Executive

2008/09 Projected Revenue & Capital Outturn at 30TH September 2008 and 2009/10

17 November 2008

Report of Strategic Director for Customer Service and Resources and the Chief Accountant

PURPOSE OF REPORT

This report summarises the Council's Revenue and Capital performance for the first 6 months of the financial year 08/09 and projections for the full 08/09 period. These are measured by the budget monitoring function and reported via the Performance Management Framework (PMF) informing the 09/10 budget process currently underway

This report is public

Recommendations

The Executive is recommended:

1) To note the revenue & capital position at Sept 08 detailed in Appendix 1 and 2.

2) To note the projected revenue position for 08/09 detailed in Appendix 3 and the actions taken to date to reduce the projected overspend.

3) To agree that £3,605,367 of capital schemes listed in Appendix 4a approved as part of the 08/09 budget but profiled for expenditure in 2009/10 are bought forward for utilisation in 08/09 as per the revised profiles of the accommodation review and sports centre modernisation project.

4) To agree that £607,100 of capital schemes listed in Appendix 4b approved as part of the 08/09 budget are to be delayed and agree that they are carried forward for utilisation in 09/10. This delay will generate additional investment income in 2008/09.

5) To agree that £467,833 of schemes listed in Appendix 4c as no longer required and approved as part of the 08/09 budget can be deleted from the capital programme and approve supplementary estimates totalling £135,328 detailed in Appendix 4d for inclusion into the 08/09 capital programme comprising of:

   - £20,000 Data Encryption Software
   - £25,000 Service Desk Software
   - £35,328 Iclipse Software Licences
   - £27,000 Iclipse System Upgrade
   - £28,000 Banbury Visitor Management Plan

   The net decrease of £332,505 on cashflow projections will generate additional investment income.

6) Subject to agreement of points 4-7 inclusive note the projected capital out-turn position for 2008/09 detailed in Appendix 5.

7) To consider and recommend whether any of the actions proposed below to further contain expenditure during this period of economic downturn should be further explored by Officers in the Q3 projection.

- Delete or defer capital schemes that have yet to start as at 31st October 2008 and detailed in Appendix 6
- To cut any discretionary expenditure planned in the second half of the year
- To consider a review of reserves and the need to make provision for further economic issues as part of the Q3 projection.

Executive Summary

Introduction

1.1 In line with good practice budget monitoring is undertaken on a monthly basis within the Council. The revenue and capital position is reported monthly to the Corporate Management Team and formally to the Executive on a quarterly basis. This is the Q2 report for financial year 2008/09.

1.2 Due to the downturn in the economy, impact of the credit crunch on Council services and the volatility of the financial markets, the Council has been faced with a number of budget pressures that could not have been foreseen. This has resulted in officers spending additional time on the Q2 projection in order to take compensatory steps to reduce overspends and ensures minimal impact on front line services.

Revenue and Capital Out-turn as at 30th September 2008

1.3 The revenue budget position at 30th September 08 shows an underspend of £747k. This can be split between an underspend in services to date of £323k and additional investment income of £423k. The 30th September position did of course pre-date the Icelandic banking crisis which occurred in early October.

1.4 Total capital spend to 30th September 2008 including commitments amounts to £10.1m against a 6 month budget of £10.9m. This represents 93% of the profiled budget and 42% of the full year budget.

Revenue and Capital Projections

1.5 Projections until the end of the financial year, building on the September position and making reasonable and robust assumptions up to 31st March 2009 indicate an overspend against budget of £173k. This can be split between an overspend in services of £82k and an investment income deficit of £91k with the latter assuming full loss of the Icelandic bank interest for the current and previous financial year.

1.6 The capital programme has been subject to a detailed review by Officers and the latest projection indicates a capital outturn of £27.2m.

Conclusion

1.7 The variances on the revenue and capital projections are within the Council's stated tolerances of +2% / -5%. Revenue projection of £173k overspent is within 1% of budget provision and capital with proposed amendments agreed is also on track.

1.8 The General Fund reserve of £1.95m is adequately funded to meet this deficit.

1.9 A number of compensatory actions have been taken to partly offset the impact of the downturn in the economy and the potential interest impact of the investment in the failed Icelandic bank.

1.10 A number of issues have been identified that will need to be considered within the 2009/10 budget setting process and the impact of these on the funding of Council services.

1.11 If the Glitner interest is returned during the next 6 months there is a potential that this will give rise to an underspend. If this should be the case, officers will make recommendations for reallocating these funds in the Q3 projection report.

Background Information

Economic Climate

2.1 The economy is showing pronounced signs of slowing down and many industry experts have now agreed we are in the midst of a recession. The recent crisis in the financial markets has delivered a sharp and involuntary tightening of monetary policy. This, along with the continued effects of high inflation and decelerating house price inflation is expected to undermine consumer confidence and deliver lower or nil growth. The Bank of England's ability to cut rates (current base rate 4.5%) will be tempered by continued concerns over future inflation performance, with RPI now running at 5% and CPI peaking at 5.2%.

2.2 Butlers, the Council's Treasury Management Advisors, are currently of the view that the Bank Rate may decrease by up to 1% to 3.5% by the end of the current financial year. A further cut is expected of 0.25% in quarters 4 of 2008/2009 thus reducing the Bank Rate to 3.5%.

2.3 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 year we expect to be £155k short in land charges income and £320k short in planning fee income. We have also seen fluctuating fuel costs and we are forecasting an extra £70k in the cost of fuel for the full year. This combines to a projected £545k overspend this financial year related to the downturn which we can reasonably say we could not have forecast. The planned reduction in interest rates will also result in a reduction in investment income for the last quarter of 2008/09.

Investments in Iceland

2.4 We have £6.5m in one of the failed Icelandic banks - Glitner, with accrued interest to the end of the 2008/09 year due yet to be paid of £551k. These were long term investments and we were not expecting either the capital or the interest imminently. The fact that we have no access to this money at the moment makes absolutely no difference to our ability to deliver services or meet operational costs.

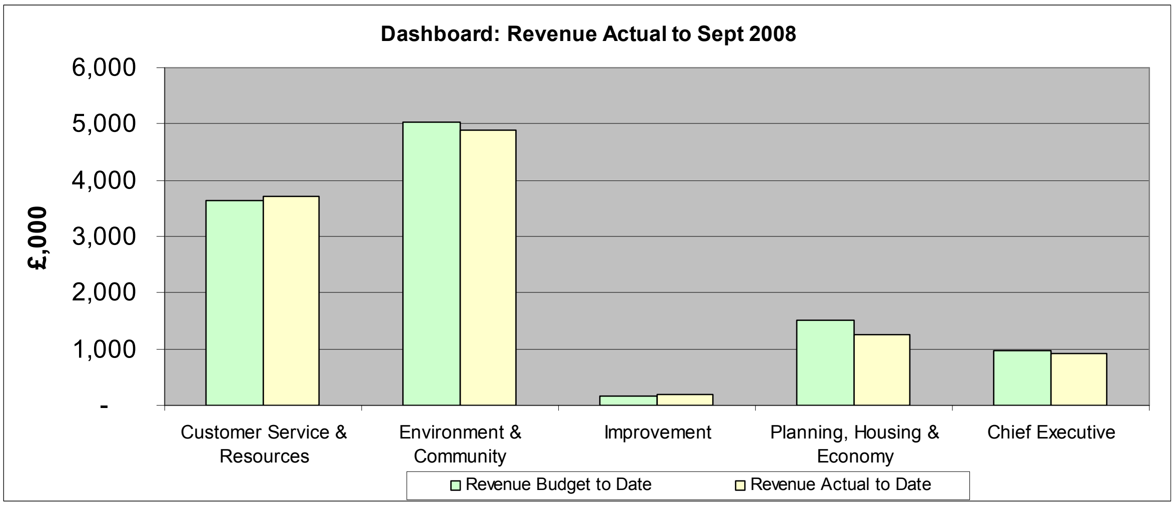
2.5 We are working closely with the LGA and Deloitte and Touche, who have been appointed as administrators of Glitner to seek recovery of our principal and accrued investment income.

2.6 Whilst this money is currently deemed at risk, we have for the purpose of this projection assumed the worst and assumed £551k of interest accrued relating to these loans for the period up to 31 March 2009 will not be received. The majority of this loss will be compensated for by the interest gains achieved to September 2008 of £460k leaving a very manageable shortfall of around £90k.

2.7 We have not as yet made any assumption on the likelihood of repayment of the £6.5m principal sum and await official guidance from CIPFA and will update in the Q3 projection.

Revenue and Capital Out-turn as at 30th September 2008

2.8 The revenue position at 30th September 08 is set out in Appendix 1.



2.9 The graph above shows a net underspend against budget of £747k. This can be split between an underspend in services to date of £323k and additional investment income of £423k.

2.10 A number of the underspends in services relate to timing issues and will correct themselves over the next quarter. However some of the underspends relate to reduced expenditure which has offset overspends relating to reductions in planning & land charge income and the effect of increased fuel prices. The overspends which have incurred in Q1 and Q2 that are projected to remain for the remainder of the year have been included into projections.

2.11 The additional investment income has been achieved as a result of higher than expected balances due to the initial delays in spending the capital programme and benefiting from higher than forecasted interest rates.

2.12 Total capital spend to 30 September 2008 including commitments amount to £10.1m against a 6 month budget of £10.9m. This represents 93% of the periodic budget and 42% of the annual budget.

2.13 Appendix 2 provides a more detailed statement showing the capital position on a scheme by scheme basis.

Revenue Projection 2008/09

2.14 The projected revenue out-turn for 2008/09 is set out in Appendix 3 which summarises the main variances between outturn and the 2008/09 budget by Directorate and variance by category.

2.15 Projections until the end of the financial year, building on the September position and making reasonable and robust assumptions up to 31st March 2009 indicate an overspend against budget of £173k. This can be split between an overspend in services of £82k and an investment income deficit of £91k.

2.16 The following actions have already been taken in order to minimise the impact of the economic downturn and potential loss of interest relating to the Icelandic investments :

a) All directorates have reviewed all income and expenditure based on the 6 month position and made an appropriate forecast releasing underspends where possible.

b) A review of current vacancies has resulted in a temporary freeze on 8 posts resulting in a reduction in salary costs. None of these will directly affect the Council's priorities in the next few months but may lead to some delay in work being progressed.

c) Agency costs across all services have been reviewed and an additional control procedure will be introduced to ensure posts that are not operationally critical are subject to additional authorisation.

d) A review of training budgets has realigned the total costs of training and resources to 3% of salary budget requirement agreed by Personnel and General Committee and therefore reduced budget requirement.

e) All consultancy expenditure has been reviewed and where possible future commitments have been delayed.

f) Concessionary fares are currently showing additional income of up to £240,000 which can be used to offset expenditure. As Q2 invoices were not available for projection purposes only £100,000 has been built into the projection.

2.17 The overspend can be analysed as follows :

	£,000
Glitner Interest Write Off	551
Economic Reasons	545
Delay in implementing restructure & admin review	117
Additional Expenditure offset partly by savings within service	8
Additional Costs	**1,221**
Additional Income – Investment and Car Parking	(525)
Vacancy Savings	(229)
Training Savings	(76)
Budget Refinement & Risk Reserve	(118)
Concessionary Fares	(100)
Savings Identified	**(1,049)**
Net 2008/09 Projected Net Overspend	**173**

2.18 The medium term financial strategy (MTFS) highlights a number of contingency plans to consider in the event of projected overspends and these have been considered in compiling this Q2 projection.

- Income generation
- Freezing recruitment in low priority areas
- Freeze on non essential spending

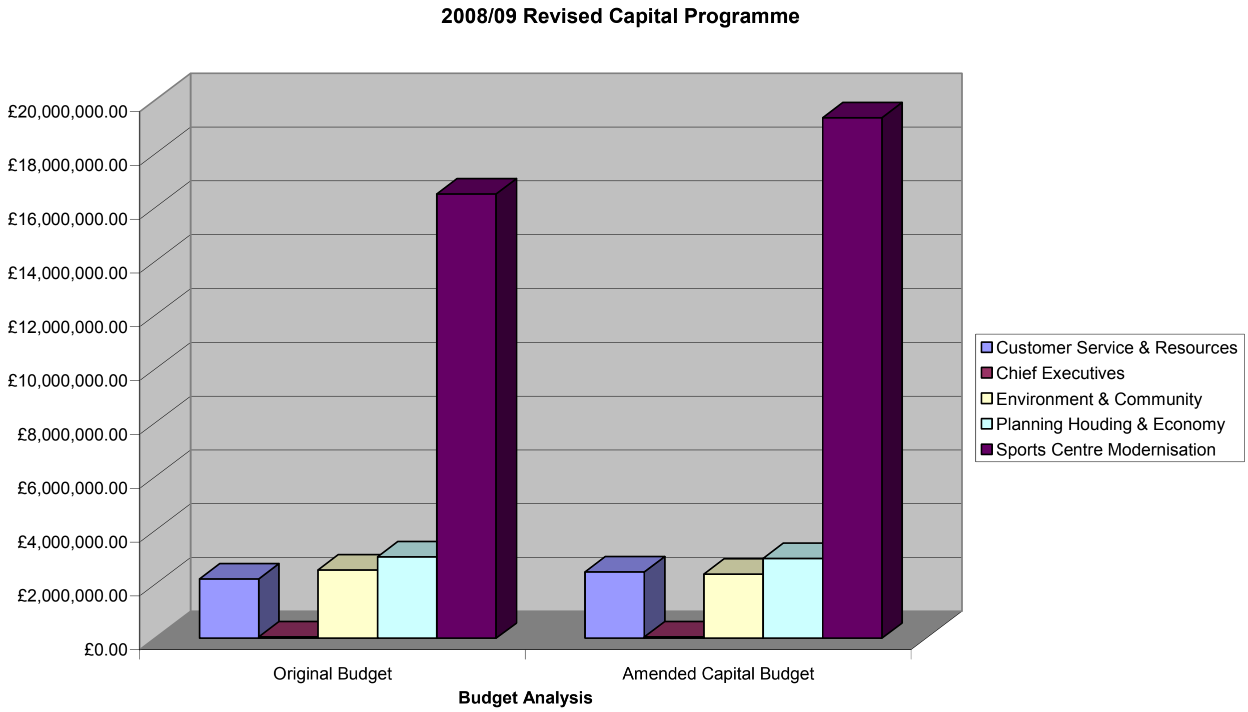
2.19 A number of further options have been explored which would further reduce the overspend and help any further detrimental impact of the economic downturn. The Executive is asked to consider whether it wishes to

- Delete or defer capital schemes that have yet to start as at 31st October 2008 and detailed in Appendix 6
- To cut any discretionary expenditure planned in the second half of the year
- To consider a review of reserves and the need to make provision for further economic issues as part of the Q3 projection.

Capital Projection 2008/09

2.20 The projected spend for capital schemes in 2008/2009 is £27m of which £19.3m relates to the Sports Centre Modernisation Project. This includes £0.3m of carry forwards from the 2007/08 programme and is compared to a 2008/09 original £24.3m.

-	**Original Budget**	**Bring fwd from 09/10 programme**	**Further funding Required**	**No Longer required**	**Delay project to 09/10**	**Revised Capital Budget**
Customer Service & Resources	2,209,551	780,000	107,328	-458,000	-120,000	2,518,879
Chief Executives	50,000	0	0	0	0	50,000
Environment & Community	2,535,353	0	28,000	-9,833	-175,000	2,378,520
Planning Housing & Economy	3,027,661	0	0	0	-312,100	2,715,561
Sports Centre Modernisation	16,515,000	2,825,367	0	0	0	19,340,367
	24,337,565	**3,605,367**	**135,328**	**-467,833**	**-607,100**	**27,003,327**



2.21 Appendix 5 summarises the main variances between outturn and the 2008/09 budget together with an analysis of the outcome of the capital review.

2.22 The Council has a General Fund Revenue reserve to meet any budgetary surplus or deficit.

2.23 The current reserve is £1.95m and adequately funded to offset the projected overspend of £179k.

Key Issues for Consideration/Reasons for Decision and Options

3.1 This report illustrates the Council's provisional performance against the 2008/09 Revenue and Capital Budget and informs the 2009/10 budget process.

The following options have been identified. The approach in the recommendations is believed to be the best way forward

Option One	To review current performance levels and consider any actions arising.
Option Two	To approve or reject the recommendations above or request that Officers provide additional information.

Consultations

Extended Management Team 16/09/08

Corporate Management Team 09/11/08, 15/11/08, 22/11/08 and 29/11/08

Implications

Financial:

Financial Effects – The financial effects are as outlined in the report. It should be noted that the information in this report is in the format used for budget monitoring purposes. Proactive action will continue to be taken as part of the budget monitoring process to identify areas of underspend or additional income that can offset the unavoidable additional costs currently forecast.

Efficiency Savings – There are no efficiency savings arising from this report however the budget 2008/09 was based on a number of efficiencies carrying forward from Gershon and achieving our targets for 2008/09. In addition to our own internal efficiency targets we also have to meet the Governments 3% efficiency target – National Indicator 179. Not all of our efficiencies can be counted towards this target and the finance team are therefore undertaking an exercise to allow progress against the Government target to be monitored.

Comments checked by Phil O`Dell, Interim Head of Finance, 01295 227098.

Legal:

There are no legal implications arising from this report.

Comments checked by Liz Howlett, Head of Legal and Democratic Services, 01295 221686.

Risk Management:

The position to date highlights the relevance of maintaining a minimum level of reserves and budget contingency to absorb the financial impact of changes during the year.

Comments checked by Rosemary Watts, Risk Management and Insurance Officer, 01295 221566.

Wards Affected

All

Corporate Plan Themes

An Accessible and Value for Money Council

Executive Portfolio

Councillor James Macnamara
Portfolio Holder for Resources

Document Information

Appendix No	Title
Appendix 1	Revenue Position at 30 September 2008
Appendix 2	Capital Position at 30 September 2008
Appendix 3	Revenue Projection 2008/9 and Analysis
Appendix 4a	Capital Analysis – b/f from approved 09/10 Capital Programme
Appendix 4b	Capital Analysis - c/f to 09/10 Capital Programme
Appendix 4c	Capital Analysis - delete from Capital Programme
Appendix 4d	Capital Analysis – Supplementary Estimates
Appendix 5	Provisional Capital Outturn 2007/2008
Appendix 6	Capital Schemes not yet started at 31st October 2008

Background Papers

2008/09 Budget Booklet
2008/09 Capital Asset Strategy
Medium Term Financial Strategy

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