

**URGENT BUSINESS AND SUPPLEMENTARY INFORMATION****Executive****12 January 2009**

Agenda Item Number	Page	Title	Officer Responsible	Reason Not Included with Original Agenda
11.	(Pages 1 - 10)	Service Plans and Budget	Strategic Director for Customer Service and Resources and the Chief Accountant	Information not available at time of agenda dispatch

*If you need any further information about the meeting please contact James Doble, Legal and Democratic Services james.doble@cherwell-dc.gov.uk (01295) 221587*

### **Draft Revenue 2009/10 Budget and Analysis**

#### **The Status of the Budget**

- 1.1 This second draft of the budget presented to the Executive has been subject to scrutiny of revenue, capital bids and efficiency savings by the Resources and Performance Scrutiny Board at their meeting on 9<sup>th</sup> December 2008. The comments from that meeting are contained in Appendix 4.
- 1.2 The final allocation of central Government Grant has been confirmed and has remained as per the three year settlement. The amount available for distribution from the Collection Fund will be confirmed later in the process and expected further announcements in relation to inflation and interest rates will also be considered.
- 1.3 The draft budget will be presented to the Executive again on February 2<sup>nd</sup> 2009 with detailed analysis of expenditure by Directorate and service before approval by Council on February 23<sup>rd</sup> 2009.

#### **Economic Climate**

- 1.4 Since the last report on December 1<sup>st</sup> 2008 the Bank of England's has continued to cut interest rates in a bid to stimulate consumer spending. The current base rate is now 2% with further announcements expected on 8<sup>th</sup> January 2009.
- 1.5 Consumer Prices Index (CPI) annual inflation – the Government's target measure – was 4.1 per cent in November, down from 4.5 per cent in October with RPI now running at 3.0%. Adjustments to the budget in relation to the RPI reduction have been built into the analysis.
- 1.6 These rates are expected to fall again on 20<sup>th</sup> January 2009 and the budget will be updated accordingly.
- 1.7 Butlers, the Council's Treasury Management Advisors, are currently of the view that the Bank Rate may decrease by a further 1% to 1% by the end of the current financial year. They have forecasted the following rates for the next 3 years : 2010/11 – 2%, 2011/12 – 2.8%, 2012/2013 – 4% and 2013/14 – 4%
- 1.8 The planned reduction in interest rates along with the expenditure of the capital programme will result in significant reduction in investment income for 2009/10.
- 1.9 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. In addition we face significantly increased fuel costs on expiry of the current contracted rates. There is also rising pressure on a number of Council services, notably benefits and a rise in homelessness will be expected. These assumptions have been continued into the draft budget.

## General Fund Revenue Budget

- 1.9 The draft General Fund Revenue budget is shown in Table 1. The draft budget presented illustrates significant progress in securing further efficiency savings to substantially reduce the funding gap identified in the previous draft from circa £0.7million to around £40k with minimum impact on services.

	Outturn 2007/08	Budget 2008-09	Projection 2008-09	Budget 2009-10 Draft 1	Budget 2009-10 Draft 2
<b>SERVICE EXPENDITURE</b>					
<b>Services Sub-Total</b>	<b>26,143,031</b>	<b>22,325,765</b>	<b>22,893,373</b>	<b>22,453,581</b>	<b>22,494,476</b>
Capital Charges Reversed	(2,504,576)	(1,228,310)	(1,228,310)	(1,274,986)	(2,446,965)
<b>Net Expenditure Services increase/(decrease)</b>	<b>23,638,455</b>	<b>21,097,455</b>	<b>21,665,063</b>	<b>21,178,595</b>	<b>20,047,511</b>
		-11%	3%	-2%	
<b>Reserves and Provisions</b>	<b>111,543</b>	<b>82,428</b>	<b>(160,572)</b>	<b>(251,943)</b>	<b>(320,344)</b>
	<b>23,749,998</b>	<b>21,179,883</b>	<b>21,504,491</b>	<b>20,926,652</b>	<b>20,926,652</b>
Investment Income	(6,892,106)	(5,030,455)	(4,939,455)	(3,155,973)	(2,774,248)
Government Grant	(9,947,783)	(10,310,045)	(10,310,045)	(10,610,610)	(10,637,130)
Collection Fund	(195,652)	(101,591)	(101,591)	(101,591)	(101,591)
Council Tax	(5,807,252)	(5,961,360)	(5,961,360)	(6,323,811)	(6,170,483)
	<b>(22,842,793)</b>	<b>(21,403,451)</b>	<b>(21,312,451)</b>	<b>(20,191,985)</b>	<b>(20,600,479)</b>
<b>Potential (Surplus)/Shortfall</b>	<b>907,205</b>	<b>(223,568)</b>	<b>192,040</b>	<b>734,667</b>	<b>43,715</b>
<b>COUNCIL TAX</b>					
Relevant Tax Base	49,214	49,678	49,678	50,672	49,923
Council Tax Rate for Band "D"	£118.00	£120.00	£120.00	£124.80	£123.60
<b>Council Tax Collection</b>	<b>5,807,252</b>	<b>5,961,360</b>	<b>5,961,360</b>	<b>6,323,811</b>	<b>6,170,483</b>

- 1.10 The reduction of the deficit of £690,952 can be analysed as :

Driver	£,000
Reduction in investment income due to rates and balances	381,725
Reduction in Council Tax Income – tax base and RPI changes	153,328
Additional Concessionary Fare	120,000
Fees and Charges	(448,500)
Increased recycling gate Fees	80,000
Inflation reduction – 3.8% to 2%	(124,836)
Low Priority Areas – Action Plan to reduce expenditure	(278,000)
New efficiencies identified	(424,669)
<b>Total</b>	<b>(690,952)</b>

1.11 The additional efficiency savings can be analysed as :

<b>Category</b>	<b>£,000</b>
VFM Reviews	(28,693)
Efficiencies	(74,500)
Budget Adjustments	(21,239)
Further procurement savings	(82,500)
Service Impact	(15,000)
Staffing Adjustments – freeze on additional vacant post	(202,739)
<b>Total</b>	<b>(424,669)</b>

1.12 The value of planned efficiency savings included in this budget now totals £1,681,791.

**Actions to address budget deficit**

1.13 In order to balance the budget a further reduction in costs or increase in income of £43,715 is required.

1.14 The following actions have been identified for the Executive to consider in order to minimise the budget deficit at this stage:

<b>Deficit to Budget Draft 1</b>	<b>£734,667</b>	<b>Comments</b>
<b>Actions identified from Dec 1<sup>st</sup></b>	<b>£690,952</b>	<b>Comments</b>
<b>Deficit to Budget Draft 2</b>	<b>£43,715</b>	<b>Comments</b>
<b>Potential Areas to consider</b>		
Inflation and Interest Rate Changes		Announcements due 8 <sup>th</sup> and 20 <sup>th</sup> Jan 09 – potential impact on both costs and council tax setting
Capital Programme Review		Each £1m of capital spend has a minimum revenue opportunity cost of £20,000
Low Priority Services – Action Plan		Agree action plans
Review of Reserves		General review and use of reserves

**Medium Term Financial Strategy 2009/10 – 2013/14**

1.15 The current economic climate presents unprecedented challenges in meeting spending priorities without placing undue burden on local taxpayers. The Council's successful approach to improving value for money and securing efficiencies on an ongoing basis provides the foundation for further significant cost reductions in the coming year, over and above contributions secured to date in excess of £2.8million.

- 1.16 Our Medium Term Financial Strategy, accommodating government targets requires ongoing efficiency savings and we have a NI target of 3.1% in 2009/2010. 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 MTFS requirement to secure the stated efficiencies limits our ability to reinvest the savings secured, unless we adopt a longer term view on a “spend to save” basis. Therefore, ongoing identification of efficiency savings must continue to be treated as a highest priority.
- 1.17 The Medium Term Financial Strategy has been updated in light of the last 2008/09 revenue projection and as part of the 2009/10 budget work. All significant expenditure and efficiency savings to date have been included as well as the impact of the capital programme included in Appendix 2. The draft forecast at present shows a shortfall of £1.8m of which £1.6m can be attributed to the reduction of investment income from 2009/10 to 2010/11.
- 1.18 The Council’s systematic approach to reducing the dependency on investment income has been successful to date; between financial years 2007/08 and financial years 10/11 actions taken have improved our position by some 50%, reducing annual revenue dependency on interest rate contributions from circa £6m to circa £3m. This has been achieved alongside the delivery of an ambitious capital programme and the successful delivery of the council’s priorities. The result of these actions to date has secured considerable protection from the full force of the interest rate deterioration. In the coming year we must continue our focus and give consideration to “fast-tracking” our planned strategy in order to secure a sustainable financial future and continue to have the available resources to meet the priorities of our community.

	Draft Budget 2009-10	FC 2010- 11	FC 2011- 12	FC 2012- 13	FC 2013- 14
<b>Service Expenditure</b>	<b>22,494,476</b>	<b>22,899,377</b>	<b>23,357,364</b>	<b>23,847,869</b>	<b>24,348,674</b>
Capital Charges Reversed	(2,446,965)	(2,491,010)	(2,540,831)	(2,594,188)	(2,648,666)
<b>Net Expenditure Services</b>	<b>20,047,511</b>	<b>20,408,366</b>	<b>20,816,534</b>	<b>21,253,681</b>	<b>21,700,008</b>
Investment Income	(2,774,248)	(1,153,661)	(1,316,081)	(1,684,580)	(1,504,580)
<b>Potential (Surplus)/Shortfall</b>	<b>43,715</b>	<b>1,799,528</b>	<b>1,720,008</b>	<b>1,238,350</b>	<b>1,451,119</b>
Govt Efficiency Target (3.1%) : <b>to be identified</b>	included above	(632,659)	(645,313)	(658,864)	(672,700)
Use of Reserves <b>to be agreed</b>					
<b>Projected Shortfall</b>	<b>43,715</b>	<b>1,166,869</b>	<b>1,074,695</b>	<b>579,486</b>	<b>778,419</b>

#### Further Document Information

Appendix No	Title
Appendix 3	Medium Term Financial Strategy

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## Draft Capital Programme 2009/10

**09/10 CAPITAL PROGRAMME AND FINANCING STATEMENT-  
SUMMARY**

	Scheme Cost £
Approved Programme-Schemes approved prior to 2009/2010** including Sports Centre Modernisation	£17,017,399
Proposed Programme for 2009/2010 delivery	<u>£6,220,000</u>
<b>Total Capital Programme excluding projects</b>	<b>£23,237,399</b>
<b>**</b>	
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<b>Total Capital Programme for 2009/10 Budget Approval</b>	<b>£23,237,399</b>
<b>Financed by:</b>	
Capital Receipts	£17,134,399
Capital Grants and Contributions	£2,878,000
Government Grants	£375,000
Direct Revenue Financing/Use of Reserves	£2,850,000
	<u>£23,237,399</u>

- 1.1 The existing approved capital programme amounts to £17,017,399. The new capital proposals to date for 2009/10 are shown in Appendix 2a these bids total £23,237,399 of which £6,220,000 will be delivered in 2009/10.
- 1.2 As part of the process to balance the revenue budget and the scrutiny review by the Resources and Performance Board only schemes with a priority rating of 1-3 have now been included except for 2 bids that are required for health and safety reasons. All other bids scoring 4-7 have been deferred or deleted from the programme and will not require any further consideration in this budget cycle.
- 1.3 Each scheme is supported by an appraisal and these will be scored according to priority.
- 1.4 Each £1million spent on capital has a capital opportunity cost of lost investment income – so at current base rates this equates to £20,000 pa.
- 1.5 The Capital programme review is still ongoing and therefore a revision to the Capital programme will be included for consideration in the February 2009 budget reports.

### Further Document Information

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Appendix No	Title
Appendix 2a	Capital Programme Summary
Appendix 2b	Capital Bid Summary by Directorate – to follow







**DRAFT MEDIUM TERM FINANCIAL FORECAST**

Outturn 2007/08	Budget 2008-09	Projection 2008-09	Budget 2009-10	FC 2010-11	FC 2011-12	FC 2012-13	FC 2013-14	Rec
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**Baseline**

<b>SERVICE EXPENDITURE</b>								
Services Sub-Total	26,143,031	22,325,765	22,893,373	22,494,476	22,899,377	23,357,364	23,847,869	24,348,674
Capital Charges Reversed	(2,504,576)	(1,228,310)	(1,228,310)	(2,446,965)	(2,491,010)	(2,540,831)	(2,594,188)	(2,648,666)
<b>Net Expenditure Services</b>	<b>23,638,455</b>	<b>21,097,455</b>	<b>21,665,063</b>	<b>20,047,511</b>	<b>20,408,366</b>	<b>20,816,534</b>	<b>21,253,681</b>	<b>21,700,008</b>
<b>Other Issues</b>								
Full Year Effects 2009/10				(35,000)	(35,000)	(35,000)	(36,414)	(37,142)
Admin Review				(85,000)	(85,000)	(86,700)	(88,434)	(90,203)
VFM - Reviews already actioned in 09/10				(550,000)	(550,000)	(561,000)	(572,220)	(583,664)
Improvement - end of 3 yr fixed post				(100,000)	(102,000)	(104,142)	(106,329)	(108,573)
Job Evaluation Set Up Costs - only in 08/09 & 09/10				(150,000)	(153,000)	(156,000)	(159,181)	(162,444)
<b>Low Priority Services - Action Plan</b>								
<b>VFM - 09/10 Projects</b>								
<b>Organisational Developments</b>								
<b>Other Funding</b>								
<b>New Fees and Charges</b>								
Recession end - Impact on Planning / Land Charge Fees								
Pension Revaluation	0	200,000	138,000	247,200	251,650	256,683	262,073	267,576
Pension Compensation Payments	0	253,928	253,928	253,928	200,000	204,000	208,284	212,658
Capital Cost of Pensions	0	342,516	0	0	0	0	0	0
Job Evaluation								
VAT Shelter	0	(400,000)	(400,000)	(440,000)	(200,000)	(150,000)	(100,000)	(100,000)
Planned Transfer to Balance Sheet	4,908,605	1,079,236	1,060,236	647,700	659,359	672,546	686,669	701,089
Other Adjustments	2,974,019	(451,689)	(451,689)	132,855	135,246	137,951	140,848	143,806
	<b>7,882,624</b>	<b>1,023,991</b>	<b>600,475</b>	<b>596,683</b>	<b>626,256</b>	<b>692,780</b>	<b>561,314</b>	<b>576,255</b>
	<b>31,521,079</b>	<b>22,121,446</b>	<b>22,265,538</b>	<b>20,644,194</b>	<b>21,034,621</b>	<b>21,509,313</b>	<b>21,814,995</b>	<b>22,276,263</b>
Planned Transfer From Balance Sheet	(7,771,081)	(941,563)	(780,047)	(917,028)	(700,000)	(714,000)	(728,994)	(744,303)
Investment Income	(6,892,106)	(5,030,455)	(4,939,455)	(2,774,248)	(1,153,661)	(1,316,081)	(1,684,580)	(1,504,580)
Government Grant	(9,947,783)	(10,310,045)	(10,310,045)	(10,637,130)	(10,966,881)	(11,186,219)	(11,421,129)	(11,660,973)
Collection Fund	(195,652)	(101,591)	(101,591)	(101,591)	(101,591)	(101,591)	(101,591)	(101,591)
Council Tax	(5,807,252)	(5,961,360)	(5,961,360)	(6,170,483)	(6,312,959)	(6,471,415)	(6,640,351)	(6,813,697)
<b>Potential (Surplus)/Shortfall</b>	<b>907,205</b>	<b>(223,538)</b>	<b>173,040</b>	<b>43,715</b>	<b>1,799,528</b>	<b>1,720,008</b>	<b>1,238,350</b>	<b>1,451,119</b>
Govt Efficiency Target (3.1%): to be identified								
Reserves								
<b>Projected Overspend/(Underspend)</b>	<b>907,205</b>	<b>(223,538)</b>	<b>173,040</b>	<b>43,715</b>	<b>1,166,669</b>	<b>1,074,695</b>	<b>579,486</b>	<b>778,419</b>

<b>UNCIL TAX</b>								
Swant Tax Base	49,214	49,678	49,678	49,923	50,173	50,423	50,676	50,929
Incil Tax Rate for Band 'D'	£118.00	£120.00	£120.00	£123.60	£125.82	£128.34	£131.04	£133.79
<b>Incil Tax Collection</b>	<b>5,807,252</b>	<b>5,961,360</b>	<b>5,961,360</b>	<b>6,170,483</b>	<b>6,312,959</b>	<b>6,471,415</b>	<b>6,640,351</b>	<b>6,813,697</b>
Opening Cash Balance			110,000,000	83,000,000	64,015,601	51,350,501	44,364,501	39,864,501
Capital Expenditure - as per 17/12/08 programme			(27,000,000)	(23,237,399)	(15,165,100)	(7,486,000)	(5,000,000)	(5,000,000)
External Capital Financing				3,253,000	2,500,000	500,000	500,000	500,000
Reserves - to be calculated			(1,000,000)					
Cashflow - to be calculated			1,000,000					
Closing Cash Balance			83,000,000	64,015,601	51,350,501	44,364,501	39,864,501	35,364,501
<b>Average Balance</b>			<b>73,507,801</b>	<b>57,683,051</b>	<b>47,857,501</b>	<b>42,114,501</b>	<b>37,614,501</b>	
<b>Interest Rate Assumptions - Butlers 221208</b>			<b>as per investment deals</b>	<b>2.0%</b>	<b>2.8%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>
<b>Inflation Rate Assumptions CPI - Butlers 221208</b>			<b>2.2%</b>	<b>1.8%</b>	<b>2.0%</b>	<b>2.1%</b>	<b>2.1%</b>	<b>2.1%</b>