

**Committee:** Scrutiny Committee

**Agenda Item**

**Date:** 4 December 2012

**10**

**Title:** 2013/14 Budget

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Item for information

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## Summary

1. At its meeting on 7 February, the Scrutiny Committee will be invited to comment on detailed proposals for the 2013/14 budget, ahead of consideration by the Cabinet on 19 February and determination by the Full Council on 28 February.
2. This report provides an overview of the budget setting process and the documentation that will be coming forward for review. There are pointers for the sorts of issues the Scrutiny Committee may wish to consider.
3. The Scrutiny Committee's role is to provide an independent endorsement of the proposals prior to consideration by Cabinet, or to suggest alternatives. This is ordinarily an apolitical process; alternative budget proposals from Opposition Members should be formulated away from the Scrutiny process and presented to Cabinet and Full Council at the appropriate time.

## Recommendations

4. None.

## Financial Implications

5. None.

## Background Papers

6. None.

## Impact

Communication/Consultation	Public consultation and business ratepayers consultation is carried out as part of the budget process.
Community Safety	None
Equalities	An Equalities Impact Assessment will be completed as part of the budget process.
Health and Safety	None

Human Rights/Legal Implications	It is a legal requirement to produce a balanced budget.
Sustainability	Budgets must be drawn up in the context of the Council's Medium Term Financial Strategy.
Ward-specific impacts	None
Workforce/Workplace	Some budget proposals may affect staff e.g. efficiency savings requiring different ways of working.

### Budget setting process and timetable

7. The 2013/14 budget relates to the financial year that will run from 1 April 2013 to 31 March 2014. The Full Council meeting on 28 February will set the budget, taking into account recommendations from the Cabinet. The Scrutiny Committee will have an opportunity to review the budget proposals before the Cabinet determines its recommendations.
8. The following are the key steps taken to draw up the budget:

July 2012	Public consultation carried out
October 2012	Financial forecasts updated, preliminary informal discussions with the Administration
November 2012	Budget Strategy approved by the Cabinet Business ratepayers consultation initiated
December 2012	Briefing for Scrutiny Committee (this report) Provisional Local Government Finance Settlement released by DCLG Completion of detailed number crunching
January 2013	Finalisation of budget proposals Preparation of formal paperwork Confirmation of Local Government Finance Settlement
February 2013	Formal consideration of budget proposals by Members; Scrutiny Committee, Cabinet and Full Council
March	Council Tax bills issued Budget Book published
1 April	Financial year commences

## **Budget papers for consideration by Members**

9. Below is a summary of the separate components of the budget papers and suggestions for the types of issues the Scrutiny Committee may wish to consider. These suggestions are neither compulsory nor exhaustive.

### **10. Housing Revenue Account (HRA)**

#### **Summary**

- a) Deals with budgets for council housing only, which by law are kept in a separate ringfenced account, separate from other council services.
- b) Expenditure on council housing is funded by rents and service charges payable by council tenants.
- c) HRA finances underwent substantial reform on 1 April 2012. Negative housing subsidy was abolished, replaced by the Council having to take on a share of the national housing debt. The result is that the HRA has significant levels of revenue headroom in its budget.
- d) The HRA has a 30-year business plan which sets out plans to maintain and improve housing stock and provide services to tenants, and plans for funding new council houses. The business plan allocates the revenue headroom and ensures that the debt is repaid within the 30-year period.
- e) HRA budgets are discussed by the Tenants Forum and Housing Board prior to consideration by Cabinet.

#### **Possible issues for consideration by Scrutiny:**

- Do the proposals have the support of council tenants?
- Is the rationale for proposed rent & service charge increases clearly explained and justifiable?
- Are there clear plans for the use of revenue headroom that deliver useful outcomes within reasonable timescales?

### **11. Treasury Management**

#### **Summary**

- a) Including monies collected for other organisations, over £125m flows in and out of the Council's bank accounts each year. Inevitably, temporary cash surpluses arise.
- b) In addition, the Council holds financial reserves, including its own balances, and S106 funds.

- c) Treasury management is the process by which these cash flows and balances are managed. The prime objective is to ensure security of funds; secondary priorities are to ensure sufficient liquidity to enable commitments to be met, and capacity to earn income on the balances held.
- d) The Council is required to approve a Treasury Management strategy that ensures appropriate risk management including a safe approach to investing surplus funds. This has particular importance in wake of the Icelandic banking crisis in 2008, and volatility in the industry generally.
- e) Treasury management strategy also governs how long term borrowing is used to fund capital expenditure.
- f) The strategy is accompanied by mandatory “prudential indicators” which are technical measures of the affordability and sustainability of the Council’s borrowings and investments.
- g) The Council is advised in its treasury management activity by leading independent experts, Arlingclose Ltd.

**Possible issues for consideration by Scrutiny:**

- Is the strategy consistent with advice provided by Arlingclose?
- Does the strategy ensure that the Council’s exposure to risk is appropriate and properly managed? Has the right balance been struck between safeguarding funds and earning a return?
- What do the prudential indicators say about the appropriateness of the Council’s plans?

## **12. Capital Programme**

### **Summary**

- a) Capital expenditure is spending on schemes or assets that have long term value to the Council and the community. Examples include council housing, vehicles, IT systems, building improvements, or grants to outside bodies and individuals such as disabled adaptations.
- b) Capital expenditure is financed by contributions from the HRA or General Fund, capital receipts (sale of Council assets), external funding such as S106 contributions or government grant, or by borrowing.
- c) The Capital Programme sets out capital expenditure plans for the next 5 years, together with details of how this is to be financed.

### **Possible issues for consideration by Scrutiny:**

- Do the proposed items in the Programme provide tangible outcomes and value for money?
- How do we ensure that capital grants given to outside bodies and individuals achieve the intended outcomes?
- Are the financing methods appropriate, and built into revenue budgets?

## **13. Medium Term Financial Strategy (MTFS)**

### **Summary**

- a) The MTFS relates to the General Fund (all services except Council Housing) and sets out forecasts for the next five years.
- b) It includes estimates of income and expenditure, and quantifies the extent of any surpluses or deficits anticipated during the five year period.
- c) The MTFS sets out in outline the Council's strategy for addressing deficits, or using surpluses, in order to ensure that Corporate Plan priorities are underpinned by sound finances.
- d) The key reason for having an MTFS is to anticipate potential difficulties long before they arise and ensure that robust plans are in place to address them. This is of particular importance in the wake of the Council's financial problems in 2007/08, and expected future cuts in Government funding of local government.

### **Possible issues for consideration by Scrutiny:**

- Are the assumptions used to build the forecasts reasonable?
- What would happen if actual events differed from the assumptions?
- Does the Council have a robust plan for addressing any deficits forecasted?
- Are plans for the use of any surpluses prudent, sustainable and good value for money?

## **14. Robustness of Estimates and Adequacy of Reserves**

### **Summary**

- a) By law, the Council must set its General Fund budget and Council Tax having given due regard to advice from its chief financial officer on the robustness of estimates and adequacy of reserves.

- b) The report will summarise the key risks in the Council budget, and the assumptions that are most volatile. This will be translated into advice about the minimum safe level of contingency reserves that should be maintained, and whether other reserves are needed to meet expected pressures in the coming years.
- c) The Secretary of State has powers to intervene if the CFO's advice is disregarded by Members, in the event of inappropriately low levels of reserves being maintained.

**Possible issues for consideration by Scrutiny:**

- Are the risks clearly explained?
- Is the advice about minimum safe contingency reserves proportionate to the risks involved?
- Is the level of reserves held by the Council appropriate?

## **15. General Fund Budget and Council Tax**

### **Summary**

- a) The General Fund covers budgets for all Council services except council housing.
- b) General Fund expenditure is mostly funded from fees & charges and Government grant. The balance is funded by Council Tax. By law the Council must set a balanced budget.
- c) The report will set out in detail proposed budgets for all General Fund services, proposed fees & charges, and a Council Tax resolution. On 20 November, the Cabinet indicated that it intends to recommend that the Council approves a 1% cut in Council Tax, when final budget proposals come forward in February.

**Possible issues for consideration by Scrutiny:**

- Is the proposed budget consistent with the Medium Term Financial Strategy and the CFO's advice on the level of reserves that should be maintained?
- Is the budget consistent with the Budget Strategy approved by the Cabinet on 20 November?
- Have consultation responses been properly taken into account?
- Does the budget support the Corporate Plan?
- Are proposed budget growth items (service investment) justified with clear outcomes that provide value for money?

- Are proposed budget reductions (efficiency savings or service reductions) reasonable and consequences properly thought out?
- Is the Equalities Impact Assessment satisfactory?
- Is the proposal regarding Council Tax reasonable?

### Further background reading

16. Scrutiny Committee Members are invited to familiarise themselves with the Council's existing Medium Term Financial Strategy and Budget Book. Both can be found on the Council's website at: [www.uttlesford.gov.uk/finance](http://www.uttlesford.gov.uk/finance) (see box on bottom right of webpage)

17. In addition, Members are requested to review the Budget Strategy report approved by the Cabinet on 20 November.

18. At all times the Assistant Chief Executive – Finance shall be pleased to meet with Members individually or in groups to discuss any aspect of the Council's finances.

### Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
A detailed risk assessment shall accompany the budget proposals. There are no specific risks at this stage.			

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.