

Report to: Executive Board - 30th November 2004
Finance Overview and Scrutiny – 8th December 2004

CONSULTATION BUDGETS: 2005-6 TO 2007-8

Report of:	Strategic Director Finance and Corporate Services	WARDS AFFECTED All
Report Authors:	Penny Gardner/Sarah Fogden	
Lead Member:	Councillor Alex Hollingsworth	
Scrutiny Responsibility:	Finance	
Key Decision:	No	

Summary and recommendations

Executive Board are recommended to:

- a) Approve the draft budget book (including capital programme) for consultation.
- b) Agree which bids and corresponding savings should be progressed for implementation in 2005-6 and subsequent years.
- c) Ask Officers to review the timing of projects within the capital programme.

Background

This paper introduces the detail of the draft 2005-6 to 2007-8 budget. Officers have summarised the financial details in a draft budget book. (Appendix A)

Executive Board received an initial report on the budget process and key pressures at their meeting on 1st November 2004. That earlier report set out:

- An overview of the budget pressures in the coming three years, with the major budget assumptions for the coming 12 months set out in more detail.
- A summary of Business Managers' proposals to remain within next year's budget limits and an independent assessment of their deliverability.
- A summary of progress to date in balancing budgets for 2006/7 and 2007/8
- Cost comparisons.
- Results of a budget consultation exercise.

Executive Board also considered proposals from Officers for new spending areas and corresponding savings. Members selected a number of these proposals and asked that Officers work up likely costs and implementation dates.

A summary of this analysis is attached, however Members should note these figures are initial best estimates, further analysis will be needed ensure that proposals finally selected by Members:

- Have accurate and robust costs and timings.
- Set out the most appropriate (in terms of cost and risk) procurement routes.

The 2005-6 and subsequent years' budgets

Several factors have helped balance the 2005-6 budget.

Rising interest rates mean the Council should generate an extra £500,000 income on its cash balances.

Members set aside an £800,000 budget to cover the additional costs arising from job evaluation. This amount seems increasingly unlikely to be needed for 2005-6, though if started shortly would still be needed in 2006-7.

The 2004-5 mid year budget review shows that at the end of September Business Units were under-spending by over £800,000. Some balances may be carried forward to help balance the 2005-6 budget.

On the other hand the Council faces a growing long-term budget challenge.

We have to find money to pay for increased employer pension contributions to fund the final salary staff pension scheme. When added to other pay increases, this means wage related costs are likely to rise by around 6% a year (or by about 20% over the next three years).

Other cost pressures include:

- Up to £400,000 of local benefit costs
- £325,000 of capital fees which are falling on revenue.
- £200,000 of budgeted accommodation savings not achieved.

There are ongoing budget pressures that could add up to £600,000 to parks and leisure budgets in 2005-6 (though some of these should reduce in latter years).

It may be that up to £300,000 of costs of homelessness and elderly services currently funded by the HRA may in future fall on the general fund.

When the original three-year budget was drawn up, Members required officers to plan ahead to reduce the cost of running the revenues and benefits service as this was seen as being too expensive. Officers are currently working out how the planned budget reduction can be delivered.

Finally the Council's external funding, most of which comes through Revenue Support Grant (RSG), will not be known until December.

In summary, the budget picture is of steadily increasing medium-term pressures temporarily offset by one-off factors.

Business Managers' proposals to meet their budgets

Members made repeatedly clear their intention is that Business Managers should plan ahead to meet the inflation pressures within the three year budget.

However Managers had been planning on the basis of 3% wage inflation, and meeting the extra 3% for pensions has proved challenging.

As in previous years Business Managers have been asked to identify potential growth areas in their budgets as well as making an allowance for inflation.

Most Business Managers now have plans in place to meet next year's cost pressures. Individual Business Unit budget proposals have been reviewed by Portfolio Holders as well as the Strategic Director for Finance and Corporate Services. At 1st November Executive Board agreed to establish a small working group of Members to review individual Business Unit budget proposals for 2005-6 and subsequent years, to make sure they are robust.

Minimum levels of balances

We need to keep minimum levels of balances. I have previously recommended that we do not let General Fund and HRA balances drop below £3 million and £2 million respectively.

I will do a full analysis of the minimum level of balances needed in the February budget report. My recommendation is likely to be that both limits should remain at the same levels as present.

The General Fund

The draft budget book incorporates the corporate pressures identified in the report of 1st November 2004, specified savings and Business Managers' proposals to meet these pressures for the first year.

The November 1st Executive Board report noted that £330,000 of savings still needed to be found to balance the 2005-6 budget. I proposed that, in addition to validating proposed savings, the Members' budget working group should explore how these extra savings could be achieved. Since the November report some £130,000 additional savings have been found, leaving the £200,000 of the original sum still to be identified.

The Housing Revenue Account (HRA)

Most day to day housing costs are funded in a ring-fenced budget called the Housing Revenue Account (HRA). This HRA sets the rents from and grants for council houses alongside the costs of managing and maintaining the housing stock.

The HRA is forecast to have a surplus of £1.2 million in 2005-6, with the surplus increasing in later years. This surplus is mostly due to a more favourable housing grant settlement. However HRA's building maintenance arm; Oxford Building Solutions (OBS) reports growing budget pressures.

Maintaining a healthy HRA surplus is important because it may be that, if surpluses can be guaranteed into the medium term, the Council may be able to use some of these funds to pay for major capital works to the council house stock.

It is important to note the HRA budget is subject to a separate budget consultation exercise. The budget has been recently considered by the HRA tenants and has now been released for consultation.

Major Spending Initiatives and big savings ideas

Members rightly want to pursue new ideas and initiatives, as well as improving the quality of existing services. However the capacity of the Council, in both financial staff time is finite. If Members want to introduce a new initiative, they need to stop doing something else.

At November 1st Executive Board Members agreed to this general principle with major new spending ideas being funded by corresponding savings. Members picked out some development and saving ideas. Members asked that Officers work out likely costs/savings and implementation dates. These are set out at the front of the draft budget book. (pages 7A and 7B)

Officers conclude a few savings and new spending initiatives could be implemented in 2005-6, but most would start 2006-7 and 2007-8. However in total the potential new spending ideas exceeds potential savings proposals, further prioritisation and guidance is needed.

Members are also asked to agree which savings proposals should be progressed to produce full feasibility studies with the intention of realising savings in later years.

Capital Budget 2005-6 to 2009-10

The draft budget book includes a draft capital programme and funding statement.

The funding statement is similar to that reported to Executive Board on 1st November, with the programme dependent on asset disposals in 2005-6 and 2006-7. In the longer-term the capital programme needs significant additional resources.

The capital programme needs to be regularly reviewed to ensure:

- All projects are still needed.
- If there are any projects might be delivered in other ways.
- The programme is realistically profiled.

Consultation timetable

The programme for budget consultation is as set out below. In addition a budget consultation breakfast with broader stakeholders is proposed, as is the formal meeting with business ratepayers.

Proposed Consultation Timetable

24 Nov	Oxford Tenants
3 Dec	Housing Scrutiny
6 Dec	Environment Scrutiny
7 Dec	Community Scrutiny
8 Dec	Finance Scrutiny
14 Dec	CSW Area
15 Dec	East Area
21 Dec	North East
21 Dec	HRAMB
5 Jan	Cowley Area
6 Jan	North
10 Jan	South East
24 Jan	Deadline EB
7 Feb	EB Budget – including feedback from Consultation

In summary

The 2005-6 General Fund revenue budget is in broad balance, but there are significant and growing budget pressures building into the medium term.

The Housing Revenue Account budget has a planned surplus, though there are growing budget pressures in the building arm of the HRA – Oxford Building Solutions.

The capital programme can be funded for the next two years, using a combination of day-to-day resources and targeted disposals.

Supporting papers

Detailed submissions from Business Managers

This report has been seen and approved by:

Finance Portfolio holder

Cllr Alex Hollingsworth

Strategic Director for Finance

Mark Luntley

Appendices

A - Draft Budget Book