

# Cabinet Report



Listening Learning Leading

Report of Head of Finance

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Wards affected: All

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To: CABINET

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## Budget setting update

### Recommendation

Cabinet is recommended to note the report.

### Purpose of Report

1. The purpose of this report is to update Cabinet on changes to the local government finance landscape that have occurred since Cabinet and Council approved the revenue budget 2018/19 and capital programme to 2022/23 in February 2018, ahead of budget setting in February 2019.

### Corporate Objectives

2. The allocation of financial resources within the revenue and capital budgets needs to match the objectives agreed by the council.

### Background

3. The revenue budget for 2018/19 and capital programme to 2022/23 was approved by Cabinet and Council in February 2018. In addition to the in-year revenue budget, Cabinet and Council approved a Medium Term Financial Plan (MTFP). The aim of the MTFP is to demonstrate financial viability over a five-year period.
4. As part of the budget setting report, the Head of Finance as the council's Section 151 officer is required to comment on the robustness of the budget estimates and the adequacy of the reserves. In the conclusion to his report, the Head of Finance commented that:

*“Overall, the level of reserves is adequate in relation to the proposed revenue budget and capital programme and the budgets are sustainable although the council now needs to review its medium term financial strategy as government funding continues to remain tight.”*

5. The 2018/19 revenue budget and five-year MTFP reflected the fact that 2018/19 was the third year of a four-year settlement and assumed that the fourth year of the settlement would be honoured. It also assumed the receipts under the business rates retention scheme would remain at the baseline level under the scheme.
6. The one significant risk to the five-year MTFP was identified as being possible changes to the New Homes Bonus scheme. The report noted that *“should further changes occur a fundamental review of the council’s budget may be necessary”* as *“over £9 million of expenditure budgeted for within the MTFP and the capital programme from 2018/19 onwards is dependent on the receipt of NHB not yet received or confirmed as payable by the government.”* The MTFP also identified that *“from 2019/20 onwards more NHB monies are being used to support revenue expenditure than are being received”*. This means that to balance the budgets in those years New Homes Bonus monies earned in earlier years and held in reserves are being used. Overall, in each financial year across the MTFP period between £4.2 million and £5.8 million of reserves was budgeted to be used to balance the revenue budget.
7. The New Homes Bonus scheme has already undergone change since its inception in 2011/12. Initially, New Homes Bonus payments were to be made for six years and were based primarily on the movement in the tax base. However, following a consultation exercise launched in December 2015, this was reduced to four years. In addition, a “baseline” was introduced so that New Homes Bonus would only be payable where growth in tax base exceeded a baseline, set initially at 0.4 per cent.

## **Developments since February 2018**

8. On 24 July 2018 the government issued its Technical Consultation on the 2019/20 Local Government Finance Settlement. The consultation stated that *“the Government’s current intention is that the 2019-20 settlement will confirm the final year of the multi-year settlement that has provided certainty for 4 years”*.
9. The consultation sought responses on what level the council tax referendum principles should be set, and on the concept of eliminating so-called “Negative RSG”, which amounted to a reduction of government grant funding identified in future year settlements. In terms of the council’s 2018/19 MTFP, the matters on which consultation was being undertaken are not of material impact to the council’s financial sustainability.
10. One area where the government chose not to consult on was New Homes Bonus. The consultation document however did refer to New Homes Bonus in two key respects. Firstly, in respect of the baseline referred to above, it noted:

*“In 2018-19 the baseline remained at 0.4 per cent. Due to the continued upward trend for house building, the Government expects to increase the baseline in 2019-20”*.
11. If this is to occur in 2019/20 then the council will face a financial pressure as the New Homes Bonus payment will be lower than forecast. Secondly, it made the following comment in respect of *“New Homes Bonus 2020 onward”*:

*“2019-20 represents the final year of funding agreed through the Spending Review 2015. In light of this, it is the Government’s intention to explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. Government will consult widely on any changes prior to implementation”.*

12. This is of even greater concern than the potential change in baseline as it effectively means that, at this time, we do not know whether New Homes Bonus will even exist in its current form after 2019/20.
13. More generally, the Technical Consultation document commented on the future of local government finance as follows:

*“The 2019 Spending Review will confirm overall local government resourcing from 2020-21, and the Government is working towards significant reform in the local government finance system in 2020-21, including an updated, more robust and transparent distribution methodology to set baseline funding levels, and resetting business rates baselines”.*

14. This means that our level of government funding excluding New Homes Bonus after 2019/20 is also uncertain, making planning future budgets very difficult.

## **The wider local government picture**

15. Against this backdrop of uncertainty over future local government funding, 2018 has seen a number of councils identify that they face severe financial pressures. The most extreme example of this is Northamptonshire County Council, whose Section 151 officer had to issue a Section 114 notice earlier this year as the council was in danger of running out of money. Much of the comment has focussed on the increasing costs of adult and childrens’ social care for which demand continues to increase. Although not dealt with by this council, the increasing costs of this work for unitary and county councils will need to be met within the overall local government funding envelope. To meet this need for increased funding in these areas, the amount of money for other local government services may be reduced.
16. During the year, there has been a noticeable drive by the Chartered Institute of Public Finance & Accountancy (CIPFA), the public sector accountancy body, to focus attention on longer term sustainability of councils. In guidance on preparing a capital strategy, which the council is required to prepare, the emphasis is on preparing a “Long Term Financial Plan” (LTFP), in addition to the MTFP. The expectation is that an LTFP will be for at least 10 years. In addition, CIPFA has consulted on the introduction of a “resilience index”. This would focus on, for example, a council’s reliance on government grant funding, including New Homes Bonus, for financial sustainability.

## **Impact on this council**

17. There is no risk to the council’s financial viability in the immediate future. At 31 March 2018, the council held over £110 million in usable reserves, including government grants and other sums ring fenced for specific purposes. This included reserves funding a capital programme in excess of £60 million. However, the council’s medium to long term financial sustainability faces an at present unquantifiable risk from changes to government funding, particularly but not exclusively New Homes Bonus. Given the reliance on New Homes Bonus identified above, any significant change to that funding stream will have a detrimental impact on the council finances.

18. In light of potential future financial pressures, the council has already instigated a number of actions that will help ensure it is best placed to respond to the challenges. These actions are:

- A line-by-line review of all council base budgets is underway to strip out any over-budgeting and ensure profiling is accurate
- Curtailment of the discretionary growth bid process during budget setting for revenue and capital spending
- To commission CIPFA to assist with work on benchmarking the base budget with other councils and on a commercial strategy

### **Next steps**

19. Ahead of the budget being finalised in February, officers will continue to work with cabinet on further understanding the council's financial position and its financial sustainability.

### **Financial Implications**

20. These are set out in the body of the report.

### **Legal Implications**

21. 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.

### **Risks**

22. These are set out in the body of the report.

### **Other implications**

23. None

### **Conclusion**

24. Recent developments have shown that local government finances continue to be under pressure. The council's own financial sustainability is now subject to uncertainty over the medium to long term. In the event of significant changes to New Homes Bonus action will be needed so that sustainable budgets can be set over the medium term to long term.

### **Background Papers**

None