Report to:

Cabinet

Scrutiny Committee

Council

Report of Head of Finance

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Wards affected: All

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To: CABINET	5 February 2016
To: SCRUTINY COMMITTEE	11 February 2016
To: COUNCIL	17 February 2016

Revenue Budget 2016/17 and Capital Programme to 2020/21

RECOMMENDATIONS

1. That cabinet recommends to council that it:

   a. sets the revenue budget for 2016/17 as set out in appendix A.1 to this report,
   b. approves the capital programme for 2016/17 to 2020/21 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 2020/21 as set out in appendix F.1 to this report.

2. That cabinet recommends council to authorise, in consultation with the leader of the council, the head of finance to issue an efficiency statement to government in order to secure a four year settlement, if this is considered to be beneficial to the council.

3. That cabinet agrees that the leader of the council may 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 17 February 2016.

Purpose of report

1. This report:

    - brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2016/17 and a capital programme for 2016/17 to 2020/21;
    - 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 growth proposals (known as growth bids) have been made, 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 the budget proposals and these are identified in **appendix B** (revenue) and **appendix D.2** (capital).

Revenue budget 2016/17

5. **Appendix A.1** summarises the movements in the base budget from £12,483,052 in 2015/16 to £12,178,308 in 2016/17. These movements are detailed below.

6. **Opening budget adjustment reduction £871,120 (appendix A.2).** This includes the removal of one-off growth items relating to 2015/16 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 £345,708 (appendix A.3).** The salary and contract inflation totals £107,234, representing an average increase of 0.9 per cent on the 2015/16 net expenditure budgets. For council employees an overall increase in salary costs of 1.5 per cent is budgeted for 2016/17. Increments payable to council employees not at the top of their salary range total £51,160. The increase of £187,314 in other salary adjustments is higher than in previous years and reflects an increase of three per cent in employers' National Insurance contributions following changes to the Local Government Pension Scheme.

    - **essential growth – one-off £379,750 and ongoing £723,608 (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 2016/17.

8. Deductions from the base budget:

   - **base budget savings £260,887 (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.

9. Corporate contract project savings and other related restructures:

   - **corporate contract savings £653,333.** These savings are the best estimates available at this time of savings arising from the Corporate Services project, given that contracts have not yet been signed. This figure is a part year saving, the full year saving is estimated to be £980,000. Savings are smoothed which is the only way to show costs, given the information we have at present. This may change as a result of preferred holder discussions.

   - **residual client costs £116,291.** This is an estimate based on five per cent of the estimated contract cost of services to be outsourced as part of the corporate services project. This reduces to three per cent when the contract is two years old.

   - **management restructure costs £50,000.** Leading on from the corporate services contract project, the senior management structure is being reviewed and reduced. It is estimated that in 2016/17 there will be a net cost to the council of £50,000, but in future years there will be annual savings of £100,000.

10. Other changes to corporate base budgets:

   - **reduction in revenue contingency (appendix A.6) £142,378.** This brings the level of revenue contingency up to £502,622. This includes specific provision for certain events should they occur, together with a general contingency amount of £150,000.

   - **increase in managed vacancy factor £21,543,** this provision is set at two per cent of budgeted employee costs and reduces the overall employees budget to reflect the savings that result from vacancies arising as part of normal staff turnover. As budgeted costs increase or decrease the provision is adjusted accordingly.

   - **other budget adjustments of £29,160** reflects the changes in net property income which are included within revisions to the base budget.

11. As a result of these changes the council's revised base budget for 2016/17 is **£12,178,308**.

Revenue growth proposals

12. A number of revenue growth proposals are being recommended to council for inclusion in the budget for 2016/17. These are detailed in **appendix B** and total **£634,539**. 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.

13. There are also costs in the revenue budget of **£50,000** arising from the capital growth proposals shown in **appendix D.2**. These are discussed later in the report.

Net property income

14. Net property income represents the council's income from its investment property portfolio less expenditure, and for 2016/17 is estimated at **£961,310.**

Gross treasury income

15. Investment returns for 2016/17 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 **£411,000** will be earned in 2016/17.

16. More details of treasury income can be found in the council's Treasury Management Strategy report[1].

17. Including growth, property and treasury income results in a net expenditure budget for the council of **£11,490,537**.

Reserves and other funding

New Homes Bonus (NHB)

18. The provisional government allocation for NHB payment for 2016/17 is **£3,929,440**. For 2016/17 £1,375,798 of this will be transferred to reserves with the balance used to support revenue expenditure. This is the first year that NHB will be used to support revenue expenditure in this way. Previously only £100,000 was used to fund the NHB community grants scheme with the remainder transferred to reserves in the year of receipt. Projections of future NHB earnings and how they will be used are detailed later in this report.

Transfers to/ from earmarked reserves

19. In addition to the transfer to reserves of the NHB payment the other proposed transfers to / from earmarked reserves reflect:

- the transfer of **£40,000** to the election equalisation reserve to help fund the costs of the district council elections in 2019.

- 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.

20. Based on the above use of reserves and other funding, the amount of revenue expenditure to be financed in 2016/17 is **£10,119,797**.

Funding

Local government settlement

[1] Cabinet 5 February 2016, Council 17 February 2016

21. On December 17 2015, the government announced the provisional four year local government settlement covering the period 2016/17 to 2019/20. At the time of writing we have not received the final settlement. Officers consider that any changes to the settlement at this stage are unlikely to be material. Table 1 below details the provisional funding outlined for the council for the next four years.

Table 1: Settlement Funding Assessment (provisional)

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Revenue Support Grant	1,082	513	165	0
Business Rates Baseline Funding Level	2,169	2,212	2,277	2,350
Settlement Funding Assessment	**3,251**	**2,724**	**2,442**	**2,350**
Tariff/Top-Up adjustment	0	0	0	(224)
Total	**3,251**	**2,724**	**2,442**	**2,126**

22. The provisional settlement for 2016/17 is 16.5 per cent lower than 2015/16. 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 (RSG) element. RSG reduces to nil in 2019/20. The provisional figures indicate that in that year additional tariff payment will be due, reflecting a redistribution of government funding. It should be noted that these figures exclude NHB funding which is discussed later in the report.

23. The government has indicated that where councils submit an efficiency statement - the format of which is yet to be announced - a fixed four year settlement will be made available, based on the figures shown in table 1. There is no indication at this stage what the other implications are for the council in submitting such a statement or indeed of omitting to do so.

24. Cabinet is asked to recommend council to delegate the decision to submit such a statement the head of finance, in consultation with the leader of the council. The decision to submit would be based on analysis of the benefit to the council of doing so.

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

25. As previously agreed by council, the council tax support grant contribution payable to town and parish councils will be **£80,297** for 2016/17. The proposed MTFP shows that this contribution will be phased out after 2017/18.

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 2016/17 this shortfall is estimated to **£162,677**. Should the actual business rate receipt prove to be in excess of the safety net the additional revenue generated will be added to the council's general fund balance.

Collection fund

27. The surplus on the collection fund in 2015/16 is estimated to be **£287,338**.

Use of general fund balance

28. 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 these budget proposals is a draw on general fund balances of **£1,202,190** in 2016/17. As this is not sufficient to balance the budget, a further **£2,553,642** is required from NHB.

Leader of the council's revenue budget proposal

29. Based on the amendments detailed above, and as shown in **appendix A1** of this report, the budget proposal, including growth, is for a budget requirement of **£8,917,607**. This revenue budget as proposed would result in no change to current band "D" council tax of **£116.69**. **Appendix C** shows the breakdown of the revenue budget.

30. A draft MTFP and proposed growth bids were published on the council's website in December 2015. No comments on the published MTFP and growth bids have been received by officers or by the leader of the council.

Capital programme 2016/17 to 2020/21

Current capital programme

31. The latest capital programme (before growth) is shown in **Appendix D.1** and summarised in table 2 below. It is the capital programme as set by council in February 2015 plus:-

- slippage (caused by delays to projects) carried forward from 2014/15,
- new schemes approved by council during 2015/16,
- re-profiling of expenditure on schemes from the 2015/16 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)

2015/16 latest estimate £000	2016/17 estimate £000	2017/18 estimate £000	2018/19 estimate £000	2019/20 estimate £000	2020/21 estimate £000
5,554	10,284	8,844	6,394	2,094	1,349

Cabinet capital programme proposals

32. **Appendix D.2** contains a list of new capital schemes that are being recommended as part of this budget proposal. Officers will amend the capital programme to include the proposals if approved by cabinet and council.

Financing the capital programme

33. 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 if required, provided any borrowing is prudent, sustainable and affordable.

34. At present there is no requirement to borrow to fund the programme in 2016/17.

Future pressures on the capital programme

35. **Appendix D.1** shows how the current capital programme will be financed. As can be seen the councils useable capital receipts, based on current estimates, are expected to be extinguished in 2017/18 and thus projects not funded from outside sources, including the growth bids, will need to be funded from NHB or from prudential borrowing.

36. Based on the officers estimates for future NHB receipts (discussed below), there is a potential need for up to £8.3 million of prudential borrowing during the life of this capital programme. This level of borrowing maintains general fund balances at ten per cent of net expenditure, and ensures the council's earmarked reserves remain above £2 million. The council's MTFP includes provision to repay both the principal and interest element of the borrowing, which itself will be financed from the revenue stream associated with the capital schemes to be financed.

37. It should be noted that no borrowing is required until 2017/18. The need to borrow will be determined by a number of tests including the future level of NHB, future capital receipts and level of external funding for the capital programme and the ongoing requirement for the revenue account to draw on NHB.

The prudential code and prudential indicators

38. In setting its revenue and capital budgets for 2016/17, 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. **Appendix F.1** contains the MTFP for 2016/17 to 2020/21**.** This is a projection of the revenue budget up to 31 March 2021 The projection allows for budget pressures in later years and assumes that council approves all the budget proposals within this report. With the exception of the corporate services project, 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.

46. The MTFP identifies some potential challenges ahead for the council. It reflects the draft four year settlement figures published by the government in December 2015 and shown in table 1 above and anticipates that the basis of funding in 2019/20 continues into 2020/21. Ongoing funding after 2019/20 is an estimate by officers, and is subject to change. It also incorporates assumptions on interest income, and other known pressures on the council, such as inflation and salary increments.

47. In December 2015 government announced a consultation on the future of NHB. The government is proposing a number of changes, aimed at "sharpening the incentive". Proposals include no NHB being payable to councils in the year when a local plan has not been submitted, and reducing the payment term from 6 years to 4 years, or even 2 years. The consultation closes in March, so the impact of the results can only be estimated at this stage. Officers have used indicative figures in the consultation document to estimate future receipts, which may be subject to significant change when the results of the review are known.

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 42). In total the council is expected to have received in excess of £16.7 million during the MTFP period.

Table 3: New Homes Bonus

Year earned	Year of receipt				
	2016/17 budget £000	**2017/18 indicative £000**	**2018/19 indicative £000**	**2019/20 indicative £000**	**2020/21 indicative £000**
2011/12	452	0	0	0	0
2012/13	546	0	0	0	0
2013/14	394	0		0	0
2014/15	713	714	0	0	0
2015/16	718	718	718	0	0
2016/17	1,106	1,106	1,106	1,106	0
2017/18	0	774	774	774	774
2018/19	0	0	798	798	798
2019/20	0	0	0	633	633
2020/21	0	0	0	0	573
Total	**3,929**	**3,312**	**3,396**	**3,311**	**2,778**

49. 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, there is uncertainty over future funding from NHB and business rates, including the introduction of the yet to be determined 100 per cent retention of business rate scheme for the council at this time which means that there may be a need to revisit the budget proposals in the future. 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

50. 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.

51. 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 an informal briefing has been given to the council's scrutiny committee members which was open to all councillors. 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.

52. 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.

53. The one significant risk identified is a possible change to the NHB scheme. Should this prove less generous for the council a fundamental review of the council's budget may be necessary. Table 4 below shows that £8.5 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.

Table 4.1 New Homes Bonus account

Year	Opening balance £000	Receipt £000	Revenue £000	Capital £000	Closing balance £000
2016/17	**5,357**	**3,929**	(2,554)	(1,595)	5,137
2017/18	5,137	3,312	(3,003)	(997)	4,449
2018/19	4,449	3,396	(1,462)	(4,751)	1,632
2019/20	1,632	3,311	(1,031)	(421)	3,491
2020/21	3,491	2,778	(1,231)	(751)	4,287
Total		**16,726**	**(9,281)**	**(8,515)**	

Note that the figures in **bold** represent monies confirmed or received. The closing balance of £4.627 million includes £1.322 million ring fenced for affordable housing

Table 4.2 Expenditure at risk

	£000
Total expenditure to be funded from NHB per table 4	(17,796)
NHB funding received or confirmed (2016/17 in bold) table 4	9,286
Expenditure to be funded from NHB not yet received or confirmed	**8,510**

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

Legal Implications

55. 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 17 February 2016 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.

56. 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

57. 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

58. This report provides details of the revenue base budget for 2016/17, the capital programme 2016/17 to 2020/21, government grants (the settlement), uncommitted reserves and balances, the leader of the council's budget proposals and the resulting prudential indicators.

59. 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 2016/17
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 2016/17 to 2020/21

Background Papers

- Provisional settlement figures (December 2015)
- Council tax base 2016/17 – Cabinet 4 December 2015, Council 16 December 2015
- Treasury Management Strategy – Cabinet 5 February 2016, Council 17 February 2016