CHESHIRE EAST COUNCIL

REPORT TO: CABINET

Date of Meeting:	19th July 2010
Report of:	Borough Treasurer & Head of Assets and Head of Policy & Performance
Subject/Title:	Business Planning Process 2011/2014
Portfolio Holders:	Councillor Keegan / Councillor Brown

1 Report Summary

1.1 The Council will set its Budget for 2011/2012 in February 2011 and approve its Corporate Plan in March 2011. To reach those points a comprehensive Business Planning process is required to enable the Council to demonstrate:

- Clear links between Corporate and Financial Planning.
- Adherence to best practice.
- The development of robust proposals that have been challenged and consulted upon.

1.2 This report sets out the Business Planning Cycle that will be used to secure these requirements.

2 Decision Requested

2.1 To agree the Business Planning Process for 2011/2014.

3 Reasons for Recommendations

3.1 The Council requires an agreed process to take it through to Budget and Council Tax Setting in February 2011.

4 Wards Affected

4.1 Not applicable

5 Local Ward Members

5.1 Not applicable

6 Policy Implications – Climate Change – Health

6.1 The report outlines the need to generate policy proposals which will impact on service delivery.

7 Financial Implications (Authorised by the Borough Treasurer)

7.1 The report includes details of policy proposals which will affect service budgets from 2011/2012 onwards.

8 Legal Implications (Authorised by the Borough Solicitor)

8.1 The Council should have robust processes so that it can meet statutory requirements and fulfill its fiduciary duty.

9 Risk Management

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

- The Council must set a balanced Budget
- The Council must set a legal Council Tax for 2011/2012
- 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.
- That Council borrowing will comply with the Treasury Management Strategy which is underpinned by the Prudential Code.

A more detailed risk analysis is set out in the report.

9.2 In most cases a risk assessment of the individual proposals being put forward will be carried out by each directorate.

10 Background and Options

10.1 The Business Planning Process for 2010/2011 was successful and resulted in an agreed Budget. However, a number of potential improvements have been made. A revised process for 2011/2014 is attached including:

- A brief Financial Analysis of the Authority's position to show the funding position in relative terms and the impact of the current proposals set out as part of the 2010/2013 process.

- The process for 2011/2014 with details of how it will be improved and a timetable.

- An analysis of stakeholder needs and consultation proposals.

- A glossary of terms.

- Annexes providing more detail on key areas.

10.2 The Council is facing challenges in 2010/2011 as funding levels are reduced in-year. The process of delivering these reductions and looking ahead to the next three years will be linked together under a single Business Planning Process. This will enable a clear role for the various groups involved in the process.

11 Overview of Year One and Term One Issues

11.1 The Medium Term Financial Strategy 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.

12 Access to Information

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

Name: Lisa Quinn
Designation: Borough Treasurer and Head of Assets
Tel No: 01270 686628
Email: lisa.quinn@cheshireeast.gov.uk

Name: Vivienne Quayle
Designation: Head of Policy and Performance
Tel No: 01270 685859
Email: vivienne.quayle@cheshireeast.gov.uk

Cheshire East Council

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Business Planning Process for 2011/2014

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Foreword

Cllr Frank Keegan

The 2010/2011 Budget Setting Process was successful. But, the challenges facing the Council continue to grow. The Council receives significant funding from Central Government and the recent announcements to cut Public Spending will impact on the local area.

Services delivered by Cheshire East Council must continue to adapt to the modern service user. And, through significant up front investment, we aim to build services that are suited to the needs of our local citizens. We aim to get full value from the resources we have.

The Council is not well funded from central Government in comparison to most local authorities, so we also rely on local people understanding the pressure the Council faces and how we can meet these demands.

Transforming services can be costly in the short term, and there may be pressure on financial reserves. This can be mitigated by working with our partners and by staying open to new ideas and innovation. Investment will always be balanced against risk.

Throughout 2010/2011 the Council will challenge whether certain discretionary services can continue to be provided in the current climate and whether these services offer the best value to local taxpayers.

This document sets out the framework for delivery of the Council's priorities and performance ambitions as part of the 2011/2012 Budget Setting Round. It will provide an analysis of the current position and set out the Financial Context for Cabinet Members and Lead Officers to respond to.

We will challenge the resulting proposals and strong justification will be needed for any investment proposals. I look forward to working with all stakeholders to respond to the common issues we face.

Cllr Frank Keegan

Resources Portfolio Holder

Cllr David Brown

Cheshire East is committed to its vision of "working together to improve community life." We have achieved a lot in 2009/2010 and Cheshire East, as an area, has much to be proud of. We genuinely want to work with all our partners, customers and interested parties to improve the lives of people in Cheshire East.

We have a fantastic opportunity moving forward to use our sustainable community strategy to properly focus our time and resources on those areas that matter most to the people of Cheshire East. We want to improve performance outcomes (not count inputs), we want to do everything we do in the most cost effective way and we want to satisfy our customers.

To do this in a time of austerity is a particular challenge but it is one that we are well placed to tackle. Empowering our citizens and a sense of civic pride is fundamental to moving forward in the difficult months and years ahead.

Neighbourhood action, a community spirit and a combined effort is the way forward. The Council can not, and does not wish to, deliver all the services in a local area that we might be used to. It can though ensure that the most vulnerable people, the areas of most need and the most required services and performance outcomes are continually improved and we can have a shaping role in the way that the area of Cheshire East develops, grows, influences and flourishes.

All our processes are about this and this business planning process will build on the sustainable community strategy and our corporate and service plans to drive forward the best outcomes for the people and localities of our Borough.

Cllr David Brown

Performance & Capacity Portfolio Holder

Comment from the Borough Treasurer

The Business Planning Process for 2010/2013 was another step in the right direction and again resulted in a balanced Budget. However, the Authority must respond to the new demands being placed upon it and make a clear statement of where it wants to get to and what it wants to achieve.

This document forms part of that process and sets a framework for the interpretation of the Council's priorities and assessment of performance into tangible impacts on service delivery.

I will work with the Head of Policy & Performance to lead the Business Planning Process for 2011/2012, in conjunction with the Corporate Management team and to the satisfaction of the Cabinet and all other Members.

Lisa Quinn

Borough Treasurer & Head of Assets

Comment from the Head of Policy & Performance

It is vital that we align the priorities for our Cheshire East community with the financial resources available. Through extensive consultation we have produced a Sustainable Community Strategy reflecting the views, thoughts and aspirations of ourselves, our partners and our customers. Its title is "Ambition for All." That is what this business planning process is all about.

We have agreed seven priorities for action within our strategy which are about nurturing strong communities, creating the conditions for business growth, unlocking the potential of our towns, supporting young people, ensuring a sustainable future, preparing for an increasingly older population and driving out the cause of poor health.

As an organisation we want to focus on giving people more choice about services, empowering the community to act in its best interests, protecting vulnerable people and being an excellent organisation. Our collective and ambitious aims must not be constrained by the financial resources available we must instead find better ways of delivering, better ways of collaborating and better ways of achieving outcomes.

The reality is that we will have to make difficult choices about how we use the financial resources available – by being clear about what we want to achieve through our community strategy and corporate plan we can make sure that things that really matter have scope for development and our finances, resources, focus and time is spent on making those things happen.

Vivienne Quayle

Head of Policy & Performance

Overview

The Business Planning Process sets out the approach the Council will take to enable delivery of local priorities within the limits of available funding.

The below list identifies some of the main points contained within the report and the process for 2011/2012 and beyond:

- Feedback from the 2010 process is being used to improve the process for 2011 and beyond
- The Council remains relatively low funded in comparison to UK Local Authorities
- Additional revenue savings targets will be in the region of £10m per annum in the Medium Term
- The Council's Reserves will be risk assessed and exist as the sole contingency for any future financial issues
- The Business Planning Process will develop a 'Golden Thread' for corporate planning within Cheshire East Council
- Timescales and Communication channels will be established that allow all stakeholders to engage in the Business Planning Process

How to Read this Document

This document is structured into the following key areas:	
1 - Introduction and Challenges	This Section sets out the purpose of the report and presents a number of challenges facing Cheshire East in the Business Planning Process.
2 - Financial Stability	This Section describes some of the funding issues related to Cheshire East and sets out the financial assumptions which will establish the funding available for service delivery in the Medium Term.
3 - Business Planning Process 2011/2014	This Section provides detail of key dates within the process and shows when relevant consultations will take place.
4 - Priorities and Performance	This Section identifies the source of the key priorities and objectives that will lead and support Business Planning.
5 - Capital Programme Guidance	Although Capital Programming is an important element of Business Planning this area is still being developed and more detail will follow in later reports.
6 - Stakeholder Analysis and Consultation Plan	This Section shows how the main consultees will be communicated with
7 - Risk Management	This Section contains a list of potential risks to the process and provides relevant mitigating actions.
8 - Glossary of Terms	This Section provides the reader with explanations of the key words and phrases relevant to Local Authority Financial Management.
Annexes:	
Annex 1	Responses to feedback on the 2010/2011 Business Planning Process
Annex 2	Further Notes on the Financial Assumptions contained within the Report
Annex 3	Options for allocating Financial Savings Targets (as provided to CMT)
Annex 4	Further Detail of the Structured approach to the Financial Planning element of the Process
Annex 5	Timetable of Business Planning for Relevant Partners aligned to the Cheshire East Council Process

1. Introduction & Challenges

Introduction

1. The aim of this document is to set out a comprehensive process which will enable the Council to clearly set out what it wants to achieve resulting in the setting of a Budget and Council Tax in February 2011 to the satisfaction of Members, the Monitoring Officer (in relation to Financial Procedure Rules), the Borough Treasurer and Key Stakeholders. The Budget will represent the collective priorities of the Council and aim to achieve ambitious outcomes and customer satisfaction within the financial envelope available.

2. We are determined to take a variety of issues into account such as the views of key stakeholders and the political, social and financial environment in the national and local area.

3. The Budget will make best use of staff resources, available data and research to achieve this aim.

4. The report sets out the Business Planning and Financial Planning process that the Council will follow from July 2010. It is intended that this document provides a clear description of the process and forms guidance for Members and Officers when responding to the inputs required by the process.

5. The current national political picture, realignment of ways of working and financial situation make it vital for the process to be launched quickly in order for work to begin on the development of options.

Challenges

6. There are a number of challenges to be addressed within the document. These are shown on the following page:

Each Challenge is considered in more detail on the following pages.

Challenge 1:

Learning From Feedback on the Business Planning Process for 2010/2013

Consultation with Members, officers and stakeholders, during the latter stages of the Business Planning Process allowed the Strategy and Funding Team to review the process and record feedback from those most involved.

This was conducted through consultation events, training, scrutiny and meetings with Corporate Management Team (CMT). This sometimes happened before the process had ended to ensure some of the key learning points were still current and could be recorded.

The purpose of the feedback was to improve the Business Planning Process as it moves forward to consider the period 2011/2012 to 2013/2014.

A table summarising the key items of feedback is provided at **Annex 1**, this includes the actions that have already or will be taken to resolve the issues raised. Annex 1 also provides references to the relevant sections contained within this document.

Challenge 2:

Making a clear link between the Council's priorities and resource allocation

The Business Planning Process for 2010/2013 was based on an interim Corporate Plan. Recent work has been undertaken to update the plan for 2010/2011 and complement the budget setting process.

Section 4 shows how work in this area is underway and captures the relevant priorities and outcomes which will lead the challenge process for Service Plans in 2011.

Challenge 3:

Linking the desired performance outcomes and analysing the Council's current position in terms of Value For Money (VFM).

An analysis of the Council's performance is underway and work to establish the Council's relative VFM position is also being researched. Taking account of these issues will form a step in the process.

Section 4 will set out the approach to this issue and show how Transformation will play an integral role in understanding the approach to service delivery and establishing how change can be managed.

Challenge 4:

Meeting Financial Management Best Practice

The change in Government brought an end to the Comprehensive Area Assessment; however, the issues raised under the Use of Resources element in relation to Financial Planning may form best practice and can continue to be acknowledged.

The Council will also consider guidance and models published by CIPFA and will constantly challenge existing practices in comparison to other appropriate public or private sector organisations.

The Borough Treasurer & Head of Assets will identify proposed improvements through the Business Planning Cycle.

Challenge 5:

Ensuring there is a widespread awareness and buy-in to the process by all interested parties and an ability for all to influence the outcome.

The Business Planning Guidance will be widely circulated. This includes a comprehensive timetable in Section 3 which sets out the key stages of the process and how different stakeholder groups can feed in their views.

Cheshire East Council will use:

a. Briefings to Members, Officers, Local MP's and key stakeholders
b. Committee Reports, including Scrutiny and Overview
c. Publication of key facts and supporting analysis on the website
d. Consultation Events
e. Local Press Releases
f. Local Area Partnership networks

Challenge 6:

Enabling proposals to be fully scrutinised and challenged in an appropriate environment with recommendations being clearly communicated to all parties.

The process will include improved challenge arrangements that will form an integral part of the process as described in **Section 3**.

The challenge meetings will be attended by Cabinet Members and Senior Officers and will integrate with in-year monitoring of the Council's Budget.

All Members of the Council have the opportunity to challenge the proposals directly with officers or Cabinet Members and can use the detail within the Planning Cycle to inform them of key deadlines.

The Challenge process will be supported and co-ordinated by the Strategy and Funding team. The meetings will be based on a redesigned policy proposal form which will also capture the Challenge outcomes

Challenge 7:

Analysing the Council's financial position based on the best information available.

This is addressed in **Section 2** where the funding position facing the Authority and appropriate key planning assumptions are reviewed.

Challenge 8:

Establishing early agreement on the method of allocated financial targets

To maintain financial stability the Council will have to make savings in excess of the current Medium Term Financial Strategy targets. **Section 2** considers options on how financial savings targets could be approached (also see **Annex 3**).

The work of the Transformation Team is integral in clarifying how cross cutting savings can be owned and achieved.

Challenge 9:

Enhancing consultation arrangements and joining up with the other major local public service organisations

The Council will improve the consultation sessions and aim to share detailed proposals earlier.

The Council will also work to align the elements of establishing common assumptions, developing service options and publishing, and consulting on proposals, with the key local public service partners of Police, Fire and the Central and Eastern Cheshire PCT. Further details are set out in **Section 6** and **Annex 5**.

2. Financial Stability

Introduction

7. This section will focus on several areas:

    - A **Financial Analysis** of the funding position facing the Council in the Medium Term.
    - A review of the **Key Planning Assumptions** to be used in the Financial Scenario
    - Setting out the estimated **Funding Shortfall**.
    - An explanation of the approach to **Reviewing the Scenario** on an ongoing basis.

8. The Council uses financial modelling to show the effects of known and estimated changes in funding and expenditure over the Medium Term. The model is referred to as the Financial Scenario (or Scenario). This model rolls forward the effects of in-year financial changes and inflationary predictions, moving the Council's Base Budget up or down accordingly.

Financial Analysis

9. The release of statistical data for 2010/2011 by the Chartered Institute of Public Finance and Accountancy makes it possible to refresh the analysis of the Council's funding position.

10. Government Funding

    The different sources of funding for local services are influenced by many factors. Approximately two thirds of funding comes from central Government but, for example, schools funding is affected by pupil numbers whereas other grants from Government may relate to meeting performance targets or the needs of local people relative to other local authority areas. Funding received directly from local citizens and businesses, however, will be affected by the ability to pay, the levels of service delivery and even market forces where there is competition or choice in services.

    The current methods of calculating central Government financial support to the Council means very limited financial assistance is given due to the relative affluence of local people. The Council must therefore rely heavily on Council Tax payments to support service delivery. It is therefore highly accountable to local service users. This is positive in many ways as it can help to engage local residents in establishing how local services should be delivered.

11. Central Adjustments

The Council predicts the level of funding it will receive from Council Tax and Government grants to arrive at a total income figure. Several “central adjustments” are made to this total to withhold funding for items such as inflation and transfers to reserves. The total funding less central adjustments gives the amount available for service expenditure.

12. Grant Funding of Council Expenditure

Cheshire East receives two main types of grants, Formula Grant and Specific Grants

Grant funding to Cheshire East is relatively low when compared with other Councils. Even within a family group of councils, or “Nearest Neighbours” (a group which is determined by statistical similarities), Cheshire East receives significantly less support from grants than others.

Charts 1, 2 and 3 (below & overleaf) demonstrate the Authority’s position in relation to Council Tax raised, and NNDR and RSG provided by Central Government, when compared with Nearest Neighbours. They show that Council Tax funding raised locally is just above our comparators, but that we receive much lower levels of RSG and NNDR funding in comparison. The result is that total funding is below our Nearest Neighbours.

Chart 1

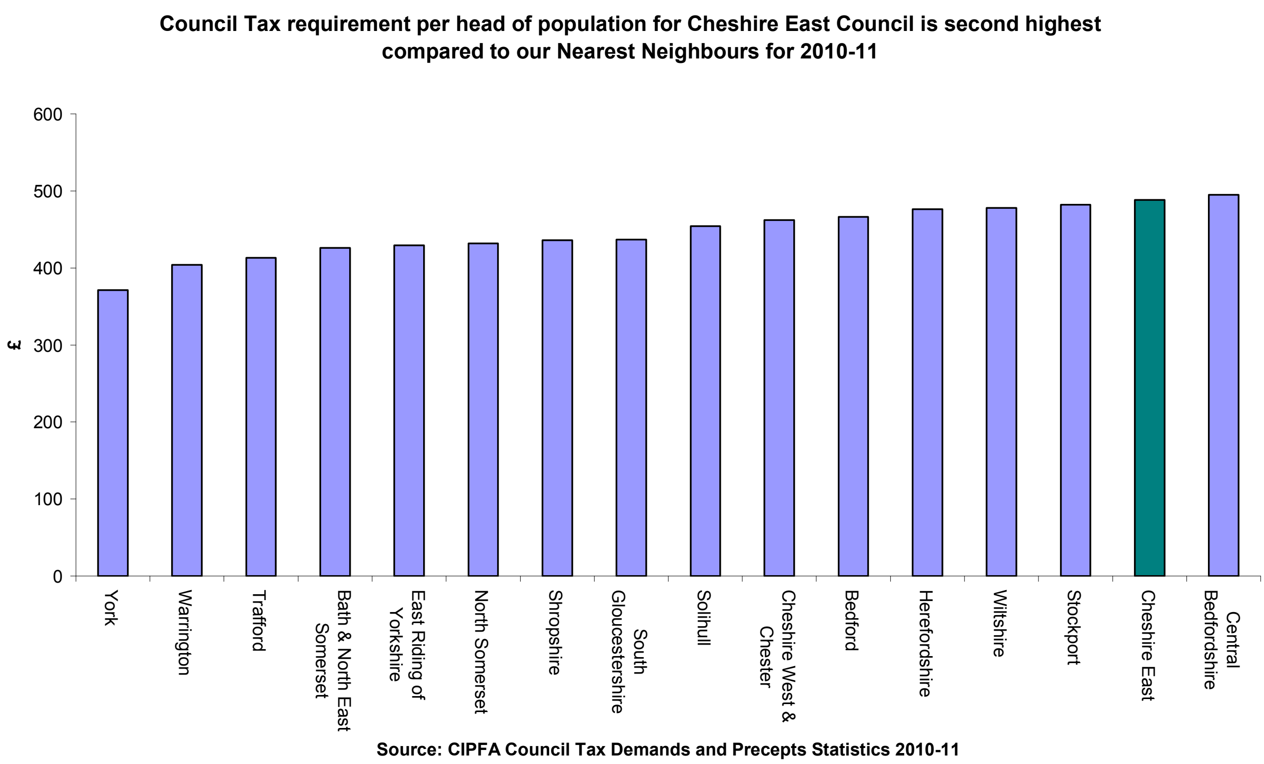
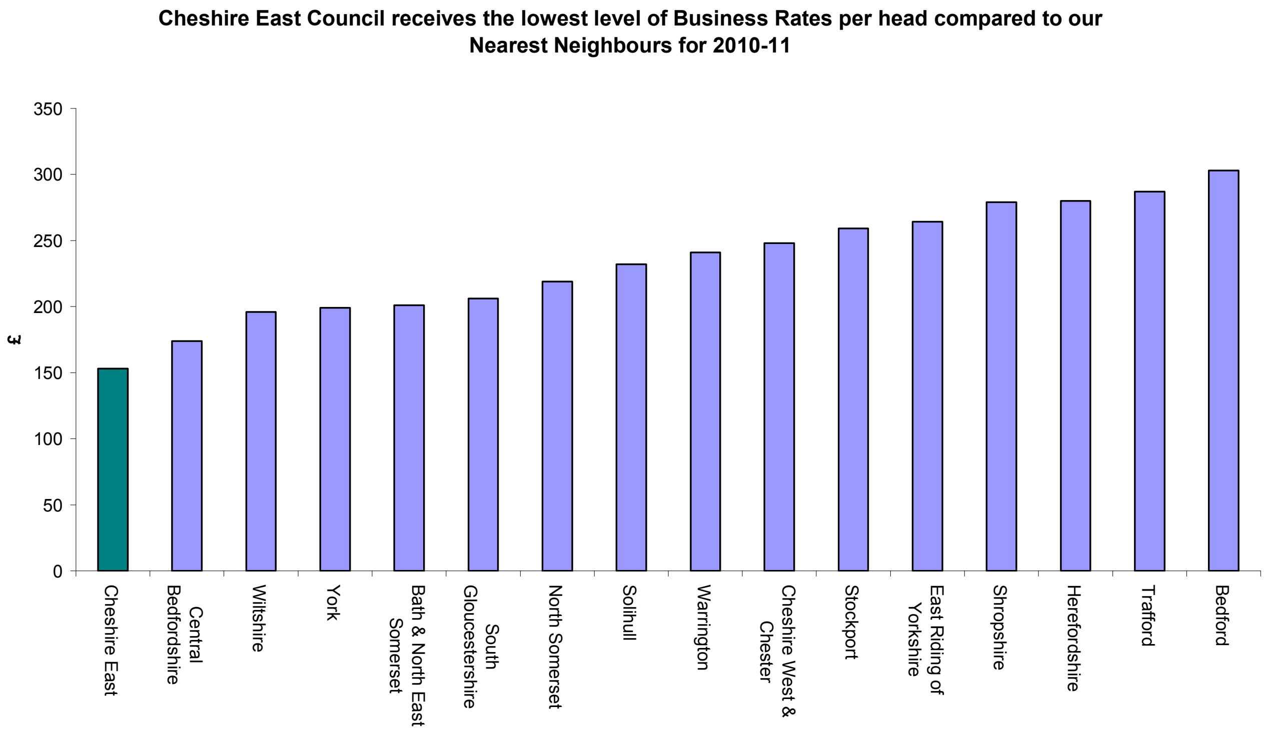
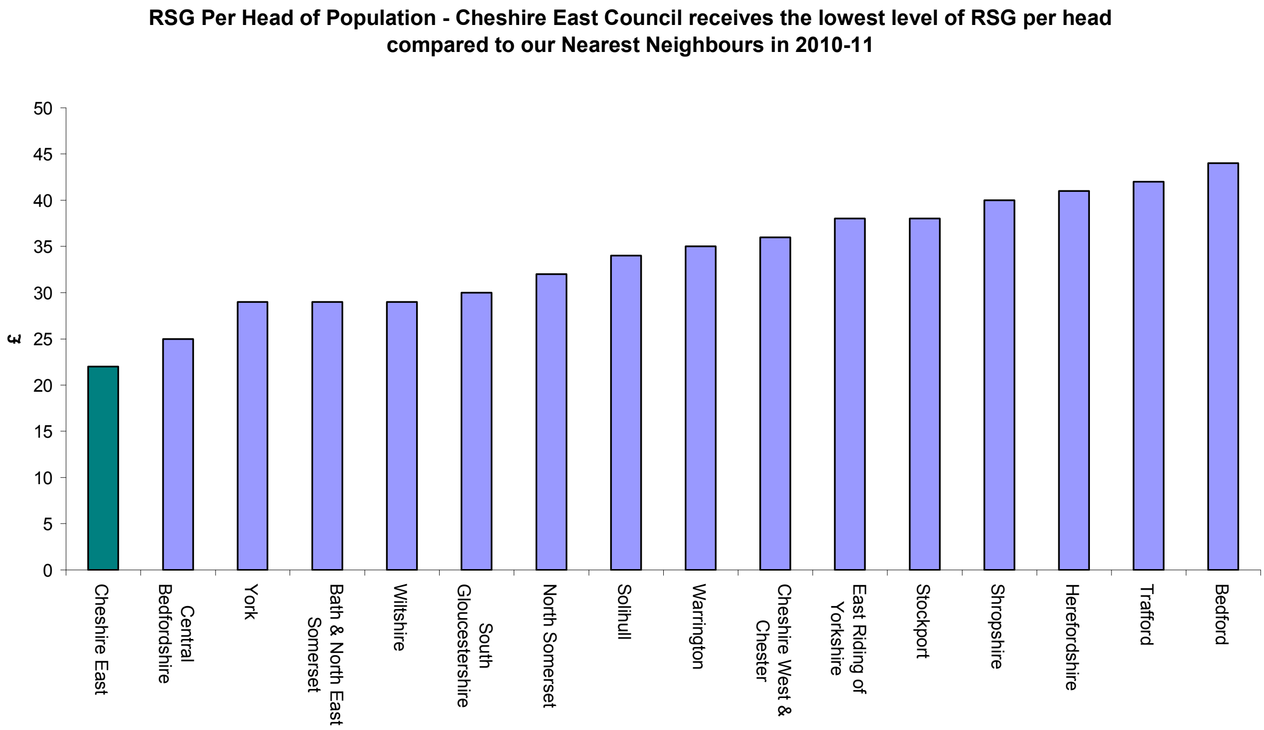


Chart 2



Source: CIPFA Council Tax Demands and Precepts Statistics 2010-11

Chart 3



Source: CIPFA Council Tax Demands and Precepts Statistics 2010-11

Key Planning Assumptions

13. This section sets out the detailed estimates which will be used to complete the Financial Scenario. The table below summarises the Key Planning Assumptions used in the Scenario and their impact and associated risks. Further details are also provided at **Annex 2** in relation to certain items.

Item (Notes are located in Annex 2)	**2011 Assumption**	**Impact**	**Comment Risk / Issue**
Council Tax	0% per annum.	1% = £1.7m	The impact of a Central Government freeze on Council Tax increases in 2011/2012 is not yet known
Council Tax Collection Fund	Nil surplus/deficit in 2011/2014.	Changes are reflected £ for £ in the Net Budget	Higher or lower collection rates will cause variances
Council Tax Base (See Note i)	Increase of 0.3% per annum	0.3% = £0.53m	Growth is estimated based on recent trends
Formula Grant	Reduction of 6% as part of central government cuts	1% = £0.6m	Subject to Spending Review in October 2010
Pay Inflation (See Note ii)	0% per annum	1% = £1.3m	2 year Government 'Pay Freeze' supports this approach
Non Pay Inflation (See Note iii)	3% per annum (this relates to non-pay expenditure net of income from charges)	1% = £0.8m	Inflationary pressures may be higher and create real terms reductions in spend.
Pension (See Note iv)	Actuarial Estimates of £0.7m	£0.7m	A pensions review will be carried out as part of Coalition Spending Review
Exceptional Inflation	1.75% per annum	1% = £0.8m	Services absorbed above inflation increases in 2010

Item (Notes are located in Annex 2)	**2011 Assumption**	**Impact**	**Comment Risk / Issue**
Contingency	0% per annum	1% = £2.1m	The Reserves Strategy will have to hold balances related to risk
Specific Grants (excluding DSG)	Base Budget reduced by £2m from 2010/2011 revenue grant cuts. Further cuts of 6% as part of Central Government Cuts	1% = £1.8m	Subject to Spending Review in October 2010
Capital Financing (See Note v)	Costs of £15m in 2011/2014	Changes are reflected £ for £ in the Net Budget	To be reviewed as Capital Programme is developed
Transitional Costs	£7.1m to provide for the actuarial costs of early retirements and relocation costs from LGR.	Changes are reflected £ for £ in the Net Budget	Further redundancy will increase this item
Contribution to/from Reserves (See Note vi)	£5.2m contribution to reserves to ensure a minimum strategic level is retained	Changes are reflected £ for £ in the Net Budget	Insufficient levels of Reserves will not provide working balances nor meet emergencies or unforeseen service demand
Further Contribution to Reserves to cover savings shortfalls	In 2009/2010 the Authority outturn exceeded budget. Overall savings targets were therefore not entirely achieved. It could be prudent to assume that future targets could be missed due to delayed implementations or revision of impacts of higher risk strategies. However, there are no assumed contingencies at this stage.	= a % of combined Savings Targets which would be included as a Budget Contingency	Service planning that is sufficiently robust reduces the need for contingency

Source: Cheshire East Financial Scenario June 2010

The Funding Shortfall

14. Current Policy Proposals / Funding Gap

    The resulting shortfall, based on the assumptions in the scenario, must be addressed by asking Directorates to generate Policy Proposals following the guidance issued by the Strategy and Funding Team with the Support of the Transformation and Policy & Performance Teams.

    With the above assumptions in the Scenario, the resulting shortfall in 2011/2012 would be £11.4m, in 2012/2013 £11.2m, and in 2013/2014 £9.9m.

    A series of targets, based on options appraisal impacts and priorities would therefore need to be set by CMT working with Portfolio Holders.

    Based on the assumptions set out in the previous sections, the predicted funding shortfalls facing the authority over the three year period are set out below:

	2011/2012 £m	**2012/2013 £m**	**2013/2014 £m**
Existing Savings requirement*	9.6	5.1	-
Estimated Additional in-year Savings Requirement	11.4	11.2	9.9
Total Savings Requirement*	**21.0**	**16.3**	**9.9**

*Note: at this stage it is assumed that any Savings Requirement must have a permanent affect on the base budget.

In response to feedback from CMT, at this stage the funding gap is not allocated to directorates or cross cutting themes. That step will form part of the Business Planning Process and will be informed by CMT and the Cabinet.

Reviewing the Scenario

15. The following five strands will be used to structure any further update of the scenario position:

Measure 1 ~ Challenge Funding Assumptions
- The Cabinet report sets out a number of key planning assumptions based on funding levels. These assumptions can be challenged to ensure they are up to date and reflect current Council policy.   - Specifically the Borough Treasurer & Resources Portfolio Holder will review these items and report changes to CMT/Cabinet
Measure 2 ~ Increase Council Tax
- The Coalition Government have set out a promise of a Council Tax freeze in 2011/2012 meaning there is limited scope for local input here; however tax base and collection fund surplus or deficit can be considered.   - The Resources Portfolio Holder will brief Cabinet on proposals in this area
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   - The scenario already includes a commitment to repay transitional costs from the LGR process.   - 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 risk on the Council's financial standing.   - The Borough Treasurer, as Section 151 Officer, will inform CMT/Cabinet of issues in this area
Measure 4 ~ Reduce Expenditure
The 2010/2011 MTFS proposals from services highlighted significant efficiencies in 2011/2012 and this may increase in the light of Government Grant announcements. The Council can challenge services to increase efficiency or reduce services whilst retaining focus on the Council's priorities.
Measure 5 ~ Increase Income
- Income from customers paying for Council services relates to only 8% of total income. Analysis of other similar authorities suggests this could be significantly increased.   - The Income & Funding Strategy (in development) will inform proposals in this area

Conclusion on Financial Stability

16. The Council receives comparatively low funding support and the current climate has created financial challenges. The document will now go on to consider how to respond to these issues.

3. Business Planning Process 2011/2014

Introduction

17. This section sets out the key stages of the Business Planning Process for 2011/2014.

18. Formal consideration and approval of a clear and robust Business Planning Process is a key step in enabling the Authority to set out how it will deliver a sustainable Budget for the following year.

19. The aim is to allow:

    - Further development of the links between corporate and financial planning on both a medium term and annual basis
        - This aim will be met through development of the '**Golden Threa**d' which links personal planning through to community planning
    - Adherence to Best Practice
        - This aim will be met through research, open, clear reporting and reference to models such as the Use of Resources Key Lines of Enquiry
    - Development of robust proposals that have been challenged and consulted upon
        - This aim will be met through detailed advanced planning and engagement of key stakeholders during the process

20. The business planning process requires an understanding of what the Council aims to deliver and achieve each year. This in turn must be matched by an understanding of the cost of such activity and the ability to raise the necessary income to fund this. This must lead to a balanced annual budget, set in February of each year.

21. The process includes building in the impact of longer term revenue and capital projects that may require funding through borrowing or through spending of capital receipts or reserves.

22. Council financial resources are limited and under constant pressure to meet new demands. The Council must therefore ensure that its funds are used to deliver its

priorities, targets for service delivery are met and resources used efficiently and effectively. Effective corporate and business planning support sound performance management of the Council's business and ensure that decisions about use of finances are made on a rational, evidence-driven basis.

The Improvement and Development Agency (IDeA) has produced a checklist of questions to support effective planning:

- *Does the community strategy act as an overarching framework for corporate, service or theme specific plans?*
- *Have the priority community issues been translated into corporate objectives?*
- *Is there a corporate plan in place that identifies the tasks and resources necessary to achieve the corporate objectives?*
- *Is resource allocation based on corporate objectives?*
- *Is service improvement and financial planning integrated?*
- *Are there up to date departmental service plans in place that translate corporate objectives into action plans?*

These sorts of questions can provide a framework for strategic, business and financial planning in Cheshire East, and this area will be developed by CMT / Cabinet Members.

23. It is proposed that the authority operates a rolling three year MTFS process for the period 2011/2014. The next year in any cycle will receive the most detailed and significant modelling and scrutiny during the planning process. This is essential to ensure the balanced budget duty is met. Years two and three will reflect up to date estimates and proposals which will enhance the overall robustness of the Council's financial standing.

The 'Golden Thread'

24. The Business Planning Process is set within the overall planning framework in which the Council is operating. This framework enables the translation of the long term vision into specific strategies and action plans to achieve those aims.

25. The framework consists of:

- The Sustainable Community Strategy setting out the long term vision for the Cheshire East community.

- The Local Area Agreement setting out local priorities.

- The Corporate Plan setting out the objectives of Cheshire East Council.

- Key Strategies and Plans.

- Service / team / individual objectives.

These processes form the golden thread from long term vision to individual action to make it possible for each member of staff to identify how they contribute.

26. The Business Planning Process enables the translation of the Corporate Plan into agreed changes to service budget levels and the resulting key strategies and plans and detailed objectives to ensure those priorities can be delivered.

27. Business and service planning translate the corporate plan into annual directorate commitments to deliver priorities and detailed service level action plans for delivery. Annual business planning is driven by:

    - Corporate priorities and directorate's development of policies to deliver them
    - Service pressures including demand, policy and customer service issues
    - Organisational development requirements (and related paybacks)
    - The need to deliver value for money and meet annual efficiency targets
    - The resources available to meet these demands (including bankable efficiency savings)
    - Decision making between competing 'bids'.

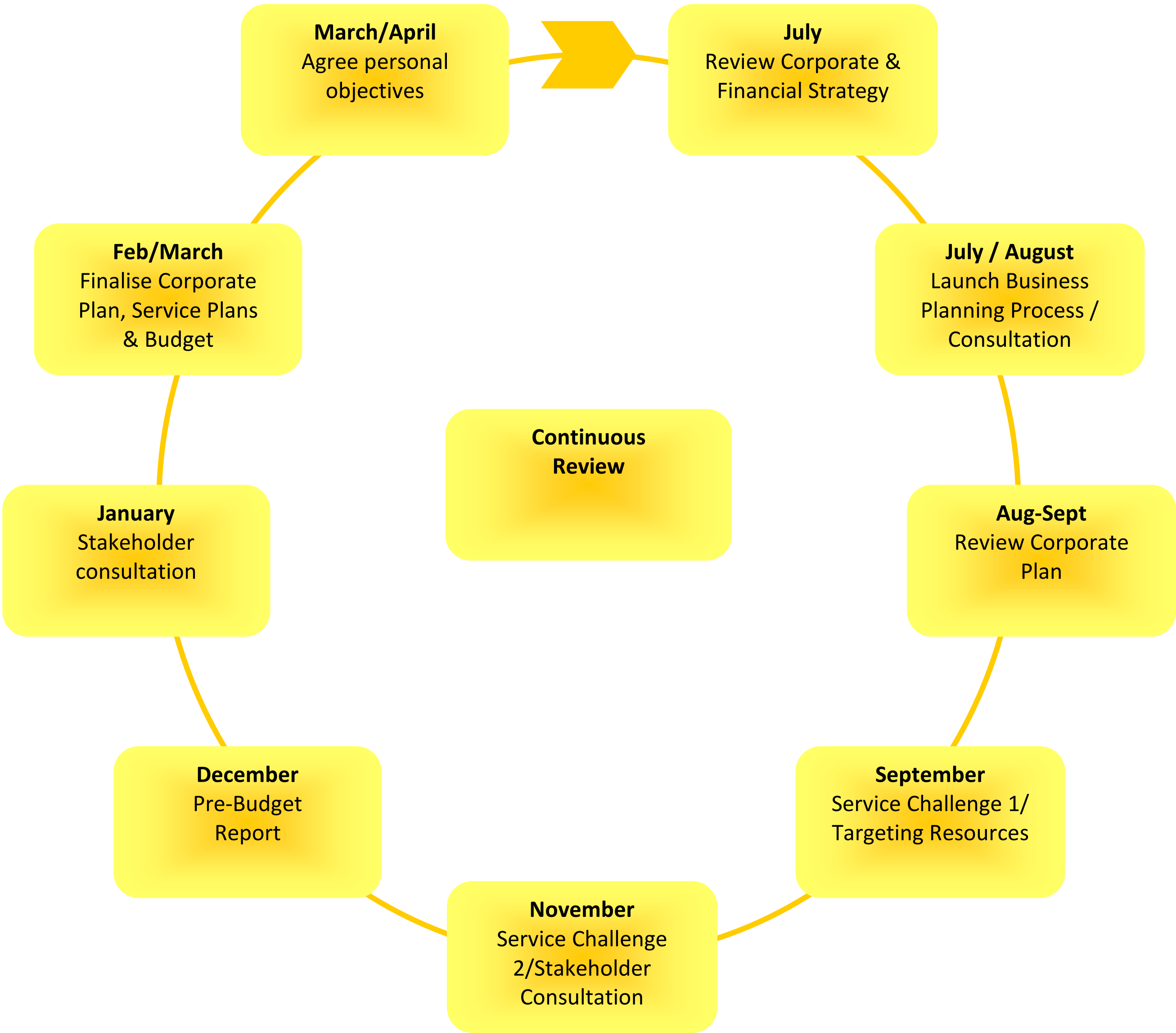
28. This requires a budget setting process that intrinsically links decisions about finance to choices between service priorities. Consultation is therefore about what is to be delivered, the distribution of funding to support delivery as well as the level of finances (council tax) to be raised to meet the Council's priorities.

29. The Council is adopting a transformation approach that will provide a framework for delivering major changes to service provision. That programme acts as an intrinsic part of the Business Planning Process.

Annual Cycle

30. The draft high level process is attached overleaf and sets out the key stages during this year.

Business Planning Process 2011/2014



31. The full picture on priorities for 2011/2014 and current performance will not be available until August so the Business Planning Process will include the Financial Scenario but will not allocate targeted investment or targeted savings. That task will form part of the process as work for CMT and Cabinet, based on the priority and performance information, when it becomes available.

32. Forming a link between performance and budget planning will take forward evidence based decision making. This will rely on clear explanations of the issues, options available and the impact of decisions.

Initial Timetable

33. The table sets out the initial stages of the process:

June	Key messages from Corporate Plan Priorities / VFM / Performance data available
June	Member Budget Consultation Group receive Business Planning Update
19 July	Cabinet receive full Business Planning Process report
23 July	Business Planning Process launch event
26 July	Issue guidance to officers and Members
Early August	Detailed work begins on translation of Corporate Plan Priorities / VFM / Performance data into policy proposals.
Early August	CMT / Cabinet meet to agree targeted investment and targeted savings

Allocation of Financial Savings Targets

34. Feedback from CMT was clear in that allocating savings targets relates to priority and investment targets, not just savings and efficiency targets (which have previously been allocated on a pro-rata basis). Although pro-rata allocation may appear equitable and difficult to argue against, it is also a blunt instrument and not suitable to shift resources to priority areas nor reduce or cease service provision in lower priority areas.

35. The options being considered include:

- Pro-rata to net spending.
- Pro-rata savings in excess of the total savings requirement to create a fund which services can bid against for growth based on set criteria.
- A plus or minus against each service as determined by priority.
- Acknowledging growth pressures being faced by individual services.

An assessment of each option is set out in **Annex 3**. A recommendation is needed from CMT/Cabinet on the proposed way forward.

Developing Robust Proposals

36. In relation to business planning for 2011/2014 it is suggested that:

- Once Council priorities for 2011/2014 (and beyond) have been established in the corporate plan, directorates will be asked to identify policy options and programme developments that will support the corporate priorities – including detailed impacts of any proposals
- Undertake a similar process for performance and VFM issues.
- Services also be asked to identify ‘unavoidable growth’ – the result of demographic, service demand or compliance pressures for example
- Desirable growth linked to service improvements be identified

- Transformation and other programme costs be identified
- Services be asked to ‘de-prioritise’ services/ functions they no longer consider to be desirable in the context of Council priorities – that will free up resources
- Services be asked to identify savings to deliver efficiency targets.

37. The Directorate responses will be subject to Challenge in late September. There will be greater emphasis on this stage than in previous years with services expected to declare all known pressures and savings options at this stage.

38. CMT will receive the responses and have the opportunity to raise issues before the formal challenge events involving Cabinet Members.

39. If services are unable to meet agreed targets a CMT directed intervention team will be assembled to provide assistance. Challenge phase 2 would only be undertaken in exceptional circumstances and where the intervention team have generated additional proposals.

40. The Leader and Chief Executive will continue to be involved at the post Challenge round up sessions. The recommended verdict on each proposal will be recorded on a redesigned policy proposal form and used to inform that meeting. Their decisions will be promptly circulated.

Consultation and Engaging Stakeholders

41. During the development of directorate proposals elected Members may wish to engage directly with Cabinet Members and service managers. Scrutiny and Overview meetings may also aim to tie-in with the development of proposals.

42. It is envisaged that formal consultation will take place in:

- **July/August**: To introduce the planning process and provide context for the way forward through briefings and issue of guidance.
- **November**: On the new priorities, through LAPs.
- **January**: As wider consultation on the Pre Budget Report.

43. There is an aim to move towards joint consultation events with Police, Fire and the PCT.

44. A mechanism for engaging members of the public will be further researched.

A Structured Approach

45. The 2010/2013 Financial Planning Process was approved by Cabinet in June 2009. It set out the four distinct stages of the process. This was helpful in terms of clearly setting out the separate stages and the inputs required.

46. It is proposed that once again the financial planning process adopts a structured approach with several distinct stages

47. Annex 4 provides a more complete description of the structured approach to financial planning, details of which are summarised below:

First Stage – May to July 2010 – Establish Baseline

There is a need to establish the starting point for planning purposes.

Second Stage – June to September 2010 – High Level Planning

Review Scenario Assumptions:

Third Stage – October 2010 to January 2011 – Refinement

This stage involves making any necessary adjustments to the high-level options and then undertaking detailed planning and budget modelling. It is proposed that a certain level of detail will be shared at an initial round of Budget Consultation. The output from this stage would be detailed budget options for consultation in January 2011.

Fourth Stage – January to February 2011 – Finalisation of the 2011/2012 Budget

This stage involves budget consultation, final adjustments and refinements and the setting of the Budget and Council Tax for 2011/2012.

48. The above process is designed to be flexible so that Members can amend the details and the timescales as necessary.

Dedicated Schools Grant

49. A substantial part of the total base budget (£194m) relating to schools is funded by the DSG. This grant is determined by pupil numbers and the minimum funding guarantee set each year by the Government.

50. The level of DSG can be estimated in order to provide a framework for planning purposes using forecast levels of pupil numbers. As part of the process officers will calculate the amount of DSG receivable for 2011/2014, consider any commitments such as teachers' pay awards, any outturn issues and set out any shortfall or flexibility.

51. This overall financial envelope will then be used as the basis for generating policy options.

52. The DSG Budget Setting process will follow the standard timescale.

53. Policy options would be included within the Consultation documents to ensure the Authority meets any requirements to publish and consult on options and, where necessary, seek agreement from the Schools Forum. Specific consultation meetings with the Schools Forum will be arranged accordingly.

Standards Fund Grant (and others)

54. In addition to DSG the Authority receives Standards Fund and many other grants to support its services. It is recommended that any changes to the use of these grants are set out in the consultation documents.

Efficiency

55. The current Comprehensive Spending Review set cumulative targets of 3% per annum for the period 2008/2009 to 2010/2011. However, it is not necessary to set formal targets in each area. Specific targets were not set for 2009/2010, given that substantial levels of savings were incorporated into the budget as part of the LGR process.

56. Efficiency describes the act of increasing outputs from resources. This aim is embedded within the Council's values and manifests in transformation and business planning.

Alignment

57. The work undertaken to develop an aligned approach to Budget Setting with the key stakeholders of Cheshire Police, Cheshire Fire and Rescue and Central and Eastern Cheshire PCT will factor into this work.

58. All authorities have expressed interest in joined up consultation events and sharing of consultation publications.

59. Therefore this will form a key step forward in consultation arrangements.

4. Priorities and Performance

Introduction

60. This section considers information on priorities and performance to enable those issues to be factored into the development of new proposals.

61. It is intended that high level information will be available during July with detailed findings available in August.

62. The Business Planning Process is set within the overall planning framework in which the Council is operating. This framework enables the translation of the long term vision into specific strategies and action plans to achieve those aims.

63. The framework consists of:

    - The Sustainable Community Strategy setting out the long term vision for the Cheshire East community.
    - The Local Area Agreement setting out local priorities.
    - The Corporate Plan setting out the objectives of Cheshire East Council. Key Strategies and Plans.
    - Service / team / individual objectives.

64. These processes form the golden thread from long term vision to individual action to make it possible for each member of staff to identify how they contribute.

65. This will be developed with Policy / Performance & Transformation Teams using principles established at CMT / Cabinet away day on 30th June 2010

Analysis of Key Priorities

66. The Council has worked with partners and local communities over recent months to develop a Sustainable Community Strategy which sets out a vision for Cheshire East for the next 25 years, and the priorities we need to address in the short term. The Sustainable Community Strategy is called “Ambition for All” and has the following vision:

    “Cheshire East is a prosperous place where all people can achieve their full potential, regardless of where they live. We have beautiful, productive countryside, unique towns with individual character and a wealth of history and culture. The people of Cheshire East live active and healthy lives and get involved in making their communities safe and sustainable places to live.”

67. The seven priorities for action are:

- Nurture strong communities
- Create conditions for business growth
- Unlock the potential of our towns
- Support our children and young people
- Ensure a sustainable future
- Prepare for an increasingly older population
- Drive out the causes of poor health

68. If we are to achieve the vision and to make good progress in addressing these priorities then all partners must be clear on the contribution they must make and set this out in our individual business plans. For the Council this is our Corporate Plan where we have identified five Corporate Objectives:

- To give the people of Cheshire East more choice and control about services and resources
- To grow and develop a sustainable Cheshire East
- To improve life opportunities and health for everybody in Cheshire East
- To enhance the Cheshire East environment
- Being an excellent Council and working with others – to deliver for Cheshire East

Analysis of Key Performance Data

69. The following issues will inform Business Planning for 2011/2012:

- *Local Area Agreement performance indicators key performance from 2009/2010*
- *Other performance indicators key performance from 2009/2010*
- *Place Survey findings*
- *Other Customer satisfaction data*

5. Capital Programme 2011/2014

Development of the Capital Programme for 2011/2014 will be reported to Cabinet in August and be added to this document in due course

6. Stakeholder Analysis and Consultation Plan

Stakeholder Analysis

70. A key part of the process to improve consultation and communication of the process is the production of a stakeholder analysis and an action plan to minimise risk to the project.

71. There are several key steps to complete a stakeholder analysis. They are:

- Identify the policy changes or objectives being considered.

In this case it will be service proposals that will impact on Directorate spending levels.

- Identify all the stakeholders associated with the issue being considered.

The key stakeholders for Cheshire East Council are:

- Elected Members
- Members of the public / Service Users / Council Tax payers
- Staff
- Primary Care Trusts
- Trades Unions
- Police
- Fire
- Voluntary / third sector organisations
- Care providers
- Connexions
- Town and Parish Councils / Local Area Partnerships
- Neighbouring local authorities, particularly those in the same sub region
- Joint Officer Board for Shared Services
- The Coalition Government are not shown in the analysis as relationships are still to be understood with regard to the balance of Central / Local Power

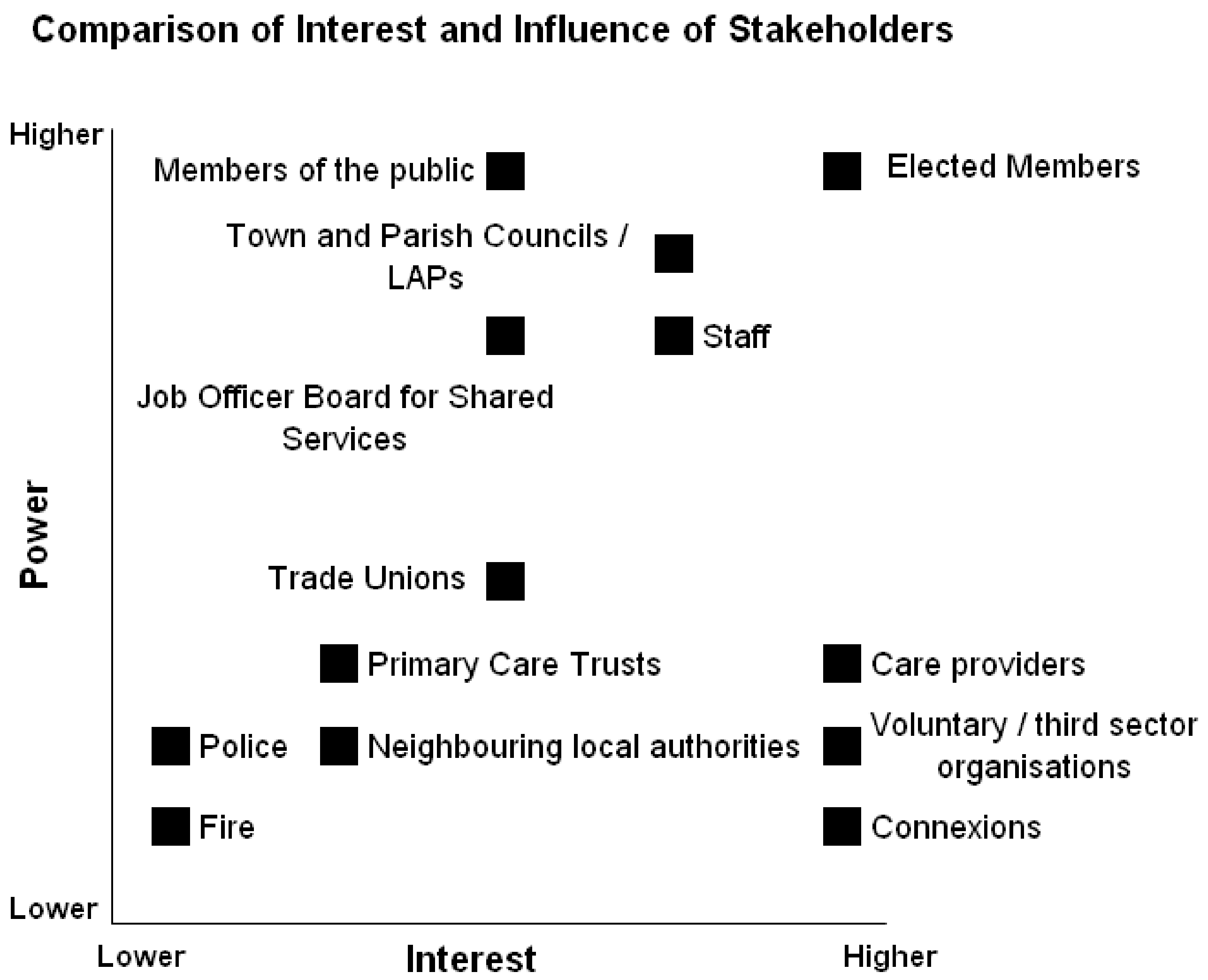
- Organise the stakeholders according to their degree of interest and power.

In this case, interest is a measure of how they will be affected and therefore how much interest they will have in it, and power is a measure of the direct influence they have and therefore to what extent they can help achieve or block key proposals.

For example, a small voluntary organisation that receives grant funding from the Council has significant interest in the project, as it could mean their funding would cease, but they have relatively low influence, being one of many such organisations that account for a small proportion of Council spend.

Alternatively, a Parish Council would not be directly affected by many Council polices. However, collectively, they have a significant influence over the local service delivery and therefore with elected Members of the Authority.

The chart below sets out an analysis for Cheshire East Council. Each stakeholder group has been rated relative to other groups.



72. This analysis can then be interpreted to determine the level of engagement for each stakeholder group, some which must be fully engaged and some which only need to be kept informed.

73. The results of the analysis suggest the following actions:

Stakeholder Group	Action
Elected Members, in particular the Overview and Scrutiny Function	Fully engage them to process and provide formal opportunities for them to comment.
Members of the public	Fully engage them to process and provide formal opportunities for them to comment.
Staff	Fully engage them to process and provide formal opportunities for them to comment.
Primary Care Trusts	Keep informed through meetings with members of CMT and Business Planning Team
Trade Unions	Keep informed through Staff Panel and Regular Briefings
Police	Keep informed through meetings with Business Planning Team
Fire	Keep informed through meetings with Business Planning Team
Voluntary / third sector organisations	Keep informed through consultation events
Care providers	Keep informed through consultation events
Connexions	Keep informed through meetings with Member of CMT
Town and Parish Councils / Local Area Partnerships	Fully engage them to process and provide formal opportunities for them to comment.
Neighbouring local authorities, particularly those in the same sub region	Fully engage them to process and provide formal opportunities for them to comment.
Joint Officer Board for Shared Services	Fully engage them to process and provide formal opportunities for them to comment.

Consultation Arrangements

74. Introduction

Having conducted an analysis of the relevant stakeholders, work will be carried out with the Council's Communications Team to determine the most appropriate material and media to use to consult on the 2011/2014 Business Planning process.

75. Alignment

The work undertaken to develop an aligned approach to Budget Setting with the key stakeholders of Cheshire Police, Cheshire Fire and Rescue and Central and Eastern Cheshire PCT will factor into this work.

All authorities have expressed interest in joined up consultation events and sharing of consultation publications. Therefore this will form a key step forward in consultation arrangements.

76. Consultation Programme

The following dates have been reported in the Committee diary for Consultation Events. Members are asked to ensure they keep the dates free to ensure they can attend the sessions:

November 2010

16th - afternoon
17th - evening
18th - morning
19th - afternoon

January 2011

13th - evening
18th - evening
19th - morning
20th - afternoon
21st - staffing committee
25th - Schools Forum

7. Risk Management

Risk Assessment – Business Planning Process 2011/2014

Ref	Risk	Assessment of Risk (now) H / M / L	Proposed Mitigating Action	Assessment of Risk After Mitigating Action H / M / L	Manager
1	Failure to deliver a balanced Budget, Capital Programme, DSG Budget and Council Tax in February 2011 for Council approval.	M	Ensure robust Business Planning process is followed and all necessary stages are achieved.	L	Alex Thompson
2	Slippage in the Business Planning process due to deadlines not being achieved.	M	Develop plans based on feedback from 2010/2011 process and engage key Members and officers early in process	L	Alex Thompson
3	Links to Corporate Priorities – failure to clearly link resource allocation / investment / disinvestment to priorities in the Community Strategy / Corporate Plan.	H	Maintain regular contact with Policy and Performance staff to align process and timetable accordingly.	L	Alex Thompson

Ref	Risk	Assessment of Risk (now) H / M / L	Proposed Mitigating Action	Assessment of Risk After Mitigating Action H / M / L	Manager
4	When further information is known, such as the Spending Review 2010, the Key Planning Assumptions do not match actual information and there is a greater funding gap than used for planning purposes. Potential need to issue revised targets at a later stage in the process.	H	Establish robust set of assumptions challenged and agreed by Management Team and Cabinet as basis for planning. Research and retain high awareness of emerging issues (ie through Society of County Treasurers)	M	Alex Thompson
5	In year cost pressures result in increasing savings targets	H	Robust monitoring and effective remedial actions to address pressures / reduce demand for services.	M	Alex Thompson
6	Coalition proposals affect local funding in relation to Council Tax or Charging for services	H	Research and retain high awareness of emerging issues (ie through Society of County Treasurers) Cabinet Members to make challenging decisions over service levels.	M	Alex Thompson
7	Budget Consultation – failure to deliver a Politically acceptable set of policy proposals for consultation purposes.	M	Carry out stakeholder analysis and maintain regular contact with Departmental and Finance Leads to ensure Cabinet Members fully involved in development of proposals.	L	Alex Thompson

Ref	Risk	Assessment of Risk (now) H / M / L	Proposed Mitigating Action	Assessment of Risk After Mitigating Action H / M / L	Manager
8	Inadequate capacity within Financial Planning team due to delays in recruitment process / loss of temporary staff and expertise at critical time in process.	M	Ensure recruitment process is promptly completed and skilled team is available.	L	Alex Thompson
9	Organisational Capacity is limited through workload / illness / emerging issues so responding to deadlines is too challenging.	M	Early, quality, communications and engagement of key staff. Use Communications Team to assist and obtain buy-in from key senior officers to ensure relevant support is always provided	L	Alex Thompson

8. Glossary of Terms

Cross references to other terms are shown in **bold**.

Accruals basis – an accounting concept which requires that income and expenditure are recognised as they are earned or incurred, not as they are received or paid.

Amortisation – the loss in value of an intangible asset due to its use by the company is accounted for by means of amortisation. Amortisation is a so-called "non-cash" charge insofar as it merely reflects accounting assessments of the loss in value.

Appropriations to / from reserves – these are respectively, the movement of monies into **reserves** from the Revenue Account, or out of **reserves** to the Revenue Account.

BVACOP Best Value Accounting Code of Practice – prepared and published by **CIPFA** with the aim of modernising the system of local authority accounts and reporting. Provides standard service and subjective analyses of local government expenditure and income, and standard costing definitions.

Billing authority – a local authority empowered to set and collect **council taxes**, and manage the **Collection Fund**, on behalf of itself and local authorities in its area. In England, shire and metropolitan districts, the Council of the Isles of Scilly, unitary authorities, London Boroughs and the City of London are billing authorities.

Budget requirement – an amount calculated, in advance of each year, by each **billing authority**, by each **major precepting authority** and by each **local precepting authority**. It is broadly the authority's estimated net **revenue expenditure** allowing for movement in reserves. It is, therefore, the estimate of the amount to be met from **Formula Grant**, **GLA** general grant and from **council tax** income.

Business rates – see **NNDR**.

Capital charges – charges to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

Capital expenditure – expenditure on the acquisition of fixed assets or expenditure, which adds to and does not merely maintain the value of existing fixed assets. This standard accounting definition is modified in local government by regulations and directions made under Local Government Act 2003.

CERA Capital expenditure charged to revenue account – a method of financing **capital expenditure** where the expenditure is financed directly from revenue account in the year it is incurred.

CIPFA Chartered Institute of Public Finance and Accountancy – the professional accountancy body for public services.

Capital receipts – income from the sale of capital assets. Such income may only be used for purposes authorised by regulations under Local Government Act 2003, for example to repay loan debt and to finance new **capital expenditure**.

Capitalised current expenditure – expenditure which would normally score as **current expenditure** but which a local authority has been allowed to capitalise by a direction issued by the Secretary of State (eg redundancy payments).

Capping – when the government limits a local authority's **budget requirement** and hence its **council tax**.

Cash basis – an accounting convention in which transactions are recorded in the period in which payment is made or received as opposed to the period in which the transaction took place (**accruals basis**). **Capital expenditure** and **capital receipts** were, for many years, recorded on a cash basis but local authorities now account for them on an **accruals basis**.

Collection fund – the fund administered by a **billing authority** (from 1 April1993) into which **council taxes** are paid, and from which payments were made to the general fund of **billing and major precepting authorities**. **NNDR** collected by a billing authority is also paid into the fund before being passed on to central government for distribution to local authorities.

Community assets – are assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal, for example parks and historic buildings.

Community charge – the local domestic charge that was in operation between 1 April 1990 and 31 March 1993. Also known as the 'poll tax'.

Consumer Price Index - The Consumer Prices (CPI) and the Harmonised Index of Consumer Prices (HICP) are the same index. The index has been designed as a macro-economic measure of consumer price inflation. It forms the basis for the Government's inflation target which the Bank of England's Monetary Policy Committee is required to achieve. It has been developed according to internationally agreed rules and is internationally known as the HICP. The HICP is used for international comparisons of inflation.

Council tax – a local charge (or charges) set by the **billing authority** in order to collect sufficient revenue to meet their demand on the **collection fund** and the precepts issued by the precepting authorities. It replaced the **community charge** on 1 April 1993 and is based on the value of the property and the number of residents. The Valuation Office Agency assesses the properties in each district area and assigns each property to one of eight valuation bands; A to H. The tax is set on the basis of the number of Band D equivalent properties. Tax levels for dwellings in other bands are set relative to the Band D baseline.

Council tax benefit –an income related social security benefit designed to help people on low income pay their **council tax**. Council tax benefit replaced community charge benefit on 1 April 1993.

Council tax requirement –for billing and local precepting authorities this is the amount calculated under section 97(1) of the 1988 Act to be transferred from the **Collection fund** to the General Fund (except where the amount calculated is negative, in which case it is the amount to be transferred from the General Fund to the **Collection fund**).

Credit arrangements – forms of credit that do not involve the borrowing of money by a local authority (e.g. finance leases).

Current expenditure – a general term for the direct running costs of local authority services including employee costs and running expenses but excluding capital financing charges. Particular definitions include **net current expenditure**.

DSG Dedicated Schools Grant – there was a change in the funding of **specific and formula grants** in 2006/2007 largely due to changes in the way that expenditure on schools is funded. From 2006/2007, local authorities receive Dedicated Schools Grant (DSG) as within specific grant rather than funding previously included in formula grant

Deferred capital receipts – these represent amounts derived from the sale of assets, which will be received in instalments over agreed periods of time. They arise mainly from mortgages on the sale of council houses and form the main part of mortgages.

Deferred charges – these represent expenditure of a capital nature where no fixed asset is created but which may properly be financed over a period of years, for example renovation grants.

Depreciation – Depreciation is the accounting recognition of the loss in value of a tangible fixed asset due to its use or its holding/ownership by the company. It thus covers two different phenomena: wear due to the use of a product (machines, fittings, careers, vehicles, buildings, etc.) and obsolescence, due to technological advances in the industry. Depreciation is a so-called "non-cash" charge insofar as it merely reflects accounting assessments of the loss in value.

Distributable amount – the amount of centrally-collected **NNDR** that is estimated to be available to be distributed to local authorities.

Earmarked reserves – reserves held by an authority which are to be used for specified purposes.

EPCS Environmental, protective and cultural services – one of the main blocks of local authority spending, which has its own relative needs formulae under the **RSG** system. The formulae are based on resident population and modified for sparsity, density, deprivation and for higher wage cost areas.

Fees and charges – see **sales, fees and charges**.

FRS17 Financial Reporting Standard 17– From 2003/2004 local authorities' final accounts were required to comply in full with Financial Reporting Standard 17 (FRS17) on retirement benefits. This requires future liabilities for retirement benefits to be recognised in the accounts for all the main categories of local government employees (other than teachers).

Fixed assets – assets that yield benefits to the local authority and the services it provides for a period of more than one year.

Formula Grant – the main channel of government funding. This includes **Redistributed business rates**, **Revenue Support Grant,** and Police Grant. The distribution is determined by the four block model, taking account of authorities' relative ability to raise **council tax** and the floor damping mechanism.

GDP deflator – the GDP implied deflator is a measure of general inflation in the domestic economy. It reflects the movements of hundreds of different price indicators (especially of wages and profits) for the individual components of **GDP**.

Gearing – a measure of the impact on council taxes of increasing budgets. This varies widely between local authorities. An authority that meets 25% of its **budget** through **council tax** is said to have a gearing of 4.0. Therefore, a 1% increase in budget would lead to a 4% increase in council tax.

GFRA General Fund revenue account – the General Fund is the fund within which, since April 1990, most transactions of a local authority take place. Other funds held by a local authority may include a **collection fund**, pension fund and trust funds held for charitable purposes. The General Fund revenue account holds the revenue transactions of the General Fund.

GDP Gross domestic product – is a measure of the total domestic economic activity. It is the sum of all incomes earned by the production of goods and services on UK economic territory, wherever the earner of the income may reside. GDP is equivalent to the value added to the economy by this activity. Value added can be defined as income less intermediate costs. Therefore growth in GDP reflects both growth in the economy and price changes (inflation).

Gross expenditure – see **total gross expenditure**

Gross total cost – includes all expenditure relating to a service/activity, including employee costs, expenditure costs, expenditure relating to premises and transport, supply and services, third party payments, transfer payments, support services and **capital charges**. Specifically it includes **capital charges** calculated in accordance with existing capital accounts guidance, but with certain aspects changed.

Hereditament – property which is or may become liable to **NNDR**, and thus appears on the rating list, compiled and maintained by the Valuation Office Agency of HM Revenue and Customs.

Housing benefit – financial help given to local authority or private tenants whose income falls below prescribed amounts. Central government finances about 95% of the cost of benefits to non HRA tenants (‘rent allowances’) and the whole of the cost of benefits to HRA tenants. Some local authorities operate ‘local schemes’ whereby they finance allowances in excess of the standard payments.

HRA Housing revenue account – a local authority statutory account, within the general fund, covering current income and expenditure on its housing services relating to its own housing stock.

Hypothecated grants – see **ring fenced grants**.

Impairment – this is where the value of an asset falls below the carrying (or book) value in the accounts and so to reflect the commercial reality of the situation a charge is made in the running costs.

Intangible asset – this is a non-physical fixed asset. Intangible fixed assets include patents, brands, etc.

Joint arrangements – refers to the transfer of money between one local authority and another, as distinct from joint arrangements between local authorities and health authorities, fishery boards or any outside bodies. This includes situations where two or more authorities jointly finance an enterprise, or where one authority carries out work on behalf of another.

LSVT Large and Small scale voluntary transfer – transfer of council housing stock to Registered Social Landlords.

Levy – a payment that a local authority is required to make to a particular body (a levying body). Levying bodies include national parks authorities and passenger transport authorities.

Local precepting authority – parish councils, chairmen of parish meetings, charter trustees and the treasurers of the Inner and Middle Temples. These local authorities make a **precept** on the **billing authority’s** general fund.

Major precepting authority – county councils, police authorities, metropolitan county fire and civil defence authorities, combined fire and rescue authorities and the **GLA**. These local authorities make a **precept** on the **billing authority’s collection fund**.

MRP Minimum revenue provision – the minimum amount which must be charged to a revenue account each year and set aside as provision for repaying borrowing and meeting other credit liabilities.

NNDR National non-domestic rates – are a means by which local businesses contribute to the cost of local authority services. They are also known as **business rates.** On 1 April 1990 the rating of non-domestic (mainly commercial and industrial) properties was substantially reformed. Before 1990/1991, rate poundages were set individually by local authorities and varied from authority to authority. Since 1 April 1990, a single national poundage has been set by the Government.

National non-domestic rates multiplier – the factor by which a **hereditament's** rateable value is multiplied in order to calculate the gross rates due on it before deductions.

NCE Net current expenditure – is, essentially, spending on services. It is defined as expenditure on employees and running expenses net of **sales**, **fees and charges**, internal recharges, other non-grant income (such as receipts from other authorities), but gross of expenditure funded by **specific grants** and interest receipts.

NRE Net revenue expenditure – is derived from revenue expenditure by deducting expenditure funded by specific grants inside **AEF**. It also represents spending other than the use of reserves, to be funded by the **budget requirement**.

(Net total cost – is **gross total cost** less income including **sales, fees and charges** and all **specific grants** (i.e. all grants except **general grants**).

Net total cost excluding specific grants – is **gross total cost** less income other than **specific grants**. This is equivalent to **net current expenditure** plus **capital charges**.

NDPB Non-departmental public bodies – an organisation that is not a government department but which has a role in the processes of national government**,** these include organisations such as the Sports Council, English Heritage and Natural England.

Non-operational assets – are **fixed assets** held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

ONS Office for National Statistics – is the government agency responsible for compiling, analysing and disseminating many of the United Kingdom's economic, social and demographic statistics including the **Retail Price Index**, trade figures and labour market data as well as the periodic census of the population and health statistics.

Operational assets – are **fixed assets** held and occupied, used or consumed by a local authority in the direct delivery of those services for which it has either a statutory or a discretionary responsibility.

Pension funds – for the Local Government Pension Scheme, the funds that invest employers' and employees' pension contributions in order to provide pensions for employees on their retirement and pensions for employees' dependants in the event of death of the employee. The Local Government Pension Scheme consists of 81 pension funds that provide pensions for most local government workers in England, excluding teachers, police and firefighters.

Precept – the amount of money (**council tax**) that a **local** or **major precepting authority** has instructed the **billing authority** to collect and pay over to it in order to finance its net expenditure, i.e. **budget requirement** less income from **NNDR** and **RSG.**

PFI Private finance initiative – started in 1997/1998, PFI offers a form of **Public-private partnership** in which local authorities do not buy assets but rather pay for the use of assets held by the private sector.

Procurement – expenditure on goods and services

Provisions – sums set aside to meet any liabilities or losses in respect of a past event which are likely or certain to be incurred, but uncertain as to the amounts or dates on which they will arise.

Prudential capital finance system – this is the informal name for the system introduced on 1 April 2004 by Part 1 of the Local Government Act 2003. It allows local authorities to borrow without Government consent, provided that they can afford to service the debt from their own resources.

The Prudential Code – a professional code of practice prepared by **CIPFA**, for the prudential system introduced on 1 April 2004 (see **Prudential capital finance system**). Local authorities are required by legislation to have regard to the Code.

PPP Public-private partnership – a joint venture where the private sector partner agrees to provide a service to a public sector organisation. The **PFI** is one form of a PPP.

Public sector net borrowing – a concept based on internationally agreed definitions. It measures the change in the public sector's accruing net financial indebtedness. It is an accrual concept, whereas the closely related net cash requirement is almost entirely a cash measure. It is the government's preferred measure of the short term impact of fiscal policy.

Recharges – the collective term for accounting entries representing transfers of (or to cover) costs initially debited elsewhere. They therefore comprise apportionments and charges.

Redistributed non-domestic rates – **non-domestic rates** which, having been paid into the non-domestic rating pool, are redistributed between local authorities on the same basis as **Formula Grant**. **(See NNDR).**

Reserves – sums held to finance future spending for purposes that are not specifically provided for (as with a **provision)**. Reserves held for stated purposes are known as **earmarked reserves**. The remainder is **unallocated reserves.**

RPI Retail price index – is the main domestic measure of inflation in the UK. It measures the average change in the prices of goods and services purchased by most households in the UK.

RA Revenue accounts budget estimates return – **General Fund Revenue Accounts** return for budget estimates.

RG Revenue accounts budget estimates return: return for budget estimates of income from **specific grants** and **special grants**.

Revenue expenditure – in a general sense, expenditure on recurring items including the running of services and capital financing. A particular definition of revenue expenditure is that derived from **gross revenue expenditure** by deducting spending met by grants outside **AEF** (including rent allowance grant, mandatory student awards grant and council tax benefit grant).

RO Revenue Outturn Returns – suite of forms gathering outturn figures for the **General Fund Revenue Account** consisting of the RS, RG, RO1 to RO6, **TSR** and **SAR**.

RSG Revenue Support Grant – a general grant which replaced rate support grant in 1990/1991.Now it is distributed as part of **Formula Grant.**

Ring-fenced grants – these grants fund particular services or initiatives considered a national priority, and must be spent on a particular service.

Sales, fees and charges – charges made to the public for a variety of services such as the provision of school meals, meals-on-wheels, letting of school halls and the hire of sporting facilities, library fines and planning application fees.

Settlement – the Local Government Finance Settlement is the annual determination made in a Local Government Finance Report by affirmative resolution of the House of Commons in respect of the following year of: the amount of Revenue Support Grant and Non Domestic Rates to be distributed to local authorities; how that support will be distributed; and the support for certain other local government bodies.

Small business rate relief – The scheme offers rate relief at 50% to eligible.

Specific formula grants – these are distributed outside the main formula, but do not have to be spent on a specific service, for example the Neighbourhood Renewal Fund.

Specific grants – these are grants paid by various government departments outside the main formula. They include **ring-fenced grants** and **specific formula grants.**

SORP Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice – prepared by a joint committee of **CIPFA** and the Local Authority (Scotland) Accounts Advisory Committee. The Code gives a comprehensive statement of the accounting concepts, accounting policies and estimation techniques to be followed by local authorities, and also sets out the format of the accounting statements.

SCE Supported Capital Expenditure – the term for most forms of central government support for local authority **capital expenditure** from 1 April 2004. Supported Capital Expenditure (Revenue) SCE(R) – is the amount of expenditure towards which revenue grant support will be paid to a local authority on the cost of its borrowing. The revenue grant support is provided to help authorities with the costs of financing loans. Supported Capital Expenditure (Capital) – SCE(C) – is the term used for capital grants.

Sustainable investment rule – this is a fiscal rule which requires that public sector net debt, as a proportion of **Gross Domestic Product** (**GDP**) will be held, over the economic cycle, at a stable and prudent level.

Tangible fixed asset – this is defined as a physical fixed asset and includes land, buildings, plant and machinery. These are held for use for by the authority for a period over more than one year.

Taxbase – the number of Band D equivalent properties in a local authority's area. An authority's taxbase is taken into account when it calculates its **council tax**, and when central government calculates allocations of formula grant.

Total cost – see **gross total cost** and **net total cost**.

Total gross expenditure – gross spending, taking all local authority accounts together (except pension funds), after eliminating double counting of flows between services, accounts and other authorities, where this is possible. Total gross expenditure is divided into gross **revenue expenditure** and gross **capital expenditure**

TME Total managed expenditure – this includes **current** and **capital expenditure** as well as depreciation but excludes financial account transactions.

Trading services – local authority services, which are, or are generally intended to be, financed mainly from charges levied on the users of the service. External trading services are typically organisations funded mainly by sales outside the authority. Internal trading services are typically organisations funded mainly through contracts with local authority departments, with the authority funding any loss, or receiving any surplus at the end of each year.

TSRA Trading services revenue account – a local authority account, covering current income and expenditure on its **trading services**.

Unallocated reserves – reserves held by an authority which may be used for any purpose.

Unhypothecated grant – see **general grant**.

Annexes

Annex 1 ~ Response to Feedback on 2010 Process

Feedback	Response	Reference:
The Budget Setting Process needs to be aligned with key stakeholders	Meetings arranged with Police, Fire and Central and Eastern Cheshire PCT	Annex 5
Greater engagement of CMT in the processes through regular discussions	To be addressed as part of the new timetable	Section 3
Share a draft timetable as soon as possible	CMT will receive the draft timetable as part of a comprehensive BPP report	Section 3 Paragraph 30
Full alignment with the Corporate / Service planning process is essential	To be addressed through meetings with Policy and Performance.	Section 3 Paragraphs 24 to 29
Important to ensure proposals are deliverable	Enhanced Policy Proposal forms will be a key element of the Challenge Process. Officers will be given adequate time to submit proposals	Section 3
Cabinet need to provide a clear steer on their wishes for the next three years	To flow from Community Strategy and away days.	-
Need to promote positive messages that the Council is in a relatively strong Financial position	To be addressed in material for publication and consultation events though consultation with Communications Team and regular briefings.	Section 6
How to deal with non ring fenced funding sources and total place issues	Community Strategy to provide clear direction but further development required.	Section 4
Use standard terminology throughout the process	This will be actioned and a glossary of terms produced and refined.	Section 8
Care re magnitude of central adjustment and scope to create or remove a funding gap	Full details of assumptions, impact and sensitivity to be reported to Cabinet.	Section 2
Maintain format on five measures throughout the process	Agreed	Section 2 Paragraph 15

Feedback	Response	Reference:
The following items will be addressed by the Borough Treasurer & Head of Assets and the Head of Policy & Performance during the process		
Create Budget impact briefing earlier in the process and keep it up to date	This will be developed.	
Provide summarised information wherever possible	This will be addressed	
Handle the detailed Fees and Charges Schedule separately from the main budget setting process.	Agreed ~ delegated decisions to managed	
Circulate Challenge pages well in advance to ensure they can be read	Agreed	
Themed approach to avoid silos	To be developed with Policy & Performance and Transformation Teams.	
Aim for Comprehensive Business Plan and Annual Report	This is the goal of the above developments	
Ensure purpose and outcomes of each meeting are clear	All reports will contain scene setting, purpose and implications of delay in decision making. Outcomes will be circulated to Cabinet and CMT after each stage is complete.	
Challenge meetings should not be used to create policy	This is agreed and the challenge meetings will be chaired by Lisa Quinn with feedback recorded for the Chief Executive & Leader of the Council, and Corporate Management Team.	
Set up Challenge meetings further in advance and ensure all relevant parties can attend	The meetings will be staged for late September.	
Adopt standard approach to Challenge and ensure that all service areas are considered	Chair will adopt consistent approach with agenda / key questions.	

Annex 2

Notes on Financial Assumptions:

i) **Council Taxbase**
This represents the estimated number of band D equivalent properties used for setting the Council Tax. The 2010/2011 taxbase was 145,171 with each 0.1% change equating to £0.177m.

ii) **Pay Inflation**
Pay inflation is applied to 62% of the budget. On a base of £133m each 1% equals £1.33m. In response to the unions' claim of 2.5%, the local government employers are seeking a pay freeze for 2010/2011. Inflation (CPI) is currently running at 3.7% per annum, but given the current economic situation, the council tax freeze and reductions in revenue grant funding by central government in 2010/2011 of £2m with further reductions expected in future years, it is assumed that no pay award will be made.

(Sources
– Office for National Statistics Consumer Price Index annual rate of inflation at April 2010
- Local government employers letter of 20 January on pay 2010/2011 on their website
- "The Coalition Programme for Government May 2010" on freezing Council Tax for at least one year and seeking to freeze it for a further year
- Department of Communities & Local Government paper June 2010 "Local government contribution to efficiencies in 2010/2011" on grant reductions).

iii) **Non Pay Inflation**

Non pay inflation is applied to 38% of the budget (net of all fees and charges). Based on a budget of £82m each 1% equals £0.8m. With inflation currently running at 3.7% per annum, the Authority is facing considerable inflationary pressure. Therefore, an assumption of 3% per annum is recommended plus an additional provision for exceptional items at 1.75% per annum.

iv) **Pensions**

This relates to a provision for the additional employer contributions resulting from an actuarial review. A half percent increase in the employers contributions each year for 2011/2014. For 2011/2012 this amounts to £0.7m.

The Coalition have also announced that there will be a review of Public Sector Pensions, which could unveil early steps by September 2010, with full proposals by April 2011.

(Note – The results of the Actuarial valuation will not be known until the Autumn, but Cheshire Pension Fund is suggesting ways to mitigate the likely increases to employers contribution rates. The current thinking is a cap on increases of 0.5% each year. The assumption above is based on that level of increase).

v) Capital Financing

Capital Financing consists of interest on loans plus provision for the repayment of loans net of interest receivable on cash balances. The current figures of £15m in 2011/2012, and £16m in 2012/2013 and 2013/2014 are very much provisional ones and will be further developed during the year. Originally a £2m reduction for 2010/2011 was agreed as part of the Budget setting process, but the provisional figures currently reflect the worst case scenario and do not include this reduction.

vi) Contribution to / from Reserves

A one off allocation from / to the financial scenario to the Council's General Reserves. A minimum strategic level of reserves will be maintained in accordance with the Reserves Strategy approved as part of the MTFS process for 2009/2010. Any indication that reserves will be above or below this position will be carefully considered by Members and the Chief Financial Officer. Actions may then be necessary to return the reserves to an appropriate level within the overall financial scenario.

Annex 3

Options for Allocation of Budget Savings Targets

Method of Target Allocation	Strengths / Opportunities	Weaknesses / Threats
Allocate targets to services pro-rata to Base Budgets.	- Difficult to argue against. - Equitable. - Feasible.	- Ignores differing needs / priorities in services. - Does not take into account income sources, such as grant funding, or size of gross budget.
Allocate targets to services pro-rata to Base Budgets. Set savings in excess of target to create a fund for targeted investment.	- Difficult to argue against. - Equitable. - Feasible. - Allows targeted investment.	- Does not take into account income sources, such as grant funding, or size of gross budget.
Plus or minus against each service – related to priorities. This would require: - a link between the priorities and individual service areas - a percentage or financial change scale.	- Clear steer over direction for each service. - Allows redistribution to priority areas.	- May not provide sufficient clarity over expectations. - Negative impact on morale for services classified as a minus. - Might not address poor VFM in certain areas. - Pre- empts further debate on resource allocation.
Acknowledge growth pressures raised by services i.e. ringfencing growth areas and pro-rata the savings required.	- Ensures services take a long-term view of growth	- Ultimate focus on year one may mean plans are out of date. - Higher targets across the board. - Small levels of growth included in 2011/2013. - Can encourage overstating of growth in later years offset by unspecified savings. - Needs to be linked to outturn forecasts.

Annex 4

A Structured Approach to Financial Management

The 2010/2013 Financial Planning Process was approved by Cabinet in June 2009. It set out the four distinct stages of the process. This was helpful in terms of clearly setting out the separate stages and the inputs required.

It is proposed that once again the financial planning process adopts a structured approach with several distinct stages.

- **Stage One – May to July 2010 – Establish Baseline**

There is a need to establish the starting point for planning purposes in terms of:

- Detailed base budgets.
- Identifying permanent adjustments following revised structures.
- Identify significant emerging issues and progress to date e.g. Growth Incentives, etc. to establish any potential impact.

- **Stage Two – June to September 2010 – High Level Planning**

Review Scenario Assumptions:

- Revisit each key assumption within the Scenario, for example key economic indicators, to ensure best estimate is used.
- Confirmation of the ongoing impact of 2010/2011 policy options.
- Consider any additional items that may need to be brought into the Scenario.
- Consider Directorate cost pressures and investment opportunities.
- Agree the approach to Reserves and analysis of risk.
- To identify any affordability gap, how to deal with it, potentially set service saving targets and consider the level of acceptability.

- **Stage Three – October 2010 to January 2011 – Refinement**

This stage involves making any necessary adjustments to the high-level options and then undertaking detailed planning and budget modelling. It is proposed that a certain level of detail will be shared at an initial round of Budget Consultation. The output from this stage would be detailed budget options for consultation in January 2011.

- **Stage Four – January to February 2011 – Finalisation of the 2011/2012 Budget**

This stage involves budget consultation, final adjustments and refinements and the setting of the Budget and Council Tax for 2011/2012.

The above process is designed to be flexible so that Members can amend the details and the timescales as necessary.

Annex 5

Alignment of Key Partner Financial Planning Processes

High Level Budget Setting Timetable Setting out Key Areas for Alignment

2010/2011	Central & Eastern Cheshire PCT	Cheshire Fire and Rescue Service	Cheshire Police Authority	Cheshire East Council
April				
May				
June				Financial Scenario Consult on Corporate Priorities
July	**Agree Common Key Planning Assumptions**	**Agree Common Key Planning Assumptions**	**Agree Common Key Planning Assumptions**	**Agree Common Key Planning Assumptions** Launch Process and Targets
August	**Prepare High Level Proposals**	**Prepare High Level Proposals**	**Prepare High Level Proposals**	**Prepare High Level Proposals**
September	Refresh Summary 5 year Plan based on assumptions & scenarios **Understand Funding Flows**			Challenge Directorate Responses **Understand Funding Flows**

2010/2011	Central & Eastern Cheshire PCT	Cheshire Fire and Rescue Service	Cheshire Police Authority	Cheshire East Council
October	Consult on Service Priorities PCT Challenge responses			Refine Responses
November	Consult on Service Priorities PCT Challenge responses			Consult on Service Priorities Challenge - Phase 2
December	Operating Framework normally published late December	Provisional Funding Announced	Provisional Funding Announced	Provisional Funding Announced
January	Refinement & Submission of 5 year Commissioning Plan to DOH **Draft Pre Budget Report** **Consultation on Pre-Budget Report** Engagement & Communication with Providers Final Funding Clarification	**Consultation** Final Funding Announced	**Consultation** Final Funding Announced	**Publish Pre-Budget Report** **Consultation on Pre-Budget Report** Final Funding Announced

2010/2011	Central & Eastern Cheshire PCT	Cheshire Fire and Rescue Service	Cheshire Police Authority	Cheshire East Council
February	Set Budgets & submit Initial Financial Plan for 2010/2011 & 2011/2012 to DOH **Form part of Council Tax Leaflet**	Set Budget and Council Tax **Form part of Council Tax Leaflet**	Set Budget and Council Tax **Form part of Council Tax Leaflet**	Set Budget and Council Tax **Form part of Council Tax Leaflet**
March	Submit Final Financial Plan for 2010/2011 & 2011/2012 to DOH Board Approval of Budget Book	Produce Budget Book	Produce Budget Book	Produce Budget Book