



**WEST OXFORDSHIRE
DISTRICT COUNCIL**

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| Name and date of Committee | Financial Management Overview and Scrutiny Committee Wednesday 7th of December |
| Report Number | Agenda Item No. 5 |
| Subject | Update of 2023/24 budget |
| Wards affected | All |
| Accountable member | Cllr Dan Levy Cabinet Member for Finance Email: dan.levy@westoxon.gov.uk |
| Accountable officer | Elizabeth Griffiths, Section 151 Officer Email: elizabeth.griffiths@westoxon.gov.uk |
| Summary/Purpose | This report provides an update on the developing budget for 2023/24 |
| Annexes | Annex A – Detail of base budget changes by service area Annex B – Prior year comparison Annex C – Growth requests Annex D – Draft Capital Programme Annex E – Draft MTFS – v1 & 2 Annex F – MTFS Graphs |
| Recommendation | That the report be noted and that the committee submits comments to Cabinet as it wishes |
| Corporate priorities | Modern Council Services and Sustainable Finance: Delivering excellent modern services whilst ensuring the financial sustainability of the Council |
| Key Decision | No |
| Exempt | No |

1. BACKGROUND

- 1.1. Each year the Council prepares its budget for the following year. The Council's funding from the government finance settlement will not be known until mid to late December 2022 so this first draft of the budget for 2023/24 is an early indication of our financial position and is subject to change.

2. MAIN POINTS

- 2.1. For several years now we have been forecasting an expected drop in funding. This has meant that each year we tend to forecast that while funding is sufficient for the current year, a reduction in future year's funding will cause us to have a budget deficit. Predicting Govt funding ahead of the late December settlement confirmation has always been a speculative exercise but the last few years have created even more uncertainty. Cycles of funding changes, such as baselines being reset on rates, were broken by the onset of the pandemic which saw huge amounts of central Govt cash being distributed through furlough schemes and business support grants. This has been followed by political turmoil and uncertainty and global economic upheaval. It is unclear how much funding the Govt will give to Councils this year and the expectation is that it is likely to be constrained by the huge costs suffered through the pandemic.
- 2.2. While we have operated for several years now under the threat of funding cuts, what we did not foresee was the huge rise in inflation in 2022. Even without any actual growth, in the same way that residents have seen their household bills increase exponentially, the Council is experiencing huge rises in the cost of external contracts, consumables, utility costs, borrowing costs and project expenditure. This of course aligns to a large increase in wage costs which, while less than inflation, is still a significant increase to our budget.
- 2.3. While we wait for confirmation of our funding, it's clear that the double impact of a steep rise in costs, coupled with an expected reduction in funding, leaves us with a gap that can only be filled in the short term by utilising our reserves. These protects us next year but this is clearly an unsustainable position and we must quickly pull our budget back within our funding envelope.
- 2.4. As part of our forward planning, and in line with our expectation of funding cuts, we have kept our costs very tightly controlled over the past few years and taken surpluses to reserves where possible. This has the double benefit that our current baseline budget is quite tightly controlled and we do have sufficient reserves to cover next year's deficit. As above though, this can only be temporary. It allows us time to take remedial action but we will have to identify and take those actions or we will relatively quickly drain those reserves.
- 2.5. The Council had already put in place an investment strategy to generate additional income and had initiated efficiency projects in areas like Waste. While we have been quick to seize potential opportunities for investment, they have proved to be few and far between and the current economic climate has put further pressure on these not only in terms of future returns but also on the cost of borrowing. As the unexpected surge in inflation has widened the budget gap it's clear that while we will press on with these plans they remain helpful and important but are no longer sufficient to address the extent of the problem.

2.6. The table below shows the key changes to the budget and expected funding that have changed a £1.6m surplus in 2021/23 into an expected £1.85m deficit in 2022/23, a swing of almost £3.5m.

| | | |
|---|-------------|------------------------------|
| 2022/23 budget surplus | | (1,609,731) |
| Budget Movements | £ | £ |
| <u>Changes in expenditure</u> | | |
| Pay Inflation & Councillors Allowances | 845,485 | |
| Electricity & Gas Inflation | 253,171 | |
| Leisure Income Contingency | 558,613 | |
| Recycling sorting cost increase | 80,000 | |
| Loss of on street parking income | 169,390 | |
| One off growth reversal | (772,000) | |
| Ubico Contract cost increase | 754,099 | |
| Other adjustments identified in budget meetings | (133,912) | |
| Interest on external borrowing | 539,518 | |
| | | <hr/> 2,294,363 |
| <u>Changes in income</u> | | |
| Waste Collection fees to Parish Councils | (50,000) | |
| Proposed Garden Waste licence increase by £5 | (124,635) | |
| Other fees & charges increases | (90,621) | |
| Income expected from Investment Recovery Strategy | (1,142,396) | |
| Other adjustments identified in budget meetings | 23,940 | |
| Additional property rental income | (114,325) | |
| | | <hr/> (1,498,037) |
| <u>Changes in funding</u> | | |
| MRP | 431,339 | |
| Business Rates | 102,000 | |
| Council Tax | (339,072) | |
| Council Tax surplus | 75,000 | |
| Use of Earmarked Reserves | 293,987 | |
| New Homes Bonus | 2,378,105 | |
| 2022/23 Service Grant | 148,000 | |
| Revenue Support Grant | 79,268 | |
| Potential Replacement Government Funding | (500,000) | |
| | | <hr/> 2,668,627 |
| <u>2023/24 DRAFT BUDGET SHORTFALL</u> | | <hr/> 1,855,222 <hr/> |

2.7. Through the pandemic, large amounts of additional grant funding was given to the Council to provide additional support to the community and much of this was used to fund multiple fixed term posts. This funding, as expected, is finite and the term of these posts is coming to an end.

Many of the service areas have asked for these roles to be made permanent but in the absence of the temporary additional funding that has paid for them for the last couple of years, these would be permanent additional strains on the budget.

2.8. Publica officers were asked to bring forward efficiency requests for inclusion in the budget. This resulted in several initiatives being proposed. While the detail of them is still being reviewed, any that made it through the initial review by CExs, and are currently being investigated, have been included in the list of potential growth at Annex C. Some are shared posts or shared teams working across more than once Council. Where they are expected to generate compensating income or reduced costs, this has been noted. Where they require the agreement of all Councils to fund them this has been clarified. If WODC could choose to fund a smaller amount of additional resource on their own, this has also been noted on the table.

2.9. A short summary of growth requests not included in the budget draft is shown below with fuller detail included in Annex C.

| Growth Requests | £ | £ |
|--|----------|----------------|
| Climate Change Manager | 53,030 | |
| Market Towns Officer | 35,960 | |
| Democratic Services Assistant | 12,033 | |
| Biodiversity Land Management Post | 46,859 | |
| Climate Change Post | 39,137 | |
| Healthy Community Post (Voluntary Sector) | 13,035 | |
| Healthy Place Shaping Post | 48,641 | |
| Families First Project Post | 34,979 | |
| Domestic Abuse & Rough Sleeping Specialist | 40,325 | |
| Woodgreen Reception/Executive Assistant | 41,275 | |
| Finance Business Partner | 19,114 | |
| HR Specialists x 3 | 25,000 | |
| Waste Partnership Manager | 10,250 | |
| Empty Homes Co-Ordinator | 8,060 | |
| Head of Commercial | 95,100 | |
| Environment and Regulatory Services additional resource | 32,000 | |
| Flooding/Land Drainage Post | 45,000 | |
| Asset Management Post | 63,000 | |
| Cyber Security Post | 53,390 | |
| Planning Policy Post - additional support for Local Plan | 35,185 | |
| | | 751,373 |
| Additional contribution for Local Plan review | 250,000 | |
| Capital expenditure on new Planning software | 166,000 | |
| | | 416,000 |

2.10. Three of the posts above have already been converted to permanent posts during the year based on reports brought forward for consideration, namely the Climate Change Manager, the Market Towns Officer and the Cyber Security Post. They will inevitably be added to the

baseline budget at some point because they are now permanent but for the coming year there is the option to carry on funding them from the earmarked reserves that have been used to fund them in 2021/22.

2.11. The key changes to our budget from 21/22 to 22/23 are as follows:

- Increases in salaries driven by inflation.
- Sharp increases in utility costs and fuel – this has of course had a disproportionate impact on Ubico’s budget whose costs include the waste vehicle fleet
- Uncertainty around the future income from the Leisure centres. GLL, our leisure operator, hold the utility risk in the contract and the huge increase in costs coupled with reduced usage is pushing the centres into a loss making situation.
- Additional investment income – although this expectation is slightly offset, at least in the short term, by higher than anticipated borrowing costs
- Proposed £5 increase in Council Tax
- Expected loss of New Homes Bonus and uncertainty around other grant funding
- The reversal of one off growth items, for example, last year we included an additional £650k budget for the Local Plan review. Unspent funds from this year will be rolled to next but there is a request in the growth items for an additional £250k which has not yet been included in the budget

2.12. Council Tax is proposed to increase by £5 on a band D property. Tax base has increased by 1.96% and we have forecast that business rates won’t have their baseline reset till 2025.

2.13. The draft Capital Programme in Annex D lists all potential capital expenditure in 2023/24. Some current projects may not be completed in 2022 and be included as “slippage” in the final review of the current financial year with the recommendation that they are carried forward to 2023/24. As always, inclusion in the Capital Programme at this stage is so that we ensure that we capture potential borrowing requirements and give visibility to potential programmes. It does not mean that spend is authorised – in most cases a business case will need to be brought forward for review – and it does not mean that the cash or budget is available and can therefore be spent elsewhere if plans change.

2.14. The Medium Term Financial Strategy (MTFS) at Annex E shows an increasing budget gap in future years. This is because we expect the baseline reset of business rates that has been deferred for several years now to happen in the medium term at the latest. While it should be noted that, for obvious reasons, the further into the future we project, the less certainty there is around the numbers, it’s of paramount importance that we realise that this is where the danger lies. The Council has sufficient reserves to cover any shortfall arising in 2023/24 but if we increase base budget we widen the funding gap not only next year but in every subsequent year, meaning that permanent increases in base budget have an exponential effect on our future financial stability.

2.15. 2 versions of the MTFS have been appended. One including the growth requests, one without. This shows the impact of additional growth on our budget. Even if we add none of it, without further intervention we will deplete reserves in 2026/27. With the additional growth to the budget we deplete them just beyond the end of the 2025/26 financial year. The graphs in Annex F show the impact ongoing of not reducing our budget. If we choose to spend next year funding

shortfalls from reserves then we must make alterations during the year that bring the budget back into balance in order to prevent the outcomes shown in the current forecast.

3. KEY RISKS AND NEXT STEPS

- 3.1. As part of our contract with our Leisure provider, GLL, the rapidly rising costs of utilities in our Leisure Centres falls to them, but while contractually this is the position, this increase, which is outside of our budget but expected to be an additional £620k in 2023, jeopardises the income from our Leisure Centres to the Council - which should be rising to almost £1.8m per year and is a contractual income that the Council is heavily reliant on to fund other core services.
- 3.2. The pandemic changed the way that many people viewed Leisure Centres. With their mandated closure, customers were forced to find alternative ways to exercise, either investing in home equipment or using DVDs or apps. There has been a huge uptake of new products that allow users to connect to classes or training programmes from their own homes. Between this change in consumer habits and the current cost of living crisis, usage of the leisure centres has not returned to pre-pandemic levels.
- 3.3. Many of the facilities on offer around the district have always been loss making and disproportionately expensive to run but were supplemented by some of the more profitable elements. With those now also making a loss and utility costs rising exponentially, our Leisure service is the single highest financial risk we currently face. Swimming pools can account for up to 80% of the utility cost of a leisure centre so these issues have a much higher impact in Council owned facilities where typically the desire is to provide a large pool to give sufficient space for swim classes.
- 3.4. There is currently one shared resource between the three Publica Councils who looks after the contracts operationally. Included in the growth requests is a “Head of Commercial” post. There is an urgent requirement, at least over the next couple of years, to work on behalf of the Council to turn the centres around. This needs to cover everything from the much needed repairs in Chipping Norton to improving the marketing reach, bringing forward new activities to meet the changing demands of our residents, thereby encouraging increased usage of the centres, and designing and delivering a strategic response to the current situation.
- 3.5. We have already taken the short term decision to amend pool opening hours, allowing them to be closed and covered to retain heat at times of the day when they are currently very underused. This will help, but the savings over winter will be in the tens of thousands set against losses which are in the hundreds of thousands. It’s entirely possible that we could have to close some facilities in order to reduce our losses and keep the main centres open. This will of course require careful and close management but what’s at stake is not only millions of pounds of contractual income, but the ongoing viability of our Leisure provision in the district.
- 3.6. The costs of delivering our Waste service have also risen year on year for the last few years with unavoidable pressures this year pushing the budget up by three quarters of a million. A project was already underway to bring in external consultants to identify any efficiency savings that could be implemented. This has identified an improved method of recycling which not only increases the levels of recycling but potentially saves a million pounds per year that we currently pay in processing costs. There is a cost of change associated with this and that is currently being assessed and reviewed. This possibility to lower costs is obviously very

welcome but again, will need to be supported at a strategic level over the next few years to see it successfully implemented. If appointed, the Head of Commercial would be expected to be accountable for both areas.

- 3.7. As the Council pursues its Agile Working strategy, we expect to see our Elmfield offices freed up during 2023 and therefore able to be rented out to generate an additional income to the Council.
- 3.8. 2022/23 looks set to be a good year in terms of our ambitions to invest with two potential projects currently in due diligence. It should be remembered though that last year only a fraction of the expected budget was spent and while the MTFS carries an expectation of high levels of investment over the next few years, these are our ambitions but appropriate opportunities may not present themselves.
- 3.9. The list of growth requests is long. It's a mixture of new posts and existing posts where the fixed term contract is coming to an end. Clearly with a huge budget deficit before these posts are taken into consideration, we cannot afford to simply add them in. Requests should be evaluated on the basis of whether they support a core service, whether they are either income generating or loss preventing, and if we have no option but to have that post, the question should be asked as to whether that requirement is temporary or permanent. More clarity on what we can afford will be available by Christmas when we know our funding settlement but the argument remains, growth to base budget, even if temporarily funded this year would be an additional strain in future years widening the expected gap – and would negate the benefit of some of the savings programmes we are trying so hard to implement.
- 3.10. In our forecast we have assumed that the rebasing of business rates, which was anticipated several years ago and is expected to reduce the Council's business rates income by around £1.5m, will not happen till 2025. This is unconfirmed and this change could happen sooner.
- 3.11. We await the outcome of the Government settlement in a few weeks' time which will clarify our funding position. A speculative £500k of additional funding has been added to the budget in the hope that if the Govt does remove a large proportion of our funding next year, something will be given to offset that.