

Cabinet Report

Report of Head of Finance

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To: CABINET

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Budget setting 2022/23 update report

Recommendation

Cabinet is recommended to note the report.

Purpose of Report

1. The purpose of this report is to inform the Cabinet of progress made to date regarding in preparing the revenue budget for 2022/23 and the capital programme for 2022/23 to 2026/27, and to report on the funding issues that need to be considered when Council sets a revenue budget and capital programme in February 2022.

Corporate Objectives

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

Background

3. In February 2022 Cabinet will consider a report on the revenue budget for 2022/23 and the capital programme for 2022/23 to 2026/27 and will recommend these to council. This report updates Cabinet on progress to date with budget setting.
4. The revenue budget for 2021/22 agreed by Council in February 2021 was balanced by a significant draw on revenue reserves of £2.6 million. Whilst this draw reflected an anticipated increase in net costs due to the Coronavirus pandemic, a significant draw was anticipated to be required from reserves across all years of the Medium-Term Financial Plan (MTFP) and was predicted to be in excess of £5 million by 2025/26.

5. As noted in the budget setting report, 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. The council could 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, 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.

6. The use of reserves highlighted in the February 2021 budget setting report, and the need to address them, was also highlighted by the council's external auditor, EY when they addressed Joint Audit and Governance Committee (JAGC) in July 2021. Kevin Suter, Associate Partner, in addressing JAGC members, advised that:

“What I am flagging here is I need to be assured next year that those decisions are at least being prepared or considered in order to reduce that budget gap over time and before the councils, and this will apply to both South Oxfordshire and Vale of White Horse, before they get to a position where a S114 notice would be required because those reserves have been diminished to such a level.”

7. Over the summer officers discussed the budget situation informally with cabinet members to agree an approach to the 2022/23 budget setting round that would continue to address the financial challenges facing the council. Those discussions highlighted that, whilst a comparatively low-cost council, Vale of White Horse DC's revenue situation was affected by a number of key issues:

- The council's Band D Council Tax of £141.69 in 2021/22 is the 15th lowest in the country for a shire district council and is well below the national average of £198.96,
- The council had, unlike other councils, not benefitted from the business rates retention scheme,
- The council had benefitted from the “New Homes Bonus” funding stream but that was under review by government and was expected to be less generous in the future.

8. The approach to budget setting agreed with cabinet members for 2022/23 was that a target of £1.4 million annual recurring savings as against the estimated base budget for 2022/23 in the MTFP would be sought as a minimum. To achieve this, officers would in the first instance undertake a thorough review of the base budget and, subject to what that process could achieve, alternative approaches such as service reductions and fees and charges increases would be considered.

Base budget setting 2022/23

9. The starting point for building the council's base budget 2022/23 is the 2021/22 base service budgets for service teams, of £18,888,478. This has then been updated for the following:

- opening budget adjustments, including the removal of one-off growth items relating to 2021/22

- addition of
 - inflation, salary increments and other salary adjustments
 - essential growth
- removal of costs relating to
 - base budget savings.

10. In the MTFP agreed as part of the budget setting in February 2021, the base budget for 2022/23 was estimated to be £16,509,075. This included an estimate for inflationary pressures and essential growth.

11. Base budgets for 2022/23 have been constructed by heads of service and budget holders supported by finance business partners from the Strategic Finance Team. They have been scrutinised through a “base budget challenge” exercise undertaken by the Interim Head of Policy and Programmes and the Head of Finance supported by project accountants from the Strategic Finance Team. The challenge exercise, which took place during October and November focussed, on the following key areas:

- Identification and removal of all surplus budgets and consolidation of one corporate contingency budget,
- Ensuring that all discretionary fees and charges increase by a minimum of five per cent to ensure all costs are recovered,
- Centralisation of certain budgets e.g. property, legal and IT to enable better financial control.

Officers have also engaged with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Government Association (LGA) to benchmark the cost of services provided by the council.

12. Following the completion of the base budget challenge exercise, the base budget for 2022/23 is £15,657,074. This is just over £850,000 lower than the 2022/23 base budget in the previous MTFP. This budget represents the budget proposals submitted by officers and it affords resources to allow the council to continue to provide services at the current standards (all other things being equal) and reflects previously agreed policy decisions. This budget has also been subject to challenge and scrutiny by cabinet members.

13. These figures are provisional and may be subject to change as work continues on refining the budget. The paragraphs below identify how the budget requirement for 2022/23 has been reached.

2022/23 revenue base budget build changes

14. **Appendix A.1** summarises the movements in the base service budgets from 2021/22 to 2022/23. The following paragraphs detail these movements.

Opening budget adjustments (appendix A.2)

15. A total of £3,235,288 is removed from the base budget for one-off items agreed in previous budgets.

Inflation, salary increments, and other salary adjustments (appendix A.3)

16. Together these total £518,485. For all council employees an increase in salary of 1.9 per cent is budgeted for 2022/23. Increments payable to council employees not at the top of their salary range total £121,246. Other salary adjustments represent a cost of £230,940.

Essential growth (appendix A.4)

17. These items total £1,635,756. They comprise additional expenditure which is considered unavoidable, and reflect changes that have occurred in the current year or which are known will happen in 2022/23. Given the value of these additional essential growth items they have been scrutinised during base budget challenge.

Base budget savings (appendix A.5)

18. These items total £1,839,727. 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, or correction to budgets.

Revenue contingency

19. Realising the level of base budget savings identified above is not without risk and budgets that could have withstood potential in year service pressures have been removed. In mitigation, officers feel it appropriate to increase the contingency budget from its previous base level of £200,000 to £400,000. (Note that the contingency budget was increased for 2021/22 for one-year only from £200,000 to £1,100,000 due to the Coronavirus pandemic).

Managed vacancy factor

20. The council has previously operated a managed vacancy factor level of four per cent i.e. it anticipates only spending 96 per cent of the employee budget due to, for example in year vacancies. Officers have concluded that this can be increased to five per cent.

In year savings target

21. In undertaking the base budget challenge exercise, officers consider that there is further potential to realise further savings from the base budgets from future exercises. An in-year savings target of £300,000 has been included in the base budget to reflect this.
22. In addition to the £300,000 identified above, officers are working on potential savings proposals in the following areas:
- Development management review
 - Front of house
 - Grounds maintenance
23. The final budget to be proposed in February will reflect the progress of this work. It will also confirm the projected use of the remaining transformation budget, which was established in 2020/21 to fund works that would realise revenue savings.

24. Officers are also reviewing the council’s car park fees and charges. These will also be brought to Cabinet for approval in February 2022 and fees and charges will be proposed that ensure that all costs associated with providing the car parks are recovered.

Further savings under consideration

25. Whilst the base budget calculated for 2022/23 thus far is £850,000 lower than that estimated in the previous MTFP, this is still below the target identified by Cabinet members for minimum savings. As a consequence of this, officers are working through with Cabinet members further proposals to address this gap. These areas include:

- CCTV and community safety
- Environmental health
- Housing needs

Proposals for service changes in these areas will be brought forward as part of the budget setting report in February 2022.

Discretionary revenue growth and savings

26. Discretionary revenue growth and savings do not form part of the base budget build and none are therefore included in the budgets included here. Any such items that are brought forward as part of the final budget setting proposals in February 2022 must reflect activities linked to corporate plan priorities. Many such activities are already funded through the base budget and previously agreed growth items.

Investment income

27. In 2020/21 the council received £1.072 million in investment income. This was used to support the revenue budget.

28. Whilst investment earnings for 2021/22 are currently forecast to be below the budget of £558,000 set for the year, earnings in 2022/23 are expected to be higher than previously expected as there is an expectation that the Bank of England base rate will rise in the coming months. This will push up the earnings that the council is able to make from its investments.

Table 1: projections of future interest

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000	£000
Forecast interest earnings	291	389	540	703	637	637

29. The current base budget for 2022/23 assumes that £388,820 will be earned, which is £251,030 higher than that previously estimated.

Capital programme 2022/23 to 2026/27

30. The capital programme has been reviewed in detail by heads of service in conjunction with finance staff as part of the budget monitoring process and has been changed to reflect recent decisions and current expectations of the spending profile. An updated programme, reflecting these changes, is attached as **appendix B**. The programme also includes a statement of how it will be funded. As with revenue expenditure as identified above no discretionary growth beyond that previously agreed has been included in this capital programme.

Government funding for revenue expenditure

31. At the time of writing the government was yet to announce the local government financial settlement for 2022/23. The settlement is usually provided before the parliamentary recess, which this year is scheduled for 16 December, so it is hoped that more information will be available to Cabinet when it considers this report, either by an additional paper or through a verbal update.

32. The level of future local government funding has remained uncertain as government has consulted on:

- Fair funding review
- Business rates retention
- New Homes Bonus

33. As part of the Comprehensive Spending Review 2021, it was announced that councils would see an increase in “core revenue spending power” for 2022/23 of three per cent. For 2021/22, core revenue spending power for councils, the calculation of which includes retained business rates, council tax and New Homes Bonus, increased nationally by 4.5 per cent. However, for this council there was no increase in core spending power. This reflected an increase in income from council tax and a corresponding reduction in government grant funding.

34. It remains to be seen whether the council will receive a one-year settlement for 2022/23 or a multi-year settlement, and to what extent the settlement reflects the outcomes of the reviews highlighted above and, if so, how they impact the council’s future finances.

Council tax

35. In 2021/22 the council increased council tax by £5, the maximum permitted without triggering a referendum. The MTFP estimate for 2022/23 assumes that council tax would also increase by £5 assuming the same referendum principles apply.

36. In November 2021 the leader of the council wrote to the Secretary of State for Levelling Up, Housing and Communities to highlight the impact that a low council tax, and the current thresholds around council tax referendums are having on the council’s finances. In the letter the leader suggested that shire district councils with historically low council tax levels and a low-cost base should have the ability to set an incremental rise of council tax above the current limits. The letter noted that if the council had a Band D Council Tax of just below the national average in 2021/22, it would have been able to set a balanced budget without a need to draw on reserves.

37. The leader’s letter, and the response from the Secretary of State, can be found in the “official correspondence” section of the council’s website.

<https://www.whitehorsedc.gov.uk/vale-of-white-horse-district-council/about-the-council/official-correspondence/>

38. The financial settlement will propose draft referendum principles for council tax for 2022/23.

Future prospects

39. **Appendix C** of this report presents an MTFP for the council, which quantifies the financial pressure on the council over the medium term. It assumes core revenue spending power will be maintained at the current level. It also incorporates assumptions on interest income, and other known pressures on the council, such as inflation and salary increments.

40. Included within the MTFP is an estimate of costs associated with exit and service transformation required when the Five Councils Partnership contract ends in September 2025. It is proposed that the council will, as allowed under the rules for the flexible use of capital receipts, fund these costs, anticipated to be around £1.5 million, from those receipts.

41. As a result of the work undertaken through the budget challenge process, the future projections represent an improved position as compared to that reported in February 2021. In each year of the MTFP period, revenue expenditure exceeds revenue income and there is still a draw on reserves to balance the budget. Whilst the draw on reserves is lower than previous estimates the council’s revenue reserves are insufficient to set a balanced budget across the MTFP period and the budget is not sustainable over the MTFP period.

42. The estimated draw is shown in the table below. This position does not include potential savings that remain under consideration as identified in paragraphs 22 to 25 above. This position also reflects no increase in spend to support delivery of corporate plan priorities, and reflects officer estimates regarding future local government funding which are subject to change.

Table 2: use of revenue reserves during MTFP period to balance the revenue budget

Financial year	Use of reserves £000
2022/23	1,830
2023/24	2,642
2024/25	2,782
2025/26	3,457
2026/27	4,055

Climate and ecological impact implications

43. There are no direct climate and ecological impact implications arising from this budget update report.

Financial Implications

44. These are detailed in the body of the report.

Legal Implications

45. The Cabinet needs to make recommendations to Council on its spending proposals. Under the Local Government Act 2000 it is Council that must agree the revenue and capital spending plans, and then set the council tax. Council will meet on 16 February 2022 in order to set the budget, and the council tax (including amounts set by Oxfordshire County Council and the Police and Crime Commissioner for the Thames Valley).

Conclusion

46. This report brings together all known, relevant income and expenditure and funding information. This should aid members in understanding the major issues to be faced in setting the 2022/23 budget and allow them to consider and challenge that information before council sets its 2022/23 revenue and capital budget in February 2022.

Appendices

- Appendix A.1 – revenue budget summary and budget target
- 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 B - capital programme to 31 March 2027
- Appendix C – medium term financial plan