

## Draft Revenue 2009/10 Budget and Analysis

### The Status of the Budget

- 1.1 This is the first draft of the budget and will be subject to scrutiny of revenue and capital bids 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 12<sup>th</sup> 2009 and February 2<sup>nd</sup> 2009 before approval by Council on February 23<sup>rd</sup> 2009.

### 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 6 October 2008.

### Economic Climate

- 1.3 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 3%) will be tempered by continued concerns over future inflation performance, with RPI now running at 4.2% and CPI 4.5%. These rates are lowered than those in our budget guidelines.
- 1.4 Butlers, the Council's Treasury Management Advisors, are currently of the view that the Bank Rate may decrease by up to 1% to 2% by the end of the current financial year. A further cut is expected of 0.25% in 2009/10 thus reducing the Bank Rate to 1.75%.
- 1.5 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, increased fuel costs and these assumptions have been continued into the draft budget.
- 1.6 The planned reduction in interest rates will also result in a reduction in investment income for 2009/10.

### Investments in Iceland

- 1.7 We have £6.5m in one of the failed Icelandic banks – Glitner. We are working closely with the LGA to seek recovery of our principal and accrued investment income.
- 1.8 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

- 1.9 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 £734,667. This type of gap is not unusual at this stage in the process and it can be covered by considering the actions listed in 1.14 and 1.15.

<b>SERVICE EXPENDITURE - excluding support allocation</b>	<b>Outturn 2007/08</b>	<b>Budget 2008-09</b>	<b>Projection 2008-09</b>	<b>Budget 2009-10</b>	<b>Variance from 08/09 Projection</b>
Customer Services & Resources		7,453,327	7,651,616	8,062,768	411,152
Environment & Community Improvement		9,865,291	10,070,463	9,126,693	(943,770)
Planning, Housing & Economy		371,696	383,128	350,076	(33,052)
Chief Executives		2,697,680	2,936,680	2,741,239	(195,441)
<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>(439,792)</b>
Capital Charges Reversed	(2,504,576)	(1,228,310)	(1,228,310)	(1,274,986)	(46,676)
<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>(486,468)</b>
		-11%	3%	-2%	-5%
<b>Reserves and Provisions</b>	<b>111,543</b>	<b>82,428</b>	<b>(160,572)</b>	<b>(251,943)</b>	<b>(91,371)</b>
	<b>23,749,998</b>	<b>21,179,883</b>	<b>21,504,491</b>	<b>20,926,652</b>	<b>(577,839)</b>
Investment Income	(6,892,106)	(5,030,455)	(4,939,455)	(3,155,973)	1,783,482
Government Grant	(9,947,783)	(10,310,045)	(10,310,045)	(10,610,610)	(300,565)
Collection Fund	(195,652)	(101,591)	(101,591)	(101,591)	0
Council Tax	(5,807,252)	(5,961,360)	(5,961,360)	(6,323,811)	(362,451)
	<b>(22,842,793)</b>	<b>(21,403,451)</b>	<b>(21,312,451)</b>	<b>(20,191,985)</b>	<b>1,120,466</b>
<b>Potential (Surplus)/Shortfall</b>	<b>907,205</b>	<b>(223,568)</b>	<b>192,040</b>	<b>734,667</b>	<b>542,628</b>
<b>COUNCIL TAX</b>					
Relevant Tax Base	49,214	49,678	49,678	50,672	
Council Tax Rate for Band "D"	£118.00	£120.00	£120.00	£124.80	
<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>	

- 1.10 The revenue budget shows an overall 5% decrease in service expenditure in comparison with the 2008/09 revenue projection and a reduction from 2007/08 outturn of £2,459,860. The drivers for this 10% reduction are the restructure of the Council, buyout of the performance related pay and efficiencies.

- 1.11 The budget guidelines set a 5% target per directorate to address the economic issues and reduction in investment income. A target of £1,039,584 was required and to date £1,257,122 has been identified.

<b>Analysis of Savings to Date</b>	<b>PHE</b>	<b>CSR</b>	<b>EAC</b>	<b>IMP</b>	<b>CEX</b>	<b>Total</b>
<b>Total</b>	<b>(185,340)</b>	<b>(395,024)</b>	<b>(493,327)</b>	<b>(18,041)</b>	<b>(165,390)</b>	<b>(1,257,122)</b>
<b>Budget Guideline Target</b>	<b>(128,460)</b>	<b>(319,589)</b>	<b>(472,352)</b>	<b>(17,656)</b>	<b>(101,527)</b>	<b>(1,039,584)</b>
<b>Additional Savings Identified</b>	<b>(56,880)</b>	<b>(75,435)</b>	<b>(20,975)</b>	<b>(385)</b>	<b>(63,863)</b>	<b>(217,538)</b>

1.12 These savings can be analysed as :

VFM Reviews	(428,659)
Income	(1,666)
Restructure Impact	(105,637)
Efficiencies	(744,978)
Budget Adjustments	178,390
Service Impact	(97,301)
Staffing Adjustments	(57,271)
<b>Total</b>	<b>(1,257,122)</b>

1.13 Our Medium Term Financial Strategy requires 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 ongoing identification of efficiency savings must continue to be treated as a high priority despite the Council exceeding the 2007/2008 targets in keeping with the commitment to improve Value for Money

1.14 The variance from 2008/09 projection to draft 2009/10 budget of £542,628 can be analysed as :

Variance from Projection 08/09	£542,628	Comments
Inflation	£700,493	As per budget guideline - 4.8% less 1%
New Effects	£651,263	Full Year effects including pension revaluation offset by restructure
Corporate Training & Job Evaluation	£209,872	Funding from Reserves
Savings	-£1,377,122	Directorate Savings of £1,257,122 - see 1.11
Unavoidable Growth	£43,799	Utilities & Licensing Software
Sports Centre Modernisation Cost Reduction	-£745,000	Reduced cost to offset capital opportunity cost of investment
Reduction in Interest Income	£1,783,482	Interest Rates reduction - reducing balances - Iceland impact
Additional Risk Provision	£100,000	Additional Provision in relation to recycling gate fees
EXM - Various	-£391,371	Funded from reserves and provisions
Council Tax	-£362,451	Budget guideline - Based on 4% rise and 2% increase on tax base
VAT Share	£200,000	Reduction in amount to be claimed from £400k to £200k
Revenue Support Grant	-£300,565	Increase in Formula Grant
Other	£30,228	Other minor variances

## Actions to address budget deficit

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

Deficit to Budget Draft 1	£734,667	Comments
<b>Potential Areas</b>		
Fees and Charges	£433,500	As per recommendations from Scrutiny - see Appendix 1a
Interest	£150,000	Review cash holdings - Investec and Capital Programme Impact
Growth to be considered	-£40,000	See Appendix 4
Growth funding	£40,000	Funding sought
Inflation Rate Changes	£50,489	Budget guideline 4.8% - latest figures RPI is 4.2%
Maintenance Budgets Review	£28,000	50% additional saving
Rental Income	-£120,000	Confirm calculations of rents
Concessionary Fares	-£120,000	Based on latest operator costs
	<b>£421,989</b>	
<b>Balance to find:</b>	<b>£312,678</b>	

1.16 In order to balance the budget a further reduction in costs or increase in income of £312,678 is required. The following areas will be considered :

- a) Review infrastructure costs where known income reductions
- b) Capital Programme - implement revenue effects
- c) Capital Programme - review proposals / interest impact
- d) Identify further efficiencies from within services
- e) Review services according to consultation priorities
- f) Analyse investment income
- g) Review of Reserves

1.17 The outcome of these reviews together with amendments identified in relation to paragraph 1.1 above will be presented to the Executive in January 2009.

### Further Document Information

Appendix No	Title
Appendix 1a	Fees and Charges Scrutiny Recommendations