

# Executive

## 2012/13 Budget Strategy, Service & Financial Planning Process and 2012/13 Budget Guidelines

5 September 2011

### Report of Head of Finance and Corporate Strategy and Performance Manager

#### PURPOSE OF REPORT

To inform the Executive of the service and financial planning process for 2012/13, approve 2012/13 budget strategy and to agree budget guidelines for issue to service managers to enable the production of the 2012/13 budget and update the Medium Term Financial Strategy for 2012/13 onwards.

This report is public
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#### Recommendations

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The Executive is recommended to:

- (1) Note the latest forecast for the Council's revenue budget for 2012/13 to 2015/16 at Para 2.17.
- (2) Note the preliminary results from the public consultation and proposed prioritisation framework at Appendix 1.
- (3) To endorse the overall 2012/13 budget strategy and service and financial planning process set out in the report.
- (4) Consider and agree the proposed budget guidelines and timetable for 2012/13 budget process. (Appendix 2 and 3)

#### Executive Summary

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- 1.1 The service and financial planning process is underpinned by a robust evidence base that is used to inform decision making. This evidence base includes a social and demographic profile of the district (Living in Cherwell and local profiles on the Oxfordshire Local Information System) and a corporate consultation programme.
- 1.2 The consultation programme is comprised of an annual customer satisfaction survey and a budget survey to understand people's priorities for service expenditure. Both pieces of research are statistically representative and produce robust information regarding resident's budget priorities and satisfaction with the different services the Council provides. The information,

refreshed annually, provides a sense of trend and captures new issues that need to be taken into account when service and financial planning.

- 1.3 The results of the public consultation are used to develop a prioritisation framework which, alongside the corporate strategy, medium term financial forecast (Appendix 1) and the corporate improvement plan, provides the context for budget setting and service planning. The prioritisation framework for 2012/13 is shown at Appendix 1.
- 1.4 The Council needs to set guidelines and a timetable for the preparation of draft estimates for 2012/13. These guidelines should support the objectives contained in the Corporate Plan, Improvement Strategy and enable an update to the Medium Term Financial Strategy.
- 1.5 In the context of the current challenging economic climate the council alongside local residents and businesses are experiencing the effects of the economic downturn and credit crunch. We have made a public promise to reduce expenditure by £1m in 2011/12 and as such it is important we plan for a period of prudent budgeting.
- 1.6 The Executive are already well advanced in planning to meet this promise. However additional savings will be required to meet the national challenge of public spending reductions. Executive and CMT are preparing options for these further savings. These will be identified as savings “building blocks” and will be used to build the final budget.
- 1.7 The attached guidelines in Appendix 2 proposed for the coming year provide a framework to identify areas of potential cost reductions across the organisation informed by our public consultation, previous investment, value for money reviews and our strategic priorities.
- 1.8 The budget timetable can be seen in Appendix 3.
- 1.9 Updates to this report will be brought before Executive and Council between December 2011 and February 2012, building on the framework identified below.

## **Background Information**

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### **Medium Term Financial Strategy**

#### ***Financial Uncertainty***

- 2.1 The local authority finance settlement announced on 9 February 2011 (draft settlement announced 13 December 2010) while ostensibly a four year settlement, actually provided only a fixed two year allocation of formula grant for local authorities for the periods 2011/12 and 2012/13.
- 2.2 The Spending Review 2010 only gave indications of how the overall level of funding for local authorities will change in the following two years, 2013/14 and 2014/15, which provided only limited clarity of the financial landscape over the medium term.
- 2.3 Government has announced that a review of local government finance will be conducted in 2011 which will feed into the distribution of local authority resources in 2013/14. This increases the level of uncertainty around forecasting resources beyond 2012/13.

- 2.4 On 17 March 2011 the Government launched the Local Government Resource Review to consider the way that formula grant and business rates are distributed to local authorities.
- 2.5 The terms of reference for the first phase of the review focus primarily on ways to;
- Reduce the reliance of local government on central government funding
  - Increase local accountability
  - Ensure that the benefits of economic growth are reflected in the resources authorities have.
- 2.6 In practice, the first phase concentrates on changes to the business rates system by exploring relocalisation of business rates with some system of equalisation. Under existing arrangements, non-domestic rates (business rates) revenue collected by local authorities is pooled for redistribution to local authorities in England. So while local authorities have a vital role to play in supporting the local economy, there is limited direct fiscal incentive to do so.
- 2.7 On 18 July 2011, the Local Government Resource Review (Phase One) published for consultation its proposals to allow councils to retain their locally-raised business rates. These proposals represent a fundamental shift in the way that local authorities are funded, freeing councils from dependence upon central Government grant and giving them a strong financial incentive to drive local economic growth.
- 2.8 On 19 August 2011, the Government published eight technical papers which provide more details of the Government's proposals. In addition, and to enable consultees to make informed responses to the consultation exercise, the Government has published an interactive calculator.
- 2.9 We are currently in the process of evaluating the implications for Cherwell District Council and preparing our response.
- 2.10 The second phase of the review focuses on community budgets and how they can be used to:
- give communities and local people more power and control over local services and budgets
  - develop outcomes, service solutions and a single budget, or options for pooling and aligning resources, comprising all spending on public services in an area
- 2.11 The current intention is that any new arrangements will be in place for the 2013/14 financial year. Until the outcome of the review is known there will be considerable uncertainty regarding resources for the Council after 2012/13.
- 2.12 Beyond 2014/15 the projections for expenditure and funding are less certain. However, by creating a plan that looks at the longer-term, that is constantly updated to reflect new information, the Council will be in a stronger position to approach future challenges proactively rather than reactively.

### ***Forecast Update***

- 2.13 We continually update our medium financial strategy and model scenarios with the Executive members and Corporate Management Team to test our planning rigorously. The last public forecast can be seen along with assumptions in the Budget Report to Full Council on 21 February 2011 which reported a cumulative budget deficit over the life time of the MTFs of £5.3m.
- 2.14 All known cost pressures are built into the model and assumptions are made for unknown pressures. This modelling leads directly to a target for cost reduction 18 months or so before the savings are required. The target to be achieved during 2011/12 is £1m – our public promise. Our current year VFM programme, building block process and the full year effect of the shared senior manager team will deliver the majority of this target.
- 2.15 With regard to the medium term, there are a number of pressures facing the Council in the context of the national framework being applied to local government, which, amongst other things, requires increasing efficiencies and restrictions on council tax increases. Against this backdrop the expectation is that, future year's budgets will come under increasing pressure with a growing emphasis on prioritisation, efficiency, innovation and collaboration in service delivery. The Council may therefore face difficult decisions in later years in order to sustain a balanced budget over the medium term.
- 2.16 As part of the development of the MTFs and budget, analysis is undertaken of the key financial assumptions on which the budget will be based. The key areas covered included:
- Economic factors, such as inflation
  - Treasury Management, including interest rates
  - Demographic pressures on spending
  - Asset Management, including a review of the Council's portfolio
  - Other spending pressures opportunities (revenue and capital)
- 2.17 Using the assumptions presented at MTFs workshops held in March 2011 and July 2011 the cumulative summary now shows a shortfall of £5.0m over the 4 year period and is summarised below:

<b>Cumulative Forecast</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Net Expenditure	15.6	14.8	15.1	15.6
Gov't Grant	-7.6	-7.4	-7.2	-7.1
Council Tax	-6.4	-6.4	-6.4	-6.3
Investment Income	-0.3	-0.3	-0.3	-0.3
Collection fund	-0.1	-0.1	-0.1	-0.1
Use of Reserves	0.0	0.0	0.0	0.0
<b>Savings requirement</b>	<b>1.2</b>	<b>0.7</b>	<b>1.2</b>	<b>1.9</b>
				<b>5.0</b>

- 2.18 Utilising this updated forecast and considering the outputs from the public consultation exercise detailed in section 3, the 2012/13 budget guidelines are prepared.

## Corporate Consultation Programme

- 3.1 The corporate consultation programme and the recently published local profiles on the Oxfordshire Local Information System and the Council's Living in Cherwell document provide a robust and up to date evidence base for the service and financial planning process 2012/13. The development of the evidence base has been undertaken in accordance with Market Research Society guidelines (for consultation events) and uses social and demographic data with clearly identified sources.
- 3.2 The prioritisation framework is based on priorities identified through the public consultation, the focus of previous investment decisions and the strategic challenges facing the district to develop a hierarchy of services. Where services are rated as 1 they are suggested as the highest priority and, where a rating of 7 is given, the lowest. It should be noted that not all services are considered as part of the consultation (for example back office services or transactional services where members of the public may not come into direct contact or usage). As such the prioritisation framework provides a context and information to inform decision making, rather than a comprehensive statement of all council priorities.
- 3.3 The main findings of the consultation this year can be summarised as following:
- Rates of general satisfaction with the Council have dropped slightly (68% of respondents satisfied with the Council in comparison with 73% in 2010). This drop has been anticipated and reflects the national economic context and issues around public sector cuts. The Council's satisfaction rating remains higher than in 2009.
  - Increased satisfaction with the Council's garden and food waste collection scheme from 76% in 2010 to 80% in 2011.
  - The general improvement trend continued with regards to leisure facilities, reflecting the Council's investment programme. .
  - Given changes made to car parking charges in recent months it is not surprising that the survey shows a reduction in satisfaction from 63% in 2010 to 49% in 2011.
  - The economic context is still having an impact on people's views across the district with 'supporting the creation of jobs in local areas' still being viewed as a higher priority than has been seen prior to 2009.
  - There is a good deal of consistency in terms of public priorities between 2010 and 2011. However, the national context continues to have an impact on people's views about which services should be prioritised if overall budgets are cut. The Council's budget consultation found that local residents wanted to see Economic Development services retained and also valued waste services. Affordable housing, tackling anti-social behaviour and activities for young people also remain higher priorities. These priorities are outlined in Appendix 1 the Prioritisation Framework.
- 3.4 Formal consultation on the draft budget will take place in December with sessions with the Chambers of Commerce. Members of the public who have participated in the first phase of consultation will be informed of the decisions in line with our consultation and engagement strategy. During

December 2011 and January 2012 the draft budget and corporate plan will also be available on the Council's consultation portal for comment.

## **2012/13 Budget Strategy, Budget Guidelines and Timetable**

- 4.1 The Council needs to set guidelines and a timetable for the preparation of draft estimates for 2012/13. These guidelines should support the objectives contained in the 5-Year Corporate Plan, Improvement Strategy and in particular the updated Medium Term Financial Strategy.
- 4.2 The attached guidelines in Appendix 3 proposed for the coming year provide a framework to identify areas of potential cost reductions across the organisation informed by our public consultation, previous investment, value for money reviews and our strategic priorities.
- 4.3 The associated budget timetable is detailed in Appendix 4.
- 4.5 Council will be asked to agree the 2012/13 budget and corporate plan (and the service plans that underpin delivery) at their meeting in February 2012.

## **Implications**

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<b>Financial:</b>	These are contained in the body of the report. There are no direct costs or other direct financial implications arising from this report.
<b>Legal:</b>	None directly from this report however a local authority must budget so as to give a reasonable degree of certainty as to the maintenance of its services. In particular, local authorities are required by section 32 of the Local Government Finance Act 1992 to calculate as part of their overall budget what amounts are appropriate for contingencies and reserves. The Council must ensure sufficient flexibility to avoid going into deficit at any point during the financial year. The Chief Financial Officer is required to report on the robustness of the proposed financial reserves.
<b>Risk Management:</b>	The Council is required to set both revenue and capital budgets. Failure to integrate the preparation of these budgets with service priorities and planning will compromise the Council's ability to deliver on its strategic objectives.  Comments checked by Karen Muir, Corporate System Accountant 01295 21559
<b>Equality and Diversity</b>	Impact assessments will be carried out in advance of formulation of budget proposals.  Comments checked by Caroline French, Equalities and Diversity Officer, 01295 221586
<b>Data Quality</b>	Consultation work has been undertaken by external market research organisations using industry guidelines to ensure findings are significant and consistent. Where low base sizes have been used

these have been highlighted

Comments checked by Helen Hayes Data Quality  
Lead Officer 01295 22221751

### **Wards Affected**

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All

### **Corporate Plan Themes**

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All

### **Executive Lead Member**

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Councillor Ken Atack  
Lead Member for Financial Management

### **Document Information**

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<b>Appendix No</b>	<b>Title</b>
Appendix 1	Prioritisation framework 2012/13
Appendix 2	Proposed Budget Guidelines 2012/13
Appendix 3	Budget Timetable
<b>Background Papers</b>	
Report to Full Council, 21 February 2011 – 2011/12 Budget and Council Tax	
<b>Report Author</b>	Karen Curtin, Head of Finance Karen Muir, Corporate System Accountant Claire Taylor, Corporate Strategy and Performance Manager
<b>Contact Information</b>	01295 221551 <a href="mailto:karen.curtin@cherwell-dc.gov.uk">karen.curtin@cherwell-dc.gov.uk</a> 01295 221563 <a href="mailto:claire.taylor@cherwell-dc.gov.uk">claire.taylor@cherwell-dc.gov.uk</a>