

THE BUDGET PROPOSAL OF THE CABINET 2010/2011

Executive Summary

Background

The proposed net revenue budget for Bath & North East Somerset Council next year, 2010/11, is £130.704m, together with a Council Tax band D of £1,201.85 which is an increase of 2.50%.

The proposed increase in Council Tax continues the Council policy of sustainable council tax increases and reducing the burden on the community. The increase is designed to maintain services as far as possible and invest in the Council's priorities whilst achieving real efficiencies. It is the lowest increase since the creation of the Council.

The Secretary of State has again written to local authorities highlighting that "the Government expects to see the average council tax increase – which this year (2009/2010) was 3.0% - fall to a 16 year low next year (2010/11)".

The proposed increase in council tax will be in line with the government statement that it "expects to see the average council tax increase – which this year (2009/2010) was 3.0% - fall to a 16 year low next year (2010/11)". The proposal also meets the Council objective of reducing Council Tax increases over time wherever possible. The proposed increase is designed to maintain services as far as possible and invest in the Council's priorities whilst achieving real efficiencies.

The proposed capital programme totals £193.759m over the 5 years 2010/11- 2014/15. Key highlights include:-

- Transport improvement and highways schemes (including highways maintenance) of £90.722m.
- Expenditure on schools and other children's services of £31.832m.
- Exploring options for secondary school investment, one of which includes a bid for grant funding (Building Schools for the Future).
- A programme to deliver a more sustainable approach to office accommodation which will both reduce the Council's carbon footprint and which will deliver significant savings in the medium-long term.
- Bath Transportation Package, enabling more park and ride and rapid transit, worth over £50m in grant, is a core element of the plan and is subject to ongoing review by Cabinet.
- Plans for public realm improvement projects with spend of around £3m per annum.
- Continuing to progress the Bath Western Riverside development.

The Council's largest capital schemes are receiving significant funding from government grants . The remaining costs of funding the capital programme are met largely either by capital receipts or by borrowing supported through the revenue budgets within service which therefore have to pay interest and capital repayments on their schemes; these have to be affordable.

The Council's gross revenue budget is funded from a mixture of Council Tax 23%, external support in the form of revenue grant and redistribution of national business rates 12%, specific grants and contributions including dedicated school grant of 49%, and external income which includes rents, fees and charges 16%.

The Council's general revenue grant entitlement is calculated by government using the relative needs formula methodology, which is a way of linking the redistribution between individual local authorities to an approximation of need. The amount actually received has been damped to reduce its volatility but in our case that results in an increasing loss of grant worth £2.494m in 2010/11.

Schools expenditure is mainly funded by the dedicated schools grant worth £98.891m, but some costs of supporting schools and maintaining their assets remain with the local authority.

Budget Context

The proposed Budget for 2010/11 recognises that there is a very difficult financial challenge now facing the whole of the public sector. The range of pressures now facing the Council include:-

- Demand pressures on services such as social care and child protection continue to rise. Each of the medium term service and resource plans (available as background documents) sets out in more detail the particular pressures facing each service.
- A historic backlog of highways maintenance, including the recent deterioration of the network as a result of the adverse weather conditions. This has been addressed by the one-off allocation of an additional £3m (£2m capital and £1m revenue) within this Budget. £0.5m of the revenue provision will be brought forward into 2009/2010 to enable this work to commence immediately.
- Central government grant funding for local government is widely regarded as under threat with at best 0% increases in revenue funding anticipated.
- Cuts in government funding for capital (including revenue support) after 2011 of potentially 50%.
- Specific government grants regarded as potentially also under threat for services like community safety and aspects of social care through area based grants
- Ongoing pressures from pensions costs with an actuarial review due in March 2010

The demand pressures are more intense than originally expected and these together with the impacts of the future public sector funding have required some significant spending reductions in 2010/11.

Savings in the region of 5% of gross spend are needed in most of the medium term service and resource plans for 2010/11 with similar savings requirements in future years.

More positively, the economy in Bath has fared comparatively well, compared with the rest of the nation, aided by foreign tourism, a weak pound, and the dominance of the public sector in the area as an employer. This has helped to protect some of the Council's income budgets and avoid even higher demands on services.

The approach to the Budget process for 2010/11 can be summarised as follows:

- Allocations to service blocks derived from the last Comprehensive Spending Review
- Control totals calculated for each block based on these allocations
- Service pressures calculated within each block and identified in each of the medium term service and resource plans

The Budget process has also considered the allocations with the aim of protecting front line services and a number of factors were considered to assist the prioritisation of any available Budget headroom. This included consideration against corporate priorities, Benchmarking data and feedback from Overview and Scrutiny panels.

Changes in this year's budget

The target level for the Council's financial reserves is relatively unchanged at £10.5 million based on a risk and robustness assessment. Reserves in excess of this level have been assessed and the Budget includes proposals to utilise these in a prudent manner which meets identified Council priorities and supports a sustainable revenue budget.

Various changes have been made to allow for the specific pressures in the medium term resource plans. The detail is shown in the service action plans that form part of the background documents to this report. They show in detail how the Council will:

- deliver its priorities as set out in the Corporate Plan
- maintain and develop services and respond to pressures, as well as
- achieve savings and efficiencies to enable the Council to balance its Budget,

These have all been examined by the various overview and scrutiny committees and their comments have been considered in formulating this Budget.

The need for savings and efficiencies will affect staffing levels and the medium term service and resource plans and individual service action plans set out the implications for each service area. A full consultation process is being undertaken in respect of these specific proposals.

Fees and charges are generally assumed to increase in line with costs (approximately 2%) and will be reviewed in light of the Council principle of fair charging. Parking charges were the subject of specific consideration and consultation following last year's budget process. Increases above the rate of inflation will be applied in accordance with the agreed strategy and consistent with the Local Transport Plan, including as a means of encouraging park and ride and reducing congestion.

The Council is continuing with the development and implementation of its change programme to help maintain services to customers within the much reduced resources available.

A series of proposed one off items in the Budget are set out in Section 1 below. These include provisions for Highways Maintenance, Affordable Housing and the Medium Term Financial Challenge. This can be afforded as a result of un-earmarked reserves

being above target. It is not prudent to use one-off funds for anything other than one-off expenditure pressures and the proposed Budget reflects this principle.

The invest to save scheme previously established by the Council will also continue with approved projects paying back their costs over 3 years, but for climate change schemes (energy saving) up to 5 years.

Future Years

The medium term service and resource plans consider a 3 year planning horizon. They show the pressures that will need to be faced as well as the opportunities.

The opportunities include:

- realising the Council's change programme to maintain and develop services to customers within reducing resources
- achieving savings and efficiency improvements through the change programme and other means
- flexibility in the Council's reserves to prudently utilise "one-off" funding to support Council priorities and service transformation.
- rationalising its office accommodation but at the same time improving customer access to services
- working more closely with partners such as the police and the PCT (NHS Health services) to align resources
- invest to save initiatives such as in energy efficiency that also help achieve Council priorities such as carbon reduction
- improvements in procurement practices to drive forward economies

The pressures include:

- achieving the aspirations in the Sustainable Community Strategy and the Corporate Plan
- increasing customer expectations as well as demands on services, particularly adult social care and childrens services
- government grant settlements from 2011 (possible reductions in grant) in the light of financial challenge facing public spending
- Local government pension cost increases which unlike many public services are required to be funded and are not met directly by national taxation.

Structure of the Budget proposal

Section 1 sets out the context and our approach to the revenue and capital budget and the build-up of the recommended revenue budget for 2010/11. Annex 1 provides the breakdown of the Budget for 2010/2011.

Section 2 sets out the position for future years 2011/12 and 2012/13 taking account of proposals developed in the medium term service and resource plans, in light of known pressures and assumptions about levels of funding.

Section 3 sets out the recommended capital programme for 2010/11 including the indicative capital programme through to 2014/15. Annex 3 provides more detail.

Section 4 sets out the current position on revenue balances and taking into account the proposals for prudent use of balances.

Section 5 sets out the implications of the revenue budget for Council Tax levels for 2010/11.

Table 1: Summary Net Revenue Budget and Capital Programme 2010/11 – 2012/13

	2010/11	2011/12	2012/13
Revenue Budget Funding:	£m	£m	£m
Council Tax	£76.777	£78.777	£80.830
Government Grant	£52.581	£52.581	£52.581
Reserves & Collection Fund Surplus	£1.346	£0	£0
Total Funding	£130.704	£131.358	£133.411
Net Revenue Budget Spend	£130.704	£131.358	£133.411
Capital Programme – for approval	£47.541		
Capital Programme - for information	£43.845	£51.585	£27.456

Section 1 – The Revenue Budget for 2010/11

Introduction & Process

The proposed Budget for 2010/11 has been prepared as an integral part of the Council's medium term service and resource planning process and the proposals should be viewed within the framework set by the Corporate Plan.

The purpose of the Budget is to allocate financial resources across the Council to deliver services to the community to required standards and performance targets. The detail of what is spent must therefore be seen within the context of a service's overall plans.

2010/11 is the final year of the 3 year (CSR07) financial settlement and despite an extremely gloomy outlook for future public sector funding, the grant settlement for 2010/11 was not changed by Government. This means the revenue grant figures are as expected.

In arriving at the Budget for 2010/11 it was recognised that there was a very difficult financial context now facing the whole of the public sector with at best 0% increases in revenue funding anticipated from 2011 and an increasing view that even 0% may be over optimistic. This is set against a backdrop of increasing demand for services from the public and higher expectations in respect of service quality and performance.

Strategic Directors, in consultation with their Cabinet Members, have developed Medium Term Service and Resource Plans covering the years 2010/11 to 2012/13 drawn up to recognise this context. The draft Medium Term Service and Resource Plans have been reviewed by the relevant Overview and Scrutiny Panels through the Autumn, and the O&S panels were also given an update on the Council's overall financial position. These plans are available as background documents.

The Cabinet have now had the opportunity to further consider proposals from officers which develop the medium term planning and take account of the ongoing work of Strategic Directors and the comments from Overview & Scrutiny. In that context the Cabinet has developed the Budget proposal to reflect this position. The Cabinet will also consider feedback from consultation with the Trade Unions, the local business community and other partners / stakeholders.

The Context to the Budget Proposals

The draft revenue budget for 2010/11 is proposed in the face of a significant future tightening of public spending which will require a fundamental review of what public services are provided and how they are delivered.

It should be recognised that the medium term context is actually far more challenging than that which faces the Council in setting the Budget for 2010/2011. This is partly because the Council is in a position to prudently utilise one-off funding from reserves to help address some key priorities and invest in service transformation to improve efficiency and effectiveness going forwards, but also because the grant settlement for 2010/11 provides a short window to prepare for the much tougher financial settlements to come from 2011/2012 onwards.

From 2011/12 the context will be much more challenging as the effect of the deterioration in public finances impact on the Council's and indeed all local authorities' financial position. This has required a 'step change' in the Council's approach to medium term service and resource planning, with particular focus on measures in 2010/2011 to help mitigate the position going forward.

Appendix 1 sets out in more detail the corporate financial context and assumptions, while Section 2 below sets out further information on the medium term implications of this budget proposal.

The short term 2010/11 context includes:

- A cap on public sector pay with increases limited to a maximum of 1% for the next two years.
- Low short term inflation rates in some areas. The future position on inflation will be uncertain as the wider economy continues to recover from recession.
- Uncertainty about interest rates and security of cash deposits. Base rates have remained at the unprecedented low level of 0.5%, and it is not clear when the rates can be expected to increase again. This together with concerns about credit quality of the organisations in which the Council would normally invest means returns on cash deposits are likely to remain subdued for some time and investment lists will be restricted.
- The ability of the Council to generate capital receipts at acceptable values will continue to depend upon the extent of the wider economic recovery. The Council has for some time not committed capital receipts until they are realised and in the present climate this policy is particularly well founded.
- Some continuing uncertainty about how critical income streams such as council tax collection, parking receipts and heritage charges will be impacted by the wider economic picture and how this now develops.
- The level of the provision to meet the pension fund deficit in preparation for the impact of the next actuarial valuation from 2011/12.
- An increasing demand for services with improving standards and performance;
- New responsibilities which are not always fully funded at a local level, for example the potential for significant additional costs to be met by the Council from the Government's proposals for extended Free Personal Care, which is estimated at £600K per annum if implemented.
- Significant unfunded pressures arising from national policies, for example continued increases in landfill tax rates.
- A capital programme that increasingly relies on service supported borrowing, i.e. service ability to pay costs of borrowing.
- A grant settlement continuing to be reduced, by £2.5m in 2010/11, compared to the Council's identified need under the government funding system;

- The Government's expectation that the average council tax increase will be below 3.0%.

In addition, the proposals for the Budget need to reflect the challenging agenda and risks facing the Council including the requirements for service transformation and the need to deliver the significant savings included within medium term service and resource plans.

Approach

The revenue and capital budget proposals recognise that:

- The Council cannot afford all it would wish to do both in terms of its services and the development of the area, and that the national financial context will become extremely challenging over the medium term service and resource planning period;
- The Council needs to continue to address and to recognise the major risks within the revenue and capital budgets;
- The Council needs to transform services and service delivery within the context of the future financial challenge;
- The Council needs to strike a difficult balance between the interests of service users, visitors, those who work in the area, residents and the Council Tax payer.

The Budget and Medium Term Service and Resource Plans reflect the Council objectives, issues and constraints by:

- Redirecting priorities between and within services, in the more difficult national context, in line with the Corporate Plan and Medium Term Service & Resource Plans.
- Providing prudent funding for 'one-off' i.e. non-recurrent items from reserves to help address some key priorities and invest in service transformation to improve efficiency and effectiveness going forwards.
- Continued development of the capital programme, adding only schemes that are in line with Council objectives and are funded either from external sources, from rationalisation of existing assets or where the costs of unsupported borrowing can be met from within medium term service and resource plans.
- Maintaining risk-assessed reserves in line with the reserves strategy.

Resource Allocation and Use of Corporate Headroom

The initial resource allocation parameters were as set out in Appendix 1.

The indicative cashlimits for 2010/11 as set out in the 2009/10 budget report have been adjusted to reflect changes in assumptions, the most significant of which are:

- Ongoing effects of lower pay award in 2009/10
- Reduction in 2010/11 pay award assumption to 1%

- Reduction in assumed Council Tax increase to 2.50%
- Reduction in the super inflation provision following negotiation of contracts at more favourable rates

A review of the potential position of the pension fund deficit early in the 2010/11 financial planning process highlighted the need to increase the stepped provision towards employers' pension contributions from £1m extra per annum to £2m per annum due to deterioration in global stock markets. Service block targets were adjusted to factor in the need to save an extra £1m per annum on top of original targets. Following recovery of stock markets in recent months and (based on latest actuarial reviews of pension fund liabilities) the original £1m 2010/2011 stepped increase per annum provision is likely to be adequate so this has released £1m into ongoing headroom.

The total of the above adjustments produces ongoing headroom in 2010/2011 of £2.872m. Table 2 below shows the proposed allocation of this headroom across the service blocks to address the following pressures:

- Increased resource allocation into Children's Services of £850k following benchmarking analysis of the cost of service and the potential impacts on service delivery in priority areas that savings to meet original budget targets would have. Similarly an increased resource allocation of £150k into Adult Social Care reflecting impacts to service delivery in meeting the original budget target.
- Prudent adjustments to reflect the need to finance expenditure on Disabled Facilities Grants from a revenue contribution to capital (£600k), and that work on regeneration delivery plans should be charged to revenue rather than capitalised (£250k)
- £600k support to finance capital, including £2m for highways maintenance backlog, Bath Transport Package and Bath Western Riverside, as detailed in Section 3 of this Appendix.
- £50,000 for street cleansing to enable continuation of the additional provision made in 2009/2010.
- £372k remaining headroom to be considered by Cabinet

The corporate financial assumptions which underpin the budget and upon which this is based are detailed in Appendix 1. **Use of Collection Fund Surplus**

Each year the Council calculates an overall collection rate for council tax, based upon a number of assumptions. The actual rate of collection will vary each year and, based on current collection levels, it is expected that actual rates this will exceed this assumption. The Council's share of this surplus is estimated at £846,000 and this "one-off" funding can be applied as part of the 2010/2011 budget.

Proposals for the use of this funding as part of the Budget are:-

- Up to £400,000 to provide for the early introduction of separate Food Waste Collection from October 2010.
- A grant of between £50,000 and £100,000 to support the £3m refurbishment and development plans of the Theatre Royal, and to facilitate the leveraging of external funding for this important cultural attraction.

- Up to £250,000 to support work in relation to the 2012 Olympics including the provision of events and the potential hosting of an overseas team training camp.
- £96,000 remaining to be considered by the Cabinet

Use of un-earmarked reserves - 'one-off' funding proposals

Section 4 of this Appendix sets out the projected position in respect of the Council's reserves including the target level on a risk assessed basis. There are a number of factors impacting upon the estimated reserves position for the 2010/2011 financial year, including the projected 2009/2010 outturn overspend, the cessation of the Exceptional Risk Reserve and the settlement of the Bath Spa claim. The net impact of these being an improvement in the level of un-earmarked reserves which provides some flexibility to consider the prudent funding for 'one-off' i.e. non-recurrent items from reserves to help address some key priorities and invest in service transformation to improve efficiency and effectiveness going forwards

The proposals for 'one-off' funding are considered in the context of the following key parameters.

- the risk-assessed general reserves are maintained at their appropriate level reflecting the Director's robustness of budget estimates,
- that specific provision is being set aside for prospective additional Pensions liabilities (£1M annual stepped increases)
- that general reserves net of the invest to save allocations are not less than the recommended minimum of £6m (see Annex 2)
- Fit with the Corporate Plan & Sustainable Community Strategy
- Fit with the Council's change programme priorities
- Ability to generate savings
- Ability to help avoid future expenditure
- Risk to the Council if not funded
- Lack of availability of existing budgets

The 'one-off' funding proposals are therefore as follows:-

- £570k to maintain a £1M Revenue Budget Contingency, reflecting the advancement of £0.5M of highways maintenance work to 2009/2010.
- £2M to contribute towards costs associated with restructuring of services, particularly redundancy and early retirement, as a result of the future financial challenge facing the Council. Specific business cases will be required from each service with restructuring proposals which must demonstrate how all costs associated with restructuring could be repaid over three years on an invest to save basis.
- £1M for highways maintenance (in addition to the £2M capital) to address priority backlog maintenance requirements, of which £0.5M has been brought forward to 2009/2010. The net sum to be included in the relevant cash limit for 2010/2011 only, with a report to the Cabinet in October 2010 setting out how the money is being used.
- £3M set aside in an earmarked reserve for affordable housing.

- £2M set aside in the Medium Term Financial Challenge Reserve. This funding will be used to support the Council's change programme including the development and implementation of specific transformation business cases.

In addition to these specific proposals, under the Council's Invest to Save Scheme, the Section 151 Officer in consultation with the Cabinet Member for Resources, authorise funding for robust and credible invest to save proposals from reserves (i.e. in the short term creating a 'negative ear-marked reserve' which is then repaid over time, usually 3 years, from the related savings together with an interest charge).

Robust and credible 'invest to avoid' proposals (where investment can avoid future costs), can also be considered, but in addition there needs to be specific provision within business cases to replenish the reserves over a 3 year period.

Table 2: Proposed Resource Allocation 2010/11

Service Block	MTS&RP 2010/11 Allocations Total	2010/11 Headroom Allocation	2010/11 Cash Limit
	£'000	£'000	£'000
Adult Social Services & Housing	52,266	750	53,016
Children's Services	24,023	850	24,873
Customer Service (operations)	28,508	550	29,058
Development & Major Projects	1,676	250	1,926
Resources & Support Services	8,408	0	8,408
Corporate & Agency Budgets	3,440	600	4,040
Capital Financing	6,084	0	6,084
Pensions	2,082	0	2,082
Headroom (On-going)	2,872	(2,500)	372
Headroom (One-off)	1,346	(500)	846
Total	130,704	0	130,704

Note: Some subtotals in this table are affected by roundings

Governance

The Council is asked to agree that the specific arrangements for the governance and release of corporate headroom and one-off funding together with invest to save proposals provided within this Budget proposal, be delegated to the Council's Section 151 Officer in consultation with the Cabinet Member for Resources and the Chief Executive.

Area Based Grant & Local Public Service Agreement (LPSA) reward grant

2010/11 is the third year of Area Based Grant (ABG), which has been introduced to facilitate area based working. Although ABG is a non ring-fenced grant, it is proposed to continue the current policy of directing changes in allocations to services in line with responsibilities set out in the individual grants making up ABG. There is also potential for the Council to receive a share of any LPSA reward grant from 2010/11 depending on performance against the LAA stretch targets. The Local Strategic Partnership (LSP) will make recommendations to Council on potential uses of reward grant in 2010/11,

should any arise with estimates suggesting £1.25m revenue and £1.25m capital are possible.

Efficiency & Service Transformation

The Council is considered by the Audit Commission to be providing 'good' value for money. £4.2m of further efficiency savings are planned in this budget (c£20m already achieved in period 2004/05 to 2009/10). The Council is a corporate approach to service transformation through the Change Programme as set out in Section 2 below.

Fees and Charges

The Council is reliant on a range of income streams from fees and charges as well as income from Council Tax and government grants.

Many of the Council's fees and charges are either set by statute or are subject to defined calculations under statutory guidance. Where the Council has discretion, the decisions are delegated to Officers and increases in fees and charges are generally in line with the increase in the costs of the relevant service. Individual services are expected to review their cost base in the context of this principle, taking into account all relevant elements of their cost base (generally 2%).

The 2010/11 Budget proposal and related Service Action Plans do not include any proposed changes in fees and charges greater than the above guideline would imply, except as set out below.

The Customer Services Medium Term Service and Resource Plan assumes that, as part of a medium term strategy and consistent with the consultation and arrangements agreed following last years budget process, income from parking charges will increase by more than the general rate of inflation. This is in line with the Local Transport Plan including as a means of encouraging park and ride and reducing congestion, and will be the subject of a specific consultation process prior to implementation.

As part of the Change Programme, and in accordance with the principle of Fair Charging the Council will be exploring options to further optimise its income. This will be subject to specific benchmarking and governance arrangements and will be essential in the face of the future financial challenge facing the Council and the need to keep council tax increases affordable whilst maintaining priority frontline services.

Summary of the Revenue Budget Proposal

The proposed revenue budget for 2010/11 represents:

- A £7.1m or 3.3% increase in the total revenue budget including Dedicated Schools Grant (after removing the £3.8m transfer of Supporting People grant into Area Based Grant).
- A £3.7m or 3.0% increase in the non-schools budget (after removing the £3.8m transfer of Supporting People grant into Area Based Grant).
- A £3.6m or 3.7% increase in the schools budget in line with the increase in Dedicated Schools Grant (Government Grant).

- A 2.50% Council Tax increases of £29.31 p.a. for a Band D property (or 56 pence per week) which excludes Police, Fire and Parish precepts.

Section 2 sets out the future years challenge for the council. While the achievement of the 2010/11 budget will be require careful management and monitoring, the underlying requirements are set to increase significantly in future years.

We are recommending a net revenue budget for 2010/11 of £130.704m. Table 3 below, and Annex 1 to this Appendix, show the build-up of the recommended 2010/11 revenue budget, compared to the rolled forward base budget from the current year.

Table 3: High Level Build-up of the 2010/11 Budget (detail in Annex 1)

Description	£'000
Total Base Budget rolled forward – 2010/11 (after removal of one-off items in 2009/10 Budget)	122,344
Area Based Grant changes	3,530
Inflation	2,235
New Legislation / Government Initiatives	971
Increased Service Volumes	6,418
Improvement Priorities	3,087
Other / Technical	996
Total including Growth	139,581
Efficiency Savings	4,171
Increases in Income from fees, charges and other grants	2,500
Service Redirection	2,205
Total Savings	8,876
Recommended Net Revenue Budget 2010/11	130,704

Note: In addition to the Council's net revenue budget the provisional increase in Dedicated School Grant is £3.566m (3.7%) to £98.898m. Some totals in this table are affected by rounding.

In recommending the overall revenue budget to the Council, this also includes the individual service cash limits for 2010/11. These are shown in **Annex 1** to this Appendix.

Section 2 - Future Years

The medium term service and resource plans were constructed to cover the 3 years 2010/11 – 2012/13 with proposals that meet corporate and service objectives, with budgets which are being capable of being balanced over each of the next 3 years, but with regard also been given to the longer term.

The corporate financial assumptions and initial resource allocation as set out in Appendix 1 covered each of the next three financial years. Appendix 1 also explains that we cannot be certain at this stage about the public finance environment under the next CSR from 2011/12, or the detailed implications of our pension fund commitments.

It is clear that it will be much more challenging that the current 3 year CSR period and the Council has the opportunity over the next year to continue to position itself for the financial challenge ahead.

Table 4 below summarises the resource allocation from this Budget proposal together with the position for each of the following two years covered by the medium term service and resource plans. This shows the level of savings currently required within each area of service together with the additional spending pressures they face.

Whilst the medium term service and resource plans will achieve financial balance for 2010/2011, this has yet to be achieved in relation to 2011/12 and 2012/13. It is also the case that at this stage there will be insufficient information available to fully identify future funding pressures including new government requirements, future demand changes and emerging issues. It is therefore expected that the requirements for savings in future years will increase.

Table 4: Resource Allocation 2010/11 to 2012/13

SERVICE AREA	2010/2011			2011/12			2012/13		
	GROWTH (£M)	SAVINGS (£M)	CASH LIMIT (£M)	GROWTH (£M)	SAVINGS (£M)	CASH LIMIT (£M)	GROWTH (£M)	SAVINGS (£M)	CASH LIMIT (£M)
Adult Social Care & Housing	2.995	2.007	53.016	2.444	2.186	53.274	2.214	1.705	53.783
Children's Services	2.157	1.169	24.873	0.717	0.723	24.867	0.593	0.583	24.877
Customer Services	5.162	4.233	29.058	3.440	3.436	29.062	2.540	2.764	28.838
Development & Major Projects	0.286	0.000	1.926	0.047	0.000	1.973	0.016	0.000	1.989
Resources & Support Services	1.037	1.407	8.408	0.782	1.219	7.971	1.007	1.405	7.573
Corporate, Agency & Headroom	2.070	0.060	13.424	0.788	0.000	14.212	2.140	0.000	16.352
Totals	13.707	8.876	130.704	8.218	7.564	131.358	8.510	6.457	133.411

Note: Growth excludes Area Based Grant changes in 2010/11.

The medium terms service and resource plans will also need to be updated to reflect the impact of the Council's change programme as this is further developed and implemented. Further details of the change programme are set out below.

Council Change Programme

Over the years, the Change Programme achieve improvements in the way the Council works. This puts us in a better position than many other councils. But now a step change is needed as we face up to the very significant challenges ahead.

Today we face three significant challenges:

National public finances are not in a good shape. This will affect us all and the impact will be both immediate and significant. The Council will have to save around £30m from its budget over the current 3 year medium term service and resource planning period. That is roughly equal to reducing our spending by 5% each year.

Against this backdrop of increasing financial pressures there is also increasing expectations and demand for services from the public.

People expect to be able to access more and more public services in one go. They are less interested in who provides the service.

The Council is responding in three ways:

1. Meeting the financial challenge

The Change Programme is helping to prepare for tougher times ahead. We will prioritise what services we continue to deliver and provide the public with excellent value for money. We will be sharing more of our support services between organisations, using our office space more efficiently and getting smarter about how we 'procure' goods and services.

2. Prioritising customer needs

We are changing to ensure that the services we deliver are totally focussed on what our community needs. As the pressure from customers rises, our financial capacity to deliver is under increasing pressure. We will not be able to meet everyone's needs and prioritisation will be essential. We will be looking at how we provide our services so that our customers get the right services in the best possible way.

3. Joining up public services

By re-shaping, we can also provide customers with a seamless range of integrated services, not just from the Council, but also NHS B&NES and other local agencies. We can become more efficient by integrating some public services. It makes sense to simplify, standardise and share the way we do things across public services.

The main elements of the change programme are:

- developing strategic planning, intelligence, commissioning and community engagement activities. The idea is also to free up service delivery so that the most effective pattern of delivery can be arranged for each service.
- redesigning services to help focus on priorities so that scarce resources are used effectively.
- remodelling **customer services** - developing the role of Council Connect further, designing services around the needs of customers and life events, using automated 24/7 services wherever possible, improving the one stop shops and involving other partners, providing choice and reducing any waste in the system by getting it right first time.
- securing the most cost effective **pattern of support service delivery** - looking at the procurement activity, transaction processing and advice services plus traded services and seeking to achieve 10% to 15% savings whilst maintaining service quality but also ensuring services are tailored to the needs of the Council as well as the PCT as we work increasingly in partnership.
- redesigning the Council's **workplaces** - improving office accommodation to modern standards, introducing flexible working for all staff and reducing the office footprint by 40% over the next 3 years.

To support these activities and to kick start the programme:

- A **transformation diagnostic** is being run for all Council activity - this will help base line the existing levels of service and develop a blue print for change to support the principles of the change programme and based on business cases - phase 1 of this work is due to be complete by January 2010 but the business cases will need to be implemented beginning in 2010/11.
- A pilot for **flexible working** has just been completed in Children's Services, this will need to be extended in 2010 and 2011 so that the Council can reduce its space requirements as leases expire in Bath - the pilot affected about 300 people, the next phase will affect another 300 people. The aim is to complete the programme for workplaces transformation in 2013.
- A programme of **lean reviews** is underway - these impact on front line services to support the customer services change programme outlined above as well as achieving efficiencies within the services involved. In addition lean reviews are taking place in HR and ICT.
- A programme to deliver the Council's **asset management plan** will be developed - the programme will be put into place in early 2010.
- A programme to transform the **procurement** function will also be developed in tandem with the support services review - an options review will be completed by spring 2010.
- The **ICT strategy** will be developed to reflect the Council's change programme including flexible working and the support services review - a strategy will be completed by spring 2010.

- **Workforce Development** will be designed to support the needs of both the Council and the PCT as they go through this change programme.
- **Communications** to staff and the public will also be a key activity to ensure that there is a clear understanding and recognition of the need for change, what is planned and what is happening.

The change programme will also be used as a means of further integrating with the PCT (NHS Bath & North East Somerset). There will be specific actions to integrate or align systems and functions and to jointly provide support services for both organisations. The delivery arm of adult health and social care is half way through a transformation programme that will need to be completed and which needs to include decisions about how its semi autonomous status is taken forward.

Section 3 – The Capital Budget for 2010/11

Introduction

The Cabinet's proposals for the Council's capital programme are formulated in the context of:

- An already ambitious capital programme over a relatively short period of time.
- The inclusion of indications of significant government funding streams in relation to transport and schools which, while supporting the Council's strategic priorities, add further to the Council's delivery risk and require match funding and/or pre funding in some cases.
- A trend towards government funding for large projects being awarded on a partnership basis (e.g. West of England) which further increases the complexity and hence potential risk of delivery arrangements.
- The planned development of the western part of Bath Western Riverside
- The future financial challenge in particular lack of clarity over future capital grant awards
- The Council's Prudential Indicators, and pressures on the revenue budget

The principles governing our approach to the capital programme remain as set out in the Capital Strategy approved by Council in February 2008 and reflected in the medium term service and resource plans (Appendix 1).

This budget proposal:

- Limits new commitments to items which are in line with Council objectives and are funded either from external sources, from rationalisation of existing assets, or where the costs of unsupported borrowing can be met from within medium term service and resource plans.
- Recognises that careful consideration has been made by officers and members regarding future commitments and direction of this programme.

Given the likelihood that pressures on the revenue budget will increase over time, the Council continues to develop a more fundamental and medium term approach to revenue resource planning through the medium term service and resource plans which take into account any revenue costs of capital. The Council is also developing other capital funding sources, such as its ability to generate capital receipts (without significant loss of income), grants and further Section 106 monies.

The capital receipts targets for 2010/11 onwards are shaped by the Property Review, and the strategy of ear-marking non-scheme specific receipts for investment in the public realm; the assumption of receipts of £5.570m during 2010/11 takes account of market conditions. The need to ensure that receipts are actually confirmed before expenditure can be authorised remains, and this process will take account of receipts generated since 1 April 2008. The level of receipts will be kept under review and the

Council retains the flexibility to bring forward expenditure to the extent that receipts are higher than planned and plans for such expenditure have been developed.

In addition to, and as an amendment to the strategy of 'ear-marking' non scheme specific receipts in relation to public realm, any receipts from the school estate are 'earmarked' to fund the secondary schools investment programme (potentially by match funding any potential BSF funding that the Council has expressed an interest in accessing).

The detail of the expected 2009/10 out-turn assumptions and forecast rephasing is as set out in the Financial Monitoring Report to this Cabinet.

As in last year's capital budget, a number of items in 2010/11 and future years are shown in 'italics'. The process grades schemes on a Red/Amber/Green basis, with 'Reds' not being included, and the 'Ambers' shown in 'italics'. Where an item is in italics it requires further officer and/or member scrutiny and decision making before it is included. The numbers are therefore shown here on an indicative basis, and as an aid to planning, and the resolutions recognise the distinction between what is being authorised at this stage, and where future decisions are required.

The costs associated with the continuing uncertainty surrounding the Bath Transport Package and the upcoming Compulsory Purchase Order (CPO) Public Inquiry, whilst indicatively reflected in the capital programme, are subject to significant risk part of which is mitigated by the capital contingency.

B) Recommended Programme for 2010/11

On this basis the Cabinet is recommending the Capital Programme as attached in **Annex 3** and summarised in the table below.

The proposed programme assumes total capital payments and funding in 2010/11, comprising both the programme for approval of £47.541m and indicative programme in italics of £43.845m, as shown in Table 5. Table 5 also shows the indicative capital programme and funding at summary level for 2011/12 to 2014/15. **Annex 3** shows the total capital programme for 2010/11 to 2014/15 in more detail.

Table 5: Summary Capital Programme and Financing 2010/11-2014/15.

Capital Scheme	Net Planned spend 2010/11 £'000	2011/12 Indicative budget £'000	2012/13 indicative budget £'000	2013/14 indicative budget £'000	2014/15 indicative budget £'000	Total £'000
Customer Services	34,157	36,587	16,939	5,605	5,565	98,853
Children's Services	26,633	4,199	1,000	0	0	31,832
Adult Care & Health	3,182	1,478	543	543	543	6,289
Support Services	2,639	2,573	1,847	1,888	0	8,947
Development & Major Projects	10,429	3,594	3,593	2,713	2,000	22,329
Corporate	14,346	3,154	3,534	3,395	1,080	25,509
Total	91,386	51,585	27,456	14,144	9,188	193,759

Financing	Net Planned spend 2010/11 £'000	2011/12 Indicative budget £'000	2012/13 indicative budget £'000	2013/14 indicative budget £'000	2014/15 indicative budget £'000	Total £'000
Government Supported Borrowing	4,549	3,300	3,300	3,300	3,300	17,749
Grant	41,339	29,202	9,311	2,155	2,115	84,122
Capital Receipts/RTB	4,700	9,498	3,743	2,763	2,200	22,904
Revenue	1,281	1,266	543	543	543	4,176
Service Supported Borrowing	14,752	1,202	7,986	5,233	441	29,614
Unsupported Borrowing	23,294	7,117	2,573	150	589	33,723
3 rd Party	1,471	0	0	0	0	1,471
Total	91,386	51,585	27,456	14,144	9,188	193,759

Funding

The revenue budget for 2010/11 and the Medium Term Service and Resource Plans for 2011/12 and 2012/13 provide fully for the revenue consequences of the Council-supported expenditure. The level of unsupported borrowing required over the period is still relatively high, and will continue to put significant pressure on the revenue budget in future years. In line with previous years, borrowing costs for new capital projects are charged to individual services through Service Supported Borrowing and included in those services' revenue budgets. The practice of using grant or other income as soon as it is received to finance capital expenditure wherever possible in order to delay the requirement for borrowing has a catch up point, at which time borrowing is required to 'repay' those projects for which the grant was originally intended; this catch up is anticipated to start in 2010/11.

There is £600k included within ongoing headroom which is to support capital financing (service supported borrowing costs) of particular projects. It is anticipated that this will finance the borrowing costs of £2m top up to highways maintenance to reduce the backlog, as well as being available to finance borrowing for Bath Western Riverside and Bath Transport Package when necessary.

In addition there is £3m being set aside in an earmarked revenue reserve for affordable housing and capital development.

The capital budget for 2010/11 assumes the following achievement of capital receipts:

- £0.3m of Housing Right to Buy (RTB) Receipts. These receipts are set aside to fund the affordable housing in the BWR project. The assumption of a level of receipts of £1m per annum will not be achieved; the shortfall in funding is in part being met through the £3m set aside in the one off earmarked revenue reserve for affordable housing and capital development above.

- no service specific receipts (excluding any not achieved and slipped from 2009/10 to 2010/11)
- £3.5m of general receipts as part of the property review. It is currently forecast that the £3.5m of general receipts will actually be achieved by 31 March 2010, however budgets may need to be revised if receipts in 2009/10 do not achieve target; there is a potential shortfall of £1.7m. Given the uncertainty over the generation of capital receipts in the very short term this approach is considered prudent.

Minimum Revenue Provision (MRP) & Depreciation Policy

The Council is required to make revenue provision to repay capital spend that is financed by borrowing (either supported or unsupported). This is called the Minimum Revenue Provision (MRP). The Department of Communities & Local Government has issued regulations that require full Council to approve a MRP & Depreciation Policy in advance each year. The Council is recommended to approve the statement in Annex 4 which is unchanged from that agreed in 2008/09 and defines how the Council will make a prudent minimum revenue provision for all new unsupported borrowing from 1st April 2008.

Prudential Indicators

In previous years Prudential Indicators have been reported separately to the Cabinet for approval and recommendation to Council in the report on the Council's Treasury Management strategy; from 2010/11 the Capital Prudential Indicators are to be reported as part of this report as shown in table 6.

Table 6: Capital Prudential Indicators.

PRUDENTIAL INDICATOR	2008/09 Actual	2009/10 Probable Outturn	2010/11	2011/12	2012/13
Current Financial Plan Data	£'000	£'000	£'000	£'000	£'000
Estimate of Capital Expenditure					
Actual/estimates of capital expenditure	76,653	85,156	91,386	51,585	27,456
Net Increase in council tax (band D per annum) Figures in £'s (not £'000's)					
The estimate of incremental impact of the new capital investment decisions on the council tax			£1.05	£3.08	£0.85
Cumulative totals:			£1.05	£4.13	£4.98
Capital Financing as % of Net Revenue Stream					
Actual/estimates of the ratio of financing costs to net revenue stream			6.45%	7.28%	7.55%
Capital Financing Requirement (as at 31 March)					
Actual/estimate of capital financing requirement	89,595	96,708	135,098	144,177	151,258

Impact of International Financial Reporting Standards (IFRS) on Prudential Indicators

The Council is currently assessing the potential impact of adoption of IFRS from 1st April 2010. The main potential impact on the Prudential Indicators above is in relation to the treatment of leases. Under IFRS, some leases which have in the past been classified as operating leases (funded from revenue) may be required to be classified as finance leases (funded from capital) depending on criteria set out in the lease agreement. If any further aspects of IFRS implementation, which would include any future Private Finance Initiative (PFI) schemes, affect the Prudential Indicators then revisions may need to be reported to Council for approval.

Section 4 – Revenue & Capital Reserves and Contingencies

A) Exceptional Risk Reserve

Since February 2007 the Council has maintained an Exceptional Risk Reserve and regularly reviewed levels to cover potential costs associated with the specific risks in respect of Bath Spa Claim Management Costs, Single Status and the Recession.

During 2009/2010 this reserve has been utilised in accordance with agreed parameters and the following developments have taken place in respect of each of these risk areas as set out below:-

- Bath Spa Claim settled in November 2009 - the Council has reached a legal agreement that takes into account the claims made by the Council against the architects and contractors as well as claims that were previously being made against the Council by the contractors. The settlement provides for net payments to the Council by the architects and contractors.
- Single Status – based on the latest assessment by the Human Resources Department it is felt no longer necessary to maintain specific reserves for this purpose.
- Recession – whilst still at an early stage there are encouraging signs of a wider economic recovery.

In light of these circumstances, the Exceptional Risk Reserve will be dissolved at the end of the 2009/2010 financial year and, with the exception of the Recession Reserve, the remaining balance will be transferred to un-earmarked General Fund Balances. The balance of funding on the Recession Reserve will continue to be applied in accordance with agreed principles.

This can then be considered as part of the financial challenge facing the Council and the wider approach to the prudent application of reserves to support appropriate “one-off” expenditure.

B) Unearmarked Revenue Reserves -

The Local Government Act 2003 contains a duty on the statutory finance officer (s151 Officer) to report to the Council, at the time the budget is considered and the Council Tax set, on the robustness of the budget estimates and the adequacy of financial reserves. The report of the s151 Officer on this subject is included as **Annex 2** to this report and is recommended to the Council. We have drawn upon the report in putting our budget proposals to the Council. The conditions of the report by the Strategic Director of Resources & Support Services Director are an integral part of our recommendations. This sets an unearmarked reserves target of £10.5 million based on this thorough risk assessment and in the context of the “one-off” funding proposals contained within this Budget.

Table 6 below details the proposed movement in the level of unearmarked reserves over the period of the medium term service and resource plans. In particular 2010/2011 includes analysis of proposed use of reserves to support “one-off” funding proposals set out in the Budget in accordance with Section 1 of this report.

This actual level of unearmarked reserves will depend on the actual Outturn position for 2009/2010 and on future decisions by the Cabinet about any overspends. For financial planning purposes the October 2009 Outturn estimate has been used based on guidance from Cabinet to Strategic Directors. The figures are therefore only an estimate at this stage and are without prejudice to future Cabinet decisions.

C) Adequacy of reserves

We recommend the s151 officer's report on the adequacy of reserves which provides a reserves strategy to maintain non-earmarked General Fund reserves at £10.5m based on a thorough risk assessment. The projected reserve levels are set out in Table 7 below.

Table 7: Projected Non-Earmarked Revenue Reserves

	2010/11 £'000	2011/12 £'000	2012/13 £'000
Estimated Reserves @ 1st April each year	18,920	10,480	10,480
Provision for 2009/2010 Projected Outturn Overspending	-370	-	-
Transfer to Revenue Budget Contingency	-570	-	-
Transfer to Customer Services Cash Limit – Highways Maintenance	-500	-	-
Transfer to Affordable Housing and Capital Development earmarked reserve	-3,000	-	-
Transfer to Restructuring Reserve	-2,000	-	-
Transfer to Medium Term Financial Challenge Reserve	-2,000	-	-
Estimated Reserves @ 31st March each year	10,480	10,480	10,480

Under the Council's Invest to Save Scheme, the Section 151 Officer in consultation with the Cabinet Member for Resources, can authorise funding from within the non-earmarked reserve for robust and credible invest to save proposals (i.e. in the short term creating a 'negative ear-marked reserve' which is then repaid over time, usually 3 years, from the related savings together with an interest charge). This is subject to the overall level of non-earmarked reserves being maintained above the risk assessed minimum level of £6M.

In previous years the Council has received allocations of Local Authority Business Growth Incentive grant at the end of the financial year, which have therefore been added to reserves. No assumptions have been made about future receipts under the LABGI scheme in 2010/11 (£170k received in 2009/2010) or future years given the

uncertainty in respect of future public sector funding. The actual funding received will continue to be added to the Recession Reserve in accordance with current policy.

D) Capital Risk Contingency

There are four levels of risk provision in relation to the capital programme. Firstly individual major projects within the capital programme hold their own contingency; in addition the Combe Down Stone Mines project includes a remaining unallocated contingency of c£1.5m which is 13% of the remaining planned expenditure. This contingency is within English Partnerships funding for the scheme and as such is not a Council resource.

Secondly, the capital programme includes a funded corporate risk contingency of £2m over the 5 year period 2010/11-2014/15 of which £1m is assumed in 2010/11. This will be increased at outturn by any unused contingency from 2009/10 (currently at £6.4m). Thirdly the corporate risk assessment on which the general reserves target is based includes an element in the context of the capital programme based on the risks of the current programme. Finally, while the generation of capital receipts cannot be relied on in the current economic environment, the capital programme does not rely in year on funding from capital receipts, so any receipts generated in 2010/11 also provide additional short term flexibility, pending their being required to fund any planned expenditure on items such as public realm and/or secondary school investment.

Bath Transport Package

The Bath Transport Package scheme is at a key stage and a Public Inquiry is planned in the first quarter of the next financial year in respect of compulsory purchase orders (CPO) to acquire the necessary land.

Government funding of over £50m has been identified and detailed in formal letters associated with the conditional scheme entry into the government's capital programme. The final confirmation of government funding is dependent on securing the land, and a CPO process is being pursued to enable this.

The Council may need to secure land in advance of the CPO Inquiry. The remainder of the land will be secured after the Inquiry. The Council's capital contingency will need to be used to fund any portion of the land that may be acquired prior to the Inquiry.

There is a risk that public expenditure cuts will impact on all schemes that depend on government funding. This scheme, however, is in a very strong position as a result of the excellent value for money scores it achieves, its advanced stage of preparation and the level of government commitment indicated to date.

The Council continues in discussions with the Department of Transport and Government Office South West to ensure necessary approvals remain on track and to emphasise the key elements of importance of the scheme:

- A reduction in number of cars entering the City by 1.5 million a year;
- A reduction of 5 million kilometres in car travel undertaken within the city each year;
- An increase in public transport journeys by 2.2million per annum;

- Annual emission savings of 1,500 tonnes of CO₂;
- Annual emission savings of 2.1 tonnes of NO_x;
- Annual emission savings of 10.9 tonnes CO;
- An increase of 125% in Park and Ride parking spaces;
- Avoidance of 321 accidents over the next 60 years, including 3 fatalities and 35 serious casualties;
- Improvements to the City Centre environment, through the introduction of vehicle access restriction on key streets.

As with all capital projects, relevant risks are being considered as part of the overall Risk-assessed general reserves and the Corporate Risk Register.

Section 5 – Council Tax

This section shows the implications of the recommended revenue budget for Council Tax levels for 2010/11.

We recognise that our plans must be affordable to local people and in preparing the revenue budget we have sought to minimise the impact on Council Tax payers.

Our proposal is for an increase in Council Tax of 2.50%. This should be seen in the context of below average Council Tax rises in the past, an overall Council Tax that is below the unitary average, and the Government's clear warnings about capping. **Table 8** explains the calculation of this figure:

Table 8: Council Tax 2010/11 for Bath & North East Somerset Council Services

Description	Amount	Comments
Recommended Net Revenue Budget	£130,704k	See Annex 1
Less Grant, use of reserves and estimate of Collection Fund surplus £k	£53,927k	See Annex 1 Sources of Funding
To be funded by Council Tax	£76,777k	
Tax base (Band D properties equivalent)	63,882.43	Approved by the Section 151 Officer in January 2010
Recommended Council Tax at Band D for 2010/11	£1,201.85	
2009/10 Council Tax Band D	£1,172.54	
Recommended Increase	£29.31	2.50% increase

The figures above exclude parish, fire and police precepts.

This Council collects Council Tax on the behalf of the parishes, Fire and Police Authorities and the final bills issued will include the Council Tax they have requested this Council to collect. These will form part of the Council's overall budget-setting resolution.

At the time of writing only an indication was available from Avon and Somerset Police Authority about its proposed rises in its precept and Council Tax. The proposals for an increase of 4.50% will be discussed at its Finance Committee meeting on 26th January 2010 with a final decision made by the Police Authority on 10th February 2010.

At its meeting on 18th December 2009 Avon Fire Authority approved, for consultation purposes, a budget of £47.082m which would require a 3% increase in Council Tax. The Fire Authority will meet again on 12th February 2010 to finalise its budget and set its Council Tax and precepts for 2010/11.

The headline increase will be affected by the final decisions of the parishes, Fire and Police Authorities, and any decision made concerning special expenses (see below).

Given this Council's history of lower than average Council tax rises it is considered very unlikely that the Government will seek to use capping powers in respect of Bath and North East Somerset Council if the Council approves a Council Tax rise of 2.50% in 2010/11.

Table 9 sets out the composite Council Tax likely to be charged:

Table 9: Potential Total Council Tax 2010/11 (Band D)

Council Tax charges (Band D) made by	Charge made now 2009/10 £	Proposed Charge 2010/11 £	% increase
Bath and North East Somerset Council	1,172.54	1,201.85	2.50% (£29.31 at Band D)
Avon and Somerset Police (indicative)	161.26	168.52	Indication given of a proposed increase of 4.50%. Final Decision to be taken on 10 th February 2010.
Avon Fire Brigade (indicative)	58.63	60.39	3.00% increased consulted on before final decision on 12 th February 2010
Total excluding parishes	1,392.43	1,430.76	Indicative increase estimated at 2.75%
Parishes (average)	30.19	30.19	Not known at time of writing shown at last years rate
Total	1,422.62	1,460.95	2.69% (this figure is likely to be higher as excludes the average Parish increase. It is also dependent on finalisation of Police & Fire increases)

The precepts required by Parishes, Fire and Police will form part of the Council Tax setting resolution at Council on 16th February, and so the necessary updated information will be set out in the report.

Special Expenses

As part of the 2009/10 Budget preparation process no special expenses were declared (with the exception of Parish and Town Council precepts). It is proposed that this policy remains unchanged for the 2010/2011 budget.