

Draft Revenue 2010/11 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, confirmation of central Government Grant and the amount available for distribution from the Collection Fund. The draft budget will be presented to the Executive again on January 11th 2010 and February 1st before approval by Council on February 22nd 2010.

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 October 2009.

Economic Climate

- 1.3 The UK economy has now shrunk for six successive quarters and unemployment is close to 8%. The Governor of the Bank of England has however said (24th November 2009) that the sharp falls in output appear to have come to an end and that he is encouraged by signs that a recovery will soon be under way. As part of this he is though warning that inflation is likely to rise sharply in the coming months from its current level of 1.5% to above the target figure. This increase will be driven by increases in fuel prices and the reversal of last year's VAT cut. The Chancellor's Pre-Budget Report on 9th December will set out the Government's overall approach to dealing with the economic scenario and will give more details of how the required reduction in public borrowing will be achieved.
- 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 continued into the draft budget.
- 1.5 Butlers, the Council's Treasury Management Advisors, are currently of the view that the Bank Rate may start to increase by up to 1% to 2% during Q3 and Q4 of the 2010/11 financial year. For the purpose of this draft of the budget we have assumed a reinvestment rate of 2%.
- 1.6 The Council's decision in preparing the last MTFs forecast not to rely on investment income to deliver services assumes a 3 year profile and this together with the low interest rates will result in a reduction in investment income for 2010/11.

Medium Term Financial Forecasts

- 1.7 The medium term outlook for local government will be characterised by the Comprehensive Spending Review that will follow the next General Election. However, it is very clear that there are a host of significant challenges that will face local government generally over the next 3-5 years.
- 1.8 A study entitled "The Perfect Storm" undertaken by PWC has identified around seventy of such challenges. The following key themes will impact adversely on local government financing.
- Pressure on central funding
 - Pension costs
 - Revenue and Benefits
 - Impact of the downturn on citizens and businesses
 - Pressure for local funding and income generation
 - Pressure on capital and revenue
 - Demographic and policy changes
 - Pressure on partner organisations

- 1.9 Preparing for the impact of these will include cost reduction through transformation, asset realisation, income generation and collaboration.
- 1.10 Our medium term financial forecasts will be updated to take into consider future pressures and the outcome of the 2010/11 budget process. These forecasts will be included with the budget report in February 2010.

Investments in Iceland

- 1.11 We have £6.5m in one of the failed Icelandic banks – Glitner. We are working closely with the LGA and Bevan Brittan to seek recovery of our principal and accrued investment income. Our claim has been filed and will be considered by the Glitner creditor committee on 17 December 2009. On the assumption we retain priority status we expect a 100% return, however this status will be challenged by other creditors of the bank.
- 1.12 Whilst this money is currently deemed at risk, we have for the purpose of this draft budget 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 next draft 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 £349,263. This type of gap is not unusual at this stage in the process and it can be covered by considering the actions listed in 1.21.

Table 1

SERVICE EXPENDITURE - excluding support allocation	Outturn	Budget	Projection	Budget	Variance from 09/10 Projection	Variance from 09/10 Budget
	2008/09	2009/10	2009/10	2010/11		
Customer Services & Resources		£6,511,867	£6,339,702	£5,906,543	-£433,159	-£605,324
Environment & Community Improvement		£9,425,613	£9,538,086	£9,313,786	-£224,300	-£111,827
Planning, Housing & Economy		£343,463	£343,463	£162,889	-£180,574	-£180,574
Chief Executives		£2,889,698	£2,589,698	£2,396,999	-£192,699	-£492,699
		£3,801,789	£3,760,590	£3,175,228	-£585,362	-£626,561
Services Sub-Total	£23,450,526	£22,972,430	£22,571,539	£20,955,445	-£1,616,094	£2,016,985
Capital Charges Reversed	-£2,504,576	-£2,491,010	-£2,491,010	-£2,491,010	£0	£0
Net Expenditure Services	£20,945,950	£20,481,420	£20,080,529	£18,464,435	-£1,616,094	£2,016,985
(% decrease)		2%	2%	8%		6%
Reserves and Provisions	£1,453,387	-£654,556	-£853,665	£811,615	£1,665,280	£1,466,171
	£22,399,337	£19,826,864	£19,226,864	£19,276,050	£49,186	-£550,814
Funding						
Investment Income	£5,977,100	£2,915,931	£2,315,931	£1,655,742	-£660,189	£1,260,189
Government Grant	£10,359,016	£10,637,129	£10,637,129	£10,996,881	£359,752	£359,752
Collection Fund	£101,591	£108,313	£108,313	£108,313	£0	£0
Council Tax	£5,961,630	£6,165,491	£6,165,491	£6,165,491	£0	£0
	£22,399,337	£19,826,864	£19,226,864	£18,926,427	-£300,437	-£900,437
Potential Shortfall	£0	£0	£0	£349,623	£349,623	£349,623

COUNCIL TAX						
Relevant Tax Base	£49,678	£49,923	£49,923	£49,923		
Council Tax Rate for Band "D"	£120	£123.50	£123.50	£123.50		
Council Tax Collection	£5,961,630	£6,165,491	£6,165,491	£6,165,491		

1.14 The revenue budget shows an overall 8% decrease in service expenditure in comparison with the 2009/10 revenue projection and a reduction from 2008/09 outturn of £2,418,515.

1.15 The budget guidelines set a 2% efficiency target per directorate to address the economic issues and reduction in investment income. A target of £405,532 was required and to date £704,686 has been identified. As detailed below.

Table 2

Directorate	Total Efficiencies	2% Target Guideline	Additional Savings
CSR	£350,938	£123,941	£226,997
EAC	£208,398	£186,660	£21,738
PHE	£53,286	£45,326	£7,960
IMP	£31,943	£4,005	£27,938
CEX	£60,121	£45,600	£14,521
	£704,686	£405,532	£299,154

1.16 In addition to the above directorate specific efficiency targets our Medium Term Financial Strategy incorporated an agreed £1M action plan along with ongoing additional VFM and efficiency savings. These are detailed overleaf in table 3.

Table 3

Review of Savings	2009/10 FYE Effects	VFM & MTFS Savings	£1m Action Plan	2% Efficiency Target	Total	CSR	IMP	CEX	EAC	PHE	Total
Training - reduction in staff (10%) - reduce training budget			£51,000		£51,000	£51,000					£51,000
Cleaning - reduce agency to formal external contract			£10,000		£10,000			£10,000			£10,000
Rev's & Bens - support reduction			£124,000		£124,000	£124,000					£124,000
ICT - arising from review of operations area			£50,000		£50,000	£50,000					£50,000
EAC - review of expenditure			£100,000		£100,000				£100,000		£100,000
Engineering / Bldg Control - service transfer to County			£50,000		£50,000					£50,000	£50,000
Planning Policy - Post Deletion			£50,000		£50,000					£50,000	£50,000
Legal -Retirements / 85 year rule			£75,000		£75,000	£75,000					£75,000
Centralised Corporate Recovery			£51,000		£51,000	£51,000					£51,000
Improvement end fixed term		£100,000			£100,000		£100,000				£100,000
VFM Housing - part of 3 yr plan		£200,000			£200,000					£200,000	£200,000
Revs and Bens		£250,000			£250,000	£250,000					£250,000
Property VFM		£100,000			£100,000			£100,000			£100,000
Multifunctional Devices - impact on printing	£35,000				£35,000	£35,000					£35,000
Job Evaluation (One off Expenses)	£150,000				£150,000			£150,000			£150,000
Finance - Restructure	£51,000				£51,000	£51,000					£51,000
Head of Business Services - Post Deletion	£70,466				£70,466	£70,466					£70,466
Full Year Effects - EAC budget reductions	£172,328				£172,328				£172,328		£172,328
2% Efficiencies CSR				£350,938	£350,938	£350,938					£350,938
2% Efficiencies EAC				£208,398	£208,398				£208,398		£208,398
2% Efficiencies PHE				£53,286	£53,286					£53,286	£53,286
2% Efficiencies IMP				£31,943	£31,943		£31,943				£31,943
2% Efficiencies CEX				£60,121	£60,121			£60,121			£60,121
2010/11 Cost Reductions : Draft Budget1	£478,794	£650,000	£561,000	£704,686	£2,394,480	£1,108,404	£131,943	£320,121	£480,726	£353,286	£2,394,480
						46%	6%	13%	20%	15%	
1.25% of 09/10 salary budget			£228,000		£228,000						
Real Cost reduction	£478,794	£650,000	£789,000	£704,686	£2,622,480						

1.17 The outstanding elements of the £1M action plan which are under review for Draft 2 of the budget are in table 3a below. However the additional efficiencies identified in excess of the 2% target will ensure we meet this target.

Table 3a

Under Review for draft 2	
Stables - elimination of subsidy less support	£60,000
Insurance – this has been secured and will be built into draft 2	£75,000
Disabled Facility Grants and Grants Administration	£76,000
Total	£211,000

1.18 The following table provides an overview as to how the £2,394,480 budget reduction impacts on service provision and the method of provision. This identifies that 63% of the reductions identified have no current impact on service provision and 18% is in relation to the outsourcing of the revenues and benefits contract.

Table 3b

Detail	Service Impact	No Service Impact	Outsourcing	Total
Training - reduction in staff (10%) - reduce training budget		£51,000.00		£51,000
Cleaning - reduce agency to formal external contract		£10,000.00		£10,000
Rev's & Bens - support reduction			£124,000.00	£124,000
ICT - arising from review of operations area		£50,000.00		£50,000
EAC - review of expenditure	£31,000.00	£69,000.00		£100,000
Engineering / Bldg Control - service transfer to County	£50,000.00			£50,000
Planning Policy - Post Deletion	£50,000.00			£50,000
Legal -Retirements / 85 year rule		£75,000.00		£75,000
Centralised Corporate Recovery		£51,000.00		£51,000
Improvement end fixed term		£100,000.00		£100,000
VFM Housing - part of 3 yr plan	£77,262.00	£122,738.00		£200,000
Revs and Bens			£250,000.00	£250,000
Property VFM		£100,000.00		£100,000
Multifunctional Devices - impact on printing		£35,000.00		£35,000
Job Evaluation (One off Expenses)		£150,000.00		£150,000
Finance - Restructure		£51,000.00		£51,000
Head of Business Services - Post Deletion		£70,466.00		£70,466
Full Year Effects - EAC budget reductions	£172,328.00			£172,328
2% Efficiencies CSR		£303,988.00	£46,950.00	£350,938
2% Efficiencies EAC	£28,000.00	£180,398.00		£208,398
2% Efficiencies PHE	£53,286.00			£53,286
2% Efficiencies IMP		£31,943.00		£31,943
2% Efficiencies CEX		£60,121.00		£60,121
	£461,876.00	£1,511,654.00	£420,950.00	£2,394,480
	19%	63%	18%	

1.19 In addition to the detailed reductions analysed above there are areas of unavoidable growth which have been incorporated into the 2010/11 budget.

They are detailed within the table below and further information can be found in Appendix 3.

Table 4

Unavoidable Growth	Budget Increases	CSR	EAC
Concessionary Fares	£150,000		£150,000
SCM - Unitary Fee	£174,153		£174,153
District Elections	£53,342	£53,342	
	£377,495	£53,342	£324,153

1.20 Our Medium Term Financial Strategy requires efficiency savings and we have a NI target of 3.1% in 2010/2011. The draft budget presented includes a significant level of qualifying efficiencies which will be collated and reported to the February Executive meeting. From a budgetary point of view only cashable savings are relevant since non-cashable savings do not reduce the overall cost to the Council. The ongoing identification of efficiency savings must continue to be treated as a high priority.

1.21 In order to balance the budget a further reduction in costs or increase in income of £349,623 is required. The following areas will be considered.

Table 5

AREAS FOR FURTHER REVIEW	COST IMPACT
Build in impact of Insurance VFM	decrease
Mileage	decrease
Expression of Interest and EMT review	decrease
Revenue Implications of Capital Programme	decrease
Review of Discretionary Spend : Training, Consultancy, Stationary, Equipment	decrease
Centralise ICT budgets	decrease
Procurement Action Plan	decrease
Impact of Pay Modelling on allowances	decrease
Identify further efficiencies within services	decrease
Review of Interest Calculations	increase
Review of Risk Contingency	increase
Review of Fuel Costs	increase / decrease
Review of Income	increase / decrease
Transitional Rate Relief	increase / decrease
Review of Reserves	increase / decrease
Capital Programme - review proposals / interest impact	increase / decrease
Review of inflationary increases within contracts	increase / decrease

1.22 The outcome of these reviews together with amendments identified in relation to paragraph 1.21 above will be presented to the Executive in January 2010

Further Document Information

Appendix No	Title
3	Unavoidable Growth 2010/11