Report to:

Cabinet

Scrutiny Committee

Council

Report of Head of Finance

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South Oxfordshire District Council

Listening Learning Leading

AGENDA ITEM NO 11

To: CABINET	13 February 2012
To: SCRUTINY COMMITTEE	14 February 2012
To: COUNCIL	23 February 2012

Revenue Budget 2012/13 and Capital Programme to 2016/17

RECOMMENDATIONS

1. That cabinet recommends to council that it:

   a. sets the revenue budget for 2012/13 at £12,154,358, as set out in appendix A1 to this report
   b. agrees that the capital scheme listed in paragraph 23 to this report remains in the capital programme
   c. approves the capital programme for 2012/13 to 2016/17 as set out in appendix C to this report, together with the capital growth bids set out in appendix D of this report
   d. sets the council's prudential limits as listed in appendix F to this report
   e. approves the medium term financial plan to 2016/17 as set out in appendix G to this report
   f. allocates the interest earned on community investment balances in accordance with the proposal in paragraph 42 of this report

2. That cabinet authorises the cabinet member for finance to make minor adjustments to this report and the prudential indicators, in conjunction with the head of finance, should they prove necessary prior to its submission to council on 23 February 2012

Purpose of report

1. This report:

   - brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2012/13 and a capital programme for 2012/13 to 2016/17;

   - details changes from the information presented in the "2012/13 budget update report" that was considered by scrutiny committee on 20 December 2011;

   - 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.

2. This report should be read in conjunction with the scrutiny report, as it builds on the base budget information contained in that report and does not seek to cover the whole budget setting process.

Strategic objectives

3. Setting the budget in accordance with prescribed timetables enables the council to comply with its strategic objective of managing our business effectively.

4. The allocation of financial resources within the revenue and capital budgets needs to match the objectives agreed by the council. The objectives identify where investment, including proposed growth, will take place in order to help the council achieve its corporate plan targets. The budgets also identify disinvestment from non-priority services in order to pay for new investment without the whole burden falling on the council tax.

5. Where officers have made growth proposals (known as growth bids), each bid sets out how it will help achieve the council's objectives. The cabinet member for finance has chosen to include some officer growth bids in his budget proposals and these are identified in appendix A3 (revenue) and appendix D (capital). The full set of growth bids is available as background papers on request.

Revenue budget 2012/13 – changes since scrutiny report

6. The scrutiny report discussed the composition of the council's base revenue budget for 2012/13, and reported at that time that the provisional budget requirement for 2012/13 was £12,119,230. Since that report was considered there has been further review of the budget by both officers and the cabinet member for finance. In addition, budget consultation has been undertaken, both with the business community and with local residents. As a result, the proposed budget requirement is now £12,154,358.

7. **Appendix A1** show the movements in the budget since the scrutiny report was completed, which are discussed in the following paragraphs.

Essential Growth

8. Paragraph 13 and appendix B of the scrutiny report discussed expenditure considered essential. Two items relating to contract performance payments have been reduced to 75 per cent of their original value, resulting in an overall reduction of £27,500. These are now budgeted within contingency to be called upon as required.

Growth

9. Paragraphs 18-20 of the scrutiny report discussed revenue and capital growth, with growth bids submitted being shown in appendices D and F to that report.

10. The cabinet member for finance proposes that in 2012/13 there will be a reduction in the revenue budget of £1,520[1], together with one-off growth, funded from the enabling fund, of £552,550. This is an increase overall of £322,310 since the scrutiny report. The full list of revenue growth is detailed in **appendix A3** to this report. In addition a number of capital growth bids are proposed which result in ongoing revenue cost of £1,000 in 2012/13. This is a reduction of £10,000 since the scrutiny report. The full list of capital growth is detailed in **appendix D** of this report.

Other budget revisions

11. Officers have continued to refine budgets since the scrutiny committee report and a number of revisions to budgets have resulted from this work. These revisions amount to a budget saving of £210,629 and are detailed in **appendix A4**.

Funding changes

12. A number of proposed changes to internal funding are identified in **appendix A1**, and are explained below

<u>Enabling fund</u>

13. As identified above, an increase in both essential and revenue one-off items since the scrutiny report has resulted in an increased use of the enabling fund of £362,400.

<u>Investment income</u>

14. At the time the scrutiny report was written, estimated investment earnings for 2011/12 which would be available to finance the revenue budget in 2012/13 were £1.244 million. This has since been revised upwards to £1.540 million. The impact of this revision is to increase the available funding for the 2012/13 revenue budget by £296,000.

[1] In future years the ongoing growth will be an annual cost to the council of £10,980

Revenue budget smoothing reserve

15. The budget includes a transfer to the revenue budget smoothing reserve of £619,347. With the considerable uncertainty concerning the future funding of local government, which was considered in the scrutiny report, this transfer will assist the council in dealing with the challenges ahead, which are discussed further later.

Cabinet member for finance's revenue budget proposal

16. 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 net revenue budget of **£12,154,358**. This revenue budget as proposed would result in a reduction of 2.5 per cent to current band "D" council tax. **Appendix B** contains an analysis of the revenue budget requirement (i.e. the net cost of delivering services in 2012/13), which is £14,320,790, and reconciles this to the net revenue budget. It also provides a breakdown of how the cabinet member for finance proposes to fund the difference between the two figures.

17. The medium term financial strategy (MTFS) sets a target within which the revenue budget will be set each year, which is that:

"The net budget requirement (revenue) shall increase by no more than inflation, except where new responsibility is placed on the council".

18. The scrutiny report reported that the budget target for 2012/13 had been calculated as £13,874,794. The cabinet member for finance's revenue budget proposal of £12,181,268 is therefore within the revenue budget target, meeting the requirement laid down in the medium term financial strategy.

Capital programme 2012/13 to 2016/17

Current capital programme

19. The scrutiny report gave details of the full capital programme (approved and provisional) as it then stood and of funding. A latest capital programme (before growth) is attached at **appendix C** and is summarised in table 1 below. It is the capital programme as set by council in February 2011 plus:-

- slippage (caused by delays to projects) carried forward from 2010/11;
- new schemes approved by council during 2011/12;
- reprofiling of expenditure on schemes from the 2011/12 financial year to future years where delays to schemes have occurred;
- cabinet approved movement of schemes from the provisional to the approved capital programme;
- deletion of previously agreed schemes that are no longer to be pursued.

Table 1: current capital programme (before growth)

	2011/12 latest estimate £000	2012/13 estimate £000	2013/14 estimate £000	2014/15 estimate £000	2015/16 estimate £000	2016/17 estimate £000
Approved programme	4,931	2,801	995	845	845	845
Provisional programme	2,403	1,018	908	833	720	500
Total	**7,334**	**3,819**	**1,903**	**1,678**	**1,565**	**1,345**

20. Monies that can be used to fund capital expenditure only (e.g. capital receipts, developer contributions, interest earmarked to fund capital expenditure) are called on first when determining how to finance the capital programme. Once these specific resources are exhausted, the capital programme is funded from the enabling fund.

Cabinet capital programme proposals

21. **Appendix D** contains a list of new capital schemes that the cabinet member for finance is putting forward as part of his budget proposals. All of these stem from capital growth bids put forward by officers (details of each are available on request). Officers will amend the provisional capital programme to include the proposals if approved by cabinet and council.

22. The capital growth bids include a scheme for a new leisure centre at Didcot (bid reference SELPCAP3). This scheme is in the early stages of planning and as such it is too early to say what the likely cost of the scheme will be, whether any external financing will be available to fund it, and what the impact of a new leisure centre will be on the revenue budget. However, based on the current estimate of cost, and based on officers current forecast of the council's reserves and balances over the medium term, there are insufficient non-ring fenced capital receipts and revenue reserves to pay for this scheme. It is therefore proposed at this stage to finance the scheme from the share of capital receipts ring-fenced for the CIF.

23. Under the council's capital strategy, schemes that have been in the provisional programme for two years without activity being incurred are automatically deleted. However, there is one scheme that cabinet recommends that council agrees to keep in the provisional programme. This scheme is:

- Didcot town centre development - scheme value £500,000.

Financing the capital programme

24. **Appendix E** contains a schedule identifying how we will finance the capital programme, including the growth proposals, if they are approved. The programme proposed can be fully funded from existing and anticipated capital resources. The strategic director and chief finance officer comments on the adequacy of reserves and balances below and in appendix H.

Future pressures on the capital programme

25. 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

26. In setting its revenue and capital budgets for 2012/13, 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.

27. 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.

28. 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.

29. 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.

30. 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.

31. Under the code, the strategic director and chief finance officer is responsible for ensuring that the council considers all relevant matters when setting or revising indicators through a report. The strategic director and chief finance officer 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.

32. **Appendix F** contains the recommended prudential indicators, which have been calculated based on the budget proposals attached (**appendices A1 and E**). The strategic director and chief finance officer is satisfied that these indicators show that the council's capital investment plans are affordable, prudent and sustainable.

The medium term financial plan

33. The medium term financial strategy for 2012/13 to 2016/17 agreed by cabinet on 8 December 2011 and council on 15 December 2011 sets out the objectives to be achieved and the principles that we follow in setting the budget.

34. The medium term financial plan (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.

35. **Appendix G** contains the MTFP for 2012/13 to 2016/17**.** This is a projection of the revenue budget up to 31 March 2017. 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.

36. The MTFP identifies some significant challenges ahead for the council. It assumes that government grant funding will fall by 28 per cent from 2012/13 to 2016/17. This is only an estimate by officers, and the fall could be greater. It also incorporates assumptions on interest income, and other known pressures on the council, such as inflation and salary increments. This is all being credited to an earmarked reserve.

37. The scrutiny report considered new homes bonus. At that time officers had only estimated the income due for the 2011/12 and 2012/13 tranches, but that has now been updated to estimate the income due over the whole MTFP period. The results are shown in table 2 below, and are also included in the MTFP (detailed in row 46). This is all being credited to an earmarked reserve.

Table 2: New Homes Bonus

Year earned	Year of receipt					
	2011/12 actual £000	**2012/13 base £000**	**2013/14 indicative £000**	**2014/15 indicative £000**	**2015/16 indicative £000**	**2016/17 indicative £000**
2011/12	260	260	260	260	260	260
2012/13		346	346	346	346	346
2013/14			498	498	498	498
2014/15				639	639	639
2015/16					997	997
2016/17						1,074
Total	**260**	**606**	**1,104**	**1,743**	**2,740**	**3,814**

38. To continue to set a balanced budget with no call on reserves, and based on the assumptions included in the MTFP (detailed in row 91), in future years the required ongoing savings are shown in table 3 below:

Table 3: ongoing annual savings required to set balanced budget

	Ongoing savings required £000
2013/14	622
2014/15	580
2015/16	905
2016/17	1,036

39. As identified in row 80, based on the assumptions then if no further savings were identified the council would need to use £7.073 million of reserves by 2016/17. This is officers' working assumption until further savings are identified.

40. Officers consider that the pressures highlighted are manageable in the period covered by the MTFP, (in light of the reserves and balances available to the council and our ability to vary budgets and redirect funding). However, making the savings required to balance the budget in future years will be a significant challenge. Management team is already looking at ways in which the budget gap in future years can be closed.

Use of community investment fund (CIF) interest / grant funding

41. On an annual basis, the council must decide how it wishes to apportion the investment income earned on that element of reserves that has been informally named the CIF. For 2011/12 it agreed to apportion interest as follows:

- £500,000 to capital grants
- the balance to support revenue expenditure.

42. For 2012/13, it is estimated that £2.040 million will have been earned on all of the council's investments[2]. This will be allocated as follows:

- £500,000 to capital grants
- the balance to support revenue expenditure.

43. In the event that in excess of £2.040 million is earned, then the additional amount over and above £2.040 million will be transferred to the enabling fund. In the event that less than £2.040 million is earned, then the shortfall to support revenue expenditure will be made good by the enabling fund.

The robustness of the estimates and the adequacy of reserves

44. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the strategic director and chief finance officer) 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.

45. The construction of the budget has been managed by qualified accountants and has been subject to challenge, specifically by the strategic director and chief finance officer, head of finance, other heads of service, management team and the cabinet member for finance. Informal meetings of cabinet have considered the budget, and a report detailing the base budget has gone to the council's scrutiny committee. In view of the process undertaken and his own knowledge of the budget, the strategic director and chief finance officer is satisfied that the budget is both prudent and robust.

46. The council's practice is not to use interest in the year it is earned, but in later years. The strategic director and chief finance officer 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.

47. **Appendix H** contains the strategic director and chief finance officer's full report.

Legal Implications

48. 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 23 February 2012 in order to set the budget, and the council tax (including amounts set by Oxfordshire County Council and the Thames Valley Police Authority).

49. The requirement placed on the council by the Local Government Act 2003 to set prudential indicators and for the 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.

[2] This excludes earnings on unit trust investments which are reinvested, rather than being made available to finance expenditure

Other Implications

50. 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.

51. A risk assessment has been carried out to identify the equality implications of the base budget savings proposals proposed by officers. The cabinet took into consideration the results in order to finalise the 2012/13 budget.

Conclusion

52. This report provides details of the revenue base budget for 2012/13, the capital programme 2012/13 to 2016/17, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.

53. 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 A1	Revenue budget 2012/13
Appendix A2	Essential growth
Appendix A3	Revenue growth bids
Appendix A4	Other budget revisions
Appendix B	Service budget analysis
Appendix C	Capital programme before growth
Appendix D	Capital growth bids
Appendix E	Financing of capital programme and growth proposals
Appendix F	Prudential indicators
Appendix G	Medium term financial plan
Appendix H	Report on the robustness of the estimates and the adequacy of reserves and balances

Background Papers

- Final settlement papers (February 2012)
- Medium term financial strategy 2012/13 to 2016/17 – cabinet report 8 December 2011
- Budget update report considered by scrutiny committee - 20 December 2011.
- Draft services revenue budget 2012/13
- Revenue and capital growth bids