Report to:

Cabinet

Council

Report of Head of Finance

Author: Bob Watson

Tel: 01235 540426

E-mail: bobwatson@southandvale.gov.uk

Wards affected: All

Cabinet Member responsible: Matthew Barber

Tel: **01235 540391**

E-mail: matthew.barber@whitehorsedc.gov.uk

To: CABINET 8 February 2013
To: COUNCIL 20 February 2013

Revenue Budget 2013/14 and Capital Programme to 2017/18

RECOMMENDATIONS

1. That cabinet recommends to council that it:

   a. sets the revenue budget for 2013/14 as set out in the Medium Term Financial Plan (MTFP) shown at appendix G to this report
   b. approves the capital programme for 2013/14 to 2017/18 as set out in appendix C to this report, together with the capital growth bids set out in appendix D of this report
   c. sets the council's prudential limits as listed in appendix F to this report
   d. approves the medium term financial plan to 2017/18 as set out in appendix G to this report
2. That cabinet authorises the cabinet member for finance to make minor adjustments to this report and the prudential indicators, in conjunction with the head of finance, should they prove necessary prior to its submission to council on 20 February 2013

Purpose of report

1. This report:

   - brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2013/14 and a capital programme for 2013/14 to 2017/18;

   - details changes from the information presented in the "2013/14 budget update report" that was considered by scrutiny committee on 17 January 2013;

   - recommends the prudential indicators to be set by the council in accordance with 'the Prudential Code' introduced as part of the Local Government Act 2003;

   - contains the opinion of the council's chief financial officer on the robustness of estimates and adequacy of the council's financial reserves;

   - contains the medium term financial plan which provides details of the forward budget model for the next five years.

2. This report should be read in conjunction with the scrutiny report, as it builds on the base budget information contained in that report and does not seek to cover the whole budget setting process.

Strategic objectives

3. Setting the budget in accordance with prescribed timetables enables the council to comply with its strategic objective of managing our business effectively.

4. The allocation of financial resources within the revenue and capital budgets needs to match the objectives agreed by the council. The objectives identify where investment, including proposed growth, will take place in order to help the council achieve its corporate plan targets. The budgets also identify disinvestment from non-priority services in order to pay for new investment without the whole burden falling on the council tax.

5. Where officers have made growth proposals (known as growth bids), each bid sets out how it will help achieve the council's objectives. The cabinet member for finance has chosen to include some officer growth bids in his budget proposals and these are identified in appendix A3 (revenue) and appendix D (capital). The full set of growth bids is available as background papers on request.

Revenue budget 2013/14 – changes since scrutiny report

6. The scrutiny report discussed the composition of the council's base revenue budget for 2013/14, and reported at that time that the provisional budget funding requirement for 2013/14 was £10,486,724 (after use of general fund balances). Since that report was considered there has been further review of the budget by both officers and the cabinet member for finance and also details of the final settlement from government. As a result, the proposed budget funding requirement is now £10,340,117; this equates to £11,777,693 before use of general fund balances and earmarked reserves).

7. **Appendix A1** show the movements in the budget since the scrutiny report was completed, which are discussed in the following paragraphs.

Growth and Savings

8. Paragraphs 48-50 of the scrutiny report discussed revenue and capital growth, with growth bids submitted being shown in appendices D and F to that report.

9. For the 2013/14 budget, the cabinet member for finance proposes:

   - Savings from service budgets amounting to £41,480 (line 25 of the MTFP) – these are detailed in Appendix A2.

   - Service growth proposals amounting to £508,090 (lines 27 and 28) – these are detailed in Appendix A3.

   - New capital projects (see para 16) which have a revenue impact of £16,000 (line 29)

Other budget revisions

10. Officers have continued to refine budgets since the scrutiny committee report and a number of revisions to budgets have resulted from this work. The net effect of these revisions amount to a budget saving of £291,115 and are detailed in **appendix A4**.

Investment income

11. Since the scrutiny report was written, the estimated investment earnings for future years have been reviewed and a more prudent view of future interest rates has been taken – the revised estimates are in line 34 of the MTFP. Interest earned in year is used to support the revenue budget and therefore any over-estimate could lead pressures on reserve balances.

Council tax reduction scheme grant – payments to town and parish councils

12. Line 45 of the MTFP shows the amount of council tax reduction scheme grant Council has resolved to pass onto the town and parish councils. In 2013/14 this amount has been identified by central government and the intention is to pass on the town and parish share in entirety (£200,742 in total). For future years the amount of grant is not known and it is assumed that no grant at all will be received. Therefore to partly mitigate the impact on town and parish budgets, the intention is to continue to support the town and parish precepts, but to gradually phase out support over the MTFP (ie: a 20% reduction year on year)."

Use of general fund balance

13. The difference between expenditure requirement and the funding available is smoothed over the medium term plan by transfers to and from earmarked reserves and the general fund balance. The net impact of the finance portfolio holders proposals detailed in this report, the anticipated use of general fund balances is now estimated at £1,148,891. This represents an increased use of £164,917 from the scrutiny committee report.

Cabinet member for finance's revenue budget proposal

14. Based on the amendments detailed above, and as shown in appendix A1 of this report, the cabinet member's budget proposal, including growth, is for a net expenditure budget of **£11,777,693**. This revenue budget proposal includes a two-year freeze of the current band "D" council tax at **£116.69**. Appendix B contains an analysis of the revenue budget requirement (i.e. the net cost of delivering services in 2013/14), which is **£13,412,951**, and reconciles this to the net revenue budget. It also provides a breakdown of how the cabinet member for finance proposes to fund the difference between the two figures.

Capital programme 2013/14 to 2017/18

Current capital programme

15. The scrutiny report gave details of the current capital programme as it then stood and also how it was being funded. The latest capital programme (before any new growth) is attached at **appendix C** and is summarised in table 1 below. It is the capital programme as set by council in February 2012 plus:-

- slippage (caused by delays to projects) carried forward from 2011/12;
- new schemes approved by council in February 2012 and any supplementary approvals by Council during 2012/13;
- reprofiling of expenditure on schemes from the 2012/13 financial year to future years where delays to schemes have occurred;
- the deletion of previously agreed schemes that have completed or are no longer to be pursued.

Table 1: current capital programme (before growth)

2012/13 latest estimate £000	**2013/14** estimate £000	**2014/15** estimate £000	**2015/16** estimate £000	**2016/17** estimate £000	**2017/18** estimate £000
2,548	**4,594**	**1,637**	**1,163**	**1,162**	**1,147**

Cabinet capital programme proposals

16. **Appendix D** contains a list of new capital schemes that the cabinet member for finance is putting forward as part of his budget proposals. All of these stem from capital growth bids put forward by officers (details of each are available on request). Accountancy officers will update the capital programme to include the proposals if approved by cabinet and council.

Financing the capital programme

17. Where permitted, capital expenditure is funded in the first instance from specific government grants and any other external contributions. The balance of the programme is funded from the council's capital receipts reserve. The council is permitted to borrow to fund the programme, provided any borrowing is prudent, sustainable and affordable. At present there is no requirement to borrow to fund the programme as proposed. Any future borrowing would require a provision to be made in the revenue budget for repayment.

Future pressures on the capital programme

18. Appendix C also shows the use of capital receipts to fund the capital programme and the balance of receipts over the five-year programme. Officers advise cabinet not to earmark all available resources in proposing the budget to council, as the prudential code requires local authorities to set sustainable budgets. By retaining an unallocated balance, cabinet can demonstrate that through a combination of this and future income (that can be expected beyond the period of the budget) it can fund future pressures.

The prudential code and prudential indicators

19. In setting its revenue and capital budgets for 2013/14, the council must agree prudential indicators in accordance with the prudential code (see below). When recommending its budgets to council, cabinet must also recommend the prudential indicators.

20. From 1 April 2004, government control of local authorities' borrowing was abolished and replaced by a prudential system of self-regulation. Authorities are able to borrow based on need and affordability, which they demonstrate through compliance with the prudential code developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and given statutory force by government regulation.

21. The key objectives of the prudential code are to ensure that the capital investment plans of the authority are affordable, prudent and sustainable. To demonstrate that authorities have had regard to these objectives, the prudential code sets out a number of indicators that must be considered covering five distinct areas – capital expenditure, affordability, prudence, external debt and treasury management. The council must approve the indicators through the budget process before 1 April each year, but they can be revised during the year if required.

22. The key indicators that will drive the capital budget decision making process will be those concerning affordability, as these measure the impact of capital investment decisions on the overall revenue budget and in particular the precept against the collection fund.

23. In setting or revising the prudential indicators the council is required to have regard to:

    - affordability e.g. implications for the precept;
    - prudence and sustainability e.g. implications for external borrowing;

- value for money e.g. option appraisal;
- stewardship of assets e.g. asset management planning;
- service objectives e.g. strategic planning for the council;
- practicality e.g. achievability of the forward plan.

24. Under the code, the strategic director and chief finance officer is responsible for ensuring that the council considers all relevant matters when setting or revising indicators through a report. The strategic director and chief finance officer is also required to establish procedures to monitor performance against all forward-looking indicators; and report upon any significant deviations from forward forecasts with proposed actions.

25. **Appendix F** contains the recommended prudential indicators, which have been calculated based on the budget proposals. The strategic director and chief finance officer is satisfied that these indicators show that the council's capital investment plans are affordable, prudent and sustainable.

The medium term financial plan

26. The medium term financial plan (MTFP) provides a forward budget model for the next five years, and highlights the known estimated budget pressures for new responsibilities and changes in legislation, predicted investment and capital receipts.

27. **Appendix G** contains the MTFP for 2013/14 to 2017/18**.** This is a projection of the revenue budget up to 31 March 2018 The projection identifies budget pressures in later years and assumes that council approves all the budget proposals within this report. Officers have made no adjustments for the costs of contracts that will be re-let during this period. These could rise or fall depending on market conditions.

28. The MTFP identifies some significant challenges ahead for the council. It has built in the reduction in government funding for 2014/15 as outlined in the provisional settlement published on 19 December 2012 and updated by the final settlement on 4 February 2013. It assumes that government grant funding will fall by a further 25 per cent from 2015/16 to 2017/18. This is only an estimate by officers, and the fall may well be greater or less. It also incorporates assumptions on interest income, and other known pressures on the council, such as inflation and salary increments.

29. The scrutiny report considered new homes bonus. At that time officers only had the estimates of the income that were calculated for the previous year's MTFP. These have now been updated to reflect the latest projections of the income due over the whole MTFP period. The results are shown in table 2 below, and are also included in the MTFP (detailed in row 36). These projections reflect officers' forecasts and represent an optimistic projection. In 2013/14 all NHB income is being credited to an earmarked reserve. A policy on the use of NHB going forward is the subject of a separate cabinet paper.

Table 2: New Homes Bonus

	Base budget 2013/14	Indicative 2014/15	Indicative 2015/16	Indicative 2016/17	Indicative 2017/18
New Homes Bonus - tranche 1 11/12	451,595	451,595	451,595	451,595	
New Homes Bonus - tranche 2 12/13	546,050	546,050	546,050	546,050	546,050
New Homes Bonus - tranche 3 13/14	376,309	376,309	376,309	376,309	376,309
New Homes Bonus - tranche 4 14/15 (estimate)		596,000	596,000	596,000	596,000
New Homes Bonus - tranche 5 15/16 (estimate)			648,000	648,000	648,000
New Homes Bonus - tranche 6 16/17 (estimate)				1,135,000	1,135,000
New Homes Bonus - tranche 7 17/18 (estimate)					1,098,000
	1,373,954	1,969,954	2,617,954	3,752,954	4,399,359

30. Officers consider that any pressures in the period covered by the MTFP are manageable in light of the level of reserves and balances available to the council, particularly when combined with our ability to vary budgets and redirect funding in the later years of the plan. However, it is expected that further savings may be required to balance the budget in future years, and this represents a significant challenge. Management team are already looking at ways in which the budget requirement in future years can be managed without continual calls upon the council's reserves. A summary of the councils earmarked and special purpose reserves over the life of the MTFP is attached at Appendix G1.

The robustness of the estimates and the adequacy of reserves

31. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the strategic director and chief finance officer) to report on the robustness of the estimates and the adequacy of reserves. The council must have regard to this report when making decisions about the setting of the budget.

32. The construction of the budget has been managed by qualified accountants and has been subject to challenge, specifically by the strategic director and chief finance officer, head of finance, other heads of service, management team and the cabinet member for finance. Informal meetings of cabinet have considered the budget, and a report detailing the base budget has gone to the council's scrutiny committee. In view of the process undertaken and his own knowledge of the budget, the strategic director and chief finance officer is satisfied that the budget is both prudent and robust.

33. The strategic director and chief finance officer is satisfied that this allows retention of sufficient uncommitted balances at the end of the period to ensure that the overall level of reserves is adequate in relation to the proposed revenue budget and capital programme and that the budgets are sustainable.

34. **Appendix H** contains the strategic director and chief finance officer's full report.

Legal Implications

35. The cabinet needs to make recommendations to the council on its spending proposals. Under the Local Government Act 2000 it is the council that must agree the revenue and capital spending plans, and then set the council tax. Council will meet on 20 February 2013 in order to set the budget, and the council tax (including amounts set by Oxfordshire County Council and the Police and Crime Commissioner for Thames Valley).

36. The requirement placed on the council by the Local Government Act 2003 to set prudential indicators and for the chief finance officer to make a report to the authority on the robustness of the estimates and the adequacy of reserves are addressed within the body of this report.

Other Implications

37. Agreement of the revenue and capital budgets authorises expenditure in accordance with the council's delegated powers and financial procedure rules. The officer, councillor or councillor body taking those decisions will take into account the human resources, sustainability and equality and diversity implications of individual spending decisions.

38. The shared equalities officer assessed the budget savings proposals proposed by officers, in line with the public sector equality duties (PSED). One saving proposal has been assessed as having medium equality impact (see appendix E), cabinet are asked to take this into consideration when reaching its final decision. If cabinet decide to proceed, the equalities officer will work with the service team to ensure that the implementation takes account of our PSED. All other proposals have no or minimal equality impact.

Conclusion

39. This report provides details of the revenue base budget for 2013/14, the capital programme 2013/14 to 2017/18, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.

40. In light of the information provided cabinet must make a number of recommendations to council regarding the revenue budget, the capital programme and the prudential indicators.

Appendices

Appendix A1	Revenue budget funding requirement 2013/14
Appendix A2	Service reductions
Appendix A3	Revenue growth bids
Appendix A4	Other budget revisions
Appendix B	Service budget analysis
Appendix C	Capital programme before growth
Appendix D	Capital growth bids
Appendix E	Equality Implications
Appendix F	Prudential indicators
Appendix G	Medium term financial plan
Appendix G1	Council earmarked and special purpose reserves 2013/14 to 2017/18
Appendix H	Report on the robustness of the estimates and the adequacy of reserves and balances

Background Papers

- Provisional settlement papers (December 2012)
- Final settlement figures (February 2013)
- Budget update report considered by scrutiny committee – 17 January 2013.
- Draft services revenue budget 2013/14
- Revenue and capital growth bids