

To: Council

Date: 18th February 2013

Report of: Head of Finance

Title of Report: Report of the Council's Chief Finance Officer on the robustness of the 2013/14 budget

Summary and Recommendations

Purpose of report: Under Section 25 of the Local Government Act 2003 there is a requirement for the Council's Chief Financial Officer to report to the Council on:

- (a) the robustness of the estimates made for the purposes of the calculations of the budget and
- (b) the adequacy of the proposed financial reserves. Council in considering its Budget should have regard to this advice.

Recommendation: That Council notes this report in setting its budget for 2013/14 and the indicative budgets for 2014/15 – 2016/17.

Robustness of the Budget.

1. The economic outlook for the economy remains depressed, certainly in the short to medium term. The Chancellor's Autumn Statement delivered a number of significant revisions to earlier predictions. Growth targets have been revised downwards to only 0.9% and 0.7% for 2011/12 and 2012/13 respectively, whilst borrowing is forecast to increase by an additional £111 billion over the next five years. This, coupled with the lack of planning information in respect of the Government's welfare reforms and associated changes to the payment and administration of benefits, plus the changes to local government funding and the partial relocalisation of business rate income, much of which comes into effect from 1st April 2013, has posed some significant challenges in developing the Council's Medium Term Financial Plan.
2. However, the prudent and robust approach taken by the Council in developing its Medium Term Financial Strategies from 2010/11 onwards and the delivery of significant levels of savings in the current financial year have provided a firm foundation on which to build.

3. Detailed plans have been put in place by Heads of Service to deliver the savings over the four year period undertaken on a similar basis to that previously, with Scrutiny of Service Proposals and efficiency savings by
 - The Finance Team
 - The Corporate Management Team
 - Executive Members
 - The Value and Performance Scrutiny Committee – Budget Review Group
4. The General Fund Medium Term Plan includes an increased reliance on additional income driven from increased external work undertaken by the Council's Direct Services workforce. Whilst this does create some additional risk for the council this is partially mitigated by the inclusion of a contingency to cover shortfalls in income.
5. Monitoring of the budget through the year is undertaken by Finance in conjunction with Heads of Service and Cost Centre Managers to ensure that the budget is on target or variations are reported and acted upon at an early stage.

General Fund Assumptions

6. Assumptions on which the four year Medium Term Plan are based are contained within the main budget report presented elsewhere on the agenda, however, some of the key assumptions include:
 - **Finance Settlement** – The provisional settlement figures for 2013/14 proved worse than expected with Formula Grant reductions compared to 2011/12 of 7.3% (£866k) with a provisional reduction in 2014/15 of £1.650 m. In addition grant is split into two constituent parts revenue support grant, which is guaranteed and Business Rate retention grant which is subject to variations in the amount of business rates collected. In addition certain specific grants have been rolled into each of the constituent elements, some therefore guaranteed and some not. These figures are broken down as follows :

Table 1: Government Grant comparison 2013/14 and 2014/15

	2013/14	2014/15
	£000's	£000's
Revenue Support Grant (RSG)	6,517	5,657
Specific grant in RSG	1,702	745
Total RSG	8,219	6,402
Business Rates Retention Grant	4,336	5,115
Specific Grants in BRR	1,133	521
Total Business Rates Retention Grant	5,469	5,636
Total Grant	13,688	12,038

- Certainty around subsequent years' figures will only be achieved following the Government's next Comprehensive Spending Review. However, the MTFP allows for further prudent reductions of 15% and 5% over the latter two years of the plan.
- **Council Tax Support Grant** – this grant relates to the reimbursement by the Government for the amount of council tax discount given by the Council to claimants claiming such support. It replaces previously paid council tax benefit subsidy and is broadly based on the city council element of the amount of council tax subsidy paid out in 2012/13 less a 10% reduction imposed by the Government. The figures for 2013/14 were £1.5 million as expected, from 2014/15 going forward, this grant has been consolidated into the main Formula Grant and there is therefore no longer transparency as to the amount the Council receives.
- **General Inflation** - other than contractual inflation e.g. Leisure contact and ICT maintenance contracts no general inflation has been allowed for in budgets, they are therefore cash limited
- **Pay Inflation** – Following successful negotiations with the trade unions a five year local settlement has been agreed based on 1.5% per annum. In addition incremental progression will be reintroduced from 1st October 2013 for employees on the bottom of the grade. subject to a satisfactory performance rating. This provides considerable certainty over pay costs in the medium term. In addition the council will continue with the partnership payment for all those staff not receiving an increment subject to a satisfactory performance appraisal and it will no longer be linked to efficiencies.
- **Council tax collection** rates have prudently been reduced from 98% to 97% as a reflection of the economic climate
- **Contingencies** - Contingencies have been allowed for staffing pressures and to cover potential shortfall in efficiency savings, additional income and service reductions based on 80% and 40% of the value of high risk and medium risk proposals respectively.
- **Revenue contributions to Capital** in the order of £1.5 million to £2 million per annum provide a 'buffer' against adverse variations in other aspects of the Plan, for example lower than anticipated income from the 'New Homes Bonus'.

Housing Revenue Account (HRA) Assumptions

7. The Scrutiny of the HRA budget and Business Plan has followed a similar process to that for the General Fund outlined above.
8. Prudent assumptions have been built into the HRA Business Plan to mitigate potential risk around increased rent arrears and increased numbers of houses sold through Right To Buy. The Business Plan has also been constructed in such a way that the Council does not need to utilise its borrowing headroom to deliver its investment aspirations, thereby providing additional flexibility.

9. Key assumptions included in the HRA budget include

- **Debt Profile** – Sufficient allowance has been built in to repay the £200 million debt over the next 50 years, with the initial payment of £20 million to be paid in 2020
- **Responsive Repairs and Maintenance** - Within the four year Medium Term Financial Strategy and the 30 year business plan we have projected efficiency savings to be realised from the Council's Responsive Repairs budget. Namely, after allowing for uplifts a 5% reduction will be implemented in 2013/14 with further annual reductions of 1.5% up to a ceiling of 15%.
- **Property Change Assumptions** -The HRA BP assumes a 10% reduction (around 78 dwellings per year for the next 10 years) in current stock levels due to the Government's re-Invigorating RTB initiative. Whilst actual completions have been low during 2012/13, interest has nonetheless been significant with over 100 tenants requesting RTB valuations since April 2012.
- **Inflation and pay assumptions** -The assumptions for pay Inflation are the same as for staff and expenses within the Council's General Fund
- **Rent Arrears** – The provision for bad debt has been increased to £500k per annum, to allow for changes in payment of benefits, the “bedroom tax”, and the general economic climate

Adequacy of Reserves and Balances

10. The Council has maintained a reasonable level of reserves as a result of its prudent financial management. A full schedule of reserves is attached at Appendix A with an explanation as to their intended use and the anticipated position as at 1st April 2013 after forecast commitments have been funded in 2012/2013.

11. In total the Council's reserves and balances are forecast to be in the region of £20 Million at 31st March 2013, split as follows:

Table 2 : Earmarked Reserves and working balances

Reserve Description	Balance 1/4/2012	Projected Balance 31-03-13
	£000's	£000's
General Fund		
Earmarked Reserves	12,433	6,723
Working Balance	5,243	3,621
Sub Total	17,676	10,344
Housing Revenue Account		
Earmarked Reserves	746	120
Working Balance	2,620	8,799
Sub Total	3,366	8,919
Total	21,042	19,263

12. It is, however, necessary to distinguish between those reserves that are earmarked for specific purposes and those general reserves which are available to support annual revenue budgets.

13. Clearly earmarked reserves are dictated to a certain extent by the fact that they are as they say 'earmarked' for specific purposes and are therefore not generally available for use. The level of Working Balances on the other hand is more subjective and is retained as a cushion against in year changes in income and expenditure or to cover unexpected eventualities. There are some heads of expenditure which are quite volatile such as investment interest, housing benefit, commercial rents, car parking income and future pensions liabilities. From 1st April 2013 there is the added complication of Business Rates Reform which for the first time brings with it uncertainty about the level of external grant income receivable from central government especially given the recent finance settlement which has seen Government grant be reduced by around £2.5 million over the next two years. There are also welfare reforms (leading to uncertainty about Housing Benefit Administration Grant, levels of staffing, and risks around increased homelessness) and changes to council tax support. Each of these could feasibly vary significantly (and are largely outside the Council's control).
14. It should be realised, of course, that the authority would be exceptionally unlucky to suffer adverse consequences from all major potential sources of adverse variation in the course of a financial year. However, it should be noted that a 10% reduction in car parking income represents around £800k and a similar percentage reduction in commercial rent income would represent around £600k reduced income. In addition the business rates safety net would only be triggered once losses of around £400k to £500k were suffered.
15. An analysis of 'Key Risks' is shown in the main Budget report elsewhere in the agenda and should be considered before making any decisions upon the use of reserves.
16. For a district council, where changes to a few areas can have a disproportionate impact, a higher percentage of reserves to net expenditure is desirable. Whilst a 5% cushion might be appropriate for larger all-purpose authorities, a 15% cushion against net expenditure is more appropriate for district councils.
17. **Earmarked reserves** include:
 - ring fenced accounts funded by third parties and which must be repaid if it is not use for the purpose specified, e.g. Salix Fund and much of the Grants Reserve
 - reserves which have a statutory limitation on their use; such as the Taxi Licensing Reserve and the HMO Licensing Reserve
 - accounts which it is considered prudent to set aside for a specific purpose such as the Insurance Fund
 - committed but unspent budgeted amounts carried forward at the end of the Financial year to fund/complete specific projects
18. **General Fund Working Balance** - This is forecast to be around £3,621k at 31st March 2013 representing 3.6% of gross general fund expenditure and . 14.50% of net expenditure. This is considered by the Section 151 Officer to be the prudent minimum level to be held by this authority and

over the Medium Term Financial Plan no further use of this reserve is forecast. In a recent Survey carried out by the Audit Commission in December 2012 it was found that unallocated reserves in those District Councils surveyed varied between 0% and 226% of net revenue spending with a median of 22%. The ratio of unallocated reserves to earmarked reserves was 27 : 73.

19. **Housing Revenue Account Working Balance**– This is forecast to be £8,799 at 31st March 2013. The prudent minimum level of working balance considered by the Section 151 Officer for this authority is estimated to be around £3.5 million, which represents around 8% of gross rental income. The balance of the working balance is to allow for the financing of future years capital programme and for sums to be set aside for the repayment of the debt taken on following self-financing. The first tranche of repayment of this debt totalling £20 million is due in 2020/21.

Changes to 2012/13 Budget Monitoring

20. The Finance Team have been developing its approach to budget monitoring to ensure the income and expenditure is as planned including:
 - Use of CORVU for up to date budget information
 - Regular meetings with cost centre managers and head of service
 - Regular monthly reporting to management and quarterly reporting to CEB and integrated reporting with risk and performance information.

Progress on the 2012/13 Budget

21. Current budget monitoring for the half year ending 30th September 2012 presented to CEB in December on the General Fund would indicate a forecast out-turn underspend against the budgeted position in the order of £745k (3.1%) largely arising from increased commercial rental income but offset by adverse variations in Customer Services and Facilities Management. On the Housing Revenue Account there is a forecast revenue out-turn underspend of around £755k (1.9%) largely arising from reduced interest rates achieved on the take on of debt in relation to Self-Financing.
22. Whilst the situation looks positive based on current budget monitoring with 6 months still to go this has not been factored into the end of year balance position. On the general fund in particular the strategy has been to use the majority of previous years' underspends to fund capital projects and this has been a factor in assisting in reducing the requirement for prudential borrowing to finance capital commitments, with a resultant future financial benefit to the revenue account.

Conclusion

23. The process for the formulation of budgets, together with the level of challenge, provides a reasonable assurance of their robustness.
24. The provision of an adequate level of earmarked reserves and working balances enables those more uncertain elements of the budget to be managed as part of the Council's risk management arrangements.
25. The approach which has been taken to those funding streams which

are currently uncertain is prudent and puts the Council in a positive position to manage underlying pressures going forward.

26. The level of the Council's total reserves is sufficient to provide:
- A working balance to cushion the impact of unexpected events or uneven cash flows and
 - The setting aside of funds to meet known or anticipated liabilities (earmarked reserves).

Financial Implications

27. These are adequately covered within the report

Legal Implications

28. These are adequately covered within the report

<p>Name and contact details of author:-</p> <p>Name: Nigel Kennedy Job title: Head of Finance Service Area / Department: Finance Tel: 01865 252708 e-mail: nkennedy@oxford.gov.uk</p>
--

APPENDIX A

STATEMENT OF RESERVES AND BALANCES

Reference	Reserve Description	Balance 1/4/2012 £000's	Projected Balance 31-03-13 £000's
General Fund Earmarked Reserves			
	Ring fenced accounts funded by third parties		
1	SALIX Energy Projects Reserve	271	271
2	Barton Reserve	206	0
	Reserves which have a statutory limitation		
3	Taxi Licence Reserve	211	200
4	Grants Reserve	2,485	873
5	HMO Licensing	380	380
	Prudent to set aside for specific purposes		
6	Town Hall Equipment Reserve	24	0
7	Work of Art Reserve	5	5
8	Shopmobility Reserve	50	50
9	Employee cost reserve	1212	1,000
10	Customer Services Server Replacement	30	0
11	Oxford Business Contributions Reserve	35	35
12	IT Infrastructure Reserve	100	0
13	Land Charges Reserve	50	50
14	Business Transformation Projects Reserve	1,169	500
15	City Council Elections Reserve	58	58
16	Customer Relationship Management Project Reserve	100	0
17	Capital Funding Reserve	2,228	459
18	Homelessness	266	916
19	Organisational Development Reserve	623	123
20	IT Projects reserve	68	0
21	Loan Guarantee Reserve	115	115
	Committed unspent budgeted amounts		
23	Committed Projects Reserve	1,060	0
22	Self Insurance Funds	1,687	1,687
Total General Fund Earmarked Reserves		12,433	6,723
General Fund Working Balance		5,243	3,621
Housing Revenue Account Earmarked Reserves			
1	Committed Projects Reserve	317	0
2	IT Projects Reserve	120	120
3	IT Equipment Reserve	309	0
Total HRA Earmarked Reserves		746	120
Housing Revenue Account Working Balance		2,620	8,799
Total Council Reserves and Balances		21,042	19,263

General Fund Earmarked Reserves

- 1 The Salix Energy Projects reserve created from a grant made available via Salix. The fund is used to loan money to Service Areas within Oxford City Council. Services then utilise these funds to implement energy efficient schemes. Savings on energy costs are then used to repay the initial loan.
- 2 Barton – The balance of a HCA grant to fund set up costs in relation to the joint venture with Grosvenor for the development of housing at Barton.
- 3 The Taxis A/C reserve was created to manage the ring fenced taxi licensing cost centre. Surplus / deficits associated with this cost centre are collected and the balance is used to improve and / or address pressures within the Taxi Licensing area.
- 4 A reserve established under accounting convention to accumulated all unspent balances of grants received in the year pending their spend on projects including Oxfordshire Sports Partnership, Homelessness, Community Safety and flood prevention.
- 5 HMO Licensing Reserve – Ringfenced licensing income in respect of HMO's to fund future service area expenditure.
- 6 The Town Hall Equipment reserve is used to fund new / replacement or repair of Town Hall equipment. The balance represents the net surplus of this cost centre year on year.
- 7 The Work of Art Reserve was created to aid the purchase or restoration of Council works of art.
- 8 The Shopmobility reserve was created to fund replacement or repair of Shopmobility equipment. Any under or overspend associated with the service is collected in this reserve account.
- 9 The Employee Cost reserve was created to cover any unexpected pressures related to employee costs e.g. compensation for loss of office.
- 10 The Customer Services Server Replacement reserve was created to fund a replacement server in Customer Services; this activity is expected to be delivered in 2012-13.
- 11 The Oxford Business Partnership reserve is used to fund contributions to Business Partnership Schemes within Oxford City.
- 12 The IT Infrastructure reserve is used to fund IT Infrastructure replacement across the Council.
- 13 The Reserve for Land Charges reserve collects the surplus / deficit associated with Land Charges. This is a ring fenced account; funds are used to improve the services/ address pressures associated with the Land Charges area.
- 14 The Business Transformation reserve is a transitory account. At the year end budgets associated with transformation projects not yet completed are transferred to this reserve. At the start of the following year projects are approved to continue and the funds allocated back to the projects.
- 15 The City Council Elections reserve is created from the budget surplus / deficit on the City Council Elections cost centre. City elections are held every 2 years and this reserve is used to fund additional costs in election year.
- 16 A reserve for development of the Customer Contact Centre.
- 17 Capital Funding Reserve – created to fund capital expenditure.
- 18 Homelessness – unspent budget and grant monies associated with homelessness.
- 19 Organisational Development Reserve – This fund was set up in 11/12 to fund the Council's Partnership Payment and support the Council's

organisational development aspirations, in particular the Corporate Plan objective of achieving IIP Gold.

- 20 IT Project Reserve – To fund future IT developments such as Windows 7 rollout.
- 21 Loan Guarantee Reserve – Created to fund potential shortfalls in recovery of loans to small organisations.
- 22 The Self Insurance Reserve is used to cover claim costs that are below the Council's insurance policy excess limit. The fund was subject to actuarial review in 2012/13 and will be adjusted in line with any recommendations flowing from it
- 23 Committed projects is a reserve relating to the carry forward unspent budgeted amounts from previous years for committed projects

Housing Revenue Account Earmarked Reserves

- 1 The Committed projects reserve is for funding uncompleted projects at the end of the financial year
- 2 The IT Projects Reserve is to fund the HRA element of IT development projects
- 3 The IT equipment reserve is to fund future IT equipment purchased used specifically for HRA activity e.g Housing Rents and Servitor job costing