

EAST HERTS COUNCIL

JOINT MEETING OF SCRUTINY COMMITTEES - 1 DECEMBER 2009

REPORT BY EXECUTIVE MEMBER FOR RESOURCES AND INTERNAL SUPPORT

7. BUDGET 2010/11 AND MEDIUM TERM FINANCIAL PLAN TO 2013/14

WARDS AFFECTED: ALL

Purpose/Summary of Report

- This report invites Scrutiny to consider options in respect of the budget for 2010/11 and the medium term financial plan to 2013/14 and to make recommendations thereon to the Executive: the Executive will take such recommendations into account in the development of budget proposals to be made to the Council in February 2010.

<u>RECOMMENDATIONS</u> - that the Executive be advised:	
(A)	Of Scrutiny's preferred options by which further savings should be introduced into the 2010/11 budget and the medium term financial plan to balance spending plans with resources.
(B)	By Scrutiny on such changes to planning assumptions as Scrutiny may propose.

1.0 Background

- 1.1. This report is part of the consultation process which will lead to future budget proposals. At this stage options are being considered rather than firm spending proposals being put forward.

- 1.2. The Council is embarking on setting the budget for the year from 1 April 2010 and revising its medium term financial plan in very different circumstances to those existing when it set this year's budget.
- 1.3. Since last February a broad consensus has been reached on the need to address a large public sector deficit that has led to projections of significantly higher levels of government debt. The government has used a variety of interventions to support the UK's banking and financial services industry – Credit Guarantee Scheme, Special Liquidity Scheme, Asset Protection Scheme, and Asset Purchase Facility etc - while maintaining planned levels of spending in the face of falls in most sources of tax income during what has been a lengthy and deep recession across the UK economy. In terms of addressing the resulting deficit there are different views about the timing of measures and the balance between tax measures and spending reductions and the focus for each.
- 1.4. At this budget round therefore the Council must prepare for harsher times.
- 1.5. In responding to these harsher times in addition to the search for increasing efficiency the Council will increasingly need to consider.
 - Targeting resources to areas of highest need and priority for the public,
 - How the Council's funding complements and is complemented by partnership resources,
 - Whether and how service standards might be revised in the light of affordability,
 - The risks associated with reductions in the scope or frequency of inspection and review activities.

2.0 Report

- 2.1. A key part of future planning is to look at how best the Council can be ready to respond to what can be expected to be big reductions in grants from the government. These grants fund just under half our expenditure (net of fees and charges) with council tax meeting the balance.

- 2.2. At the same time, the continuing impact of the recession requires caution about assumptions for the amounts raised in income from fees and charges.
- 2.3. On the spending side of the budget equation there is mixed news in the current year with a lower pay settlement than allowed for offset by lower staff turnover and pressures on some services like housing and council tax benefits and in particular the cost of national concessionary fares scheme being much higher than expected.

Taking each of these factors in turn.

Government grant

- 2.4. The government's statements about its spending plans for 2010/11 suggest there will not be significant reductions in grant next year compared with what has been built into the MTFP. But after that the outlook is much more uncertain.
- 2.5. More may be known after the pre budget report on the 9th December but most commentators are speaking of a long period of spending restraint to bring public finances back into balance – anywhere between a decade and a generation. The scale of reductions that are needed is typically quoted at 20% or more. However, we do not yet know with any precision what that will mean for the reduction in the Council's grants from 2011/12. It is unlikely that much more will become clear until the outcome from the next Comprehensive Spending Review is announced probably next autumn and after the general election.
- 2.6. The MTFP takes as a working assumption that reductions in grant will reach 15% or £1.2m per year by 2013/14 compared with amount received in 2010/11.

Reduced income

- 2.7. In the current year the Council is receiving lower income, from planning and car parking in particular, as a result of the recession.

- 2.8. The MTFP assumption at this stage is for these reductions to continue into 2011/12 and beyond but with a lessening impact as set out at Essential Reference Paper B on pages 5.9 - 5.11.

Spending

- 2.9. Savings and growth proposals from the 2009/10 budget round are retained in the MTFP with the following adjustments. The additional savings from the investment in leisure £240K in 2010/11 increasing to £455K in 2012/13 has been added; the generic saving from business process reengineering £41K from 2010/11 has been removed to avoid double counting against the savings proposals now submitted; and the interest cost of capital investment is reduced by £25K to reflect the assumption of lower interest rate.
- 2.10. The cost of the national concessionary bus fares scheme is proving much higher than forecast – an extra £200k in 2009/10 because we now pay the bill for all concessionary trips starting in East Herts rather than just for trips made by our residents. This budget will be subject to both demographic and cost pressures with the potential for volatility in funding should responsibility be transferred to county councils as is under discussion.
- 2.11. The MTFP has been refreshed to reflect the 1 April 2009 pay settlement, the planning assumptions about future pay settlements, inflation and interest rates put forward in July 2009. The future savings from the investment in leisure are also included. The MTFP has not yet been updated in respect of proposed changes to terms and conditions pending receipt of the trade union's response to the proposals which will be reported at the meeting.
- 2.12. With so much uncertainty about the future a small planning contingency is included in the MTFP. This contingency increases from 1% of spending in 2011/12, to 1.25% in 2012/13 and 1.5% in 2013/14.

Council tax

- 2.13. No decisions or proposals have been taken or put forward yet about the level of council tax increase from 1st April. The current MTFP is based on increases of 3.8% each year and at this stage of consultation this projection is retained.
- 2.14. Each reduction of 0.5% in the rate of increase of council tax would require a saving of some £45K in 2010/11 increasing to £53K in 2013/14 for an equivalent saving in that year.
- 2.15. The council tax base has seen marginally less growth in the additions to the valuation list during 2009/10 than expected when the tax base was agreed in January 2009. Collection activity by way of reminders and summonses has increased in the current year. Consideration is therefore being given to recommendations to reduce the projected collection rate from 99% to 98.75% for 2010/11. At this stage no change to the tax base has been assumed compared to the projections made in February.

Reserves

- 2.16. The MTFP retains the call on reserves planned in February in particular the interest equalisation reserve.
- 2.17. The general reserve is additionally called on to support the leisure contract as planned in 2009/10 but with provision for repayment to the reserves in 2010/11 and 2011/12.
- 2.18. When the accounts were closed for 2008/09 the general reserve was some £860K higher than expected when the current year's budget was set (£2,997K as against £2,137K): of this additional balance £245k was used to fund requests to bring forward unspent budgets from 2008/09. The general reserve is therefore £645K above the level anticipated when the MTFP was set. This additional balance will likely be drawn on to meet a potential overspending in the current year. Approval has already been given to supplementary estimates totalling £456k (including a recoverable £266K in respect of the leisure contract). The September health check reported a

potential overspending, inclusive of that covered by these supplementary estimates, of £897K.

- 2.19. Given that pressures on public spending are likely to be long term the Council will need to consider carefully any further short term use of its reserves.

Summary of the MTFP

- 2.20. The MTFP has been refreshed as above and consequently identifies a savings requirement as follows:

2010/11 £736K
2011/12 £1,457K
2012/13 £1,698K
2013/14 £1,722K

- 2.21. The Financial Strategy adopted in July committed to an approach to financial planning such that spending plans are consistent with forecasts of future income and all based on a prudent set of assumptions.

The options

- 2.22. Essential Reference Paper C on pages 5.12 - 5.19 summarises the options under consideration with a clear focus on reducing the cost of the Council's back office. These options are informed by some early work on C3W.
- 2.23. Essential Reference Paper D on pages 5.20 - 5.22 is a copy of a letter to those who participated in the public consultation exercise and which sets out the outcome from the consultation event held on 10 October.
- 2.24. In total the options exceed the sums needed to balance the MTFP and these are summarised below net of the associated growth items required to deliver the savings. Taking up options beyond the sum needed to balance the MTFP will create scope for investment in priorities and/or lower council tax increases.

All figures £000's

	2010/11	2011/12	2012/13	2013/14
Savings	1,214	1,898	2,329	2,833
Associated Revenue Growth	109	101	147	101
Net Savings	1,105	1,797	2,182	2,732

2.25. The options for years beyond 2010/11 will need to be reconsidered once the government announces its medium term spending plans.

2.26. In reviewing options Scrutiny is asked to consider how the factors raised in paragraph 1.5 might be addressed by the Executive and to identify any equality or diversity issues associated with any option which the Executive should consider.

Background Papers

Consolidated Budget Report – Executive 10 February 2009.

Contact Member: Councillor Michael Tindale, Executive Member for Resources and Internal Support.

Contact Officer: Alan Madin, Director of Internal Services - Extn: 1401.

Report Author: Alan Madin, Director of Internal Services - Extn: 1401.

ESSENTIAL REFERENCE PAPER 'A'

<p>Contribution to the Council's Corporate Priorities/ Objectives</p>	<p>Promoting prosperity and well-being; providing access and opportunities <i>Enhance the quality of life, health and wellbeing of individuals, families and communities, particularly those who are vulnerable.</i></p> <p>Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i></p> <p>Pride in East Herts <i>Improve standards of the neighbourhood and environmental management in our towns and villages.</i></p> <p>Caring about what's built and where <i>Care for and improve our natural and built environment.</i></p> <p>Shaping now, shaping the future <i>Safeguard and enhance our unique mix of rural and urban communities, ensuring sustainable, economic and social opportunities including the continuation of effective development control and other measures.</i></p> <p>Leading the way, working together <i>Deliver responsible community leadership that engages with our partners and the public.</i></p>
<p>Consultation:</p>	<p>This report forms part of a wider consultation process involving the public, business and other stakeholders</p>
<p>Legal:</p>	<p>There are no legal implications arising from this report. However, in formulating final spending proposals the Council must set a budget within available resources.</p>
<p>Financial:</p>	<p>The report seeks recommendations that will be taken into account in setting the budget for 2010/11 and the MTFP to 2013/14. No costs arise directly from the recommendations.</p>
<p>Human Resource:</p>	<p>There are no Human Resource Implications.</p>
<p>Risk Management</p>	<p>There are no Risk Management Implications.</p>