

Report to: Scrutiny Committee Cabinet Council



Report of Head of Finance

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Wards affected: All

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To: SCRUTINY COMMITTEE

1 February 2022

To: CABINET

4 February 2022

To: COUNCIL

16 February 2022

Revenue Budget 2022/23 and Capital Programme to 2026/27

RECOMMENDATIONS

1. That Cabinet recommends to Council that it:

- sets the revenue budget for 2022/23 as set out in appendix A.1 to this report,
- approves the capital programme for 2022/23 to 2026/27 as set out in appendix D.1 to this report, together with the capital programme changes as set out in appendix D.2 and appendix D.3 to this report,
- sets the council's prudential limits as listed in appendix E to this report,
- approves the medium-term financial plan to 2026/27 as set out in appendix F to this report.

2. That Cabinet agrees that the cabinet member for finance, in conjunction with the 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 16 February 2022.

Purpose of report

1. This report:
 - brings together all relevant information to allow Cabinet to recommend to Council a revenue budget for 2022/23 and a capital programme for 2022/23 to 2026/27;
 - 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.

Corporate objectives

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

Revenue budget setting 2022/23

Background

3. 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.
4. 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.
5. 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.”

6. 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.
7. The approach to budget setting agreed with cabinet members for 2022/23 was that to achieve a balanced budget through identification of £1.4 million, being either recurring budget setting savings or a contribution above that previously forecast from the local government finance settlement. 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.

Revenue base budget setting 2022/23

8. The starting point for building the council's revenue budget for 2022/23 is the 2021/22 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.
 9. 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.
 10. 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:
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- 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.

Revenue budget setting 2022/23

11. **Appendix A.1** summarises the movements in the base budget from £18,888,901 in 2021/22 to £15,623,268 in 2022/23. These movements are detailed below.
12. **Opening budget adjustment reduction £3,235,288 (appendix A.2)**. This includes the removal of one-off growth items from the base budget relating to previous years.
13. Additions to the base budget:
 - **Inflation, salary increments and other salary adjustments £517,806 (appendix A.3)**. 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 £238,225.
 - **Essential growth – one-off £177,474 and ongoing £1,458,282 (appendix A.4)**. These items comprise additional expenditure, and reductions in income, which have been identified as 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 growth items, they have been scrutinised during base budget challenge.
14. Deductions from the base budget:
 - **Base budget reductions £1,872,852 (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.

One of the most significant reductions is in respect of the costs of the Local Plan. Local plan costs fluctuate significantly from year to year depending on at what stage the council is in the local plan process. Officers intend to manage this going forward by creating a separate reserve, to which the council will make a fixed annual contribution, to pay for the non-staffing costs of the local plan to manage these fluctuations. It is also proposed that the underspend on these costs at the end of 2021/22 will be added to this reserve.

- **Increase in managed vacancy factor £211,055**. 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 £300,000**. In undertaking the base budget challenge exercise, officers consider that there is further potential to realise further savings
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from the base budgets from future exercises. The following areas have been identified as initial areas for review:

- Development management,
- Front of house,
- Grounds maintenance.

15. 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).

16. As a result of these changes the council's revised base budget for 2022/23 is **£15,623,268**, a decrease of £3,265,633 over 2021/22. This decrease is primarily due to the removal of prior year growth and savings identified during the budget challenge process.

Revenue growth

17. Revenue growth of **£152,700** has been included in the budget for 2022/23. This is detailed in **appendix B.1**. and reflects the following:

- The ongoing increase in employer National Insurance costs which commences in 2022/23, government funding for which has now been confirmed to be in the settlement,
- An ongoing extension to previously agreed one-off growth bid to support community climate initiatives,
- A one-off increase in the budget to fund transformation activities, to be funded from the projected underspend in 2021/22. Transformation activities are discussed later in this report.

Revenue savings

18. Savings proposals relate to an ongoing proposed change in car parking fees has been included in the budget for 2022/23. This is detailed in **appendix B.2** and amounts to **£218,000**.

Gross treasury income

19. Investment returns for 2022/23 will be used to finance expenditure in-year. It is currently forecast that **£388,820** will be earned in 2022/23. 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.

20. More details of treasury income can be found in the council's Treasury Management Strategy report¹.
21. Including growth and gross treasury income results in a net expenditure budget for the council of **£15,557,968**.

Reserves and other funding

Transfers to/ from earmarked reserves

22. This amounts to **£207,124** and primarily represents the net of the transfer to reserves of the affordable homes element of the New Homes Bonus (NHB) payment.
23. 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 2022/23 is **£15,434,931 (appendix A.1)**.

Funding

Local government settlement

24. Following the Spending Review in November 2021, the provisional local government settlement for 2022/23 was announced in December 2021. As with the previous year's settlement, this is for one year only.
25. Table 1 below details the government's funding for the council in 2022/23.

Table 1: provisional local government finance settlement 2022/23

	Provisional Settlement £
Business rates retention scheme	(2,370,047)
Revenue support grant	(414)
Indexation	(194,733)
NDR at safety net	177,754
Settlement Funding Assessment	(2,387,440)
Other funding	
New Homes Bonus	(3,380,530)
Rural Services Delivery Grant	(9,551)
Lower tier services grant	(768,949)
2022/23 services grant	(163,385)
Grand total	(6,709,855)

26. The provisional settlement for 2022/23 is over six per cent lower than 2021/22. Whilst the provisional settlement, at a national level, includes an average increase in "core revenue spending power" of 6.8 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

¹ Considered by Cabinet 4 February 2022, Council 16 February 2022

government's calculations, the council's core revenue spending power does not increase in 2022/23. By remaining unchanged, this reflects an increasing reliance on council tax income whilst government grant funding reduces.

27. 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 **£3,380,530** for 2022/23.
28. Outside of core revenue spending power, government has also provided additional one-off services grant funding. This amounts to **£163,385** and is in addition to lower tier services grant funding of **£768,949**.
29. 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.
30. In announcing the settlement, the Secretary of State for Levelling Up, Housing and Communities stated that:

“Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years, dating from 2013-14 to a large degree, and even as far back as 2000. Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes.

As part of this we will look at options to support local authorities through transitional protection. Councils should note the one-off 2022/23 Services Grant provided in the Local Government Finance Settlement in 2022/23 will be excluded from potential transitional protections.”

31. For budget setting purposes it has been assumed that the council's "core revenue spending power" will gradually fall during the period covered by the MTFP period. It is conceivable that this may be too optimistic an approach, or indeed too pessimistic as, if future government funding for the council does fall as a result of changes to the distribution of government grant, the transitional protection referred to above could see core revenue spending power maintained for a period of time. However, with no certainty over future funding, in particular NHB from which the council has benefitted heavily in recent years, officers consider it prudent to project an ongoing reduction in core revenue spending power.
 32. The actual funding generated in future years will depend on what happens to the retained business rates scheme which could include changes to:
 - The percentage of business rates growth retained by the different tiers of local government,
 - the baseline in accordance with the review of needs and resources,together with the outcome of the review of NHB.
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33. 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

34. The surplus on the collection fund is estimated in 2022/23 to be **£377,602** (MTFP row 57).

Use of reserves

35. 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 contribution to reserves of **£58,659** in 2022/23.

Revenue budget proposal

36. 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 **£15,169,948**. This revenue budget as proposed would result in an increase of £5.00 to current band “D” council tax to **£146.69**. The proposed increase of £5.00 in 2022/23 is the maximum increase allowed under the draft council tax referendum principles announced in the provisional local government settlement.

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

Capital programme 2022/23 to 2026/27

Current capital programme

38. The latest capital programme (before growth) is shown in **Appendix D.1** and summarised in table 2 below. It is the capital programme as set by Council in February 2021 plus:

- slippage (caused by delays to projects) carried forward from 2020/21,
- new schemes approved by Council during 2021/22,
- re-profiling of expenditure on schemes from the 2021/22 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.

39. A number of existing schemes have been identified as being available to be funded from the council’s share of Community Infrastructure Levy (CIL) rather than from council resources. The balance of CIL receipts is currently £1.981 million. These schemes total £1.614 million and are:

- Faringdon Pitch
 - Car Park Lighting Improvements
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- Changes to Rye Farm Car Park
- Fitness Extension Development White Horse Leisure Centre
- Car Park resurfacing
- Replacement CCTV Cameras and equipment

40. The capital programme also includes CIL receipts that are payable to Oxfordshire County Council and Oxfordshire Clinical Commissioning Group.

Cabinet capital programme proposals

41. **Appendix D.2** contains a list of new capital schemes that are being recommended as part of this budget proposal to be funded from council resources. **Appendix D.3** contains a further list of proposals that will be funded from CIL receipts. Officers will amend the capital programme to include the proposals if approved by Cabinet and Council.

Financing the capital programme

42. 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.

43. **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.

44. Growth proposals in appendix D.3 are to be funded by CIL funds. The current balance of funds available to fund these projects is £0.367 million. The £1.048 million shortfall over five years is to be funded by anticipated future CIL receipts. The latest forecast for the council's allocation of CIL receipts expected to be collected during 2022/23 is approximately £1.8 million.

45. The programme proposed can be fully funded from existing and anticipated capital resources. The total planned capital expenditure is £35.303 million over the programme period.

Table 2: current and proposed capital programme with financing

	2021 /22 latest estimate £000	2022 /23 estimate £000	2023 24 estimate £000	2024 /25 estimate £000	2025/26 estimate £000	2026/27 estimate £000	GRAND TOTAL £000
Capital programme approved	17,892	5,089	2,130	3,191	2,264	2,089	32,655
Capital growth proposals (Appendix D.2)	0	825	102	102	102	102	1,233
Capital growth funded by CIL receipts (Appendix D.3)		835	145	145	145	145	1,415
Total expenditure	17,892	6,749	2,377	3,438	2,511	2,336	35,303
Financing							
External contributions	5,305	4,753	1,538	1,522	1,522	1,522	16,162
Affordable Homes Delivery Plan	10,259	0	0	0	0	0	10,259
Usable capital receipts/revenue reserves	2,328	1,996	839	1,916	989	814	8,882
Total financing	17,892	6,749	2,377	3,438	2,511	2,336	35,303
Flexible use of capital receipts - transformation activities							2,000
Estimated balances as at 31 March 2027							
Usable capital receipts							2,866

46. The council's usable capital receipts, based on current estimates, are expected to be **£2.866 million** by the end of 2026/27. In addition, future asset sales and realisation of capital receipts are anticipated to be generated via implementation of the Strategic Property Review.

The prudential code and prudential indicators

47. In setting its revenue and capital budgets for 2022/23, 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.
48. 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.
49. 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.
50. 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.
51. 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.

52. Under the code, the 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 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.

53. **Appendix E** contains the recommended prudential indicators, which have been calculated based on the budget proposals. The 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)

54. The MTFP provides a forward budget model for the next five years. **Appendix F** contains the MTFP for 2022/23 to 2026/27. This is a projection of the revenue budget up to 31 March 2027. As identified above it assumes a gradual ongoing reduction in core revenue spending power over the MTFP period. It also incorporates assumptions on interest income and other predictable pressures on the council, such as inflation and salary increments.

55. Included within the MTFP is an estimate of costs associated with the 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 at this time to be around £1.5 million, from those receipts.

56. As a result of the work undertaken through the budget challenge process, the future projections represent a significantly improved position as compared to that estimated in February 2021. For 2022/23 the council is able to set a balanced budget. In each of the subsequent financial years, revenue expenditure exceeds revenue income and there is an increasing draw on reserves to balance the budget. However, based on these latest estimates, revenue reserves are sufficient to set a balanced budget across the MTFP period but not beyond 2026/27. Government have confirmed that details regarding the spending review will be brought forward within the current parliamentary term.

57. The estimated draw on reserves 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
2022/23	(59)
2023/24	496
2024/25	1,348
2025/26	2,728
2026/27	3,733
Total	8,246

The robustness of the estimates and the adequacy of reserves

58. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the 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.
59. The construction of the budget has been managed by qualified accountants and as identified above, has this year been subject to significant challenge both by strategic management team and cabinet members.
60. An informal cabinet update on December 20 2021 noted an interim report on progress with on budget setting. A detailed informal briefing on this budget proposal was given to the council's scrutiny committee members on 1 February 2022. This session was open to all councillors.
61. In view of the process undertaken and his own knowledge of the budget, the head of finance is satisfied that the budget for 2022/23 is both prudent and robust. However, as demonstrated above, whilst in 2022/23 the council is able to set a balance budget, based on current assumptions in future years of the MTFP period, revenue expenditure exceeds revenue income, and the council's revenue reserves are insufficient to set a balanced budget beyond 2026/27, the end of the MTFP period. The level of future government funding, which as identified above is subject to ongoing uncertainty, may push back or bring forward the year when revenue reserves become insufficient. If the latter is the case then the council will not be able to set a balanced budget over the period covered by the MTFP.
62. The transformation activity, which was first agreed in the 2020/21 budget and forms part of the corporate plan delivery activity, is central to the council's efforts to tackle the increasing budget gap. This work, whilst progressing, has been impacted by the pandemic. However, officers are now working on defining more closely the scope and remit of this work, which is anticipated progress at pace in 2022/23 and will benefit from the additional £250,000 being proposed in this budget and funded from the projected 2021/22 underspend.
63. It is anticipated that a dedicated team of officers, supported by external consultants as appropriate, will drive and programme manage the delivery of the transformation work, which will be focussed initially on the following areas that have been identified in discussions between officers and cabinet members:
- Implementation of the IT strategy,
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- Customer services including front of house,
- Strategic property review and implementation of the corporate landlord model,
- Development management,
- Grounds maintenance.

64. Further details on this work will be presented to cabinet as they progress in accordance with the council's democratic process.

65. The head of finance's full report will be available at full Council.

Climate and ecological impact implications

66. Agreement of the revenue budget for 2022/23 and capital programme to 2026/27 agrees the allocation of funding to support the council's corporate objectives, including the objective of Tackling the Climate Emergency which includes the specific item of revenue growth for community climate initiatives.

Legal Implications

67. 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 16 February 2022 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.

68. The requirement placed on the council by the Local Government Act 2003 to set prudential indicators and for the 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

69. 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

70. This report provides details of the revenue base budget for 2022/23, the capital programme 2022/23 to 2026/27, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.

71. 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 2022/23
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	Revenue growth and savings
Appendix C	Service budget analysis
Appendix D.1	Capital programme before growth
Appendix D.2	Capital growth bids
Appendix D.3	Capital growth bids – externally funded
Appendix E	Prudential indicators
Appendix F	Medium term financial plan

Background Papers

Provisional settlement figures (December 2021)

Council tax base 2022/23 – Cabinet 3 December 2021, Council 8 December 2021

Treasury Management Strategy – Cabinet 4 February 2022, Council 16 February 2022
