

Report to: Executive Board - Monday 8 July 2002

Spending priorities and funding

<p>Report of: Strategic Director of Finance and Corporate Services</p> <p>Report Author: Mark Luntley</p> <p>Tel No: 01865 252394 E-mail: mluntley@oxford.gov.uk</p> <p>Lead Member Responsible: Councillor A Hollingsworth</p> <p>Overview and Scrutiny Committee Responsibility: Finance & Performance Management</p> <p>Key Decision: Yes</p>	<p>WARDS AFFECTED</p> <p>All</p>
<p>Purpose of report</p> <p>1. To provide Members with:</p> <ul style="list-style-type: none"> • An initial estimate of last year's (2001-2) spending against budget • An update on progress in achieving this year's (2002-3) budget together with options for further savings, <p>To seek authorisation for managers to explore new ways of working to generate permanent economies needed to balance next year's (2003-4) budget.</p> <p>2. <u>Recommendations</u></p> <p>Executive Board is asked to:</p> <ul style="list-style-type: none"> (a) Note the contents of this report. (b) Agree which (if any) of the £340,000 of items not spent at the end of 2001-2 (Appendix 4) can be carried forward and spent in 2002-3. 	

- (c) Consider if there are any of the £500,000 of bids agreed at the end of the 2002-3 budget (Appendix 2) which they no longer wish to proceed.
- (d) Task the Leader of the Council and Chief Executive to review and report back to the next Executive Board on how some, or all, of the currently frozen posts (in Appendix 3) might be permanently removed from budgets.
- (e) Task Business Unit Managers with starting to look at how they currently deliver services and identifying where; a) services are no longer needed, b) could be done more cheaply or c) delivered in different ways.
- (f) Note the progress in securing delivery of "lump sum" savings and advise on most appropriate alternatives for in-year savings from within the Table 1.

3 Summary

- The 2001-2 accounts have not yet been finalised, but we estimate that at 31st March the Council had £3.5 million in general reserves (table 2).
- £340,000 of these reserves have been provisionally earmarked for spending to be carried forward into this year (Appendix 4).
- A further £500,000 was identified in last year's budget process to fund new initiatives, these are also earmarked to be funded from these year end balances (Appendix 2).
- The 2002-3 budget included £2.5 million "lump sum" savings to achieve a balanced budget. So far about £1.8 million of these have either been delivered, or have been built into budgets (table 4).
- Work is still underway to cost and programme delivery of manifesto commitments, for which compensating savings will need to be found. We estimate these could add £250,000 to the current year's spending.
- Additional *potential* spending pressures in 2002-3 of about £505,000 have been identified. Officers are working on how to manage these costs (table 5).

4 Taken together this means there is a potential gap between budget and projected spending in the current year. Table 1 sets out the pressures and potential responses. Member guidance on the way forward is invited.

Table 1 - Pressures and potential responses

	£'000
Difference between lump sum savings needed to balance budget and those achieved to date (table 4)	751
Possible budget pressures in 2002-3 (table 5)	505
Manifesto commitments	250
Total potential gap in 2002-3	<u>1,506</u>
Ways of funding the gap	
Don't fund some/all of late 2002-3 bids to be funded from balances (Appendix 2)	500
Don't fund some/all of items carried forward (appendix 4)	340
Freeze the equivalent of a further 20 posts for the whole year (actual saving depends of what post and when frozen)	400
Reduce general fund balances to £2 million	600
Potential ways of funding the gap	<u>1,840</u>

- 5 We are partly balancing the 2002-3 budget by using short term savings; for example by temporarily not filling (or "freezing") a post when an individual leaves.
- 6 The challenge is to identify permanent reductions in spending. This will mean identifying those services that are; no longer needed, could be delivered more cheaply, or might be delivered in different ways.
- 7 We need to start working on this now.

1. Introduction

This report is structured in three sections:

Part 1 summarises last year's (2001-2) spending and the level of general fund balances at the year end.

Part 2 sets out work done to validate the current year (2002-3) budget and manifesto commitments.

Part 3 describes progress in delivering the £2.5m "lump sum" (also known as "centralised") savings together with other potential spending pressures in 2002-3.

- 2 This report draws together information on budget pressures, but it does not replace the regular year end or quarterly monitoring reports, which will follow as normal. This paper deals with General Fund Revenue spending, reports looking at Capital and Housing Revenue Account (HRA) funds will be tabled separately.

3 Tables

- (1) Overview of 2002-3 and savings needed
- (2) General fund balances at the start and end of 2001-2
- (3) The 2002-3 Revenue Budget
- (4) Lump Sum Savings
- (5) New budget pressures in 2002-3

4 Appendices

- (1) General fund redundancy payments summary
- (2) Bids that could be funded from balances
- (3) Frozen posts and savings in 2002-3
- (4) Proposed carry forward items from 2001-2

PART 1 THE COUNCIL'S REVENUE POSITION AT THE END OF 2001-2

- 5 The Accounts for 2001-2 are not finished. This is because we are waiting for information about housing benefits and work is still being done to work out the year end position on trading accounts. However we can estimate year end balances.
- 6 A key financial target for the Council is the level of these balances. The District Auditor has advised that the we need to keep £2 million in reserves. Our current position is set out in Table 2 below.

Table 2 - level of general fund balances at the start and end of 2001-2

	£000s
General fund balance at March 2001	1,001
<u>add</u> funds transferred from capital reserves (per MTFs)	5,957
<u>less</u> calls on balances in 2001-2	(3,495)
<u>equals</u> estimated general fund balance at March 2002	3,463
proposed use of funds in 2002-3 are:	
Balance to be carried forward (per Appendix 4)	(340)
Revenue Bids agreed at the end of the budget (Appendix 2)	(500)
<u>leaving</u> an estimated general fund balance at June 2002	2,623

Sources: Accountancy working papers & Medium Term Financial Strategy (MTFS)

- 7 Table 2 shows the Council started 2001-2 with half the recommended level of general fund reserves, but by the end of the year had balances of about £3.4m. Although much work was done to reduce costs, the authority still had to call on £3.5m of balances, in part to finance the planned costs of the redundancy programme.
- 8 Under this scheme 80 staff¹ have, or are about to have, left. The one off redundancy costs were funded by the sale of assets.
- 9 Towards the end of the 2002-3 budget setting process Members agreed that projects totalling £500,000 could go ahead if there were sufficient balances at the end of 2001-2.

¹ Excludes staff who left before February 2002. 20 of the 80 employees worked within the HRA or a trading account. 23 of the 80 staff left through redundancy, the other 57 through early retirement. Source: Group Accountant working papers

- 10 These bids are summarised in Appendix 2. A limited amount of money has already been spent on some of these items. Members could decide to not progress most schemes. This would keep funds free fund current year spending and provide for Manifesto commitments.
- 11 A full report analysing 2001-2 spending against budget will follow when the accounts have been closed. Previously unforeseen variances include:
- £100,000 because of market rents income being settled at less than originally budgeted.
 - £106,000 due to a recalculation of capital charges, going back over several years.

PART 2 THE COUNCIL'S 2002-3 REVENUE BUDGET

- 12 The Council must set a deliverable and balanced budget.
- 13 In January 2002 the Executive Board agreed budgets for each Business Unit. At £28.1m these were significantly above the resources available, even after allowing for a 4% increase in Council Tax. It was estimated that inflation would a further £1.5m to budgets.
- 14 As a result Members agreed £4.2m of savings (and a smaller number of essential growth items) for Business Units to achieve. A key task at the first quarter monitoring will be to ensure Business Unit are delivering these savings. Table 3 summarises the budget position as was set out in March 2002.

Table 3 - The 2002-3 Budget

	£	£
Approved General Fund Budget for Business Units for 2002-3 at January 2002		28,131,711
<u>less</u> savings to be found from within Business units	(4,254,400)	
<u>plus</u> agreed growth in Business Units	650,000	(3,604,400)
Revised General Fund Budget for Business Units for 2002-3		24,527,311
<u>add</u> inflation (and changes to service conditions)	1,579,000	
<u>Deduct</u> "lump sum" savings	(2,462,311)	
<u>Equals</u> amount to be raised from Council Tax		23,644,000

Source March 4th Executive Board Agenda

- 15 The £2.5 million of "lump sum savings" were, at least initially, to be managed centrally. These savings², together with an update about their delivery, are set out in Table 4.

New Administration priorities

- 16 The new Administration wishes to adjust some priorities within the 2002-3 budget. A manifesto costing exercise is underway. This has taken longer than originally intended, because Members and officers have looked carefully at how to deliver commitments in the most cost effective way.
- 17 It is currently estimated that these priorities will add £250,000 to spending in 2002-3. Key items within this total are:

² Table 4 total differs from the figure above as it includes a saving previously included in the HR Business Unit budget. This was the £100k relating to reduced training budgets.

New Administration's Priorities

Leisure	Extended opening hours at Hinksey pools (already agreed by Executive Board)	£30,000
	Northway	£10,000
	Contingency for closures and repairs	£100,000
Environment	Removal of charges for bulky items	£50,000
Corporate	Revised distribution arrangements for agendas	£25,000
Culture	Architectural Lighting project for the city centre	£10,000
Environment	Xmas lights	£25,000
TOTAL		£250,000

PART 3 - PROGRESS IN DELIVERING THE 2002-3 BUDGET SAVINGS

- 18 Officers aim to provide the regular review and projection of the first quarter spend against budget (April to June 2002) in July.
- 19 Staff savings are a major element in delivering the 2002-3 budget. Officers have checked the redundancy calculations:
- Looking back at which individuals were made redundant/took retirement
 - Re-checking the savings generated by deleting each post
 - Establishing (where appropriate) treatment of ongoing pension costs
 - Confirming where savings from redundancies have been coded.
- 20 £802,000 of redundancy savings have been included within the £4.3m of Business Unit budget savings. A further £476,000 of redundancy savings have contributed towards the £2.5m of lump sum savings.
- 21 Lump sum savings now fall into three categories:
- Where revenue savings have already been achieved - for example capitalising minor building repairs.
 - Where progress has been made either in part or in whole, for example supplies and services and staff overtime budgets have been reduced.
 - The saving will only be finally achieved if all Business Units spend within their revised budgets.
 - Where progress is incomplete or yet to be made. The budget assumed £500k savings from freezing posts, so far, but if all the posts currently frozen were held vacant until the end of the year, only £239k of savings would be achieved³.
- 22 The 2002-3 budget also assumed a lump sum saving of £260k from "inflation". This is equal to 1% of the pay bill and is dependent on pay negotiations being settled at 3%, rather than Unison's 4% claimed increase.
- 23 Progress has been made but:
- Some lump sum savings have proved impossible to achieve. Work needs to be done to identify other compensating savings.

³ As at 27 June 2002, figure will vary as new posts are frozen, and existing jobs released.

- Some figures (e.g. inflation) will only be known when pay negotiations have been completed (Table 4 currently assumes a pay increase of 4% is agreed).
 - Once savings have been agreed, the next task is to monitor to ensure they are actually delivered.
- 24 Some lump sum savings (eg training) have been in budgets which can be quickly reduced, but there are hidden longer term costs in not adequately investing in staff skills.
- 25 Finally the Administration have expressed concern about funding minor repairs from capital. They have indicated that, if compensating revenue savings can possibly be found in this year, these minor repairs should again be funded from revenue. They have emphasised this capital funding arrangement can only be a one year exercise.

Table 4 - Lump sum savings

	Target £'000	Estimated outturn £'000	Commentary
Capitalise minor property repairs	500	500	Minor repairs budgets have been transferred to capital. Particular care must be taken to ensure only capital work is funded.
Further redundancies	253	476	Redundancies agreed and people have left the Council.
Reduce administration	379	-	To be achieved in other ways
Reduce non essential purchases	350	276	Figure represents 10% reduction in controllable supplies and services budgets agreed with individual Business Unit Managers and also reductions in overtime and temporary staff budgets. Careful monitoring is needed to ensure these savings are achieved.
Freeze recruitment	500	239	Full year effects of existing 15 frozen posts, more posts need to be frozen for the year to achieve this target with resulting effects on service.
Inflation	260	-	Difference between 3% and 4% pay increase for staff, we do not know the outcome of negotiations.
Training	100	100	Training budgets reduced by 50% across the board.
City works to fund 37 hour week	120	120	Being addressed within City Works business planning.
OBS	25	25	Being addressed by OBS.
Advertising budget	76	76	Advertising budgets reduced.
	2,563	1,812	
Still to be delivered		751	

Source: Accountancy monitoring records

- 26 These savings focus on reducing costs of inputs (e.g. supplies, staffing and advertising). However they will generate a noticeable effect on services. This approach should be seen as a stop-gap to balance this year's budget.

27 It is also unwise to fund long-term spending from short-term savings exercises. Once a post is "unfrozen" the spending returns to the "old" level.

28 The Council need to decide:

- Whether some, many or all of the frozen posts should now be removed from budgets creating permanent budget reductions. Such an approach may need staff to be re-deployed within the Council to cover key vacant posts.
- Which services are either not needed, could be produced more cheaply, or delivered in different ways. This exercise is one which the Administration has rightly indicated must be started now, as part of the three year budgeting exercise.

Other budget pressures in 2002-3

29 At a time when budgets are under pressure effective monitoring is essential. A quarterly budget monitoring report (reviewing spending in the first three months of the year and predicting what the year end position will be) will follow in July.

30 Members have indicated that, in addition to the quarterly analysis, a monthly monitoring report should be made available.

31 Each year budget variances arise which the Council needs to manage. Table 5 sets out currently known pressures together with:

- An estimate of the potential range of costs:
- Work underway to address them.
- Staff responsible for delivering these actions
- Member (or where it is a smaller budget Officer) responsible for overview.

32 The biggest single budget pressure is a £300,000 assumed saving which had been built into the 2002-3 supplies budgets. This was to have been achieved through better purchasing, in partnership with a buying agency. This was always an ambitious target, but as supplies budgets have already been cut in the year, achieving these efficiency savings has become harder.

33 Several of the figures are only just emerging. The one advantage of identifying cost pressures early is that corrective actions can be undertaken sooner.

Table 5 - General fund cost pressures and proposed actions

Budget pressure	Probable cost £'000	Worst case £'000	Actions being taken
Increase in insurance premiums post September 11 and inline with our claim history	-	135	Tender exercise underway (report to Exec Board 17 June). Other ways of reducing premia payable being investigated. By October 2002. Richard Josephs' to lead. Cllr Hollingsworth to review.
Higher external audit fees	-	35	Chief Accountant identified potential compensating savings. Mark Luntley to review.
Higher cash collection costs because a contractor will no longer handle our coin.	-	10	Potentially funded by offsetting savings. Mark Luntley to review.
Not achieving rent income due to late rent reviews	-	300	A major push on overdue reviews is underway. Colin Beever to lead, Cllr Price to review.
Not being able to sell on surplus properties	-	150	2002-3 budget assumed two key properties would be disposed of in the year. Colin Beever to lead Cllr Price to review.
Surplus on building control income not able to be credited to revenue a/c.	120	120	Monitoring officer reviewing area, issue will be discussed with auditors. Legal Services manager to lead, Cllr Clarkson to review.
Buying team savings, assumed in budget, are not achieved.	300	300	Urgent work ongoing to establish what savings can be made in this area. Jane Lubbock to lead. Cllr Hollingsworth to review.
Not achieving budgeted energy savings	-	50	Budget assumed efficiencies from energy saving initiatives. Post-holder no longer working on this task. SMB to establish how to progress.
CANACT costs currently charged to HRA are funded by revenue	35	235	Work underway to establish this team should be funded. Neil Gibson to lead, Cllr Smith to review
Regularising casual staff arrangements	50	100	Personnel have identified staff employed as "casual" but who could be considered employees, and entitled to benefits. Paul Warters to lead Cllr Baker to review.
total potential spend	505	1,435	

Conclusion

- 34 The Council has made substantial progress in bringing its spending into balance with its income. However more work remains to be done.
- 2002-3 budgets need careful monitoring.
 - Further savings need to be found to balance the current year budget.
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- 35 However the single most important task is to start work identifying permanent savings through changes to services. This is a longer-term task, work needs to start now in order for economies to be achieved in 2003-4 and subsequent years.

Appendix 1 general fund redundancy payments in 2001-2

	£
Original revenue	
redundancy budgets in	
2001-2 (general fund only)	844,861
<u>plus</u> one off funding for	
redundancies from capital	<u>1,800,000</u>
<u>equals</u> total redundancy	
budget	2,644,861
<u>less</u> actual redundancy	
payments made in 2001-2	(1,705,611)
<u>equals</u> budget remaining	
which is reflected in	
balances	939,250

Source: Accountancy records k:\Comm_finance\2002-03 Estimates\Consolidated

Appendix 2- Items agreed by Executive Board and Council that could be funded from balances

Bids that would be funded out of balances (if they became available)	£'000
Items agreed at Executive Board 4th March	
IS staff to install replacement of 500 pcs (a capital bid)	25
best value	100
planning counsel	50
housing needs survey	40
worcester st car park devt guidelines	15
planning (to include uniform licenses , nature surveys tree preservation compensation)	35
occupational health	10
capital of culture	20
Sub total of items agreed by Exec Board	295
Extra items agreed at Council	
Restoration of 3 days leave (refuse/cleansing)	46
Reinstate balance of public toilet saving (reduce from £88,000)	35
Amendment to delete cuts re dog wardens / pest control	12
Homelessness budget shortfall resulting from council decision	
furniture storage	40
allocation policy	10
Bulky items - disaggregated to Areas	22
Increase budget for Womens Training - bridging funding	45
Increase savings to be found from Supplies	-5
Total to be funded from balances	500
nb sub-total of £295k is £80k less than the £375k shown in Appendix 6 of the Exec Board report. This is because £40k (housing advice) was not agreed and £40k was removed from the "Best Value" bid of £140k	

Appendix 3 Frozen/vacant posts and savings in 2002-3

Business Unit	Cost Centre	Potential saving £
B01	Strategic Policy & Research	34,053
B02	Corp Strategy	0
B03	Human Resources DP03 Employee services	0
B04	Modernisation	0
B06	Chief Execs KK01 Finance & Admin	16,422
B20	Financial Management CD11 Accountancy	22,661 13,578
B21	Revenues & Benefits ? ?	20,248
B22	Legal KS04 Legal Services	0 0
B23	Internal Audit	0
B24	Information Systems	0
B25	Property Investment	0
B26	Facilities Management BR02 Caretakers (out of Buildin	8,117
B40	Housing Management	0
B41	Customer Services	0
B42	Homelessness	0
B44	Neighbourhood Renewal KQ01 Equal Opportunities	21,178
	AE05 Play & Youth Developme	9,524
	AC01 Community Centres	9,474
	AE04 Community Recreation	9,667
	AE05 Play & Youth Developme	9,669
	AE04 Community Recreation	5,456
B45	Environmental Health	0
B60	Built Environment	0
B62	Planning HJ11 Planning Policy	13,986
B64	Transport & Parking FC31 Westgate car park	30,000
	FC75 Redbridge P&R Security	0
B65	Leisure & Culture AM19 Sports Development	0
B80	Administration KS05 Corporate Services Admi	15,567
	BN20 Directorate support	0
TOTAL		239,600

Appendix 4 - Carry forwards

Description	£'000	Implication if not progressed
Planning	67,860	Insufficient funds to complete Local Plan
Recycling	50,000	City wide recycling initiatives not able to be completed
MT trading, Lease charges Refurb St. Aldate's (committed)	102,600	Lease charges will be incurred resulting in a loss made on trading a/c
Domestic Alarms	2,500	Potential overspend in year
Admin fees, housing new build, unspent sum	4,500	Potential overspend in year
Modernisation	22,800	Research/feasibility budget for new initiatives
	35,000	Overview and Scrutiny research and consultancy
Property	55,000	Money was set aside to pay for fees for consultants to manage property disposals in this year.
Total	<u>340,260</u>	

Source: Accountancy records and discussions with Business Unit Managers