

To: Council

Date: 18th February 2015

Report of: Head of Finance

Title of Report: Report of the Council's Chief Finance Officer on the robustness of the 2015/16 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 2015/16 and the indicative budgets for 2016/17 – 2018/19

Appendix A : Statement of Reserves and Balances Robustness of the Budget.

Economic Outlook

- 1 The Chancellor delivered his Autumn Statement on 3rd December and the National picture still appears difficult. The deficit-reduction target has been missed according to the latest figures from the Office for Budget Responsibility (OBR). Borrowing is set to fall, but only after rising by @ £5 bn more in the first seven months of the fiscal year than was projected in March 2014, hence the deficit will fall to £91.3 bn from £97.5 bn last year.
- 2 When the Chancellor presented his emergency budget in June 2010, borrowing this year was expected to be £37 bn. Whilst the deficit has been coming down the Chancellor has fallen far behind his original plans.
- 3 With tax receipts forecast to be £23bn lower by 2017-18 than previously thought the Chancellor's latest forecast that Britain will be back in surplus by 2018-19 will only be delivered through 'very substantial savings in public spending' with future cuts in local government funding estimated by the LGA to be as much as 40%.

- 4 Recent briefings to officers have indicated that government grant (“Revenue Support Grant”) will disappear by 2018-19 and could ‘go negative’ as the Government seeks to redistribute resources across the country. As a result; revisions have been made in the Council’s Medium Term Financial Plan to reflect these latest indications.

Preparation of the Medium Term Financial Plan

5. 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.
- 6 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.
- 7 The Strategy of identifying and securing significant cross cutting savings has continued albeit that these get more challenging to identify year on year. Heads of Service were also requested to identify base budget savings from a line by line review of their service budgets plus savings equivalent to 5% of their budget. The cross cutting savings 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
- 8 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. 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. Going forward enhanced financial training and new software is planned to assist managers to take more ownership for the preparation of budget forecasts in a 'self-service' manner.

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 assumed Council tax increase is 1.99% which is below the referendum level.
 - **Finance Settlement** – The settlement figures for 2015/16 are in line with the Government's announcement in December 2014. With the Government's stated intention to balance the Budget Deficit by 2018/19, the draft budget assumes Government Grant will reduce to zero from this point on.
 - **Retained Business Rates**– The Medium Term Plan includes estimates of the amount of Retained Business rates income for the authority, in addition to which there is a reserve of £600k to cushion the authority against increases in business rates appeals. With a 1% variation in gross business rates income representing £850k there is a risk that this sum is not sufficient.
 - **New Homes Bonus** –2015/16 is the fifth year of the 6 year scheme and there is speculation that New Homes Bonus will be phased out entirely at some point, for the purposes of the Medium Term Financial Plan it is assumed to be zero from 2018/19. Should it reduce sooner, then the Council would be able to mitigate the cut by reducing its Capital Programme
 - **Inflation**–With the exception of contractual inflation e.g. Leisure contact and ICT maintenance contracts and pay 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. A budget of £700k 2015-16 and £200k per annum thereafter has also been incorporated to facilitate organisational change. There is also a one-off provision of £900k to facilitate the implementation of a new ICT Infrastructure contract from April 2016
 - **Revenue contributions to Capital**–Revenue contributions to fund the capital programme have been included in four year MTFP in the order of £5 million, £6million, £6 million £2million respectively.

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 revision to the HRA Business Plan allows for an additional £32 million of borrowing and a rolling over of the first debt repayment of £20 million in 2020/21. This leaves residual borrowing headroom of £10 million which is considered sufficient to cover fluctuations in the major capital projects which are being undertaken.
- 14 Other key assumptions in the HRA budget include:
- **Rent Setting** – Rents continue to be increased in line with formula rent for 2015/1 at CPI + £2 plus 1% a rate of 3.49%. Allowance has been made in the Business Plan for on-going variations in CPI.
 - **Right To Buy**
The HRA Business Plan assumes disposals of around 40 dwellings per year until 2021/22. Actual completions during 2014/15 are already close to this limit and as such the level of RTB disposals will continue to be closely monitored
 - **Inflation and pay assumptions**
All the assumptions for pay Inflation are the same as for the Council's General Fund.
 - **Service Charges**
Service charges such as caretaking, cleaning, CCTV, communal areas etc. have been increased in line with the convergence formula in previous years. In 2013/14 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 £80k of additional income in 2015/16 and a further £50k in 2016/17 by which time the limiter would have been removed from all associated accounts.

Capital

- 15 The Council has set an ambitious Capital Programme for the next four years in excess of £147 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. The Council have recently implemented a 'Capital Gateway' process to increase the robustness of capital estimates and the on-going delivery and monitoring of the Capital Programme by reference to a number of gateways/ milestones that projects have to achieve. 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. Going forward the general fund programme is no longer financed from Prudential Borrowing. The HRA Capital programme is largely financed by revenue contributions.

Adequacy of Reserves and Balances

- 18 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.
- 19 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, of being forced to cut expenditure 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 £3.6 million and £4.0 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 still financial risks around increased costs of homelessness, the cost of universal credit roll out and also a pending decision from the Secretary of State around the transfer of the £7 million balance from the HRA.
- 22 In total the Council's reserves and balances are forecast to be in the region of £17.802 million at 31st March 2015 as shown in the Table 1 below. This is forecast to reduce significantly from the balance of £38.617 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 2015 after forecast commitments have been funded in 2014/2015. A summary is shown below:

Table 1: Earmarked Reserves and Working Balances

| Reserve Description | Balance 1/4/2014 | Projected Balance 31-03-15 | Projected Balance 31-03-16 |
|--------------------------------|-----------------------------|---|---|
| | £000's | £000's | £000's |
| General Fund | | | |
| Earmarked Reserves | 28,097 | 7,348 | 7,505 |
| Working Balance | 3,622 | 3,622 | 3,622 |
| Sub Total | 31,719 | 10,970 | 11,127 |
| Housing Revenue Account | | | |
| Earmarked Reserves | 1,437 | 1,437 | 683 |
| Working Balance | 4,000 | 4,000 | 4,000 |
| Sub Total | 5,437 | 5,437 | 4,683 |
| Insurance Funds | 1,461 | 1,395 | 1,400 |
| Total | 38,617 | 17,802 | 17,210 |

23 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

24 **General Fund Working Balance** - This is forecast to be around £3,622k at 31st March 2015 representing 3.6% of gross general fund expenditure and 15.50% 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 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.

- 25 **Housing Revenue Account Working Balance**– This is forecast to be £4 million at 31st March 2015 the prudent minimum level of working balance considered by the Section 151 Officer for this authority representing around 9% of gross rental income.

Progress on the 2014/15 Budget

- 26 Current budget monitoring for the half year ending 30th September 2014 presented to the City Executive Board in December on the General Fund indicated a forecast underspend of £0.379 million (1.57% of net expenditure) largely arising from increased commercial rental income and operational savings in Direct Services. On the Housing Revenue Account there was a forecast underspend of £0.163 million(0.4% of gross income) largely arising from delays in commissioning repairs and maintenance work whilst analysis of the recently stock condition survey was being undertaken.
- 27 At year an assessment will be made on the councils overall financial position and any underspend allocated to bolster capital resources as in previous years or potentially to create a reserve for further property investments which will create an on-going revenue stream.

Conclusion

- 28 I have reviewed the budget preparation process for 2015-16 to 2018/19 and the level 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

- 29 These are covered within the report

Legal Implications

- 30 These are covered within the report

Risk Implications

- 31 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. One risk particularly worthy of mention relates to the transfer of £7 million from the HRA to the General Fund, agreed by Council in September 2013. The Council has used this reserve to fund capital expenditure although recent communications from Department for Communities and Local Government (DCLG) have advised that they have still not made a decision as to whether the Council will be directed to transfer this money back to the HRA. The Council if so directed would take appropriate action but may need to draw on reserves or undertake prudential borrowing to mitigate the financial impact.

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APPENDIX A

STATEMENT OF RESERVES AND BALANCES

| Ref | Reserve Description | Balance | Projected | Projected |
|---|--------------------------------------|------------|-----------|-----------|
| | | 31/03/2014 | Balance | Balance |
| | | £000's | 31-03-15 | 31-03-16 |
| | | £000's | £000's | £000's |
| General Fund Earmarked Reserves | | | | |
| Ring fenced accounts funded by third parties | | | | |
| 1 | SALIX Energy Projects Reserve | 271 | 200 | 200 |
| 2 | Barton Reserve | 106 | - | - |
| 3 | Oxford Strategic Partnership reserve | 39 | 30 | 30 |
| 29 | Procurement Hub Reserve | 9 | 9 | - |
| Reserves which have a statutory limitation | | | | |
| 6 | Taxi Licence Reserve | 212 | 162 | 160 |
| 7 | Grants Reserve | 930 | 267 | 200 |
| 8 | HMO Licensing | 242 | 112 | 100 |
| 9 | Reserve for Land Charges | 42 | 42 | 42 |
| 10 | General licensing reserve | 51 | 91 | 100 |
| Prudent to set aside for specific purposes | | | | |
| 12 | Town Hall Equipment Reserve | 20 | 20 | - |
| 13 | Work Of Art Reserve | 5 | 5 | - |
| 14 | Shopmobility Reserve | 13 | 13 | 13 |
| 15 | Severance Reserve | 1,349 | 1,228 | 1,500 |
| 16 | IT Infrastructure Reserve | 100 | 100 | - |
| 17 | Repairs & Maintenance Reserve | 259 | 179 | - |
| 18 | Leisure Repairs & Maintenance | 355 | 280 | - |
| 19 | Business Transformation Projects | 616 | 371 | 300 |
| 20 | City Council Elections Reserve | 57 | - | - |
| 21 | Chief Executive's Fund | 5 | 3 | - |
| 23 | Capital Funding Reserve | 6,857 | 3,000 | 2,500 |
| 24 | Property reserve | 7,401 | - | - |
| 25 | Agresso Improvement Reserve | 84 | 84 | - |
| 26 | Car Parks maint/replace lamp columns | 9 | 9 | - |
| 30 | Ward Members Budget Reserve | 38 | - | - |
| 31 | Homelessness Reserve | 1,583 | 1,500 | 500 |
| 32 | Loan Guarantee Reserve | 115 | - | - |
| 33 | Lord Mayors Deposit | 59 | 59 | 60 |

| | | | | |
|--|--|---------------|--------------|--------------|
| 34 | Home Choice fund for single persons | 36 | 36 | - |
| 35 | Rose Hill Demolition | 339 | - | - |
| 36 | Community Partnership Fund | 400 | 400 | 400 |
| 37 | Community and Neighbourhoods Reserve | 124 | 121 | - |
| 38 | Town Team Partners | 10 | 10 | - |
| 39 | Assets of Community Value | 21 | 21 | - |
| 40 | Unlawful Dwellings Reserve | 96 | - | - |
| 41 | Westgate Redevelopment Reserve | 3,279 | - | - |
| 42 | Emergency Flood Reserve | 302 | 302 | 300 |
| 43 | Park and Ride - County Contribution to Maintenance | 117 | 117 | - |
| 44 | Organisational Development Reserve | 523 | 365 | 400 |
| 47 | Flooding Business Support Scheme | 63 | - | - |
| 48 | Severe Weather Recovery Scheme | 35 | 35 | - |
| 49 | Bob MK | 4 | 4 | - |
| 50 | NNDR Retention Reserve | 600 | 600 | 600 |
| Committed unspent budgeted amounts | | | | |
| 45 | Committed Projects Reserve | 1,323 | 576 | - |
| Self-Insurance Funds | | | | |
| 46 | Self-Insurance Funds | 1,461 | 1,395 | 1,400 |
| Total General Fund Earmarked Reserves | | 29,557 | 8,743 | 8,905 |

| | | | |
|-------------------------------------|--------------|--------------|--------------|
| General Fund Working Balance | 3,622 | 3,622 | 3,622 |
|-------------------------------------|--------------|--------------|--------------|

| | | | | |
|---|----------------------------|--------------|--------------|------------|
| Housing Revenue Account Earmarked Reserves | | | | |
| 1 | Committed Projects Reserve | 753 | 753 | - |
| 2 | IT Projects Reserve | 248 | 248 | 248 |
| 3 | IT Equipment Reserve | 435 | 435 | 435 |
| Total HRA Earmarked Reserves | | 1,437 | 1,437 | 683 |

| | | | |
|--|--------------|--------------|--------------|
| Housing Revenue Account Working Balance | 4,000 | 4,000 | 4,000 |
|--|--------------|--------------|--------------|

| | | | |
|--|---------------|---------------|---------------|
| Total Council Reserves and Balances | 38,617 | 17,802 | 17,210 |
|--|---------------|---------------|---------------|

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
- 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
- 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
 - 23 Capital Funding Reserve – created to fund capital expenditure.
 - 24 Property reserve – created to purchase 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
 - 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 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.
 - 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
- 47 Flooding Business Support Scheme –grant available to assist businesses suffering financial loss from flooding
- 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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