

2 FEBRUARY 2011

REPORT OF THE HEAD OF CENTRAL SERVICES

REVENUE BUDGET 2011/12

1.0 PURPOSE

1.1 The purpose of this report is to provide information on the budget issues facing the Council in 2011/12, seek a decision on the level of the budget requirement including any service enhancements or reductions and agree the level of Council Tax for Borough Council purposes.

2.0 RECOMMENDATIONS

2.1 It is recommended that:

- (i) Members determine the level of inflation to be provided for in the estimates in respect of the waste contract;
- (ii) The proposals for General and Special Expenses (Melton Mowbray) as set out in Appendices C, D and E be approved for inclusion in the 2011/12 budget resulting in the estimates set out in Appendix F;
- (iii) The budget requirements and Council Tax amounts for all funds be as set out in Appendix G;
- (iv) The permanent establishment be revised accordingly in line with the disinvestments approved;
- (v) The attendance allowance for planning site visits be reduced to £25;
- (vi) The services set out in para 3.5.8 be reviewed by officers during 2011/12 in order for the outcome to be incorporated into the 2012/13 budget.
- (vii) The Council property renewal and repair fund be re-designated as the Council offices renewal and repair fund with funding being allocated through the approved budget setting process.

3.0 KEY ISSUES

3.1 Medium Term Financial Strategy (MTFS)

3.1.1 The Medium Term Financial Strategy was approved by the Policy Finance and Administrative committee on 26th January 2011. Based on the recommendations contained within the accompanying report the key issues set out within the Council's previously approved Budget Framework and Medium Term Financial Strategy (MTFS) with respect to the 2011/12 budget are as follows:

- An enhanced working balance of £640,000 for general expenses be retained and that any shortfall against this level at 31st March 2011 be made up from the Corporate Priorities Reserve.
- any shortfall over the working balances of £50,000 for special expenses (MM) at 31 March 2010 be made up from the Special Expenses Reserve with any residual shortfall being restored from within the 2011/12 revenue budget.

- The Council retains its objective of setting a balanced budget in 2011/12.
- No inflation be provided in the 2011/12 budget for non pay costs and pay and related costs unless adjusted for known prices by budget holders.
- The Council continues its policy of seeking external funding for capital projects and working in partnership with other local authorities to attract funding to supplement the Council's own resources.
- The Programme Board determine the relative priority of schemes for members to consider and allocate funding based on the information set out in the project mandates.
- The amounts in the corporate priorities reserve and general reserve (special expenses) be available to help fund projects (non-recurring cost element) which are in line with Council priorities.

3.2 Local Government Finance Settlement 2011/12

3.2.1 Following the comprehensive spending review (CSR 2010) the provisional local government finance settlement was announced in December 2010. The final figures are anticipated in early February 2011 and if available in time a verbal update will be provided at the meeting. The following two year provisional amounts were issued for this Council.

Formula Grant 2011/12 to 2012/13

Financial Year	£	% Reduction
2011/12	3,021,415	15.8
2012/13	3,002,230	12.5

3.2.2 Such a large reduction in formula grant over the two years has presented a financial challenge for the Council and is in excess of that anticipated following the Comprehensive Spending Review. There continues to be a number of financial pressures as set out in the Council's MTFS in addition to this reduction in grant and this will mean the financial focus will need to continue to be on efficiency, value for money and cost savings as necessary to continue to balance the Council's budget. A full review of local government funding is to be undertaken by Central Government in order to fund the financing of the sector from 2013/14 onwards.

3.3 Policy Framework and Budget Process

3.3.1 Following detailed scrutiny by the Management Team, the Budget and Strategic Planning Working Group (BSPWG) met on 4th November 2010 to consider and scrutinise the detailed budget submissions. The Working Group met with a number of managers and budget holders and as a result a number of changes were made to the budgets for individual services. In addition, the budget proposals were compared to the Council's top priorities as set out in the Corporate Plan to ensure only those that best met the Council's objectives and plans went forward for consideration as part of the budget setting process. Following this process a draft budget was produced.

3.3.2 The Budget 'Away Day' was held on 11th January 2011 to which all Councillors and Heads of Service were invited, to provide their views on the budget proposals for enhancements to services and reductions to net expenditure, in conjunction with the Council's priorities. This exercise resulted in a steer being provided over the list of enhancements and reductions to be included in the budget as well as the Council Tax increase for Council funds. An update on the budget position was reported to the Policy, Finance and Administration Committee on 26th January 2011.

3.4 Estimated Year End Position 2010/11

- 3.4.1 The estimated year end position for the current financial year 2010/11 is shown in Appendix A. This has been compiled on the basis of the 'best estimate' of income and expenditure for the year.
- 3.4.2 The estimated year end position for General Expenses shows an increase over the original budget of £512k. This is being funded by a previously approved increased contribution from the Corporate Priorities Reserve of £261k. In addition, there have been approved Supplementary Estimates from the Working Balance of £42k.

	£
Approved Revenue Carry Forwards from 2009/10	221,330
Supplementary Estimates - Corporate Priorities Reserve	40,000
Supplementary Estimates - Working Balance	42,460
Total	<u>303,790</u>

As such the estimated year end position on general expenses is showing just over a £208k overspend against in year approvals. This compares to in year monitoring that is currently indicating around a £67k overspend. The 2010/11 general fund budget does contain a budgeted surplus of £85,080 which was provided to cover the estimated deficit from 2009/10 which was not required due to the good in year management of actual costs. In addition Members approved the retention of the increase of £60k to the working balance in recognition of the risks associated with such a difficult economic climate. In response to this financial position a spending freeze has been introduced in order to mitigate this overspend. The variances primarily relate to lower income than budgeted for e.g. land charges, Housing and Planning Delivery Grant, car parking and planning fees and a larger increase in the inflationary increase to the waste budget than estimated as well as an increase to the concessionary fares costs. These are offset by an estimated reduced pay award, reduced borrowing costs and efficiency savings. The figures are the best estimate based on information available at this time. As such the estimated year end position shows an estimated deficit of £166k over the approved working balance. It was recommended to the Policy Finance and Administration Committee that this be restored from the Corporate Priorities Reserve at 31st March 2011.

- 3.4.3 The estimated year end position for Special Expenses (Melton Mowbray) is showing a £2k overspend and when the latest funding for the capital programme is considered there is insufficient resources within the special expense reserve to fully restore this from reserves. As such the Policy, finance and Administration Committee was recommended to restore any shortfall at 31st March 2011 from the revenue budget for 2011/12.
- 3.4.4 The estimated year end position is only an indication of the likely position at the year end and budget holders can only spend at this level if they seek approval through virements and supplementary estimates. Every effort is being made to ensure that reduced income and in some cases increased costs due to the economic situation is found from savings elsewhere. As with last year the insurance process allows for certain savings to be offset against the insurance claim and this is being managed in liaison with the loss adjuster. The spending freeze should assist with reducing the estimated overspend.

3.5 Proposed Budget 2011/12

- 3.5.1 The budgets for 2011/12 for general and special expenses prior to any approved enhancements and reductions are summarised in Appendix A. These are based on the assumption that the Council sets a nil overall council tax increase in order to be eligible for the council tax freeze grant which is equivalent to an overall 2.5% increase across

all funds. The grant has been allocated to each fund based on a 2.5% increase in council tax. The Policy Finance and Administration Committee will be making a recommendation on the level of council tax to be set for general expenses and special expenses (MM) that will result in such an overall impact. As such 3 sets of papers have been provided where this decision changes the figures provided as follows:

Option 1 – Council tax on special expenses (MM) is reduced in order to have a nil overall council tax increase (pink coloured papers)

Option 2 – Council tax on general expenses is reduced in order to have a nil overall council tax increase (blue coloured papers)

Option 3 – Council tax for general and special expenses (MM) is reduced equally in order to have a nil overall increase (lemon coloured papers)

This same colour code is utilised as applicable for each of the 3 options throughout the report.

3.5.2 The budget for 2011/12 has been prepared on the basis of maintaining services at their agreed levels except where the Council has already agreed to a change in which case any change in cost has been incorporated into the base budget.

3.5.3 All service budgets have been subject to scrutiny by both the Management Team and the BSPWG. In accordance with the MTFs no inflation has been provided for prices or pay increases unless adjusted by budget Holders for known increases or contractual commitments.

3.5.4 A number of principles and assumptions have been applied when preparing the summary set out in Appendix A as follows:

- The approved establishment has generally been budgeted for in full, but no provision has been made for recruitment costs as a result of any vacancies.
- The capital programme as recommended to the Policy, Finance and Administration Committee and set out earlier in this agenda is approved.
- Assumptions have been made in respect of a number of service related income streams in addition to assumptions over the level of interest from investments. In light of the current economic climate the actual position could differ significantly from that estimated. Those services that continue to be particularly affected are building control, development control, land charges, car parking, industrial unit rents and interest received. In addition an assumption has been made regarding the New Homes Bonus grant which is still subject to consultation. Assumptions have also been made relating to price increases which also could differ to that estimated.
- Once again assumptions have been made relating to certain running costs affected by the fire and the new build particularly property and IT services. Estimates are based on no change in the net cost position of these services for the first two months of the financial year which allows for any cost savings that may arise to be offset by the insurers as part of the settlement of the claim as appropriate. For the remainder of the year the estimates are based on the best estimate of date of occupation by Melton Borough Council and partners of the new building and the best estimate of the running costs utilising budget holders' knowledge and comparing historic running costs of the old building. Partner income has then been assumed based on the allocation of desk space.
- Income has been assumed in respect of a number of externally funded projects e.g. Children's Services and the Family Intervention Project. Partners are still working through their own budget approvals and formal confirmation of a number of projects is still awaited.

- No allowance has been made for the financial implications of the new management contract in respect of Waterfield Leisure Pools for which the procurement process is still underway.
- No allowance has been made in respect of locally set planning application fees. The implications of this are still being assessed and members will be updated later in the year of proposed fee levels for approval.
- That the shortfall in the working balance at 31 March 2011 will be restored to £640,000 from the Corporate Priorities Reserve as being recommended to Policy Finance and Administration Committee.
- That the working balance at 31 March 2011 for Special Expenses (Melton Mowbray) is maintained at £50,000 by restoration from the Special Expenses Reserve and any residual shortfall from the 2011/12 revenue budget as being recommended to the Policy Finance and Administration Committee.
- Council Tax for Special Expenses – Broughton and Old Dalby, Sproxtun and Frisby is set at a level required to produce sufficient income to meet service costs and produce a nil working balance.

3.5.5 In order to finalise the Council's budget and set the Council Tax, the enhancements, reductions and Council Tax increases proposed at the Budget 'Away Day' and subsequently reported to the PFA Committee need to be formally approved. In addition there are some issues for consideration as requested by members at the Budget Away Day. These are summarised below:

General Expenses

- At the Away Day members considered the level of inflation provided in respect of the waste budget. The contract provides for an annual increase in the contract value in line with Baxter's indices. An increase of 3% was originally provided for in respect of 2011/12. However this was increased to 4% following concerns expressed by members at the Waste Management Task Group. The latest position on these indices is contained in Appendix B. This shows that the change in line with the latest data is an increase of 0.11%. As such an increase of 4% is considered to be highly prudent and members may wish to consider reducing this back to the 3% original provision. Members at the away day felt they would like this decision to be made by Full Council as part of the budget setting considerations. A reduction would provide for an additional £21,000.
- Members were also updated on the latest financial implications of the restructuring exercise below Head of Service level. Implications arising from the consultation process are being assessed and a Policy, Finance and Administration Sub Committee is meeting on the 31 January 2011 to consider the structure. A verbal update will be provided at this meeting. Based on the proposals consulted on a 10 month saving would have a value of £219,000. This is a gross saving and does not provide for any one off costs. Any pension strain up to a three year limit set by the actuary and the pension fund administrator LCC (just over £180k for Melton) could be charged to the pension fund. It is suggested this is utilised. Redundancy costs could be met either from in year savings, should any be identified, the Working Balance or the Corporate Priorities Reserve. This can be considered as appropriate at the time formal decisions are taken.
- Enhancements totalling £162,460 as set out in Appendix C were proposed for funding. Of this amount £30,300 is non recurring expenditure and as such is proposed to be funded from the Corporate Priorities Reserve. The amount of £99,690 in respect of IT support is proposed to be a balancing item and this will need to be adjusted depending on decisions made by members regarding the waste inflation, the council tax levels set in order to have a nil overall council tax

increase, the latest savings estimated for the restructuring below Head of Service level and any adjustments to the final grant settlement over the provisional.

- Service reductions totalling £96,380 all of which are ongoing savings as set out in Appendix D. If approved this would reduce the permanent establishment in planning policy by 0.4 Full Time Equivalents.
- It was proposed at the Away Day that the attendance allowance for planning site visits be reduced to £25 from £30 in order to provide a budget for food provisions to continue at Development Committee.
- Council tax level as recommended by Policy Finance and Administration committee (see para 3.5.1). Whichever level is recommended will determine the options proposed.

Special Expenses (Melton Mowbray)

- No proposals were put forward for consideration with regard to special expenses.
- Council tax level as recommended by Policy Finance and Administration Committee (see para 3.5.1).

Special Expenses (Sproxtton Nos 2 and 4)

- Council Tax increase of 24.1% as shown in Appendix A (line 53).

Special Expenses (Broughton and Old Dalby)

- Council Tax increase of 22.8% as shown in Appendix A (line 60).

Special Expenses (Frisby)

- Council Tax reduction of 1.3% as shown in Appendix A (line 67).

3.5.6 The impact of the above approvals is set out in the following attached documents with three options included depending on the proposed council tax level:

- Summary of proposals for General Expenses and Special Expenses (Melton Mowbray) (Appendix E).
- Revised summary of Committee estimates, including service enhancements and reductions (Appendix F).
- Budget requirements and Council Tax amounts for all funds (Appendix G).

3.5.7 For members information a full list of the general fund enhancements as considered at the budget Away Day is set out at Appendix H and a full list of disinvestments at Appendix I. No enhancements or reductions were proposed with regard to Special Expenses (Melton Mowbray).

3.5.8 There were a number of areas where it was proposed the service provided could be reviewed during 2011/12 in order to inform the 2012/13 budget. In addition the budget consultation exercise also indicated where the public may be willing to reduce service levels should the need arise. This results in the following areas where services could be considered for further review during 2011/12

- Waste management
- Car parking charges
- Tourism

- Waterfield Leisure Pool
- Transfer of responsibility for the allotments in the parish of Broughton and Old Dalby to the parish council to remove the need for a special expense.

3.6 Parish Precepts

3.6.1 For information, a summary of the parish precepts is set out at Appendix J.

3.7 Budget Monitoring

3.7.1 For the purpose of budget monitoring, services are designated as one of three categories which determines the level and frequency of budget monitoring.

These are:

- High risk and complex budgets.
- High risk budgets.
- Lower risk budgets.

3.7.2 The categorisation of the various services has been reviewed for 2011/12 and is set out in Appendix K. No changes have been made to the current years categorisation.

3.8 Reserves

3.8.1 The Local Government Act 2003 requires the Responsible Financial Officer to comment on the adequacy of reserves and the robustness of the estimates. I am satisfied with the robustness of the 2011/12 base budget estimates and the adequacy of the reserves on the basis of the information available to me at this time and advised by budget holders and the assumptions set out in para 3.5.4. The key issues that could impact on the robustness of the estimates are the income projections including the New Homes Bonus, the impact of the ongoing insurance claim and running costs affected by the new operational working arrangements, notably property and IT services and also the move from the temporary working arrangements to the new build along with the occupation by various partners and the associated cost sharing arrangements. In addition, the timing of the implementation of the approved disinvestments would need to enable the savings as set out in the disinvestment list to be achieved within the financial year in full. Any delay in the implementation of a disinvestment including the restructuring savings (based on 10 months) would result in a lower saving being achieved in the 2011/12 financial year. Should the estimates made in respect of these areas be insufficient and not be covered by savings elsewhere the working balance would need to be utilised. This balance would then need to be restored over a reasonable period of time either through a revenue budget contribution or from the Corporate Priorities Reserve.

3.8.2 A Statement of Revenue and Capital Reserves is attached at Appendix L and this is based on the following assumptions:

- The capital programme and the contribution from the reserves is as recommended to the Policy, Finance and Administration Committee and set out earlier on this agenda.
- The variance from the enhanced working balance of £640,000 at 31 March 2011 in respect of General Expenses is restored from the Corporate Priorities Reserve.
- The variance from the agreed level of working balance at 31 March 2011 in respect of Special Expenses (Melton Mowbray) is adjusted by transfers to/from the special expense reserve up to the maximum available.

- A surplus on the Special Expenses (Melton Mowbray) budget is to be transferred to the special expense reserve; the amount of which is subject to the option approved in paragraph 3.5.1.
- A transfer of £30,300 is made from the Corporate Priorities Reserve to fund the non-recurring enhancements made to the General Fund Revenue Budget.
- There may be a need to draw on the reserves to fund any non recurring costs associated with the restructuring below Head of Service level.
- An assumption has been made regarding the level of partner contributions to the council property and repairs fund in order to provide for any necessary works to the new council building. The service charge, of which this is a part, has not been finalised and therefore this could be subject to change. This reserve has previously been made available to provide for major items of expenditure on General Fund council property. With the wider contributions from partners and the link to the new building it is considered this fund should be ring fenced to the council offices and funding to be allocated to schemes as approved from the budget setting and monitoring process. Only a small amount of just under £14,000 is estimated to remain on this reserve at 31.3.11.
- The deposit provided by Sainsbury's, whilst recognised as a capital receipt, is not available for funding purposes.

3.8.3 A brief description of the purpose and future intention with regard to each reserve and provision held by the Council is set out in Appendix L.

4.0 **POLICY AND CORPORATE IMPLICATIONS**

4.1 There are no further policy and corporate implications directly arising as a result of this report other than those set out above.

5.0 **FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

5.1 There are no further financial and resource implications other than those set out above.

6.0 **LEGAL IMPLICATIONS/POWERS**

6.1 There are no direct legal implications resulting from this report.

7.0 **COMMUNITY SAFETY**

7.1 Individual budgets could have links to community safety issues. These are covered in any associated reports and financial forms that refer to these budgets as they progress through the decision making process. As community safety is a corporate priority this is considered as part of the priority assessment and budget setting process when considering individual budget proposals.

8.0 **EQUALITIES**

8.1 The proposals for service disinvestments have been subject to an Equalities Impact Assessment (EIA) as appropriate by the relevant service area in order to determine whether or not any adverse impact could be identified to any particular diversity group. No particular adverse impacts have been identified therefore no further action is necessary should the proposals be approved. Completed EIA's were provided to the Policy Finance and Administration Committee and their availability published on the website.

8.2 Other elements of the budget proposals will relate to equalities issues and these have been equality impact assessed as appropriate by the relevant service area.

9.0 RISKS

9.1 There is always the risk that an item of income or expenditure is not adequately reflected in the budget for any financial year. The process followed as set out in the Service and Financial Planning Timetable is aimed at mitigating this risk. However, the Council has a working balance which is annually reviewed and calculated on a risk based approach. This working balance is there to provide for any variations in actuals against budget that could not have been anticipated at this stage. The detailed calculations are contained in the Council's MTFS.

9.2 Due to the current economic situation there is a risk that the income projections incorporated into the estimates may not be achieved. In recognition of this risk the enhanced working balance of £640,000 has been approved to remain in place by the Policy, Finance and Administration Committee. Should the call on the Working Balance be in excess of this additional £60,000 the Council will need to restore the Working Balance either from the revenue budget or from a contribution from the Corporate Priorities Reserve. Should the Council opt to restore the balance from the revenue budget this would put pressure both on future years service levels and also council tax levels.

9.3 There are a number of future financial pressures and uncertainties set out within the MTFS and replicated below which will need to be met from future years' revenue raising capacity or savings in other service areas. Collectively these indicate ongoing financial pressure and uncertainty on the council's resources:

- Reductions to Formula Grant
- Changes to Housing Benefit and Council Tax administration
- Local Development Framework programme
- Uncertainty over the recovery of the economy
- Waterfield Leisure Pools Contract
- Uncertainty over extended service contracts
- New build, end of temporary insurance cover, and technology to support enhanced partnership working
- End of council tax freeze grant
- Uncertainty of partnership funding
- Uncertainty of New Homes Bonus
- Asset Repairs
- Inflationary impact on contracts, pay awards and interest rates
- Rising superannuation costs

9.4 To assist in mitigating these risks areas of efficiency will continue to be vigorously pursued and a recommendation is contained in this report on areas that could be investigated in order for savings to be identified for later years.

9.5. In addition to the above, budget monitoring in year is based on a risk assessment of the various budgets to determine the frequency and extent of in year monitoring and reporting.

10.0 CLIMATE CHANGE

10.1 Individual budget heads could have climate change issues but these are considered individually as they progress through the approval process.

11.0 CONSULTATION

- 11.1 The Council's corporate priorities were approved following consideration of national priorities, local intelligence, partner's priorities, community views, internal requirements and future challenges. These have been taken into account at the Budget Away Day where the availability of funds for individual schemes was considered.
- 11.2 The Service and Financial Planning Timetable sets out the Council's approach to consultation and its links to the budget setting process. All Heads of Service and Members are involved in the process at various stages.
- 11.3 Union representatives attended the BSPWG meetings held in November and the budget away day in order to facilitate communication with staff representatives. Staff directly affected by the disinvestment proposals have been kept informed through their Head of Service of the proposals being considered.
- 11.4 The Town Area Working Group was also consulted on proposals for Special Expenses Melton Mowbray.
- 11.5 A wide public consultation exercise has been held this year to help the Council decide where to make the cuts needed. The public's views have been sought on the areas that are important to them. The public have been asked what they would like us to keep and what they feel could be looked into first to enable us to make any further savings that may be needed. This has been undertaken through the Council's web site and through our user groups, providing copies at the Children's Centres and libraries as well as seeking views from a Councillors' market stall. The results of the public consultation are attached as Appendix M. The results of the survey are to be made available on the Council's website on 1 March 2011 along with a report back on what was said and how this information was used.
- 11.6 Business ratepayers have been consulted on revenue and capital spending plans via the council's website following positive feedback from last years exercise. No comments have been received to date but should any be received prior to the meeting the Council will be updated verbally.
- 11.7 The Town Area Working Group has been consulted on the service proposals in respect of special Expenses along with the level of council tax for the special expenses area.

12.0 WARDS AFFECTED

- 12.1 All wards are affected.

Contact Officer: Dawn Garton

Date: 21 January 2010

Background Papers: Budget Working Papers
Budget 'Away Day' notes.

List of Appendices: Appendix A Summary of committee estimates (3 options)
Appendix B Latest Baxter's inflation indices
Appendix C Options for budget enhancements as proposed at Budget Away Day
Appendix D Options for service reductions as proposed at Budget Away Day
Appendix E Summary of Revenue Budget Proposals (3 options)

Appendix F Summary of committee estimates including enhancements and reductions to service levels (3 options)
Appendix G Budget requirements and council tax amounts (3 options)
Appendix H Full list of service enhancements as discussed at Budget Away Day
Appendix I Full list of disinvestments as discussed at Budget Away Day
Appendix J Parish Council Precepts
Appendix K Risk assessment of budgets
Appendix L Statement of Revenue and Capital Reserves and Purpose and future intentions of reserves
Appendix M – Results of budget consultation

Reference:

X: C'tee/Council/2010-11/020211/DG-Revenue Budget 2011/12