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|  | | Executive & Council, 9 th February and 23rd February 2011 respectively | Agenda Item No. <div style="text-align: center; font-size: 2em; font-weight: bold;">6</div> |
| Title | | BUDGET 2011/12 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| Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006 | | No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 6 th January , 2011: Approval of General Fund Base Estimates Revised 2010/11 and Original 2011/12 Report to Executive 27 th October, 2010: Proposed Fees and Charges for 2011/12 | |
| 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 <i>must</i> be approved by the report author's relevant Deputy Chief Executive, Finance, Legal Services and the relevant Portfolio Holder(s). | | | |
| Officer Approval | Date | Name | |
| Relevant Director | 18 1 11 | Andy Jones | |
| Chief Executive | 18 1 11 | Chris Elliott | |
| CMT | 18 1 11 | | |
| Section 151 Officer | | Report Author | |
| Legal | | | |
| Finance | | Finance Report | |
| Portfolio Holder(s) | 25 1 11 | Cllr Mobbs | |
| Consultation Undertaken | | | |
| Please insert details of any consultation undertaken with regard to this report. Citizens Panel – as set out in Para 15.1 of report Chamber of Trades & key partners – as set out in Para 15.4 | | | |
| Final Decision? | | Yes | |
| Suggested next steps (if not final decision please set out below) | | | |

1. SUMMARY

This report updates members on the overall financial position of the Council. It includes the latest position in respect of the 2010/11 General Fund Revenue Budget and the future implications of the proposed changes within. For 2011/12 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 2011/12. It updates members on the latest projections and assumptions in the Medium Term Financial Strategy, identifying the on-going savings required by 2015/16. The report also updates members on the Council's Reserves and General Fund Balance with a recommendation to appropriate a part of this balance. Feedback on consultation with the Citizen's Panel is also included, whereby 84% of respondents believe the Council provide good or very good value for the current council tax charged.

2. RECOMMENDATIONS (TO COUNCIL)

- 2.1 The 2010/11 Revised General Fund Revenue Estimated net expenditure of £18,228,367, as summarised in Appendix 1, this is after taking into account the proposed adjustments in section 8.3. The treatment of any balance upon closure of the accounts to be considered by the Executive in June 2011.
- 2.2 The changes to the 2011/12 General Fund revenue base budget in sections 8 and 9 with net expenditure of £15,807,432 as summarised in Appendix 1, are agreed and the formal resolution to this effect be contained in the further budget report that will be prepared for the 23rd February Council meeting. (This report is to include the parish/town, county and police precepts.)
- 2.3 The Council Tax of a Band D property for Warwick District Council for 2011/12 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 2010/11.
- 2.4 The Council Tax charges for Warwick District Council for 2011/12 before the addition of parish/town council, Warwickshire County Council and Warwickshire Police Authority precepts, for each band is agreed as follows:-

| Band | 2011/12 |
|-------------|----------------|
| A | £97.91 |
| B | £114.22 |
| C | £130.54 |
| D | £146.86 |
| E | £179.50 |
| F | £212.13 |
| G | £244.77 |
| H | £293.72 |

- 2.5 The Executive notes that around £257,000 new ongoing savings / increased income have been realised in preparing the 2011/12 General Fund revenue

base budget. Further savings of £296,000 are required from Fit For the Future interventions.

- 2.6 The Executive agree to recurring virement £19,900 from 2011/12 from Revenues to Benefits in respect of staffing in preparation for The Universal Credit (para 9.2.12).
- 2.7 The Executive agree to increase the Homelessness budget by £85,500 in 2011/12 and 2012/13 for preventing homelessness, financed by Government Grant (para 9.2.13).
- 2.8 The cost of the Digital TV service for 2011/12 is shared equally between the General Fund and Housing Revenue Account, with the £6,000 for the General fund met from the 2011/12 Contingency Budget. A future report on the scheme will consider the future of the service beyond 2011/12, and funding thereof (para 9.2.14).
- 2.9 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 and should the Executive agree viable future self-funded business cases in the future, amendments be made to the Budget as appropriate.
- 2.10 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.
- 2.11 The Executive agree the latest position and necessary actions in respect of the Equipment Renewal Reserve and necessary actions as detailed in paragraph 11.2.2 ix.
- 2.12 That an additional £100,000 be allocated to the contingency budget in 2011/12 from the General Fund Balance (Paras 9.2.11 and 11.1.8).
- 2.13 That Finance and Audit Scrutiny Committee be asked to pay particular attention to the reserves and balances set out in Appendix 5 (Section 11).
- 2.14 That the Prudential indicators as set out in Appendix 10 and highlighted in Paragraph 14.1 are agreed.
- 2.15 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 Fit For the Future continuing to be reviewed in the light of this.
- 2.16 The members take note of the significant future forecast deficit, currently estimated to rise to over £2.8m over the next five years by 2015/16 on net expenditure of £18m. Further on-going savings of this amount must be secured in order for the authority to be able to set future balanced budgets (Para 10.3 refers).
- 2.17 The Executive note the arrangements for Budget Management as outlined in paragraph 12.4 and continue to receive quarterly reports.

- 2.18 That the Executive approves the creation of a new Tourism Reserve in 2010/11 with an initial balance of £55,000 financed from savings within the Tourism budget and that authority to spend from the reserve is delegated to the Head of Development Services in consultation with the Development Services Portfolio Holder and S151 Officer. (Para 8.3.1 refers)
- 2.19 That the Executive approves the transfer of £100,000 from the General Fund Balance in 2010/11 to the Capital Investment Reserve to enable the continuation of Rural Initiatives Grants for the period 2011/12 to 2014/15 at £75,000 per annum (also utilising the £200,000 already in the Capital Programme for future Rural Initiatives Grants). (para 11.1.1 refers)
- 2.20 That the Executive approves the transfer of £300,000 from the General Fund Balance in 2010/11 to the Capital Investment Reserve to finance a new Urban Initiatives Grant scheme for the period 2011/12 to 2014/15 at £75,000 per annum, and that the detail of the new scheme is considered as part of the work by the Grants Review Panel to be agreed by a future Executive meeting (para 11.1.2 refers).
- 2.21 That the Executive approves the creation a Play Equipment Reserve in 2010/11 with £200,000 from the General Fund Balance. The Executive will consider and approve all requests to utilise this reserve. (Para 11.1.3 refers).
- 2.22 That the Executive approves the creation a Services Transformation Reserve in 2010/11 with £1,475,000 from the General Fund Balance. The Executive will consider and approve all requests to utilise this reserve. (Para 11.1.4 refers).
- 2.23 That the Executive approves the transfer of £1,200,000 from the General Fund Balance in 2010/11 to the Capital Investment Reserve to finance future new development proposals. (para 11.1.5 refers)
- 2.24 That the Executive approves the transfer of £400,000 from the General Fund Balance in 2010/11 to increase the balance on the Equipment Renewal Reserve. (para 11.1.6 refers)
- 2.25 That the Executive approves the transfer of £100,000 from the General Fund Balance in 2010/11 to increase the balance of the Spend to Save Reserve. (para 11.1.7 refers)
- 2.26 That the Executive approves that the General Fund Core minimum balance should be £1.5m. (para 11.1.9 refers)
- 2.27 That the Executive agrees the transfer of £183,700 from unspent revenue and capital Housing and Planning Delivery Grant to the Planning Reserve for use on future planning related expenditure. (para 11.2.2.iv refers)
- 2.28 That the Executive approves slippage of the revenue budgets in respect of Warwick Renaissance (£57,300) and Culture Trust Feasibility Study ((£35,000) from 2010/11 to 2011/12, with the financing in an earmarked reserve. (para 8.3.12 refers)
- 2.29 The Executive note that Whitnash Town Council will continue to remain within the Concurrent Services Scheme. The Executive approve that the £500

approved from the contingency budget in February 2010, be returned accordingly (para 8.3.11).

3. REASONS FOR RECOMMENDATIONS

- 3.1 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 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 2010/11 Revenue Budget and implications for 2011/12

Section 9: The 2011/12 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 Key Assumptions

9.7 Council Tax Grant and Council Tax Capping

9.8 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 Fun 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

Section 13: Review of, and proposals for the Capital Programme – Housing and General Fund

13.1 Current General Fund capital programme

13.2 Proposed 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: Citizens' Panel Consultation Results

Appendix 12: Financial Strategy January 2011

Appendix 13: Fit For the Future Savings

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 2011/12 tax base

to derive the District Council Band D Council Tax. The Tax Base for 2011/12 has been calculated at 53,260.72 Band D equivalent dwellings. These figures are shown in Appendix 1. The District element represented 9.8% of the total Council Tax in 2010/11.

The Council Tax Base for 2011/12 shows an increase of just over 600 band D Property Equivalents on the previous year. Members will recall the decision to remove the Discounts on Long Term Empty Properties and Second Homes which is the primary cause for the significant increase.

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 2011/12 of £146.86, this being the same as for 2010/11. Based on this zero increase the Council Tax levels for each of the respective bands will be:-

| Band | 2011/12 |
|-------------|----------------|
| 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 2011/12. At the time of writing, not all precepts have been confirmed. It is estimated that the precepts will total around £1,100,000. An updated position will be given to the meeting.

7.2.3 Major Precepting Authorities

As at the time of writing neither the County Council nor the Police Authority have set their 2011/12 budgets and element of the Council Tax. The meeting of the County Council is scheduled for the 15th February 2011 and the Police Authority is due to meet on the morning of 23rd February 2011.

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 23rd February, 2011 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 2010/11 REVENUE BUDGET AND IMPLICATIONS FOR 2011/12

- 8.1 The budget has been reviewed on a regular basis throughout 2010/11. 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 2010/11 Estimates considered in January 2011 showed net expenditure of £16.867m, incorporating net savings of £1.4m for the year 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 2010/11 Revised Estimates:-
 - 8.3.1 Further reduce Tourism Budgets by £86,800. Following on from the demise of South Warwickshire Tourism, £28,200 had already been reduced from this budget. Portfolio holder have agreed that it will be possible to reduce this budget further in 2010/11 and future years. In addition it is proposed to create a Tourism Reserve utilising £55,000 of this reduction in 2010/11 (see paragraph 11.2.1).
 - 8.3.2 Delete Local Authority Business Growth Incentive Grant (LABGI). It has now been confirmed that the amount announced earlier in 2010/11 for the current year will not be paid as part of cuts by the Coalition.
 - 8.3.3 £300,000 had previously been included as the savings target from procurement for the current year. This figure should be reduced to £157,000 for the year to reflect the likely level of General Fund budget savings from procurement, of which £107,000 has already been identified, leaving £50,000 to be achieved in the current year. This is discussed further in paragraph 9.2.3.
 - 8.3.4 Reduce Assisted Travel by £494,000 in respect of re-assessing the Council's liability due to operators in respect of the costs of operating the national scheme in the current and previous years.
 - 8.3.5 Reduce Travel Tokens budget by £90,000. Expenditure on the scheme is well below budget. This was reflected in the Base Estimates for 2011/12, but the current year budget was previously unaltered. If there are further proposals for funding community transport in the future, this will be subject to consideration as part of future service plans.
 - 8.3.6 Increase the General Fund Proportion of Shared Legal Service recharge from Warwickshire County Council by £12,600. This budget had been reduced by over £70,000 in the report considered in January. Further consideration of the

budget shows that figure to be overstated, largely relating to the split in work between the General Fund and Housing Revenue Account.

- 8.3.7 Increase Local Land Charges fee income by £54,000. The income budget for the current and next year is believed to be too prudent.
- 8.3.8 Reduce Community Safety expenses by £5,000 as per January Executive report.
- 8.3.9 Increase investment interest by £11,500 to reflect improved investment rates and increased balances.
- 8.3.10 Delete the contribution of £349,000 from the General Fund Balance. With all the reductions in the net General Fund Budget for 2010/11, it will not be necessary for the previously budgeted contribution from the General Fund Balance to be made.
- 8.3.11 £500 of the £1,500 vired from the Contingency Budget for the Whitnash Transitional Grant for 2011/12 be returned to Contingency Budget. Whitnash Town Council is to remain within the Concurrent Services scheme and this money will no longer be required.
- 8.3.12 Slippage of the revenue budgets in respect of Warwick Renaissance (£57,300) and Culture Trust Feasibility Study (£35,000) from 2010/11 to 2011/12, with the financing in an earmarked reserve.
- 8.4 The above changes result in a net reduction in the expenditure of the General Fund of £1,528,700 in 2010/11. This will increase the General Fund Balance to £5.477m as at 31 March 2011, the use of which is considered further in paragraph 11.1.

9. THE 2011/12 REVENUE BUDGET

9.1 Base Budget

The base budget was reported to the 6th January 2011 Executive. Paragraph 8.3 sets out the main changes in the base budget that arise from scrutiny of the 2010/11 original estimates. In addition to these sums the Council had previously committed itself to additional expenditure/savings in 2011/12 of the following on an ongoing basis:

| | £'000 |
|-------------------------------------|-------|
| Pension Fund Costs | 56 |
| Staffing Changes | -280 |
| Reduced Local Land Charges Income | 133 |
| Procurement savings | -507 |
| Budget underspending review | -455 |
| Additional recycling income | -268 |
| Reduced Service Grants / Allowances | 146 |

9.2 Further changes

- 9.2.1 New duties – there were no significant additional sums allocated through the RSG settlement 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 Additional proposed savings presented to the Executive in January were approved and, after verifying and refining the proposals, recurring savings of £64,900 have been added to the estimates, alongside other savings as described below in this section, bringing the total additional savings to £257,000.

| Savings Description | £'000's |
|--|----------------|
| Removal of Grey Sacks (Neighbourhood), as approved by members in January. | 30 |
| Deletion of Community Safety Officer Post and associated non-pay costs, as approved by members in January. | 35 |
| Tourism savings, recurring, paragraphs 8.3.1 and 9.2.6 refer. | 85 |
| Reduction in External Audit Fees | 12 |
| Lower reduction in NNDR Costs of Collection Grant than earlier anticipated | 49 |
| Increased Land Charges Income | 46 |
| Total savings | 257 |

9.2.3 Procurement

The Medium Term Financial Strategy included the need to find ongoing procurement savings of £300,000 in 2010/11 and a further £300,000 in 2011/12. To date, approximately £100,000 savings have been identified which means that the targets are unlikely to be achieved given the time left in the financial year. The original targets included savings to non-General Fund budgets, which should not have been included here. 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. A review of the potential to achieve savings has meant that the targets should be revised to produce more realistic targets of a further £50,000 for 2010/11 (as discussed in paragraph 8.3.3) and £150,000 recurring for both 2011/12 and 2012/13. The net result of these changes is a reduction in 2011/12 in the potential savings in paragraph 9.1 above of £310,200.

9.2.4 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. In preparing the latest Funding Strategy Statement Warwickshire

County Council have reviewed the recovery position for the remaining 19 years of the plan and have proposed new contribution rates for the next 6 years. The net result of the proposed changes is an increase of £10,600 for 2011/12 over that identified in paragraph 9.1. The implications for future years are discussed further in paragraph 10.5.2.

9.2.5 Assisted Travel

The mandatory provision of free bus travel for eligible groups of residents is transferring to Warwickshire County with effect from 1 April 2011. As a result, all direct expenditure has been removed from the 2011/12 estimates. However, as a consequence, the Government has reduced the Revenue Grant Settlement to compensate. This is discussed further in paragraph 9.5.2.

9.2.6 Tourism

Following the demise of Shakespeare Country Portfolio Holders have agreed that it should be possible to reduce the Tourism Budget. As a result of this change ongoing savings of £84,600 have been identified. (see paragraph 8.3.1)

9.2.7 Audit Fees

Information received from the Audit Commission suggest that the costs of the 2011/12 audits will be £11,800 lower than originally estimated following on from work ceasing on reviewing local authority performance frameworks. 2011/12 will be the last year that local authority audits are arranged by the Audit Commission. The Government is proposing that in future years councils will be free to make their own arrangements for external audit; the implication of this are still being considered at national and local levels.

9.2.8 Government Grants

The NNDR Cost of Collection Allowance is expected to be reduced, with a reduction included within the Base Budget. However, current information is that the reduction will not be as great as anticipated by £49,000.

9.2.9 Local Land Charges

The Fees and Charges report anticipated a large reduction in fee income of £133,000 as shown in paragraph 9.1. Since the estimates were completed an upturn in the housing market has seen an increase in activity whereby income is now estimated to increase by £46,000, similar to the increase allowed for in 2010/11 (paragraph 8.3.7).

9.2.10 Shared Legal Services with Warwickshire County Council

Similar to the change for 2010/11 discussed in paragraph 8.3.6, latest figures received indicate the previous reduction in Legal Services Budget was overstated by £12,600.

9.2.11 Contingency Budget

The estimates presented in December included a Contingency Budget of £120,000 (a reduction of £80,000 when compared to the 2010/11 base

budget). It is considered prudent to add £100,000 to this contingency. This is discussed further in paragraph 11.1.8.

9.2.12 Revenues and Benefits Staffing

Within Customer and Information Services, it is proposed that the funding of a vacant Revenues Officer post (£19,900) is moved to Benefits to finance a temporary post of Senior Assessment Officer. This is to help minimise the risk of losing knowledge and experience from the team as the Universal Credit impacts in the next few years. The future of this post will be subject to future consideration as part of the staffing implications of the Universal Credit once more information is available. The proposed Senior Assessment post will be subject to a future report to Employment Committee.

9.2.13 Homelessness

Notification has recently been received from the Department of Communities and Local Government that the Council will receive a Preventing Homelessness Grant allocation of £85,470 per year for 2011/12 and 2012/13 with the expectation of it being set at a similar level for years 2013/14 and 2014/15. It is recommended that this grant is credited to the Homelessness Budget, with the Prevention Budget also duly increased.

9.2.14 Digital TV

The cost of the Digital TV service to which WDC subscribes (estimated cost £12,000 per annum) has in the current year been met by the Housing Revenue Account, with a contribution from Housing Strategy. As the scheme provides details of many of the Council's services, it is recommended that the next subscription is shared equally between the Housing Revenue Account and General Fund, with the General Fund share met from the 2011/12 Contingency Budget. This sum will enable some investment in the scheme (eg. adding payments processing). Over the next few months there should be a full review of the success and usage of the scheme so as to enable a more informed decision to be made over the Council's continued future involvement in the service.

9.3 **Fees and Charges**

- 9.3.1 The Council's Financial Strategy, was based on income from fees and charges increasing by 2% (in line with inflation), in addition to the increase in V.A.T. As reported to the October Executive, some areas of income, e.g. parking, and planning are still depressed. This shortfall is estimated at £89,000 which has been allowed for in the 2011/12 proposed budget.
- 9.3.2 V.A.T. has been allowed for at the increased standard rate of 20% from 4 January 2011 for all those fees and charges for which V.A.T. is applicable. If the Government changes the rate of V.A.T. again, the implications of this for charges and income levels will be reported to the Executive.
- 9.3.3 The October Executive agreed that in future, where appropriate and practicable, fees and charges should be increased from January. The 2011/12 Estimates have prudently been prepared, not assuming the increased income that should accrue from the next increase due in January 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 2011 of zero. As in 2010/11, there will not be a deficit balance to share with Warwickshire County Council, and Warwickshire Police Authority, and no impact on the Council Tax for 2011/12. 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 have received the provisional Revenue Support Grant Settlement for 2011/12 and 2012/13. The Council expects to receive total External Grant (RSG/Redistributed NNDR) of £7.792m for 2011/12 and £6.996m for 2012/13.
- 9.5.2 Before making comparisons to the 2010/11 grant, it is important to consider the changes in functions and how these have impacted upon the calculated grant. When the responsibilities of authorities change, grant funding will also change. To enable comparisons to be made, the current year grant is recalculated to show what the grant would have been taking into account the changed responsibilities. This is just a notional calculation by the Government for comparative purposes; it does not alter the grant actually paid for the current year.

Assisted Travel

Responsibility for Assisted Travel is due to transfer to county councils from April 2011. As part of this, it has always been appreciated that district councils would have their grant reduced to allow for this (with county councils' grants duly increased). It has always been uncertain how much grant will be taken away from districts with consultation over possible approaches taking place over the summer. The amount now calculated by the Government in respect of Assisted Travel for Warwick District Council is £1.279m.

Economic Assessment Duty

An adjustment for Economic Assessment Duty, being the 2010/11 allocations of the Economic Assessment Duty Grant for each authority as allocated by the Department for Communities and Local Government and paid in the 2010 Area Based Grant by the Department for Communities and Local Government.

Private Sewers

Some of the responsibilities for Private Sewers will transfer to the water authorities from October 2011. The Settlement assumes £56k reduced grant in 2011/12, and a further £53k in the following year. The 2011/12 Base Estimates already reflect reduced budgets here of £31,500 as within the Council this function transferred from Environmental Health to Community Protection. Further work is being undertaken to confirm what further savings may be made here.

Planning Inspectorate SUDs Appeals costs

9.5.3 The notional adjusted 2010/11 grant is shown below:-

| | £000 |
|--|--------------|
| 2010/11 RSG | 10,462 |
| Adjustments to 2010/11 RSG | |
| Assisted Travel | -1,279 |
| Economic Assessment duty | 6 |
| Private Sewers | -56 |
| Planning Inspectorate SUDs Appeals Costs | -2 |
| Adjusted 2010/11 RSG | 9,131 |

Compared to the adjusted 2010/11 grant, the proposed 2011/12 £7.792m would be a reduction of £1.34m (14.7%). For 2012/13 the proposed grant of would equate to a further reduction of £744,000 (9.6%) after allowing for the further reduction of £53k in respect of private sewers.

9.5.4 The table below shows how the grant reductions have impacted upon different groups of authorities, with districts having the greatest reductions in grant.

| | Education/Social Services | Shire Districts | Police | Fire |
|---------|----------------------------------|------------------------|---------------|-------------|
| 2011/12 | -11.3% to -14.3% | -13.8% to -16.8% | -5.14% | -9.5% |
| 2012/13 | -7.4% to -10.4% | -10.5% to -13.5% | -6.7% | -3.4% |

9.5.5 From 2013/14 there is still uncertainty as to what level of grants local authorities will receive. The Council's Medium Term Financial Strategy assumes further reductions for 7.5% for 2013/14 and 2014/15. The CSR2010 in October suggested reductions in funding for local government of 28% over the next four years. Taking into account the Council's 14.7% reduction for 2011/12 and the 9.6% for 2012/13, the total reduction over the 4 year period included within the financial projections, compared to the Adjusted RSG for 2010/11 will be 34.4%. As the table above shows, there is 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%.

9.5.6 The final settlement for 2011/12 is expected at the end of January and will be reported directly to the meeting. It is not anticipated that there will be significant changes in the grant from the £7.792m for 2011/12. Should there be a small change in the 2011/12 grant when the final announcement is made, it is recommended that this is accommodated within the proposed 2011/12 Contingency Budget. The proposed 2012/13 grant will not be confirmed until January 2012.

9.6 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:-

- 9.6.1 Staff turnover - The practice introduced in 2002/03 of holding a vacancy factor of 2.5% is continued. 1.5% has been taken as an assumed reduction in salary cost, and the remaining 1% forms a budget of £135,000 in the Human Resources service for a central reserve to cover the costs of maternity, long-term sickness and recruitment costs. From 2010/11 the revised estimates for salaries have 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 £86,000 of the central budget. As part of the work reviewing vacancies as referred to later in paragraph 10.9, this vacancy factor will be further reviewed for the future.
- 9.6.2 No increase in the budget has been made for additional road cleaning 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.
- 9.6.3 Inflation assumptions – The inflation indices used were reported in Base Estimates report in January. The key figures for the increases between 2010/11 and 2011/12 are:-

| | Percentage |
|------------------------------|-------------------|
| Salaries | zero |
| Refuse / Recycling contract | 4.0 |
| Grounds maintenance contract | 4.0 |
| Cleansing services | 4.0 |
| General inflation | 2.0 |

The inflation rate being used in the Estimates for major contracts for 2011/12 is now 4%. The contracts are increased in April based on the RPI for the prior January which will be announced in February. The latest RPI (December) is 4.8%, having reduced from 5.3% in August. Whilst RPI has reduced lately, there will also be upward pressures, most notably the January V.A.T. rise, increased petrol duty and food prices due to the recent cold weather. 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.

In relation to these figures economic forecasters are currently predicting that inflation as measured by the Consumer Prices Index which has replaced the Retail Prices Index will average 2.2% in 2011/12. RPI itself is expected to be 3.2% over the same period. December 2010 RPI of 4.8%, is expected to be a peak and reduce to 2.4% by the end of March 2012.

In addition to the above inflation assumptions, a further £50,000 general inflation provision has been included for 2011/12 and a further £200,000 in

respect of staff awards, including funding for the Government's proposed £250 pay award for public sector employees earning below £21,000.

- 9.6.4 Our Treasury Consultants currently forecast the Bank Rate on which short term investment rates are based to be 0.5% at the start of 2011/12. Bank Rate will remain at this level for the first part of 2011/12 with the first increase to 0.75% expected to be by the end of December 2011. It is then anticipated that Bank Rate will rise by a further 0.25% to end 2011/12 at 1.0%. The target return for the Council's cash flow derived investments in 2011/12 reflects this rise and has been set at 0.91%. When the expected returns from the Council's core investments are added in, the overall investment rate for 2011/12 is expected to be 1.32%.
- 9.6.5 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 2011/12, which have formed the basis of the Estimates, are as follows:
- i) Number of council land charge searches – 1,200(Full) and 1,000 (Con29 questions) based on current demand (compared to 1,500 within the original budget assumption last year). As Full Searches generate a significantly higher fee, from 2011/12 onwards these will be monitored separately.
 - ii) Number of planning applications – 1,600 estimated (1,600 originally estimated in 2010/11).
 - iii) Number of building control applications – 1,500 estimated (1,400 initially estimated in 2010/11).
 - iv) Car Parking - The target for off street car parking for 2011/12 income from all ticket sales, season tickets and excess charge notices from all WDC car parks excluding Royal Priors is £2,431,000.
 - v) Number of gym admissions to Leisure Centres - 100,000. Total number of swimming admissions 275,000. This is a total of 375,000 against the target of 450,000 forecast for 2010/11 which included free swimming for certain groups. These targets will be monitored separately during 2011/12.
- 9.6.6 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% (98.7% 2010/11 target)
 - Business Rates - percentage received in the year – 98.5% (98.2% 2010/11 target)
 - Housing Rents – percentage of rent collected – 97.5% (98.5% 2010/11 target) reduction to reflect rent increase and economic climate.

9.7 Council Tax Grant and Council Tax Capping

- 9.7.1 Within the Grant Settlement, it was confirmed that there will be a grant of £650m nationally to fund the implementation of a council tax freeze in 2011/12. Those authorities which do not increase their council tax will receive

grant the equivalent of a 2.5% tax increase. There will be funding to support this amount in the four Spending Review years. However, there will be no additional funding to support continuation of this freeze in 2012/13.

The 2011/12 Budget and Medium Term Financial Strategy have been prepared on the basis of a council tax freeze for 2011/12. £194k central government grant has been included, the equivalent to the additional revenue that would be generated from a 2.5% tax increase. This grant has been included for the four years 2011/12 to 2014/15.

Members need to be aware that Ministers have made clear their intention to consider capping councils which increase their council taxes excessively. The Government is intending to set out the capping principles that will be used for 2011/12 when the Grant Settlement is confirmed in January.

In addition, the government is planning on introducing powers for residents to veto excessive council tax increases through a local referendum. This was subject to a consultation paper published in July, which was reported to the Executive alongside the Financial Strategy and Budget Prospects report in August.

9.7.2 If the Council were to be capped the process would be as follows –

- Once local authorities have set their budgets, the Secretary of State will consider whether the authority's budget is excessive or whether there has been an excessive increase.
- Designated authorities shall be duly notified, with the notification stating the decision, the principles, and the amount proposed to be the maximum budget.
- The Council then has 21 days to respond either accepting or challenging the designation.
- Having considered the response, the Secretary of State will then respond stating the amount of the maximum budget requirement.
- Within 21 days of being notified of the new amount, the authority has to approve a new budget and tax calculations.

9.7.3 The biggest risk to the Council would be in the additional costs of re-billing. This is estimated to be a cost of at least £50,000, plus all the administrative costs in relation to account adjustments and dealing with queries from the public. 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.

9.8 Making the Council Tax Decision and Legal Implications

9.8.1 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.

9.8.2 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.

- 9.8.3 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.
- 9.8.4 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.
- 9.85 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 2012/13 to 2015/16, 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 2010, the projected required savings were presented. These have been reviewed throughout the year since and periodically reported to members. The latest projected level of required savings needed to be found in order to set an acceptable Council Tax level are also shown below. These are shown as cumulative savings. The format for the presentation of the financial projections in summary form has been reviewed during the year, and Appendix 3a now shows both the cumulative on-going savings required (Deficit-Savings Required) and the additional savings needing to be found each year.

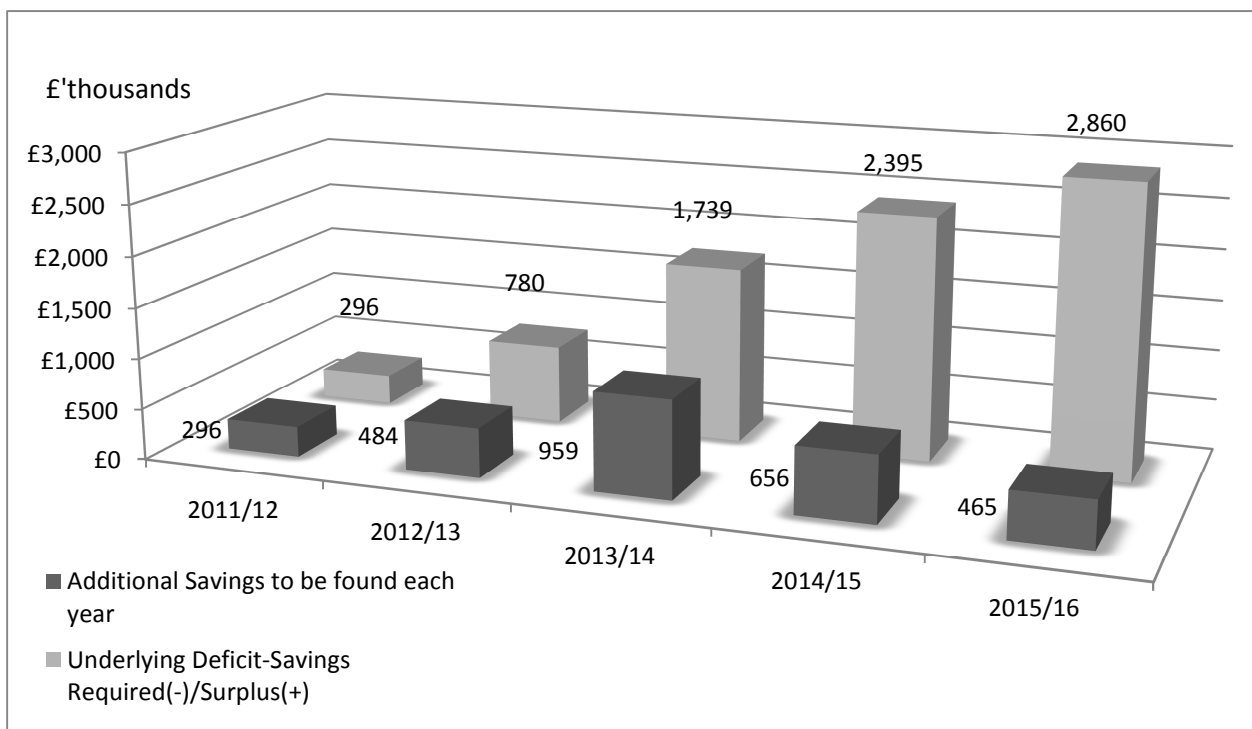
Row (i) shows the net cost of the Councils General Fund Services. Members are asked to note that the £20,839,000 for 2011/12 includes assumed savings that will be achieved by way of the Fit for the Future Change Programme. Rows (vi) and (vii) show the cumulative and additional savings required for subsequent 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 £2.860m on-going savings by 2015/16. Delivering the £296,000 assumed in the 2011/12 budget will reduce this deficit to £2.564m.

- 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 £2.860m on net expenditure of £18m.

| Year | Forecast Cumulative Deficit as at February 2010 | Forecast Cumulative Deficit as at February 2011 |
|---------|---|---|
| 2011/12 | £634,000 | £296,000 |
| 2012/13 | £1,279,000 | £780,000 |
| 2013/14 | £2,837,000 | £1,739,000 |
| 2014/15 | £3,194,000 | £2,395,000 |
| 2015/16 | N/A | £2,860,000 |

The chart below shows the latest forecast deficit and level of savings (cumulative and additional year on year) required based upon the £2,860,000 underlying deficit.



- 10.4 The detailed changes to the savings requirement have been reported to members throughout the last year. Members will note that the required on-going savings to be achieved by 2014/15 have reduced from £3.194m to £2.395m, a reduction of some £800,000. The main changes made over the last 12 months in the figures above may be summarised in the table below:-

| Description | £'000 change |
|--|---------------------|
| prior year underspends | -450 |
| recycling | -250 |
| Procurement | -450 |
| Pay freeze | -375 |
| Support Service Review | -120 |
| RSG reduction net of assisted travel costs | 1,975 |
| Major Contracts | -380 |
| Community Travel Tokens scheme | -80 |
| Other Service Area Savings | -130 |
| Tourism | -85 |
| Removal of Discounts | -46 |
| Land charges Income | -46 |
| Legal Recharges from WCC to GF | -75 |
| New Properties/Street Cleaning | -70 |
| Fuel Contract Renewal | -130 |
| Inflation provision not required | -100 |

- 10.5 Within the projections annual inflation of 2% per annum has been included from 2012/13. The Revenue support grant has been reduced for 2011/12 and 2012/13 in line with the recent Government Announcement. Further reductions of 7.5% for the subsequent 2 years have also prudently been factored in as discussed in paragraph 9.5.5. 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 agreed in February 2010 included future council tax increases of 2.5%. As referred to in paragraph 9.7.1, the Government announced that it would compensate Councils who froze their Council Tax for 2011/12 by funding the lost the income over the term of the Parliament. These projections are based upon a zero increase for the next 2 years with the Government funding the first year of lost income. Subsequent years are based upon a 2.5% increase.
- 10.5.2 The last actuarial review of the pensions fund has 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. These latest figures present a reduction of some £150,000 over the next four years to 2014/15, based on the figures previously assumed for future pension fund contributions. However, it should be noted that further increases are expected in 2015/16 and 2016/17.
- 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 incrementation.
- 10.5.4 There is sufficient provision within the existing major contracts to allow for additional properties which fall primarily to the refuse collection and street cleansing budgets. The previous provisions of £23,000 per annum have been

removed and this is re-instated from 2014/15 the year after the new contract begins.

- 10.5.6 The provision for the increased costs when the current Waste Contract is renewed in 2013/14 has been reduced by £500,000 since reported in February 2010. The total provision for the new contract, which will begin in April 2013, (including Grounds Maintenance), is now £500,000 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 The support from the General Fund Balance in 2011/12 and 2012/13 has been removed with the exception of the £100k recommended in paragraph 11.1.8 to increase the contingency budget for 2011/12.
- 10.7 Since 2005, Councils have been mandated to report upon Efficiencies achieved as directed under the previous Comprehensive Spending Reviews, CSR04 and CSR07. In October 2010, the Government abolished these reporting requirements, however, due to the significant financial challenges in the years ahead, it is all the more imperative that this Council seeks to identify and monitor savings that can be achieved through efficiencies rather than cuts to services.
- 10.8 In compiling the 2011/12 Budget, identified savings have already been factored in. These include those further savings (paragraph 9.2.2 refers) of £257,000, plus £127,000 that SMT had already approved by way of the Service Planning Process (these were reported to the Executive) . 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.
- 10.9 The Revised estimates reflect £400,000 reduced budgets in respect of salaries, mainly from vacant posts. Work is currently on-going to ascertain which vacant posts should be able to be removed from the establishment permanently, and which of these are budgeted for, for which the budget will no longer be required. Details of this work will be included within budget monitoring reports during 2011/12.
- 10.10 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 £2.86m cumulative deficit. £296,000 savings have been assumed for 2011/12 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.
- 10.11 The separate report to this meeting on Fit For the Future details all the projects in the programme, and the possible savings, considering optimistic and pessimistic scenarios. The possible savings range from a cautious £1.9m to optimistic projections that £3.0m would be achieved if all the projects realise the maximum potential savings. Of these savings, £425,000 specific savings/projects have been included within the Budget and financial projections. This means the FFF projects should generate further savings of

£1.49m to £2.556m. The projects and possible savings are shown in Appendix 13.

Further savings of £180,000 have been identified and are being investigated, bringing the savings to £1.67m to £2.736m. In addition, investigations are on-going as to what possible savings may be made when the major contracts are re-tendered to commence in April 2013; no savings have been assumed here at this stage. These are shown in Appendix 13.

- 10.12 Paragraph 9.5.5 explained how with more optimistic assumptions over future Revenue Support Grant settlements, the Council may not receive such substantial grant reductions as assumed in the strategy. Potentially reductions could be approximately £600,000 below the level assumed in the main financial projections. Aligning this to the possible FFF savings it is possible to show the following scenarios, with the possible budget surplus or shortfall by 2015/16.

| | Fit For the Future savings | |
|---|-----------------------------------|-------------------|
| | Scenario 2 | Scenario 1 |
| Revenue Support Grant Settlement | | |
| As per financial Projections (Pessimistic) | £1,192k shortfall | £124k shortfall |
| Optimistic | £592k shortfall | £476k surplus |

What the table above illustrates is that it is imperative for the Council to achieve the optimistic level of savings as that should secure its position regardless of the level of change in Revenue Support Grant from the Government, and indeed offer opportunities for reinvestment in services. In this respect the Fit for the Future change programme will need close monitoring and another report on this agenda sets out the framework for that and its implementation.

- 10.13 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 where the investment should result in savings, taking into account any associated risks.
- 10.14 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 £3.948m as at 31 March 2010, having been increased from its normal level of £1.1m during 2007/08 and 2009/10. The savings being made in 2010/11 will increase the General Fund Balance by £1.529m as at 31 March 2011. 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. Accordingly, it is recommended that there should be specific appropriations from the General Fund Balance as discussed below:-

- 11.1.1 Rural Initiatives Grants - transfer of the £100,000 from the General Fund Balance in 2010/11 to the Capital Investment Reserve to enable the continuation of Rural Initiatives Grants for the period 2011/12 to 2014/15 at £75,000 per annum (also utilising the £200,000 already in the Capital Programme for future Rural Initiatives Grants).
- 11.1.2 Urban Initiatives Grants - transfer of the £300,000 from the General Fund Balance in 2010/11 to the Capital Investment Reserve to finance a new Urban Initiatives Grant scheme for the period 2011/12 to 2014/15 at £75,000 per annum. This follows on from the recommendations from the recent Members' Grants Working Party. The detail of the new scheme will be considered as part of the work by the Grants Review Panel and will be agreed by a future Executive meeting.
- 11.1.3 Play Equipment Reserve – creation of a new Play Equipment Reserve with £200,000 from the General Fund Balance in 2010/11 as a start of a reserve towards maintaining play areas, following from the report and recommendations from November 2010. Future contributions to this reserve will be subject to the overall financial position of the Council and be considered as part of future Budget considerations. The Executive will consider and approve all requests to utilise this reserve.
- 11.1.4 Services Transformation Reserve – As discussed in paragraph 10.10 and the report on Fit For the Future (see other agenda item), the Council is seeking to secure significant efficiencies and savings in the forthcoming years so as to enable it to continue to set a balanced budget, with there being a detailed programme of projects to achieve these savings. If there is any delay to achieve these savings, it is proposed that this reserve will provide a cushion against limited delays. Accordingly, it is recommended that £1,475,000 is allocated from the General Fund Balance to a newly created Services Transformation Reserve. The Executive will consider and approve all requests to utilise these reserves.
- 11.1.5 Capital Investment Reserve - Transfer of £1,200,000 from the General Fund Balance in 2010/11 to the Capital Investment Reserve to finance future new development proposals.
- 11.1.6 Equipment Renewal Reserve - Transfer of £400,000 from the General Fund Balance in 2010/11 to increase the balance on the Equipment Renewal Reserve.

- 11.1.7 Spend to Save Reserve - Transfer of £100,000 from the General Fund Balance in 2010/11 to increase the balance of the Spend to Save Reserve.
- 11.1.8 Contingency Budget 2011/12 – Transfer £100,000 from the General Fund Balance in 2011/12 to increase the Contingency Budget available in that year to £220,000 (see paragraph 9.2.11).
- 11.1.9 General Fund Balance – all the above changes will increase the unallocated General Fund Balance to £1.5m. It is recommended that this should be the minimum level for the core balance in the future.

All these appropriations from the General Fund Balance are summarised in Appendix 4.

11.2 **General Fund Earmarked Reserves**

- 11.2.1 It is recommended that the Council establishes a new Tourism Reserve in 2010/11 with an initial balance of £55,000 financed from savings within the Tourism budget. This reserve is to provide finance for up-front investment for initiatives relating to the Council's on-going promotion of tourism.
- 11.2.2 The reasons for the reserves and their use are included in Appendix 5a and Finance and Audit Scrutiny Committee are 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 2010 to 31st March 2015 are detailed below and shown in Appendix 5b.
 - i.) Other Commuted Sums - reduction of £268,000 due to annual funding of mainly Open Spaces maintenance costs.
 - ii.) Corporate Property Programme Reserve – reduction of £85,000 due to funding required for the capital programme.
 - iii.) Capital Investment Reserve – an increase in the balance of £433,000 mainly due to an additional contribution from the General Fund of £1.6m in 2010/11 offset by the use of the reserve in financing additional General Fund capital expenditure.
 - iv.) Planning Appeals Reserve – decrease in balance of £167,000 due to funding the Local Plan and Town Centre Plans costs in 2010/11 – 2013/14 offset by an additional £184,000 credited to the reserve in 2010/11 from unspent Housing and Planning Delivery Grant.
 - v.) Spend to Save Reserve – reduction of £278,000 due to funding various spend to save projects e.g. Agile Working, Planning and Land Charges database conversion to SQL and to support the developments of Newbold Comyn Golf Course during the initial years of the new lease, increased by £100,000 from the General Fund Balance.
 - vi.) Car Parks Repairs and Maintenance Reserve – increase of £108,000. This is a new reserve established in 2010/11 in order to provide resources for future years, to date no calls on this reserve have been identified.

- vii.) Play Equipment Reserve – increase of 216,000 by 2015/16 (reflecting accrued interest on the reserve). This is a new reserve established in 2010/11 in order to provide finance for future play equipment renewals and maintenance.
- viii.) Services Transformation Reserve – increase of 1,597,000 by 2015/16 (reflecting accrued interest on the reserve). This is a new reserve established in 2010/11 in order to enable services to continue to be provided pending the delivery of required savings.
- ix.) Equipment Renewal Reserve – 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 12 years for items that are in excess of £5,000. Appendix 6a summarises by financial year which sources will be used to fund the total £4.964 million cost of these assets. It then breaks down the £4.396 million required from the Equipment Renewal Reserve across the Service Areas. A more detailed analysis is at Appendix 6b.

Despite increasing this Reserve by some £400,000 from General Balance (Paragraph 11.1.6) insufficient funds are available to fully support all the potential calls on it. Officers are undertaking a full review of the schedule to determine which items could be resourced from alternative sources.

The schedule currently includes items which are interdependent upon new contracts which are being progressed. Replacements in the Royal Pump rooms assume these will be resourced by way of both the Equipment Renewal Reserve (£82,000) and from the successful tenderer (£155,000). This will be taken into account when the tenders are evaluated. Members will be receiving a separate report on this in the summer, and will be informed if these monies can be released.

Similarly, members will be aware that the Waste Contract is also being tendered. The Equipment Renewal Schedule currently assumes £120,000 to replace the recycling receptacles. Again 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 February of last year, members approved 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

In view of the future demands on the Equipment Renewal Reserve being well in excess of the available funding, the officer review and outstanding tenders, it is recommended that a future report is brought to the Executive for consideration during the year.

11.3 Housing Revenue Account Reserves

Housing Revenue Account (HRA) Reserves totalled £13.6m as at 1st April, 2010, and are expected to reduce to around £7.1m at 31st March, 2015 (Appendix 5b). A separate report to this meeting recommends increased expenditure and investment on the housing stock over the next three years which will reduce the HRA reserves. The expenditure will include such works as aids and adaptations, electrical works and the refurbishment of Acorn Court in 2011/12. This report and the Rent Setting report have been prepared on the basis of the recommendations in the separate report being accepted by members.

The Housing Revenue Account is expected to be placed on a self financing basis with effect from 1st April 2012. The future use of these reserves will be reviewed in the light of further developments as they appear. The financial implications of self financing have not been included in these Estimates; this will be subject to future reports to members.

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 = £78k
- 0.25% fall in interest rates from levels assumed in budget = £59k cost to the General Fund for a full year.
- 0.5% change in inflation = £88k

12.2 Risks

12.2.1 The risks in the 2011/12 budget together with notes on how they are controlled are considered to be:

Revenue

- Economic cycle issues that can affect some of the key assumptions in paragraph 9.6 – regular budget monitoring will be undertaken to highlight these areas.
- The cost of the national concessionary bus fares scheme – the operators are able to appeal if usage is higher than anticipated. Whilst the Council's responsibility for this scheme will cease from April 2011, it is necessary to continue to hold a contingency in respect of an appeal for 2007/08 that is still outstanding, with it expected that settlement of 2008/09 to 2010/11 being imminent.
- 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.
- Increase in the rate of V.A.T – would impact on income levels. Risk believed to be low in the short/medium term. Report to Executive on potential to increase charges.
- Free Swimming ceasing March 2011 – risk income does not revert to previous levels when charges were in force. Income to be monitored and reported upon as part of Budget Monitoring.
- Revenue implications of capital schemes not fully identified – Close scrutiny of capital proposals.

Capital

- 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.

Later Years & Medium Term

- Revenue Support Grant Settlement. The provisional settlement for 2011/12 and 2012/13 has been received and included within these estimates. It is not expected that there will be any major change to the 2011/12 final settlement (due January/February 2011), although there is a greater risk that the 2012/13 settlement may change from the provisional announcement. From 2013/14 onwards, there is a risk that the settlement may be less than the 7.5% that has been factored into the medium term projections. The position will be monitored, and reported to members as any further details about future settlements is received.
- Superannuation Fund contributions. The Council has recently received details of contribution rates for 2011/12 to 2013/14, with provisional increased rates for the subsequent three years. Whilst these increases have been factored in the financial projections, there is a risk of further increases in the medium term depending on the performance of the pension fund and the demands upon it. 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 2011/12 Estimates assume further savings of approaching £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, as discussed in a separate report to this meeting.

- Major contracts – Even greater costs than budgeted for. Would require review of the future service level.
- HB Administration Grant – Further reduction in annual grant. Last three years have seen real terms reductions and grant is significant at £650-700k.
- 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. The financial implications of this have yet to be assessed as further details are received. Whilst the Council's expenditure will reduce, the amount of funding may reduce by a greater or lesser amount.

Unforeseen other impacts

- There is a separate report elsewhere on this agenda, informing members of the possible impacts on this Council and its residents should budget reductions of other public sector bodies reduce the levels of support and change way in which they work with this Council and other local organisations. At this point in time it is not possible to assess the possible costs, when or whether this would impact upon Revenue or Capital budgets.

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 11.1.9), 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 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 is needing 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 now has a more robust 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 Opportunities/Positive risks

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

12.3.1 General contingency

As referred to in paragraph 9.2.11, it is recommended that a general contingency budget is included in the 2011/12 budget of £220,000 towards any unforeseen expenditure that cannot be accommodated within existing budgets.

12.4 Budget Management

In 2004/05 CMT introduced a new set of procedures which require monthly monitoring reports, signed off by the relevant manager, to be produced for subsequent reporting to the now SMT meetings. Also introduced was another new procedure requiring managers to sign off their budgets at the start of the financial year. The budget monitoring framework has been reviewed over the last year, and adapted to improve the accuracy of the financial projections. These procedures will continue, being closely monitored, and it is recommended that the quarterly reporting to the Executive is also continued.

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 a reconciliation and details of all the changes, including funding, to the current capital programme compared to that shown in the 2010/2011 Budget Book.

13.2 Proposed additions to the current capital programme

13.2.1 Following a review of the General Fund balance, it is proposed that the following additions be made to the General Fund capital programme:-

An additional £100,000 to enable the Rural Initiatives Grants scheme to continue until 2014/15, phased at £75,000 per annum over the next four years (plus any slippage from 2010/11).

£300,000 to be allocated to a new Urban Initiatives Grants budget for 2011/12 to 2014/15. The allocation to be £75,000 in each year. (see para 11.1.2)

The above will be funded from the Capital Investment Reserve and have been included in the proposed total programme for both the General Fund and Housing capital programmes as set out in Appendix 8.

13.2.2 The Capital Programme includes the changes agreed by members in January in respect of South West Warwick Community Centre and Flood Alleviation.

13.2.3 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 budget.

- 13.2.4 An outline business case is to be presented to a future Executive on the development of a public service centre in Kenilworth, with a view to requesting funds to develop a full business case. This will then identify capital and anticipated ongoing revenue costs and sources of associated funding.

13.3 Housing Investment Programme

- 13.3.1 The proposed Housing Investment Programme (HIP) is shown in Appendix 8 part 2. For 2010/11 the figures reflect the slippage from 2009/10 as agreed in June, 2010, plus any changes identified as part of the Budget Monitoring process. Funding of the current HIP is based on the current financing regime. However, with the advent of Self Financing of the HRA, expected to be introduced on 1st April, 2012, and the subsequent need to borrow substantial amounts for this venture, the capital programmes and their financing are expected to change from 2012/13 onwards.
- 13.3.2 In a separate Report to this Committee, it is proposed to increase expenditure on the Housing Revenue Account (HRA) element of the HIP by a total of £8.3m. above that previously reported. This comprises an additional £1,635,700 being requested for 2010/11, £3,687,200 for 2011/12, £1,345,000 in 2012/13 and £1,345,000 for 2013/14. Details of the proposed additional capital expenditure are as follows:-

| EXPENDITURE TYPE: | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|------------------|------------------|------------------|------------------|
| | £ | £ | £ | £ |
| Kitchens & Bathrooms | 445,000 | 445,000 | 445,000 | 445,000 |
| Central Heating Replacement | 460,000 | 400,000 | 400,000 | 400,000 |
| Acorn Court Refurbishment – General | | 350,000 | | |
| Asbestos – Surveys, Inspections & Removal | 605,700 | 825,200 | | |
| Electrical Works – Circuit Boards | 125,000 | 275,000 | | |
| Acorn Court Refurbishment – Aids & Adapts | | 292,000 | | |
| Aids & Adapts – Backlog | | 600,000 | | |
| Aids & Adapts – Level Access Showers | | 500,000 | 500,000 | 500,000 |
| TOTAL: | 1,635,700 | 3,687,200 | 1,345,000 | 1,345,000 |

- 13.3.3 All of the above proposals have been incorporated into the HIP shown in Appendix 8. These figures are subject to change depending on the decisions made regarding the request for additional funds and will be reported to the Council meeting on 23rd February, 2011.
- 13.3.4 Expenditure on the General Fund (GF) element of the HIP, has been increased by £1,468,000 for 2011/12. This comprises:-
- An additional £160,000 of expenditure is included for Mandatory Disabled Facilities Grants (DFGs), in the private sector. A bid to Government for additional funds of £100,000 has been made and the additional £60,000 is to be funded from housing capital receipts.

- The S106 Contribution of £220,000 has been 'slipped' from 2011/12, as no appropriate scheme is currently available.
- Additional expenditure of £18,000 required for renovation grants for Houses in Multiple Occupation, (HMO's).
- The remainder, £1,070,000, is 'slippage' in the Housing Association programme from 2010/11. Coten End, £120,000 and Queens Square, £250,000, developments have been delayed. The remaining £700,000 is due to a lack of appropriate schemes being available.

13.3.5 Both the housing association and private sector housing programmes are 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 2010/11, 6 council homes have been sold, resulting in £138,000 of useable capital receipts. This is a slight improvement on 2009/10 when there were just 3 Right to Buy sales. Given the current economic climate, it is unlikely that capital receipts from this source will significantly improve for some time to come. To be prudent, no additional receipts from this source have been included in the HIP for future years. There are S106 contributions totaling £815,900 to help fund the affordable housing programme.

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 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|----------------------------|-----------|---------|---------|---------|---------|
| | £ | £ | £ | £ | £ |
| Borrowing | 750,000 | 0 | 0 | 0 | 0 |
| Capital Receipts | 61,200 | 30,200 | 0 | 0 | 0 |
| External Contributions | 798,800 | 30,000 | 0 | 0 | 0 |
| Revenue Contributions | 21,500 | 0 | 0 | 0 | 0 |
| Corporate Prop. Res. | 0 | 96,000 | 0 | 0 | 0 |
| Equipment Renewal Reserve. | 40,000 | 0 | 0 | 130,000 | 130,000 |
| Spend to Save Reserve | 161,300 | 0 | 0 | 0 | 0 |
| Capital Investment Reserve | 1,404,900 | 519,000 | 430,000 | 250,000 | 250,000 |
| Gym Equipment Reserve | 0 | 88,000 | 0 | 0 | 81,300 |
| TOTAL | 3,237,700 | 763,200 | 430,000 | 380,000 | 461,300 |

13.4.2 Over the period 2010/11 – 2014/15 it is assumed, with the exception of the sale of Wilton House, that no significant General Fund capital receipts will be generated. Capital receipts utilised in the table above are those in hand at 1/4/2010. Provision has been made in 2010/11 for £750,000 temporary borrowing which may be incurred in part funding the purchase of 18B Southbank Road Kenilworth to facilitate the disposal of the Wilton House site. Part of the receipt which is expected in 2011/12 will then be utilised to repay the temporary borrowing and the costs of the acquisition of the Southbank Road properties.

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 2010/11 to 2014/15 matched against the projected spend. This shows that over the period the Council has £5.337m surplus resources once the current programme is financed. The major elements are represented by balances of £3.191m and £1.676m on the Capital Investment Reserve and Equipment Renewals Reserve respectively with 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 reduces to £0.243m. 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 £2m.

13.5 Funding the Housing Investment Programme

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

Housing Investment Programme

| Method | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|-------------------------------------|------------------|-------------------|------------------|------------------|------------------|
| | £ | £ | £ | £ | £ |
| Capital Receipts | 330,500 | 885,500 | 538,400 | 538,400 | 180,500 |
| External Contributions | 27,600 | 1,035,900 | 0 | 0 | 138,000 |
| Major Repairs Reserve | 5,247,100 | 4,719,900 | 4,425,900 | 3,880,700 | 3,849,700 |
| Capital Grant | 462,600 | 499,000 | 499,000 | 499,000 | 498,000 |
| Housing Repairs Account | 2,086,400 | 4,498,000 | 2,202,400 | 2,542,100 | 1,377,600 |
| General Fund - revenue contribution | 9,600 | 9,600 | 9,600 | 9,600 | 9,600 |
| | | | | | |
| TOTAL | 8,163,800 | 11,647,900 | 7,675,300 | 7,469,800 | 6,053,400 |

14. AUTHORISED BORROWING LIMIT AND PRUDENTIAL INDICATORS

14.1 The authorised borrowing limit and Prudential Indicators that this Council is required to adopt are detailed in Appendix 10. It is recommended that the limits and indicators as shown within the 10 in paragraphs 2.2, 3.1, 4.1, 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 The December 2010 Citizen's Panel questionnaire included specific questions relating to the budget, council tax and the allocation of resources. There were 435 responses. The detail is attached as Appendix 11. Allocation of funding to finance new initiatives was not an area discussed this year due to the limited resources available.
- 15.2 With regard to budget issues, the main points that may be concluded are:-
- Over 84% believe the Council provide good or very good value for the current council tax charged.
 - Over 50% of respondents believe it is important for the District Council not to increase Council Tax by more than inflation, even if this means a reduction in the levels of some services
 - 42% agree it is important for the District Council to MAINTAIN current levels of service, even if this means increasing Council Tax by more than inflation. 45% disagreed with this statement.
 - In terms of allocating resources, it is not possible to conclude there are any services which stand out for having resources increased or decreased.
- 15.3 The results of this Citizen's Panel are due to be considered by the Senior Management Team.
- 15.4 Representatives of the business community and the Council's key partners have been sent copies of this report. Comments on the proposals have been requested to be received a week before the Council is due to set its budget on February 23, and any received will be forwarded to all members.
- 15.5 The way in which this Council consults its residents on its budgets in future years is currently being reviewed. There are both opportunities to enhance the consultation methods to provide longer term informative information and also to realise savings dependent upon the methodology of consultation being undertaken. It is intended to have new arrangements in place ahead of consultation on the 2012/13 Budget.

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.