

# Executive

## Draft Budget 2012/13

6 February 2012

### Report of the Head of Finance and Procurement

#### PURPOSE OF REPORT

The Council is required to produce a balanced budget for 2012/13 as the basis for calculating its level of Council Tax. It has to base that budget on its plans for service delivery during the year, recognising any changes in service demand that may arise in future years. The first draft was reported to the December 6 2011 Executive meeting. The information has now been updated to reflect changes since then and, subject to any further changes Members may wish to include tonight, this final draft will be used to prepare a final budget proposal to be presented to full Council on 27 February 2012.

This report is public

#### Recommendations

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The Executive is recommended to:

- (1) Approve the changes to the draft budget since 6 December 2011 and consider the draft revenue budget (detailed in Appendix 1) in the context of the Council's service objectives and strategic priorities.
- (2) Approve the surplus of £3,299 be transferred to general fund balances to enable a balanced budget.
- (3) Recommend to full council a Council tax freeze or amend the proposals contained within this report to recommend a different level of Council Tax.
- (4) Delegate authority to the Head of Finance and Procurement, in consultation with the Lead Member Financial Management and Director of Resources to amend the contributions to or from general fund balances to allow the Council Tax increase to remain at the level recommended by Executive to full council following the announcement of the final settlement figures.
- (5) Agree the proposed 2012/13 capital programme (detailed in Appendix 2).
- (6) Note the review of earmarked revenue reserves undertaken by the Lead Member Financial Management, the Head of Finance and Procurement and the Director of Resources and approve re-allocation between various earmarked reserves and creation of one new reserve. (detailed in Appendix 4).
- (7) Endorse the draft corporate plan and public pledges and to delegate authority to the Chief Executive in consultation with the Leader of the Council to make

- any minor amendments to the plan or pledges as required. (detailed in Appendix 5 & 6).
- (8) Note the 2012/13 Business Plan and Budget Equality Impact Assessment (detailed in Appendix 7)
  - (9) Note the latest MTFs financial forecast is currently being refreshed and will be part of the budget book.
  - (10) Request officers to produce the formal 2012/13 budget book on the basis of Appendices 1-7.
  - (11) Approve the schedule of Election Fees and Charges as (detailed in Appendix 8.)
  - (12) Recommend ,subject to any further changes Members may wish to include tonight, the updated draft for adoption by the Council on 27 February 2012 (as a key decision).

### **Executive Summary**

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- 1.1 The budget will form the financial expression of the Council's service delivery plans for 2012/13; the allocation of resources against agreed service priorities is necessary in order to achieve its strategic priorities.
- 1.2 There is a statutory requirement for the Council to set a balanced budget by 11 March 2012 and this draft budget is the penultimate part of that process.
- 1.3 The current economic climate presents unprecedented challenges in meeting spending priorities without placing undue burden on local taxpayers. The Council's successful approach to improving value for money and securing efficiencies on an ongoing basis provides a solid foundation. The value of cost reductions included in the 2012/13 budget amounts to £2m and as in detailed in Appendix 1a.
- 1.4 The level of council tax being proposed is £123.50 pa at Band D and this is in line with Council commitment of a zero increase in 2012/13. This is the third year that Council Tax has been frozen. This compares to a CPI rate at December 2011 of 4.2% and RPI of 4.8%.
- 1.5 The Council can take advantage of the Government's additional Council Tax Compensation Grant announced recently if the council sets a zero Council Tax increase or less. This will result in the Council receiving £156,970 in 2012/13 where it will be treated as windfall income..
- 1.6 As a precepting authority Cherwell District Council collects council tax and parish precepts on behalf of Oxfordshire County, Thames Valley Police and local parishes. This information will be received in time for us to prepare the council tax report for Full Council on 27th February 2012.
- 1.7 The coming years will present even further challenges which in the main will relate to the continued cuts to the level of government grants received, local government finance and housing benefit reform, inflation and interest rates.

- 1.8 The Medium Term Financial Strategy will be modelled on a number of scenarios and be presented to the Executive in June 2012. The Council has a strong track record and commitment to delivering efficiencies resulting in a 38% reduction in net expenditure of services since 2007/08 when the net revenue budget stood at £23.5m compared to £14.6m in 2012/13. A total of £2m (8%) has been delivered as part of the 2012/13 budget as a result of the forecasted funding reductions.
- 1.9 This together with the continued joint working with South Northamptonshire Council strengthens our position to meet the forecast challenges of future years.

## **Background Information**

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### **Process**

- 2.1 The delivery of a balanced budget representing value for money to local residents is the fundamental objective of the corporate, service and financial planning process. This centres on the preparation of a corporate plan underpinned by supporting operational service plans, which are developed not only to deliver the Council's corporate objectives and priorities, but also to demonstrate how the published service targets, representing the Council's commitment for delivery in priority areas, are to be achieved. The budget is the financial expression of these plans, within the context of the Council's Medium Term Financial Strategy.
- 2.2 The programme involves elected Members, the Council's senior managers and, in many service teams, operational staff. The views of the public, our community partners, the voluntary sector and the local business community are all actively sought through structured channels during the programme, and these views are reflected in the process of setting strategic priorities, service prioritisation and resource allocation.
- 2.3 The draft budget is based on the latest forecast out-turn position, rather than the current year budget, and managers have had to justify their service and budget proposals through a robust challenge process from senior managers and elected Members.
- 2.4 The entire capital programme has been subject to review and re-profiling and has emerged with a clearer focus on service priority; although it is still felt that there is further work to be undertaken in this area.

### **Changes in the Revenue Budget Since 6th December 2011**

- 2.5 The draft budget presented in December 2011 presented a funding gap of £165,228.  
The budget presented in this report benefits from further efficiencies and Scrutiny recommendations and is now £3,299 in surplus. It is recommended that this surplus amount is transferred to General Fund Reserves. All changes since 6th December 2011 are analysed in Appendix 1.

### **2.6 Draft Revenue Budget**

- 2.6 The Council has successfully managed the budget challenges, previously forecast for 2012/13. The Medium Term Financial forecast presented with the 11/12 budget indicated a potential gap of £5m over a 3 year period. The low interest rate of 0.5% has also increased this challenge as despite agreeing a 3 year plan to reduce dependency on investment income it was expected that rates would be circa 2%.

- 2.7 As a result of this the Council established a robust action plan to reduce costs. The public promise

of the £1m has been achieved together with total cost reductions in the 2012/13 budget of circa £2m (analysed in Appendix 1).

2.8

Service Area	Approved Budget 2011/12	Proposed Budget 2012/13	Movement
Community & Environment	£8,305,435	£7,842,683	-£462,752
Resources	£4,964,760	£4,894,514	-£70,246
Development	£4,215,039	£3,904,128	-£310,911
<b>Service Total</b>	<b>£17,485,234</b>	<b>£16,641,325</b>	<b>-£843,909</b>
<b>Executive Matters</b>			
Centrally controlled items	£1,522,823	£1,644,312	£121,489
SNDC Joint Working Savings	-£333,000	-£230,000	£103,000
<b>Credit for Capital Charges</b>	<b>-£3,218,477</b>	<b>-£3,323,392</b>	<b>-£104,915</b>
	<b>£15,456,580</b>	<b>£14,732,245</b>	<b>-£724,335</b>
<b>Contribution to (+) / from (-) Earmarked Reserves</b>	<b>£334,526</b>	<b>-£74,245</b>	<b>-£408,771</b>
<b>Contribution to (+) / from (-) General Balances</b>	<b>£68,834</b>	<b>£3,299</b>	<b>-£65,535</b>
<b>Net Budget Requirement</b>	<b>£15,859,940</b>	<b>£14,661,299</b>	<b>-£1,198,641</b>
<b>RSG Settlement</b>	<b>-£8,634,458</b>	<b>-£7,621,722</b>	<b>£1,012,736</b>
<b>Council tax Compensation Grant 2011/12</b>	<b>-£155,037</b>	<b>-£155,415</b>	<b>-£378</b>
<b>Council Tax -Single person discount review</b>	<b>£0</b>	<b>-£52,000</b>	<b>-£52,000</b>
<b>Collection Fund Surplus</b>	<b>-£130,417</b>	<b>-£141,399</b>	<b>-£10,982</b>
<b>Investment Income</b>	<b>-£723,407</b>	<b>-£439,810</b>	<b>£283,597</b>
<b>Amount to be funded from Council Tax</b>	<b>£6,216,621</b>	<b>£6,250,953</b>	<b>£34,332</b>
Number of band D equivalents	50337	50615	278
2012-13 Cost of Band D equivalent	£123.50	£123.50	
2011-12 Cost of Band D equivalent	£123.50	£123.50	
	£6,216,620	£6,250,953	

### Proposed Council Tax 2012/13

2.9

The level of council tax being proposed is £123.50 pa at Band D and this is in line with Council commitment of a zero increase. Table 1 above also details Year 2 of the Council Tax Compensation Grant which the Council will receive from Central Government in - £155,415.

Should the proposal of a zero % increase be adopted the Council will also receive £156,970 in an

additional Compensation Freeze grant for 2012/13 **only**. This will be treated as windfall income.

If the Executive were minded to change the Council Tax increase within this report they should be aware that a 1% increase would equate to a change in income of +£55,000. However, if this was implemented then the Council would forego the compensation grant of £156,970

### **Provisional Government Grant**

2.10 On the 8 December 2011 details of the Provisional Settlement for Local government were issued. This provides the provisional amount of general grant that will be received in 2012-13.

The draft settlement includes, for each authority, allocations of formula grant and other Government grants to local government for 2012-13. The key features of the settlement are:

- Total formula grant for 2012-13 will be £27.8 billion but allocation subject to further review due to academies.
- In order to meet the local government control totals set in the 2010 Spending Review for this 2012-13 settlement and to meet the requirements of the Local Government Finance Act 1988, the settlement includes the Council Tax Freeze Grant for 2011-12 within the settlement.
- As in recent years floor damping arrangements apply for 2012-13. The proposal is banded floors for education/social services authorities and shire districts (four bands in each case), based on the extent to which different authorities are reliant on Government funding.
- The Government is also proposing to provide a Transition Grant of £20 million in 2012-13, to ensure that no authority in receipt of formula grant faces a reduction of more than 8.8% in 'revenue spending power' in 2012-13. This equates to payments to 12 authorities.
- Council tax referendums will be needed for increases of greater than 3.5% (most authorities) or 4.0%. (police and fire)

The final settlement figure is now the subject of a consultation process which ends on the 16 January 2012 and there could be changes from the draft figures referred to above. The announcement may be after the full council meeting to approve the budget.

Executive are therefore advised to recommend to full council that authority is delegated to the Director of Resources, in consultation with the Resources Portfolio Holder, to amend the contributions to or from general fund balances to allow the Council Tax increase to remain at the level recommended by Executive to full council following the announcement of the final settlement figures.

The overall impact of the changes is that funding from Government is decreasing by £1m from 2011/12 to 2012/13. This combined with no increase in the Council Tax level (in line with Council policy) means that available resources have reduced by 11.6%. There is some increase in the Council Tax yield due to an increase in the number of properties from which the tax can be collected (the Council Tax base).

The government has not yet set out grant levels for the period beyond April 2013, and the position is crucially dependent on the outcome of the government's review of local government funding.

In addition to reductions in Government formula funding, the Council must also address reductions in other Government grants, together with pressures on the existing budget and related assumptions on items such as inflation, utility costs and contractual pressures.

On top of the provisional Formula Grant cut of £1m, the council faces cost pressures relating to contract inflation, reductions in fee income, subsidy reductions and the impact of a 0.5% base rate on our investment funds.

### 2.11 **Local Government Resource Review (LGRR)**

The Secretary of State introduced the Local Government Finance Bill on 19 December. The Bill seeks to take forward proposals designed to encourage local economic growth, reduce the financial deficit and drive decentralisation of control over local government finance.

This legislation represents a radical change to the local government finance system, which complements a wide package of financial measures that the Government is pursuing. Further details can be found in **Appendix 3**,

Any change in the overall funding mechanism can reasonably be expected to have some redistributive effect between councils and it is, therefore, difficult to predict whether the impact on Cherwell District Council will be better, or worse than these national control totals.

#### 2.12 **Treasury Management Strategy 2012/13**

The Council's investment income budget for 2012/13 has been compiled on the basis of close tracking of actual and likely interest rates and with the help of external advice. The emphasis has been on the least risky places to invest the Council's money and this, along with the continued low interest rates on offer and the agreed use of capital receipts has led to a significant reduction in the investment income built into the budget. In budgetary terms this is prudent and places the Council at less risk of exposure in-year. A revised Treasury Management Strategy is being prepared and will be recommended to Full Council in February 2012.

#### 2.13 **2012/13 Capital Programme**

The proposed capital programme for 2012/13 equates to £18.6m which represents new schemes of £9.6m and projected slippage from the 2011/12 programme of £9m. The proposed capital programme is analysed in **Appendix 2**.

#### 2.14 **Icelandic Investments**

The Council has priority status and will receive 100% return on these funds as reported in the December 2011 report. The Council is awaiting the outcome of a Creditors meeting with the Glitnir Bank on 31<sup>st</sup> January 2012 to understand the timing of payments. Any update available will be presented at the meeting.

#### 2.15 **Review of Earmarked Reserves**

In preparing the final draft of the 2012/13 budget the Lead Member for Financial Management, the Head of Finance and Procurement and the Director of Resources have reviewed the level of earmarked revenue reserves and general fund balances and a forecast is included in **Appendix 4**. The Executive is asked to note the proposed re-allocation between various earmarked reserves and note the proposed creation of one new reserve - the Local Government Resource Review which will receive the windfall income from the council tax compensation grant of £156,970..

A separate and comprehensive report on the Council's reserves will be prepared in conjunction with the closing of the 2012/13 accounts.

## 2.16 Council Business Plan, Performance Pledges and Service Plans

The council business plan sets out the key priorities for Cherwell District Council for 2012/13. The plan identifies four strategic priorities for the council (a district of opportunity, safe, healthy and thriving communities, a cleaner, greener district and a value for money council) and sets objectives and targets under each.

This plan then forms the basis of the council's performance management framework. In addition the council also sets out a series of performance pledges that are distributed to every household with the council tax leaflet. These reflect the key priorities of the council for the coming year. The council's budget and medium term financial strategy reflect these priorities. The plan also reflects the strategic challenges facing the authority including the delivery of activities to support the most vulnerable in the community and projects to deliver strategic growth, for example Eco-Bicester. The council business plan and draft performance pledges are set out in **Appendix 5 & 6**.

Each Head of Service will also prepare service plans that ensure the delivery of the council's strategic priorities as well as operational service delivery objectives. These service plans will be published on the council's website in April 2012. Drafts will be available in the Members room during March 2012.

## 2.17 Public Consultation

The draft budget and council business plan was based on the results of the corporate consultation programme (customer satisfaction and budget consultation) which took place in the spring and summer of 2011. The results of these surveys helped inform the priorities of the council. Further public consultation on the content of the budget and business plan was undertaken during December 2011 and January 2012. All documents were available on the council's consultation portal and presentations on budget and council priorities were given to the Banbury and Bicester Chambers of Commerce.

Feedback on the proposals has generally been positive, especially with regards to the approach to sharing services to help protect frontline customer service. Other issues raised in the consultation included respondents expressing concerns that voluntary sector funding remains in place and some concern about the lower priority attached to arts. As part of the 2012/13 council business plan work to support the voluntary sector and volunteering has been highlighted. Arts services remain a lower priority for the council and this has been based on public surveys undertaken annually which tend to show arts seen as a lower priority for local residents.

## 2.18 Impact Assessment

As part of budget preparation the council has also undertaken an impact assessment to ensure that its budget and priorities meet local needs and do not disproportionately impact on any group or issue. The assessment is included as **Appendix 7** issues of positive and potential negative impact have been reviewed and actions required have been highlighted.

## 2.19 Budget Book 2012/13

The budget process and all supporting documentation will be documented in the 2012/13 budget book which will be prepared on the basis of **Appendices 1-7** and presented to Council on 27th February 2011 along with the recommendation to adopt the 2012/13 budget as detailed in this

report (as a key decision) and set council tax accordingly.

## 2.20 The Future – Medium Term Financial Strategy 2013/14 – 2016/17

The coming years will present even further challenges which in the main will relate to the continued cuts to the level of government grants received, local government finance and housing benefit reform, inflation and interest rates.

The Council's has a strong track record and commitment to delivering efficiencies resulting in a 38% reduction in net expenditure of services since 2007/08 when the net revenue budget stood at £23.5m compared to £14.6m in 2012/13. A total of £2m (8%) has been delivered as part of the 2012/13 budget as a result of the forecasted funding reductions.

These reductions and forward planning together with the joint working with South Northamptonshire Council strengthens our position to meet the forecast challenges of future years. The Council will update its forecast to be included in the 2012/13 budget book and present an updated strategy in June 2012.

### **Key Issues for Consideration/Reasons for Decision and Options**

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- 3.1 This report presents a final analysis of the Council's draft 2012/13 Revenue and Capital Budget. The details in **Appendix 1-7** will form the basis of the budget book to be presented to Council on 27th February to support the setting of Council Tax.
- 3.2 The following options have been identified. The approach in the recommendations is believed to be the best way forward

**Option One** To review draft revenue and capital budget to date and consider actions arising.

**Option Two** To approve or reject the recommendations above or request that Officers provide additional information.

### **Consultations**

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**Executive** 5/9/11, 17/11/11, 6/12/11

**Corporate Management Team** May 2011 to January 2012

**Resources and Performance Scrutiny Board** September 2011 to January 2012

**Public customer satisfaction and budget consultation** June - July 2011

**Business with Banbury and Bicester Chambers of Commerce** December 2011

**Online Public Consultation** December 2011 – January 2012

### **Implications**

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**Financial:** Financial Effects – the significant financial effects of the budget are identified in Appendix 1 & 1a. Any decisions made in relation to ongoing expenditure or income in the budget for 2012/13 will have repercussions in future years when current forecasts indicate the financial environment



is likely to become increasingly difficult. The Council has a statutory duty to set a balanced budget and could incur the intervention of the Secretary of State if it failed to do so.

Consideration of this item will fall within the provisions of Section 106 of the Local Government Finance Act 1992, and Members affected by those provisions should declare accordingly and refrain from voting on the matter.

Efficiency Savings – Our Medium Term Financial Strategy requires efficiency savings and we had a £1m public savings promise in 2011/12. The draft budget presented includes total budget reductions of £2m so this target has been substantially over achieved.

Comments checked by Karen Muir, Corporate System accountant, 01295 221559.

**Legal:**

There is a statutory requirement for the Council to set a balanced budget by 11 March 2012 and the draft budget is part of that process.

Comments checked by Martin Henry, Director of Resources 01295 221854

**Risk Management:**

The significant risks and assumptions associated with the draft budget are outlined in Appendix 1 & 1a risk provision has been calculated. The budget book will include a section on risk. On a broader front, if due consideration is not given to matching scarce financial resources carefully against properly assessed service priorities, the Council may fail in achieving its strategic priorities and in its duty to demonstrate value for money.

Comments checked by Karen Muir , Corporate System Accountant , 01295 221559.

**Wards Affected**

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All

**Corporate Plan Themes**

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An Accessible and Value for Money Council

**Executive Lead Member**

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**Councillor Ken Attack**

**Lead Member for Financial Management**

**Document Information –**

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Appendix No	Title
Appendix 1	Draft Revenue 2012/13 Budget
Appendix 2	Draft 2012/13 Capital Programme

Appendix 3	Local Government Resource Review
Appendix 4	Review of Risk Reserve
Appendix 5	Corporate Business Plan
Appendix 6	Pledges
Appendix 7	Equality Impact Assessment
Appendix 8	Schedule of Election Fees
<b>Background Papers</b>	
2011/12 Budget Booklet 2011/12 Capital Programme 2011/12 Medium Term Financial Strategy and Building Block Review Budget Guidelines 2012/13 Budget Booklet – to be presented at Council 27 February 2012	
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