

Report to: Cabinet Scrutiny Committee Council

Report of Interim Head of Finance

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Wards affected: All

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To: CABINET

5 February 2021

To: SCRUTINY COMMITTEE

8 February 2021

To: COUNCIL

10 February 2021

**AGENDA ITEM NO
XX**

Revenue Budget 2021/22 and Capital Programme to 2025/26

RECOMMENDATIONS

1. That Cabinet recommends to Council that it:

- sets the revenue budget for 2021/22 as set out in appendix A.1 to this report,
- approves the capital programme for 2021/22 to 2025/26 as set out in appendix D.1 to this report, together with the capital programme changes as set out in appendix D.2 to this report,
- sets the council's prudential limits as listed in appendix E to this report,
- approves the medium-term financial plan to 2025/26 as set out in appendix F to this report.

2. That Cabinet agrees that the cabinet member for finance, in conjunction with the interim head of finance, may make minor adjustments to this report and the prudential indicators should they prove necessary prior to its submission to Council on 10 February 2021.

Purpose of report

1. This report:

- brings together all relevant information to allow Cabinet to recommend to Council a revenue budget for 2021/22 and a capital programme for 2021/22 to 2025/26;
- recommends the prudential indicators to be set by the council in accordance with 'the Prudential Code' introduced as part of the Local Government Act 2003;
- contains the opinion of the council's chief financial officer on the robustness of estimates and adequacy of the council's financial reserves;
- contains the Medium-Term Financial Plan (MTFP) which provides details of the forward budget model for the next five years.

Strategic objectives

2. The allocation of financial resources within the revenue and capital budgets needs to match the objectives agreed by the council.

Revenue budget 2021/22

3. **Appendix A.1** summarises the movements in the base budget from £15,878,059 in 2020/21 to £18,888,478 in 2021/22. These movements are detailed below.
4. **Opening budget adjustment reduction £1,058,803 (appendix A.2).** This includes the removal of one-off growth items relating to 2020/21 and before, and the realisation of the full-year effect of savings proposals identified in previous years.
5. Additions to the base budget:
 - **Inflation, salary increments and other salary adjustments £570,415 (appendix A.3).** The salary and contract inflation total £265,924. For council employees an overall increase in salary costs of 2.0 per cent is budgeted for 2021/22. Increments payable to council employees not at the top of their salary range total £85,047. Other salary adjustments of £219,444 are primarily the result of reviewing the allocation of staff time between this council and South Oxfordshire District Council.
 - **Essential growth – one-off £2,191,942 and ongoing £1,262,666 (appendix A.4).** These items comprise additional expenditure, and reductions in income, which have been identified by officers and the cabinet member to be unavoidable and reflect changes that have occurred in the current year or which are known will happen in 2021/22. For 2021/22 this includes some items necessitated by the council's ongoing response to the Coronavirus pandemic, alongside provision for potential irrecoverable income losses, again due to COVID-19.

- **Increase in contingency budget £900,000 (appendix A.6)** As with essential growth above, the contingency budget has been increased for one year only to make provision for potential irrecoverable expenditure incurred whilst the council continues to respond to the pandemic. A breakdown of this figure is provided in a separate confidential version of appendix A.6 circulated to all councillors.

6. Deductions from the base budget:

- **Base budget reductions £817,941 (appendix A.5).** These base budget savings are reductions in costs identified by officers which may be the result of more efficient working or previously agreed policy decisions, cost reductions outside of the council's control, increases in income, or correction to budgets. These savings do not affect frontline service delivery.
 - **Increase in managed vacancy factor £37,860,** this provision has been increased to maintain the total as four percent of total salary costs.
7. As a result of these changes the council's revised base budget for 2021/22 is **£18,888,478**, an increase of £2,926,774 over 2020/21. This increase is primarily due to the council making provision for potential irrecoverable expenditure and income losses due to the pandemic, the course of which cannot be predicted at this time. The provisions are ring fenced for this purpose and, should they not be needed in full, then they can only be used for a different purpose if agreed by Cabinet and where necessary Council.

Revenue growth proposals

8. There are no discretionary revenue growth and savings proposals being recommended to council for inclusion in the budget for 2021/22 at this time.
9. The council has adopted a new corporate plan since the last budget was set. As part of budget setting activity, officers had originally intended to bring forward for consideration items of growth that were linked to corporate delivery plan activities. This would be in addition to corporate plan delivery activities that are already funded within existing budgets.
10. The delivery plan reflects much of the activity that was included as "transformation" work, outlined when the 2021/21 budget was set. This was focussed on addressing the council's long-term financial position, and budget provision for this was made. Appendix B shows the corporate plan delivery activities for which budgetary provision – both within one-off and ongoing budgets – already exists.
11. Due to the need to prioritise the council's response to the Coronavirus pandemic, it has not been possible to build any more costs or savings relating to corporate plan delivery activity into the budgets for 2021/22 at this time. Deliverability of the activities for which budget provision already exists will be dependent on how long and how much officer resource is required to support the council's Coronavirus work.
12. Subject to capacity constraints, should the opportunity arise during the year to consider funding further corporate plan activities then these can be brought forward for consideration as supplementary estimates.

Gross treasury income

13. Investment returns for 2021/22 are used to finance expenditure in-year. It is currently forecast that **£557,560** will be earned in 2021/22. This represents a significant reduction in the council's investment income and follows the reduction of the Bank of England base rate to 0.1 per cent, as a response to the Coronavirus pandemic.
14. More details of treasury income can be found in the council's Treasury Management Strategy report¹.
15. Including growth and gross treasury income results in a net expenditure budget for the council of **£18,330,918**, compared with £15,044,909 for 2020/21.

Reserves and other funding

New Homes Bonus (NHB)

16. The provisional government allocation payment for NHB in 2021/22 is **£4,561,586**. Projections of future NHB earnings and how they will be used are detailed later in this report.

Transfers to/ from earmarked reserves

17. This amounts to **£83,190** and represents the net of the transfer to reserves of the affordable homes element of the NHB payment, and the use of capital receipts to fund the transformation work under the council's strategy for the flexible use of capital receipts.
18. Based on the above use of reserves and other funding, the amount of revenue expenditure to be financed from government settlement and from council tax 2021/22 is **£11,283,791 (appendix A.1)**.

Funding

Local government settlement

19. Following the Spending Review in November 2020, the provisional local government settlement for 2021/22 was announced in December 2020. As with the previous year's settlement, this is for one year only.
20. Table 1 below details the government's funding for the council in 2021/22.

¹ Considered by Cabinet 5 February 2021, Council 10 February 2021

Table 1: provisional local government finance settlement 2021/22

	Provisional Settlement £
Business rates retention scheme	(2,370,047)
Indexation	(123,489)
NDR at safety net	177,754
Settlement Funding Assessment	(2,315,782)
Other funding	
New Homes Bonus	(4,561,586)
Rural Services Delivery Grant	(9,551)
Lower tier grant	(266,866)
Grand total	(7,153,785)

21. The provisional settlement for 2021/22 is six percent lower than 2020/21. Whilst the provisional settlement, at a national level, includes an average increase in “core revenue spending power” of 4.5 per cent, council tax income is included in that definition and, in calculating the increase, government assumes that council tax will increase by the maximum allowed before a referendum is required. As shown in the government’s calculations, the council’s core revenue spending power does not increase in 2021/22. By remaining unchanged, this reflects an increasing reliance on council tax income whilst government grant funding reduces.
22. Included within the government’s definition of core revenue spending power is NHB, which has become critical to the sustainability of the council’s MTFP. As identified above funding has been provisionally announced along with the settlement this year at **£4,561,586** for 2021/22. Government have confirmed that 2021/22 is the final year of the NHB.
23. Outside of core revenue spending power, government has also provided additional one-off funding to support the council’s response to the Coronavirus pandemic for 2021/22. This amounts to **£525,467**.
24. At the time of writing this report the final settlement figures had not been received from the government. It is not anticipated that when this information is available it will be significantly different to the provisional figures.
25. For budget setting purposes it has been assumed that the council’s “core revenue spending power” will fall during the period covered by the MTFP period. In announcing the provisional settlement, government announced that no council would see a reduction in core revenue spending power for 2021/22 and, as noted above, this council saw its core spending power remain unchanged due to council tax income increasing whilst government grant decreased.
26. Adopting this approach over the MTFP period means that government funding reduces as a percentage of the total core revenue spending power whilst council tax increases. It is less pessimistic than the approach adopted previously and suggests a slower reduction in government grant funding than previously predicted. It should be noted that the government also indicated that no council

should take this year's core revenue spending power as a guarantee of future funding levels. However, without any certainty over those funding levels officers believe this approach offers a "middle way" between the most optimistic and pessimistic forecasts of future funding and as such is a fair assumption for the remainder of the MTFP period.

27. The actual funding generated in future years will depend on the outcome of the review of the retained business rates scheme which will include changes to:

- The percentage of business rates growth is retained by the different tiers of local government,
- the baseline in accordance with the fair funding review,

together with the outcome of the review of NHB.

28. Business rates retained by the council as planning authority relating to facilities generating renewable energy within the district is estimated at **£226,304** (MTFP row 55).

Collection fund

29. The surplus on the collection fund is estimated in 2021/22 to be **£300,024** (MTFP row 57).

Use of reserves

30. The difference between expenditure requirement and the funding available is smoothed over the medium-term financial plan by earmarked reserves and the general fund balance. The net impact of these budget proposals is a transfer from reserves of **£2,568,731** in 2021/22.

Revenue budget proposal

31. Based on the amendments detailed above, and as shown in **appendix A.1** of this report, the budget proposal, including growth, is for a budget requirement of **£11,283,791**. This revenue budget as proposed would result in an increase of £5.00 to current band "D" council tax to **£141.69**.

32. The Band D council tax in 2020/21 of £136.69 was the 15th lowest in the country for a shire district and compares to a national average in 2020/21 of £194.22. The proposed increase of £5.00 in 2021/22 is the maximum increase allowed under the draft council tax referendum principles announced in the provisional local government settlement.

33. **Appendix C** shows the breakdown of the revenue budget.

Capital programme 2021/22 to 2025/26

Current capital programme

34. The latest capital programme (before growth) is shown in **Appendix D.1** and summarised in table 3 below. It is the capital programme as set by Council in February 2020 plus:

- slippage (caused by delays to projects) carried forward from 2019/20,
- new schemes approved by Council during 2020/21,
- re-profiling of expenditure on schemes from the 2020/21 financial year to future years where delays to schemes have occurred,
- the deletion of previously agreed schemes that have completed or are not being pursued at this time in their original form.

The capital programme also includes Community Infrastructure Levy (CIL) receipts that are payable to Oxfordshire County Council and Oxfordshire Clinical Commissioning Group.

Cabinet capital programme proposals

35. **Appendix D.2** contains a list of new capital schemes that are being recommended as part of this budget proposal, some of which offer opportunities to increase revenue income to the council. Officers will amend the capital programme to include the proposals if approved by Cabinet and Council.

Financing the capital programme

36. Where permitted, capital expenditure is funded in the first instance from specific government grants, earmarked reserves and other external contributions. The balance of the programme is funded from the council's capital receipts reserve.

37. **Table 2** contains a schedule showing the current and proposed capital programme and how it will be financed, including the growth proposals, if they are approved. The programme proposed can be fully funded from existing and anticipated capital resources. The total planned capital expenditure is £28.8 million over the programme period.

Table 2: current and proposed capital programme with financing

	2020 /21 latest estimate £000	2021 /22 estimate £000	2022 /23 estimate £000	2023 24 estimate £000	2024 /25 estimate £000	2025/26 estimate £000	GRAND TOTAL £000
Capital programme approved	12,642	7,707	1,956	1,956	1,691	1,638	27,590
Capital growth proposals	0	644	149	149	149	149	1,240
Total expenditure	12,642	8,351	2,105	2,105	1,840	1,787	28,830
Financing							
External contributions	2,296	2,918	1,353	1,353	950	950	9,820
Affordable Homes Delivery Plan	7,950	2,910	0	0	0	0	10,860
Usable capital receipts/revenue reserves	2,396	2,523	752	752	890	837	8,150
Total financing	12,642	8,351	2,105	2,105	1,840	1,787	28,830
Flexible use of capital receipts - transformation activities							500
Estimated balances as at 31 March 2025							
Usable capital receipts							4,335

38. The council's usable capital receipts, based on current estimates, are expected to be £4.3 million by the end of 2025/26.

The prudential code and prudential indicators

39. In setting its revenue and capital budgets for 2021/22, the council must agree prudential indicators in accordance with the prudential code (see below). When recommending its budgets to Council, Cabinet must also recommend the prudential indicators.
40. From 1 April 2004, government control of local authorities' borrowing was abolished and replaced by a prudential system of self-regulation. Authorities are able to borrow based on need and affordability, which they demonstrate through compliance with the prudential code developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and given statutory force by government regulation.
41. The key objectives of the prudential code are to ensure that the capital investment plans of the authority are affordable, prudent and sustainable. To demonstrate that authorities have had regard to these objectives, the prudential code sets out a number of indicators that must be considered covering five distinct areas – capital expenditure, affordability, prudence, external debt and treasury management. The council must approve the indicators through the budget process before 1 April each year, but they can be revised during the year if required.
42. The key indicators that will drive the capital budget decision making process will be those concerning affordability, as these measure the impact of capital investment decisions on the overall revenue budget and in particular the precept against the collection fund.
43. In setting or revising the prudential indicators the council is required to have regard to:
- affordability e.g. implications for the precept
 - prudence and sustainability e.g. implications for external borrowing
 - value for money e.g. option appraisal

- stewardship of assets e.g. asset management planning
- service objectives e.g. strategic planning for the council
- practicality e.g. achievability of the forward plan.

44. Under the code, the interim head of finance as chief finance officer is responsible for ensuring that the council considers all relevant matters when setting or revising indicators through a report. The interim head of finance is also required to establish procedures to monitor performance against all forward-looking indicators; and report upon any significant deviations from forward forecasts with proposed actions.

45. **Appendix E** contains the recommended prudential indicators, which have been calculated based on the budget proposals. The interim head of finance is satisfied that these indicators show that the council's capital investment plans are affordable, prudent and sustainable.

The Medium-Term Financial Plan (MTFP)

46. The MTFP provides a forward budget model for the next five years. **Appendix F** contains the MTFP for 2021/22 to 2025/26. This is a projection of the revenue budget up to 31 March 2026. The projection includes budget pressures in later years and assumes that council approves all the budget proposals within this report. Officers have made no adjustments for the costs of contracts that will be re-let during this period. These could rise or fall depending on market conditions.

47. The MTFP identifies serious challenges for the council. It reflects the updated provisional settlement figures published in draft in December 2020 and shown in table 1 above. As discussed above, ongoing funding after 2021/22 is an estimate by officers and is subject to change. The estimates will be refined as more information on future funding schemes becomes available.

48. Based on current assumptions and estimates, the council draws heavily on reserves throughout the MTFP period to make up the shortfall between income and expenditure. This is shown in table 3 below.

Table 3: use of reserves during MTFP period to balance the revenue budget

Financial year	Use of reserves £000
2021/22	2,569
2022/23	3,174
2023/24	4,026
2024/25	4,409
2025/26	5,295
Total	19,473

49. As the MTFP shows, the ongoing draw on reserves to balance the budget is not sustainable over the five year period covered by the MTFP and must be addressed.

50. The council can set a balanced budget for the first three years of the MTFP period by drawing on reserves. It can also set a balanced budget in 2024/25 but,

in doing so, this would mean the general fund balance would be less than ten per cent of net revenue expenditure at the end of that year. Officers have previously advised that such balances should be a minimum of ten per cent of net revenue expenditure. On current projections, the level of revenue reserves are insufficient to set a balanced revenue budget in 2025/26.

The robustness of the estimates and the adequacy of reserves

51. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the interim head of finance) to report on the robustness of the estimates and the adequacy of reserves. The council must have regard to this report when making decisions about the setting of the budget.
52. The construction of the budget has been managed by qualified accountants and has been subject to challenge, specifically by the head of finance, other heads of service and cabinet members.
53. The challenge process included breaking down all costs and differentiating between statutory and discretionary expenditure. All expenditure has been scrutinised to identify potential efficiencies, whilst income budgets have been reviewed to ensure that they reflect expected fee levels. In addition, benchmarking information prepared by LG futures has been reviewed to compare our costs with those of our near neighbours – councils with similar economic and social characteristics – and the English average. In 2020/21, the revenue cost per resident for the council was £116.33. This compared to a near neighbour average of £141.90 and the English average of £141.91.
54. An informal briefing on the council's overarching budget position, which was open to all councillors, took place during January 2021. A further, more detailed briefing on this budget proposal will be given to the council's scrutiny committee members on 8 February 2021. This session will also be open to all councillors.
55. In view of the process undertaken and his own knowledge of the budget, the interim head of finance is satisfied that the budget for 2021/22 is both prudent and robust. However, as demonstrated above, in every year of the MTFP period, revenue expenditure exceeds revenue income, and the council's revenue reserves are insufficient to set a balanced budget across the MTFP period. The budget is not sustainable over the MTFP period. This situation has been made worse by the pandemic, particularly in respect of some of the council's key income streams, such as investment income, and it is unclear when those income streams will recover to pre-pandemic levels.
56. The transformation activity, which was identified in last year's budget setting report and now forms part of the corporate plan delivery activity, is central to the council's efforts to tackle the increasing budget gap. This work, which has been delayed due to the pandemic, focuses on both reviewing costs and seeking to maximise income. When resources allow, it will take place against the backdrop of the new corporate plan priorities. Those priorities may themselves have to be reviewed to help ensure that the council's finances become more sustainable in the future. Such a review will become an urgent priority for the council if the future funding projections turn out to be at or below the levels projected in the MTFP.
57. The interim head of finance's full report will be available at full Council.

Legal Implications

58. The Cabinet needs to make recommendations to the council on its spending proposals. Under the Local Government Act 2000 it is the council that must agree the revenue and capital spending plans, and then set the council tax. Council will meet on 10 February 2021 in order to set the budget, and the council tax including amounts set by the town and parish councils, Oxfordshire County Council and the Police and Crime Commissioner for Thames Valley.
59. The requirement placed on the council by the Local Government Act 2003 to set prudential indicators and for the interim head of finance as chief finance officer to make a report to the authority on the robustness of the estimates and the adequacy of reserves are addressed within the body of this report.

Other Implications

60. Agreement of the revenue and capital budgets authorises expenditure in accordance with the council's delegated powers and financial procedure rules. The officer, councillor or councillor body taking those decisions will take into account the human resources, sustainability and equality and diversity implications of individual spending decisions.

Conclusion

59. This report provides details of the revenue base budget for 2021/22, the capital programme 2021/22 to 2025/26, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.
60. In light of the information provided Cabinet must make a number of recommendations to Council regarding the revenue budget, the capital programme and the prudential indicators.

Appendices

- Appendix A.1 Revenue budget 2021/22
- Appendix A.2 Opening budget adjustments
- Appendix A.3 Inflation, salary increments and other salary adjustments
- Appendix A.4 Essential growth
- Appendix A.5 Base budget savings
- Appendix A.6 Revenue contingency
- Appendix B Budgeted corporate plan activity
- Appendix C Service budget analysis
- Appendix D.1 Capital programme before growth
- Appendix D.2 Capital growth bids
- Appendix E Prudential indicators
- Appendix F Medium term financial plan

Background Papers

Provisional settlement figures (December 2020)

Council tax base 2021/22 – Cabinet 4 December 2020, Council 9 December 2020
Treasury Management Strategy – Cabinet 5 February 2021, Council 10 February 2021