

Report of: Strategic Director Finance & Corporate Services

Title: Budget Overview (2006-7 to 2008-9)

Ward: All

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Key Decision: No

Lead Member: Cllr Hollingsworth

Scrutiny responsibility: Finance

RECOMMENDATIONS

That the Executive Board agrees to:

- Note this report and the position for General Fund, Housing Revenue Accounts and the Capital Programme
- Appoint a cross-party panel of Members to meet with Senior Management Board as a working group, to review with those Business Managers who are struggling to maintain services within their budget targets over the next three years.
- Instruct the Strategic Director Finance and Corporate Services to identify generic budget under-spends in Business Units equivalent to the gap between big spending and savings.
- Request Finance Scrutiny Committee to review high cost service areas and recommend to Executive Board any actions they consider appropriate to improve efficiency and cost effectiveness.

1.0 Summary

1.1 This is the first of three reports that inform the budget process for the three years beginning 2006-7. It is an overview report, setting out our budget position, and some of the pressures and uncertainties. The second report for the December Executive Board will set out detailed budgets, spending pressures and savings planned to meet them for each year and will be the basis for consultation.

- 1.2 The third report will include details of feedback from consultation and enable the budgets to be finalised prior to setting Council Tax in February 2006.
- 1.3 The City Council faces a long-term budget challenge. Our Government grant rises by 2% a year, and Council Tax of £10 million barely covers 10% of our gross budget. Each year this council (along with most others) has to find efficiencies to pay for wage and other inflation.
- 1.4 This report is in three parts. The first looks at General fund budgets and sets out:
- Our forecast of likely spending in the current year (based on the 2nd quarter monitoring report).
 - An update on progress towards meeting the indicative budgets set last year for 2006-7 and 2007-8 as well as an estimate of costs and income pressures in 2008-9.
 - Cost pressures identified that may affect future budgets
 - An updated position on 'big spending and savings' proposals.
 - An assessment of our recommended levels of balances and reserves.
- 1.5 The second section addresses issues to do with the Housing Revenue Account (HRA). The third part looks at the capital programme. Section 4 sets steps leading up to setting our Council Tax in early March 2006.

2.0 General Fund

Current position

- 2.1 At 1st April 2005 our general fund balances stood at £5.1 million. The Council budgeted to use £0.7 million in this year to meet some budget pressures but still leaving 2006-7 balances at sound levels. Moreover the Council has provisions of £3.3 million and earmarked reserves of £1.8 million set aside for specific purposes.
- 2.2 We have improved the quality of financial information to enable Business Managers with more accurate forecasts for their business units. This also provides a sound basis for monitoring corporate budgets.
- 2.3 Appendix 1 shows the 2nd six month spending position and a projection of spending to March 2006. This shows an under-spend for the first six months of £1.3 million. However Business Managers forecast that they will under-spend at the end of the year by £0.3 million.

- 2.4 There are overspends in some areas (most noticeably Revenues and Benefits), but our experience from is that it will require a significant spending increase in the second half of the year for the projection to prove accurate. Our experience is that Business Managers (seeking to be prudent) tend to over-estimate what they will eventually spend by the end of the year.
- 2.6 A few Business Managers report their financial picture is distorted by having not received internal bills for work completed by Oxford Building Solutions. Finance staff have not been able to quantify the effects of this in the time available and will include this in the main budget report in December.
- 2.7 Finance Scrutiny Committee considered detailed comparative cost and performance data. This indicated that Oxford City Council is a relatively high cost authority across a range of service areas when compared against other district authorities. Maintaining the policy of cash limiting budgets over a three-year period would reduce service costs per head of population, and bring them closer to the local authority average.

Three-year budgets

- 2.8 The principles that underpin our three-year budget strategy are:
- The Council has set a vision and objectives that can only be achieved if Members and Managers jointly plan over a reasonable timescale.
 - The stability provided by three-year budgets enables informed plans to be made for maintaining and using balances, avoiding last minute changes in policies. Last year's budget assumed we would draw £0.7 million from balances in 2005-6, £0.2 million in 2006-7, and then return £0.2 million to balances in 2007-8.
 - We all recognise our costs will rise by more than our resources. This is why Managers are required to plan the 3% annual savings (which also ties in with the Government's "Gershon" agenda) to pay for them. The alternative is that we run out of money.
 - In line with previous years I propose a cross party group of Members and Strategic Directors informally meet and work through selected Business Unit budgets, to make sure they are deliverable.

3% savings targets

- 2.9 Not all Business Units are the same. Several business units have significant sources of income, and are able to achieve their 3% savings target by raising income. Increases in fees and charges should only be used to meet savings targets when all other options have been discounted.

- 2.10 The 3% savings strategy has made a real difference to the Council budgets. Managers have the responsibility to deliver efficiency savings to pay for their staff wage increases. We are not at a stage where 3% approach is unrealistic, as most of our costs are comparatively high. This matches the Gershon type approach whereby we are required to demonstrate efficiencies each year.
- 2.11 We have reviewed Business Manager saving proposals for the coming three years. Many of the Managers have plans in place for all three years, and it appears the financial discipline of planning ahead, rather than leaving budget planning to the last minute, is increasingly embedded in the Council.
- 2.12 Some managers report they are struggling to identify savings in later years. Appendix 2 provides an assessment of progress in this area, based on comments by managers (with Appendix 2(a) showing the high level effect on General Fund budgets over the coming three years). One way of supporting managers struggling to deliver budgets is to target best value and benchmarking exercises in their areas.
- 2.13 The 2006-7 business unit efficiency savings appear deliverable, whilst in the two following years the probability that some cost pressures starts to escalate.

Collection fund

- 2.14 Not all costs are managed by Business Units. A few (usually larger) cost pressures¹ are traditionally dealt with corporately.
- 2.15 We have to estimate how much money we will collect in Council Tax and Business Rates. Last year we estimated we would generate a surplus on our Collection Fund. Having finished our audit of accounts we have established that the collection fund surplus was more than we had thought, and our (15%) share of that extra surplus is £85,000. We propose adding this to balances.
- 2.16 We have not yet calculated the Collection Ffund position for this year, and will report this in early December.

Interest rates

- 2.17 We generate over £2.5 million in interest on our cash balances. In the last two years we have been able to add extra money into balances because interest rates went up, and we had plenty of cash in the bank.

¹ I've defined a "pressure" as an unavoidable event which is sufficiently large so that it can't be absorbed by Business Managers in their cash limited budgets. These could not be confused with "bids" (none of which appear in this report) which are proposals to spend money. Bids may be desirable - but they are not inevitable.

- 2.18 The direction of interest rates is uncertain, but what is clear is that our cash holdings are starting to fall, as we spend money on decent homes. We estimate that, over the next three years, our investment income figure will steadily fall, probably by around £250,000 a year.

Pension issues

- 2.19 Several years back the authority reduced its workforce and put aside money to pay for the restructuring. That money was paid over five years (its shown within the Corporate and Democratic Core). These costs are now starting to fall out of our budget, and will reduce our spending in each the next three years (and probably a bit after that). In the current year our spending on this area will fall by £155,000 and I am recommending this sum is returned to balances. We have calculated there will be further savings of; £280,000 in 2006-7 and £180,000 in 2007-8.
- 2.20 The picture on pensions is further confused because the Government is consulting on the future of local government pensions. We do not know the outcome of that debate, but our pension fund actuaries have advised us that we should set aside £550,000 in the next two years to pay for pension costs. Pension costs will probably continue to rise in subsequent years also.

Benefits costs

- 2.21 We have two budgets in this area. The costs of running the service, and the difference between what we pay out in grant, and receive back from Government.
- 2.22 The Business Unit is on course to overspend its running cost budget by £200,000 in the current year². The Business Manager is both benchmarking costs and bringing forward proposals for different ways of delivering the service in order to deliver a service in budget.
- 2.23 The position in terms of local cost of benefits is more difficult to model. There are several factors involved:
- We need to process claims in good time because large overpayments will arise if errors are not picked up and corrected quickly.
 - Following a recent court case, we are seeking advice on the treatment of backdated benefit payments in respect of one major landlord.
 - Last year we just were under the “local benefit error” threshold. If we exceed this (as we did in earlier years) we lose grant.

² Finance and Overview Scrutiny have been reviewing this area.

We will have more detailed information and a budget estimate for early December. In the meantime I have included £500,000 as a prudent estimate of potential costs in this area.

Job evaluation

- 2.24 We are committed to implementing job evaluation, however discussions with unions have gone slowly. The Human Resources Business Manager advises that it will not now be possible to implement job evaluation on the 1st of April 2006, and a more likely date is 1st July. This delay will generate a one-off saving of £175,000.

Lead in budgets to investigate the big savings

- 2.25 Members set aside money for officers to investigate the big savings ideas. £20,000 was used in developing a museum strategy, but the other £150,000 has not been used. We propose returning this to balances.

Provisions and earmarked reserves

- 2.26 We set aside a £270,000 provision for VAT payments. I'm not proposing to supplement this, and it may be (once we have completed our VAT audit) that we can return this to general fund balances. Finance staff are also looking at the longstanding £572,000 Homelessness provision, in the light of recent decisions by the District Valuer. This may mean some of this sum can be returned to balances.
- 2.27 Our largest single provision is the £2.3 million provision for Housing Benefits - in respect of rent waiver payments. We will continue to press the Department of Work and Pensions for a decision on this area.

Concessionary fares

- 2.28 Last year the Council set £400,000 aside to pay for an enhanced concessionary fare scheme. This has not been used in the current year, as the Government is consulting on an updated national scheme. The Government set £350 million in England aside to pay for this.

It is not yet clear how this additional funding will be distributed.

- If the extra funding is distributed within the Revenue Support Grant (RSG) without any adjustment we would be unlikely to receive any extra money (it would only reduce the gap between our calculated entitlement and the grant we receive based on the 'floor' increase).
- If funding does not take account of previous spending (we are already relatively generous) we might also lose out.

- Officers are pressing Government to address these (and other) issues. We should know the formula is to be distributed by December 2005.
- 2.29 We are negotiating with bus companies to deliver an enhanced concessionary fare scheme at a reasonable cost. However given the considerable uncertainties above I propose that the £400,000 included in the 2006-7 budget, is retained.

Fees and charges

- 2.30 Our General Fund budget relies heavily on external income from fees and charges. We expect to generate £23 million in this way, with charges usually set at Business Unit level. This is almost as much as our £25 million net budget.
- 2.31 The risk comes from Business Units relying on fees and charges (which can go up and down) to cover their costs. Not least because its usually much harder to reduce spending at short notice.

Big spending and savings

- 2.32 A number of big sending and big saving ideas were approved and incorporated when the budgets for 2005-6 onwards were set in February 2005. The principle underlying these items was that in order to improve services in priority areas in line with the Council's vision and objectives (big spending ideas), resources would need to be found from big savings. Appendix 3 provides details of progress to date for each of these initiatives.
- 2.33 Officers progressed several areas, but some of the items require more time to develop and implement and officers have been working up alternative ways of making the savings. In 2006-7 there is likely to be a shortfall on big savings of about £540,000 (assuming all of the concessionary fare budget is needed). Putting this figure into context, £540,000 less than 1% of our gross budget. This number falls in 2007-8 and 2008-9 to £207,000, as other planned savings start to be delivered, and as some major spending areas cease.

Historic under-spends

- 2.34 The Audit Commission recommends Members take account of previous spending patterns when deciding budgets. Historically the Council has underspent its budget. The underspend is substantially greater than the difference between the 2006-7 big spending and savings.
- 2.35 I propose the Council should permanently adjust the budgets of Business Units that regularly under-spend. This would result in a more realistic budget, and one that would deliver the remaining balance

between big spending and savings in 2006-7 and subsequent years. Finance staff will identify those budgets for the December budget report.

Level of balances

- 2.36 As part of the budget setting process each year the Section 151 Officer advises the Council on appropriate minimum levels of working balances that should be maintained. This advice is given, having considered a number of factors, in line with guidance issued by CIPFA. For 2005-6 the minimum recommended level, agreed by the Council was £3 million for the General Fund.
- 2.37 We have steadily strengthened our budget monitoring systems, which would normally prompt us to be able to work with a lower level of minimum balances. However the uncertainties with major items such as pension increases, local authority benefits, concessionary fares, as well as Business Units' increasing dependence on fees and charges, creates an equally plausible case for increasing balances.

Section 2 – Housing Revenue Account

Current position

- 3.1 At 1st April 2005 working balances stood at £4.6 million. The Council planned to use the excess over its agreed minimum level of balance of £2.0 million to meet budget pressures in 2005-6, leaving balances going into 2006-7 at minimum levels.
- 3.2 Improvements in the quality of financial information produced have enabled Business Managers to provide more accurate forecasts of spending and income within their business units and provided a sound basis for monitoring corporate budgets.
- 3.3 Appendix 4 shows the 2nd quarter monitoring position and current forecast outturn for 2005-6. The monitoring statement shows an under-spend compared to the first half year budget of £0.5 million, while the forecast for the predicts that the budget will be fully spent for the year.
- 3.4 Though these figures should be treated with some caution, the first half year results are broadly in line with the pattern of recent years, displaying a generic under-spending. This suggests that overall there is scope to absorb inflationary pressures and achieve the three-year targets. This scenario is borne out by the comparative data published by the Audit Commission that showed Oxford City Council in general to be a high cost authority across a range of service areas. Maintaining the policy of cash limiting budgets over a three-year period would reduce service costs per head of population to bring them closer to the average.

3 year budgets

- 3.5 The principles that underpin the three-year budget strategy outlined above in relation to the General Fund apply equally to the HRA.
- 3.6 The 2006-7 HRA budget appears achievable. I propose the Council uses the same approach with HRA as General Fund budgets. This would mean targeting support for Business Managers facing particular budget pressures through selected best value reviews.

Level of balances

- 3.7 This year Council agreed a minimum of £2 million of HRA reserves. This figure appears a reasonable one for medium term planning.

Capital Programme

Current position

- 4.1 We will produce a detailed report for December setting out medium term capital strategy. That report will recommend realigning the capital programme to match expected resources through to 2010-11. This report therefore is restricted to reviewing the current position on the spending in 2005-6.
- 4.2 The original capital programme, approved by Council in February 2005 agreed a budget capital programme of £21.9 million for 2005-6. After finalising the 2004-5 accounts a number of incomplete schemes were rolled forward. This brought the planned capital programme for this year to £27.4 million. This might be generously described as a challenging spending target.
- 4.3 Attached at Appendix 5 is the summary half yearly monitoring report. This shows spending of £8.1 million to date (30% of the full year programme) and broadly in line with the pattern of recent years.
- 4.4 The Council has made progress in this area, commissioning external project managers for major schemes, and investing in better project planning in Oxford Building Solutions. I recommend that a capital programme of about £18 million in any year is the maximum that can currently be efficiently delivered and prudently funded. Officers are reviewing the capital programme to reschedule schemes into a deliverable profile over the coming six years.

The budget process

Drawing it all together

5.1 The aim of this report has not been to give detailed proposals but to set out the big picture. The key messages are:

- The Council has benefited from the three-year budgets and business plans, which have allowed Managers to plan ahead.
- Budget monitoring systems have and are continually improving.

However,

- The next three years see ongoing cost pressures from wage inflation and uncertainties in major areas such as pensions, local cost of benefits and concessionary fares.
- We have made substantial delivering the sums required for the major savings, but this has partly been done by using fees and charges.
- Business Units that historically under-spend should have their budgets reduced.
- The General Fund Capital Programme should be re-profiled.

Timetable

5.2 At the December meeting of Executive Board a detailed budget will be submitted including:

- Draft budget book (GF and HRA)
- Fees and charges
- Proposed savings (for next three years)
- Capital programme
- Risk assessment

5.3 We will consult on the Business Plans and Budgets throughout December and January. We will present a final draft budget in February 2006 for discussion and approval by Council.

5.4 We will set a council tax in early March 2006.

Appendices

Half year General Fund monitoring reports

Assessment of progress on 3% savings

Big spending and saving proposals (detail)

Half year HRA monitoring reports

Capital Programme

THIS REPORT HAS BEEN SEEN AND APPROVED BY:

Portfolio Holder - Cllr Alex Hollingsworth

Chief Executive - Caroline Bull

Legal and Democratic Services: Lindsay Cane

Background papers: None