

# Executive

## Draft Budget 1, Corporate Plan and Service Plans 2011 - 2012

6 December 2010

### Report of Head of Finance

#### PURPOSE OF REPORT

The Council has to adopt a budget for 2011/12 as the basis for calculating its level of Council Tax and 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. This is the first of three opportunities that the Executive has to shape and refine the interaction between the Corporate Plan, the service plans that underpin the corporate plan and financial matters before the final budget is presented to the Council on the 21st February 2011.

This report is public
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#### **Recommendations**

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The Executive is recommended:

- 1) to endorse the draft Corporate Plan for 2011-12 (detailed in Appendix 2);
- 2) to endorse the proposed service priorities for 2011-12 (detailed in Appendix 3);
- 3) to consider the draft budget (detailed in Appendix 1) in the context of the Council's service objectives and strategic priorities;
- 4) to note the areas of unavoidable revenue growth as detailed in the body of this report detailed in Appendix 1 – para 1.23;
- 5) to note the areas of additional income or cost reductions that will be considered in order to get to a balanced 2011/12 budget detailed in Appendix 1 – para 1.26 / 1.27;
- 6) to note the proposal on Council Tax for 2011-12 detailed in (para 2.10)
- 7) To note the outcome of the pay negotiations on 2011/12 pay deal (para 2.20);
- 8) to ask officers to prepare a response to the New Homes Consultation and a report detailing the implications;

- 9) to ask officers to give consideration to the impact of the recent planning fees consultation and the implications on income generation
- 10) to agree the approach to the overall capital programme and 2011/12 expenditure profile (detailed in Appendix 4);
- 11) to note the recommendations of the scrutiny reviews of training, fees and charges and capital programme that were considered at the Resources and Performance Scrutiny Board on 30th November 2010 and approve which should be included in the second draft of the budget: (detailed in Appendix 5 – to follow);
- 12) to advise of any other matters they would like taken into consideration in producing a balanced budget for the meeting of the Executive on 10<sup>th</sup> January 2011;
- 13) to endorse the draft revenue and capital budget and corporate plan as the basis for consultation.

## **Executive Summary**

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- 1.1 The significant savings and efficiencies delivered by the Council up to 2010/2011 had helped to achieve a sustainable medium term budget. Although further savings would have been required these were not on the scale of the financial challenge that now faces the council, which is a direct consequence of the Government's requirement to address a significant national budget deficit.
- 1.2 In light of the severe financial challenges a huge amount of work has been progressed from May 2010 to November 2010 in order to identify actions to reduce the Council's net budget position in 2011/12 and over the medium term forecast period to 2014/15. A number of cost reductions were approved for inclusion in the 2011/12 draft budget as part of the November report to the Executive "Early response to the CSR"
- 1.3 The Council has met its 2010/11 public promise to deliver £800k of budget reductions by April 2011 as well as delivering the 2010/11 Improvement plan which includes 12 Value for Money Reviews.
- 1.4 In light of the projecting government grant reduction a programme of identifying further areas of budget reductions or income generation has resulted in a comprehensive list of building blocks and general budget efficiencies. These reductions have been matched to the Council's priorities, recognise the requirements of the Corporate Plan and have focussed on minimising the impact on front line services.
- 1.5 The budget will form the financial expression of the Council's strategic priorities and service delivery plans for 2011/12; the allocation of resources against agreed service priorities (as seen in Appendix 3) is necessary in

order to achieve its strategic priorities.

- 1.6 The Resources and Performance Scrutiny Board have been reviewing the outcome of the public budget consultation exercise. This committee has reviewed expenditure allocated by public priority, conducted a detailed analysis of fees and charges, training budgets and reviewed all bids submitted for consideration in the 2011/12 Capital Programme. The outcome of this work will be reported to the Resources and Performance Scrutiny Board meeting on November 30th 2010 and any recommendations will be considered in by the Executive for inclusion in subsequent drafts of the 2011/12 budget.
- 1.7 There is a statutory requirement for the Council to set a balanced budget by 11 March 2011 and this report provides a first draft of the 2011/12 revenue and capital budget.
- 1.8 As far as possible it takes account of the Comprehensive Spending Review (CSR) to the extent that details have been disclosed and indicates other areas that may have financial implications.
- 1.9 The projected shortfall at draft 1 requires a further reduction in costs or increase in income of £1,114,180 is required. On the assumption that the Executive approve the scrutiny recommendations and the shared management business case with South Northamptonshire is approved by both Councils on December 8<sup>th</sup> 2010 then this will contribute circa £900,000 therefore reducing the deficit to a manageable £215,000.
- 1.10 A number of areas to review have been identified in Appendix 1(Para 1.26 / 1.27) The outcome of these reviews together with the updated position of the local government grant settlement and its implication on the current budget shortfall will be presented to the Executive in January 2011. At this stage it is expected that these together with the Councils ability to utilise reserves will deliver the remaining £215,000 shortfall and achieve a balanced budget for 2011/12.
- 1.11 Further work will continue on identifying additional budget reductions for future years and these will be detailed in the Medium Term Forecast which will be updated and presented as part of the final budget report.
- 1.12 This report also considers the draft capital programme for 2011/12.
- 1.13 The Spending Review will mean cuts in services but the Council will do all it can to minimise the effects of the cuts on front line services and build on its record of providing cost effective services and delivering efficiencies.
- 1.14 The draft 2011/12 revenue and capital budget and corporate plan will form the basis for consultation with our stakeholders and the output of this consultation will be considered in formulating the final 2011/12 budgets and Corporate Plan.

## **Background Information**

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### **2.1 Corporate Plan**

The corporate plan has been reviewed for the period 2011- 2012. This review reflects the changing economic situation, the implications of local government grant reductions as detailed in the comprehensive spending review and significant strategic developments affecting the district such as the eco-town. The corporate plan takes into account the wide range of public consultation we undertake around local priorities through both our annual satisfaction survey and budget consultation workshops.

The objectives within the corporate plan for 2011 -12 are currently in draft form and will be confirmed after the public consultation in December. Detailed milestones and measures will be set in the final quarter of the year taking into account the latest performance information and budgetary position. As in previous years a set of council tax pledges will be drawn from the corporate plan. These will form a core set of performance milestones for the council which directly reflect the strategic priorities and will be monitored through our corporate performance scorecard. The developing corporate plan measures will be presented to Executive and Council with the drafts of the budget in January and February 2010.

### **Service Plans**

2.2 Service plans are being developed alongside the draft budget and corporate plan. They will include comprehensive consultation feedback, a review of the strategic challenges facing each service and robust peer and member challenge. The service plans underpin the corporate plan and provide the operational detail that ensures the council's strategic priorities are delivered.

2.3 Copies of the draft Service Plans for 2011/12 will be made available on the Council's intranet site for Members to review in January 2011. Final drafts will form part of the background papers for the Budget and Corporate Plan reports presented to Executive and Council in February 2011.

### **Funding Implications**

2.4 In light of the challenging financial position that faces the Council over the medium term, work has been in progress on the 2011/2012 budget since setting the 2010/2011 Budget in March 2010 in order that cost reductions could be considered well enough in advance to maximise contribution to the 2011/12 budget and understand the Medium Term Implications.

### **2.5 Comprehensive Spending Review (CSR 2010)**

The Comprehensive Spending Review 2010 (CSR 2010) was announced

on 20 October 2010, this provided a high-level indication of the Government resources that will be available to local government for the next four financial years. The details of the CSR10 and implications for Cherwell District Council were reported to the Executive in November 2010.

2.6 The most significant point for this report is that the level of Government funding for local authority revenue expenditure at the national level will reduce by 26% in real terms over the next four years and that the reductions would be front loaded.

2.7 It should however be noted that the projected net budget deficit still remains subject to potentially significant change, this is because the Council's own grant figures and impact of the concessionary fare transfer will not be known until the announcement of the local government finance settlement in early December 2010 and this could potentially be very different from the average for local government based on the national level information in the CSR2010.

2.8 In addition CSR2010 did not include comprehensive details of all aspects of the spending review, this further important information should however become clear as the various Government White Papers and Consultation papers are released.

2.9 We have seen additional information and consultation papers on Council Tax Freeze in 2011/12, the new homes bonus and changes to setting planning fees which we are reviewing and considering the financial implications.

2.10 **Council Tax**

The Government's intention to freeze Council Tax for 2011/2012 has also been reflected in the draft budget. SR2010 confirmed that the Government will provide a revenue grant equivalent to a 2.5% increase in Council Tax to fund this freeze; this has therefore been included within the projected resources of the Council.

2.11 **New Homes Bonus**

The Government has just launched a consultation on the "New Homes Bonus Grant", a new "core" grant that will apply from 2011/12 to reward authorities that increase their council taxbase.

2.12 At one level the proposed scheme is very straight-forward. Each October, DCLG will collect information on housing stock by council tax band on the standard council tax form. Any additions to the total stock will attract funding through this scheme at a rate of £1,439 per Band D per year for six years. There will be an additional £350 per year for new "affordable" homes.

2.13

Changes in numbers of empty homes and new builds / demolitions will all

be taken fully into account in assessing the grant because payment will be based on the net change. Shire districts will receive 80% of the grant in two-tier areas, with nothing for police or fire authorities or the GLA.

- 2.14 From our early review one issue is clear that after the first year it is not fully-funded, with any shortfall coming from Formula Grant. By year six and beyond, around 80% of the money will need to come from the existing settlement. This means that the cash allocations in the CSR10 will be reduced from 2012-13 in order to pay for the New Homes Bonus; we assume 2011-12 will remain the same.
- 2.15 The consultation closes on 24 December 2010 and a detailed review of the scheme and implications for Cherwell District Council will be prepared in providing our consultation response. At this stage no budgetary impact has been built into the budget.

### **Planning Fees**

- 2.16 This consultation paper seeks views on proposed changes to the planning application fees regime which would decentralise responsibility for setting fees to local planning authorities. We also propose to allow authorities to charge for resubmitted applications and to set higher fees for retrospective applications.
- 2.17 Proposals will help to reduce the subsidising of planning applications by local taxpayers. If accepted and approved by Parliament, the changes would be implemented from April 2011, with a six month transition period until October 2011.
- 2.18 The consultation closes on 7 January 2010 and a detailed review of the operational and financial implications for Cherwell District Council will be prepared in providing our consultation response. At this stage no budgetary impact has been built into the budget.

### **Other**

- 2.19 We are also waiting for further information on the implications of the benefit reform, funding arrangements for housing benefits and council tax and these in particular may result in further substantial financial implications on the Council. Papers are due to be published in the coming weeks and months, so the funding situation will therefore continue to evolve for some time.

### **Pay Deal Update**

- 2.20 In early 2010 the Council and Unison entered into a collective agreement which set out the local pay award for the following 3 years, as follows:

Year	% increase
2010-11	0%
2011-12	1.80%
2012-13	1.90%

- 2.21 This agreement was made on the basis of the known financial position at the time and was built into the Medium Term Financial Strategy. The cost for 2011-12 would have been £225,000. However, since the agreement was made there have been significant changes to the Council's financial position and that of the public sector generally, as a result of the new government's approach to addressing the national deficit.
- 2.22 The Chancellor announced a pay freeze across the public sector in his emergency budget in June. The Comprehensive Spending Review report, as we know, announced significant cuts to local authority funding (with cuts coming hardest in the next two years) and confirmed that the public sector is expected to lose approx 490,000 jobs over the next four years.
- 2.23 The combination of the government's pay freeze and the Council's financial position has made it very difficult now for the Council to honour the agreement for 1.8% next year. To do so would not only directly contradict the national advice from government but would also be very difficult to justify to Cherwell's residents who are themselves facing pay freezes, pay cuts, redundancy and many other pressures on their income.
- 2.24 Although we anticipate the government will enforce the public sector pay freeze via legislation this was not forthcoming and therefore does not to date provide a mechanism to over-rule local agreements.
- Officers were therefore tasked with attempting to re-negotiate the agreement with Unison in an attempt to bring in broadly in line with both the governments position and the budget position. Thanks in main to co-operation from the local Unison branch, a new agreement has been reached, without ballot.
- 2.25 The new agreement is as follows:
- April 2011** 0% general pay award  
£250 flat rate increase applied to all grades below £25,000;  
this relates to FTE substantive salaries.
- 2.26 This also replaces the remaining period of the three year agreement (and there is therefore now no agreement for pay awards beyond 2011/12) but we have agreed to undertake detailed negotiations during 2011 to reach a new local agreement for 2012/13 onwards. By this time the financial position of the Council and the broader effects of the public sector cuts will be clearer.
- 2.27 The government's proposed flat rate increase of £250 to all public sector employees earning less than £21,000 would have applied to 216 members

of staff at Cherwell. The agreement to extend the payment of this flat rate to FTE salaries below £25,000 means the increase will apply to 304 (56%) members of staff. The additional cost of extending to salaries between £21,000 and £25,000 is not yet built into draft 1 of the revenue budget but will be added to draft 2 and is listed as a further pressure in Appendix 3.

- 2.28 This agreement saves the Council £0.7m over the next 4 years and contributes directly to reducing the strain on the Council's Medium Term Financial Strategy.
- 2.29 This new agreement is subject to a collective agreement with the Council's recognised Trade Union as part of the agreed collective bargaining process. As such it becomes part of the individual contracts of employment of all staff and the Council is therefore protected from future challenge relating to the previous local agreement.

#### Pension Fund Valuation

- 2.30 We have received the provisional results of the triennial pension fund valuation and this indicates an increase of 2.9% in employer contributions. These increases can be staggered over 3 years at 0.9% and equate to ~ £118,000 additional costs per annum which have been built into draft 1 of the budget. This preliminary result is slightly better than MTFS scenarios where we had anticipated an increase in the range of 3% - 5%. The main factors which impact on the valuation apart from investment returns are the profile of membership, changes to profile in membership and previous funding levels.
- 2.31 The figures make no allowances for changes from the Hutton Commission including any increase in employee contributions (which we are expecting from April 2012), so there may need to be some revision to these figures before the final certificate is signed off. The Department for Communities and Local Government are advising Actuaries to delay final sign off to as close to the 31 March 2011 deadline as possible.
- 2.32 A report on the pension valuation and financial implications for the Council over the medium term forecast will be considered at the Executive in February 2011.

#### Budget Guidelines and Timetable

- 2.33 The Executive agreed the budget guidelines, service priorities and timetable at its meeting on 11<sup>th</sup> October 2010 after considering the medium term financial forecast and underlying financial strategy.

#### The Status of the Budget

- 2.34 The draft revenue budget as presented has been left, quite deliberately, with a funding gap to emphasise that it is work in progress. This type of gap is not unusual at this stage in the process and it can be covered by considering the actions listed within Appendix 1. The funding gap in the draft budget as presented is £1,114,181 and it is important that Members

are aware of this potential deficit before they finally commit funding against particular priorities and/or divert funding from low priority services.

- 2.35 As in previous years, the final allocation of central Government Grant and the amount available for distribution from the Collection Fund will be confirmed for Draft 2 of the budget. At this stage however given the outcome of the Comprehensive Spending review we have anticipated a reduction in grant of 13% and have already incorporated this reduction into this first draft of the Budget. Additionally we have incorporated an additional strain of £800K in respect of the transfer of Concessionary Fares and its associated funding to the County Council.
- 2.36 On the assumption that the Executive approve the scrutiny recommendations and the shared management business case with South Northamptonshire is approved by both Councils on December 8<sup>th</sup> 2010 then this will contribute circa £900,000 therefore reducing the deficit to a manageable £215,000. A number of areas to review have been identified in Appendix 1(Para 1.24) The outcome of these reviews together with the updated position of the local government grant settlement and its implication on the current budget shortfall will be presented to the Executive in January 2011. At this stage it is expected that these together with the Councils ability to utilise reserves will deliver the remaining £215,000 shortfall and achieve a balanced budget for 2011/12.
- 2.37 Further work will continue on identifying additional budget reductions for future years and these will be detailed in the Medium Term Forecast which will be updated and presented as part of the final budget report.
- 2.38 All capital bids received have been appraised by the Capital Investment Delivery Group according to the capital appraisal criteria and can be seen in Appendix 4a.
- 2.39 The bid appraisal matrix considers the driver behind the capital expenditure with anything which is compulsory or required for legislation gaining the maximum of 20 points. The bid is then scored accordingly to how directly or indirectly the expenditure supports the Councils strategic directives. Further points are awarded according to which of the Councils consultation priorities the bid meets, and finally the impact on service delivery, organisational risk and positive revenue implications are considered with points awarded accordingly. The maximum score any bid could achieve was 50 and the final scores ranged from 45 to 12.
- 2.40 These bids have then been reviewed by a working group of the Resources and Performance Scrutiny Board and their recommendations will be considered in Appendix 5.
- 2.41 The Capital Strategy for 2011/12 has a direct impact on the Treasury Management revenue budget in terms of the opportunity cost of reduced cash balances from the use of capital receipts and reserves. Decisions on the future capital programme will need to take into account the overall priorities and affordability in revenue as well as capital terms. A review of the capital bids, financing and impact on cashflow and investment income will be considered for the next draft of this budget.

## Budget Consultation

- 2.42 Consultation will commence following approval of this report so that views can be sought in sufficient time for them to be taken into consideration when formulating the 2011/12 budget and council tax. The general consultation will take place via the Council website and in order to meet its statutory obligation to consult with business ratepayers meetings will be held with our local chambers of commerce.

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

- 3.1 This report presents the Council's draft 2011/12 Revenue Budget, Capital Bids for consideration and Corporate Plan.

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

### **Executive**

11/10/10 and 01/11/10

### **Resources and Performance Scrutiny Board**

28/09/10, 12/11/10, 23/11/10, 30/11/10

### **Corporate Management Team**

Various meetings throughout May 2010 to Nov 2010

## Implications

**Financial:** Financial Effects – the significant financial effects of the budget are identified in Appendix 1. Any decisions made in relation to ongoing expenditure or income in the budget for 2011/12 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.

The council has developed a number of building blocks to meet the strain created through the reduction in Government grant, these in addition to the £800K public promise and additional efficiency savings have been built into this first draft of the Budget for 2011/12.

Comments checked by Karen Curtin, Head of Finance, 01295 221551.

**Legal:**

There is a statutory requirement for the Council to set a balanced budget by 11 March 2011 and the draft budget is part of that process.

Comments checked by Liz Howlett, Head of Legal and Democratic Services, 01295 221686.

**Risk Management:**

The significant risks and assumptions associated with the draft budget are outlined in Appendix 1 and a risk provision has been considered. 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. A full appraisal of risk will be included in the final budget report detailing mitigations and a sensitivity analysis will be included in calculating the risk provision

Comments checked by Karen Curtin, Head of Finance, 01295 221551.

**Wards Affected**

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All

**Corporate Plan Themes**

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All

**Executive Portfolio**

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**Councillor James Macnamara**  
**Portfolio Holder for Resources**

**Document Information –**

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Appendix No	Title
Appendix 1 Appendix 2 Appendix 3 Appendix 4 ,4a, 4b Appendix 5	Draft Revenue 2011/12 Budget and Analysis Draft Corporate Plan 2011/12 Service Priorities Draft 2011/12 Capital Bids and Funding Analysis Resources and Performance Scrutiny Board – Budget Scrutiny recommendations (to follow on after Nov 30 <sup>th</sup> meeting)
<b>Background Papers</b>	
2010/11 Budget Booklet 2010/11 Capital Programme Medium Term Financial Strategy Budget Guidelines 2010/11 Service Plans November 2010 – Response to CSR	
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