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OXFORD CITY COUNCIL

Report of: Heads of Finance

To: City Executive Board and Council

Date: 3rd February 2010 & 22nd February 2009 **Item No: 6**

Title of Report : Budget 2010-10 to 2012-13

Summary and Recommendations

Purpose of report: To present the Council's budget for approval and recommendation to Council.

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, Head of Law and Governance

Policy Framework: The Council's Corporate Plan

Recommendation(s): City Executive Board is asked to recommend that Council:

a) approves the General Fund budget at Appendix 1a to 1c
b) approves the Housing Revenue Account budget at Appendix 2a to 2b and an average dwelling rent increase of 1.46 and an average garage rent increase of 2%
c) approves the funded Capital Programme set out in Appendix 3a and 3c
d) approves the list of projects set out in Appendix 3b as part of the capital programme subject to prioritisation, individual project appraisal and affordability within the overall prudential borrowing limits approved in the Treasury Management Strategy
e) approves the fees & charges in Appendix 4
f) agrees that any under spends against the 2009-10 budget are earmarked to generate a contingency for non achievement of savings and further recession pressures.

Summary

1. This is the third of the three reports that inform our Budget process for the three years from 2010-11 and sets out our detailed Budget position for each year. The first report was the Medium Term Financial Strategy (MTFS), the second report was the budget for consultation approved by CEB on 2nd December 2009.

2. This third report in the series provides details of the final list of savings, the availability and application of funding for new initiatives and identifies the remaining risks within the Budget.

3. Appendices set out the budget as follows:

   - Appendix 1 – a high level summary of the General Fund, savings plans and spending proposals
   - Appendix 2 – a summary of the Housing Revenue Account and savings plans
   - Appendix 3 – a summary of the Capital Programme and scheme prioritisation list
   - Appendix 4– Fees and Charges

General Fund

4. The budget for consultation approved by City Executive Board (CEB) on 2nd December 2009 set out a balanced budget for the next three years, with £1.8 million of savings for 2010-11 and one-off budget spending proposals of £0.4 million.

Changes to the budget

5. There have been a number of changes since the consultation budget was approved and these are described below.

Revenue Support Grant (RSG)

6 2010-11 is the third and final year of the three year settlement from CSR07. Given the severe public spending pressures, the core assumption for the budget was that there would be no increase in RSG in 2010-11. The three year settlement has been maintained by CLG, giving an increase of £196k or 1.2%. There remains significant uncertainty about funding beyond 2011.

Pre-Budget Report 2009

7. On 9th December 2009 the Chancellor set out his Pre-Budget Report (PBR). There were two main changes that affect budget assumptions.

8. Employers' National Insurance contributions will now be increased by 1% in 2011-12 rather than 0.5% as set out in the previous budget. This adds costs of £176k per annum from 2011-12.

9. Public sector pay settlements will be capped at 1% in 2011-12 and 2012-13. Our assumptions for pay awards for these two years were 1% for 2011-12 and 1.5% for 2012-13. The pay cap gives a cost reduction of £176k in 2012-13.

<u>Council Tax Base</u>

10. The report setting the Council Tax base, approved by CEB on 13th January and to be approved by Council on 25th January, sets out modest growth of 1.08% in the Council Tax base from 46,180 to 46,680, whereas the budget assumed no growth. The growth in the base increases Council Tax income by £132k in 2010-11 based on a 2% increase in charges.

<u>Amendments to 2009-10 savings and cost pressures</u>

11. Savings achievements for 2009-10 are carefully monitored and kept under review, but at the end of the third quarter there are some further savings that will not be achieved and this needs to be recognised in setting the budget for 2010-11. There are minor adjustments to a cost pressure and contract inflation. These adjustments total £135k.

12. The overall impact of the changes set out in paragraphs 6 to 11 is s saving of £193k in 2010-11, as set out in the following table.

Changes from the Consultation budget			
	2010-11	**2011-12**	**2012-13**
	£'000	**£'000**	**£'000**
RSG announcement	195	185	176
PBR: NI increase 1% not 0.5%		(176)	(180)
PBR: 1% pay award cap			176
Council Tax base	132	134	137
Changes to savings and pressures:			
2009-10 Legal saving (double count)	(20)	(20)	(20)
2009-10 Procurement savings target shorttfall	(70)	(70)	(70)
2009-10 Business Transformation minor contracts saving not met	(40)	(40)	(40)
ICT contract inflation	(23)	(23)	(23)
Community Housing & Development – Community Centres' income pressure reduced	18	18	18
Subtotal	**(135)**	**(135)**	**(135)**
Total changes	**192**	**8**	**174**

13. The above net savings should be treated as contingency funds at present in view of the risks to the budget position set out in the next section of the report.

Budget Risks

Concessionary Fares

14. The provisional award of additional special grant for 2010-11 has been built into the budget. The award is currently under consultation and may change when the final distribution is announced later in January. There is therefore a risk that Oxford's award is reduced due to lobbying from councils where the revised grant distribution reduced their allocation or did not increase it sufficiently.

Icelandic banking losses

15. The consultation budget provided for £250k which together with the £350k reserve set up at the end of 2008-09 covered the loss of £600k expected to be written off to General Fund balances in 2010-11 as the special accounting regulations created by CLG for the deferral of losses end in 2009-10.

16. The expected loss was calculated in accordance with CIPFA guidance and was based on an 80% recovery of the £3 miilion deposit with Heritable and 100% of the £1.5 million with Glitnir. Heritable repayments continue to be received in line with the expected recovery, but in December the Glitnir Winding-up Board (WUB) rejected the argument that local authority claims have priority status under depositor preference, accepting them instead as general unsecured claims. Without priority status, recoveries from Glitnir are expected to be around 31% rather than 100%.

17. The LGA remains confident in its legal argument that local authorities are depositor creditors and do therefore have priority status and is taking legal action to challenge the WUB. .

18. The LGA has lobbied CLG for support for local authorities but government would not extend the temporary accounting deferral to 2010-11, and is not prepared to allow Icelandic bank impairments to be charged to the HRA.

19. The government is prepared to consider requests to capitalise the Icelandic losses where these create exceptional financial difficulties. The impact of reducing the recovery of the Glitnir deposit from 100% to 31% and repayment over a longer timescale would increase the write down in 2010-11 by £1.2 million. We have therefore submitted a request for capitalisation. The Minister is currently considering capitalisation requests and the outcome is expected on 29 January 2010.

Elderly services tender

20. The Elderly Services Team, part of Community Housing and Development, provide alarm monitoring and mobile warden services in the city and beyond. A significant proportion of this service is funded through the Supporting People (SP) and Telecare programmes and these are currently subject to a county - wide tendering exercise. As reported to CEB on 13th January 2010, there are risks related to staff costs both in the case that the Council succeeds in securing new contracts and should this not occur.

Risk Mitigation

21. If the concessionary fares special grant were to be reduced from the provisional award, or the capitalisation request for Icelandic banking losses is unsuccessful then options to restore budget funding will include reducing the amount available for discretionary spending, further review of fees and charges, and revising current proposals for Council Tax increases. Council Tax increases of 3% in 2010-11 and 2.5%per annum in 2011-12 and 2012-13 would generate £562k more income than the current assumption of 2% per annum rises.

22. It is expected that the outcome of the concessionary fares special grant consultation and Icelandic banking losses capitalisation request will be known in advance of Council on 22nd February 2010. Any budget amendments required will be prepared as soon as these uncertainties are resolved.

New Spending

23. Proposals for additional one-off expenditure of £0.4 million were set out in the consultation budget and are shown at Appendix1c.

24. Any discretionary spending, including growth items, can not be commissioned until, through Budget Monitoring, the Section 151 Officer is assured that savings are being achieved.

Quarter 3 Monitoring

25. This report is going to print too early to have detailed monitoring information. The second quarter report identified £2.5 million of in year budget pressures that so far have been balanced by savings and other initiatives, but the risk remains that increasing recession related and other pressures will lead to an overspend in 2009-10. Delivery of 2009-10 savings is under constant review and any non - achievement to date has been taken into account in budget preparation.

Service Level Budgets

26. Officers are working on detailed changes to service budgets including the realignment of pay budgets from single status, the effect of restructures with services, and the management restructure in December 2009. Charges between services based on Service level Agreements (SLAs) will also need to be updated to reflect all the changes in the 2010-11 budget. Once all these changes have been made the budget will be produced at service level.

27**.** A detailed budget book will be published in March, with budgets by cost centre and establishment lists signed off by Service Heads, aligned to performance indicators for each service.

<u>Housing Revenue account (HRA)</u>

Housing Revenue Account Revenue Budget

28. The table below shows the key changes in the HRA budget from that published in the consultation budget. The figures show a revised shortfall of £614k for 2010-11. Options for covering the deficit are shown in Table 2.

Changes in the base budget

29. The changes are set out in the table below:

Description	**Amount £'000**	**Adverse/Better**
Net adjustment to rental income	333	Adverse
Draft subsidy determination	481	Adverse
Net Impact	614	Adverse

30. The key differences are:

a) The Draft subsidy determination.

The Subsidy Determination is late and is considerably different from that assumed in the draft HRA budget. The government, mindful of the outcry over the proposed higher than inflationary increase for 2009/10 and the subsequent backtracking has tweaked the rents formula. In order to ensure rent rises are kept to a reasonable level and to keep the guideline rent increase at 3.1%, the date of rent convergence has been reduced to 3.07 years. The guideline rent increase is the level of rent assumed in the amount of subsidy that government take from the HRA. The problem for the HRA is that rent rises will be nowhere near this level. Rent rises to individual properties and therefore, tenants, is restricted to "rpi + 0.5% +

£2”. As the rpi level used is actually –1.4%, this reduces average rent increases to on average 1.46%. The range is 0.02% to 3.1%. This restriction on rent increases (from the government level of 3.1% to the rate that can be applied 1.46%) is known as caps & limits. This is promised to be included in the subsidy determination formula for 2011/12 so that the Council should be compensated over the following year. This leaves an in year adverse subsidy change of £481k . This consists of extra rent paid over of £847k offset by better than expected Management & Maintenance allowances of £361k.

b) The net adjustment to rental income is a reduction of £333k. This is a result of re-assessing the number of properties available to rent and the actual rent increase being 1.46%.

31. The final Subsidy determination is expected in February, this may or may not be in time for the Council budget meeting on February 22nd. In previous years, the Final subsidy determination has differed little from the draft.

Options for meeting the deficit.

32. The table below offers a list of proposed savings that can be made in order to balance the 2010-11 budget. Most of the savings are one-off. Notes on the savings are shown in Appendix 2b.

Table 2 Possible Savings

Description	**Amount £’000**	**Ongoing/One-off**
Job Evaluation Reserve	164	One-off
Job Evaluation Reserve	20	One-off
Sheltered Block review fees	100	Remove on One-off basis for 10-11, budget remains for 11-12
Consultants fees	50	Remove on One-off basis for 10-11, budget remains for 11-12
Planned Maintenance Fees	130	One-off
Underspend in 2009-10 c/fwd	150	One-off
Total saving	614	

33. If we implement this option to balance the budget, it means that the £500k revenue contribution to the capital programme can be maintained.

34. The one-off nature of the savings means that only 2010-11 will be balanced, the budgets for 2011-12 will now be in deficit by £917k and 2012-13 by £1206k if the contribution of £500k to capital is to be maintained. The one-off savings in 2010-11 do give the HRA breathing space to develop a budget strategy for future years.

35. It is difficult to predict with any accuracy the subsidy impact in future years. The government is likely to offer proposals around the reform of Housing Subsidy in April 2010 to be effective April 2011. Further detailed work is required in respect of future years. In particular the HRA is likely to need to draw up a 30 year business plan, once the outcome of review of housing subsidy is known, including any allocation of historic housing debt to Oxford and the future level of allowances.

Capital Programme

Guiding Principles

36 The MTFS set out the key aims of the capital programme. This included moving towards to use of ongoing revenue contributions and prudential borrowing to fund schemes and away from a reliance on asset disposals.

37. In setting the 2010-11 budget, considerable uncertainty lies ahead for the capital as well as the revenue funding regime in which local government operates. With the prospects of a General Election and a new Comprehensive Spending review in the coming months, there is the potential for the next Government to limit local authorities' capital spending through capping prudential borrowing or other means. There is also uncertainty about whether the reform of Council Housing Subsidy, currently under consultation, will proceed and if so of the timing and detailed funding implications for the Council.

38. A twin track approach is therefore proposed. The aim should be to use Prudential Borrowing or revenue funding for capital projects. Potential capital receipts should not be shown in the capital programme but, when received, should be held in a reserve as a back up for Prudential borrowing, both to protect the Council's position should borrowing regulations change and also as a contingency against the risk inherent in the overall level of borrowing undertaken. The exception to this principle is the sale of housing explicitly to fund stock renewal such as the planned sheltered block replacement programme.

39. The position will be reviewed as part of the MTFS so that in the autumn of 2010 an updated funding strategy can be brought forward once

central government spending requirements for local authorities are known.

Project Appraisal and Prioritisation

40. All potential capital projects must have measurable objectives, and all projects over £50k must be subject to a project and financial appraisal that meets the requirements of the Head of Corporate Assets and Head of Finance. Standard documentation will be worked up through the Corporate Assets Board for approval by Corporate Management Team (CMT).

41. All new projects must be approved by CMT. All projects over £100k must be subject to CEB approval.

42. Projects to be funded through prudential borrowing must have zero (or positive) revenue consequences – they must cover the interest and loan repayments through revenue. Where the expenditure proposed is to maintain Council properties, the project itself may not generate a revenue stream but must have a clear funding source.

43. Each project must demonstrate that it meets the Council's priorities and be subject to a capital prioritisation process. In line with the Asset Management Strategy, all potential capital projects must be set out and prioritised under criteria to be agreed by CMT. This should include maintenance backlog projects and capture the full range of potential projects.

Prudential Borrowing

44. The overall programme constraints are set by the prudential borrowing limits, as set out in the Treasury Management Strategy. The Treasury Management Strategy is approved at the same time as the Council's budget and includes borrowing capacity up to £38 million. Although this is low in relation to the Council's asset base, it would commit the Council to £3.4 million per annum in terms of interest and loan repayments. To manage the risk of the lack of flexibility in terms of revenue budgets associated with increased levels of borrowing, the principle of creating a capital receipts reserve should be applied.

General Fund – programme details

45. Projects that are funded externally, or by developer contributions, or from revenue contributions included in the revenue budget are set out in the capital programme at Appendix 3a for approval, together with existing projects already approved to be funded by prudential borrowing.

46. The capital programme has been reviewed and where the timing of expenditure on approved projects has moved between financial years this will be reported in detail as part of the third quarter monitoring report. The revised programme takes account of this slippage.

. Additional developer contribution schemes approved at CEB on 13 Jan and Council on 25 Jan will be added to the programme before the final version is published.

47. New projects for approval within the borrowing limits will be brought forward for approval by CMT or CEB as appropriate in May/June 2010 following completion of the prioritisation exercise. A list of current projects that will form part of this exercise is set out in Appendix 3b. The major projects from this list are described below.

<u>New Projects list</u>

48. The Office Accommodation Review generates future year savings that fund interest and loan repayments and ongoing revenue savings

49. The initial business case for the New Build Competition Pool was approved by CEB on 13th January 2010, together with approval of the final feasibility and design fees expenditure. The amount included in the capital projects list is within the prudential borrowing envelope that can be funded by revenue savings generated by the project. It is expected that final project approval will be sought from CEB in June 2010.

50. If government approve the capitalisation of Icelandic banking losses it is proposed to fund this through prudential borrowing over a ten year period. The reserve and revenue budgets already set aside would fund the first three years of repayments, and revenue budgets for interest and capital repayments would need to be built into medium term budgets.

51. Gloucester Green Toilets refurbishment –income to be generated by this project will be reviewed against the funding requirements for prudential borrowing.

52. The Vehicle Replacement Programme budget has been broken down between vehicles for waste and recycling and the rest of the fleet. The waste and recycling line has not yet been updated to reflect vehicle requirements for new service proposals as this is subject to detailed modelling of service delivery options. This will be updated with the most up to date estimate from the in-house proposal in final budget schedules.

Funding

53. At the end of 2008-09, the General Fund had insufficient capital receipts to fund its capital programme and therefore General Fund uses of capital of £2.3 million were funded by the HRA.

54. Actual capital receipts received to date in 2009-10 total £1.0 million The General Fund is therefore not in a position to return this funding.

55. It is proposed that actual capital receipts received in 2009-10 are held in a reserve pending the review of funding in the summer of 2010. The timing of transfers between funds will also be reviewed at that time.

Council Housing

56. At the end of 2009-10 it is forecast that £5.8 million of actual capital receipts will be carried forward, based on the latest estimate of spend, of which £3 million has been included in funding proposals for the Lambourn Road and Cardinal House schemes

57. For 2010-11, based on a capital programme of £20.4 million and known funding of £11.8 million through grant, approved prudential borrowing, MRA and revenue contributions there is a funding shortfall of £2.8 million.

58. Project spend totals for Lambourn Road and Cardinal House include a substantial contingency provision. How much of this is required will influence the size of the funding gap.

59. It is proposed that the decision on funding is deferred until the autumn 2010 review when there will be more certainty. Options to meet the gap will include further prudential borrowing, the use of any further capital receipts realised, and rephasing work on properties.

60. The Council has fully committed to the Lambourn Road and Cardinal House housing schemes. It is proposed that the detailed breakdown of funding between receipts and borrowing is kept under review pending the updated position on contingency requirements. This will be reviewed as part of the funding and capital prioritisation review for autumn 2010.

61. Beyond 2010-11, capital programme requirements of around £10 million per annum against MRA of £5 million per annum means that funding will be required from a combination of revenue contributions, capital receipts and prudential borrowing. This should be worked up in detail once more is known on the timing and impact of Housing Subsidy Reform.

Fees & Charges

62. Proposed Fees and Charges for 2010-11 are set out in Section 4 of the Appendices. These have been set by Service Heads in accordance with the income strategy.

Recommendations

63. City Executive Board is asked to recommend that Council:

a) approves the General Fund budget at Appendix 1a to 1c
b) approves the Housing Revenue Account budget at Appendix 2a to 2b and an average dwelling rent increase of 1.46 and an average garage rent increase of 2%
c) approves the funded Capital Programme set out in Appendix 3a and 3c
d) approves the list of projects set out in Appendix 3b as part of the capital programme subject to prioritisation, individual project appraisal and affordability within the overall prudential borrowing limits approved in the Treasury Management Strategy
e) approves the fees & charges in Appendix 4
f) agrees that any under spends against the 2009-10 budget are earmarked to generate a contingency for non achievement of savings and further recession pressures.

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Background papers: