Council

2011/12 Service and Financial Planning Process
Corporate Plan, Revenue Budget and Capital Programme

21 February 2011

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 2011/12 budget year.

This report is public

Recommendations

Council is recommended:

1) To consider the contents of this report in approving the General Fund Budget and Capital Programme for 2011/12 and to formally record that consideration.

2) To approve the 2011/12 General Fund Budget and Capital Programme proposed by the Executive on 7 February 2011, as detailed in the Budget Book in section Capital Investment.

3) To approve the Collection Fund Estimates contained in Annex 1 of the Budget Book.

4) To approve the Prudential Indicators contained in Annex 2 of the Budget Book.

5) To approve the final Service Plans for 2011/12 as proposed by the Executive on 7 February 2011 and summarised in the Budget Book.

6) To approve the Corporate Plan as detailed in Annex 5 of the Budget Book.

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:

- The robustness of the estimates included within the budget
- 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 2011/12.

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 year's 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 now defunct Key Lines of Enquiry (KLOE) which were used by the Audit Commission in assessing how well an authority used their resources. However, The KLOEs still provide a useful framework for authorities to use when considering their financial arrangements.

Budget Process 2011/12

2.5 In preparation of the challenging cuts expected from the Comprehensive Spending Review the search for efficiencies began in July 2010 – where a number of scenarios were modelled based on government funding costs of between 15%-30% over the four year MTFS period. The budget process formally began with the Executive issuing Budget Guidelines at their meeting on 11th October 2010, following discussion of the projected scenario for 2011/12 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.

2.6 The budget has been prepared in a financial year which included:

- A change in the Government
- Resultant significant changes in Government policy
- In year local government reductions by the Government
- The Comprehensive Spending Review which set out how public spending was to be reduced over the next four years
- A financial settlement which saw significant reductions in formula grant allocations to local authorities.

2.7 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. The output of this consultation is detailed in the budget book in section Service & Financial Planning.

2.8 The Budget Guidelines were used to prepare the base budget and to steer the Service Planning process.

2.9 The Corporate Management Team received regular updates on the overall budget position from August 2010 through to January 2011 and managed the overall process.

2.10 The Executive received regular reports detailing the service and financial planning process. A review of the impact of the Comprehensive Spending Review was presented on November 1st

2010. This was followed by 3 drafts of the revenue and capital budget proposals on December 6th 2010, January 10th and February 7th 2011, all reports outlining the latest position regarding efficiencies identified and remaining sums required to balance the budget.

2.11 The Resources and Performance Scrutiny Board reviewed a number of components of the 2011/12 budget. These included the proposed fees and charges, capital programme and all efficiency proposals that were recorded as building blocks. This work was carried out from October 2010 until November 2010. The recommendations of this board were taken to the Executive for consideration on 6th December 2010 and these were included in the final budget proposal.

2.12 The Executive concluded its budget deliberations on 7th February 2011 and has now recommended a budget to the Full Council.

Revenue Budget 2011/12

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	£68,834	£68,834
Net Budget Requirement	**£18,527,526**	**£15,800,255**	**-£2,667,586**
RSG Settlement	-£10,905,340	-£8,634,458	£2,270,882
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	

This revenue budget is detailed in full in section Cherwell District Council Budgets of the budget book.

Capital Programme 2011/12– double check

	Total Scheme Cost	**2011/12 Profile**
Proposed programme	**£5,862,314**	£3,843,980
Schemes approved and slipped from 2010/11	**£9,084,000**	£8,834,000
Schemes with prior approved but not profiled until 2011/12	**£6,245,184**	£1,245,184
Total Capital Programme to be Financed	**£21,191,498**	**£13,923,164**
Financed by:		
Capital Receipts	**£15,414,498**	£8,644,164
Government Grants		
£375k per annum Governmental Grant Funding towards Mandatory Disabled Facilities Grants	**£375,000**	£375,000
Use of Reserves		
Wheeled Bins Reserve	**£15,000**	£15,000
Vehicle Replacement Programme	**£605,000**	£207,000
SW Bicester Sports Village Fund	**£1,400,000**	£1,400,000
Housing Reserves	**£3,282,000**	£3,282,000
	£21,191,498	**£13,923,164**

This capital programme budget is detailed in full in section Capital Investments of the budget book.

2.13 During the budget process the Chief Financial Officer has:

- liaised closely with the Head of Finance throughout the budget process
- spent time with service accountants covering all areas of the Council's activities.
- examined budget working papers prepared by Finance staff
- discussed the budget preparation process with those Finance staff
- examined the Service Plans put forward by Heads of Service
- attended Executive meetings where the budget has been considered
- attended an extended management team staff workshop on the formulation of the budget.

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 Whilst the Audit Commission's Use of Resources Assessment was curtailed part way through the financial year 2010-11 the KLOEs continue to provide a useful form of guidance when considering the robustness of the draft budget. Under this framework an authority had 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 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.

Reserves

4.1 The estimated level of reserves as at 31 March 2011 and 31st March 2012 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 by the Resources Portfolio holder and the

Head of Finance. The 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 £1.8m at 31st March 2011. The General Fund balance comfortably exceeds the recommended minimum of 5% of the budgeted net operating expenditure for the financial year 2011/12.

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.
- 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.
- 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 2011/12 the Council will have general and specific Contingency Risk Reserves 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.

These reserves are expected to total £6.1m at 31st March 2011.

Strategic Budget Issues to Evaluate for Robustness

Inflationary Pressures

5.1 There has been local agreement with staff that no pay award will be payable from 1st April 2011. An assumption on staff turnover savings is made and monitored centrally, the turnover level has been revised downwards to reflect that fact that the establishment has reduced significantly in recent years and also because there are fewer jobs in the economy which limits the amount of staff turnover.

5.2 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, however managers were instructed to only build in contractually unavoidable inflation increases as far as possible, in spite of relatively high levels of inflation being experienced currently. 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 unbudgeted inflationary pressures.

Capital Programme Revenue Effects and Financing

5.3 The revenue budget includes all revenue effects of capital schemes. Assumptions of new capital receipts in 2011/12 are based on realistic estimates received from the relevant officers in the Council.

Treatment of demand-led pressures and efficiencies

5.4 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.

Efficiencies

5.5 The 2011/12 net revenue budget has reduced by £2.7m – a reduction of 15%. The service and financial planning process has identified total reductions of £3.4m in 2011/12 of which £0.6m is contributed through an increase in income. These savings are detailed in Appendix 1a.The balance of £2.8m is made up of savings from the annual VFM programme, procurement savings and efficiency proposals.

5.6 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. Significant reductions and increased income are highlighted below:

- value for money review programme - £1.2m (35%) - these reviews have included reductions in all support services and a number of discretionary areas of expenditure
- review of fees and charges: Car Parking - £0.4m (12%)
- procurement reductions - £0.4m (12%)
- other income - £0.2m (6%).

5.7 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 2011/12 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.

5.8 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

5.9 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 £3.231m 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 £23.5m at the 31 March 2012 after taking account of this write off and proposed capital expenditure.

5.10 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 29% of the Council's investment is considered safe, but the remaining 71% (£4,615,000) 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. Accounting regulation prescribe that we have to write off the uncertain amount in 2010-11 as detailed in paragraph 5.9.

5.11 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 was proposed by the Executive on 7th February 2011 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 and the level of reserves held.

6.3 The Audit Commission have frequently commended the Council's record in financial management. This is also reflected in the last Use of Resources Score overall of 3. In 2010-11 the Use of Resources assessment was abolished by the incoming coalition Government. However, the majority of the fieldwork had been carried out prior to abolition and indications were that the Council were likely to improve their score again. However, whilst this was the expectation, the demise of the framework meant that this could not be confirmed

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 three 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 an acceptable increase in exposure to risk.

7.3 The authority budgets for specific risks, as detailed later in the report and in section Cherwell District Councils Budget of the budget book, as well as carrying a general risk management provision in its budgetary estimates.

Longer-Term Considerations

8.1 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.

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 latest forecast is included in Annex 3 of the budget book.

8.3 The next Medium Term Financial Strategy, covering the years 2012/13 to 2015/16 will be considered by the Executive in March 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.

8.4 Two potentially major funding streams have not been incorporated into the budget for 2011-12. These are:

- The new homes bonus
- New planning fee powers

These income streams could be significant but both schemes have been the subject of recently closed consultation processes. 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.

8.5 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.

8.6 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.

8.7 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

8.8 As set out in the Welfare Reform Bill the administration of Council tax and Housing benefits will change radically and beyond recognition over the next few years with some of the changes beginning in 2011-12. It is likely that, ultimately, all benefit administration will move away from local authorities and the transition to 'Universal Credit ' arrangements (which is the replacement for Council Tax and Housing benefit) is planned to commence in 2013.

8.9 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 A decision was taken on the 8 December 2010 to operate a joint senior management team with South Northamptonshire Council in 2011-12. This will see the current total of senior manager posts across both Councils reduce from 31 to 15 The appointment of the joint Chief Executive will be a matter for decision at this Council meeting but it is clear that there will be significant structural change to this Council in 2011-12 and probably beyond.

9.3 The Building Control function operates in a competitive environment. Fee income is subject to competitive pressures and will be monitored during the year. This is more relevant for 2011-12 as the Building Control team will become a shared service arrangement with South Northamptonshire Council following a full council decision taken on the 8th December 2010.

9.4 The income from car parking will be closely monitored, as it is demand led and we need to see if the impact of a fee increase has an impact on demand.

9.5 Planning fees and land charges fees are also significant factors in the Council's budget. The budgeted sums for 2011/12 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.

9.6 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.

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

9.8 A Contingency Risk Reserve of £198k has been set up to cover any major variations on the budgets covered in the previous paragraphs. As in previous years there is a general risk reserve equal to 1% of net expenditure also held to assist in managing the budgets.

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 2011/12 budget and corporate plan. All financial implications are contained within the comments checked by Eric Meadows, Service Accountant, 01295 221552.
Legal:	The draft budget complies with 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 Eric Meadows, Service Accountant, 01295 221552.

Wards Affected

All

Corporate Plan Themes

An Accessible, Value for Money Council.

Executive Portfolio

Councillor Macnamara
Portfolio Holder for Resources and Communication

Document Information

Appendix No	Title
1 1a	Budget Book 2011/12 – TO FOLLOW Cost Reductions
Background Papers	
Budget Working Papers 2011/12. Budgetary Control Reports 2010/11. Reports to the Executive, September 2010 to February 2011	
Report Author	Martin Henry, Chief Financial Officer
Contact Information	01295 221681 martin.henry@cherwell-dc.gov.uk 01295 221551 karen.curtin@cherwell-dc.gov.uk 01295 221559 karen.muir@cherwell-dc.gov.uk 01295 221563 claire.taylor@cherwell-dc.gov.uk