

# Cabinet Report

Report of Head of Finance

Author: Simon Hewings

Telephone: 01235 422499

Textphone: 18001 01235 422499

E-mail: [simon.hewings@southandvale.gov.uk](mailto:simon.hewings@southandvale.gov.uk)

Wards affected: all

Cabinet member responsible: Andrew Crawford

Tel: 01235 772134

E-mail: [andy.crawford@whitehorsedc.gov.uk](mailto:andy.crawford@whitehorsedc.gov.uk)

To: CABINET

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## Budget setting 2023/24 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 in preparing the revenue budget for 2023/24 and the capital programme for 2023/24 to 2027/28, and to report, at a high level, on the issues that need to be considered when Council sets a revenue budget and capital programme in February 2023.

### Corporate Objectives

2. The allocation of financial resources within the revenue and capital budgets needs to match the objectives agreed by the council which includes securing long-term financial stability.

### Background

3. In February 2023 Cabinet will consider a report on the revenue budget for 2023/24 and the capital programme for 2023/24 to 2027/28 and will recommend these to council. This report updates Cabinet on progress to date with budget setting.
4. A balanced revenue budget for 2022/23 agreed by Council in February 2022. Whilst a draw on reserves was anticipated to be required across all future years of the Medium-Term Financial Plan (MTFP) agreed in February 2022, following an extensive budget challenge exercise the amounts required were much less than originally forecast. The

budget report commented that, based on these latest estimates, revenue reserves are sufficient to set a balanced budget across the MTFP period to 2026/27, but not beyond the end of that period.

5. Whilst the budget agreed in February 2022 reflected a more positive financial position for the council, reflected in positive feedback from our external auditors, it did not foresee the economic and political upheaval that has taken place during the year. On the economic front, in the same way that households have been affected by the cost-of-living crisis, the council's finances have been similarly impacted and the significant rise in inflation has led to increases in costs for:

- External contracts,
- Utility costs,
- Consumables.

Against these cost increases, the council has benefitted from the continuing rise in interest rates which has increased the returns from the council's investments.

6. The 2022/23 budget reflected a further one-year settlement from the government but, based on announcements at the time the settlement was finalised, there was the expectation that clarity on the future of local government funding would be forthcoming. This included the possibility of at least a two-year settlement.
7. The economic and political turmoil experienced in the year has however impacted on this, as evidenced by the "2023/24 Local Government Finance Settlement Policy Statement", issued on December 12 2022. This confirms that the "Review of Relative Needs and Resources" (Fair Funding Review) and a reset of Business Rates growth will not be implemented in the next two years. Whilst the detail of the provisional settlement is not due to be released until just before the Christmas break, the statement indicates that the council's core revenue spending power (i.e. the combination of its government grant funding through the settlement and council tax) will increase by a minimum of three per cent for 2023/24, before additional council tax income is factored in. It also indicates that the council tax referendum principle for shire district councils in 2023/24 will be three per cent or £5, whichever is greater.
8. Where the policy statement provides less clarity is around funding for 2024/25. The 2024/25 settlement will include a new funding stream, subject to successful delivery of the Extended Producer Responsibility for packaging (pEPR) scheme as soon as is feasible within this financial year. It states that local authorities can expect to receive additional income from the scheme whilst being asked to submit data relevant to their waste collection services.
9. The policy statement then states that:

*"The government recognises that the position of the lower tier must be understood in the round, therefore we will review the 2024-25 position of funding for lower tier authorities particularly given the possible interactions with the pEPR scheme. We also recognise the need to help councils plan and we will therefore set out the future position of New Homes Bonus ahead of the 2024-25 local government finance settlement".*

## **Budget setting activity 2023/24**

10. Against this backdrop, budget setting activity has been undertaken in a similar format to previous years. One key transformational change this year has been to move away from the use of spreadsheets to using the council's financial ledger system, as part of our wider transformation following the insourcing of the service. As this is the first year this has been possible, it has presented the finance team with a number of challenges during the process but the key benefits, particularly around production of summary information, and the speed and accuracy of reporting are already being observed.

## **Revenue base budget 2023/24**

11. The starting point for building the council's budget for 2023/24 is to determine the base budget. This represents the costs to the council of continuing to provide existing services on an ongoing basis.
12. Base budgets for 2023/24 have been constructed by heads of service and budget holders supported by finance business partners from the Strategic Finance Team. As with the 2022/23 base budgets, they are currently being scrutinised through a two-stage "base budget challenge" exercise:
  - Stage 1 is an officer-based challenge undertaken by the Interim Head of Policy and Programmes and the Head of Finance supported by accountants from the Strategic Finance Team,
  - Stage 2 is a member-led challenge exercise, led by the relevant portfolio holder for the service under review and the cabinet member for finance.
13. The challenge process, which is expected to be completed before Christmas, is focussed on the following key areas:
  - Identification and removal of any remaining surplus budgets,
  - Right-sizing budgets to reflect the current economic climate and pressures,
  - Ensuring that all discretionary fees and charges increase by a minimum of five per cent and that the Council delivers on its commitment to ensure that when setting discretionary charges, all relevant costs are included and recovered transparently,
  - Ongoing centralisation of budgets as the impact of our insourcing and increased corporate capacity, which has been a member priority, is appropriate to ensure accurate budgeting, proper control of expenditure and the avoidance of potential over-budgeting through double provision.
14. Discretionary revenue growth and savings that would result in a reduction in service levels, do not form part of the base budget build and none have been considered during the base budget challenge exercise. Any such items that are brought forward as part of the final budget setting proposals in February 2023 must reflect activities linked to corporate plan priorities.

## **Next steps**

15. Following the completion of the base budget challenge exercise, and following receipt of the provisional government settlement, officers will work with members on final budget proposals, including any discretionary items. This will also include the Medium-Term Financial Plan (MTFP) for the council, which will outline expected costs, income and pressures over the five-year period from 2023/24. This will outline how sustainable the council's finances are expected to be over what is likely to be a challenging period.

## **Capital programme 2023/24 to 2027/28**

16. The current capital programme is being reviewed in detail by heads of service in conjunction with finance staff as part of the budget setting activity and will be changed to reflect recent decisions and current expectations of the spending profile. The programme also includes a statement of how it will be funded.
17. An informal member working group has begun meeting to discuss projects that could be funded from Community Infrastructure Levy (CIL) and could be included in the budget. Items recommended by that group and agreed by Cabinet after assessment and the provision of appropriate advice from officers, together with any other proposed new schemes that support corporate plan priorities, will be included in the budget proposals in February for cabinet consideration.

## **Issues for consideration**

18. The paragraphs below set out further issues that need to be considered before the final budget for 2023/24 is set by council in February 2023.

### **Council tax**

19. In 2022/23 the council increased council tax by £5, the maximum permitted without triggering a referendum. The MTFP estimate for 2023/24 assumes that council tax would also increase by £5 assuming the same referendum principles apply. The financial settlement will confirm the draft referendum principles for council tax for 2023/24.

## **Climate and ecological impact implications**

20. There are no direct climate and ecological impact implications arising from this budget update report, although the outcomes that are enabled by the Councils activity can and do have an impact on both areas.

## **Financial Implications**

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

## **Legal Implications**

22. 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 2023 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**

23. This report updates Cabinet on the progress made to date in progressing with budget setting activity for 2023/24, and on the economic background to that activity. The ongoing support for this process from the Interim Head of Policy and Programmes, and the positive engagement by officers across the Council means that good progress has been made. Both the wider finance team and Section 151 Officer are confident that, based on current information and progress, an appropriate and robust budget will be recommended to Cabinet in February 2023.