

BROMSGROVE DISTRICT COUNCIL

CABINET

23rd FEBRUARY 2011

MEDIUM TERM FINANCIAL PLAN 2011/12-2013/14

Relevant Portfolio Holder	Geoff Denaro
Relevant Head of Service	Jayne Pickering
Key Decision / Non-Key Decision	

1. Summary

1.1. To provide information to enable Cabinet to recommend to Full Council the approval of the Medium Term Financial Plan to include the budget allocation for revenue and capital during the period 2011/12- 2013/14.

2. Recommendations

2.1. It is recommended that Executive Cabinet recommend to Full Council :

2.1.1 Approval of the high pressures as identified in Appendix A of:

2011/12 £304,000

2012/13 £239,000

2013/14 £239,000

2.1.2 Approval of the savings as identified in Appendix B of:

2011/12 £873,000

2012/13 £1,458,000

2013/14 £1,794,000

2.1.3 Approval of the income shortfalls as identified in Appendix C of:

2011/12 £622,000

2012/13 £625,000

2013/14 £625,000

2.1.4 Approval of the unavoidable pressures as identified in Appendix D of:

2011/12 £261,000

2012/13 £217,000

2013/14 £217,000

2.1.4 Approval of the high capital bids as detailed in Appendix E (i) of:

2011/12 £ 737,000

2012/13 £ 873,000

2013/14 £1,467,000

2.2 Approval of the use of balances of £323,000

2.3 Consider the recommendations from Overview and Scrutiny 1st February 2011 as detailed at Appendix G.

2.4 Approval of the Prudential Indicators as detailed in Appendix H.

3. Background

3.1. The Council on 6th January 2010 approved a medium term financial plan that included the Revenue and Capital budget requirements for 2011/12 - 2012/13. This report updates the plan by addressing identified pressures and savings together with updating the budget proposals to 2013/14.

3.2. As part of part of the approved budget process Cabinet proposed a set of 10 priorities against the Council objectives for focus of resources which were approved by Council. These approved objectives and priorities have been used to drive the budget process as follows:

- Budget pressures 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

3.4 Following approval of the Council priorities officers prepared Business Plans to ensure their services were aligned to these priorities and were to be delivered in an efficient and effective way to give quality provision to the customer. As a result of these plans a number of revenue and capital bids have been identified by Heads of Service to enable services to improve.

3.5 An officer review has been undertaken of the bids and they have been classified as "High, Medium or Low" depending on the link to the Council priorities. Within the summary statement at X only those rated as "High" have been included for funding within the medium term financial plan. These bids are detailed at Appendix A (revenue) and E(i) (capital). The schedule also includes the bids that have been classed as Medium or Low for Members further consideration.

3.6 Officers have also identified a number of budget pressures that have either been deemed "unavoidable". Unavoidable includes the ongoing effects of pressures identified during 2010/11 together with any issues that have been raised as fundamental to maintaining service provision as part of the budget process. The unavoidable pressures are included at Appendix D. In addition income shortfalls that cannot be managed by

improved marketing or price increases are included at Appendix C with the aim to reduce the target to a more realistic level.

- 3.7 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
- 3.8 The savings/ additional income details are shown in Appendix B.
- 3.9 As part of the review of the Financial Plan officers have included proposals to generate efficiency savings through joint working or alternative ways of providing our services. It is anticipated that due to the significant reduction in costs to be realised from shared services the 3 year plan will be brought forward into the next 12-18 months.

4. KEY ISSUES

- 4.1 On 31st January 2011 the Council received the 2 year final grant settlement from the Government. This reflected a significantly greater cut than was previously estimated and has resulted in the 4 year assumption of savings to be made now be realised over 2 years.
- 4.2 Officers have been working towards delivering £1.3m over a 4 year period through delivery of shared service and joint working arrangements together with realising efficiencies and transforming service provision. The increase in the reduction in grant will result in the current plans to share services with Redditch Borough Council to be brought forward to ensure savings are realised earlier than previously assumed.
- 4.3 The revised provisional grant settlement is as follows :

	2011/12 £'000	2012/13 £'000
Original Grant	5,047	5,047
Adjust concessionary Fares & Misc adj	-477	-477
Revised Grant	4,570	4,570
Final Settlement	3,830	3,304
Final Reduction	740	1,266
Final % Reduction	16.19%	27.70%

4.4 The current summary position includes:

- The impact of a reduction in the 2011/12 pay award to 0% - this would result in a zero pay award across the Council staff. The award has been estimated at 1% for 2012/13 and 2013/14.
- The Capital bids rated as “High” by Corporate Management Team. The impact of these proposals would ensure that the Councils services are delivered in a quality and effective way to our customers. A number of the Capital proposals are funded by Grant or reserve currently available. The remaining projects will be funded by Capital Receipts which would result in the Council entering into borrowing arrangements in 2013/14.
- All savings realised from the shared services implemented between Bromsgrove and Redditch and those resulting from the WETT arrangements.
- The anticipated savings from the sharing of HR & OD and Policy, Performance Communications and Equalities service across the Councils
- To maintain the ICT reserve of £100k for future years to ensure facilities are available to deliver improvements in technology during transformation.
- A reduction to the Council Tax in 2011/12 to 0%. The difference of the original assumption of 2.5% increase to be offset by Government Grant allocation over the 4 year period. An increase of 4.45% has been included for 2012/13 and 2.5% for 2013/14.
- The implementation of the incremental charges at the pay on foot car park
- A surplus of £46k from the Collection Fund for 2010/11 which can offset the revenue budgets for 2011/12.
- Inflation at 2.5% for general services and 5% for utility costs
- Investment interest has been estimated at 0.75%-2%
- Pension costs have been included based on the revised actuary rate of 20.8%

4.5 The revised summary position is shown below. This includes the proposed high pressures only for both revenue and capital.

	2011/12 £'000	2012/13 £'000	2013/14 £'000
Base cost of General Fund Services	12,834	12,958	13,491
Pressures – High bids & unavoidable, income shortfalls	1,187	1,081	1,081
Borrowing to fund capital programme	0	0	26
Savings (quick wins, additional income, shared services, adjustment re concessionary fares)	-2,170	-2,535	-2,878

Investment Income	-68	-105	-110
Recharge to capital programme	-100	-100	-100
Net operating expenditure	11,683	11,299	11,510
New Homes Bonus	-125	-285	-285
Area Based Grant	-135	-135	-135
Surplus from Collection Fund	-46	0	0
Government Grant	-3,830	-3,304	-3,304
Assumed Council Tax @ 0% (offset by 2.5% Gov Grant) 2011/12 & 4.45% 2012/13, 2.5% 2013/14)	-7,224	-7,575	-7,786
Funding from balances	-323	0	0
Overall Shortfall	0	0	0

4.6 The total Capital Programme to include projects approved in January 2010 and new bids is included at Appendix E(ii).

4.7 Investment Interest

An element within the overall medium term financial plan is Investment Interest. Members will be aware that due to the current financial climate a decision has been taken to hold investments in very low risk organisations which offer a lower rate of return than those institutions which may be considered as slightly higher risk. The projections contained within this report include investment increases of 0.75% to 2% by 2013/14.

The quarterly integrated finance and performance report will report the position on the investments generated by the Council and detail any changes as a result of changes to the base rate.

4.8 Balances

4.8.1 The current projected level of balances at 31.03.11 is £1.726m, assuming all costs approved are spent and the projected underspend of £323k for 2010/11 is realised. The proposed use of balances to fund the shortfall in 2011/12 of £323k would reduce the level to £1.403. The current prudent level of balances for the Council is £850k.

4.8.2 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.

4.8.3 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.

4.8.4 5% for Bromsgrove District Council would mean maintaining balances at or around £600k. However, just a 1% variation in gross income and gross expenditure is equivalent to £330k 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.

4.8.5 It is therefore considered, taking the above issues into account that a general fund revenue balance of £850k is a prudent minimum level.

4.9 Fees and charges

4.9.1 A report is to be presented to this meeting to propose the fees and charges to be levied as part of the formal approval of the medium term financial plan. The income realised from any increases have been included in the proposed financial projections.

4.10 Consultation

4.10.1 The Council held another budget jury consultation exercise during the Summer and Winter 2010. During the Summer and Autumn there were four sessions, which involved looking at what the Council does and how it finances its activities, what residents felt the broad priorities of the Council should be, through to considering the actual capital and revenue budget bids and savings proposed for 2011/12. As much as possible, we mirrored the process that Members go through. There were approximately 10 jurors of mixed aged, ethnicity and socio economic background. Feedback from the Jurors has been very positive. Their feedback is attached at Appendix F.

4.10.2 Overview and Scrutiny have received a number of budget presentations over the period to ensure all Members are aware of the financial constraints facing the Council. Attached at Appendix

4.11 Capital Programme

4.11.1 As part of the Medium Term Financial Plan and Capital Strategy members approved a number of criteria in relation to the Capital Programme including:

- The capital programme is limited to £1m per annum funded from the Council's own resources (in order to maximise the investment interest);

- Cabinet give consideration to fund housing grants over and above the £1m.

4.11.2 Cabinet also approved the capital investment criteria (as part of the Capital Strategy) that a scheme should satisfy for inclusion in the capital budget as follows:

- Enable delivery of the Councils priorities
- Maintain existing assets to standards suitable for service delivery.
- Improve and acquire assets to meet service and customer needs.
- Improve the stewardship of assets; spend to save (innovative schemes that will secure the Council a better rate of return than the investment interest earned); to reduce longer-term problems and liabilities.
- Satisfy legal obligations of the Council (e.g. health and safety requirements, and compliance with the disability discrimination legislation).
- Develop community assets in areas of need.
- Maximise the use of other funds to encourage investment in specific areas such as energy efficiency, economic development and infrastructure developments (using funds derived from Section 106 agreements with developers).
- Maximise the benefits of partnership working.

4.11.3 The Capital Programmes for 2011/12 and 2012/13 were approved as part of the 3 year Financial Plan for 2010/11. The projects approved have been reviewed with the aim to reduce funding requirements whilst still maintaining service delivery. In addition the consideration of the service Business Plans has resulted in new schemes being proposed for 2011/12 – 2013/14 to meet the priorities of the Council. The proposed new bids for the Capital Programme are attached at Appendix E(i) for consideration.

4.11.4 The total of all schemes proposed to include those approved previously are included at Appendix E(ii) for Members information.

4.11.5 If Members approve the level of Capital Spend to 2013/14 the Council will be subject to borrowing during 2013/14. This cost has been included in the budget projections.

4.12 Prudential Indicators

4.12.1 Local Authorities determine their own programme of capital investment in fixed assets that are central to the delivery of quality public services. The Prudential Code was developed by Chartered Institute of Public Finance and Accountancy (Cipfa) as a professional code of practice to support local authorities in taking their decisions.

4.12.2 In order to demonstrate that the Council has fulfilled the objectives stated above, the Prudential Code sets the indicators that must be used, and

the factors that must be taken into account. However, the code does not suggest limits or ratios for these indicators, they are for the Council to set itself.

- 4.12.3 The indicators are designed to support and record local decision making in a publicly accountable manner, they are not designed for comparative performance. An assessment has been made of the indicators for the Council to ensure investment is undertaken within a robust framework. These indicators are included at Appendix G for approval.

Local Government Act 2003

- 4.13 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 (4.8).

- 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 (4.8)

- 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 4.8.

- 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 .

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">• Savings from Terms and Conditions proposals not realised	<ul style="list-style-type: none">• Formal consultation and negotiation with the unions has commenced and it is hoped that these discussions will support the review as proposed by officers.
<ul style="list-style-type: none">• New Homes Bonus income not realised	<ul style="list-style-type: none">• 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
<ul style="list-style-type: none"> • Shared Service and Transformation Savings not realised to the level anticipated 	<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • Employee related costs will be more than assumed 	<ul style="list-style-type: none"> • Figures based on known commitments and estimated future costs. Any further pressures will need to be matched by additional identified savings
<ul style="list-style-type: none"> • Pension fund contributions will be higher than expected after the next actuarial. 	<ul style="list-style-type: none"> • The financial plan will continue to be reviewed and updated annually for a three year period, based on known changes.
<ul style="list-style-type: none"> • Planned budget reductions will not be achieved 	<ul style="list-style-type: none"> • Consultation period commenced with unions to ensure savings from terms and conditions review be realised. • Close monitoring of budgets will be carried out in each financial year. Alternative savings will be identified, or contingency arrangements agreed.
<ul style="list-style-type: none"> • Government Grant revised to greater /or less than anticipated 	<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • Income from fees, charges and other sources will not be as high as planned. • Impact of recession has greater impact than first anticipated 	<ul style="list-style-type: none"> • 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 • Income streams to be monitored monthly with service budget holders to identify any areas of shortfall and to present action plan to redress.
<ul style="list-style-type: none"> • Timing of Capital payments may be earlier than estimated 	<ul style="list-style-type: none"> • 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.
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10. CUSTOMER IMPLICATIONS

None identified.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

None identified.

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
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 – High, Medium and Low Pressures - Revenue
Appendix B – Additional Income Generated & Savings identified
Appendix C – Shortfalls in income
Appendix D – Unavoidable Pressures
Appendix E (i) – Capital Programme – High Bids
Appendix E (ii) – Total proposed Capital Programme
Appendix F – Budget Jury considerations
Appendix G – Overview and Scrutiny Recommendations
Appendix H – Prudential Indicators

23. BACKGROUND PAPERS

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

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