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**Meeting of the Cabinet – 9th January 2007**

**Joint Report of the Chief Executive and Director of Finance**

**Revenue Budget Strategy 2007/08**

**Purpose of Report**

1. To consider the Revenue Budget Strategy for 2007/08 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 2007/08, Members will need to consider carefully:
  - (a) the levels of Government support allocated to the Council and Ministerial statements about potential "capping levels";
  - (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, and particularly balancing what needs to be spent to provide services with what it is reasonable to ask local Council Tax payers to pay.
4. When the Revenue Budget and Council Tax for 2006/07 was approved, the Council endorsed a Medium Term Financial Strategy (MTFS) which highlighted gaps between resources and spending levels in 2007/08 and later years and which said it would be necessary 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 other relevant factors.

5. Five specific areas of risk and uncertainty were identified in the MTFS:

- (a) that the assumed reduction in the number and cost of looked-after children who are placed outside the Borough would not be achieved. In the event, the numbers of children and costs have continued to increase and there is an estimated net overspend of £1.7m in the current year and an ongoing demand into 2007/08 and later years;
- (b) that the increase in the level of fees for residential and nursing accommodation for older people would be more than the rate of inflation provided in the budget. Cost increases have been contained within the approved budget for 2006/07, but there are likely to be higher increases in 2007/08 and later years;
- (c) that the increasing demand for more intensive home care packages and the management of home care waiting lists could not be met within existing budget levels. These pressures have been managed within existing budget levels in 2006/07;
- (d) that the total costs of Dudley Council Plus could not be contained within existing budget levels and resources transferred from Directorates. There is an anticipated overspend of £0.7m in 2006/07, which subject to further detailed review, will recur in 2007/08 and later years. For 2007/08 the cost can be offset by the application of LPSA Reward Grant and work is in hand to address the position for 2008/09 onwards;
- (e) that leisure centre income and usage targets are not met and expenditure is not contained within approved budget levels. There is likely to be a net shortfall of approximately £0.7m in the current year, but this is being managed within the total budgets of the Directorate of the Urban Environment. Additional budget allocations to meet increasing energy costs, improved staff terms and conditions and reduced income levels are proposed for 2007/08.

6. The MTFS also made specific reference to the Single Status review, including the development of a new pay and reward strategy and the need to manage the financial implications of the review from the 2007/08 financial year onwards.

## The Council's Current Financial Position

7. The latest Revenue Budget Monitoring information shows the following variation from approved budgets in the current year:-

	<b>£m</b>
Additional cost of Children's Out-of-Borough Placements and Fostering costs	1.7
Dudley Council Plus staffing costs net yet covered by transfers from Directorate budgets	0.7
<b>Total</b>	<b>2.4</b>
To be funded by:	
Local Authority Business Growth Incentive (LABGI) funding	0.8
Increased net earnings from Treasury Management activities	0.7
General Balances	0.9
<b>Total</b>	<b>2.4</b>

8. The effect of the 2006/07 estimated outturn on the Council's General Balances is, therefore:-

	<b>£m</b>
Balance Brought Forward 1 <sup>st</sup> April 2006	3.3
Budgeted use 2006/07	-2.4
Effect of net 2006/07 overspend (as above)	-0.9
<b>Estimated General Balances at 31st March 2007</b>	<b>Nil</b>

In accordance with the MTFs, action has been taken to increase the levels of General Balances to support spending in 2007/08 and later years (see paragraph 13).

## Provisional Revenue Support Grant (RSG) Settlement 2007/08

9. Details of the Provisional RSG Settlement were reported to the Cabinet at its meeting on 13th December 2006. Compared with the national increase in formula grant of 3.7%, Dudley's increase amounts to 4.6% - mainly as a result of some unwinding of the damping arrangements. In cash terms this gives a formula grant of £106.3m. The formula grant entitlement without damping would have been about £114m (i.e. c£8m more)
10. Details of the levels of grant payable under the Local Authority Business Growth Incentive (LABGI) scheme are still awaited. LABGI grant is related to the increase in non-domestic rateable value compared with a target based on past trends. Although levels of income are hard to predict it might be reasonable to anticipate further income

from the LABGI of around £0.8m available to be applied to support the budget in 2007/08 rising to £1.2m in 2008/09 and £1.5m in 2009/10.

11. In his statement to the House 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 an average council tax increase in England in 2007/08 of less than 5%. We will not allow excessive council tax increases. We have used our reserve capping powers in previous years to deal with excessive increases and won’t hesitate to do so again if that proves necessary.”*

Public Consultation

12. 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 over 1100 responses and the results can be summarised as:

- (a) over 90% of respondents thought overall spending on Council services should stay the same or be increased;
- (b) over half thought that the Council Tax increase should be more than inflation if necessary to maintain and increase spending on important services.

Review of Reserves and Provisions

13. As paragraph 3 says, the existing MTFS includes reference to the need to take action to replenish General Balances. Following a thorough review of earmarked reserves and provisions, the following amounts will be transferred to General Balances at 31st March 2007 and would, therefore, be available to support spending in 2007/08 and later years:-

	£m	£m
Revenue Reserves supporting Capital Spending, which can now be financed by “Prudential Borrowing”		
- Capital Reserve	6.66	
- Corporate ICT Strategy	0.35	
- Directorate Reserves	0.48	7.49
Directorate Reserves no longer required		0.74
<b>Estimated General Balance available at 1<sup>st</sup> April 2007</b>		<b>8.23</b>

14. Depending on the actual phasing of the capital spending referred to in paragraph 13, there will be increased financing costs of about £0.75m per year or a total of about

£2.2m over the three year period 2007/08 – 2008/09, leaving a net £6m to be used to support expenditure. This will reduce the overall level of cash backed revenue reserves over the medium term and may reduce future years' budget flexibility. The increased financing costs are included in the base budget forecast in paragraph 15 and the proposed use of General Balance of £8.2m to support spending in 2007/08 and later years is included in the summary table in paragraph 20.

Base Budget Forecasts 2007/08 - 2009/10

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

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
2006/07 Base	197.6	197.6	197.6
Pay Inflation at about 2.5%	3.2	6.5	9.9
Price Inflation at (generally) 2% *	2.1	4.2	6.0
Capital Programme**	2.1	3.3	4.6
Other Adjustments	- 0.4	- 0.4	- 0.5
<b>Base Budget Forecasts</b>	<b>204.6</b>	<b>211.2</b>	<b>217.6</b>
<b>% increase year-on-year</b>	<b>+ 3.5%</b>	<b>+ 3.2%</b>	<b>+ 3.0%</b>

\* includes provision for energy contract price increases at current market rates.

\*\* includes extra debt charges resulting from release of balances - as per. paragraph 13.

## Additional Spending

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

	2007/08 £'000	2008/09 £'000	2009/10 £'000	Main Council Plan Themes Supported
<b><u>Urban Environment</u></b>				
Extension of Green Waste Collection.	300	300	300	Environment
Improvements to Parks, Environment & Street Scene:				Environment;
Roads and bridge maintenance; street cleaning and litter removal; street signage and traffic congestion; waste management; park keepers	420	570	570	Safety
Regeneration, including Planning & Public Protection:				Regeneration;
Improved planning service; town centre events; bidding for external funding; food hygiene; contaminated land and enforcement; tourism	195	245	245	Safety
Culture:				Quality
Public halls and museums; leisure centres (including staffing arrangements); health and safety training	665	665	665	Service;
				Safety
<b>Total Urban Environment</b>	<b>1,580</b>	<b>1,780</b>	<b>1,780</b>	
<b><u>Children's Services</u></b>				
Increasing numbers of looked after children, including out of borough placements	2,000	2,000	2,000	Caring
<b><u>Adult, Community and Housing</u></b>				
Increasing numbers of adults with learning disabilities, and increased residential costs	1,400	2,100	2,900	Caring
<b><u>Chief Executive's</u></b>				
Postal Voting, Civic Events	119	119	119	Quality
				Service
<b>Total Proposed Growth</b>	<b>5,099</b>	<b>5,999</b>	<b>6,799</b>	

## Efficiency and Other Savings

17. Following a detailed budget review process, which considered the need to redirect resources to the spending pressures and priorities set out in paragraph 16, 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:

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Finance, ICT & Procurement	374	399	411
Chief Executive's	50	100	100
Law and Property	205	220	220
Urban Environment	549	613	661
Adult, Community and Housing	1,476	1,476	1,476
Children's Services	676	676	676
	<b>3,330</b>	<b>3,484</b>	<b>3,544</b>

18. 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 2007/08. The Council's in-year cashable efficiency savings target may not be met without utilising excess cashable efficiencies from previous years.

## Single Status

19. It is too early to be able to form a realistic estimate of the costs of implementing the Single Status agreement. However on the basis of best estimates at this time and assuming there might ultimately be a requirement to meet some back pay costs, the cost (including debt charges on back pay, which it is currently assumed could be capitalised) might possibly amount to around £3m in 2007/08 rising to £4m in 2008/09 and £5m in 2009/10. It must be stressed at this juncture that the impact may be significantly different once details emerge and negotiations commence.

## Summary

20. The following table summarises the budget proposals for 2007/08 - 2009/10:

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Base Budget Forecast	204.6	211.2	217.6
Efficiency & Other Savings	-3.3	-3.5	-3.5
Council Plan Priorities & Pressures	5.1	6.0	6.8
Single Status	3.0	4.0	5.0
LABGI	(0.8)	(1.2)	(1.5)
	<b>208.6</b>	<b>216.5</b>	<b>224.4</b>
Use of Balances	(4.3)	(3.1)	(0.8)
<b>Budget Requirement</b>	<b>204.3</b>	<b>213.4</b>	<b>223.6</b>
<b>% Increase</b>	<b>+4.7%</b>	<b>+4.5%</b>	<b>+4.8%</b>

An analysis of the resulting service budget for 2006/07 of £208.6m, showing how this compares with the current year's base budget is shown at Appendix A.

## Estimates, Assumptions & Risk Analysis

21. 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 2007/08 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) no further increase 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) Single Status costs are no more than estimated in paragraph 18, and the costs of any backdating can be capitalised. This will depend on getting a "direction" from the Government, against a background of a limited overall allocation and competing demands from other Councils and is by no means certain.
- (c) LABGI income is forthcoming as assumed in paragraph 10. There is no guarantee of any income, and the LABGI scheme itself may not be extended after 2007/08.
- (d) 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;
- (e) energy cost inflation does not materially exceed forecast rates when contracts are renewed;



- (f) general levels of inflation and interest rates to not vary materially from current forecasts;
  - (g) there will be no other unplanned expenditure - or shortfalls in income - which cannot be met from reserves;
  - (h) RSG funding increases in line with forecasts, and capping criteria remain in line with current indications.
22. In addition, the budget forecasts and resource levels identified in this report for 2007/08 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) RSG figures are provisional and will not be finalised until the end of January 2007.
  - (ii) The actual levels of the PTA levy still need to be formally determined.

### Medium Term Financial Strategy

23. Decisions about spending and funding in any one year need to be made in the context of a Medium Term Financial Strategy (MTFS) (typically over 3 years), 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. This is particularly difficult beyond next year until the outcome of the next three year Comprehensive Spending Review is known.
24. Based on the provisional RSG Settlement, and preliminary estimates of the 2007/08 Council Tax Base and Collection Fund Surplus, a Budget Requirement of £204.3m would imply a Council Tax increase of around 4.9% for 2007/08. This is subject to a number of issues, including the risks and external factors set out in paragraph 20.
25. With regard to 2008/09 and 2009/10, having taken into account:
- expenditure forecasts as set out above;
  - estimated resources from Central Government;
  - the potential to generate further balances;
  - the potential to generate further efficiency and other savings;

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.

26. In order to ensure that the Council can properly manage its financial affairs over the medium term, the strategy must therefore be 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;
- (g) set appropriate levels of council tax.

### Consultation

- 27. Details of public consultation already undertaken are set out in paragraph 13 above.
- 28. 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.
- 29. 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.

### Finance

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

### Law

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

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

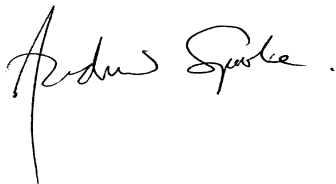
34. With regard to Children and Young People:-

- 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.
- All members of the public, including children and young people, had the opportunity to take part in the Internet consultation to inform the proposals in this report.
- There has been no specific involvement of children and young people in developing the proposals in this report.

### **Recommendations**

35. 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 2007/08, and the longer term financial strategy.



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### **List of Background Papers**

Provisional RSG Settlement papers and electronic communications.

Appendix A

<b>Service</b>	<b>2006/07 Base Budget (*)</b>	<b>Inflation, Capital Programme Etc.</b>	<b>Budget Increase Proposals</b>	<b>Budget Reduction Proposals</b>	<b>Single Status / LABGI</b>	<b>2007/08 Proposed Budget</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Children's</b>	46.9	1.4	2.0	-0.7		<b>49.6</b>
<b>Adult, Community &amp; Housing</b>	75.0	2.2	1.4	-1.4		<b>77.2</b>
<b>Urban Environment</b>	45.6	1.4	1.6	-0.5		<b>48.1</b>
<b>Finance, ICT and Procurement</b>	18.1	1.6		-0.4	-0.8	<b>18.5</b>
<b>Chief Executive's</b>	10.1	0.3	0.1	-0.1	3.0	<b>13.4</b>
<b>Law &amp; Property</b>	1.9	0.1		-0.2		<b>1.8</b>
<b>Total</b>	<b>197.6</b>	<b>7.0</b>	<b>5.1</b>	<b>-3.3</b>	<b>2.2</b>	<b>208.6</b>

(\*) Adjusted to reflect the recalculation of Capital Charges to services using the statutory formulae, and other accounting changes.

**EFFICIENCY AND OTHER SAVINGS**

	2007/08 £'000	2008/09 £'000	2009/10 £'000
<b><u>Finance</u></b>			
Restructuring of ICT & Purchasing	120	125	130
Other ICT cost savings	50	50	50
Increased income	177	177	177
Other	27	47	54
	<b>374</b>	<b>399</b>	<b>411</b>
<b><u>Chief Executive's</u></b>			
Centralisation of Personnel - Efficiency Savings	50	50	50
Review of support for Credit Union	-	50	50
	<b>50</b>	<b>100</b>	<b>100</b>
<b><u>Law and Property</u></b>			
Additional Fees and Charges income	86	86	86
Revised R & M programme	100	100	100
Other	19	34	34
	<b>205</b>	<b>220</b>	<b>220</b>
<b><u>DUE</u></b>			
Review of Car Park Charges (net of reinvestment)	340	340	340
Extra income, inc. Himley Hall	123	123	123
Staff Restructuring	71	135	183
Other	15	15	15
	<b>549</b>	<b>613</b>	<b>661</b>
<b><u>Adult, Community and Housing</u></b>			
Staff Turnover	418	418	418
Revised Management - Learning Disability Services	100	100	100
Revised Supporting People Grant funding arrangements	550	550	550
Additional Income from Charges	200	200	200
Reprovision of Residential Services for Elderly Persons	208	208	208
	<b>1476</b>	<b>1476</b>	<b>1476</b>
<b><u>Children's Services</u></b>			
Restructure Early Years Services	140	140	140
Review of Ethnic Minority Achievement Service	100	100	100
Home to School Transport	210	210	210
Review of Youth Service	100	100	100
Other	126	126	126
	<b>676</b>	<b>676</b>	<b>676</b>
<b>TOTALS</b>	<b>3,330</b>	<b>3,484</b>	<b>3,544</b>

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

Be increased <b>42%</b> (47)	Stay the same <b>51%</b> (43)	Be reduced <b>7%</b> (10)
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**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	<b>42%</b> (54)	<b>54%</b> (41)	<b>4%</b> (4)	<b>6</b> (7)
Support to Schools	<b>36%</b> (53)	<b>56%</b> (42)	<b>8%</b> (5)	<b>11</b> (8)
Youth Service and Community Centres	<b>38%</b> (48)	<b>54%</b> (46)	<b>7%</b> (6)	<b>10</b> (11)
Adult Education	<b>14%</b> (22)	<b>71%</b> (69)	<b>15%</b> (9)	<b>16</b> (16)
Libraries	<b>16%</b> (19)	<b>73%</b> (76)	<b>10%</b> (4)	<b>15</b> (15)
Refuse Collection, Disposal & Recycling	<b>40%</b> (44)	<b>58%</b> (56)	<b>2%</b> (0)	<b>7</b> (9)
Street Cleaning & Litter Removal	<b>48%</b> (55)	<b>49%</b> (45)	<b>2%</b> (0)	<b>5</b> (4)
Maintenance of Roads & Footpaths	<b>60</b> (70)	<b>37%</b> (29)	<b>2%</b> (1)	<b>2</b> (2)
Reducing Traffic Congestion	<b>44%</b> (56)	<b>47%</b> (37)	<b>10%</b> (6)	<b>8</b> (6)
Arts & Entertainment	<b>6%</b> (9)	<b>60%</b> (67)	<b>34%</b> (24)	<b>18</b> (18)
Museums & Heritage	<b>9%</b> (8)	<b>66%</b> (74)	<b>25%</b> (18)	<b>17</b> (17)
Parks & Open Spaces	<b>35%</b> (37)	<b>58%</b> (59)	<b>7%</b> (3)	<b>12</b> (12)
Sports Facilities & Leisure Centres	<b>33%</b> (36)	<b>58%</b> (58)	<b>9%</b> (6)	<b>13</b> (13)
Helping Create New Jobs & Businesses	<b>44%</b> (50)	<b>45%</b> (41)	<b>11%</b> (9)	<b>9</b> (10)
Care & Support for Children & Families	<b>31%</b> (39)	<b>57%</b> (52)	<b>12%</b> (9)	<b>14</b> (14)
Care & Support for Older People	<b>57%</b> (61)	<b>39%</b> (38)	<b>4%</b> (1)	<b>3</b> (3)
Care & Support for People with Mental Health Problems, Learning or Physical Disabilities	<b>50%</b> (54)	<b>46%</b> (44)	<b>4%</b> (2)	<b>4</b> (5)
Crime Prevention & Public Safety	<b>66%</b> (76)	<b>31%</b> (22)	<b>2%</b> (1)	<b>1</b> (1)

