

Report to: Cabinet Scrutiny Committee Council

Report of Head of Finance

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Wards affected: All

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To: CABINET

9 February 2018

To: SCRUTINY COMMITTEE

8 February 2018

To: COUNCIL

14 February 2018

**AGENDA ITEM NO
XX**

Revenue Budget 2018/19 and Capital Programme to 2022/23

RECOMMENDATIONS

1. That cabinet agrees to maintain car park fees and charges at current levels
2. That cabinet recommends to council that it:
 - a. sets the revenue budget for 2018/19 as set out in appendix A.1 to this report,
 - b. approves the capital programme for 2018/19 to 2022/23 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 2022/23 as set out in appendix F.1 to this report.
3. 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 14 February 2018.

Purpose of report

1. This report:
 - brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2018/19 and a capital programme for 2018/19 to 2022/23;
 - 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 2018/19 and capital programme to 2022/23 a number of factors arose that delayed the process including:
 - provisional settlement issued in late December 2017;
 - ongoing review of new homes bonus estimates;
 - a new operating environment as a result of a new temporary management structure.

Strategic objectives

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 cabinet member for finance has chosen to include some growth bids in the budget proposals and these are identified in **appendix B.1** (revenue), and **appendix D.2** (capital), together with a revenue savings proposal in **appendix B.2**.

Revenue budget 2018/19

5. **Appendix A.1** summarises the movements in the base budget from £13,446,649 in 2017/18 to £14,405,342 in 2018/19. These movements are detailed below.
6. **Opening budget adjustment reduction £341,237 (appendix A.2)**. This includes the removal of one-off growth items relating to 2017/18 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 £293,512 (appendix A.3).** The salary and contract inflation totals £192,290, representing an average increase of 1.43 per cent on the 2017/18 net expenditure budgets. For council employees an overall increase in salary costs of 2.8 per cent is budgeted for 2018/19. Increments payable to council employees not at the top of their salary range total £40,136. The increase of £61,086 in other salary adjustments include changes to employment taxes, staff working hours and corrections to prior year budgets. Discretionary fees and charges have been increased by inflation, except for car park fees and charges which are proposed to remain at current levels.
- **essential growth – one-off £545,500 and ongoing £558,555 (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 2018/19.
- Ongoing essential growth includes an estimate of additional costs arising from the renegotiation of the 5 Councils' Partnership contracts. Work on the renegotiation is ongoing at this time. It also includes an estimate of additional costs arising from the management restructure, which is also ongoing at this time.
- **increase in managed vacancy factor £17,009**, 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.

8. Deductions from the base budget:

- **base budget reductions £109,046 (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) £5,600.** This along with a £1,500 reduction included in elements above, brings the level of revenue contingency down to £340,880. This includes specific provision for certain events should they occur, together with a general contingency amount of £246,000.

9. As a result of these changes the council's revised base budget for 2018/19 is **£14,405,342.**

Revenue growth proposals

10. A number of revenue growth proposals are being recommended to council for inclusion in the budget for 2018/19. These are detailed in **appendix B.1** and total **£922,342.** 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.

11. In addition to revenue growth proposals, a saving proposal is also being recommended. This is detailed in **appendix B.2** and total **£31,740**. The equalities implications of the proposal are considered later in the report.
12. Statutory planning fees increased by 20 per cent on 17 January 2018. This increase is to be reinvested within the planning service and will therefore have no impact on the councils net cost of services. **Appendix B.3** outlines the use of these extra fees to enhance planning service provision.

Gross treasury income

13. Investment returns for 2018/19 are used to finance expenditure in-year. As interest rates are expected to rise slowly but remain low for the short/medium term, it is currently forecast that **£450,120** will be earned in 2018/19.
14. More details of treasury income can be found in the council's Treasury Management Strategy report¹.

Borrowing costs

15. No borrowing is expected to be required in 2018/19 so no borrowing costs have been budgeted for. Borrowing in future years is considered later in the report.
16. Including growth and gross treasury income results in a net expenditure budget for the council of **£14,845,824**.

Reserves and other funding

New Homes Bonus (NHB)

17. The provisional government allocation for NHB payment for 2018/19 is **£4,102,466**. For 2018/19 **£4,000,000** 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. There are no other transfers to / from earmarked reserves.

Funding

Local government settlement

19. 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

¹ Cabinet 9 February 2018, Council 15 February 2018

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

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	2,213	2,280	2,330
Settlement Funding Assessment	3,251	2,726	2,445	2,330
Tariff/Top-Up adjustment	0	0	0	(224)
Total	3,251	2,726	2,445	2,106

20. The provisional settlement for 2018/19 is over 10 per cent lower than 2017/18. Whilst the baseline funding element of the settlement is increasing in line with the increase in business 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.
21. Rural services delivery grant of **£7,300** has been allocated to the council for 2018/19 and 2019/20.
22. The importance of NHB funding has increased over recent years and is now seen as critical to the sustainability of the council's MTFP. As identified above, funding has been provisionally announced along with the settlement this year at £4,102,466 for 2018/19.
23. Estimates of future receipts of new homes bonus are shown in table 2 below, and are also included in the MTFP (detailed in row 44). In total the council is expected to have received in excess of £27.8 million during the MTFP period.

Table 2: New Homes Bonus

Year earned	Year of receipt				
	2018/19 budget £000	2019/20 indicative £000	2020/21 indicative £000	2021/22 indicative £000	2022/23 indicative £000
2015/16	736	0	0	0	0
2016/17	1,106	1,106	0	0	0
2017/18	1,218	1,218	1,218	0	0
2018/19	1,042	1,042	1,042	1,042	0
2019/20	0	1,441	1,441	1,441	1,441
2020/21	0	0	1,563	1,563	1,563
2021/22	0	0	0	2,163	2,163
2022/23	0	0	0	0	2,269
Total	4,102	4,807	5,264	6,209	7,436

24. 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.

Business rate retention scheme

25. 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 2018/19 this shortfall is estimated to **£170,985**. 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.

26. Business rates retained by the council as planning authority relating to facilities generating renewable energy within the district is estimated at **£237,000**.

Collection fund

27. The surplus on the collection fund is estimated in 2018/19 to be **£373,287**.

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 **£1,562,885** in 2018/19. This is in addition to the use of £4,000,000 NHB referred to above.

Cabinet member for finance's revenue budget proposal

29. Based on the amendments detailed above, and as shown in **appendix A.1** of this report, the budget proposal, including growth, is for a budget requirement of **£9,282,939**. This revenue budget as proposed would result in an increase of £5.00 to current band "D" council tax to **£126.69**. **Appendix C** shows the breakdown of the revenue budget.

Capital programme 2018/19 to 2022/23

Current capital programme

30. The latest capital programme (before growth) is shown in **Appendix D.1** and summarised in table 3 below. It is the capital programme as set by council in February 2017 plus:-

- slippage (caused by delays to projects) carried forward from 2016/17,
- new schemes approved by council during 2017/18,
- re-profiling of expenditure on schemes from the 2017/18 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

31. **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

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 revenue reserve when this is extinguished. If revenue reserves fall below a prudent level, 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 the leisure centre. Long term borrowing has been budgeted in from 2019/20, repayable over the anticipated thirty-five year lifetime of the facility. As a result of the capital receipt from the sale of West Way in Botley, the requirement for borrowing has been reduced by £8 million from the predicted borrowing requirement last year.
34. A review of potential leisure investment projects in the Botley area is being undertaken by the parish council and is expected to report during 2018/19. This will inform any projects that may come forward for consideration at that time. No adjustment to the capital programme is proposed at this stage for such projects.
35. **Table 3** contains a schedule 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 **£40.1 million**.

Table 3: current and proposed capital programme with financing

	2017/18 latest estimate	2018/19 estimate	2019/20 estimate	2020/21 estimate	2021/22 estimate	2022/23 estimate	GRAND TOTAL
	£000	£000	£000	£000	£000	£000	£000
Capital programme approved	7,845	15,115	11,465	3,172	1,574	1,574	40,745
Cabinet capital growth proposals	0	(704)	0	0	0	30	(674)
Total expenditure	7,845	14,411	11,465	3,172	1,574	1,604	40,071
Financing							
Grant funding	448	523	523	523	523	523	3,063
Developers' contributions	1,602	514	418	464	1,373	517	4,888
Borrowing	0	0	5,800	1,900	0	0	7,700
New homes bonus	5,664	(696)	3,024	285	(322)	564	8,519
Usable capital receipts/revenue reserves	131	14,070	1,700	0	0	0	15,901
Total financing	7,845	14,411	11,465	3,172	1,574	1,604	40,071
Estimated balances as at 31 March 2023							
Usable capital receipts							0
New homes bonus:							
Unringfenced							4,525
Affordable homes							3,009

Future pressures on the capital programme

36. The council's usable capital receipts, based on current estimates, are expected to be extinguished by 2020/21 and thus projects not funded from outside sources, including the growth bids, will need to be funded from revenue reserves (including NHB) or from prudential borrowing.
37. Based on the officer's estimates for future NHB receipts, there is a potential need for up to £7.7 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 retains a prudent, unallocated NHB balance. 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 2019/20 and 2020/21, 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 2018/19, 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 2018/19 to 2022/23. This is a projection of the revenue budget up to 31 March 2023. The projection includes 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 2022/23. 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 2 above.
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 proposed move to 75 per cent retention of business rates for the council 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 employed by Capita and has been subject to challenge, specifically by the 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.
54. Should further changes occur a fundamental review of the council's budget may be necessary. Table 4 below shows that over £16 million of expenditure budgeted for within the MTFP and the capital programme from 2018/19 onwards is dependent on the receipt of NHB not yet received or confirmed as payable by the government.

Table 4 New Homes Bonus Account

Year	Opening balance £000	Receipt £000	Revenue £000	Capital £000	Closing balance £000
2018/19	5,648	4,102	(4,000)	696	6,446
2019/20	6,446	4,807	(4,725)	(3,024)	3,504
2020/21	3,504	5,264	(4,564)	(285)	3,919
2021/22	3,919	6,209	(4,739)	322	5,711
2022/23	5,711	7,436	(5,049)	(564)	7,534
Total		27,818	(23,077)	(2,855)	

Note that the figures in **bold** represent monies confirmed or received. The closing balance of £7.5 million includes £3 million ring-fenced for affordable housing.

55. The funding of local government will undergo change over the next few years as the government propose a move to a 75 per cent business rates retention model and further reviews of the new homes bonus scheme. As with the current 50 per cent scheme, this does not mean that the council will retain 75 per cent of business rates.
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 14 February 2018 in order to set the budget, and the council tax including amounts set by the town and parish councils, 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.

Equalities Implications of revenue savings proposal

59. The council has reviewed the revenue savings proposal 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.

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

60. 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

61. The equality officer's view on the budget saving proposal is detailed below:

- **Increase garden waste subscription fee** - It is perceived that the increase of £3 per year is likely to have a low equality impact. Residents can share bins if they do not need the full service or could take their garden waste to the household waste recycling centres. There is also the option to purchase a compost bin and discounts are offered on these if purchased at our compost give away days. However, we recognise the increase could prevent those on a low income still wishing to use the service who are unable to share with neighbours.

Other Implications

62. 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

63. This report provides details of the revenue base budget for 2018/19, the capital programme 2018/19 to 2022/23, government grants (the settlement), uncommitted reserves and balances, the leader of the council's budget proposals and the resulting prudential indicators.

64. 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 2018/19
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 B.3	Planning
Appendix C.1	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 2018/19 to 2022/23

Background Papers

- Provisional settlement figures (December 2017)
- Council tax base 2018/19 – Cabinet 8 December 2017, Council 13 December 2017
- Treasury Management Strategy – Cabinet 9 February 2018, Council 14 February 2018