

## **Meeting of the Cabinet – 9<sup>th</sup> February 2011**

### **Joint Report of the Chief Executive and Treasurer**

#### **Revenue Budget Strategy and Setting the Council Tax 2011/12**

##### **Purpose of Report**

1. To recommend to Council the deployment of General Fund revenue resources, a number of statutory calculations that have to be made by the Council and, subject to the receipt of the Joint Authority precepts, the Council Tax to be levied for the period 1st April 2011 to 31st March 2012.

##### **Background**

2. In formulating the Council's Budget Strategy and tax levels for 2011/12, Members will need to consider carefully:
  - (a) the levels of Government support allocated to the Council, including "Council Tax Freeze" grant;
  - (b) spending pressures, opportunities to free up resources (including efficiency savings), and Council Plan priorities;
  - (c) the implications of spending levels in later years as part of the Council's Medium Term Financial Strategy (MTFS);
  - (d) the views of consultees;
  - (e) the external factors and risks inherent in the Strategy;
  - (f) the impact on Council Tax payers.
3. At its meeting on 12<sup>th</sup> January 2011, the Cabinet approved provisional budgets for 2011/12 - 2013/14 which can be summarised as follows.

	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Base Budget Forecast</b>			
- including provision for inflation and other commitments	257.5	261.7	265.6
<b>Council Plan Priorities &amp; Pressures</b>	6.1	6.1	6.3

- see below

**Efficiency and Other Savings**

-22.3      -31.9      -34.9

- see below

<b>Service Spend</b>	<b>241.3</b>	<b>235.9</b>	<b>237.0</b>
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Changes arising since the report to the Cabinet on 12<sup>th</sup> January 2011

4. The budget forecasts and resource levels for 2011/12 identified in the previous report to Cabinet were based on a number of provisional figures and preliminary estimates, which might change prior to the final setting of the budget and Council Tax. Significant relevant issues which now need to be taken into account are as follows.

- (a) Final Formula Grant allocations for 2011/12 were announced on 31<sup>st</sup> January 2011. (Note that these are still subject to approval by Parliament on 9<sup>th</sup> February.) There were no fundamental changes to the principles of the settlement and national totals, but some minor data changes have resulted in Dudley's Formula Grant for 2011/12 increasing by £28,000.
- (b) The Integrated Transport Authority (ITA) levy is now being proposed at £17.429m for Dudley, being a reduction of 2.4% compared to the adjusted 2010/11 levy. This is £165,000 less than previously anticipated as a result of changes in relative population between the districts. The Levy will not be finally confirmed by the ITA until 7<sup>th</sup> February; any further variation compared with the proposed figure will be reported orally to the meeting.
- (c) The contingency included in the budget proposals for 2011/12 has been increased by £0.5m to reflect the increasing volatility of price inflation, particularly in respect of utilities.

In respect of the current year, one-off VAT refunds of £0.8m in respect of sports tuition charges have now been received. However, as a result of unprecedented problems with potholes resulting from the severe weather leading up to Christmas, it is proposed that an extra £1m be made available to undertake highway repairs - and that budgets be amended accordingly.

5. All the above changes, together with other minor adjustments, are reflected in the revenue budget allocations and MTFs set out below.
6. The extra funding package is as follows.

	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Children's Services</b>			
Support to Looked After Children	2915	1915	915
Post 16 Transport Arrangements for Learning	85	85	85
	<b>3000</b>	<b>2000</b>	<b>1000</b>

**Adult, Community and Housing**

Increased service demand / demographic pressures	1800	2500	3300
Archives relocation	276	276	306
	<b>2076</b>	<b>2776</b>	<b>3606</b>

**Urban Environment**

New Investment	678	748	868
Cost Pressures	309	571	832
	<b>987</b>	<b>1319</b>	<b>1700</b>

<b>Total</b>	<b>6063</b>	<b>6095</b>	<b>6306</b>
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Further details are shown in Annex C of the MTFS attached.

7. Following a detailed budget review process, which considered the need to redirect resources to the spending pressures and priorities set out in paragraph 6, a range of efficiency and other savings (including items provisionally agreed as part of the 2010/11 strategy) have been identified from existing budgets, as set out in the following table.

	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Children's Services</b>			
Reduction in Management and Administration	-1384	-1743	-1743
Family Support Services	-765	-1317	-1317
Support to Looked After Children	-230	-324	-324
Children with Disabilities	-521	-602	-652
School Improvement	-448	-448	-642
School Support	-1167	-1877	-1877
Integrated Youth Support, Information, Advice and Guidance	-1358	-2131	-2187
	<b>-5873</b>	<b>-8442</b>	<b>-8742</b>
<b>Adult, Community and Housing</b>			
Reduction in management and back office costs	-1416	-2581	-3134
Service redesign and modernisation	-4102	-4956	-6061
Efficiency savings through more effective provision and commissioning of services	-3911	-5220	-4922
Housing General Fund - review and reprovision of Supporting People contracts and other service efficiencies	-632	-1165	-1213
	<b>-10061</b>	<b>-13922</b>	<b>-15330</b>
<b>Urban Environment</b>			
Staffing savings	-1539	-2203	-2471
Service savings	-150	-180	-180
Efficiencies	-90	-571	-771
Other Savings	-742	-919	-919
New Methods of Working	-375	-575	-575

Income, fees and charges	-574	-834	-1060
	<b>-3470</b>	<b>-5282</b>	<b>-5976</b>

### **Corporate Resources**

ICT Operational Budgets	-389	-761	-940
Restructuring within Corporate Resources	-349	-564	-594
Rationalise Constitutional issues	-68	-92	-97
Changes to Licensing income and enforcement	-36	-56	-56
Review of Property Costs	-616	-616	-616
Efficiencies	-840	-1178	-1473
	<b>-2298</b>	<b>-3267</b>	<b>-3776</b>

**Chief Executive's**

Marketing & Communication	-172	-192	-232
Reduce contributions to Third Sector	-10	-55	-125
Reduction in central policy and administration	-227	-469	-489
Community Safety	-128	-150	-175
Emergency Planning	-70	-100	-100
	<b>-607</b>	<b>-966</b>	<b>-1121</b>

**Total**

<b>-22309</b>	<b>-31879</b>	<b>-34945</b>
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Further details are shown in Annex C of the MTFs attached.

8. The Government has announced the transfer of monies from the NHS to support adult social care of £648m nationally in 2011/12 and £622m in 2012/13. PCTs will transfer this funding to Councils to invest in social care services to benefit health, and improve overall health gain. Dudley's transfer equates to an additional £4.3m in 2011/12 and £4.1m in 2012/13 to support both the health and social care needs of Dudley residents. A plan will be agreed between the PCT and the Council regarding the use of these resources.
9. In addition to the above savings, it is proposed that the flexibilities made available by the Local Government Finance Act 2003 to enable the Council to reduce the council tax discounts given in respect of unoccupied properties be used as follows:
  - That for furnished but unoccupied properties (except where the liable person resides at another property which is job related), e.g. second homes, the council tax discount be further reduced from 25% of the applicable charge to 10% with effect from 1<sup>st</sup> April 2011.

This proposal will help to encourage the bringing back into full time use of some of the Borough's housing stock in line with the Council's Empty Homes Strategy, which should in turn help the local economy. It will generate approximately £70,000 per annum extra income to the Council.

In order to meet the timescales required for an April 2011 implementation it is being recommended that the decisions relating to the proposals in this paragraph be made now.

### Human Resource Implications

10. The opportunity to express interest in voluntary redundancy has been made available to employees of the Council. Agreement to such requests has not, however, been automatic and is subject to the need to continue to provide high quality services with appropriately skilled staff. As at 2<sup>nd</sup> February, there have been a total of 1,128 requests for voluntary redundancy, of which 535 could not be accepted due to the fact that the loss of these posts would compromise the needs of the service. 325 requests are acceptable and will now be progressed with the individuals concerned. There are 268 requests that require further consideration – for example, in a number of service areas, an excess of volunteers have come forward, requiring the establishment of selection pools to determine the most suitable employees to be accepted for voluntary redundancy. In order to deal with all cases for voluntary redundancy as soon as possible and minimise costs, this report recommends that the Director of Corporate Resources, in consultation with the Cabinet Member for Personnel, Legal and Property, be authorised to determine all applications for voluntary redundancy including those where there are pension implications.
11. Due to the nature of the process, precise figures cannot be given at this stage, but it is anticipated that the voluntary redundancies set out above can be achieved within a cost envelope of £6m for direct redundancy costs and (where applicable) £2.5m for the capitalised cost of strain on the pension fund. Subject to completion of the process set out in paragraph 10, it is likely that some compulsory redundancies will still be required to completely achieve the savings for 2011/12 set out in this report. It is anticipated that total direct redundancy costs can be met from capitalisation directions received by the Council, use of reserves set aside for committed capital expenditure (which in turn could be funded from prudential borrowing), and as a last resort from general balances. Funding of the capitalised cost of pension strain is set out in paragraph 12 below. Any compulsory redundancies will be reported to a future meeting of Cabinet for approval in the normal way.

12. In addition to direct redundancy payments, any Pension Fund member who is over 55 and is made redundant before their normal retirement age is entitled to immediate payment of their pension. This early payment results in a strain on the Pension Fund which is borne by the Council. There has been a recent actuarial valuation of the assets and liabilities of the West Midlands Pension Fund as they stood at 31<sup>st</sup> March 2010. This will form the basis of employers' contribution rates for the three years commencing on 1<sup>st</sup> April 2011. We have been advised that taking into account all factors affecting the Fund there would be sufficient flexibility within the minimum rates proposed by the actuary to cover the impact of pension strain for the likely levels of early retirement arising from the savings set out in this report.
13. Employers have in the past used powers under various regulations to award employees who have retired early "Compensatory Added Years" (CAYs) which provided them with a lump sum and annual payment in addition to their funded pension benefits. (This practice ended in 2008.) These are currently paid by the fund but recovered directly from employers on a "pay as you go" basis. However, there is now also sufficient flexibility within the pension fund to convert such costs into funded benefits, as allowed for by the relevant regulations. It is therefore proposed that the Treasurer be authorised to convert these costs where appropriate, and to notify the West Midlands Pension Fund accordingly.

#### Estimates, Assumptions & Risk Analysis

14. It was noted in the previous report to Cabinet that the budget forecasts and resource levels were based on a number of estimates, assumptions and professional judgements, which may need to be reviewed and amended either before the budget and Council Tax for 2011/12 is set, during the course of that year, or indeed over the term of the MTFS. These issues will need to be kept under regular review.
  - (a) Formula Grant for 2012/13 is as per the figures announced with the provisional 2011/12 settlement, and for 2013/14 is in line with the totals announced in the Comprehensive Spending Review;
  - (b) Single Status and Equal Pay costs are no more than estimated;
  - (c) general levels of inflation, pay and interest rates do not vary materially from current forecasts;
  - (d) there will be no other unplanned expenditure (including any resulting from demographic pressures) or shortfalls in income, which cannot be met from reserves;
  - (e) Council Tax rises are in line with Office for Budget Responsibility (OBR) forecasts.

15. An impact assessment of the significant risks which Members should consider prior to agreeing a budget and MTFS is set out in Annex D of the proposed MTFS.
16. In mitigation, any unbudgeted costs would have to be met from further economies or reductions in planned spending in the year or from balances.
17. The budget proposals for 2011/12 do not require the use of balances to support base expenditure.
18. However, the reduction in Early Intervention Grant (EIG) compared with the Children's Services grants it replaces amounts to a loss of funding of around £1.9m for Dudley, while the discontinuation of other Children's grants amounts to a further £1.7m. This loss of resources amounting to £3.6m will result in the need for a further review of expenditure both in the Directorate of Children's Services and other Directorates during 2011/12 to mitigate this loss by 1<sup>st</sup> April 2012. In the meantime an equivalent sum will be set aside within General Fund Balances as a contingency whilst this process is underway.
19. It is proposed that remaining balances be retained to meet any other spending pressures and risks going forward together with the implications of required staffing reductions which cannot be funded from other sources. In addition it is proposed that a tight regime of control and review of balances continues to operate throughout the medium term to free up reserves wherever possible.

#### Medium Term Financial Strategy

20. A Medium Term Financial Strategy (MTFS) provides a strategic context for the Council's budgets, spending plans and financial matters in general to ensure that spending decisions are consistent with the Council's overall priorities and objectives. It sets out how the Council plans to balance spending pressures and available resources over the medium term, taking into account risks and uncertainties, and the level of Council Tax.
21. The proposed MTFS covering the 4 year period 2010/11 – 2013/14 is set out in detail as Attachment A. This is a comprehensive document and therefore repeats some of the information in this report.

#### Detailed 2011/12 Budget Proposals

22. It is now proposed to recommend to Council the following revenue budget allocations to services.

#### **Revenue Budget Allocations 2011/12**

<b>Service</b>	<b>£m</b>
Children's Services	61.058
Adult, Community and Housing Services	92.540
Urban Environment	54.244

<b>Service</b>	<b>£m</b>
Corporate Resources	29.070
Chief Executive's	4.610
<b>Total Service Allocations</b>	<b>241.522</b>
Less: Council Tax Freeze Grant	-2.766
<b>BUDGET REQUIREMENT</b>	<b>238.756</b>

Details of each service's budgets analysed by main divisions of service are shown at Appendix 1.

23. The yield for 2011/12 from the Council Tax necessary to meet the requirements of the Council has been calculated having regard to the estimated balance on the Collection Fund at 31st March 2011, set out as follows. It should be noted that the Fire and Police authorities are entitled to a share of any Collection Fund surpluses relating to Council Tax collection, although for 2010/11 nothing will be payable, as there is no overall surplus.

#### **Estimated Collection Fund Surplus**

	<b>£m</b>
Arrears brought forward	6.300
Add: Debit for 2010/11	125.508
	131.808
Less: Forecast collections	126.349
Estimated Bad Debt Provision Required	5.459
Compared with current Bad Debt Provision	5.459
Extra provision required	0.000
Plus: Adjustment to Surplus arising in 2009/10	-
<b>Total Estimated Available Surplus</b>	<b>0.000</b>
Less: Fire and Police Authorities' Share	-
<b>NET SURPLUS AVAILABLE TO DUDLEY</b>	<b>0.000</b>

25. The amount required from Council Tax Payers to fund the Council Budget Requirement together with the Band D Council Tax calculation is shown in the following table:-

#### **Funding the Revenue Budget Requirement 2011/12**

<b>Source of Funding</b>	<b>2010/11 £m</b>	<b>2011/12 £m</b>
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Dudley MBC Budget Requirement	235.451	238.756
Less: Revenue Support Grant	(15.923)	(30.250)
Business Rate Contribution	(109.655)	(97.865)
Collection Fund Surplus	-	-
<b>Dudley's Own Requirement from Council Tax Payers</b>	<b>109.873</b>	<b>110.641</b>
Approved Tax base	97631.53	98313.96
<b>COUNCIL TAX (Band D) FOR DUDLEY</b>	<b>1125.39</b>	<b>1125.39</b>

26. It is being proposed that the Council approves the statutory calculations required by virtue of Section 32 to 36 of the Local Government Finance Act 1992 as set out in Appendix 2.
27. The proposed Dudley MBC Council Tax for a Band D property for 2011/12 of £1125.39 represents a freeze compared to 2010/11.
28. The total levels of Council Tax, which will be considered by the Council at its meeting on 8<sup>th</sup> March 2011, will include the precepts for the Police and Fire and Rescue Authorities which are due to be agreed on 17<sup>th</sup> February and 14<sup>th</sup> February respectively. It will, therefore, be necessary to incorporate the figures for the precepts in the Budget Report to Council.
29. The Local Government Act 2003 requires the designated Chief Finance Officer of the Authority (the Treasurer) to report on the robustness of estimates made for the purpose of final budget calculations, and the adequacy of the proposed financial reserves. The Treasurer's report is set out in Appendix 3. The authority will also have a statutory obligation to review its budget during the year, with particular regard to any deterioration in its financial position and the taking of any necessary corrective action.

#### Consultation on Budget Proposals

30. Public consultation was undertaken by the Corporate Policy and Research Division during late November, primarily to establish service priorities, i.e. on which services spend should be increased, remain the same, or decreased. Around 1,000 paper copies were distributed through Council walk-in facilities such as Dudley Council Plus, Town Libraries and some Housing offices. Of these 261 were completed. At the same time, a web version was made available from the Dudley MBC home page and this elicited a further 286 responses from 1078 site visits. The results are shown at Appendix 4.

31. During the summer of 2010, a Spending Challenge was issued to all employees, seeking ideas to improve the Council's use of resources. A number of the responses to that exercise are reflected in the proposed budget and other responses will be given further consideration as we move forward with the MTFS and grading and pay review.
32. A statutory consultation meeting is due to be held on 8<sup>th</sup> February with representatives of Non-Domestic Ratepayers. Any issues will be reported orally to the Cabinet. Relevant issues arising from any written responses subsequently received will be reported to the Council at its meeting on 8<sup>th</sup> March.
33. Each Select Committee has considered the provisional budget proposals approved at the meeting of the Cabinet on 12<sup>th</sup> January. There were no resolutions made that directly affect these budget proposals.
34. The Dudley Community Partnership has been invited to comment on the proposals. Any response will be reported orally to the meeting of Cabinet.

## **Finance**

35. This report is financial in nature and relevant information is contained within the body of the report.

## **Law**

36. The Council's budget setting process is governed by the Local Government Finance Acts, 1988 and 1992, and the Local Government and Housing Act, 1989, and the Local Government Act 2003.
37. Section 67 of the Local Government Finance Act 1992 requires the Council to make calculations concerning its spending and Council Tax for the area. These calculations enable the Council's statutory obligations to be fulfilled.
38. The Local Government Act 2003 requires the Treasurer to report on the robustness of estimates made for the purpose of final budget calculations, and the adequacy of the proposed financial reserves.
39. The Local Government Finance Act 1992 gives the Secretary of State power to determine that an authority's Budget Requirement is excessive. This may result in "designation" (possibly leading to recalculation of the Budget Requirement and Rebilling) or "nomination" which either pre-sets a Budget Requirement limit for a future year or a notional budget for the current year against which future years' Budget requirements will be measured for capping purposes.
40. The Ministerial Statement accompanying the provisional Formula Grant Settlement made the following comments:

*“The Government also wants to ensure that council tax payers are protected against authorities that reject the offer (of the Council tax Freeze Grant) and impose excessive council tax rises. We will introduce powers for residents to veto excessive council tax increases through a local referendum. In the meantime, the Government will take capping action against councils that propose excessive rises.*

*When the House debates the final local government finance report next year, I will set out the capping principles.”*

41. It is important for Members to note that Sections 30(6) and 32(10) of the Local Government Finance Act 1992, impose a statutory duty upon the Council to calculate its budget requirement and to set its Council Tax for 2011/12 before the 11th March, 2011.
42. Regulations laid under Section 11A of the Local Government Finance Act 1992, as inserted by section 75 of the Local Government Act 2003, give billing authorities the power to reduce council tax discounts given in respect of unoccupied dwellings in all or part of their area, including for dwellings that are furnished but unoccupied, to reduce the discount to a minimum of 10%.

The Local Authorities (Calculation of Council Tax Base) (Amendment) (England) Regulations 2003 reflect the ability of billing authorities to increase the tax base by making a determination to reduce or remove discounts under section 11A of the 1992 Act.

### **Equality Impact**

43. These proposals comply with the Council's policy on Equality and Diversity as far as is possible within existing and future resource levels.
44. With regard to Children and Young People:
  - The proposed budget for the Directorate of Children's Services (including the additional spending detailed) will be spent wholly on maintaining and improving services for children and young people. The expenditure of other Directorates' budgets will also have a significant impact on this group.
  - There has been no specific involvement of children and young people in developing the proposals in this report.

### **Recommendations**

45. That the Cabinet recommends the Council to approve the following:
  - The budget requirement for 2011/12, and service allocations as set out in the report.

- That the statutory amounts required to be calculated for the Council's spending; income and use of reserves; budget requirement and; transfers to and from its collection fund as referred to in Section 67(2)(b) be now calculated by the Council for the year 2011/12 in accordance with Sections 32 to 36 of the Local Government and Finance Act 1992 as shown in Appendix 2 of this report.
- That, having calculated the aggregate in each case of the amounts in Appendix 2, the Council, in accordance with Section 30(2) of the Local Government Finance Act, 1992, agrees the following levels of Council Tax for Dudley Council services for 2011/12

#### Valuation Bands

<b>A</b> <b>£</b>	<b>B</b> <b>£</b>	<b>C</b> <b>£</b>	<b>D</b> <b>£</b>	<b>E</b> <b>£</b>	<b>F</b> <b>£</b>	<b>G</b> <b>£</b>	<b>H</b> <b>£</b>
750.26	875.30	1000.34	<b>1125.39</b>	1375.47	1625.56	1875.64	2250.77

- plus the amounts to be notified for the Police, and Fire and Rescue Authority precepts.

46. That the Cabinet Members, Chief Executive and Directors be authorised to take all necessary steps to implement the proposals contained in this report, in accordance with the Council's Financial Management Regime.
47. That the Council reminds the Chief Executive and Directors to exercise strict budgetary control in accordance with the Financial Management Regime and care and caution in managing the 2011/12 budget, particularly in the context of commitments into later years and the impact that any overspending in 2011/12 will have on the availability of resources to meet future budgetary demands.
48. That the Medium Term Financial Strategy (MTFS) set out as Attachment A be approved, including the revised budget for 2010/11 summarised in paragraph 18 of the MTFS.
49. That for furnished but unoccupied properties (except where the liable person resides at another property which is job related), e.g. second homes, the council tax discount be reduced from 25% of the applicable charge to 10% with effect from 1<sup>st</sup> April 2011.
50. That the Treasurer be authorised to convert the cost of Compensatory Added Years (CAYs) previously awarded to employees into funded benefits where appropriate, and to notify the West Midlands Pension Fund accordingly.

51. That the Director of Corporate Resources, in consultation with the Cabinet Member for Personnel, Legal and Property, be authorised to determine all applications for voluntary redundancy including those where there are pension implications, up to a maximum of £6m for direct redundancy costs and £2.5m for the capitalised cost of pension strain.



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**John Polychronakis**  
**Chief Executive**

Contact Officers:

Jan Szczechowski

Telephone: 01384 814805

Email: [jan.szczechowski@dudley.gov.uk](mailto:jan.szczechowski@dudley.gov.uk)

[john.everson@dudley.gov.uk](mailto:john.everson@dudley.gov.uk)



.....  
**Iain Newman**  
**Treasurer**

John Everson

Telephone: 01384 814806

Email:

**List of Background Papers**

Final Formula Grant Settlement papers and electronic communications.

Budget Report to 12<sup>th</sup> January Cabinet.

## Appendix 1

### Analysis of Provisional 2011/12 Budget by Division of Service

	£'000
<b>Children's Services</b>	
Schools	21,217
Youth Service	2,765
Children & Families Social Services	35,429
Other Children's Services	1,647
	<b>61,058</b>
<b>Adult, Community and Housing Services</b>	
Care & Support for Older People	37,576
Care & Support for People with a Physical or Sensory Disability	8,817
Care & Support for People with a Learning Disability	23,667
Care & Support for People with Mental Health Needs	5,649
Libraries, etc.	5,459
Other Adult and Community Services, etc.	3,312
Private Sector Housing	7,290
Homelessness & Welfare	447
Contribution to Housing Revenue Account for Community Expenditure	323
	<b>92,540</b>
<b>Urban Environment</b>	
Environmental Health & Consumer Protection	3,447
Street Cleansing	2,612
Waste Collection & Disposal	16,031
Cemeteries & Crematoria	-887
Traffic Management & Road Safety	2,268
Flood Defence & Land Drainage	192
Highways Maintenance (inc. depreciation)	15,221
Other Engineering & Transportation Services	-379
Planning, Building and Development Control	2,380
Economic Regeneration	1,499
Environmental Initiatives	446
Culture and Heritage	2,266
Recreation & Sport and Open Spaces	9,148
	<b>54,244</b>

**Corporate Resources**

Tax Collection & Benefits	3,199
Transport Authority Levy	17,429
Flood Defence Levy	101
Treasury etc.	-3,728
Licensing, Registration & Courts	295
Democratic Costs	1,341
Corporate & Other Costs	10,433
	<b>29,070</b>

**Chief Executive's**

Elections & Electoral Registration	743
Economic & Community Development	291
Community Safety	1,024
Corporate & Other Costs	2,552
	<b>4,610</b>

<b>TOTAL</b>	<b>241,522</b>
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Note: Above figures adjusted where necessary to reflect latest estimates.

**Details of Calculations to be Determined by the Council**

1. That the following amounts be now calculated by the Council for the year 2011/12 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:
  - (a) £712.045000m being the aggregate of the amounts which the Council estimates for the items set out in Section 32(2)(a) to (e) of the Act (*The Council's spending and contribution to reserves*)
  - (b) £473.289000m being the aggregate of the amounts which the Council estimates for the items set out in Sections 32(3)(a) to (c) of the Act (*The Council's income and use of reserves*)
  - (c) £238.756000m being the amount by which the aggregate at (a) above exceeds the aggregate at (b) above, calculated by the Council, in accordance with Section 32(4) of the Act, as its budget requirement for the year (*The Council's budget requirement*)
  - (d) £128.114901m being the aggregate of the sums which the Council estimates will be payable for the year into its general fund in respect of redistributed non-domestic rates or revenue support grant [increased by the amount of the sums which the Council estimates will be transferred in the year from its collection fund to its general fund in accordance with Section 97(3) of the Local Government Finance Act 1988] or [reduced by the amount of the sums which the Council estimates will be transferred in the year from its General Fund to its Collection Fund in accordance with Section 97(4) of the Local Government Finance Act 1988] and [increased by the amount of any relevant sum which the Council estimates will be transferred from its collection fund to its general fund pursuant to the directions under section 98(4) of the Local Government Finance Act 1988] or [reduced by the amount of any relevant sum which the Council estimates will be transferred from its general fund to its collection fund pursuant to the directions under section 98(5) of the Local Government Finance Act 1988].

(e) £1125.3854      being the amount at (c) above less the amount at (d) above  
i.e. £110.641099m all divided by the Council Tax base of  
98313.96, calculated by the Council, in accordance with  
Section 33(1) of the Act, as the basic amount of its council  
tax for the year (*The Council's basic amount of tax*)

(f) Dudley Council Tax for each Valuation Band

<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
750.26	875.30	1000.34	<b>1125.39</b>	1375.47	1625.56	1875.64	2250.77

being the rounded amounts given by multiplying the amount at (e) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different bands.

**Report of the Treasurer as required by  
Section 25 of the Local Government Act 2003**

1. Section 25 of the Local Government Act 2003 requires the designated Chief Finance Officer of the Authority (the Treasurer) to report to it on the following matters:
  - (a) the robustness of the estimates for the purposes of the statutory budget calculation;
  - (b) the adequacy of the proposed financial reserves;and the Authority must then have regard to that report when making decisions about the statutory budget calculations.
2. The estimates which comprise the budget proposed in this report have been completed by my staff and staff in Directorates, on the basis of known commitments, a prudent allowance for pay awards and price increases during the year and an appropriate assessment of the potential risks and uncertainties. We have also had regard to the availability of external funding, particularly specific Government Grants and partnership funding and income levels from fees and charges. The proposals for additional spending are based on specific initiatives or projects, or provide a cash-limited allocation for a particular activity. The proposals for efficiency and other savings result from a detailed review of existing spending, and represent a realistic estimate of what can be saved if the action proposed is implemented.
3. There is a financial risk management process in operation which seeks to identify the significant risks to which the Council is subject, and which is used to inform the level of reserves which it is considered appropriate to hold at both a corporate and directorate level.
4. The estimated level of unearmarked balances at 31<sup>st</sup> March 2011 is £8.1m. The budget proposals for 2011/12 do not require the use of balances to support base expenditure. However the reduction in Early Intervention Grant (EIG) compared with the Children's Services grants it replaces, amounts to a loss of funding of around £1.9m for Dudley, while the discontinuation of other Children's grants amounts to a further £1.7m. This loss of resources amounting to £3.6m will result in the need for a further review of expenditure both in the Directorate of Children's Services and other Directorates during 2011/12 to mitigate this loss by 1<sup>st</sup> April 2012. In the meantime an equivalent sum will be set aside within General Fund Balances as a contingency whilst this process is underway.

The following table summarises the total level of estimated General Fund earmarked reserves at 31st March 2011.

	<b>Forecast Balance 31.3.11 £m</b>
Working Capital	2.0
Single Status	10.5
Insurance Fund	6.5
Capital Resources	4.3
Other Corporate	1.5
<b>Total Corporate Reserves</b>	<b>24.8</b>
DGfL & Paragon equalisation	3.5
School Balances	10.2
Directorate Reserves	1.5
<b>Total Earmarked Reserves</b>	<b>40.0</b>

5. The Working Capital reserve is specifically held to cover unforeseen expenditure or shortfalls in income of an exceptional nature, and is not anticipated to be utilised under normal circumstances.

The Single Status reserve reflects funding set aside to meet the costs of implementing the results of the current Job Evaluation exercise.

The Insurance Fund will continue to be maintained at a level consistent with the insurable risks borne by the Council and the level of outstanding claims at any time, and will fluctuate accordingly.

The Capital Resources reserve represents resources carried forward to fund future expenditure within the Capital Programme.

The DGfL and Paragon equalisation reserves represent Government revenue support for these PFI schemes received in advance, and will be expended over the remaining life of the projects.

Reserves held by Schools will vary as they are managed by schools in accordance with the Fair Funding scheme, whilst Directorate Reserves held for specific purposes will continue to be managed in accordance with the Financial Management Regime.

The total level of earmarked reserves at 31<sup>st</sup> March 2012 is estimated to be about £27m, the main reason for the reduction compared with 31<sup>st</sup> March 2011 being the expectation that the Single Status reserve will have been fully utilised.

6. I am therefore able to confirm that in my professional opinion:
- (a) the estimates made for the purposes of the calculation of the Council's budget requirement under Section 32 of the Local Government Finance Act 1992, contained in this report, are robust;
  - (b) the financial reserves that will remain available to the Council as a result of agreeing the proposals contained in this report are adequate.

Iain Newman  
Treasurer

### Budget 2011/12 Questionnaire Results

	<b>Increase Spend</b>	<b>Stay the Same</b>	<b>Reduce Spend</b>
Schools	43%	52%	5%
Support to Schools	35%	52%	13%
Children's centres and nurseries	32%	57%	11%
Youth Service and Community Centres	30%	53%	17%
Extended schools activities	20%	48%	31%
Music and arts services for young people	15%	49%	36%
Adult Education	15%	61%	24%
Libraries / Archives	20%	56%	24%
Refuse Collection & Disposal	24%	66%	10%
Street Cleaning & Litter Removal	28%	63%	9%
Green waste collection	17%	67%	16%
Maintenance of Roads & Footpaths	44%	48%	7%
Maintenance of Trees and Bushes	18%	51%	31%
Reducing Traffic Congestion	26%	51%	23%
Arts & Entertainment	8%	41%	51%
Museums & Heritage	8%	51%	41%
Parks & Open Spaces	17%	60%	23%
Sports Facilities & Leisure Centres	24%	55%	21%
Helping Create New Jobs & Businesses	55%	35%	11%
Physical Regeneration of our Town Centres	34%	43%	22%
Care and Support for Children with Special Needs	45%	51%	4%
Care and Support for Children with Disabilities	47%	49%	3%
Care & Support for Children & Families	40%	47%	13%
Care & Support for Older People	53%	45%	3%
Care & Support for People with Mental Health Problems, Learning or Physical Disabilities	47%	50%	3%
Crime Prevention & Public Safety	50%	45%	5%

# **Dudley MBC**

## **Medium Term Financial Strategy**

**2010/11 -  
2013/14**

## **Purpose of Medium Term Financial Strategy**

1. The Medium Term Financial Strategy (MTFS):
  - Provides a strategic context for the Council's budgets, spending plans and financial matters in general to ensure that spending decisions are consistent with the Council's overall priorities and objectives;
  - Sets out how the Council plans to balance spending pressures and available resources over the medium term, taking into account risks and uncertainties, and the level of Council Tax.
2. The principles underlying the MTFS are set out in Annex A. They apply to all aspects of Council activity, including the Housing Revenue account (HRA).
3. The operational principles of financial management are set out in the Council's Constitution - under the headings of the Financial Management Regime (FMR), Contract Standing Orders; Financial Regulations and Associated Codes of Practice. Together with the MTFS, these documents comprise the strategic and day to day framework for the operation of the Council's finances.
4. The MTFS and principles underlying it are reviewed each year as part of the annual budget process.
5. The MTFS set out below for the General Fund revenue budget covers 4 years, including the current year.

## **Financial Background**

6. The Council's External Auditor issued an unqualified opinion on the Council's 2009/10 Statement of Accounts, and commented in the most recent Annual Audit Letter that:  
"Overall, the Council performs well at managing its finances" and "The Council continues to show strong performance whilst keeping costs within budget".
7. Cabinet members met informally several times during the summer and autumn to formulate, in consultation with Directors, prioritised spending pressures and savings proposals for 2011/12 – 2013/14 to be submitted to the Cabinet.
8. Spending pressures and desirable service developments likely to arise over the next 3 years were considered which would result from:
  - Legislative pressures;
  - Demographic pressures;
  - Customer Driven;
  - Performance Standards / Government Targets;
  - Fall-out of Specific Grants.

Each pressure was considered in the light of:

- Its impact on Council priorities;
- A risk assessment of not funding the pressure;
- The possibility of funding from external or capital resources.

9. Likewise, savings options were considered which might result from:

- Efficiencies from Value for Money comparison work;
- Other cash efficiency savings;
- Additional income from fees and charges;
- Additional external funding;
- Review of low priority spending.

Each saving was considered in the light of:

- A risk assessment relating to achievability;
- A risk assessment relating to service and equality impacts;
- Any one-off costs involved in achieving the saving.

### **The Proposed Budget and MTFS**

#### **2010/11**

10. As reported to Cabinet in September there have been variances in forecast spend compared with 2010/11 original budgets resulting from:

	<b>£m</b>
Reductions to Area Based Grant (ABG) net of savings identified in year	1.2
Reduction to Local Authority Business Growth Incentive (LABGI) grant	0.2
One-off VAT refunds (net of approved expenditure on leisure facilities)	(1.1)
Costs incurred by the Council in managing the impact of protests by the English Defence League (EDL)	0.3
Surplus on Treasury Management Operations, mainly due to variations to cash flow	(1.3)
<b>Total net reduction</b>	<b><u>(0.7)</u></b>

11. Cabinet agreed at its meeting on 22<sup>nd</sup> September that budgets be amended to reflect these variances.

12. However, as reported to Cabinet in December, as in previous years and in common with other councils around the country, we are facing significant pressure from increased numbers of referrals and demand for social care services and costs of Looked After Children (LAC) including increased costs of supervised contact arrangements. The Directorate of Children's Services is continuing to take stringent action in a number of areas to challenge, manage

and mitigate these costs. Notwithstanding this, there is a risk that the Directorate's budget will be overspent by £0.6 million by the year end.

13. There are also significant pressures on the budget of the Directorate of Adult, Community and Housing Services resulting from high numbers of elderly clients being discharged from hospital requiring social care, increasing numbers of clients with profound learning disabilities being supported and by increasing numbers and costs of clients being supported with Mental Health needs. The position is being actively managed and a range of actions being taken with the aim of mitigating these cost pressures within the Directorate's budget but this carries significant risks.
14. This could be the most challenging winter maintenance period for over 100 years. Up to the end of December the Council has already used over 4,000 tonnes of salt, which is more than is used in an average winter. The resulting overspend of £350,000 has so far been absorbed by careful control of the Environmental Management budget. If there are further periods of severe weather, it may not be possible to contain expenditure within the existing budget of the Directorate of the Urban Environment.
15. The budget for 2010/11 included a contingency of £1m to cover inflationary and other pressures in excess of those assumed when the budget was set. In light of the pressures above, it is proposed that this contingency be retained.
16. Further one-off VAT refunds of £0.8m in respect of sports tuition charges have now been received. However, as a result of unprecedented problems with potholes resulting from the severe weather leading up to Christmas, it is proposed that an extra £1m be made available to undertake highway repairs - and that budgets be amended accordingly.
17. Following a review by Directorates, £1.4m of earmarked reserves have also been identified which are no longer required for their original purposes,
18. The overall budget position for 2010/11 can therefore be summarised as follows.

	£m
Original total budget	231.951
Net reductions in spend reported to September Cabinet (para 10)	-0.731
Further VAT refund (para 16)	-0.798
Pothole repairs (para 16)	1.000
Review of earmarked reserves (para 16 above)	-1.378
<b>Revised total net budget</b>	<b>230.004</b>
Plus: Contribution to Balances	5.407
<b>Budget Requirement (unchanged)</b>	<b><u>235.451</u></b>

#### General Fund Balances

19. The latest position is as follows:

	<b>Original Budget £m</b>	<b>Latest Position £m</b>
Balance at 31 <sup>st</sup> March 2010	2.8	2.8
Effect of 2009/10 outturn	-	0.5
	<b>2.8</b>	<b>3.3</b>
Planned contribution to balances 2010/11	3.5	3.5
Net variations from original budgets approved by September Cabinet (para 10)	-	0.7
Further net variations (para 16)	-	-0.2
Review of Earmarked Reserves	-	1.4
Potential overspend in Directorate of Children's Services (para 12)	-	-0.6
<b>Balance at 31<sup>st</sup> March 2011</b>	<b>6.3</b>	<b>8.1</b>

2011/12 – 2013/14

20. The following table summarises the current budget proposals for 2011/12 – 2013/14, as detailed in the relevant Budget & Council Tax setting reports.

	<b>2011/12 £m</b>	<b>2012/13 £m</b>	<b>2013/14 £m</b>
Base Budget Forecast	<b>257.7</b>	<b>261.9</b>	<b>265.8</b>
Council Plan Priorities & Pressures	6.1	6.1	6.3
Efficiency & Other Savings	-22.3	-31.9	-34.9
<b>Net Budget</b>	<b>241.5</b>	<b>236.1</b>	<b>237.2</b>

Further details of the implications of this proposed budget for each service area are detailed at Annex C.

21. The MTFS is based on a number of estimates, assumptions and professional judgements, which may need to be reviewed and amended over the term of the MTFS. Changes to the assumptions may lead to further increases in expenditure and, therefore, the need to identify alternative funding sources. These assumptions include:
- (a) Formula Grant for 2012/13 is as per the figures announced with the provisional 2011/12 settlement, and for 2013/14 is in line with the totals announced in the Comprehensive Spending Review;
  - (b) Single Status and Equal Pay costs are no more than estimated;
  - (c) general levels of inflation, pay and interest rates do not vary materially from current forecasts;
  - (d) there will be no other unplanned expenditure (including any resulting from demographic pressures) or shortfalls in income, which cannot be met from reserves;
  - (f) Council Tax rises are in line with Office for Budget Responsibility (OBR) forecasts.

A summary risk assessment is set out at Annex D.

22. Decisions about spending, funding and council tax levels in any one year need to be made in the context of the Medium Term Financial Strategy (MTFS), recognising that medium term projections need to be reviewed and revised on a regular basis. The proposed financial strategy assumes inflationary pressures over the next three years remain low and that spending can be contained within approved budgets.

23. Projected budgets for 2012/13 and 2013/14 reflect Council Tax increases in line with OBR assumptions. Any further increased spending pressures and/or significant adverse variations from key budget and forecast assumptions which cannot be met from balances will, of course, either increase the level of savings required or further increase the pressure on council tax levels.
24. In order to ensure that the Council can properly manage its financial affairs over the medium term, and ensure resources are available to deal with new spending pressures and other unforeseen eventualities, the strategy must therefore be to:
  - (a) manage spending within approved budget levels;
  - (b) review spending priorities and the allocation of resources in line with Council Plan priorities;
  - (c) seek further efficiency and other savings;
  - (d) maximise opportunities for additional external funding;
  - (e) take action to replenish General Balances;
  - (f) regularly review risks and uncertainties and any other relevant factors.

#### Partnerships

25. The MTFS set out above reflects the Council's revenue commitments in respect of the following financially significant partnerships. (These figures are provisional and subject to review.)

#### **Contribution**

	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Black Country Consortium</b> - partnership of the 4 Black Country Councils to co-ordinate sub-regional strategies and areas of common working.	0.180	0.160	0.140
<b>Substance Misuse</b> - partnership with PCT to provide rehabilitation services for adults with misuse needs.	0.155	0.155	0.155
<b>Community Equipment Store</b> - partnership with PCT to provide aids for intermediate care and rehabilitation.	1.003	1.003	1.003
<b>Children's Placements Pooled Budgets</b> - partnership with PCT to commission placements for children with severe disabilities who require an Out of Borough or Voluntary / Independent sector placement	0.786	0.786	0.786

26. The Council has used its Partnership Evaluation Tool to ensure that these and other partnerships are appropriate means of delivering its aims and objectives

in a value for money manner. This process will be reviewed when there is greater clarity on government policy and local resource levels.

#### Links with other Strategies

27. The MTFS is consistent with the Council's other Plans and Strategies, which in turn reflect the resources likely to be available over the MTFS period. In particular:

### **Sustainable Community Strategy and Council Plan**

28. As described above, all proposals to increase or reduce spending have been specifically considered in the light of their impact on *Council Plan* priorities, the Council Plan's key themes having been devised to meet the aspirations of the *Sustainable Community Strategy* (taking into account the 2010-2013 update, approved by Cabinet in December 2009). The Council Plan detailed targets will be updated in due course to reflect the resources allocated to services as part of the MTFS.

### **Human Resources**

29. The Council's Human Resources Strategy reflects a number of key challenges identified in the MTFS, including implementation of the national Single Status agreement and development of a new pay and reward strategy.

### **Information & Communication Technology (ICT)**

30. Further implementation, development and exploitation of the Council's ICT capabilities as identified in the *ICT Strategy* will play a key role in delivering transformed and more efficient services within the resource constraints of the MTFS. The resources allocated to ICT within the MTFS in turn reflect the need for such development, with efficiencies resulting from improved performance of the ICT Services Division being utilised to increase capacity to deliver an increasing range of ICT enabled services on which the Council is increasingly dependent. This will include increased focus on the Council's website and provision of complementary technologies to enable flexible working which will support the Council's Accommodation Strategy and deliver efficiencies.

### **Procurement**

31. The Council's current *Procurement Strategy* is a key tool in ensuring the MTFS can be delivered, particularly in ensuring Value for Money is obtained in

all procurement decisions. This Strategy also reflects the increasing importance of working in partnership with other organisations (whether commercial or voluntary etc.) to deliver the Council's objectives.

### **Capital Strategy and Asset Management**

32. Good management of the Council's assets, in accordance with the *Corporate Property Policy* will continue to make an ongoing contribution to the provision of Value for Money services. The MTFS reflects the allocation of the necessary revenue resources to Asset Management to ensure that the objectives of the Corporate Property Policy are achieved.

In addition, the MTFS reflects the debt charges on Capital expenditure which will enhance and improve the Council's asset base via the *Capital Strategy* and the detailed *Capital Programme* - which themselves are aligned with the Corporate Property Policy.

## **Underlying Principles of the Medium Term Financial Strategy**

### **General**

1. The Council's financial planning and budgeting will be undertaken on a medium-term basis (at least 3 years).
2. The starting point for each year's budget and the MTFS will be the previous year's "base budget", plus appropriate provision for anticipated:
  - Pay & price inflation;
  - Capital Programme implications (debt charges and running costs / savings);
  - Changes in functions and funding arrangements;
  - Fallout of specific grants and other income;
  - New specific grants;
  - Treasury activities impact (investment & borrowing rates);
  - Other necessary adjustments.
3. The Council's final budget and MTFS will be determined according to the Council's priorities, as set out in the Community Strategy, Council Plan, and Service Strategies, ensuring that funding is allocated according to the corporate vision, aims, and objectives.
4. Detailed Directorate budgets will flow from the MTFS, with provision for pay and price inflation, etc. allocated to directorates, together with the financial impact of specific growth and savings items.
5. Directorate Business Plans will reflect the resources allocated to Directorates as part of the MTFS and set out how services will be delivered and improved within these constraints.
6. The Council's budget will be linked to performance to enable the effectiveness of the allocation of resources to be fully assessed.
7. Directors are responsible for delivering planned service outputs within cash-limited budgets.
8. The financial implications of the Council's partnership working will be reflected in the MTFS.
9. An annual Budget Review process will be undertaken by Directors and Members in accordance with an agreed plan and timetable with the objective of setting the following year's Budget and Council Tax and reviewing the MTFS. The detailed review process to be used will be subject to annual revision as necessary.

10. A diagram showing how the Budget fits into the annual planning cycle is shown at Annex B.

### **Reserves and Balances Policy**

11. In consultation with the Treasurer, Directorates may establish earmarked reserves from within their cash-limited budgets to fund future service developments (in line with Council priorities) or expenditure of an uneven nature (e.g. renewal of equipment).
12. Services operated on a trading basis (internal or external) may also establish reserves to balance profits and losses over the medium term.
13. As part of each year's budget review process, all earmarked reserves will be reviewed. Any reserves no longer required for their original purpose will be transferred to General Balances.
14. A Corporate "Reserve of Last Resort" will also be maintained to cover unforeseen events that cannot be met from within cash-limited budgets, earmarked reserves, or uncommitted General Balances.
15. General Balances will be managed to enable spending pressures and resources to be balanced over the medium term.
16. In accordance with legislative requirements, the Treasurer will report to the Council (when considering the budget for the following financial year) on the adequacy of the proposed levels of reserves.

### **Risk Assessment and Management**

17. A comprehensive financial risk assessment will be undertaken for all parts of the revenue and capital budgets, including any lessons learned from previous experience. The significant risks will be reported to Members for consideration when setting the budget and Council Tax, and when approving Capital projects as appropriate. These risks will also be taken into account when determining appropriate levels of reserves as set out above.
18. A specific risk assessment will also be undertaken for any proposals to increase or reduce expenditure.
19. Financial and other risks will be actively managed as part of the Council's established policies and procedures.
20. Directorates are required in the first instance to manage financial risks and accommodate unforeseen expenditure and/or income shortfalls from within

their cash limited budgets or from their earmarked reserves - only seeking allocations from General Balances where this is proven to be impossible.

### **Income**

21. Each Directorate will undertake an annual review of all fees and charges - and of spending areas where charges are possible, but are not currently made.
22. Any cost subsidy (i.e. less than full cost recovery) must be justified in terms of its contribution to the Council's strategic aims.
23. Directorates will also monitor on an ongoing basis all opportunities to generate extra income to meet new service pressures or fund existing expenditure, thereby reducing pressures on bottom line budgets and Council Tax.

### **Value for Money - Efficiency Review**

24. All services will be subject to regular efficiency reviews to ensure the best use is being made of resources across the Council.

### **Budget Realignment - Other Savings**

25. Each year all revenue budgets will be reviewed as part of an overall agreed process and timetable to assess their contribution to the Council's strategic aims. Particular focus will be on those areas of non-statutory expenditure, or where spend is in excess of statutory levels.
26. As a result of the above, proposals will be brought forward for resources to be redirected to higher priority services over the medium term in the light of the Council's overall financial position. A risk assessment will be made of the potential impact of all such proposals (in terms of service outputs, and achievability), and considered by members prior to approval.
27. Once approved, the implementation of any budget reductions will be monitored as part of normal budget and output monitoring processes.

### **Budget Realignment - Pressures and Growth**

28. As part of the annual budget review, proposals will also be considered for additional expenditure to meet spending pressures and service development in line with the Council's priorities.
29. Proposals will be prioritised in terms of their necessity and contribution to the Council's priorities. A risk assessment will also be made of the impact of not taking the proposal forward.

30. A growth package will be agreed in the light of overall resource availability.
31. The impact of agreed budget increases on service outputs will be monitored as part of the Council's overall performance monitoring processes to ensure that the intended outputs have been achieved.

### **Capital Programme**

32. The Council's Capital Programme will complement the revenue budget in achieving the Council's priorities. It will be constructed and developed in accordance with the principles outlined in the Council's approved Capital Strategy.
33. All known revenue costs arising out of capital spend will be included in the revenue budget.
34. Where proposals are made to use the flexibilities offered by the "Prudential Borrowing" regime to undertake unsupported borrowing, these (and their revenue implications) will be considered as part of the annual budget review process in the light of overall revenue resource availability and the contribution of the proposed expenditure to achieving the Council's aims.

### **Treasury Management**

35. All borrowing and/or investment activity will be carried out in accordance with the approved Treasury Policy and Treasury Strategy and, and within the Prudential Indicators set annually by the Council.
36. This will include forecasting the main Balance Sheet items at least 3 years forwards to ensure optimal borrowing / investment decisions, and as a basis for subsequent monitoring.

### **Performance Management**

37. The delivery of required service outputs and the achievement of financial performance targets will be monitored by budget holders and reported to Cabinet as part of the quarterly Performance Monitoring report, as an integral part of the Council's performance management framework.

38. As set out above, particular emphasis will be given to monitoring the impact of budget growth and savings.

### **External Funding and Partnerships**

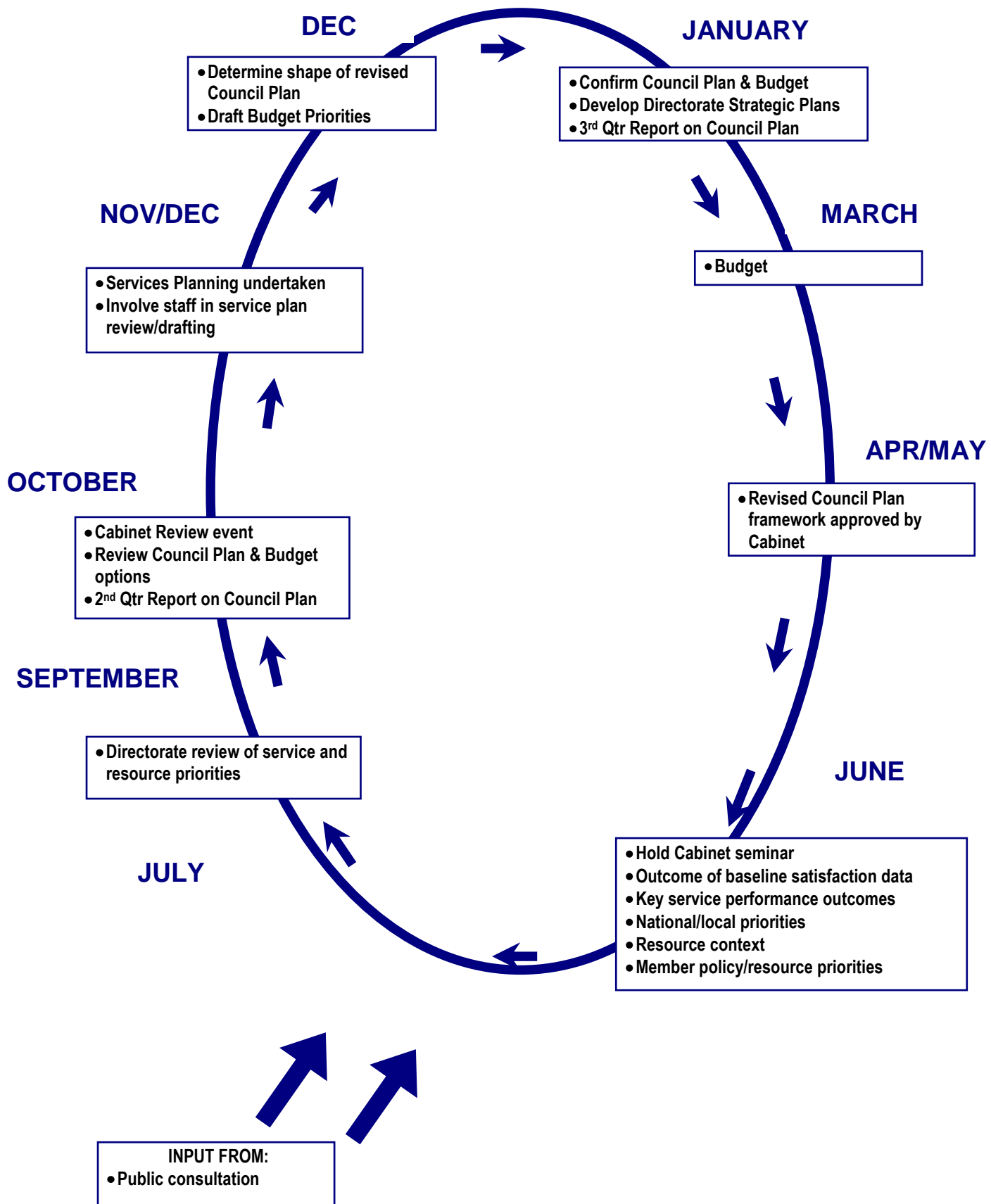
39. In addition to income from fees and charges discussed above, the Council will maximise external funding in the form of specific grants from the Government and other sources towards expenditure which will enable its aims and objectives to be achieved.
40. With regard to specific grants, the anticipated level of funding (where known) over the medium term is taken into account when reviewing budgets as part of the MTFS - particularly where new/ increased grant funding can contribute to meeting budget pressures, or where the fallout of existing grant may create a budget pressure in itself if the need for the underlying expenditure is ongoing.
41. With regard to partnerships, the Council will use its Partnership Evaluation Tool to ensure that its many partnerships continue to be appropriate means of delivering its aims and objectives in a value for money manner. For the key partnerships operating throughout the Council, the joint plans agreed with partners and other stakeholders will include detailed financial elements - including each partner's medium term financial (or other resource) commitment. These will be consistent with the Council's budget and MTFS.
42. The Council will also seek to ensure where possible that the mainstream budgets and financial plans of our partners reflect the Council's (and the community's) priorities.
43. For all external sources of funding or partnership support, an exit strategy will be put in place.

### **Consultation**

44. The Community Strategy and Council Plan which determine the priorities for the MTFS, Capital Programme and annual revenue budget are subject to extensive consultation with the general public and other stakeholders and partners.
45. In addition, public consultation will be undertaken as appropriate during the budget process.
46. In accordance with the Council's Constitution, the Select Committees are consulted on the Cabinet's budget proposals and any related specific issues

relevant to their Council Plan and service responsibilities in the January cycle. In framing their responses, the Select Committees are asked to consider both the spending and funding implications (including the impact on Council Tax) of any observations they may wish to make.

47. The Council is required by law to consult with representatives of Business Ratepayers each year before the final budget and Council Tax are agreed.
48. The Dudley Community Partnership is also encouraged to comment on the budget proposals.

Corporate Planning Cycle - Overview

## Implications of Proposed Budget for Service Areas

### Children's Services

#### *Additional Spending:*

##### ***Support to Looked After Children***

1. Increases in the numbers of looked after children in external residential placements and Independent Foster Agency placements are expected to cost an additional **£2,215,000** in 2011/12. Furthermore increasing demands for supervised contact services will cost an additional **£700,000** in 2011/12. Ongoing development work in the area of children's social care is expected to release savings of **£1,000,000** in 2012/13 and a further **£1,000,000** in 2013/14 in respect of the **£2,915,000** 2011/12 growth allocated for social care service pressures for looked after children.

##### ***Post 16 Transport Arrangements for Learning***

2. From September 2010 there is a requirement to transport young people with special educational needs (SEN) to various vocational courses. This is a new cost pressure of **£85,000** for the Directorate.

#### *Efficiency and Other Savings:*

##### ***Reduction in Management and Administration***

3. Management and administration across the Directorate will be reduced by **£1,109,000** in 2011/12 rising to **£1,468,000** in 2013/14 through a service redesign thus allowing economy and efficiency measures to be implemented across the Directorate, including the utilisation of alternative sources of funding to the value **£275,000** from 2011/12.

##### ***Family Support Services***

4. The reduction and re-specification of children's centre delivery in line with Government requirements to ensure that targeted family support services are maintained as part of the core offer will result in savings of **£765,000** for 2011/12 rising to **£1,317,000** by 2013/14.

##### ***Support to Looked After Children***

5. The funding to support looked after children will be re-prioritised to save **£230,000** in 2011/12 rising to **£324,000** by 2013/14. This will be achieved by re-shaping the corporate parenting activity for looked after children.

##### ***Children with Disabilities***

6. The reduction and re-design of the service provision to children with disabilities to focus on changing pattern of needs and modernising service delivery will result in savings of **£521,000** in 2011/12 rising to **£652,000** by 2013/14.

#### ***School Improvement***

7. Reduce, redefine and re-prioritise the local authority's role in relation to school improvement in light of the White Paper 'The Importance of Teaching' published by the Coalition Government in November 2010. This white paper will inform discussions as to the restructure and reduction of work in these areas and result in savings of **£448,000** for 2011/12 rising to **£642,000** by 2013/14.

#### ***School Support***

8. Reduce, redefine and re-prioritise the local authority's role in relation to school support in light of the White Paper 'The Importance of Teaching' published by the Coalition Government in November 2010. This white paper will inform discussions as to the restructure and reduction of work in these areas and result in savings of **£1,167,000** in 2011/12 rising to **£1,877,000** by 2013/14.

#### ***Integrated Youth Support, Information, Advice and Guidance***

9. Savings of **£1,358,000** in 2011/12 rising to **£2,187,000** will be achieved by reducing and redesigning the service for young people aged 10 -19 in line with the Coalition Government's 'big society' service strategy.

### **Adult, Community and Housing**

#### *Additional Spending:*

#### ***Increased service demand / demographic pressures***

10. This proposal identifies resources of **£1.8m** in 2011/12 rising to **£3.3m** in 2013/14 to meet the demographic and service pressures for clients with a Learning disability, clients with Mental Health needs and Older People with dementia .The additional resources as well as meeting the needs of a larger proportion of the population also includes recognition of the higher costs of these specialist services.

#### ***Archives relocation***

11. This investment of **£276,000** in 2011/12 rising to **£306,000** in 2013/14 will support the prudential borrowing that will be required to fund the new archive building which was approved as part of the 2009/10 budget setting process.

#### *Efficiency and Other Savings:*

#### ***Reduction in management and back office costs***

12. This proposal will see a reduction in management and back office costs of **£3.134m** by the end of 2013/14. The majority of posts identified are senior officer posts that will reduce capacity but the council will still work to meet its

statutory responsibilities. The proposals have a strong emphasis on protecting essential front line services. Job losses will be through a mixture of 'freezing' vacant posts, redeployment into alternative jobs, job share, retirements, voluntary redundancies and as a last resort through compulsory redundancies.

***Service redesign and modernisation***

13. This proposal identifies cost savings of **£4.102m** rising to **£6.061m** resulting from planned changes in services in order to support modernisation and provision of specialist services only. In Older People's services we will continue the further specialisation of local authority home care in relation to reablement and dementia services only, and will redesign day care services to support the increasing numbers of clients with dementia. We will continue to develop the Extra Care Housing initiative, with two Extra Care Housing schemes due to open next year. For clients with a learning disability we will continue the day services modernisation that commenced in 2009/10, now including day care services for clients with mental health needs. We will redesign our approach to Community Renewal. We are reviewing Community Centres. We will also look to explore the potential for a Black Country wide Library service with effect from 2013/14.

***Efficiency savings through more effective provision and commissioning of services***

14. This proposal will look at delivering efficiency savings of **£3.911m** in 2011/12 rising to **£4.922m** in 2013/14 both in the provision and purchasing of services across Adult Social care, Libraries Archives and Adult Learning . With regard to the purchasing of services we will be using the care funding calculator to reduce the cost of both current and future care packages. We will look to stimulate the care market into providing new more cost effective ways of supporting client needs through personal budgets. We will look to reduce the costs of internally provided services by streamlining the way in which services are delivered. We will review the skill set of the social work staff to best fit client needs and improve the efficiency of the workforce.

***Housing General Fund - review and reprovision of Supporting People contracts and other service efficiencies***

15. A major review of value for money and effectiveness of Supporting People contracts, including reprovision of Midland Heart's direct access hostel accommodation at Gibbs Road, will identify savings of **£500,000** in 2011-12 rising to **£1,000,000** by 2013-14. Other areas for efficiency are also identified within the service which will generate savings of **£132,000** in 2011/12 rising to **£213,000** in 2013/14.

**Urban Environment**

*Additional Spending:*

***New Investment***

16. There is **£868,000** worth of new investment being made including:
- New investment in Waste Care includes a new recycling facility in Dudley to accommodate the increase in take up and the new plastic and card trial, and replacement of Kerbsider vehicles (**£213,000**);
  - The provision of new lighting columns (**£235,000** growth allows prudential investment of £2.35m for Street Lighting column replacements) and replacement of obsolete mercury lamps (**£200,000**);
  - The installation of new cremators at Gornal Wood (**£120,000** growth allows prudential investment of £1.2m for new cremators);
  - Investment in support of Heritage Lottery Fund bids for key Parks (**£100,000**).

### ***Cost Pressures***

17. The overall package of proposals takes into account the need to fund **£832,000** worth of cost pressures including:
- Year on year tax uplifts on waste taken to landfill tips equates to **£409,000**; this is despite the fact that Dudley takes less waste to landfill than its comparators due to incineration and recycling performance;
  - Contractual increases on the fees associated with the incinerator will cost approximately **£378,000**;
  - A reduction of income to the Council of **£45,000** resulting from VAT increases on car parking charges will need to be absorbed.

### ***Efficiency and Other Savings:***

#### ***Staffing savings***

18. **£2.471 million** worth of staffing savings will be sought across every division of the Directorate.

The majority of posts identified are senior officer posts that will reduce capacity however they will not adversely impact on the Council's statutory responsibilities. The proposals have a strong emphasis on protecting essential front line services. Job losses will be through a mixture of 'freezing' vacant posts, redeployment into alternative jobs, job share, retirements, voluntary redundancies and as a last resort through compulsory redundancies. Other savings will be sought in the next 3 years by reducing Directorate running costs and overheads which may in turn reduce the level of staffing savings needed.

#### ***Service savings***

19. The service changes proposed are very minimal at **£180,000** to enable the protection of essential front line services. The only two changes are the proposals to:

- Close the ageing toilet blocks in smaller shopping centres whilst exploring opportunities for alternative provision in these areas estimated to save **£150,000**;
- Reduce bedding plants from some locations and removing hanging baskets from civic buildings estimated to save **£30,000**.

### ***Efficiencies***

20. A review of the cost of running council vehicles is estimated to save **£150,000**. Reducing street lighting energy costs by installing low energy units which also contributes towards carbon reduction initiatives is estimated to save **£100,000**. The remaining balance of **£521,000** will be as a result of a review of services, as well as exploring alternative options to provide funding via regeneration projects or external investment.

### ***Other Savings***

21. **£857,000** of Other Savings relates to Waste Disposal, the largest part of which arises from a previously expected reclassification of the bottom ash by-product from incineration not having occurred. The remaining **£62,000** savings results from reducing borrowing and matchfunding budgets.

### ***New Methods of Working***

22. The new refuse collecting service limiting waste not recycled is estimated to save **£250,000**; the remainder of the savings (**£325,000**) results from revised management arrangements and re-organising ways of working.

### ***Income, fees and charges***

23. A measured package of increases on selected fees and charges is estimated to bring in **£1,060,000**. This includes proposed fee increases within Bereavement Services to help fund new cremation equipment essential in meeting new legislation and also importantly to keep Dudley's charges at levels below surrounding authorities.

## **Corporate Resources**

### ***Efficiency and Other Savings:***

### ***ICT Operational Budgets***

24. Review of ICT operational budgets including; vehicle fleet usage (achievable through better use of technology including remote support capabilities); review of need for current level of development budget and revised accommodation needs. Saving **£389,000 in 2011/12** rising to **£940,000** in 2013/14.

### ***Restructuring within Corporate Resources***

25. Following the creation of the Directorate of Corporate Resources savings have been identified within the senior management team. There are other efficiency savings within corporate property and administration teams. Saving **£349,000** in 2011/12 rising to **£594,000** in 2013/14.

### ***Rationalise Constitutional issues***

26. Reduce the number of Area Committee meetings from 5 to 3 per year. Further savings include catering, training and Democratic support. Saving **£68,000** in 2011/12, rising to **£97,000** in 2013/14.

### ***Changes to Licensing income and enforcement***

27. Achieve income from fees and refocus enforcement activity. Saving **£36,000** in 2011/12, rising to **£56,000** in 2012/13.

### ***Review of Property Costs***

28. A reduction in property related budgets will take place in parallel with the corporate work being undertaken in respect of rationalisation of the Council's property portfolio to create more efficient use of office space and improved flexibility around working practices saving **£616,000** per year.

### ***Efficiencies***

29. A review of services and processes has identified achievable savings of **£840,000** in 2011/12, rising to **£1,473,000** in 2013/14. Areas include; the negotiation of preferential contracts with suppliers, value for money (VfM) work undertaken within Audit Services, a review of work practices resulting in better utilisation of IT; reduction of the recruitment advertising budgets through the use of internet advertising & improvements to the online application process; removing duplications in learning & development provision; improvements in IT to enable reduction in administration of recruitment processes & more self service for staff & managers. A review of services delivered via the Benefits Shop has resulted in proposals for savings and reinvestment in similar services delivered by ourselves and / or the voluntary sector.

## **Chief Executive's**

### *Efficiency and Other Savings:*

### ***Marketing & Communications***

30. Efficiencies within marketing and communications, including reducing printed materials and continuing to utilise electronic channels. Saving **£172,000** in 2011/12, rising to **£232,000** in 2013/14.

***Reduce contributions to Third Sector***

31. Phased reductions in contributions to third sector. It is intended to work with the third sector organisations supported through Chief Executive's to maximise alternative income from other external sources, and/or achieve compensatory efficiency savings. Saving **£10,000** in 2011/12, rising to **£125,000** in 2013/14.

***Reduction in central policy and administration***

32. Achieve efficiency savings in the administration costs of the Chief Executive's Directorate, with expected savings arising from the centralisation of administration services and rationalisation of accommodation costs. Saving **£227,000** in 2011/12, rising to **£489,000** in 2013/14.

***Community Safety***

33. Reduce revenue commitment to Community Safety following a review of council and partners resources affecting Anti Social Behaviour and Crime Reduction. Includes increased income from external sources towards CCTV costs, Saving **£128,000** in 2011/12, rising to **£175,000** in 2013/14.

***Emergency Planning***

34. Efficiencies within the Emergency Planning function, Saving **£70,000** in 2011/12, rising to **£100,000** in 2013/14.

**Risk Assessment**

1. The following table sets out the significant risks which Members must consider prior to agreeing a budget and MTFS, albeit that these risks become more difficult to assess within a medium term timescale.

<b>Risk</b>	<b>Impact</b>
<ul style="list-style-type: none"> <li>Single Status and Equal Pay Back Pay</li> </ul>	Figures included in spending forecasts are based on best estimates at this time, but the impact may be significantly different once details emerge and negotiations commence.
<ul style="list-style-type: none"> <li>General inflation and staff pay awards higher than budgeted</li> </ul>	The Council is expecting pay awards for local government may be frozen or settled at very low levels in the next few years consistent with Government announcements about public sector pay. Whilst we are making no specific budgetary provision for pay awards, the Council will honour national agreed settlements. The budget provision for prices assumes that competitive contract management and tendering will continue to minimise the impact of price rises on Council budgets. We are therefore proposing a provision of around 1.5% next year rising to 2% per annum in 2012/13 and 2013/14. In addition, to ensure a prudent approach to budget setting is adopted, a contingency provision of £1.5m for 2011/12 and a further £1m each year thereafter has also been built into our assumptions in the event that pay and/or price inflation exceed expectations. A 1% increase in inflation would cost (excluding Schools) around £1.3m extra per year in respect of pay and £1.3m in respect of prices.
<ul style="list-style-type: none"> <li>Interest rates higher / lower than expected</li> </ul>	A 1% change either way in interest rates would not have a material impact as the majority of borrowing is at fixed rates, and estimates of interest earnings are cautiously prudent.
<ul style="list-style-type: none"> <li>Change in Employer's Superannuation Contributions</li> </ul>	Under the proposals in this budget, the employer's superannuation contributions are set for the three years of the MTFS (2011/12 – 2013/14). Contributions in subsequent years are sensitive to demographic changes, market conditions, pension regulations, and level of pension strain arising from early retirements charged to the fund.
<ul style="list-style-type: none"> <li>Income levels</li> </ul>	A 1% loss of income (excluding grants & interest)

not achieved	would cost the Council around £0.4m per year.
<ul style="list-style-type: none"> <li>Other unplanned events, or assumptions not in line with forecasts</li> </ul>	Unforeseen costs or costs greater than estimated - including those arising from demographic pressures.
<ul style="list-style-type: none"> <li>Council Tax limitation</li> </ul>	The budget proposals in this report imply a Council Tax freeze for 2011/12. The Government intends to introduce legislation to limit Council Tax increases that can be implemented in future years without approval via local referenda. The limits that might apply are not yet known. However projected budgets for 2012/13 and 2013/14 imply Council Tax increases in line with OBR assumptions.
<ul style="list-style-type: none"> <li>Formula Grant for 2013/14 onwards lower than assumed</li> </ul>	We have assumed this to be in line with the Comprehensive Spending Review indications for national totals. A 1% shortfall in Formula Grant would reduce resources by £1.2m.

2. Any unbudgeted costs, or shortfalls in income, would have to be met from reductions in planned spending in the year or from balances.
3. In addition to General Fund Balances, there are £2m in working balances to meet unforeseen events and it is considered that many of the remaining balances could be used in the short term to cover unforeseen budget pressures. These may need to be replenished in future years.