APPENDIX C

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 outcome of the consultation paper on New Homes Bonus indicates a reduction in this funding of around a third on top of the phasing out of Revenue Support Grant over the next four years. These reductions were built into the financial strategy approved in February 2016.

The budget for 2017/18 includes cuts in Revenue Support Grant (RSG) of £0.42m with New Homes Bonus credited to the revenue account to support the revenue budget reduced to an underlying base figure of £1.6m with any excess in year balance earmarked to support infrastructure development.

The business rates growth retention scheme has improved the revenue stream of the Council significantly in recent years but there remain a number of significant risks with the scheme. In addition to the significant appeals relating to the 2010 list which could give rise to refunds of up to seven years of rates the new rating list which has given rise to an increase of rateable values of 16% on average will undoubtedly lead to further significant appeals. The Council will also face a funding cliff edge in 2020 when a reset of the system will reduce the benefits seen since the scheme was introduced.

The UK economy has put in a sustained period of recovery with GDP growth up 2.2% on a year ago in line with the previous year's growth. Inflation has started to rise significantly driven by higher oil prices and a major devaluation of sterling post Brexit. CPI in December stood at 1.6% up from zero this time last year.

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 2017 and forms the second year of a two year agreed deal.

Efficiency savings continue to be achieved and by the end of 2016/17 some £3.7m will have been realised since April 2008. A further level of over £200,000 is included in the 2017/18 budget and robust plans are in place to achieve these targets through the 2020 Programme.

Fees and charges have been uplifted generally by 2%, in line with 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 reducing rates to 0.25%. The income from investments is projected to be just around £0.6 million in 2017/18, based on an average balance of £35.5 million and an average return of 1.7%. 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 £10.8 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 £11.259 million on 1 April 2016. These are planned to reduce marginally to £11.127 million by 31 March 2017. 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 in a relatively positive position until 2020 when it will then be using very significant amounts of reserves to balance the budget. The underlying position of the Councils finances is stronger than in recent years due to the efficiency savings being delivered.

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 2.6%.

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 2% 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. 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.

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 17/18 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.

The key risk looking forward in respect of New Homes Bonus is that sites that are delivered after gaining permission on appeal are unlikely to attract New Homes Bonus. This could impact very significantly on funding available to the Council to finance infrastructure improvements with a loss of £2.5m per 500 housing units. The underlying estimates in the revenue account take some account of this and are therefore prudent estimates.

APPENDIX C

Income Risk

The Council raises in excess of £4 million in income from fees and charges. However, in preparing the budgets for 2017/18 prudent income assumptions have been made in light of the variability of some of these key income streams.

Seven of the most significant areas are:

Planning – Development Control	£1,037,700
Recycling and Bulky Waste	£ 788,400
Green Waste	£ 645,000
Trade Waste Collection	£ 715,300
Building Control	£ 404,000
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. Total forecast income from commercial property (excluding small industrial units) is around £3.5 million in 2017/18.

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 2017