

To: Council

Date: 19th February 2014

Item No:

Report of: Head of Finance

Title of Report: Report of the Council's Chief Finance Officer on the robustness of the 2014/15 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 2014/15 and the indicative budgets for 2015/16 – 2017/18.

Robustness of the Budget.

Economic Outlook

1. Despite an increase in GDP of 0.8% between July and September 2013 the economy remains fragile. The Chancellor has insisted he will hold firm with his deficit reduction policies and gave only a limited number of tax giveaways in his Autumn Statement on December 4.
2. The independent Office for Budget Responsibility forecasts this year's deficit remaining broadly in line with the last financial year at £120 billion.
3. In a recent announcement the Chancellor advised a further £25 billion will be required from Departmental Budgets after the next General Election. In addition he advised that the job was 'not even half done' and more austerity lay ahead.

- 4 The stronger than expected rebound in growth and the notable decline in the unemployment rate has forced some backtracking on the Monetary Policy Committee's Forward Guidance. The accomplishment of the 7% unemployment target will not trigger an automatic hike in official interest rates, but will prompt a more focused discussion of options going forward. This trigger however; is still thought to be at least two years off and as a result interest rates are unlikely to rise until 2016/17.

Preparation of the Medium Term Financial Plan

5. The Council has undertaken a prudent and robust approach in developing its Medium Term Financial Strategy, as in previous years. This has reaped rewards in terms of the delivery of significant levels of savings and provides a firm foundation on which to build.
- 6 The efficiency savings, additional income streams and service reductions have, as in previous years been subject to rigorous review, with Service Heads being required to review the plans they put forward in previous years and confirm delivery of the proposals. Any changes to previous proposals put forward have where possible been mitigated and the plan updated accordingly.
- 7 This year rather than ask Heads of Service to identify further incremental efficiencies a number of key corporate savings projects have been identified which it is anticipated will deliver larger financial savings going forward. In outline these include :

- **Review of Administrative Support - £350k per annum from 2015/16**

Proposed rationalisation of administrative support across the Council, encouraging generic working, standardisation and automation of systems and procedures thereby reducing duplication of effort and increasing resilience.

- **Off street Car Parking - £730k per annum**

The development at Westgate will see the demolition of the Westgate Multi Storey car park and the temporary loss of adjacent car parking spaces whilst demand arising from the Westgate and other developments is likely to rise. One response is to investigate increasing capacity at Seacourt Park and Ride. In addition the Council is looking at a means of increasing capacity across the city in the short term.

Review of Investments - £250k - £300k per annum

The Council's investment of surplus cash is largely in fixed term deposits with secure counterparties earning an average interest rate of around 0.8%. These returns are unlikely to increase in the next 2-3 years. The Council also has £3million invested in non-specified property funds with a current return of around 6%. These investments are dependent on the performance of individual properties, the value of which can go up as well as down. Hence they are

inherently more risky. However, officers are currently examining the potential to invest a further sum in property funds to achieve higher overall returns but establishing sufficient provisions to protect the Council from adverse variations in value.

- **Renegotiation of Leisure Centre Contract**

The Council is exploring its option to extend its current Leisure facilities contract for a further 5 years beyond 2019

- 8 The General Fund Medium Term Plan continues to include 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
- 9 Scrutiny of the budget has been undertaken by
 - The Finance Team
 - Directors and Chief Executive
 - Executive Members
 - The Scrutiny Committee's Finance Panel
- 10 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

- 11 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:
 - **Council Tax increase-** The level of council tax increase has been set at 1.99% which is below the referendum level.
 - **Finance Settlement** – The settlement figures for 2014/15 and 2015/16 are broadly in line with the indicative figures announced by the Government in December 2013 with decreases in revenue support grant of £927k in 2014/15 and £1.877 million in 2015/16 compared to 2014/15. **Specific grants** for preventing homelessness continue at around the same level for these years. Council Tax Freeze Grant for 2011/12 has been included in the Formula Grant base funding level as has the grant for 2013/14 (which the Council did not accept) Base line figures and tariffs are also included in the settlement although the amount of **Retained Business Rates** retained by the authority are subject to the amount of business rates income estimated by the authority. From December 2014. Figures included in the Medium Term Plan are shown below :

- **New Homes Bonus** – New Homes Bonus is paid to a local authority each year for 6 years. It is based on the amount of council tax revenue raised for new build homes conversions and long term empty homes brought back into use. There is also an extra payment for providing affordable homes. Oxford City is forecast to be paid a bonus of £2 - £3 million per annum over the next four years.
- **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 was 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 held at 97% as a reflection of the continuing difficult economic climate.
- **Contingencies** - Contingencies have been allowed for the potential shortfall in efficiency savings, additional income and service reductions based on 40% of the value of high risk and medium risk proposals respectively together with an allowance of £299k in respect of organisational changes
- **Revenue contributions to Capital** in the order of £3 million to £4 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

- 12 The Scrutiny of the HRA budget and Business Plan has followed a similar process to that for the General Fund outlined above.
- 13 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.

14 Key assumptions included in the HRA budget include

- **Rent Setting** – Rents continue to be increased in line with formula rent for 2014/15 at RPI + £2 plus 1% a rate of 5.42%. Going forward the increase has been changed to CPI + 1% in line with recent Government Guidance. Whilst the Council is not required to follow this guidance it is prudent to set future rent increases at this level in the advent of the Government mandating on this level.
- **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 implemented in 2013/14 is followed by further annual reductions of 1.5% up to a ceiling of 15%.
- **Property Change Assumptions** -The HRA BP assumes a reduction of around 40 dwellings per year up until 2020/21.
- **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
 - **Right to Buy assumptions** – the HRA capital programme includes an assumption of 40 dwelling receipts per annum with an estimated usable capital receipt of around £6.5 million over the four year programme.

Capital

- 15 The Council has set an ambitious Capital Programme for the next four years in excess of £142 million. Major projects within the program include
- Construction of New Competition Size swimming pool at Blackbird Leys -£6 million
 - Introduction of broadband within the city - £5 million
 - Purchase of dwellings for housing homeless families -£10 million
 - Motor vehicle replacement - £6 million
 - Temporary car parking at Oxpens -£3.3 million
 - Housing refurbishment and new build - £81 million
- 16 The preparation of the on-going Programme has undergone similar scrutiny to the other areas of the Council's budget with the Capital Asset

Management Group also having an oversight of all new bids. Monitoring of delivery through the year will be undertaken by this group. Contingencies are included within individual schemes for variations in spend with any other variations outside these amounts being subject to the normal virement and supplementary estimate approvals set out in the Council's Financial Rules.

- 17 Financing of schemes within the Programme is predominantly through revenue and capital receipts although the latter will be exhausted over the four year period. There is limited reliance on prudential borrowing for funding the Programme with the exception of the purchase of replacement vehicles (@£2.5million per annum). The revenue effects of funding the Capital Programme have been taken account of in the HRA and General Fund estimates.

Adequacy of Reserves and Balances

- 18 The minimum prudent level of reserves that the Council should maintain is a matter of judgement and cannot be judged merely against the current risks facing the council as these can and will change over time
- 19 The consequence of not keeping a prudent minimum level of reserves can be serious and in the event of a serious problem, or a series of events; the Council could run the risk of a deficit or, of being forced to cut expenditure during in a damaging or arbitrary way.
- 20 CIPFA (Chartered Institute of Public and Finance and Accountancy) have stated that there should be no imposed limit on the level or nature of balances required to be held by an individual Council. However for a district council, where changes to a few areas can have a disproportionate impact, a higher percentage level of reserves to net expenditure is desirable.
- 21 The Council has maintained a reasonable level of reserves and working balances as a result of its prudent financial management. Working balances for both HRA and General Fund are in the region of £3.5 million to £3.6 million are unallocated and are to be used to cover unexpected adverse variations in the Councils financial position. Earmarked reserves on the other hand are generally earmarked or held for specific purposes. A full schedule of reserves and balances is attached at Appendix A with an explanation as to their intended use and the anticipated position as at 1st April 2014 after forecast commitments have been funded in 2013/2014.
- 22 As part of the budget setting process this year a review of earmarked reserves was undertaken to ensure those no longer required were released to support the budget. Around £3 million, including a capital funding reserve of £1.7 million has been used to assist in funding the Councils capital programme.
- 23 In total the Council's reserves and balances are forecast to be in the region of £25.824 million at 31st March 2014 as shown in the Table 1 below. These include two reserves which will be spent in year in relation to Westgate temporary car parking £3.3 million and a property purchase of £7 million. The

Council had intended to use the £7million to purchase property to provide an ongoing revenue stream to the General Fund, having transferred the monies from HRA in September 2013. However, there is a risk of external factors impacting in this transfer and until such time as this risk is reduced or eliminated the money will remain in a reserve.

Table 1 : Earmarked Reserves and Working Balances

Reserve Description	Balance 1/4/2013	Projected Balance 31-03-14	Projected Balance 31-03-15
	£000's	£000's	
General Fund			
Earmarked Reserves	15,376	16,151	4,479
Working Balance	3,622	3,622	3,622
Sub Total	18,998	19,773	8,101
Housing Revenue Account			
Earmarked Reserves	1,499	946	797
Working Balance	3,698	3,504	3,534
Sub Total	5,197	4,450	4,331
Insurance Funds	1,674	1,601	1,687
Total	25,869	25,824	14,119

- 24 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.
- 25 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.
- 26 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. 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).

- 27 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.
- 28 An analysis of 'Key Risks' is shown in the main Budget report elsewhere on the agenda and should be considered before making any decisions upon the use of reserves.
- 29 **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
- 30 **General Fund Working Balance** - This is forecast to be around £3,621k at 31st March 2014 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 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.
- 31 **Housing Revenue Account Working Balance**– This is forecast to be £3. 5 million at 31st March 2014 the prudent minimum level of working balance considered by the Section 151 Officer for this authority representing around 8% of gross rental income.
- Progress on the 2013/14 Budget**
- 32 Current budget monitoring for the half year ending 30th September 2013

presented to the City Executive Board in December on the General Fund indicated a forecast underspend of £3.081 million (13.5%) largely arising from increased commercial rental income, operational savings in Direct Services and cash and non-dwelling asset transfers from the HRA to the General Fund. On the Housing Revenue Account there is a forecast revenue out-turn overspend of around £421k against largely arising from an overoptimistic level of service charge income of £100k and increase interest paid on internal borrowing. Whilst the situation looks positive based on current budget monitoring 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 factored into the Medium Term Financial Plan assisting in reducing the requirement for prudential borrowing to finance capital commitments, with a resultant future financial benefit to the revenue account.

Conclusion

34 I have reviewed the budget preparation process for 2014-15 to 2017/18 and the adequacy of reserves and balances and would conclude the following :

- The process for the formulation of General Fund HRA and Capital budgets, together with the level of challenge, provides a reasonable assurance of their robustness.
- 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.
- The level of contingencies provided for unachieved efficiency savings and income projections etc. is prudent
- 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

37 These are covered within the report

Legal Implications

38 These are covered within the report

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APPENDIX A

STATEMENT OF RESERVES AND BALANCES

Ref	Reserve Description	Balance	Projected	Projected
		31/03/2013	Balance	Balance
		£000's	£000's	£000's
General Fund Earmarked Reserves				
Ring fenced accounts funded by third parties				
1	SALIX Energy Projects Reserve	318	308	308
2	Barton Reserve	137	-	-
3	Oxford Strategic Partnership reserve	50	50	50
4	Oxfordshire Total Refit project	213	17	-
5	IESE Grant reserve	10	-	-
29	Procurement Hub Reserve	33	33	33
Reserves which have a statutory limitation				
6	Taxi Licence Reserve	198	198	198
7	Grants Reserve	902	260	260
8	HMO Licensing	347	247	247
9	Reserve for Land Charges	42	42	41
10	General licensing reserve	43	43	43
Prudent to set aside for specific purposes				
12	Town Hall Equipment Reserve	24	-	-
13	Work Of Art Reserve	5	5	5
14	Shopmobility Reserve	64	64	30
15	Severance and HT Reserve	1,670	976	700
16	IT Infrastructure Reserve	100	-	-
17	Repairs & Maintenance Reserve	179	-	-
18	Leisure Repairs & Maintenance	280	280	-
19	Business Transformation Projects	886	306	100
20	City Council Elections Reserve	9	9	9
21	Chief Executive's Fund	3	3	3
23	Capital Funding Reserve	1,719	-	-

24	Property reserve	-	7,000	-
25	Agresso Improvement Reserve	116	34	-
26	Car Parks maint/replace lamp columns	22	3	-
28	MS Office Reserve	20	-	-
30	Ward Members Budget Reserve	45	10	10
31	Homelessness Reserve	1,336	836	400
32	Loan Guarantee Reserve	115	115	115
33	Lord Mayors Deposit	59	59	59
34	Home Choice fund for single persons	36	36	36
35	Rose Hill Demolition	339	-	-
36	Partnership funding	509	509	509
38	Town Team Partners	10	10	10
39	Assets of Community Value	13	13	13
40	Unlawful Dwellings Reserve	150	150	50
41	Westgate Redevelopment Reserve	3,279	3,279	-
42	Emergency Flood Reserve	150	150	150
43	Park and Ride - County Contribution to Maintenance	-	115	-
44	Organisational Development Reserve	723	500	800
Committed unspent budgeted amounts				
45	Committed Projects Reserve	1,222	491	300
Self-Insurance Funds				
46	Self-Insurance Funds	1,674	1,601	1,687
Total General Fund Earmarked Reserves		17,050	17,752	6,166
General Fund Working Balance		3,622	3,622	3,622

Housing Revenue Account Earmarked Reserves				
1	Committed Projects Reserve	816	267	430
2	IT Projects Reserve	248	248	100
3	IT Equipment Reserve	435	431	267
Total HRA Earmarked Reserves		1,499	946	797

Housing Revenue Account Working Balance	3,698	3,504	3,534
Total Council Reserves and Balances	25,869	25,824	14,119

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 Oxford Strategic Partnership – balance of LAA / Breaking cycle of deprivation funding received in 2012/13
- 4 Oxfordshire Total refit partnership – monies received from Europe to provide investment in renewables in partnership with the County Council and Low Carbon Hub
- 5 IESE Grant Reserve – remaining balance of grant allocation from the Improvement and Efficiency Social Enterprise for Oxfordshire Procurement Hub has been spent in 2013/14.
- 6 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.
- 7 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.
- 8 HMO Licensing Reserve – Ringfenced licensing income in respect of HMO's to fund future service area expenditure.
- 9 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.
- 10 General Licensing reserve – net surplus on the administration of licences
- 12 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.
- 13 The Work of Art Reserve was created to aid the purchase or restoration of Council works of art.
- 14 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.
- 15 Severance reserve was created to cover any unexpected pressures related to employee costs e.g compensation for loss of office.
- 16 The IT Infrastructure reserve is used to fund IT Infrastructure replacement across the Council.
- 17 Repairs and maintenance – established from residual revenue balances to

- supplement the capital and revenue programme for repairs and refurb of council buildings
- 18 Leisure repairs and maintenance – established to fund repairs and refurb of leisure centres.
 - 19 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.
 - 20 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.
 - 21 Chief Executives Fund – used for initiatives put forward by Chief Exec
 - 23 Capital Funding Reserve – created to fund capital expenditure.
 - 24 Property reserve – created to purchase an investment property as an invest to save initiative
 - 25 Agresso Improvement Reserve – used to fund the implementation of modules on the Financial Management system
 - 26 Car park maintenance
 - 28 MS Office reserve – to fund the implementation of MS office across the council
 - 30 Ward members reserve – established to carry forward unspent balances of monies allocated to ward members
 - 31 Homelessness – unspent budget and grant monies associated with homelessness.
 - 32 Loan Guarantee Reserve – Created to fund potential shortfalls in recovery of loans to small organisations.
 - 33 Lord Mayors Deposit - scheme to help people on a low income afford to move into private rented accommodation by issuing a Deposit Guarantee Bond to landlords.
 - 34 Homes Choice funds – needed as top-up for bonds/deposits re Private Sector properties.
 - 35 Rose Hill Demolition – established from previous years balances to fund the demolition of Rose Hill community centre
 - 36 Community and Neighbourhood Reserve-includes ring-fenced project funding for Connecting Communities, Community Actions Groups and Wood Farm Community Centre.
 - 38 Town Team Partners- grant to improve the High Street working with Local Businesses. Additional financial support for the City Council will be required to work up a scheme.
 - 39 Assets of Community Value-DCLG new burdens grant for setting up a register of Assets of community value.
 - 40 Unlawful dwellings reserve – established to cover revenue running expenses of enforcement against unlawful dwellings i.e beds in sheds
 - 41 Westgate redevelopment reserve – established to fund the provision of temporary car parking following the demolition of Westgate multi story car park in relation to the redevelopment of the Westgate
 - 42 Emergency flood reserve – established to cover the costs of flooding in the city
 - 43 Park and Ride maintenance – monies in respect of maintenance of park and ride car parks
 - 44 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.

- 45 Committed projects is a reserve relating to the carry forward unspent budgeted amounts from previous years for committed projects
- 46 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

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

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