Report of the Strategic Director (Resources) on the Robustness of the Budget Estimates; Adequacy of the Council's Reserves and Risk

Introduction

Section 25 of the Local Government Act 2003 places a duty on the Chief Financial Officer (Strategic Director (Resources)) to make a report to the Council on the robustness of the budget estimates and the adequacy of the Council's reserves. The Council must have regard to this report when making its decisions about budgets and council tax for the forthcoming year.

Robustness of Budget Estimates

The Council faces significant headwinds in achieving a balanced budget over the medium term after the latest government spending review which reported in the Autumn Statement and subsequent Local Government Finance Settlement.

The medium term financial strategy had identified significant on-going falls in government funding requiring the Council to continue its programme of efficiency savings to enable it to continue to deliver a strategy of limiting changes to frontline services.

The consultation paper on New Homes Bonus indicates a reduction in this funding of at least one third on top of the phasing out of Revenue Support Grant over the next four years. Taken together these two items will see the Council facing a reduction in funding in the order of £2.5m on its Net Operating Expenditure of just over £10m up to 2019/20.

The budget for 2016/17 includes cuts in government grant of £0.5m with New Homes Bonus credited to the revenue account to support the revenue budget held at the same figure as last year with any excess balance earmarked to support infrastructure development.

As stated last year the new revenue streams of New Homes Bonus and Business Rates Retention add significant uncertainty to the Councils funding and given the latest consultation paper on New Homes Bonus the impact threatens the stability of the Councils Medium Term Financial Strategy.

The UK economy has put in a sustained period of recovery with GDP growth up 2.1% on a year ago. Inflation has fallen more swiftly than anticipated driven by falls in commodity prices and continues to hover around 0% as measured by CPI.

Despite this general lack of inflation significant cost push pressures have been felt by the Council as the County Council has withdrawn funding to support recycling services and have pushed up significantly gate fees for waste disposal as it deals with its own significant funding issues.

The Council's budget estimates have been prepared by appropriately qualified and experienced staff in consultation with service heads and other budget managers. Budgets have been through a process of Scrutiny through the Council's Overview and Scrutiny Committees.

Inflation of 1% has been allowed for the staff pay award for the year from 1 April 2016 to 31 March 2017 - this remains to be agreed as is not being recommended for approval by Unison.

Efficiency savings continue to be achieved and by the end of 2015/16 some £3.3m will have been realised since April 2008. A further level of over £400,000 is included in the 2016/17 budget and robust plans are in place to achieve these targets through the 2020 Programme.

Fees and charges have been uplifted generally by 2.5%, in line with longer terms RPI inflation levels except where it is deemed that the market cannot bear such an increase or there has been a fundamental review of charging practice.

Investment income remains an area of significant financial risk with the Bank of England keeping base rates at 0.5% for a full seven years now. The income from investments is projected to be just around £0.66 million in 2016/17, based on an average balance of £33 million and an average return of 2%. Prudent assumptions about cash flow have been made and the advice of the Council's fund / cash managers and other advisors has been taken into account in determining the average rate of return. Base rates are expected to be maintained at this low level for a further significant period of time.

Capital projects in the new year programme total around £3.5 million and the financial strategy now finances the underlying elements of the capital programme from revenue to provide a sustainable financial strategy.

A number of capital budgets are in respect of grants or contributions to other bodies and as such the extent of the activity will be limited by the budget available, the timing of any such applications and the consequent take up of the monies. The programme will be monitored closely during the year, along with Council projects which will slip from the current financial year, initially by the Capital Working Group and Corporate Management Team and Cabinet through the quarterly budget monitoring reports.

The Council has adopted a robust Risk Management Strategy. Significant financial risks, such as treasury management, have already been identified and will be managed appropriately. A corporate risk assessment covering a range of financial and non-financial risks has been carried out and the results will form part of the Councils new Corporate Plan. The corporate risk register is reviewed regularly by Cabinet.

The major risk looking forward in respect of the financial position of the Council arises from the outcome of the consultation paper on New Homes Bonus and continued risks around business rates appeals. These represent very significant risks to the Councils future ability to deliver services and action is required to increase other income or reduce expenditure over the coming years to mitigate this risk.

I can confirm that the budget estimates as presented are both prudent and robust.

Adequacy of the Council's Reserves

The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on local authority reserves and balances. It sets out three main purposes for which reserves are held:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
2. A contingency to cushion the impact of unexpected events or emergencies
3. A means of building up funds to meet known or predicted liabilities, known as earmarked reserves

The Council held general fund revenue balances of £10.568 million on 1 April 2015. These are planned to rise to £11.25 million by 31 March 2016. I have determined that the minimum reserves position is £5m under the current economic outlook with significant risks remaining to revenue streams and grant levels in future years.

A revision of the Medium Term Financial Strategy is currently being concluded which sees the Council using very significant amounts of reserves to balance the budget over the next few years as further government funding cuts are made. The underlying position of the Councils finances is the most challenging it has been in many years and will require difficult decisions to be made over the next several years in respect of Efficiency, Council Tax levels and spending plans.

I can therefore confirm that the level of reserves is currently adequate however longer term projections require targets in the Medium Term Financial Strategy to be delivered some of the plans for which, at this stage, remain undefined.

Risk

Risk is apparent in the budget process in a number of ways. The risk of the robustness of budget estimates and the adequacy of reserves has been considered in detail above. However there also exists a risk in terms of the level of variable income flows in respect of Council Tax, Business Rates and New Homes Bonus.

Council Tax Capping

Council Tax capping has been replaced in the Localism Act by the requirement for Local Referenda if a tax rise is deemed excessive.

The Secretary of State has indicated a 2% rise or £5 is the referendum limit for a Council in the position of West Oxfordshire. Consequently, anything above those parameters will be deemed as 'excessive.'

Collection Fund Risk

The Council's Taxbase, including adjustments for the new Council Tax Support scheme and new discount / exemptions introduced in 2013/14, has risen over the last year by 0.8%.

This, together with continued good collection rates (which continue to reach in excess of 99%), has led the Council to be in a surplus position in respect of the Collection Fund.

Further growth of 1% in the Tax base is anticipated in future years through the Financial Strategy.

Business Rates Risk

The new local government finance regime brings in additional risk of variable cash flows for the Council as it becomes a direct recipient of some of the Business Rates income rather than working under an agency type arrangement as previously. Under the new regime the Council will see benefit if business rates income increases but also potential risks if it falls.

The key risk to the Council remains in relation to losses on appeal from the 2010 rating list. In the later part of 2014/15 and in 2015/16 a very considerable increase in the level of appeals occurred. This necessitated the Council increasing its provision for appeal losses which can be backdated as far back as 2010 and pushed the Collection Fund into a deficit of in excess of £2.5m of which 40% is allocated to this Council.

The level of appeals, and therefore this risk, is measured on a monthly basis.

In 2014/15 the Council entered a business rates pool with Oxfordshire County Council and Cherwell District Council – this will potential increase both the risks and rewards available from the business rates scheme but officers believe the risks remain manageable at this stage given the predicted rates income flows. The impact of this pool is likely to reduce significantly in 2016/17 but is still likely to be a positive income flow.

New Homes Bonus Risk

Under the new local government finance regime the New Homes Bonus plays a key role with all the funds being top sliced out of the former grant settlement. To access this new revenue stream the Council has to have new homes built within its boundaries. A premium is also payable for affordable completions.

Our estimate in the 16/17 budget is based upon figures approved by DCLG and they are therefore sound. The Medium Term Financial Strategy considers future reductions in New Homes Bonus due to policy changes by central government as set out below.

The government is again reviewing New Homes Bonus and now believes the scheme to require change to enable funding to be diverted to social care. This potentially will have a significant impact on the Council depending upon how the funds are reallocated given that in 2016/17 it represents around 20% of the Councils funding. In the previous financial strategy this was anticipated to rise to 25% over time but this is now proposed to fall to just 15%.

Income Risk

The Council raises in excess of £3 million in income from fees and charges. However, in preparing the budgets for 2016/17 prudent income assumptions have been made in light of the variability of some of these key income streams.

Five of the most significant areas are:

Planning – Development Control	£1,037,700
Recycling	£ 681,600
Trade Waste Collection	£ 650,100
Building Control	£ 444,000
Land Charges	£ 209,100
Licensing	£ 232,800

The Council, having embarked on a series of Commercial Property acquisitions, faces an increased risk from void periods of occupation between leases. A level of voids is built into the budget for 2016/17 based upon current anticipated levels of occupation. Total forecast income from commercial property (excluding small industrial units) is around £3m in 2016/17. A reserve has also been established to mitigate this risk.

Expenditure Risk

Key budgets where risk persists relate to areas of expenditure that the Council has no direct control over either the take up or the cost of the service. The only areas of concern in respect of this relate to fuel costs (given the recent collapse of fuel prices this is unlikely to lead to near term pressures) and Council Tax Support (which is currently on a downward trajectory).

Frank Wilson BA(Hons) CPFA 1 February 2016