

Report of: Head of Financial Services

To: Council

Date: 17 February 2016

Title of Report: Report of the Council's Chief Finance Officer on the robustness of the 2016/17 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 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 2016/17 and the indicative budgets for 2017/18 – 2019/20.

Appendix A : Statement of Reserves and Balances

Robustness of the Budget.

Economic Outlook

- 1 On the 25th November 2015 the Chancellor delivered his Autumn Statement. The Office for Budget Responsibility forecast that public finances are set to be £27 bn better off than forecast by 2020 due to increased tax receipts. These resources allow spending to rise and Government borrowing to be £8 billion less than forecast as the Government aims for its £10.1 bn surplus by 2020.
- 2 The Final Finance Settlement for 2016/17 published on 8th February included the following key changes :

- Additional funding in the form of transitional grant, which the LGA lobbied for, of £150 million in both 16/17 and 17/18 for the councils most adversely affected by the change in revenue support grant.
 - the removal of additional tariff / top-up adjustment (negative RSG) in the first two years of the settlement period. The Government has made available £2.3 million in 17/18 and £22.8million in 18/19 to remove this adjustment.
- 3 In total, the changes gave rise to an additional £146k of resources in the Council's budget over the next four years with Revenue Support Grant reducing to zero from 1st April 2019.
 - 4 Even with the additional resources the fact is that the Council's Settlement Funding Assessment (SFA) has reduced from £8.5 million to £6.2 million over the next four years. Through prudent financial management and significant efficiency savings the Council's financial position over this period is manageable.
 - 5 There are still a number of uncertainties on which clarification is awaited from the Government around Housing, Business Rates and New Homes Bonus but given the robust scrutiny of the Council's budget setting process and the mitigations in place, including the prudent levels of reserves and balances the Council is well placed to overcome any potential financial difficulties.

Preparation of the Medium Term Financial Plan

6. The Council has undertaken a prudent and robust approach in developing its Medium Term Financial Plan, 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.
- 7 The efficiency savings, additional income streams and service reductions have 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 been reflected in the updated plan.
- 8 The Strategy of identifying and securing significant cross cutting savings has continued albeit that these get more challenging to identify year on year. They include:
 - **Review of Office Accommodation - £200k per annum from 2017/18**
A review of admin buildings at St Aldates Chambers, Horspath Depot, Cowley Marsh depot and the Town Hall to for Identification of the potential to reduce occupation to generate income.
 - **ICT Efficiencies - £220k per annum**
Applications portfolio and telephony review and scanning contract review
 - **Staff Restructuring - £200k per annum**
Proposals to streamline management team through restructuring proposals
- 9 The General Fund Medium Term Financial Plan continues to include an increased reliance on income arising from external work undertaken by the Council's Direct Services workforce with the contribution to overheads now totalling around £1.4 million per annum. 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

- 10 Scrutiny of the budget has been undertaken by
 - The Finance Team
 - Directors and Chief Executive
 - Executive Members
 - The Scrutiny Committee's Finance Panel
- 11 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. Monthly monitoring reports are considered by the Council's Corporate Management Team and quarterly reports are tabled at City Executive Board.

General Fund Assumptions

- 12 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 assumed Council Tax increase is 1.99% which is below the referendum level for 2016/17 and then 1.75% thereafter in line with the Government's assumptions.
 - **Finance Settlement** – The settlement figures are in line with the Government's announcement in February 2016. This year the Government has invited local authorities to opt into a four year funding settlement subject to authorities issuing an Efficiency Plan. The decision to opt into this settlement has been delegated to Section 151 Officer in consultation with the Board Member for Finance, Asset Management and Public Health Oxford City Council and the figures have been included in Council's Medium Term Financial Plan. Revenue Support Grant reduces to zero on 1st April 2019.
 - **Retained Business Rates** – The Medium Term Plan includes estimates of the amount of Retained Business rates income for the authority, based on the Government's indication of tariffs over the next four years.
 - **New Homes Bonus** – The Medium Term Financial Plan includes indicative payments for the next four years in a change to previous assumptions which assumed that NHB would cease in 2018/19. Indicative NHB payments for 2018/19 and 2019/20 totalling around £3.7 million have been used to Finance capital spend.
 - **Inflation** – With the exception of contractual inflation e.g. Leisure contact and ICT maintenance contracts and pay budgets (1.5%) all other budgets are cash limited
 - **Contingencies and Provisions** - Contingencies have been allowed for potential shortfalls in efficiency savings, additional income and planned service reductions based on 40% of the value of high and medium risk proposals. No other contingencies are allowed for.
 - **Revenue contributions to Capital** – Revenue contributions to fund the

capital programme have been included in four year MTFP in the order of £2.4 million, £4.6million, £3.8 million and £3.6 million respectively.

Housing Revenue Account (HRA) Assumptions

- 13 The Scrutiny of the HRA budget and Business Plan has followed a similar process to that for the General Fund outlined above.
- 14 Prudent assumptions have been built into the HRA Business Plan although there are still a number of areas of uncertainty on which the Council are awaiting clarification from the Government including :
 - **High Value Council Housing (HVCH)** – The Chancellor's summer budget suggested local authority landlords will be forced to sell their highest value dwellings once they became void. The receipts generated, after allowing for some deductible expenditure and an estimate for associated debt would have to be handed back to the Government to compensate Housing Associations for the discounts associated with extending RTB to their tenants who hold assured tenancies. Latest indications are that HVCH payments to Government will now be based on a formula. The Council has created a contingency to fund this payment of £20 million over the next four years.
 - **Council Housing rent setting** - The Welfare Reform and Work Bill indicates that from April 2016 social housing rents must be reduced by 1% per year for 4 years from their 8 July 2015 position. This requirement has the effect of reducing the dwelling rent income assumed in the HRA Business Plan by £31m over the next 4 years. The Bill will receive its 3rd and final reading on 8th February after which, subject to any amendments it will receive Royal Assent. Within the final Bill there will be an amendment to allow the rent in respect of sheltered housing to be raised by up to CPI + 1%, a rise of 0.9%, which the Council is recommended to implement. There is no indication from the Government as to what rent increases will be allowed after the initial four years.
- 15 Other key assumptions in the HRA budget include:
 - **Debt Management Strategy**

The first £20m self- financing loan is due for repayment on 31 March 2021. Last year it was agreed that this payment would be deferred which would generate an initial saving of £20m offset by the additional annual interest cost of approximately £0.658m
 - **Responsive Repairs and Maintenance**

Within the four- year Medium Term Financial Strategy and the HRA Business Plan efficiency savings are assumed in the Council's Responsive Repairs budget. Allowing for uplifts a 5% reduction was implemented in 2013/14 with further annual reductions of 1.5% being applied up to a ceiling of 15%.
 - **Right To Buy**

Disposals of around 40 dwellings per year until 2021/22 are assumed due to the Government's re-invigorating Right to Buy initiative. An additional 5 properties per year from 2017/18 have been added reflecting the increased likelihood of council tenants who have to pay a market rent for their properties (under "pay to stay") instead choosing to exercise the right to buy.

- **Inflation and pay assumptions**

All the assumptions for pay inflation are the same as for the Council's General Fund.

- **Service Charges**

Service Charges for caretaking, cleaning, CCTV, communal areas etc. have been increased in line with the convergence formula in previous years. The Council agreed to remove any associated service charge limiter (credits) over a 4 year period limited to a maximum of £1/wk. It is estimated that this will deliver £50k of additional income by 2017/18 at which time the limiter will have been removed from all associated accounts.

Capital

- 16 The Council has set an ambitious Capital Programme for the next four years in excess of £132 million.
- 17 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.
- 18 Financing of schemes within the Programme is predominantly through revenue, borrowing and capital receipts.

Adequacy of Reserves and Balances

- 19 The 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.
- 20 The consequence of not keeping a prudent level of reserves can be significant. In the event of a serious problem, or a series of events; the Council could run the risk of a deficit and or be forced to cut expenditure in a damaging or arbitrary way.
- 21 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.
- 22 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 £3.6 million. They are unallocated and held specifically to cover unexpected adverse variations in the Council's financial position. Whilst the authority would be exceptionally unlucky to suffer adverse consequences from all major potential sources of risk in the course of a financial year by way of example 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. Similarly there are financial risks around increased costs of homelessness and loss of investment income and reduced external trading income.

- 23 In total the Council's reserves and balances are forecast to be in the region of £26,208 million at 31st March 2016 as shown in the Table 1 below. This is forecast to reduce significantly from the balance of £39.729 million at the beginning of the financial year as it is expected that the property fund £7.4 million, Westgate reserve £3.2 million and around £3.8 million of the capital reserve will have been spent in the financial year. 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 2016 after forecast commitments have been funded in 2015/2016. A summary is shown below:

Table 1: Earmarked Reserves and Working Balances

Reserve Description	Balance 1/4/2015	Projected Balance 31- 03-16	Projected Balance 31- 03-17
	£000's	£000's	£000's
General Fund			
Earmarked Reserves	30,353	15,714	13,173
Working Balance	3,622	3,622	3,622
Sub Total	33,975	19,336	16,795
Housing Revenue Account			
Earmarked Reserves	458	0	0
Working Balance	4,000	4,000	4,000
Sub Total	4,458	4,000	4,000
Insurance Funds	1,296	1,400	1,500
Total	39,729	24,736	22,295

- 24 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

25 **General Fund Working Balance** - This is forecast to be around £3.622 million at 31st March 2016 representing 1.96% of gross general fund expenditure and 28.69% 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

26 **Housing Revenue Account Working Balance**– This is forecast to be £3.6 million at 31st March 2016 the prudent minimum level of working balance considered by the Section 151 Officer for this authority representing around 8% of gross rental income and 10% of gross expenditure.

Progress on the 2015/16 Budget

27 Budget monitoring for the half year ending 30th September 2015 presented to the City Executive Board in December on the General Fund indicated a forecast overspend of £0.136 million (1.08% of net expenditure) due to interest on investments not achieving as expected due to the base rate now increasing in line with expectations. However recent monitoring has indicated an improvement in this position with latest figures indicating an underspend in the order £400k. The Housing Revenue Account is expecting to be in line with original budget.

28 At year end an assessment will be made on the council's overall financial position and recommendations made to City Executive Board on the most appropriate use of any underspends.

Conclusion

29 I have reviewed the budget preparation process for 2016-17 to 2019/20 and the level of reserves and balances. The Council still faces significant financial uncertainty; with a number of areas of clarification required from the Government. On Housing, the rules around future rent rises after the first four years are uncertain and could have a material effect on the Council's HRA Business Plan going forward. The amount of levy required to pay for the High Value Council Housing Initiative is unknown and the Council has set aside an amount of £20million in a contingency as mitigation. On the General Fund, although the Government has given authorities an indication of Revenue Support Grant over the next four years this may be subject to change, New Homes Bonus is subject to consultation on reducing the amount of grant, which is not scheduled to finish until 12th March 2016 and therefore indicative figures given for later years will change. Additionally, we are aware that there will be changes to the methodology for the allocation of Business Rates Income for 2020 which will bring with it new burdens, all of which has yet to be clarified.

30 Despite the issues highlighted above the Council has undertaken a rigorous process in its budget setting for the Medium Term and more specifically I would conclude that:

- 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. Almost half of the earmarked reserves relate to the funding of the Council's £56 million General Fund Capital Programme over the next four years.
- 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

- 31 Pending their use, earmarked reserves and balances provide a useful source of revenue investment income for the authority estimated at £1 million for 2015/16 as well as being available for 'internally borrowing', thereby mitigating the costs of external borrowing.

Legal Implications

- 32 These are covered within the report

Risk Implications

- 33 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.

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APPENDIX A

STATEMENT OF RESERVES AND BALANCES

Ref	Reserve Description	Balance	Projected Balance	Projected Balance
		31/03/2015	31-03-16	31-03-17
		£000's	£000's	£000's
General Fund Earmarked Reserves				
	Ring fenced accounts funded by third parties			
1	SALIX Energy Projects Reserve	251	200	200
2	Barton Reserve	71	-	-
3	Oxford Strategic Partnership reserve	39	30	30
49	Bob MK	6	6	-
	Reserves which have a statutory limitation			
6	Taxi Licence Reserve	160	100	100
7	Grants Reserve	1,061	500	500
8	HMO Licensing	9	10	10
9	Reserve for Land Charges	41	41	41
10	General Licensing Reserve	66	50	50
	Prudent to set aside for specific purposes			
12	Town Hall Equipment Reserve	20	20	-
13	Work Of Art Reserve	5	5	-
14	Shopmobility Reserve	14	14	14
15	Severance Reserve	1,258	1,500	1,500
16	IT Infrastructure Reserve	100	600	200
17	Repairs & Maintenance Reserve	179	0	-
18	Leisure Repairs & Maintenance	280	0	-
19	Business Transformation Projects	685	300	300
20	City Council Elections Reserve	10	60	60
21	Chief Executive's Fund	3	3	-
23	Capital Funding Reserve	14,690	8,115	6,853
25	Agresso Improvement Reserve	284	84	-
30	Ward Members Budget Reserve	65	-	-
31	Homelessness Reserve	1,000	800	800
32	Loan Guarantee Reserve	115	-	-
33	Lord Mayors Deposit Scheme	56	56	56
34	Home Choice Fund for single persons	31	31	-

36	Community Partnership Fund	360	200	200
37	Community and Neighbourhoods Reserve	163	150	150
38	Town Team Partners	10	10	-
40	Unlawful Dwellings Reserve	7	7	-
41	Westgate Redevelopment Reserve	737	-	-
42	Emergency Flood Reserve	357	357	357
43	Park and Ride - County Contribution to Maintenance	117	117	-
44	Organisational Development Reserve	433	0	0
48	Severe Weather Recovery Scheme	35	35	-
50	NNDR Retention Reserve	3,328	1,328	1,000
4	Economic Development Reserve	131	150	150
11	Cuttleslow Road Maintenance	2	2	2
22	Indirect Property Fund	401	500	600
24	Feed In Tariff Management Fee	2	-	-
26	Museum Development Reserve	3	3	-
27	Disabled Community Transport	50	-	-
28	Jobs Club	42	30	-
29	Oxfutures Reserve	300	300	-
35	Dry Recyclate Reserve	1,400	-	-
Committed unspent budgeted amounts				
45	Committed Projects Reserve	1,976	300	0
Self-Insurance Funds				
46	Self-Insurance Funds	1,296	1,400	1,500
Total General Fund Earmarked Reserves		31,649	17,114	14,673

General Fund Working Balance	3,622	3,622	3,622
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Housing Revenue Account Earmarked Reserves				
1	Committed Projects Reserve	205	-	-
2	IT Projects Reserve	129	-	-
3	IT Equipment Reserve	124	-	-
Total HRA Earmarked Reserves		458	-	-

Housing Revenue Account Working Balance	4,000	4,000	4,000
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Total Council Reserves and Balances	39,729	24,736	22,295
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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 Housing Communities Agency 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 Local Area Agreement / Breaking cycle of deprivation funding received in 2012/13
- 4 Economic Development Reserve – remaining balance of unspent budgets relating to City Deal
- 5 Improvement Efficiency Social Enterprise 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 Houses in Multiple Occupation 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
- 11 Cutteslowe Road Maintenance – funding for future maintenance required in Cutteslowe Road
- 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 refurbishment 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
- 22 Indirect Property Fund – To fund any shortfall in the value of indirect property funds
- 23 Capital Funding Reserve – created to fund capital expenditure.
- 24 Feed in tariff management fee – 15% Management Fee to reflect Environmental Development's work related to obtaining Feed in Tariff for the photovoltaics on Council assets.
- 25 Agresso Improvement Reserve – used to fund the implementation of modules on the Financial Management system
- 26 Museum Development Reserve – Funding to support the future development of the museum
- 27 Disabled Community Transport – to fund community transport for elderly persons
- 28 Jobs Club – funding to support the ongoing jobs club initiative
- 29 Oxfutures Reserve – to cover potential liabilities around the Oxfutures EU Grant
- 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 Dry Recyclate Reserve – Reserve to cover the cost of funding a waste transfer station included within the Councils Capital Programme
- 36 Communities Partnership Fund – Used in connection with community safety schemes
- 37 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.
- 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
- 48 Severe Weather Recovery Scheme – Grant to be used in connection with costs

- incurred by the council arising from flooding
- 49 BOB MK – Oxford City Council hosts a Planning Forum funded by subscriptions received from Local Authorities in Berkshire, Oxfordshire, Buckinghamshire and Milton Keynes. The budget is ring-fenced and any surpluses in year need to be carried forward to future years.
- 50 NNDR Retention Reserve - Reserve created to cushion the effect on the of Business Rates appeals on the councils Retained Business Rates income

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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