
MID YEAR REVIEW OF BUDGETS 2008/09

1 SUMMARY

- 1.1 This report reviews the position of the mid year budget which provides a basis for the 2009/10 budget process.
- 1.2 The report also covers changes to some of the assumptions built into the Council's Medium Term Financial Strategy (MTFS) for 2008/09 – 2012/13.

2 INTRODUCTION

- 2.1 Review Committee of 10 June 2008 requested that the Council's half-yearly budget monitoring position be made available to this Committee.
- 2.2 The Executive on 5 November 2008 reviewed the mid-year budget position and considered some of the assumptions currently being built into the financial planning.

3 CURRENT MTFS AGREED FOR 2008/09 ONWARDS

- 3.1 The aim of the MTFS is to demonstrate that the Council can set a balanced budget over the medium term to fund its spending plans. The aim is to achieve general fund balance level above a target level by the end of the 5 years. The target level is a Minimum Recommended Level of General Fund balance based on a risk assessment to ensure that the Council has sufficient balances to provide a safety net against future uncertainties in expenditure and income.
- 3.2 In the following discussions, when the impact on the MTFS is identified, it is the cumulative impact on the final figure for balances carried forward. This is because annual increases in costs or reductions in income will have a cumulative effect over the 5 years on general fund balances.
- 3.3 The Council has a core budget of estimates and the MTFS identifies the significant changes to these core estimates over the 5 year period.

4 UPDATE ON THE CURRENT CHANGES MADE TO THE CURRENT MTFS

- 4.1 Since the MTFS was agreed by Council in January 2008, a number of changes have been made to it as work on drafting the MTFS for 2009/10 to 2013/14 progresses. These are summarised below as reported to the Executive on 5 November:-
 - Energy prices have been increasing in line with increases in oil prices. £20,000 has now been included in the MTFS in 2009/10. The Council buys its energy through a partnership contract arrangement managed by the Office of Government Commerce and final prices for 2009/10 will be announced towards the end of November.

- Members' Allowances were increased during 2008/09 by £47,000. For the purposes of budgeting, we are assuming a 2.45% increase for 2009/10, in line with increases for staff, but this will be subject to the Council's response to the Remuneration Panel's recommendations.
- Following closure of accounts for 2007/08, the change in General Fund balances was an improvement with a contribution of £169,000, instead of the forecast use of balances of £82,000. A detailed report on the 2007/08 spend compared to budget was considered by the Audit Committee in June 2008.
- The current MTFS agreed in January 2008 assumed that the majority of the reimbursement of set up costs from the Housing Transfer could be bought into the General Fund during 2007/08 – ie at the time of the transfer. As part of the transfer, the only receipt that the Council received was an amount equal to the costs incurred in completing the transfer. There is no guidance on how set up costs covered by a capital receipt from Large Scale Voluntary Transfer should be treated. During closure of the accounts, the proper treatment of these costs was agreed with external audit and the majority has had to be credited to the HRA balance. The effect on the MTFS is that general fund balances as at 31 March 2009 will be around £630,000 compared to an original estimate of £1.3m. The £1.1m of set-up costs then goes into general fund balances with effect from 1 April 2009. This has no overall effect on the 5 year MTFS.
- In line with estimates, recycling rates have increased as a result of the new contract introduced in 2008/09. An increase in recycling credits income has been included in the MTFS for 2009/10 based on current forecasts for recycling rates. The amount of income is based on a formula which is yet to be agreed by Essex County Council and is part of negotiations for an interauthority agreement. At this time, a prudent estimate for the additional income from increased recycling in 2009/10 is around £200,000 but as details are firmed up, this estimate will be amended. Any material change to the estimate will be reported to Members.
- The Council has achieved Level 3 of the Equalities Standard and is committed to achieving Level 4. This will require external expertise and a budget of £20,000 has been included in the draft MTFS as a one-off item.
- Local Area Business Growth Incentive (LABGI) grant of £254,000 received in 2007/08 has been included in General Fund balances for 2008/09 on the assumption that decisions regarding use of this will be made later in the year and actual expenditure will not be incurred until 2009/10. The £254,000 is then assumed to be spent in 2009/10 as a one off item. However, proposals for how the grant will be spent will be

brought forward in due course and it may be that the expenditure will be over a number of years. A government paper on how the grant will be allocated in future years from 2009/10 is currently out for consultation. A key thrust is for the majority of future monies to be allocated to counties rather than districts.

5 ASSUMPTIONS UNDERLYING THE MTFS

5.1 Inflation

5.2 The current MTFS assumed inflation of 3% each year. This year it has increased to as high as 5.2 % but is now anticipated to fall to 4%. This will clearly impact on our assumptions for 2008/09 onwards. As we do not know when inflation will start to fall, an allowance has also been included as a one off for 2009/10. This is because a number of contracts will have their annual rise based on current inflation indices. This will be monitored through the current budget process.

5.3 Pensions

5.4 The Council belongs to the Essex Local Government Pension Scheme which is revalued every 3 years, with the last revaluation coming into effect in April 2008. The contribution to the Pension Fund only changes at the time of these triennial revaluations.

5.5 Essex County Pensions are currently working on an interim valuation which will give some indications of the changes in income and liabilities and the effect this will have on the 2011 revaluation. The interim revaluation will be announced at a special County meeting on 1 December 2008. Once this is available, the current assumption of additional £50,000 in 2011/12 will be amended.

5.6 Council Tax Base

5.7 The level of Council tax is related to the Council's tax base, ie. the total amount required to be funded by the Council Tax is divided by the Council Tax base (which is the equivalent to the number of band D properties). The current MTFS assumes an annual rise of 100 per year.

5.8 The latest forecast for 2009/10 is a council tax base of 31,584, an increase of 260. This equates to approximately an additional £30,000 income in 2009/10 based on the current level of council tax rises. Because of the current economic climate and the change this might have on housing developments in the medium term, no change has been made to the assumption of 100 units per year.

5.9 Contract Renewals

- 5.10 The next major contract renewal is for the ICT contract which expires March 2011. At this stage, it is impossible to say with any degree of certainty what the likely additional costs are going to be. However, with the increasing use of technology in order to deliver efficiencies and improve service delivery, it is considered prudent that if we want to achieve an ICT service that supports a 21st century council, then additional costs of about £500,000 may need to be factored into the Council's medium term financial planning as was done with the recent environmental contracts.

6 MID YEAR REVIEW OF 2008/09 BUDGETS

- 6.1 The last few months have seen some dramatic changes in the global economy which make accurate forecasting difficult. The impact on the Council's income and expenditure has been closely monitored and the following list shows the revisions made to estimates where the revision is adverse by more than £10,000.

Figures in brackets denote Income items.	<u>08/09 Original</u>	<u>08/09 Revised</u>	<u>Change</u>
<u>Service Area - Budget</u>			
Corporate Management - Bank Charges	21,900	39,300	17,400
Building Control - Inspections	(230,000)	(170,200)	59,800
Development Control - Planning Appeals	15,000	35,000	20,000
Development Control - Planning Fees	(280,000)	(200,000)	80,000
Off Street Parking - Permits & Season Tickets	(200,000)	(180,000)	20,000
Homelessness - Removals & Storage	10,000	20,000	10,000
Homelessness - Contracted Accommodation (Net cost)	32,000	75,000	43,000
Human Resources - Staff Advertising	70,000	90,000	20,000
Land Charges – income	(245,000)	(100,000)	145,000
Off street parking – parking fees	(863,000)	(830,000)	33,000
Housing Benefit Payments – Benefits granted (Rent Rebates and Rent Allowances) net of subsidy	119,100	153,819	34,719
Housing Benefit Payments – Recoveries	(350,000)	(300,000)	50,000

6.2 Investment income has been higher than expected as the rates paid have risen due to the reduction in inter-bank lending, which has made our investment income attractive to institutions. Unfortunately, a downside to this is that the credit ratings for a number of the institutions have reduced and our counterparty list (listing of those institutions we will invest with) has been reduced. This situation is under review but the recent experience with the Icelandic banks demonstrates the importance of balancing both risk against investment return.

6.3 Summary for 2008/09

6.4 At the mid-year point it is clear that some income streams are under pressure due to the credit crunch and an early turnaround does not appear likely. As a first step, officers will be reviewing closely replacement of staff in those critical areas where income is falling back. Officers will also be reviewing the existing estimates to see whether items of expenditure can be reduced and/or re-profiled.

7 SAVINGS

7.1 The MTFs assumes ongoing savings of £380,000 per annum. For 2008/9, approximately £208,000 worth of savings have been identified as at the mid year point. The target is not just linked to efficiency savings, as defined under the Gershon regime, with no loss in quality or volume of service, but, for the purpose of the MTFs, can also include a reduction in expenditure if the decision is made not to carry on with a particular item of expenditure.

8 SUMMARY

8.1 It is clear that the 2009/10 budget process is going to be a challenging one particularly given the current economic situation. As we go through the 2009/10 budget process, Members will need to make some difficult choices in order to deliver services within the financial constraints but also still reflecting the aims and aspirations of our community. We will still need to maintain the appropriate level of service provision but, at the same time, meet a number of competing demands with little room for manoeuvre. In a Rochford context, it is a situation we have been in before but which needs careful management.

9 RECOMMENDATION

It is proposed that the Committee **RESOLVES**

- (1) To note the mid year budget position
- (2) Recommend short term actions
- (3) Identify issues for consideration during the 2009/10 budget process.

Yvonne Woodward
Head of Finance, Audit & Performance Management

Background Papers:-

None

For further information please contact Carrie Watkins on:-

Tel:- 01702 318164

E-Mail:- carrie.watkins@rochford.gov.uk

If you would like this report in large print, braille or another language please contact 01702 546366.