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CITY
COUNCIL

Report of: Heads of Financial & Asset Management

To: Executive Board

Date: 7th January 2008 **Item No: 11**

Title of Report : Budget 2008-09

Summary and Recommendations

Purpose of report: To update the Executive Board on progress with the development of the 2008-09 revenue budget, and to present the capital budget for approval

Key decision: Yes

Portfolio Holder: Councillor Jim Campbell

Scrutiny Responsibility: Finance

Ward(s) affected: All

Report Approved by:
Councillor Jim Campbell
Councillor John Goddard

Policy Framework: Financial Stability

Recommendation(s): That the Executive Board

a) Notes the report and instructs officers to bring the proposed 2008-09 revenue budget with options back to Executive Board on 28th January

b) Approves a capital programme for consultation

Version number: Final
20/12/07

Summary

1. This is the second of three budget reports. The first report presented in October gave the Council's best estimate of prospects for 2008-09. Since then some of the uncertainties described in that report have been resolved. This report considers the changes since October, in particular the impact of central government funding announced on the 6th December. The next step will be for the Chief Executive and Heads of Finance to meet with each political group individually and then to co-ordinate a meeting of the cross party group, in order to present budget proposals to Executive Board on 28th January before recommendations are made to Full Council on 18 February.

2. In October General Fund savings of £5.2m were identified as necessary to balance the budget. The revised savings target is now £3.7m following announcements on grant and further work on budget assumptions. The corporate team has now identified savings to meet this target in 2008-09. The HRA budget proposals meet its raised savings target.

3. Attached to this report are appendices listing:
   - Appendix 1 General Fund and HRA balances projection
   - Appendix 2 Capital Programme and funding

Section A General Fund Revenue Budget

Progress since October 2007

4. Savings proposals have been extensively reviewed both by officer groups and the special scrutiny Budget Risk Assessment Group (BRAG) meetings. Proposals not considered sufficiently robust have been removed and new savings measures have been identified.

5. Savings now total £3.7m and with the other changes described below, combine to balance the budget for 2008-09. There is a budget gap of £1.3m in 2009-10 and £2.5m in 2010-11. Ultimately all three years of the budget must be in balance before recurring budget growth can be considered to meet the Council's priorities.

6. The Council's net Budget is £28.5 and the savings of £3.7 m required in 2008-09 are on top of £4.4m in 2007-08. In total £8.1m will have been saved over 2 years representing 28% of the net budget.

7. Revenue Support Grant
   On 6th December 2007, the Department of Communities and Local Government announced the provisional settlement for formula grant. This covers the three years starting in 2008-09. The levels of overall increase awarded to Oxford were 2.15% for 2008-09, 1.25% for 2009-10 and 1.18% for 2010-11. Although in line with our assumptions for 2008-09, the award is considerably less than our assumed 2% uplift for years 2 and 3. The LGA has stated that CRS07 is one of the worst settlements for local government.

8. Concessionary Fares
The special grant for Concessionary Fares for the national scheme was also announced on 6th December 2007. From 1st April 2008 the Concessionary Fare scheme is to be extended to cover national travel. This means that Oxford City Council will have to reimburse the bus companies for journeys from pass holders from any authority using a bus service that starts within Oxford City to anywhere in the country (the scheme excludes cross country coach travel). The final costs of such a scheme will not be known until it has been in operation for several months and data has been returned, but the Council has taken advice on the matter in estimating costs for the budget. One local factor of particular concern is the Park & Ride services where Oxford will be paying for all concessionary journeys out of Oxford, and a user survey is under way to assess potential uptake.

9. Having consulted on a range of options for reimbursement, DfT have announced the award of a grant based on a variant of Option 4. This was the least favourable for Oxford, amounting to just over £0.8m per annum, some £0.5m less than alternative options could have awarded.

10. Pensions
The results of the triennial review of the County pension scheme have been confirmed. Against an average increase of 2.2%, employers' contributions will increase by 2.0% for Oxford City Council. This sum can be covered within budgets already in place.

11. Westgate
The budget presented on 8th October included a provision to cover an income shortfall when the Westgate car park transfers to Capital Shopping Centres for redevelopment. Renegotiation of the Heads of Terms for the transfer, on the basis approved by Executive Board on 26th November 2007, has resolved this situation including securing the increased income level from the tariff increase approved by Executive Board in November.

12. Investment Income
Interest income forecasts have been reviewed taking account of projected cash flow and interest rates, and this allows us to increase the budget by £400k in 2008-09.

13. Commercial Property Income
Officers will seek to optimise income from lease renewals and rent reviews. A prudent estimate is included in the budget for the Covered Market rent review. The results of the first arbitration cases should be known in January which can then be factored into budget setting.

14. Council Tax
The Council Tax base has been reviewed and proposals for the 2008-09 taxbase are also on the agenda for approval at this Executive Board. A combination of reduced new property additions to the base, higher exemptions (up 8.5% year on year) and the impact of 325

successful banding appeals means that no growth for the taxbase is forecast for 2008-09, compared with 1.83% growth previously assumed. Within 2007-08 these effects lead to a one-off Collection Fund deficit, which will need to be met through some of the one off "windfall" funding received in-year. For 2008-09, this has had the impact of reducing the expected yield from Council Tax by £204k. For later years growth in the taxbase of 1% per annum has been projected. The cumulative impact of slower taxbase growth is that the yield is £416k lower by 2010-11.

15. Overall Position
Since many of the significant budget uncertainties have now been settled, the provision of £626k has been reduced to £290k. This represents 50% of those savings still rated as high risk as a mitigation against the risks of non-delivery.

16. A table was included in the October report to Executive Board summarising how the savings target had been drawn up. An equivalent analysis is shown in the table below, showing the latest position:

Summary of movements from 2007-08 budget to 2008-09 and progress since October

Line		**Oct 07 £k**	**Jan 08 £k**
1	Inflation (pay 3.5%, other costs 3%, less income increases)	1,572	1,572
2	Council Tax increase and RSG (both 2%)	(747)	(566)
3	Movements in budget base and interest income	(169)	(630)
4	Add back use of balances in 2007-08 budget	1,514	1,514
5	**Subtotal**	**2,170**	**1,890**
6	**Policy decisions and Corporate items**		
7	Reduce Local cost of Benefits to 0	(200)	(200)
8	Charge General Fund with share of iWorld costs	157	157
9	Westgate Car Park	347	0
10	Revenue Contribution to Maintenance Backlog	900	200
11	Budget contingency	626	290
12	Concessionary Fares	0	(300)
13	Land charges pressure		130
14	OX1 Bid (levy)		14

15	Leisure review of base budget		222
16	**First budget savings target**	**4,000**	**2,403**
17	Add turnover savings now included as part of headcount reduction	620	620
18	Add savings included in 2007-08 plan for 2008-09 to ensure included in 2008-09 savings totals	640	640
19	**Revised savings target for Directorates**	**5,260**	**3,663**
20	Savings identified (net of original pressures) Oct 07	3,107	3,107
21	Savings removed as a result of scrutiny and management review		(626)
22	Savings modified		42
23	New savings (paragraph 17)		1,140

17. Pressures
Additional corporate pressures totalling £366k (lines 13 to 15) have been identified as shown in the above table. A comprehensive review of Leisure income, staff and repairs budgets led to adjustments of £137k to ensure that the budget base reflected core assumptions on income and expenditure. Reviews of the potential impacts of the closure of the Peers facility led to the saving included in the base budget from 2007-08 proposals being reduced by £85k. New regulations for Land Charges, and the impact of lower income, for example following the introduction of the Home Improvement Packs, has also identified a pressure of £130k. The cost of the Council's levy to support the OX1 Business Improvement District proposal is also included.

18. New Savings
Having reviewed the outcomes from the BRAG process, options to replace savings were considered. The new savings arise principally from the outcomes of the senior management restructure, initial structure reviews from newly appointed Heads of Service and identification of savings to meet the corporate headcount reduction targets for all services. Community Housing carried out a comprehensive review of service income and costs and propose additional savings of £274k. These new savings arise from efficiency proposals and are not dependent on policy change.

19. Risks
A material risk to the budget is uncertainty around the ultimate cost of implementing single status. Although budget provision has made, until pay modelling has been completed and negotiations concluded, final costs will not be known. The national concessionary fares scheme also

imposes costs on the Council the full extent of which will not be known until the scheme is operational and usage data is available.

21. Other risks remain around the deliverability of the savings and the general uncertainty of the economy. The Council relies heavily on Car Parking Income, Leisure Income, and Planning Fees all of which could reduce if the economy does take a downward turn. Other specific risks are the risk of further flooding and the need for urgent maintenance work on our buildings.

22. Balances
Projected balances reported at the half year showed that General fund balances will be just above £3 million (the minimum level) at 31st March 2008 (as attached at Appendix 1). The Section 151 Officer's report recommending the minimum level of balances will be included with the budget report to Executive Board on 28th January 2008.

23. For 2007-08, officers have been tasked with delivering to budget and October monitoring showed that the half year projected overspend of £975k had been reduced to £50k. There had been one-off income such as additional LABGI for 2006 and net prior year adjustments on Housing Benefit Subsidy claims identified to balance the overspend reported in September.

24. In addition to this the Council has a £1.1m provision set aside for the impact of the triennial pensions review. The latest figures from the actuary suggest that this provision is not required. The one-off money will be earmarked for covering risks and to cover the severance costs of the workforce targets and senior management restructure in the current year (rather than spreading the costs over 3 years as had been originally assumed).

25. It is anticipated that approximately £200k can be released for one-off initiatives in 2008-09. There is no funding identified for ongoing new initiatives.

26. In arriving at a balanced budget for 2008-09 no draw from or contribution to balances is assumed for the year.

27. **Three year perspective**
Each year the effects of inflation mean that there is a savings gap. Proposals so far identified have largely focussed on what can be delivered from 2008-09 onwards and savings of £1.3 million in 2009-10 and £2.5 million in 2010-11 remain to be secured.

28. In line with government efficiency (Gershon) targets to deliver 3% cashable savings each year, further efficiencies will be sought through process review, workforce reduction, active asset management, shared services and procurement initiatives.

29. A Council Tax increase of 2% per annum has been included in these budget proposals. The following table summarises the three year position and indicates the yield from a range of Council Tax increases:

General Fund Three Year Budget 2008-09 to 2010-11

	2008-09 £'000	2009-10 £'000	2010-11 £'000
Total Business Unit budget from 2007-08			
(adding back turnover)	32,879	33,947	35,502
Changes to base	(498)	(62)	
Updated base	32,381	33,885	35,502
Inflation	1,566	1,617	1,670
Inflated net spending	33,947	35,502	37,172
Policy changes and Corporate pressures			
Revenue contribution to maintenance backlo	200	400	400
Headroom for risks	290	695	683
Contribution to HRA for iWorld	157	157	157
Concessionary fares	(300)	(300)	(300)
New pressures Dec 07	366	366	366
Westgate agreement	-	-	-
Rent review St Aldates Chambers		225	225
Revised net spending	34,660	37,045	38,703
Corporate Accounts			
Capital charges and SLAs	1,324	1,414	1,479
less: Asset Management Revenue Account	(1,228)	(1,233)	(1,236)
less: Transfer to capital reserve	(3,197)	(3,197)	(3,197)
Local Cost of Benefits	-	-	-
Investment Income	(2,315)	(1,950)	(1,800)
Interest Payable	1,378	1,373	1,373
Pensions increase	567	567	567
	31,189	34,019	35,889
less: 2008-09 budget proposals	**(3,663)**	**(4,676)**	**(4,741)**
Remaining savings target	**-**	**(1,276)**	**(2,538)**
Total Net Spending Requirement	27,526	28,067	28,610
less: External Support	(16,366)	(16,570)	(16,766)
less: Income from Council Tax	(11,159)	(11,496)	(11,844)
Contribution (to)/from balances	0	0	(0)

Remaining savings target	**-**	**1,276**	**2,538**
Additional planned efficiencies, workforce reductions, procurement etc		500	1,000
Balance to find		**776**	**1,538**

Yield from options to increase Council Tax beyond 2%			
3%	109	226	352
4%	219	455	710
4.99%	327	684	1,072

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Section B The 2008-09 Housing Revenue Account budget

30. Since the previous consultation budget there have been two significant developments. The draft subsidy determination has been issued and a repairs contract has not been renewed.

31. Subsidy
The main changes to the budget are as a result of the draft subsidy determination. This has had a severely detrimental effect on the finances and will require further savings if the £830k surplus, which contributes towards decent homes funding is to be maintained.

32. The draft determination was delayed and the final one will not be issued until mid January 2008.

33. Following consultation by the Department for Communities and Local Government (DCLG), the methodology for setting Subsidy and calculating rents has returned to the system of two years ago, though for the purpose of calculating the rent an authority charges and the amount the government thinks the rent should be (the guideline and target rents) the date for rent convergence has been extended from 2011/2012 to 2016/17.

34. The increase in Guideline rent was higher than anticipated and management and maintenance allowances were lower. Both of these have a negative effect on subsidy.

35. Under the system that has operated for the past two years Council's rents have been restricted to 5% increases and the effect of this has been reimbursed in the year the restriction occurs. In the draft determination this reimbursement is not being paid in 2008/09. In our response to the draft determination we will be pressing strongly for this to be changed, but for budget purposes we have assumed that it will be paid in the following year, which would be in line with the previous system.

36. The effect on the budget is an additional subsidy payment of £1.88m. Of this £0.62m is ongoing and £1.26m is assumed to be reimbursed in 2009/10.

37. The DCLG are exploring a wider reform of the subsidy system and have not set the subsidy formulae beyond 2008/09, making budget planning even in the short term difficult.

38. **Bridging the Gap**
Savings need to be identified for the one-off £1.26m and the ongoing £0.62m shortfall

39. One-off Savings

	£k
Refund of Subsidy 2006/07 following audit	437
Pension Provision. The increase in pension contributions will be from 1 April 2008, so provision not required	394
Additional asset disposal / underspend in 2007/08	429
Total	1,260

40. On-going Savings

	£k
Rental Income	166
Housing Improvement Budget	191
Contingency	40
Furnished Tenancy	70
SLAs	100
Unidentified	50
Total	617

41. **Future Years**
For future years the subsidy forecast is based on an average of a worst case scenario and a best case scenario. (The worst case assumes the same increase for management and maintenance allowances as 2008/09 of 2.8% the best case would give 5% increases in these allowances).

42. The result for 2009/10 would mean a savings target of £0.38m and in 2010/11 a further £1.22m. (The worst case scenario would mean additional savings of £0.14m in 2009/10 and £0.29m in 2010/11, the best case would reduce the savings by £0.14 and £0.29 respectively). The savings target in 2010/11 would represent a serious challenge if the contribution from revenue to capital funding is to be maintained.

43. **Rent Increases**
For the past two years the rent increases have been restricted to 5%. For 2008/09 the rent convergence formula is used, although the date for convergence has been extended to 2016-17 from 2011-12.

44. Following this formula (RPI + 0.5% + £2 per week) and applying the caps and limit levels would give an average rent increase in 2008/09 of 6.25%, although individual rent increases range from 3.8% to 10.4%.

45. **Repairs Contract**
OCH failed narrowly to be awarded a repairs contract, which will finish at the end of March 2008. It is expected that the workforce affected can be reallocated to work currently being undertaken by external contractors, mainly relating to decent homes capital works. The contribution from capital works will replace the contribution from the contract and therefore will not affect the budget. Detailed budget lines have not yet been adjusted to reflect this change.

Section C Capital

46. The proposed capital programmes for the next few years for both the General Fund and the HRA are shown at Appendix 2. .

General Fund

47. The General Fund programme continues to focus limited resources on private housing grants and investment in Council assets. The Capital programme has declined over recent years and the 3 year summary shows this continuing with a capital programme of £7m in 2008-09.

48. The area committee, developer contribution and building improvement projects are summarised. Area Committee schemes are approved by Area Committees whilst Developer contributions and building improvements are the subject of separate reports to Executive Board.

49. The key aims of the Council supported by the Capital Programme are to review and enhance the Leisure facilities and to reduce the Repairs & Maintenance Backlog.

50. The officer Leisure Board are working through options for the facilities. The capital programme shows £900k earmarked for Leisure in the next 2 years in order to keep facilities operational whilst the review is carried out. This is equivalent to the sum included in last year's budget for Temple Cowley Pool and the Ice Rink. The officer review of assets will provide an updated position on essential repair work in January.

51. As part of moving towards a sustainable financial position, the Capital programme is moving towards a reduced dependency on capital receipts and is pursuing the use of prudential borrowing. Borrowing has been used successfully to fund vehicles used in waste and recycling. The revenue budget sets aside £200k per annum for reducing the repairs and maintenance backlog in 2008-09 rising to £400k in 2009-10 and 2010-11. These sums could be used to prudentially borrow approximately £1m upfront for investment in buildings if required, as well as funding some of the revenue repairs. The manager responsible for Repairs and Maintenance is currently reviewing this option. Against a rising maintenance backlog of circa £9.5m, the Capital programme allocates £1.4m to tackle the repairs backlog in Community Centre, £0.9m for Leisure facilities and £0.9m per annum for other properties. The current, ongoing Asset management review will determine which buildings the Council should maintain and this will drive the maintenance programme. Prudential borrowing could also be used to

fund the continuing requirement to invest in IT infrastructure of £500k per annum, and to fund the proposed food waste pilot and full scheme.

52. The key changes from the capital programme approved in February 2007 are the reprofiling of schemes and the addition of the revenue contribution of £200k (rising to £400k) per annum for Repairs and Maintenance. Estimates of Developer contribution schemes are included for Years 2 and 3.

53. There has been a review of the likely capital receipts. Included in the receipts forecast are those receipts identified as receipt and date certain and receipt probable, date uncertain. The forecast does not include "longshot" receipts. Receipts forecast therefore total £5 million for 2008-09 and 2009-10. The Council proposes a move to a strategy of banking the receipts and using them either to purchase strategic sites or to invest to earn interest.

54. Investing the receipts will earn interest of circa 5% per annum. If the Council invests £1m of capital receipts, this will contribute £150k to the revenue funding gap over the 3 years. The first call on this additional investment income will need to be in balancing the General Fund revenue budget. Once this is achieved then sums can be set aside to fund Prudential Borrowing to enable priority capital schemes to proceed.

55. As capital schemes cannot proceed until funded, the Capital Programme will need to be prioritised during the Budget setting process. Schemes will need to sit on a waiting list pending the go-ahead from the Head of Finance.

56. **Housing Revenue Account**
The main focus of the capital programme is still to meet the decent homes standard by December 2010. Members have recently approved the HRA Stock Decent Homes Strategy. This gives direction for maintaining a viable housing stock for the immediate, medium and long term future. This decision and recent disposal approvals, for example the Union Street sub station, means the funding shortfall in 2010-11 has reduced to £1.2m.

57. For the sheltered schemes this involves selling four properties and using the proceeds towards funding decent homes and re-modelling works on the remaining blocks. For the tower blocks all five blocks will be brought up to decent homes standard by 31 December 2010 and other essential works will be undertaken. The structural works have been removed from the capital programme and a specialist consultant will be used to appraise longer term options. This will include producing a report setting out a timescale and financial profile. The Council owns a number of 'Non-traditional' properties that have known defects. They are currently being assessed, the result of which will determine their longer-term future.

58 The summary appendix includes member decisions on the future of the sheltered schemes and the programme will be updated as decisions are made next year on the tower blocks and 'non-traditional' properties.

59. Funding the HRA capital programme, most of which relates to decent homes, is dependent upon a number of sources of finance. This includes revenue contributions, asset disposal (capital receipts) and major repairs allowance.

60. Part of the shortfall in the revenue budget for 2008-09, following the draft subsidy determination may need to be met from additional capital receipts. If enough funding is not raised from capital receipts to fund the overall capital shortfall, the HRA may need to look at prudential borrowing, the repayments of which could mean reducing service provision.

61. **Timetable and next steps**

This report will be referred to Scrutiny for consultation on the Capital budget. A final budget report considering all responses from consultation will come back to Executive Board on January 28th 2008.

Name and contact details of author:

Sarah Fogden/Penny Gardner
Financial & Asset Management Business Managers
Telephone: (01865) 252708
sfogden@oxford.gov.uk or pgardner@oxford.gov.uk

Background papers: None

General Fund and HRA Projected Balances - March 2008

2006-07	General Fund	HRA
Balances as at 31 March 2007	**(4,711,807)**	**(3,968,768)**
Approved carryforwards	26,296	685,662
Available balances at 1 April 2007	**(4,685,511)**	**(3,283,106)**
Balances used/(returned to balances) in 2007/08 budget	1,514,471	(934,000)
Direct Revenue Funding of capital spending		934,000
Forecast variances as at September 2007		(192,392)
Flooding - estimated cost falling on the authority, after Bellwin grant reimbursement	77,000	
Supplementary Estimate - Cowley Community Centre (EB 14.09.07 and Council 03.09.07)	56,407	
Projected balances at 31 March 2008	**(3,037,633)**	**(3,475,498)**
Recommended minimum level of balances	(3,000,000)	(2,000,000)

Appendix 2

Capital Programme - General Fund

£'000s

	2008/9 Budget	2009/10 Budget	2010/2011 Budget
MT Vehicles/Plant Replacement Prog.	1,852	1,340	1,447
Funded by Supported Borrowing	(1,852)	(1,340)	(1,447)
Developer Contribution projects	2,662	3,100	14
Funded by Developer Contribution	(2,662)	(3,100)	(14)
Private Housing Grants Expenditure	800	800	800
Funded from Govt Grant	(320)	(320)	(320)
Private Housing Grants - Oxford City Contribu	480	480	480
Area Committee Projects	200	200	250
Loft insulation - means tested scheme	100		
Community Centres	250	575	575
New Christmas Lights	43		
Cowley Centre Local Council Office	40		
Provisions for Orlit Redevelopment (note 1)	500		
Warren Crescent	375		
Jericho community centre (OCC contribution)			100
Leisure Centre Improvement (note 2)	300	600	
Building Improvements (note 3)	590	900	900
Total	2,878	2,755	2,305
Funded by Revenue contributions	200	400	400
To be funded by Oxford City Council	**2,678**	**2,355**	**1,905**
Balance of Capital Receipts b/fwd	**2,200**		
Funding Gap each year	**- 478**	**- 2,355**	**- 1,905**
Total General Fund Capital Expenditure	7,712	7,515	4,086

If future capital reeipts are not used to support the capital programme then Prudential Borrowing must be used and funded within the General Fund Revenue

Oxford City Homes

Capital Programme & Funding Summary

	2007/08	2008/09	2009/10	2010/11
	£000's	**£000's**	**£000's**	**£000's**
Capital Spend Requirement				
Decent Homes	8,132	9,228	7,137	6,614
Other-Disabled Adaptations	500	500	500	500
Sheltered-Decency and remodelling	1,268	4,057	3,556	3,236
Tower Blocks-Decency and other essential works		2,750	2,750	2,754
Other-Mascall Avenue	1,400	1,778		
Inflation @ 3% per year		328	609	900
Shops/100 acres		150	150	200
Funds Required	11,300	18,791	14,702	14,204
Funds Available				
Supported Borrowing	546	546	546	
MRA	5,190	4,900	4,850	4,800
RCCO's	2,224	830	830	830
Capital Receipts				
- Right To Buy's	300	300	300	300
- Other - Actual/Contracted	7,102	5,783	0	0
- Other - Approved	4,749	1,988	4,268	3,405
	20,112	14,347	10,794	9,335
Funding Surplus / (Shortfall) per year	8,812	(4,444)	(3,908)	(4,869)
Cumulative	12,021	7,577	3,669	(1,200)