Council Report

Report of Head of Finance

Author: Bob Watson - Chief Accountant

Telephone: 01235 540426

Textphone:

E-mail: bobwatson@southandvale.gov.uk

Report no. 69/11

Wards affected: All

Executive member responsible:

Councillor Matthew Barber

Tel**: 01235 540391**

E-mail: matthew.barber@whitehorsedc.gov.uk

To: COUNCIL	CABINET
Date: 22 February 2012	10 February 2012

Revenue Budget 2012/13, Medium Term Financial Plan to 2016/17 and Capital Programme to 2016/17

RECOMMENDATIONS

1. That cabinet recommends to council that it:

   a. approves the medium term financial plan to 2016/17 as set out in appendix A to this report

   b. sets the revenue budget for 2012/13 at £10,744,216, as set out in appendix A1 to this report

   c. approves the capital programme for 2012/13 to 2016/17 as set out in appendix E to this report, together with the capital growth bids set out in appendix F of this report

   d. sets the council's prudential limits as listed in appendix G to this report

2. That cabinet authorises the cabinet member for finance to make minor adjustments to this report and the prudential indicators, in conjunction with the head of finance, should they prove necessary prior to its submission to council on 22 February 2012

Purpose of report

1. This report:

- brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2012/13 and a capital programme for 2012/13 to 2016/17;

- contains the medium term financial plan which provides details of the forward budget model for the next five years;

- details changes from the information presented in the "2012/13 budget update report" that was considered by scrutiny committee on 22 December 2011;

- 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 robustness of estimates and adequacy of the council's financial reserves.

2. This report should be read in conjunction with the scrutiny report, as it builds on the base budget information contained in that report and does not seek to cover the whole budget building process.

Strategic objectives

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

4. 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.

5. Where officers have made growth proposals (known as growth bids), each bid sets out how it will help achieve the council's objectives. The cabinet member for finance has chosen to include some officer growth bids in his budget proposals and these are identified in appendix B. The full set of growth bids is available as background papers on request.

The medium term financial plan (appendix A)

6. The medium term financial plan (mtfp) for 2012/13 to 2016/17 is at appendix A and provides a forward budget model for the next five years. It highlights the known estimated budget pressures for new responsibilities and changes in legislation, predicted investment and funding receipts.

7. The mtfp is a projection of the revenue budget up to 31 March 2017. 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 unknown costs (such as the costs of contracts that will be re-let during this period - these could rise or fall depending on market conditions).

8. The mtfp identifies some significant challenges ahead for the council. It assumes that government grant funding, excluding new homes bonus, will fall by nearly 25 per cent by 2014/15 (following the 15 per cent fall last year). It also incorporates assumptions on interest income, and other known pressures on the council, such as inflation and salary increments.

9. Officers have been working since the "2012/13 budget update report" was considered by scrutiny committee on 22 December 2011 to estimate projected income from the new homes bonus (nhb) for the five year period of the mtfp. The results are contained within the following table, and are also included in the mtfp (detailed in rows 25 to 30).

Table 1 : New homes bonus

	Year of receipt					
Year "Earned"	**2011/12 Actual £'000**	**2012/13 Base £'000**	**2013/14 Estimated £'000**	**2014/15 Estimated £'000**	**2015/16 Estimated £'000**	**2016/17 Estimated £'000**
2011/12	452	452	452	452	452	452
2012/13		546	546	546	546	546
2013/14			341	341	341	341
2014/15				343	343	343
2015/16					603	603
2016/17						694
Total	**452**	**998**	**1,339**	**1,682**	**2,285**	**2,979**

10. The council is required by statute to set a balanced budget, but in the short term is allowed to use reserves and general fund balances to smooth the impact on the local tax payer. The council must maintain sustainable level of general balances which is deemed to be at least ten per cent of the annual budget requirement.

11. Officers consider that the pressures highlighted are manageable in the period covered by the MTFP when consideration is taken of the reserves and balances available to the council and our ability to vary budgets and redirect funding. However, making the savings required to maintain a sustainable level of reserves and balances in future years will be a significant challenge. Management team is already looking at ways in which the budget gap in future years can be closed.

Revenue budget 2012/13 – changes since scrutiny report

12. The scrutiny report discussed the composition of the council's base revenue budget for 2012/13, and reported at that time that the provisional net budget expenditure for 2012/13 was £10,215,858 (before use of reserves and balances). Since that report was considered there has been further review of the budget by both officers and the cabinet member for finance. In addition, budget consultation has been undertaken, both with the business community and with local residents. As a result, the new net budget expenditure (before use of reserves and balances) is

£10,198,828. The movements in the budget since the scrutiny report was completed are discussed in the following paragraphs, and are shown in detail in appendices A1 and A2.

13. The budget requirement for 2012/13 is **£10,744,216**.

Essential Growth

Paragraph 11 and appendix B of the scrutiny report discussed expenditure considered unavoidable. Since scrutiny committee on 22 December 2011, service areas have identified other items of essential growth and some have been reduced following a ‘star chamber’ of cabinet members. This additional essential growth amounts to £90,000. This is shown in Appendix A1 and reconciled in Appendix A2.

Growth

Paragraphs 16 to 19 of the scrutiny report discussed revenue and capital growth, with growth bids submitted being shown in appendices D and F to that report. Since scrutiny committee and as a result of both an officer and ‘star chamber’ review, these bids have been revised as follows:

- Growth proposals increase by £54,310 – appendices A1 and A2
- Capital bids decrease by £203,000 (in 2012/13) but increase in later years (see appendix F1)

A full list of growth bids is at appendix D and the list of capital bids is at appendix F.

Savings

Paragraph 13 of the scrutiny report identified savings in each of the services. This has been further refined and additional savings amounting to £43,980 have been identified. A full list of savings proposals are at appendix C and a reconciliation of the changes is at appendix A2.

Other budget revisions

Officers have continued to refine budgets since the scrutiny committee report and a number of revisions to budgets have resulted from this work. These revisions amount to a budget saving of £238,420 and are detailed in appendix A3.

Funding changes

A number of proposed changes to internal funding are identified in appendix A1, and are explained below

Property Investment income

At the time the scrutiny report was written, estimated earnings from the council’s investment properties for 2012/13 which are used to support the revenue budget in 2012/13 were £1,618,580. This estimate has since been revised downwards to £1,494,520 following a review by property services.

Collection fund surplus

The surplus arising on the collection fund that will be used for 2012/13 is £197,027. This final figure, which is based on an estimate required to be calculated as at 15 January each year, updates the figure included in the scrutiny report of £201,056. The change is due to an increase in the provision for likely bad debt and non-collection.

Cabinet member for finance's revenue budget proposal

14. Based on the amendments detailed above, and as shown in appendix A1 of this report, the cabinet member's budget proposal, including growth, is for a net revenue budget (after use of reserves) of **£10,744,216**. After taking account of government funding and the surplus on the collection fund from 2011/12, there is **a council tax requirement of £5,726,620**, which equates to £116.69 for a Band D property which means that for 2012/13 there is no change to the level of district council tax precept levied on each property.

Capital programme 2012/13 to 2016/17

15. The council also sets a five year capital expenditure programme.

Current capital programme

The scrutiny report gave details of the full capital programme as it then stood. A latest capital programme (before growth) is attached at appendix E. It is the capital programme as set by council in February 2011 adjusted for:

- slippage (caused by delays to projects) carried forward from 2010/11.
- any new schemes approved by council during 2011/12.
- reprofiling of expenditure on schemes from the 2011/12 financial year to future years where delays to schemes have occurred
- deletion of previously agreed schemes that are no longer to be pursued.

Cabinet capital programme proposals

Appendix F contains a list of new capital schemes that the cabinet member for finance is putting forward as part of his budget proposals. All of these stem from capital growth bids put forward by officers (details of each is available on request). Officers will amend the capital programme to include the proposals if approved by cabinet and council.

Since the scrutiny committee report the programme and some of the bids have changed. Details of these changes are at appendix F1.

Financing the capital programme

Monies from external sources that can be used to fund capital expenditure are called on first when determining how to finance the capital programme; these include capital grants and developer contributions. Once these specific resources are exhausted, the capital programme is funded from the council's fund of capital receipts.

The programme proposed can be fully funded from existing and anticipated capital resources and it is not anticipated that the council will need to engage in any long-term borrowing to support its capital programme over the period of the mtfp. The strategic director and chief finance officer comments on the adequacy of reserves and balances below.

Future pressures on the capital programme

Officers advise cabinet not to earmark all available resources in proposing the budget to council, as the prudential code requires local authorities to set sustainable budgets. By retaining an unallocated balance, cabinet can demonstrate that through a combination of this and future income (that can be expected beyond the period of the budget) it can fund future demands.

The prudential code and prudential indicators

16. In setting its revenue and capital budgets for 2012/13, the council must agree prudential indicators in accordance with the prudential code (see below). When recommending its budgets to council, cabinet must also recommend the prudential indicators. In order to allow this, officers need to have advanced knowledge of the proposals cabinet is going to consider, in order to allow them to calculate and form an opinion on the indicators.

17. 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.

18. 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.

19. 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.

20. 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

21. 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.

22. Appendix G contains the recommended prudential indicators, which have been calculated based on the budget proposals attached (appendices A through F). 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

23. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the strategic director and s.151 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.

24. 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 cabinet member for finance. Informal meetings of cabinet have considered the budget, and a report detailing the base budget has gone to the council's scrutiny committee (22 December 2011). 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.

25. The strategic director and chief finance officer is satisfied that the overall level of reserves is adequate in relation to the proposed revenue budget and capital programme and that the budgets are sustainable over the medium term plan.

26. Appendix H contains the strategic director and chief finance officer's full report.

Legal Implications

27. The cabinet 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 22 February 2012 in order to set the budget, and the council tax (including amounts set by Oxfordshire County Council and the Thames Valley Police Authority).

28. 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

29. 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 council body taking those decisions will take into account the human resources, sustainability and equality and diversity implications of individual spending decisions.

30. A risk assessment has been carried out to identify the equality implications of the saving proposals by officers. The cabinet took into consideration these results in order to finalise the 2012/13 budget.

Conclusion

31. This report provides details of the medium term financial plan for the period 2012/13 to 2016/17; the revenue base budget for 2012/13; the capital programme 2012/13 to 2016/17; government grants (the settlement); uncommitted reserves and balances; the cabinet member for finance's budget proposals and the resulting prudential indicators.

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

Appendices

Appendix A	Medium term financial plan 2012/13 to 2016/17
Appendix A1	Revenue budget 2012/13
Appendix A2	Reconciliation of growth and savings adjustments (since scrutiny committee)
Appendix A3	Post base adjustments in the mtfp (line 37)
Appendix B	Essential revenue growth bids
Appendix C	Savings proposals
Appendix D	Growth proposals
Appendix E	Capital programme 2012/13 to 2016/17
Appendix F	Capital growth bids
Appendix F1	Reconciliation of capital bid adjustments (since scrutiny committee)
Appendix G	Prudential indicators
Appendix H	Report on the robustness of the estimates and the adequacy of reserves and balances

Background Papers

- Final settlement papers (February 2012)
- Budget update report considered by scrutiny committee - 22 December 2011.
- Services revenue budget book 2011/12
- Revenue and capital growth bids