



Report to: Cabinet Scrutiny Committee Council

Report of Interim Head of Finance

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To: CABINET

30 January 2019

To: SCRUTINY COMMITTEE

4 February 2019

To: COUNCIL

13 February 2019

Revenue Budget 2020/21 and Capital Programme to 2024/25

RECOMMENDATIONS

1. That cabinet agrees to maintain car park fees and charges at current levels pending a review of fees and charges later in the year.
2. That cabinet recommends to council that it:
 - a. sets the revenue budget for 2020/21 as set out in appendix A.1 to this report,
 - b. approves the capital programme for 2020/21 to 2024/25 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 2024/25 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) 2018/19 to 2022/13 following the 2020 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 interim head of finance, in consultation with the cabinet member for finance, may make minor adjustments to this report and the prudential indicators should they prove necessary prior to its submission to council on 13 February 2020.

Purpose of report

1. This report:

- brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2020/21 and a capital programme for 2020/21 to 2024/25;
- 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 2020/21

Budget target 2020/21

4. The MTFP previously approved by Council in February 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 2020/21

5. **Appendix A.1** summarises the movements in the base budget from £16,844,397 in 2019/20 to £17,630,305 in 2020/21. These movements are detailed below.
6. **Opening budget adjustment reduction £25,320 (appendix A.2)**. This includes the removal of one-off growth items relating to 2019/20 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 £1,151,836 (appendix A.3)**. The salary and contract inflation totals £638,572. For council employees an overall increase in salaries of 3.9 per cent is budgeted for 2020/21.

Increments payable to council employees not at the top of their salary range total £151,921. Other salary adjustments are a net increase of £361,343

- **essential growth – one-off £420,752 and ongoing £706,957 (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 2020/21.
 - **Deductions from the base budget:**
 - **base budget reductions £1,510,273 (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.
 - **increase in managed vacancy factor £38,684**, this provision has been increased to maintain the total as four per cent of the total salary cost.
8. As a result of these changes the council's revised base budget for 2020/21 is **£17,630,305** some **£785,908** higher than that set in 2019/20.

Revenue growth and savings proposals

9. A limited number of one-off revenue growth proposals are being recommended for inclusion in the budget for 2020/21. These are detailed in **appendix B.1** and total **£606,263**.
10. There are no revenue consequences of proposed capital growth in 2020/21. Capital growth is detailed in **appendix D.2** and is considered later in this report.
11. Following a review of the council's discretionary services by heads of service and cabinet members, a number of further savings have been identified in addition to the base budget savings referred to earlier. These total **£532,794** and are detailed in **Appendix B.2**.

Gross treasury income

12. Treasury income earned in 2019/20 is currently forecast to be **£3,115,529**, and will be allocated as follows:
- £2,715,529 to support future revenue budgets; and
 - Dividends of £400,000 from the council's unit trust holdings reinvested in those holdings.
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 **£15,121,054** compared with **£14,002,042** in 2019/20.

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

Reserves and other funding

New Homes Bonus (NHB)

15. The provisional government allocation for NHB payment for 2020/21 is **£2,747,278**. 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 **£404,394** and reflect:
- The transfer from reserves of treasury income earned in 2019/20 and earmarked to support the revenue account in 2020/21,
 - 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 2020/21 is **£10,589,028 (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. This was extended by one year in November 2019 Table 1 below details the funding for the council up to 2020/21.

Table 1: Settlement funding assessment (provisional)

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Revenue Support Grant	1,195	572	192	0	0
Business Rates Baseline Funding Level	2,384	2,433	2,506	2,563	2,605
Settlement Funding Assessment	3,579	3,005	2,698	2,563	2,605

19. The provisional settlement for 2020/21 is 1.6 percent higher than 2019/20. Whilst the baseline funding element of the settlement is increasing in line with the increase in national business rates, Revenue Support Grant (RSG) has reduced to nil in since 2019/20.
20. Rural services delivery grant of **£42,229** has been allocated to the council for 2020/21. No funding has been confirmed or assumed after 2020/21.
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 £2,747,278 for 2020/21.

22. Government have confirmed that 2020/21 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 £3.9 million during the MTFP period.

Table 2: new homes bonus

Year earned	2020/21	2021/22	2022/23	2023/24
	indicative £000	indicative £000	indicative £000	indicative £000
2017/18	581	0	0	0
2018/19	255	255	0	0
2019/20	428	429	429	0
2020/21	1,483			0
Total	2,747	684	429	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.
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, 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 54).

Collection fund

28. The surplus on the collection fund is estimated in 2019/20 to be **£450,421**.

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 NHB reserves of **£2,189,143** in 2020/21.

Revenue budget proposal

30. Based on the amendments detailed above, and as shown in **appendix A.1** of this report, the budget proposal, including growth, is for a net revenue budget of **£10,589,028**. This revenue budget as proposed would result in an increase of £5.00 to current band “D” council tax to **£126.24**. **Appendix C** shows the breakdown of the revenue budget.
31. The revenue budget proposal of **£10,589,028** is within the revenue budget target, meeting the requirement laid down in the MTF5.

Capital programme 2020/21 to 2024/25

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 2019 plus: -
- slippage (caused by delays to projects) carried forward from 2018/19
 - new schemes approved by council during 2019/20
 - re-profiling of expenditure on schemes from the 2019/20 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.

The approved capital programme also includes Community Infrastructure Levy (CIL) receipts that are payable to Oxfordshire County Council and Oxfordshire Clinical Commissioning Group.

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 **£55.1 million**.

Table 3: current and proposed capital programme with financing

	2019/20 latest estimate	2020/21 estimate	2021/22 estimate	2022/23 estimate	2023/24 estimate	2024/25 estimate	GRAND TOTAL
	£000	£000	£000	£000	£000	£000	£000
Capital programme before growth							
- approved	3,937	17,071	11,751	4,857	1,453	920	39,989
- provisional	3,150	9,127	1,103	413	413	413	14,619
	7,087	26,198	12,854	5,270	1,866	1,333	54,608
Cabinet capital growth proposals	0	102	96	96	95	122	510
Total expenditure	7,087	26,300	12,950	5,366	1,961	1,455	55,118
Financing							
Grant funding	1,669	4,391	1,839	1,399	1,401	875	11,574
Developers' contributions	189	9,303	0	0	0	0	9,492
Usable capital receipts/revenue reserves	5,229	12,606	11,111	3,967	560	580	34,052
Total financing	7,087	26,300	12,950	5,366	1,961	1,455	55,118
Estimated balances as at 31 March 2025							
Usable capital receipts							(1,227)
General fund balance							(7,749)
New homes bonus:							
Unringfenced							0
Affordable homes							(1,635)

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 2020/21, 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.

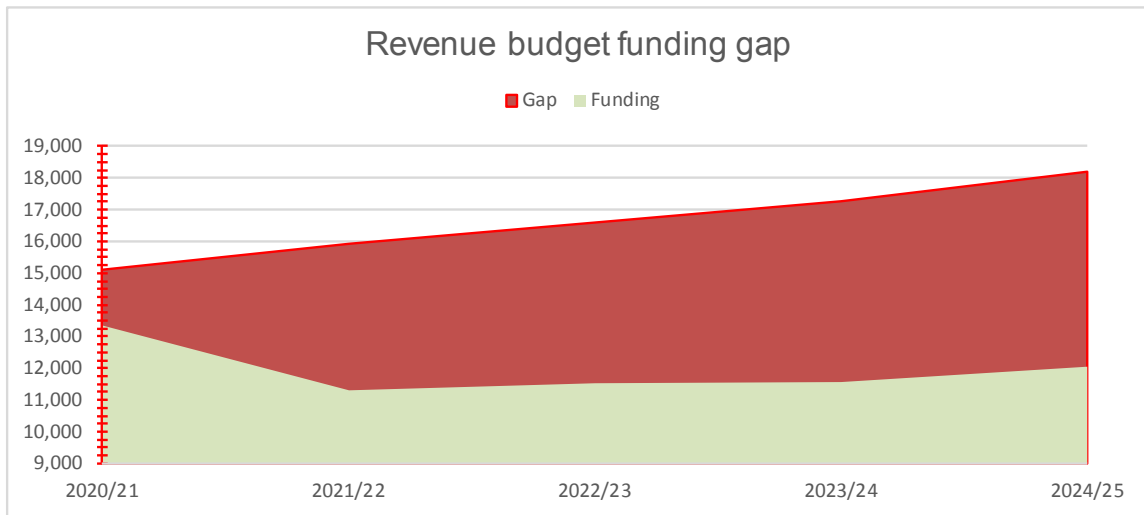
38. The key objectives of the prudential code are to ensure that the capital investment plans of the authority are affordable, prudent and sustainable. To demonstrate that authorities have had regard to these objectives, the prudential code sets out a number of indicators that must be considered covering 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 2020/21 to 2024/25. This is a projection of the revenue budget up to 31 March 2025. 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 2020/21 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.



47. The council's MTFS 2018/19 to 2022/23 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 2025 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 £7.7 million of general revenue balances and £7.4 million earmarked revenue reserves as at 31 March 2025.
50. During 2020/21 the council is expecting to learn the outcome of review of the retained business rates scheme and of the scheme to replace NHB and therefore be able to project the funding implications for the council. Once this information is known it is recommended a full review of the MTFS is undertaken.

Communities Capital and Revenue Grant Scheme

51. 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 2020/21 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

52. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the interim 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.
53. 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.
54. The challenge process included breaking down all costs and differentiating between statutory and discretionary expenditure. Statutory services were scrutinised for potential efficiencies and resultant budget savings. Careful analysis of discretionary services was carried out, focusing on potential efficiencies and the consequences of removing the service.
55. The management accounting function was in-sourced from Capita in December 2018 and the team was strengthened and stabilised during 2019. This has allowed increased officer scrutiny and challenge of the budget information. Informal meetings of cabinet have considered the budget. An informal briefing on the council's overarching budget position, which was open to all councillors, took place during January 2020. A further, more detailed briefing on this budget proposal will be given to the council's scrutiny committee members in February 2020. This session will also be open to all councillors. In view of the process undertaken and his own knowledge of the budget, the interim head of finance is satisfied that the budget is both prudent and robust.
56. 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 interim 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 over the course of the MTFP period. The general fund balance as at 31 March 2025 is estimated to be £7.7 million. In the MTFP the 2024/25 revenue budget is balanced by using the general fund.
57. 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 over the MTFP period it is not sustainable beyond that period 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.
58. Work to identify ways to address the projected funding shortfall has begun, with the savings proposals identified in appendix B.2 being the first evidence of this activity. This needs to continue, and to facilitate that the discretionary growth proposals (appendix B.1) include the sum of £500,000 to be spent on "transformation" activity. This activity will focus on:
- The opportunity of transforming this council and Vale of White Horse DC into a single council;
 - Opportunities to generate further income;

- Opportunities to redesign services to make them more efficient and customer focussed.

59. In terms of service redesign, services already identified in discussions with Cabinet members for further review are:

- Community enablement (includes Cornerstone)
- Leisure and well-being
- Customer services (including end-to-end Planning process)
- Economic development and business support
- Public realm (includes toilets, grounds maintenance, countryside, parks and open spaces)
- CCTV

60. This activity, which will identify ways to reduce the funding gap, takes place against the backdrop of the new requirement, under the CIPFA Financial Management Code, to prepare a ten-year Medium Term Financial Strategy (MTFS). This will involve carrying out a thorough review of the current MTFS during 2020/21 that will demonstrate how the long-term financial viability of the council will be achieved.

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

Legal Implications

62. The cabinet is required 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 13 February 2020 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).

63. The requirement placed on the council by the Local Government Act 2003 to set prudential indicators and for the chief finance officer to make a report to the authority on the robustness of the estimates and the adequacy of reserves are addressed within the body of this report.

Equalities Implications of savings proposals

64. In making the savings proposed, the council is conscious of keeping its public sector equality duties as listed below, which are to:

- eliminate unlawful discrimination, harassment and victimisation

- advance equality of opportunity between people who share a protected characteristic² and those who do not.
- foster good relations between people who share a protected characteristic and those who do not.

65. Based on the above we feel the overall equalities impact is potentially low. However, it should be noted that there is a possibility that by removing Customer Service Excellence Accreditation, this may result in static service delivery and no continuous improvement, with regards to accessibility of services to all our residents and staff. There is a possibility of an impact to health and wellbeing from local communities by removing Community Sports Coaches.

Other Implications

66. 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

67. This report provides details of the revenue base budget for 2020/21, the capital programme 2020/21 to 2024/25, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.

68. 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.

² A 'protected characteristic' under the Act is colour, race, nationality, ethnic or national origin, disability, age, sex, gender reassignment, sexual orientation, religion, belief, marriage or civic partnership, pregnancy and maternity.

Appendices

- Appendix A.1 Revenue budget 2020/21
- 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 B.2 Service review proposals
- 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 2020/21 – Cabinet 5 December 2019, Council 19 December 2019
Treasury management strategy – Cabinet 30 January 2020, Council 13 February
2020