

Executive

Draft Budget 2011-12

7 February 2011

Report of the Head of Finance

PURPOSE OF REPORT

The Council is required to produce a balanced budget for 2011/12 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 2010 Executive meeting and a second draft to the January 10 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 21 February 2011.

This report is public

Recommendations

The Executive is recommended:

- 1) to approve the changes to the draft budget since 10th January 2011 and consider the draft revenue budget (detailed in Appendix 1) in the context of the Council's service objectives and strategic priorities.
- 2) to approve the surplus of £9,149 be transferred to general fund balances to enable a balanced budget.
- 3) to 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) to delegate authority to the Head of Finance, in consultation with the Portfolio Holder for Resources and Communication, 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) to agree the proposed 2011/12 capital programme (detailed in Appendix 2).
- 6) to note the review of earmarked revenue reserves undertaken by the Portfolio Holder of Resources and Communication and approve re-allocation between various earmarked reserves and creation of 2 new reserves. (detailed in Appendix 3).
- 7) that the draft corporate plan and public pledges be endorsed and to delegate authority to the interim 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 4).
- 8) to note the 2011/12 Corporate Improvement Plan (detailed in Appendix 5).

- 9) to note the latest MTFS financial forecast is currently being refreshed and will be part of the budget book.
- 10) to request officers to produce the formal 2011/12 budget book on the basis of Appendices 1-4.
- 11) to recommend ,subject to any further changes Members may wish to include tonight, the updated draft for adoption by the Council on 21 February 2011 (as a key decision).

Executive Summary

- 1.1 The budget will form the financial expression of the Council's service delivery plans for 2011/12; 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 2011 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 2011/12 budget amounts to £3.4million as in detailed in Appendices 1 and 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 2011/12. This is the second year that Council Tax has been frozen. This compares to a CPI rate at December 2010 of 3.7% and RPI of 4.8%.
- 1.5 The Council has taken advantage of the Government's Council Tax Compensation Grant announced in the Comprehensive Spending review which will result in the Council receiving £155,037 in 2011/12 and for a further 3 years which is the equivalent of a 2.5% increase.
- 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 21st February 2011.
- 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 May 2011. The Council's has a strong track record and commitment to delivering efficiencies resulting in a 33% reduction in net expenditure of services since 2007/08 when the net revenue budget stood at £23.5m compared to £15.8m in 2011/12. A total of £3.3m (14%) has been delivered as part of the 2011/12 budget as a result of the forecasted funding reductions.
- 1.9 This together with the joint working with South Northamptonshire Council strengthens our position to meet the forecast challenges of future years.

Background Information

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 10th January 2011

- 2.5 The draft budget presented in December 2010 presented a funding gap of £1.1million. As a result of internal efficiencies, building blocks and other budgetary adjustments this gap was reduced to £360K in January 2011. The budget presented in this report benefits from further efficiencies and Scrutiny recommendations and is now £9,149 in surplus. It is recommended that this surplus amount is transferred to General Fund Reserves. All changes since 10th January 2011 are analysed in Appendix 1.

Draft Revenue Budget

- 2.6 The Council has successfully managed the budget challenges, previously forecast for 2011/12. The Medium Term Financial forecast presented with the 10/11 budget indicated a potential gap of £2.6m 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 £800k has been achieved together with further cost reductions of circa £2.6m (analysed in Appendix 1).

2.8

Service Area	Approved Budget 2010/11	Proposed Budget 2011/12	Movement
Corporate Core	£4,543,693	£4,028,176	-£515,517
Environment & Community	£11,622,769	£9,783,652	-£1,839,117
Planning, Housing & Economy	£4,947,243	£4,348,141	-£599,102
Service Total	£21,113,705	£18,159,969	-£2,953,736
Centrally Controlled Items			
Provisions (Specific Risk Reserves and pension Comp.)	£263,881	£582,614	£318,733
SNDC Joint Mgt	£0	-£333,000	-£333,000
Credit for Capital Charges	-£2,850,060	-£3,218,477	-£368,417
	£18,527,526	£15,191,106	-£3,336,420
Contribution to (+) / from (-) Earmarked Reserves	£0	£600,000	£600,000
Contribution to (+) / from (-) General Balances	£0	£9,149	£9,149
Net Budget Requirement	£18,527,526	£15,800,255	-£2,727,271
RSG Settlement	-£10,905,340	-£8,574,773	£2,330,567
Council tax Compensation Grant	0	-£155,037	-£155,037
Collection Fund Surplus	-£84,477	-£130,417	-£45,940
Investment Income	-£1,348,753	-£723,407	£625,346
Amount to be funded from Council Tax	£6,188,956	£6,216,621	£27,665
Number of band D equivalents	50113	50337	-224
2011-12 Cost of Band D equivalent	£123.50	£123.50	
2010-11 Cost of Band D equivalent	£123.50	£123.50	
Increase in Annual Council Tax	£0.00	£0.00	
Weekly Increase in Council Tax (pence)	0.00p	0.00p	

Proposed Council Tax 2011/12

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 the Council Tax Compensation Grant which the Council will receive from Central Government in 2011/12 - £155,037.

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 £155,037.

Provisional Government Grant

2.10 The details of the provisional settlement were issued by DCLG on 13 December 2010. The Spending Review announced in October detailed that there will be a fundamental review of formula grant distribution methods for the financial year 2013-14 and as a result issued only a two year

settlement figure. This reported a decrease (provisional) in external grant of £1,372,760 or 13.8% compared to a re-stated 2010/11 which excludes the impact of the concessionary fares transfer to the County. This Council will receive protection from other Councils for the first time of £651,194. A full analysis of the settlement was included in Appendix 1 of the December 2010 Draft Budget Report.

- 2.11 The final settlement figure is likely to be announced towards the end of January if last year's settlement timetable continues and there could be changes from the draft figures referred to above. If this results in a change the Executive are advised to delegate authority to the Head of Finance, in consultation with the Portfolio Holder for 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.

Treasury Management Strategy 2011/12

- 2.12 The Council's investment income budget for 2011/12 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 will be considered by the Executive on 7th March 2011 and recommended to Full Council in March 2011.

2011/12 Capital Programme

- 2.13 The proposed capital programme for 2011/12 equates to £13.9m which represents new schemes of £3.8m, projected slippage from the 2010/11 programme of £8.8m and £1.3m of schemes approved in the 2010/11 budget for which spend was not profiled until 2011/12. The proposed capital programme is analysed in Appendix 2.

Icelandic Investments

- 2.14 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 an application was made to capitalise the costs that, in 2010-11, have to be written off to the revenue account. The application matched the amount which the Council would otherwise have to write off and totalled £4.615m. Of the amount applied for 70% was granted by the Secretary of State and as a result £3.230m can be charged back to capital reserves, which are in relatively plentiful supply. Capital reserves are estimated to be £37.5m at the 31 March 2011 and £23.3m at the 31 March 2012 after taking account of this write off and capital expenditure.

Review of Earmarked Reserves

- 2.15 In preparing the final draft of the 2011/12 budget the Portfolio Holder of Resources and Communication and Head of Finance have reviewed the level of earmarked revenue reserves and general fund balances and a forecast is included in Appendix 3. The Executive is asked to note the proposed re-allocation between various earmarked reserves and note the proposed creation of 2 new reserves.

The first reserve is for the Icelandic Write Off and equates to £1.385m. (difference between write off of £4.615m and £3.230m allowed to be set against capital receipts)

The second reserve is the joint working implementation reserve which will be used to fund the one off costs identified in the business case. The Joint Working reserve will also include a contribution

of £600K as part of the 2011/12 budget setting process. The Business Case approved by Council on 8th December highlighted the requirement for up to £1M of implementation costs that Cherwell District Council could have to incur, being 60% of the total estimated cost of £1.69M

A separate and comprehensive report on the Council's reserves will be reported to the Executive for approval in March 2011.

Corporate Plan and Service Plans

- 2.16 Copies of the Service Plans for 2011/12 are available on the Council's intranet site:
<http://cherwelllive.cherwell.domain/general/Pages/PerformancePortal.aspx>
- 2.17 The corporate plan is a five year strategy that sets out the key priorities for Cherwell District Council, Appendix 4 sets out the priorities and targets for the period 2011/12. It is refreshed annually on the basis of our performance, local priorities and in line with the medium term financial strategy. All objectives have been refreshed in the light of the financial challenges facing the Council and the changes in national requirements in terms of performance reporting. The new plan has been significantly streamlined and it includes 14 public pledges outlining the Council's areas of performance priority. 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.

Budget Book 2011/12

- 2.18 The budget process and all supporting documentation will be documented in the 2011/12 budget book which will be prepared on the basis of Appendices 1-4 and presented to Council on 21st February 2011 along with the recommendation to adopt the 2011/12 budget as detailed in this report (as a key decision) and set council tax accordingly.

Corporate Improvement Plan

- 2.19 The Corporate Improvement Plan (Appendix 5) for 2011-12 shifts focus from previous years to provide greater support to delivery of on-going savings initiatives as well as the change agenda. Projects have been prioritised according to corporate and MTFs impact to ensure we focus our resources on securing the long-term financial position, support delivery of our public promises and facilitate the joint working with South Northamptonshire.

The Future – Medium term Financial Strategy 2012/13 – 2015/16

- 2.20 Although this report has the 2011/12 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. 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 review and housing benefit reform, inflation and interest rates.
- 2.21 Two potentially major funding streams 1) The New Homes Bonus / 2) New planning fee powers were announced as part of the Spending review and analysed in the January Executive paper(see CDC responses to Government consultation and outline of CDC approach to the opportunities these Government proposals are likely to present in Appendix 6). These income streams could be significant but both schemes have been the subject of a recently closed consultation process. The final schemes have, at the time of writing this report, not yet been unveiled. As a result it is unknown:

- If the schemes are to proceed for 2011-12 or not
- How significant these funding streams will be
- How the schemes will operate
- If there will be any burdens or responsibilities that come with the new freedoms and funding.

As a result of the above it is prudent, not to include provision for such schemes in the budget plans for next year but if they are confirmed, treat as windfall income for 2011-12.

- 2.22 The Localism Bill received its first reading in the House of Commons on the 13 December 2010. The bill is unlikely to receive royal assent until the end of 2011. However, the bill provides the legislative framework to deliver the aspiration of the 'Big Society' agenda. The bill is centred around the following six key principles and is bound to have a profound impact on Local Government:
- Lifting the burden of bureaucracy
 - Empowering communities to do things their way
 - Increasing local control of public finances
 - Diversifying the supply of public services
 - Opening up Government to public scrutiny
 - Strengthening accountability to local people
- 2.23 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 latest forecast will be included in the 2011/12 budget book. The next refresh of the Medium Term Financial Strategy, covering the years 2012/13 to 2015/16 will be considered by the Executive in May 2011. Although managerial action will be required during the 2011/12 budget year to deal with the likely budget deficit from 2012/13 onwards there are currently no plans which will affect the 2011/12 budget itself.
- 2.24 The Council's has a strong track record and commitment to delivering efficiencies resulting in a 33% reduction in net expenditure of services since 2007/08 when the net revenue budget stood at £23.5m compared to £15.8m in 2011/12. The total 2011/12 budget reduction of £2.7m (15%) has been delivered as a result of the forecasted funding reductions and early action.

These reductions and continuous forward planning together with the joint working with South Northamptonshire Council strengthens our position to meet the forecast challenges of future years.

Key Issues for Consideration/Reasons for Decision and Options

- 3.1 This report presents a final analysis of the Council's draft 2011/12 Revenue and Capital Budget. The details in Appendix 1-4 will form the basis of the budget book to be presented to Council on 21st 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

Executive 11/10/10, 06/12/10 and 10/01/11

Corporate Management Team July 2010 to January 2011

Scrutiny October 2010 to January 2011

Public Budget Consultation July 2010

Business with Banbury & Bicester Chambers of Commerce December 2010

Online Public Consultation December 2010 ongoing

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.

Efficiency Savings – Our Medium Term Financial Strategy requires efficiency savings and we had a £800k public savings promise in 2010/11. The draft budget presented includes total budget reductions of £3.4m so this target has been substantially over achieved.

Comments checked by Eric Meadows, Service Accountant, 01295 221552.

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 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 Eric Meadows, Service Accountant, 01295 221552.

Wards Affected

All

Corporate Plan Themes

An Accessible and Value for Money Council

Executive Portfolio

Councillor James Macnamara
Portfolio Holder for Resources and Communication

Document Information –

Appendix No	Title
Appendix 1	Draft Revenue 2011/12 Budget and Analysis 3
Appendix 2	Draft 2011/12 Capital Programme
Appendix 3	Review of reserves
Appendix 4	Corporate Plan
Appendix 5	Corporate Improvement Action Plan
Appendix 6	Consultation Response
Background Papers	
2010/11 Budget Booklet 2010/11 Capital Programme 2010/11 Medium Term Financial Strategy and Building Block Review Budget Guidelines 2011/12 Budget Booklet – to be presented at Council 21 February 2011	
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