

**Report to:
Cabinet
Scrutiny Committee
Council**



Report of Head of Finance

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To: CABINET

3 February 2017

To: SCRUTINY COMMITTEE

7 February 2017

To: COUNCIL

15 February 2017

**AGENDA ITEM NO
XX**

**Revenue Budget 2017/18 and Capital
Programme to 2021/22**

RECOMMENDATIONS

1. That cabinet recommends to council that it:
 - a. sets the revenue budget for 2017/18 as set out in appendix A.1 to this report,
 - b. approves the capital programme for 2017/18 to 2021/22 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 2021/22 as set out in appendix F.1 to this report.
2. That cabinet agrees that the cabinet member for finance 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 15 February 2017.

Purpose of report

1. This report:
 - brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2017/18 and a capital programme for 2017/18 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.

Budget setting process

2. In preparing and setting the revenue budget for 2017/18 and capital programme to 2021/22 a number of complexities arose that delayed the process including:
 - provisional settlement issued in December 2016;
 - changes to rules surrounding the calculation of new homes bonus requiring internal projections to be reviewed in detail;
 - a new operating environment and management team providing more robust challenges.

Strategic objectives

3. Setting the budget in accordance with prescribed timetables enables the council to run an effective council.
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.
5. Where growth proposals (known as growth bids) have been made, each bid sets out how it will help achieve the council's objectives. The cabinet member for finance 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 2017/18

6. **Appendix A.1** summarises the movements in the base budget from £11,901,537 in 2016/17 to £12,834,702 in 2017/18. These movements are detailed below.
7. **Opening budget adjustment reduction £1,299,053 (appendix A.2)**. This includes the removal of one-off growth items relating to 2016/17 and before, and

the realisation of the full-year effect of savings proposals identified in previous years.

8. Additions to the base budget:

- **inflation, salary increments and other salary adjustments £158,917 (appendix A.3).** The salary and contract inflation totals £33,174, representing an average increase of 0.9 per cent on the 2016/17 net expenditure budgets. For council employees an overall increase in salary costs of 1.3 per cent is budgeted for 2017/18. Increments payable to council employees not at the top of their salary range total £57,585. The increase of £68,158 in other salary adjustments include changes to employment taxes, staff working hours and corrections to prior year budgets.
- **essential growth – one-off £614,558 and ongoing £1,798,744 (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 2017/18.
- In addition to essential growth items brought forward by services, there are a number of corporate essential growth items that have arisen following further work undertaken on the Five Councils' Partnership and the management restructure since the previous budget was set.
- When the 2016/17 budget was set, the contracting process for Five Council's Partnership was still ongoing and only estimates of savings were available, based on future costs being smoothed on an annual basis. Following on from the signing of the contracts it is clear that the savings profile sees a greater realisation of savings in the later years of the contract, so there is a need to increase cost in the MTFP period - the earlier years of the contract - compared to previous thinking. In addition, the savings include innovation and procurement hub savings, which officers do not feel can be taken as certain at this stage, and more prudent savings estimates have been added. As a result of these factors the savings estimate arising from the contract costs has been re-profiled over the MTFP period compared to the previous year's budget.
- Following the commencement of the Five Councils' contract, and the arrival of the new chief executive, the council is currently reviewing its future workforce requirements. At this stage we have budgeted £400,000 per annum for potential additional staff.

9. Deductions from the base budget:

- **base budget reductions £194,018 (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.
- **reduction in revenue contingency (appendix A.6) £153,642.** This brings the level of revenue contingency down to £347,980. This includes specific provision for certain events should they occur, together with a general contingency amount of £138,000.

- **decrease in managed vacancy factor £7,659**, 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.

10. As a result of these changes the council's revised base budget for 2017/18 is **£12,834,702**.

Revenue growth proposals

11. A number of revenue growth proposals are being recommended to council for inclusion in the budget for 2017/18. These are detailed in **appendix B.1** and total **£659,447**. 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. In addition to revenue growth proposals, a number of savings proposals are being recommended. These are detailed in **appendix B.2** and total **£47,500**. The equalities implications of the proposals are considered later in the report.

Gross treasury income

13. Investment returns for 2017/18 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 **£379,160** will be earned in 2017/18.
14. More details of treasury income can be found in the council's Treasury Management Strategy report¹.

Borrowing costs

15. The revenue consequence of budgeted borrowing to fund capital expenditure is **£63,273**. This is considered later in the report.
16. Including growth, gross treasury income and borrowing costs results in a net expenditure budget for the council of **£13,130,762**.

Reserves and other funding

New Homes Bonus (NHB)

17. The provisional government allocation for NHB payment for 2017/18 is **£4,149,782**. For 2017/18 **£1,759,664** of this will be used to support revenue and the remainder transferred to reserves. Projections of future NHB earnings and how they will be used are detailed later in this report.

Transfers to/ from earmarked reserves

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

¹ Cabinet 3 February 2017, Council 15 February 2017

- the transfer of **£40,000** to the election equalisation reserve to help fund the costs of the district council elections in 2019;
- transfer from earmarked reserves of grant funding to fund essential growth of **£389,417**;
- transfer from general fund balances **£1,885,666**.

19. Based on the above use of reserves and other funding, the amount of revenue expenditure to be financed from government and from council tax in 2017/18 is **£9,136,015**.

Funding

Local government settlement

20. As part of the December 2015 Spending Review, the Secretary of State for Communities and Local Government offered to councils a four-year funding settlement² for the period 2016/17 to 2019/20. To qualify councils had to publish an Efficiency Plan which covered the four-year time period. The council published an efficiency statement on 11 October 2016 and as a result qualified for the four year settlement. Table 1 below details the funding for the council up to 2019/20.

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

21. The provisional settlement for 2017/18 is 16.2 per cent lower than 2016/17. 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. This has commonly been referred to as negative RSG. It should be noted that these figures exclude NHB funding which is discussed later in the report.

22. At the time of writing this report the final settlement funding assessment had not been received from the government. It is not anticipated that when this information is available it will be significantly different to the provisional figures.

² the four year settlement agreed by government only related to RSG and not to funding relating to business rates

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

23. As previously agreed by council, the last council tax support grant contribution payable to town and parish councils will be **£40,149** for 2017/18.

Business rate retention scheme

24. 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 2017/18 this shortfall is estimated to **£165,877**. 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.

25. Included in the budget for the first time is **£237,000** business rates retained by the council as planning authority relating to facilities generating renewable energy within the district.

Collection fund

26. The surplus on the collection fund is estimated in 2016/17 to be **£368,419**.

Use of general fund balance

27. 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 **£1,885,666** in 2017/18.

Cabinet member for finance's revenue budget proposal

28. 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 **£9,136,015**. This revenue budget as proposed would result in an increase of £5.00 to current band "D" council tax to **£121.69**. **Appendix C** shows the breakdown of the revenue budget.

Capital programme 2017/18 to 2021/22

Current capital programme

29. 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 2016 plus:-

- slippage (caused by delays to projects) carried forward from 2015/16,
- new schemes approved by council during 2016/17,
- re-profiling of expenditure on schemes from the 2016/17 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.

Cabinet capital programme proposals

30. **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.
31. Capital schemes of greater than £500,000 deleted from the capital programme during the year are listed below:
- Car park extension scheme – scheme total £2 million, removed pending fully worked up projects being presented for appraisal.
 - Reduction of capital contingency – scheme reduced by £774,000, to re-balance the available contingency budget given probable calls upon this facility. The remaining capital contingency budget is £1,500,000.

Financing the capital programme

32. 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.
33. At present there is a budgeted requirement to borrow to build a new leisure centre at Wantage. Long term borrowing has been budgeted in from 2017/18, repayable over the thirty-five year lifetime of the facility.
34. The use of capital receipts in relation to the redevelopment of West Way in Botley will be considered upon receipt. This will include a review of potential projects in the local area as well as investment opportunities to replace the loss of income from West Way. No adjustment to the capital programme is proposed at this stage to take account of either the capital receipt or any relevant expenditure.
35. **Table 2** contains a schedule identifying showing the current and proposed capital programme and how it will be financed, including the growth proposals, if they are approved. The programme proposed can be fully funded from existing and anticipated capital resources. The total planned capital expenditure is **£44.5 million**.

Table 2: current and proposed capital programme with financing

	2016/17 latest estimate £000	2017/18 estimate £000	2018/19 estimate £000	2019/20 estimate £000	2020/21 estimate £000	2021/22 estimate £000	GRAND TOTAL £000
Capital programme approved	8,565	14,806	6,524	2,194	1,455	1,274	34,818
Cabinet capital growth proposals	0	1,800	2,334	3,856	1,333	330	9,654
Total expenditure	8,565	16,606	8,858	6,050	2,788	1,604	44,472
Financing							
Grant funding	1,141	523	523	523	523	523	3,756
Developers' contributions	622	1,296	1,250	0	0	0	3,168
Borrowing	0	4,585	7,085	3,913	0	0	15,583
New homes bonus	0	9,343	0	1,614	2,265	1,081	14,303
Usable capital receipts/revenue reserves	6,802	859	0	0	0	0	7,662
Total financing	8,565	16,606	8,858	6,050	2,788	1,604	44,472
Estimated balances as at 31 March 2022							
Usable capital receipts							0
New homes bonus:							
Unringfenced							177
Affordable homes							2,460

Future pressures on the capital programme

36. As can be seen from table 2 the council's 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.
37. Based on the officers estimates for future NHB receipts (discussed below), there is a potential need for up to £15.6 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. The council's MTFP includes provision to repay both the principal and interest element of the borrowing.
38. It should be noted that although there is borrowing budgeted in 2017/18, at the point of borrowing, 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

39. In setting its revenue and capital budgets for 2017/18, 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.
40. 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.

41. 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.
42. 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.
43. 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.
44. 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.
45. **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)

46. The MTFP provides a forward budget model for the next five years. **Appendix F.1** contains the MTFP for 2017/18 to 2021/22. This is a projection of the revenue budget up to 31 March 2022. The projection allows for 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 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 2021/22. Ongoing funding after 2020/21 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.

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 40). In total the council is expected to have received in excess of £27.4 million during the MTFP period.

Table 3: New Homes Bonus

Year earned	Year of receipt				
	2017/18 budget £000	2018/19 indicative £000	2019/20 indicative £000	2020/21 indicative £000	2021/22 indicative £000
2013/14	376	0		0	0
2014/15	713	0	0	0	0
2015/16	736	736	0	0	0
2016/17	1,106	1,106	1,106	0	0
2017/18	1,218	1,218	1,218	1,218	0
2018/19	0	1,304	1,304	1,304	1,304
2019/20	0	0	2,024	2,024	2,024
2020/21	0	0	0	1,859	1,859
2021/22	0	0	0	0	1,595
Total	4,149	4,364	5,652	6,405	6,782

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 will be given to the council's scrutiny committee members which will be 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 further possible changes to the NHB scheme in addition to those already announced.

54. Scheme changes already known and built into the estimates are :

- a move to five year payments for both existing and future bonus allocations in 2017/18 and then to four years from 2018/19;
- the introduction of a national baseline of 0.4 per cent for 2017/18 for NHB below which allocations will not be made.

55. Should this prove less generous for the council a fundamental review of the council's budget may be necessary. Table 4 below shows that £20.568 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
2017/18	8,915	4,150	(1,760)	(9,343)	1,962
2018/19	1,962	4,365	(4,397)	0	1,930
2019/20	1,930	5,652	(4,047)	(1,614)	1,921
2020/21	1,921	6,405	(4,498)	(2,265)	1,563
2021/22	1,563	6,782	(4,628)	(1,081)	2,636
Total		27,354	(19,330)	(14,303)	

Note that the figures in **bold** represent monies confirmed or received. The closing balance of £2.636 million includes £2.459 million ring-fenced for affordable housing.

Table 4.2 Expenditure at risk

	£000
Total expenditure to be funded from NHB per table 4.1	(33,633)
NHB funding received or confirmed (2017/18 in bold) table 4.1	13,065
Expenditure to be funded from NHB not yet received or confirmed	(20,568)

56. The funding of local government will undergo change over the next few years as the government move to a 100 per cent business rates retention model and further reviews the new homes bonus scheme. In the light of this, consideration will be given to produce a medium term financial strategy for the council that will set the parameters and principle on which the council's budget will be built.

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

Legal Implications

58. 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 15 February 2017 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.
59. 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.

Equalities Implications of revenue savings proposals

60. The council has reviewed the revenue savings proposals in line with our public sector equality duties to have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation,
 - advance equality of opportunity between people who share a protected characteristic³ and those who do not,
 - foster good relations between people who share a protected characteristic and those who do not.
61. Consideration was also given to those groups not protected by legislation such as low income groups, in line with the requirement of the Equality Framework for Local Government
62. It is the equality officer's view that the budget reduction proposal relating to stopping the discretionary events and festival grants is likely to have a low equality impact. The events the scheme can fund often help with community integration (especially for disadvantaged groups) and improving community knowledge and understanding of cultural events/matters.

Other Implications

63. 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.

³ A 'protected characteristic' under the Act is colour, race, nationality, ethnic or national origin, disability, age, sex, gender reassignment, sexual orientation, religion, belief, marriage or civil partnership, pregnancy and maternity

Conclusion

64. This report provides details of the revenue base budget for 2017/18, the capital programme 2017/18 to 2021/22, government grants (the settlement), uncommitted reserves and balances, the leader of the council's budget proposals and the resulting prudential indicators.

65. 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 2017/18
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.1	Revenue growth
Appendix B.2	Revenue savings
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 2017/18 to 2021/22

Background Papers

- Provisional settlement figures (December 2016)
- Council tax base 2017/18 – Cabinet 2 December 2016, Council 14 December 2016
- Treasury Management Strategy – Cabinet 3 February 2017, Council 15 February 2017