CHERWELL DISTRICT COUNCIL

COUNCIL

23 FEBRUARY 2009

REPORT OF THE CHIEF FINANCIAL OFFICER

2009/10 BUDGET AND LEVEL OF RESERVES AND BALANCES

1 Introduction and Purpose of Report

To review the Council's General Fund Budget, Capital Programme, Earmarked Reserves and General Fund Balances to ensure the robustness of the estimates included.

2 Wards Affected

2.1 All

3 Executive Summary

Introduction

1.1 Under Section 25 of the Local Government Act 2003, the Council's Chief Financial Officer is required to report to the Council on:

1) The robustness of the estimates included within the budget
2) The adequacy of the reserves and balances

1.2 Under the Act, Members must have regard to the contents of this report when making their decisions on the budget.

Proposals

1.3 It is proposed that Members consider the contents of this report when making their decisions on the Council's budgets at this meeting.

Conclusion

1.4 The conclusion is that the processes followed have been generally sound and similar to those that have produced robust estimates in the past. In the light of information made available during the budget process, there is sufficient capacity in the proposed budget and available reserves and balances to cope with the financial risks the Authority faces in 2009/10.

1.5 The strength of the service and financial planning process, with the involvement of Heads of Service, Strategic Directors, Service Accountants, Corporate Management Team and elected Members; the extensive consultation; the assessment of risk; the rigorous challenge; the inclusion of a central contingency; and the way in which it is underpinned by adequate reserves; means that the draft budget is robust, comprehensive and geared to the delivery of the Council's key objectives and service priorities.

4 Contact Officer(s)

4.1 01295 227936 phil.o'dell@cherwell-dc.gov.uk
01295 221551 karen.curtin@cherwell-dc.gov.uk

5 Background Information

2.1 Section 25 of The Local Government Act 2003 includes a specific personal duty on the Chief Financial Officer ("CFO") to make a report to the authority when it is considering its budget and Council Tax. Also, Section 26 of the Act gives the Secretary of State power to set minimum level of reserves for which an authority must provide in setting its budget. The Secretary of State stated that "the provisions are a fallback against the circumstances in which an authority does not act prudently, disregards the advice of its CFO and is heading for serious financial difficulty".

2.2 The Local Government Finance Act 1992 also requires that authorities have regard to the level of reserves needed for meeting estimated future expenditure when calculating the next budget requirement.

2.3 There are also a range of safeguards to ensure authorities do not over- commit themselves financially. These include:

- The CFO 'S114' powers, which require a report to all members of the authority if there is or is likely to be unlawful expenditure or an unbalanced budget
- The Prudential Code which applied to capital financing from 2004/5.

2.4 These safeguards are reinforced by the Use of Resources Assessment by the Audit Commission which includes a methodology to assess the financial performance and standing of the authority.

Budget Process 2009/10

2.5 The budget preparation process for 2009/10 began with the Executive issuing Budget Guidelines at their meeting on 1st September 2008, following discussion of the projected scenario for 2009/10 and beyond based on information held at that time. These guidelines included the decision that any service growth should be self-funding via efficiencies and that the council tax increase should be below the level of inflation. The initial target for efficiencies required to balance the budget was set at £1m, although this rose as the economic recession and banking crisis affected the Council's budget. The changing target and the progress in achieving it were tracked in a transparent fashion until such time as the required efficiencies were agreed.

2.6 The Budget Guidelines were used to prepare the base budget (cost of existing service provision) and to steer the Service Planning process which followed. This Service Planning process involved Heads of Service being challenged by both officers and Members regarding their budgets, the need for their service and ways to improve efficiency.

2.7 The Corporate Management Team received regular updates on the overall budget position from September 2008 through to January 2009 and managed the overall process.

2.8 The Executive received reports on December 1st 2008 as well as January 12th and February 9th 2009, all outlining the latest position regarding efficiencies identified and remaining sums required to balance the budget. On 1st December 2008 the Executive approved the revised schedule of fees and charges for 2009/10.

2.9 On 9th December 2008 a Budget Scrutiny Event involving Members of the Resources and Performance Scrutiny Board was held to challenge various aspects of the budget as it stood at that stage. Action points arising were fed into the process and the outcomes reported to the Executive on 12th January 2009.

2.10 For a number of years the Council's budget process has included consultation with the stakeholders of Cherwell to find out which services were most important to residents and others and what they thought spending and savings priorities should be in the coming budget year. The current budget process has continued this trend by seeking the views of the general public, the business community, the voluntary sector and other key partners on issues such as the most important services to spend on, where to decrease spending and the level the council tax should be set at.

2.11 During the whole budget process particular attention was paid to both inflation levels and interest rates during a time of unusual economic instability. Both these factors were tracked in detail as they represented key elements of the Council's likely spending needs (due to inflation), interest receipts (due to interest rates) and council tax increase permissible within the 'below-inflation' pledge made when the Budget Guidelines were set.

Guidance on Evaluation of the Estimates

3.1 The Local Government Act 2003 does not provide any specific guidance on how to evaluate the robustness of the estimates. The explanatory notes to the Act do, however, stress that decisions on the appropriate level of reserves should not be based on a rule of thumb, but on an assessment of all the circumstances considered likely to affect the authority. In addition reference is also made to the CIPFA guidance on reserves and balances.

3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) states that the following factors should be taken into account when the CFO considers the overall level of reserves and balances:

- Assumptions regarding inflation
- Estimates of the level and timing of capital receipts
- Treatment of demand led budgets (i.e. budgets where expenditure or income are to some extent beyond the Council's control)
- Treatment of efficiencies
- Risks inherent in any new partnerships etc
- Financial standing of the authority (level of borrowing, debt outstanding etc)
- The authority's track record in budget management (including the robustness of the Medium Term Financial Strategy)
- The authority's capacity to manage in-year budget pressures

- The authority’s virement and year-end procedures in relation to under- and over- spends
- The adequacy of insurance arrangements.

3.3 The above issues are also of relevance when evaluating the robustness of the budget.

The Audit Commission’s Use of Resources Assessment also provides a form of guidance when considering the robustness of the draft budget. The Financial Standing element of the Assessment considers the level of financial reserves. In order to achieve the at least the ‘good’ ranking (Level 3 Use of Resources) an authority has to meet either of the following criteria:

The aggregate balance of

- General Balance
- Other earmarked revenue reserves
- Liabilities not recognised in the financial statements

should either be in surplus at the year end and the General Balance should be at least equal to 5% but not more than 100% of forecast net operating expenditure for the year, <u>or</u> a formal financial risk management process should be operating, which the authority uses to justify a level of reserves and balances.

Cherwell met both of these criteria during the period examined by the Audit Commission with the Use of Resources scores reported to the Accounts Audit and Risk Committee in December 2008 and continues to do so when the budget year 2009/10 is assessed against the same criteria.

The Use of Resources Assessment system is currently being changed and in future years the Council will face further tests of its financial standing, but at the moment the key criteria are met.

Reserves

4.1 The estimated level of reserves as at 31 March 2009 are shown in the Council’s Budget Book contained elsewhere on the agenda. The rationale for each of these reserves and the level required in each has been reviewed. The remaining reserves are considered to be both necessary and at adequate levels. In addition to the various earmarked reserves, the Council will have an estimated General Fund Balance of approximately £2m at 31^{st} March 2009. The General Fund balance comfortably exceeds the recommended minimum of 5% of the budgeted net operating expenditure for the financial year 2009/10.

4.2 Reserves can be held for three main purposes:

- general reserves to meet the potential costs of emergencies or unexpected events, including a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- a contingency to meet the costs of events that are possible but whose occurrence is not certain – this also forms part of general reserves. For the financial year 2009/10 an Economic Factors Reserve has been set up to deal with any increased demand on Council services, additional costs (e.g. fuel cost rises), fall in income from fees and charges or reduced investment

income.

- earmarked reserves to meet known or predicted liabilities over a period of time usually of more than one year. These earmarked reserves protect the Council against specific financial risks and this is a factor to be taken into account when assessing the adequacy of the totality of balances and reserves and the level of the General Fund Balance.

Strategic Budget Issues to Evaluate for Robustness

5.1 Inflationary pressures

Provision has been made for a locally agreed pay award of 3%. An assumption on staff turnover savings is made and monitored centrally. Budgets have been prepared at out-turn prices (i.e. to take account of known or expected increases in the prices of goods and services). This is a tried and tested approach, although in the unusual economic situation currently being experienced an Economic Factors Reserve has also been set up as outlined previously in this report.

5.2 Capital Programme Revenue Effects and Financing

The revenue budget includes all revenue effects of capital schemes. Particular emphasis has been placed on the major schemes regarding the Council's Sports Centres. Assumptions of new capital receipts in 2009/10 are based on realistic estimates received from the relevant officers in the Council.

5.3 Treatment of demand led pressures and efficiencies

Particular care has been taken in compiling the key Council budgets which are often described as 'demand led' because their achievement is to some degree outside the Council's control. These types of budgets, including spending on housing benefits and receipt of income from planning applications, land charges, car parking charges and interest on the Council's cash and financial reserve management are likely to contribute significantly to any overall variation of actual achievement against budgets. Some of these budgets could be affected by the prevailing economic recession and in all cases a prudent approach has been adopted in the estimates prepared.

5.4 Efficiencies Identified

Efficiencies proposals leading to reductions in budgets for 2009/10 total approximately £2m. The main priority in achieving these efficiencies was to protect front line services. Each of these efficiency proposals was evaluated for feasibility of achievement and found to be realistic. Each expenditure efficiency has been removed from the relevant budget and each agreed increase in income added to the relevant budget. Both expenditure and income efficiencies will be profiled on the Council's Financial Management System to make it clear that efficiencies are expected to be realised from the agreed date. Prior to the commencement of the financial year 2009/10 officers responsible for these services and the associated budget reductions or additional income will be reminded of the need to achieve the figures put forward within the agreed timescales. Monthly financial information will then be provided to help monitor progress, and any significant variations will be reported to both the Corporate Management Team and the Executive. These reports will contain proposals for corrective action where necessary.

5.5 At the time of writing this report there were a small number of efficiencies where the detailed managerial action plan for implementation had not been completed. On this basis these efficiencies have been included in the budget on a part year basis. In view of the clear political and managerial intent, relatively small sums involved, the robustness of the remaining budget and the overall adequacy of reserves, it is considered that there is no significant risk to the Authority arising from the inclusion of these sums.

5.6 Any one-off costs of achieving ongoing efficiencies have been built into rationale and projections of use of earmarked reserves.

Investment Income/Icelandic Banks

5.7 The Council is one of at least 123 local authorities that have been affected by the collapse of Icelandic banking institutions. The Council currently has a total of £6.5 million in short term investments (i.e. those with maturity periods of up to one year) with one of the affected banks Glitner. The position relating to the recovery of Council investments in Icelandic banks and the associated interest is uncertain with no reliable forecast available of what might be re-paid, or at what time. At this stage the extent of financial loss, if any, is unknown and in accordance with guidance from CIPFA we have not made any provision for loss. The Council is co-operating with and supporting the work of the Local Government Association (LGA) in its discussions with Treasury on these matters and any Government support to be made available to the affected authorities

5.8 The 2009/10 revenue budget for investment income is based on ensuring security of investment, income yield and liquidity, in that order. It assumes that the interest due from the Council's £6.5m investment in the Glitnir Bank will not be received following the collapse of that bank. This assumption will not prevent the Council continuing to press for the payment of the sum due.

5.9 The Council's investment income budget for 2009/10 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 trend in interest rate reductions 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 will be considered by the Executive on 2nd March 2009.

Capacity to Manage in-year Budget Pressures

6.1 The Authority has a record of maintaining good financial and budgetary discipline in the face of mid-year pressures, including virement procedures that allow funds to be moved to areas of pressure. Although underspends and overspends are not automatically carried forward, the Authority does have an approved carry forward scheme.

6.2 For many years, year-end out-turn has been within approved budget levels, although the trend to significant underspends has now been eliminated. This is a welcome change, although it does mean, quite rightly, that there can be no reliance on underspends being available to deal with any unwanted overspends. This has put more reliance on accurate budgeting and forecasting.

6.3 The Audit Commission have frequently commended the Council's record in financial management. This is also reflected in the Use of Resources Score overall of 3 reported to the Accounts, Audit and Risk Committee in December 2008. Of particular relevance are the scores of 3 for Financial Management, Internal Control and Value for Money, all of which give good evidence to support the view that budgetary pressures will be well managed. The Council has received particular praise for its accessible and informative Annual Report and Summary of Accounts document

6.4 Managers with budgetary responsibility receive ongoing financial training and support and attend regular briefings regarding issues such as the Budget Guidelines.

6.5 Budget holders receive regular information from their relevant service accountant and regular Financial Management System (FMS) reports through on-line access to the information. Both budget profiling and commitment accounting are used to assist the budgetary control process. The Council has developed a 'Dashboard' reporting system which gives budget managers prompt information about financial and service performance. This has proved extremely popular and well used, leading to a very detailed and timely position statement being available on the Council's finances.

6.6 The Executive receives quarterly budgetary control reports, including proposed actions to deal with any variances from budget.

Risk Management and Insurance Arrangements

7.1 The Council has a well developed risk management approach which regularly updates the key strategic and operational risks and identifies actions which can reduce the likelihood and impact of those risks. The risk registers identified are fed into the budgetary process as appropriate. In recent months the economic recession has featured as a key risk for several of the Council's budgets and appropriate budgetary provision has been made in respect of these.

7.2 The Authority has a very low record of claims against its insurance policies. A comprehensive range of insurance policies are held, although these are subject to regular review to ensure that this is the most appropriate response to the risks faced.

Longer Term Considerations

8.1 Although this report has the 2009/10 budget as its focus it is worthwhile considering briefly some of the key longer term financial issues facing the Council so that it can be established that no hidden issues could affect the forthcoming budget year.

8.2 The Council has a robust Medium Term Financial Strategy which is regularly updated and gives multi-year projections of the Council's revenue and capital position. The next Medium Term Financial Strategy, covering the years 2009/10 to 2013/14 will be considered by the Executive at its meeting on 16th March 2009. Although managerial action will be required during the 2009/10 budget year to deal with the likely budget deficit from 2010/11 onwards there are currently no plans which will affect the 2009/10 budget itself.

8.3 The Council makes contributions to the Oxfordshire County Council Pension Fund on behalf of staff. The next actuarial review of the fund will be based on the position as at 31 March 2010. The results of the review should be known in late 2010 with any changes to contribution rates expected to be implemented with effect from 2011/12. The anticipated impact for the Authority will be reviewed as information becomes available.

8.4 The Council is debt free, with no realistic need to borrow money long term likely to materialise in the next few years.

Specific Service Budget Risk Considerations

9.1 Housing Benefit – Estimates in respect of Council Tax Benefit and Housing Benefit payment, Government reimbursement of these payments and payment of administrative subsidy have been calculated based on the latest information available about take-up of benefits, the latest levels of correctly paid benefits and government notifications of reimbursements and subsidy levels. These estimates are therefore as robust and practicable as possible for an area of expenditure that is demand led.

9.2 The Building Control function operates in a competitive environment. Fee income is subject to such competitive pressures and will be monitored during the year. The income from car parking will be closely monitored, as it is demand led and the fees were increased as part of the budget process

9.3 Planning fees and land charges fees are significant factors in the Council's budget. The budgeted sums have been reduced in 2009/10 and will be closely monitoring during the year.

9.4 Rental income from the Council's property portfolio is again subject to market forces and best estimates from officers concerned have been used and will be monitored closely.

9.5 The homelessness budget is demand-led and therefore difficult to accurately estimate. It will be closely monitored.

9.6 An Economic Risk Reserve has been set up to cover any major variations on the budgets covered in the previous paragraphs.

Key Issues for Consideration and Options

10.1 The key issues are whether:

- the base budget is realistic
- the expenditure efficiencies are achievable
- the additional income will be received
- the reserves are adequate to deal with any shortfall in the budget

10.2 It is considered that theses requirements are in fact met.

10.3 The Full Council can of course make changes to the budget even at this late stage, although it is advised that any such changes, if significant, could adversely affect the robustness of the budget if a full appraisal of their likely consequences is not undertaken.

6 Risk Assessment, Financial Effects and Contributions to Efficiency Savings

6.1 Risk assessment – The draft budget has been built with consideration of relevant risks. Comments checked by Karen Curtin, Chief Accountant, ext 1551.

6.2 Financial effects – The report looks at the robustness of the Council's draft 2009/10 budget. Comments checked by Karen Curtin, Chief Accountant, ext 1551.

7 Recommendation

7.1 The Council is recommended:

A BUDGET 2009/10

1) to consider the contents of this report in approving the General Fund and Capital Programme 2009/10 budgets and that the s 25 report on the robustness of the budget be noted.

2) that the updated draft budget recommended by the Executive at its meetings on 9 February 2009 and detailed in the 09/10 budget book, (Minute 162 (which is to be tabled)) be approved;

B COLLECTION FUND 2008/2009

3) that the Collection Fund estimates as now submitted be approved (see Annex 6 of the budget booklet).

C SERVICE PLANS 2009/10

4) that the draft Service Plans 2009/10 be endorsed as recommended by the Executive at its meeting on 9 February 2009 (Minute 162).

Background Papers:

Budget Working Papers 2009/10
Budgetary Control Reports 2008/09
Reports to the Executive, September 2008 to February 2009