
Meeting of the Cabinet – 10th January 2006

Joint Report of the Chief Executive and Director of Finance

Revenue Budget Strategy 2006/07

Purpose of Report

1. To consider the Revenue Budget Strategy for 2006/07 and later years.
2. To present spending and funding options for consultation with Select Committees and representatives of Business Ratepayers.

Background

3. In formulating the Council's Budget Strategy and tax levels for 2006/07, Members will need to consider carefully:
 - (a) the levels of Government support allocated to the Council, the preliminary figures for which were reported to the Cabinet on 14th December 2005;
 - (b) Ministerial statements about potential "capping levels";
 - (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, and particularly balancing what needs to be spent to provide services with what it is reasonable to ask local Council Tax payers to pay.

The Council's Current Financial Position

4. The latest Revenue Budget Monitoring information shows the following variation from approved budgets:

| | £m |
|--|--------------------------|
| Additional cost of Children's Out-of-Borough Placements and Fostering costs | 2.600 |
| To be funded by: | |
| Allocations from Budgets for Older People and Social Services Business Support | 1.200 CR |
| Education and Lifelong Learning Directorate Reserves and in-year reductions in spending | 0.750 CR |
| | <hr/> 0.650 |
| Dudley Council Plus staffing costs net yet covered by transfers from Directorate budgets | 0.800 |
| Net additional cost of refund of Mental Health Act charges | 0.200 |
| | <hr/> 1.650 |
| Increased interest earnings | 1.000 CR |
| Net additional cost to be met from General Balances | <hr/> 0.650 <hr/> |

5. In addition, Leisure Centres are unlikely to meet their financial targets in the current year because of reduced income and increasing running costs but action is being taken to contain the increased costs within the total DUE resource base. This needs to be carefully monitored.
6. In accordance with normal practice, a review of reserves and provisions has been undertaken and it has been possible to identify around £1.3m of reserves no longer required for their original purposes.
7. The total level of General Balances at 31st March 2006 is, therefore, currently estimated to be:

| | £m |
|--|--------------------------|
| Balance Brought Forward 1 st April 2005 | 3.857 |
| Budgeted use 2005/06 | -2.000 |
| Effect of net 2005/06 overspend (as above) | -0.650 |
| Review of Reserves & Provisions | 1.300 |
| Estimated General Balances at 31st March 2006 | <hr/> 2.507 <hr/> |

Provisional Revenue Support Grant (RSG) Settlement 2006/07 and 2007/08

8. Details of the Provisional RSG Settlement were reported to the Cabinet at its meeting on 14th December 2005. The figures for Dudley can be summarised as:

| | 2006/07 | 2007/08 |
|--|----------------|----------------|
| Revenue Support Grant / Business Rates | £101.9m | £106.3m |
| Year on Year Increase | + 2.8% * | + 4.6%* |

* Adjusted for transfers of funding, including:

- transfer of the Schools proportion of Revenue Support Grant to a specific Dedicated Schools Grant (DSG) (see paragraphs 9 - 11 below);
- transfer of remaining Residential Allowance and a small part of Preserved Rights grants (Social Services) into RSG.

9. From 2006/07 the Schools proportion of Revenue Support Grant has been transferred to a specific Dedicated Schools Grant (DSG) effectively replacing “passporting” as a means of setting a minimum level of expenditure on schools & schools related expenditure held centrally. In addition, the previous specific grant for teachers’ threshold pay increases has been consolidated into the DSG, while a number of Standards Fund grants which previously required matchfunding have been converted to 100% funding by transferring resources from general RSG/DSG allocations.
10. It is still the responsibility of Councils to allocate the DSG to individual schools, and to determine how much should be retained centrally for schools-related functions, up to a defined limit, and in consultation with the Schools Forum. The Government has also indicated that the proportion of the schools budgets held centrally should not increase at a faster rate than the proportion delegated to schools. Councils may also choose to top-up the DSG from their own resources if they wish.
11. On a like-for-like basis, the provisional increases in DSG in 2006/07 and 2007/08 are 5.7% and 5.8% respectively. Further details of schools budgets will be included in the next Budget report to the Cabinet on 8th February 2006, following consultation with the Schools Forum.
12. As part of his statement to the Home of Commons when announcing the provisional RSG settlement, the Local Government Minister made the following comments in relation to “capping”:

“We have provided a stable and predictable funding basis for local services. We expect Local Government to respond positively as far as council tax is concerned. Therefore we expect to see average council tax increases in each of the next two years of less than 5% Local Government should be under no illusions, if there are excessive increases, we will take capping action – as we have done over the last two years.”

Public Consultation

13. As part of the ongoing consultation process to inform Budget and Council Tax proposals, the Council undertook a further public consultation exercise during September and October, using the Citizens Panel and the Internet. Details of the responses are shown at Appendix C. There were a total of just over 1300 responses and the results can be summarised as:
 - (a) just over half of respondents thought spending on Council services should stay the same or be reduced;
 - (b) just over half thought that the Council Tax increase should be no more than inflation, even if that meant large spending reductions.

Base Budget Forecasts 2006/07 and 2007/08

14. Details of Base Budget Forecasts for the next two years are set out below.

| | 2006/07 | 2007/08 |
|---|----------------|----------------|
| | £m | £m |
| 2005/06 Base | 351.2 | 351.2 |
| Adjustments to funding etc * | -162.0 | -162.0 |
| Pay Inflation at (generally) 2.95% | 4.0 | 8.2 |
| Price Inflation at (generally) 2% | 2.2 | 4.3 |
| Capital Programme | 1.6 | 2.9 |
| Other Adjustments | - 1.3 | - 1.2 |
| Base Budget Forecasts | 195.7 | 203.4 |
| % increase year-on-year (adjusted) | + 3.4% | + 3.9% |

- * Effects of transfer of Schools Funding to DSG, and Residential Allowance & Preserved Rights grants to RSG.

Additional Spending

15. Having reviewed existing budgets in the light of Council Plan Priorities, and taking account of additional legislative requirements, desirable developments and service pressures, the following package of additional spending over the next two years is proposed:

| | 2006/07 £'000 | 2007/08 £'000 |
|--|------------------|------------------|
| <u>Urban Environment</u> | | |
| Improving the environment and street scene: increased street cleansing and litter removal; roads maintenance and improved signage; measure to reduce traffic congestion. | 350 | 770 |
| Improvements to Parks: Recruitment of park keepers and improved maintenance. | 150 | 200 |
| Public Protection: Increased enforcement action. | 85 | 100 |
| Regeneration: Additional resources for planning activities, town centre events, measures to increase tourism and improved opportunities for external funding. | 415 | 565 |
| Culture: Better access to Council facilities and improved staff terms and conditions etc. in Leisure Centres. | - | 365 |
| | 1,000 | 2,000 |
| <u>Children's Services</u> | | |
| Increasing numbers of looked after children, including out of borough placements (net of recharges to DSG) | 1,800 | 1,800* |
| <u>Adult Services</u> | | |
| Increasing numbers of adults with learning disabilities | 1,300 | 2,200* |
| Total Proposed Growth | 4,100 | 6,000 |

* Subject to further review in due course.

Efficiency and Other Savings

16. Following a detailed budget review process, which considered the need to redirect resources to spending priorities and minimise council tax increases in line with the results of the public consultation exercise, a range of efficiency and other savings have been identified from existing budgets. Details are set out at Appendix B and summarised in the following table:

| | 2006/07 | 2007/08 |
|---------------------------------|----------------|----------------|
| | £m | £m |
| Finance | 401 | 548 |
| Chief Executive's | 177 | 177 |
| Law and Property | 100 | 200 |
| DUE | 55 | 55 |
| Social Services and Housing | 581 | 581 |
| Education and Lifelong Learning | 893 | 1,043 |
| | 2,207 | 2,604 |

A number of the savings identified will also contribute to the Council's "Gershon" efficiency targets. Other Gershon efficiencies, which will not directly result in cash savings, are currently being identified, and will be reported to Cabinet in February as part of the Council's overall Annual Efficiency Statement (AES) for 2006/07.

Estimates and Assumptions

17. The proposals in this report are based on a number of estimates, assumptions and professional judgements, which may need to be reviewed and amended during the course of the year and which may lead to further increases in expenditure and, therefore, the need to identify alternative funding sources. These include:
- (a) a reduction in the number of looked after children who are placed outside the borough, and the development of alternative approaches for their social care and education;
 - (b) an assumption that the increase in the level of fees for residential and nursing accommodation for older people will be broadly in line with inflation;
 - (c) the increasing demand for more intensive home care packages and the management of home care waiting lists can be met from within existing budget levels;
 - (d) the total costs of Dudley Council Plus can be contained within existing budget levels and resources transferred from Directorates as and when service lines are transferred;
 - (e) Leisure Centre income and usage targets are met and expenditure is contained within approved budget levels.

Medium Term Financial Strategy

18. Decisions about spending and funding in any one year need to be made in the context of a Medium Term Financial Strategy, which should include forecasts of committed and desirable spending levels, the use of balances and other funding opportunities, the level of Government support and the impact on local taxpayers.

19. As paragraph 7 sets out, there are estimated to be £2.5m in General Balances at 31st March 2006. It would not be unreasonable to work on the basis that, say, up to a further £1m would be available in General Balances in the period up to March 2007 from a combination of transfers from earmarked reserves, further efficiency savings and one-off issues. Subject to overspending in the current year, that would provide a further £1m in General Balances to support spending over the medium term.
20. The following table summarises the budget proposals for 2006/07 and 2007/08:

| | 2006/07 | 2007/08 |
|-------------------------------------|----------------|----------------|
| | £m | £m |
| Base Budget Forecast (as above) | 195.7 | 203.4 |
| Efficiency & Other Savings | -2.2 | -2.6 |
| Council Plan Priorities & Pressures | 4.1 | 6.0 |
| | 197.6 | 206.8 |
| Use of Balances | (2.5) | (1.0) |
| Budget Requirement | 195.1 | 205.8 |
| % Increase (adjusted) | + 4.2% | + 5.5% |

An analysis of the resulting service budget for 2006/07 of £197.6m, showing how this compares with the current year's base budget is shown at Appendix A.

21. Based on the provisional RSG Settlement, and preliminary estimates of the 2006/07 Council Tax Base and Collection Fund Surplus, a Budget Requirement of £195.1m would imply a Council Tax increase of around 3% for 2006/07. This is subject to a number of issues, including the risks and external factors set out in paragraph 27.
22. With regard to 2007/08, having taken into account:
- prudent estimates of expenditure forecasts as set out above;
 - resources from Central Government;
 - the potential to generate further balances;

there is likely to be a shortfall in resources compared to the spending projections in the above table, if Council Tax increases are to be limited to around the level of general inflation.

23. It will be necessary, therefore, to continue to:
- (a) review spending and resource forecasts on an ongoing basis;
 - (b) review spending priorities and the allocation of resources in line with Council Plan priorities;
 - (c) seek further efficiency and other savings, although the scope for this is becoming more and more limited;
 - (d) seek opportunities for additional external funding;
 - (e) take action to replenish General Balances;
 - (f) review risks and uncertainties and any other relevant factors.

Consultation

24. Details of public consultation already undertaken are set out in paragraph 13 above.
25. In accordance with the Council's Constitution, the Select Committees will be 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, the Select Committees should be asked to consider both the spending and funding implications (including the impact on Council Tax) of any observations they may wish to make.
26. The Council is required by law to consult with representatives of Business Ratepayers before the final budget and Council Tax are agreed, and this will be scheduled to take place in February before the Cabinet recommends a final budget.

Risk Analysis

27. The base budget forecasts and resource levels identified in this report are based on a number of provisional figures and preliminary estimates and indications. A full analysis of the risks for the 2006/07 budget will be included in the final budget reports. At this stage, as well as the issues set out in paragraph 17, the following risks need to be taken into account in the consideration of the budget strategy:
 - RSG figures are provisional and will not be finalised until the end of January 2006.
 - The actual levels of the PTA levy still need to be formally determined.
 - General inflation and interest rates may vary over the period.
 - Unplanned factors may result in higher/lower cost pressures.
 - It may be necessary to revise assumptions about the levels of prevailing interest rates and price inflation if better information becomes available before the budget is finally approved.

Finance

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

Law

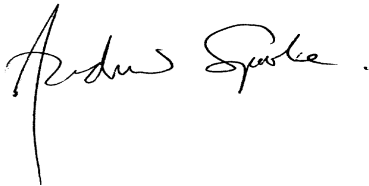
29. The Council's budget setting process is governed by the Local Government Finance Acts 1988 and 1992 and the Local Government Act 2003.
30. Local Government Act 2003 requires the Director of Finance to report on the robustness of estimates made for the purpose of final budget calculations, and the adequacy of the proposed financial reserves and this will be included in the final budget report.

Equality Impact

31. These proposals comply with the Council's policy on Equal Opportunities, as far as it is possible within existing and future resource levels.

Recommendations

32. That the Cabinet:
- (a) Approves the preliminary strategy outlined above as a basis for further consultation.
 - (b) Notes the various issues and risks which will need to be taken into account in finalising Budget proposals for 2006/07, and the longer term financial strategy.



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List of Background Papers

Provisional RSG Settlement papers and electronic communications.

Appendix A

| Service | 2005/06 Base Budget (*) | Changes in Funding / Functions | Inflation, Capital Programme Etc. | Budget Increase Proposals | Budget Reduction Proposals | 2006/07 Proposed Budget |
|--|--|---|--|--|---|--|
| | £m | £m | £m | £m | £m | £m |
| Education and Lifelong Learning | 200.9 | -163.0 | 0.7 | | -0.9 | 37.7 |
| Social Services | 83.3 | 1.0 | 2.8 | 3.1 | -0.4 | 89.8 |
| Urban Environment | 49.8 | | 1.5 | 1.0 | -0.1 | 52.2 |
| Finance, ICT and Procurement | 3.1 | | 0.6 | | -0.4 | 3.3 |
| Chief Executive's | 9.6 | | 0.5 | | -0.2 | 9.9 |
| Law & Property | 1.9 | | 0.4 | | -0.1 | 2.2 |
| Housing General Fund | 2.6 | | | | -0.1 | 2.5 |
| Total | 351.2 | -162.0 | 6.5 | 4.1 | -2.2 | 197.6 |

(*) Adjusted to reflect the recalculation of Asset Rents charged to services using the statutory formulae, and other accounting changes.

EFFICIENCY AND OTHER SAVINGS

| | 2006/07 | 2007/08 |
|--|----------------|----------------|
| | £'000 | £'000 |
| <u>Finance</u> | | |
| Financial Services restructuring | 180 | 217 |
| Savings on ICT running costs etc | 65 | 115 |
| Efficiency savings – e-business | - | 60 |
| Savings on financial systems | 141 | 141 |
| Other minor changes | 15 | 15 |
| | 401 | 548 |
| <u>Chief Executive's</u> | | |
| Review of Neighbourhood Management Programme and revised funding arrangements | 177 | 177 |
| <u>Law and Property</u> | | |
| Additional Fees and Charges income | 35 | 35 |
| Revised R & M programme | 50 | 150 |
| Other Changes | 15 | 15 |
| | 100 | 200 |
| <u>DUE</u> | | |
| Effect of Management Restructuring | 55 | 55 |
| <u>Social Services and Housing General Fund</u> | | |
| Efficiency savings from remodelling | 200 | 200 |
| Continuing economies in Business Services | 200 | 200 |
| Additional Housing Grants | 56 | 56 |
| Additional Income from Charges | 50 | 50 |
| Revised arrangement for use of equipment | 50 | 50 |
| Other running costs | 25 | 25 |
| | 581 | 581 |
| <u>Education and Lifelong Learning</u> | | |
| Efficiency savings from remodelling | 185 | 185 |
| Funding for Extended Schools now met from DSG | 560 | 560 |
| Revised planning, procurement and management of Home to School and Children's Social Care Transport arrangements | 67 | 217 |
| Revised funding arrangements for School Reviews | 71 | 71 |
| Other | 10 | 10 |
| | 893 | 1,043 |
| TOTALS | 2,207 | 2,604 |

Budget 2006/07 Questionnaire Results (2004/05 in brackets)

Q1. Overall, do you think spending on services should:

| | | |
|---------------------------------|----------------------------------|-------------------------------|
| Be increased 47% (35) | Stay the same 43% (54) | Be reduced 10% (12) |
|---------------------------------|----------------------------------|-------------------------------|

Q2. Now, looking at the main services the Council provides, please indicate for each one whether you think spending should increase, stay the same, or be reduced. (Rankings obtained by comparing balance of "increase" and "reduce" responses; 2004/05 rankings adjusted to reflect more categories.)

| | Spend should increase | Spend should stay the same | Spend should be reduced | Ranking |
|--|-----------------------------|----------------------------------|-------------------------------|----------------|
| Schools | 54% (55) | 41% (42) | 4% (3) | 7 (5) |
| Support to Schools | 53% (n/a) | 42% (n/a) | 5% (n/a) | 8 (n/a) |
| Youth Service and Community Centres | 48% (31) | 46% (61) | 6% (9) | 11 (11) |
| Adult Education | 22% (11) | 69% (72) | 9% (17) | 16 (16) |
| Libraries | 19% (13) | 76% (79) | 4% (8) | 15 (15) |
| Refuse Collection, Disposal & Recycling | 44% (31) | 56% (67) | 0% (2) | 9 (9) |
| Street Cleaning & Litter Removal | 55% (48) | 45% (50) | 0% (2) | 4 (7) |
| Maintenance of Roads & Footpaths | 70% (62) | 29% (36) | 1% (2) | 2 (2) |
| Reducing Traffic Congestion | 56% (n/a) | 37% (n/a) | 6% (n/a) | 6 (n/a) |
| Arts & Entertainment | 9% (4) | 67% (56) | 24% (40) | 18 (18) |
| Museums & Heritage | 8% (6) | 74% (64) | 18% (30) | 17 (17) |
| Parks & Open Spaces | 37% (26) | 59% (67) | 3% (7) | 12 (12) |
| Sports Facilities & Leisure Centres | 36% (21) | 58% (65) | 6% (15) | 13 (14) |
| Helping Create New Jobs & Businesses | 50% (36) | 41% (53) | 9% (10) | 10 (10) |
| Care & Support for Children & Families | 39% (28) | 52% (60) | 9% (12) | 14 (13) |
| Care & Support for Older People | 61% (56) | 38% (42) | 1% (2) | 3 (3) |
| Care & Support for People with Mental Health Problems, Learning or Physical Disabilities | 54% (n/a) | 44% (n/a) | 2% (n/a) | 5 (n/a) |
| Crime Prevention & Public Safety | 76% (74) | 22% (25) | 1% (2) | 1 (1) |

Q3. Bearing in mind your answers to questions 1 and 2, which of the following statements best reflects your views on next year's Council Tax:

- a. Overall spending on services should be maintained or increased even if this means an increase in Council Tax well above the rate of inflation.
16% (16)
- b. Spending on important services should be maintained at the expense of other services, even if this means a Council tax increase above the rate of inflation. **31% (29)**
- c. The Council Tax increase should be no more than the rate of inflation, even if this means significant reductions in spending on services.
54% (54)

Q4. Are there any other issues we should take into account when considering next year's budget and Council Tax?

Responses relating to specific service issues have been circulated to Cabinet Members and Directors for consideration. Copies are available in the Members' Library.

Q5. To help us analyse the responses to this questionnaire, it would be helpful if you could you tell us:

Your age: 18-24 **3% (3)** 25-44 **32 (30)**
 45-64 **44% (46)** 65+ **20% (22)**

Where you live: Dudley **20% (23)** Brierley Hill **21% (24)**
 Halesowen **21% (20)** Stourbridge **24% (18)**
 Sedgley/Coseley/Gornal **14% (15)**
 Don't live in Dudley Borough **0% (0)**

Is your Council Tax bill reduced by Benefit? Yes **17% (17)** No **83% (83)**

Note: For all questions, nil responses have been excluded from analysis. Totals may not sum to 100% due to roundings.