

Draft Revenue 2012/13 Budget and Analysis

The Status of the Budget

- 1.1 This is the first draft of the budget and is currently subject to scrutiny of both revenue and capital together with amendments for new information relating to economic climate, and confirmation of the amount available for distribution from the Collection Fund. The final version of the budget will be presented to the Executive on February 6th 2012 before approval by Council on February 27th 2012.

Budget Guidelines

- 1.2 The draft General Fund Revenue budget has been prepared in accordance with the guidelines agreed by the Executive at its meeting on 5th September 2011.

Economic Climate

- 1.3 UK economy - following the general election in May 2010, the coalition government has put in place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be major job losses during this period, in particular in public sector services.
- 1.4 This downturn in the economy has given rise to a number of unanticipated budget pressures. One of the most immediate impacts of the credit crunch in Cherwell, like elsewhere, is the housing market slowing rapidly. This has seen a reduction in the current year of planning and land charge income, increase in benefit applications, increased fuel costs and these assumptions have been assumed to continue and built into the formation of the draft budget and considered in the review of risk.
- 1.5 Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.1% in the first quarter of 2011/12, providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.
- 1.6 The announcement by the MPC on 6 October of a second round of quantitative easing of £75bn emphasised how seriously the MPC now views recession as being a much bigger concern than inflation. Although inflation remains stubbornly high, the MPC's expectation of future falls resulting in an undershoot of its 2% target opened the way for this new round of QE. Inflation beyond 2012 is forecast to fall back towards this target but for the 2012/13 budget assumptions have been made at CPI minus 1% at September 2011.
- 1.7 Sector, the Council's Treasury Management Advisors, are currently of the view that the Bank Rate may start to increase during Q4 of the 2012/13 financial year by 0.5%. For the purpose of this draft of the budget we have assumed a reinvestment rate of 1.3% for investment income purposes.
- 1.8 The Council's decision in preparing the last full MTFs forecast not to rely on investment income to deliver services assumes a reduction over 3 years. It is assumed that a base of £300k is used in the 2012/13 budget together with an amount to cover the car parking income change. The additional investment income achieved will be used to replenish reserves and fund one off projects.

Medium Term Financial Forecasts

- 1.9 Our medium term financial forecasts were updated as a result of the Comprehensive Spending Review and as a result we are working on the basis of a £5m cumulative savings requirement over the next 4 years. The savings identified in draft 1 of the 2012/13 will provide a substantial contribution to this and a new medium term financial forecast will be included with the budget report in February 2012.

Investments in Iceland

- 1.10 The Council currently has a total of £6.5 million in short term investments (i.e. those with maturity periods of up to one year) with one of the affected banks Glitner. The position is that, the Council has preferential credit status and as such will recover 100% of this balance along with investment income (previously written off). It is still unclear when or how the distributions will be made and members will be provided with an update when more information is available.
- 1.11 The Council made a capitalisation request to Secretary of State to use capital receipts to offset any potential losses in relation to the Iceland deposits and processed this as part of the 2010/11 accounts. On the basis of the appeal court decision this transaction will be reversed in the 2011/12 accounts.
- 1.12 No investment income has been built into the 2012/13 budget for the return of the £6.5m principle at this stage but this will be reviewed as we prepare the final 2012/13 budget.

General Fund Revenue Budget

- 1.13 The draft General Fund Revenue budget is shown in Table 1. The revenue budget as presented has been left, quite deliberately, with a funding gap of £165,228. This type of gap is not unusual at this stage in the process and it can be covered by considering the actions listed in 1.26.

Table 1

Service Area	Approved Budget 2011/12	Proposed Budget 2012/13	Movement
Community & Environment	£8,305,435	£8,128,276	-£177,159
Resources	£4,964,760	£4,658,904	-£305,856
Development	£4,215,039	£3,843,744	-£371,295
Service Total	£17,485,234	£16,630,924	-£854,310
% Decrease			5%
Executive Matters			
Centrally controlled Items	£1,465,845	£1,526,312	£60,467
SNDC Joint Working Savings	-£333,000	-£130,000	£203,000
Credit for Capital Charges	-£3,218,477	-£3,218,477	£0
	£15,399,602	£14,808,759	-£590,843
Contribution to (+) / from (-) Earmarked Reserves	£600,000	-£74,245	-£674,245
Contribution to (+) / from (-) General Balances	-£139,664	£0	£139,664
Net Budget Requirement	£15,859,939	£14,734,514	-£1,125,424
RSG Settlement	-£8,634,458	-£7,553,058	£1,081,400
Council tax Compensation Grant 2011/12	-£155,037	-£155,037	£0
Council tax Single Person Discount Review		-£52,000	
Collection Fund Surplus	-£130,417	-£141,399	-£21,583

Investment Income	-£723,407	-£439,811	£283,596
Amount to be funded from Council Tax	£6,216,620	£6,227,982	£217,989
Potential Shortfall	£0	£165,228	
Number of band D equivalents (taxbase confirmed in Jan 2012)	50337	50429	92
2012-13 Cost of Band D equivalent	£123.50	£123.50	
2011-12 Cost of Band D equivalent	£123.50	£123.50	
	£6,216,620	£6,227,982	

- 1.14 Our assumption for Council tax is that we will set a 0% increase for 2012/13. CSR2010 confirmed that the Government will provide a revenue grant equivalent to a 2.5% increase in Council Tax to fund this freeze for a period of 4 years; this has therefore been included within the projected resources of the Council.
- 1.15 In October 2011, the Chancellor of the Exchequer announced a new support for local authorities to help them freeze council tax in 2012/13 as well. If Cherwell District Council was to approve a freeze to its council tax in 2012/13 it would receive an additional grant of c. £156, 970 for 2012/13 only. The receipt of this additional grant has **not been** incorporated within the projected resources of the Council in this first draft of the budget.
- 1.16 The revenue budget shows an overall 5% decrease in service expenditure in comparison with the 2011/12 budget.
- 1.17 The capital charges as detailed in the table above are still to be confirmed and any variations will be incorporated into the final version of the budget. This represents an accounting entry and will not affect the bottom line.
- 1.18 In light of the challenging financial position the Council faces in both this and forthcoming years, work has been in progress on the 2012/13 budget since setting the 2011/12 budget in March 2011. The Council made a public promise to deliver £1m worth of savings and in addition has developed Building Blocks across the organisation, identifying opportunities to either reduce costs or increase income generated. The aim being to compensate for the financial pressures arising from the Comprehensive Spending review, general economic climate and our strategy to reduce our reliance on investment income.
- 1.19 This first draft of the 2012/13 revenue budget demonstrates that we have delivered in excess of the £1m public promise (£1.1m). In addition, we have also identified £664k worth of additional efficiencies which have also been built into this first draft. A detailed analysis of the efficiencies achieved will be prepared for the final version of this budget.
- 1.20 Table 2 on the following pages provides a further breakdown :-

Table 2

Area	Building Block Detail	Bldg Block Ref	£1m Public Promise	Efficiencies	Total	Corporate	Community & Environment	Resources	Development	Total
Corporate	Joint Senior Management Team Savings		£353,000		£353,000	£353,000				£353,000
Corporate	Joint Working - shared infrastructure, ICT and additional procurement savings.		£100,000		£100,000	£100,000				£100,000
Corporate	Joint Working Building Control		£30,000		£30,000	£30,000				£30,000
Finance	Review Single Person Discounts - 17,218 (33%) - assume 10% withdrawn and costs shared with County	11	£52,000		£52,000	£52,000				£52,000
Tourism	VFM Review - Tourism	3	£25,169		£25,169		£25,169			£25,169
Customer Services	VFM Review - Customer Services	15	£69,077		£69,077		£69,077			£69,077
Community Safety	Review of Discretionary Services	28	£4,643		£4,643		£4,643			£4,643
Vehicle Maintenance	VFM Review - Vehicle Maintenance	6	£15,000		£15,000		£15,000			£15,000
Environmental Services	Re tender and negotiation of New Recyclables Contract to take advantage of favourable market conditions.	30	£193,957		£193,957		£193,957			£193,957
Various	Procurement Action Plan	29	£36,427		£36,427			£36,427		£36,427
Public Protection	VFM Review - Public Protection	5	£34,000		£34,000				£34,000	£34,000
Corporate	Change in planning fees regime will result in increase to fees - guidance not yet available but assume modest 10% - 15% uplift on current income	10	£80,000		£80,000				£80,000	£80,000
Economic Development	VFM Economic Development	4	£15,000		£15,000				£15,000	£15,000
Corporate	Commissioning of advisory services Communicated to grant recipients - review all grant funding and prepare a list of proposed reductions	14	£111,051		£111,051				£111,051	£111,051
EFFICIENCIES										
Community & Environment				£258,355	£258,355		£258,355			£258,355
Resources				£267,293	£267,293			£267,293		£267,293
Development				£138,343	£138,343				£138,343	£138,343
Total			£ 1,119,324	£ 663,991	£1,783,315	£ 535,000	£ 566,201	£ 303,720	£ 378,394	£ 1,783,315
						30%	32%	17%	21%	

1.21 The following table provides details of Growth items that have been built into the 2012/13 budget. These items represent budget pressures which are often unavoidable and have to be incorporated into our base revenue budget, many of which are of a significant nature. Examples of such are - reductions in income / funding (Revenue Support Grant) / economic pressure on income receivable (reduction in car park income) and additional costs incurred. They have been incorporated into this first draft of the budget at service level whilst those services have still delivered their building blocks, contribution to the Councils £1m public savings promise and further efficiencies.

Table 3

SERVICE AREA	DETAIL	Avoidable / Unavoidable	Reduction in Income	Additional Costs	Total
Corporate - Executive Matters	Reduction in Revenue Support Grant	U	£1,081,400		£1,081,400
Corporate - Executive Matters	Reduction in reliance on Investment income	A	£ 303,596		£ 303,596
Vehicle Parks	Reduced Car park Income	U	£ 251,811		£ 251,811
Corporate Debt Recovery	Reduction in Court Costs Recovered	U	£ 77,484		£ 77,484
Corporate - Executive Matters	Increase in Capital Cost of Pension	U		£ 64,791	£ 64,791
Community Services	Transition of Advisory Services	A		£ 35,000	£ 35,000
Licensing	Reduced Income	U	£ 25,358		£ 25,358
ICT Support	Gov Connect Charges	U		£ 25,000	£ 25,000
Corporate	Other minor growth items	U		£ 18,089	£ 18,089
			£1,739,649	£142,880	£1,882,529

1.25 In order to balance the budget a further reduction in costs or increase in income of £165,228 is required.

1.26.1 The following areas will be considered and an estimated range of contribution to the deficit is included.

Table 4

AREAS FOR FURTHER REVIEW	IMPACT	CONTRIBUTION RANGE
Scrutiny Recommendations re Stationary Budgets	Reduce Costs	Up to £5k reduced costs
Scrutiny Recommendations re Communications	Reduce Costs	To be agreed
Scrutiny Recommendations re Administration Review	Reduce Costs	Up to £100k reduced costs
Revenue Implications of Capital Programme	Increase / Reduce Costs	Up to £76k reduced costs
Council Tax Compensation Grant	Increase Income	Up to £156k
Review of Professional Fees	Reduce Costs	Up to £50k reduced costs

1.27 In addition further work will continue on identifying additional budget reductions for future years and these will be detailed in the Medium Term Forecast which will be updated and presented as part of the final budget report.

Risk

1.28 As ever the Council needs to plan its budget amidst a high degree of uncertainty, which brings with it risks. As well as specific mitigating actions on individual issues, risks are also addressed as part of our corporate risk register, proactive budget monitoring, service planning process and consideration of risk in all key decisions and committee reports.

- 1.29 The draft budget includes a specific service risk provision of £145,000 and a general provision of £147,000 which equates to 1% of projected net expenditure and is in line with our budget planning.
- 1.30 A full appraisal of risk will be included in the final budget report detailing mitigations and a sensitivity analysis will be included to calculate the specific risk provisions.

Reserves

- 1.31 In addition to the robust risk control measures it will be necessary for the Council to maintain a general fund general balance as the ultimate safeguard. This balance is projected to be circa £1m. A full review of Council reserves will be detailed in the February report to the Executive.

Further Document Information

Detail	
Scrutiny Reviews	27/09/2011 , 11/10/2011 , 20/10/2011 , 10/11/2011 22/11/2011
Executive Reports	5/9/2011 Budget Strategy & Guidelines
Building Blocks	
£1m Public Promise	