

Report to: Cabinet Scrutiny Committee Council

Report of Head of Finance

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Wards affected: All

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To: CABINET

6 February 2015

To: SCRUTINY COMMITTEE

11 February 2015

To: COUNCIL

18 February 2015

Revenue Budget 2015/16 and Capital Programme to 2019/20

RECOMMENDATIONS

1. That cabinet recommends to council that it:

- a. sets the revenue budget for 2015/16 as set out in appendix A.1 to this report,
- b. approves the capital programme for 2015/16 to 2019/20 as set out in appendix D.1 to this report, together with the capital growth bids set out in appendix D.2 of this report,
- c. sets the council's prudential limits as listed in appendix E to this report,,
- d. approves the medium term financial plan to 2019/20 as set out in appendix F.1 to this report.

2. That cabinet authorises the leader of the council to make minor adjustments to this report and the prudential indicators, in conjunction with the head of finance, should they prove necessary following the publication of the final Local Government settlement and prior to its submission to council on 18 February 2015.

Purpose of report

1. This report:

- brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2015/16 and a capital programme for 2015/16 to 2019/20;
- 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.

Strategic objectives

2. Setting the budget in accordance with prescribed timetables enables the council to comply with its strategic objective of managing our business effectively.
3. 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.
4. Where officers have made growth proposals (known as growth bids), each bid sets out how it will help achieve the council's objectives. The leader of the council has chosen to include some growth bids in his budget proposals and these are identified in **appendix B** (revenue) and **appendix D.2** (capital).

Revenue budget 2015/16

5. **Appendix A.1** summarises the movements in the base budget from £13,212,193 in 2014/15 to £11,715,918 in 2015/16. These movements are detailed below.
6. **Opening budget adjustment reduction £404,908 (appendix A.2)**. This includes the removal of one-off growth items relating to 2014/15 and before, and the realisation of the full-year effect of savings proposals identified in previous years.
7. Additions to the base budget:
 - **inflation, salary increments and other salary adjustments £226,298 (appendix A.3)** . The salary and contract inflation totals £201,876, representing an average increase of 1.86 per cent on the 2014/15 net expenditure budgets. For council employees an overall increase in salary costs of two per cent is budgeted for 2015/16. Should the award when agreed be greater than this it will be met from the contingency budget. Increments payable to council employees not at the top of their salary range total £48,625.

Other salary adjustments represent a net reduction of £24,202. This includes an increase in the managed vacancy factor of £6,479.¹

- **essential growth – one-off £376,838 and ongoing £161,928 (appendix A.4).** These items comprise additional expenditure which is considered unavoidable, and reflect changes that have occurred in the current year or which are known will happen in 2015/16.

8. Deductions from the base budget:

- **base budget savings £1,777,209 (appendix A.5).** These base budget savings are reductions in costs identified by officers which may be the result of more efficient working or previously agreed policy decisions, cost reductions outside of the council's control, increases in income, or correction to budgets. These savings do not affect frontline service delivery.
- **Office accommodation savings £134,000.** This brings the savings resulting from the sharing of accommodation at Abbey House with Oxfordshire County Council (OCC) and the move of council staff to the South Oxfordshire DC offices at Crowmarsh Gifford up to an annual equivalent. At this stage it is too early to assess the financial impact of the recent fire at the Crowmarsh offices on the council's budgets.

9. Other changes to corporate base budgets:

- **additional revenue contingency (appendix A.6) £213,600.** This brings the level of revenue contingency up to £644,000. This includes specific provision for certain events should they occur, together with a general contingency amount.

10. As a result of these changes the council's revised base budget for 2015/16 is **£11,715,918.**

Revenue growth proposals

11. A number of revenue growth proposals have been selected by the leader of the council to be included in the budget for 2015/16. These are detailed in **appendix B** and total **£760,636**. The growth proposals have been selected on the basis that they support the council's key aims as set out in the council's corporate plan and enhance service provision.

12. There are also costs in the revenue budget of **£6,500** arising from the capital growth proposals shown in **appendix D.2**. These are discussed later in the report.

¹ In order to recognise a level of establishment vacancies which occur every year, a managed vacancy factor is used. This reduces the employee budgets across the council from the 100 per cent of the establishment list to 98 per cent.

Net property income

13. Net property income represents the council's income from its investment property portfolio less expenditure, and for 2015/16 is estimated at **£932,150**.

Gross treasury income

14. Investment returns for 2015/16 are used to finance expenditure in-year. As interest rates are expected to remain low for the short/medium term, it is currently forecast that **£411,640** will be earned in 2015/16.
15. More details of treasury income can be found in the council's Treasury Management Strategy 2015/16 report (see Cabinet 6 February 2015, Council 18 February 2015).
16. Including growth, property and treasury income results in a net expenditure budget for the council of **£11,139,264**.

Reserves and other funding

New Homes Bonus (NHB)

17. The provisional government allocations for NHB payment for 2015/16 is **£2,823,094**. For 2015/16 this will all be transferred to reserves, apart from a sum of £100,000 which will be used to fund the NHB community grants scheme. Projections of future NHB earnings and how they will be used are detailed later in this report.

Council Tax Freeze Grant

18. It is proposed that council tax will remain at the same level as 2014/15 and as a result of this, the council will receive **£58,949** of Council Tax Freeze Grant for 2015/16. This grant equates to the funding the council would have generated by increasing council tax by one per cent.

Transfers to/ from earmarked reserves

19. In addition to the transfer to reserves of the NHB payment referred to in paragraph 18 above, there will be a transfer of **£100,000** from the election equalisation reserve to fund the costs of the district council elections in 2015.
20. The new leisure services contract that came into force on the 1 September 2014 promised the council enhanced management fee income in exchange for the council funding the capital works agreed within the contract. As a result **£1,142,902** will be used for this purpose.
21. Based on the above use of reserves and other funding, the amount of revenue expenditure to be financed in 2015/16 is **£12,023,217**.

Funding

Final local government settlement

22. On December 18 2014, the government announced the provisional 2015/16 local government settlement. At the time of writing we have not received the final

settlement. Officers consider that any changes to the settlement at this stage would not be material. Table 1 below details the provisional funding outlined for the council for 2015/16.

Table 1: settlement funding assessment 2015/16 (provisional)

	Provisional 2015/16 settlement funding assessment		
	Revenue support grant	Baseline funding level	Total
	£	£	£
Lower tier funding	1,493,162	2,057,190	3,550,352
Council tax freeze compensation:			
• 2011/12	81,468	58,636	140,104
• 2013/14	58,155	0	58,155
• 2014/15	58,422	0	58,422
Homelessness prevention funding	48,119	35,275	83,394
Other:			
• Rural services delivery funding	1,741	0	1,741
Total	1,741,067	2,151,101	3,892,168

23. The provisional settlement for 2015/16 is 14.2 per cent lower than 2014/15.

24. Whilst the baseline funding element of the settlement is increasing in line with the increase in national non domestic rates, to achieve the overall reduction in funding the government has significantly reduced the revenue support grant element. It should be noted that these figures exclude NHB funding which is discussed later in the report.

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

25. As agreed by Council on December 10 2014 and explained to parish councils during consultation, the council tax support grant contribution payable to town and parish councils will be **£120,445** for 2015/16. The proposed MTFP shows that this contribution will be gradually phased out by a 20 per cent reduction annually.

Business rate retention scheme

26. For budget setting purposes it has been assumed that the council's share of business rates income after payment of tariff will remain below the safety net. For 2015/16 this shortfall is estimated to **£161,333**. Should the actual business rate receipt prove to be in excess of the safety net surpluses generated will be added to the council's reserves.

27. Should the council decide to join the Oxfordshire Business Rate Pooling Distribution Group surpluses arising will be added to the council's reserves at the end of the financial year. Further information about this can be found in the report to Cabinet on Business Rate Pooling and Business Rate Distribution on 5 December 2014.

Collection fund

28. The surplus on the collection fund is estimated to be **£250,932**.

Use of general fund balance

29. The difference between expenditure requirement and the funding available is smoothed over the medium term financial plan by transfers to and from earmarked reserves and the general fund balance. The net impact of the leader of the council's proposals detailed in this report is a draw on general fund balances of **£2,611,757** in 2015/16.

Leader of the council's revenue budget proposal

30. 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 budget requirement of **£9,411,460**. This revenue budget proposal includes a freeze of the current band "D" council tax at **£116.69**. **Appendix C** shows the breakdown of the revenue budget.

31. A draft MTFP and proposed growth bids were published on the council's website in December 2014. No comments on the published MTFP and growth bids have been received by officers or by the leader of the council.

Capital programme 2015/16 to 2019/20

Current capital programme

32. The latest capital programme (before growth) is summarised in table 2 below. It is the capital programme as set by council in February 2014 plus:-

- slippage (caused by delays to projects) carried forward from 2013/14
- new schemes approved by council during 2014/15
- re-profiling of expenditure on schemes from the 2014/15 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 2: current capital programme (before growth)

2014/15 latest estimate £000	2015/16 estimate £000	2016/17 estimate £000	2017/18 estimate £000	2018/19 estimate £000	2019/20 estimate £000
7,418	7,614	1,442	1,177	1,147	1,147

Cabinet capital programme proposals

33. **Appendix D.2** contains a list of new capital schemes that the leader of the council is proposing as part of his budget proposals. Officers will amend the capital programme to include the proposals if approved by cabinet and council.

Financing the capital programme

34. Where permitted, capital expenditure is funded in the first instance from specific government grants, earmarked reserves and other external contributions. The balance of the programme is funded from the council's capital receipts reserve, and then from NHB when this is extinguished. The council is permitted to borrow to fund the programme, provided any borrowing is prudent, sustainable and affordable. NHB is discussed further below.
35. 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

36. **Appendix D.1** also shows the use of capital receipts to fund the capital programme (excluding growth) and the balance of receipts over the five-year programme. Officers advise cabinet not to earmark all available resources (including NHB) 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.
37. There is some uncertainty about the future of NHB after the May 2015 general election. A new government may choose to review and reform the distribution methodology.

The prudential code and prudential indicators

38. In setting its revenue and capital budgets for 2015/16, 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.
39. 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.
40. 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.
41. 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.

42. 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.
43. Under the code, the head of finance as chief finance officer is responsible for ensuring that the council considers all relevant matters when setting or revising indicators through a report. The head of finance 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.
44. **Appendix E** contains the recommended prudential indicators, which have been calculated based on the budget proposals. The head of finance is satisfied that these indicators show that the council's capital investment plans are affordable, prudent and sustainable.

The Medium Term Financial Plan (MTFP)

45. The 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.
46. **Appendix F.1** contains the MTFP for 2015/16 to 2019/20. This is a projection of the revenue budget up to 31 March 2020. 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.
47. The MTFP identifies some significant challenges ahead for the council. It assumes that government grant funding will fall by 36 per cent from 2015/16 to 2019/20. This is only an estimate by officers, and the fall could be greater or less. It also incorporates assumptions on interest income, and other known pressures on the council, such as inflation and salary increments.
48. Estimates of future receipts of new homes bonus are shown in table 3 below, and are also included in the MTFP (detailed in row 39). In total the council is expected to have received in excess of £23.4 million during the MTFP period.
49. The element of the bonus that relates to the new homes bonus premium is ring-fenced to support the provision of additional affordable housing.

Table 3: New Homes Bonus

Year earned	Year of receipt				
	2015/16 budget £000	2016/17 indicative £000	2017/18 indicative £000	2018/19 indicative £000	2019/20 indicative £000
2011/12	452	452	0	0	0
2012/13	546	546	546	0	0
2013/14	376	376	376	376	0
2014/15	713	713	713	713	713
2015/16	736	736	736	736	736
2016/17	0	1,031	1,031	1,031	1,031
2017/18	0	0	1,350	1,350	1,350
2018/19	0	0	0	1,391	1,391
2019/20	0	0	0	0	1,104
Total	2,823	3,854	4,752	5,597	6,325

50. 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 will 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 council's earmarked reserves over the life of the MTFP is attached at **appendix F.2**.

The robustness of the estimates and the adequacy of reserves

51. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the head of finance) 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.

52. The construction of the budget has been managed by qualified accountants and has been subject to challenge, specifically by strategic management board, head of finance, other heads of service and cabinet members. Informal meetings of cabinet have considered the budget, and a briefing has been/will be given to the council's scrutiny committee members. In view of the process undertaken and his own knowledge of the budget, the head of finance is satisfied that the budget is both prudent and robust.

53. The head of finance 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.

54. The one significant risk identified is a possible change to the NHB scheme. Should this happen a fundamental review of the council's budget will be necessary. Table 4 below shows that £13.587 million of expenditure budgeted for within the MTFP and the capital programme from 2017/18 onwards is dependent on the receipt of

NHB not yet received or confirmed as payable by the government. The Head of Finance and leader of the council will determine which expenditure should not commence until further certainty over the future of NHB is received. This will be reflected in the 2015/16 capital programme.

Table 4.1 New Homes Bonus account

Year	Opening balance £000	Receipt £000	Revenue expenditure £000	Capital expenditure £000	Closing balance £000
2015/16	4,728	2,823	(100)	(1,590)	5,861
2016/17	5,861	3,854	(2,455)	(907)	6,353
2017/18	6,353	4,752	(2,606)	(5,240)	3,259
2018/19	3,503	5,597	(1,592)	(3,371)	4,137
2019/20	4,137	6,325	(1,706)	(1,571)	6,941
Total		23,351	(8,459)	(12,679)	

Note that the figures in **bold** represent monies confirmed or received. The closing balance of £6.941 million includes £2.007 million has been ring fenced by the council for affordable housing.

Table 4.2 Expenditure at risk

	£000
Total expenditure to be funded from NHB per table 4	(21,138)
NHB funding received or confirmed (2015/16 in bold) note 2	7,551
Expenditure to be funded from NHB not yet received or confirmed	13,587

55. Should there be no change to the NHB scheme then the leader of the council has indicated that he may want to use an element of the remaining NHB balance to front fund infrastructure projects.

56. The head of finance's full report will be available at full council.

Legal Implications

57. 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 18 February 2015 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).

58. The requirement placed on the council by the Local Government Act 2003 to set prudential indicators and for the head of finance as 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

59. 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.

Conclusion

60. This report provides details of the revenue base budget for 2015/16, the capital programme 2015/16 to 2019/20, government grants (the settlement), uncommitted reserves and balances, the leader of the council's budget proposals and the resulting prudential indicators.

61. 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 A.1	Revenue budget 2015/16
Appendix A.2	Opening budget adjustments
Appendix A.3	Inflation, salary increments and other salary adjustments
Appendix A.4	Essential growth
Appendix A.5	Base budget savings
Appendix A.6	Revenue contingency
Appendix B	Revenue growth
Appendix C	Service budget analysis
Appendix D.1	Capital programme before growth
Appendix D.2	Capital growth bids
Appendix E	Prudential indicators
Appendix F.1	Medium term financial plan
Appendix F.2	Earmarked reserves 2015/16 to 2019/20

Background Papers

- Provisional settlement figures (December 2014)
- Council tax base 2015/16 – Cabinet 5 December 2014, Council 10 December 2014
- Council tax reduction scheme grant for town and parish councils – Cabinet 5 December 2014, Council 10 December 2014
- Treasury Management Strategy – Cabinet 6 February 2015, Council 18 February 2015
- Business Rate Pooling and Business Rate Distribution - Cabinet 5 December 2015