

Report to: Cabinet Scrutiny Committee Council



Report of Head of Finance

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To: CABINET

13 February 2014

To: SCRUTINY COMMITTEE

18 February 2014

To: COUNCIL

20 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 to this report,
- e. allocates £1,000,000 to fund the Communities Capital Grant Scheme.

2. That cabinet agrees that the cabinet member for finance, in conjunction with the leader, may 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 20 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 head of finance and 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 Medium Term Financial Strategy (MTFS)¹. This sets out a number of objectives to be achieved and a set of principles to be followed in the preparation of budgets.

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.
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 B** (revenue) and **appendix D.2** (capital).

Revenue budget 2014/15

Budget target 2014/15

6. The MTFS to be considered by council on 20 February 2014 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'.
7. To meet this objective the budget must be set within the budget limit for 2014/15. This has been calculated as £12,174,963, representing the budget requirement for 2013/14 (£11,684,623) as adjusted for inflation, and new responsibilities.

¹ Cabinet 13 February 2014, Council 20 February 2014

Budget composition 2014/15

8. **Appendix A.1** summarises the movements in the base budget from £14,858,789 in 2013/14 to £14,076,905 in 2014/15. These movements are detailed below.
9. **Opening budget adjustment reduction £588,830, (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.
10. Additions to the base budget:
 - **inflation, salary increments and other salary adjustments £51,967 (appendix A.3).** The salary and contract inflation totals £84,153, representing an average increase of just under one per cent on the 2013/14 net expenditure budgets. For council employees an overall increase in salary of two per cent is budgeted for 2014/15. Increments payable to council employees not at the top of their salary range total £60,977. Other salary adjustments are a reduction of £93,164 representing other minor amendments to salary budgets.
 - **essential growth – one-off £429,400 and ongoing £508,562 (appendix A.4),** 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
11. Deductions from the base budget:
 - **base budget savings £1,241,222 (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, or correction to budgets. These savings do not affect frontline service delivery.
 - **office accommodation savings £175,000.** These are the result of the sharing of accommodation at Crowmarsh Gifford with Vale of White Horse District Council.
 - **operational reorganisations £55,511 (appendix A.6).** These savings 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.
12. Other changes to corporate base budgets
 - **movement in managed vacancy factor £6,725.** 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 a decrease in salary budgets.
13. A significant change to the way the council budgets for contingency sees **additional revenue contingency budget of £228,150** 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.

14. 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.
15. 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.
16. As a result of these changes the council's revised base budget for 2014/15 is **£14,076,905**.

Revenue growth proposals

17. A number of revenue growth proposals have been selected by the cabinet member for finance to be included in the budget for 2014/15. These are detailed in **appendix B** and total **£1,827,597**. The growth proposals have been selected on the basis that they support the council's key aims as set out in the council's corporate plan and enhance service provision.
18. There is no impact on the revenue budget of arising from the capital growth proposals shown in **appendix D.2**.

Net property income

19. Net property income represents the council's income from its investment property portfolio less expenditure, and for 2014/15 is estimated at **£1,088,119**.

Gross treasury income

20. Treasury income earned in 2013/14 will be available to finance expenditure in 2014/15 and is currently forecast to be **£2,090,000**, and would be used as follows under current practice:
 - £1,790,000 to support the revenue budget for 2014/15; and
 - £300,000 reinvested in financial instruments.
21. More details of treasury income can be found in the council's Treasury Management Strategy 2014/15 to 2016/17 report (see Cabinet 13 February 2014, Council 20 February 2014).
22. Including growth, property and treasury income results in a net expenditure budget for the council of **£12,726,383**.

Reserves and other funding

New Homes Bonus (NHB)

23. The provisional government allocations for New Homes Bonus payments for 2014/15 are **£1,906,436**. For 2014/15 this will be transferred to reserves. Projections of future NHB earnings and how they will be used are detailed later in this report.

Council Tax Freeze Grant

24. It is proposed that council tax will be reduced in 2014/15 and as a result of this, the council will be due **£62,594** 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 reserves

25. In addition to the transfer to reserves of the New Homes Bonus payment, the other proposed transfers to / from earmarked reserves reflect:
- Use of the enabling fund for previously agreed one-off growth bids already included in the base budget, and essential growth items that are one-off in nature **£2,096,870**;
 - The transfer to reserves of the treasury income earned in year **£2,090,000**; and
 - The transfer from reserves of treasury income earmarked to support the revenue account in the previous financial year **£1,697,000**.

Transfer to revenue smoothing reserve

26. As a result of all of these changes, the budget proposal includes a budgeted transfer of **£128,521** to the revenue smoothing reserve to arrive at a budget requirement that reflects the government grant settlement and council tax level which are discussed later in this report.
27. Based on the above use of reserves and other funding, the amount of revenue expenditure to be financed in 2014/15 is **£11,088,440**.

Financing

Final local government settlement

28. 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 writing we have not received the final settlement. Officers consider that any changes to the settlement at this stage would not be material. Tables 1 below detail 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 | 2,463,452 | 2,229,815 | 4,693,267 |
| Council tax freeze compensation: | | | |
| • 2011/12 | 100,732 | 69,743 | 170,475 |
| • 2013/14 | 67,536 | 0 | 67,536 |
| Council tax reduction scheme (note 1) | 0 | 0 | 0 |
| Homelessness prevention funding | 28,888 | 20,364 | 49,252 |
| Other: | | | |
| • Efficiency support for services in sparse areas | 4,952 | 0 | 4,952 |
| • Returned funding (note 2) | 6,117 | 0 | 6,117 |
| Total | 2,671,677 | 2,319,922 | 4,991,599 |

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 no longer 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 | 1,636,271 | 2,291,360 | 3,927,631 |
| Council tax freeze compensation: | | | |
| • 2011/12 | 98,750 | 71,668 | 170,418 |
| • 2013/14 | 67,536 | 0 | 67,536 |
| Homelessness prevention funding | 28,310 | 20,926 | 49,236 |
| Other: | | | |
| • Efficiency support for services in sparse areas | 4,952 | 0 | 4,952 |
| Total | 1,835,819 | 2,383,954 | 4,219,773 |

29. The provisional settlement for 2014/15 is 13 per cent lower than 2013/14. The illustrative settlement for 2015/16 would be a further reduction of 15.5 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 which was discussed earlier in the report.

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

30. As agreed by Council on December 12 2013, the council tax support grant contribution payable to town and parish councils will be **£212,252** for 2014/15. The proposed MTFP shows that this contribution will be reducing in line with the reduction in government funding going forward.

Business rate retention scheme

31. The deficit on the NNDR under collection is estimated to be **£173,994**. This is due to the projected NNDR receipts being below the government's safety net. Therefore the council will be in a deficit position.
32. Although there is potential for some business rates growth next year it is not anticipated that this will take the council above safety net.

Collection fund

33. The surplus on the collection fund is estimated to be **£380,150**.

Cabinet member for finance's revenue budget proposal

34. 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 **£11,088,440**. This revenue budget as proposed would result in a reduction of 2.5 per cent to current band "D" council tax to £114.68. **Appendix C** shows the breakdown of the revenue budget.

35. 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".

36. The cabinet member for finance's revenue budget proposal of **£11,088,440** is lower than the previous year's budget requirement and is therefore within the revenue budget target, meeting the requirement laid down in the medium term financial strategy.

37. 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 cabinet member for finance.

Capital programme 2014/15 to 2018/19

Current capital programme

38. 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
- 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 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 |
|-----------------------|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Approved programme | 18,177 | 5,535 | 845 | 845 | 845 | 845 |
| Provisional programme | 7,060 | 5,190 | 11,414 | 1,873 | 1,290 | 1,000 |
| Total | 25,237 | 10,725 | 12,259 | 2,718 | 2,135 | 1,845 |

Cabinet capital programme proposals

39. **Appendix D.2** contains a list of new capital schemes that the cabinet member for finance is putting forward as part of his budget proposals. Officers will amend the provisional capital programme to include the proposals if approved by cabinet and council.
40. The current capital programme contains budget of £1 million for the Local Authority Mortgage Scheme (LAMS). The scheme's aim is to help people on to the housing ladder. Since its inclusion in the programme the government has introduced its help to buy scheme created for the same purpose. For this reason the capital programme proposed by the cabinet member for finance excludes this scheme going forward.

Financing the capital programme

41. **Appendix D.3** contains a schedule identifying how the capital programme will be financed, including the growth proposals, if they are approved. The programme proposed can be fully funded from existing and anticipated capital resources assuming there are no changes to way the government funds local authorities.
42. It must be acknowledged that should there be a change in political balance following the 2015 general election a new administration may change the way the NHB scheme operates or may possibly stop it altogether. Should this happen up to £11.6 million of projected NHB receipts would be 'at risk'. For this reason two capital growth bids as identified in appendix D.2a can only commence following receipt of this 'at risk' money. The head of finance commentary on the adequacy of reserves and balances will be available at full council.

Future pressures on the capital programme

43. 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

44. 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.
45. 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.
46. 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.
47. 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.
48. 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.
49. Under the code, the head of finance 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.
50. **Appendix E** contains the recommended prudential indicators, which have been calculated based on the budget proposals.. 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 (MTFP)

51. 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.
52. **Appendix F** contains the MTFP for 2014/15 to 2018/19. This is a projection of the revenue budget up to 31 March 2019. The projection includes an amount for unknown 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.
53. 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.
54. 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 £16 million during the MTFP period.
55. The element of the bonus that relates to the new homes bonus premium (expected to be over £1.2 million by the end of the period) 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 | 260 | 260 | 260 | 0 | 0 |
| 2012/13 | 347 | 347 | 347 | 347 | 0 |
| 2013/14 | 537 | 537 | 537 | 537 | 537 |
| 2014/15 | 763 | 763 | 763 | 763 | 763 |
| 2015/16 | 0 | 657 | 657 | 657 | 657 |
| 2016/17 | 0 | 0 | 756 | 756 | 756 |
| 2017/18 | 0 | 0 | 0 | 854 | 854 |
| 2018/19 | 0 | 0 | 0 | 0 | 768 |
| Total | 1,907 | 2,564 | 3,320 | 3,914 | 4,335 |

56. 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, it is expected that savings may be required to balance the budget in future years, and this represents a significant challenge. Management team is already looking at ways in which the budget gap in future years can be closed.
57. In summary, at 31 March 2019 the council's total uncommitted balances are projected to be £30 million. This is made up of £11 million uncommitted revenue

balances and £19 million in capital receipts, including investments that will be classified as capital receipts at the point at which they are realised. In addition to this the council will have £15 million loaned to South Oxfordshire Housing Association (SOHA) and £5 million generating a return from Didcot leisure centre. This reflects the £50 million referred to in the council's MTFs as being held long term as referred to in paragraph 4.2a in the report to council. This excludes earmarked revenue reserves, including new homes bonus of £3.8 million.

Communities Capital Grant Scheme

58. On an annual basis, the council considers the amount to be made available for the Community Capital Grant Scheme. It is recommended that a grants budget of £1,000,000 be set.

The robustness of the estimates and the adequacy of reserves

59. The Local Government Act 2003 places a duty on 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.
60. The construction of the budget has been managed by qualified accountants and has been subject to challenge, specifically by strategic management board, the 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 members of the council's scrutiny committee. 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.
61. The council's practice is not to use interest in the year it is earned, but in later years. On the basis of the provisional 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 2019 is estimated to be £ nil. In the MTFP the 2018/19 revenue budget is balanced by using NHB receipts.
62. The head of finance's full report will be available at full council.

Legal Implications

63. 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 20 February 2014 in order to set the budget, and the council tax (including amounts set by Oxfordshire County Council and the Thames Valley Police and Crime Commissioner).
64. 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.

Other Implications

65. 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

66. 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 cabinet member for finance's budget proposals and the resulting prudential indicators.
67. 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 2014/15
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 organisational reorganisations
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 D.3 financing of capital programme and growth proposals
Appendix E prudential indicators
Appendix F medium term financial plan

Background Papers

- Provisional settlement figures (December 2013)
- Medium term financial strategy 2014/15-2018/19 – cabinet 13 February 2014, council 20 February 2014
- Council tax base 2014/15 – cabinet 5 December 2013, council 12 December 2013
- Council tax reduction scheme grant for town and parish councils – cabinet 5 December 2013, council 12 December 2013
- Treasury management strategy – cabinet 13 February 2014, council 20 February 2014