

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

30 January 2023

To: CABINET

3 February 2023

To: COUNCIL

15 February 2023

AGENDA ITEM NO
XX

Revenue Budget 2023/24 and Capital Programme to 2027/28

RECOMMENDATIONS

1. That Cabinet recommends to Council that it:

- sets the revenue budget for 2023/24 as set out in appendix A.1 to this report,
- approves the capital programme for 2023/24 to 2027/28 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 2027/28 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 15 February 2023.

Purpose of report

1. This report:
 - brings together all relevant information to allow Cabinet to recommend to Council a revenue budget for 2023/24 and a capital programme for 2023/24 to 2027/28;
 - 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 2023/24

Background

3. The revenue budget for 2022/23 was 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 the budget challenge activity undertaken during 2021/22 this was much lower than previously predicted.
4. As noted in the budget setting report, this use of reserves was considered manageable in the period covered by the MTFP and beyond (in light of the reserves and balances available to the council and the council's ability to vary budgets and redirect funding) but still needed to be addressed through the council's long term transformation programme, which will need to continue to evolve as the position of national funding settlements becomes clear in future years.
5. The background and approach to budget setting for 2023/24, reflecting the economic and political turmoil experienced during 2022, were covered in the "Budget setting 2023/24 update report" considered by Cabinet in December 2022.

Revenue base budget setting 2023/24

6. 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.
7. 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. They have been tested through a two stage "base budget challenge" exercise:

- Stage 1 is a rigorous 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.
8. The challenge process, which was completed before Christmas, 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 utilised to ensure accurate budgeting, proper control of expenditure and the avoidance of potential over-budgeting through double provision.

Revenue budget setting 2023/24

9. **Appendix A.1** summarises the movements in the base budget from £15,557,968 in 2022/23 to £17,134,841 in 2023/24. These movements are detailed below.
10. **Opening budget adjustment reduction £568,422 (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 £688,135 (appendix A.3).** For all council employees an increase in salary of 5.5 per cent is budgeted for 2023/24, reflecting the core settlement agreed with Ridgeway Unison. Increments payable to council employees not at the top of their salary range total £74,615. Other salary adjustments represent a cost of £26,472.

At this stage, the council has not received formal confirmation of the results of the triennial valuation of the council's pension fund liability, as calculated by Oxfordshire County Council's pension fund actuaries. The 2023/24 budget is based on the assumption that the valuation does not make a material impact on the pension costs incurred by the council as employer.

- **Essential growth – one-off £100,061 and ongoing £2,952,899 (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 2023/24. Given the value of these additional growth items, they have been tested and challenged during the base budget challenge by both officers and the relevant cabinet members.

12. Deductions from the base budget:

- **Base budget reductions £1,533,857 (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.
- **In year savings target £300,000.** In undertaking the base budget challenge exercise, officers consider that there is further potential to realise further savings from the base budgets from the long-term transformational programme as identified changes are implemented. As an illustration, further changes across the following areas will be made in 2023/24:
 - Development management,
 - Customer services,
 - Grounds maintenance

13. The contingency budget was raised to £400,000 as part of 2022/23 budget setting. Officers have concluded that this level should be unchanged for 2023/24 as it is reflective of wider economic uncertainty.

14. As a result of these changes the council's revised base budget for 2023/24 is **£17,134,841**, an increase of £1,576,873 over 2022/23.

Revenue growth

15. Revenue growth of **£200,000** per annum has been included in the budget for both 2023/24 and 2024/25. This is detailed in **appendix B.1.** and reflects the continuation of the community hub for a further two years.

Gross treasury income

16. Investment returns for 2023/24 will be used to finance expenditure in-year. It is currently forecast that **£3,329,071** will be earned in 2023/24.

17. More details of treasury income can be found in the council's Treasury Management Strategy report¹.

18. Including growth and gross treasury income results in a net expenditure budget for the council of **£14,005,771**.

Reserves and other funding

Transfers to earmarked reserves

19. This amounts to **£43,960** and represents the net of the transfer to reserves of the affordable homes element of the New Homes Bonus (NHB) payment.

¹ Considered by Cabinet 3 February 2023, Council 15 February 2023

20. 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 **£16,533,422 (appendix A.1)**.

Funding

Local government settlement

- 21. The provisional local government settlement for 2023/24 was announced in December 2022. Whilst the settlement gave “details of funding in 2024/25”, in reality it did not provide certainty as to the numbers for 2024/25.
- 22. Table 1 below details the government’s funding for the council in 2023/24.

Table 1: provisional local government finance settlement 2023/24

	Provisional Settlement £
Settlement Funding Assessment	(2,576,119)
Indexation	(418,823)
NDR at safety net	184,405
Settlement Funding Assessment	(2,810,537)
Other funding	
New Homes Bonus	(1,848,953)
Rural Services Delivery Grant	(9,551)
Lower tier services grant	(92,065)
Funding guarantee	(2,318,489)
Grand total	(7,079,595)

- 23. The provisional settlement for 2023/24 represents an increase in “core revenue spending power” of 4.9 per cent compared to 2022/23. Whilst the provisional settlement, at a national level, includes an average increase in core revenue spending power of nine per cent, for district councils the average is five per cent. 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.
- 24. 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 **£1,848,953** for 2023/24. This represents one year’s worth of NHB only, which is much reduced from the original scheme of six years.
- 25. Government has also provided Services grant funding of **£92,065**. It has also provided a one-off funding guarantee as part of this year’s settlement of **£2,318,489**.
- 26. 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 materially different to the provisional figures.

For budget setting purposes it has been assumed that the council's "core revenue spending power" will be maintained for 2024/25, but then the one-off, funding guarantee element in this year's settlement is assumed to fall out for 2025/26 onwards, to reflect the announcement made by the Secretary of State. It is conceivable that this may be too optimistic an approach, or indeed too pessimistic, but given the ongoing uncertainty over local government funding officers consider this to be a prudent approach at this time.

27. The actual funding generated in future years will depend on the outcome of the national review of the retained business rates scheme which could include changes to:

- The percentage of business rates growth that is retained by the different tiers of local government,
- the baseline in accordance with the review of needs and resources,

As identified in the update report presented to Cabinet before Christmas, it was confirmed by government that this review will not be implemented for the next two years. In respect of NHB, government has announced its intention to set out the future position ahead of the local government finance settlement for 2024/25.

28. 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 56).

Collection fund

29. The surplus on the collection fund is estimated in 2022/23 to be **£632,044** (MTFP row 58).

Use of reserves

30. 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 **£2,603,014** in 2023/24.

Revenue budget proposal

31. 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 **£14,005,771**. This revenue budget as proposed would result in an increase of £5.00 to current band "D" council tax to **£151.69**.

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

Capital programme 2023/24 to 2027/28

Current capital programme

33. 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 2022 plus:
- slippage (caused by delays to projects) carried forward from 2021/22,
 - new schemes approved by Council during 2022/23,
 - re-profiling of expenditure on schemes from the 2022/23 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.
34. 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

35. **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. 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.
36. On Appendix D.2, item 5, the proposed Wantage teaching pool is shown as being fully funded by Section 106 receipts. It should be noted that one source of Section 106 receipts funding this project is the Valley Park development. Up to £981,000 of receipts from this development are not scheduled to be paid until after 2030. If the council commits to this scheme at this time, it is accepting that it will forward fund this scheme, and there is a risk, albeit a risk considered low by officers, that those receipts will not materialise, or will materialise later than expected.
37. Item 6 on Appendix D.2 represents the payment of Section 106 receipts collected by this council in respect of the Valley Park development to South Oxfordshire District Council for two leisure schemes in Didcot:
- Didcot North-East leisure centre, and
 - Didcot Wave learner pool.

In addition to these commitments, a further £3.616 million of receipts from Valley Park, expected to be earned after 2030, are required to be paid from this council to South Oxfordshire District Council in respect of these schemes.

Financing the capital programme

38. 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.
39. **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.
40. The total planned capital expenditure, including the current financial year is £50.354 million over the programme period. The council's usable capital receipts, based on current estimates, are expected to be **£2.362 million** by the end of 2027/28.

Table 2: current and proposed capital programme with financing

	2022/23 latest estimate £000	2023/24 estimate £000	2024/25 estimate £000	2025/26 estimate £000	2026/27 estimate £000	2027/28 estimate £000	GRAND TOTAL £000
Capital programme approved	16,312	8,318	2,200	3,247	2,122	2,122	34,321
Transformation funding - flexible use of capital receipts	500	0	0	350	1,150	0	2,000
Capital growth proposals (Appendix D.2)	0	6,840	1,934	1,509	1,519	19	11,821
Capital growth funded by CIL receipts (Appendix D.3)	0	886	1,122	204	0	0	2,212
Total expenditure	16,812	16,044	5,256	5,310	4,791	2,141	50,354
Financing							
Grants and external contributions	11,584	1,353	1,327	1,327	1,327	1,327	18,245
CIL	3,384	5,701	1,307	399	195	50	11,036
Borrowing	0	0	2,500	3,500	3,250	750	10,000
Usable capital receipts	1,844	8,990	122	84	19	14	11,072
Total financing	16,812	16,044	5,256	5,310	4,791	2,141	50,354
Estimated balances as at 31 March 2028							
Usable capital receipts							2,362

Future pressures on the capital programme

41. As can be seen from table 2, borrowing of £10 million has been factored into the funding of the programme across the MTFP, although no borrowing is expected to be required during 2023/24. Given the likely need for borrowing, the Section 151 officer intends to conduct a full review of the current capital programme, including funding options, ahead of budget setting for 2024/25.

The prudential code and prudential indicators

42. 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.
43. 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 has statutory force by government regulation.

44. 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.
45. 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.
46. 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.
47. 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.
48. **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)

49. The MTFP provides a forward budget model for the next five years. **Appendix F** contains the MTFP for 2023/24 to 2027/28. This is a projection of the revenue budget up to 31 March 2028. As identified above it assumes that core revenue spending power will remain unchanged for 2024/25 but will then be lower for the rest of the MTFP period. 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 are 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.

50. At the foot of the MTFP is an illustration on the use of reserves if, instead of core revenue spending power falling from 2025/26 it is in fact maintained at current levels. This illustration still represents a year-on-year reduction in government funding, but the reduction is less severe, with a consequent improvement in the council's predicted financial position.
51. Last year's budget included within the MTFP an estimate of costs associated with the exit and service transformation required when the Five Councils Partnership contract ends in September 2025. It was proposed that the council would, 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. During the year ahead officers expect to be clearer on the timing and nature of such costs.
52. The MTFP also, through the "Future essential growth" row, makes provision in future years for increased costs associated with the delivery of council services. At this stage these costs reflect officers' best estimates of such future pressures. It is anticipated that there will be greater clarity on these costs ahead of budget setting for 2024/25.
53. As a result of the work undertaken over the last two years through the budget challenge process, the revenue budget for 2023/24 is in a much healthier state than that previously predicted and demonstrates the 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, especially from 2025/26 onwards,
 - 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.

54. From 2024/25 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. 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, more so than in recent years, the estimates in later years of the MTFP should be treated with a degree of caution. Clearly if the potential pressures identified in the later years of the MTFP come to fruition then officers and members will need to work together to address the budget gap, but to do so, at this time, would not reflect the more positive position achieved for 2023/24 and 2024/25 and the positive approach to, and the direction of travel of, the Councils finances that has been sustained over the past three years.

Table 3: use of reserves during MTFP period to balance the revenue budget

Financial year	Use of reserves £000
2023/24	(2,484)
2024/25	1,077
2025/26	5,199
2026/27	6,808
2027/28	7,786

The robustness of the estimates and the adequacy of reserves

55. 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.
56. 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.
57. A report was presented to cabinet in December 2022 on progress with budget setting. A detailed briefing on this budget proposal will be given to the council's Scrutiny committee on 30 January 2023. As a public meeting, this session will be open to all councillors.
58. In view of the process undertaken and his own knowledge of the budget, the head of finance is satisfied that the budget for 2023/24 is both prudent and robust and reflects a positive improvement over previous estimated budget positions for that year, reflecting the continued positive direction of travel from 2021/22. However, as demonstrated above and based on current assumptions, from 2024/25 onwards revenue expenditure exceeds revenue income in all years of the MTFP. Whilst the council's revenue reserves are sufficient to cover that gap over the MTFP period, the ongoing budget gap will still need to be monitored closely and continue to be assessed and reacted to at the appropriate time, should that prove necessary, noting the significant level of uncertainty around future finances at this point.
59. The Head of Finance is satisfied, based on their knowledge of the current work to deliver the long-term transformation programme, 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.
60. 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.
61. 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,
- Customer services including front of house,
- Development management,
- Beacon,
- Grounds maintenance.

62. Details of this work will continue to be presented to cabinet as they progress in accordance with the council's democratic process.

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

Climate and ecological impact implications

64. Agreement of the revenue budget for 2023/24 and capital programme to 2027/28 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

65. 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 15 February 2023 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.

66. 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

67. 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, at the time they are made, as required by law.

Conclusion

68. This report provides details of the revenue base budget for 2023/24, the capital programme 2023/24 to 2027/28, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.

69. 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 2023/24
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 – funded by CIL
Appendix E	Prudential indicators
Appendix F	Medium term financial plan

Background Papers

Provisional settlement figures (December 2022)

Council tax base 2023/24 – Cabinet 2 December 2022, Council 7 December 2022

Treasury Management Strategy – Cabinet 3 February 2023, Council 15 February 2023