



WEST OXFORDSHIRE
DISTRICT COUNCIL

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Name and date of Committee	COUNCIL – 28 FEBRUARY 2024
Subject	REPORT OF THE CHIEF FINANCIAL OFFICER ON THE ROBUSTNESS OF THE BUDGET ESTIMATES, ADEQUACY OF THE COUNCIL'S RESERVES AND RISK 2024/25
Wards affected	All
Accountable member	Cllr Alaric Smith Executive Member for Finance Email: alaric.smith@westoxon.gov.uk
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Report author	Madhu Richards, Director of Finance Email: madhu.richards@westoxon.gov.uk
Summary/Purpose	Section 25 of the Local Government Act 2003 places a duty on the Chief Financial Officer to make a report to the Council on the robustness of the budget estimates and the adequacy of the Council's reserves.
Recommendation(s)	That Council resolves to: I. Note the report and have regard to it when making its decisions about budget and Council Tax for 2024/25.
Corporate priorities	<ul style="list-style-type: none">• Putting Residents First• A Good Quality of Life for All• A Better Environment for People and Wildlife• Responding to the Climate and Ecological Emergency• Working Together for West Oxfordshire
Key Decision	No
Exempt	No
Consultees/ Consultation	No

1. BACKGROUND

1.1 Section 25 of the Local Government Act 2003 places a statutory duty on the Chief Financial Officer to make a report to the Council, at the time that the budget is considered, and the council tax set on:

- the robustness of the budget estimates and
- the adequacy of the Council's reserves.

The Council must have regard to this report when making decisions about the budget and council tax for the forthcoming year.

1.2 As members will be aware local authorities are under significant financial pressure and this is reflected in the number of recent s114 notices which have been issued, not all of which can be attributed to decisions made by the management in these Councils. The most recent s114 notice being Nottingham City Council on 29th November 2023.

1.3 The pressure on local authorities is due to a reduction in core funding, single year settlements, uncertainty about the timing and impact of the proposed local government finance changes and the general state of the economy. This all leads to a very challenging financial environment and the prospect of a general election in 2024 does nothing to alleviate this challenge in the short term.

1.4 It should be noted that while the reserves position for the Council is currently relatively healthy, there remains a financial gap which unless resolved could significantly reduce the reserves over the life of this Medium Term Financial Strategy (MTFS).

2. ROBUSTNESS OF BUDGET ESTIMATES

2.1 The budget setting process at West Oxfordshire District Council has been operating effectively for many years and is overseen by the qualified and experienced staff.

2.2 Each year service areas are requested to review their revenue budgets, and produce estimates for the forthcoming financial year, in preparation for budget setting meetings with the Finance team. At these meeting, every line item is reviewed and sense checked. This is an important process as it enables budget pressures to be challenged and validated to ensure that the MTFS only includes those items where there is a clear business case or those that meet a wider strategic aim. These proposed changes are also carefully reviewed by senior management and Executive Members.

2.3 Quarter 2 budget monitoring was forecasting an overspend this financial year of £433,041 over and above the approved deficit budget of £350,129, This may lead to the comment that the budget proved to be inaccurate. However, the reality of budgets is that they can only ever be based on what is known at the time and what can reasonably be foreseen or estimated. The important element is to understand the reasons for any variance and to ensure that this learning is part of the budget setting process for the subsequent year(s). The overspend forecast at Quarter 2 was mainly driven by Investment Property, the waste

contract and some fee generating services. These elements have been an integral part of the 2024/25 budget setting process.

- 2.4** An Investment Property portfolio has a natural cycle of voids and rent free periods as tenants move in and out of properties. It is now the market standard that new tenants can negotiate an initial rent free period at the start of their lease term. A six-month rent-free period will reduce our rental income over the course of a 15 year lease by only 4%.

The revenue budget includes the impact of income foregone for all existing rent free periods in effect into 2024/25 and the expected voids. Rather than calculate voids on a percentage basis over the entire portfolio, it is analysed on a per property basis. These figures will change year on year, with overall income increasing year on year as more voids are tenanted over the next couple of years with either 10 or 15 leases.

- 2.5** The property at Between Towns Road is now empty but discussions have started with a potential partner to investigate the redevelopment of the site to provide temporary emergency accommodation. As these discussions are at an early stage the 2024/25 budget assumes that the property will remain void throughout the coming year with a loss of rental income of £350,000 and additional costs associated with business rates liability and making the building secure. This picture should improve during 2025/26.
- 2.6** Waste contract costs for Ubico are budgeted to increase by £826,000 in 2024/25, primarily due to pay inflation. Extensive work has been undertaken to ensure that delivery of the Waste Service is as efficient, effective and sustainable as possible over the next decade. This includes a phased vehicle replacement programme which should lead to a reduction in revenue costs of £350,000 in 2025/26 as end-of-life fleet vehicles and hire vehicles are replaced.
- 2.7** Fees and charges are reviewed annually on a cost recovery basis and to ensure that the income budget is achievable. As a result of this review Land Charges and Building Control have been reduced to an achievable level in the 2024/25 budget.
- 2.8** The leisure contract with GLL is another area where revenues have been uncertain in the past. For 2024/25 a 10% contract contingency has been included and discussions are ongoing with GLL to maximise the benefits of the contract for both parties and ensure the future viability of this contract.
- 2.9** The lack of certainty around the timing and impact of local government reforms, and single year funding settlements, make the development of the MTFS a challenging exercise. The key assumptions made for the 2024/25 MTFS are detailed in the Budget Paper. Intrinsicly the MTFS is based on the most reasonable forecasts of income and expenditure that can be inferred at this time using every source of information available to us including financial modelling by external experts who assist local authorities with regards to government funding and financial planning.

- 2.10 A Transformation Group has been established to help steer the Council's response to the challenging financial environment, guide the preparation of a sustainable MTFS consistent with the Council Plan, and oversee the delivery of the Council's work programme in terms of service transformation, investment and revenue generation.
- 2.11 Previous iterations of the revenue budget, MTFS and capital programme have been subject to review by the Executive and Council's Overview and Scrutiny Committee.
- 2.12 The financial management process is robust with quarterly Financial Performance reports being taken to the Executive and the Overview and Scrutiny Committee.
- 2.13 It is imperative that the Council can balance the budget over the medium term in a sustainable and manageable way through a combination of income generation, prudent use of reserves and a robust cost reduction and savings programme.
- 2.14 The key assumptions on which the budget for 2024/25 and the MTFS have been prepared are set out in the budget paper and have been summarised above.

PUBLICA REVIEW

- 2.15 In August 2023, the four Publica shareholder councils (West Oxfordshire District Council, Cheltenham Borough Council, Cotswold District Council, and Forest of Dean District Council) commissioned an external review aimed at helping improve the partnership and outcomes for each of the partner councils. Publica was formed in 2017, and 6 years after the formation is an appropriate time to review how the partnership is working. Human Engine were appointed as the consultants to carry out this review.
- 2.16 The Publica Review Report, produced by Human Engine, concluded that the majority of services should return to be managed directly by the councils, with selected services being retained within the Publica model on a case-by-case basis. The report also included high level estimates on the additional cost and mitigation options associated with the return of some of the services to the Council.
- 2.17 In November 2023 the Executive supported in principle the direction recommended in the Human Engine report and requested the appropriate due diligence and preparatory work be carried out for the preparation of a detailed Transition Plan.
- 2.18 The return of services from Publica to the Council will clearly have a material impact on the Council's resources and budget over the next few years.
- 2.19 Initially one-off costs will be funded from earmarked reserves and ongoing costs will be included in the 2025/26 base budget when there is more certainty with regards to the transition plan.

- 2.20** Inevitably, there are likely to be costs arising from the transfer of services which cannot be accurately estimated at present. An Interim Programme Director is now in place, who started on 22nd January 2024, to oversee the Publica Review and an initial draft of the Transition Plan is anticipated in April 2024.
- 2.21** The Executive have already approved the use of £200,000 of earmarked reserves for the initial project team set up costs and for external legal and HR advice. As and when more detailed costings become available the requirement for the use of earmarked reserves will be identified.
- 2.22** Capital receipts, if available, may also be applied to qualifying expenditure (e.g., cost of service reconfiguration, restructuring or rationalisation where this leads to ongoing efficiency savings or service transformation) in accordance with the extension of the flexibilities over the use of capital receipts in the recent settlement.
- 2.23** It is imperative that the Council takes every opportunity to make services as efficient and cost effective as possible and this will be an important element of the Transition Plan and approach to service design.
- 2.24** Whilst the governance process for the Transition Plan activities has yet to be finalised, it is recommended this includes consultation and sign-off with the Section 151 Officer to ensure overall project costs are managed, monitored, and reported to Executive and Council.
- 2.25** I am satisfied that the MTFs and Capital Programme have been based on sound and reasonable assumptions.

3. ADEQUACY OF RESERVES

- 3.1** The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on local authority reserves and balances. It sets out three main purposes for which reserves are held:
- i) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing.
 - ii) A contingency to cushion the impact of unexpected events or emergencies
 - iii) A means of building up funds to meet known or predicted liabilities, known as earmarked reserves.
- 3.2** The Council expects to hold general fund balances of just under £11.4m at the end of this financial year. This is a more favourable position than many Councils.
- 3.3** However, as the MTFs shows, this position may worsen significantly in the coming few years given the risks that the Council faces as highlighted in the Budget Paper and in this report.

This situation will need to be addressed in the coming months and years as the Council needs to ensure that the appropriate mitigating actions are taken to ensure that we maintain an adequate “cushion” against “unexpected events and emergencies.”

- 3.4 Common sense, and guidance from CIPFA, would suggest that it is good practice to look not only at the level of overall reserves held, but also at the rate of depletion. Growth in the baseline budget has an impact on the rate of depletion, as well as the overall reserves held.
- 3.5 It is imperative therefore that projects coming forward to the Council, for review and approval, be vigorously challenged to ensure that they have a strong business case, or need, before approval is given.
- 3.6 The Council continues to hold reserves for specific purposes, known as earmarked reserves, in accordance with decisions made by the Council in previous years and as recommended by CIPFA. These reserves are reviewed during the financial year to ensure that they remain appropriate and adequate.
- 3.7 **I am satisfied that the level of reserves is adequate to support the 2024/25 budget although Members will need to be mindful of the reserves utilised in the coming years and take remedial actions, when possible, to ensure that reserves remain at an adequate level over the medium and longer term.**

4. RISK

- 4.1 Discussion is included above, and in the Budget and Strategy papers, around the significant risks facing us as a Council.
- 4.2 One key risk is the uncertainty around local government funding from 2026/27 onwards which poses a significant risk to the financial sustainability of this, and many other, Councils due to the reliance on general fund reserves to meet increasing budget gaps. Fair Funding Review and Business Rates changes, originally due in 2020, have yet to be implemented. The upcoming General Election will undoubtedly cause further delays and continued uncertainty about local government funding.
- 4.3 For the purposes of the MTFS it has been assumed that there will be a 37.5% reduction in the level of retained Business Rates income from 2026/27 and that the Government will provide interim compensation funding to dampen the impact of the changes over the first 3 years. However, it must be emphasised that there is currently no commitment from the Government to do so.
- 4.4 The wider economic environment, in terms of inflation and interest rates, is another key risk for the Council. The state of the economy will impact both income and expenditure during the coming financial year including the demand for certain services such as homelessness provision and income generation from Council Tax and Business Rates.

- 4.5 In July 2022/23 the Executive approved the setting up of a specific budget deficit earmarked reserve to reduce the budget gap over the life of the MTFs and it would be prudent to continue to build up this earmarked reserve until the long term impact of funding changes can be accurately assessed.
- 4.6 The return of a majority of employees and services to the Council, from Publica, is another risk in terms of the revenue budget over the life of the MTFs. As mentioned above, there will inevitably be one off costs relating to the transfer of services but it is not yet known what the full financial impact will be after the transfer is complete. For this reason, the MTFs has been prepared on the basis that employee costs remain within Publica in 2024/25 with a transfer to the Council of expected wage inflation in 2025/26. The Executive have already approved the use of £200,000 of earmarked reserves for the initial project team set up costs and for external legal and HR advice. As and when more detailed costings become available the requirement for the use of earmarked reserves will be identified.
- 4.7 The possibility of the ending of the statutory override in 2025/26 for Financial Instruments (pooled funds), which requires fair value gains and losses to be taken to an unusable reserve unless the fund is sold, is another key risk. The ending of the override would require any gains and losses to be recognised in revenue thus having an impact on our revenue budget. Unrealised losses would reduce available resource to fund core services, while unrealised gains would not represent genuine resource increases that could be utilised. Our Pooled funds currently have a capital value below their purchase price because of changes in global economic conditions over the last 18 months with rising interest rates and high inflation. It is therefore advised, by our Treasury advisors Arlingclose, that it would be prudent to create an earmarked reserve to smooth out the impact of any such unrealised gains or losses that will have to be accounted for through the General Fund. The Council will be looking to set up such a reserve.
- 4.8 Investment Property income is a vital revenue stream to fund front line Council services. The volatility in this income stream is another area of risk of the Council. See more detailed information in 2.4 and 2.5 above.

Given the natural cycle of voids and rent free periods, and the risk this poses to a vital revenue stream for the Council, we will be looking to set up an Investment Property reserve to augment the revenue outturn position and reduce reliance on general fund reserves in years where there is significant impact on the revenue budget from voids.

- 4.9 **The 2024/25 Budget and the MTFs have been prepared with consideration of these risks. However, no risk can be completely mitigated, therefore an inherent level of risk still remains.**

5. CONCLUSION

- 5.1** I am able to advise Members that the 2024/25 budget estimates are both prudent and robust. The level of reserves is adequate to support the 2024/25 financial position.
- 5.2** This budget is a surplus of £5,107. However, the picture from 2026/27 onwards is less optimistic with an increasing reliance on the use of reserves to fund front line services and an urgent need to identifying new, sustainable income streams.
- 5.3** The Council will need to continue to set realistic budgets, balancing current need and future financial stability, to ensure that adequate reserves are maintained.

Madhu Richards

Director of Finance and Section 151 Officer

16th February 2024