Council

2010/11 Service and Financial Planning Process
Corporate Plan, Revenue Budget and Capital Programme

22 February 2010

Report of the Chief Financial Officer

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 and to seek formal adoption of all parts of the Council's financial plans and Corporate Plan for the 2010/11 budget year.

This report is public

Recommendations

The Council is recommended:

(1) To consider the contents of this report in approving the General Fund Budget and Capital Programme for 2010/11 and to formally record that consideration

(2) To approve the 2010/11 General Fund Budget and Capital Programme proposed by the Executive on 1st February 2010, as detailed in the Budget Book at Appendix 1

(3) To approve the Collection Fund Estimates contained in Annex 6 of the Budget Book

(4) To approve the Prudential Indicators contained in Annex 9 of the Budget Book

(5) To approve the final Service Plans for 2010/11 as proposed by the Executive on 1st February 2010 and summarised in the Budget Book

(6) To approve the Corporate Plan as detailed in Annex 1 of the Budget Book

(7) To approve the Treasury Management Strategy for 2010/11 proposed by the Executive on 1st February 2010 at Appendix 2

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 2010/11.

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 legislation says 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 2010/11

2.5 Although the search for efficiencies had started several months before, the budget preparation process for 2010/11 formally began with the Executive issuing Budget Guidelines at their meeting on 5th October 2009, following discussion of the projected scenario for 2010/11 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 should not be increased. 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 and to steer the Service Planning process.

2.7 The Corporate Management Team received regular updates on the overall budget position from September 2009 through to January 2010 and managed the overall process.

2.8 The Executive received reports on December 7th 2009 as well as January 11th and February 1st 2010, all outlining the latest position regarding efficiencies identified and remaining sums required to balance the budget.

2.9 The Resources and Performance Scrutiny Board examined the draft budget on 1st December 2009 and made recommendations to the Executive.

2.10 The Executive concluded its budget deliberations on 1st February 2010 and has now recommended a budget to the Full Council.

2.11 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.

2.12 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 and interest receipts.

2.13 The Chief Financial Officer has:

- examined budget working papers prepared by Finance staff
- discussed the budget preparation process with those Finance staff
- liaised closely with the Head of Finance throughout the budget process
- examined the Service Plans put forward by Heads of Service
- attended Corporate Management Team meetings to discuss the budget
- attended Executive meetings where the budget has been considered

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 (The Chartered Institute of Public Finance and Accountancy) guidance on reserves and balances.

3.2 The CIPFA guidance 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

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

3.3 The Audit Commission's Use of Resources Assessment also provides a form of guidance when considering the robustness of the draft budget. To receive a Level 3 – 'performing well' an authority has to meet either of the following criteria:

The aggregate balance of

- General Balances
- 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 2009 and continues to do so when the budget year 2010/11 is assessed against the same criteria.

3.4 The most recent Use of Resources Assessment report also contained other comments which confirmed the robustness of the Council's annual budget process, although it does not specifically address the recent budget process, which was in progress during the inspection. The report stated that 'the Council manages its finances effectively to deliver value for money in its services for its stakeholders. Finances are planned over the medium to long term to meet strategic priorities and to ensure that the Council keeps sound financial health. The Medium Term Financial Strategy is regularly updated to keep it in line with changes in the internal and external environment that affect the operation of the Council'. It goes on to say that ' the Council produces budget monitoring and forecasting information on a timely basis which ensures that decision makers can make appropriate decisions throughout the various levels of the organisation with the most relevant information to hand.'

Reserves

4.1 The estimated level of reserves as at 31 March 2010 and 31st March 2011 are shown in the Council's Budget Book contained with this report. 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 £1.2m at 31st March 2010 after making plans for capitalisation detailed in 5.7 below. The General Fund balance comfortably exceeds the recommended minimum of 5% of the budgeted net operating expenditure for the financial year 2010/11.

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 2010/11 the Council will have an a Contingency Risk Reserve to deal with any increased demand on Council services, additional costs such as fuel cost rises, falls 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

There has been local agreement with staff that no pay award will be payable from 1st April 2010. Provision has however been made for the effects of the newly implemented Job Evaluation Scheme. An assumption on staff turnover savings is made and monitored centrally. Other expenditure budgets are normally prepared at out-turn prices to take account of known or expected increases in the prices of goods and services, although in the low inflation environment prevailing when most of the budget process was taking place managers were instructed to only build in contractually unavoidable inflation increases. This helped force through the achievement of efficiency savings at a very detailed level to balance the budget overall. This approach is underpinned by a Contingency Risk Reserve to cope with any return of any unbudgeted inflationary pressures.

5.2 Capital Programme Revenue Effects and Financing

The revenue budget includes all revenue effects of capital schemes. Assumptions of new capital receipts in 2010/11 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 climate and in all cases a prudent approach has been adopted in the estimates prepared.

5.4 Efficiencies Identified

Efficiency proposals leading to reductions in budgets for 2010/11 total approximately £2.7m, although some of this has been re-invested in services and unavoidable costs. 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.

5.5 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 2010/11 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.

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

Investment Income/Icelandic Banks

5.7 The Council is one of over 100 local authorities that were affected by the collapse of Icelandic banking institutions. The Council currently has a total of £6.5 million in short term investments with one of the affected banks, Glitner. Although the Council remains confident of getting all of its investment back a plan has been drawn up to deal with any loss via use of the Council’s reserves. At the time this report was written the Council was, with support from the Local Government Association, seeking to overturn a Government decision not letting it use capital receipts to finance any loss. Should this attempt fail, the Council has identified revenue reserves to deal with the any loss. This strategy has been built into the figures listed in the Budget Book for 2010/11.

5.8 The Council will not know for some time whether it will get back all of its investment with Glitnir. The frozen assets of the bank are such that 31% of the Council's investment is considered safe, but the remaining 69% (£4,485,000) is still being lobbied for, with the Local Government Association and their legal advisors confident that the whole sum will be returned, but uncertain as to when that will occur. In the circumstances it is considered prudent to plan for a potential loss as outlined in paragraph 5.7, even though that plan will in all probability not be required.

5.9 The Council's investment income budget for 2010/11 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 was proposed by the Executive on 1st February 2010 and is recommended to Full Council for approval as part of this report.

Capacity to Manage in-year Budget Pressures

6.1 The Council 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 where shortages exist. Although underspends and overspends are not automatically carried forward, the Council 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 2009.

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. 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 the last two budget cycles the economic scenario 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 recent Value for Money Review of insurance identified the scope for the Council to delete some of the policies held and levels of cover on some retained policies reduced with a significant saving in premiums paid and no unacceptable increase in exposure to risk.

Longer Term Considerations

8.1 Although this report has the 2010/11 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 2010/11 to 2014/15 will be considered by the Executive in March 2010. These revised projections will take account of the highly likely significant reduction in the Council's grant funding from the Government from 2011/12 onwards following the major increase in the Public Sector Borrowing Requirement, which the next Government will need to address as a matter of priority. Although managerial action will be required during the 2010/11 budget year to deal with the likely budget deficit from 2011/12 onwards there are currently no plans which will affect the 2010/11 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 Council 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. Short term borrowing for cash flow purposes continues to be very rare and a small sum has been budgeted in the years ahead as interest payable should there be a mis-match in cash available for a few days or weeks.

Specific Service Budget Risk Considerations

9.1 Estimates in respect of Council Tax Benefit and Housing Benefit payments, 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. There has been a significant increase in the level of such payments during the economic difficulties of the last two years and this is set to continue for some time yet. Bearing in mind that most of the sums paid out are reimbursed by the Government, these estimates are therefore as robust 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 competitive pressures and will be monitored during the year. The income from car parking will be closely monitored, as it is demand led.

9.3 Planning fees and land charges fees are also significant factors in the Council's budget. The budgeted sums for 2010/11 continue to be at a lower level than before the problems in the economy started and prudent assumptions have again been made of sums likely to be received. The sums included will be closely monitored 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 The Council received late notification of reduced Government grant funding towards the concessionary fares travel scheme. The shortfall arising was dealt with via a quick re-examination of efficiencies. These efficiencies were tested for realism and considered to be achievable additions to those previously identified.

9.7 A Contingency 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, both in terms of expenditure and income
- the expenditure efficiencies are achievable
- any new or increased income will be received
- the reserves are adequate to deal with any budget problems

10.2 It is considered that these requirements are in fact met and that the budget is sufficiently robust to be recommended for approval.

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.

10.4 The following options have been identified. The approach recommended is believed to be essential so that the Council complies with the legislation directing it to consider the Chief Financial Officer's report.

Option One To consider this report

Option Two To fail to consider this report and fail to meet the legal requirements in relation to setting the Council's budget

Consultations

None This is a statutory report giving the view of the Council's Chief Financial Officer on the robustness of the budget, although in practice discussions have been held with relevant staff as part of forming the judgement required.

Implications

Financial:	The report looks at the robustness of the Council's draft 2010/11 budget and corporate plan. All financial implications are contained within the Comments checked by Karen Curtin, Head of Finance, 01295 221551
Legal:	The draft budget incorporates the Council's legal obligations. Comments checked by Liz Howlett, Head of Legal and Democratic Services, 01295 221686
Risk Management:	The draft budget has been built with consideration of relevant risks. Comments checked by Rosemary Watts, Risk and Insurance Manager, 01295 221566
Equalities	The draft budget has been built with consideration of the legislation and the Council's policies in respect of equalities. Comments checked by Caroline French, Equalities and Diversity Officer 01295 227928

Wards Affected

'All'

Corporate Plan Themes

An Accessible, Value for Money Council.

Executive Portfolio

Councillor Macnamara
Portfolio Holder for Resources

Document Information

Appendix No	Title
1	Budget Book 2010/11 – **TO FOLLOW**
2	Corporate Plan
3	Treasury Management Strategy 2010/11
Background Papers	
Budget Working Papers 2010/11. Budgetary Control Reports 2009/10. Reports to the Executive, September 2009 to February 2010	

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