Executive report

11 February 2010

Vale of White Horse District Council

Report of Head of Finance

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Report No. 104/10

Wards affected: All

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To: EXECUTIVE

DATE: 11 February 2011

Council Budget 2011/12 and Medium Term Financial Plan (MTFP) to 2015/16

Recommendations

1. That executive recommends to council that it:

    a. sets the revenue budget for 2011/12 at £11,393,150, as set out in appendix 1 to this report
    b. approves the capital programme for 2011/12 to 2015/16 as set out in appendix 5 to this report, together with the capital growth bids set out in appendix 6 of this report
    c. sets the council's prudential limits as listed in appendix 7 to this report
    d. approves the medium term financial plan to 2015/16 as set out in appendix 2 to this report

2. That executive authorises the portfolio holder for finance, in conjunction with the head of finance, to make minor adjustments to this report should they prove necessary prior to its submission to council on 23 February 2011

Purpose of report

1. This report:

- brings together all relevant information to allow executive to recommend to Council the revenue and capital budgets for 2011/12; the indicative Capital Programme to 2014/15 and the Medium Term Financial Plan (MTFP) for the next five years (2011/12 to 2015/16).

- recommends the prudential indicators to be set by the council in accordance with 'the Prudential Code' introduced as part of the Local Government Act 2003;

- contains the opinion of the council's chief financial officer on the adequacy of the council's financial reserves.

Background

2. The Council is obliged by statute to set a "balanced budget" in which net expenditure is balanced by funding and sensible use of reserve balances in the short-term. The council must maintain a prudent level of reserve balances and this is currently regarded as not being less than 5% of the annual budget requirement.

3. The Executive must recommend the revenue and capital budgets for 2011/12 and the MTFP to 2015/16 to Council (23 February 2011). To allow the Executive to make this recommendation, all relevant issues affecting funding, expenditure and income must be brought to its attention in a timely manner to allow it the opportunity to challenge and consult on the options available. The Executive has been fully involved throughout the budget setting process through regular Executive Briefings and consultation on growth and savings proposals.

4. This report considers revenue and capital income and expenditure and funding options available, paying particular attention to those areas where councillors have significant discretion over the outcomes.

5. The budget proposals have been made available on the Council's website since December to allow public consultation. In addition, the Council has held a 'business breakfast' for local businesses and a public budget forum.

Strategic objectives

6. Setting the budget in accordance with prescribed timetables enables the council to comply with its strategic objective of managing our business effectively.

7. The allocation of financial resources within the revenue and capital budgets needs to match the objectives agreed by the council. The objectives identify where investment, including proposed growth, will take place in order to help the council achieve its corporate plan targets. The budgets also identify disinvestment from non-priority services in order to pay for new investment without the whole burden falling on the council tax.

Revenue Budget 2011/12

8. The Council sets a MTFP based on a firm budget recommendation for the next year and indicative budgets for the following four years. This is a projection of the revenue budget up to 31 March 2016. The projection identifies budget pressures in later years and assumes that council approves all the budget proposals within this report. Officers have made no adjustments for the costs of

contracts that will be re-let during this period. These could rise or fall depending on market conditions. The Council sets its MTFP with due regard to the following aims and objectives:

- To set a balanced revenue budget (prepared in accordance with proper accounting practice), i.e. the estimated income in the year (including that from the council tax) will equal the estimated expenditure.

- To set a revenue budget requirement that maintains the revenue balances held over the medium term at a prudent level and that these balances should not fall below 5% of the revenue budget requirement.

- To ensure the council's five year revenue spending plans concur with its strategic objectives.

- To apply resources to meet council priorities.

- To continually strive to deliver services in the most efficient, effective and economic manner.

9. The MTFP identifies some significant challenges ahead for the council. It assumes that government grant funding will fall in total by 40 per cent by 2014/15. It also incorporates assumptions on the level of interest earned, and other known pressures on the council, such as inflation and salary increments.

10. To meet these objectives the MTFP (appendix 2) has been set with a firm budget requirement for 2011/12 and indicative budget requirements for the remaining years of the plan (these are confirmed annually to allow flexibility with the changing circumstances of the council). For 2011/12 the budget requirement has been calculated as £11,393,150. This represents the previous year's budget requirement (£12,874,650) adjusted for inflation, growth proposals (appendix 3) and savings proposals (appendix 4). These have been subject to consultation in accordance with the council's constitution.

11. Base budgets. The first stage of budget setting is to formulate the base budget. This is achieved by taking the working budget from the previous year and adjusting it for known changes (eg: inflation, staff costs, full year effect of budget savings/increases). These budgets are then subjected to a challenge process to ensure all excess costs are cut from the base.

12. The base budgets have reduced from a net figure of £16,214,150 in the 2010/11 MTFP to £13,700,320 in the MTFP for 2011/12. The main reasons for this reduction are:

    a. Savings as a result of the shared service restructures at fourth tier (service managers).

    b. the removal of concessionary fares expenditure from the service budget.

    c. the impact of the last year's savings proposals.

    The effects of the below fourth tier restructuring are not yet shown in the base budget as the full-year effect is still to be confirmed. A block adjustment has been made in the MTFP and this will be reflected in the budgets that commence on 1 April 2011.

13. Growth Proposals (Appendices 3a-c). Each year the budget will change based on new legislative requirements, demographic pressures, contractual obligations and agreed changes in policy. This will create pressures (and some budget reductions) that officers have classified as essential growth. These pressures are listed at appendix 3a and the budget reductions at appendix 3b giving a net essential growth figure of £812,690 (see line 26 of MTFP). There is also an estimated £70,000 growth in the Council's pension liability. There are also other proposals amounting to £89,500 that, although not strictly essential, officers have identified will provide enhanced services to the local tax payer; these have been reviewed by executive and are shown at appendix 3c (line 28 of the MTFP).

14. Savings. In order to meet the requirement for minimum reserve balances (assessed as no less than 5% of annual budget requirement), there is a requirement for the Council to make savings over the MTFP period. This has been a stretching target due to a significant reduction in funding (see para 18 below) and as such there have been a number of rounds of savings proposals. From these officers have identified sufficient proposals to ensure the deficit gap is covered.

15. Concurrent to budget setting, and running across the Council since July, there has been a 'lean' process exercise under phase 2 of the Fit for the Future (FftF) programme that has also identified a level of savings.

16. The savings proposals have been reviewed by portfolio holders, senior management and heads of service and have been subject to public consultation. The impact on the provision of services has been assessed and some proposals have been rejected. A list of savings proposals that have been accepted and that form part of the budget proposal are listed at appendix 4. These savings total £710,450 in 2011/12, rising to £1,290,8200 in 2014/15. There are one-off costs of £383,850 (expected to be incurred in 2011/12) in realising these savings.

17. As well as the saving proposed and listed at appendix 4, there have been other cross-cutting savings initiatives proposed for the later years of the MTFP. These are :

- Fit for the Future (FftF) – Phase 3. The third phase of the ongoing business improvement systems approach the council is running has resulted in further savings being identified. At present the exact details of these have not been specified, so a prudent estimate of the future benefits has been included in the MTFP. These have been provisionally set at £57,400 in 2011/12 rising to £313,000 by 2014/15.

- Senior management have reviewed the management structure of the Council going forward and have identified savings of £80,000 in 2011/12, £120,000 in 2012/13 and £160,000 from 2013/14 onwards.

18. Funding. The Council receives funding from a variety of sources:

- Income from Services. Any income raised where the council charges directly for its services is budgeted for in the service area base budgets and is used to offset the expenditure lines, which gives a net cost of services.

- Investment income. The council also receives income from returns on its property and financial investments. This income is shown below the net cost of services in the MTFP (lines 18 & 19).

- Final government grant settlement. The Government provides funding both as direct grants (these are specific purpose grants and are accounted for as income in the net cost of services) and indirectly which is known as the formula grant and consists of the Revenue Support Grant (RSG), redistributed National Non-Domestic Rates (NNDR). There are other non-ringfenced grants such as Area Based Grant (ABG).

  On 31st January 2011 the government announced the final government finance settlement for 2011/12 and the latest provisional figures for 2012/13. As a result of feedback obtained by government during the consultation period, an additional further £10 million has been allocated across the shire district councils for 2011/12 only; this is to further mitigate the impact of the transfer of concessionary fares funding to county councils. This has been further increased by an extra £11.3 million on 7 February 2011. Other inconsistencies and minor errors have also been ironed out.

  The changes from the provisional settlement (13 December 2010) are that the formula grant in 2011/12 has increased by £39,608 to £5,598,015 but a reduction in the provisional formula grant in 2012/13 of £4,218 to £4,820,569. This is a net increase over the two years of £35,390.

  The impact of the settlement on the council's grant funding is shown in table 1 below:

Local government settlement 2010/11 to 2012/13 (as at 7 February 2011)

	2010/11 actual £	**2011/12 final £**	**2012/13 provisional £**
Formula grant before adjustments	**7,129,630**		
Adjustment to formula grant	(528,197)		
Formula grant after adjustment	**6,601,433**	**5,598,015**	**4,820,569**
Increase/(decrease) year on year		(1,003,418)	(777,446)
Percentage increase/(decrease) year on year		(15.20%)	(13.89%)
Cumulative percentage/(decrease) from revised 2010/11 base		(15.20%)	(26.98%)

- Council tax freeze. Also included in the MTFP (line 23) is £141,558 of s.31 Council tax increase offset grant, which is equivalent to a 2.5% council tax increase in lieu of not increasing council tax in 2011/12 (see council tax sub-para below) – this grant is payable for the next four years.

- New homes bonus. Central Government is still consulting on the New Homes Bonus (NHB) including the level and method of funding. As the amounts are still to be confirmed and it is uncertain as to whether or not it will be funded from new money or existing formula grant, it has been deemed prudent not to include any a NHB in the MTFP at this stage.

- Planning fees – full cost recovery. A further government consultation regards the proposal by government to decentralise responsibility for setting fees to local planning authorities. As the results of the consultation are not yet known, a prudent assumption regarding the level of planning costs recovery has been made in the MTFP (line 102) with regard to planning fee income in the budget.

- Council Tax. The MTFP (line 50) has assumed no increase in council tax for 2011/12 and then an annual 2.5% increase for the remaining future years of the programme. This is in line with government targets. For not increasing council tax in 2011/12 central government will pay compensatory grant equivalent to a 2.5% increase for the next four years – this has been factored into the government grant figure above. The proposed precepts for the District, County, Police and Parishes are shown at Appendix 8 (nb: the TVPA and County precepts still have to be confirmed).

19. Contributions to Balances. It is proposed that for 2011/12 the balance of £49,780 be budgeted to be transferred to the general fund reserve. This will assist the council in meeting future potential budget shortfalls in the later years of the MTFP.

20. Collection fund surplus. Each year an estimate of any surplus or deficit on the collection fund is required to be calculated as at 15 January each year. The surplus arising on the collection fund that will be used to support the council's budget in 2011/12 is £144,300 (MTFP line 45).

21. Revenue budget proposal. Based on the items detailed above, and as shown in appendix 1 of this report, the budget proposal, including growth, is for a net revenue budget of **£11,393,150**. This revenue budget as proposed would result in no change to current band "D" council tax of £116.69.

Capital programme 2011/12 to 2015/16

22. The capital programme is attached at appendix 5 and is summarised in the table below.

2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
£4,419,169	£5,176,917	£1,675,009	£2,697,700	£1,591,000	£1,002,200

23. It is the capital programme as set by council in February 2010 adjusted for:

- reprofiling of expenditure on schemes from the 2010/11 financial year to future years where delays to schemes have occurred

- proposed new schemes for 11/12 and later years (appendix 6)

Monies that can be used to fund capital expenditure only (e.g. capital receipts, developer contributions, government capital grants) are called on first when determining how to finance the capital programme.

24. The Council policy is for capital reserves not to drop below £5 million. Although the programme currently shows that balances do drop below this level in

2011/12, expected receipts in the later years of the programme will mean that balances will return to a level above the minimum.

The prudential code and prudential indicators

25. From 1 April 2004, government control of local authorities' borrowing was abolished and replaced by a prudential system of self-regulation. Authorities are able to borrow based on need and affordability, which they demonstrate through compliance with the prudential code developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and given statutory force by government regulation.

26. In setting its revenue and capital budgets for 2011/12, the council must agree prudential indicators in accordance with the prudential code. When recommending its budgets to council, the executive must also recommend the prudential indicators. In order to allow this, officers need to have advanced knowledge of the proposals the executive is going to consider, allowing them to calculate and form an opinion on the indicators.

27. The key objectives of the prudential code are to ensure that the capital investment plans of the authority are affordable, prudent and sustainable. To demonstrate that authorities have had regard to these objectives, the prudential code sets out a number of indicators that must be considered covering five distinct areas – capital expenditure, affordability, prudence, external debt and treasury management. The council must approve the indicators through the budget process before 1 April each year, but they can be revised during the year if required.

28. The key indicators that will drive the capital budget decision making process will be those concerning affordability, as these measure the impact of capital investment decisions on the overall revenue budget and in particular the precept against the collection fund. In setting or revising the prudential indicators the council is required to have regard to:

    - affordability e.g. implications for the precept
    - prudence and sustainability e.g. implications for external borrowing
    - value for money e.g. option appraisal
    - stewardship of assets e.g. asset management planning
    - service objectives e.g. strategic planning for the council
    - practicality e.g. achievability of the forward plan

29. Under the code, the strategic director and chief finance officer is responsible for ensuring that the council considers all relevant matters when setting or revising indicators through a report. The strategic director and chief finance officer is also required to establish procedures to monitor performance against all forward-looking indicators; and report upon any significant deviations from forward forecasts with proposed actions.

30. Appendix 7 contains the recommended prudential indicators, which have been calculated based on the budget proposals. The strategic director and chief finance officer is satisfied that these indicators show that the council's capital investment plans are affordable, prudent and sustainable.

The robustness of the estimates and the adequacy of reserves

31. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the strategic director and chief finance officer) to report on the robustness of the estimates and the adequacy of reserves. The council must have regard to this report when making decisions about the setting of the budget.

32. The construction of the budget has been managed by qualified accountants and has been subject to challenge, specifically by the strategic director and chief finance officer, head of finance, other heads of service, management team and the executive members. Informal meetings of the executive have considered the budget, and a report detailing the base budget has gone to the council's scrutiny committee. In view of the process undertaken and his own knowledge of the budget, the strategic director and chief finance officer is satisfied that the budget is both prudent and robust.

33. The council's policy is to ensure that general fund balances do not drop below 5% of the revenue budget requirement. The strategic director and chief finance officer is satisfied that this allows retention of sufficient uncommitted balances at the end of the period to ensure that the overall level of reserves is adequate in relation to the proposed revenue budget and capital programme and that the budgets are sustainable.

34. Appendix 9 contains the strategic director and chief finance officer's full report.

Legal Implications

35. The executive needs to make recommendations to the council on its spending proposals. Under the Local Government Act 2000 it is the council that must agree the revenue and capital spending plans, and then set the council tax. Council will meet on 23 February 2011 in order to set the budget, and the council tax (including amounts set by Oxfordshire County Council and the Thames Valley Police Authority).

36. The requirement placed on the council by the Local Government Act 2003 to set prudential indicators and for the chief finance officer to make a report to the authority on the robustness of the estimates and the adequacy of reserves are addressed within the body of this report.

Other Implications

37. Agreement of the revenue and capital budgets authorises expenditure in accordance with the council's delegated powers and financial procedure rules. The officer, councillor or councillor body taking those decisions will take into account the human resources, sustainability and equality and diversity implications of individual spending decisions.

38. A risk assessment has been carried out to identify the equality impacts of the service implications arising from budget reductions proposed by officers. The executive has considered the results in order to finalise the 2011/12 budget. The proposed service cuts present only minimal equality risks which are acceptable.

Conclusion

39. This report provides details of the revenue base budget for 2011/12, the capital programme 2011/12 to 2015/16, government grants (the settlement), uncommitted reserves and balances, the executive portfolio holder for finance's budget proposals and the resulting prudential indicators.

40. In light of the information provided the executive must make a number of recommendations to council regarding the revenue budget, the capital programme and the prudential indicators.

Appendices

Appendix 1	Executive budget proposal 2011/12
Appendix 2	Medium Term Financial Plan 2011/12 -2015/16
Appendix 3a	Essential Growth
Appendix 3b	Budget reductions
Appendix 3c	Service Growth
Appendix 4	Savings
Appendix 5	Capital programme 2011/12 – 2014/15
Appendix 6	Capital Growth Bids to be included in the capital programme
Appendix 7	Prudential indicators
Appendix 8	Precepts
Appendix 9	Report of the Chief Financial Officer on the robustness of the estimates and the adequacy of reserves and balances