

# Executive Committee

No Direct Ward Relevance

18 February 2009

## GENERAL FUND REVENUE BUDGETS AND CAPITAL BIDS 2009/10 – 2011/12

(Report of the Head of Financial, Revenues and Benefits Services)

### 1. Purpose of Report

This report presents the Estimates at directorate level for 2009/10 prepared in accordance with the Budget Guidelines approved at the meeting of the Council on the 15 September 2008. Also to provide information to enable the Executive Committee to approve the medium term financial plan (revenue & capital budgets) for 2009/10 - 2011/12 including a range of proposals to address the budget gap.

### 2. Recommendations

The Committee is asked to **RECOMMEND** that

- 1) **subject to any comments, the Initial Estimates for 2009/10 be approved;**
- 2) **the Revenue Bids categorised as unavoidable and high detailed in Appendix 14 be approved as follows:**

2009/10	£465,000
2010/11	£367,000
2011/12	£280,000;
- 3) **the General Fund bids for capital resources categorised as unavoidable and high set out in Appendix 15 be approved as follows:**

2009/10	£1,127,200
2010/11	£ 920,000
2011/12	£ 820,000;
- 4) **the Housing Revenue Account bids for capital resources categorised as high set out in Appendix 17 be approved as follows:**

2009/10	£1,090,000
2010/11	£ 570,000
2011/12	£ 570,000;

- 5) the savings / additional as identified in Appendix 17 and below be approved for consultation:

2009/10	£ 960,700
2010/11	£1,478,500
2011/12	£1,585,300;

- 6) the balance of the set up costs for Civil Enforcement Parking funded by the Council from future income streams;
- 7) potential redundancy costs of £35.1,000 be funded from balances;
- 8) Officers be asked to do further work with regard to
- a) Arrow Valley Countryside Centre
  - b) Forge Mill Museum
  - c) Shopmobility
  - d) Dial A Ride.

### 3. Financial, Legal, Policy and Risk Implications

#### Financial

- 3.1 The estimates prepared for this Committee will form part of the Council's General Fund revenue budget requirement for 2009/10.

#### Legal

- 3.2 A statutory framework exists to ensure that local authorities set a balanced budget. The annual budget brings together the Council's expenditure plans and the ways in which income is to be raised to finance that spending. Local authorities are not able to approve a budget in which anticipated sources of income are less than the proposed expenditure levels.

#### Local Government Act 2003

- 3.3 There are a number of requirements that the Council's Section 151 Officer (the Council's designated senior finance Officer) has to include in the budget report. These are set out below, together with S.151 comments on each of the issues:

- i) The level and use of reserves to be formally determined by the Council must be informed by the judgement and advice of the Chief Financial Officer (CFO).

*Section 151 Officer's comments: Review of general fund balances included in report.*

- ii) The CFO to report the factors that have influenced his/her judgement in the context of the key financial assumptions underpinning the budget, and ensure that his/her advice is formally recorded. Where that advice is not accepted, this should be formally recorded in the minutes of the meeting.

*Section 151 Officer's comments: The main assumptions included in the calculation of the budget are included within the report.*

- iii) The report should include a statement showing the estimated opening balance on general fund reserves for the year ahead, any contribution to/from the fund, and the estimated closing balance.

*Section 151 Officer's comments: statement included in this report.*

- iv) The report should show the extent to which reserves are financing ongoing expenditure.

*Section 151 Officer's comments: included in the report*

- v) The report should include a statement from the CFO on the adequacy of general reserves and provisions both for the forthcoming year and in the context of the medium term financial plan.

*Section 151 Officer comments: the Council holds a minimal level of reserves.*

- vi) The report should include a statement on the annual review of earmarked reserves showing:

- 1) list of earmarked reserves
- 2) purpose of reserve
- 3) advice on appropriate levels
- 4) estimated opening / closing balances
- 5) planned additions / withdrawals

- 6) Section 151 officer's comments: The current reserves were reported to Members as part of the Medium- Term Financial Strategy.

vii) Prudential indicators and related matters

*Section 151 Officer's comments: This will be covered by the Treasury Management Strategy which is elsewhere on the agenda.*

Policy

- 3.4 There are no direct policy implications arising from this report.

Risk

- 3.5 The Council will not be fulfilling its legal obligations if it fails to prepare a balanced budget for the forthcoming financial year. The risks of implementing the proposed savings have been identified as far as possible within the appendices.

Report

**4. Background**

- 4.1 At the 17 December 2008 meeting of the Executive Committee Members considered the Medium Term Financial Strategy and Plan that identified a budget gap of £630k for 2009/10, a further gap of £720k for 2010/11 and £130k in 2011/12. The report also presented Members with a number of revenue and capital bids for consideration.
- 4.2. Members deferred consideration of the revenue and capital bids in lieu of a decision regarding their funding. Members also requested a further report with options for meeting the budgetary gap. This report details the proposed options for addressing the budget gap.
- 4.3. The Estimated Outturn for 2008/09 has now been concluded and the estimated requirement to support the budget from General Fund balances has reduced from £605.6k to £45.6k. This means that there is more money in balances to fund expenditure in 2009/10. In addition the Council was notified on the 5 February 2009 that it can expect to receive, subject to any challenges to the overall distribution, £123,066 in LAGBI monies. This is from the distribution of the contingency fund held by central government in respect of Year 3 of the outgoing scheme.

- 4.4 Since Members considered the report on the Medium Term Financial Strategy on 17 December 2008 officers have undertaken further work with regard to establishing a baseline budget for 2009/10 to 2011/12. The table below shows the reasons for the changes to the figures as presented to Members in December.

	<b>2009/10 £'000</b>	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>
Budget savings required in December	630.0	1,350.0	1,480.0
Revised estimate variations (see item 5 Executive Agenda 28 Jan 2009)	(217.4)	(217.4)	(217.4)
Other changes	17.6	(55.9)	7.3
LAGBI	(123.1)		
Revised budget savings required (base budget)	<b>307.1</b>	<b>1,076.7</b>	<b>1,269.9</b>

- 4.5 In addition to reviewing the baseline budget, Officers have been continuing to review the budget bids and to identify potential savings/additional income. The approved priorities have been used to drive the budget process as follows:
- Budget bids have only been proposed to Members by senior management if they have been identified as unavoidable / or they are fundamental in achieving the Council's priorities.
  - Financial savings have been focused on more efficient working practices and alternative methods of service delivery
  - Disinvesting in non priority areas.
  - Capital Projects to be proposed only if they meet the priorities of the Council

## **5. Key Issues**

- 5.1 The Appendices to this report set out the initial estimates for 2009/10 and projections for 2010/11 and 2011/12. The net expenditure is:
- Base Budget for 2009/10 £13,179,550
  - Base Budget for 2010/11 £13,456,235
  - Base Budget for 2011/12 £13,921,349.
- 5.2. Appendices 1 - 13 show the 2009/10 revenue estimates for the services delivered by the Heads of Service.

These can be summarised as follows:-

	<b>2009/10 Initial Estimate £'000</b>
<b>Head of Service</b>	
Directors	0.0
Head of Financial, Revenues & Benefits	1,736.8
Head of Legal, Democratic & Property	360.3
Head of Strategy & Partnerships	1,586.2
Head of Environment	2,912.1
Head of Operations	1,845.9
Head of Planning & Building Control	966.2
Head of Asset and Maintenance	346.1
Head of Leisure & Art	3,403.4
Head of Housing & Community	697.6
Head of Customer and IT	54.6
Head of HR & Communications	123.7
<b>Total</b>	<b>14,032.9</b>

### Budget Assumptions

- 5.3 The estimates have been calculated in line with the Budget Preparation Guidelines approved by the Council at their meeting on the 15 September 2008. In preparing the draft budget for 2009/10 the following assumptions have been made for the main elements of the budget:

<b>Assumptions:</b>	<b>%</b>
Pay awards	3.0
Gas	100.0
Electricity	70.0
Business Rates	2.0
Pension fund increases (note 1)	20.8
Vacancy/turnover savings (note 2)	2.0
Investment interest (note 3)	4.0
Short-term borrowing (note 3)	2.0

Notes:

- Following the presentation of the 2007 Pension Fund Valuation the actuaries have assessed that in order to move toward a fully funded pension scheme the rate needs to increase in

incremental steps to a maximum of 23.9% by 2013/14. The applicable rate for 2009/10 is 20.8%.

The rate payable from 1 April 2011 will be further revised following the next valuation of the Pension Fund on 31 March 2010.

2. Savings of £200k each year on the pay bill have been assumed through vacancy management. These savings will also be used to cover the costs of recruitment.
3. Another important factor within the overall medium term financial plan is Interest rates. This will be particularly relevant during 2009/10 when the Council's investments that are earning in excess of 6% mature. However, as the Council is in a net borrowing position it continues to benefit from the current low rates for short term borrowing.

### General Fund Balances

- 5.4 General Fund balances are estimated to be £1.538m as at the 31 March 2009. The table below set out the impact on General Fund Revenue balances on the estimated budget for 2009/10 to 2011/12 and the savings required following a review of the budget for 2008/09.

	2009/10
	£'000
<b>Balance b/f 1st April 2008</b>	<b>1,461.0</b>
2008/09 estimated use of balances	(45.6)
LAGBI Year 3 Contingency Dist.	123.1
<b>Estimated balance as at 31<sup>st</sup> March 2009</b>	<b>1,538.5</b>

- 5.5 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.
- 5.6 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.
- 5.7 5% for Redditch would mean maintaining balances at or around £650k. However, just a 1% variation in gross income and gross

expenditure is equivalent to £746k which would result in a significant reduction in balances. The increased pressures on limited resources as demonstrated by the projected increases in formula grant, the increases in utility costs, and the fluctuations in income receipts and interest rates together with the impact of the economy on increased service demand may impact on the delivery of services within existing budgets over the 3 year period. In addition, there will be initial costs associated with the delivery of the longer term savings as a result of joint or shared service working. These costs could be funded from general fund balances if sufficient funds were available.

- 5.8 It is therefore considered, taking the above issues into account that a general fund revenue balance of £750k is a prudent minimum level.

### Government Grant

- 5.9 The Council has notified of the final formula grant settlement for 2009/10. The main elements of the grant settlement are (2008/09 figures provided for information):

	<b>2008/09</b> <b>£</b>	<b>2009/10</b> <b>£</b>	<b>Variance</b> <b>£</b>	<b>Variance</b> <b>%</b>
Revenue Support Grant	781,308	1,205,022	423,714	54.2
Redistributed business rates	5,612,519	5,220,774	(391,745)	(7.0)
<b>Formula Grant (FG)</b>	<b>6,393,827</b>	<b>6,425,796</b>	<b>31,969</b>	<b>0.5</b>

- 5.10 The Council has been advised that it will receive a further increase of 0.5% 2010/11, the final year of CSR07. It has been assumed that the increase for 2011/12 will also be 0.5%.

### Council Tax

- 5.11 On the 7 January 2009 the Executive Committee approved the Council Tax Base for 2009/10 as 27,270.10. Based on a 4.5% increase in Council Tax for 2009/10 this would result in a demand on the Collection Fund of £5,573,345, an increase of £289,382 from 2008/09.
- 5.12 Given that the Government has given strong indications that it will cap any authority that imposes an increase in Council Tax of more than 5% it is felt that any rise needs to be carefully considered. It is therefore recommended that the Council Tax is increased by 4.5% across the 3 years of the Medium Term Financial Plan. The demand



on the Collection Fund for 2010/11 and 2011/12 has assumed an increase in the Council Tax base of 0.9%.

- 5.13 The impact of this increase will be an additional £8.80 on Band D with a revised charge of £204.08. This will be formally considered by Council on the 23rd February as part of the Council Tax resolutions which cannot be considered until details of the Feckenham Parish Council precept and those of the other precepting bodies' have been notified to the Council.
- 5.14 It may be useful for Members to know the effects of differing increases in Council Tax. For each ½% increase this would result in additional council tax income of £26k.

### Collection Fund

- 5.15 Every year the Council has to estimate the surplus or deficit on the Collection Fund. The surplus as at the 31 March 2009 has been estimated in accordance with statutory requirements. The surplus was calculated as £99,646. This is then distributed to the major precepting authorities pro rata to their Band D charge, thus the surplus will be distributed as follows:

<b>Precepting Authority</b>	<b>£</b>
Worcestershire County Council	69,397
West Mercia Police Authority	11,660
Hereford & Worcester Fire & Rescue Authority	6,807
Redditch Borough Council	13,782
<b>Totals</b>	<b>99,646</b>

- 5.16 This means that the Council will receive £13,782 in 2009/10 to help fund the revenue budget.
- 5.17 The main way in which the Collection Fund generates a surplus is if the Council collects more council tax, in percentage terms, than was assumed when setting the Council Tax base. When setting the Council Tax base for 2009/10 the collection rate was set at 99%. At this level it is not considered that any further surplus will be generated in the period covered by the Medium Term Financial Plan 2009/10 to 2011/12.

### Revenue Budget Pressures

- 5.18 Officers have identified a number of budget pressures that have either been deemed "unavoidable" or "high" priority. Unavoidable

includes the ongoing effects of pressures during 2008/09 together with any emerging pressures. A high priority is something that is in direct pursuit of the Council's priorities. Each unavoidable and high pressure has a specific "funding request" schedule completed which reflects how the funding required meets the Council objectives.

- 5.19 Revenue bids totally £649,200 have been proposed in respect of the 2009/10 financial year, of which £49,000 relates to one-off bids. The impact of these bids in 2010/11 reduces to £532,800 and to £445,700 because of the variations in the amounts required each year and the duration of each proposal. The bids have been categorised into unavoidable, high, medium and low. Only those classified as unavoidable and high are included in the budget proposed as follows:

	<b>2009/10 £'000</b>	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>
Unavoidable	124.0	129.0	112.0
High	341.0	238.0	168.0
<b>Total Budget Pressures</b>	<b>465.0</b>	<b>367.0</b>	<b>280.0</b>

- 5.20 The details of the bids are included at Appendix 14 – this includes the details of the bids categorised as medium or low for Members information.
- 5.21 If Members were to approve the budget pressures categorised as unavoidable and high this would increase the budget gap as identified at 4.4 to:

- 1) 2009/10      £ 772,100
- 2) 2010/11      £1,443,700
- 3) 2011/12      £1,549,900.

### Capital Bids

#### General Fund Capital Bids

- 5.22 In addition to the revenue bids detailed in Appendix 14 there are 17 bids for General Fund capital resources (see Appendix 15). These have also been categorised into unavoidable, high, medium and low. The bids for 2009/10 total £1,492,200. There is a further requirement for £977,000 in 2010/11 and £877,000 in 2011/12. The table below set out the impact on General Fund Revenue balances

of the estimated budget for 2009/10 to 2011/12 and the savings required following a review of the budget for 2008/09.

- 5.23 Only those bids classified as unavoidable and high are included in the budget proposed as follows:

Capital Bids	2009/10 £'000	2010/11 £'000	2011/12 £'000
Unavoidable	555.0	250.0	250.0
High	572.2	670.0	570.0
<b>Total Budget Pressures</b>	<b>1,127.2</b>	<b>920.0</b>	<b>820.0</b>

- 5.24 The Council does not have sufficient capital receipts available to fund these and therefore, if approved, there will be a direct impact on the General Fund Revenue Account in terms of borrowing costs over the beneficial life of the individual schemes.

Revenue implications	2009/10 £'000	2010/11 £'000	2011/12 £'000
Unavoidable	10.6	110.8	138.2
High	10.9	88.8	168.9
<b>Total Budget Pressures</b>	<b>21.5</b>	<b>199.6</b>	<b>307.1</b>

- 5.25 The detailed revenue implications of the bids categorised as either unavoidable or high have been included at Appendix 16.

Housing Revenue Account (HRA)

- 5.26 Appendix 17 details 3 bids for HRA capital resources totalling £1,150m for 2009/10, £570k for both 2010/11 and 2011/12. These have also been categorised into unavoidable, high, medium and low.

	2009/10 £'000	2010/11 £'000	2011/12 £'000
High	1,090.0	570.0	570.0
<b>Total Budget Pressures</b>	<b>1,090.0</b>	<b>570.0</b>	<b>570.0</b>

5.27 The above bids will need to be funded from borrowing. The estimated cost to the HRA is as follows:

	2009/10 £'000	2010/11 £'000	2011/12 £'000
High	21.8	55.0	77.8
<b>Total Budget Pressures</b>	<b>21.8</b>	<b>55.0</b>	<b>77.8</b>

5.28 Should Members approve the high HRA capital bids the implications shown above would be in addition to those associated with the Decent Homes 5 year Capital Programme recommended for approval by the Executive Committee on the 28 January 2009.

### Summary

5.29 Based on the assumptions, the impact of funding the Capital Programme and the proposed pressures and savings the estimated position for each of the three years is as follows:

	2009/10 £'000	2010/11 £'000	2011/12 £'000
Revised budget savings required (base budget)	307.1	1,076.7	1,269.9
<b>Pressures</b>			
Unavoidable and High revenue	465.0	367.0	280.0
Revenue implications of Unavoidable and High GF capital bids	21.5	199.6	307.1
<b>Overall Shortfall</b>	<b>793.6</b>	<b>1,643.3</b>	<b>1,857.0</b>

### Budget Reductions

5.30 In order to start the process of addressing the budget deficit in the medium term officers have produced a schedule of potential savings for consideration by Members. The savings have been proposed by Corporate Management Team who have sought to identify areas which could demonstrate:

- Additional income generation
- Reduction to costs with no impact on service delivery

- Alternative methods of service delivery / more efficient working practices / shared / collaborative working to realise savings
- Reduction in cost of services which do not directly impact on the Councils priorities

5.31 The Corporate Management Team have identified a “basket” of savings for Members consideration. This is attached at Appendix 17. The overall basket totals:

- 2009/10 £ 960,700
- 2010/11 £1,478,500
- 2011/12 £1,585,300.

5.32 Officers have included as part of the review of the Financial Plan proposals to generate efficiency savings through joint working or alternative ways of providing our services over the next 3 years. There is a target of £40k in 2009/10, £290k saving in 2010/11 with a further £100k in 2011/12. The plans to deliver these savings will be reported to Members during 2009/10 as updates on joint working arrangements. These savings are in addition to the savings arising from the Acting Joint Chief Executive arrangements of £40k that are included within the base budget proposals.

5.33 If agreed by Members full consultation will need to be undertaken with the staff and then reported back to full Council in March. As a result of the need to undertake full and proper consultation the full year impact of some of the savings will not be achieved in 2009/10 and the savings have been reduced to reflect that.

5.34 There are potential redundancy implications as a result of the proposed savings. These total £35.1k.

	2009/10 £'000	2010/11 £'000	2011/12 £'000
<b>Overall Shortfall</b>	<b>793.6</b>	<b>1,643.3</b>	<b>1,857.0</b>
Recommended Savings	(960.7)	(1,478.5)	(1,585.3)
Revenue Implications of Recommended Savings	35.1	0.0	0.0
<b>Balance</b>	<b>(132.0)</b>	<b>164.8</b>	<b>274.9</b>

### Civil Parking Enforcement

- 5.35 The original proposal for the implementation of Civil Parking Enforcement within the Borough was based on Wychavon District Council making available to the Council a loan to fund some of the initial set up costs for the Scheme. During recent discussions with Wychavon District Council it has become apparent that it would be more beneficial for Redditch Borough Council to meet the balance of the set up costs and charge them against future income streams rather than take up the loan offer from Wychavon District Council.
- 5.36 Members are asked to agree to a change to the arrangement included in the original proposal.

### **6. Other Implications**

Any Community Safety, Human Resources, Social Inclusion and Sustainability implications have been highlighted in the Appendices.

### **7. Conclusion**

- 7.1 As reported above the net position for the three years is as follows:
- |            |            |
|------------|------------|
| a) 2009/10 | (£132,000) |
| b) 2010/11 | £ 164,800  |
| c) 2011/12 | £ 274,900  |
| d) Overall | £ 307,700. |
- 7.2 Obviously additional savings need to be made in order to balance the three year plan. It is suggested therefore that as part of Member deliberation into future service provision within the Borough, the following services/areas be subject to separate Officer reports for consideration during 2009:-
- i) Arrow Valley Countryside Centre and Forge Mill Museum - Reports outlining the options and potential for alternative management arrangements and/or transfer to alternative provider(s).
  - ii) Shopmobility and Dial A Ride - Business cases to be developed to consider revised arrangements/options to deliver long term sustainability within both schemes."
- 7.3 It is suggested that this work be undertaken alongside the shared services work in order that a report be brought back by the end of July.

### 8. **Background Papers**

Budget Guidelines Report (Council 15 September 2008).  
Medium Term Financial Strategy and Plan 2009/10 to 2011/12  
(Executive Committee 17 December 2008)  
Estimate working papers held by Financial Services.

### 9. **Consultation**

There has been no consultation other than with relevant Borough Council Officers and Members however, it is suggested that wider consultation take place on any additional savings that are brought forward for Members consideration.

### 10. **Authors of Report**

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### 11. **Appendices**

- Appendix 1 - Projections 2010/11 & 2011/12
- Appendix 2 - Directors
- Appendix 3 - Head of Finance, Revenues & Benefits
- Appendix 4 - Head of Legal Democratic & Property
- Appendix 5 - Head of Strategy & Partnership
- Appendix 6 - Head of Environmental Services
- Appendix 7 - Head of Operations
- Appendix 8 - Head of Planning & Building Control
- Appendix 9 - Head of Asset and Maintenance
- Appendix 10 - Head of Leisure
- Appendix 11 - Head of Housing & Community
- Appendix 12 - Head of Customer and IT
- Appendix 13 - Head of HR & Communications
- Appendix 14 - Revenue Bids 2009/10 – 2011/12
- Appendix 15 - Capital Bids – 2009/10 – 2011/12
- Appendix 16 - Revenue Implications of the Unavoidable and High Capital Bids.

# Executive

Committee

18 February 2009

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Appendix 17 - HRA Capital Bids

Appendix 18 - Proposed Savings/Additional Income