

AGENDA ITEM 9

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

2 DECEMBER 2010

REPORT OF HEAD OF CENTRAL SERVICES

LATEST POSITION - REVENUE BUDGET 2010/11 AND 2011/12

1.0 PURPOSE OF REPORT

- 1.1 To report on the activity of the Budget and Strategic Planning Working Group with regard to the scrutiny of the 2010/11 estimated year end position and the 2011/12 estimates.
- 1.2 To advise on the latest position on the current year's revenue budget (2010/11) and the current position with regard to 2011/12.
- 1.3 To set out some of the issues still to be resolved regarding 2011/12

2.0 RECOMMENDATIONS

- 2.1 **That Members note the estimated year end position for 2010/11 as set out in paragraph 3.2.**
- 2.2 **That Members note the position with regard to the 2011/12 estimates at this stage in the process and the issues yet to be resolved as set out in paragraph 3.3.**
- 2.3 **That the Council continue with the ill health early retirement insurance on an ongoing basis.**

3.0 KEY ISSUES

3.1 Background

- 3.1.1 The Management Team scrutinised all budget submissions prior to submission to member scrutiny. The Budget and Strategic Planning Working Group (BSPWG) met on 4th November 2010 to scrutinise budget submissions for both General and Special Expenses. The Town Area Working Group met on 11th November 2010 to also consider special expense budgets. A number of Heads of Service and budget holders attended as required and changes were made to individual draft service budgets as a result of these meetings. A copy of the minutes of the meeting can be obtained from Financial Services.
- 3.1.2 The emphasis of these meetings was to achieve a balanced budget for 2011/12 and also to scrutinise all service enhancements put forward including their fit with Council priorities and ensure only those that fit such criteria move forward through the budget process. In addition, the Members present considered the ongoing issues experienced in balancing the budget and the particular pressures faced in later years from the comprehensive Spending Review and the potential implications of this for Formula Grant with a view to considering further areas where efficiencies and reductions could be made.

3.2 Estimated Year End Position 2010/11

- 3.2.1 The position for the current financial year, 2010/11 is estimated to be as set out in the following table:

Estimated Year End Position 2010/11

	Original Estimate 2010/11 £'000	Estimated Year End Position 2010/11 £'000
General Expenses		
Net Cost of Services	6,937	7,512
Non Specific Service Items	-264	-327
	-----	-----
Total General Expenses	6,673	7,185
Special Expenses (MM)		
Net Cost of Services	540	542
Non Specific Service Costs	-55	-55
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Total Special Expenses (MM)	485	487
Special Expenses (Sproxtton)	4	4
Special Expenses (Broughton & Old Dalby)	3	4
Special Expenses (Frisby)	7	7

- 3.2.2 The estimated year end position for General Expenses shows an increase over the original budget of £512k. This is being funded by an 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	----- 303,790

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 £196k 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, increased benefit subsidy over that estimated, reduced borrowing costs and efficiency savings. The figures are the best estimate based on information available at this time. As such the current estimates show an estimated deficit of £166k over the approved working balance and members will need to determine whether to restore this balance from the corporate priorities reserve at the year end or budget to restore the balance in the next financial year/s

- 3.2.3 The estimated year end position for Special Expenses (Melton Mowbray) is showing a £2k overspend which will result in a lower than originally estimated contribution to the special

expenses reserve. This contribution was approved by members to increase the reserve to provide for non recurring items of capital and revenue expenditure.

3.2.4 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 are found from savings elsewhere and the spending freeze should greatly assist with this aim. 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.

3.3 Proposed Budget 2011/12

3.3.1 Following amendments to the proposed budgets both during and following the BSPWG and Management Team meetings the latest position on the General Fund and Special Expenses is summarised in the table below. At this stage in the process there are always a number of uncertainties however this year the scale of this is much greater with a much higher number and level of budgets remaining unclear:

Latest Proposed Budget 2011/12

	General Expenses	Special Expenses (MM)
	£000	£000
Latest Proposed Budget 2011/12	6,320	483
Formula Grant	-3,290	0
Council Tax Income	-2,790	-501
Council Tax Freeze Grant	-134	0
Collection Fund Surplus	-6	0
Budget Shortfall/Surplus (-)	100	-18

3.3.2 The Formula Grant is due in Early December 2010 which will provide provisional figures for the forthcoming financial year and potentially the next three financial years covered by the Comprehensive Spending Review. The above table assumes a 10% general reduction in Formula Grant as indicated by the Comprehensive spending Review (CSR) in addition to a loss in grant equivalent to the 2009/10 spend on concessionary fares which was one of the options out to consultation. The actual figures could vary significantly from this depending on how cuts are distributed between classes of authorities, the implications of incorporating current specific grants into the formula and the level of floors and ceiling and the mechanism if any for damping arrangements. Some analysts are predicting figures for shire districts could reach as high as 14-16% or even 25%. It can be seen from the table that an assumption has been made that members will wish to take advantage of the Council Tax Freeze Grant which means Council Tax for general expenses will remain at the 2010/11 level. This funding is only available for the four year period of the CSR after which time its continuation is uncertain and may mean Council's have to fund this from within their own resources in 2015/16.

3.3.3 A number of other announcements as set out in the CSR will have financial implications for this Council for which the detail is still awaited. As information becomes available the implications will be assessed and incorporated into the estimates/Medium Term Financial Strategy as appropriate. The briefing note circulated to members following the announcement is attached as Appendix A. One of the key items on which a consultation document has now been issued relates to the New Home Bonus. This document indicates

significant resources that could be available to the council over a six year period. It is likely that the actual grant will not be known until February 2011 however the model will continue to be assessed and any assumptions that can be made on likely grant built into the estimates as appropriate based on the risks associated with the certainty of receipt.

3.3.4 In addition to the CSR assumptions a number of other key assumptions have been made in compiling the above figures as set out below:

- No allowance has been made for growth/disinvestments that may be approved.
- The Council Tax Base will not be determined until mid December and is therefore based on estimates.
- The balance on the collection fund will not be determined until January 2011 and is therefore based on estimates.
- Support cost recharges to the HRA and between funds are based on current year's estimates and will be subject to change.
- Estimates for property and IT, the main areas affected by the fire, are based on pre fire base budgets. This will enable any savings recovery from the insurers to be met and also ensure base budgets are sufficient to meet future demands.
- A variety of assumptions have been made relating to a range of income streams, including investment income, affected by the current economic climate. These are based on a balance of the budget holders' knowledge of the service area, current and estimated market trends.
- As previously agreed no inflation has been provided for prices and pay awards unless adjusted by budget holders for known increases or contractual increases.
- No allowance has been made for the financial implications of a restructuring below Head of Service level.
- No allowance has been made for any financial implications of the Waterfield Leisure Pool management contract currently progressing through the procurement process.
- Assumptions have been made regarding the occupation of the new Council offices by Council staff and partners and the subsequent letting of Phoenix House both in terms of the date and also the level of rental income and service charges that will be achieved
- Assumptions have been made relating to externally funded services where the continuation of funding remains uncertain at the present time.
- No allowance has been made for the potential impact of planning fees being set locally nor the introduction of charging for pre planning advice.

3.3.5 Figures will continue to be refined until the Full Council meeting in February 2010 when the budget and Council Tax are formally set.

3.3.6 No provision has been made for growth in the general expenses budget which are set out in Appendix B. A number of proposals for disinvestment have been put forward for General Expenses as set out in Appendix C. Members will note that the detail of some is awaiting the results of the budget consultation and members may wish to provide guidance at this stage in conjunction with the interim results of the consultation as to how they wish these to be developed.

3.3.7 By approving those items put forward for disinvestment on the general fund members will be reducing the net spend in order to assist with balancing the budget and provide the resources if required to invest in any growth proposals they wish to approve. The Council's Medium Term Financial Strategy, which is currently being drafted with the aim to bring to this committee for approval in January 2011 following the announcement of the formula Grant, shows the ongoing pressure on the Council over the next four years due to the ongoing reductions in Formula Grant. In addition there are other areas of risk and uncertainty at this time on the Council's finances which will be set out in this document

including the end of the insurance cover and the move to the new building. All of which coupled with the economic situation nationally all present risks to the Council that could result in a significant deficit. As such the Council needs to build capacity to deal with these risks not just in the short term but over the medium to long term also where the opportunity arises.

- 3.3.8 In addition, growth of a non recurring nature can be funded from the Corporate Priorities Reserve, although the estimated balance on this fund at 31/3/11 is just over £390k after allowing for certain items that have been ring fenced from this fund and not allowing for any further draw on this reserve to fund any revenue deficit should members wish to do so. Due to the lack of capital receipts this fund is also required to fund capital items.
- 3.3.9 With regard to Special Expenses Melton Mowbray, despite there still remaining an estimated contribution to this reserve at the end of the current financial year the level of this reserve is still very low and would provide for little capacity for investments. Special expense increase to Council Tax are not covered by the Council Tax Freeze Grant. Members of the Town Area Working Group are recommending a nil increase. It should be noted that as internal recharges and the Council Tax base have not been finalised the surplus is still an estimate and is almost certain to change. The low level of the special expense reserve does mean that should the Council wish to fund special expenses capital schemes these will need to be met from capital receipts until such time as the reserve is built up from Council Tax increases.

3.4 Ill Health Early Retirement

- 3.4.1 At the meeting of this committee on 29th June 2010 it was resolved to take out ill health insurance cover for the 2010/11 financial year. Further information on the ongoing cost of this insurance and the links to the triennial valuation of the fund was to be reported at a later meeting once the information was available from the actuary. For members information a copy of this report and the associated Appendix is attached at Appendix E.
- 3.4.2 The triennial valuation is at draft stage and for Melton the employer rate will need to be increased by 1% for annum for the next 3 years. This is not the full rate that would be required to address the deficit but is the recommended rate taking into account stabilising the rates over a longer term period. In simple terms this allows for employers to underpay in bad times and over pay in good times. Where ill health retirement insurance is taken out the actuary will reassess rates and it is anticipated that these will be reduced broadly in line with the cost of the policy. As such it is being highly recommended by the Pension fund Administrators (LCC) that small employers take out this policy. A request has been made for the actuary to escalate the provision of the impact on our employer rate of continuing with this policy and this will be reported verbally at the meeting if received in time. However on the basis of the advice received and the risk involved in not continuing with the policy it is considered this should be continued.

4.0 POLICY AND CORPORATE IMPLICATIONS

- 4.1 The process followed with regard to the setting of the Council's budget is in line with the Service and Financial Planning timetable. The Working Group has only considered proposals for service enhancements where there is a link to the Council's Priorities.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

- 5.1 Until the provisional Formula Grant for this Council is known in December 2010 any estimate of the extent of any savings that need to be made, not just with the 2011/12 budget, but also with regard to the next four years could be very different to the actual position. However it is clear that savings will be required and therefore the Council does need to be mindful of the medium term projection and the financial risk this poses to the authority. The Council needs to continually review both the level and efficiency of the services it provides in line with its priorities in order to identify areas where savings can be

made, if and when the need arises, in order to ensure reductions are planned and managed in an effective way.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 The legal implications of service enhancements will need to be assessed when those enhancements are being considered.

7.0 COMMUNITY SAFETY

7.1 Community Safety is a key priority of the Council and the budget proposals need to take account of the requirements to support that strategy.

8.0 EQUALITIES

8.1 There are no direct links to Equalities, though some elements of the budget proposals will relate to Equalities issues. Any disinvestment proposals will need to have equality impact assessments completed as appropriate by the service lead. The latest position is included in the attachment at Appendix C as to whether an assessment is required to be carried out and if so whether this is complete at this stage.

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; this will be higher in some areas for the 2011/12 financial year due to the ongoing uncertainty surrounding the insurance claim, the move to the new build and the economy as well as any initiatives/policy changes arising from the CSR. 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 were presented to this committee as part of the budget framework report approved in September 2010 and will be included in the Council's Medium Term Financial Strategy. In addition, the Council has a process for enabling budgets to be moved from one area to another to help ensure the overall position is not affected. The assumptions set out in paragraphs 3.3.2 to 3.3.4 provide an indication where assumptions have been made at this stage and where there is less clarity surrounding the financial implications.

10.0 CLIMATE CHANGE

10.1 Climate change and our response to this could impact on a number of budgets and this should be considered as part of the service planning process.

11.0 CONSULTATION

11.1 The Service and Financial Planning timetable sets out the Council's approach to consultation and its links to the budget setting process. In addition, all Heads of Service and Members are involved in the process at various stages. Consultation with Business Ratepayers will be held via the website following advertisement.

11.2 Union representatives attended the BSPWG meetings held in November 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. More extensive staff consultation will need to be undertaken as the proposals progress through the decision making process as appropriate.

- 11.3 The Town Area Working Group was also consulted on proposals for Special Expenses Melton Mowbray.
- 11.4 A wide public consultation exercise is being held this year to help the Council decide where to make the cuts needed. The public's views are being sought on the areas that are important to them. The public is being asked what they would like to 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 is being done through the webpage and also in addition we will be consulting with our user groups, providing copies at the Children's Centres and libraries as well as seeking views from a Councillors' market stall on the last Saturday of the month between now and the end of the year.
- 11.5 The latest results are attached as Appendix D. Further updates will be provided to members as we progress through the budget process. 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.
- 12.0 **WARDS AFFECTED**
- 12.1 All wards will be affected.
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Date: 20 November 2010

Appendices: Appendix A – CSR Briefing
Appendix B – Growth Items - General Expenses
Appendix C – Options for Disinvestments - General Expenses
Appendix D – Interim Results of Budget Consultation
Appendix E – Ill Health Early Retirement Report and Appendix to 29.6.10 PFA Committee

Background Papers: Medium Term Financial Strategy working papers
Budget Book 2010/11
Budget Working Papers
Minutes from BSPWG 4/11/10

Reference: X: Committees/PFA/2010-11/2-12-10/DG-Latest Position Revenue Budget 2010/11 & 2011/12