

EAST HERTS COUNCIL

JOINT SCRUTINY MEETING - 19 JANUARY 2010

EXECUTIVE - 9 FEBRUARY 2010

REPORT BY THE EXECUTIVE MEMBER FOR RESOURCES AND  
INTERNAL SUPPORT

CONSOLIDATED BUDGET REPORT: PROBABLE OUTTURN 2009/10-  
REVENUE BUDGET 2010/11-MEDIUM TERM FINANCIAL PLAN  
2010/11 TO 2013/14

WARD(S) AFFECTED: ALL

---

**Purpose/Summary of Report**

This report recommends a revenue budget for 2010/11 in the context of

- the Council's priorities
- the medium term financial plan to 2013/14
- funding the capital programme (subject of a separate report)
- the anticipated revenue budget outturn for 2009/10
- the proposed Treasury Management Strategy for 2010/11 (subject of a separate report)
- the previously agreed council tax base for 2010/11
- a council tax increase of 2.4%
- proposals for reserves and balances

**RECOMMENDATION FOR JOINT SCRUTINY COMMITTEE:**

<b>(A)</b>	<b>That Joint Scrutiny Committee advises the Executive of its comments on the proposals including any amendments to the budget to be considered by the Executive</b>

**RECOMMENDATIONS FOR THE EXECUTIVE**

<b>(A)</b>	<b>That consideration be given to comments and proposals by Joint Scrutiny Committee and, in the light of that</b>

	<b>consideration recommendations be made to the Council that:</b>
<b>(B)</b>	<b>1. The probable outturn for 2009/10 be approved</b>
	<b>2. The revenue budget for 2010/11 be approved</b>
	<b>3. The medium term financial plan to 2013/14 be approved</b>
	<b>4. The council tax be increased by 2.4% from 1 April 2010</b>

## 1.0 Background

- 1.1 The equivalent report this time last year set as an aim for the Council to weather the economic recession and come out of it more resilient. The past 12 months have done nothing to change this. It is now clear that even when the economy returns to growth it will be from a starting point of a smaller economic base than previous estimates. As a consequence of unprecedented levels of government borrowing public spending will be subject to a long period of restraint.
- 1.2 The pre budget report from the Chancellor in December confirmed that borrowing to support the recovery would be at the levels announced in the April 2009 budget: £700m in the 5 years to March 2014. No indications were given for spending totals affecting local government beyond 2010/11 and it is not clear when the government will be in a position to announce 3 year grant settlements. The spending reductions announced for the universities have been the subject of comment in recent days and are an indication of severity to be faced. The relative good news is that revenue support grant for 2010/11 is as previously indicated. There is therefore a period to prepare for the harsher times that are ahead.
- 1.3 The uncertainty about the scale of the spending restraint on local government makes medium term planning both more uncertain and more important. The medium term financial plan adopts a cautious approach. Savings options identified exceed the amount required to balance the MTFP on the assumptions made. This provides scope for choice as the picture becomes clearer. The section below on robustness of estimates cautions that revisions to later year figures are to be expected.

- 1.4 In July the Council adopted a financial strategy setting out the principles and objectives for its financial planning and the MTFP is in keeping with that strategy.
- 1.5 Since the joint meeting of Scrutiny on 1 December the Executive has proposed a lower increase in council tax of 2.4% . Decisions on varying savings have not been finalised in response to the issues raised by the Joint Scrutiny meeting and in particular where those issues relate to changes that might be implemented in later years. That response, together with any other proposals from this report, will be set out at the meeting on 9 February.

## 2.0 Report

### **2009/10**

- 2.1 The budget for 2009/10 was set in February 2009 with an expectation that 31 March 2009 would see a balance on the general reserve of £2,137k. The final accounts recorded a balance of £2,997k i.e. some £860k higher than expected largely as a result of improved investment income.
- 2.2 The separate unallocated general fund balance was unchanged (at £3,385k) between the position expected at budget time and final accounts. Earmarked reserves compared as follows:

Reserve	Expected Balance 31.3.09 £000	Actual Balance 31.3.09 £000
Interest Equalisation	2,078	2204
Insurance Fund	36	34
Emergency Planning	37	37
VAT partial exemption	145	145
Service Improvement	907	899
LDF/Green belt	105	142
Housing condition survey	15	28
Council election	25	25
Alternative Refuse collection	128	128
Total	3,476	3,642

- 2.3 The current year therefore started with a better position with regard to reserves than anticipated when the budget was set. However, subsequently, approval has been given:
- to use £246k of the additional general reserve balance to meet spending deferred from 2008/09, and
  - to supplementary estimates for 2009/10 totalling £456k and
  - further requests of £149k have been put forward in the October monitoring report.
- 2.4 These approvals would, if applied in full, use all but £9k of the additional balance at the start of the year. However, latest forecasts (see below), suggest that offsetting savings in the current year will mean that the net call on the general reserve will be less than the sum of these approvals.
- 2.5 Actions in response to budget monitoring in the year to date have seen a projected overspending (inclusive of amounts covered by the above supplementary estimates) reduce from £1,165k in April to £636k in November. The detailed review of the probable outturn undertaken as part of the preparation of the 2010/11 estimates has indicated a further reduction in the potential overspending to £464k by the end of the year and action continues to reduce this further. The detail in support of the probable outturn is set out elsewhere on the agenda.
- 2.6 In summary, based on the figures in the probable outturn for 2009/10 the year will end with a balance on the general reserve of £2,090k. This compares with a balance of £1,953k when the budget for 2009/10 was set.

### **Priorities**

- 2.7 The Council's priorities against which spending proposals need to be measured remain unchanged. However, with spending restraint likely to be with all Council's for some time the budget round has necessarily focussed on where savings can be made that have minimal impact on priorities. The overall priority has been the prudent management of the Council's finances to avoid unplanned service reductions.

## **Financial Strategy**

- 2.8 Corporate Business Scrutiny Committee on 14 July considered a draft financial strategy 2010/11 to 2013/14 which was subsequently endorsed by the Executive. The strategy called for the MTFP to be fully funded across all four years with a planning contingency for later years and savings expressed in cash terms. The budget proposals meet these objectives. The challenge process focussed on priorities and a start has been made on better review of timing of delivery of the capital programme and the slippage assumption built into the revenue budget implications. Charges have been subject to review and the separate report on car parking charges has identified the benefits of a more fundamental and longer term review against factors other than achievement of a somewhat arbitrary cash increase.

## **Budget 2010/11 and MTFP**

- 2.9 The Chancellors pre budget report on 9 December shed little light on the level of government grant beyond 2010/11. The MTFP assumption is therefore unchanged from that reported to the Joint Scrutiny Meeting on 1 December. The assumption of a reduction in grant compared with a 2010/11 base is of minus 5% in 2011/12 becoming minus 10% in 2012/13 and minus 15% in 2013/14.
- 2.10 The pre budget report did highlight that public sector pay restraint will be enforced. The detailed estimates were produced on the basis of a potential pay settlement of 1.5% from April 2010. However it is now proposed to revise this assumption to a nil increase. The saving which accrues in 2010/11 (£193k) and later years will be offset by revising down the assumption for investment returns. As set out in the Treasury Strategy report both external fund managers are increasingly pessimistic about returns next year and have reduced their forecasts accordingly. The adjustment of pay and interest budgets will be reflected in the detail estimates prior to approval of those estimates.
- 2.11 On 1 December the Joint Scrutiny meeting was asked to consider fresh savings proposals i.e. changes additional to those provisionally set out to take effect from 2010 or later when the MTFP was agreed in February 2009. Essential Reference Paper B attached to this report includes a summary of all proposals including plans from last year.

- 2.12 In approving the MTFP only those proposals taking effect from 2010 will be implemented. Some planning to implement later years proposals will be commenced but these will only take effect following approval at this stage in later budget rounds and in the light of better information about the government's spending plans.
- 2.13 Minor changes have been made to planned savings in 2010/11 to remove some double counting (community alarm service £16k ) and to reflect the deferral of staffing efficiencies (financial services £17k)
- 2.14 The financial model for the MTFP is set out at Essential Reference Paper B
- 2.15 The budget 2010/11 can be summarised as follows:

	£000	£000
Neighbourhood Services	5,862	
Customer & Community Services	10,846	
Internal Services	7,220	
Chief Executive	756	
Net savings not included above	<u>(1,066)</u>	
<b>Net Expenditure</b>		23,618
Costs included above excluded for council tax setting (note 1)		(4,779)
Costs to be added for council tax setting (note 2)		(491)
Contributions to/from reserves		(736)
Collection Fund (Surplus)/deficit		16
NNDR / Grants		<u>(8,432)</u>
Demand on collection Fund		9196
Band D tax base		<u>57790.62</u>
Band D tax		£159.13

Note 1 These include capital charges including depreciation

Note 2 These include employers pension contributions, interest on investments less interest on borrowings

## **Council Tax**

- 2.16 The proposed increase of 2.4% is within the target set by the government of average increases being below those of recent years. The Governments statement is generally being interpreted as indicative of a 3% capping limit.
- 2.17 An increase of 2.4% at Band D equates to £3.72 per year, or just over 7p per week, taking the tax to £159.13 per year. The indicative increase of 3.8% if implemented in subsequent years would further increase council tax at band D to £165.18 in 2011/12, £171.46 in 2012/13 and £177.96 in 2013/14.
- 2.18 These figures are based on a council tax base of band D properties for 2010/11 as agreed by Council on 8 December increasing by 0.5% in later years. A final determination of any surplus or deficit on the Collection Fund will be made in mid January. It is assumed there will be a nil contribution in the current year and the residual balance on the Fund at 31 March 2009 not taken into account when this year's budget was set will be applied in 2010/11. The implication for the Council is contribution to the Collection Fund of £16k

## **Reserves**

- 2.19 The proposals in this budget and MTFP include new use of reserves in respect of LABGI (contained within the General reserve) totalling £100k over the two years 2010/11 and 2011/12.
- 2.20 Movement on the General Reserve in 2009/10 is based on the probable outturn rather than the approved supplementary estimates. The exception being the temporary use of the general reserve as set out below in respect of Leisure and the revenue costs in support of the revenues and benefits investment. In summary this is as follows:

	£000
Balance 1 April 2009	2,997
Less	
1.Planned use 2009/10 budget	(443)
2.Temporary use in respect of leisure services	(266)
3.To meet net overspend – as set out in probable outturn	(198)
Balance 31 March 2010	2,090

2.21 In setting the budget for 2009/10 and MTFP it was previously planned to draw on reserves and these intentions are retained. In addition, the general reserve is drawn on in 2009/10 and repaid in subsequent years to support the Leisure investment. Claims met from the insurance reserve in 2009/10 relate to damage to property from trees for which preservation orders have been made.

2.22 The consequent movement on reserves will be

Reserve	Planned 2009/10 £000	Planned 2010/11 £000	Planned 2011/12 £000	Planned 2012/13 £000	Planned 2013/14 £000	Balance £000
General Reserve – including LABGI	(907)	(41)	(88)		145	2,106
Interest Equalisation	(1,300)	(778)				126
Insurance Fund	(25)					10
Emergency Planning						36
VAT partial exemption						145
Service Improvement	(102)	(103)	(38)			656
LDF /Green belt	221	50	150	150	150	864
Housing condition survey	(5)	1	14	14	14	66
Council Elections	25	25	(75)	25	25	50
Alternative Refuse collection	(128)					0
Sinking fund – Leisure Utilities/ pensions	60	60	60	60	60	300
Restructure Fund	33					33

### **Robustness of estimates and adequacy of reserves**

- 2.23 Section 25 of the Local Government Finance Act 2003 requires the Section 151 Officer to report on the adequacy of reserves and robustness of the estimates. The balance of this section represents the judgement of the Section 151 Officer.
- 2.24 The proposals in this report retain adequate but not excessive levels of reserve. This judgement has regard to the Council's record of containing spending within budget, it having identified saving options in excess of the sum needed to balance the MTFP and its prudent approach to risk management. Consideration has been given to potential calls on reserves to meet external "shocks" – from environmental, economic, and operational uninsured losses having regard to the Council's activities and scale of operations.
- 2.25 The Council has adopted a risk averse approach to its treasury activities but the Council retains very substantial investments in relation to its annual spend. It is prudent to retain above minimum levels of reserves in these circumstances.
- 2.26 The risk that budget assumptions will vary is set out below together with a judgement of relative risk of actual experience differing from current assumptions.

<b>Area of Risk</b>	<b>Factor</b>	<b>Comment and Mitigation</b>
Volatility of grant income	High	No specific information beyond 2010/11. Allowance for reduction in main source of government grant to mitigate the risk.
Income achievement	Medium	Allowance has been made for continuing impact of the recession. It is uncertain that economic recovery will be achieved at the pace expected in the

		pre budget report.
Achieving savings	Medium	Targets become increasingly challenging over the MTFP and public acceptability will be an issue. In mitigation the early announcement of areas under consideration allows for re planning and dialogue with those affected.
Interest rates	High	There are divergent views on the direction of short term rates reflecting different assumptions about the impact of high government debt on any risk premium on sterling. The MTFP anticipates investment returns marginally ahead of the very latest assumptions from the fund managers for 2010/11. There is an option to make a further call on the equalisation reserve if necessary. Discussions are planned with the external managers about options to improve returns.
Compliance with grant requirements	Low	Recent audits record a good performance this needs to continue to avoid clawback of grant
Vacancy saving	Low	The provision has been reduced to reflect current lower levels of

		turnover
Pay and inflation	Low / Medium	Provision is made beyond 2010/11 ahead of the tight constraints expected to apply to pay. There are different views as to the likelihood of government borrowing and the Bank of England's quantitative easing programme creating an inflationary pressure.
Council tax increases	High	The acceptability of tax increases illustrated at 3.8% in years beyond 2010/11 with probably low rates of increase in the RPI is questionable. Savings options are available to deliver lower increases and a planning contingency can also be drawn on.
Council priorities	Low	The Council has refined its key priorities. Any change to priorities will need to reflect the financial position at the time.
C3W programme	Medium	The scale of change is significant, contracts for works to Wallfields have yet to be finalised and the roll out of home and remote working is at a commencement stage. Business Process Improvement will be challenging of an organisation of the scale of the Council.

		The Council has in place strong programme and risk management processes with commitment from members and senior manages
--	--	---

2.27 The estimates are sufficiently robust for the Council to set a budget and council tax for 2010/11. Revision to figures for later years must be expected and they might be significant.

### 3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within Essential Reference Paper A.

### Background Papers

Pre Budget report 9 December 2009 published by HM treasury.

Contact Member: Cllr M J Tindale – Executive Member for Resources and Internal Support

Contact Officer: Alan Madin – Director of Internal Services – Extn 1401

Report Author: Alan Madin – Director of Internal Services

## ESSENTIAL REFERENCE PAPER 'A'

<p>Contribution to the Council's Corporate Priorities/ Objectives</p>	<p>The budget and MTFP apply resources to achieve all the Council's priorities</p> <p><b>Promoting prosperity and well-being; providing access and opportunities</b>  <i>Enhance the quality of life, health and wellbeing of individuals, families and communities, particularly those who are vulnerable.</i></p> <p><b>Fit for purpose, services fit for you</b>  <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i></p> <p><b>Pride in East Herts</b>  <i>Improve standards of the neighbourhood and environmental management in our towns and villages.</i></p> <p><b>Caring about what's built and where</b>  <i>Care for and improve our natural and built environment.</i></p> <p><b>Shaping now, shaping the future</b>  <i>Safeguard and enhance our unique mix of rural and urban communities, ensuring sustainable, economic and social opportunities including the continuation of effective development control and other measures.</i></p> <p><b>Leading the way, working together</b>  <i>Deliver responsible community leadership that engages with our partners and the public.</i></p>
<p>Consultation:</p>	
<p>Legal:</p>	<p>The Council must set a lawful and balanced budget and subsequently set a council tax for 2010/11 within prescribed time frames.</p> <p>Members should have regard to the advice of the Section 151 but may take decisions at variance with this advice where there are reasonable grounds to do so.</p> <p>It is an offence for any Member with arrears of council tax outstanding for two months or more to attend any meeting of the Council or its committees at which a decision affecting the budget is made unless the Member</p>

	concerned declares at the outset of the meeting that s/he is in arrears and will not be voting on the decision for that reason.
Financial:	As set out in the report.
Human Resource:	Where savings options may cause redundancy the relevant HR policies will apply and those savings remain subject to the outcome of the application of those policies.
Risk Management:	Contingencies are included and the level of reserves forms part of the corporate approach to mitigation of risk.