

Report of: Heads of Finance

To: City Executive Board

Date: 26th November 2008

Item No:

**Title of Report : Second Quarter Revenue and Capital Budget
Monitoring 2008-09**

Summary and Recommendations

Purpose of report: To provide Members with information on the Council's overall financial position as at the 30th September 2008 and the latest forecast full year financial position for 2008-09.

Key decision: No

Board Member: Councillor Ed Turner

Scrutiny Responsibility: Value & Performance Scrutiny Committee

Ward(s) affected: All

Report Approved by: Lindsay Cane. Legal & Democratic Services

Policy Framework: Financial Stability

Recommendation(s): That City Executive Board notes the overall financial position, and recommends to Council to approve the budget changes referred to in paragraphs 11 and 16.

Introduction

1. This report reviews the position at the second quarter for the General Fund, Housing Revenue Account (HRA) and Capital Programme.
2. Key financial information is attached in the following appendices:

Appendix
 1. General Fund revenue monitoring summary 2008-09 at 30 September 2008
 2. HRA revenue monitoring summary 2008-09 at 30 September 2008

3. General Fund and HRA Savings Summary at 30 September 2008
4. Capital programme summary 2008-09 at 30 September 2008
5. Projected balances – General Fund and HRA

General Fund Revenue Monitoring

3. The economic downturn is now having a material impact on the achievement of income targets. This is reflected in several year end forecasts, notably Leisure (£300k) and City Development (£250k) – tourism, planning and building control. In City Works car park income is falling, although this has not yet been included in forecasts.
4. Utility costs are also set to rise, with new contracts in place for electricity from November 2008 and for gas from February 2009. The price from the main electricity supplier is set to rise by 47% and a 40% price rise is forecast for gas. The services most affected by these changes and the additional costs forecast are Leisure £225k, City Works £80k and Property £50k. Recent high fuel costs have also led to additional costs of £100k forecast for City Works.
5. The combined impact of cost pressures, primarily due to the “credit crunch” and the rise in energy costs, has led to a forecast overspend of £1.0 million against service budgets
6. At the end of the first quarter we reported the significant increase in usage and hence in cost from the national concessionary fares scheme. This trend has continued and the additional costs of £500k, (previously £400k) are forecast for the year.
7. When the budget was set, a provision of £524k for the non-delivery of high risk savings was created and held in balances. This is now reported in the budget monitoring since given the emerging “credit crunch” pressures it is vital that we include all funding sources in the assessment of the likely outturn.
8. Since the first quarter we have received a VAT refund plus interest of £610k from a decision to refund VAT on excess parking charges from 1974 to 1996. We are also holding £330k of uncommitted Housing & Planning Delivery Grant and £101k of Performance Reward Grant to offset other budget pressures.
9. Officers are reviewing forecasts of investment income. Until recently high interest rates meant that income was still expected to meet budget even after taking account of not receiving the interest due on the Icelandic bank investments, or being able to reinvest the principal. The impact on market rates of further cuts to bank base rate (to 3% on 6th November 2008) will make this unachievable and an updated forecast will be provided to City Executive Board on 26th November as part of the package of updates for approval.

10. The combination of one-off funds and contingencies balances the budget in year but given the threat to reserves from the potential write off of all or part of our £4.5 million investment in Icelandic banks, this is a far from satisfactory position.
11. Officers are undertaking line by line budget reviews in each service to determine how much can be identified in further savings and to examine what discretionary spending might be paused. The results of these reviews will be circulated prior to City Executive Board and final forecast variances reported including these further reviews, for approval through full Council so that the revised forecast becomes the approved budget for 2008-09.
12. Progress on savings remains strong with £1.8 million shown as completed, however £130k of savings are now classified as Red or unachievable.

Housing Revenue Account Revenue Monitoring

13. All budgets have been reviewed and changes are reflected in the forecast, though the overall deficit remains unchanged at £1,135k.
14. The variance to profiled budget is mainly as a result of additional rental income from dwellings and shops. Dwelling income is forecast to exceed budget due to a lower void loss, less disposals and lower arrears.
15. The additional income is offset by a net increase in Contracting and Repairs expenditure, specifically materials and Sub Contractors. Other minor budget changes are reflected in the forecast.
16. It is requested that Members approve budget changes reflected in the forecast and that this becomes the approved budget for 2008-09.

Projected Balances

17. Projected balances have been updated for minor changes to the phasing of new projects. The profile of expenditure from the Transformation and Invest to Save funds is being reviewed and the balance projection will be updated to reflect this.
18. Reserves and provisions are also under review to identify any amounts that could be released to balances to offset the impact of any Icelandic Bank investment write down.

19. Projected balances for the HRA remain at £2 million for the end of the year, after a transfer of £830k to the HRA's Capital Financing Reserve. The Capital Financing Reserve is for funding the HRA Capital Programme.

General Fund Capital Programme

20. The General Fund capital plan shows year to date expenditure of £1.7 million out of the total £13.0 million programme.
21. The programme includes £2.6 million of schemes to be funded by capital receipts, however so far minimal receipts have been received this year and this is not expected to change in the current economic climate. In the short term the General Fund could borrow capital receipts to cover the shortfall from the HRA. This would need to be replenished in 2010-11.

HRA Capital Programme

22. The HRA capital programme shows year to date expenditure of £5.53m. This represents 48.2% of the revised estimate for 2008/09. The revised estimate is £11.46m.
23. The revised estimate for 2008/09 shows a reduction from the original estimate of £5.55m, with corresponding increases in 2009/10 and 2010/11 of £0.325m and £5.225m, respectively, so the three year decent homes programme total remains the same.
24. The changes reflect the latest estimated expenditure for 2008/09 and defer expenditure on Tower Blocks, some Maisonettes and Sheltered Blocks which are dependant on the outcome of feasibility studies. Some of the capital spend for 2010/11 maybe further postponed depending on the outcome from Tower Block feasibility studies.
25. There remains a net shortfall of £1.2m in funding at 2010/11. This is being reviewed as a consequence of the current economic climate and the effect on property values

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