

Cabinet Report



Report of Head of Finance

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Wards affected: All

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Cabinet Date: 16 February 2024

Revenue budget 2024/25 and capital programme 2028/29

Recommendations

- a) That Cabinet recommends to Council that it:
- Sets the revenue budget for 2024/25 as set out in appendix A.1 to this report,
 - Approves the capital programme for 2024/25 to 2028/29 as set out in appendix D.1 and D.2 to this report, together with the capital programme changes as set out in appendix D.3 and appendix D.4 to this report,
 - sets the council's prudential limits as listed in appendix E to this report,
 - Sets the council's medium-term financial plan to 2028/29 as set out in appendix F to this report.
- b) That Cabinet agrees that the head of finance, in consultation with the cabinet member for finance, may make minor adjustments to this report and the prudential indicators should they prove necessary prior to its submission to Council on 21 February 2024.

Implications (further detail within the report)	Financial	Legal	Climate and Ecological	Equality and diversity
	Yes	Yes	Yes	Yes/No
Signing off officer	Simon Hewings	Vivien Williams	Kim Hall	Abigail Witting

Purpose of report

1. This report:

- Brings together all relevant information to allow Cabinet to recommend to Council a revenue budget for 2024/25 and a capital programme for 2024/25 to 2028/29;
- 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 and should reflect the corporate plan.

Revenue budget setting

Background

3. 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. The budget report commented that, based on the estimates at that time, revenue reserves were 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.
4. The background and approach to budget setting for 2024/25 were covered in the "Budget setting 2024/25 update report" considered by Cabinet in December 2023.

Revenue base budget setting 2024/25

5. The starting point for building the council's 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.
6. 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. Following a review of the initial base budgets across the council, those of three services were identified for a more in-depth budget challenge exercise similar to those undertaken across all services over the past two years. The services identified, which have some of council's most complex and volatile budgets, were

- Development and Corporate Landlord,
- Housing and Environment, and
- Planning.

7. These services were scrutinised through a two-stage “base budget challenge” exercise:

- Stage 1 was an officer-based challenge undertaken by the Chief Executive and the Head of Finance supported by finance business partners from the Strategic Finance Team,
- Stage 2 was a member-led challenge exercise, led by the relevant portfolio holder for the service under review and the cabinet member for finance.

8. The challenge process 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.

Revenue budget setting 2024/25

9. **Appendix A.1** summarises the movements in the base budget from £17,334,841 in 2023/24 to £22,109,093 in 2024/25. These movements are detailed below.

10. **Opening budget adjustment increase £515,964 (appendix A.2).** This includes the removal of one-off growth items from the base budget relating to previous years.

11. Additions to the base budget:

- **Inflation, salary increments and other salary adjustments £1,671,618 (appendix A.3).** Based on discussions between UNISON Ridgeway a provisional salary increase of 6.5 per cent for all staff has been built into the budget. This figure is below that indicated by previous inflation figures that underpin the council’s pay arrangements and has therefore been the subject of negotiation. Contractual increments payable to council employees not at the top of their salary range total £101,569. Other salary adjustments represent a cost of £239,459.
- **Essential growth – one-off £320,048 and ongoing £2,521,355 (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 2024/25.

12. Deductions from the base budget:

- **Base budget reductions £372,751 (appendix A.5).** These base budget savings are reductions in costs identified by officers, which predominantly reflect 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.

13. The **contingency** budget was set at £400,000 for 2023/24. After discussion with senior officers, the Head of Finance has concluded that this level should be unchanged for 2024/25.
14. As is noted in the essential growth appendix, the council's transformation team has been made contractually permanent, reflecting the ongoing nature of transformation activity across the council that they will support and the requirement to annually demonstrate best value. Included within the budget is £100,000 of ongoing savings per annum from transformation activity, representing an **in-year savings target**. This does not represent a target for the team as not all transformation savings will emanate from the work of the staff, but instead represents an acknowledgement of the need to continually seek improvement and efficiencies in service delivery.
15. The council has previously operated a **managed vacancy factor** level of five per cent i.e. it anticipates only spending 95 per cent of the employee budget due to, for example, in year vacancies. This has proved difficult to achieve given the ongoing workload being asked of officers across the council, which has required near capacity level staffing at all times, so for 2024/25 this has been replaced by a fixed sum of £500,000.
16. As a result of these changes the council's revised base budget for 2024/25 is **£22,109,093**, an increase of £4,774,252 over 2023/24.

Revenue growth

17. Revenue growth of **£246,101** has been included in the budget for 2024/25. This is detailed in **appendix B.1**. The revenue consequences of capital growth of (£15,000) are also included in the budget and shown in **Appendix D.3**.

Gross treasury income

18. Investment returns for 2024/25 will be used to finance expenditure in-year. It is currently forecast that **£5,004,588** will be earned in 2024/25.
19. More details of treasury income can be found in the council's Treasury Management Strategy report¹.
20. Including growth and gross treasury income results in a net expenditure budget for the council of **£17,335,605 (appendix A.1)**.

Reserves and other funding

Transfers from earmarked reserves

21. This amounts to £103,000 and represents the following elements:
 - A transfer **to** reserves of **£147,000** representing the affordable homes element of the New Homes Bonus (NHB) payment, and
 - A transfer **from** reserves of **£250,000** representing the flexible use of capital receipts to fund the council's costs associated with the exit and service

¹ Considered by Cabinet 16 February 2024, Council 21 February 2024

transformation required when the Five Councils' Partnership contract ends in September 2025.

22. 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 2024/25 is **£17,232,605**.

Funding

Local government settlement

23. The provisional local government settlement for 2024/25 was announced in December 2023. A further announcement on local authority funding was made in January 2024, which indicated that there would be a slight increase in funding on top of that announced in December. No specific details on the extra amount are available, but an estimate of what this amount could be – provided by LG Futures – of £160,281 has been included in the settlement figures. When the final figures are published it is not anticipated that they will materially differ from those anticipated.
24. Table 1 below details the government's funding for the council in 2024/25.

Table 1: provisional local government finance settlement 2024/25

	Provisional Settlement £
Settlement Funding Assessment	(2,712,321)
Indexation	(474,137)
Business rates growth above baseline	(296,576)
Settlement Funding Assessment	(3,483,034)
Other funding	
New Homes Bonus	(2,292,019)
Rural Services Delivery Grant	(10,675)
Lower tier services grant	(15,083)
Additional funding/funding guarantee	(2,196,774)
Grand total	(7,997,585)

25. The provisional settlement for 2024/25 represents an increase in "core revenue spending power" of 4.8 per cent compared to 2023/24. Council tax income is included in the definition of core revenue spending power and, in calculating the increase, government assumes that council tax will increase by the maximum allowed before a referendum is required.
26. In the December provisional settlement, government funding increased by 3.91 per cent. This compared to the headline announcement of a 6.5 per cent increase in funding across local government, and a maximum increase of 4.9 per cent for a district council. The funding announcement in January however stated that all councils will see a minimum increase in government funding of four per cent.
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 **£2,292,019** for 2024/25. This represents one year's worth of NHB only, which is much reduced from the original scheme of six years. Its inclusion within the definition of core revenue spending power in recent years also represented a change from the initial messaging about the financing, which was that it represented additional government funding.

28. Included within the settlement was a funding guarantee of **£2,036,493**. This is still referred to as one-off but has now been a feature of the council's funding for a number of years.
29. On top of the government funding allocation, officers have assumed that there will be growth in business rates, or Non-Domestic Rates (NDR), above the baseline of **£296,676**. Historically the council has observed very little growth in business rates but recent work on business rates income has indicated that this estimate of growth can be prudently included in the budget for this year. Officers will continue to monitor this over the coming financial year.
30. For budget setting purposes it has been assumed that the council's "core revenue spending power" will be maintained by Government in future years. As identified above there is a one-off, funding guarantee element in this year's settlement and this could theoretically fall out of the funding in future years. Budgeting on the assumption that it stays in may be too optimistic an approach, or indeed too pessimistic, but given the ongoing uncertainty over local government funding officers consider that any risks associated with this approach are manageable over the medium term.
31. This settlement represents the last in the current Comprehensive Spending Review period, and a general election must be held within the next twelve months. It remains to be seen what reforms to local government funding will be proposed by the newly elected government, and on what timescale.

Business rates from renewable energy

32. Business rates retained by the council as planning authority relating to facilities generating renewable energy within the district is estimated at **£695,746** (MTFP row 56).

Collection fund

33. The surplus on the collection fund is estimated in 2023/24 to be **£599,413** (MTFP row 58).

Use of reserves

34. 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 **£1,164,423** in 2024/25.

Revenue budget proposal

35. 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

£17,335,605. This revenue budget as proposed would result in an increase of £5.00 to current band “D” council tax to **£156.69.**

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

Capital programme 2024/25 to 2028/29

Current capital programme

37. The latest capital programme (before growth) is summarised in **appendix D.1**, detailed in **appendix D.2** and summarised in table 2 below. It is the capital programme as set by Council in February 2023 plus:

- slippage (caused by delays to projects) carried forward from 2022/23,
- new schemes approved by Council during 2023/24,
- re-profiling of expenditure on schemes from the 2023/24 financial year to future years where delays to schemes have occurred or additional information is now available to support more accurate profiling,
- the deletion of previously agreed schemes that have completed or are not being pursued at this time in their original form.

38. A thorough capital budget challenge exercise has taken place which reviewed the current capital programme, and proposed growth in detail. This included member budget challenge on services where capital budgets are concentrated, namely:

- Development and corporate landlord, and
- Housing and environment.

39. The capital programme also includes CIL receipts that are payable to Oxfordshire County Council and Buckinghamshire, Oxfordshire and Berkshire West Integrated Care Board.

Cabinet capital programme proposals

40. **Appendix D.3** 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.4** 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. All of the CIL funded schemes included in appendix D.3 can be funded from receipts already received by the council and those forecast to be received over the capital programme period.

Financing the capital programme

41. 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 or through prudential borrowing.

42. **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.
43. The total planned capital expenditure, including the current financial year is **£59.794** million over the programme period. The council's usable capital receipts, based on current estimates, are expected to be **£1.835 million** by the end of 2028/29.

Table 2: current and proposed capital programme with financing

	2023/24 Latest Budget £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	GRAND TOTAL £'000
Capital programme approved	15,956	18,822	7,478	5,140	3,936	2,036	53,368
Transformation funding - flexible use of capital receipts		250	783				1,033
Capital growth proposals (Appendix D2)	-	1,341	461	461	2,011	261	4,535
Capital growth funded by CIL receipts (Appendix D3)	-	657	100	100	-	-	857
Total Expenditure	15,956	21,071	8,822	5,701	5,947	2,297	59,794
Financing							
Grants and Contributions	7,351	5,527	1,031	1,327	1,327	1,327	17,890
Developer Contributions - S106	1,156	1,272	1,630	550	321	65	4,993
Developer Contributions - CIL	3,673	7,874	534	245	105	50	12,481
Borrowing	-	-	5,500	3,500	3,500	500	13,000
Usable capital receipts	3,776	6,397	127	79	694	355	11,429
Total Financing	15,956	21,071	8,822	5,701	5,947	2,297	59,794
Estimated balances as at 31 March 2029							
Usable capital receipts							1,835

The prudential code and prudential indicators

44. In setting its revenue and capital budgets for 2024/25, 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.
45. 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 which, like other CIPFA codes, is a binding requirement on local authorities by government regulation.
46. 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.
47. 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.
48. 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.

49. 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 and subsequently that these are complied with. The head of finance is therefore 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.

50. **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)

51. The MTFP provides a forward budget model for the next five years. **Appendix F** contains the MTFP for 2024/25 to 2028/29. This is a projection of the revenue budget up to 31 March 2029. As identified above it assumes that core revenue spending power be maintained in future years. It also incorporates assumptions on interest income and other pressures on the council, such as inflation and salary increments. Clearly in the current economic climate, these assumptions remain subject to greater volatility than experienced in recent years. This therefore renders the estimates in the later years of the MTFP far more speculative than has been the case historically, particularly given the uncertainty around future government funding.

52. At the foot of the MTFP is an illustration on the use of reserves if, instead of core revenue spending power being maintained over the MTFP period, the one-off funding guarantee element falls out from 2025/26 onwards. This illustration represents a more pessimistic view of government funding, which has a consequential effect on the estimated use of reserves in future years and the council's predicted financial position.

53. Previous versions of the MTFP included a "Future essential growth" row which made provision in future years for non-inflationary increased costs associated with the delivery of council services. Removal of this line does not suggest that such pressures won't happen in future. However, the MTFP now provides a picture of the likely budgetary envelope within which the council will need to operate in future if it is to remain financially sustainable. Non-inflationary pressures, where and when they occur, will need to be managed within the budgetary envelope, which may mean choices need to be made over service priorities where cost increases cannot be met by savings and efficiencies. Priorities for future expenditure within available resources will need to be guided by the new corporate plan.

54. As a result of the work undertaken over the last three years through the budget challenge process, and reflecting the change in presentation of the MTFP referred to in paragraph 52 above, the revenue budget for 2024/25 reflects a much healthier position than that previously predicted and demonstrates the significant positive impact of

decisions taken by the council in recent years. However, whilst the short-term position is more positive, looking ahead over the MTFP the picture is much less certain, due to the following factors:

- Ongoing uncertainty around future local government funding with a general election scheduled in the next 12 months,
- The uncertain economic position,
- Growing uncertainty over the future cost of service provision as this is impacted by external economic factors, in respect of both services provided in-house and externally.

It should be noted that these factors are out of the control of the Council and their impact is not, at this time, possible to predict with certainty. It should also be noted that projections of future reserve holdings are based on draft figures prepared for the 2022/23 accounts which have not yet been audited.

55. It should also be noted that the council has a number of significant contracts for service provision coming to an end within the next three years. These are:

- Five Councils' Partnership – 2025
- Car parking services – 2025
- Waste and street cleansing – 2026
- Leisure services – 2026

When these contracts come to an end, should the cost of future service provision be greater than that currently then, as outlined above, the additional costs will need to be managed in line with the budgetary envelope the council will need to operate within to remain sustainable.

56. From 2025/26 onwards it is estimated that revenue expenditure exceeds revenue income, and there is an increasing draw on reserves to balance the budget towards the end of the MTFP period. This use of reserves is sustainable and appropriate in the medium term, but is based on the following two key assumptions:

- Core revenue spending power is maintained over the MTFP period, and
- Council expenditure remains within the budgetary envelope with non-inflationary pressures being managed through savings and efficiencies, or revisions to service priorities.

57. 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. The construction of the budget has been managed by qualified accountants and as identified above, has this year been subject to challenge in a number of areas both by strategic management team and cabinet members.

58. A report was presented to cabinet in December 2023 on progress with budget setting. A detailed briefing on this budget proposal will be given to the council's Scrutiny committee on 5 February 2024 which will be open to all councillors.
59. In view of the process undertaken and his own knowledge of the budget, the Head of Finance is satisfied that the budget for 2024/25 is both prudent and robust and reflects a positive improvement over previous estimated budget positions for that year. However, to maintain that position in future years will require non-inflationary cost pressures to be managed so that net expenditure remains sustainable. The chief executive has provided assurance to the head of finance that this will be achieved.
60. The Head of Finance is satisfied that there is very strong member and officer commitment to ensure financial sustainability is achieved in the longer term, and that responsible action will continue to be taken in a timely manner, should that become necessary as the longer-term financial position becomes clearer as the funding intentions of Government become known in coming years.
61. 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. Its work is expected to continue to deliver savings and efficiencies, which will reduce the need for changes to service priorities. As noted above, the team has been made contractually permanent and an expectation of savings arising from their work has been factored into the budget.
62. The Head of Finance's full report will be available at full Council.

Legal Implications

63. 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 9 February 2024 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.
64. 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.

Climate and ecological impact implications

65. Agreement of the revenue budget for 2024/25 and capital programme to 2028/29 agrees the allocation of funding to support the council's corporate objectives, including the objective of Tackling the Climate Emergency.

Equalities implications

66. There are no proposed service reductions included in this report – as such there are no direct equalities implications arising from this report, beyond those associated with the requirement to ensure that the council's approach to staff remuneration is consistent and reflects the agreements reached with UNISON as well as wider legislation.

Risks

67. As noted under legal implications there is a legal requirement for the council to set a budget within proscribed timelines. If this is not achieved, then there is significant financial risk to the council in the short term of being unable to legally bill residents for council tax due and for wider intervention by Government.
68. The financial risks facing the council in the future have been detailed in the 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 but is not a requirement to spend. 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, at the time they are made, as required by law.

Conclusion

70. This report provides details of the revenue base budget for 2024/25, the capital programme 2024/25 to 2028/29, 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 2024/25
- 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.1 Revenue growth and savings
- Appendix C Service budget analysis
- Appendix D.1 Current capital programme – summary
- Appendix D.2 Current capital programme - detailed
- Appendix D.3 Capital growth bids
- Appendix D.4 Capital growth bids – funded by CIL
- Appendix E Prudential indicators
- Appendix F Medium term financial plan

Background Papers

- Provisional settlement figures (December 2023)
- Council tax base 2024/25 – Cabinet 1 December 2023, Council 13 December 2023
- Budget setting 2024/25 update report – Cabinet 19 December 2023
- Treasury Management Strategy – Cabinet 16 February 2024, Council 21 February 2024