



Listening Learning Leading

Report to: Cabinet Scrutiny Committee Council

Report of Head of Finance

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To: CABINET

31 January 2019

To: SCRUTINY COMMITTEE

5 February 2019

To: COUNCIL

14 February 2019

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. approve the capital programme for 2019/20 to 2023/24 as set out in appendix D.1 to this report, together with the capital programme changes as 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 2023/24 as set out in appendix F to this report,
 - e. allocates £500,000 to fund the Communities Capital and Revenue grant scheme,
 - f. asks Officers to review the Medium Term Financial Strategy (MTFS) following the 2019 spending review and Ministry of Housing, Communities and Local Government (MHCLG) announcements of changes to the council's future funding streams
3. That cabinet agrees that the cabinet member for finance, in conjunction with the head of finance, may make minor adjustments to this report and the prudential indicators should they prove necessary prior to its submission to council on 14 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 these budget proposals and these are identified in **appendix B.1** (revenue) and **appendix D.2** (capital).

Revenue budget 2019/20

Budget target 2019/20

4. The MTFS previously approved by Council in 2018 sets a target within which the revenue budget will be set each year. It is:

'to set a revenue budget requirement that increases by no more than inflation each year, except where new responsibilities are placed on the council'.

Budget composition 2019/20

5. **Appendix A.1** summarises the movements in the base budget from £16,913,897 in 2018/19 to £16,643,702 in 2019/20. These movements are detailed below.
6. **Opening budget adjustment reduction £1,625,117 (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.
7. Additions to the base budget:
 - **inflation, salary increments and other salary adjustments £1,534,057 (appendix A.3)**. The salary and contract inflation totals £470,700 representing an average increase of 2.8 per cent on the 2018/19 net expenditure budget. For council employees an overall increase in salary of 2.7 per cent is budgeted for 2019/20. Increments payable to council employees not at the top of their salary

range total £90,244. Other salary adjustments of £973,112 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 during 2019/20.

- **essential growth – one-off £195,647 and ongoing £859,143 (appendix A.4)**, these items comprise additional expenditure which have been identified by officers and the cabinet member and are considered to be unavoidable and reflect changes that have occurred in the current year or which are known will happen in 2019/20. Deductions from the base budget:
 - **base budget reductions £674,657 (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 18 December 2018, supported us in challenging the budget.
 - Included in this figure is £120,000 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 £303,705**, this provision has been increased to four 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. The increase reflects the trend in vacancies and recruitment lead times seen in recent years.
 - **decrease in revenue contingency £255,563**, 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 2019/20 is **£16,643,702** some **£270,195** below that set in 2018/19.

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 **£165,000**. The growth proposals have been selected by the cabinet member on the basis that they support the council's strategic objectives as set out in the council's corporate plan 2016-2020 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 is 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 five-year MTFP as the Council's view and response to this issue cannot be determined at this time.

11. There are no revenue consequences of proposed capital growth in 2019/20. Capital growth is detailed in **appendix D.2** and is considered later in this report.

Gross treasury income

12. Treasury income earned in 2019/20 is currently forecast to be **£2,806,660**, and will be allocated as follows:

- £2,350,660 to support the revenue budget for 2020/21; and
- £456,000 reinvested in financial instruments.

13. More details of treasury income can be found in the council's Treasury Management Strategy report¹.

14. Including growth and treasury income results in a net expenditure budget for the council of **£14,002,042** compared with **£13,974,037** in 2018/19.

Reserves and other funding

New Homes Bonus (NHB)

15. The provisional government allocation for NHB payment for 2019/20 is **£1,920,550**. Projections of future NHB earnings and how they will be used are detailed later in this report.

Transfers to/from reserves

16. The proposed transfers to / from earmarked reserves total **£995,187** and reflect:

- The transfer from reserves of treasury income earned in 2018/19 and earmarked to support the revenue account in 2019/20,
- The transfer to reserves of treasury income earned in 2019/20,
- The transfer to reserves of investment income from property in Didcot for future investment,
- Other transfers to / from the revenue grants reserve.

17. Based on the above use of reserves and other funding, the amount of revenue expenditure to be financed from government settlement and from council tax 2019/20 is **£9,786,430 (appendix A.1)**.

Funding

Local government settlement

18. 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.

¹ Considered by Cabinet 31 January 2019, Council 14 February 2019

Table 1: Settlement funding assessment (provisional)

| | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Revenue Support Grant | 1,195 | 572 | 192 | 0 |
| Business Rates Baseline Funding Level | 2,384 | 2,433 | 2,506 | 2,563 |
| Settlement Funding Assessment | 3,579 | 3,005 | 2,698 | 2,563 |
| Tariff/Top-Up adjustment | 0 | 0 | 0 | 0 |
| Total | 3,579 | 3,005 | 2,698 | 2,563 |

19. The provisional settlement for 2019/20 is five percent lower than 2018/19. Whilst the baseline funding element of the settlement is increasing in line with the increase in national 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 would 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.
20. Rural services delivery grant of **£42,229** has been allocated to the council for 2019/20. No funding has been assumed after 2019/20.
21. 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 £1,920,550 for 2019/20.
22. As reported to Cabinet on 18 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 only. No assumption has been made regarding income that could be receivable in future under a revised NHB scheme or a replacement for the NHB scheme.
23. Estimates of future receipts of NHB are shown in table 2 below and are also included in the MTFP (detailed in row 42). In total the council is expected to have received in excess of £4.2 million during the MTFP period.

Table 2: new homes bonus

| Year earned | Year of receipt | | | | |
|--------------|---------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 2019/20 actual £000 | 2020/21 indicative £000 | 2021/22 indicative £000 | 2022/23 indicative £000 | 2023/24 indicative £000 |
| 2015/16 | 0 | 0 | 0 | 0 | 0 |
| 2016/17 | 675 | 0 | 0 | 0 | 0 |
| 2017/18 | 581 | 581 | 0 | 0 | 0 |
| 2018/19 | 255 | 255 | 255 | 0 | 0 |
| 2019/20 | 410 | 410 | 410 | 410 | 0 |
| Total | 1,921 | 1,246 | 665 | 410 | 0 |

24. 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

25. For budget setting purposes it has been assumed that the council's share of business rates income after payment of tariff will remain at the baseline level 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 will 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.
26. Any surpluses arising from membership of the Oxfordshire Business Rate Pooling Distribution Group will be added to the council's reserves at the end of the financial year and are not budgeted for.
27. Business rates retained by the Council as planning authority relating to facilities generating renewable energy within the district is estimated at **£84,287** (MTFP row 52).

Collection fund

28. The surplus on the collection fund is estimated in 2018/19 to be **£320,354**.

Use of reserves

29. 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 these budget proposals is a draw on general fund balances of **£1,081,353** and on NHB reserves of **£2,208,896** in 2019/20.

Cabinet member for finance's revenue budget proposal

30. Based on the amendments detailed above, and as shown in **appendix A.1** of this report, the cabinet member's budget proposal, including growth, is for a net revenue budget of **£9,786,430**. This revenue budget as proposed would result in an increase of £5.00 to current band "D" council tax to **£121.24**. **Appendix C** shows the breakdown of the revenue budget.
31. The cabinet member for finance's revenue budget proposal of **£9,786,430** is within the revenue budget target, meeting the requirement laid down in the MTFS.

Capital programme 2019/20 to 2023/24

Current capital programme

32. The latest capital programme (before growth) is attached at **appendix D.1** and is 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
- cabinet approved movement of schemes from the provisional to the approved capital programme
- the deletion of previously agreed schemes that have completed or are no longer being pursued at this time in their original form.

Didcot Leisure Centre has been removed from the capital programme at this time. However, it will be taken forward as part of a wider health and well-being initiative relating to Didcot Garden Town, which is a multi-partner initiative including Oxfordshire County Council and Vale of White Horse District Council.

Cabinet capital programme proposals

33. **Appendix D.2** contains a list of capital schemes that are being recommended for inclusion and amendment in the capital programme. Officers will amend the provisional capital programme to include the proposals if approved by cabinet and council.

Financing the capital programme

34. **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 **£39.2 million** over five years.

Table 3: current and proposed capital programme with financing

| | 2018/19 latest estimate | 2019/20 estimate | 2020/21 estimate | 2021/22 estimate | 2022/23 estimate | 2023/24 estimate | GRAND TOTAL |
|---|-------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Capital programme before growth | | | | | | | |
| - approved | 4,673 | 5,186 | 7,573 | 2,651 | 1,451 | 1,451 | 22,985 |
| - provisional | 1,124 | 8,759 | 1,548 | 1,183 | 1,183 | 1,183 | 14,980 |
| | 5,797 | 13,945 | 9,121 | 3,834 | 2,634 | 2,634 | 37,965 |
| Cabinet capital growth proposals | 0 | 1,052 | 1,649 | (491) | (491) | (491) | 1,228 |
| Total expenditure | 5,797 | 14,997 | 10,770 | 3,343 | 2,143 | 2,143 | 39,193 |
| Financing | | | | | | | |
| Grant funding | 1,809 | 2,364 | 2,979 | 839 | 839 | 839 | 9,669 |
| Developers' contributions | 34 | 156 | 0 | 0 | 0 | 0 | 190 |
| Usable capital receipts/revenue reserves | 3,954 | 12,477 | 7,791 | 2,504 | 1,304 | 1,304 | 29,334 |
| Total financing | 5,797 | 14,997 | 10,770 | 3,343 | 2,143 | 2,143 | 39,193 |
| Estimated balances as at 31 March 2024 | | | | | | | |
| Usable capital receipts | | | | | | | 0 |
| Enabling fund | | | | | | | (3,219) |
| New homes bonus: | | | | | | | |
| Unringfenced | | | | | | | 0 |
| Affordable homes | | | | | | | (1,524) |

Future pressures on the capital programme

35. **Table 3** also shows the use of council resources to fund the capital programme.

Officers advise cabinet not to earmark all available resources in proposing the budget

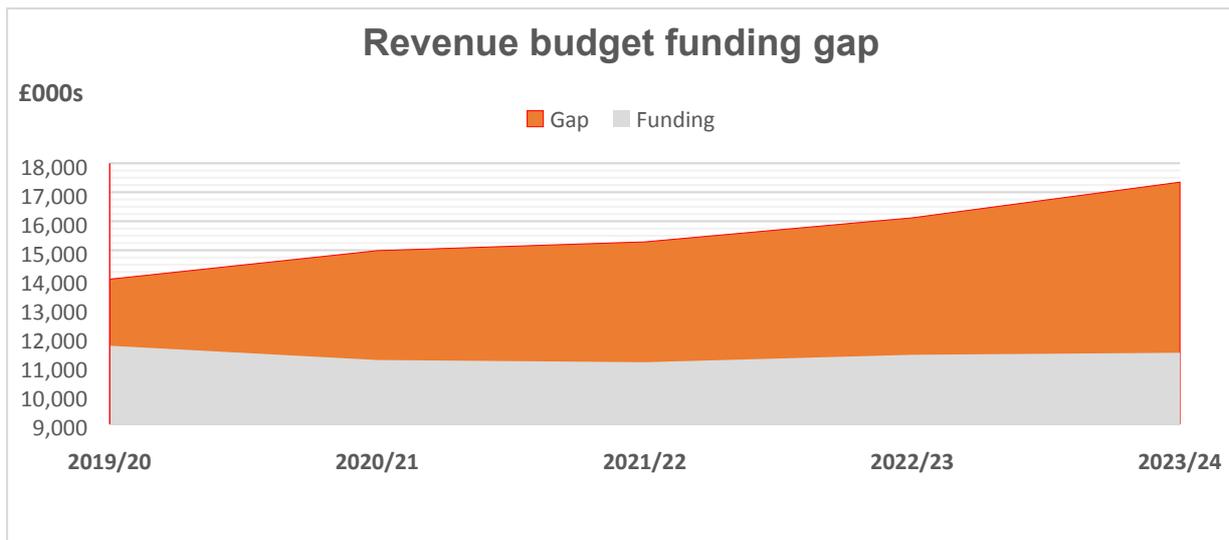
to council, as the prudential code requires local authorities to set sustainable budgets. By retaining unallocated balances, cabinet can demonstrate that through a combination of this and future income (that can be expected beyond the period of the budget) it can fund future pressures.

The prudential code and prudential indicators

36. 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.
37. 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.
38. 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. Council must approve the indicators through the budget process before 1 April each year, but they can be revised during the year if required.
39. The key indicators that will drive the capital budget decision making process will be those concerning long term affordability, as these measure the impact of capital investment decisions on the overall revenue budget and in particular the precept against the collection fund.
40. 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.
41. 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.
42. **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),

43. The MTFP provides a forward budget model for the next five years. **Appendix F** contains the MTFP for 2019/20 to 2023/24. This is a projection of the revenue budget up to 31 March 2024. The projection allows for 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. They could rise or fall depending on market conditions.
44. The MTFP identifies significant challenges ahead for the council. It reflects the updated provisional settlement figures published in draft by the government in December 2019 and shown in table 1 above. Ongoing funding after 2019/20 is an estimate by officers and is subject to change. The estimates will be refined as more information on the future funding schemes becomes available. Estimates of future receipts of NHB are shown in table 2 above.
45. 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).
46. The graph below illustrates the gap between funding and expenditure over the period of the MTFP excluding the savings target.



47. The council's MTFS states that the council will hold £50 million of investments of which up to £35 million can be invested in capital schemes that will produce a return of certainty. The remaining balance can be invested in treasury investments. Whilst the treasury investments may in some cases be capable of being realised, investment in capital schemes is not capable of being realised. Such principles will need to be reviewed and potentially adjusted in accordance with the level of future government funding.
48. As at 31 March 2024 the council is currently projected to have invested or earmarked £35 million in capital schemes, including an ongoing £15 million loan to South Oxfordshire Housing Association. The remaining £20 million is held in long term investments.

49. Excluding the £50 million investment, the council is projected to hold £4.0 million of general revenue balances and £9.9 million earmarked revenue reserves as at 31 March 2024.

Communities Capital and Revenue Grant Scheme

50. On an annual basis, the council has considered the amount to be made available for the Community Capital Grant Scheme. From 2018/19, some of this funding has been allocated to revenue projects. The council is asked to consider the amount to be made available for the Community Capital and Revenue Scheme and it is recommended that a grants budget of £500,000 be set for 2019/20 comprising:

- £180,000 for individual councillor grants,
- £320,000 for the communities' capital grants scheme.

Any underspend on the individual councillor grants will be available to fund additional spend on the communities' capital grants scheme.

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 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 initially building the 2019/20 budget was both smaller and far less experienced than the team in previous years.

53. 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 scrutiny and challenge of the budget information. Informal meetings of cabinet have considered the budget, and informal briefings have been provided to the opposition. 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.

54. The council's practice is not to use interest in the year it is earned, but in later years. On the basis of the settlement 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. The enabling fund balance as at 31 March 2024 is estimated to be £3.2million. In the MTFP the 2023/24 revenue budget is balanced by using the enabling fund.

55. The need to use reserves to balance the MTFP across its duration reflects the fact that revenue expenditure exceeds revenue income each year. Although the budget is sustainable across the medium term it is not sustainable beyond the medium term

based on current projections of government funding, which are themselves subject to uncertainty pending further information on the results of the fair funding review and the review of NHB. To identify ways to address the projected funding shortfall the council needs to carry out a thorough review of its MTFS during 2019/20 and in the next few years take steps to reduce the gap between its income and expenditure to ensure its longer-term viability.

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

Legal Implications

57. The cabinet needs to make recommendations to council on its spending proposals. Under the Local Government Act 2000 it is council that must agree the revenue and capital spending plans, and then set the council tax. Council will meet on 14 February 2019 in order to set the budget, and the council tax (including amounts set by Oxfordshire County Council and the Police and Crime Commissioner for the Thames Valley).

58. The requirement placed on 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.

Equalities Implications of savings proposals

59. The council has reviewed the proposal to reduce the communities capital grants from £811,000 to £320,000 in line with the Equality Act 2010. The scheme will still give priority to projects that will improve services and facilities for disabled people, ethnic minority people and vulnerable groups. With less money available the council will not be able to support as many of these community projects, which could reduce the ability to improve access to community facilities. To mitigate against the impact officers will signpost to other grants available, including the councillor grants scheme and will work collaboratively with communities to deliver successful projects with the funds available.

Other Implications

60. 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

61. 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.

62. 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 2019/20
- 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 B.1 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 Medium term financial plan

Background Papers

Provisional settlement figures (December 2019)

Medium term financial strategy 2018/19-2022/23 – Cabinet 12 February 2018, Council 15 February 2018

Council tax base 2019/20 – Cabinet 18 December 2018, Council 20 December 2018

Treasury management strategy – Cabinet 31 January 2019, Council 14 February 2019