

# EXECUTIVE COMMITTEE

21st February 2011

## INITIAL ESTIMATES REPORT 2011/12 & 2013/14

Relevant Portfolio Holder	Councillor Michael Braley, Portfolio Holder for Corporate Management
Relevant Head of Service	Teresa Kristunas, Head of Finance & Resources
Key Decision	

### 1. SUMMARY OF PROPOSALS

This report presents the Estimates at Head of Service level, as well as any high priority bids (revenue and capital), unavoidable pressures and savings which have been identified for 2011/12, 2012/13 and 2013/14.

### 2. RECOMMENDATIONS

The Committee is asked to **RECOMMEND** that

- 1) the unavoidable pressures as identified in Appendix A be approved:

2011/12	£498,000
2012/13	£408,000
2013/14	£408,000;

- 2) the high bids as identified in Appendix B be approved:

2011/12	£232,000
2012/13	£232,000
2013/14	£232,000;

- 3) the savings as identified in Appendix C be approved:

2011/12	£1,802,000
2012/13	£3,444,000
2013/14	£3,071,000;

- 4) the high capital bids as detailed in Appendix D be approved:

2011/12	£867,000 (General Fund)
	£120,000 (Housing Revenue Account)
2012/13	£11,000 (General Fund)
2013/14	£10,000 (General Fund);

- 5) the use of balances totalling £515,000 be approved; and

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- 6) **if Members consider approving any medium priority bids these will be funded from revenue balances.**

**3. BACKGROUND**

3.1 A budget for 2011/12 was considered as part of the Initial Estimates report which was approved by Members on 22nd February 2010.

3.2 This report will show the changes that have been identified during 2010/11, to allow Members to set a balanced budget. This will include bids that have been approved by Members subsequent to the Council Tax Setting meeting as well as savings identified and additional expenditure required.

**3.3 Budget Jury**

3.3.1 In 2010 a Budget Jury was run for the first time. The Budget Jury was designed to engage residents in the budget-setting process more effectively and involve them from the outset rather than consulting them at a stage when there was little opportunity for their input to be taken into account by senior officers and Members.

3.3.2 From June-November 2008 a series of four meetings was held with a single group of ten residents who were randomly selected. The Director Policy, Performance and Communications and Senior Policy and Performance Officer facilitated each Budget Jury meeting. The reasoning behind using the same participants throughout was to enable them to build up an understanding of the budget setting process and to provide them with the opportunity to articulate their concerns and specify their preferences for Council priorities, express support for and deliberate particular budget bids and have their questions answered at each stage. Feedback from the budget jury in the consideration of the bids is attached at Appendix E.

**3.4 Overview and Scrutiny**

3.4.1 A budget Scrutiny was held in November 2010. This enabled Portfolio Holders and Heads of Service to respond to a number of issues raised by Scrutiny Members and to explain the bids that had been proposed to improve services within their remit. This was found to be a useful session and will be further developed for considerations of the 2012/13 budget review and update.

3.4.2 A number of financial presentations have been made to the Committee to ensure Members were fully updated of the position in relation to the budget proposals and pressures.

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- 3.4.3 At the Overview and Scrutiny meeting on 9<sup>th</sup> February 2011 following additional information provided by Heads of Service, Members recommended that the revenue and capital bids be approved.

**4. KEY ISSUES**

Base Budget Information

- 4.1 The net expenditure for initial estimates for 2011/12 and projections for 2012/13 and 2013/14 are as follows:

Base Budget for 2011/12 £11.152m

Base Budget for 2012/13 £10.134m

Base Budget for 2013/14 £10.303m

The reduction in the budget is due to the significant reduction in Government Grant received by the Council.

The following assumptions have been made for the main elements of the budget:

Pay awards	0% all years
Business rates	5.00% per annum
Other costs	0% per annum
Council Tax	0% 2011/12 2.5% future years
Investment Interest (note1)	1.32%
Short-term borrowing (note1)	1.63%

Note 1 The Council continues to be in a net borrowing position for 2011/12. Having looked at the current profiling of lending and borrowing and assuming that interest rates rise slightly during the coming financial year, the cost of short term borrowing is budgeted for 1.63% and investment interest at 1.32%.

- 4.2 Included in the base budget for each year is £350,000 savings relating to vacancy management. In addition there are significant savings to be realised in future years to enable services to be delivered despite the reduction in Grant Settlement. These are listed in Appendix C.
- 4.3 Proposed changes to terms and conditions are currently being consulted on, subject to agreement with the Trade Unions these will be implemented along with Job Evaluation during May 2011. The estimated savings for these changes are £115,000 per annum. The

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cost of protected pay for the next two years following Job Evaluation is also included in the budget, along with proposed savings in 2013/14.

- 4.4 There are other known changes to the budget which include the loss of income on Threadneedle House which is £150,000 per annum. Officers are reviewing this vacant area with the aim to establish a tenant as soon as practicable. In addition to this pressure there has been a reduction in Benefit Subsidy of £110k and a requirement to fund additional capacity (£40k), as agreed by members in April 2010 to maintain the benefits service to residents.

### Government Grant

- 4.5 The Formula Grant is simply a means of distributing Government grant. The system takes account of the relative needs of an area and the relative ability of the Council's areas to raise Council Tax using relative needs formulae to calculate grant payments. Redditch Borough Council's Formula Grant for 2011/12 is £4.697 million. Compared to the adjusted Amended Formula Grant for 2010/11 (adjusted to a comparable basis to the 2010/11 grant), this represents a decrease of 15.2%. The settlement has been published for 2011/12 -2012/13 with an overall reduction of approximately £1.3m over the two year period. It is assumed that no further reduction will be made in 2013/14.
- 4.6 The capping powers are set out in Local Government Act 1999. The powers allow the Minister of State to look back over two or more years when deciding if increases in the budget requirement are excessive. In addition to in-year capping, the Secretary of State is able to set a notional budget requirement to be used for future comparisons or to cap the following years' budget requirement. He/she is also able to require authorities to reduce their budgets over a number of years.
- 4.7 For 2011/12 the Government, as part of the spending review, has encouraged local authorities not to increase Council Tax by offering the equivalent of a 2.5% increase to authorities that freeze or reduce Band D Council Tax.
- 4.8 The Council proposes to maintain the 2011/12 Band D Council Tax at the 2010/11 level to take advantage of the additional grant offered by the Government.

### Capital Programme

- 4.9 Appendix D details the Capital bids for 2011/12, 2012/13 and 2013/14 for both General Fund and Housing Revenue Account. The Council already has a Capital Programme for 2011/12 for General Fund which totals £7,524 million which will be funded from a mixture of Grants, sale

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of Assets and Prudential Borrowing. This is mainly due to the Abbey Stadium building costs. Any further approvals will need to be funded from Prudential Borrowing.

- 4.10 The Housing Revenue Account has an approved programme for 2011/12 of £6,280 million; this will be funded from the Major Repairs Allowance and borrowing.

Overall Position

- 4.12 Based on the assumptions, proposed pressures and savings, the current position for each of the three years is as follows:

	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>	<b>2013/14 £'000</b>
Base cost of General Fund Services	14,103	14,103	14,103
Other Adjustments	26	37	125
Superannuation increase	271	271	271
Capital Financing and Other Pension Adjustments	402	300	292
Bad Debt Provision	50	50	50
Vacancy Management	(350)	(350)	(350)
Minimum Revenue Provision ( Borrowing costs)	417	700	800
Job Evaluation ( proposed pay model )	264	248	(156)
Pay Freeze	(225)	(225)	(225)
VAT Refund	(231)	0	0
Concessionary Fares ( services transferred to County Council)	(920)	(920)	(920)
High Bids	232	232	232
Unavoidable Pressures	498	408	408
Savings	(1,802)	(1,887)	(2,079)
Investment Income	(51)	(47)	(27)
Less Capital Charges	(1,532)	(1,229)	(1,229)
<b>Net operating expenditure</b>	<b>11,152</b>	<b>10,134</b>	<b>10,303</b>
Collection Fund Surplus	(20)	0	0
Government Grant	(4,697)	(4,068)	(4,068)
Council Tax	(5,920)	(6,066)	(6,235)
Funding from(-)/to balances	(515)		0
<b>Overall Shortfall</b>	<b>0</b>	<b>0</b>	<b>0</b>

The table shows a balanced position over the 3 year period. The assumption has been made that significant savings will be realised from shared services and transformation as detailed in Appendix C.

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Council Tax Collection Fund

- 4.13 The Council is required to calculate the estimated position on the Collection Fund at the 31st of March 2011. Any estimated surplus or deficit arising from Council Tax transactions must be apportioned between the County Council, Hereford and Worcester Fire and Rescue Authority, the Borough Council and the Police Authority.
- 4.14 The table below shows Redditch Borough Council will receive £19,956 as its share of the surplus.
- b) The estimated Collection Fund balance at 31st of March 2011 is as follows:

<b>Attributable to:</b>	<b>Total Surplus</b>
	<b>£</b>
Worcestershire County Council	98,985
Redditch Borough Council	19,956
West Mercia Police Authority	17,026
Hereford and Worcester Fire & Rescue Service	7,016
<b>Total Surplus</b>	<b>142,983</b>

Balances

- 4.15 The General Fund revenue balances at the 31st of March 2010 was £1.504 million.

<b>General Fund balances</b>	<b>£'000</b>	<b>£'000</b>
As at 31st March 2010	1,503.9	
Allocations during the year (2010/11)	167.9	1,671.8
	_____	
Allocation to meet shortfall for 2011/12		_____ 515
Available for allocation in future years		_____ 1,156.8

- 4.15.1 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.

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- 4.15.2 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.
- 4.15.3 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.
- 4.15.4 It is therefore considered, taking the above issues into account that a general fund revenue balance of £750k is a prudent minimum level.

**Fees and Charges**

- 4.16 Fees and Charges are proposed to be increased between 3-5%, they are included in a separate report to this meeting. The additional income from this is estimated to yield £125,000 for future years.

**Local Government Act 2003**

- 4.18 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 above in report (4.15).*

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- 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. The budget updates and considerations at previous Committee meetings have been formally recorded.*

- 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 (4.15)*

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

*Section 151 Officer's comments: included in the report. Balances to fund 2011/12 only no further recommendations to finance ongoing expenditure.*

- 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 adequate reserves to manage future liability and financial constraints as detailed in 4.15.*

- 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 are reported on a regular basis through the financial monitoring reports .*



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**5. FINANCIAL IMPLICATIONS**

None other than those included in the report.

**6. LEGAL IMPLICATIONS**

The Council has a legal responsibility to set a balanced budget under the Local Government Act 2003.

**7. POLICY IMPLICATIONS**

None other than those included in the report.

**8. COUNCIL OBJECTIVES**

The delivery of a balanced budget demonstrates the Council's ability to fund objectives and priorities within a reasonable level of increase to residents.

**9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS**

9.1 The main risks and the mitigating action is included in the table below:

Risk Identified	Proposed Measures
<ul style="list-style-type: none"><li>• Savings from Terms and Conditions proposals not realised</li></ul>	<ul style="list-style-type: none"><li>• Formal consultation and negotiation with the unions has commenced and it is hoped that these discussions will support the review as proposed by officers.</li></ul>
<ul style="list-style-type: none"><li>• New Homes Bonus income not realised</li></ul>	<ul style="list-style-type: none"><li>• Officers have included a prudent level of income and will report progress on the consultation and changes to the scheme to members on a regular basis</li></ul>
<ul style="list-style-type: none"><li>• Shared Service and Transformation Savings not realised to the level anticipated</li></ul>	<ul style="list-style-type: none"><li>• Officers have a formal plan of shared service arrangements over the next 3 years. It is assumed that this plan will be rescheduled to ensure delivery of the savings proposed.</li></ul>
<ul style="list-style-type: none"><li>• Employee related costs will be more than assumed</li></ul>	<ul style="list-style-type: none"><li>• Figures based on known commitments and estimated future costs. Any further pressures will need to be matched by additional identified savings</li></ul>
<ul style="list-style-type: none"><li>• Pension fund contributions</li></ul>	<ul style="list-style-type: none"><li>• The financial plan will continue to</li></ul>

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will be higher than expected after the next actuarial.	be reviewed and updated annually for a three year period, based on known changes.
<ul style="list-style-type: none"> <li>Planned budget reductions will not be achieved</li> </ul>	<ul style="list-style-type: none"> <li>Consultation period commenced with unions to ensure savings from terms and conditions review be realised.</li> <li>Close monitoring of budgets will be carried out in each financial year. Alternative savings will be identified, or contingency arrangements agreed.</li> </ul>
<ul style="list-style-type: none"> <li>Government Grant revised to greater /or less than anticipated</li> </ul>	<ul style="list-style-type: none"> <li>The 2013/14 grant has been estimated as no change from 2012/13. This will be reviewed as clarity around future funding arrangements is available. Further efficiency savings will be identified to meet any shortfall in grant.</li> </ul>
<ul style="list-style-type: none"> <li>Income from fees, charges and other sources will not be as high as planned.</li> <li>Impact of recession has greater impact than first anticipated</li> </ul>	<ul style="list-style-type: none"> <li>Close monitoring of income budgets will be carried out in each financial year. Alternative savings will be identified or alternative methods of service delivery to generate income will be developed</li> <li>Income streams to be monitored monthly with service budget holders to identify any areas of shortfall and to present action plan to redress.</li> </ul>
<ul style="list-style-type: none"> <li>Timing of Capital payments may be earlier than estimated</li> </ul>	<ul style="list-style-type: none"> <li>Close monitoring of the timing and payments of capital expenditure/income will be carried out in each financial year. Alternative savings will be identified, or contingency arrangements agreed.</li> </ul>

**10. CUSTOMER IMPLICATIONS**

None identified.

**11. EQUALITIES AND DIVERSITY IMPLICATIONS**

None identified.

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**12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT**

None other than those included in the report.

**13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY**

None identified.

**14. HUMAN RESOURCES IMPLICATIONS**

Formal consultation in relation to any proposals for sharing of services will be undertaken with unions and staff.

**15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS**

None identified.

**16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998**

None identified.

**17. HEALTH INEQUALITIES IMPLICATIONS**

None identified.

**18. LESSONS LEARNT**

None identified.

**19. COMMUNITY AND STAKEHOLDER ENGAGEMENT**

The Council's Budget Jury.

**20. OTHERS CONSULTED ON THE REPORT**

Portfolio Holder	No
Chief Executive	No
Executive Director (S151 Officer)	Yes
Deputy Chief Executive / Executive Director - Leisure, Environment and Community Services	No

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Executive Director – Planning & Regeneration, Regulatory and Housing Services	No
Director of Policy, Performance and Partnerships	No
Head of Service	Yes
Head of Resources	No
Head of Legal, Equalities & Democratic Services	No
Corporate Procurement Team	No

**21. WARDS AFFECTED**

All wards.

**22. APPENDICES**

Appendix A: Unavoidable Pressures.  
Appendix B: Revenue Bids.  
Appendix C: Additional Savings.  
Appendix D: Capital Bids.  
Appendix E: Budget Jury considerations

**23. BACKGROUND PAPERS**

Budget timetable.  
Detailed budget working papers are available from Financial Services.

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