Division(s): N/A

CABINET – 15 SEPTEMBER 2009

SERVICE AND RESOURCE PLANNING 2010/11 – 2014/15

Report by Chief Executive, Assistant Chief Executive - Strategy and Assistant Chief Executive & Chief Finance Officer

Introduction

1. This report is the first in a series on the service and resource planning process for 2010/11 to 2014/15, providing councillors with information on budget issues for 2010/11 and the medium term. The report presents the current Medium Term Financial Plan (MTFP) as agreed by Council on 10 February 2009 and the assumptions on which it is based. It sets out the known and potential financial issues for 2010/11 and beyond which impact on the existing MTFP and the proposals for planning to meet these pressures, which were endorsed by Cabinet in July 2009.

2. The service and resource planning process and the MTFP cover a five-year period. They are rolled forward one year each year. This year, there is an additional year added to include 2014/15. This planning period is consistent with all other relevant plans, including the Corporate Plan, Business Plans and the Capital Programme.

3. The referencing system reintroduced to the reports last year to assist Cabinet and other members in ensuring that they have all relevant papers, has been retained. The referencing system is attached for information at Annex 1.

4. The following annexes are attached:
Annex 1: Referencing system for Service and Resource Planning papers
Annex 2: Service and Resource Planning timetable for 2010/11
Annex 3: Current Financial Strategy 2009/10 – 2013/14
Annex 4: Current MTFP 2010/11 – 2013/14
Annex 5: Assumptions behind the existing MTFP
Annex 6: Draft MTFP 2010/11 – 2014/15

Service and Resource Planning Context

5. The Corporate Plan agreed by Council in February 2009, alongside the budget and MTFP, sets out the Council's objectives of 'low taxes, real choice, value for money'. These objectives set the principles followed throughout the strategic planning process. As a Council, Oxfordshire strives to deliver improved services within existing budgets or at a reduced cost. The integrated service and resource planning processes are designed to ensure that appropriate levels of resource are in place to deliver key priorities and statutory obligations, alongside the objective of low taxes.

6. The Corporate Plan sets out the priorities and challenges for the County Council across four cross cutting themes. They provide a context for the

Council's medium term service and resource planning and form the strategic objectives of Oxfordshire 2030, the long term vision for Oxfordshire's future and a plan of action for the Oxfordshire Partnership. The themes are:

- World class economy,
- Environment and climate change,
- Healthy and thriving communities,
- Better public services.

7. In June 2009, the Conservatives were re-elected to form the new administration for the next four years with the underlying objectives of low taxes, real choice and value for money remaining. In July 2009, the Cabinet considered a report on implementing the Manifesto Pledges. The manifesto was based on seven pledges. The report set out how these would be turned into service objectives, which will form the basis of planning and will be incorporated into a revision of the corporate plan. The pledges are to:
    - Freeze council tax under a Conservative Government,
    - Support our local economy,
    - Make it easier to get around Oxfordshire,
    - Promote safer and greener communities,
    - Protect our environment and heritage,
    - Improve opportunities for young people,
    - Improve services for older people.

Service and Resource Planning Process 2010/11

8. The Service & Resource Planning framework has now been operational for four years and is designed to enable managers to plan for their service within available resources over the medium term. Our approach has been commended by the Audit Commission.

9. The business plan format for the coming year has been revised with plans being much shorter to give a clear focus. Guidance was issued in July, with the requirement to complete in draft by mid September in order that financial issues and priorities over the medium term can be considered by the Star Chamber sessions as part of the planning and budget setting process.

10. Full and finalised business plans are to be completed by the end of February 2010 to reflect any changes arising from the budget which will be agreed by Council in February 2010. The intention is that the plans will be used in 2010/11 as a 'living' document against which the Financial Monitoring and Performance Monitoring reports will be based.

11. A proposed timetable for the 2010/11 service and resource planning process is attached at Annex 2.

Financial Strategy 2010/11 to 2014/15

12. A medium term Financial Strategy for the period 2009/10 to 2013/14 was agreed by the Cabinet as part of the 2009/10 budget process. This is attached for information at Annex 3. It sets out the principles behind the MTFP and provides an overarching statement about how the Council intends to conduct its finances. The strategy for 2010/11 to 2014/15 will be revised to

take account of the latest information and will reflect the views of Council and Cabinet. A revised version will be reported to Cabinet in November 2009.

Estimated Financing and Planned Expenditure

13. The following table sets out the latest assessment of the changes to the financial position for 2010/11 and the medium term compared to the MTFP agreed by Council in February 2009. The current MTFP for 2010/11 to 2013/14 is set out in Annex 4 and provides the starting point for the 2010/11 service and resource planning process. A draft MTFP which incorporates the changes in the table below is set out in Annex 6.

14. Reasons and explanations for the changes in each of the assumptions for estimated funding and planned expenditure are set out in the following paragraphs.

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Estimated Funding					
Central Government Grant		-7.8	-8.8	-9.9	-9.9
Council Tax (precept)	-1.4	-5.7	-9.7	-10.1	-10.6
Council Tax surpluses/deficits	-0.8	-0.5	-0.5	-0.5	-0.5
Total Funding	**-2.2**	**-14.0**	**-19.0**	**-20.5**	**-21.0**
Planned Expenditure					
Base budget					
Inflation					
Function changes					
Previously agreed budget changes					
Identified pressures	6.5	13.0	20.0	30.4	34.0
Savings required[1]	-16.2	-30.5	-44.4	-55.0	-55.0
Carry Forward of Savings	7.5	3.5	5.4	4.1	
Total Expenditure	**-2.2**	**-14.0**	**-19.0**	**-20.5**	**-21.0**

Estimated Financing

15. The estimated financing is the total external funding available to the Council after taking into account specific grants and income raised through fees and charges.

Central Government Grant

[1] See paragraph 32 – the MTFP agreed in February included an additional £5.0m of savings to be made; these savings had not been identified and are required in addition to the £55.0m shown in the table.

16. Central government grant comprises Revenue Support Grant and National Non Domestic Rates. 2010/11 will be the final year of the three year Local Government Finance Settlement for 2008/09 to 2010/11 first announced in January 2008. Whilst the grant for 2010/11 will not be confirmed until January 2010, it is not expected to change, other than to allow for any adjustment for function changes. Oxfordshire is expected to receive £106.3m in 2010/11, a 1.5% increase from 2009/10.

17. The next Comprehensive Spending Review which will set out the expected grant for the three years 2011/12 to 2013/14 was due to be published in July 2009. It is not likely to be published now until October 2010 (assuming a general election in June 2010). The MTFP currently includes annual increases of 1% beyond 2010/11, however given the current level of public sector borrowing and the need to reduce expenditure to compensate; our expectation is that there will be no increase in grant for the three year period up to 2013/14. Each 1% change in grant equates to approximately £1.1m. Furthermore, as part of the Revenue Support Grant, Oxfordshire is expected to receive £6.7m of 'Damping grant' in 2010/11. This ensures that Oxfordshire receives the minimum grant increase set by the Government. One possible outcome of the next Comprehensive Spending Review could be that this support could be reduced or it may even cease completely.

Council Tax (precept)

18. The planned Council Tax increase for 2010/11 and the medium term set out in the MTFP is 3.75%. The Taxbase, representing the number of properties Council Tax can be collected from, is assumed in the MTFP to increase by 0.5% in 2010/11 and 2011/12, and 0.75% thereafter. Since agreeing the MTFP, there has been no sign of recovery in the new house build market. With growth of only 0.39% in 2009/10, a 0.5% increase in 2010/11 now looks very unlikely. Consequently the assumption currently is that there will be no growth in 2010/11 and only 0.25% in 2011/12, the impact of this is to reduce the total funding available by £1.4m in 2010/11 rising to £2.2m in 2011/12. The actual taxbase for each of the district councils will not be confirmed until January 2010.

19. As set out in the report to Cabinet on implementing the manifesto pledges, should the Conservative Party win the next general election, a Conservative government would work with local government to freeze council tax for two years. This would be achieved by local authorities containing costs so council tax would be no greater than 2.5% and then the Government would provide funds to reduce council tax from 2.5% to zero. For planning purposes the impact of reducing council tax increases to 2.5% for the two years 2011/12 and 2012/13 has been included in the current assumptions.

Council Tax surpluses/deficits

20. The county council's share of the district councils Collection Fund surpluses and deficits was £1.95m in 2009/10. The MTFP assumes £0.8m in 2010/11 and £1.25m in each year beyond. The lower figure for 2010/11 reflected the likelihood that in the short term the amount of bad debts from Council Tax could increase, lowering the income through the Collection Fund. Due to rising unemployment and the possibility that it may take some time to recover from the recession, this position could no longer be realistic. At this stage it is prudent to assume that there will be no surplus in 2010/11 and reduced surpluses of £0.8m in each year beyond then. The impact of this is to reduce the one-off funding available in each year. As with the taxbase, figures will not be confirmed until January 2010.

Planned Expenditure

21. The MTFP shown in Annex 4 sets out the planned expenditure for 2010/11 to 2013/14 as agreed in February 2009. The table at paragraph 14 of the report sets out the changes to planned expenditure based on the latest assumptions. The difference between the latest assumption and the MTFP are explained in the paragraphs below.

Inflation

22. As set out in Annex 5, the MTFP includes an allowance for non-pay inflation of 2.0%. The Consumer Price Index (CPI), the government's measure of inflation was 1.8% in June and July, with the Retail Price Index (RPI) at -1.4% in July up from -1.6% in June. The Bank of England's inflation report published in August 2009 stated that over the medium term (up to 2011/12); inflation rates are likely to remain below the Government target of 2%. In the longer term, coming out of the recession a period of hyper-inflation is possible.

23. In relation to pay inflation, the MTFP assumes an increase of 1.5% in 2009/10 and 2.5% each year beyond that. A final pay offer for 2009/10 that would provide a 1.0% increase (1.25% for pay point 4 – 10) has been made and the Unions have until 11 September 2009 to accept or it will be withdrawn leaving no increase for 2009/10. An update will be given at the meeting if any further information is known. It is unlikely that an increase of 2.5% will be agreed for 2010/11 or 2011/12 given the economic climate and the low inflation forecasts.

24. The reduced need for inflation provision in the budget and medium term plan reduces costs. Assuming 0.5% for both pay and non-pay inflation in 2010/11 would provide savings of £5.5m. A further reduction of inflation provision in 2011/12 to 1.5% for both pay and non-pay inflation would provide further savings of £2.0m. Nothing specific has been included at this stage. However, savings on the inflation provision could contribute towards meeting Directorates savings targets.

Function changes

25. Function changes relate to changes in the responsibilities of services or functions provided by the Council which are funded through Revenue Support Grant. Function changes already known and built into the MTFP for 2010/11 relate to the decreasing role and consequent decreasing funding of administering student loans within Children, Young People & Families.

26. Learning and Skills Council (LSC): The LSC is to be abolished from 1 April 2010. The County Council will take on the responsibility for distributing grant to colleges and other providers of learning in Oxfordshire for people aged 16 to 19. 2010/11 will be a transitional year as the LSC will agree the payments to each college/provider and the council will be responsible for distributing around £33.0m of cash as a result. In subsequent years the council should have more control over the funding for each local college/provider. Eight staff will be transferred from the LSC. There are concerns about the problems and pressures facing this service and about the lack of details about the practical details of the transfer. For example, the LSC has had well-reported problems with its capital spending plans that have badly affected the current budgets and future plans of many colleges. The government wants all 17 year olds to be in a learning environment by 2013 but it is not clear how the extra costs arising from this issue will be funded. Becoming responsible for colleges raises various transitional and practical issues that have not been resolved or even identified yet.

27. Concessionary Fares: At present the district councils administer the national scheme under which people who are elderly or disabled are given free travel on local bus services. In April 2009, the Department for Transport consulted about changing these arrangements. The consultation document seemed to favour a proposal to make this scheme a County Council responsibility, perhaps from April 2011. The main concern with this proposal is that it would do little to simplify the administration and financing of this scheme. The council's response to the Government consultation strongly expressed the view that we would prefer a nationally run scheme.

28. There are particular concerns about the funding for this scheme. It is currently funded by Specific grant, Revenue Support Grant and Council tax. Before the national scheme was introduced, Oxfordshire's districts ran local schemes that cost around £1.6m per year these are, in effect, funded from council tax. Spending has gone up to around £7.5m in 2008/09 as a result of the national scheme. A total of £4.5m has been added to funding for Oxfordshire districts for this purpose since 2001 (partly through formula grant and partly by specific grants). The added funding therefore was around £1.4m short of the extra costs (and this can only be funded from council tax).

29. In total, around £3.0m of the cost of concessionary fares is funded by council tax in Oxfordshire. Accurately transferring all this funding to the County Council will be very difficult. To cover likely costs, The County Council would require additional grant of £7.5m. Specific grant is fairly easily identified and transferred. However it is difficult to withdraw formula grant from districts and transfer it precisely to counties. Further unfunded increases in costs are possible as the numbers of older people and take-up rates increase. Thus it

is difficult to have any confidence that the extra funding allocated to the county council if responsibility is transferred will fully cover the extra cost, council tax implications and possible future cost increases. Transfers will be especially problematical if the 'Damping grant' arrangements continue to limit our Formula Grant increases.

30. Learning Disabilities: From April 2011 the County Council will receive funding directly from the Department of Health for Learning Disabilities (for 2009/10 and 2010/11 the transfer of specialist care funding for people with learning disabilities will be made locally from the PCT to the County Council). There is a danger that it will go into Revenue Support Grant, in which case if Oxfordshire remains below the grant floor we may not receive the full funding at the point of transition and to cope with future growth pressures on this service.

Previously Agreed Budget Changes

31. Previously agreed budget changes are either additions or reductions to budgets agreed in previous budgets as part of the MTFP. They include new funding, pressures met by compensating service reprioritisations and savings to meet the targets previously identified.

32. Planned savings of £4.8m for 2010/11 are already built into the MTFP, as well as savings of £5.0m for each year from 2011/12 to 2013/14. When the MTFP was agreed by Council in February, further savings of £2.5m in 2010/11 rising to £5.0m in 2011/12 were required but not identified. These savings are still required to be made and have been added to the new target and issued to Directorates as part of the £60.0m.

33. Details of each budget change are shown in the Service and Resource Planning – Service Analysis 2009/10 publication, which was distributed to all members, is available in all public libraries and can be found on the council's website.

Unallocated Sum Available for Council Priorities

34. The unallocated sum available for Council priorities set out in the current MTFP falls into two categories, ongoing funding and one-off funding. The sum available is a balancing figure and changes if either the total funding changes or items within the planned expenditure change.

35. In setting the budget and MTFP in February 2009, the Council agreed to the allocation of resources over the medium term to meet known pressures. This includes the identified pressures for adults' demography and the costs of LATS[2] fines relating to waste. The allocation of resources over the medium term resulted in leaving only a small unallocated sum for each year. The issues throughout this report have a significant impact on the current MTFP which are to be addressed through the savings targets referred to in paragraph 46 below.

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[2] Landfill Allowance Trading Scheme – the allowance set for the council on the amount of waste it can send to landfill

Identified Pressures

36. In setting the 2009/10 budget in February this year we were already seeing some of the implications of the recession. Before the budget was finalised reductions were built in for decreased investment income, reductions in housing growth which impact on the amount of Council Tax collected, and potential increases in pension costs. These were partially offset by increased levels of efficiencies which would be needed in future years.

37. Since the budget was agreed in February this year, the financial position has been under continuous review. Pressures relating to the medium term have already been identified which require changes to the planning assumptions. These reflect the scale of the national and global recession, changes in legislation and pressures in the cost of services. The impact of these is spread across the timeframe of business plans, but with a significant impact in 2011/12.

38. The pressures which have been identified are:

<u>Global recession</u>

39. Impacts on Strategic Measures: Whilst CPI and RPI inflation measures are reducing, the Baxter index (which is based on construction indices and applied to developer contributions) is not falling so fast or expected to fall as far. The current MTFP assumes rates of 2.0% in 2009/10 and 2.25% in 2010/11. The latest published rate in July 2009 was 3.2%. For every 1%, the increase in costs is £0.3m. It is currently assumed that an extra £1m may be required. Furthermore interest rates received on deposits was estimated to be 1.8% in 2010/11, up from 1.3% in 2009/10. It is anticipated that the average rate of return for 2009/10 will be achieved. However this is due to some longer term deposits being made when rates were higher, ameliorating the effect of the lower rates currently being offered. The average rate of deposits made in the first four months of the financial year was 0.80%. Assuming that the rate of deposit remains more in line with the base rate, the amount of income earned on deposits in 2010/11 could be £0.5m lower than budgeted.

40. The MTFP already includes £6m in 2011/12 for the possible increased costs of pensions following the next triennial valuation due to take place in April 2010. The position based on an assessment in June 2009 showed that the cost could be £2.5m higher than already assumed which is included in the identified pressures of £60.0m. This would take the employers' contribution rate from 19.3% of pay, to around 28%. The stock market valuations are likely to increase overall by the date of the valuation so the position may improve.

<u>Government legislation</u>

41. As referred to in Paragraphs 27-29 above, should the transfer of concessionary fares to county councils happen, there is a real possibility that there would be a shortfall in funding currently estimated to be £3.0m.

42. The national budget in April 2009 announced further increases in landfill tax of £8 per tonne for each year from 2011, this is estimated to cost an additional £1.5m each year, reaching £6.0m by 2014/15.

43. The Carbon Reduction Commitment (CRC) legislation to address climate change and energy saving was passed in October 2008. However, the details and financial implications of the scheme were only announced in the spring 2009. It is a compulsory, auction-based cap and trade scheme for large, non energy-intensive businesses and organisations. It applies to large businesses and public sector organisations whose annual electricity consumption is over 6,000 MWh (Megawatt Hours). There is still some uncertainty about the cost as the performance of the council will be measured against other organisations. The first allowances will go on sale in April 2011, but no caps will be imposed until 2013, which is when the auctioning of allowances begins. At this stage it is estimated that the cost during the first three years could be £0.1m in 2010/11 rising to £0.2m in 2012/13. Beyond then, when trading commences, the costs could be much more significant. It is currently estimated that costs could be £1.0m in 2013/14 rising to £1.5m in 2014/15 although this will all depend upon the Council's performance on carbon reduction.

Directorate pressures

44. In previous years budgets there have been pressures in Directorates' which the Council made a decision to fund. As referred to earlier, in setting the budget and MTFP in February 2009, identified pressures were built in. However, there are likely to be some further pressures which arise that will need to be managed. Over the medium term, it is estimated that pressures required to be funded could be £5.0m in 2010/11 rising to a total of £22.3m by 2014/15.

45. The Financial Monitoring Report elsewhere on the agenda shows that the current forecast based on the position to the end of July for 2009/10 is a potential overspend of £4.0m. The position will almost certainly change before the year end; however the forecast is higher than that reported this time last year for 2008/09. There are some issues emerging in 2009/10 which will have implications for the 2010/11 budget particularly around children's social care and asylum seekers.

Savings Required

46. The paragraphs above show total pressures of £60.0m, £21.0m relating to reduced funding, £34.0m relating to pressures and £5.0m relating to previously agreed budget changes in the MTFP. The level of reduced funding will be a real reduction in the level of expenditure, however, the remaining savings identified will be recycled to fund the continuing or new pressures.

47. To ensure that pressures identified can be managed across the medium term, savings targets have been calculated which rise to the total of £60.0m. Given the scale of the pressures identified, additional savings targets for directorates have already been agreed by Cabinet in July 2009 so that there is adequate time for plans to be worked up.

48. The targets for each directorate have been calculated using a combination of budget criteria and are set out in the table below and have been agreed by CCMT. Directorates will be developing business improvement & efficiency plans which will provide a top down framework for business planning and determine how the targets are allocated. These will need to be communicated

to business plan owners so they can be taken into account in the draft business plans.

Directorate	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	TOTAL £000
Children, Young People & Families	4,377	3,906	3,240	2,477	14,000
Social & Community Services	8,128	7,254	6,018	4,600	26,000
Environment & Economy	3,439	3,069	2,546	1,946	11,000
Community Safety & Shared Services	1,563	1,395	1,157	885	5,000
Corporate Core	1,250	1,116	926	708	4,000
TOTAL	**18,757**	**16,740**	**13,887**	**10,616**	**60,000**

Other Resources

Area Based Grant

47. Area Based Grant (ABG) introduced in 2008/09 is a non-ringfenced general grant comprising a pool of previous specific grants. Allocations for the three years of 2008/09 to 2010/11 were announced in 2008 as part of the three year Local Government Finance Settlement. The indicative allocation for 2010/11 is £42.694m. The principle behind ABG is to allow partnerships greater flexibility to allocate resources to priority areas of work as identified in the Sustainable Community Strategy/ Local Area Agreement. Oxfordshire's Public Service Board has agreed that the County Council shall passport Area Based Grant (ABG) to services in 2010/11 (in addition to 2009/10). However, spending plans shall be discussed with partnerships and published to ensure transparency, opportunity for challenge and to seek opportunities to join up resources most effectively.

48. The PSB has agreed the process to enable partnerships to comment on the allocation of Area Based Grant for 2010/11. Those in receipt of ABG funding

streams (mainly county council but also some to district councils) are currently pulling together details of plans for the next financial year. Partnerships will be provided with these details, as relevant to their thematic area at the end of August. Partnerships will then have a chance to comment on the plans and feed these into the budget setting processes this autumn.

Local Authority Business Growth Incentive (LABGI) scheme

49. Details of the proposed first payment from the new LABGI scheme were issued in July 2009. Currently, a payment of £0.439m is proposed for Oxfordshire. This is in line with expectations given that only £50m is being distributed in this year and in 2010/11, a total of £100m over the two years. The new scheme is much smaller in scale than the previous scheme which produced £1 billion of payments over three years. Oxfordshire has been recognised as a region for LABGI purposes (instead of being grouped with Berkshire, Milton Keynes and the Berkshire unitary authorities as set out in the consultation proposals) with half of the proceeds for the region being given to the county council and half to the districts pro rata to their populations.

50. In 2010/11 a second payment from the new LABGI scheme is expected. As another £50m is due to be distributed, the county council might therefore expect to get a similar amount as in 2009/10, £0.4m. However, the sum will depend on the amount of business rates collected in 2008/09 and, with the onset of the recession; figures are very speculative. The payment for 2010/11 will not be announced until July 2010.

51. As part of the budget agreed by Council in February 2009, a specific reserve was created for LABGI funding. Spending plans will be influenced by the recession and will be determined by the work of the Oxfordshire Economic Partnership Economic Task Force. It is recommended that the payment for 2009/10 is added to the reserve with details of planned use coming forward through the Service & Resource Planning process.

Local Area Agreement 1 (LAA1) Reward Grant

52. Reward from LAA1 is expected in 2009/10 and 2010/11. Subject to audit, the total reward grant is expected to be in the region of £9m. The Public Service Board (PSB) previously agreed that 50% of the Performance Reward Grant (PRG) achieved will be top sliced to support bids for new partnership projects. Bids against this element have been agreed provisionally by the PSB and were evaluated on the basis that the projects; supported the economy or reduced deprivation, particularly in Oxfordshire's most vulnerable communities. The remaining 50% has been agreed to go directly to the partners delivering targets, according to specific formulae for each target. The amount payable to the Council (excluding schools) is estimated at £0.64m. All of this relates to achievement of targets where the lead Directorate is Children, Young People & Families. PRG will be payable in two equal instalments during 2009/10 and 2010/11 and each instalment will also be split equally between capital and revenue grant. The estimated grant expected in 2010/11 therefore is £0.32m of which £0.16m is revenue grant.

Balances

53. The Provisional Outturn Report set out that balances at 31 March 2009 were £20.187m. The estimated position at 1 April 2009 as set out in the Service & Resource Planning Report to Cabinet in January 2009 was £19.0m. As balances are £1.187m higher than planned at the year end, it was proposed and agreed to put this into a reserve for funding efficiency savings in 2009/10.

54. In setting the 2009/10 budget the risk assessed level of balances was calculated to be £12.5m. As balances were higher than the risk assessed sum, £5.1m was utilised as part of the budget. This adjustment (plus that in the paragraph above) takes balances at the beginning of 2009/10 to £14.5m. It is estimated that up to £2.0m could be called from balances in year giving a year end position of £12.5m as per the risk assessment.

55. The forecast on balances over the medium term remains unchanged from that set out in Service & Resource Planning Report to Cabinet in January 2009 shown below.

	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Estimated Balances at start of year	**19.0**	**12.5**	**12.5**	**11.7**	**11.5**
Budgeted addition to Balances per MTFP	0.9	2.0	2.2	1.8	2.0
Budgeted use of Balances per MTFP	-5.4		-1.0		
Total Balances at start of year	**14.5**	**14.5**	**13.7**	**13.5**	**13.5**
Estimated Use of Balances	-2.0	-2.0	-2.0	-2.0	-2.0
Estimated Balances at end of year	**12.5**	**12.5**	**11.7**	**11.5**	**11.5**

Risk Assessment

56. The financial strategy states that balances should be maintained at a level commensurate with risk. A systematic and formalised approach of assessing risk relating to the budget is used to determine the appropriate level of balances. This showed that balances in the region of £12.5m were appropriate to the risks identified in the 2009/10 budget. Further work will be required as part of the budget setting process to identify risks in the budget proposed for 2010/11. The table above assumes that a similar level of balances will be required, although this may need to be amended.

Capital Strategy and Capital Programme

Capital Strategy

57. The Capital Strategy is a high level strategy document which sets out an overview of the Council's capital needs, the Council's financial plan for capital and what the Council will do in terms of capital investment.

58. Significant progress has been made in the delivery of the capital programme during 2008/09. The timing of the Corporate Asset Management Plan (AMP) and Capital Strategy was integrated into the wider service and resource planning process. More realistic planning of the Capital Programme was achieved through the review of project delivery timetables in Capital Challenge Panels. These improvements had a direct impact on the Council's use of resources for capital which stands at 90% for the 2008/09 outturn. A new capital governance structure has also been put in place recently to progress the ambitious capital agenda with wider engagement of Cabinet and senior officers.

59. In terms of the Capital Strategy, the priority for 2009/10 is to deliver a Capital Resources Allocation Model (CRAM) based on the corporate priorities set out in the Corporate Plan. The model will be used as a catalyst to drive the priorities for capital investment and to ensure optimum use of limited financial resources.

60. Elected members and senior officers will be involved in its development to achieve corporate buy-in to the strategic investment categories (key result areas). It is expected that the capital budget setting process for 2010/11 will utilise the first draft of this model to bring additional challenge to the use of resources within the existing capital programme and to strengthen the alignment of programme priorities to corporate objectives. This is particularly important when the current economic situation has considerable negative impact on the level and timing of capital resources.

61. An updated corporate Capital Strategy and AMP will be reported to Strategy and Partnerships and Growth and Infrastructure Scrutiny Committees in December. They will then be reported to Cabinet in January, along with any comments from the Scrutiny Committees and form part of the budget proposals for onward recommendation to Council in February.

Capital Programme

62. The capital programme for 2009/10 to 2013/14, which was approved by Council in February 2009, was updated in August to reflect the projected spend in 2009/10, as well as changes to phasing of schemes, implications of the 2008/09 final accounts and revisions to available finance.

63. Over the period of the programme there is a deficit of £6.080m compared to a surplus of £0.855m in the programme agreed by Council in February 2009. The change reflects a decrease in the valuation of capital receipts within the agreed disposal programme.

Financial and Legal Implications

64. This report sets out the Service and Resource Planning process for 2010/11, although it is mostly concerned with finance and the implications are set out in the main body of the report. The Council is required under the Local Government Finance Act 1992 to set a budget requirement for the authority and an amount of Council Tax. This first report forms an initial basis for those requirements that will lead to the budget requirement and Council Tax being agreed in February 2010.

RECOMMENDATION

65. **The Cabinet is RECOMMENDED to:**

 (a) note the report;

 (b) approve the Service and Resource Planning Process for 2010/11; and

 (c) provide advice on the development of the Financial Strategy

JOANNA SIMONS
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Background papers: Nil

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August 2009