

BROMSGROVE DISTRICT COUNCIL

CABINET

6th JANUARY 2010

MEDIUM TERM FINANCIAL PLAN 2010/11-2012/13

Responsible Portfolio Holder	Councillor Geoff Denaro
Responsible Head of Service	Jayne Pickering – Head of Financial Services

1. Summary

- 1.1. To provide information to enable Cabinet to recommend to Full Council the approval of the Medium Term Financial Plan (revenue and capital) 2010/11 – 2012/13.

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:

2010/11 £92,000
2011/12 £69,000
2012/13 £69,000

- 2.1.2 Approval of the unavoidable pressures as identified in Appendix B of:

2010/11 £725,000
2011/12 £699,000
2012/13 £677,000

- 2.1.3 Approve the savings as identified in Appendix C of:

2010/11 £1,088,000
2011/12 £1,348,000
2012/13 £1,787,000

- 2.1.4 Approve the high capital bids as detailed in Appendix D (i) of:

2010/11 £314,000
2011/12 £ 90,000
2012/13 £ 90,000

- 2.2 Approve the use of reserves totalling £593,000 as detailed in Appendix E.

- 2.3 Approve the virements reported in Appendix F

- 2.4 Note the efficiency savings to be delivered during the period of the medium term financial plan as detailed at Appendix G

3. Background

- 3.1. The Council on 7th January 2009 approved a medium term financial plan that included the Revenue and Capital budget requirements for 2009/10 - 2011/12.

- 3.2. On 7th October 2009 the Executive Cabinet approved the budget process and timetable to be followed to review the medium term financial plan for 2010/11 – 2012/13.

- 3.3. As part of the approved budget process Executive Cabinet proposed a revised set of 6 priorities against the Council objectives for focus of resources which were approved by Council on 16th September 2009. These were:

1. Economic Development
2. Town Centre
3. Value for Money
4. One Community
5. Housing
6. Climate Change

- 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 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

- 3.5 The current financial plan covers a period of 3 years. The plan is developed in conjunction with treasury management and ICT strategies to deliver a coordinated approach to the delivery of the Councils priorities.

4. Consultation

- 4.1 During the summer, a number of consultation exercises were conducted at the Street Theatre events in Bromsgrove, Hagley, Rubery and Wythall, and at the TRUNK in Charford. Residents were asked about their priorities and how the area could be improved. The two main issues that came out of this consultation were Bromsgrove Town Centre and

activities for young people in the District, which is consistent with our 6 priorities.

- 4.2 Three out of the four Council objectives came up as issues, with jobs, housing and council tax all being cited as important issues by residents. The only objective, and associated priorities, that was not mentioned directly was the Environment. Recycling was important to some of those polled, but climate change, CO2 emissions and flooding were not raised as issues during these consultations. Everyone is very aware of the potential consequences of climate change (Copenhagen Summit) but it may be that residents fail to see the link between Bromsgrove District Council and saving the world! All of us will need to play our part and we may need to educate the public on this area.
- 4.3 The budget jury for 2009 was suspended due to shared services, although it was very well received the previous year, with very positive feedback. Next year we plan to do a budget jury for adults and a shadow version in a school, linked to the Internet. We are progressing with work with young people in this area however, with the U Decide project allowing children and young people to consider budgets and decision making. We are also running project around local democracy with South Bromsgrove High School, which will see a magazine being produced and useful consultation data gathered.
- 4.4 As in previous years the Equality and Diversity Forum has put forward a number of bids to meet community needs across the District. These are included in the new bids Appendix B attached to this report.

5. Base budget information

- 5.1 The current budget book that was sent to all members in February 2009 includes the Base budget for 2010/11 and 2011/12. These budgets are been updated for this financial plan together with the proposed plans for 2012/13.
- 5.2 The base budget for 2010/11-2011/12 included a number of approved changes to the funding of services from the financial position of 2009/10. These included:
 - Savings in relation to delivering services by alternative methods. (£523k). This includes the savings relating to the shared management team with Redditch Borough Council.
 - Council Tax level to increase at 4.45% per annum
 - Savings from co-mingle recycling service (£200k)
- 5.3 During the current review of the medium term financial plan the pay structure has been amended to reflect the impact of the Job evaluation appeals and the reduction in any pay as a result of the reduction in grading for a number of posts whose protection will run out in May 2011.

- 5.4 In addition the pay model reflects no increase in pay for any staff in 2010/11 and a 1% increase in 2011/12 -2012/13. This is due to the anticipated reduction in Government Grant and the associated financial pressures that the Council is facing over the next 3 years.
- 5.5 The following assumptions have been made for the main elements of the budget:

Pay awards	0%/1%/1% (Note 1)
Utility costs	5.0% per annum
Business rates	5.00% per annum
Other costs	2.5% per annum
Government Grants	Based on confirmed settlement for 2010/11 and 5% reduction for 2011/12 & 2012/13 (Note 4)
Council Tax	2.5% (2010/11 & 2011/12) , 4.45% 2012/13
Investment interest	1.75%/2.75%% per annum (Note 2)
Pension fund increase	Note 3
Vacancy Management	4.0%
Council Tax Base increase	0.2% - 0.5%

Notes:

1. For the purposes of these projections it has been assumed that there will be no pay award in 2010/11 and 1% in 2011/12 -2012/13. This is in line with discussions held with other Councils due to the impact of the future financial pressures
 2. Investment interest for 2010/11-2012/13has been included at 0.75%/2.%. This is based on the most recent information obtained from our treasury advisors.
 3. 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 20.8% by 2013/14. The applicable rate for 2010/11 is 19%. The rate payable from 2011/12 will be further revised following the next valuation of the Pension Fund on 31 March 2010.
 4. There has been a confirmed grant settlement for 2010/11. The current assumption is that there will be a real terms decrease in grant from 2011/12 of 5% per annum. This impact has been built into the future projections.
- 5.6 Savings of 4% each year on the pay bill have been assumed through vacancy management excluding the new shared management structure and front line services. These savings will also be used to cover the costs of recruitment.

- 5.7 The Job Evaluation Scheme was implemented in May 2009. The protection period is for 2 years and will finish in May 2011.

6 Budget Pressures

- 6.1 Officers have identified a number of budget pressures that have either been deemed “unavoidable” or “high” priority. Unavoidable includes the ongoing effects of pressures identified during 2009/10 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. The current high pressures are detailed in Appendix A and unavoidable pressures in Appendix B
- 6.2 A number of other budget pressures have been identified but these have been categorised as medium and low following discussions with officers and do not form part of the current financial projections. These are also included within Appendix A.
- 6.3 Members are asked to consider any changes to the unavoidable costs and priority of pressures identified.

7. Budget reductions

- 7.1 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
- 7.2 The savings/ additional income details are shown in Appendix C.
- 7.3. 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 over the next 3 years. Included in the 2010/11 budget as approved in January 2009 is a target of £523k saving with a further £100k in 2011/12.
- 7.4. Further savings have been identified for delivery in 2010/11 these include; joint working on CCTV and ICT with Redditch (£143k 2010/1) and the additional savings realised from proposed changes in the operating arrangements at the Dolphin Centre (£95k 2010/11).
- 7.5. The Worcestershire Enhanced Two Tier project will deliver savings initially in respect of property services (£14k in 2010/11) and regulatory (£46k in 2011/12, £126k in 2012/13) and Internal Audit (£11k in 2012/13).

- 7.6. It is anticipated that more efficient working practices and procedures following the joint management team will realise further savings in 2011/12 and 2012/13. An additional £349k has been built into the budget for 2011/12 to reflect these savings.

8. Government Grant

- 8.1 The Council had received the formal settlement for 2010/11. The financial increase in the grant is shown below:

	2009/10 £'000	2010/11 £'000	Increase £ (%)
Formula Grant (FG)	4,946	5,047	2%

- 8.2 Following discussions with other authorities and in consideration of the national economic climate it is assumed that there will be a cash reduction in the Grant awarded to Local Authorities from 2011/12. An estimate of 5% for each year has been included in the current position.

- 8.3 The impact of this reduction from 2011/12 is as follows

	2011/12 £'000	Value of decrease (5%) £'000	2012/13 £'000	Value of decrease (5%) £'000	Total Value of 5% reduction £'000
Formula Grant (FG)	4,795	252	4,555	240	492

9. Investment Interest

- 9.1 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 from our treasury advisors are less optimistic than previously estimated in the increases over the 3 year period. The projections contained within this report include investment increases of 0.75% to 2% by 2012/13.
- 9.2 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.

10. Capital Programme

10.1 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.

10.2 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.

10.3 The Capital Programmes for 2010/11 and 2011/12 were approved as part of the 3 year Financial Plan for 2009/10. 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 2010/11 – 2012/13 to meet the priorities of the Council. The proposed new bids for the Capital Programme are attached at Appendix D (i) for consideration.

In November 2009 members approved a revised Capital Programme to realign the projects to be delivered during 2009/10. There are a number of projects that are to be delivered in 2010/11 from this review that have been identified as “roll forward” and are included in the proposed Capital Programme. The details of these schemes are:

- £15k - Grants to Registered Social Landlords
- £700k – Social Housing Grants
- £203k – Improvements to Houndsfield Lane caravan park

- £215k – provision of sports facilities across the District

10.5 A summary of the proposed capital programme including; approved programme, roll forward and new capital schemes is shown in the following table and in detail at Appendix D (ii):

PROPOSED CAPITAL PROGRAMME	2010/11	2011/12	2012/13
	£'000	£'000	£'000
Approved as part of 2009/10 budget process including grant funded schemes and support service recharges	2,161	1,510	509
Expenditure b/f to 2009/10 to facilitate procurement of vehicles	-1,143	0	0
Roll forward from 2009/10 approved November 2009	1,133	0	0
New schemes	314	90	90
TOTAL PROPOSED CAPITAL	2,465	1,600	599

10.6 The capital programme will be financed from a variety of sources including Government Grants, Section 106 Funds, capital receipts (including those that the Council has been allowed to retain under the new capital 'pooling' arrangements), and borrowing. Details of the proposed financing arrangements for the capital programme are shown below:

	2010/11	2011/12	2012/13
Capital Receipts	£'000	£'000	£'000
Capital receipts or borrowing	1,877	1,227	226
Government Grants/S106	588	373	373
Total Programme	2,465	1,600	599

10.7 If Members approve the level of Capital Spend to 2012/13 the effect on capital receipts will be as follows based on expected expenditure and receipts in 2009/10:

	2010/11	2011/12	2012/13
	£'000	£'000	£'000
Opening Balance	4,152	2,375	1,248
Used in Year	-1,877	-1,227	-226
Received in year	100	100	100
Closing Balance	2,375	1,248	1,122

The figures in the above table include general capital receipts for funding of projects across the District. In addition an estimate of capital receipts has been made of £100k per annum in relation to any sales of assets that the Council may make during the financial plan period.

11. Overall Position

- 11.1 Based on the assumptions, proposed pressures (high only) and savings the current position for each of the three years is as follows:

	2010/11 £'000	2011/12 £'000	2012/13 £'000
Base cost of General Fund Services	12,482	12,860	13,433
Pressures – High bids & unavoids	817	768	746
Savings	-1,088	-1,348	-1,787
Investment Income	-67	-93	-85
Recharge to capital programme	-136	-136	-136
Net operating expenditure	12,008	12,051	12,171
Area Based Grant	-29	-22	-22
Collection Fund Surplus	-51	0	0
Government Grant	-5,047	-4,795	-4,555
Council Tax @ 2.5%/2.5%/4.45%	-7,023	-7,234	-7,594
Funding from(-)/to balances	142	0	0
Overall Shortfall	0	0	0

12. Council Tax

- 12.1 The present budget projections for 2010/11 – 2012/13 are based on a Council Tax increase of 2.5%/2.5%/4.45% respectively.
- 12.2 The impact of this increase will be an additional £4.70 on Band D with a revised charge of £192.85. This will be formally considered by Council in February as part of the Council Tax resolutions which cannot be considered until details of Parish Council and other precepting bodies' figures are received.

13 Collection Fund

- 13.1 Every year the Council has to estimate the surplus or deficit on the Collection Fund. The surplus as at the 31st March 2010 has been estimated in accordance with statutory requirements. The surplus was calculated as £368,472. 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	69.23%	£255,077
*Bromsgrove DC Share	14.03%	£51,699
West Mercia Police Share	11.86%	£43,687
Hereford & Worcester FB	4.88%	£18,009
Totals		£368,472

- 13.2 The Council will receive £51,699 in 2010/11 to help fund the revenue budget. This is built into the proposed budget.
- 13.3 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 2010/11 the collection rate was set at 99.0%.

14 Balances

- 14.1 The current projected level of balances at 31.03.10 is £1.472m assuming all costs approved are spent.
- 14.2 The impact on the use of balances are shown in the table below:

	2010/11 £000	2011/12 £000	2012/13 £000
Balance available at start of year	1,472	1,619	1,619
Contribution to balances	147	0	0
Balance available at end of year	1,619	1,619	1,619

- 14.3 The level of balances can be utilised for one off costs and it is proposed that the funds required for any redundancy or early retirement costs are met from this area.
- 14.4 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.
- 14.5 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.
- 14.6 5% for Bromsgrove would mean maintaining balances at or around £600k. However, just a 1% variation in gross income and gross expenditure is equivalent to £340k which would result in a significant reduction in balances. The increased pressures on limited resources as demonstrated by the projected decreases in formula grant and the fluctuations in income receipts and investment income 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

14.7 The delivery of the shared service and joint arrangements with Redditch Borough Council may result in additional costs in relation to harmonisation of terms and conditions and the integration of systems.

14.8 It is therefore considered, taking the above issues into account that a general fund revenue balance of £1.6m reflects an appropriate level of balances.

15 Fees and charges

15.1 The financial plan 2010/11-2012/13 currently assumes a 2.5% increase in all income.

16 Local Government Act 2003

16.1 There are a number of requirements that the Council's Section 151 officer has to include in the budget report. These are set out below, together with S151 comments on each of the issues:

16.2 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.

16.3 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>0%, 1%, 1% over 3 year plan</i>
<i>utility costs</i>	<i>5% increase per annum</i>
<i>business rates</i>	<i>5% increase per annum</i>
<i>other costs</i>	<i>2.5% increase per annum</i>
<i>Government grants</i>	<i>Actual figures provided by Government then 5% reduction to reflect national economy</i>
<i>investment interest rate</i>	<i>See 9.1</i>
<i>employer's pension fund</i>	<i>increase to 19% from April 2010</i>
<i>vacancy management</i>	<i>4% per annum</i>
<i>Council Tax</i>	<i>2.5%, 2.5%, 4.45% over 3 year period</i>
<i>Council Tax base</i>	<i>0.35% – 0.5% increase per annum.</i>

16.4 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.

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

Section 151 officer's comments: no ongoing expenditure funded by reserves.

- 16.6 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 does not hold any additional reserves outside the general fund reserves and those earmarked for specific purposes

- 16.7 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 E.

- 16.8 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 March.

17 FINANCIAL IMPLICATIONS

- 17.1 None other than those included in the report.

18 LEGAL IMPLICATIONS

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

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 The main risks associated with the details included in this report are:

20.2 Non compliance with the statutory deadlines to set a balanced budget.

20.3 Poor use of resources scoring in relation to consideration of the budget

20.4 These risks are being managed as follows:

20.5 Non compliance with statutory deadlines

Risk Register: Financial Services

Key Objective Ref.: 6

Key Objective: Effective and Efficient Accountancy Service

20.6 Poor use of resources scoring in relation to consideration of the budget

Risk Register: Financial Services

Key Objective Ref.: 6

Key Objective: Effective and Efficient Accountancy Service

20.7 Key actions and controls to manage these risks include:

- Detailed timetable in place to manage the budget process with departments and accountancy support
- Allocation of qualified and professional staff to focus on budget setting accounts
- Regular updates at Corporate Management Team in relation to budget processes

Risk Identified	Proposed Measures
• Employee related costs will be more than assumed	• Figures based on known commitments and estimated future costs. Any further pressures will need to be matched by additional identified savings
• Pension fund contributions will be higher than expected after the next actuarial.	• The financial plan will continue to be reviewed and updated annually for a three year period, based on known changes.
• Planned budget reductions will not be achieved	• Close monitoring of budgets will be carried out in each financial year. Alternative savings will be identified, or contingency arrangements agreed.
• Government Grant revised to greater /or less than anticipated	• There will be sufficient funds in balances to fund any short term reduction in grant. Efficiency savings will be monitored on a monthly basis. Settlement confirmed for 2010/11. A reduction of 5% per annum has been assumed for 2011/12 and 2012/13.
• Income from fees, charges and other sources will not be as high as planned. • Impact of recession has greater impact than first anticipated	• 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.
• Timing of Capital receipts may be earlier than estimated • Timing of Capital payments may be earlier than estimated	• 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.

21. CUSTOMER IMPLICATIONS

- 21.1 The setting of the budget against the Corporate Priorities will ensure that the Council demonstrates to the customer that we have aligned our resources to the key services required.

22. OTHER IMPLICATIONS

Procurement Issues N/A
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

Portfolio Holder	Yes
Chief Executive	Yes
Corporate Director (Services)	Yes
Assistant Chief Executive	Yes
Head of Service	Yes
Head of Financial Services	Yes
Head of Legal & Democratic Services	Yes

Head of Organisational Development & HR	Yes
Corporate Procurement Team	Yes

24 APPENDICES

Appendix A – Unavoidable pressures
 Appendix B – High, Medium and Low Pressures
 Appendix C – Savings / additional income generated
 Appendix D (i) – Capital Programme – High Bids
 Appendix D (ii) – Total Capital Programme
 Appendix E – Earmarked Reserves
 Appendix F – Virements to be approved
 Appendix G – Efficiency Savings

25 BACKGROUND PAPERS

Budget timetable
 Detailed budget working papers

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