

Report of: Strategic Director, Finance & Corporate Services

To: Executive Board

Date: 30th January 2006

Item No:

Title of Report: Budget 2006-07 to 2008-09



Summary and Recommendations



Purpose of report: This report provides an updated position on the budgets 2006/2007 to 2008/2009.



Key decision: Yes

Portfolio Holder: Cllr Alex Hollingsworth

Scrutiny Responsibility: Finance



Area(s) affected: All

Report Approved by:



Alex Hollingsworth

Mark Luntley, Strategic Director, Finance and Corporate Services



Isay Cane – Legal Services



Policy Framework: Requirement to set a budget



Recommendation(s):



Executive Board are asked to recommend that Council approves

- a) the General Fund budget at Appendix A
- b) the Housing Revenue Account budget at Appendix B
- c) the capital programme at Appendix C



Executive Board are recommended to:

- a) approve the Business Units referred to in paragraphs 2.14 and 3.4 for consideration at the “Star Chamber” meetings
- b) consider the recommendations arising from the consultation shown at Appendix F

c) implement the carry forward scheme in Appendix H for 2005-06.

1. Summary

1.1 This is the third of the three reports that inform our budget process for the three years beginning 2006-07 and sets out our detailed budget position for each year.

1.2 This third report in the series provides details of feedback from consultation, an update on changes that have occurred since the consultation budget was issued and a risk assessment of the deliverability of the budget.

1.3 Attached to this report are the following appendices:

- Appendix A shows a summary of the General Fund
- Appendix B shows a summary of the Housing Revenue Account
- Appendix C shows a summary of the capital programme and funding
- Appendix D shows a summary of progress on approved savings incorporated into the budget from 2005/2006 onwards
- Appendix E shows a summary assessment of the deliverability of budgets by business unit
- Appendix F shows recommendations arising from consultation meetings
- Appendix G shows a summary of underspends by Business Unit over the last 3 financial years
- Appendix H provides details of the carry forward scheme approved by Executive Board
- Appendix J shows the high-level risk register

2. General Fund

Progress since December

2.1 The budget submitted for consultation in December 2005 was prepared prior to receiving details of Government support for 2006-07. The provisional settlement is £848k higher than the 2% increase on 2005-06 that we had assumed in the consultation budget. As, for the first time, this is a two year settlement, we also have a firm budget for 2007-08, based on a 2.7% increase on 2006-07 but with a downwards adjustment due to floor damping arrangements giving a net increase of 2.28%. For 2008-09 we have assumed an annual uplift of 2%. The additional funding is included in the budget summary (Appendix A).

2.2 The provisional settlement includes funding to implement the Government's concessionary fares scheme. Officers are evaluating the full cost of the scheme but this has not yet been finalised. A further £500k per annum (in addition to the existing £400k) has been included at this stage to meet this demand.

- 2.3 The Council Tax base has been estimated for 2006-07 and the increase to the base of over 3% (as approved by Executive Board on 16th January 2006) generates £316k more Council Tax than we had assumed in the consultation budget.
- 2.4 The downward pressure on interest rates, with advice now indicating an imminent quarter percent cut in bank base rate to 4.25% and rates remaining at this level for the rest of the year, has meant that we have revised our budget for interest income for 2006-07. A cut in interest rates from 4.5% to 4.25% reduces income by £127k.
- 2.5 Taking all these items together leaves approximately £0.9 million available for recurring expenditure on service improvements in 2006-07 while retaining balances above the minimum recommended level of £3 million.
- 2.6 No account has yet been taken of the anticipated £0.5 million gain from LABGI due to be paid to us in February 2006 (the amount will not be known until later in January and as a one-off receipt should be used only for non-recurring items).

Delivery of savings

- 2.7 Within the 2005-06 budget the Council approved a number of new and additional spending initiatives that were to be funded mainly from developing ideas for savings through efficiencies and service reductions. 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 (big savings).
- 2.8 Officers progressed several areas, but some of the items require more time to develop and implement and officers have worked up alternative ways of making the savings. In 2006-7 there is likely to be a shortfall on big savings of about £535,000 This number falls in 2007-8 and 2008-9 to £182,000, as other planned savings start to be delivered, and as some major spending areas cease. One option open Members may want to consider is to stop or defer some of the big spending ideas, to match the gap between major savings and spendings.
- 2.9 Details of the big savings and spending proposals are shown in Appendix D.

Risk assessment of deliverability of budget

- 2.10 A key element underpinning the achievement of a balanced budget is that Business Managers plan ahead to fund their inflation pressures over 3 years. The budget assumes that this can be achieved. Details, by Business unit, of how these savings are planned to be made was circulated to Members in early January.

2.11 Summarising the overall position, at this stage the total level of unfunded inflation pressures is shown in the table below. The business unit budgets at Appendix A assume that these pressures will be absorbed

	2006-07	2007-08	2008-09
Total inflation pressures not funded £	180,000	266,877	550,995

2.12 Officers have reviewed Business Managers' submissions detailing how they will achieve their 3% savings for the three years of the budget. Factors taken into consideration include:

- If savings have been put forward for all 3 years
- Deliverability of proposed savings and risk of non achievement
- Size of the budget
- Dependency on income being raised to meet budget pressures
- Consistency with last year's proposals for 2006-07 and 2007-08
- Consistency with trends emerging from Quarter 3 monitoring

2.13 Each proposal has been ranked by Finance from 1 to 5 with 1 being the lowest and 5 the highest risk of non-delivery. A table setting out comments by Business Unit is shown at Appendix E.

2.14 Based on this assessment it has been recommended that the following Business Units attend a special budget meeting with a cross party working group of members who will review these budgets in depth and consider the robustness of plans:

- Leisure & Culture
- City Works
- Neighbourhood Renewal
- Revenues & Benefits (although Finance Scrutiny have considered this BU in depth it is still a high risk budget)

3 Housing Revenue Account

Progress since December

3.1 The budget submitted for consultation in December 2005 was prepared prior to receiving details of the final Housing Subsidy determination for 2006-07. The determination has resulted in an additional net cost to the HRA of £370k compared to that assumed in the consultation budget.

3.2 Unlike the revenue support grant settlement, the housing subsidy covers one year only and we have assumed that this lower entitlement continues into the future in the absence of any evidence to the contrary. The reduced funding is included in the budget summary (Appendix B).

Risk assessment of deliverability of budget

3.3A similar assessment has been made of the deliverability of budgets for those business units engaged principally in housing revenue account activity, namely Housing Services and OBS.

3.4 Using the same criteria as for the General Fund it has been recommended that OBS attend the special budget meeting referred to in paragraph 2.14 above.

4 Capital programme and funding

Progress since December

4.1 The budget submitted for consultation in December 2005 was based on a capital strategy that recognised that in order to achieve a balance between spending and the expected level of resources the programme would need to be re-scheduled.

4.2 This required some schemes previously included within 2005-06 and 2006-07 programmes to be re-scheduled to later years to reflect the more appropriate timescale for realising resources and the Council's capacity to manage and deliver its capital programme.

4.3 Failure to re-schedule spending could lead to the Council incurring expenditure before capital resources were available, resulting in these costs having to met directly from revenue accounts in the year they were incurred.

4.4 The Housing subsidy determination referred to in paragraph 3.1 above also impacts on the resources available to fund the HRA capital programme. The updated funding statement and programme summary at shown at Appendix C.

Risk assessment of deliverability of budget

4.5 The Council's failure to achieve its budgeted capital programme has been the subject of criticism from the District Auditor consistently for a number of years.

4.6 Through the Capital Monitoring Group, made up of representatives from all business units responsible for schemes within the programme, a reassessment of the likely spend in the current and future years has been made and this now provides a sound basis for achieving the Auditor's target of less than 5% variation between budget and actual capital spend in any year.

4.7 However Members should be aware that for 2005/2006 the 5% variation will be exceeded because the approved capital budget for the year was

originally set at over £23m. Incomplete schemes that were carried forward from 2004/2005 increased this total to £27m at the start of the year and although this has now been revised downwards **our** performance will be judged against our original plan.

4.8 There are two longer-term fundamental issues with any capital programme must address.

- Long-term sustainability. We need to be able to afford to pay for schemes not just now - but into the medium term. The recent report on maintenance backlogs set out how these could, over time, be reduced. However the city continues to hold substantial assets, some of which need repairs, and it has ambitious capital programme aspirations - but constrained resources.
- Long-term matching of disposals to the life of assets created. This means that when we sell an asset, we should ideally use the receipt to fund an asset of equivalent life.

5 Consultation

5.1 Following the approval by Executive Board in December the indicative budget has been considered at Scrutiny and Area Committee meetings. Recommendations arising from that process are at Appendix F.

6 Corporate Risk

- 6.1 Failure to deliver services within budget is a key risk for which the Council must ensure that effective mitigating controls are in place. The budget setting process must ensure that estimates of income and expenditure are robust.
- 6.2 One of the factors that will contribute towards the Use of Resources assessment that the District Auditor is currently making is the evidence the Council is able to provide to demonstrate that its budgets are realistic and deliverable and in accordance with its overall vision and corporate objectives.
- 6.3 In view of the past criticism from the District Auditor of the failure to achieve the budgeted capital programme in recent years and the potential shortfall of capital resources in the future it is essential that the Council's budgets in these areas are particularly robust.
- 6.4 The Council Audit Committee agreed a corporate risk register that set out a series of high-level risks. Members may wish to refer to this when considering if there are potential areas that require funding (Appendix J).

7 Other matters

7.1 Appendix G provides information for Members comparing revenue spending by Business Unit against original budget in each of the last three financial years.

7.2 Appendix H provides details of the carry forward scheme.

8 Recommendations

Executive Board are asked to recommend that Council approves:

- a) the General Fund budget at Appendix A
- b) the Housing Revenue Account budget at Appendix B
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Executive Board are recommended to:

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Background papers: None

