Fire/ Emergency instructions

If the alarm is sounded, please leave the building by the nearest available exit – these are clearly indicated within all the Committee Rooms.

If you discover a fire, inform a member of staff or operate the nearest alarm call point (wall mounted red rectangular box). In the event of the fire alarm sounding, leave the building immediately following the fire exit signs. Officers have been appointed with responsibility to ensure that all visitors are escorted from the building.

Do Not stop to collect personal belongings.

Do Not use lifts.

Do Not re-enter the building until told to do so.

The emergency Assembly Area is on Walter Stranz Square.

Declaration of Interests: Guidance for Councillors

DO I HAVE A "PERSONAL INTEREST" ?

- Where the item relates or is likely to affect your **registered interests** (what you have declared on the formal Register of Interests)

OR

- Where a decision in relation to the item might reasonably be regarded as affecting **your own** well-being or financial position, or that of your **family**, or your **close associates** more than most other people affected by the issue,

you have a personal interest.

WHAT MUST I DO? **Declare the existence, and nature, of your interest and stay**

- The declaration must relate to specific business being decided - a general scattergun approach is not needed
- **Exception** - where interest arises only because of your membership of another **public body**, there is no need to declare unless you **speak** on the matter.
- You **can vote** on the matter.

IS IT A "PREJUDICIAL INTEREST" ?

In general only if:-

- It is a personal interest **and**
- The item affects your **financial position** (or conveys other benefits), or the position of your **family, close associates** or bodies through which you have a **registered interest** (or relates to the exercise of **regulatory functions** in relation to these groups)

and

- A member of public, with knowledge of the relevant facts, would reasonably believe the interest was likely to **prejudice** your judgement of the public interest.

WHAT MUST I DO? **Declare and Withdraw**

BUT you may make representations to the meeting before withdrawing, **if** the public have similar rights (such as the right to speak at Planning Committee).



Overview and Scrutiny Committee

Wednesday, 28th April, 2010

7.00 pm

Council Chamber Town Hall

Agenda

Membership:

Cllrs:	P Mould (Chair)	W Norton
	D Smith (Vice-Chair)	J Pearce
	K Banks	D Taylor
	G Chance	D Thomas
	R King	

11. Medium Term Financial Plan

(Pages 1 - 22)

J Pickering - Exec Director
(Finance and Corporate Resources)

To consider best practice in relation to local authority Medium Term Financial Plans.

- Appendix 1 – Redditch Borough Council's Medium Term Financial Plan.

(Reports attached).

(No Specific Ward Relevance)

Appendix 1

Redditch Borough Council
Medium Term Financial Strategy and Plan



Introduction

The Medium Term Financial Strategy and Plan

Under the requirements of Best Value, Local Authorities and related bodies are required to produce meaningful medium term budgets over a three year forward period. The key features of such a budgetary framework have been identified as:

- a) a mechanism which delivers an indication as to the level of funding available in future years;
- b) a planning mechanism which generates targets for a three year period;
- c) a process to draw financial planning processes together and ensure consistency;
- d) a mechanism which produces budgets over three years which are meaningful at the level of service delivery;
- e) a process that allows Members to make informed decisions in funding development and when setting the Council Tax.

This document provides the framework for the setting of budgets in future years, commencing with the current financial year and ending in 2012/13.

Financial Strategy

Objectives of the Medium Term Financial Strategy

The key objective of this Strategy is to maximise the Council's financial resources and ensure they are utilised effectively to contribute towards the achievement of the Council's vision, objectives, policies, plans and priorities.

The Strategy aims to:

- enable the Council to set a balanced and sustainable budget over the medium term,
- allow resources to be reallocated over time to reflect changing priorities.
- ensure that the Council manages and monitors its financial resources effectively so that spending and commitments do not exceed the forecast resources in each year, and
- to plan the level of local taxation in line with levels that the Council, the residents of the Borough and central government regards as acceptable.

The amount the Council spends on its services is based on its objectives and priorities. These are set out in a range of strategy statements including:

- Sustainable Community Strategy
- Corporate Plan
- Capital Strategy and Asset Management Strategy and Plan
- Customer Access Strategy
- Procurement Strategy
- Value for Money Strategy
- T-Gov Strategy

The Financial Strategy is key to ensuring the priorities of the Council are properly funded and therefore deliverable. The Strategy provides the overall framework within which individual budgets are constructed.

Budgets are cascaded into individual service plans where both the corporate objectives from the Corporate Plan and operational service objectives are set out. Budget information is complimented in the service plans by performance measures. Risk assessments are also undertaken as part of the service planning and performance management process.

Sustainable Community Strategy

The **Sustainable Community Strategy** provides the overarching vision for Redditch. The Strategy reflects the structure of the Worcestershire Local Area Agreement (LAA) by using six key themes. The shared vision for the future is for ***'Redditch to be successful and vibrant, with sustainable communities built on partnership and shared responsibility. We want people to be proud that they live or work in Redditch.***

The themes and priorities of the Redditch Sustainable Community Strategy are:

- √ Communities that are safe and feel safe
- √ A better environment for today and tomorrow
- √ Economic success that is shared by all
- √ Improving health and well-being
- √ Meeting the needs of children and young people
- √ Stronger communities

The Council's Vision and Priorities

The Council's vision is for Redditch to be ***An enterprising community which is safe, clean and green.***

Key Priorities for the Council:

- **Enterprising Community** which is defined as a vibrant and vital Borough where its population is well educated, has high skills levels and is healthy and fit. Housing is excellent and varied and the community is served by a prosperous town centre and has access to first class leisure facilities. The Council's voice is influential and respected by residents, partners, other governmental agencies and suppliers. The Town's economy provides sufficient high quality jobs for residents with good levels of pay and reward.
- **Safe** – the Council will work in partnership with other agencies through the Redditch Community Safety Partnership to reduce crime and disorder. The Council will identify key projects to build community confidence and allow residents and visitors to be safe and feel safe.
- **Clean and Green** – to develop attractive open spaces, taking enforcement action against littering, fly tipping and other behaviour detrimental to the environment where appropriate and supporting measures to tackle climate change.

Redditch Borough Council strives to be a **well managed organization**. It expects to be at the heart of developing the local economy, environment and community. The council as a service provider pursues the delivery of high quality, cost effective services to realise the aims of the Community Strategy and the aspirations of the stakeholders of Redditch. It will achieve this though, amongst other things, **effective financial management**.

In particular the Council is committed to:

- An annual **review of budgets** linked to the long term financial plan – with member involvement in allocating resources to priority areas

Budgets should reflect the strategic priorities/objectives of the Council. To achieve this it is important to identify services and link available resources to these priorities. This may result in services being curtailed or cut back entirely. Resources will continue to be limited over the period of review and it will be

necessary to review and reallocate with emerging demands/changes. The Council needs to reduce its reliance on revenue balances to support the base budget.

- **Delivering a further programme of asset disposals**

In order to enable growth in the general fund capital programme, to support current initiative such as the Abbey Stadium redevelopment and support the revenue budget it may be beneficial to look at the potential for further asset disposals. The sums generated could be invested to provide revenue to fund the capital programme or support the revenue budget. This will be dependant upon an improvement in the housing/property market.

- **Implementing the Asset Management Plan**

The Council must make the best use of its assets in support of its objectives and needs to examine whether the assets that we currently hold are necessary or could be financed in different ways. We should examine methods of generating income through sales of assets we no longer require, and changes in financing arrangements by different forms of leases or rentals. The Council will build on the programme of reviews of utilities (gas, electric etc) consumption, reducing and recycling waste together with ensuring that the Council conserves non-renewable resources.

- **Partnership Working/Shared Services**

The Council needs to examine the continued development of partnerships and shared services to enable the sharing of resources. This is wider than purely financial resources and includes property, land, equipment and human resources with not only local authorities but with other public bodies, the private sector and the voluntary sector, where appropriate, building on the arrangements that are currently in place. This is particularly appropriate where partnerships could demonstrate economies of scale resulting in efficiencies within the organisation and potentially reduced costs. There is no requirement on individual authorities to deliver services on their own and the development of partnerships could in some cases lead to significant improvements for all the involved parties.

External Funding

Resources for local authorities are now available from many different sources. The Government provides base funding for the provision of services through the Formula Grant, various subsidies and capital grants but there are many other sources of funding provided by not only different government departments but also other organisations, e.g. the various lottery funds. It is clear that the expectations on local authorities are to access external sources of funding to supplement their core service delivery and benefit the community.

The restrictions in ongoing core funding for local authorities will continue and in order to ensure that the Council can continue to develop services in line with its

objectives/priorities it is more and more important to explore these external sources of funding.

There are, however, wider resource implications from pursuing external funding. These include not only the cost of bidding, (including the cost of abortive work) but the costs associated with the implementation and ongoing support for new initiatives.

It is also important to ensure that the Council has an exit strategy for any developments that are supported through external funding as these are usually time limited.

Strategy for securing efficiency gains and delivering value for money

The Council has a Value for Money Strategy. In order to achieve efficient, effective and economic services the Council will:-

- Achieve savings through competitive tendering and Shared Services
- Review staffing requirements and the management structure
- Introduce new working practices and organisational arrangements using ICT to enhance services to the public
- Control energy and other utility costs
- Maximise investment income (whilst safeguarding capital)
- Procure services in the most effective and efficient way.
- Review the Asset Management Plan for the effective use of the Council's land and property portfolio.
- Develop further the Council's Performance Management Framework to ensure that all services perform on par with the best in local government and achieve continuous improvement.
- Undertake value for money reviews of the Council's services and implement the efficiency improvements identified taking into account comparisons with similar services in comparable authorities.
- Cash limit budget increases wherever possible.
- Continually improve the skills and capacity of staff through training; improving efficiency; joint/partnership working and shared services

Budget Flexibility

In considering future service provision and capital investment it is increasingly important that the Council consider the impact on its ability to reallocate resources to emerging priorities or to make efficiency savings in the future.

Revenue and Capital Balances

The Council's revenue and capital balances as 31st March 2009 are detailed in the table below. The specific use to which some reserves and balances may be applied is restricted by statute. The Council has an existing policy for the use of each of its balances that is consistent with the legal requirements.

For the purpose of setting budgets a distinction can be drawn between:-

- a) revenue balances;
- b) balances earmarked for specific capital schemes;
- c) balances available exclusively for General Fund capital schemes; and,
- d) balances available for either General Fund or Housing Revenue Account capital schemes.

The table below describes for each balance:-

- a) the amount held at 31 March 2008 ;
- b) the amount be held at 31 March 2009;
- c) its legal status; and,
- d) the use to which it is put under current Council policy.

Revenue Balances

General Fund Revenue and Housing Revenue Account Balances

These balances are the Council's 'working balances' and should be maintained at a prudent minimum to assist cash flow management, and to cover unforeseen expenditure or shortfalls in income. Excess amounts can be used to support expenditure, but cannot be relied on to support on-going expenditure.

Under the Local Government Finance Act 1988, all balances held by the Council are at the direct disposal of the General Fund with the exception of the Housing Revenue Account balance, the Collection Fund and those held in trust.

General Fund Revenue Balance

The Local Government Act 2003 requires the Chief Finance Officer to report on the adequacy of financial reserves when consideration is given to the General Fund budget requirement for the year.

In February 2003 CIPFA published a guidance document on Local Authority Reserves and Balances. The guidance does not prescribe the minimum level of balances to be held but recommends that consideration is given to the strategic, operational and financial risks facing the authority. During the consultation on this

document it was suggested that the recommended minimum should be 5% of net expenditure and this has been followed by a number of authorities. 5% for Redditch would mean maintaining balances at or around £625k. However, just a 1% variation in gross income and gross expenditure is equivalent to £340k. The increased pressures on limited resources as demonstrated by the projected increases in formula grant, the last round of revenue bids which totalled £880k, including the revenue implications of capital bids, and the economic uncertainty makes it increasingly difficult to contain expenditure within existing budgets.

In considering the Council's overall financial position and the increased pressures on the limited resources available **a general fund revenue balance of £750k is considered to be a prudent minimum.**

Housing Revenue Account Balance

The balance at 31 March 2009 was £583k, equivalent to £96 per property. The element of the Housing Revenue Account subject to most fluctuation is the contribution to repairs account. Additional demands for repairs can place pressure on the already constrained budget. It is therefore recommended that the balance on the **Housing Revenue Account balance should be maintained at a prudent minimum of £100 per property which would equate to £605k.**

Usable Capital Receipts

At 31 March 2009 the Council held £1,337k in usable capital receipts. With effect from 1 April 2004 capital receipts from right to buy council house sales have been subject to pooling and the availability to fund capital expenditure from those receipts retained by the Council has been subject to Government regulation.

Capital and Revenue Balances

	31-Mar-08 Actual		31-Mar-09 Actual		Use under Current Council Policy
	£'000	£'000	£'000	£'000	
Capital Financing Reserve					
Provision for Credit Liabilities (GF)	333		333		General Fund Capital
Sub-Total		333		333	
Earmarked Reserves					
Insurance	61		61		Self Insurance and Excesses
Community Development	33		33		Earmarked for CD projects
Car Loan Scheme	7		8		Self insurance for bad debts
Hemming Road Enterprise Centre	45		45		Major repairs
Environmental Health	3		3		Contaminated Land/NEA Grant
Taxi Licensing	22		22		Works to taxi rank at bus station
Public Donations	74		83		Forge Mill Museum/Shopmobility
Concessionary Fares	43		43		Implementation of smart cards
Mercury Emissions	120		180		Works required by 2010
Capital grants and contributions	397		152		Specific capital projects
Job Evaluation	200		400		Revenue costs of job evaluation
Section 106 monies	1,065		1,024		Revenue or capital according to agreement
HRA Capital	4,450		4,450		HRA expenditure
Sub-Total		6,853		6,504	
Usable Capital Receipts					
Capital receipts		2,146		1,337	Capital, GF or HRA
Revenue Balances					
General Fund		1,461		2,131	Working Balance, Revenue or Capital
Housing Revenue Account		659		583	Working Balance, Revenue or Capital
Other Balances					
Major Repairs Reserve		529		526	HRA capital expenditure
Collection Fund		(260)		217	Local Tax collection to meet precepts and General Fund demand
TOTAL		11,721		11,631	

Medium Term Financial Plan 2010 – 2013

General Fund Budget

Financial Forecast

Introduction

In some respects the Council's financial position over the medium term is certain. The Comprehensive Spending Review 2007 (CSR07) set out indicative formula grant allocations for the three year period commencing in 2007/08 (see table below) and the government have already announced that further efficiency savings will be required as part of the next spending review. In other respects the future is more complex and uncertain. Pay awards are tending to be settled several months after the date of implementation and the economy is not showing any real sign of recovery. This adds to the uncertainty.

Key Issues:

Comprehensive Spending Review (CSR07)

CSR07 (public sector spending plan) determined the Council forecast formula grant settlement for Redditch the next three years. 2010/11 is the last year of the CSR07 review. The proposed settlement figures for the years covered by CSR07 are as follows:

	2007/08	2008/09	2009/10	2010/11
Formula Grant	6,328,604	6,393,827	6,425,796	6,457,925
Increase		65,223	31,969	32,129
% increase		1.0	0.5	0.5

The proposed increases in formula grant have, until recently, been significantly less than the current rate of inflation. It is anticipated that the forthcoming spending review will see a standstill position with regards to formula grant. The cap on council tax increases could also be reduced to around 3%.

Local Authority Business Growth Incentive Scheme (LABGI)

The CSR07 announced a reduction in LABGI funding with no funding for 2008/09 but £50m and £100m provided for 2009/10 and 2010/11 respectively. Consultation commenced on a proposed reformed scheme to be introduced for 2009/10. It is proposed that, in the longer term, LABGI will be mainstreamed as part of the local government finance system. **Consultation which ran until the 20 November 2008 illustrated allocations based on a £100m fund which would see Redditch receive just £42.3k.** This is significantly less than the sums received over the last three years. In 2007/08 the Council received £343.3k. The outcome of consultation is still unknown.

Impact of rising energy prices

At the time of preparing the estimates for 2009/10 energy prices were forecast to increase by as much as 100% for gas and 70% for electricity. The contracts have now been let for the next 12 months commencing in November 2009. The actual increases will be 32% for gas and 17.5% for electricity (see table below). The overall increase for 2010/11 is forecast to be 20% based on the wholesale prices for summer 2010 and winter 2011. The overall cost to the General Fund in 2010/11 is estimated to be £485.7k and to the Housing Revenue Account £178.8k.

The majority of these reductions will fall on the General Fund. The charges to the Housing Revenue Account will be largely passed on the tenants by way of service charges.

	Estimated Expenditure 2009/10		
	Electricity	Gas	Total
	£	£	£
General Fund	287,702	245,530	527,032
Housing Revenue Account	89,888	109,760	199,648
Estimated Total 2009/10	377,590	355,290	732,880
Potential saving – GF	50,470	77,969	128,439
Potential saving - HRA	15,764	34,866	50,630
Post contact estimate	311,356	242,455	553,811

Pension Fund increases

The last review of the Pension Fund revealed that a rate of 23.9% to be payable by 2013/14 to move the fund towards being fully funded. This rate is currently being phased in over a 6 year period. The uncertainty within the stock/money market is likely to impact on the performance of the Pension Fund. The rates currently payable are as follows:

Employer Pension Contribution Rates				
	2008/09	2009/10	2010/11	2011/12*
	%	%	%	%
Rate payable	20.0	20.8	21.6	22.3
The rate payable from 1 April 2011 will be revised following the next actuarial review of the Pension Fund on 31 March 2010.				

The County Pension Service have advised the Council that any pension costs associated with early retirements will have to be paid as a lump sum or over a 3 year period. The Council has previously not made these payments but had liabilities added to the actuarial strain. The early retirements in 2008/09 cost £697.7k or £251k per annum for three years.

For the small number of liabilities that occur each year it would be preferable to pay the cost as a lump sum but for any major restructuring the Council may need to consider meeting the cost over three years because of the impact on revenue balances.

Value Added Tax (VAT)

At the end of March 2009 a claim for overpaid VAT was been submitted by Grant Thornton on behalf of the Council for £620k plus statutory simple interest. Part of the claim for £274k, relating to the period prior to 1 January 1990, is more speculative. Due to the volume of claims being submitted these monies, if agreed, may not be received until the latter end of 2009/10 or 2010/11. In addition the Council has, on the advice of Grant Thornton, lodged a claim at the High Court for compound interest. The interest would potentially be paid at a rate equivalent to Government borrowing, however, the matter may take 2-3 years to resolve. The original projections from Grant Thornton estimated a total refund of £2 million based on interest being paid at 3% above base rate.

Prudential Borrowing

In 2007/08 the Council undertook Prudential Borrowing in order to fund part of its housing and general fund capital programmes. Further borrowing will be undertaken in 2008/09 and future years. Prudential borrowing has a direct impact on revenue. In respect of the general fund

borrowing the Council is required to make a Minimum Revenue Provision (MRP) equivalent to the beneficial life of the asset/improvement funded from borrowing. In addition to this provision both the Housing Revenue Account and the General Fund will be charged with the interest cost of borrowing.

Based on the current level of borrowing and the level of borrowing included in the approved capital programme the revenue implications are as follows:

Fund affected:	Existing	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000
<i>General Fund Borrowing</i>	2,321.6	5,876.9	7,663.9	9,017.5
MRP	171.0	408.1	527.2	617.5
Interest*	187.2	329.6	410.3	446.0
Total	358.2	737.7	937.5	1,063.5
<i>Housing Revenue Account Borrowing</i>	10,582.5	16,249.3	19,941.6	22,174.2
Interest*	356.1	536.6	723.8	842.3
Total	356.1	536.6	723.8	842.3

* assuming interest at 4%

The figures in the above table assume that 90% of the HRA and 80% of the GF capital programme is delivered in the year as programmed. Any slippage will delay the revenue impact of borrowing.

The impact of the cost of borrowing requires due consideration because of the impact the Council's flexibility within the budget to make budget strategy savings or to reallocate resources in future years.

General Fund Forecast

The table below show the actual outturn position for 2008/09; the approved budget for 2009/10; an updated position for 2009/10 and a forecast for the next three financial years.

2008/09 Actual £'000		2009/10 Estimate £'000	2009/10 Updated £'000	2010/11 Forecast £'000	2011/12 Forecast £'000	2012/13 Forecast £'000
11,223.3	Net cost of services	13,179.5	13,179.5	13,245.2	13,869.1	12,925.8
	Approved Bids		536.1	594.7	615.2	
	DWP reinvestment bids		68.8	98.6	31.6	13.5
	Approved savings		(870.1)	(1,370.3)	(1,477.1)	
	Energy		(128.4)	(45.0)	(45.0)	
	MRP etc		(50.0)	50.0	80.0	90.0
	Benefit Subsidy		(60.0)			
	VAT reclaim		(346.0)			
	Job evaluation (JE)			355.0		
	Pay award		(215.0)	(260.0)	(130.0)	250.0
	Inflation					100.0
	Fees and Charges			75.0	75.0	(90.0)
	Budget gap	(307.2)				(603.0)
269.9	Transfer to reserves					
11,493.2	Net expenditure	12,872.3	12,114.9	12,743.2	13,018.8	12,779.3
	Resources					
6,393.8	Formula Grant	6,425.8	6,425.8	6,457.9	6,457.9	6,457.9
5,284.0	Council Tax	5,573.3	5,573.3	5,712.6	5,855.5	6,001.8
457.3	LAGBI					
49.0	Area Based Grant	71.0	71.0	97.5	75.0	75.0
(20.7)	Collection Fund	13.8	13.8	0.0	0.0	0.0
12,163.4	Total Resources	12,083.9	12,083.9	12,268.0	12,388.4	12,534.7
(670.2)	Contribution from/(to) balances	788.4	31.0	475.2	630.4	244.6
1,461.0	General Fund Balances	1,461.0	2,131.2	2,100.3	1,625.0	994.6
(670.2)	less use of balances	788.4	31.0	475.2	630.4	244.6
	add transfer to balances	77.4				
2,131.2	Balance c/fwd	750.0	2,100.2	1,625.0	994.6	750.0

Assumptions:

- 2.5% increase in council tax and fees and charges for 2010/11 to 2012/13.
- Pay award 1%.
- 3% increase in pay bill from 2010/11 due to job evaluation. There will also be a cost associated with any back pay which could be met from the job evaluation provision which will stand at £600k by the end of 2009/10.

- Increase in formula grant (Revenue Support Grant and redistributed NDR) as per CSR07 except 2011/12 & 2012/13– no increase assumed. A 1% change would be equivalent to £65k.
- Level of local authority error in respect of Benefits kept below threshold – maximising subsidy
- Any bids will need to be funded from additional savings. The above forecast does not take into any revenue impact of the Abbey Stadium Redevelopment.
- SERCO proposals not taken into account apart from approved savings from shared services.

The above table shows that there will be a budget gap of £603k in 2012/13.

Sensitivity Analysis

Job Evaluation and pay award 2010/11

The following table illustrates the potential impact of different percentage increases on the pay bill in 2010/11 due to job evaluation and the pay award. It also shows the potential ongoing impact for 2011/12.

Increase in pay bill (assuming 1% increase in 2009/10)	2010/11 £'000	1% increase 2011/12 £'000	2% increase 2011/12 £'000
2%	378	226	376
3%	524	228	380
4%	670	231	383
5%	816	233	387
6%	962	235	391
Existing budget	357	366	366
A pay increase of 0.5% would save around £280k on the existing budget			

Council tax increase

The following table illustrates the income generated through differing increases in council tax, assuming that any growth in the tax base will be offset by any increases in non-collection.

	£'000	Band D increase £
Current income from Council Tax (Band D £204.08)	5,573.3	
Assumed increase 2.5%	139.3	5.10
1.5% increase	83.6	3.06
0.5% increase	27.9	1.02

Implications of Shared Services (SERCO)

The following tables illustrate the impact of SERCO Business Case projections combined with the potential impact of job evaluation.

Projection based on 3% increase in pay bill for job evaluation plus 1% pay award.

	2009/10 Estimate	2009/10 Updated	2010/11 Forecast	2011/12 Forecast	2012/13 Forecast
	£'000	£'000	£'000	£'000	£'000
Net expenditure	12,872.3	12,114.9	12,743.2	13,018.8	12,779.3
Add back forecast budget gap					603.0
add back approved savings from shared services			250.0	350.0	350.0
add SERCO projections		101.0	60.5	(569.0)	(1,303.0)
Revised net exp.	12,872.3	12,215.9	13,053.7	12,799.8	12,429.3
less					
Total Resources	12,083.9	12,083.9	12,268.0	12,388.4	12,534.7
Use of balances	788.4	132.0	785.7	411.4	(105.4)
General Fund balances b/fwd	1,461.0	2,131.2	1,999.2	1,213.5	802.1
Add transfer to balances	77.4				
Use of balances	788.4	132.0	785.7	411.4	(105.4)
Balances c/fwd	750.0	1,999.2	1,213.5	802.1	907.5

Projection based on 5% increase in pay bill for job evaluation plus 1% pay award.

	2009/10 Estimate	2009/10 Updated	2010/11 Forecast	2011/12 Forecast	2012/13 Forecast
	£'000	£'000	£'000	£'000	£'000
Revised net exp. (from table above)	12,872.3	12,215.9	13,053.7	12,799.8	12,429.3
add back forecast budget gap				347.0	200.0
Add additional cost of JE etc			295.0	(47.0)	105.0
Adjusted net expenditure	12,872.3	12,215.9	13,348.7	13,099.8	12,734.3
less					
Total Resources	12,083.9	12,083.9	12,268.0	12,388.4	12,534.7
Use of balances	788.4	132.0	1,080.7	711.4	199.6
General Fund balances b/fwd	1,461.0	2,131.2	1,999.2	918.5	207.1
Add transfer to balances	77.4				
Use of balances	788.4	132.0	1,080.7	711.4	199.6
Balances c/fwd	750.0	1,999.2	918.9	207.1	7.5
Budget gap				542.9	742.5

Housing Revenue Account

To be updated in light of consultation paper due to be published in July 2009.

2008/09 Actual £'000		2009/10 Estimate £'000	2009/10 Updated £'000	2010/11 Forecast £'000	2011/12 Forecast £'000	2012/13 Forecast £'000
19,573.2	Net cost of services	20,593.9	20,182.2	20,593.8	21,707.8	
	Inflation			130.0	134.0	
	Financing			84.0	34.0	
	Subsidy			900.0	950.0	
	Bids etc.			0.0	0.0	
19573.2	Expenditure	20,593.9	20182.2	21,707.8	22,825.8	
	Resources					
18,723.3	Rents	19,608.5	19,280.2	20,550.0	21,575.0	
551.6	Non dwelling rents	567.4	567.4	570.0	570.0	
179.6	Charges/other income	174.1	174.1	175.0	175.0	
42.8	Interest	79.5	78.5	70.0	60.0	
	Transfer from reserves	0.0	0	150.0	500.0	
	Misc.	0.0	0	0.0	0.0	
19,497.3	Total Resources	20,429.5	20,100.2	21,515.0	22,880.0	
75.9	Contribution from/(to) balances	164.4	82.0	192.8	54.2	
659.3	HRA Revenue Balances	883.9	583.4	785.6	592.8	
75.9	less use of balances	164.4	82.0	192.8	(54.2)	
583.4	Balance c/fwd	719.5	501.4	592.8	647.0	

Significant elements within the Housing Revenue Account are outside local authority control. Rents are set according to the formula prescribed by central government. The contribution (around £3.7m) to be made to the Major Repairs Reserve is determined by the subsidy calculation as is the amount to be paid to central government in respect of negative subsidy. In 2009/10 this figure is estimated to be £6.2million, an estimated increase of £333k.

Capital Investment

Introduction

The Council was 'debt free' from May 2002 until 2006/07. Until 2004 its major source of capital funding has been from capital receipts derived from the sale of council houses under the Right to Buy (RTB) legislation and other asset disposals. The 1st April 2004 saw the introduction of pooling arrangements for RTB receipts. This meant that local authorities were required to pay over to central government 75% of all RTB receipts. However, as at the end of 2003/04 the Council was technically 'debt free' it was entitled to benefit from the transitional arrangements introduced at the same time. These arrangements ended on the 31st March 2007. In 2008/09 the Council sold just 6 dwelling under the RTB scheme. It has been assumed that in the short term there will be no further disposals.

Borrowing – The Prudential Code

The Local Government Act 2003 abolished the system of credit approvals and gave councils the ability to borrow for capital purposes within a new prudential framework.

From the 1st April 2004 the Council has been required to comply with the Prudential Code with respect to the funding of capital expenditure. The Prudential Code allows authorities to borrow for capital purposes provided that they can demonstrate the borrowing is affordable.

Capital Programme

The table below sets out the Council's approved Capital Programme for the next three years and the resources identified to fund the Programme.

CAPITAL PROGRAMME 2010/11 - 2012/13

Council Priority:	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Clean and Green			
Landscape/Environmental Improvements	450.0	450.0	200.0
Total	450.0	450.0	200.0
Housing			
Housing Improvements (HRA)	6,403.0	5,000.4	629.8
Other Housing (HRA)	770.0	770.0	
Grants & Loans (GF)	630.0	630.0	
Total	7,803.0	6,400.4	629.8
Enterprising			
Town Centre Enhancements	250.0	150.0	
Total	250.0	150.0	
Well Managed Organisation			
Works to Public Building	250.0	250.0	
Information Technology	25.0	25.0	
	275.0	275.0	
Total Programme	8,778.0	7,275.4	829.8
CAPITAL RESOURCES:			
	£'000	£'000	£'000
Prudential Borrowing	4,818.0	3,315.4	200.0
Major Repairs Allowance (MRA)	3,700.0	3,700.0	629.8
Grants and other funds	260.0	260.0	
Total Funding	8,778.0	7,275.4	829.8

Capital Receipts

It has been assumed that there will be no Right to Buy sales for the foreseeable future.

Financial Risks

In preparing the budgets and forecasts a number of assumptions have been made. There is a risk that some of these assumptions may prove to be inaccurate or that other developments occur that require the budgets/forecasts to be revised. The table below details some of the assumptions/developments and their potential impact.

Budget element	Risk/Opportunity	Likelihood	Impact	Financial Impact £k
Pension Fund	Employers contributions are currently 20.8% of gross pay. An actuarial review is due to take place in 2010. An extra 1% would cost £150k. Any future early retirements will have an immediate impact on the revenue account.		Medium	£150
Concessionary Fares	There is a proposal to transfer the responsibility for Concessionary Travel to the upper tier authority. This will mean a reduction in Formula Grant the impact of which is uncertain.	High	High	£500+ potential
Shared Services	The forecasts for 2010/11 and 2011/12 include savings of £390k. There may also be cost associated with tribunal claims.	High	High	£390k
VAT reclaim	The Council has submitted a claim for £620k in respect of 'overpaid' VAT. There is no guarantee that this will be agreed by HM Revenue & Customs	Medium	High	£346k

Housing Benefit Subsidy	The budget forecasts include £100k to be generated from a reduction	Medium	Low	£100k
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	<p>in local authority errors thereby attracting more subsidy. This is dependant upon the error rate remaining below the threshold for the whole of the forthcoming period.</p>			
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The current forecast for the General Fund is based on a number of assumptions. The impact of any variation to these assumptions will be dependant upon the extent of the variation, the timing of it and whether there is a contra variation elsewhere in the forecast.

In order to maintain the agreed minimum level of General Fund balances there is already forecast a requirement to make further savings in 2012/13, however, this could be mitigated by the potential savings identified in the SERCO business case. The SERCO business case is also based on a range of assumptions and has its own risks and these will need further consideration alongside the Medium Term Financial Plan as the business case is progressed.

Conclusions

1. The Medium Term Financial Plan indicates that the Council may need to make savings in the forthcoming period in order to set a balance budget. The level of savings will be largely dependant upon the outcome of job evaluation, the VAT reclaim and shared services.
2. The situation regarding the Housing Revenue Account is subject to government consultation on subsidy and will need to be reviewed during the year.
3. The current level of revenue balances for the General Fund is currently at a level which is considered to be a prudent minimum. The Housing Revenue Account balances are marginally below the agreed level.
4. The number of Right to Buy sales has seen a very significant drop over the last two years. It has been assumed that there will be no RTB sales in the short term. This will mean that the capital programme will be largely funded by prudential borrowing which has long term implications for the Council in terms of flexibility within its budgets.
5. The Council needs to ensure, as far as practicable, that it has sufficient flexibility within its base budget to permit the reallocation of resources to priority areas to enable it to deal with emerging issues and priorities.
6. The Council needs to regularly review its base budget in order to address budget pressures both from within the Council and nationally to ensure that it can deliver on its priorities. Also to reflect the changes arising from shared services.
7. The Medium Term Financial Plan needs to be kept under review because of the potential impact of variations to the assumptions over the medium term.