

Draft Revenue 2011/12 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 the 10th January 2011. Final version of the budget will be presented to the Executive on February 7th 2011 before approval by Council on February 21st 2011.

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 11th October 2010.

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. This will have a knock on effect on consumer and business confidence. House prices have started a negative trend during the summer and mortgage approvals are at very weak levels and also declining.
- 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 Inflation beyond 2011 is forecast to fall back rapidly once the second increase of VAT by 2.5% (which in the short term will add 1.5% to CPI) next January falls out of the index after 12 months, together with other recent sharp increases in food and commodity prices. Consequently inflation at the two year horizon is forecast to fall to around 1.5%, below the target rate of 2%.
- 1.6 Sector, the Council's Treasury Management Advisors, are currently of the view that the Bank Rate may start to increase during Q3 and Q4 of the 2011/12 financial year by 0.5%. For the purpose of this draft of the budget we have assumed a reinvestment rate of 2% for investment income purposes.
- 1.7 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 2011/12.

Medium Term Financial Forecasts

- 1.8 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 £16.8m requirement over 4 years. The savings identified in draft 1 of the 2011/12 will provide a substantial contribution to this and a new medium term financial forecast will be included with the budget report in February 2011 once the final government funding is confirmed.

Investments in Iceland

- 1.9 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 latest position is that, the Council currently does not have preferential credit status and as such would only recover 29% of this balance. Local Authorities have objected to this creditor status and legal action is being taken.
- 1.10 Local authorities' objections will now be considered under the processes followed under Icelandic insolvency law, and court action will be taken as necessary. 14 test cases which contain legal arguments to support preferential creditor status and 100% recovery have been presented to the Icelandic Courts in September 2010. Cherwell represent 3 of these cases (each deposit is a separate test case).
- 1.11 The defendants including the winding up board are in the process of filing their submissions in response. If local authority deposits are awarded priority status, claims will be fully repaid. If local authority deposits do not get priority status, the Council will receive much less of its investment back.
- 1.12 No payment is expected before the court cases and any appeals for priority status. The earliest likely date by which payment could be made is June 2011 and on this basis we would need to write off the debt in 2010/11 accounts.
- 1.13 The Council have made a capitalisation request to Secretary of State to use capital receipts to offset this loss and a decision is expected on whether this has been approved no later than December 17 2010. If this request is declined then the Council will use earmarked revenue reserves to offset the loss which is part of the medium term financial strategy.
- 1.14 No investment income has been built into the 2011/12 budget for the return of the £6.5m principle at this stage but this will be reviewed as we progress legal proceedings and prepare the final 2011/12 budget.
- 1.15 The LGA is confident that local authorities' priority status as depositors will in due course be secured and 100% recovered and we will keep this committee informed of progress.

General Fund Revenue Budget

- 1.16 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 £1,114,180. This type of gap is not unusual at this stage in the process and it can be covered by considering the actions listed in 1.23 / 1.24.

Table 1

SERVICE EXPENDITURE - excluding support allocation	Budget	Projection	Budget	Variance from 10/11 Projection	Variance from 10/11 Budget
	2010/11	2010/11	2011/12		
Corporate Core	£4,543,693	£4,399,250	£3,817,502	-£581,748	-£726,191
Environment & Community	£11,622,769	£11,846,690	£10,906,076	-£940,614	-£716,693
Planning, Housing & Economy	£4,947,243	£4,938,910	£4,801,858	-£137,052	-£145,385
Services Sub-Total	£21,113,705	£21,184,850	£19,525,436	-£1,659,414	-£1,588,269
Capital Charges Reversed	-£2,850,060	-£2,850,060	-£2,735,110	£114,950	£114,950
Net Expenditure Services	£18,263,645	£18,334,790	£16,790,326	-£1,544,464	-£1,473,319
(% decrease)	9%	0%	8%		0%
Reserves and Provisions	£263,881	£192,736	£421,624	£228,888	£157,743

	£18,527,526	£18,527,526	£17,211,950	-£1,315,576	-£1,315,576
Funding					
Investment Income	£1,348,753	£1,348,753	£891,127	-£457,626	-£457,626
Government Grant	£10,905,340	£10,905,340	£8,687,646	-£2,217,694	-£2,217,694
Collection Fund	£84,477	£84,477	£142,403	£57,926	£57,926
Council Tax	£6,188,956	£6,188,956	£6,376,594	£187,638	£187,638
	£18,527,526	£18,527,526	£16,097,770	-£2,429,756	-£2,429,756
Potential Shortfall	£0	£0	£1,114,180		
COUNCIL TAX					
Relevant Tax Base	50113	50113	50396		
Council Tax Rate for Band "D"	£123.50	£123.50	£123.50		
Council Tax Collection	£6,188,956	£6,188,956	£6,376,594		

- 1.17 Our assumption for Council tax is that we will set a 0% increase for 2011/12. 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.
- 1.18 The revenue budget shows an overall 8% decrease in service expenditure in comparison with the 2010/11 revenue projection and a reduction from 2009/10 outturn of £3,587,491.
- 1.19 In light of the challenging financial position the Council faces in both this and forthcoming years, work has been in progress on the 2011/12 budget since setting the 2010/11 budget in March 2010. The Council made a public promise to deliver £800K 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.
- 1.20 This first draft of the 2011/12 revenue budget demonstrates that we have delivered the £800K public promise and incorporated building blocks to the value £972K. In addition, we have also identified £580K worth of additional efficiencies which has also been built into this first draft.
- 1.21 There are three value for money (VFM) reviews going to the Executive in December for approval as part of the same agenda when this draft budget will be considered. Some of the proposals have been included in draft 1. If these proposals are not approved then alternative reductions will be required to offset these in draft 2. There are a number of these savings that have not been built in and these will be considered in addressing the budget deficit in draft 2.

Table 2 on the following pages provides a further breakdown :-

Table 2

Review of Savings	Building Block Description	B Block Number	£800K Savings Promise	Building Blocks	Efficiencies	Total	CRP	PHE	EAC	Total
Finance VFM 2009/10	Reduce 2 posts		£100,000			£100,000	£100,000			£100,000
Legal VFM 2009/10	Further £50k to be identified in 2010/11		£57,000			£57,000	£57,000			£57,000
Communications VFM 2010/11	Full review of printing, advertising and marketing - target 100k reduction		£115,000			£115,000	£115,000			£115,000
Corporate & Democratic Core VFM 2010/11	Review use of 3 Fund managers - target reduction in costs to Treasury Management		£10,000			£10,000	£10,000			£10,000
Corporate & Democratic Core VFM 2010/12	Review of democratic services - VFM - target £70k reductions		£70,000			£70,000	£70,000			£70,000
Corporate & Democratic Core VFM 2010/13	Review of community planning activities - target £20k reductions		£31,000			£31,000	£31,000			£31,000
Community Planning VFM 2009/10	Insurance review - merge with Finance and reduce 1 post		£49,000			£49,000	£49,000			£49,000
ICT review 2009/10	ICT review		£93,000			£93,000			£93,000	£93,000
Regeneration & Estates VFM 2009/10	Canteen - staff reductions and fee review		£27,000			£27,000		£27,000		£27,000
Housing Services VFM 2010/11	VFM - Annual Programme - Housing Services		£100,000			£100,000		£100,000		£100,000
Procurement Self Financing Target	Contract Negotiations - cashable savings		£150,000			£150,000	£150,000			£150,000
Admin Review II	Total Admin in PHE, EAC and Corporate equates to £1m - reduce by 10%	66		£13,000		£13,000	£13,000			£13,000
Contract Management	Review the contract management resource throughout the Council and centralise within one team with Procurement - reduce by 2 posts	85		£53,000		£53,000	£53,000			£53,000
Performance Regime	Consider the performance regime of the Council on the back of the demise of CAA - target reductions in performance team and admin as a result of reviewing what is measured and what is no longer necessary - assume 1 post deleted	108		£29,000		£29,000	£29,000			£29,000
Benefits Advertising	Not a statutory function to promote the take up of benefits - was an audit commission indicator	106		£5,000		£5,000	£5,000			£5,000
Training	Sell externally	54		£25,000		£25,000	£25,000			£25,000
Internal Audit	Review specification and consider reduction in light of CAA demise and stat/disc reviews - assume 20 day reduction in new contract negotiation in 12/13	112		£9,000		£9,000	£9,000			£9,000
Statutory / Discretionary Review		87		£6,000		£6,000	£6,000			£6,000
Street Wardens	Review budgets and target reduction of £16k	33		£15,800		£15,800			£15,800	£15,800

Review of Savings	Building Block Description	B Block Number	£800K Savings Promise	Building Blocks	Efficiencies	Total	CRP	PHE	EAC	Total
Car Parks	Reduced frequency of cash collections from machines	34		£6,800		£6,800			£6,800	£6,800
Subscriptions	Safer Communities Urban & Rural Services Cancel specified subscriptions within Service	35		£2,700		£2,700			£2,700	£2,700
Christmas Lights	Negotiate shared costs of Christmas Lights with Urban Centres	36		£36,000		£36,000			£36,000	£36,000
Nightsafe	Reduce officer time to 50%	43		£13,000		£13,000			£13,000	£13,000
Recycling Income	Improved recycling performance through increased targeting.	8		£45,000		£45,000			£45,000	£45,000
Gate Fees	Negotiated reduction in gate fees	9		£77,000		£77,000			£77,000	£77,000
Glass Collection	Lower net cost in-house collection service requires capital of £130k.	10		£76,000		£76,000			£76,000	£76,000
Bring Banks	Various operational efficiencies	11		£20,000		£20,000			£20,000	£20,000
	Reduced replacement bin costs by more repairs etc	13		£12,500		£12,500			£12,500	£12,500
Street Cleansing	Reduce staff levels through non-use of seasonal staff and not filling a vacancy created through natural turnover of staff.	14		£54,000		£54,000			£54,000	£54,000
Vehicle Maintenance	Increased income on MOT's	16		£5,000		£5,000			£5,000	£5,000
Vehicle Maintenance	Improved cost base	17		£2,500		£2,500			£2,500	£2,500
VFM Programme	Scalable structure, selective external hosting, alternative procurement etc	1		£134,000		£134,000			£134,000	£134,000
Colour printing	Substantial reduction to internal colour printing	2		£24,000		£24,000			£24,000	£24,000
Parish Websites	Alternative parishes website hosting	3		£2,100		£2,100			£2,100	£2,100
Cash Handling	Install 4 Autotellers.	6		£71,000		£71,000			£71,000	£71,000
Staffing	Implemented reduced hours for 3 posts	18		£29,000		£29,000			£29,000	£29,000
Leisure Development	No Projects Officer resulting in fewer projects, limited S106 activity and no support to parishes and other voluntary sector bodies	24		£26,000		£26,000			£26,000	£26,000
North Oxford Academy	Joint User Agreement	28		£41,000		£41,000			£41,000	£41,000
Cooper School	Joint User Agreement	27		£34,000		£34,000			£34,000	£34,000
Grants	No grants to village Halls	25		£39,000		£39,000			£39,000	£39,000
Expressions of Interest	Reduction in resources through expression of interest process	15		£58,000		£58,000			£58,000	£58,000
Facility Management	Centralisation of all and general reduction in service maintenance budgets - budget clarification required as costs covered in devolved budgets	100		£7,400		£7,400		£7,400		£7,400

Review of Savings	Building Block Description	B Block Number	£800K Savings Promise	Building Blocks	Efficiencies	Total		CRP	PHE	EAC	Total
EFFICIENCIES											£0
Efficiencies Corporate Core					£180,152	£180,152		£180,152			£180,152
Efficiencies PHE					£223,813	£223,813			£223,813		£223,813
Efficiencies EAC					£226,094	£226,094				£226,094	£226,094
Total			£802,000	£971,800	£630,059	£2,403,859		£902,152	£358,213	£1,143,494	£2,403,859
								38%	15%	48%	

1.22 The following table provides details of the “New Effects” in the 2011/12 budget. These are either additional expenditure or increased income. You will see that the net effect of these changes is minimal to the Councils bottom line budget, but they do represent in many instances uncontrollable changes from last year’s budget. They have been incorporated into service budgets whilst those services have still delivered their building blocks, contribution to the Councils £800K savings promise and further efficiencies.

Table 3

New Effects	£	CRP	EAC	PHE
	Total			
Removal of Capital Charges	-£33,000	-£33,000		
Movement in Subsidies - Exchequer Services	-£108,000	-£108,000		
Legal - Net effect Increased Planning fee Income and reduced Land Charge Income	-£31,000	-£31,000		
Reduced Admin Subsidy - Benefits Investigations	£9,000	£9,000		
NNDR - Increased Cost	£61,245		£47,932	£13,313
Increased Utility Charges	£23,710		£2,815	£20,895
Career Grade Increases	£13,000		£13,000	
Emergency Flooding and Land Drainage Services transferred to County	-£66,000			-£66,000
Completion of Town Centre Redevelopment - No further legal costs recovered.	£50,000			£50,000
Loss of Rental Income Orchard Way shops (redevelopment)	£28,000			£28,000
Impact of full year rent received for Lodge Bodicote House	-£4,800			-£4,800
Estimated strain of Car Park / Excess Charge and Season Ticket Income	£128,000		£128,000	
TOTAL	£70,155	-£163,000	£191,747	£41,408

1.23 In addition there are areas of Unavoidable Growth which have also been incorporated into the 2011/12 budget. These are of a more significant nature to New Effects and are detailed within the table below;

Table 4

Unavoidable Growth		Budget Increases
Concessionary Fares	Mid Point Impact of £800K for the transfer of Concessionary Fares to the County - incorporated within Draft 1 - awaiting notification.	£800,000
Reduction In Revenue Support Grant	13% Reduction of Revenue Support Grant incorporated into Draft 1- awaiting notification.	£1,417,694
Increased Pension Provision	Impact of 2010 pension revaluation -staggered over three financial years – 2011/12 impact detailed across.	£117,624
Loss Of Housing Planning Delivery Grant	Impact Offset By VFM Review of Service.	£0
Loss of Community Cohesion Grant	Impact Offset By Reduction in expenditure	£0
	TOTAL	£2,335,318

1.24 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. Although the national indicator NI179 that is used to measure this has been withdrawn the ongoing identification of efficiency savings must continue to be treated as a high priority.

- 1.25 In order to balance the budget a further reduction in costs or increase in income of £1,114,180 is required.
- 1.26 On the assumption that the Executive approve the scrutiny recommendations and the shared management business case with South Northamptonshire is approved by both Councils on December 8th 2010 then this will contribute circa £900,000 therefore reducing the deficit to a manageable £215,000.

Table 5

AREAS PENDING APPROVALS	IMPACT	CONTRIBUTION RANGE
Scrutiny Recommendations re Training	Reduce Costs	Up to £72,000
Scrutiny Recommendations re Fees & Charges	Increase Income	£300,00 - £500,000
Joint Working Decisions SNDC or Plan B	Reduce Costs	£333,000 (business case)

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

Table 6

AREAS FOR FURTHER REVIEW	IMPACT	CONTRIBUTION RANGE
Building Block - Administration Review	Reduce Costs	Up to £87,000
Revenue Implications of Capital Programme	Increase / Reduce Costs	-£20,000 to £140,000
Pay Grade Adjustments - (£250 for over £25K)	Increase Costs	£20,000 to £30,000
Grant Reductions (Appendix 3 1st November Executive Report)	Reduce Costs	£25,000 to £75,000
Other Reductions (Appendix 4 1st November Executive Report)	Reduce Costs	£150,000 to £322,000
VFM Reviews (Executive in December)	Reduce costs	£25,000 to £100,000
Review of Interest Calculations	Reduce / Increase Income	
Review of Risk Contingency and Reserves	Increase/Reduce Provision	
Finalisation of Collection Fund	Increase / Reduce	
Notification of Revenue Support Grant (13% reduction in DRAFT 1)	Increase / Reduce	Each 1% increase or decrease equals £110,000
Concessionary Fares – awaiting final confirmation of budget pressure	Increase / Reduce	

- 1.28 The outcome of the reviews in 1.23 and 1.24 together with the updated position of the local government grant settlement and its implication on the current budget shortfall will be presented to the Executive in January 2011 but at this stage it is expected that these together with the Councils ability to utilise reserves will deliver the remaining £215,000 shortfall and achieve a balanced budget for 2011/12.
- 1.29 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

- 1.30 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.
- 1.31 The draft budget includes a specific service risk provision of £100,000 and a general provision of £160,000 which equates to 1% of projected net expenditure and is in line with our budget planning.
- 1.32 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

- 1.33 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 Reports	28/09/2010 , 12/10/2010 , 23/11/2010 , 30/11/2010
Executive Reports	1/11/2010 Early Response to Comprehensive Spending Review.
Building Blocks	1/11/2010 Early Response to Comprehensive Spending Review.
£800K Savings Promise	1/11/2010 Early Response to Comprehensive Spending Review.