

Cabinet report



Report of Head of Finance

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To: CABINET

DATE: 19 December 2023

Budget setting update report 2024/25

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 2024/25 and the capital programme for 2024/25 to 2028/29, 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 2024.

Strategic 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 2024 Cabinet will consider a report on the revenue budget for 2024/25 and the capital programme for 2024/25 to 2028/29 and will recommend these to council. This report updates Cabinet on progress to date with budget setting.
 4. The revenue budget for 2023/24 agreed by Council in February 2023 included a transfer to reserves of £2.5 million. A draw on reserves was anticipated to be required across all future years of the Medium-Term Financial Plan (MTFP) agreed in February 2023.
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5. The budget report commented that, based on these latest estimates, revenue reserves are sufficient to set a balanced budget across the MTFP period to 2027/28, but not beyond. However, the budget report also highlighted that, more so than in previous years, the estimates in respect of the later years of the MTFP were more speculative than they had been in previous years, reflecting the difficult economic environment and uncertainty over future levels of government funding.
6. As 2023/24 has unfolded, inflation has remained higher than originally anticipated and this has continued to put pressure on the council's expenditure budgets and income streams as the cost of living crisis continues to impact household finances. Against these cost increases, the council has however benefitted from interest rates rising higher than originally expected, and they are expected to remain high for some time. This has increased the returns from the council's investments which are being used to offset the increases in expenditure due to inflation.
7. In announcing the budget for 2023/24, government stated that the settlement gave "details of funding in 2024/25". In reality, for district councils it did not provide certainty as to the numbers for 2024/25. In particular, government indicated that it would set out the future position on New Homes Bonus (NHB), which has become a key part of the council's funding, ahead of the announcement of the settlement. This was intended to have been reviewed "in the round" with the then proposed introduction of the "Extended Producer Responsibility for Packaging" scheme, which, if it had been implemented as planned in 2024/25, would have led to the creation of a significant new income stream for the council from producers paying towards the costs of the recycling of their packaging. That scheme has however been delayed.
8. On Tuesday 5 December 2023, the Development for Levelling Up, Housing and Communities issued a Local Government Policy Statement for 2024/25, ahead of the full settlement which is expected to be published before Christmas. The policy statement indicates, as expected, a one-year settlement as we are now coming to the end of the current spending review period, and with a general election due at some point before January 2025.
9. Without the detail of the full settlement it is not possible to confirm the exact grant funding the council will receive. The statement identified a six per cent increase in core spending power across local government as a whole but indicated that all authorities will see at least a three per cent increase "before any decision on organisational efficiencies, use of reserves, and council tax levels". This reflects larger increases in spending power being targeted at upper-tier and unitary councils which have social care responsibilities. Pending confirmation of the settlement figures, officers will assume that the increase for the council will be three per cent, which is higher than officers estimated in the MTFP for 2024/25, but remains below inflation. The statement also identified that the likely referendum limit for shire districts will be to three per cent or £5, whichever is higher.

Budget setting activity 2024/25

10. Following two years where the focus of budget challenge activity has been on revenue budgets, for 2024/25 budget challenge has focussed primarily on the council's capital programme. As identified in the 2023/24 budget setting report, funding the agreed capital programme was reliant on borrowing, which represents a key change for the council and requires a different, more stringent approach to capital budget setting than that undertaken previously, starting with this detailed review.
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Revenue base budget 2024/25

11. The starting point for building the council's revenue budget for 2024/25 is to determine the base budget. This represents the costs to the council of continuing to provide existing services on an ongoing basis and assumes no additional work pressures or requirements will emerge.
 12. Base budgets for 2024/25 have been constructed by heads of service and budget holders supported by finance business partners from the Strategic Finance Team. The base budgets are currently under review and those of three services have been identified for a more in-depth budget challenge exercise similar to those undertaken across all services over the past two years. The services identified have some of council's most complex and volatile budgets and are:
 - Development and Corporate Landlord,
 - Housing and Environment, and
 - Planning.
 13. These services will be scrutinised through a two-stage "base budget challenge" exercise:
 - Stage 1 is an officer-based challenge undertaken by the Chief Executive 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.
 14. The challenge process, which is expected to be undertaken during December and January, is focussed on the following key areas:
 - Challenging any essential growth identified
 - Right-sizing budgets to reflect the current economic climate and pressures,
 - Ensuring that all discretionary fees and charges reflect the cost increases incurred in providing the services.
 15. 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 2024 must reflect activities linked to corporate plan priorities and be cognisant of the council's emerging financial position and the fact that workloads across the Councils are such that additional work demands cannot be delivered within current resources.
 16. Work already undertaken confirms that the high level of staff retention, and workloads across the councils, mean that some changes to our baseline assumptions on the vacancy factor is required, as we now carry very few vacancies. Action across the councils over the past two years also mean that our spend on essential agency staff is very low in comparison with other local authorities.
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Next steps

17. 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 2024/25. This will outline how sustainable the council's finances are expected to be over what is likely to be a challenging period when a number of the council's service contracts are due to come to an end, including:
 - Waste and street cleansing (currently provided by Biffa),
 - Five Councils' contract (currently provided by Capita),
 - Car parking (currently provided by Saba), and
 - Leisure centres (currently provided by Greenwich Leisure Limited (GLL)).

Capital programme 2024/25 to 2028/29

18. The capital budget challenge exercise is nearing completion and a revised capital programme, together with capital growth proposals, are expected to be circulated to Cabinet during December. There will also be a member budget challenge on services where capital budgets are concentrated, namely:
 - Development and corporate landlord, and
 - Housing and environment.
 19. Officers will also work through the most financially beneficial way of funding the capital programme, which will include the consideration of the timing of required borrowing and its impact on future revenue budgets.
 20. Given the council's reliance on borrowing to fund the capital programme, all existing capital programme schemes and any growth proposals will need to comply with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, and also the Public Works and Loans Board (PWLB) from whom the council is likely to borrow in future.
 21. In essence, compliance with these requirements will restrict the council to only including projects in its capital programme that primarily support service delivery – this includes housing and regeneration schemes where the primary objective is not income generation. Projects that are primarily aimed at generating income cannot be included in the programme. It will also require the council to determine an affordable level of borrowing. Whilst borrowing is not unusual for Councils, it will require adjustment to many of our processes.
 22. Externally funded schemes, using government grant money, Section 106 receipts, Community Infrastructure Levy (CIL) or other external funds make up a significant part of the council's capital programme. Where new proposed schemes are not externally funded, then they will increase the council's borrowing requirement and therefore represent an increased future revenue cost. As a consequence, schemes that are not externally funded will need to be prioritised based on their criticality to service delivery,
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and whether the potential borrowing costs¹ incurred in delivering the project are expected to be covered by the revenue income/savings generated by them as early indications are that the MTFPs will not be able to sustain long term additional costs.

Issues for consideration

23. In 2023/24 the council increased council tax by £5, the maximum permitted without triggering a referendum. The MTFP estimate for 2024/25 assumes that council tax would also increase by £5 assuming the same referendum principles apply. The policy statement and financial settlement will confirm draft referendum principles for council tax for 2024/25.

Financial Implications

24. Any council decision that has financial implications must be made with the knowledge of the council's overarching financial position. For Vale, the position reflected in the council's medium-term financial plan (MTFP) as reported to full Council in February 2023 showed that the council was able to set a balanced budget for 2023/24, but that there is expected to be a budget gap in future years. However there is great uncertainty over this caused by a lack of clarity from government.

25. The future funding gap is predicted to increase to over £7.8 million by 2027/28, based on current cautious officer estimates of future funding levels. Whilst it is anticipated that overall funding for the council will remain relatively unchanged in 2024/25, the lack of certainty on future local government funding from 2025/26 onwards means the level of funding, and the resulting estimated funding gap, could be significantly different from current officer estimates in either a positive or negative way. Every financial decision, particularly those involving medium-term funding commitments (i.e. those beyond 2024/25), needs to be cognisant of the potential for significant funding gaps in future years.

26. Council budgets are under pressure across the country, with many councils having already made significant service reductions, and some effectively withdrawing from discretionary spend. Whilst the council has been able to avoid taking such drastic action through its approach to sound financial management, and has been able to maintain services despite its spend per resident being notably lower than its benchmarked 'nearest neighbours', without a change in the national funding position, it is almost inevitable that service reductions will be required in future years, potentially from 2025/26.

Legal Implications

27. There are no direct legal implications arising from this budget update report at this time.

28. 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 21 February 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).

¹ Borrowing costs include provision for repayment of principal over the useful life of the asset, plus interest costs (this may represent actual interest charges or an estimation of the reduction in interest income due to the council if internal resources are used).

Climate and ecological impact implications

29. 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.

Equalities, risk and other implications

30. This report is for information only and therefore there are no direct equalities, risk or other implications. However, the report does highlight that the Council faces an increasingly challenging financial environment.

Conclusion

31. This report updates Cabinet on the progress made to date in progressing with budget setting activity for 2024/25, and on the financial background to that activity. Both the wider finance team and Section 151 Officer remain confident that, based on current information and progress, an appropriate and robust budget will be recommended by Cabinet in February 2024.
