

Report of: Heads of Finance

To: City Executive Board

Date: 2nd December 2009

Item No:

Title of Report : Budget for consultation 2010-11

Summary and Recommendations

Purpose of report: To present a budget for consultation for 2010-11

Key decision: No

Executive Lead member:: Councillor Ed Turner

Scrutiny Responsibility: Value & Performance

Report Approved by:

Cllr. Bob Price, Leader of the Council

Cllr. Ed Turner

Jeremy Thomas, Legal and Democratic Services

Policy Framework: The Council's Corporate Plan

Recommendation(s):

- a) To agree the attached General Fund, Housing Revenue Account and Capital budgets for consultation

Introduction

1. The Medium Term Financial Strategy (MTFS) was approved at City Executive Board on 14th October 2009 and set out the financial prospects for 2010-11 to 2014-15.
2. This report is the second budget report for 2010-11, provides an update on the financial position for changes since the MTFS was approved, and sets out proposals for savings that will form part of the budget for consultation. The final budget setting report will be presented to CEB and Council in February 2010.

Version number: 7.0

Date

General Fund Summary

3. The MTFFS financial model indicated a savings target of £1.9 million for 2010-11. A number of changes to assumptions have been made and these are set out in more detail in the next section of this report. The updated requirement for savings of £1.8 million is met by a series of proposals that are summarised in Appendix 2. The budget proposed for consultation is balanced for the next 3 years.

Changes to Budget Assumptions

National Pay award

4. There is significant pressure to reduce public sector pay pressures from across the political spectrum given the continuing economic downturn and low inflation environment. In the light of this we have reduced our assumption for the 2010-11 pay award from 1% to 0.5%. This level of increase will not be sustainable into the medium term, particularly when inflation and interest rates begin to rise. Accordingly we have assumed increases of 1% for 2011-12, 1.5% for 2012-13, 2% for 2013-14 and 2.5% for 2014-15. This also achieves a greater level of consistency with neighbouring local authorities' assumptions:

Year	Cherwell	City	County	South & Vale	West
2010/11	0.0%	0.5%	0.5%	0.0%	1.5%
2011/12	1.5%	1.0%	1.5%	0.5%	2.0%
2012/12	1.75%	1.5%	2.5%	2.0%	2.0%
2013/14	2.0%	2.0%	2.5%	2.0%	2.5%

Concessionary Fares

5. The national concessionary fares scheme has led to severe budget pressures since its introduction in 2008-09 since the award of special grant by central government did not reflect Oxford's position as a major tourist destination and regional economic hub. We have lobbied for over a year for a fairer system of grant distribution.
6. In November the Department for Transport announced a consultation on a revised distribution of the special grant for concessionary fares for 2010-11, having compared spending on concessionary travel in 2007-08 and 2008-09. Oxford has been notified of a provisional award of an additional £2.28 million in special grant for 2010-11 that would remove the underfunding of the scheme for next year. We are delighted that Oxford's case has been recognised in these proposals and that this therefore places the Council in a much stronger financial position. It must be noted however that the award is subject to consultation and may change when the final distribution is announced in January. The award is also for one year only; if as expected, administration of concessionary fares is moved to upper tier authorities there remains uncertainty over how funding would transfer and any impact on the distribution of RSG. We will be lobbying to

maintain the improved position created by the revised distribution of special grant.

7. The provision for recession pressures has been increased from £300k to £400k for 2010-11. It is becoming clear that the impact of the economic downturn means that income targets will not be fully met for commercial property rentals (where an additional £213k was originally planned) and for income in City Development, notably for Building Control.
8. The phasing of Transformation funding and savings has been reviewed. Key workstreams for the next phase of Transformation include further CRM and Business Process Improvement, maximising savings from our Carbon Management Programme, maximising savings from agile working and office rationalisation, and making our cross-council administration and support functions more efficient through centralisation where this will drive clear benefits. This is a Council wide programme and all services will benefit, hence a contribution of £50k per annum from the HRA has been agreed. The General Fund contribution is currently set at £450k per annum. The investment in Transformation will be restored to £500k per annum if the opportunity is presented later in the budget process.
9. Recognising the drive to reduce overheads and the progress that has already been made in this direction, a target to reduce net recharges to the HRA has been agreed starting at £100k for 2010-11 and rising to £300k in 2014-15.
10. The 2008-09 and 2009-10 budgets include savings totalling £1.4 million due for delivery in 2010-11 both from increases to existing savings and proposals that start in 2010-11. These have been critically reviewed in the light of current economic conditions and other factors affecting services, together with 2009-10 savings under monthly monitoring. In addition to the use of the recession pressures fund set out in paragraph 7 above, the following changes have been made:
 - Section 42 – start of saving deferred until 2011-12 pending further review - £50k
 - Customer Services income from Court costs – saving not achievable, to be replaced by a new saving in 2011-12 - £60k
 - City development target recovery – saving not achievable, replaced by new 2010-11 saving - £50k
 - Museum increased saving – not proceeding on closure in 2010-11 and funding retained for a further year year to consider further the feasibility of other delivery options - £120k
 - Reduce public toilets closure programme - £40k per annum for three years
 - Other adjustments £98k
11. A summary of these savings and their current status is set out in Appendix 3.

Council Tax

12. Local Government Chronicle (LGC) surveyed all English Councils to ask about their intended Council Tax increases for 2010-11. The result for Districts was an average of 2.05% - compared with 3.2% a year ago. There is also much speculation about potential freezes to Council Tax from 2011-12, or capping for increases over 2.5% given economic pressures and the low inflation environment. The assumption for the Council Tax increase has therefore been revised to 2% per annum from 2010-11 onwards.
13. Given that the MTFs assumed ongoing underfunding of concessionary fares, the announcement of significant additional grant changes the General Fund position materially for 2010-11 but gives no certainty for future years. This budget proposes to use the improved funding position over 3 years.
14. Proposals for new spending, principally for one year only, are set out in Appendix 8. This appendix also summarises the budget changes resulting from the change in funding.
15. A summary of the General Fund's financial position over 5 years compared to the MTFs is set out in Appendix 1.

General Fund budget savings proposals

16. Savings totalling £1,779k are proposed for 2010-11. The majority of savings are from service efficiencies, with services identifying £1,224k from existing budgets. A further £206k of savings are from cross-cutting initiatives on procurement, transformation and carbon reduction.
17. The authority has significant income streams that support revenue expenditure. No inflation to fees and charges has been built into the base budget and services have completed an audit of their fees and charges in accordance with the Income Strategy approved at Council in July.
18. Five service areas have identified increases in charges / introduction of charging, with proposals totalling £319k. This includes adjustments to car park tariffs and other measures totalling £165k.
19. Service reductions have been minimised with one proposal only for a £30k reduction in grants. In effect this is largely reversed by the proposal to commit £25k to grants for local sports.
20. Details of all savings proposals are listed in Appendix 2.
21. Officers have raised a number of other options for savings which have not been accepted by elected members. These include:

- Charging for an enhanced service for the collection of green waste
- Charging for collections of bulky waste
- Introducing charges for control of vermin (with discounts for those on low incomes)

22. 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.

23. As part of the budget process, services have identified pressures as well as savings. These are detailed in Appendix 4. The MTFS made a provision of £500k for pressures and as a contingency for high risk savings. At this stage the contingency stands at £157k. The review of 2009-10 performance against budget will also inform the level of contingency needed and assess risks inherent in the base position.

Service Prioritisation

24. The management Team have carried out a prioritisation exercise based on the Council's current priorities. Members have agreed to undertake a service prioritisation exercise as part of reviewing the Council's priorities that will inform budget setting for future years.

General Fund Budget Consultation

Talkback survey

25. The talkback survey in the summer consulted on the Council's priorities. The survey asked the Talkback Citizens panel to rank individual services within the priorities.

26. Within these priorities, the following services were considered to be a high priority by 60% or more of respondents:

- Free bus travel for pensioners
- Social and economic regeneration in deprived areas
- Keeping the streets clean and free of litter
- Maintaining parks and green areas
- Providing public toilets
- Working with the police to tackle crime and anti-social behaviour in the City
- Waste collection
- Recycling collection

27. Having completed this exercise respondents were asked to name their three highest priorities:

- | | |
|---|-------|
| 1. Work with the police to tackle crime and anti-social behaviour in the City | 31.8% |
|---|-------|

2. Keep the streets clean and free of litter 18.4%
3. Support social and economic regeneration in deprived areas 15.2%

Respondents were also asked to name their three lowest priorities. These were:

1. Promote 20 mph zones across the City 20.9%
2. Provide an informative website which allows you to make applications and payments and report issues 15.5%
3. Providing car parks 11.7%

28. The budget consultation will also include the Business Breakfast on Monday 30th November, consultation with Value and Performance budget scrutiny committee as set out in the constitution and statutory consultation with ratepayers in January.

29. The public will also be consulted on the main issues in this budget using the Talkback panel.

Budget Timetable

20 th November 2009	Administration budget published
23 rd November 2009	VAP scrutiny panel to consider City Regeneration budget
30 th November 2009	Business Breakfast
1 st December 2009	VAP scrutiny panel to consider Chief Executive budgets
2 nd December 2009	CEB to consider published budget
3 rd December 2009	VAP scrutiny panel to consider City Services Budgets
27 th January 2010	VAP Scrutiny Committee
3 rd February 2010	Final budget report to CEB
11 th February 2010	Council

Housing Revenue Account (HRA)

Housing Revenue Account Revenue Budget

30. The MTF5 indicates that a budget surplus of £500k in 2010-11 and beyond is needed to assist in maintaining decent homes standards. To obtain this level of surplus the service needs to improve efficiencies, reduce costs and increase income where possible. The shortfall to obtain a surplus of £500k is now £605k in 2010-11 incorporating the updated pay award assumptions. The savings target rises to £1.0 million in 2011-12 and £1.8 million in 2012-13 on a cumulative basis.

31. Core assumptions made in preparing the budget for 2010/11 are set out below:
32. Rental income expected to increase by 1.5% next year, but with a reduction in the number of properties to reflect review of sheltered accommodation. This assumption is made on the basis that the Government will continue with a rent calculation, which converges rents by 2016/17, based on the rent increase formula of RPI + 0.5% + £2. RPI at the end of September was -1.4%. The increase of £2 represents an increase of 2.5% on our average rent of £80 per week. Some of our properties have already reached convergence and so the extra £2 will not apply.
33. Subsidy: We have not received a guide to formula rent or allowances at present. Normally we receive a guide at the end of October and notice at end of November or early December. This is therefore a significant risk in the budget setting process, since small movements in allowances and formula rent can make large differences in the level of subsidy paid. We have assumed that guideline rent reduces by 0.9% (to reflect negative RPI + 0.5%) for 2010/11 and increases by 1.5% thereafter. Allowances all increase by 1.5% but again the number of properties reduces. However provisionally we have reduced these allowances to 2009-10 levels which will leave subsidy neutral apart from the rent reduction.
34. Repairs and Maintenance: Fees reduced in 2011-12 and 2012-13 by £250k to reflect reduced level of decent homes spend.
35. No adjustment has been made for the impact of the new build for 2010-11 as completion is not due until the end of the year. We will update future years once we have final rents, contractor prices and loan rates.
36. The requirement to achieve a surplus of £500k is savings of £605k. We have identified how to achieve this and details are as follows : -

Efficiencies:

37. During the current year we have implemented CRM and progressed a staff re-structure which will enable us to reduce our staff requirement by 6.3 FTEs. These reductions provide a saving of £264k.
38. Two of our major material supplier contracts have been reviewed and increases negotiated at less than 1%. This together with savings on consumables and tools will provide a saving of £50k.
39. There are a number of saving areas in our planned maintenance expenditure. These include CCTV and controlled entry where a number of Maisonette and Tower blocks have been upgraded to give reduced maintenance costs. CCTV data will go direct to the police for monitoring on an agreed fee. Our revenue spend on void properties is gradually reducing

as a result of more frequent visits by tenancy staff and actual number of properties becoming void. These reductions will provide a saving of £110k.

Increased Income

40. Over the past 18 months we have continued an agreed programme of renovating and improving selected garage sites. The most significant of these was Southfield Park. Work has now been completed and activity in new rentals on this and other sites is now improving. It is considered that a net improvement from increased rents and reducing spend will provide an extra £50k per year. We will continue to look at sites in order to maximise income as the market improves.
41. The above savings and increased income total £474k leaving a gap of £131k. The benefit to the HRA from reduced General Fund overhead recharges net of a £50k per annum contribution to the Transformation programme reduces this to £81k. The balance has been funded from a further reduction in operational staff by 1 FTE that will not affect service levels, and other minor budget adjustments.

Tenant Consultation

42. Consultation meetings with tenants will be held in late November/ early December, to explain the budget for 2010-11 and savings proposals.

Capital Programme

General Fund

43. The MTFs set out the key aims of the General Fund capital programme including moving towards to use of ongoing revenue contributions and prudential borrowing to fund schemes and away from a reliance on asset disposals. The current capital programme of approved schemes only is attached at Appendix 5.
44. Capital receipts expected for 2009-10 and 2010-11 cover the schemes currently on the programme funded by receipts and allocating £2.7 million to investment in the housing stock.
45. The Council is currently making revenue contributions to capital each year of £700k for repairs and maintenance backlog works and £300k for Disabled Facilities works. An updated capitalisation policy has been drafted for approval by Audit & Governance Committee on 24th November 2009. This policy tightens the definition of capital and a review of current backlog schemes under way to determine if they remain as capital or should be classified as revenue spend, which would convert part of the revenue contributions to capital to revenue budget.

46. The Council is already using Prudential Borrowing to fund schemes including Leisure facilities improvements and Playground refurbishments. Existing schemes funded in this way reach £16 million by 2014. In considering new schemes for Prudential Borrowing, as well as the scheme having a sound business case, solid project and delivery plan we have to be mindful of the borrowing limits set out in the Treasury Management Strategy (TMS) and the capacity for the revenue consequences of borrowing in terms of interest payments and repayment of the loans.
47. The TMS for 2010-11 will be brought forward for approval at the same time as the final budget report having reviewed the authorised borrowing limit.
48. New projects to be funded must be linked to an approved strategy, for example the Asset Management Strategy, and will be prioritised within the borrowing limit based on their contribution to the Council's priorities, affordability of revenue impact and taking account of their leverage in securing external funding.
49. Capital schemes currently under consideration include:
- Office Accommodation review £5 million - generating future year revenue savings and a key part of enabling agile working and delivering on the Transformation agenda. A potential £3 million capital receipt not yet included in funding could be earmarked for this project;
 - Old Fire Station £0.4 million – external funding £3m
 - Leisure competition pool
 - Gloucester Green toilets £300k
50. Funding the £2.7 million investment in housing stock should be prioritised for funding alongside the above schemes.
51. Any schemes taken forward will need to be self financing from a revenue perspective or be funded via a revenue bid

Council Housing

52. Capital spend on the meeting the Decent Homes Standard continues. All properties are anticipated to be decent by 31 December 2010. No major works beyond decency level will be carried out on Tower blocks and Sheltered sites. These works have been moved to a later date in the programme and will await reviews to be undertaken as part of the regeneration plan.
53. Funding has been reviewed and the Major Repairs Allowance (MRA), based on the subsidy determination for 2010/11, is now reflected in future years. Capital Receipts from right to buy (RTB) sales has been further reduced. There has been 1 (RTB) sale and one sheltered block sale so far in 2009/10. The budget is based on 3 units per year and assumes that only 25% of proceeds are retained. Potentially the subsidy review could allow 100% of proceeds to be retained.

54. Contributions from revenue of £500k per annum are included from 2010/11 onwards.
55. Beyond 2011/12, the capital programme will be geared to the ongoing maintenance of the Decent Homes Standard at around £6.1m per annum. Together with Disabled Adaptations and other planned spend, the programme is around £1.5 m per annum above the available funding.
56. The funding shortfall at the end of 2012/13 is £1.19m. Assets have not been identified to close this gap. This assumes that Grantham House and a number of other properties that have approval for sale are realised.
57. In summary, with grant and prudential borrowing, the required Housing Investment is funded until the end of 2011/12, assuming that sales proceeds are generated (including Grantham).
58. Works on the New Build projects of Lambourn Road and Cardinal House has been added to the capital programme. The total cost of the two developments is £12.2m and will be funded from £4.1m of Grant, £4.6m of prudential borrowing and £3.5m from OCC funding. Of the OCC funding £3m is from capital receipts and £0.5m from the Council's Capital programme.
59. Grant is payable in two tranches, 60% at start on site (Jan'10) and 40% at contract completion (Jan / Feb'11). Approximately 15% of costs will be paid during 2009/10 and remainder in 2010/11. Prudential Borrowing and OCC funding will be required in 2010/11.
60. Our very clear objective is to complete these projects within the specification, time and budget in our plan.

Equalities Assessment

61. The Council, in its Corporate Plan, has identified equalities as one of its key objectives. This budget provides funding for the Council's main initiatives designed to ensure equality of outcomes for citizens.
62. Each of the savings proposals has been reviewed to assess whether they would impact directly or indirectly on different parts of the community differentially. The finding of this review is that none will impact disproportionately on any group and we assess that the overall budget as equalities neutral.
63. The Council in Service Transformation Plans identifies actions to address inequalities and these are fully funded through this budget. The impact of services and indicators are monitored via measures outlined in Service Transformation Plans. The Council believes it will be at Level 2 of the Equalities Standard by March 2010.

Name and contact details of author:

Emma Burson
Corporate Finance Manager
Telephone: (01865) 252571
eburson@oxford.gov.uk

Penny Gardner
Head of Finance
Telephone: (01865) 242708
pgardner@oxford.gov.uk

Background papers: