

Report to: Cabinet Scrutiny Committee Council



Listening Learning Leading

Report of Head of Finance

Author: Simon Hewings

Tel: 01235 540309

E-mail: simon.hewings@southandvale.gov.uk

Cabinet Member responsible: Will Hall

Tel: 07793 031780

E-mail: wahhall@gmail.com

To: CABINET

12 February 2015

To: SCRUTINY COMMITTEE

17 February 2015

To: COUNCIL

19 February 2015

Revenue Budget 2015/16 and Capital Programme to 2019/20

RECOMMENDATIONS

1. That cabinet recommends to council that it:

- a. sets the revenue budget for 2015/16 as set out in appendix A.1 to this report,
- b. approves the capital programme for 2015/16 to 2019/20 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 2019/20 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 19 February 2015.

Purpose of report

1. This report:

- brings together all relevant information to allow cabinet to recommend to council a revenue budget for 2015/16 and a capital programme for 2015/16 to 2019/20;
- 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 (MTFP) 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. The budget has not been adjusted to reflect the financial impact of the fire at the Crowmarsh offices as this will not be known for some time. However, the council's buildings, contents and business continuity insurance is anticipated to cover costs arising.

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 growth bids in his budget proposals and these are identified in **appendix B** (revenue) and **appendix D.2** (capital).

Revenue budget 2015/16

Budget target 2015/16

6. The MTFS to be considered by council on 19 February 2015 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'.

¹ Cabinet 12 February 2015, Council 19 February 2015

Budget composition 2015/16

7. **Appendix A.1** summarises the movements in the base budget from £15,904,502 in 2014/15 to £14,905,579 in 2015/16. These movements are detailed below.
8. **Opening budget adjustment reduction £1,242,930, (appendix A.2).** This includes the removal of one-off growth items relating to 2014/15 and the realisation of the full-year effect of savings proposals identified in previous years.
9. Additions to the base budget:
 - **inflation, salary increments and other salary adjustments £125,403 (appendix A.3).** The salary and contract inflation totals £212,304, representing an average increase of just under one per cent on the 2014/15 net expenditure budgets. For council employees an overall increase in salary of two per cent is budgeted for 2015/16. Should the award when agreed be greater than this it will be met from the contingency budget. Increments payable to council employees not at the top of their salary range total £86,469. Other salary adjustments are a net reduction of £173,371. This includes an increase in the managed vacancy factor of £8,444.².
 - **essential growth – one-off £170,000 and ongoing £282,838 (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 2015/16
10. Deductions from the base budget:
 - **base budget savings £665,360 (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.
11. Other changes to corporate base budgets
 - **additional revenue contingency £22,505 (appendix A.6).** This brings the level of revenue contingency up to £550,655. This includes specific provision for certain events should they occur, together with a general contingency amount.
 - **other budget adjustments of £308,621** reflects the changes in net property income which are included within revisions to the base budget.
12. As a result of these changes the council's revised base budget for 2015/16 is **£14,905,579.**

² 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.

Revenue growth proposals

13. A number of revenue growth proposals have been selected by the cabinet member for finance to be included in the budget for 2015/16. These are detailed in **appendix B** and total **£654,270**. 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.
14. There are also savings in the revenue budget of **£20,000** arising from the capital growth proposals shown in **appendix D.2**. Capital growth proposals are discussed later in the report.

Net property income

15. Net property income represents the council's income from its investment property portfolio less expenditure, and for 2015/16 is estimated at **£1,396,740**.

Gross treasury income

16. Treasury income earned in 2015/16 will be available to finance expenditure in 2016/17 and is currently forecast to be **£2,088,250**, and would be used as follows under current practice:
 - £1,728,250 to support the revenue budget for 2015/16; and
 - £360,000 reinvested in financial instruments.
17. More details of treasury income can be found in the council's Treasury Management Strategy report (see Cabinet 12 February 2015, Council 19 February 2015).
18. Including growth, property and treasury income results in a net expenditure budget for the council of **£12,054,859**.

Reserves and other funding

New Homes Bonus (NHB)

19. The provisional government allocations for NHB payment for 2015/16 is **£2,877,879**. For 2015/16 this will all 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

20. It is proposed that council tax will be reduced in 2015/16 and as a result of this, the council will be due **£65,710** of council tax freeze grant for 2015/16. This grant equates to the funding the council would have generated by increasing council tax by one per cent.

Transfers to/from reserves

21. 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 **£1,116,820**;
- The transfer to reserves of investment income from property in Didcot for future investment - **£270,000**.
- The transfer to reserves of the treasury income earned in year **£2,088,250**; and
- The transfer from reserves of treasury income earmarked to support the revenue account in the previous financial year **£2,054,500**.

Transfer from revenue budget smoothing reserve

22. As a result of all of these changes, the budget proposal includes a budgeted transfer of **£886,952** from the revenue budget 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.
23. Based on the above use of reserves and other funding, the amount of revenue expenditure to be financed in 2015/16 is **£10,289,127**.

Funding

Final local government settlement

24. On December 18 2014 the government announced the provisional 2015/16 local government settlement. 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. Table 1 below details the provisional funding outlined for the council for 2015/16.

Table 1: settlement funding assessment 2015/16 (provisional)

	Provisional 2015/16 settlement funding assessment		
	Revenue support grant	Baseline funding level	Total
	£	£	£
Lower tier funding	1,649,385	2,272,422	3,921,807
Council tax freeze compensation:			
• 2011/12	98,750	71,076	169,826
• 2013/14	67,536	0	67,536
• 2014/15	66,936	0	66,936
Council tax reduction scheme ³	0	0	0
Homelessness prevention funding	28,309	20,753	49,062
Other:			
• Rural services delivery funding	8,080	0	8,080
Total	1,918,966	2,364,251	4,283,247

³ 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.

25. The provisional settlement for 2015/16 is 14.2 per cent lower than 2014/15.
26. 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 is discussed elsewhere in the report.

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

27. As agreed by Council on December 11 2014, the council tax support grant contribution payable to town and parish councils will be **£179,352** for 2015/16. The proposed MTFP shows that this contribution will be reducing in line with the reduction in government funding going forward, although council has agreed to review the method of allocation for future years.

Business rate retention scheme

28. For budget setting purposes it has been assumed that the council's share of business rates income after payment of tariff will remain below the safety net. For 2015/16 this shortfall is estimated to **£177,319**. Should the actual business rate receipt prove to be in excess of the safety net surpluses generated will be added to the council's reserves
29. Should the council decide to join the Oxfordshire Business Rate Pooling Distribution Group surpluses arising will be added to the council's reserves at the end of the financial year. Further information about this can be found in the report to Cabinet on Business Rate Pooling and Business Rate Distribution on 4 December 2014.

Collection fund

30. The surplus on the collection fund is estimated to be **£329,605**.

Cabinet member for finance's revenue budget proposal

31. 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 **£10,289,127**. This revenue budget as proposed would result in a reduction of 3.0 per cent to current band "D" council tax to **£111.24**. **Appendix C** shows the breakdown of the revenue budget.

32. 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”.

33. The cabinet member for finance's revenue budget proposal of **£10,289,127** 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.

34. A draft MTFP and proposed growth bids were published on the council's website in December 2014. No comments on the published MTFP and growth bids have been received by officers or by the cabinet member for finance.

Capital programme 2015/16 to 2019/20

Current capital programme

35. 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 2014 plus:-

- slippage (caused by delays to projects) carried forward from 2013/14
- new schemes approved by council during 2014/15
- re-profiling of expenditure on schemes from the 2014/15 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)

	2014/15 latest estimate £000	2015/16 estimate £000	2016/17 estimate £000	2017/18 estimate £000	2018/19 estimate £000	2019/20 estimate £000
Approved programme	5,817	3,645	1,109	911	845	845
Provisional programme	12,658	11,652	11,890	8,050	1,320	1,000
Total	18,475	15,297	12,999	8,961	2,165	1,845

Cabinet capital programme proposals

36. **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.

37. The “Orchard Centre works” scheme, shown under Development and Housing in the current provisional capital programme, has been revised. There is no change to the profiled spend, or the project being dependent on receipt of NHB. The summary for this bid has been amended to read as follows:

“development of phase 2 of the Orchard Centre will achieve a comprehensive regeneration of this area of the town centre, providing an enhanced retail offer and town centre apartments. This will be enabled by council investment with a reasonable return, which will accelerate development and allow the housing development to proceed in tandem with the retail scheme”.

Financing the capital programme

38. **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 and NHB. NHB is discussed further below.

Future pressures on the capital programme

39. **Appendix D.3** also shows the balances of usable capital receipts, NHB and the enabling fund at the end of the MTFP period. 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.
40. There is some uncertainty about the future of NHB after the May 2015 general election. A new government may choose to review and reform the distribution methodology.

The prudential code and prudential indicators

41. In setting its revenue and capital budgets for 2015/16, 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.
42. 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.
43. 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.
44. 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.
45. 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.

46. 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.

47. **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)

48. 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.

49. **Appendix F** contains the MTFP for 2015/16 to 2019/20. This is a projection of the revenue budget up to 31 March 2020. The projection includes an amount for unknown budget pressures in later years and assumes that council approves all the budget proposals within this report. These could rise or fall depending on market conditions.

50. The MTFP identifies some significant challenges ahead for the council. It assumes that government grant funding will fall by 37 per cent from 2015/16 to 2019/20. 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.

51. Estimates of future receipts of new homes bonus are shown in table 3 below, and are also included in the MTFP (detailed in row 40). In total the council is expected to have received in excess of £20 million during the MTFP period.

52. The element of the bonus that relates to the new homes bonus premium is ring-fenced to support the provision of additional affordable housing.

Table 3: new homes bonus

Year earned	Year of receipt				
	2015/16 budget £000	2016/17 indicative £000	2017/18 indicative £000	2018/19 indicative £000	2019/20 indicative £000
2011/12	260	260	0	0	0
2012/13	347	347	347	0	0
2013/14	537	537	537	537	0
2014/15	763	763	763	763	763
2015/16	971	971	971	971	971
2016/17	0	641	641	641	641
2017/18	0	0	863	863	863
2018/19	0	0	0	864	864
2019/20	0	0	0	0	816
Total	2,878	3,519	4,122	4,639	4,918

53. 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 budget within the parameters set by the MTFS 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.
54. In summary, at 31 March 2020 the council's total balances are projected to be £25 million. This is made up of £11.4 million general revenue balances, £11.1 million earmarked reserves and £2.5 million in capital receipts. 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.
55. The council's MTFS states that £50 million of investments will be retained by the council. As at 31 March 2020 this will be made up of the £15 million SOHA loan, the £5 million investment in Didcot leisure centre, unit trust and corporate bonds to the value of £14.6 million and £15.4 million of the £25 million balance referred to in paragraph 54 above. This leaves £4.3 million of uncommitted and £5.3 million of committed balances as at 31 March 2020.

Communities Capital Grant Scheme

56. 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

57. 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.
58. 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/will be 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.

59. 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 2020 is estimated to be £ nil. In the MTFP the 2019/20 revenue budget is balanced by using NHB receipts.
60. The one significant risk identified is a possible change to the NHB scheme. Should this happen a fundamental review of the council's budget will be necessary. Table 4 below shows that £14.143 million of expenditure budgeted for within the MTFP and the capital programme from 2016/17 onwards is dependent on the receipt of NHB not yet received or confirmed as payable by the government. The Head of Finance and the cabinet member for finance will determine which expenditure should not commence until further certainty over the future of NHB is received. This will be reflected in the 2015/16 capital programme.

Table 4.1 New Homes Bonus account

Year	Opening balance £000	Receipt £000	Revenue expenditure £000	Capital expenditure £000	Closing balance £000
2015/16	3,460	2,878	0	0	6,338
2016/17	6,338	3,519	0	(8,000)	1,857
2017/18	1,857	4,122	(1,512)	(1,400)	3,067
2018/19	3,067	4,639	(4,063)	0	3,643
2019/20	3,643	4,918	(4,737)	(769)	3,055
Total		20,076	(10,312)	(10,169)	

Note that the figures in **bold** represent monies confirmed or received. The closing balance of £3.055 million includes £1.590 million has been ring fenced by the council for affordable housing.

Table 4.2 Expenditure at risk

	£000
Total expenditure to be funded from NHB per table 4.1	(20,481)
NHB funding received or confirmed (2015/16 in bold)	6,338
Expenditure to be funded from NHB not yet received or confirmed	14,143

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

Legal Implications

62. 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 19 February 2015 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).

63. 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

64. 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

65. This report provides details of the revenue base budget for 2015/16, the capital programme 2015/16 to 2019/20, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.
66. 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

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|--------------|---|
| Appendix A.1 | Revenue budget 2015/16 |
| 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 |
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Background Papers

Provisional settlement figures (December 2014)
Medium term financial strategy 2015/16-2019/20 – Cabinet 12 February 2015,
Council 19 February 2015
Council tax base 2015/16 – Cabinet 4 December 2014, Council 11 December 2014
Council tax reduction scheme grant for town and parish councils – Cabinet 4
December 2014. Council 11 December 2014

Treasury management strategy – Cabinet 12 February 2015, Council 19 February 2015