

Report to: Cabinet Scrutiny Committee Council



Report of Head of Finance

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Wards affected: All

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To: CABINET

7 February 2014

To: SCRUTINY COMMITTEE

12 February 2014

To: COUNCIL

19 February 2014

Revenue Budget 2014/15 and Capital Programme to 2018/19

RECOMMENDATIONS

1. That cabinet recommends to council that it:
 - a. sets the revenue budget for 2014/15 as set out in appendix A.1 to this report,
 - b. approves the capital programme for 2014/15 to 2018/19 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 2018/19 as set out in appendix F.1 to this report.

2. That cabinet authorises the leader of the council to make minor adjustments to this report and the prudential indicators, in conjunction with the head of finance, should they prove necessary following the publication of the final Local Government settlement and prior to its submission to council on 19 February 2014.

Purpose of report

1. This report:

- brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2014/15 and a capital programme for 2014/15 to 2018/19;
- recommends the prudential indicators to be set by the council in accordance with 'the Prudential Code' introduced as part of the Local Government Act 2003;
- contains the opinion of the council's chief financial officer on the robustness of estimates and adequacy of the council's financial reserves;
- contains the medium term financial plan which provides details of the forward budget model for the next five years.

Strategic objectives

2. Setting the budget in accordance with prescribed timetables enables the council to comply with its strategic objective of managing our business effectively.
3. The allocation of financial resources within the revenue and capital budgets needs to match the objectives agreed by the council. The objectives identify where investment, including proposed growth, will take place in order to help the council achieve its corporate plan targets.
4. Where officers have made growth proposals (known as growth bids), each bid sets out how it will help achieve the council's objectives. The leader of the council has chosen to include some growth bids in his budget proposals and these are identified in **appendix A2** (revenue) and **appendix D.1** (capital).

Revenue budget 2014/15

5. **Appendix A.1** summarises the movements in the base budget from £13,412,951 in 2013/14 to £12,157,154 in 2014/15. These movements are detailed below.
 6. **Opening budget adjustment reduction £269,922 (appendix A.2)** This includes the removal of one-off growth items relating to 2013/14 and the realisation of the full-year effect of savings proposals identified in previous years.
 7. Additions to the base budget:
 - **operational reorganisations £37,112 (appendix A.3)**. These costs reflect the full year impact of a number of Fit for the Future and other reviews of service costs, aimed at improving efficiency and service to customers.
 - **inflation, salary increments and other salary adjustments £302,816 (appendix A.4)** The salary and contract inflation totals £209,588, representing an average increase of 1.76 per cent on the 2013/14 net expenditure budgets. For council employees an overall increase in salary costs of two per cent is budgeted for 2014/15. Increments payable to council employees not at the top of their salary range total £62,984. Other salary adjustments of £30,245, represent other minor amendments to salary budgets.
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- **essential growth – one-off £525,017 and ongoing £404,353 (appendix A.5).** 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 2014/15
8. Deductions from the base budget:
- **base budget savings £2,051,624 (appendix A.6).** 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, or correction to budgets. These savings do not affect frontline service delivery.
 - **Office accommodation savings £228,000.** These are the result of the sharing of accommodation at Abbey House with Oxfordshire County Council (OCC) and the move of council staff to the South Oxfordshire DC offices at Crowmarsh Gifford. The saving in 2014/15 includes income from OCC for part of the year only. The future full year saving to the council is expected to be in the region of £362,000.
9. Other changes to corporate base budgets:
- **movement in managed vacancy factor £2,443.** In order to recognise a level of establishment vacancies which occur every year, a managed vacancy factor is used. This reduces the employee budgets across the council from the 100 per cent of the establishment list to 98 per cent. The movement in this factor reflects an increase in salary budgets.
10. A significant change to the way the council budgets for contingency sees **additional revenue contingency** budget of **£215,680** added to the base budget (**appendix A.7**). A review of service budgets identified that, in addition to the central contingency budget, there were also budgets within services that could also be considered contingency budgets. These budgets have now been centralised.
11. The level of the corporate contingency has been assessed based on the likelihood of the individual component budgets being required. The make-up of the corporate contingency budget will be reviewed annually, though for the purposes of medium term financial planning it has been assumed to be at the 2014/15 level throughout the period. It should be noted that this new way of budgeting is not without risk of either under or over spend and future budgets will need to take account of actual demand on the contingency.
12. As these budgets are now held centrally there is a need to ensure that when they are needed by services they can access them easily. This may require a change to the council's financial procedure rules which if needed will be brought forward later in the year.
13. As a result of these changes the council's revised base budget for 2014/15 is **£12,157,154**.

Revenue growth proposals

14. A number of revenue growth proposals have been selected by the leader of the council to be included in the budget for 2014/15. These are detailed in **appendix B** and total **£1,062,038**. The growth proposals have been selected on the basis that they
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support the council's key aims as set out in the council's corporate plan and enhance service provision.

15. There is also a saving in the revenue budget of **£7,000** arising from the capital growth proposals shown in **appendix D.2**. These are discussed later in the report.

Net property income

16. Net property income represents the council's income from its investment property portfolio less expenditure, and for 2014/15 is estimated at **£1,090,972**.

Gross treasury income

17. Investment returns for 2014/15 are used to finance expenditure in-year. As interest rates are expected to remain low for the short term, it is currently forecast that **£355,500** will be earned in 2014/15.
18. More details of treasury income can be found in the council's Treasury Management Strategy 2014/15 to 2016/17 report (see Cabinet 7 February 2014, Council 19 February 2014).
19. Including growth, property and treasury income results in a net expenditure budget for the council of **£11,765,720**.

Reserves and other funding

New Homes Bonus (NHB)

20. The provisional government allocations for NHB payments for 2014/15 are **£2,086,928**. For 2014/15 this will be transferred to reserves, apart from a sum of £100,000 which will be used to fund the NHB area grant. Projections of future NHB earnings and how they will be used are detailed later in this report.

Council Tax Freeze Grant

21. It is proposed that council tax will remain at the same level as 2013/14 and as a result of this, the council will be due **£54,425** of council tax freeze grant for 2014/15. This will also be receivable for 2015/16 and equates to the funding the council would have generated by increasing council tax by 1 per cent.

Transfers to/ from earmarked reserves

22. In addition to the transfer to reserves of the NHB payment referred to in paragraph 21 above, there will be a transfer of **£20,000** from the election equalisation reserve to fund the initial costs of the district council elections in 2015.
23. Based on the above use of reserves and other funding, the amount of revenue expenditure to be financed in 2014/15 is **£11,631,296**.

Financing

Final local government settlement

24. On December 18 2013 the government announced the provisional 2014/15 local government settlement together with illustrative figures for 2015/16. At the time of
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writing we have not received the final settlement. Officers consider that any changes to the settlement at this stage would not be material. Table 1 below details the provisional funding outlined for the council for 2014/15 and illustrative settlement for 2015/16.

Table 1a: settlement funding assessment 2014/15 (provisional)

	Provisional 2014/15 settlement funding assessment		
	Revenue support grant	Baseline funding level	Total
	£	£	£
Lower tier funding	2,230,126	2,018,617	4,248,743
Council tax freeze compensation:			
• 2011/12	83,103	57,537	140,639
• 2013/14	58,155	0	58,155
Council tax reduction scheme (note 1)	0	0	0
Homelessness prevention funding	49,103	34,614	83,717
Other:			
• Efficiency support for services in sparse areas	1,067	0	1,067
• Returned funding (note 2)	5,565	0	5,565
Total	2,427,119	2,110,768	4,537,887

Note 1: payments to councils in respect of council tax reduction scheme (which also includes an element for town and parish councils) are no longer separately identified.

Note 2: represents funding reserved centrally by government to pay NHB but returned to councils as not required.

Table 1b: settlement funding assessment 2015/16 (illustrative)

	Illustrative 2015/16 settlement funding assessment		
	Revenue support grant	Baseline funding level	Total
	£	£	£
Lower tier funding	1,481,292	2,074,333	3,555,625
Council tax freeze compensation:			
• 2011/12	81,467	59,125	140,592
• 2013/14	58,155	0	58,155
Homelessness prevention funding	48,119	35,569	83,688
Other:			
• Efficiency support for services in sparse areas	1,067	0	1,067
Total	1,670,100	2,169,027	3,839,127

25. The provisional settlement for 2014/15 is 12.4 per cent lower than 2013/14. The illustrative settlement for 2015/16 would be a further reduction of 15.4 per cent. Whilst the baseline funding element of the settlement is increasing in line with the increase in national non domestic rates, to achieve the overall reduction in funding the government has significantly reduced the revenue support grant element. It should be noted that these figures exclude NHB funding which for 2014/15, as discussed earlier in the report.

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

26. As agreed by Council on December 11 2013 and supported by parish councils during consultation, the council tax support grant contribution payable to town and parish councils will be **£160,593** for 2014/15. The proposed MTFP shows that this contribution will be gradually phased out by a 20 per cent reduction annually.

Business rate retention scheme

27. The deficit on the NNDR under collection fund is estimated to be **£158,308**. This is due to the projected NNDR receipts being below the government's safety net. Therefore the council will be in a deficit position. This is as a result of the closure of Didcot A and the subsequent loss in business rate income.

28. Although there is potential for some business rates growth next year it is not anticipated that this will take the council above the safety net.

Collection fund

29. The surplus on the collection fund is estimated to be **£242,819**.

Use of general fund balance

30. The difference between expenditure requirement and the funding available is smoothed over the medium term financial plan by transfers to and from earmarked reserves and the general fund balance. The net impact of the leader of the council's proposals detailed in this report is a draw on general fund balances of **£1,732,085** in 2014/15.

Leader of the council's revenue budget proposal

31. Based on the amendments detailed above, and as shown in **appendix A1** of this report, the cabinet member's budget proposal, including growth, is for a budget requirement of **£9,899,211**. This revenue budget proposal includes a freeze of the current band "D" council tax at **£116.69**. **Appendix C** shows the breakdown of the revenue budget.

32. A draft MTFP and proposed growth bids were published on the council's website in December 2013. No comments on the published MTFP and growth bids have been received by officers or by the leader of the council.

Capital programme 2014/15 to 2018/19

Current capital programme

33. The latest capital programme (before growth) is attached at **appendix D.1** and is summarised in table 2 below. It is the capital programme as set by council in February 2013 plus:-

- slippage (caused by delays to projects) carried forward from 2012/13
- new schemes approved by council during 2013/14
- re-profiling of expenditure on schemes from the 2013/14 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)

2013/14 latest estimate £000	2014/15 estimate £000	2015/16 estimate £000	2016/17 estimate £000	2017/18 estimate £000	2018/19 estimate £000
3,497	5,081	1,613	1,162	1,147	1,147

Cabinet capital programme proposals

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

Financing the capital programme

35. Where permitted, capital expenditure is funded in the first instance from specific government grants and any other external contributions. The balance of the programme is funded from the council's capital receipts reserve. The council is permitted to borrow to fund the programme, provided any borrowing is prudent, sustainable and affordable.

36. At present there is no requirement to borrow to fund the programme as proposed. Any future borrowing would require a provision to be made in the revenue budget for repayment. As the Science Vale UK Enterprise Zone (SVEZ) falls within the council's district boundary, there may be a future requirement to borrow up to £20 million to finance infrastructure works. This would only be undertaken if certainty of funding from additional business rates generated in the enterprise zone is available to support this borrowing.

Future pressures on the capital programme

37. **Appendix D.1** also shows the use of capital receipts to fund the capital programme (excluding growth) and the balance of receipts over the five-year programme. Officers advise cabinet not to earmark all available resources in proposing the budget to council, as the prudential code requires local authorities to set sustainable budgets.

By retaining an unallocated balance, cabinet can demonstrate that through a combination of this and future income (that can be expected beyond the period of the budget) it can fund future pressures.

The prudential code and prudential indicators

38. In setting its revenue and capital budgets for 2014/15, 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.
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The Medium Term Financial Plan (MTFP)

45. The MTFP provides a forward budget model for the next five years, and highlights the known estimated budget pressures for new responsibilities and changes in legislation, predicted investment and capital receipts.
46. **Appendix F.1** contains the MTFP for 2014/15 to 2018/19. This is a projection of the revenue budget up to 31 March 2019. The projection identifies budget pressures in later years and assumes that council approves all the budget proposals within this report. Officers have made no adjustments for the costs of contracts that will be re-let during this period. These could rise or fall depending on market conditions.
47. The MTFP identifies some significant challenges ahead for the council. It assumes that government grant funding will fall by 38 per cent from 2014/15 to 2018/19. This is only an estimate by officers, and the fall could be greater or less. It also incorporates assumptions on interest income, and other known pressures on the council, such as inflation and salary increments.
48. Estimates of future receipts of new homes bonus are shown in table 3 below, and are also included in the MTFP (detailed in row 39). In total the council is expected to have received in excess of £18.3 million during the MTFP period.
49. The element of the bonus that relates to the new homes bonus premium is ring-fenced to support the provision of additional affordable housing.

Table 3: New Homes Bonus

Year earned	Year of receipt				
	2014/15 budget £000	2015/16 indicative £000	2016/17 indicative £000	2017/18 indicative £000	2018/19 indicative £000
2011/12	452	452	452	0	0
2012/13	546	546	546	546	0
2013/14	376	376	376	376	376
2014/15	713	713	713	713	713
2015/16	0	748	748	748	748
2016/17	0	0	1,044	1,044	1,044
2017/18	0	0	0	1,085	1,085
2018/19	0	0	0	0	1,018
Total	2,087	2,835	3,879	4,512	4,984

50. Officers consider that any pressures in the period covered by the MTFP are manageable in light of the level of reserves and balances available to the council, particularly when combined with our ability to vary budgets and redirect funding in the later years of the plan. However, it is expected that further savings may be required to balance the budget in future years, and this represents a significant challenge. Management team are already looking at ways in which the budget requirement in future years can be managed without continual calls upon the council's reserves. A summary of the councils earmarked reserves over the life of the MTFP is attached at **appendix F.2**.

The robustness of the estimates and the adequacy of reserves

51. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the head of finance) to report on the robustness of the estimates and the adequacy of reserves. The council must have regard to this report when making decisions about the setting of the budget.
52. The construction of the budget has been managed by qualified accountants and has been subject to challenge, specifically by strategic management board, , head of finance, other heads of service and cabinet members. Informal meetings of cabinet have considered the budget, and a briefing has been given to the council's scrutiny committee members. In view of the process undertaken and his own knowledge of the budget, the head of finance is satisfied that the budget is both prudent and robust.
53. The head of finance is satisfied that this allows retention of sufficient uncommitted balances at the end of the period to ensure that the overall level of reserves is adequate in relation to the proposed revenue budget and capital programme and that the budgets are sustainable.
54. The 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 19 February 2014 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 2014/15, the capital programme 2014/15 to 2018/19, 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.
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Appendices

Appendix A.1	revenue budget 2014/15
Appendix A.2	opening budget adjustments
Appendix A.3	operational reorganisations
Appendix A.4	inflation, salary increments and other salary adjustments
Appendix A.5	essential growth
Appendix A.6	base budget savings
Appendix A.7	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 2014/15 to 2018/19

Background Papers

- Provisional settlement figures (December 2013)
 - Council tax base 2014/15 – cabinet 6 December 2013, council 11 December 2013
 - Council tax reduction scheme grant for town and parish councils – cabinet 6 December 2013, council 11 December 2013
 - Treasury Management Strategy – cabinet 7 February 2013, council 19 February 2014
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