Vale of White Horse District Council

Report of the chief financial officer on the robustness of the budget estimates and the adequacy of the reserves.

1. Section 25 of the Local Government Act 2003 places a duty on the chief finance officer (at this council the head of finance) to make a report to the council on the robustness of the estimates and the adequacy of the reserves. This report fulfils this requirement and provides councillors with assurance that the budgets have been compiled appropriately and that the level of reserves is adequate. It is a statutory requirement that councillors must consider this report when considering and approving a budget.

2. In presenting this report the head of finance is mindful of other associated statutory safeguards designed to prevent the authority from over-committing itself financially, namely:

   - Section 151 of the Local Government Act 1972 which requires the authority to make arrangements for the proper administration of its financial affairs and that the head of finance as the chief financial officer has personal responsibility for such administration;

   - Sections 32, 43 & 93 of the Local Government Finance Act 1992 which requires the authority to set a balanced budget;

   - The Prudential Code sets out the framework within which the authority must manage its investments, including adequate planning and budget estimates;

   - The external auditor's duty to assess the adequacy of the authority's proper arrangements to secure economy, efficiency and effectiveness ('value for money').

3. To reinforce these obligations, section 114 of the Local Government Finance Act 1988 requires the head of finance as the chief finance officer to report to all the authority's councillors, in consultation with the monitoring officer and the chief executive, if there is or is likely to be unlawful expenditure or an unbalanced budget.

Robustness of the budget estimates

BACKGROUND TO 2024/25 BUDGET SETTING

4. During 2023/24 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 at a higher level than experienced in recent years for some time. This has increased the returns from the council's treasury investments which are being used to offset the increases in expenditure due to inflation. Inflation has fallen in recent months but remains above the Bank of England's target of two per cent.

5. Budget setting activity for 2024/25 took place amidst ongoing uncertainty over the future of local government funding. 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 however has been delayed.

PREPARATION, REVIEW & SCRUTINY

6. In accordance with best practice and using accruals accounting, the council provides for realistic estimates of costs and known liabilities.

7. The initial revenue base budget estimates were prepared jointly by the heads of service and appropriately qualified staff from the council’s 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 officer and cabinet member budget challenge exercise similar to those undertaken across all services over the past two years.

8. A thorough capital budget challenge exercise, again involving officers and cabinet members, has taken place which reviewed the current capital programme, and proposed growth in detail.

9. Scrutiny committee considered the budget at its meeting on Monday 5 February. This followed an informal briefing from the head of finance open to all members on the factors taken into account in determining the budget.

REVENUE BUDGET

10. Similar to most district councils the most significant costs within the revenue budget are:

- staff salaries and related costs,
- payments under contracts for services,
- housing benefit and council tax support payments.

11. The estimates of staff costs are prepared by calculating the appropriate proportional cost of employing each member of staff for the full year. The budget also makes provision for recruitment and training costs. Staff costs include incremental progression and an allowance for the cost of any locally agreed pay award.

12. Under normal circumstances, the risk of overspending on staff costs is considered negligible. The budget assumes a level of expected vacancy savings of £500,000. Previously the council had budgeted at 95 per cent of the expected salary level in its services, which in 2023/24 equated to expected vacancy savings of £790,000.

Salary expenditure has however been above this level, necessitating a lower estimate.

13. The costs of the most significant council contracts are linked to increases in the various price indices, usually the Retail Prices Index (RPI) or the Consumer Price Index (CPI). Allowance has been made in the budget for cost inflation but it is possible that such allowance may be insufficient if inflation was to increase. If this happens then the contingency budget may need to be called upon. Allowance has also been made within the budget for potential increased costs of service delivery, additional costs arising from demographic growth and increased demand for services (e.g. additional properties leading to increased waste collection costs).

14. The risk of overspending on contract costs exists and there remains a financial risk from a contractor failing to deliver services in accordance with the contract. Such risks are managed through the council's contract monitoring and risk management procedures but cannot be eliminated.

15. The cost of housing benefit is still largely met through government subsidy. Subsidy levels for certain types of temporary accommodation are capped, meaning a continual shortfall to the council in this area, although this can be alleviated in part through the council owning its own supply of housing stock for this purpose. Income from housing benefit overpayments also carries financial risk. Close contract management by the council's revenues and benefits team means that financial risks in this area are regularly monitored.

16. The areas of expenditure where there is a greater level of risk are within the demand led budgets such as the costs of homelessness (including temporary accommodation). Given the current economic conditions these budgets may come under greater pressure than that experienced in earlier years. Experience of demand in the current and recent years has been used to inform the 2024/25 budget.

17. A number of revenue income streams are sensitive to changes in market conditions, including planning fees, building control fees, and land charges fees which all respond directly to the fluctuating characteristics of the housing market. Car parking income can also be volatile and responds to the general economy and retail market. In setting the budget, adjustments have been made to reflect anticipated prevailing market conditions but, particularly given the current economic situation, there will always be a risk that budget targets are not met.

INVESTMENT INCOME

18. The returns on the council's investment portfolio, which has been diversified in accordance with the treasury management strategy, are relied upon to support the cost of services. After many years of low interest rates, since 2022 they have increased with the Bank of England base rate being 5.25 per cent since August. Prudent assumptions of future interest rates, using forecasts provided by our treasury management advisors Link Asset Services, have been used to estimate earnings for both the 2024/25 financial year and future years in the MTFP.

19. Investment income is used in year to support the revenue budget, therefore there is some uncertainty about the amount available when the budgets are set, but the

estimates are considered prudent enough to reduce the risk of this to manageable levels.

REVENUE CONTINGENCY SUM

20. For the 2024/25 budget, the contingency budget remains unchanged at £400,000.

FUNDING FROM CENTRAL GOVERNMENT

21. In December 2023 the government announced the provisional 2024/25 local government settlement, and the final settlement was confirmed in February 2024.

22. When calculating councils' spending power the Government assumes councils increase their council tax to the maximum level allowable before a referendum would need to take place.

23. The 2024/25 settlement is again a one-year settlement as we have reached the end of the current Comprehensive Spending Review period, and a general election will 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, and what impact they will have on the council's finances.

24. For budget setting purposes it has been assumed that the council's "core revenue spending power" will be maintained by the future government over the MTFP period. Included within the 2024/25 settlement is a one-off, £2.2 million funding guarantee. This could theoretically fall out of the funding in future years if the basis of funding remains broadly the same, or indeed a new government could overhaul the approach to local government funding.

25. Budgeting on the assumption that core revenue spending power will be maintained may be too optimistic an approach, or indeed too pessimistic, but given the ongoing uncertainty over local government funding officers consider that at this stage there is no accurate alternative basis on which to make assumptions on future funding, and any risks associated with this approach are manageable over the medium term given the reserves available to the council.

26. The council remains constrained by its low level of council tax. In 2023/24, its Band D council tax level of £151.69 per annum was the 15th lowest in the country for shire districts. The average for shire districts was £208.99 per annum – a gap of £57.30 per property or 38 per cent. It remains to be seen whether the new government will reconsider the position on council tax referendum limits.

CAPITAL PROGRAMME

27. The council's project management system is used to manage capital schemes. This is designed to reduce the risks of both overspends and slippage in the programme.

28. For major projects the council engages skilled advisors to assist it. Whilst these measures can manage and mitigate risk some capital schemes, by their nature, will still contain financial risks.

29. In the capital programme recommended to the cabinet, allowance has been made for works considered necessary to the council's land and property assets.

30. The council has a sufficient capital contingency and reserves to meet any potential capital programme overspends.

MEDIUM TERM FINANCIAL PLAN

31. An updated MTFP has been included in the budget report. The plan sets out provisional revenue spending plans and the estimated use of reserves through to 2028/29. 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 draw is met initially from earmarked reserves, representing previous receipts of New Homes Bonus grant funding, and on current estimates a draw on the general fund balance will not be required during 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 identified budgetary envelope with non-inflationary pressures being managed through additional savings and efficiencies, or revisions to service priorities.

32. 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 million, from those receipts.

33. 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. The team has been made contractually permanent and an expectation of savings arising from their work has been factored into the budget. The level of savings expected from the team and built into the budget is considered reasonable.

PRUDENTIAL INDICATORS

34. The prudential code requires the calculation of a number of prudential indicators, which measure the sustainability of the council's MTFP, explicitly with regard to affordability, prudence, value for money, stewardship, service objectives and practicality. This is backed up by a specific requirement to monitor performance against forward-looking indicators and report and act on significant deviations.

BUDGET MONITORING

35. Three times a year heads of service complete budget monitoring returns forecasting their year-end positions which are reported to cabinet.

RISK MANAGEMENT & INSURANCE

36. The council's risk management arrangements are managed by the council's internal audit and risk team.

37. The main risks inherent in the council's MTFP are:

- government grant funding is less than estimated,
- ongoing economic uncertainty,
- Unforeseen growth in essential expenditure which is not managed within the budgetary envelope available to the council to remain financially sustainable.

Adequacy of reserves

38. The Chartered Institute of Public Finance and Accountancy has issued guidance on local authority reserves and balances in LAAP Bulletin 55. It sets out the three main purposes for which reserves can be held.

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – which forms part of general reserves;
- A contingency to cushion the impact of unexpected events or emergencies – also part of general reserves;
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

39. The council is expected to hold £18.6 million in its general fund as at 31 March 2029, together with £2.2 million in earmarked reserves. The council has previously identified that the general fund balance should not fall below 10 per cent of its annual budget requirement and, based on current estimates, this will be achieved over the MTFP period. This is subject to the key assumptions identified above regarding core revenue spending power being maintained, and council expenditure remaining within the budgetary envelope, being realised.

40. Finally, the council is expected to hold unspent capital receipts of £1.8 million as at 31 March 2029 which form the capital receipts reserve. These monies can only fund capital expenditure except in specific prescribed circumstances.

Conclusion

41. The budget estimates have been prepared following a properly controlled and professionally supported process. They have been subject to challenge, due consideration and the identifiable risks should be capable of management.

42. Overall, the level of reserves at the end of 2024/25 is adequate in relation to the proposed revenue budget and capital programme.

43. The revenue reserves are not reduced other than by the sums already earmarked. The income earned on these reserves is therefore a sustainable source of funds for the council.

44. The level of reserves is adequate for the 2024/25 financial year and over the MTFP period, subject to core revenue spending power being maintained, and council expenditure remaining within the budgetary envelope. If either or both of these assumptions fail to be realised then the council will face challenges in maintaining financial sustainability over the medium to long term. As with all future projections,

the position will need to be regularly monitored by the head of finance and, should it become necessary, action will need to be taken to ensure that reserves remain adequate.

Simon Hewings (Head of finance and chief finance officer)

13 February 2024