

Report for Resolution

Report to Council
23 February 2010
Report of Head of Finance
Subject Budget 2010/11 General Fund

5

Purpose

To set a budgetary requirement and level of Council Tax for the financial year 2010/11

Recommendations

That Council approves the following for the 2010/11 financial year:

- (1) that Council Tax should be set at £225.87 for Band D, which is an increase of 2.2%;
- (2) the Council's budgetary requirement to be set at £25.097 million;
- (3) that the prudent level of reserves for the Council be set at £4.244 million in accordance with the recommendation of the Head of Finance;
- (4) authorise the Head of Finance in consultation with Portfolio Holder for Resources and Governance to transfer such sums as deemed necessary from the element of the General Fund Reserve identified as contingency in annex 6
- (5) that an amount of £500,000 be earmarked within the General Fund to be used on spend to save projects and that any project requiring support from this must have Executive approval;
- (6) that the uncommitted elements of the area based grant be used to fund the redundancy costs of the transformation programme and that any residual amount of the grant remaining be used to support the Council's non-housing capital programme;
- (7) that a contribution of £400,000 is made from the revenue budget to reserves;
- (8) authorise the Chief Executive Officer to transfer up to £500,000 from the General Fund Reserve, and with the agreement of the Executive

such further amounts as maybe deemed necessary, to fund the transitional arrangements for the Council moving to unitary status;

- (9) that the precept of the collection fund for 2010/11 be calculated in accordance with Sections 32-36 of the Local Government Finance Act 1992 as per the determinations attached at Annex 7 (to be circulated at the meeting).

Corporate Objective/Service Plan Priority

The report helps to achieve the corporate priority for aiming for excellence.

Contact Officers

Barry Marshall, Head of Finance	01603 212556
Bridget Buttinger, Deputy Chief Executive and Strategic Director - Corporate Resources	01603 212066

Background papers

Executive Report 16 December 2009 subject:
Improvement and efficiency programme – proposed savings for 2010/11

REPORT

Introduction

1. The Executive will recommend a budget for 2010/11 to Council to support the Council's strategic priorities as agreed by Council on the 26 January 2009:-

- Strong and Prosperous City
- Safe and Healthy Neighbourhoods
- Opportunities for all
- Aiming for Excellence
- Unitary Status

The budget is set in the context of the Council's Medium Term Financial Strategy. This identifies the financial constraints the Council will face over the next four years, the level of reserves needed to mitigate the financial risks to the Council and the Council's plans to address the financial pressures of the next four years.

Background

2. The 2008/09 recession continues to have a serious impact on the Council's financial position. By building up a strong level of reserves the Council was able absorb the negative financial impacts of the recession in 2009/10 while maintaining its level of service delivery. By using a proportion of its reserves in 2009/10 the Council was able to carefully plan a cost reduction programme which was focussed on delivering value for money while maintaining front line services in 2010/11 rather than be forced into making short term decisions which would have been detrimental to service decisions. This programme should deliver savings of approximately £6.0 million in 2010/11.
3. During the current financial year we have seen our housing and council tax benefit caseload rise from 16500 to 18500, with an increase in some of 60% in new claimants over the equivalent month last year. Pressure on council tax collection rates continues although the rates compare satisfactorily with collection authorities having similar levels of deprivation. The level of business failure gain has had an adverse effect on collection rates for non-domestic rates' although this has not impacted on the Councils payment from the national pool.
4. The medium term is subject to considerable uncertainty, a general election has to be held by June 2010 and various independent economic forecasters suggesting reductions in local government expenditure of between 16% to 20% over the next three to five years. The likely pattern of expenditure reductions are unlikely to be known until after the general election. There is also the possibility that Norwich could benefit from the expected review of the concessionary fare scheme which is at present operated by the City Council to the upper tier authority (County Council) which could remove both the costs and risks from the City Council.
5. Low interest rates continue to have a negative impact on the Councils revenues. It is expected that interest rates will remain low for the 2010/11 financial year. This coupled with the latest national government statutory guidance for local authority treasury management investment strategies, which requires councils to underpin their treasury management

strategies with security as first priority for investments followed by liquidity and lastly by return. Officers have for a number of months been moving Council investments into high rated securities, this in turn has meant that current returns are now on average running below 1%.pa.

Government grant settlement

6. The total formula grant the Council will receive from central government is £15.914 million. The increase like for like increase being 1.1%. This is disappointing given the demands the city faces from being a regional centre, being the most deprived district in the Eastern region (8 of its 13 wards being in the 20% most deprived wards nationally) and having high levels of homelessness.

7. The grant details are shown below

Adjusted 2009-10 Formula Grant (£)	15,741,047
2009-10 Revenue Support Grant (£)	2,017,836
2009-10 Redistributed Business Rates (£)	13,896,051
2009-10 Principal Formula Police Grant (£)	N/A
2010/11 Formula Grant (£)	<hr/> 15,913,887

General Fund Budget Strategy

8. The recession caused a significant increase in the Councils operating budget for 2009/10. A decision was made as part of the 2009/10 budget setting to use reserves to fund this gap, letting Council develop a transformation programme which aimed to both reduce costs and maintain frontline services, the 2010/11 budget is the first year of the implementation of that programme.
9. One of the other major cost increases in 2009/10 was concessionary fares. In 2008/09 the reallocation of subsidy for concessionary fares had a major negative impact on the budget. For 2010/11 the national government will be giving the Council an additional £1.41 million in concessionary fare grant which will partially address the 2009/09 and 2009/10 shortfalls.
10. The level of unavoidable and proposed budget movements is £1.67 million (2009/10 figure £4.828 million), has been partially offset by the payment of £1.41 million described above. An assumption has been made that the need to fund unavoidable and essential cost increases will continue into the future (an estimate of £1 million per annum has been used in the medium term forecast below, although it must be stated that this figure is subject to a high level of uncertainty and may be partially offset by savings on concessionary fares when these are transferred to upper tier authorities).

Spend to save

11. In order to take advantage of opportunities for future efficiency savings that may require expenditure before savings can be achieved. It is proposed to earmark a sum of £500,000 in the General Fund that can be used to support the start up of these projects. Approval of

business cases by the Executive will be required for funds to be released (a note on spend to save and prudential borrowing is included as annex 8).

Council Tax gearing

12. Council Tax gearing continues to be an issue for the City Council. If the impact of inflation was directly passed on to the tax payer an increase in Council Tax of 10.5% would be required to fully cover it. This gap as in previous years will be addressed by efficiency savings

Inflationary estimates for 2010/11 are:

Employee cost (1% pension, 1% incremental drift 1% other)	£662,000
Supplies and services	£144,000
Other	£123,000
 Total inflation	 £929,000

% increase on Council Tax Requirement 10.5%

13. The proposed increase in Council Tax of 2.2% together with the increase in the Council Tax base will only yield £246,000 leaving £683,000 to be found from efficiencies or other sources purely as a consequence of Council Tax gearing.

Reserves

14. While not forming part of the Chief Finance Officer's recommendation the Chief Financial Officer would also draw to members attention to the fact, that if it were not for the strong level of reserves held by the Council, it would not have been possible to apply the measured approach used by the Council in addressing the impact of recession and concessionary fare costs. It is the opinion of the Chief Finance Officer that given the future uncertainties surrounding local government finance it would be appropriate to build up a contingency for large unforeseen financial events. It is opinion of the Chief Financial Officer that a contingency of at least £2,500,000 should be established over the next five years to mitigate this risk.

Medium term financial projections

15. The high degree of uncertainty surrounding the medium term is making medium term planning challenging, with a wide range of possible scenarios from a position of significant inflows resulting from concessionary fare savings and low levels of unavoidable growth to a very negative position with high levels of unavoidable growth and a small gain in the concessionary fares position. In the projections below a mid-point has been used with current level of unavoidable and essential growth being partially offset by a reduction in concessionary costs.
16. It is proposed to review the medium term financial strategy on a quarterly basis until such time as there is a greater level of stability in the external environment that influences the Council
17. The medium term financial projections below based on the above assumption show that

despite the significant savings planned for 2010/11 there will still be requirements to make savings in future years

Four year financial projections General Fund £'000's

	2010/11	2011/12	2012/13	2013/14
Base budgets adjusted for inflation	29,946.0	25,941.1	26,039.4	26,398.6
Transformation/savings programme	-6,116.0	-2,520.0	-2,160.0	-2,265.0
Contingency	573.0	300.0	100.0	100.0
Unavoidable cost increases	990.0	1,600.0	1,000.0	1,000.0
Growth	888.0			
optional				
Reduced				
income	1,061.0			
Increases in				
income	-696.0			
Savings and cost reductions	-678.0			
Concessionary Fares adj	-1,410.0	-590.0	0.0	0.0
Other adjustments	139.0			
Transfer to reserves	400.0	500.0	500.0	500.0
Budgetary requirement	25,097.0	25,231.1	25,479.4	25,733.6
RSG and NNDR	-15,913.9	-15,913.9	-15,913.9	-15,913.9
Collection Fund surplus	-100.0			
Council Tax requirement	9,083.1	9,317.2	9,565.5	9,819.7
Council Tax Base (Band D equivalent)	40,214.0	40,300.0	40,400.0	40,500.0
Council Tax estimate £'s	225.87	231.20	236.77	242.46
% annual increase in tax	2.2%	2.4%	2.4%	2.4%
Level of reserves	4715.4	5215.4	5715.4	6215.4

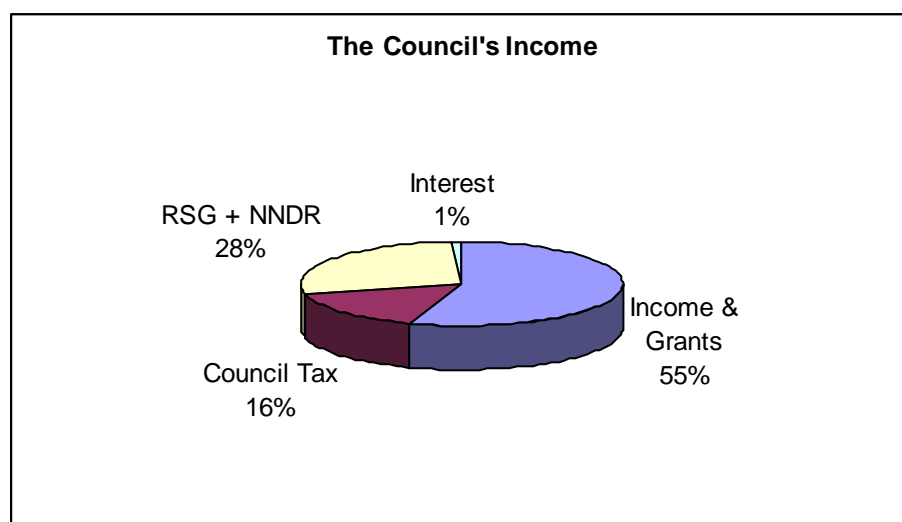
Budget setting process

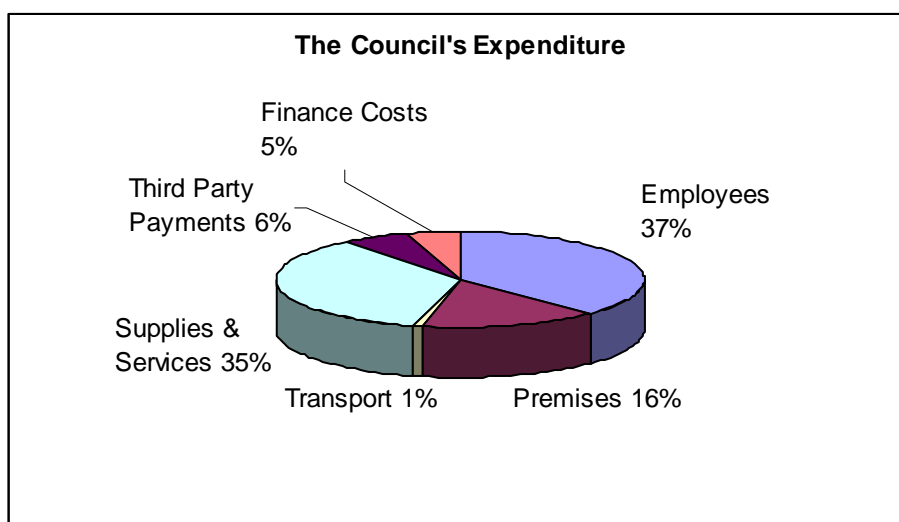
18. The Council's revenue and capital budgets are linked into the corporate planning process, thus supporting the Council's strategic objectives and strategies. The use of corporate planning particularly with the implementation of the transformation programme continues to drive the budgetary process. This will be subject to regular review to ensure continuing improvements to enhance the directing of the Council's resources to its priorities.
19. The officer proposals for cost reductions in the transformation programme have been agreed by the Executive, have been reviewed the Scrutiny Committee. The budget will be subject to further review by the Scrutiny Committee on 8th February 2009.

Consultation

20. As part of the transformation programme the council has undertaken extensive consultation on the budget savings this has included writing to over 300 local organisations, and printing and distributing around 3500 questionnaire leaflets to public access points across the city. Managers have been briefed to talk to their regular service contacts to explain the proposals and seek feedback. The council has set up dedicated consultation pages on the Council's website, and there has been extensive coverage in the local media.

Council General Fund cost and income structures





Area Based Grant

22. The Council will receive £1.828 million for Area Based Grant in 2010/11. Area Based Grant replaced a number of funding streams e.g. Local Enterprise Growth Initiative and the Neighbourhood Renewal Fund. The guidance provided by the Communities and Local Government office on use of the grant is shown below.

Area Based Grant is a general grant allocated directly to local authorities as additional revenue funding to areas. It is allocated according to specific policy criteria rather than general formulae. Local authorities are free to use all of this non-ring-fenced funding as they see fit to support the delivery of local, regional and national priorities in their areas.

23. It is proposed that the Area Based Grant is used to meet redundancy costs arising from the implementation of the transformation programme and the maximum these are estimated at is £1million, and that the residual amount of the grant is used to support the Council's non-housing capital programme.

Housing and Planning Delivery Grant 2009/10

24. As this grant was paid late in the 2009/10 financial year it will be carried over into 2010/11 and will primarily be used to support improvements in the housing and planning services with any residual amount being transferred to reserves.

Capping

25. Barbara Follet the Under Secretary of State at the Department of Communities and Local Government stated in her letter dated 9 December 2009 on Council Tax capping.

It would, therefore, be a mistake for any authority to assume that previous years' capping principles will apply to 2010-11. I have made it very clear that the Government expects the average Band D council tax percentage increase to reach a 16 year low in this period. I have

also indicated that we will take capping action against any excessive increases and I do not propose to send any further written warnings about the risks involved.

Annexes 1-5 show the overall movement in the 2009/10 budget, unavoidable cost increases, increased and decreased income, growth items and savings falling outside the transformation programme.

Council Tax recommendation

	2010/11	
Base budgets adjusted for inflation	29,946.0	
Transformation/savings programme	-6116	
Contingency re above	573	
Unavoidable cost increases	990	Annex 1
Growth optional	888	Annex 5
Reduced income	1061	Annex 3
Increases in income	-696	Annex 4
Savings and cost reductions	-678	Annex 2
Concessionary Fares adj	-1410	
Other adjustments	139	
Transfer to reserves	400	
Budgetary requirement	25,097.0	
RSG and NNDR	-15,913.9	
Collection Fund surplus	-100.0	
Council Tax requirement	9,083.1	
Council Tax Base (Band D equivalent)	40,214.0	
Council Tax estimate £'s	225.87	
% annual increase in tax	2.2%	
Level of reserves	4715.4	

Council Tax Options

26. The table below shows the available funding to meet the proposed budgetary requirement the breakeven position is shown at a rate of Council Tax increase of 2.4% and any Council Tax rise below this would require a reduction in growth items or drawing on reserves

Available Budget

% increase in Council Tax	0.0%	1.5%	2.2%	3.5%
Council Tax Band D	220.93	224.24	225.87	228.66
Council Tax Base Band D equivalents	40214	40214	40214	40214
Council Tax Income	8,884,479	9,017,746	9,083,066	9,195,436
Revenue Support Grant & NNDR	15,913,887	15,913,887	15,913,887	15,913,887
Collection Fund surplus	100,000	100,000	100,000	100,000
Council Tax available	24,898,366	25,031,633	25,096,953	25,209,323
Budgetary requirement	25,105,000	25,105,000	25,097,000	25,105,000
Surplus/(- = Shortfall)	-206,634	-73,367	-47	104,323

Report by the Chief Financial Officer on the robustness of estimate, reserves and balances

27. Section 25 of the Local Government Act 2003 requires that the Chief Financial Officer of the Council (which in the case of Norwich City Council is the Head Finance) reports to members on the robustness of the budget estimates and the adequacy of Council's reserves.

28. The Head of Finance is required to provide professional advice to the Council on the two above matters and is expected to address issues of risk and uncertainty.

Estimates

29. The main driver in the current budget round has been the Council's transformation programme this has been subject to rigorous review by both members and officers and is directly linked to the service planning process ensuring a strong link between the Council's priorities and the financial resources available to deliver them. As with all future estimates there is a level of uncertainty and this has been taken into when assessing the levels of reserves.
30. Allowing for the above comment on uncertainty it is the opinion of the Head of Finance that in the budgetary process all reasonable steps have been taken to ensure the robustness of the budget.

Reserves

31. A risk assessment has been undertaken to determine the level of general reserves required by the Council. In making a recommendation for the level of reserves the Head of Finance has followed guidance in the CIPFA LAAP Bulletin 77 – Guidance notes on Local Authorities Reserves and Balances.
32. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
33. Earmarked reserves remain legally part of the General Fund although they are accounted for separately.
34. There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:
- the balanced budget requirement (England, Scotland and Wales) (sections 32, 43 and 93 of the Local Government Finance Act 1992)
 - Chief finance officers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003 when the authority is considering its budget requirement (England and Wales))
 - the requirements of the Prudential Code
 - auditors will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.
35. Whilst it is primarily the responsibility of the local authority and its chief financial officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

Role of the Chief Finance Officer

36. Within the existing statutory and regulatory framework, it is the responsibility of the chief finance officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.

37. The risk analysis shows that an adequate level of reserves for 2010/11 the Council will be in the order of £4.244 million see annex 6.