

WEST OXFORDSHIRE DISTRICT COUNCIL
ECONOMIC AND SOCIAL OVERVIEW & SCRUTINY COMMITTEE
THURSDAY 19TH NOVEMBER 2015
ENVIRONMENT OVERVIEW & SCRUTINY COMMITTEE
THURSDAY 26TH NOVEMBER 2015
FINANCE AND MANAGEMENT OVERVIEW & SCRUTINY COMMITTEE
WEDNESDAY 2ND DECEMBER 2015
CABINET – WEDNESDAY 9TH DECEMBER 2015
2016/2017 BUDGET
REPORT OF THE STRATEGIC DIRECTOR
(Contact: Frank Wilson, Tel: (01993) 861291)

(The Cabinet decision will be a resolution. 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 2016/17, draft fees and charges for 2016/17 and the latest Capital Programme for 2015/16 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

It is recommended that Cabinet and Overview and Scrutiny Committees consider:

- (a) The initial draft base budget for 2016/17 totalling £10,607,200 as summarised in Appendix A;
- (b) Draft fees and charges for 2016/17 with detailed budget pages 75 to 96, at Appendix B; and
- (c) The latest Capital Programme for 2015/16 revised and future years at Appendix C, pages 97 to 98.

3. BACKGROUND

- 3.1. The Council approved budget parameters to be used in the 2016/17 budget process at its meeting on 16th September 2015. This included:
 - (i) Inflation on pay budgets of 1% 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; and
 - (iv) Fees and charges increase - target of 2% where discretionary and market will bear.

- 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 20th January 2016 whilst final budget matters for 2016/17 will be resolved by Council on 24th February 2016.
- 3.3. Detailed revenue budget pages have been circulated separately. The narrative within the budget pages is subject to further review and will be updated to reflect significant changes in services or explanations of specific costs. A summary of the initial base revenue budget for 2016/17 is attached at Appendix A.

Original Budget 2016/2017

- 3.4. The complete budget position is still to be finalised. As we enter the fourth year of the Business Rate Retention Scheme, the Council is working with all the Oxfordshire authorities to determine the optimum pooling option across the County and it is proposing to continue the existing pooling arrangement with Cherwell District Council and the County Council. However, this is likely to require a change in the governance arrangement within the Pool to fully reflect the distribution of growth across all the authorities assuming some of the Oxfordshire Councils undertake to take the benefit of business rate growth as well as the risk of unforeseen decline in business rates. The draft budget has not factored any growth for the pooling distribution at this stage as work is still on-going.
- 3.5. The Business Rates budget being presented shows a fall in income of £197k. This is primarily due to the reducing rateable values from the significant number of appeals received over the past 12 months. However, the Business Rates income is still showing growth above the government set baseline which confirms it is still worth the Council participating in the Oxfordshire Pool.
- 3.6. The impact of the Business Rates appeals, many of which were submitted in late March 2015 was to move an estimated surplus in the collection fund in 2014/15 (which was built into the 2015/16 budget) to a significant deficit. Consequently, this deficit will be calculated in the 2015/16 Collection Fund but accounted for in the 2016/17 budget. The current forecast of the deficit is likely to be in the region of £1m and this sum has been built into the draft 2016/17 Budget. However, it should be noted that an Earmarked Reserve for Business Rates Movement of £746,000 was set up at the end of 2014/15 to cover this sort of fluctuation plus it is anticipated that the 2015/16 Business Rates and Pool distribution will more than cover this liability in 2016/17.
- 3.7. The Revenue Support Grant (RSG) figures are not likely to be confirmed until late December. The current medium term financial strategy (MTFS) has anticipated a significantly reduced RSG settlement, from £1.57m, to £900,000 in 2016/17. The figures contained within the budget are based upon this assumption; however, there is a significant likelihood that these figures may change once the Government's spending review is published.
- 3.8. The draft base revenue budget for 2016/17 (Net Operating Expenditure) is £10,607,200 this compares with £9,872,400 for 2015/16 and is an increase of £734,800 or 7.4%. The main contributory factor to this increase is the one off costs associated with 2020 Vision Programme which amount to £891,000 in 2016/17. It is anticipated that these will be funded by a mix of General Fund balances and the Improvement and Change Reserve.

- 3.9. In addition to this we have now incorporated the Depot Services contracted with Ubico, into the base budget which has created an increase in the revenue account for the contractor budget (due to embedded leases) but is offset by Ubico repaying a capital sum of £142,900 and interest of £5,500. To counteract this accounting adjustment we propose reducing the revenue financing of the capital programme by an equivalent amount.
- 3.10. Other factors that impact on the budget are as follows:

	Cost / (Saving) £
Net inflation for Employees, Contractors, Income	127,500
Miscellaneous budget adjustments	89,800
Re-basing Budget	(454,800)
Total Adjustments	(237,500)

The Miscellaneous adjustments include many minor changes to individual budgets but the most significant adjustments are areas where one-off funding for a post has now ceased e.g. an employee assigned to the Public Protection Project and an activity that the Council is no longer continuing such as the Revenues and Benefits NVQ Training.

The Corporate Management Team have led a fundamental review of underspends that have occurred over the last two financial years, and although this has often been due to new shared service arrangements delivering early savings it was also apparent certain budgets were consistently achieving greater income than budgeted or not utilising specific budgets. Consequently, it was considered many budgets could be 'rebased' to take into account these underspends, over achieving income budgets or income that is not being achieved. For example additional income from planning applications, investment properties and licensing account for approximately half of the saving. To date £454,800 has been identified and incorporated into the draft 2016/17.

- 3.11. On a like for like basis adjusting the approved MTFS for the pension payment and one off costs associated with 2020 Vision the budget at £10.607m is £153,000 under the MTFS target. Given other movements in funding and future pressures the MTFS is currently being updated and will initially be presented to Finance and Management Overview and Scrutiny on 2nd December 2015 prior to consideration by Cabinet and Council. It is expected that an adverse movement will have occurred between the approved and proposed financial strategy.

Unavoidable Growth / Budget Pressures

- 3.12. National Insurance rates for employers and employees will increase from 1st April 2016 due to the abolition of contracted out schemes and the introduction of a single-tier state pension. The change means employers' Class I National Insurance Contributions (NIC) will increase by 3.4% and employees' Class I NIC increase by 1.4%. An allowance of £150,000 has been included within the medium term financial strategy and will now be brought into the revenue account as an on-going cost. The estimated increase is £129,800

- 3.13. The draft budget also incorporates unavoidable growth of £494,800 significantly due to funding decisions made by Oxfordshire County Council. The budget has not been fully finalised and there may be further adjustments in terms of potential growth

Unavoidable Growth	Draft Budget 2016/17 £
OCC Waste financial arrangements	40,400
OCC withdraw Green Waste credits	200,800
OCC highway maintenance grass cutting reduced funding	28,000
OCC - Trade Waste disposal costs increase	60,000
National Insurance rate changes from April 2106	129,800
Admin Benefit Grant Reduction (estimated 10%)	35,800
Total Unavoidable Growth	494,800

- 3.14. The MTFs has assumed 'Efficiency Savings of £1.272m over the next four years, with a sum of £419,000 to be achieved in 2016/17. These savings are linked to the 2020 Programme. The Councils Chief Executive has been appointed as Managing Director to the Joint Committee running the 2020 Programme. At present for 2016/17 only £134,900 savings have been identified, which are mainly Shared Service arrangements in Leisure Services, Housing and Revenues and Benefits. The Public Protection Project is still work in progress at the present time but it is anticipated that this Project will be agreed over the coming months and will deliver savings from 2016/17. Until we have a greater clarity on the allocation of these savings these are shown as unallocated on the overall financing budget page.
- 3.15. Overview and Scrutiny Committees are being asked to support these draft budgets before presentation to Cabinet on 10th December 2015.
- 3.16. Draft fees and charges for 2016/17 (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 2016/17. They are generally based on 2% uplift for inflation in accordance with Budget Parameters previously set, although some fees and charges are still under review at the moment. 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.
- 3.17. Also identified in the Medium Term Financial Strategy is a budget for funding capital items from the revenue budget. The budget increased from £400,000 in 2014/15 to £800,000 for 2015/16. This sum is reflected within the overall budget figures for revenue and the capital programme and seeks to make such expenditure sustainable in the longer term as capital balances are depleted. It is proposed that the base £800,000 budget remain for 2016/17 and the foreseeable future except for the adjustment of £142,900 capital receipts received within the Ubico contract as set out in 3.9.

- 3.18. 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.
- 3.19. The summary position of the budget and the impact on use of general fund balances is discussed below within paragraph 5.1.

Investment Interest

- 3.20. The budget for 2015/16 investment interest returns is set at £550,000. Performance in 2015/16 is above target, with good returns from the Council’s longer-term Housing Associations fixed-term bonds.
- 3.21. The Council also invest £12m in a range of funds which has a diverse portfolio of pooled funds and equities which are also performing well.
- 3.22. The In-house team invest sums up to £15m but the average over the year is usually around £12m. The in-house team deal in shorter-term investments as they manage the cash flow requirements of the Council, and need to keep resources liquid to be able to pay precept payments and general weekly outgoings.
- 3.23. Based upon current predictions, the investment portfolio of approximately £33m should generate an estimated £657,100 return in 2016/17. This equates roughly to a 2 % return. It is therefore proposed that the Council’s income budget is increased by £100,000 to £657,100. The Council’s investment strategy will be formally reviewed in the new year and there may be further refinement to these assumptions later in the budget process.

Capital Programme

- 3.24. The capital programme for the coming 5-years is attached at Appendix C and includes details of the current 2015/16 budget.
- 3.25. At the end of the financial year the 2015/16 actual spend will be reviewed and an assessment made on what schemes (if any) require ‘slipping’ into 2016/17 or re-profiling into later years. Approval for any slippage will be formally taken as a recommendation to Cabinet as part of the 2015/16 outturn report.

4. ALTERNATIVES/OPTIONS

- 4.1. There are a number of budget pressures that are a consequence of decisions made by Oxfordshire County Council amounting to approximately £330,000 – this is in addition to the £200,000 of budget pressures imposed last year.
- 4.2. 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. The key issues are set out below with options.

Pressure	Description	Options
Reduction in Waste Financial Arrangements	This budget pressure is the next stage in the phased reduction in funding from OCC for reducing the amount of	Deleting the recycling of fly- away plastics at a cost of circa £80,000 could mitigate the combined effect of this year’s pressure and last year’s pressure totalling £87,000.

£40,800	waste delivered to landfill. The overall impact over a number of years is circa £200,000	Alternatively the council could wait until the new contract is specified and amend then absorbing the cost until that date.
OCC withdrawal of Green Waste credits - cost to WODC £200,800	The County Council announced it would unilaterally cease these credits which help to finance our garden waste scheme and reduce waste to landfill.	The Council could either cease the garden waste scheme or could consider making the scheme a chargeable scheme. Both of these options need to be considered alongside the existing contract and would need significant consultation prior to consideration so are unlikely to help in respect of next year's budget. The Council may wish to delay introduction of charges until the new contract is in place in October 2017, so that it forms part of a package of waste service changes however this would mean the Council would need to absorb the cost for an extended period.
OCC highway maintenance grass cutting reduced funding £28,000	As part of the agency agreement OCC have given notice of a reduction in funding and reduction of the number of cuts required.	The Council could reduce the cuts in line with the funding reduction – this will need a reconsideration of contractual and staffing arrangements through Ubico to identify if equivalent cost reductions can be made. The Council could return the agency agreement back to the County Council so that the County can make alternate arrangements. The Council could continue the present arrangements and absorb the cost pressure.
OCC - Trade Waste disposal costs increase	Trade Waste disposal costs have increased by £60,000 due to increased disposal charges by the County Council. This is on top of an increase of £90,000 last year.	4.3. The County Council has specified the disposal facility for this service and the charges for disposal. The Council could seek to challenge this disposal location and seek alternate arrangements if legally possible possible now that the Trade waste service is provided by Ubico. The Council could consider passing on the cost of these increases to customers by an above inflation increase in fees to avoid a scenario where the service runs at a subsidy from the Council Taxpayer however this will make the service less competitive and may result in a loss of custom.

5. FINANCIAL IMPLICATIONS

- 5.1. The draft budget presented has assumed an increase in Council Tax of 1.99% in line with the approved financial strategy although this will be determined later in the budget process. The draft budget shows a repayment to general fund balances of £473,000 in respect of pension fund contributions and an underlying use of general fund balances of £378,116.
- 5.2. The draft budget includes a grant budget of £128,765 to pass on grant to the Town and Parish Councils (although this figure has not been completely finalised at this point) to compensate the impact of the Council Tax Support Scheme. This is a reduction from £148,188 awarded in 2015/16. The reduction has been calculated in line with assumed reductions in the Council's Revenue Support Grant.
- 5.3. Following consideration by Overview and Scrutiny Committees, the Cabinet will receive a further report at its meeting on 13th January 2016. 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 saving 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. Final Budget and Council Tax decisions will be made at the Council meeting on 24th February 2016.

6. RISKS

A full risk analysis will be incorporated into the final budget setting report to Cabinet and Council in February 2016. At this stage the key risks to the budget are related to any further unavoidable growth demands and 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