WARWICK DISTRICT COUNCIL	Executive 15th February 2012	Agenda Item No. **5**

Title	**BUDGET 2012/13 AND COUNCIL TAX – REVENUE AND CAPITAL**
For further information about this report please contact	Mike Snow (Tel: 01926 456800) mike.snow@warwickdc.gov.uk
Service Area	Corporate
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	
Background Papers	Report to Executive 11th January , 2012: Approval of General Fund Base Estimates Revised 2011/12 and Original 2012/13 Report to Executive 12th October, 2011: Proposed Fees and Charges for 2012/13
Contrary to the policy framework:	No – this reports sets a part of the policy framework
Contrary to the budgetary framework:	No – this reports sets the budgetary framework
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes

Officer/Councillor Approval

With regard to officer approval all reports *must* be approved by the report author's relevant Deputy Chief Executive, Finance, Legal Services and the relevant Portfolio Holder(s).

Officer Approval	**Date**	**Name**
Deputy Chief Executive & Monitoring Officer		Andy Jones
Chief Executive		Chris Elliott
CMT		
Section 151 Officer		Report Author
Legal		
Finance		Finance Report
Portfolio Holder(s)		Cllr Mobbs

Consultation Undertaken

Please insert details of any consultation undertaken with regard to this report.

Final Decision?	No

Suggested next steps (if not final decision please set out below)
This will be a recommendation to Council on 22 February 2012

1. SUMMARY

This report updates members on the overall financial position of the Council. It includes the latest position in respect of the 2011/12 General Fund Revenue Budget and the future implications of the proposed changes within. For 2012/13 onwards, the report considers both the General Fund Revenue budget and the Capital Programme. The information contained within this report supports the recommendations to Council in respect of setting next year's budgets and this Council's level of Council Tax for 2012/13. It updates members on the latest projections and assumptions in the Medium Term Financial Strategy, identifying the on-going savings required by 2016/17. The report also updates members on the Council's Reserves and General Fund. Feedback on public consultation using Simalto is also included.

2. RECOMMENDATIONS (TO COUNCIL)

2.1 The 2011/12 Revised General Fund Revenue Estimate of net expenditure, including the proposed adjustments in section 8.3, is agreed at £16,226,400, and a projected £5,100 surplus, as summarised in Appendix 1.

2.2 The treatment of any balance upon closure of the 2011/12 Accounts to be considered by the Executive in June 2012 (paragraph 8.4).

2.3 The changes to the 2012/13 General Fund revenue base budget (as previously agreed by Council on 25th January 2012) in sections 8 and 9 with net expenditure of £16,103,000 as summarised in Appendix 1, are agreed.

2.4 The Council Tax of a Band D property for Warwick District Council for 2012/13 before the addition of parish/town council, Warwickshire County Council and Warwickshire Police Authority precepts is agreed at £146.86, representing a zero increase on 2011/12.

2.5 Subject to agreeing 2.3 and 2.4, the Council Tax charges for Warwick District Council for 2012/13 before the addition of parish/town council, Warwickshire County Council and Warwickshire Police Authority precepts, for each band is agreed as follows:-

Band	**2012/13**
A	£97.91
B	£114.22
C	£130.54
D	£146.86
E	£179.50
F	£212.13
G	£244.77
H	£293.72

2.6 The Executive notes that around £500,000 new ongoing savings / increased income have been realised in preparing the 2012/13 General Fund revenue base budget. Further savings/ increased income of £334,000 are required from Fit For the Future interventions during 2012/13.

2.7 That if there is any mismatch between the proposed General Fund budgets and subsidiary strategies and action plans, officers bring forward proposals for managing within the agreed budgets.

2.8 That the Executive approves the appropriation of £200,000 from the 2011/12 estimated Revised Budget surplus to the Play Equipment Reserve. (Para 8.3.7)

2.9 The Executive approve the transfer of £200,000 from the Spencer Yard/URC 2011/12 revenue budgets to the Capital Investment Reserve to be ring-fenced to further future development on this site. The residual un-spent revenue budget being slipped to 2012/13 by way of an Ear Marked Reserve upon closure of the 2011/12 accounts (paragraph 8.3.4 refers).

2.10 That the Executive approve that the £28,000 deficit on the Collection Fund Balance (this Council's share) be met from the General Fund Balance in 2012/13 (paragraph 9.4.1).

2.11 Should there be a small change to the final grant settlement for 2012/13 when the announcement is made, it is recommended that this is accommodated within the Contingency Budget in 2012/13, (paragraph 9.5.4)

2.12 That the Executive agrees the New Homes Bonus due for 2012/13 of £818,000 is appropriated to the Services Transformation Reserve. (Para 9.6.3 refers).

2.13 The Executive approve that the Chief Executive enter into discussions with the unions so as to agree a local pay agreement based on the principles outlined in paragraph 9.8, and report back to a future Executive meeting.

2.14 That Executive agrees to enhance the discretionary travel scheme to make residents of Shrewley Parish eligible for £50 travel tokens (upon payment of a £5 administration charge) and residents of Burton Green Parish eligible for £50 travel tokens (upon payment of a £5.00 administration charge) as discussed in paragraphs 9.9.1 and 9.9.2.

2.15 That the Executive agree to pay for the cost of the inaugural Burton Green Parish Council election in 2012/13 of approximately £3,000 from within the 2012/13 Elections Budget (Paragraph 9.9.3).

2.16 That £14,000 is provided from the Contingency Budget in 2012/13 to allow the seven Community Forums to support local celebrations of the Diamond Jubilee, with each able to claim up to £2,000 (paragraph 9.9.5).

2.17 That £60,000 is included in the 2012/13 Budget for an additional Temporary Project Co-ordinator, funded from the Services Transformation Reserve (paragraph 9.9.6).

2.18 That Members take note of the significant future forecast deficit, currently estimated to rise to over £2.5m by 2016/17 on net expenditure of £18m. Further on-going savings/ increased income of this amount must be secured in order for the authority to be able to set future balanced budgets (Para 10.3 refers). A report on the Fit For the Future Programme will be presented to the April 2012 Executive (paragraph 10.7 refers).

2.19 The Executive note the latest schedule in respect of the Equipment Renewal Reserve and that that this Reserve, estimated to be £1,470,000 as at the 1st April 2012, will be exhausted by 2015/16 should all the requests be fully funded as indicated (paragraph 11.2.1.ix.).

2.20 That Finance and Audit Scrutiny Committee be asked to pay particular attention to the reserves and balances set out in Appendix 5 (Section 11).

2.21 That the Executive note the arrangements for Financial and Budget Management as outlined in paragraph 12.4 and continue to receive quarterly reports.

2.22 The General Fund Capital Programme and the Housing Investment Programme as set out in Section 13 and Appendix 8 together with their financing as shown in paragraphs 13.4 and 13.5. are agreed.

2.23 Should the Executive agree viable future self–funded business cases in the future, amendments be made to the Capital Budget as appropriate (paragraph 13.2.2).

2.24 That a report to investigating future use of capital receipts within the Housing Investment Programme be brought to Members, in due course (paragraph 13.3.4 refers).

2.25 That the Executive approve the continuation of the Housing Investment Programme as set out in Appendix 8, and grants authority to the Head of Housing and Property Services to incur expenditure, using existing compliant contracts in accordance with the Code of Financial Practice (paragraph 13.4.4).

2.26 That the Prudential indicators as set out in Appendix 10, including the revised indicators relating to 2011/12, and highlighted in Paragraph 14, are agreed.

2.27 That the revised financial strategy as set out in Appendix 12 is agreed and updated on an ongoing basis in the light of a review of all resource strategies (Para 16.1), with quarterly reports on the financial projections brought to Executive, and that the Fit For the Future programme is also reviewed in the light of this.

3. REASONS FOR RECOMMENDATIONS

The Council is required to set a budget and council tax each year taking into account the many factors that are considered in paragraphs 5 and onwards of this report. In particular:-

- The revenue and capital budget are being considered together.
- The Council is required to determine an authorised borrowing limit in accordance with The Local Government Act 2004, Section 3, and to agree prudential indicators (Appendix 10 refers) in accordance with the CIPFA Code for Capital Finance in Local Authorities.

- The Chief Financial Officer is required to report on the robustness of the estimates made and the adequacy of the proposed financial reserves. (This statement is made at Appendix 2).

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 No specific alternatives to the recommendations are made, however, the information given will enable Members to propose variations to the proposals.

4.2 Members do have a duty to consider all possible options. The proposals in the report reflect the Portfolio Holder priorities contained within Fit For the Future programme which was approved by Members in October 2010.

5. BUDGETARY FRAMEWORK

5.1 The Council's budget and Council tax setting is a major component in reflecting and expressing the Council's priorities and policies. The budgets proposed for both capital and revenue are in accordance with Fit for the Future. The financial strategy and capital strategy are revised in the light of the proposed revenue and capital budgets, and the issues that these budgets address.

6. POLICY FRAMEWORK

6.1 The budget is a major milestone in the life of the Council. It is a financial expression of the Council's policies, having regard to resource availability and taxation consequences. The Council's priorities have been reaffirmed within Fit For the Future which brings together the Council's Strategies and Service Area Plans. However, it is proposed that if there is any mismatch between these subsidiary strategies and action plans, officers bring forward proposals for managing these within the agreed budgets.

7. BACKGROUND, REPORT STRUCTURE AND PROCESS OF BUDGET SETTING

7.1 This is a complex report which brings together the information which has been set out in a number of background reports over the last few months. The structure of the report is as follows:-

Section 7.2:	The total Council Tax Calculation
Section 8:	Review of 2011/12 Revenue Budget and implications for 2012/13
Section 9:	The 2012/13 Revenue Budget
9.1	Base Budget
9.2	Further Changes
9.3	Fees and Charges
9.4	Collection Fund
9.5	Government Finance Grant Settlement
9.6	New Homes Bonus
9.7	Key Assumptions
9.8	Staff Pay
9.9	Service Proposals
9.10	Council Tax Grant and Council Tax Referendum
9.11	Making the Council Tax Decision And Legal Implications
Section 10:	Implications for the medium term

Section 11: Reserves and Balances
11.1 General Fund Balance
11.2 General Fund Earmarked Reserves
11.3 Housing Revenue Account Reserves
Section 12: Risk and Budget Management
12.1 Sensitivity
12.2 Risks
12.3 Contingency
12.4 Budget Management
12.5 Revenue Slippage and Ear Marked Reserves
Section 13: Review of, and proposals for the Capital Programme – Housing and General Fund
13.1 Current General Fund capital programme
13.2 Additions to the current capital programme
13.3 Housing Investment Programme
13.4 Funding the General Fund Capital programme
13.5 Funding the Housing Investment Programme
Section 14: Authorised Borrowing limit and prudential indicators
Section 15: Consultation
Section 16: Updated Financial Strategy

Appendix 1: Proposed summary budget
Appendix 2: Statement by Chief Financial Officer
Appendix 3: Medium Term Financial Strategy (Financial Projections)
Appendix 4: General Fund Balance
Appendix 5: Summary of Reserves and Balances
Appendix 6: Equipment Renewal Schedule
Appendix 7: Risk Assessment against General Fund balances
Appendix 8: Proposed Capital Programme
Appendix 9: Changes within Capital Programme (Variations)
Appendix 10: Prudential indicators
Appendix 11: Simalto Summary Report
Appendix 12: Financial Strategy January 2012

7.2 The Total Council Tax Calculation

7.2.1 Calculating the district element

The Council's element of the Council Tax is calculated by taking its total budget requirement, subtracting the total External Grant from Central Government in respect of Revenue Support Grant (RSG) and Redistributed Non Domestic Rates and any collection fund balance. This figure is divided by the 2012/13 tax base to derive the District Council Band D Council Tax. The Tax Base for 2012/13 has been calculated at 53,460.83 Band D equivalent dwellings. These figures are shown in Appendix 1. The District element represented 10% of the total Council Tax in 2011/12.

The Council Tax Base for 2012/13 shows an increase of just over 200 band D Property Equivalents on the previous year.

A 1% increase in council tax will generate an additional £78,000. £100,000 of additional spending is the equivalent to a 1.3% council tax increase.

The recommendations within this report produce a Band D Council Tax for Warwick District (excluding parish/town council precepts) for 2012/13 of £146.86, this being the same as for 2011/12. Based on this zero increase the Council Tax levels for each of the respective bands will be:-

Band	2012/13
A	£97.91
B	£114.22
C	£130.54
D	£146.86
E	£179.50
F	£212.13
G	£244.77
H	£293.72

7.2.2 Parishes

Parish and town councils throughout the district have been asked to submit their precepts for 2012/13. All of the precepts have now been confirmed. These will total £1,171,000.

7.2.3 Major Precepting Authorities

As at the time of writing neither the County Council nor the Police Authority have set their 2012/13 budgets and element of the Council Tax. The meeting of the County Council is scheduled for the 21st February 2012 and the Police Authority is due to meet on the morning of 22nd February 2012.

7.2.4 Formal Setting of the Tax

This is the arithmetical process of aggregating the council tax levels calculated by the County Council and the Police Authority for their purposes with those required by this Council. A report to the Council Meeting on the 22nd February, 2012 will provide the required details. This Executive report will be updated to take account of all the precepts and will be sent by e-mail to all members as soon as possible following the Police Authority Tax setting. The Council will then be in a position:-

(a) to consider the recommendations from the Executive as to the council tax for district purposes; and

(b) formally to set the amount of the council tax for each parish/town, and within those areas for each tax band, under Section 30 of the 1992 Act.

8. REVIEW OF 2011/12 REVENUE BUDGET AND IMPLICATIONS FOR 2012/13

8.1 The budget has been reviewed on a regular basis throughout 2011/12. During the year the method and approach to budget monitoring has changed with a view to improving the efficiency and accuracy of the system.

8.2 The Revised 2011/12 Estimates considered in January 2012 showed net expenditure of £16.030m. This represented a net saving of £201,300 saving over the Original Estimates. Many items account for this variance, the details of which were included within the report considered in January.

8.3 The following further adjustments are now proposed to the 2011/12 Revised Estimates:-

8.3.1 Reduce the revenue Corporate Repairs and Maintenance Budget by £449,000 and transfer it to the Capital Programme in respect of:

a) Replacement of the Flume at Newbold Comyn Leisure Centre (£81,000)
b) Abbey Fields Leisure Centre refurbishment (£290,000)
c) Replacement of the Town Hall Boiler (£40,000)
d) Refurbishment of the Royal Spa Centre Foyer (£25,000)
e) An additional contribution towards the cost of replacing the seating in the Royal Spa Centre (£13,000).

With the exception of the Flume and Royal Spa Centre Foyer refurbishment, this work will be undertaken during 2011/12. The remaining work will be undertaken during 2012/13 and slipped from 2011/12 into the 2012/13 Capital Programme.

8.3.2 The Footway Lighting – Routine Maintenance budget has been reduced by £17,600 to allow for a revenue contribution to capital outlay in respect of the replacement Mercury Street Lighting project in the 2011/12 General Fund Capital Programme.

8.3.3 The post of Community Enterprise Officer (CEO) at the Brunswick Enterprise Zone became vacant on the 1st December 2011. The CEO post is a fixed term contract which expires on 13th July 2012 and was a key component of the AWM Enterprise projects which were funded by AWM in 2009. It is essential that the Council continues to produce the contracted outputs for AWM relating to New Businesses created and New Jobs created which were being generated by the CEO. To recruit and train a replacement is not feasible in this short time frame and it is key that outputs are delivered to avoid any risk of AWM clawback. Therefore it is proposed that:-

The Enterprise Development Manager seeks competitive quotes from professional business support providers to produce these key outputs, utilising the unspent salary budget of £11,700 and that this amount is vired from Salaries to Consultants. As the work will span two financial years any unspent monies on this budget on closure of the 2011/12 accounts will be carried forward into 2012/13 by way of an Earmarked Reserve.

8.3.4 The revenue budget for the United Reform Church/Spencer Yard project will not be fully utilised during 2011/12 as the feasibility study with the Council's partners for this site has not been concluded. It is recommended that £200,000 of the Spencer Yard revenue budget is allocated to the Capital Investment Reserve where it is earmarked to be used on this site in the future. The balance of the revenue budget (approximately £50,000) will be used for all the associated costs of maintaining the site until a formal scheme is agreed. The balance on this budget being slipped to 2012/13 as part of the 2011/12 Final Accounts process.

8.3.5 The Government has distributed a small additional grant of £3,800 in respect of the extra burden placed on billing authorities in respect of the temporary increase small business rate relief scheme.

8.3.6 The 2011/12 Contingency Budget has £256,400 remaining unallocated. No Contingency Budget had been included in the 2012/13 Base Budget considered in January. It is recommended that this balance on the Contingency Budget is agreed to be slipped to 2012/13 now by way of an Earmarked Reserve. It is thought unlikely that there will be any additional demands upon this budget to be spent in 2011/12. If that does occur, the 2012/13 Contingency Budget will need to be reduced, with this reported and agreed as part of the Final Accounts report.

8.3.7 In considering the 2011/12 Budget in February 2011, Members agreed to create a Play Equipment Reserve, with £200,000 initially allocated. It was noted at the time that further funds would be required in the future to enable the Council's play areas to be properly maintained in the future. Accordingly, it is recommended that £200,000 of the current year projected surplus is appropriated to the Play Equipment Reserve.

8.4 The above changes result in a net General Fund Revenue Budget for 2011/12 of £16,226,400, this representing a net surplus of £5,100 over the Original Estimates. It is recommended that the usage of this surplus is considered as part of considering the overall revenue outturn position, and associated surplus or deficit, for 2011/12 when the Final Accounts are reported in June to the Executive.

9. THE 2012/13 REVENUE BUDGET

9.1 Base Budget

The Base Budget was reported to the 11th January 2012 Executive. Paragraph 8.3 sets out the main changes in the base budget that arise from scrutiny of the 2011/12 original estimates. This and other efficiencies identified for 2012/13, means that the Council has been able to reduce it's budget by £500,000 in savings before taking into account additional unavoidable cost pressures for the next financial year. In addition to these sums the Council had previously committed itself to additional expenditure/savings in 2012/13 of the following on an ongoing basis:

	£'000
Pension Fund Costs	74
Procurement savings	-150
Budget underspending review	-83
NEST(National Employment Savings Trust)	39
Revised Discretionary Rate Relief Scheme	-75

9.2 Further changes

9.2.1 New duties – there were no additional sums allocated through the Revenue Support Grant settlement process in respect of new duties. The Government has previously advised the principle whereby it funds (on a national basis) the estimated cost of new duties specific to local government. No adjustments have been made to the budget for new duties.

9.2.2 Procurement

The Medium Term Financial Strategy included the need to find ongoing procurement savings of £150,000 in 2012/13, following on from similar savings being included within the 2010/11 and 2011/12 Budgets. To date, recurring savings for the General Fund of £96,000 were achieved in 2010/11 and to date a further £73,000 in 2011/12. The Full Year's savings on some of these initiatives will not be realised until 2012/13. The full year impact of these, total an additional £10,700. These have already been netted off the £150,000 target for 2012/13, leaving £139,300 still to be identified.

Further savings are expected to be identified during 2011/12 so as to achieve the budgeted sum. Much work is continuing across the Council to embed good procurement practices and reducing risk. This is helping the Council to ensure that it achieves better value for money from all its budgets, although it is not always possible to identify specific savings from all the contracts that are being let. In many cases, one –off savings are being achieved, or the savings are to the benefit of the Housing Revenue Account. The Senior Management Team is reviewing the work plan for the Procurement Team to ensure that the savings identified within the 2012/13 Budget will be achievable. Further procurement savings are expected to be identified following the closure of the 2011/12 accounts. The unmet procurement savings carried forward from previous years have been added to the 2012/13 procurement savings budget, so bringing this total to £244,000. Any recurring savings identified within 2011/12 will bring this figure down.

9.2.3 Pensions

A 25 year plan commencing in 2005/06 was put in place to address the deficit on the Local Government Pension Scheme administered by Warwickshire County Council. Employer contribution rates were agreed for the initial 6 year period. Following the triennial review of the fund as at 31 March 2010, increases contribution rates have been agreed for the three year period to 31 March 2014. This has required an additional £65,000 (recurring) to be included within the 2012/13 Budget, and a further similar increase for 2013/14 within the projections. These increases reflect the pension fund assets being devalued during the recent recession. Latest estimates show the values of the pension funds assets have increased, although any benefit of this will not be included until after the 31 March 2013 triennial revaluation.

Members will recall the Pension Consultation proposals from the Government that were considered by the December 2011 Executive. These seek to increase the contribution rates of employees from April 2012. As at the time of writing this report, there have been no further developments from the Government following the Consultation responses. If the employees' contribution rates do increase, this should relieve the pressure on the employers' contributions. However, with the pensions fund assets still being devalued, the actuaries will not be advising authorities to reduce their contributions.

9.2.4 Audit Fees

Following the announcement of the Secretary of State for Communities and Local Government in August 2010 that the Audit commission would be disbanded, a procurement process is currently taking place to appoint private sector auditors in place of the Audit Commission auditors to audit the Council's accounts from 2012/13. This process is being managed by the Audit Commission. The results of this tendering process will not be known until April when local authorities will be notified of any changes to the fees included within the budget in future budget monitoring reports. Full details about the auditor appointment process will be reported to the Finance and Audit Scrutiny Committee.

9.2.5 Environment Agency Contract

The 2012/13 Estimates agreed in January were prepared on the basis of the Environment Agency contract ending in June 2012. It has now been confirmed that this contract will continue to September 2012. This will present the Council with net additional income of £42,600, it is recommended this be added to the Contingency Budget for 2012/13.

9.2.6 Contingency Budget

The 2012/13 Bases Estimates presented to the January Executive did not include a specific Contingency Budget. However, as discussed in paragraph 8.3.6, it is proposed to slip the unallocated balance of the current year's Contingency Budget of £256,400 to 2012/13. It is also proposed that of this, £14,000 is provided from this Budget in 2012/13 to allow the seven Community Forums to support local celebrations of the Diamond Jubilee, with each being able to claim up to £2,000 as discussed in paragraph 9.9.5 below. Taking into account the increase to the Budget recommended in paragraph 9.2.5 above, this will bring the unallocated Contingency Budget to £285,000

9.3 **Fees and Charges**

9.3.1 The Council's Financial Strategy, was based on income from fees and charges increasing by 2%. As reported to the October Executive, some areas of income, e.g. parking and planning fee income are still depressed. This shortfall is estimated at £90,000 which has been allowed for in the 2012/13 proposed budget.

9.3.2 Changes agreed to Fees and Charges in October 2011 have been implemented from January 2012. Magistrates Court Fees in respect of Council Tax and Business Rates recovery are due to be increased from April 2012 as agreed by Members in January.

9.3.3 A Member Working Group is currently reviewing the concessions offered by this Council in respect of its fees and charges. The group is meeting on a regular basis, considering the individual types of concession, the groups that this Council wishes to target and a Concessions Policy. The outcome of this review will be reported back to Members prior to the determination of next year's Fees and Charges in October 2012.

9.4 **Collection Fund**

9.4.1 In accordance with the relevant regulations, the Collection Fund Balance has been projected. This shows a Council Tax balance as at 31st March 2012 of £249,788. This deficit balance will be shared with Warwickshire County Council, and Warwickshire Police Authority. This Council's share will be £28,000. Members are asked to approve that this be funded from the General Fund Balance in 2012/13. Thus there will be no impact on the Council Tax for 2012/13. In estimating the balance, a prudent approach has again been taken.

9.5 **Government Finance Grant Settlement**

9.5.1 Following on from the 2010 Comprehensive Spending Review, local authorities received the provisional Revenue Support Grant Settlement for 2012/13 in December 2010. A further provisional notification was issued in December 2011, this being unchanged. The Council expects to receive total External Grant (RSG/Redistributed NNDR) of £6.984m for 2012/13.

9.5.2 For 2013/14 and beyond there is still uncertainty as to what level of grants local authorities will receive due to the implications of the Business Rates Retention Scheme not yet being clear. The Council's Medium Term Financial Strategy assumes further Grant reductions of 7.5% for both 2013/14 and 2014/15. The CSR2010 suggested reductions in funding for local government of 28% over the next four years. Taking into account the Council's 14.2% reduction for 2011/12 and the 11.0% for 2012/13, the total reduction over the 4 year period included within the financial projections, compared to the Adjusted RSG for 2011/12 will be 35%. There has been a disparity within local government as to the size of the grant reductions, with shire districts fairing worst. It is therefore thought to be prudent to allow for reductions over the 28% within the four year period. If the reductions are at 3% per annum for 2013/14 and 2014/15, this would present the Council with approximately £600,000 more grant for 2014/15 than allowed within the projections, but would represent a 28% reduction in grant over the four years. However, as mentioned above, there is a real risk that some sections of local government will face grant reductions very different to the 28%.

9.5.3 In December the Treasury published a statement saying that local government funding levels will be cut by £240m in 2013/14 and £497m in 2014/15. It will probably not be known with any certainty how much this will impact upon different types of authority, and individual authorities until December 2012.

9.5.4 The proposed 2013/14 grant will not be confirmed until January 2013.

9.6 **New Homes Bonus**

9.6.1 The Council received New Homes Bonus (NHB) of £292,000 in 2011/12. Full details of this scheme were included in the July 2011 Budget Prospects report when Members agreed to allocate the amount to the Service Transformation Reserve.

9.6.2 Further NHB of £818,000 (£292k 2011/12 + £526k 2012/13) for 2012/13 was announced in December 2011. As Members are aware, funding for NHB is time limited (a 6 year period). Accordingly, a prudent approach needs to be taken in the use of this funding as it is not expected to be sustainable to support the on-going revenue budget. The 2012/13 proposed Budget and the Medium Term Financial projections do not include the benefit of NHB in supporting revenue expenditure.

9.6.3 No specific uses for the NHB are proposed at this stage although officers are currently drafting a Protocol for Members' consideration. Accordingly it is recommended that the £818k 2012/13 NHB is added to the Service Transformation Reserve for its use to be considered at a future date.

9.7 **Key Assumptions**

There are a number of key assumptions made in setting the budget that Members are endorsing in agreeing to the budget. The main ones are:-

9.7.1 Staff turnover - The practice introduced in 2002/03 of holding a vacancy factor of 2.5% is continued. 1.5% was taken as an assumed reduction in salary cost, and the remaining 1% formed a budget in the Human Resources service for a central reserve to cover the costs of maternity, long-term sickness and recruitment costs. From 2011/12 the revised estimates for salaries were been reduced by a further 0.25% to reflect the procurement savings on the use of agency staff. With the increased usage of internet advertising and slowdown in recruitment Human Resources has given up the central budget which now means that the salary budgets have been reduced by the whole 2.75%.

9.7.2 No increase in the budget has been made for additional road cleansing costs, required for new streets, and the collection of waste from new properties as the existing budgets are able to accommodate the expected (minimal) increase here.

9.7.3 Inflation assumptions – The inflation indices used were reported in Base Estimates report in January. The key figures for the increases between 2011/12 and 2012/13 are:-

	Percentage
Salaries	zero
Refuse / Recycling/ Cleansing contract	4.0
Grounds maintenance contract	4.0
General inflation	0.0

The latest RPI (December) is 5.2% and economists are expecting inflation to continue to fall over forthcoming months.

The inflation rate being used in the Estimates for major contracts for 2012/13 is now 4%. Under these contracts, charges are increased in April based on the RPI for the prior January which will be announced in February. There is therefore a risk that the inflation allowances in the estimates for major contracts may be insufficient. An additional 1% RPI on the major contracts is worth £60,000. It is intended to continue to monitor the position, and if RPI is above 4% consider how this may be contained within the proposed budgets, and report back to Members if this does not prove possible.

Whilst including zero inflation for most budgets, the 2012/13 estimates do include a £50,000 Inflation Provision which budget managers may seek to access if it proves impossible to manage their services with no inflationary increase.

9.7.4 Our Treasury Consultants currently forecast the Bank Rate on which short term investment rates are based to be 0.5% at the start of 2012/13. It is expected that Bank Rate will remain at this level throughout 2012/13. The target return for the Council's cash flow derived investments in 2012/13 reflects this rise and has been set at 0.79%. When the expected returns from the Council's core investments are added in, the overall investment rate for 2012/13 is expected to be 1.39%.

9.7.5 Key activity assumptions – it is considered that it is those large and/or volatile budgets which Members should pay most attention to. The key figures for 2012/13, which have formed the basis of the Estimates, are as follows:

i) Number of planning applications – 1,600 estimated (1,600 originally estimated in 2011/12).

ii) Number of building control applications – 1,500 estimated (1,500 initially estimated in 2011/12).

iii) Car Parking - The target for off street car parking for 2012/13 income from all ticket sales, season tickets and excess charge notices from all WDC car parks, excluding Royal Priors, is £2,370,000.

iv) Number of gym admissions to Leisure Centres - 110,000. Total number of swimming admissions, 240,000. 2011/12 estimated admissions – 100,000 and 275,000 respectively.

9.7.6 The Council is reliant on income collection. Recovery measures have been set for the main sources of income as detailed below. These are deemed to be stretching, yet should also be achievable. These will be monitored throughout the year as part of the budget monitoring.

- Council Tax - percentage received in the year - 98.8% (98.8% 2011/12 target)
- Business Rates - percentage received in the year – 98.5% (98.5% 2011/12 target)
- Housing Rents – percentage of rent collected – 97.5% (97.5% 2011/12 target).

9.8 Staff Pay

9.8.1 2012/13 will be the second year of the Government's pay freeze for the public sector. However, the local government pay increases are agreed independently from Central Government. As local government did not have a pay award in 2010/11, 2012/13 will be the third consecutive year officers have had no pay rise. For 2013/14 and 2014/15, the government is seeking to limit public sector pay rises to 1%. No pay allowance has been included within the 2012/13 Estimates.

9.8.2 As an alternative approach to pay, a Local Pay Agreement is proposed for consideration with the staff and the unions. It is proposed that if the authority achieves the required level of savings and service performance each year all staff will receive a one-off payment as a percentage of their basic pay in place of a possible annual negotiated increase. If this policy is agreed up to 2016/17, it would enable over £1m to be removed from base budgets. Under this approach it is intended that officers will receive an element of a pay award, whilst at the same time providing the organisation with the incentive to ensure the savings required are achieved.

9.8.3 It is recommended that the Chief Executive should consider the details for this local scheme and enter in discussions with staff and the unions so as to report back to a future meeting of the Executive.

9.8.4 Alongside this report to the Executive, there is the report on Members' Allowances, with the recommendations of the Independent Remuneration Panel. The Executive will wish to consider whether it wishes to replicate the approach outlined above for Members' Allowances.

9.9 Service Proposals

9.9.1 Following the reduction in bus services funded by the County Council, officers were asked to examine whether any parish has been adversely impacted and so warranted a change in token allocation. Eligible Shrewley residents currently receive £25 but it is felt appropriate to increase the allocation to £50 annually.

9.9.2 Burton Green will be a new parish from 1st April 2012. Based on its current service, it is appropriate that eligible parish residents receive £50 annually.

9.9.3 With Burton Green becoming a new parish, the Chief Executive, and the Council's Returning Officer, is of the view that a parish council election should be held in 2012/13. As the council has not had the opportunity to build up any reserves, it is proposed that the District Council should fund the costs of this inaugural election.

9.9.4 The Travel Tokens Budget is currently not being fully utilised and should be able to accommodate the additional cost of the proposals in paragraph 9.9.1 and 9.9.2. With regard to the cost of Burton Green Election, (9.9.3) this should not be great and should be able to be accommodated within the Elections Budget. This will need to be monitored and if it cannot be accommodated will need to be addressed as part of future budget monitoring.

9.9.5 With the Diamond Jubilee in June, it is proposed to allow funds within the 2012/13 Budget towards suitable celebrations supported by the seven Community Forums in the District. Accordingly, it proposed that £14,000 is provided in the budget, so as to provide up to £2,000 for each Community Forum, this being funded from the 2012/13 Contingency Budget.

9.9.6 Over the next few years there are many projects that this Council wishes to be pursued, in addition to the Fit For the Future Programme and the Clarendon Arcade/Gateway projects for which an additional staff resource was agreed in December 2011. It is recommended that a further temporary Project Co-ordinator to co-ordinate these projects is agreed at an estimated cost of £60,000 to be funded from the Service Transformation Reserve (paragraph 11.2.1 vii refers).

9.10 Council Tax Freeze Grant and Council Referendum

9.10.1 In agreeing the 2011/12 Council Tax levels a year ago, the Council, like most others, took advantage of the Council Tax Freeze Grant. This is paid to those authorities who do not increase their council tax, giving them the equivalent of a 2.5% tax increase. In recognition that a one year tax freeze does erode the base council tax income for future years, the government agreed to continue to provide this amount of funding for the four years of the spending Review (i.e. up to 2014/15), even if council tax levels were increased during those years.

As part of the Autumn Statement in November, the Chancellor announced a continuation of the Council Tax Freeze Grant for 2012/13. However, the funding to freeze the council tax for 2012/13 will only be one off. This means for 2013/14 those authorities freezing their council tax in 2012/13 will face additional financial pressures. Due to concern over the longer term impact of this grant being one off, many local authorities are not taking up the council tax freeze grant for 2012/13 and will continue to increase their council tax.

The 2012/13 Budget and Medium Term Financial Strategy have been prepared on the basis of a council tax freeze for 2012/13. £196k central government grant has been included, the equivalent to the additional revenue that would be generated from a 2.5% tax increase. This additional grant has been included for 2012/13 only, with the Council Tax Freeze Grant from 2011/12 being continued to 2014/15.

9.10.2 Under the new Localism Act, the Government now has the power to insist that any local authority that proposes to increase the level of council tax above a pre-determined amount will need to seek the approval of their electorate by way of a referendum. Local authorities triggering a referendum are, at the same time as they set their council tax for 2012/13, obliged to make substitute calculations for a council tax which does not exceed the principles. If the electorate rejects the increase that has been set, the substitute calculations will take effect and council tax liabilities must be adjusted accordingly. The result of the referendum will be binding.

The proposed levels over which a local referendum will need to be held are:-

- 4% for Greater London Authority, police authorities and single purpose fire and rescue authorities
- 3.75% for the city of London
- 3.5% for other principal authorities.

Parish and town councils are excluded from these principals for 2012/13, although the Minister does not rule them out for 2013/14.

9.10.3 The need for local referendums effectively replaced the previous capping regime. These principles have the additional cost for local authorities of having to pay for the local referendum, in addition to rebilling costs should the electorate vote for the lesser amount. On top of this there will be the cost of increased borrowing/loss of interest due to missed instalments and delayed recovery action against some taxpayers.

9.11 Making the Council Tax Decision and Legal Implications

9.11.1 The setting of the budget and the Council Tax by Members involves their consideration of choices and alternatives. No genuine and reasonable options should be dismissed out of hand and Members must bear in mind their fiduciary duty to the Council Taxpayers of Warwick District Council.

9.11.2 Should Members wish to propose additions or reductions to the budget, on which no information is given in the report before Members, they should present sufficient information on the justification for and consequences of their proposals to enable the Executive (or the Council) to arrive at a reasonable decision on them. The report sets out relevant considerations for Members to consider during their deliberations, including the statement at Appendix 2 from the Chief Financial Officer.

9.11.3 Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision that no reasonable authority could come to, balancing the nature, quality and level of services that they consider should be provided, against the costs of providing such services.

9.11.4 It is a duty on all Members of the authority to set the budget. What this means in practice is that collectively all Members have this duty not just the Executive. Case Law has shown that abstention is not a defence in failing to comply with this duty.

9.11.5 Members are also reminded of section 106 of the Local Government Finance Act 1992, which requires any member who has not paid his/her Council Tax or any installment for at least two months after it becomes due and which remains unpaid at the time of the meeting, to declare that at the meeting and not vote on any matter relating to setting the budget or making of the Council Tax and related calculations.

10. IMPLICATIONS FOR THE MEDIUM TERM

10.1 Appendices 3a to 3d set out the current planning totals for the Council's budget for the years 2013/14 to 2016/17, based on current decisions, and changed assumptions as set out in the paragraphs below.

10.2 Within the Budget report to the Executive in February 2011, the projected required savings were presented. These have been reviewed throughout the year since and periodically reported to Members. Members were last updated in January of this year as part of the Base Budget Report. There has been some change to these latest projections showing the overall required savings needed to be found in order to set an acceptable Council Tax level. The latest projections now allow for a 3.45% increase in Council Tax for 2013/14 and 2014/15, with increases remaining at 2.5% for the 2 subsequent years. The additional council tax increases of 0.95% reduce the on-going savings required by £75,000 each year (a total of £150,000). Appendix 3a shows both the cumulative on-going savings required (Deficit-Savings Required) and the additional savings needing to be found each year.

Row (i) of Appendix 3a shows the net cost of the Council's General Fund Services. Members are asked to note that the £19,152,000 for 2012/13 is includes savings that yet to be identified and achieved by way of the Fit for the

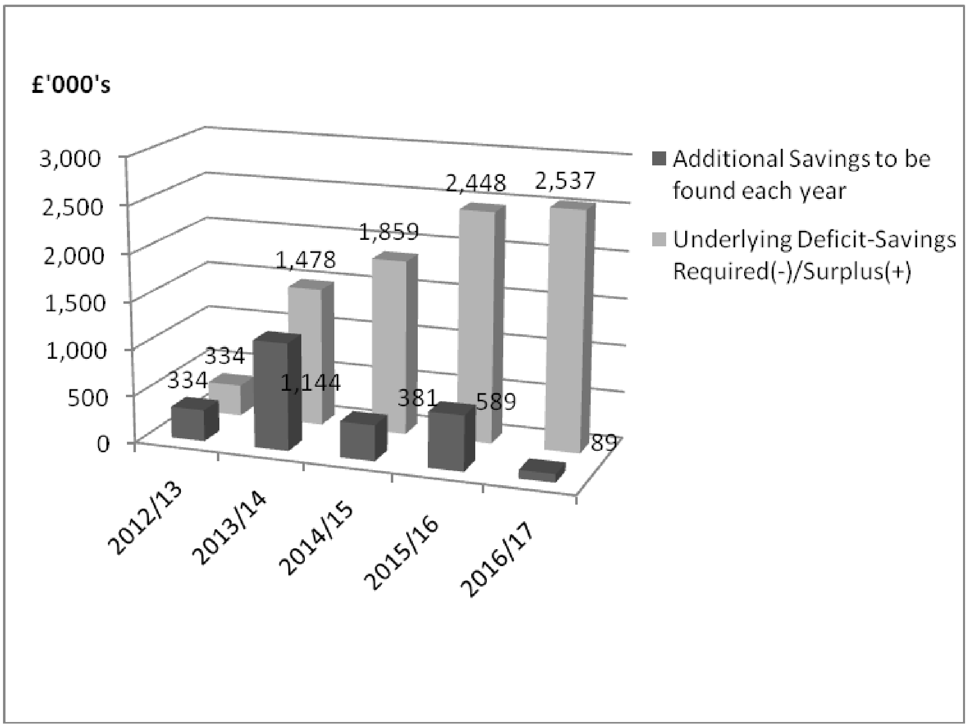
Future Change Programme. Rows (vi) and (vii) show the cumulative and additional savings required for subsequent years on the basis that the projects underway will deliver such. Rows (ix) and (x) show the underlying position should this not prove the case. Again, the deficit is shown as both cumulative and additional savings required each year.

In summary, the Council must identify and deliver £2.5 m on-going savings by 2016/17. Delivering the £334,000 assumed in the 2012/13 budget will reduce this deficit to £2.2 m.

10.3 The table below summarises the change to those cumulative savings forecast 12 months ago. This is based upon the underlying cumulative savings target of £2.5 m on net expenditure of £18m.

Year	**Forecast Cumulative Deficit as at February 2011 £'000's**	**Forecast Cumulative Deficit as at February 2012 £'000's**
2012/13	854	334
2013/14	1,806	1,478
2014/15	2,457	1,859
2015/16	2,922	2,448
2016/17	N/A	2,537

The chart below shows the latest forecast deficit and level of savings (cumulative and additional year on year) required based upon the £2,537,000 underlying deficit.



10.4 The detailed changes to the savings requirement have been reported to Members throughout the last year, most recently in January. Members will note that the required on-going savings to be achieved by 2016/17 have reduced from £2.922m to £2.537m, a small reduction of £385,000. The most significant changes affecting the forecasts since February 2011, are:

- Removal of the pay provisions previously built into the 2011/12 budget and 2012/13 forecast, £300k.
- The 2012/13 Council Tax Freeze has been funded on a one-off non-recurrent basis. Whilst this has not reduced the overall on-going level of savings needed, it has deferred the amount of savings needed for 2012/13 until 2013/14 (£196,000);
- By no longer crediting notional investment interest to reserves the General Fund will retain this income, some £200k per annum;
- Fees and Charges assumed increases of 2% have not materialised resulting in a reduction of £90k in anticipated income;
- Termination of the Environment Agency Contract £145k (£102k in 2012/13 and the full year effect in the following year);
- Spa Centre reduced income (£365k), less (£283k) expenditure savings resulting in a net increased cost of £ £82k;
- Race Course Rent Review (adverse) £25k;
- Loss of Anti Social Behaviour Funding £34k;
- Reducing the Corporate Repairs & Maintenance Budget £100k;
- Recycling Receptacles and Bins to be funded from Capital in 2012/13 (a one-off saving to the General Fund Revenue Budget of £120k);
- Inflation Provision reduced from £200k to £50k for 2012/13;
- The anticipated reduction Revenue Support Grant for 2012/13 from reducing discounts on Long Term Empty Properties has not materialised. However, this has been assumed to impact for 2013/14 in the interests of prudence. (£39k).
- Council Tax increases of 3.45% for 2013/14 and 2014/15 £150k

10.5 Within the projections annual inflation of 2% per annum has been included from 2013/14. The Revenue support grant has been reduced for 2012/13 in line with the December Government Announcement. Further reductions of 7.5% for the subsequent 2 years have also prudently been factored in as discussed in paragraph 9.5.2. These two factors are major drivers in the projected budget deficit facing the Council and negating the significant savings already achieved to date. Further changes to the projections are discussed below:-

10.5.1 The financial projections include the Council Tax Freeze grant of £196,000 to 2014/15 relating to the tax freeze in 2011/12, as discussed in paragraph 9.10.1.

10.5.2 As discussed in paragraph 9.2.3, the last actuarial review of the pensions fund reviewed the deficit on the fund and how this may be recovered. In order to make good this funding gap it is necessary for the Council's contributions to increase in future years. The projections have been updated in light of the latest forecasts based on the triennial review as at March 2010.

10.5.3 An annual provision of £130,000 per annum to allow for the volatile state of the economy remains in these projections in line with that reported to Members last year. This is comprised of £50,000 provision for increases above an inflation rate of 2% and £80,000 for future pay increments.

10.5.4 The provision for the increased costs when the current Waste Contract is renewed in 2013/14 has been reduced by £250,000 since reported in February 2011. The total provision for the new contract, which will begin in April 2013, (including Grounds Maintenance), is now £250,000 in light of latest intelligence, although there is on-going work to confirm this figure and how further savings/efficiencies may be made within the contracts.

10.5.7 The main risks to the Medium Term Financial Strategy are detailed in paragraph 12.2.

10.6 In compiling the 2012/13 Budget, identified savings have already been factored in. These include those further savings (paragraph 9.1 refers) of £500,000. Many other initiatives have already been identified and others are being considered with the intention to generate financial savings which will reduce the forecast deficits in future years.

10.7 The Council has adopted its Fit For the Future change programme. As well as focusing on delivering quality services that its customers need, the programme has challenging savings to be delivered. These should reduce the £2.5m cumulative deficit. £334,000 savings have been assumed for 2012/13 to enable members to set a balanced budget with a zero council tax increase. This target will be closely monitored. As further savings above this figure become viable, these will also be incorporated into the financial projections. A full report on Fit For the Future and details of the projects which are intended make the savings required by the Council will be presented to the April Executive.

10.8 Business Cases are being encouraged for initiatives to generate savings or additional income. If necessary, funding will be sought from the Spend to Save Reserve or Transformation Reserve where the investment should result in savings, taking into account any associated risks.

10.9 When determining future years' capital programmes the Council will need to be mindful of the implications for staff who work on capital projects, and how the reducing capital programme may result in spare staff capacity which will need to be managed. It is assumed that there are no additional costs arising to revenue in later years where the capital programme is still to be determined.

11. RESERVES AND BALANCES

11.1 General Fund Balance

This balance stood at £1.646m as at 31 March 2011, £100,000 of this being used to finance the Rural/Capital Improvement Grant Scheme. Financially, the forthcoming years will be very difficult for the Council, as with the rest of the public sector. There are many known specific demands upon the Council's finances, in addition to those not so apparent. Many of the risks facing the Council are discussed in Section 12. In order to consider a reasonable level of general reserves a risk assessment has been done and is contained at Appendix 4. This shows the requirement for the General Fund balance of over £1.5 million against the risks identified above. It has been agreed that £1.5m should be the minimum level for the core General Fund Balance. After financing the 2011/12 Collection Fund Deficit £28,000, this will reduce to £1.518 million.

11.2 General Fund Earmarked Reserves

11.2.1 The reasons for the reserves and their use are included in Appendix 5a and Finance and Audit Scrutiny Committee is especially asked to scrutinise this element and pass comment to the Executive. Those General Fund reserves which show a significant change in the overall balance in the period 1st April 2011 to 31st March 2016 are detailed below and shown in Appendix 5b.

i.) Other Commuted Sums - reduction of £285,000 due to annual funding of mainly Open Spaces maintenance costs.

ii.) Corporate Property Programme Reserve – reduction of £167,000 on closure of the reserve and transfer of the balance to the Equipment Renewals Reserve.

iii.) Capital Investment Reserve – an increase in the balance of £377,000 mainly due to contributions from the General Fund in respect of previous year's capital financing offset by the use of the reserve in financing projected General Fund capital expenditure. A further contribution of £200,000 is proposed in respect of Spencer Yard as discussed in paragraph 8.3.4.

iv.) Planning Appeals Reserve – decrease in balance of £144,000 due to funding the Local Plan and Town Centre Plans costs in 2011/12 – 2012/13.

v.) Spend to Save Reserve – reduction of £241,000 due to funding spend to save projects e.g. Agile Working, funding the BIP Manager and Procurement Officers posts and to support the developments of Newbold Comyn Golf Course during the initial years of the new lease.

vi.) St Mary's Lands / Forbes Estate Community Fund – increase of £120,000. This is a new reserve created from the unspent St Mary's Lands capital budget and is intended to provide finance for schemes benefitting Warwick West. To date, no schemes have been allocated from it.

vii.) Service Transformation Reserve – increase arising from the allocation of £292,000 New Homes Bonus in 2011/12 to this reserve offset by £120,000 funding for two Temporary Project Co-ordinators, one of these posts being agreed by the Executive in December 2011 for (Clarendon Arcade, Gateway), and the other as discussed in paragraph 9.9.6. In addition, as discussed in paragraph 9.6.3, it is recommended that the 2012/13 New Homes Bonus of £818,000 is allocated to the Service Transformation Reserve. This will bring the net increase in this reserve by 2015/16 to £1,020,000.

viii.) Play Equipment Reserve – increase of £200,000 following an allocation from the estimated 2011/12 budget surplus as discussed in paragraph 8.3.7.

ix.) Equipment Renewal Reserve – decrease of £1,863,000 due to funding various projects e.g. Royal Spa Centre seating, ICT servers etc, Public Conveniences refurbishments. The decrease also reflects bids outlined in

Appendix 6 offset by £176,000 transferred from the Corporate Property Repairs & Maintenance and Assembly Rooms Renewals and Repairs Reserves upon their closure. In February 2008, the Council agreed to set up a reserve to allow for the replacement of items of equipment and periodic surveys. In the current economic situation and external grant regime the previous ad-hoc basis of funding could leave the Council without sufficient funds for vital replacements. A schedule is attached at Appendix 6 of the replacements and renewals expected over the next 11 years for items that are in excess of £5,000. Appendix 6a summarises by financial year the £3,319 million required from the Equipment Renewal Reserve across the Service Areas. A more detailed analysis at Appendix 6b individually lists the items estimated to require replacement in each of the financial years. The Executive received a report on this in September of last year

Despite increasing this Reserve by some £400,000 from General Balance last year, insufficient funds are available to fully support all the potential calls on it. Members are asked to note the expected balance on this Reserve, £1,470,000 as at 1st April 2012 and that the potential calls on this Reserve are well in excess of this. Should all items require replacing as per the schedule funds would be exhausted by 2015/16. Officers have undertaken a full review of the schedule to determine which items could be resourced from alternative sources. Their findings and recommendations were reported and approved by the Executive in September of last year. Within the report, they also approved that Portfolio Holders and Service Area Managers reviewed their items on the schedule on a quarterly basis. The Appendices to this report have been updated to reflect these decisions and known changes that have arisen since.

Members will be aware that the Waste Contract is being tendered. The Equipment Renewal Schedule currently assumes £120,000 to replace the recycling receptacles in 2013/14 only. This is dependent upon the outcome of the tender process and Members will be updated accordingly.

There needs to be careful scrutiny of the need to spend from this Reserve. In September of last year, members re-affirmed the following process for the release of monies from this Reserve-

- Service Manager to consult Portfolio holder
- Service Manager to report to Senior Management Team
- Chief Executive to consult the Corporate and Strategic Leadership Portfolio holder

11.3 Housing Revenue Account Reserves

Housing Revenue Account (HRA) Reserves totalled £12.573m as at 1st April, 2011, and under Self Financing are expected to increase to around £14.271m at 31st March, 2016 (Appendix 5b).

The Housing Revenue Account will operate on a self financing basis with effect from 1st April 2012. The future use of these reserves will be reviewed as part of the ongoing development of the Self Financing Business Plan.

12. RISK AND BUDGET MANAGEMENT

12.1 Sensitivity analysis

The key assumptions made in setting the budget are set out in paragraph 7.6. A sensitivity analysis of these assumptions on the budget is as follows:-

- 0.5% change in pay award = £77k
- 0.25% fall in interest rates from levels assumed in budget = £57k cost to the General Fund for a full year.
- 0.5% change in inflation (excluding salaries) = £71k

12.2 Risks

12.2.1 The risks in the 2012/13 budget together with notes on how they are controlled are considered to be:

<u>Revenue</u>

- Economic cycle issues that can affect some of the key assumptions in paragraph 9.7 – regular budget monitoring will be undertaken to highlight these areas.
- Further large 'environmental' prosecution or case of some type – there is little the Council can do in addition to the regular monitoring of premises.
- Costs from an environmental uninsured event – the Council's insures to mitigate against the effects of this
- Partner issues – to the extent that any financial difficulties from partner organisations could affect plans the maintenance of good relations is critical in being able to take any issues on board.
- The costs of planning appeals, including the risk of costs being awarded against the Council and the costs of defending appeals - a reserve and regular budget monitoring.
- Reduction in parking income – this is kept under review. In addition, the Council is working with the County Council to influence their off street parking charges to create a better alignment/differential.
- Reduction in local land charges income – keep under review, review costs.
- Revenue implications of capital schemes not fully identified – Close scrutiny of capital proposals.
- Housing Revenue Account Self Financing – whilst the HRA Business Plan has been prudently prepared to support the borrowing of approximately £140m, there are undoubtedly risks associated with it. It is expected that the final figures will be confirmed shortly, with members being updated at the meeting. Progress on the Business Plan will continue to be closely monitored with proposals for appropriate governance arrangements being brought to Executive in June.

<u>Capital</u>

- Dealing with contaminated land – this is not controllable to the extent it is 'historic'.
- Loss or delay of capital receipts – The capital investment reserve should be able to smooth any delay in capital receipts, but a review of the Capital Programme will be required should it become apparent that

capital receipts are not going to materialise. Capital Programme only prepared on the basis of capital receipts likely to be received with a low level of risk attached.

- Large projects going over budget due to unforeseen circumstances – The balance on the Capital Investment Reserve is judged to be adequate to cover this eventuality.

<u>Later Years & Medium Term</u>

- Revenue Support Grant Settlement. As discussed in paragraph 9.5.2, there is a risk that future grant reductions may be greater than the 7.5% reductions that have been factored in for 2013/14 and 2014/15, and the assumed standstill position beyond that. The position will be monitored, and reported to members as any further details about future settlements is received.
- Superannuation Fund contributions. Increased contributions have been included in the financial projections as discussed in paragraph 9.2.3. Whilst it is hoped that the proposed changes to pension funds will reduce the pressure on employer contributions, there is the risk of further increased contributions should the value of pension fund assets decrease, or if there is a reduced membership of the scheme following changes to the scheme. This will continue to be monitored and any changes reported to Members.
- The savings from projects in the Fit For the Future programme are not realised. Only those that have clear costed savings have been included within the medium term financial strategy, although the 2012/13 Estimates assume further savings of over £300,000 are secured during the year. Progress on the programme is being closely monitored by the Senior Management Team, with regular reports issued to Members. A separate report on Fit For the Future is due to be presented to Members in March.
- Major contracts – Greater costs than budgeted for. Would require review of the future service level.
- HB Administration Grant – Further reduction in annual grant. Last Four years have seen real terms reductions and grant is significant reducing from £822k in 2008/09 to £687k for 2012/13.
- Universal Credit – under the proposals, Housing Benefits are due to be administered by the Department for Work and Pensions, with work moving over on a transitional basis from 2013 to 2017. Local authorities are due to retain council tax benefit by way of new "Council Tax Rebates" schemes they are to draw up. Funding for Council Tax Rebates from central Government will only be 90% of the amount currently received for council tax benefits, with councils expected to pass on the reduction to "non-vulnerable" claimants, or make up the shortfall (approaching £1m). The full financial implications of this have yet to be assessed as further details are received.
- The Council is part of the 51M group which is due to appeal the HS2 decision of the Government. There may be additional costs of this, above those allowed for to date within the budget and financial projections. It is believed that these costs should be able to be contained within the Planning Appeal Reserve. Details of this would need to be reported to the Executive.

12.2.2 Having considered these risks and controls, the Head of Finance and CMT consider that together with the Council's core General Fund Balance of £1.5million (see paragraph 11.1), the forecast balance on the Council's reserves together with the ability to borrow in future years within the prudential framework give sufficient capacity to manage the risks during the current year. However, the Council faces a significant challenge to balance budgets, without impacting the breadth and quality of service provision, for future years and must continue to address this on an ongoing basis.

12.2.3 Members will want to be clear about the potential for taking money from the Council's balances and reserves. The earmarked reserves generally have commitments against them. In order to consider a reasonable level of general reserves a risk assessment has been done and is contained at Appendix 7 and shows the requirement for the General Fund balance of over £1.5 million against the risks identified above. Also it should be noted that the Council needs to secure substantial recurring savings in its Budget. Reserves and balances can only be used once, and their use may, at best, delay the need for the savings to be made.

12.2.4 A key issue for this Council a few years ago was the risk of overspending. Whilst the Council has reviewed its budget monitoring process it is acknowledged that we are now in an unprecedented economic situation and will need to be extra vigilant in budget monitoring.

12.2.5 <u>Opportunities/Positive risks</u>

There are also some opportunities for the Council, as referred to in Paragraph 10.13. These are all actively being investigated so as to generate savings and efficiencies that will help to reduce the projected financial deficit.

12.3 **Contingency**

General contingency
As referred to in paragraphs 8.3.6 and 9.2.6, it is recommended that the unspent 2011/12 Contingency Budget of £256,400 is slipped to 2012/13 for use in the year towards any unforeseen expenditure that cannot be accommodated within existing budgets.

12.4 **Budget & Financial Management**

The Budget Management regime requires quarterly budget monitoring reports to be issued to the Executive, alongside monthly monitoring reports to the Senior Management Team. In addition, senior and budget managers are required to sign off their budgets at the start of the financial year. They and their officers are mandated to adhere to the Code of Financial Practice which is updated periodically. The budget monitoring framework is continuing to be reviewed so as to ensure it is more risk based and accurate, alongside the overall Financial Management Practices of the Council. Any proposed changes will be reported to SMT and the Executive.

12.5 Revenue Slippage and Earmarked Reserves

Following the year end, as part of the Final Accounts Report, requests for slippage of revenue budgets for specific projects are normally brought forward for consideration and agreement of the Executive. These items of slippage should be for where it has not been possible to complete specific revenue projects within the year due to unforeseen events outside their control. It is not a mechanism to purely slip unallocated budgets. Therefore Budget Managers are reminded of this, and that in presenting requests for slippage from 2011/12 to 2012/13, Budget Managers will need to present detailed explanations as to why it was not possible to utilise the budget as intended in 2011/12 together with details of plans as to when and how that budget will be utilised. Any funds slipped from 2010/11 to 2011/12 that are still not utilised should not be considered for further slippage to 2012/13.

13. REVIEW OF, AND PROPOSALS FOR THE CAPITAL PROGRAMME – HOUSING AND GENERAL FUND

13.1 Current General Fund capital programme

Appendix 8 contains the current capital programmes for both the General Fund and Housing (HRA), together with their funding. Appendix 9 contains reconciliation and details of all the changes, including funding, to the current capital programme compared to that shown in the 2011/12 Budget Book.

13.2.1 The 2012/13 Capital Programme includes the additional projects, as detailed within the Capital Variation in Appendix 9:-

- Leamington Cemetery Extension, £168,000, as agreed by November 2011 Executive
- Refuse/Recycling Containers, £120,000, this previously being allowed for within the revenue estimates (see paragraph 10.4).
- Royal Spa Centre Air Curtain & Foyer Refurbishment - Agreed as part of Corporate Property Repairs & Improvements.
- Newbold Comyn Leisure Centre Replacement Flume - Agreed as part of Corporate Property Repairs & Improvements.
- Kenilworth Public Service Centre - Approved by Executive 02/03/11 to be funded by Capital Receipt generated from sale of Wilton House site, Kenilworth.

No further additions to the Capital Programme are proposed at this time.

13.2.2 As part of the service planning process a number of tentative self financing projects have been proposed. It is recommended that should the Executive receive viable self –funded business cases, amendments be made to the Capital Programme.

13.2.3 It is expected that proposals will come forward for some significant capital schemes over the next 12 months. In addition to being in line with the Council’s corporate priorities, full business cases will be required. These will need to address the capital funding for these schemes, and to make sure there are no additional revenue costs which the Council is unable to accommodate and will put further pressure on the Council’s reducing revenue resources.

13.2.4 The current capital programme funding for Rural & Urban Initiatives Grants as well as the Conservation Action Programme runs out at the end of 2014/15. However, in respect of the Rural & Urban Initiatives Grants as there is still un-allocated funding of £130,000 from 2011/12 and earlier years that has been slipped to 2012/13. Members will need to consider whether to approve further funding if they wish to continue these schemes into 2015/16 and beyond, ahead of setting the 2013/14 budget.

13.3 Housing Investment Programme

13.3.1 The proposed Housing Investment Programme (HIP) is shown in Appendix 8 part 2. For 2011/12 the figures reflect the slippage from 2010/11 as agreed in June, 2011, plus any changes identified as part of the Budget Monitoring process. Funding of the current HIP for 2011/12 is based on the current financing regime. However, the implementation of Self Financing of the HRA, from 1st April, 2012, has warranted the need for a robust 30 year Housing Business Plan, to ensure the continued future viability of the business. Consequently, HRA investment in the housing stock is now mirrors the figures contained in the Housing Business Plan, from 2012/13 onwards.

13.3.2 Expenditure on the General Fund (GF) element of the HIP, has been increased by a net amount of £1,519,000 for 2012/13. This comprises:-

- A reduction of £100,000 in expenditure for Mandatory Disabled Facilities Grants (DFGs), in the private sector has been made since a bid to Government for additional funds of this amount was unsuccessful.
- £1,370,000, is 'slippage' in the Housing Association programme from 2011/12. Funding towards developments at Coten End, £120,000 and Queens Square, £250,000, were not necessary. The remaining £1,000,000 is due to a lack of appropriate schemes being available.
- The remaining £249,000, is a S106 Contribution to be specifically allocated to projects in the old town, to be completed by March 2013.

13.3.3 Both the housing association and private sector housing programmes are partly funded from housing capital receipts, with the former being supplemented by commuted sums from developers and the latter with government grant assistance. To date, in 2011/12, 2 council houses have been sold, resulting in £53,100 of useable capital receipts. Currently the Government is consulting on changes to the Right to Buy Legislation which may increase Council House sales in future years but under Housing Self Financing any additional receipts will be channeled into repaying the outstanding debt on the sold properties and replacing the lost stock. Consequently, it is unlikely that any significant capital receipts from this source will be available to finance the General Fund Housing element of the Housing Investment Programme in future. Additional Capital Grant allocation of £34,363, (£34,400 rounded), has been awarded in January 2012, towards 2011/12 expenditure on DFG's. This has been included in the estimates, reducing the funding contribution necessary from capital receipts by an equivalent amount which will help ease the situation regarding reducing capital receipts in the future.

13.3.4 Currently, there is £1,595,000 unallocated within the 2012/13 housing association element of programme, as suitable schemes have yet to be identified. However, it is expected that a number opportunities will become available during the year including requests being made for capital contributions towards energy efficiency works to alleviate fuel poverty and the possibility of the development of a Foyer project in the area. Financing for these £1,595,000 worth of potential projects is provided from S106 contributions totalling £865,900 with the remaining £729,100 being financed from capital receipts. Consideration should be given as to whether to use this level of capital receipts towards these projects or to preserve them for future use to fund the DFG programme, and whether this is considered to be a higher priority. Consequently, a report to further investigate the future use of these capital receipts will be brought to Members in due course.

13.4 Funding the General Fund Capital Programme

13.4.1 The General Fund capital programme outlined in Appendix 8 is to be funded as follows:-

Method	2011/12	2012/13	2013/14	2014/15	2015/16
	£	£	£	£	£
Borrowing	0	0	0	0	0
Capital Receipts	1,449,500	1,632,900	0	0	0
External Contributions	245,800	233,000	0	0	0
Revenue Contributions	497,900	15,100	0	0	0
Equipment Renewal Reserve.	324,400	0	0	0	0
Spend to Save Reserve	3,100	98,900	0	0	0
Capital Investment. Reserve	40,000	499,800	320,000	310,000	0
Gym Equipment Reserve	64,100	0	0	90,000	0
TOTAL	2,624,800	2,479,700	320,000	400,000	0

13.4.2 It is anticipated that as well as the capital receipt from Wilton House in 2011/12 (£2.9m) there will be significant capital receipts from the sale of The Old Art Gallery (£0.2m) and 21 Church Street Warwick (£0.420m) during the rest of 2011/12 and 2012/13. These receipts have been factored into the capital financing shown above, so reducing the funding needing to come from the Capital Investment Reserve.

13.4.3 Also shown in Appendix 8 is a summary of the total General Fund capital resources available to the Council over the period 2011/12 to 2015/16 matched against the projected spend. This shows that over the period the Council has £6.718m surplus resources once the current programme is financed. The major elements are represented by balances of £4.055m and £1.470m on the Capital Investment Reserve and Equipment Renewals Reserve respectively with unused capital receipts, external contributions and smaller reserves making up the balance However it should be borne in mind that the current projected calls on the Equipment Renewals Reserve figure are, in the main, not reflected in the capital programme outlined in Appendix 8, when these are taken into account the “surplus” balance is exhausted by the end of 2015/16. The Capital Investment Reserve is in effect a capital contingency for overspending, receipts not materialising when anticipated or some major event that requires expenditure in excess of insurance or Government reimbursement schemes. The policy is for the balance on the Capital Investment Reserve to be maintained at around £2m.

13.4.4 Paragraph 10.4 of the Council's Code of Financial Practice states:-

"The approval by the Council of a programme of capital expenditure does not give the senior manager (in this instance the Head of Housing and Property Services) does not have authority to incur expenditure"

Therefore in addition to budget approval it is necessary for Executive to give authority to the senior manager concerned to incur the necessary expenditure. It is proposed that the Head of Housing & Property Services will work with the Procurement Manager, to ensure that the programme is delivered in accordance with the Code of Procurement Practice.

To ensure that the Council's housing assets are maintained in accordance with all applicable legislative requirements and Decent Homes Standards.

13.5 **Funding the Housing Investment Programme**

The Housing Investment Programme outlined in Appendix 8 is to be funded as follows**:-**

Housing Investment Programme

Method	**2011/12**	**2012/13**	**2013/14**	**2013/14**	**2014/15**
	£	**£**	**£**	**£**	**£**
Borrowing	140,000,000	0	0	0	0
Capital Receipts	240,000	1,291,500	538,400	180,500	46,400
External Contributions	220,000	865,900	0	138,000	0
Major Repairs Reserve	5,165,000	6,435,900	5,526,000	5,635,000	5,761,000
Capital Grant	532,400	399,000	399,000	399,000	347,200
Housing Revenue Account	4,610,800	238,700	811,600	518,800	574,400
General Fund - revenue contribution	9,600	9,600	9,600	9,600	9,600
TOTAL	**150,777,800**	**9,240,600**	**7,284,600**	**6,880,900**	**6,738,600**

14. AUTHORISED BORROWING LIMIT AND PRUDENTIAL INDICATORS

The advent of the HRA Self Financing regime with effect from 1st April 2012 will require the Council to take on a substantial amount of long term borrowing. The actual amount will be set by the Government and currently stands at £136.8m with the final figure due to be published at the end of January. The actual borrowing will be carried out on the 28th March and it is therefore necessary to revise the relevant current 2011/12 prudential indicators and have them agreed by Council before that date in order to avoid a breach of those indicators. The revisions have been made and included, together with the authorised borrowing limit and Prudential Indicators for 2012/13 onwards, in Appendix 10. It is recommended that the limits and indicators as shown within Appendix 10 in paragraphs 2.2, 3.1, 4.1, 4.2, 5.2, 6.2, 7.2, 8.2 and the annual adoption of the code of practice (para 9.1) of Appendix 10 are approved and endorsed by the full Council.

15. CONSULTATION

15.1 In recent years the Council has consulted the Citizen's Panel on its proposed budget, council tax and the allocation of resources. As discussed in the Budget report in 2011, the Council's approach to budget consultation has been subject to review. As a result of this, in the Autumn of 2011 residents were consulted using Simalto.

15.2 Simalto is a more sophisticated form of public consultation so as to help the Council to understand better what citizens value and what they do not. This was not a consultation on cuts but on what are people's priorities for the next few years knowing that the Council has substantial savings to be made. Interestingly, over 80% of those involved in the process were happy with this Council and its services; the company carrying out the work have only found 2 other authorities with higher scores than that. Also, the consultation that a significant percentage of the people involved wanted to retain what we have now and a few were also prepared to pay more to improve some of the Council's activities.

15.3 Simalto is a research company that has worked with many local authorities. Their approach involves creating a matrix of different service or product options. Individuals are then interviewed to understand their preferences and values, and where they would suggest resources should be directed.

15.4 Overall 253 face to face interviews were carried out utilising the matrix shown within the Simalto Summary report (Appendix 11). The key findings from the consultation are shown below:-

1. Increase travel tokens
2. Close 1 one stop shop
3. Cease the magazine
4. Increase our service re noise nuisance
5. Improve our bereavement service
6. Add to our anti social behaviour staffing
7. Provide 2 apprenticeships

15.5 The Executive has considered the results of the consultation and has incorporated changes where possible within the 2012/13 budget proposed and the medium term financial projections. Specifically:-

1. Within the existing budget resources there are proposals within this report to increase the allocations of travel tokens, so as to make it more attractive and at the same time implement the recommendations of the Scrutiny Committee as revised as per the report agreed by the Executive in January.

2. It is not proposed to close any one stop shops. A partnership proposal with the County Council has recently been agreed which mean that the Council can help will keep library opening hours to be the best in the County by merging one stop shops with the library activities. It is likely that savings will be able to be made when the Leamington One Shop business case is re-considered.

3. Methods of communication will be reviewed this year and by doing that end the use of a separate magazine for citizens.

4. and 6. There will be reviews of noise nuisance, licensing and anti social behaviour services as within budget it is believed that these services can be improved.

5. A business case is due to be brought forward this year to set out how the Council can improve the bereavement facilities.

7. Two apprenticeship places within the Council are due to be created at no extra cost.

15.6 In respect of the additional requests it should also be possible to meet them within the next three years:

1. A business case to show how self financing improvements may be made to the pest control service;

2. Additional support for anti social behaviour work – included within proposals above

3. Aim to improve toilets as part of the re let of the major contract;

4. Come forward with a business case for improving leisure facilities;

5. Include within the workforce plan four additional apprenticeships within the Council.

15.7 The Simalto consultation is not intended to be carried out annually, it is next planned for 2014. During 2012 the Residents' Satisfaction Survey is planned.

16. UPDATED FINANCIAL STRATEGY

16.1 The new Financial Strategy is at Appendix 12. The Executive is requested to agree the Financial Strategy and review it in future in the light of other resource strategies. This has been reviewed to ensure it accords with Fit For the Future.