

Report of: Strategic Director, Finance and Corporate Services

To: Executive Board

Date: 6 November 2006

Item No:

**Title of Report : Budget overview and Medium Term Financial Strategy
2007-08 to 2011-12**



Summary and Recommendations



Purpose of report:

- a) To set out the 2007-08 budget process following the World Class Financial Management review
- b) To introduce the Medium Term Financial Strategy setting out the Council's key financial policies
- c) To report progress with the 2007-08 budget process, identifying pressures and uncertainties

Key decision: Yes



Portfolio Holder: Councillor Stephen Tall, Better Finances

Scrutiny Responsibility: Finance

Ward(s) affected: All

Report Approved by: Jeremy Thomas - Legal and Democratic Services
Stephen Tall – Portfolio Holder



Policy Framework: Financial Stability



Recommendation(s): That Executive Board:

- a. Agrees the budget process and rules set out in section 13 of the MTFS
- b. Approves the Policy space for the General Fund and HRA as set out in paragraph 6
- c. Notes the size of budget challenge as set out paragraphs 9 to 23.
- d. Approves the Special Scrutiny budget reviews.
- e. Notes the Treasury Management Strategy (Appendix E of the MTFS).
- f. Notes the minimum level of balances (in Section 9 of the MTFS)



Version number: 2.0
Date 26 October 2006

Introduction

1. This is the first of three reports that inform the budget process for 2007-08. It is an overview report, setting out our budget position, and some of the pressures and uncertainties. The budget process is underpinned by the Medium Term Financial Strategy. (MTFS)
2. The second report for the December Executive Board will set out detailed budgets and savings plans and will be the basis for consultation.
3. The third report will include feedback from consultation and enable the budgets to be finalised prior to setting Council Tax in February 2007.

Budget definitions and proposed ground rules

4. Following the World -class financial management review of the budget process, in September 2006 Executive Board agreed significant changes in the way we manage our budgets. The main changes are summarised in the MTFS, and include setting out clear rules for managing the budget process. These rules are set out in Section 13 of the MTFS.

Policy Space

5. The policy space is a specific sum set aside in each of the General Fund and HRA budgets to provide funding for the developments which can demonstrate significant contribution to the Council's priorities.
6. For the General Fund, a Policy Space of £500,000 is proposed. This equates to just under 1% of controllable (Business Unit) expenditure and forms part of the savings target for Directorates.
7. The HRA has not included a Policy Space in budget calculations for 2007-08. Many initiatives approved in the 2006-07 budget are being implemented over more than one year, supporting recommendations from the Housing Inspection. The need to use revenue surpluses as part of funding capital expenditure for the Decent Homes programme may restrict the ability of the HRA to include a policy space.

The budget challenge

8. The MTFS sets out projected resources and expenditure for the next five years, based on key assumptions for inflation and funding.

General Fund

9. In order to effectively manage the overall financial position of the General Fund the need to spend must first be matched against the forecast availability of funding to determine affordability. The excess over funding availability will identify the amount by which the overall spending base must be reduced.
10. The savings target for 2007-08 is set out in the following table:

Calculation of 2007/08 Savings Requirement

		(£000's)	(£000's)
	SPEND Inflated Committee Base		28,457
Add	NEW REQUIREMENTS		
	Unavoidable costs	414	
	Priority Policy Fund	500	
			<u>914</u>
			29,371
Less	AFFORDABILITY		
	Use of Balances	313	
	Council Tax	10,845	
	Total External Support	<u>16,022</u>	<u>27,180</u>
	Need to reduce overall base by:-		<u>2,191</u>

11. Key inflation assumptions are set out in Appendix G of the MTFS.
12. This saving is allocated to Directorates on the basis of controllable cost and represents a target saving of 3.5% of controllable cost. Details of the calculation of individual Directorate targets are shown in Appendix K of the MTFS.
13. Unavoidable Costs

As defined in section 13 of the MTFS, "unavoidable costs" are added to the corporate savings target. For 2007-08 there are two areas of expenditure which have been identified:

- Office accommodation savings £250,000 – a savings target was set in previous budgets but the timing of potential developments impacting on St Aldates' chambers means that this has not yet been realised. This is treated as a corporate cost pressure.

- Community Housing cost of temporary accommodation £164k – due to the success of the Home Choice scheme and other preventative work, which has led to a significant reduction in the number of homeless households, there is a short term additional cost until lease notice periods expire or can be renegotiated.
14. The base budget for 2007-08 included a range of savings initiatives. The deliverability of these savings is managed at Directorate level. Similarly, pressures occurring in individual Business Unit budgets will be managed at a Directorate level.
 15. The three year budget for 2006-09 included the use of balances in 2007-08 as shown above. This requires that 2006-07 budgets are met in order to maintain balances above the minimum level set. When half year forecasts for 2006-07 have been reviewed it could be necessary to review the savings target for 2007-08 upwards should an overall overspend be forecast. A robust risk assessment of forecasts will be undertaken before arriving at such a conclusion.
 16. HRA
At 1st April 2006 working balances stood at £2.8 million. Use of balances of £340,000 was approved for carryforwards. The minimum recommended level of balances is £2m, and balances above this are earmarked to fund capital spending.
 17. To date the HRA budget has been considered at an HRA budget day on October 16th attended by managers, tenant representatives and the portfolio holder for Improving Housing.
 18. The table below shows the HRA deficit for 2007-08 and how this has arisen

Calculation of 2007/08 Savings Requirement

		(£000's)	(£000's)
	SPEND		
	Base		(1,266)
	Inflation	1,100	
add	NEW REQUIREMENTS		
	Unavoidable costs	300	
	Policy Space	0	
			<u>1,400</u>
			<u>1,400</u>
	Need to reduce overall base by:-		<u>1,400</u>

19. The HRA approved budget for 2007-8 showed a surplus of £1,250,000 for funding capital expenditure. In order to maintain this contribution savings of £1.4m need to be found in the revenue budget.
20. The key assumptions behind the budget are detailed in Appendix G of the MTFS.
21. Expenditure has increased from previous forecasts as follows
 - Income reduction of £340,000
Service charge income was overstated in previous budgets. Increases in Service charge are restricted by the government maximum increase of 5%. The restrictive increase applies to both service charge and rent combined. This was not fully understood in the last budget round but has been fully allowed for here. The income loss is also picked up as a problem in the 2nd Quarter monitoring.
 - Southfield Park £112,000
The flats at Southfield park are built on leased land. The landlord has indicated a rent increase of £112,000 pa from 2004/5. The authority is challenging this and a provision has been made in the accounts for prior years.
 - Housing Subsidy & Income £130,000 extra income
The reforecast of housing subsidy and interest income results in a net increase of £130,000. This is a very draft figure as the draft housing subsidy determination has not yet been issued.
22. If sufficient savings cannot be found, one option is that the HRA may consider reducing the £1,250,000 planned contribution to capital.

Next Steps in the Budget Process

23. Directorates are working on savings initiatives to meet their share of the overall savings target.
24. Key next steps in the budget process are:
 - Special Scrutiny review meetings for General Fund budgets by Directorate, and for the HRA in early November.
 - Executive Board considers the consultation budget on 4th December 2006, and an updated MTFS
 - Final budget and MTFS approved by Council in February 2007

Treasury Management Strategy

25. This strategy is reviewed annually and presented for approval as part of the budget process. It is set out in Appendix E of the MTFS.
26. Executive Board is recommended to note the Treasury Management Strategy which will form part of the budget to be approved in February 2007.

Minimum Level of Balances

27. Recommendations for the minimum level of balances are set out in Section 9 of the MTFS
28. Executive Board is recommended to approve the minimum level of balances which will form part of the budget to be approved in February 2007.

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Background papers: None

