
Meeting of the Select Committee on the Environment – 24th January 2011

**Joint Report of the Chief Executive, Treasurer, and Director of the Urban Environment,
Revenue Budget Strategy 2011/12**

Purpose of Report

1. To consult the Select Committee on the proposed Revenue Budget Strategy for 2011/12 and Medium Term Financial Strategy 2011/12 – 2013/14.

Background

2. At its meeting on 12th January 2010, the Cabinet was proposing to consider a preliminary budget strategy for further consultation, including consultation with Select Committees, in accordance with the Constitution. In framing their responses to these budget proposals, it was proposed to ask Select Committees to consider both the spending and funding implications (including the impact on Council Tax) of any observations they may wish to make.
3. 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 plan;
 - (d) the views of consultees;
 - (e) the external factors and risks inherent in the Strategy;
 - (f) the impact on Council Tax payers.
4. When the Revenue Budget and Council Tax for 2010/11 was approved, the Council endorsed a Medium Term Financial Strategy (MTFS) which recognised the following basic assumptions:
 - (i) Pressures on services were likely to continue;
 - (ii) Inflationary pressures would continue to affect the level of future pay awards and spending levels, and were likely to be more volatile than in previous years;

- (iii) The Monetary Policy Committee would continue to use interest rates to manage the economy, and actual levels of interest rates were difficult to forecast accurately, particularly in the then current circumstances;
- (iv) The continued use of balances to support ongoing spending was not sustainable in the medium to long term;

. and that although increases in the projected Budget Requirement in 2011/12 and 2012/13 were within capping criteria that applied at the time, the implied levels of annual council tax increase might be considered unreasonably high and, depending on prevailing economic and other conditions at the time, might not be politically acceptable. Any further increased spending pressures and/or significant adverse variations from key budget and forecast assumptions would, of course, either increase the level of savings required or further increase the pressure on council tax levels.

5. In order to ensure that the Council could properly manage its financial affairs over the medium term, and ensure resources would be available to deal with new spending pressures and other unforeseen eventualities, the strategy was therefore 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 other relevant factors.
6. A number of specific risks and uncertainties were identified when the Council approved the 2010/11 Budget Strategy and MTFS, some of which have had a significant impact on the management of the Council finances in the current year. In particular, pressures affecting Children's Services and Adult Social Care continue to feature as a key factor in demands upon Council finances.

The Council's Current Financial Position

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

	£m
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)
Total net reduction	<u>(0.7)</u>

8. Cabinet agreed at its meeting on 22nd September that budgets be amended to reflect these variances.
9. 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.
10. 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.
11. 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. However, if severe conditions continue for the rest of the winter, it is unlikely that the further overspend of up to £400,000 that would result, or the knock-on impact on road maintenance, could be met within the existing Directorate of the Urban Environment budget.

12. 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.

General Fund Balances

13. The latest forecast position, compared to the original Approved Budget for 2010/11, is as follows. This includes £1.4m of earmarked reserves no longer required for their original purposes, following a review by Directorates

	Original Budget £m	Latest Position £m
Balance at 31 st March 2010	2.8	2.8
Effect of 2009/10 outturn	-	0.5
	2.8	3.3
Planned contribution to balances 2010/11	3.5	3.5
Net Variations from approved budgets (see above)	-	0.7
Potential overspend in Directorate of Children's Services (see above)	-	-0.6
Review of Earmarked Reserves	-	1.4
Balance at 31st March 2011	6.3	8.3

Provisional Finance Settlement – 2011/12 and 2012/13

14. Details of the Provisional Finance Settlement were announced by the Government on 13th December. Key features are as follows. (All year-on-year changes are in cash terms.)
15. National Totals
- The provisional Formula Grant figures are for 2011-12 and 2012-13. A second two year settlement is expected to follow, for which the Government intends to adopt a new distributional system.
 - Total funding for local government, "Aggregate External Finance" (AEF)¹, will fall by 4.1% in 2011-12. The total for 2012/13 is yet to be determined dependent on specific grant figures.

¹ AEF includes Formula Grant (Revenue Support Grant, Pooled Business Rates and Police Grant), Schools Grants and other Specific Grants, and reflects the majority of Govt. support to General Fund expenditure.

- A 0.3% like-for-like increase in ring-fenced Dedicated Schools Grant (DSG) in 2011/12. Several other schools grants including School Development Grant and School Standards Grant have now been rolled into DSG. There will be a minimum funding guarantee of minus 1.5% per pupil for 2011/12 to ensure that no school has a cut in its like-for-like per pupil budget of more than this amount (before any Pupil Premium Grant is added – see below). Figures for 2012/13 are yet to be determined.
- A new ring-fenced Pupil Premium Grant allocated on the basis of children entitled to Free School Meals of £625m in 2011/12, at a national per pupil rate of £430. Figures for 2012/13 are yet to be determined.
- A new Early Intervention Grant (EIG) of £2.2bn in 2011/12, being a decrease of 10.9% compared with the grants it replaces – including Surestart Children’s Centres Grant. EIG will increase by 3.8% in 2012/13 compared with 2011/12.
- Other Specific Children’s Grants amounting to £464m in 2010/11 have been discontinued. Funding for Music and Free Travel is under review.
- A number of former specific grants, worth £3.8bn in 2010/11 have been merged into Formula Grant, including Supporting People and most Adult Social Care grants. Other grants, including Working Neighbourhoods Fund, have been discontinued.
- Formula Grant funding excluding Police Grant (i.e. Revenue Support Grant plus pooled Business Rates) will fall by 12.1% in 2011-12 and a further 7.5% in 2012/13 (on a like-for-like basis). The detailed allocations of Formula Grant to individual authorities include various distributional changes in areas such as social care and concessionary fares formulae.
- Damping of Formula Grant will continue with a maximum reduction (depending on type of authority and dependency on Govt. support) of 16.8%, funded by scaling back grant for authorities above the floors. In addition, a new “Transition Grant” will restrict 37 authorities’ loss of total ‘revenue spending power’ (broadly non-education grants plus council tax) to no more than 8.9%.
- A £650m Council Tax Freeze Grant has been introduced, enabling Councils who would otherwise be increasing Council Tax by 2.5% (or less) to freeze Council Tax in 2011/12.
- The Government also announced the transfer of monies from the NHS to support adult social care of £648m 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.

16. Controls on Council Tax

- The Secretary of State indicated that:
“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.”

No indication has been given concerning the level of increase that might be deemed to be “excessive”.

17. Implications for Dudley

- Dudley's Formula Grant will reduce by 10.2% in 2011/12 and a further 6.6% in 2012/13 (after taking into account specific grants rolled into Formula Grant and other funding transfers, including assumptions of reduced Council expenditure once academies are established).
- Damping will restrict Dudley's Formula Grant to £7.6m less than what it would otherwise be in 2011/12 and £5.8m in 2012/13.
- Dudley's Dedicated Schools Grant (DSG) is expected to be £228m for 2011/12. Although per pupil funding will not be reduced, due to falling pupil numbers this represents a reduction of 0.3% when compared with the equivalent funds available for 2010/11, including £30m of other grants rolled into DSG from 2011/12. Discussions are scheduled to take place at Schools Forum during the spring term regarding the allocation of this funding for 2011/12.
- In addition to the DSG, the Pupil Premium Grant will be worth £3.5m to Dudley.
- The reduction in Early Intervention Grant compared with the 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.
- The transfer of resources from the PCT 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 need to be agreed between the PCT and the Council regarding the use of these resources.

Base Budget Forecasts

18. The following key assumptions have been made (and are also referred to in the risk analysis in paragraph 36):
- (a) The impact of inflation will remain relatively low and pay awards will be restrained in 2011/12 and for the whole MTFS period;
 - (b) Interest rates may pick up, but will continue to have a relatively low impact in the medium term;
 - (c) Whilst the final costs of Single Status and Equal Pay Back Pay (EPBP) still remain uncertain, new pay and grading structures should be introduced during 2011/12. Some provision has been included in the Base Budget forecasts and reserves previously set aside. It has been assumed that any costs relating to schools will be funded from school resources;
19. Details of Base Budget Forecasts for the next three years are set out below

	2011/12 £m	2012/13 £m	2013/14 £m
2010/11 Base	231.9	231.9	231.9
Funding Transfers (note 1)	18.0	18.0	18.0
Emergency Budget grant reduction (note 2)	2.0	2.0	2.0
Pay & Prices inc. contingency (note 3)	1.4	4.9	8.3
Capital Programme	1.2	1.7	2.3
Other Adjustments (note 4)	3.0	3.2	3.1
Base Budget Forecast	257.5	261.7	265.6
% change year-on-year (like for like)	+2.2%	+1.6%	+1.5%

Notes:

(1) The effect of Specific Grants being rolled into Formula Grant from 2011/12.

(2) On-going effect of the reduction in Area Based Grant for 2010/11 announced in the June 2010 Emergency Budget.

(3) 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 £1m per year cumulatively has also been built into our assumptions in the event that pay and/or price inflation exceed expectations.

(4) Major items contained within "Other Adjustments" that have increased our spending forecast are the fallout of Local Area Agreement reward grant (a one-off receipt in 2010/11) and provision for the impact of redundancies resulting from proposed savings.

Additional Spending

20. Having reviewed existing budgets in the light of Council Plan and Local Area Agreement (LAA) Priorities, additional legislative requirements and service pressures, the following package of additional spending to target key service areas for investment over the next three years (including items provisionally agreed as part of the 2010/11 strategy) is proposed:

	2011/12	2012/13	2013/14
	£'000	£'000	£'000
Children's Services			
Support to Looked After Children	2915	1915	915
Post 16 Transport Arrangements for Learning	85	85	85
	3000	2000	1000
 Adult, Community and Housing			
Increased service demand / demographic pressures	1800	2500	3300
Archives relocation	276	276	306
	2076	2776	3606
 Urban Environment			
New Investment	678	748	868
Cost Pressures	309	571	832
	987	1319	1700
 Total	6063	6095	6306

Efficiency and Other Savings

21. Following a detailed budget review process, which considered the need to redirect resources to the spending pressures and priorities set out in paragraph 20, a range of efficiency and other savings (including items provisionally agreed as part of the 2010/11 strategy) have been identified from existing budgets. Details are set out in the following table:

	2011/12	2012/13	2013/14
	£'000	£'000	£'000
Children's Services			
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
	-5873	-8442	-8742
 Adult, Community and Housing			
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
	-10061	-13922	-15330
 Urban Environment			
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
	-3470	-5282	-5976
 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
	-2298	-3267	-3776
 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
	-607	-966	-1121
 Total	-22309	-31879	-34945

22. The £4.3m of NHS funding being transferred to the Council in 2011/12 (see paragraph 17) will be used where possible to support the delivery of services and efficiencies in the Directorate of Adult, Community and Housing Services.
23. 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 1st 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.

As notice will be required of the change prior to the April 2011 implementation date, it is proposed that the decision to effect this change is made at the Cabinet meeting in February, separately from the main budget proposals.

Human Resource Implications

24. Where savings and efficiencies relate to employee costs they will, as far as possible, be made through not filling vacancies, deleting posts, redeployment and voluntary requests for reduced hours. However, given the scale of the savings set out above, and in particular for 2011/12, our analysis shows that redundancies are likely to be required in a number of areas. The process to implement those redundancies will be coordinated by Human Resources and the relevant Heads of Service in Directorates in accordance with the relevant law, regulations, and the Council's policies and procedures, including consultation with the trades unions. One corporate meeting took place with the unions in November; another one is planned for 11th January, and Directorate meetings with unions to discuss the proposals in more detail are planned to take place in January. The opportunity to express interest in voluntary redundancy will be made available to all staff. Agreement to such requests will however not be automatic and will reflect the need to continue to provide high quality services with appropriately skilled staff. Further details are set out in Annex A. Additional temporary HR, legal and payroll resources will be needed and will be procured following this Cabinet meeting.
25. Redundancy costs are dependent on the age and length of service of the individuals being made redundant and therefore cannot be precisely calculated at this stage. However, it is anticipated that they can be met from capitalisation directions received by the Council (up to £1.1m), use of reserves set aside for committed capital expenditure (which in turn could be funded from prudential borrowing) and as a last resort, general balances.

26. 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.
27. There has been a recent actuarial valuation of the assets and liabilities of the West Midlands Pension Fund as they stood at 31st March 2010. This will form the basis of employers' contribution rates for the three years commencing on 1st 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 above. It is requested that the Treasurer be authorised to agree the basis of the Council's future contributions to the West Midlands Pension Fund accordingly.
28. It is anticipated that voluntary redundancies for proposals relating to 2011/12 will be achieved by 31st March, and any compulsory redundancies by 31st May 2011.

Use of Balances

29. The table in paragraph 13 assumes that we will have available around £8.3m at 31st March 2011.
30. The budget proposals for 2011/12 do not require the use of balances to support base expenditure. However the effective loss of Children's Services grants set out in paragraph 17 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 1st April 2012. In the meantime an equivalent sum will be set aside within General Fund Balances as a contingency whilst this process is underway.
31. It is proposed at this stage that remaining balances be retained to meet any other spending pressures and risks going forward and the implications of required staffing reductions not fundable from other sources (see paragraph 25) and that a tight regime of control and review of balances continues to operate throughout the medium term to free up reserves wherever possible.

Summary

32. The following table summarises the budget proposals for 2011/12 to 2013/14:

	2011/12 £m	2012/13 £m	2013/14 £m
Base Budget Forecast	257.5	261.7	265.6
Council Plan Priorities & Pressures	6.1	6.1	6.3
Efficiency & Other Savings	-22.3	-31.9	-34.9
Net Budget	241.3	235.9	237.0
% change year-on-year (like for like)	-4.2%	-2.2%	+ 0.5%

33. An analysis of the resulting service expenditure for 2011/12 of £241.3m, showing how this compares with the current year's adjusted base budget is shown at Appendix A. An analysis by main service area is shown at Appendix B.
34. Having regard to the provisional Formula Grant Settlement (including Council Tax Freeze Grant of around £2.8m), the preliminary estimates of the 2011/12 Council Tax Base and Collection Fund Surplus, the controlling group is considering a Council Tax freeze for 2011/12. This is subject to a number of issues, including the risks and external factors set out in paragraph 36.
35. It should be noted that at this stage, the budget forecasts and resource levels set out in this report for 2011/12 are based on a number of provisional figures and preliminary estimates, which may change prior to the final setting of the budget and Council Tax, namely:
- (i) Formula Grant figures are provisional and will not be finalised until the end of January 2011.
 - (ii) The actual levels of the Integrated Transport Authority (ITA) levy still need to be formally determined.

Estimates, Assumptions & Risk Analysis

36. The proposals in this report are 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 may lead to further increases in expenditure and, therefore, the need to identify alternative funding sources, and 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;
 - (e) Council Tax rises are in line with Office for Budget Responsibility (OBR) forecasts.

Medium Term Financial Strategy

37. 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.
38. 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.
39. 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.

Implications for services covered by the Terms of Reference of this Select Committee

Headings in ***bold italics*** refer to the proposals listed in the tables under paragraphs 20 and 21 above. Some proposals fall within the terms of reference of more than one Select Committee.

Urban Environment

Additional Spending:

New Investment

40. 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

41. 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

42. **£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

43. 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

44. 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

45. **£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 yet occurred. The remaining **£62,000** savings results from reducing borrowing and matchfunding budgets.

New Methods of Working

46. 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

47. 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.

Adult, Community and Housing

Efficiency and Other Savings:

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

48. 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.

Consultation

49. 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 C.
50. 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.
51. In accordance with the Council's Constitution, Select Committees are being asked to consider the issues set out in this report and any related specific issues relevant to their Council Plan and service responsibilities in the January cycle. In framing their responses, Select Committees are being asked to consider both the spending and funding implications (including the impact on Council Tax) of any observations they may wish to make.

52. The Council is required by law to consult with representatives of Business Ratepayers before the final budget and Council Tax are agreed. A consultation meeting is scheduled to take place in February before the Cabinet recommends a final budget.

Finance

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

Law

54. The Council's budget setting process is governed by the Local Government Finance Acts 1988 and 1992 and the Local Government Act 2003.

55. The Local Government Act 2003 requires the Chief Financial Officer to report on the robustness of estimates made for the purpose of final budget calculations, and the adequacy of the proposed financial reserves and this will be included in the final budget report.

56. 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.

57. As set out in paragraph 16, 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."

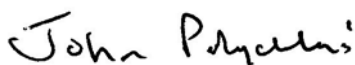
58. Regulations laid under Section 11A of the Local Government Finance Act 1992, as inserted by section 75 of the Local Government Act 2003, give billing authorities the power to reduce council tax discounts given in respect of unoccupied dwellings in all or part of their area, including, for dwellings that are furnished but unoccupied, reducing 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

59. These proposals comply with the Council's policy on Equality and Diversity, as far as it is possible within existing and future resource levels.
60. 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

61. That, subject to approval by the Cabinet at its meeting on 12th January 2011, the Select Committee:
- (a) considers the Cabinet's Revenue Budget Strategy proposals for 2011/12 and Medium Term Financial Strategy for 2011/12 – 2013/14;
 - (b) identifies both spending and funding implications (including the impact upon Council Tax) of any observations the Select Committee wishes to make.



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John Polychronakis
Chief Executive



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List of Background Papers

Provisional Formula Grant Settlement (DCLG website)

Appendix A

Service	2010/11 Adjusted Base Budget (*) £m	Funding Transfers etc. £m	Inflation, Capital Programme, etc. (**) £m	Budget Increase Proposals £m	Budget Reduction Proposals £m	2011/12 Proposed Budget £m
Children's	67.6	-4.2	0.5	3.0	-5.9	61.0
Adult, Community & Housing	97.1	1.9	1.5	2.1	-10.0	92.6
Urban Environment	56.1	0.4	0.2	1.0	-3.5	54.2
Corporate Resources	7.0	20.4	3.8	-	-2.3	28.9
Chief Executive's	4.1	-0.5	1.6	-	-0.6	4.6
Total Proposed Budget	231.9	18.0	7.6	6.1	-22.3	241.3

(*) Adjusted to reflect transfers of services between Directorates, and other accounting changes (no overall effect).

(**) Including Emergency Budget grant reduction.

Appendix B

Analysis of Proposed 2011/12 Budget by Service Area

	£'000
Children's Services	
Schools	21,217
Youth Service	2,765
Children & Families Social Services	35,429
Other Children's Services	1,647
	61,058
Adult, Community and Housing Services	
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
	92,540
Urban Environment	
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
	54,244

Corporate Resources

Tax Collection & Benefits	3,199
Transport Authority Levy	17,594
Flood Defence Levy	102
Treasury etc.	-3,618
Licensing, Registration & Courts	295
Democratic Costs	1,341
Corporate & Other Costs	9,934
	<hr/>
	28,847

Chief Executive's

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

TOTAL	241,299
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Budget 2011/12 Questionnaire Results

	Increase Spend	Stay the Same	Reduce Spend
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%

Management of Redundancy Process

1. This annex sets out a redundancy process to commence in January 2011, to enable the savings proposed in the body of this report relating to 2011/12 to be achieved. One of its aims is to reduce the potential numbers of compulsory redundancies required. This process would involve an offer for all employees to express an interest in voluntary severance with a clear understanding from the outset that voluntary redundancies will generally be prioritised for approval from employees working in those service areas affected by the proposed savings and where the service can accommodate the request, i.e. it is not a council-wide voluntary redundancy scheme where all requests will be accommodated.
2. Through the budget process the following have been identified:
 - areas of service where employee numbers may need to be reduced to achieve proposed savings;
 - the salary and on-costs associated with those employees.
3. For each area Directors need to identify if we will be able to accept volunteers for redundancy, or if the process needs to be handled by selecting employees for compulsory redundancy.

Outline of Process and Timescales

4. To comply with the required legal stages and timescales a detailed project plan for managing redundancies will need to be established. A draft outline process timetable is attached.
5. Consultation must be evidenced as taking place including the consideration of any alternative options to redundancy. In addition to inviting expressions of interest for voluntary severance, employees will also be offered the opportunity to highlight any personal changes to their terms and conditions that they may wish to have considered, and to raise with their Assistant Directors (ADs) any alternative suggestions they have for the Council to consider.

Finance

6. All employees with 104 weeks (2 years) or more continuous local government service, whose service is terminated because of redundancy, have a statutory entitlement to a lump sum redundancy payment.
7. If an employee has been a member of the Local Government Pension Scheme for two years or more and is aged 55+ they will receive an unreduced pension from the date of termination. The costs of early access to the pension are charged to the employing authority.

Legal

8. There is a legal obligation to have a consultation process in place before redundancies take place that affect between 20 and 99 employees. The minimum consultation period is 30 days. Redundancy affecting 100 employees or more requires a minimum consultation period of 90 days.

Bumping

9. This occurs where an employee whose job is redundant 'bumps' another employee out of their job so that the employee who was 'bumped' is the one who is actually made redundant.
10. For example post B is in a service area identified for cuts and in a selection pool for be redundancy. However the person in that post (person B) does not want to go. However, the person in post A (person A) has requested voluntary redundancy. Although their post is not part of the proposed savings, when bumping takes place person A would be allowed to leave and person B bumps into post A. There must be a skills/competency match for this to take place. Alternatively consideration could be given as to whether post A could be lost instead of post B, although this is not technically bumping.
11. Employers are required to consider whether bumping would be appropriate in every potential redundancy situation when looking at the issue of suitable alternative employment. Documentation needs to be kept to demonstrate that bumping was considered, even if it is concluded that it was not appropriate.
12. Any service areas that have been identified for budget savings and that have insufficient requests for voluntary redundancy would therefore move to consider the appropriateness of bumping volunteers from outside of those service areas.

Trade Union Consultation

13. Unions will want to see that any selection is carried out fairly. Arrangements will be put in place to ensure monitoring of outcomes in terms of equal opportunities.
14. Consultation with the unions must commence at the earliest possible date and this is recognised in the proposed timetable. There has been some consultation and communication at a corporate level on 21/10/10 with more planned for 11/1/11. Also Directorate Joint Consultative Committees (JCCs) are planned in January for consultation on proposed individual service savings.
15. Selection Pools and Selection Criteria (which will be used to decide which redundancies are made) must be consulted upon with the unions and will be designed to be fair, open and transparent, and may be subject to scrutiny internally or externally. These will be discussed at Directorate JCCs in January.

Equality Impact

16. The Council's Severance Payments Policy applies to all employees of the Council, excluding teachers. Teachers have their own scheme.
17. It is likely that due to the nature of the statutory and enhanced severance payments, the majority of volunteers will be aged 55+. However, all staff will have the opportunity to be considered based on service delivery / business need.
18. Directors are aware of their responsibility to conduct and document a service Equality Impact Assessment (EIA) for any services that are ceasing or will be significantly affected by the reductions in staff, or where policies will change as a consequence of the budget review decisions. There will also be a Corporate staffing EIA.

Risks Associated With the Proposed Process

19. Selection criteria will need to be objective and evidenced, to protect the Council against claims of unfair dismissal and discrimination. There is a corporate template in the "managing employees at risk of redundancy" policy to be used and adapted for each service area as appropriate.
20. Having a council wide expression of interest process is most likely to result in more applications for voluntary redundancy being received than can be approved and also from employees in service areas not identified for budget cuts or who are in roles where a voluntary redundancy request can not be accepted.
21. This will be a resource intensive exercise and will include staff groups where it is unlikely voluntary redundancy will be accepted. However, this will be mitigated by stating from the outset that preference will be given to staff from specific groups or areas (to be subsequently confirmed as having budget savings). Individual decisions will in any event be needed in each case, which will allow the overall financial situation to be judged in making each decision. A form will be used for this purpose which will be returned to HR.
22. The risk of being challenged on the consultation process will be reduced by not only demonstrating a willingness to consider voluntary redundancies across the council but also by asking staff directly for any other options to be considered. The Council needs to be able to demonstrate that such options are fully considered and outcomes communicated back to staff effectively.
23. Voluntary redundancy processes may leave those employees that are not approved feeling de-motivated, especially if they have a different workload as a result. When requests are not granted, these need to be handled sensitively, understanding that staff will be disappointed. However, the employee must be aware of the expectations of them to carry out their role in a professional manner.

24. Having a compulsory redundancy approach will result in employees being worried about their job. It will be difficult for employees who got through a selection process and the subsequent redeployment procedure. There may be motivation and performance issues throughout this very worrying period of time. There will still be a requirement to provide high quality services. Resources have been developed by the Learning & Organisational Development team branded as “Facing the Future” and a mechanism agreed for prioritising delivery of this programme.
25. In both processes, those who remain in employment may have different workloads and changes in working practices which could result in performance management, poor motivation and sickness absence issues for managers to handle.
26. Activities to meet the 31st May deadline will be very resource intensive and it should be recognised that slippage may occur depending on employee numbers (i.e. numbers of meetings required, numbers of selection criteria assessments to be formulated, etc.).
27. It should be recognised that activities up to point 23 in the timetable will be happening whilst the draft budget is still being consulted on.

Process Timetable

	Type of Severance	Action Required	Lead Officers	By week commencing/ key dates
1	Voluntary Redundancy (VR)	Decide if voluntary redundancy is to be offered initially throughout the Council as a gauge of interest & how staff may suggest other options for consideration by the Council	Corporate Board / Cabinet	week(s) commencing (w/c) 20.12.10 and 10.01.11
2	Both	Identify the potential service areas where VR may be possible.	Directors, Assistant Directors (ADs), Heads of Service	w/c 04.01.11
3	Voluntary Redundancy	Communication with a briefing note via email to all managers	Marketing & Communications (Marcomms)	w/c 10.01.11
4	Voluntary Redundancy	Issue briefing note and expression of interest forms for all staff including opportunity to put forward alternative options	AD for Human Resources (HR) and Heads of HR / Marcomms	to be issued 13.01.11 (following meeting with unions on 11.01.11 and Cabinet on 12.01.11)
5	Both	Utilise and adapt selection criteria template ready to consult with unions, and selection criteria specific to division. This is for compulsory redundancy <i>and</i> for selection if there are too many volunteers. Consider, where applicable selection pool and identify any potential risks	ADs, Heads of Service / HR officers	w/c 10 and 17 January 2011
6	Both	Commence consultation with trade unions	Director of Corporate Resources/ Treasurer / AD for HR & Citizenship and Heads of HR	11.01.11
7	Both	Cabinet Confirmation of budget proposals for consultation	Cabinet	12.01.11
8	Both	Individual Directors / ADs & Heads of HR to meet with relevant unions to discuss restructure, selection pool, criteria and process.	Director, AD, and Head of HR	Directorate Joint Consultative Committees (JCCs) organised during January 2011
9	Voluntary Redundancy	Receiving and collating responses	HR	21.01.11 for returns deadline
10	Voluntary Redundancy	Consider expressions of interest in accordance with service areas identified	Directors / ADs / HR	w/c 24.01.11
11	Voluntary Redundancy	Respond to employees	ADs and HR	w/c 31.01.11
12	Compulsory Redundancy (CR)	Identify where compulsory redundancy is still required	Directors / ADs / HR	w/c 31.01.11
13	Voluntary Redundancy	Specific consultation with unions and staff in team meetings on the process including options and selection criteria to be used for specific jobs.	Heads of Service / HR officers	Early February 2011 onwards

14	Voluntary Redundancy	Start to produce estimates and meet with employees who are in service areas that have been identified as potential for VR.	Heads of Service / HR officers	w/c 24.01.11
15	Voluntary Redundancy	Where necessary commence selection criteria analysis.	Heads of Service / HR officers	w/c 24.01.11
16	Voluntary Redundancy	Confirm and give notice to employees accepted for VR.	Heads of Service / HR officers	Early February 2011 onwards
17	Compulsory Redundancy	Specific consultation with Trade Unions and staff in team meetings re selection pool & selection Criteria to be used for specific jobs.	Heads of Service / HR officers	w/c 07.02.11
18	Both	Management Forum - update managers on process.	Marcomms / AD for HR	08.02.11
19	Compulsory Redundancy	Meet with individuals (stage 1a consultation) and confirm at risk of redundancy; if appropriate enter on redeployment register and provide formal notice in accordance with policy).	Heads of Service / Line Managers and HR	w/c 07.02.11
20	Compulsory Redundancy	Where necessary conduct selection criteria analysis.	Heads of Service / Line Managers and HR	Conclude by 18.02.11
21	Compulsory Redundancy	Issue outcomes of selection criteria in advance of meeting with employees (stage 1b consultation meeting). If appropriate enter on redeployment register/provide formal notice or confirm no longer at risk.	Head of Service/Line Managers and HR	Issue outcomes by 21.02.11 and meetings concluded by 28.02.11
22	Voluntary Redundancy	Draft report for Cabinet on 16th March regarding VR.	Directors / AD for HR	01.03.11
23	Compulsory Redundancy	Manage redeployment process for three months and then follow correct procedure to terminate contract if redeployment has been unsuccessful. Redeployment must commence by 01.03.11 to be concluded by 31.05.11. Formal notice must be issued no later than 09.03.11 for statutory 12 weeks notice by 31.05.11.	Head of Service/Line Managers and HR	
24		Council to approve budget proposals.	Council	07.03.11
25	Voluntary Redundancy	Approval for VR applications via Cabinet Report or decision sheet	ADs / HR and Cabinet Members	Cabinet 16.03.11 so draft documents produced earlier in line with process.
26	Compulsory Redundancy	Approval for CR applications via Cabinet Report or decision sheet.	Director of Corporate Resources / Treasurer / AD for HR	To be confirmed.
27	Compulsory Redundancy	Meet with individuals (stage 2 consultation) and confirm if redeployment has been unsuccessful that a report will be progressed to Cabinet or a decision sheet to terminate employment and outcome will be confirmed in writing without the need for a further meeting.	Head of Service / Line Managers and HR	End of April / beginning of May