

To: City Executive Board and Council

Date: 26th November 2008 and 15th December 2008 **Item No:**

Report of: Head of Finance

Title of Report: Budget for Consultation 2009/10

Summary and Recommendations

Purpose of report: To present a Budget for consultation for 2009-10 following detailed work on key assumptions and progress from ABC reviews.

Key decision: No

Executive lead member: Cllr Ed Turner,

Report Approved by:

Finance:

Legal: Jeremy Thomas

Policy Framework: Finance

Recommendation(s):

- a) To agree the attached General Fund, Housing Revenue Account and Capital budgets for consultation
- b) To note the difficult financial situation and note the action plan for delivering a balanced budget for the next three years
- c) To recommend to Council that savings that deliver efficiencies as listed in Appendix 3(General Fund and HRA), together with the Proposed Savings (paragraph 11) and the car park tariff increase (paragraph 17) are approved in December for implementation ahead of the main budget approval in February 2009.
- d) To note the change in funding of the capital programme
- e) To seek agreement for a freeze on Members' (Councillors') Allowances for the 2009-10 financial year.

Introduction

1. This report updates the figures in the MTFs for 2009-10 budget prospects. This is the second of a series of three reports. The first was the MTFs, and the final budget setting report will come in January 2009.

General Fund Summary

2. The following table shows how the budget gap has increased from £1.2m as per the MTFs to £5.45m now. The budget set by Council in February 2008 had unallocated savings of over £1 million in years two and three, and the size of the savings challenge has increased subsequently.

Budget 2009-10

	MTFS Aug 2008			Latest Forecast		
	2009/10 £m	2010/11 £m	2011/12 £m	2009/10 £m	2010/11 £m	2011/12 £m
1. MTFs (Jan 2008)						
Cumulative savings required	1.2	2.3	3.6	1.2	2.3	3.6
Annual savings target	1.2	1.1	1.3	1.2	1.1	1.3
Reduction in inflation				(0.1)	(0.3)	(0.3)
Revised Annual Savings Target				1.10	0.80	1.00
<u>2. Additional Pressures</u>						
Inflation:						
Pay Inflation over 2½% assumed	0.35	0.35	0.35	0.35	0.35	0.35
Fuel & Energy	0.5	0.5	0.5	0.6	0.6	0.6
Business Rates Review				0.02	0.02	0.02
Government Policy						
Concessionary fares	0.5	0.5	0.5	0.7	1	1.4
Credit Crunch						
Council Tax Base-Slower Growth	0.1	0.1	0.1	0.12	0.12	0.12
Further Credit Crunch pressures (arising from line by line reviews & half year monitoring)				0.3		
Private Housing Grants (City council funding share may need to be funded from revenue given forecast lack of capital receipts)				0.3	0.3	0.3
Investment income falls as interest rates cut				0.50	0.50	0.50
Essential Growth						
Repair backlog requirement	0.3	0.3	0.3	0.3	0.3	0.3
Pressures (listed in appendix 1)				0.67	0.98	1.23
Unachievable Savings (listed in appendix 2)				0.49	0.41	0.41
Sub Total	1.75	1.75	1.75	4.35	4.58	5.23
Revised Annual Savings Target	2.95	2.85	3.05	5.45	5.38	6.23

Budget 2009-10

MTFS Aug 2008

Latest Forecast

3. Proposed Savings

	2009/10 £m	2010/11 £m	2011/12 £m	2009/10 £m	2010/11 £m	2011/12 £m
Management costs	0.6	0.65	0.75	0.75	0.75	0.75
Staff reductions front line 1%	0.2	0.25	0.3	0.15	0.15	0.15
Asset rationalisation	0.1	0.1	0.1	0	0.1	0.1
Recycling	0.2	0.2	0.2	0.05	0.05	0.05
Park & Ride	0.15	0.15	0.15	0.15	0.15	0.15
Invest to Save/ Transformation	0.1	0.2	0.3	0.1	0.2	0.3
Homelessness reduced temporary accommodation	0.1	0.2	0.3	0.1	0.2	0.3
Procurement saving 1%	0.15	0.15	0.15	0.15	0.15	0.15
Housing benefit administration improvement	0.1	0.1	0.1	0.1	0.1	0.1
Sub Total	1.7	2	2.35	1.55	1.85	2.05
Annual Balance to fund from Prioritisation	1.25	0.85	0.7	3.90	3.53	4.18

4. New Savings Identified

	2009/10 £m	2010/11 £m	2011/12 £m
Car Park 15% increase			
Income above standard Inflation, less resistance	0.5	0.5	0.5
Council Tax increase to 5% pa	0.11	0.24	0.38
Reduction in Grants Budgets			0.1
ABC Savings - Efficiency	0.78	0.82	0.82
- Income or service change	0.57	0.63	0.63
Fundamental Service Review - City Works	0	0.3	0.3
Mini reviews arising from ABC prioritisation exercise Sept 2008, and further prioritisation exercise by Dec 08 in CEB/Service Head dialogue.	1.24	1.34	1.75
Release Contingency for savings not made	0.7	0.7	0.7
Sub Total	3.90	4.53	5.18
Target for repayments to HRA/ temporary loans		1.00	1.00
Remaining Gap	0.00	0.00	0.00

Changes in Budget Assumptions (General Fund)

Notes on the main changes are set out below.

Inflation

3. Inflation has been calculated in detail using the rates for general inflation (RPI) set out in the MTFS. A general RPI increase has been included on car park tariffs, which has reduced the net impact of inflation compared to the previous calculation. Specific inflation for employees includes a contingency of 1% to 3.5%. The recession may mean that the pressure for wage increases subsides and this contingency may not be needed. Upward pressure on energy and fuel has been confirmed by the recent electricity tender exercise.

Government Policy on Concessionary Fares

4. Growth in concessionary fares usage from the national scheme has led to additional costs of between £400k and £500k predicted for 2008-09. We have been advised to budget for increases of 10% per annum thereafter, to take account of typical bus operator fare increases as well as further growth in usage.
5. From 2005 to 2007, the Council has received LABGI. The future scheme is under consultation but the government will be making no payments until early 2010, and amounts to be distributed under the new scheme will be much reduced.

Credit Crunch

6. As a District Council, this Council relies heavily on income to provide sufficient resources to run services. The credit crunch is impacting heavily on income forecasts and a £300k allowance for falling income is allowed for in this budget. All income is being affected: property rents, car parks, planning, leisure etc. Subsequent work may mean this allowance needs to rise.
7. The recent interest rate reduction of 1.5% and the forecast for future interest rate reductions to 2% in 2009-10 means that income from investments will fall by £0.5m per annum.
8. The credit crunch is impacting on asset sales. The market is such that asset sales are both difficult and financially undesirable due to the lower prices that can be achieved. The capital programme has for many years relied on asset sales to fund schemes and there are insufficient asset sales expected in 2009-10. Capital funding for essential schemes must therefore come from revenue and provision is made for both backlog repairs and statutory private housing grants. There is more on capital later in the report.

New pressures

9. Further pressures have been identified by Service Heads and details are shown in Appendix 1.

Review of savings

10. Service Heads have also reviewed savings agreed as part of the 2008-09 budget for 2009-10. Details are shown in Appendix 2. This shows that anticipated savings around the ICT transfer in year 1, reviewing toilets & charges and some savings associated with the Westgate redevelopment are unlikely to be achieved in the short term. The Leisure transfer is on course to deliver the required saving.

MTFS proposed savings

11. The high level savings put forward in the MTFS remain part of the budget proposals, and CEB is asked to recommend these to Council for approval now ahead of the main budget approval in February 2009

New Savings identified

ABC Prioritisation

12. The ABC prioritisation exercise has delivered savings within services of £1.35m and these are listed at Appendix 3. Service Heads have prepared action plans for each saving. CEB is asked to recommend to Council that they approve all savings annotated as “YES for efficiency” now ahead of the main budget approval in February 2009.
13. In addition a number of areas with low scores in the prioritisation exercise have been identified for further mini reviews. The conservative estimate of savings from these is £200k. Officers have been asked to complete these review for December, in close consultation with elected members. The list of areas for review is shown at Appendix 4.

Other Savings

14. The seriousness of the outside pressures on the Council's finances mean that it will be impossible to meet all of the costs internally.
15. Three further savings, or extra sources of income, are therefore proposed. The first is a **freeze on councillors' allowances** for the next financial year. The administration has indicated that it wishes the councillors to share the burden which is being placed on council staff and on the public.
16. The second is a **change in the rate of council tax increase** from 4% to 5% a year. This will cost the average household an extra £12.50 per year, but is the only way to put the Council on a stable financial footing in future years. The budget agreed by Council in February 2008 had a gap of £1 million and therefore an increase in council tax was always a possibility.
17. The third is an **increase in car park charges** of 15%. It is proposed to implement this at the start of 2009, including city centre and suburban

car parks. The impact of this change is cushioned by the fact that Park and Ride car parks are now free of charge, and the Council will **retain its concessionary fares scheme for older people** (which starts at 9am, rather than 9.30am as in some neighbouring authorities).

18. Officers have raised a number of other options for savings which have not accepted by elected members. These include
 - Charging for collections of green waste
 - Charging for collections of bulky waste
 - Reductions in the discretionary grants budget for the next two years
 - Increasing pest control charges
 - Further reductions in next year's community development budgets
 - Reductions in area committees' social inclusion funding
 - Changing the start time for pensioners' bus fares to 9.30am.
19. It is possible that the Council may wish to explore these and other options as part of the budget process, and detailed information can be provided.

Value for Money

20. Many of the savings identified help reduce costs without reducing services and so contribute to improving the Councils Value for Money. The officer Performance Board considered the VFM report from KPMG and concluded that the next area to focus on was City Works. There is therefore a targeted saving of £300k in 2010-11.

General Fund: next steps

21. The budget as presented here still has £1.24 of savings which need to be found for next year and each subsequent year. There are a number of areas set out below that Officers will explore further ahead of the final budget report in January. These will be considered by Board Members alongside the potential service reductions from the ABC exercise, so that the budget can be balanced.

Budget Actions

Action	Responsibility
Mini Reviews – target £500k 6 th December	Executive Directors/Heads of Service
Executive Member Reviews - target £500k 6 th December	City Board Members/ Executive Directors/Heads of Service
Establishment review to ensure targets already met and impact of prioritisation documented.	Executive Directors
Review of Savings agreed by Members but not implemented – maybe one-off saving needed to replace.	Executive Directors/Heads of Service
Review Pressures list to see if fully justified.	Executive Directors/Heads of Service
General Fund Capital Receipts – enhance programming, co-ordination and scope for counter cyclical deals where they make sense. Initial review by end of December.	Steve Sprason
List Transformation and Invest to save projects and other expenditure capable of capitalisation	Sarah Fogden/Penny Gardner
Identify corporately paused projects.	Executive Directors/Heads of Service
Examine work areas where volumes are in decline because of economic slowdown.	Executive Directors/Heads of Service
Review Repairs Fund this year and next in relationship to Leisure partnership project.	Steve Sprason/Tim Sadler
Single Status impact, need for Fund, confirm future growth (increment)	Bob Edwards
Contain Single Status General Fund cost to £800k 2009/10. Future years contain incremental progressive pressure.	Peter Sloman
Review ICT - Saving from partnership with County - Ongoing revenue contribution to investment	Ben Brownlee/Peter Sloman
Capitalisation – eg. severance releasing funds.	Sarah Fogden/Penny Gardner

General Fund: Budget Consultation

22. Mindful of the deepening credit crunch, the budget consultation this year has concentrated on explaining the Council's financial position and asking the public which services they would prioritise and which they would not.
23. The budget consultation includes a successful Citizens' Jury event which took place on Nov 8th, Business Breakfast Nov 28th, consultation with Scrutiny committee as per the constitution and statutory consultation with ratepayers in January.

Budget Timetable

17 th November 2008	Administration budget to be published
17 th - 24 th November 2008	Briefing for political groups
26 th November 2008	CEB to consider published budget
28 th November 2008	Business Breakfast
9 th December 2008	Scrutiny consideration of Chief Executive budgets
10 th December 2008	Scrutiny consideration of City Regeneration budgets
10 th December 2008	Cross Party Working Group (Update on corporate issues)
11 th December 2008	Scrutiny consideration of City Services budgets
14 th January 2009	Cross Party Working Group
28 th January 2009	Special CEB
16 th February 2009	Council

HRA Summary

MTFS Housing Revenue Account Gap

24. The HRA has budgeted to make a surplus of £830k for a number of years, which is used towards funding the Capital Programme; mainly decent homes.

Subsidy Determination.

25. The draft subsidy determination for 2009-10 has now been received. As in previous years the formula for rent setting has been followed. The average rent increase would be 6.5%. The draft determination puts a cap on the maximum increase at 7%. The proposals mean income from rents will be £240k lower and subsidy payable will increase by £400k.
26. This would reduce the ongoing HRA surplus to £190k. Part of the subsidy settlement is the Major Repairs Allowance. This is for funding capital expenditure and is £490k more than the MTFS budget. As a

result the estimate for 2010-11 has also been increased. The settlement for 2008-09 is also higher than budget by £294k.

27. The effect is to increase the shortfall for funding the capital programme from £1.2m in 2010-11 to £1.296m.
28. The final subsidy determination, due in December, may well result in further changes.

Interest Rates

29. The credit crunch and subsequent cut in interest rates affect the HRA in three ways: interest paid on borrowing, interest received from investments and subsidy paid. Given the situation with economy it is difficult to predict what will happen to interest rates and therefore these figures may change
30. Interest payable on borrowing is estimated to reduce by £117k. Interest on investments is likely to reduce by £100k, partly because interest rates are lower and partly because some HRA reserves will be needed short term to help meet the potential shortfall from the Icelandic bank collapse. The reduction in interest rates increases subsidy payable by £318k.
31. The effect on HRA revenue is an additional pressure of £301k, which changes the revenue surplus of £190k to a deficit of £111k. This could not be sustained and further savings of £111k will be needed to have a balanced budget.
32. The effect of these changes is summarised in the following table:-

HRA Budget 2009/10

	£000's
Budget Gap Previously Reported	257
Proposed Savings	(1,087)
Proposed Budget	(830)
Adjustment to Proposed Improvements	(80)
Adjustment to Proposed Savings	197
Additional Rental Income (Sept Inflation)	(117)
Adjusted Budget	(830)
Draft Subsidy Determination	640
Interest Rate Changes	301
Adjusted Budget	111
Target Budget	0
Gap / Further Savings	111

Tenant Consultation

33. Meetings were held in October with Tenants and Leaseholders to discuss their views on the pressures faced by the HRA and proposed savings.
34. There will be further discussions with the Housing Advisory Panel (HAP) in November and December.

Capital 2009-10 onwards

General Fund

35. This report focuses on schemes funded from capital receipts. Schemes funded by other sources are reviewed regularly and funding is matched to spend. As mentioned above, there are fewer capital receipts available to fund the programme. The forecasts for the Capital Programme suggest that at the end of 2008-09 General Fund spend will be £12.7m, with a funding shortfall of £2.6m. For the HRA, spend will be £11.5m with a funding surplus of £7.3m in-year and £13.8m cumulative (this is subject to HRA capital receipts being confirmed). If these projections are reality at year end the General Fund could “borrow capital receipts” to cover the shortfall from the HRA. This will need to be replenished in future years.
36. Expectations for 2009-10 are that for the General Fund £3m will need to be funded by capital receipts if the capital programme was delivered in line with that agreed by Council in February 2008. Latest estimates of receipts that can be planned with some reliability total £1.2m.
37. The capital programme has therefore been critically reviewed in order to remain within anticipated funding and to deliver funds to repay the HRA for any borrowing taken up at the end of 2008-9.
38. This budget proposes the following changes to the programme as agreed in February 2008:
 - Retain provision for repairs & maintenance (£600k) but review critically after Leisure tender exercise.
 - Reduce Private Housing Grants to statutory minimum and fund from revenue and government grant.
 - Remove loft insulation programme (£100k) and utilise government schemes where possible
 - Remove Area Committees' annual capital budget £200k
 - Defer the Housing Schemes (formerly labelled Warren Crescent and Lambourn Road) until sufficient funds are available.
 - Earmark funding of £600k in 2009-10 to repay the HRA receipts used in funding the 2008-09 programme.

39. The proposed capital programme is shown at Appendix 5
40. There are two main areas of capital funded outside of receipts. Section 106 contributions are received from developers and allocated to schemes by Area Committee and City Executive Board.
41. The other source of funding is Revenue contributions to capital. There are two key areas for this.
42.
 - a) City works have a major programme of vehicle replacement. In the past vehicles were leased and those leasing budgets are now used to fund vehicle purchase through prudential borrowing. This has had the impact of extending the life of the vehicle. Purchases and funding are modelled and any funding unused in a financial year is set aside in a vehicle replacement fund.
 - b) Backlog Repairs & Maintenance
The 2009 -10 budget (and future years) provisionally allocates £700k per annum to this. It is anticipated that much of this will need to be allocated to Leisure.

HRA

43. The HRA capital programme relies on asset sales for a significant element of its funding. The effect on the capital funding gap of the draft subsidy determination and interest rate changes increases the need for asset sales by a further £576k, increasing the shortfall in 2010-11 to £1,676k.
44. The economic slow down and credit crunch are affecting sales. Most of those anticipated in 2008-09 are expected to complete, but some are likely to be delayed or be at a reduced price. Sales from Right To Buy (RTB) have slowed down considerably, so future year capital receipts have been reduced by £70k pa.
45. Capital receipts from the sales of Sheltered Blocks were estimated to be £4.2m in 2009-10 and £2.3m in 2010-11. The type of buyers these properties would attract, developers; are being particularly hit hard by the economic situation. The HRA is in the fortunate position of not needing capital receipts from these sales until 2010-11.
46. Sales would need to take place in 2010-11 when the housing market will hopefully have started to recover.
47. The capital programme in 2010-11 includes budgets for Tower Blocks and Maisonettes. Feasibility reports may mean that some expenditure is slipped into future years. This would reduce the short term pressure on asset sales.

48. The effect of reducing capital receipts increases the funding shortfall to £1,816k. Details are shown in Appendix 6.

Reserves

49. The General Fund minimum recommended balance is £3m. The Council has £4.5m frozen in Icelandic Banks. At the end of the financial year, the Council will need to write-off any estimated losses. Officers have targeted a spending pause in the current year to deliver an estimated £1m into balances by year end. Any write-off above this level will be met in the short term by capitalising spend where appropriate and “borrowing” from the capital receipt pool that the HRA currently holds. Budgets for 2010-11 and 2011-12 target £1.0m per annum of additional savings to repay any loan from the HRA in this scenario.
50. The HRA has budgeted to maintain reserves at the minimum level of £2m

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Background papers:

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