

CHESHIRE EAST COUNCIL

REPORT TO: CABINET

Date of Meeting: 22 December 2009
Report of: Borough Treasurer and Head of Assets
Subject/Title: Business Planning Process 2010-13
Portfolio Holder: Councillor Keegan

1.0 Report Summary

- 1.1 The purpose of the Cabinet report is to provide an overview of the current medium term financial position following further development of policy proposals and capital schemes that will impact in the financial years 2010/2011 to 2012/2013
- 1.2 The report also asks for approval of the outline structure for further consultation on the business planning process throughout January 2010.

2.0 Decision Requested

- 2.1 Note the current medium term financial position.
- 2.2 In relation to the Pre-Budget Report 2010 - note that the Portfolio Holder for Resources, in consultation with the Borough Treasurer, will provide the detailed analysis within the report to inform the consultation process.
- 2.3 Agree the process for working towards a balanced budget for 2010/2011.

3.0 Reasons for Recommendations

- 3.1 The Business Planning Process must develop robust revenue and capital proposals taking account of stakeholder feedback.
- 3.2 Stakeholder feedback will be enhanced with the further detail being provided by the Portfolio Holder for Resources.
- 3.3 The report provides an opportunity to share the structure of the document that will ultimately become the Budget Report.

4.0 Wards Affected

- 4.1 Not applicable

5.0 Local Ward Members

5.1 Not applicable

6.0 Policy Implications including - Climate change - Health

6.1 The report contains policy proposals which will impact on service delivery.

7.0 Financial Implications for Transition Costs (Authorised by the Borough Treasurer)

7.1 None

8.0 Financial Implications 2009/10 and beyond (Authorised by the Borough Treasurer)

8.1 The report includes details of policy proposals which will affect service budgets from 2010-11 onwards.

9.0 Legal Implications (Authorised by the Borough Solicitor)

9.1 The Medium Term Financial Strategy must be underpinned by robust estimates and the level of reserves maintained by the Authority must be adequate.

9.2 The Council must have a robust process for budget setting in order to fulfil its fiduciary duties.

10.0 Risk Management

10.1 The steps outlined in this report will significantly mitigate the main legal and financial risks to the council's financial management:

- a. The council must set a balanced Budget
- b. The council must set a legal Council Tax for 2010-11
- c. The council should provide high quality evidence to support submissions for external assessment. This can have the affect of reducing scrutiny, and audit charges that can be related to risk.
- d. That council borrowing will comply with the Treasury Management Strategy

10.2 A risk assessment for all individual proposals being put forward over £100,000 has been carried out by each Directorate.

11.0 Background and Options

The Process

- 11.1. The Business Planning Process was approved at Cabinet on 14th July 2009 and set out the need to ensure limited resources are used in the most effective way to meet priorities and service delivery targets.
- 11.2. The process included the ideas that:
 - a. Strategic & Service planning would be integrated with Financial Planning
 - b. A link would exist from overarching objectives through to service plans and development of the Corporate Plan
 - c. Services, in consultation with cabinet members, should take the lead in generating proposals in line with such aims.
- 11.3. The report acknowledged that it will take time to fully align and evolve all these strands into a single Business Planning Process and to then further develop elements such as enhanced Budget Consultation.

Financial Constraints

- 11.4. The November Cabinet report updated Members on the financial position facing the authority noting that:
 - a. Cheshire East receives the lowest percentage in terms of government grant funding per head compared to our 15 'nearest neighbours'.

Appendix A graphically illustrates the low levels of funding received by Cheshire East in comparison to our nearest neighbours as defined by CIPFA.
 - b. The Council collects an average level of fees and charges.
 - c. There are significant cost pressures from:
 - Inflationary increases in costs of services
 - Demographic changes leading to increased service requirements
 - Legislative and best practice impacts on service delivery
 - Costs associated with aggregation of services
 - Falling income from the impact of recession
 - In year spending pressures

Addressing External Assessment Criteria

- 11.5. The Business Planning Process provides evidence that the Council is addressing the criteria set out in the Audit Commission's Comprehensive Area Assessment – Use of Resources Assessment in relation to Managing Finances.

- 11.6. At this stage, the key challenge for the Authority is to clearly demonstrate how it will invest in priority areas and will continue to operate services within the funding available.

Development of Revenue Options

- 11.7. The July Cabinet Report set out the high level financial scenario and a series of financial targets were agreed for each Directorate.
- 11.8. Directorate responses were subject to challenge by a panel chaired by Cllr Keegan. The outcome of this was that the variance remained at £13.8m in 2010/2011 due to significant growth pressures, particularly in Children and Families, Adults Services and Waste. Further work was required by Directors and Portfolio Holders to close the net funding 'gap'.
- 11.9. The net funding gap of £13.8m was reported to Cabinet on 3rd November and 5 measures were identified to address this position:

11.10. **Measure 1 ~ Challenge Funding Assumptions**

The July Cabinet report set out a number of key planning assumptions including central financial adjustments such as repayment of reserves; inflation; Contingency; and Capital Financing.

These assumptions were challenged by the Portfolio Holder and Borough Treasurer, with key adjustments proposed as follows:

Pay Inflation in 2009-10 is less than the original assumption and therefore reduces the base budget going forward.

- The provision for pay inflation made as part of the 2009-10 budget setting process was 2.5%. But the 2009-10 pay award was settled at 1%.
- This reduces the expected base budget for 2010-11, in each Directorate, and therefore reduces the funding gap by £1.4m in 2010-11.

Capital Financing provides for the necessary repayments of Capital and interest.

- The provision for Capital Financing was based on calculations made during the development of the 2009-12 Capital Programme.
- Given issues with affordability, current slippage and capacity it is proposed to reduce the 2010-11 Capital Financing provision to achieve a saving of circa £2m.

Revenue Support Grant - a grant provided annually by Central Government.

- The original assumption was a freeze at 2010-11 levels as they had been previously confirmed and the expectation that later years funding would not increase in real terms.
- Given the current messages regarding public sector expenditure it is proposed to reduce the amount of grant for years 2 and 3 by 2.5% per annum. This equates to a further £0.4m shortfall over the three year period.

11.11. This review has therefore enabled a further £3.4m reduction in the net funding gap in 2010-11

11.12. Measure 2 ~ Increase Council Tax

No change in council tax is currently factored into the financial position. A 1% increase in Council Tax increases funding by £1.7m. Guidelines announced on 9th December 2009, by Barbara Follett MP, set out the expectation that the average increase in Council Tax should be below the 3.0% achieved for the current year. Cheshire East Council receives low funding from Central Government and is expected to rely on tax raising powers in the local area.

11.13. Measure 3 ~ Use General Reserves

The Council's reserves strategy uses risk assessment to inform the prudent level of reserves. This complies with the requirement to maintain adequate reserves (see 9.0 Legal Implications, above).

The current financial position includes a commitment to repay transitional costs from the LGR process (contained within the Central Adjustments figure in Table 3 – below). The key risk from using reserves to support the revenue budget is sustainability. This relates not only to the clear fact it is an approach that cannot be repeated in the medium term, but also to the risks from poor external assessment of the council's financial standing.

11.14. Measure 4 ~ Reduce Expenditure & Measure 5 ~ Increase Income

Revised service related responses were produced by Directors & Portfolio Holders following the initial Challenge Phase. These revised responses reduced the net funding gap by £5.6m for 2010/2011. The proposals were challenged again in late November with the following impact:

- a. **People:** Additional £1.8m savings in the main through bringing forward and making additional efficiencies.
- b. **Places:** No additional impact in 2010-11, but an additional £0.5m savings from Waste over 2011-12 and 2012-13.

c. Performance and Capacity: Additional £0.3m savings mainly from removal of a transitional funding item.

11.15. The overall impact of this additional challenge was therefore to reduce the net funding gap for 2010-11 by a further £2.1m.

Development of the Capital Programme

11.16 The draft Capital Programme reported to Cabinet on 3rd November identified schemes for inclusion in the 2010-11 Programme amounting to £53.1m of which £31.7m was directly funded.

11.17 Several measures were identified to bridge the affordability gap, including:

Measure 1: Downsizing the programme by deferring schemes until a later year or deleting schemes from the programme.

Following the Challenge sessions an exercise has been completed to prioritise schemes against the following criteria.

- Transformation (how does the scheme contribute towards the corporate transformation goals)
- Infrastructure (how does the scheme support the ICT infrastructure and asset base)
- Compliance (what is the level of risk of non-compliance with statutory, legislative and health and safety requirements)

In addition work has been completed to identify schemes as Core Programme, these are schemes which are necessary for the day to day delivery and operation of the Council and in the main relate to the maintenance and development of the ICT infrastructure and the asset base.

The ICT Strategy department have carried out an assessment of the ICT bids against the ICT Strategy and these have now be assessed and prioritised in accordance with the Strategy.

Measure 2: Use of Capital Receipts

Further work has been carried out to identify available and anticipated Capital Receipts in 2010/11 these are summarised in the following table. In addition a range of assets have been identified on the Surplus and Vacant Properties list for future disposals and work is ongoing to quantify future receipts.

Table 1 - Available and anticipated Capital Receipts 2010/11

	2010/11 £000
Inherited Position from predecessor authorities	11,000
Anticipated Right to buy receipts from former transfers of housing stock to RSLs	378
Anticipated receipts from Farms Estates (net of costs)	1,000
Asset Disposals – Received to date and anticipated in year	821
Less Capital Receipts included in Core Programme funding	-600
	12,599

Measure 3: Prudential Borrowing in accordance with the Council's Treasury Management Strategy.

Given the proposal identified in paragraph 11.10 to reduce the Capital Financing budget in 2010/11 and future years there are currently no plans to fund schemes from Prudential Borrowing.

The level of Supported and Prudential Borrowing undertaken in 2009/10 has led to an increase in the level of debt repayment in 2010/11 and future years, therefore a review of the current programme is underway to reprofile spending and to re-assess schemes that have not yet commenced. Where possible schemes which no longer meet the objectives of Cheshire East Council will be deleted from the programme, depending on the means of funding this will enable capital receipts to be released to fund other projects or reduce the level of required borrowing.

Summary of Current Position

11.18 The table below sets out the impact of the measures considered in paragraphs 11.10 to 11.115 above:

Table 2: Challenging the original Gap has reduced it to £2.7m

Revenue	2010-11 Impact £m	2010-11 Totals £m
Potential Budget Gap reported at 3rd November 2009		13.8
Reductions identified from September Challenge meetings		
People	(0.7)	
Places	(3.2)	
P&C	(1.7)	
Impact of September Challenge		(5.6)
Revised Potential Budget Gap after September Challenge		8.2
Reduction identified from November Challenge meetings		
People	(1.8)	
P&C	(0.3)	
Impact of November Challenge		(2.1)
Revised Potential Budget Gap after November Challenge		6.1
Impact of Challenge to Funding Assumptions (Central Adjustments)		(3.4)
Revised Current Net Funding Gap		2.7

Source: Cheshire East Finance

11.19 The current financial scenario is detailed below and a summary of the Directorate variations to the Base Budget is provided at **Appendix B**.

Table 3 : Current Revenue Position

	2010-11 £m	£m	2011-12 £m	£m	2012-13 £m	£m
INCOME						
Council Tax	173.7		174.2		174.7	
Less Deficit on Collection Fund	-0.5		0.0		0.0	
Grant Funding (RSG and NNDR)	63.5		63.3		63.1	
Less: Central Adjustments (see note 1)	<u>-29.0</u>		<u>-30.9</u>		<u>-31.6</u>	
TOTAL INCOME		207.7		206.6		206.2
EXPENDITURE						
People						
Base Budget	124.5		123.3		123.9	
Current Proposals	<u>-2.6</u>		<u>-4.8</u>		<u>-3.8</u>	
Total		121.9		118.5		120.1
Places						
Base Budget	50.8		52.0		52.6	
Current Proposals	<u>0.5</u>		<u>-1.6</u>		<u>-0.1</u>	
Total		51.3		50.4		52.5
P&C						
Base Budget	36.6		37.6		36.2	
Current Proposals	<u>0.6</u>		<u>-3.1</u>		<u>-1.1</u>	
Total		37.2		34.5		35.1
TOTAL EXPENDITURE		210.4		203.4		207.7
FUNDING GAP		2.7		-3.2		1.5
FUNDING GAP - THREE YEAR TOTAL						1.0

Note 1 - Adjusted for Exceptional Inflation and Corporate Budgets

Source : Cheshire East Council Financial Scenario and Business Planning Responses

11.20 The current financial scenario is not balanced and the funding gap remains at £2.7m for 2010/2011. In keeping with the 5 Measures identified point 11.10 (above) the council will reconsider each measure, whilst also consulting stakeholders on the current position.

Update on Capital Position

11.21 The table below sets out the impact of the measures identified in paragraph 11.17 on the draft capital programme.

Table 4 : Draft Capital Programme 2010-11

New Bids 2010-11	2010-11 Expenditure £000	2010-11 Funding £000	2010-11 Gap £000
Fully funded schemes	26,204	26,204	0
Core Programme	10,697	6,575	4,122
Invest to Save	247	247	0
High Priority Schemes	7,160	750	6,410
Remaining Schemes	2,244	125	2,119
	46,552	33,901	12,651

The funding gap remains at £4.1m for Core Programme schemes and £6.4m for schemes identified as high priority. Further meetings of the Capital Asset Group are timetabled to consider the funding of the programme in keeping with the measures identified in paragraph 11.17.

Budget Consultation

11.22 The July Cabinet set out a two stage approach to Budget Consultation:

Round 1 – to be held in November
Round 2 – to be held in January

11.23 The strap line of **‘Shaping Our Services’** was chosen for the events.

11.24 The first round of the Shaping Our Services Consultation exercise was held in November at the following venues:

23rd November Knutsford High School
24th November Congleton Town Hall
26th November Nantwich Civic Hall

11.25 Stakeholders were presented with a list of 24 service areas and asked to collectively select:

3 service areas where we could “Do more”
7 service areas where we could “Do less”
4 service areas where we could “Stay the same”

11.26 The events were well attended and prompted some lively debates when opposing view points came together.

11.27 Initial feedback from these events is provided at **Appendix C** and Cabinet will be able to use the data to help their deliberations on the Budget.

11.28 The second round to the **Shaping Our Services** Consultation will take place in January 2010 as follows:

Thursday 7th January pm – Trades Unions via Staffing Committee.

Tuesday 12th January pm – Schools Forum.

Wednesday 13th January am – Business Breakfast

Monday 18th January evening – Town and Parish Councils

Wednesday 20th January pm – General People & Places event

11.29 The meetings will be used to brief stakeholders and receive comments on the Cheshire East Pre-Budget Report.

Outline format of the Pre-Budget Report 2010

11.30 Producing the first budget since the formation of Cheshire East Council presents an opportunity to review and revise the format and approach to presenting budget data. The aim is to combine the essential elements of:

- a. Setting out the policy proposals and capital schemes in a clear format, promoting engagement and openness for the budget setting and business planning process.
- b. Addressing the aim of the Business Planning Process, by setting out what the council is intending to deliver and how this will be funded.
- c. Publishing a comprehensive Medium Term Financial Strategy incorporating the next year Budget Setting report.
- d. Following Best Practice guidance / templates that clearly meet external assessment criteria.

11.31 The draft pre Budget Report will be developed throughout December to become a statement on, and comprehensive supporting document to, next year's Budget.

11.32 The expected format will be :

1. Foreword from Cllr Frank Keegan
2. Overview
3. Financial Stability
4. Local People
5. Local Places
6. Supporting Service Delivery
7. Budget Impact
8. Detailed Appendices

Timetable

11.33 The next key steps in the business planning process are to:

1. Provide detailed budget information following the format of the Pre-Budget Report 2010, as contained within this report.
2. Undertake detailed Budget Consultation in January 2010.
3. Use consultation feedback and further challenge meetings to balance the 2010/2011 position.
4. Report to Cabinet in February.
5. Set the Budget and Council Tax at Council in February.

12.0 Overview of Year One and Term One Issues

12.1 The MTFS and the associated planning assumptions will impact on the first Term by setting a framework for the development of budgetary and policy options and Capital Schemes which will impact on service delivery and Council Tax levels.

13.0 Access to Information

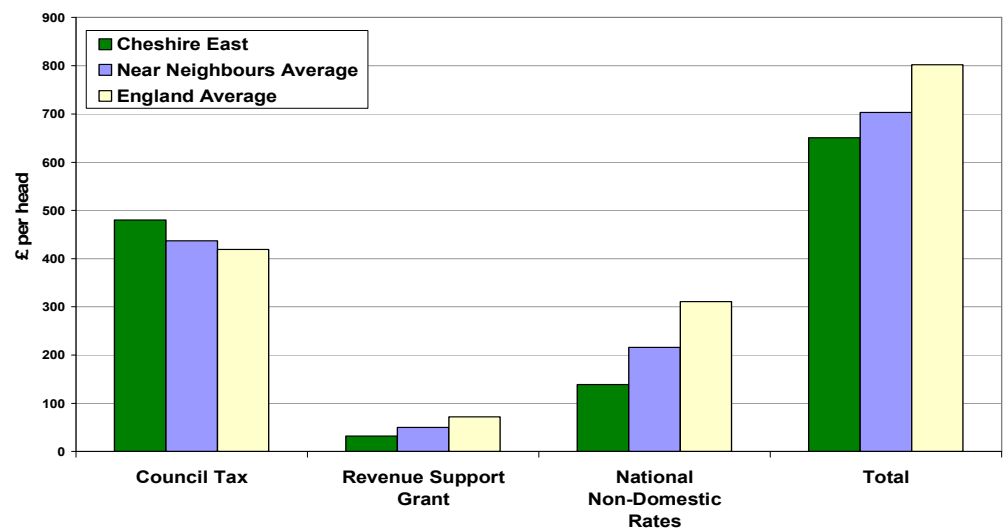
The background papers relating to this report can be inspected by contacting the report writer:

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Appendix A

a) **Funding Council Expenditure**
Cheshire East is a relatively low funded authority

Chart 1: The Government funding for local services is low in Cheshire East



Source: CIPFA Stats 2009-10

Appendix B

Summary of Budget Proposals for 2010-13

	Financial Impact			
	2010-11	2011-12	2012-13	TOTAL
	£m	£m	£m	£m
Original Target	7.6	6.1	6.4	20.1
Directorate / Service Responses				
People Directorate				
Children & Families	1.0	-1.6	-2.0	-2.6
Adults Services	-3.0	-1.6	-1.4	-6.0
Health & Wellbeing	-0.6	-1.5	-0.5	-2.6
Sub total	-2.6	-4.7	-3.9	-11.2
Places Directorate				
Environmental Services	0.6	-0.8	0.4	0.2
Safer & Stronger Communities	-0.5	-0.2	-0.3	-1.0
Planning & Policy	0.8	-0.4	-0.2	0.2
Regeneration	-0.4	-0.3	0.0	-0.7
Sub total	0.5	-1.7	-0.1	-1.3
Performance and Capacity				
Borough Treasurer & Head of Assets	-0.2	-2.6	-0.6	-3.4
HR & Organisational Development	0.1	-0.1	-0.1	-0.1
Borough Solicitor	0.4	-0.2	-0.2	0.0
Policy & Performance	0.3	-0.2	-0.2	-0.1
Sub total	0.6	-3.1	-1.1	-3.6
Total - All Directorates	-1.5	-9.5	-5.1	-16.1
Remaining Gap	6.1	-3.4	1.3	4.0
Scenario Adjustments				
Base Budget	-1.4			-1.4
Capital Financing	-2.0			-2.0
Formula Grant		0.2	0.2	0.4
Revised Target	2.7	-3.2	1.5	1.0

Appendix C

Summary of Feedback Forms – 2010-11 Budget Consultation

In all 100 feedback forms were collected, 50 from the event in Nantwich, 26 from the event in Congleton and 24 from the event in Knutsford.

Council Spending

The three top services that respondents felt the Council should contribute more spending to, were:

1. Supporting people to maintain independence, 65%
2. Helping carers, 59%
3. Maintaining and improving highways, 54%

The top seven services that respondents felt the Council should contribute less spending to, were:

1. Controlling car parking, 68%
2. Providing one-stop service access for customers, 62%
3. Providing reading and learning resources through libraries, 55%
4. Supporting lifelong learning, 43%
5. Improving housing conditions, 41%
6. Protecting our towns and markets, 41%
7. Maintaining and improving parks and open spaces, 38%

The top four services that respondents felt the Council should contribute the same amount of spending to, were:

1. Collecting, recycling and disposing of waste, 76%
2. Educating our children and young people, 60%
3. Providing activities for young people, 54%
4. Providing sports and leisure opportunities, 50%

Council Tax

Over two thirds of respondents (68%) would be prepared to pay an increase in Council tax to protect or improve high priority services. Just over half of respondents (51%) would be prepared to pay an increase of 1-2%.

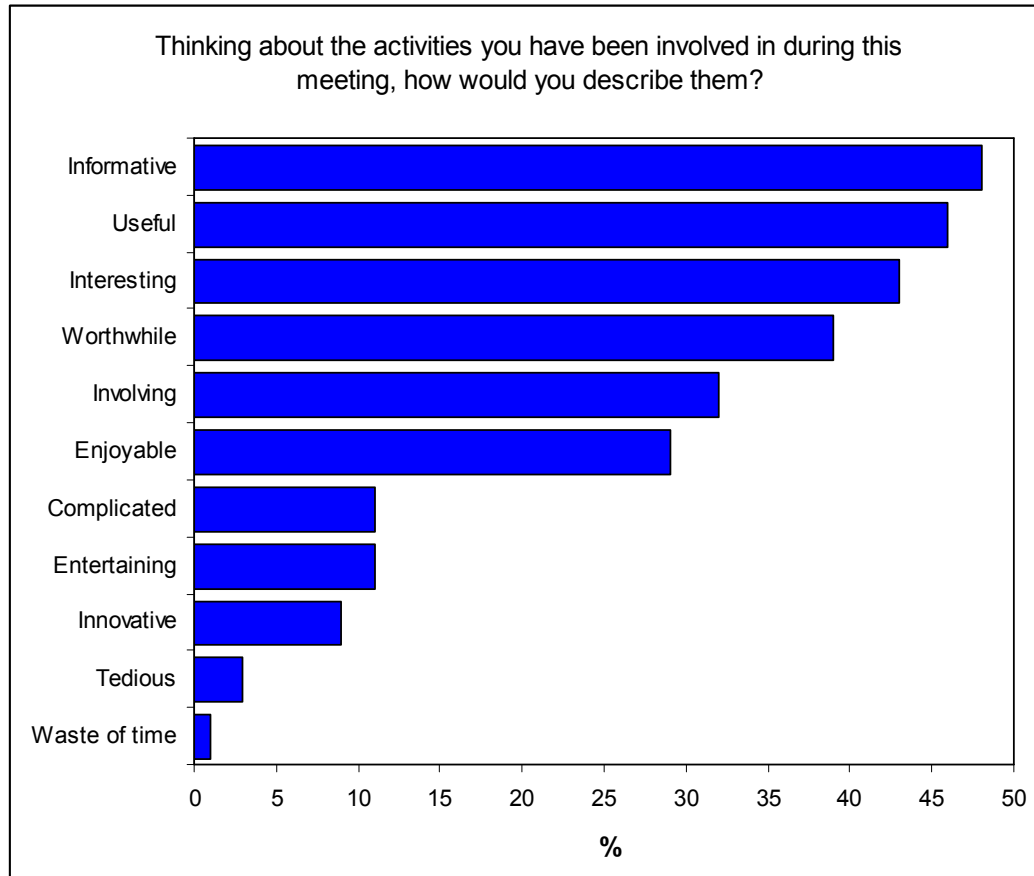
Comments from those who would not be prepared to pay any increase in council tax (23 respondents) included those who felt that they could not afford it, they pay too much already or that the money would just go to waste.

What participants thought about the events

When asked their views on the events, 74% thought it showed the difficulty of making decisions, 51% thought it helped them show their priorities and views about Council spending and 45% felt they had improved knowledge of Council spending.

What participants thought about the activities involved during the events

Just under half of respondents described the activities as informative (48%), useful (46%), and interesting (43%). Just 1 respondent felt they were a waste of time and 3 respondents that it was Tedious, 10 respondents found the activities complicated.



Venue and Facilities

Overall, participants at the events agreed that the venue was easy to get to (77% agreed) and that the event was easy to understand (73%). 53% agreed that the refreshments were satisfactory and 76% disagreed that the venue was too small.