Report to:
Cabinet
Scrutiny Committee
Council

Report of Head of Finance

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South Oxfordshire District Council

Listening Learning Leading

To: CABINET	14 February 2013
To: SCRUTINY COMMITTEE	19 February 2013
To: COUNCIL	21 February 2013

Revenue Budget 2013/14 and Capital Programme to 2017/18

RECOMMENDATIONS

1. That cabinet recommends to council that it:

   a. sets the revenue budget for 2013/14 at £11,684,623 and the council tax requirement as £6,187,635, as set out in appendix A1 to this report
   b. approves the capital programme for 2013/14 to 2017/18 as set out in appendix C to this report, together with the capital growth bids set out in appendix D of this report
   c. sets the council's prudential limits as listed in appendix F to this report
   d. approves the medium term financial plan to 2017/18 as set out in appendix G to this report
   e. allocates £1 million to fund the Community Investment Fund 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 21 February 2013

Purpose of report

1. This report:

 - brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2013/14 and a capital programme for 2013/14 to 2017/18

 - details changes from the information presented in the "2013/14 budget update report" that was considered by scrutiny committee on 15 January 2013

 - 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 strategic director 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 scrutiny committee 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 A2** (revenue) and **appendix D** (capital). The full set of growth bids is available as background papers on request.

Revenue budget 2013/14 – changes since scrutiny committee report

6. The scrutiny committee report discussed the composition of the council's base revenue budget for 2013/14, and reported at that time that the provisional budget requirement for 2013/14 was £11,766,520. Since that report was considered there has been further review of the budget by both officers and the cabinet member for finance. As a result, the proposed budget requirement is now £11,684,623.

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

One-off and ongoing revenue growth

8. Paragraphs 49-52 of the scrutiny committee report discussed growth, revenue bids submitted being shown in appendix D of that report.

9. The cabinet member for finance has, since the scrutiny committee meeting, selected those that are to go forward, including a new bid in health and housing for the extension of a fixed term contract for a lettings officer (reference JHAHREV2). As a result of the changes to revenue growth the amount shown in **appendix A2** has reduced since the scrutiny committee report by £53,000 to £529,070.

Revenue consequences of capital growth

10. A full list of capital growth is in **appendix D**. The revenue consequence of that growth is £12,170 for 2013/14 and is a mixture of one-off costs and ongoing maintenance of new assets. This is a decrease of £2,400 since scrutiny committee. Capital growth is considered in more detail later in 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 £608,998 and are detailed in **appendix A3**.

Funding changes

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

<u>Enabling fund</u>

13. Inclusion of one-off growth items in the budget proposal has resulted in an increased use of the enabling fund of £418,440.

<u>Other reserves</u>

14. The essential growth bid for the Didcot and Science Vale co-ordinator post, which as shown in **appendix A3** has been reduced, can be funded from previously received revenue grant funding for Didcot growth points, rather than the enabling fund as originally proposed.

<u>Efficiency support for services in sparse areas</u>

15. On 4 February 2013 government announced additional grant funding for councils in rural areas. The council will receive in 2013/14 an additional £19,456. Officers are not aware of the full details of the grant but currently anticipate that this will be for one year only.

<u>Investment income</u>

16. Estimates of investment earnings have been revised since the scrutiny committee report and £94,000 more will be available to support the revenue budget during 2013/14. The remaining £500,000 increase reflects a change to using all distributed investment income to support the revenue account, with Community Investment Fund grant schemes being funded separately as part of capital programme financing. Previously, investment income was specifically ring-fenced into an earmarked reserve to fund these grants. However to simplify accounting for investment income this will not be done in future and the grants will be funded in the same way as the rest of the capital programme.

Transfer to revenue budget smoothing reserve

17. As a result of the budget changes since the scrutiny committee report the budget proposal includes a budgeted transfer of £876,566 to the revenue budget smoothing reserve. In the scrutiny committee report it was estimated that a transfer of £175,919 from the reserve would be required. The total movement since that report equals £1,052,485 as shown in **appendix A1**. With the considerable uncertainty concerning the future funding of local government this transfer will assist the council in dealing with the challenges ahead, which are discussed further later.

Government and tax funding changes

Finalised local government settlement

18. The government issued the finalised local government settlement for 2013/14 and revised provisional settlement for 2014/15 on 4 February 2013. The impact on the funding receivable by the council is minimal and outlined in the table below.

Table 1: changes to start-up funding allocation

	Start-up funding allocations					
	2013/14			2014/15		
	Provisional £	Finalised £	Change £	Provisional £	Revised £	Change £
CT freeze	171,240	**171,240**	**-**	171,240	**171,240**	**-**
CTRS	665,141	**665,085**	**(56)**	-	**-**	**-**
Homelessness	50,000	**50,000**	**-**	50,000	**50,000**	**-**
Other	4,810,001	**4,809,807**	**(194)**	4,747,344	**4,747,494**	**150**
Total	**5,696,382**	**5,696,132**	**(250)**	4,968,584	**4,968,734**	**150**

Business rate retention scheme

19. Since the scrutiny committee report, the NNDR1 form has been completed and the estimate of amounts due has been revised downwards. This brings expected receipts to below the government's safety net, so after receipt of safety net payments the council will be £170,669 below the business rates baseline. This reduction is mainly due to a number of schools in south Oxfordshire planning to convert to academy status in 2013/14. Academies have exempt charitable status and receive mandatory relief from payment of business rates.

Collection fund

20. The surplus on the collection fund is now estimated to be £217,492, an increase of £6,590 since the scrutiny committee report.

Cabinet member for finance's revenue budget proposal

21. 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 **£11,684,623, a reduction of £469,735 from 2012/13**. This revenue budget as proposed would result in a reduction of 2.5 per cent to current band "D" council tax. The council tax requirement is £6,187,635. **Appendix B** shows the breakdown of the revenue budget.

22. 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".

23. The cabinet member for finance's revenue budget proposal of £11,684,623 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.

Capital programme 2013/14 to 2017/18

Current capital programme

24. The scrutiny committee 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 2 below. It is the capital programme as set by council in February 2012 plus:-

    - slippage (caused by delays to projects) carried forward from 2011/12
    - new schemes approved by council during 2012/13
    - re-profiling of expenditure on schemes from the 2012/13 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
    - deletion of completed schemes.

Table 2: current capital programme (before growth)

	2012/13 latest estimate £000	2013/14 estimate £000	2014/15 estimate £000	2015/16 estimate £000	2016/17 estimate £000	2017/18 estimate £000
Approved programme	4,834	4,209	867	845	845	845
Provisional programme	2,296	6,083	9,733	1,720	720	500
Total	**7,130**	**10,292**	**10,600**	**2,565**	**1,565**	**1,345**

25. 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

26. **Appendix D** 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.

27. A number of new capital schemes have been proposed since the scrutiny committee report. Some of these will be funded from receipts from Section 106 agreements. The other new schemes are as follows:

- SCMTCAP2 – capital contingency
- SCMTCAP3 – new homes bonus
- SELPCAP13 – EA FDGiA grant for flood alleviation at Wheatley
- SELPCAP15 – improvement to car park pay stations and new “pay and display” machines
- SELPCAP16 – broadband fund.

Financing the capital programme

28. **Appendix E** 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. 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

29. 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

30. In setting its revenue and capital budgets for 2013/14, 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.

31. 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.

32. 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.

33. 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.

34. 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.

35. 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.

36. **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 (MTFP)

37. The MTFS for 2013/14 to 2017/18 agreed by cabinet on 6 December 2012 and council on 13 December 2012 sets out the objectives to be achieved and the principles to be followed in setting the budget.

38. 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.

39. **Appendix G** contains the MTFP for 2013/14 to 2017/18**.** This is a projection of the revenue budget up to 31 March 2018. 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.

40. The MTFP identifies some significant challenges ahead for the council. It assumes that government grant funding will fall by 35 per cent from 2013/14 to 2017/18. 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.

41. The 2013/14 budget includes £245,967 for payments to town and parish councils in respect of their share of the government's council tax support grant. The council tax support grant is included within the start-up funding allocation and for 2013/14 the share applicable to town and parish councils was explicitly identified. The government is funding 60 per cent of the grant through revenue support grant and 40 per cent through the business rates spending baseline.

42. For 2014/15 onwards the element of the start-up funding allocation applicable to the council tax reduction scheme will not be explicitly identified by the government. Whilst the business rates element of the start-up funding allocation will increase each year with inflation, the revenue support grant element will fall considerably. At this stage it is proposed to budget for the town and parish council share of the council tax support grant originally included within the business rates baseline (i.e. 40 per cent) to continue to be paid out, and be inflated by inflation. A decision on whether to pay more than this amount to town and parish councils will be taken annually as part of the budget setting process, and will be based on further information received from government.

43. Estimates of future receipts of new homes bonus have been revised since the scrutiny committee report. The results are shown in table 3 below, and are also included in the MTFP (detailed in row 36). In total the council is expected to have received in excess of £11.7 million by the end of the MTFP period.

44. The element of the bonus that relates to the new homes bonus premium (expected to be approximately £85,000 in total over the period) is ring-fenced to support the provision of additional affordable housing. In addition, £433,000 has been set aside for community led schemes in locations that are accommodating

new housing, of which £250,000 has already been allocated. A capital growth bid (SCMTCAP3) proposes to allocate a further £317,000 for new schemes. The remaining balance is currently unallocated.

Table 3: new homes bonus

Year earned	Year of receipt				
	2013/14 indicative £000	2014/15 indicative £000	2015/16 indicative £000	2016/17 indicative £000	2017/18 indicative £000
2011/12	260	260	260	260	
2012/13	347	347	347	347	347
2013/14	536	536	536	536	536
2014/15	0	402	402	402	402
2015/16	0	0	556	556	556
2016/17	0	0	0	681	681
2017/18	0	0	0	0	797
Total	**1,143**	**1,545**	**2,101**	**2,782**	**3,319**

45. To continue to set a balanced budget with no call on reserves in future years the required ongoing savings are shown in table 4 below:

Table 4: ongoing annual savings required to set balanced budget

	Ongoing savings required £000
2014/15	989
2015/16	2,132
2016/17	2,923
2017/18	3,597

46. As identified in row 53 of the MTFP, based on current assumptions, if no further savings were identified the council would need to use £8.8 million of reserves by 2017/18. This is officers' working assumption until further savings are identified and assumes no annual outturn under-spends or over-spends.

47. 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.

CIF grant scheme funding

48. On an annual basis, the council considers the amount to be made available for the Community Investment Fund grant scheme, based on investment income earned in the previous financial year. Investment income is predicted to be £2.6 million in 2012/13. On that basis it is recommended that a grants budget of £1 million be set. This is an increase of £500,000 over the previous financial year, as reflected in the capital growth bid reference SCORCAP1. Any underspend against this will not be carried forward.

49. Over the course of administering the grant scheme a balance has built up in an earmarked reserve of unallocated funds, totalling £3.2 million at 31 March 2013. This balance will be added to the enabling fund balance.

The robustness of the estimates and the adequacy of reserves

50. 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.

51. 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.

52. 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. The enabling fund balance as at 31 March 2018 is estimated to be £3.8 million.

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

Legal Implications

54. 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 21 February 2013 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).

55. 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

56. 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

57. This report provides details of the revenue base budget for 2013/14, the capital programme 2013/14 to 2017/18, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.

58. 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 2013/14
Appendix A2	Revenue growth bids
Appendix A3	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

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