

WEST OXFORDSHIRE DISTRICT COUNCIL
ECONOMIC AND SOCIAL OVERVIEW & SCRUTINY COMMITTEE
THURSDAY 22 NOVEMBER 2018
FINANCE AND MANAGEMENT OVERVIEW & SCRUTINY COMMITTEE
WEDNESDAY 28 NOVEMBER 2018
ENVIRONMENT OVERVIEW & SCRUTINY COMMITTEE
THURSDAY 6 DECEMBER 2018
2018/2019 BUDGET
REPORT OF THE CHIEF FINANCE OFFICER

(Contact: Jenny Poole, Tel: (01285) 623313)

(Each Overview and Scrutiny Committee is asked to make recommendations to Cabinet for consideration later in the Budget Process)

1. PURPOSE

To consider the initial draft base budgets for 2019/20, draft fees and charges for 2019/20 and the latest Capital Programme for 2019/20 revised and future years. The Cabinet is required to consult Overview and Scrutiny Committees on its budget proposals in accordance with the Council's Constitution.

2. RECOMMENDATIONS

That consideration is given to the following and comments submitted to Cabinet:

- (a) The initial draft base budget for 2019/20 totalling £11,801,083 as summarised in Appendix A;
- (b) Draft fees and charges for 2019/20 at Appendix B; and
- (c) The latest Capital Programme for 2018/19 revised and future years at Appendix C.

3. BACKGROUND

3.1. Cabinet approved budget parameters to be used in the 2019/20 budget process at its meeting on 19th September 2018. This included:

- (i) inflation on pay budgets of 2.0% for all staff;
- (ii) expenditure on utilities inflated in line with contractual changes;
- (iii) expenditure on external budgets in line with contractual commitments – where no contractual commitments occur no inflation allowance given;
- (iv) expenditure on the Publica contract to be in line with the inflation on pay budgets, less the business case savings;
- (v) Fees and charges increase- target of 2.0% where discretionary and market will bear and administratively efficient to do so.

3.2. In accordance with the previously agreed timetable for the budget process, the Cabinet will consider initial proposals after consultation with Overview and Scrutiny Committees. Following this consultation, the Cabinet will make initial recommendations to Council on 23th January 2019 whilst final budget matters for 2019/20 will be resolved by Council on 27th February 2019.

- 3.3. A summary of the draft base revenue budget for 2019/20 together with detailed revenue budget pages are attached at Appendix A.

Original Budget 2019/2020

- 3.4. The complete budget position is still to be finalised.
- 3.5. This will be the seventh year of the Business Rate Retention Scheme. The Council has submitted a bid, together with the County Council and the four other Oxfordshire Districts, to become a pilot for 75% business rates retention. Should the bid not be successful, the Council will continue the existing pooling arrangement with Cherwell District Council and the County Council as this is still the optimum position for the current 50% pool. The governance arrangement within the 50% Pool to distribute growth across a number of the Oxfordshire Councils who undertake to take the benefit of business rate growth as well as the risk of unforeseen decline in business rates would continue for either the 50% or 75% pool.
- 3.6. The 2019/20 draft budget includes provision for £157,485 pooling distribution. This provision being used to fund temporary additional costs of the environment services contract with Ubico. The contract sum is expected to reduce in 2020/21 as Ubico implements efficiency savings. Section 3.13 provides more detail.
- 3.7. Detailed work will be on-going over the coming weeks to finalise a forecast of Business Rates income for 2019/20.
- 3.8. The impact of the Business Rates appeals is still a concern with the Valuation Office making slow progress on the appeals to the 2010 list. However, the Council has made significant provisions for appeals against the 2010 list in its financial statements in previous years. The level of appeals provision will be reviewed over the coming weeks. A new system of Check, Challenge and Appeal has also been introduced from April 2017, the impact of the new system will also be considered over the coming weeks as the part of the detailed modelling of Business Rates income for 2019/20.
- 3.9. The Council submitted its efficiency plan to the Department for Communities and Local Government (DCLG) in October 2016 in order to take advantage of the multi-year settlement from 2016/17 to 2019/20. The DCLG have subsequently confirmed acceptance of the efficiency plan and consequently Revenue Support Grant (RSG) figures have already been built into the draft budget showing a fall from £373k to £78k. Rural Grant has also diminished from £127k to £102k. These sums had already been built into the current MTFs. It is unlikely that these figures will change.
- 3.10. The draft budget retains a sum for New Homes Bonus of £1.6 million which is based upon modelling of revised New Homes Bonus Scheme introduced in 2017/18. The government is currently considering increasing to the deadweight threshold below which no New Homes Bonus is payable. Further information will be published at the time of the Local Government Provisional Settlement and the New Homes Bonus income figure will be updated accordingly. 2019/20 represents the final year of funding agreed through the Spending Review 2015. In light of this, it is the Government's intention to explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. Government will consult widely on any changes prior to implementation in 2020/21.

- 3.11. The draft base revenue budget for 2019/20 (Net Operating Expenditure) is £11,801,083 this compares with £11,569,275 for 2018/19 and is an increase of £231,808 or 2.0%. The most significant element of the increased cost of service provision is the cost of the environmental services contract with Ubico.
- 3.12. A breakdown of unavoidable cost pressures are set out in the table below together with the savings which will help to mitigate the cost pressures:

Unavoidable budget pressures	£
Inflation provision	216,940
Waste Contract	783,299
Members Allowances	10,200
Bank charges	35,000
Oxfordshire County Council cut to waste service incentive scheme	32,775
Provision for financing capital expenditure to be funded from borrowing	38,594
Movement in one-off costs of service provision funded through earmarked reserves	160,000
Total	1,276,808
Less additional income from green waste charges (related to demand for the service) and other services	(85,000)
Savings from Publica lead transformation programme	(360,000)
Savings from leisure contract	(600,000)
Net Increase in budget requirement	231,808

- 3.13. The MTFS is currently being updated and will initially be presented to Finance and Management Overview and Scrutiny on 28th November 2018 prior to consideration by Cabinet and Council. Forecasting central government income from 2020/21 onwards is difficult as the following elements of central government funding are under review and will be implemented from April 2020:
- Spending Review 2019 – which allocates government resources to Departments;
 - Local Government Fairer Funding Review – which allocates funding from Ministry of Housing, Communities and Local Government to individual local authorities;
 - Implementation of 75% Business Rates Retention Scheme – which will include the impact of a reset of the business rates funding baseline;
 - Review of New Homes Bonus grant.

Growth/Budget Pressures

- 3.14. Now that the waste and recycling service has been operational for a full year, the actual costs of operating the service have become clearer. The budget has been increased by £783,299 to reflect the following cost pressures affecting the Ubico contract sum:

- £65,500 increase in depot rent and business rates – Transfer station was added into the contract at a late stage when the opportunity arose to rent this site, the lease cost was not included in the 2018/19 contract sum.
 - £31,490 supervisor – when Ubico TUPEd Kier staff there was two supervisors in the establishment and one further staff member performing supervisor duties. There is a need for 3 supervisors. Without this third post the number of misses would increase and the Council would incur increased costs i.e. additional fuel.
 - Costs for rounds requiring narrow vehicles £54,360 – despite dialogue with Kier supervisors prior to transfer, a number of locations have now been identified which cannot be safely served by a standard 26t collection vehicle and additional narrow access collections have had to be introduced. This is being reviewed to manage and reduce costs. For 2019/20, provision has been made for additional costs of which £40,770 will be funded through business rates pool dividend. A target for savings of £54,360 has been included in the MTFS in 2020/21.
 - Clinicals £30,310/ Bulkies £61,750 – it was initially intended that these collections would be made as part of standard collection rounds but this did not prove feasible and additional specific resources had to be introduced. Extensive work is underway to review and refine these services, which should result in significant cost reduction in 2019/20. For 2019/20, provision has been made for additional costs of which £46,030 will be funded through business rates pool dividend. A target for savings of £46,030 has been included in the MTFS in 2020/21.
 - Bring sites extra loader £26,390 – due to health and safety and the significant volumes particularly of cardboard which are now being presented, there has been a need to increase the resource.
 - Garden waste £61,707 – additional resources needed as demand for service exceeded expectations – this is offset by increased income.
 - Food Waste 2 posts £52,900 – additional loaders were introduced to ensure adequate service delivery however this is now being reduced which will reduce costs in 2019/20. For 2019/20, provision has been made for additional costs of which £26,450 will be funded through business rates pool dividend. A target for savings of £26,450 has been included in the MTFS in 2020/21.
 - Container Mgt £88,470 – the introduction of more customer choice regarding container size with the option for a smaller 120L refuse bin or a larger 360L recycling bin has increased the number of container changes requested. Once the 360L bins have been rolled out, these costs should reduce significantly. For 2019/20, provision has been made for additional costs of which £44,235 will be funded through business rates pool dividend. A target for savings of £44,235 has been included in the MTFS in 2020/21.
 - £27,000 provision for hire vehicles.
 - Ubico corporate charges £65,797 – Officers have requested additional information on these cost pressures from Ubico.
- 3.15. Provision for interim additional costs pressures in 2019/20 totalling £157,485 will be funded from a dividend from the Business Rates Pool. Efficiency savings of £171,075 are expected from Ubico in 2020/21.

- 3.16. A significant volume of payments for Council services are being collected via Debit and Credit Cards. The bank charges associated with these payment methods are increasing the costs of banking. The increased costs are mitigated through additional income being generated, especially from the green waste collection service.
- 3.17. Provision has been made for expected reductions in the Oxfordshire County Council waste incentive scheme.
- 3.18. The finance team have reviewed the Council's revenue budget provision for the capital financing costs associated with capital expenditure funded from borrowing. The provision requires an increase of £38,594.
- 3.19. In 2018/19, the Council has provided for one-off cost pressures of £722,300. The one-off costs being funded through earmarked reserves. For 2019/20, one-off costs have increased by £160,000 to provide for costs associated with the transformation programme being implemented through Publica and the design of systems and processes related to collection and monitoring of Community Infrastructure Levy and s.106 Contributions.
- 3.20. The approved MTFS has assumed 'Efficiency Savings of £671k over the next three years, with a sum of £360,000 to be achieved in 2019/20. These savings are linked to the 2020 Programme and will be delivered through Publica Group (Support) Ltd. Work is progressing on the Publica business plan and Publica is expecting to be able to deliver these savings for 2019/20 through work on the change programme.
- 3.21. Savings of £600,000 are expected from the Council's contract with GLL for provision of leisure services.
- 3.22. Overview and Scrutiny Committees are being asked to support these draft budgets before presentation to Cabinet on 12th December 2018.
- 3.23. Draft fees and charges for 2019/20 (and detailed revenue budget pages) can be found in Appendix B. These are the required fees and charges to support the budgeted income being proposed for 2019/20. They are generally based on 2% uplift for inflation in accordance with Budget Parameters previously set. There will be some charges which will remain the same or which have been increased by a different percentage to reflect market forces. Also some charges will have been rounded for ease of administration.
- 3.24. Any other items of additional growth will be presented as part of the January budget report to include the draft central government finance settlement for next year.
- 3.25. In summary, there is a significant unavoidable increase in spending arising from the changes to the waste service implemented in October 2017. Other budget pressures are largely being managed through savings from the transformation programme and additional green waste service income from demand for the service. It is assumed that New Homes Bonus will remain in line with MTFS assumptions and RSG will reduce in line with the four year funding agreement. New Homes Bonus and Retained Business Rates income will be reviewed as part of the January budget report.
- 3.26. The summary position of the budget and the impact on use of general fund balances is discussed below within paragraphs 5.2 and 5.3.

Grants Budgets

- 3.27. Over the last several years the Council made the decision to maintain its revenue grants at their current levels. The draft budget for 2019/20 has also maintained that position.

Investment Interest

- 3.28. The budget for 2019/20 investment interest returns is set at £635,820 an increase of £28,520 from the 2018/19 base budget of £607,300. On 2nd November 2017, the Bank of England increased rates for the first time in ten years to 0.5%. This was followed by a further increase on 2nd August 2018 to 0.75%. The budget assumes the council will achieve an average return of 1% on cash investments during 2019/20.
- 3.29. The Council has also invested £13m in a diverse portfolio of pooled funds including bonds, equities and property. The budget assumes a return on 3.0% on the pooled funds.
- 3.30. The budget for 2019/20 reflects a reduced average cash balance reflecting the Capital Programme at Appendix C.

Capital Programme

- 3.31. The capital programme has been extended from the previous 5 year timeframe to a 10 year timeframe. The proposed capital programme is attached at Appendix C and includes details of the current 2018/19 budget. The 2019/20 budget includes a number of significant schemes including:
- Investment in Carterton Leisure Centre;
 - A loan facility with Cottsway Housing to bring forward delivery of affordable housing;
 - Potential investment in vehicle fleet on the environmental services contract with Ubico in return for savings in contract costs (a business case would be presented to Members for approval);
 - Continuation of the Community Grants fund;
 - Housing improvement grants/Disabled Facilities Grants
 - Provision for further investment in electric vehicle charging points across the District;
 - Investment in Council property assets, ICT equipment, replacement litter bins.
- 3.32. At the end of the financial year the 2018/19 actual spend will be reviewed and an assessment made on what schemes (if any) require 'slipping' into 2019/20 or re-profiling into later years. Approval for any slippage will be formally taken as a recommendation to Cabinet as part of the 2018/19 outturn report.

4. ALTERNATIVES/OPTIONS

As part of this budget the Council needs to give consideration to whether it should fund these budget pressures or change service levels to mitigate the impact on taxpayers. However, a significant proportion of the growth is related to the costs of the Waste Services contract and are unavoidable.

5. FINANCIAL IMPLICATIONS

- 5.1. Given the value of unavoidable budget growth, it is proposed to partially fund the increased costs by increasing council tax at the referendum limit of £5.00 (5.3%) per

band D equivalent. This increase is £2.17 or 2.3% higher than in the approved MTF5, which assumes a 3% increase. The increase in Council Tax is a formal decision for Council to agree, however any variation from this strategy will impact upon the Council's finances and its aim to set a balanced budget without the need to use general fund balances.

- 5.2. The draft budget shows a requirement to utilise £149,219 of General Fund balances in 2019/20. It should be noted that at this present time elements of the budget are still very subjective. This includes the significant funding sources of Business Rates and New Homes Bonus which have still to be confirmed.
- 5.3. The current MTF5 forecast contributing £325,154 to general fund balances in 2019/20. The revised budget assumes utilising £149,219 of General Fund balances in 2019/20. This variance of £474,373 is largely attributable to the increased costs of the environmental services contract with Ubico.
- 5.4. The draft budget includes a grant budget of £66,005 to pass on grant to the Town and Parish Councils to compensate the impact of the Council Tax Support Scheme. This is a reduction from £77,610 awarded in 2018/19. The reduction has been calculated in line with reductions in the Council's Revenue Support Grant and New Homes Bonus.
- 5.5. Following consideration by Overview and Scrutiny Committees, the Cabinet will receive a further report at its meeting on 16th January 2019. In addition to the results of the consultation with Overview and Scrutiny Committees, this report will address the financing of the Council's revenue budget and capital programme and any additional growth bids or efficiency savings that have been identified. This will follow confirmation of next year's local government finance settlement and will remove a number of the uncertainties within this version of the budget.
- 5.6. Final Budget and Council Tax decisions will be made at the Council meeting on 27 February 2019.

6. RISKS

A full risk analysis will be incorporated into the final budget setting report to Cabinet and Council in February 2019. At this stage the key risks to the budget are related to the government's decision of how New Homes Bonus will be distributed for 2019/20 and on-going plus finalising the Business Rates position for 2019/20. Further risks include any additional unavoidable growth demands that may be proposed throughout the budget process and finally the deliverability of the savings targets set out in the financial strategy.

7. REASONS

The Council's Constitution requires the Cabinet to consult with overview and scrutiny committees before making recommendations to the Council on the Budget.

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Background Papers:

None