

SCRUTINY COMMITTEE	Agenda Item No. 8
10 November 2008	Public Report

Report of the Executive Director of Strategic Resources

Recommendations

1. Scrutiny Committee is asked to note:
 - a. that the direct impacts of the credit crunch in 2008/09 are being managed within the Council's financial plan;
 - b. that a section of the Medium Term Financial Strategy will be dedicated to the impact of future years and this will be available at the next meeting of Scrutiny.

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IMPACT OF CREDIT CRUNCH 2008/09

1. PURPOSE

- 1.1. The purpose of this report is to provide Scrutiny Committee with an update of what impact the credit crunch has had on the Council's finances during the current financial year.

2. LINKS TO CORPORATE PLAN, SUSTAINABLE COMMUNITY STRATEGY AND LOCAL AREA AGREEMENT

- 2.1. This report supplements the Budget Monitoring Report Period 4 2008/09 reported to Scrutiny Committee on 29 September 2008 which links to the Council's ability to meet the Medium Term Financial Strategy 2008-2011.

3. BACKGROUND

- 3.1. The Chairman of the Scrutiny Committee has asked for a briefing report on the impact that the credit crunch has had on the Council's finances.
- 3.2. This report therefore is on the direct impact on the Council within the current financial year 2008/09 rather than the wider impact on the community.
- 3.3. For the purposes of this report, the impacts assessed are:
 - a) Revenue Income – (Planning Fees, Land Charges, Commercial Property Rents, Interest Receipts)
 - b) Capital Income – (S106 and Capital Receipts)
 - c) Tax Base

4. KEY ISSUES

4.1. Revenue Income

- 4.1.1. The Council makes annual estimates of the likely revenue it will raise from activities such as planning, land charges etc. The direct impact of the credit crunch on these functions is a drop in activity and thereby a fall in income associated with them. The following table summarises the estimated impact in 2008/09 of those issues in terms of income.

Income	Impact of Credit Crunch £k
Planning Fees*	285
Land Charges	333
Commercial Property Rents (Increase in Void Units and NDR on unlet properties)	195
TOTAL	813

- 4.1.2 The Corporate Management Team has managed this impact by reviewing all necessary expenditure, bringing forward efficiency targets, and using additional income from the VAT shelter to protect the overall bottom line, as previously reported to this Committee.
- 4.1.3 In terms of interest receipts, the Council is cushioned from this in 2008/09 because most of its investment portfolio is at fixed rates of interest, hence the recent fall in base rates will not have an immediate impact. The impact of the Icelandic bank issue has been reported separately to Scrutiny.
- 4.1.4 Ultimately the Council's working balances have been set at a level to help through years when things like the credit crunch occur. At some point the economy will pick up with more confidence and the growth programme will accelerate once again. The appropriate level of balances will be reviewed as part of the development of the Medium Term Financial Strategy.
- 4.2 Capital Financing
- 4.2.1 The 2008/09 capital programme has been re-assessed, and there is slippage in this year, thus saving on the need for corporate resources to finance the programme. So although the level of capital receipts forecast is lower, the impact on the 2008/09 position has been limited as reported previously to this Committee.
- 4.2.2 At present there is an over provision of development land. Many developers have significant land banks that are now seen as a financial liability rather than an asset. At present the market in Peterborough is weak and there is little if any market for land. The Head of Strategic Property is constantly monitoring the situation and disposal of property assets will take into account the financial impact both now and in the future for the Council.
- 4.2.3 The successful development of the Growth Agenda also relies heavily on Section 106 funding from developers. If development slows, then the S106 receipt slows, but so too does the requirement for infrastructure, and as long as this is linked through business planning, implementation of strategic growth ambitions will also have to slow. The financial risk is where we commit to delivering strategic growth infrastructure (rather than respond to development specific needs) in the anticipation of development that does not materialise on the scale envisaged.
- 4.3 Council Tax
- 4.3.1 The amount of income to be raised from Council Tax is derived from forecasts of the level of tax base. This forecast includes assumptions in relation to the numbers of new properties. Current estimates for period ending September 2008 suggest a shortfall of 239 properties equating to approximately £249k, this shortfall forms part of the collection fund calculations for 2009/10 financial year.
- 4.3.2 The Chief Finance Officer will continue to monitor the tax base and its implications for the Medium Term Financial Strategy.
- 4.4 Impact of Credit Crunch on other Council Activities

- 4.4.1 Several other areas may have an ongoing impact on Council activities resulting from the credit crunch such as employment through to the effects of a recession. All Departmental Management Teams are assessing the impact and include:
- a) Fuel and energy price increases
 - b) Potential that overall sundry debt and council tax / NNDR debt will increase as people experience the impact of the credit crunch
 - c) Potential for an increase in benefit claimants

5 IMPLICATIONS

- 5.1 This report does not have any implications effecting legal, human rights act or human resource issues.

6 CONSULTATION

- 6.1 Detailed reports have been discussed in Departmental Management Teams.

7 EXPECTED OUTCOMES

- 7.1 That the committee comments on the impact that the Credit Crunch has had within the current financial year as appropriate.

8 NEXT STEPS

- 8.1 The current economic climate has had a direct impact on the Council's finances. In 2008/09 it has managed the situation successfully by managing the pressures corporately, preparing and managing robust action plans to mitigate pressures and will continue to provide monthly detailed Budget Monitoring Reports. The Corporate Management Team will continue to recommend appropriate mitigation to reduce the revenue and capital impact on Council finances.
- 8.2 The Medium Term Financial Strategy is being refreshed and will incorporate the ongoing impact as part of setting the Council's future year budgets. The MTFS will be reported to Cabinet in December 2008.

9 BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

None.

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