Annex K

Report of the Chief Finance Officer on the robustness of the budget estimates, adequacy of the Council's reserves and risk 2022/23

Introduction

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

Robustness of Budget Estimates

As we did last year, the Finance team have held conversations with budget managers and looked at every line item in each service area. This is important not only to check and challenge expected expenditure and income generally but helps to make sure that inflationary assumptions are specific and targeted – for example we have estimated the increased utility costs by more than 20%, which is appropriate for this particular cost, but would not apply across the board.

In a year where we hope to see significant recovery from Covid, it was incredibly useful to talk in detail about the situation in each area. The teams are tackling difficult issues managing the recovery process. The tenants in our commercial properties are working closely with our Estates team who are doing an incredible job liaising with each business and working with them to come through the pandemic as well as they can. Each tenant has had an individual discussion with our Commercial Property team and, where appropriate, agreements were made to defer or adjust rental payments. The payment plans attached to these have been and are being followed successfully and the budget has been set on the basis of these actual agreements and therefore, we believe, is a realistic current assessment of our income expectations.

Cllr Michelle Mead, Leader of the Council and Cllr Norman MacRae, Cabinet member for Environment at the WODC Flood Fair

The waste service has seen significant rises in cost. Within Ubico, inflationary pressures on fuel costs, coupled with driver shortages, have caused an increase of £350k on last year's contract price. Outside of Ubico, but related to the waste service, the recycling cost per tonne has risen by 50%, adding another £300k to our budget. This was partly caused by market conditions and exacerbated by a shortage of bidders on renewal.

The Publica contract has also risen by expected wage inflation. For the past few years we have asked Publica to make savings year on year but this year, we have recognised resource shortages in several key areas including planning and S106 support. Based on surplus generated during 2020/21, we set aside a £1.5m reserve to fund additional posts. Setting aside this much allows us to fund multiple posts in key areas, strengthening service delivery and securing funding for this growth for the next 5 years meaning that the additional posts will have no impact on our revenue budget for the medium term.

Our leisure partners have confirmed that our expectation that management fees from them will resume in April 22 is correct but clearly, in the context of the current high levels of Covid, there are still unexpected events that could affect that.

Over the course of the year we monitored our actual performance against our budgeted expectations and found that we were largely on track. Some areas performed worse than expected, revenue from parking fines, for example, was surprisingly low. Covid has certainly impacted this area and the recovery was not as fast as expected. A huge effort has been made on many fronts, not least using the very successful LoyalFree app to encourage people to visit the high streets again and maintaining our free parking provision across the district, to drive footfall back into our town centres. There is a possibility that everyone's shopping habits have changed during lockdown. Alternatively our local residents have become increasingly vigilant and no longer incur the level of parking fines seen previously.

We have had areas that have seen an unprecedented increase in activity such as planning. This is hugely affected though by large scale housing developments which boost income in a particular year but are not the general pattern. The local plan, which is reviewed at intervals, is due to be revisited over the next couple of years. While this is necessary and welcome in that it refreshes a whole host of information, the estimated cost of this is around £650k over the next 12 – 18 months. We are hopeful that some of this will be able to be funded by grants which will reduce the pressure on our revenue budget.

Following an update of our cashflow forecast and discussions with our treasury advisors we are changing the profile of our treasury investments and moving funds from short to longer term holdings. Even if these funds need to be withdrawn again in the medium term, they will generate significant additional revenue in the meantime because the difference in interest rates between long and short term holdings is currently so large.

Again the business rates reset has been deferred. We were also anticipating the loss of New Homes Bonus, and indeed, the first draft of the budget which went to Scrutiny in early December, didn't include it and showed an anticipated overall loss of around a million pounds. The settlement, which confirms our

funding for the year, was issued in late December and reinstated New Homes Bonus for one further year. This changed the million pound loss into a £1.6m surplus. The government did make it clear though that the settlement was only for one year instead of the much anticipated, and hoped for, three year view, and the conventional wisdom is that a reshaping of funding is anticipated and therefore surpluses generated should be dealt with carefully in anticipation of leaner times to come.

The budget for 2022/23 is a hopeful "post pandemic" one but while things are improving and we have less uncertainty than previously, the local economy is still recovering. The requirements placed on the Council for support have not stopped and may continue to place unexpected demands on us. The optimism we had for the resolution of the pandemic this time last year have been proven wrong (although not our budget) so there still cannot be absolute certainty that our current expectations are correct. We are clearly dealing with a situation that is, to a large extent, beyond our control.

The approaches taken though have been detailed, prudent and diligent so I can comfortably say that the budget is as robust as it is possible to make it in the current circumstances and will be monitored carefully through the coming financial year.

We are in a good position to deal with unexpected budgetary impacts in the short term but we should continue to be cautious around any additional spending, while keeping a close monitor on our results against this budget.

I can confirm that the budget estimates as presented are both prudent and robust.

Chipping Norton Town Hall

Adequacy of the Council's Reserves

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:

1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing.
2. A contingency to cushion the impact of unexpected events or emergencies.
3. A means of building up funds to meet known or predicted liabilities, known as earmarked reserves.

The Council expects to hold general fund balances of just over £13m at the 31st of March 2022. Thanks to careful and prudent managemen, this is an enviable position compared to many Councils but only short term comfort can be derived from it.

The Medium Term Financial Strategy (MTFS) at **Annex A** shows the clear expected erosion of this balance over the medium term. The nature of government funding which is currently confirmed in single year allocations means that much emphasis is placed on the expected outcome of the next financial year. The MTFS is designed to look beyond that horizon so that longer term action can be taken.

The latest guidance from CIPFA and, logic dictates good practice, is to look not only at the amount of reserves held but also the rate of depletion. The expected loss of government funding in 2023/24 is more than £4m and clearly, even with reserves of almost £13m, that gap cannot be funded for more than a few years.

While there is a hope that replacement funding will be given, and this is represented by a potential additional £750k per year in the MTFS, this is entirely speculative and we await further updates and ultimately the settlement in December to know whether this is realistic or not.

The Council endorsed an investment strategy which would see WODC investing £74m over three years in order to further Council priorities and generate additional revenue to help close our budget gap. This was included in the MTFS last year but acknowledged to have significant risk as although various discussions were underway, no suitable investment projects had yet been brought to fruition. In 21/22, the Council invested £2.5m in some commercial property in need of repair in Carterton. This is clearly a much lower level of investment than the strategy anticipated and required. The difficulty of finding suitable investments has been increased by the new restrictions introduced by the PWLB who are the main source of loan funding for Local Government bodies. This is discussed in much more detail in Annex H, the Investment Strategy.

For these reasons, the anticipated amounts deployed through the investment strategy have been reduced to a more prudent £10m next year and £25m the year following. This does not affect the Council's authorisation of £74m but for the purposes of the MTFS, there is no sense or value in overstating the expectation of funds invested and income received. We are currently considering investments in solar power on our commercial rooftops, small scale housing developments, ground mount solar and the conversion of some of our existing Council office space.

We have a contract with Greenwich Leisure Limited (GLL) who manage our leisure centres. This is due to provide us with £1.5m income each year for the next 7. While this is contractually due, the leisure sector has not recovered fully from the pandemic, and may not recover fully from the pandemic in the short to medium term. In spite of no current restrictions being in place, attendance and usage of our leisure facilities is lower than pre-pandemic levels. As with the footfall on the high streets, there is a strong possibility that consumers habits have changed during the period and the demand is no longer there. GLL

are seeking to address this and to encourage more people to return but clearly this represents a risk to our long term income if the demand for those facilities does not increase significantly.

We attempt to structure all optional projects commercially so that they do not deplete the Council's reserves or divert resources away from core service delivery. We endeavour to make sure that at the very least they break even, preferably even delivering income to support other areas. This is not always possible though and we are aware that in the short to medium term we will need to invest some further money in repairs to our leisure centres, leasing, buying or building a new waste depot and the replacement of most of the waste fleet. All of the above will cost multiple millions of pounds and will return no additional income over and above what the Council currently receives.

While our reserves are adequate, they are not infinite and even the current plans, which have had significant savings and income generation factored into them, will see those reserves eroded in the medium term. Much care must be taken to ensure that the investment strategy is realised, to regularly reforecast our long term position and to resist any unnecessary spend, especially that incurring additional long term debt.

I can confirm that the level of reserves is currently adequate however they are being eroded even without any expectation of additional budget growth and the rate of erosion is dependent on additional income that is not entirely within our control. Regular review is required to ensure that any additional action needed is timely.

WODC Town Centre Shop doubles as a vaccination centre

Risk

Discussion is included above, and in the strategy papers, around the significant risks related to our budget and ongoing financial position.

These are primarily:

1. The recovery from the pandemic which continues to impact the Council's income streams and those of our residents and businesses.
2. The impact of the UK's exit from the European Union.
3. The as yet unclarified position of government funding beyond 2022/23.
4. The difficulty of finding compliant investment opportunities that both further our Council objectives and support our revenue stream.

All of the above have been discussed both in the paragraphs above and in the accompanying strategy papers. The biggest risk facing the Council currently is the predicted loss of government funding. We are constantly trying to develop other sources of income to make us less vulnerable to funding cuts, which are beyond our control. We, as other Councils do, hope that going forward the government will move to settlements that outline funding for at least three years, allowing us to plan with confidence over the medium term instead of just speculating.

The risk of uncertain funding is being mitigated by seeking further economies in major contracts such as waste. Ubico, who provide this service are as keen as we are to find these savings and are working collaboratively with us to identify and deliver them.

Summary:

WODC finds itself in a position that is more fortunate than many councils. Through careful management it has built up a good level of reserves but these are forecast to be depleted significantly in the medium term and the Council's financial security lies partly in the savings we have already made, but also potential efficiencies as yet undefined, government funding yet to be determined and future commercial strategies yet to be realised.

The Council, in common with all councils, has had a difficult year. As well as maintaining business as usual, the staff have been at the forefront of coordinating support and recovery in the district. From working with local companies to help them strengthen their businesses and move forward out of the pandemic, to supporting and enabling community groups, providing a lifeline to the vulnerable, manning vaccination centres and distributing £49m of Covid grants – all while dealing with the effects of Covid on themselves and their own families. They should be justifiably proud of their efforts and we will continue to exercise caution in our finances but maintain the high level of service and innovation that the Council needs to secure our financial stability and carry on our service to our residents.

Elizabeth Griffiths ACMA 11th February 2022