

Report to: Cabinet Scrutiny Committee Council

Report of Head of Finance

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Wards affected: All

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To: CABINET

1 February 2019

To: SCRUTINY COMMITTEE

7 February 2019

To: COUNCIL

13 February 2019

**AGENDA ITEM NO
XX**

Revenue Budget 2019/20 and Capital Programme to 2023/24

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 2019/20 as set out in appendix A.1 to this report,
 - b. approves the capital programme for 2019/20 to 2023/24 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 2023/24 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 13 February 2019.

Purpose of report

1. This report:

- brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2019/20 and a capital programme for 2019/20 to 2023/24;
- 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 2019/20

4. **Appendix A.1** summarises the movements in the base budget from £15,295,641 in 2018/19 to £15,131,709 in 2019/20. These movements are detailed below.
5. **Opening budget adjustment reduction £1,290,673 (appendix A.2)**. This includes the removal of one-off growth items relating to 2018/19 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 £1,192,936 (appendix A.3)**. The salary and contract inflation totals £412,121, representing an average increase of 2.8 per cent on the 2018/19 net expenditure budgets. For council employees an overall increase in salary costs of 2.7 per cent is budgeted for 2019/20. Increments payable to council employees not at the top of their salary range total £66,133. Other salary adjustments of £714,682 primarily reflect the cost of the council staff restructure. This cost is offset by base budget reductions and revisions to the managed vacancy factor and contingency 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, pending a more detailed review in 2019/20.

- **Essential growth – one-off £165,136 and ongoing £682,994 (appendix A.4).** These items comprise additional expenditure which has been identified 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 2019/20.

7. Deductions from the base budget:

- **Base budget reductions £511,497 (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. This was facilitated by the Chartered Institute of Public Finance and Accountancy (CIPFA) who, as reported to cabinet on 7 December 2018, supported us in challenging the budget. Included in this figure is £110,000 that is required to be found to fund the staff restructure and identified as being available by our recent work with CIPFA, but has yet to be allocated to services.
- **Increase in managed vacancy factor £261,948,** this provision is set at 4 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.
- **Reduction in revenue contingency £140,880.** This reduces the overall contingency budget to £200,000 as officers are confident that the budget challenge process has reduced the need for a larger contingency.

8. As a result of these changes the council's revised base budget for 2018/19 is **£15,131,709**, £163,934 less than the £15,295,641 for 2017/18

Revenue growth proposals

9. A limited number of revenue growth proposals are being recommended to council for inclusion in the budget for 2019/20. These are detailed in **appendix B.1** and total **£227,500**. The growth proposals have been selected by the cabinet member on the basis that they support the council's key aims as set out in the council's corporate plan and enhance service provision.
10. Highways England is currently working on proposals for a new expressway road between Oxford and Cambridge. An announcement on preferred route options expected later in 2019. Depending upon the route selected, the council may choose to take part in public engagement and inquiry processes at which point costs may be incurred. No budget has been created in 2019/20 for potential costs nor have potential costs been reflected in the MTFP, as the council's view and response to this issue cannot be determined at this time.

Gross treasury income

11. Investment returns for 2019/20 are used to finance expenditure in-year. It is currently forecast that **£762,124** will be earned in 2019/20.

12. More details of treasury income can be found in the council's Treasury Management Strategy report¹.
13. Including growth and gross treasury income results in a net expenditure budget for the council of **£14,597,085**, compared with £14,845,521 for 2018/19

Reserves and other funding

New Homes Bonus (NHB)

14. The provisional government allocation for NHB payment for 2019/20 is **£4,815,732**. Projections of future NHB earnings and how they will be used are detailed later in this report.

Transfers to/ from earmarked reserves

15. The proposed transfer to reserves of **£349,430** reflects the transfer of the affordable homes element of the NHB payment for 2019/20 to reserves.

Funding

Local government settlement

16. 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. 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	2,332
Settlement Funding Assessment	3,251	2,726	2,445	2,332
Tariff/Top-Up adjustment	0	0	0	0
Total	3,251	2,726	2,445	2,332

17. The provisional settlement for 2019/20 is 4.6 per cent lower than 2018/19. Whilst the baseline funding element of the settlement is increasing in line with the increase in business rates, Revenue Support Grant (RSG) is reduced to nil in 2019/20. Figures previously circulated for 2019/20 originally indicated that an additional tariff payment will be due, reflecting a redistribution of government funding. This has commonly been referred to as negative RSG. However, for 2019/20 only the government has provisionally confirmed that this will not now occur.
18. Rural services delivery grant of **£6,102** has been allocated to the council for 2019/20. No funding has been assumed after 2019/20.

¹ Considered by Cabinet 1 February 2019, Council 13 February 2019

19. 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 £4,815,732 for 2019/20.
20. As reported to Cabinet on 7 December 2018, government confirmed that 2019/20 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 through to 2022/23. No assumption has been made regarding income that could be receivable in future under a replacement for the NHB scheme.
21. 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 £12.5 million during the MTFP period.

Table 2: New Homes Bonus

Year Earned	Year of Receipt				
	2019/20 Budget £'000	2020/21 Indicative £'000	2021/22 Indicative £'000	2022/23 Indicative £'000	2023/24 Indicative £'000
2016/17	1106				
2017/18	1218	1218			
2018/19	1042	1042	1042		
2019/20	1449	1448	1449	1449	
2020/21					
Total	4815	3708	2491	1449	0

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.

Business rate retention scheme

23. 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. However, and as discussed in the budget setting update report considered by Cabinet in December 2018, 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.
24. For 2019/20 this shortfall between baseline and safety net is estimated to be **£174,904** (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.

25. Business rates retained by the council as planning authority relating to facilities generating renewable energy within the district is estimated at **£233,909** (MTFP row 52).

Collection fund

26. The surplus on the collection fund is estimated in 2019/20 to be **£447,077** (MTFP row 54).

Use of reserves

27. 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 draw on New Homes Bonus reserves of **£474,359** in 2019/20.

Cabinet member for finance's revenue budget proposal

28. 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 **£9,656,424**. This revenue budget as proposed would result in an increase of £5.00 to current band "D" council tax to **£131.69**. **Appendix C** shows the breakdown of the revenue budget.

Capital programme 2019/20 to 2023/24

Current capital programme

29. 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 2018 plus:

- slippage (caused by delays to projects) carried forward from 2017/18,
- new schemes approved by council during 2018/19,
- re-profiling of expenditure on schemes from the 2018/19 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.

30. As reported to Cabinet on 7 December 2018, non-essential capital spending has been paused due to the current uncertainty over future funding. Schemes that have been affected by this include the proposed new Wessex Leisure Centre for Wantage and Grove. These schemes have been moved to "The Preparation Pool", which details schemes that, pending their affordability being established, will be considered for inclusion in the capital programme in the future. These schemes are detailed in **Appendix D.2**.

Cabinet capital programme proposals

31. **Appendix D.3** 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.

33. **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 **£21.7** million over 5 years.

Table 3: current and proposed capital programme with financing

	2018/19 latest estimate £000	2019/20 estimate £000	2020/21 estimate £000	2021/22 estimate £000	2022/23 estimate £000	2023/24 estimate £000	GRAND TOTAL £000
Capital programme approved	3,221	3,764	1,783	1,566	1,566	1,566	13,466
Cabinet capital growth proposals	0	5,332	2,910	0	0	0	8,242
Total expenditure	3,221	9,096	4,693	1,566	1,566	1,566	21,708
Financing							
Grant funding	1,025	6,103	3,723	813	813	813	13,290
Developers' contributions	351	386	175	0	0	0	912
Usable capital receipts/revenue reserves	1,845	2,607	795	753	753	753	7,506
Total financing	3,221	9,096	4,693	1,566	1,566	1,566	21,708
Estimated balances as at 31 March 2024							
Usable capital receipts							5,102

Future pressures on the capital programme

34. The council's usable capital receipts, based on current estimates, are expected to be £5.1 million by the end of 2023/24.

The prudential code and prudential indicators

35. In setting its revenue and capital budgets for 2019/20, 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.

36. 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.

37. 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.
38. 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.
39. 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.
40. 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.
41. **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)

42. The MTFP provides a forward budget model for the next five years. **Appendix F.1** contains the MTFP for 2019/20 to 2023/24. This is a projection of the revenue budget up to 31 March 2024. 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.
43. The MTFP identifies serious challenges for the council. It reflects the updated provisional settlement figures published in draft in December 2019. Ongoing funding after 2019/20 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 receipts of NHB are shown in table 2 above.

44. 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. Although this is not an immediate problem, officers consider that significant work on the council's revenue budgets and income streams is required in the next twelve months to ensure that a balanced revenue budget can be set throughout the MTFP period and beyond that does not rely so heavily on reserves.

The robustness of the estimates and the adequacy of reserves

45. 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.

46. 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. The process of building the budget within accountancy has been more challenging than previous years due to the departure, in-year, of experienced accountants following a restructuring of its service by Capita. The team building the 2019/20 budget was both smaller and far less experienced than the team in previous years.

47. On 10 December 2018 the management accounting function was in-sourced from Capita and additional resources were deployed on budget setting. This has allowed the necessary officer security and challenge of the budget information. Informal meetings of cabinet have considered the budget, and informal briefings will also be provided to opposition group leaders. 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.

48. 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 to long term. This will necessitate a fundamental review of expenditure and income over the next twelve months.

49. The 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 13 February 2019 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 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

52. 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

53. This report provides details of the revenue base budget for 2019/20, the capital programme 2019/20 to 2023/24, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.

54. 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.3 Planning
- 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 2019/20 to 2023/24

Background Papers

Provisional settlement figures (December 2018)
Council tax base 2019/20 – Cabinet 7 December 2018, Council 12 December 2018
Treasury Management Strategy – Cabinet 1 February 2019, Council 13 February 2019