

BROMSGROVE DISTRICT COUNCIL

EXECUTIVE CABINET

21st FEBRUARY 2007

Medium Term Financial Plan 2007/08-2009/10

Responsible Portfolio Holder	Councillor Margaret Taylor
Responsible Head of Service	Jayne Pickering – Head of Financial Services

1. Summary

1.1. To provide information to enable the Executive Cabinet to review the position on the medium term financial plan (revenue budgets) for 2007/08-2009/10 and to make recommendations to full Council for its adoption and the setting of Council Tax for 2007/08.

2. Recommendations

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

2.1.1 the budget pressures identified as unavoidable and high in Appendix B of the report be included within the Medium Term Financial Plan as follows:

- 2007/08 £1.799m
- 2008/09 £1.576m
- 2009/10 £1.615m

2.1.2 the recommended savings / additional income generation identified in Appendix C of the report be included within the Medium Term Financial Plan as follows:

- 2007/08 £1.314m
- 2008/09 £1.571m
- 2009/10 £2.134m

2.1.3 officers undertake a review of alternative methods of service delivery to achieve savings as identified in Appendix C

2.1.4 the statutory resolutions (to be circulated following receipt of all parish precepts requests), setting a council tax for 2007/08 of £172.46 for a Band D property are approved;

2.1.5 the fees and charges as set out in Appendix D be approved; and

2.1.6 the Head of Financial Services be authorised to approve any further increases in fees and charges in consultation with the portfolio holder for finance and other portfolio holders as appropriate to the circumstances.

3. Background

3.1. The Council on 28th February 2006 approved a medium term financial plan that included the Revenue and Capital budget requirements for 2006/07 to 2008/09.

3.2. On 6th September 2006 the Executive Cabinet approved the budget process and timetable to be followed to review the medium term financial plan for 2007/08 to 2009/10.

3.3. As part of the approved budget process Executive Cabinet proposed 4 key objectives and 10 priorities for focus of resources which were approved by Council on 19th September 2006. These were:

1. Regeneration

Priorities

- Town Centre
- Longbridge
- Housing

2. Improvement

Priorities

- Customer Satisfaction
- Reputation
- Performance Improvement

3. Sense of Community and Well Being

Priorities

- Community Activities
- Community Influence

4. Environment

Priorities

- Clean Streets
- Planning

3.4. The 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 alternative methods of delivery e.g. collaborative and partnership working together with

proposing savings on services that do not directly contribute to the priorities.

- The capital programme proposals as detailed in a separate report to this meeting have been considered in line with the priorities

3.5 The current financial plan covers a period of 3 years it is proposed that a 5 year projection will be considered as part of the 2008/09 review and that this is further developed into an overarching 5 year financial strategy. The development of a strategy was considered as part of this years review however as it is likely that the Council will need to utilise prudential borrowing within the next few years it was felt more appropriate to develop this as part of next years review. It is further recognised by officers that this work will need to start earlier in the year, in accordance with the business planning and performance management annual timetable as approved by Cabinet on 6th December 2006.

4. Base budget information

4.1. The current budget book that was sent to all members on the 27th January 2006 includes the Base budget for 2007/08 and 2008/09. These budgets have been used for the review of the plan and the proposed pressures and savings will form the new approved budget for 2007/08 - 2009/10.

4.2. The information at this point in time excludes Support Service recharges as these costs are shown gross within the host department. The support services will be reallocated when the final budgets are approved.

4.3. The base budget for 2007/08 – 2009/10 included a number of approved changes to the funding of services from the financial position of 2006/07. These included:

- Additional costs of £640k due to the anticipated impact of single status implementation. The £640k includes the anticipated cost of pay protection for any employees affected by a reduction in salary (£400k). The ongoing cost equates to £240k for the net impact of the implementation across the Council.
- Reduction to £100k in the contribution made to the vehicles repairs and renewals fund
- Removal of the funding relating to Concurrent Function payments to parish councils
- Removal of funding for Haybridge, Woodrush and the Museum
- Increase in the car parking charges by 10p (average increase) for 2007/08 and 2008/09

4.4. Following detailed costings of the impact of salary increments and vacant posts the net operating expenditure for revenue services as outlined in Appendix A:

- Base Budget for 2007/08 £11.704m
- Base Budget for 2008/09 £12.384m
- Base Budget 2009/10 £12.438m

4.5. Within this the following assumptions have been made for the main elements of the budget:

Pay awards	2.95% per annum (Note 1)
Utility costs	10.00% per annum
Business rates	10.00% per annum
Other costs	2.5% per annum
Government Grants	2.0% per annum (Note 4)
Investment interest	5.5% per annum (Note 2)
Pension fund increase	Note 3
Vacancy Management	4.0%

Notes:

1. For the purposes of this exercise it has been assumed that a pay award of 2.95% will be given in 2007/08-2009/10
 2. Investment interest for 2007/08-2009/10 has been included at 5.5%. This is based on information obtained from the Councils fund managers as an appropriate level for investments during 2007/08. The rate that has been applied for 2008/09 onwards is 5%.
 3. The pension fund actuaries have assessed that in order to move toward a fully funded pension scheme within six years the rate would need to increase by incremental steps of 0.7% per annum to a maximum of 19.1% by 2010/11. Currently the employers rate is 16.4% and the projected amount for this Council for 2007/08 is 17.1% (of gross pay).
 4. The Revenue Support Grant has been increased by 2% for 2008/09-2009/10.
- 4.6. Savings of 4% each year on the pay bill have been assumed through vacancy management. These savings will also be used to cover the costs of recruitment.

5. Budget Pressures

- 5.1. 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 2006/07 together with any corrections in the budget. 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.

5.2. A number of other budget pressures have been identified but these have been categorised as medium and low and do not form part of the financial projections.

5.3. A full list of budget pressures is included at Appendix B. Those classified as unavoidable and high to be included in the budget total:

- 2007/08 £1.799m
- 2008/09 £1.576m
- 2009/10 £1.615m

5.4 There are a number of “one off” items of expenditure that are included as high and unavoidable pressures. As these funds are required for one year only it is recommended that they are funded from balances. These relate to :

- Private sector housing condition survey £10k
- Updating of the SHMA £5k
- Warks and Worcs energy and efficiency advice centre £5k

The Housing surveys relate to supporting the County wide and South Housing Market Area approach to assessing housing needs and balancing the housing market. This is one of the key issues as identified in the Audit Commission inspection that requires input from this Council.

This is in addition to other one off expenditure that has already been approved as being funded by balances as follows (impact for 2007/08 shown):

- Local Development Scheme £97k
- District elections £45k
- Job evaluation (funding split over two financial years) £67k
- Improvement Plan £98k

5.5 The Unavoidable and High Pressures are recommended for approval.

5.6 The funding from balances for the “one-off” items of expenditure is recommended for approval. The impact on balances can be seen at 12.3

6. Budget reductions

6.1 The savings have been proposed by Corporate and Senior Management Teams following an away day to identify areas which could demonstrate:

- Additional income generation
- Reduction to costs with no impact on service delivery
- Alternative methods of service delivery / shared / collaborative working to realise savings (this includes the potential transfer of some services to a leisure trust)
- Reduction in cost of services which do not directly impact on the Councils priorities

6.2 The savings have been categorised into recommended, possible and low depending on the impact to the priorities. The schedule at Appendix D includes all savings proposed but for the purpose of the budget only those classed as recommended have been included. These total:

- 2007/08 £1.314m
- 2008/09 £1.571m
- 2009/10 £2.134m

6.3 The savings as identified in 6.2 are recommended for approval.

7 Investment Interest

7.1 A critical element within the overall medium term financial plan is Investment Interest. Working alongside our fund managers we have looked at the projections with regard to investment interest and it is anticipated that a rate of return of 5.5% will be achieved in 2007/08 however the view is that this will drop in 2008/09 and 2009/10 to 5%.

8 Government Grant

8.1 The Council has the final settlement for 2007/08 which is included in the base budget. This reflects the draft settlement that was included in the previous 2007/08 figures.

8.2 There has been no indication from the Government as to the draft settlement for 2008/09 therefore an increase of 2% has been included in the base budget figures for 2008/09 and 2009/10.

8.3 The main elements of the provisional grant settlement are (2006/07 figures provided for information):

	2006/07 £	2007/08 £	Increase £	Increase %
Revenue Support Grant	745,602	679,695	-65,907	-8.8%
Redistributed business rates	3,862,512	4,050,128	187,616	+4.9%
Formula Grant (FG)	4,608,114	4,729,823	121,709	+2.6%

8.4 For 2007/08 the indicative grant settlement represents a net 2.6% increase to the 2006/07 settlement. In comparison to other Districts:

	2006/07 £m	2007/08 £m	Increase £m	Increase %	Taxbase
Bromsgrove	4.608	4.730	0.122	2.65	35,939
Malvern Hills	4.692	4.965	0.273	5.82	29,686
Redditch	6.097	6.287	0.190	3.12	26,937
Worcester	7.723	7.981	0.258	3.34	32,282
Wychavon	6.766	7.122	0.356	5.26	46,740
Wyre Forest	7.287	7.687	0.400	5.49	34,535

- 8.5 Obviously in order to establish a robust three-year financial strategy the Council has to make an assessment of the likely level of grant increases for future years. The table below shows what we would receive in FG given a range of percentage increases:

Increase in formula grant	2008/09 £
1% increase	47,298
2% increase	94,596
3% increase	141,895

- 8.6 At this stage it is recommended that we include an increase of 2% for 2008/09 and 2009/10 however it should be noted that the general feeling is that likely grant increases are going to be extremely low due to the Governments expectation of increased efficiencies (as outlined in the white paper).

9 Council Tax

- 9.1 The Executive Cabinet approved on 6th December 2006 the Council Tax Base for 2007/08 as 35,939.18. Based on a 4.99% increase in Council Tax for 2007/08 this would result in a demand on the Collection Fund of £6,198,071 an increase of £351,455 from 2006/07.
- 9.2 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 4.99% for 2007/08 and 4.99% for 2008/09 and 2009/10. The demand on the Collection Fund for 2008/09 and 2009/10 has assumed an increase in the Council Tax base of 0.5%.
- 9.3 The impact of this increase will be an additional £8.21 on Band D with a revised charge of £172.46.

10 Collection Fund

- 10.1 Every year the Council has to estimate the surplus or deficit on the Collection Fund. The surplus as at the 31st March 2007 was estimated in January in accordance with statutory requirements. The surplus was calculated as £550,522. This is then distributed to the major precepting authorities pro rata to their Band D charge, thus the surplus will be paid as follows:

• Worcestershire CC Share	69.76%	£384,002
• Bromsgrove DC Share	13.78%	£75,921
• West Mercia Police Share	11.65%	£64,149
• Hereford & Worcester FB	4.81%	£26,450

- 10.2 This means that the Council will receive £75,921 in 2007/08 to help fund the revenue budget.
- 10.3 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 2007/08 the collection rate was set at 99.0%. At this level it is not considered that any further surplus will be generated in the period covered by the Medium Term Financial Plan 2007/08 to 2009/10.

11 Overall Position

- 11.1 Based on the assumptions and the proposed pressures and savings the overall position for each of the three years is as follows:

	2007/08 £	2008/09 £	2009/10 £
Base cost of General Fund Services	11,704,277	12,383,742	12,437,649
Pressures	1,799,000	1,576,000	1,615,000
Savings	-1,314,000	-1,571,000	-2,134,000
Investment Income	-749,045	-398,950	-311,450
Recharge to capital programme	-127,000	-130,000	-133,000
Net operating expenditure	11,313,232	11,859,792	11,474,199
Transfer from (-) to balances	-309,417	-462,944	416,104
Surplus from Collection Fund	-75,921		
Government Grant	-4,729,823	-4,824,419	-4,920,908
Assumed Council Tax	6,198,071	6,572,429	6,969,395

- 11.2 The balanced budget for 2007/08-2009/10 assumes the Council will deliver the recommended savings and will fund the Capital Programme as detailed in the Capital Programme report elsewhere on the agenda.

12. Balances

- 12.1 The projected level of balances at 31st March 2007 is £1.434m. The proposed use of balances in 2007/08 includes £67k in respect of part year funding of the additional cost of the impact of single status. In addition to this there is a net impact of the approved improvement plan of £98k and the funding required for the district elections of £45 and the Local Development Framework £98k.
- 12.2 In addition it is proposed that the “one-off” items as detailed in 5.4 are funded from balances in 2007/08. These equate to £20k.

12.3 The impact on the use of balances are shown in the table below:

	2007/08 £000	2008/09 £000	2009/10 £000
Balance available at start of year	-1,434	-1,126	-663
Items approved in 2006/07 - 2008/09 MTFP			
Local Development Scheme	97	98	
District elections	45		
Job evaluation (funding split over two financial years)	67	333	
Improvement Plan	98	70	70
Housing Surveys	20		
Contribution to balances	-19	-38	-486
Balance available at end of year	-1,126	-663	-1,111

12.4 An assessment of the financial risk to the Authority has been made. It is proposed that a reduction in the minimum level of balances from £850k to £600k can be made as the accounts of the Council have been unqualified for 3 years and as such there is a reduced risk to the Authority of financial liability. £600k would represent 5% of the Councils base cost of general services.

12.5 The surplus to be contributed to balances in 2009/10 is based on the assumption that the Council will implement a fundamental change in waste collection. The potential saving to the Council is £500k and has been included in the projections as a contribution to balances.

13 Fees and charges

13.1 The financial plan currently includes a 2.5% increase on fees and charges together with a 10p average charge on car park income. Members will note that included in the pressures is a reduction in the income target for car parking as the anticipated receipts for 2006/07 have not been realised.

13.2 Attached at Appendix D is a full list of fees and charges which is recommended for approval by Members. There is a need however to monitor and review fees and charges on an ongoing basis, and it is proposed that the Head of Financial Services be authorised to approve changes to fees and charges in consultation with the finance portfolio holder and other appropriate portfolio holders as necessary.

14 Scrutiny and Consultation of Budget

14.1 The budget proposals are to be presented to Scrutiny Committee on 15th February 2007 – their comments together with the response from officers will be tabled at the Cabinet meeting.

14.2 Appendix G contains the results of two recent focus groups held on the 2007/08 budget. Obviously Cabinet should pay due regard to the findings, but are not duty bound to adjust the budget as a result of the findings. Cabinet Members who attend the Government Monitoring Board will remember that the Board specifically questioned the Council on what arrangements we had made for budget consultation.

15 Other Issues

15.1 A final issue that may impact on the budget is the ongoing appeal that Customs and Excise have relating to the car park VAT. The Council has invoiced customs for £273k and continues to monitor the levels of VAT that are paid over to the department as part of the VAT return. If Customs are unsuccessful in their appeal the VAT will be repayable to the Council. Due to the uncertainty surrounding this it is not felt to be prudent to include this in the medium term financial plan.

16 Local Government Act 2003

16.1 There are a number of requirements that fall upon me, as the Council's Section 151 officer, to include in the budget report. These are set out below, together with my comments on each of the issues:

16.1.1 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: I have reviewed the level of balances and assessed against the financial risk to the Authority. In my professional opinion the revised minimum level of £500k meets the Authorities needs. In addition, and a continuation of the previous medium term financial plan, balances should not be used to fund ongoing revenue expenditure. I believe this strategy remains robust and the Council should seek to achieve this position as soon as possible.

16.1.2 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 as follows:

<i>pay awards</i>	<i>2.95% increase per annum</i>
<i>utility costs</i>	<i>10% increase per annum</i>
<i>business rates</i>	<i>10% increase per annum</i>
<i>other costs</i>	<i>2.5% increase per annum</i>
<i>Government grants</i>	<i>2% increase per annum (2008/09)</i>
<i>investment interest rate</i>	<i>5.5% per annum for 2007/08 and 5.0% for 2008/09 and 2009/10</i>
<i>employer's pension fund</i>	<i>increase to 17.1% from April 2007 and 17.8% from April 2008 – awaiting actuarial valuation for 2008/09 -2009/10</i>
<i>vacancy management</i>	<i>4% per annum</i>

Council Tax	4.99% per annum
Council Tax base	0.5% increase per annum.

16.1.3 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.

16.1.4 The report should show the extent to which reserves are financing ongoing expenditure.

Section 151 officer's comments: included in this report

16.1.5 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 reserves are sufficient for the period of the medium term financial plan i.e., 2007/08 to 2009/10.

16.1.6 The report should include a statement on the annual review of earmarked reserves showing:

- list of earmarked reserves
- purpose of reserve
- advice on appropriate levels
- estimated opening / closing balances
- planned additions / withdrawals

Section 151 officer's comments: detailed at Appendix F.

16.1.7 Prudential indicators and related matters

Section 151 officer's comments: This will be covered by the Treasury Management Strategy which will be presented to Cabinet in April.

17 FINANCIAL IMPLICATIONS

17.1 None other than those included in the report.

18. LEGAL IMPLICATIONS

18.1 As stated in section 16.

19. CORPORATE OBJECTIVES

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

20. RISK MANAGEMENT

20.1 Councils are assessed under Comprehensive Performance Assessment (CPA) on their effective use of resources. In order to satisfy one of the requirements of the CPA, a risk assessment of our major items of income and expenditure has to be undertaken. Whilst the Council are only due to undergo a CPA at the end of February it is considered good practice that this should be undertaken.

- 20.2 An assessment of the risks associated with the proposed reductions and proposed additional spending is included within the appropriate appendices. An overall risk assessment of the major items included within the base budget is attached at Appendix E.

21. CUSTOMER IMPLICATIONS

- 21.1 The level of the Council Tax will impact on the residents of Bromsgrove and the budget report sets out the financial information for residents to understand where the council tax is spent.

22. OTHER IMPLICATIONS

Procurement Issues	N/A
Personnel Implications	A number of the proposals do have potential HR implications – such as alternative methods of service delivery – staff will be fully consulted on all proposals prior to implementation.
Governance/Performance Management	N/A
Community Safety including Section 17 of Crime and Disorder Act 1998	N/A
Policy	N/A
Environmental	N/A
Equalities and Diversity	N/A

23. OTHERS CONSULTED ON THE REPORT

Please include the following table and indicate 'Yes' or 'No' as appropriate. Delete the words in italics.

Portfolio Holder	Yes
Acting Chief Executive	Yes
Corporate Director (Services)	Yes
Assistant Chief Executive	Yes
Head of Service <i>(i.e. your own HoS)</i>	Yes
Head of Financial Services	Yes

<i>(must approve Financial Implications before report submitted to Leader's Group)</i>	
Head of Legal & Democratic Services <i>(for approval of any significant Legal Implications)</i>	Yes
Head of Organisational Development & HR <i>(for approval of any significant HR Implications)</i>	Yes
Corporate Procurement Team <i>(for approval of any procurement implications)</i>	Yes

24. **APPENDICES**

Please list the appendices attached to the report as shown in the example below.

- Appendix A – summary
- Appendix B – pressures
- Appendix C – Savings
- Appendix D – scale of charges
- Appendix E – risks
- Appendix F – Statement of Reserves
- Appendix G – Consultation Feedback

25. **BACKGROUND PAPERS**

- Budget timetable
- Detailed budget working papers

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