

Report to: Cabinet Scrutiny Committee Council



Report of Interim Head of Finance

Author: Simon Hewings

Tel: 01235 422499

E-mail: simon.hewings@southandvale.gov.uk

Wards affected: All

Cabinet Member responsible: Andrew Crawford

Tel: 01235 772134

E-mail: andy.crawford@whitehorsedc.gov.uk

To: CABINET

3 February 2020

To: SCRUTINY COMMITTEE

6 February 2020

To: COUNCIL

12 February 2020

Revenue Budget 2020/21 and Capital Programme to 2024/25

RECOMMENDATIONS

1. That cabinet agrees to maintain car park fees and charges at current levels pending a review of fees and charges later in the year.
 2. That cabinet recommends to council that it:
 - a. sets the revenue budget for 2020/21 as set out in appendix A.1 to this report,
 - b. approves the capital programme for 2020/21 to 2024/25 as set out in appendix D.1 to this report, together with the capital growth bids set out in appendix D.3 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 2024/25 as set out in appendix F.1 to this report.
 3. That cabinet agrees that the interim head of finance may make minor adjustments to this report and the prudential indicators, in consultation with the cabinet member for finance, should they prove necessary prior to its submission to council on 12 February 2020.
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Purpose of report

1. This report:

- brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2020/21 and a capital programme for 2020/21 to 2024/25;
- 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 (MTFP) which provides details of the forward budget model for the next five years.

Strategic objectives

2. 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.
3. 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.3** (capital).

Revenue budget 2020/21

4. **Appendix A.1** summarises the movements in the base budget from £15,359,211 in 2019/20 to £15,919,653 in 2020/21. These movements are detailed below.
 5. **Opening budget adjustment reduction £375,717 (appendix A.2)**. This includes the removal of one-off growth items relating to 2019/20 and before, and the realisation of the full-year effect of savings proposals identified in previous years.
 6. Additions to the base budget:
 - **Inflation, salary increments and other salary adjustments £1,158,590 (appendix A.3)**. The salary and contract inflation total £575,717, representing an average increase of 3.7 per cent on the 2019/20 net expenditure budgets. For council employees an overall increase in salary costs of 3.9 per cent is budgeted for 2020/21. Increments payable to council employees not at the top of their salary range total £134,960. Other salary adjustments of £447,913 are primarily the result of reviewing the split of staff across the two councils and rectifying the apportionment to reflect actual workloads.
 - **Essential growth – one-off £506,324 and ongoing £774,091 (appendix A.4)**. These items comprise additional expenditure which has been identified
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by officers and the cabinet member to be unavoidable and reflect changes that have occurred in the current year or which are known will happen in 2020/21.

7. Deductions from the base budget:

- **Base budget reductions £1,418,346 (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.
- **Increase in managed vacancy factor £42,450,** this provision has been increased to maintain the total as four percent of total salary
- As a result of these changes the council's revised base budget for 2020/21 is **£15,961,704**, £602,493 more than the £15,359,211 for 2019/20.

Revenue growth proposals

8. A limited number of one-off revenue growth proposals are being recommended to council for inclusion in the budget for 2020/21. These are detailed in **appendix B.1** and total **£451,335**.
9. Following a review of the council's discretionary services by heads of service and cabinet members, a number of further savings have been identified in addition to the base budget savings referred to earlier. These total **£534,780** and are detailed in **Appendix B.2**.

Gross treasury income

10. Investment returns for 2020/21 are used to finance expenditure in-year. It is currently forecast that **£833,350** will be earned in 2020/21.
11. More details of treasury income can be found in the council's Treasury Management Strategy report¹.
12. Including growth and gross treasury income results in a net expenditure budget for the council of **£15,044,909**, compared with **£14,597,085** for 2019/20.

Reserves and other funding

New Homes Bonus (NHB)

13. The provisional government allocation payment for NHB in 2020/21 is **£5,289,704**. Projections of future NHB earnings and how they will be used are detailed later in this report.

¹ Considered by Cabinet 3 February 2020, Council 12 February 2020

Transfers to/ from earmarked reserves

14. This amounts to **£192,048** and represents the net of the transfer to reserves of the affordable homes element of the NHB payment, and the transfer from reserves to pay for grant funded revenue costs.

Funding

Local government settlement

15. As part of the December 2015 Spending Review, the Secretary of State for Communities and Local Government offered to councils a four-year funding settlement for the period 2016/17 to 2019/20. This was extended by one year in November 2019. 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	2020/21 £000
Revenue Support Grant	1,082	513	165	0	0
Business Rates Baseline Funding Level	2,169	2,213	2,280	2,332	2,370
Settlement Funding Assessment	3,251	2,726	2,445	2,332	2,370
Tariff/Top-Up adjustment	0	0	0	0	0
Total	3,251	2,726	2,445	2,332	2,370

16. The provisional settlement for 2020/21 is 1.6 per cent higher than 2019/20. Whilst the baseline funding element of the settlement is increasing in line with the increase in business rates, Revenue Support Grant (RSG) reduced to nil in 2019/20.
17. Rural services delivery grant of **£9,102** has been allocated to the council for 2020/21. No funding has been confirmed or assumed after 2020/21.
18. The importance of NHB funding has increased over recent years and is critical to the sustainability of the council's MTFP. As identified above, funding has been provisionally announced along with the settlement this year at **£5,289,704** for 2020/21.
19. Government have confirmed that 2020/21 is the final year of the NHB scheme in its current form. It is assumed at this stage that the government will honour existing awards of NHB funding only. No assumption has been made regarding income that could be receivable in future under a replacement for the NHB scheme.
20. Estimates of future receipts of new homes bonus are shown in table 2 below and are also included in the MTFP (detailed in row 42). In total the council is expected to receive £9.2 million during the MTFP period.
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Table 2: new homes bonus

Year earned	2020/21 indicative £000	2021/22 indicative £000	2022/23 indicative £000	2023/24 indicative £000
2017/18	1,218	0	0	0
2018/19	1,042	1,042	0	0
2019/20	1,449	1,449	1,449	0
2020/21	1,580	0	0	0
Total	5,290	2,491	1,449	0

21. 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

22. 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 the period of the MTFP. The actual funding generated will depend on the outcome of the review of the retained business rates scheme which is highly likely to include changes to:

- The percentage of business rates growth is retained by the different tiers of local government,
- the baseline in accordance with the fair funding review.

23. For 2020/21 this shortfall between baseline and safety net is estimated to be **£177,754** (MTFP row 48). 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

24. The surplus on the collection fund is estimated in 2020/21 to be **£359,271** (MTFP row 56).

Use of reserves

25. The difference between expenditure requirement and the funding available is smoothed over the medium term financial plan by earmarked reserves and the general fund balance. The net impact of these budget proposals is a contribution to reserves of **£144,019** in 2020/21.

Revenue budget proposal

26. 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 **£10,091,272**. This revenue budget as proposed would result in an increase of £5.00 to current band "D" council tax to **£136.69**. **Appendix C** shows the breakdown of the revenue budget.

Capital programme 2020/21 to 2024/25

Current capital programme

27. 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 2019 plus:

- slippage (caused by delays to projects) carried forward from 2019/20,
- new schemes approved by council during 2019/20,
- re-profiling of expenditure on schemes from the 2019/20 financial year to future years where delays to schemes have occurred,
- the deletion of previously agreed schemes that have completed or are not being pursued at this time in their original form.

The capital programme also includes Community Infrastructure Levy (CIL) receipts that are payable to Oxfordshire County Council and Oxfordshire Clinical Commissioning Group.

28. Non-essential capital spending was paused in December 2018 due to the uncertainty over future funding and a number of schemes were deleted from the capital programme and shown instead as being in a “preparation pool”. A review of those schemes has identified that some need to be reinstated to the capital programme as they reflect essential spending. These reinstated schemes are detailed in **Appendix D.2**. Given the financial position of the council all other schemes that were transferred to the preparation pool will not now proceed.

Cabinet capital programme proposals

29. **Appendix D.3** contains a list of new capital schemes that are being recommended as part of this budget proposal, some of which offer opportunities to increase revenue income to the council. Officers will amend the capital programme to include the proposals if approved by cabinet and council.

Financing the capital programme

30. 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.

31. **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 £27.3 million over the programme period.

Table 3: current and proposed capital programme with financing

	2019 /20 latest estimate £000	2020 /21 estimate £000	2021 /22 estimate £000	2022 /23 estimate £000	2023 24 estimate £000	2024 /25 estimate £000	GRAND TOTAL £000
Capital programme approved	6,382	6,389	4,476	1,566	1,566	1,163	21,542
Capital schemes reinstated	0	681	300	300	300	300	1,881
Capital growth proposals	0	3,430	165	90	90	100	3,875
Total expenditure	6,382	10,500	4,941	1,956	1,956	1,563	27,298
Financing							
External contributions	1,463	2,488	1,353	1,353	1,353	950	8,960
Affordable Homes Delivery Plan	2,900	5,050	2,910	0	0	0	10,860
Usable capital receipts/revenue reserves	2,019	2,962	678	603	603	613	7,478
Total financing	6,382	10,500	4,941	1,956	1,956	1,563	27,298
Estimated balances as at 31 March 2025							
Usable capital receipts							5,948

32. The council's usable capital receipts, based on current estimates, are expected to be £5.9 million by the end of 2024/25.

The prudential code and prudential indicators

33. In setting its revenue and capital budgets for 2020/21, 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.

34. 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.

35. 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.

36. 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.

37. 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.

38. Under the code, the interim 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 interim 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.

39. **Appendix E** contains the recommended prudential indicators, which have been calculated based on the budget proposals. The interim 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)

40. The MTFP provides a forward budget model for the next five years. **Appendix F.1** contains the MTFP for 2020/21 to 2024/25. This is a projection of the revenue budget up to 31 March 2025. 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.

41. The MTFP identifies serious challenges for the council. It reflects the updated provisional settlement figures published in draft in December 2019 and shown in table 1 above. Ongoing funding after 2020/21 is an estimate by officers and is subject to change. The estimates will be refined as more information on future funding schemes becomes available. Estimates of future NHB are shown in table 2 above.

Whilst, based on current assumptions and estimates, the council can set a balanced budget for the first four years of the MTFP period by drawing heavily on reserves, on current projections this is not possible for the fifth year.

The robustness of the estimates and the adequacy of reserves

42. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the interim 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.

43. The construction of the budget has been managed by qualified accountants and has been subject to challenge, specifically by the head of finance, other heads of service and cabinet members.

44. The challenge process included breaking down all costs and differentiating between statutory and discretionary expenditure. Statutory services were scrutinised for potential efficiencies and resultant budget savings. Careful analysis

of discretionary services was carried out, focusing on potential efficiencies and the consequences of removing the service.

45. The management accounting function was in-sourced from Capita in December 2018 and the team was strengthened and stabilised during 2019. This has allowed increased officer scrutiny and challenge of the budget information. Informal meetings of cabinet have considered the budget. An informal briefing on the council's overarching budget position, which was open to all councillors, took place during January 2020. A further, more detailed briefing on this budget proposal will be given to the council's scrutiny committee members in February 2020. This session will also be open to all councillors. In view of the process undertaken and his own knowledge of the budget, the interim head of finance is satisfied that the budget is both prudent and robust.
46. The heavy reliance on the use of reserves during the MTFP reflects the fact that revenue expenditure exceeds revenue income each year. Based on current projections of government funding, which are themselves subject to uncertainty pending further information on the outcome of the fair funding review, the review of NHB and the 2019 Spending Review, the budget is not sustainable over the medium term financial plan period.
47. Work to identify ways to address the projected funding shortfall has begun, with the savings proposals identified in appendix B.2 being the first evidence of this activity. This needs to continue, and to facilitate that the discretionary growth proposals (Appendix B.1) include the sum of £500,000 to be spent on "transformation activity". This activity will focus on:
 - The opportunity of transforming this council and South Oxfordshire Council DC into a single council;
 - Opportunities to generate further income;
 - Opportunities to redesign services to make them more efficient and customer focussed.
48. In terms of service redesign, services already identified in discussions with Cabinet members for further review are:
 - Community enablement (includes The Beacon)
 - Leisure and well-being
 - Customer services (including end-to-end Planning process)
 - Economic development and business support
 - Public realm (includes toilets, grounds maintenance, countryside, parks and open spaces)
 - CCTV

This activity, which will identify ways to reduce the funding gap, takes place against the backdrop of the requirement, under the CIPFA Financial Management

Code, to prepare a ten year Medium Term Financial Strategy (MTFS). This will need to demonstrate how the long-term financial viability of the council will be achieved.

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

Legal Implications

50. 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 12 February 2020 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.

51. The requirement placed on the council by the Local Government Act 2003 to set prudential indicators and for the interim 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 savings proposals

52. In making the savings proposed, the council is conscious of maintaining our public sector equality duties listed below.

- eliminate unlawful discrimination, harassment and victimisation
- advance equality of opportunity between people who share a protected characteristic² and those who do not.
- foster good relations between people who share a protected characteristic and those who do not.

53. Based on the above we feel the overall equalities impact is potentially low. However, it should be noted that there is a possibility that by removing Customer Service Excellence Accreditation, this may result in static service delivery and no continuous improvement with regards to accessibility of services to all our residents and staff. There is a possibility of an impact on the health and wellbeing of local communities by removing Community Sports Coaches.

Other Implications

54. 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.

² 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 civic partnership, pregnancy and maternity.

Conclusion

55. This report provides details of the revenue base budget for 2020/21, the capital programme 2020/21 to 2024/25, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.

56. 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 2020/21
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	Service review
Appendix C.1	Service budget analysis
Appendix D.1	Capital programme before growth
Appendix D.2	Capital preparation pool
Appendix D.3	Capital growth bids
Appendix E	Prudential indicators
Appendix F.1	Medium term financial plan
Appendix F.2	Earmarked reserves 2020/21 to 2024/25

Background Papers

Provisional settlement figures (December 2019)
Council tax base 2020/21 – Cabinet 6 December 2019, Council 18 December 2019
Treasury Management Strategy – Cabinet 3 February 2020, Council 12 February 2020
