

Executive Committee

No Specific Ward Relevance

3rd February 2010

INITIAL ESTIMATES

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

1. Summary of Proposals

This report presents the Estimates at directorate level for 2010/11 prepared in accordance with the Budget Guidelines approved at the meeting of the Council on the 7th December 2009.

2. Recommendations

The Committee is asked to **RECOMMEND** that

- 1) **subject to any comments, the Initial Estimates for 2010/11 be approved;**
- 2) **the Revenue Bids categorised as unavoidable and high detailed in Appendix 14 be approved , as follows:**

2010/11	£279,210
2011/12	£ 98,210
2012/13	£ 97,210

- 3) **The General Fund bids for capital resources categorised as high set out in Appendix 15 be approved, as follows:**

2010/11	£325,000
2011/12	£165,000
2012/13	£845,000;

together with the associated revenue implications as follows:

2010/11	£ 6,500
2011/12	£54,200
2012/13	£96,400
Future years	£188,800;

- 4) **the proposal for how the Further Support for Town Centre Grant is utilised as set out in Appendix 18 be approved.**
- 5) **the bids as recommended by Overview and Scrutiny Committee be approved as follows:**

- a) **2nd December 2009 Redditch Matters to be published quarterly. Cost of an additional edition £6,000.**
- 6) **the bid for Church Hill District Centre Redevelopment for £60,000 2010/11 which was approved in principle at Council on 7th December 2009, be approved;**
- 7) **that any Direct Action - Enforcement expenditure be funded from balances, pending recovery from the third party, and officers report back to Members on the success of any recovery action; and**
- 8) **that any bids not approved at this stage be brought back to this Committee for reconsideration once the outturn position for 2009/10 is known.**

3. **Financial, Legal, Policy, Risk and Climate Change / Carbon Management Implications**

Financial

- 3.1 The estimates prepared for this Committee will form part of the Council's General Fund revenue budget requirement for 2010/11.

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:
- a) 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.

- b) 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.

- c) 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.

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

Section 151 Officer's comments: included in the report

- e) 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.

- f) The report should include a statement on the annual review of earmarked reserves showing:
 - i) list of earmarked reserves
 - ii) purpose of reserve
 - iii) advice on appropriate levels
 - iv) estimated opening / closing balances
 - v) planned additions / withdrawals

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

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.

Climate Change / Carbon Management

- 3.6 None.

Report

4. Background

- 4.1 At the 22nd July 2009 meeting of the Executive Committee Members considered the Medium Term Financial Plan for the period 2010/11 to 2012/13. The Plan identified a need to use £475.2k of General Fund balances to support the 2010/11 budget, £630.4k in 2011/12 and for a use of balances of £244.6k in 2012/13. In addition there would be a need to make budget savings of £603k in order to set a balanced budget in 2012/13.
- 4.2 Since this time the government have announced an increase in National Insurance contribution from April 2011. This is estimated to cost £110k. There has also been a reduction income from the business centres and leisure services. The Council also continues to experience reductions in income from local land charges and planning fees. Members have also approved a number of bids which have the following revenue implications:

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
2009/10 Approvals - Revenue Implications				
Revenue	95.1	60.0	60.0	60.0
Capital	0.4	13.8	46.7	46.7
Total Budget Implications	95.5	73.8	106.7	106.7
Forecast use of balances	31.0	475.2	630.4	244.6
Forecast budget gap				603.0
Adjusted forecast	126.5	549.0	737.1	954.3

- 4.3 At the 18th November 2009 meeting of the Executive Committee Members considered a number of revenue and capital bids for the current year and the forthcoming three years ending in 2012/13. Members approved the bids for 2009/10 and approved, in principle, the bids for the forthcoming three years, subject to the availability of resources.
- 4.4. Following the meeting of the Executive Committee in November 2009 and the outcome of the Initial Estimate process for 2010/11 the Strategic Management Team have met to review the categorisation the General Fund bids.
- 4.5. Strategic Management Team Amendments
- 4.6. The bid for £110,000 for works to Public Buildings has been removed from the list of bids pending a further report to Members on works required to meet health and safety and DDA regulation requirements and a review of the Council's other obligations in terms of the repair and maintenance of Council owned buildings.
- 4.7. The bid for the repair and maintenance of street lighting has been changed to medium priority following a reassessment of the urgency of this work. This bid will be reconsidered later in the year.
- 4.8. The bid for Landscape Maintenance has been changed to medium priority pending an investigation into the potential for the utilisation of Section 106 contributions to support this budget.

- 4.9. The bid for Direct Action - Enforcement has been removed from the list. Officers are requesting that any enforcement action be initially funded from balances and recovered from the third parties. It is intended that any enforcement action will be self-funding. Officers will report back to Members on the success of a recovery action.
- 4.10. The capital bid for the Energy Management System has been removed from the list as it has been included in the list of projects for SALIX funding.

Capitalisation Request

- 4.11. On the 15th December 2009 the Council applied to the Secretary of State for a Capitalisation Direction in respect of the severance costs associated with the Single Management Team. Approval was given at the close of business on the 29th January 2010. This means that the severance costs can be met from capital receipts as opposed to being a direct charge to the General Fund revenue account. If approval had not been granted the Members would have only been able to approve bids totalling up to £100,000.

5. Key Issues

- 5.1 The Appendices to this report set out the initial estimates for 2010/11 and projections for 2011/12 and 2012/13. The net expenditure is:
- a) Base Budget for 2010/11 £12,952,190
 - b) Base Budget for 2011/12 £13,424,340
 - c) Base Budget for 2012/13 £13,674,150
- 5.2. Appendices 1 - 13 show the 2010/11 revenue estimates for the services delivered by the Heads of Service.

These can be summarised as follows:-

	2010/11 Initial Estimate £'000
Head of Service	
Directors	0.0
Head of Financial, Revenues & Benefits	1,803.7
Head of Legal, Democratic & Property	615.4
Head of Strategy & Partnerships	1,547.5
Head of Environment	3,041.9
Head of Operations	1,868.2
Head of Planning & Building Control	964.3
Head of Asset and Maintenance	46.0
Head of Leisure & Art	3,132.5
Head of Housing & Community	650.3
Head of Customer and IT	67.9
Head of HR & Communications	195.8
Total	13,933.5

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 7th December 2009, apart from the potential increase in employee budgets for a 1% pay settlement. This action has been taken in light of the national expectation of a public sector pay freeze. In preparing the draft budget for 2010/11 the following assumptions have been made in respect of the main elements of the budget:

Assumptions:	%
Pension fund increases (note 1)	21.60
Vacancy/turnover savings (note 2)	3.50
Investment interest (note 3)	1.25
Short-term borrowing (note 3)	1.45
Job evaluation (note 4)	3.00

Notes:

1. 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 2010/11 is 21.6%. The rate payable from 1st April 2011 will be further revised following the next valuation of the Pension Fund on 31st March 2010.
2. Savings of £350,000 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. The Council continues to be in a net borrowing position for 2010/11. Although the base rate has remained at 0.5% the cost of borrowing has increased for the Council and less income is being received from new investments made during 2009/10. Having looked at the current profiling of lending and borrowing and assuming that interest rates remain constant during the coming financial year, the cost of short term borrowing is budgeted for 1.45% and investment interest at 1.25%.
4. The base budget includes a provision for a 3% increase in employee costs due to job evaluation. In addition, the Council has a further provision of £600,000 set aside for job evaluation purposes.

General Fund Balances

- 5.4 General Fund balances are estimated to be £1,977.5m as at the 31st March 2010. The table below set out the impact on General Fund Balances:

	2010/11 £'000
Balance b/f 1st April 2008	2,131.2
2008/09 estimated use of balances	(153.7)
Estimated balance as at 31st March 2009	1,977.5

- 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 2010/11. The main elements of the grant settlement are (2009/10 figures provided for information):

	2009/10 £	2010/11 £	Variance £	Variance %
Revenue Support Grant	1,205,022	818,850	(386,172)	(32.0)
Redistributed business rates	5,220,774	5,639,080	418,306	8.0
Formula Grant (FG)	6,425,796	6,457,930	32,134	0.5

- 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 there will be no increase in grant for 2011/12 and 2012/13.

Council Tax

- 5.11 The Council Tax base for 2010/11 has been calculated as 27,470.42 by Officers which was approved at 27th January 2009 Executive meeting. Based on a 2.5% increase in Council Tax, as recommended in the Medium Term Financial Plan, this would result in a demand on the Collection Fund of £5,754,643 for 2010/11.

Collection Fund

- 5.12 Every year the Council has to estimate the surplus or deficit on the Collection Fund. The estimated surplus was calculated as £73,037 as at 15th January 2010. Redditch Borough Council has a statutory requirement to calculate the surplus or deficit as at 15th January 2010. This figure will then form part of the actual budget. The surplus or deficit is then distributed to the major precepting authorities pro rata to their Band D charge, thus the surplus will be distributed as follows:

Precepting Authority	£
Worcestershire County Council	50,598
West Mercia Police Authority	8,666
Hereford & Worcester Fire & Rescue Authority	3,572
Redditch Borough Council	10,200
Totals	73,037

- 5.13 This means that the Council will receive £10,200 in 2010/11 to contribute towards funding the revenue budget.
- 5.14 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 2010/11 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 2011/12 to 2012/13.

Revenue Budget Pressures

- 5.15 Officers have identified a number of budget pressures that have either been deemed "unavoidable", "high", "medium" or "low" 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 budget pressure has a specific "funding request" schedule

completed which reflects how the funding required meets the Council objectives.

- 5.16 Revenue bids totally £495,960 have been proposed in respect of the 2010/11 financial year, of which £362,600 relates to one-off bids. The impact of these bids in 2011/12 reduces to £188,760 and to £189,260 in 2012/13 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:

	2010/11 £'000	2011/12 £'000	2012/13 £'000
Unavoidable	60.2	24.2	16.2
High	219.0	74.0	81.0
Total Budget Pressures	279.2	98.2	97.2

- 5.17 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.

Overview and Scrutiny Committee Recommendations

- 5.18 On the 2nd December 2009 the Executive Committee considered a report from the Neighbourhood Group Task and Finish Group that recommended the a bid be submitted to allow Redditch Matters to be published quarterly. It is estimated that an additional edition would initially cost up to £6,000, dependent upon advertising revenue.

Church Hill District Centre – Redevelopment Bid

- 5.19 Council on the 7th December 2009 resolved that a bid for £60,000 additional revenue funding be approved in principle and considered alongside the other Capital and Revenue bids for 2010/11 to progress the scheme to the point of signing contracts and final project evaluation.

Further Support for Town Centre Grant

- 5.20 The Council has been awarded £52,000 Further Support for Town Centre grant. A revenue bid form has been completed setting out a proposal for how this grant could be utilised (see Appendix 17).

Members are asked to approve the expenditure associated with this grant.

Capital Bids

General Fund Capital Bids

- 5.21 In addition to the revenue bids detailed in Appendix 14 there are 21 bids for General Fund capital resources (see Appendix 15). These have also been categorised into unavoidable, high, medium and low. The bids for 2010/11 total £702,475. There is a further requirement for £165,000 in 2011/12 and £845,000 in 2012/13
- 5.22 Only those bids classified as unavoidable and high are included in the budget proposed as follows:

Capital Bids	2010/11 £'000	2011/12 £'000	2012/13 £'000
Unavoidable	0.0	0.0	0.0
High	325.0	165.0	845.0
Total Budget Pressures	325.0	165.0	845.0

- 5.23 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	2010/11 £'000	2011/12 £'000	2012/13 £'000
Unavoidable	0.0	0.0	0.0
High	6.5	54.2	96.4
Total Budget Pressures	6.5	54.2	96.4

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

Summary

- 5.25 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:

	2010/11 £'000	2011/12 £'000	2012/13 £'000
Estimated balance b/f	1,977.5	997.2	85.7
Less minimum level of balances	(750.0)	(750.0)	(750.0)
	1227.5	247.2	(835.7)
<i>Pressures</i>			
Estimated use of Balances	628.6	930.5	1,001.3
Unavoidable and High revenue bids	279.2	98.2	97.2
Revenue implications of Unavoidable and High GF capital bids	6.5	54.2	96.4
Other (Redditch Matters/Church Hill)	66.0	0.0	0.0
Overall Shortfall	(247.2)	835.7	2,030.6

6. Other Implications

Asset Management	-	Some of the bids have implications for asset management.
Community Safety	-	Some of the bids have implications for community safety.
Health	-	None.
Human Resources	-	None.
Social Exclusion	-	None.
Environment /Sustainability-	-	None.

7. Conclusion

- 7.1 A balanced budget will be set for 2010/11, subject to Member consideration of this report.

- 7.2 Whilst the table in 5.25 of the report indicates that the Council will need to make savings of £835,700 in 2011/12 in order to set a balanced budget. There are a number of significant variables which may impact on future budgets:
- a) Government Grant - Assumptions have been made that future formula grant settlements will no increase in government grant in 2011/12 and 2012/13;
 - b) Savings of £290,000 in 2010/11 and £390,000 for 2011/12 and 2012/13 have been budgeted for in respect of shared services, and are detailed in Appendix 1. There are a significant number of reviews and projects which could realise increased levels of savings and affect the budget position. No additional savings for the agreed Single Management Team have been included in the base budget.
 - c) Economic Climate - There are risks due to the current economic climate that budgeted income from particular services may not be achieved. These could include income from the Council's portfolio of commercial properties and the projected planning income budgets. In mitigation of this realistic income levels have been set and decisions on fees and charges reflective of the economic position.

- 7.3 Should there be no additional savings then the budgeted position would remain as forecast in the report.

The position for the three years is forecast to be as follows:

- a) 2010/11 (£247,200)
 - b) 2011/12 £ 835,700
 - c) 2012/13 £2,030,600.
- 7.4. Officers will commence the financial forward planning for 2011/12 and 2012/13 in the new financial year. Members will be regularly appraised of developments and proposals.
- 7.5. Members are advised that the budget proposed and the forecasts for 2011/12 and 2012/13 are realistic given the significant number of variables outlined within the report.

8. Lessons Learnt

None.

9. Background Papers

Budget Guidelines Report (Council 7th December 2009).
Medium Term Financial Strategy and Plan 2010/10 to 2012/13
(Executive Committee 22nd July 2009)
Estimate working papers held by Financial Services.

10. 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.

11. Author of Report

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12. 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 High Capital Bids.
- Appendix 17 - Further Support for Town Centre Grant bid form