WEST OXFORDSHIRE DISTRICT COUNCIL	**WEST OXFORDSHIRE DISTRICT COUNCIL**
Name and date of Committee	**CABINET - WEDNESDAY 11 JANUARY 2023**
Report Number	**AGENDA ITEM NO. 6**
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. To consider: 1) The draft base budgets for 2023/24 2) Fees and charges for 2023/24 3) Adoption of the Council Tax Base for 2023/24 4) The submission of the business rates return
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 Annex G – Council Tax Base Annex H – Proposed Fees & Charges 2023/24
Recommendation	That Cabinet resolves to: 1) Approve the draft fees and charges for 2023/24, as detailed in Annex H, for inclusion as part of the Budget recommendations to Council on Wednesday 15th of February 2023 And recommend to Council to: 2) Approve the Council Tax Base shown in Annex G, calculated as £47,078.85 for the year 2023/24 3) Authorise the Chief Finance Officer to submit the National Non Domestic Rates Return 1 (NNDR1) to the Ministry of Housing,

	Communities and Local Government by the submission date of 31st January 2023 4) Authorising the Chief Finance Officer to approve the annual uprating of allowances and non-dependent deductions in the Local Council Tax Support Scheme in line with national regulations.
Corporate priorities	Modern Council Services and Sustainable Finance: Delivering excellent modern services whilst ensuring the financial sustainability of the Council
Consultation	Initial Consultation took place with FMOS in December who, on review of the initial draft without the funding settlement, were concerned about the shortfall in budget and the fact that the MTFS was forecasting an ongoing shortfall which was consuming reserves with no plan in place to bring it back within the funding envelope. Residents have also been consulted in the annual statutory budget consultation and the feedback from that will be included in the report to Cabinet in February.
Key Decision	No
Exempt	No

1. BACKGROUND

1.1. Each year the Council prepares its budget for the following year. A pre settlement draft was circulated in December for comment. This update includes the annual settlement which is given in December. A final draft of the budget along with strategy papers will be prepared in advance of Cabinet and Council meeting in February. Although the settlement is now known for 2023/24, there are still items such as unapproved growth which are under consideration and as such, this draft of the budget is still 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 is always difficult 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. The settlement given this year has reversed the funding shortfall of the first draft – but while last year's settlement gave us a surplus of £1.6m after growth requests, due to the funding gap being much wider this year, the settlement gives us a surplus of only £345k before growth requests.

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. This dramatic increase in base budget – which we can neither control in the short term nor avoid – means that we have used up any buffer in our funding envelope and even more normal inflationary increases in future years will take us beyond it, with funding cuts making the gap potentially insurmountable.

2.3. 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 has been as tightly controlled as possible and we do have sufficient reserves to cover expected deficits in the short term. This however, can only be temporary and we must identify and implement remedial cost cutting measures or we will relatively quickly drain those reserves. These are unlikely to be welcome or easy steps to take and will by necessity go beyond simple efficiency savings.

2.4. 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. Given the difficulty we have experienced in finding suitable investment opportunities, achieving additional revenue from this source must be viewed as ad hoc and something to be pursued as a strategy when the opportunity presents itself but we cannot rely on it to address the funding gap. 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.

2.5. The table below shows the key first draft changes to budget and funding that turned a £1.6m surplus in 2022/23 into an expected £1.85m deficit in 2023/24, 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	
		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)	
		(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)	
		2,668,627
2023/24 DRAFT BUDGET SHORTFALL		**1,855,222**

2.6. The settlement has increased our funding significantly for the coming year, temporarily reversing the deficit. It is worth remembering that all of these funding lines are entirely beyond our control. They are not earned or guaranteed and are just to likely to disappear at short notice as to be maintained – which is why we cannot afford to be complacent about the unexpected providence of the current year.

	£	£
Budget deficit presented to Scrutiny & Cabinet in Dec 22		1,855,222
Revenue changes		
Interest on external borrowing	(173,156)	
Bulky Waste	(11,540)	
Investment Recovery Income	87,500	
		(97,196)
Funding Changes		
MRP	(19,100)	
Revenue Support Grant	(87,274)	
New Homes Bonus	(1,079,635)	
2022/23 Service Grant	(83,364)	
Lower Tier Grant	96,000	
Funding Guarantee Grant	(929,970)	
		(2,103,343)
2023/24 DRAFT BUDGET SURPLUS		**(345,317)**

2.7. The changes show a small increase in anticipated revenue from fees and charges and a reduction in investment under the investment strategy. This gives a positive benefit in the short term as the modelling anticipates a requirement to fund interest ahead of revenues being generated – which would be the case if any build out or renovations were required – but the longer term effect is a larger reduction in revenue than the funding costs of the project (obviously, as unless it returned a positive margin we wouldn't be investing in it).

2.8. 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.

2.9. 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.

2.10. An initial review has been done of these by Cabinet and two posts have been removed on the basis that we expect to receive grant funding for them.

2.11. 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	
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	
		676,069
Additional contribution for Local Plan review	250,000	
Capital expenditure on new Planning software	166,000	
		416,000

2.12. 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.

2.13. 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.
- Proposed £5 increase in Council Tax

- 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. There is a possibility that this additional amount could cover the Planning Policy Post above which directly supports the Local Plan and this is under review with an outcome expected in mid January ahead of the final budget draft.

2.14. 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. Revised Council Tax base is shown in Annex G.

2.15. 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.

2.16. 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 the very short term 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.

2.17. 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 2027/28. 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. No matter how much we contribute to or draw from reserves in 2023/24, we must make alterations during the year that bring the budget back into balance going forward in order to prevent the outcomes shown in the current forecast. Both of these scenarios include replacement Govt funding which may not happen.

2.18. The issue with our financial forecast is not this year, it never was. We have a healthy amount of reserves which will buffer us through short term issues. A position not enjoyed by many of our fellow Councils. The issue is that with the unthinkable happening and Councils all around us filing S114 notices every week, Councils being no longer financially sustainable has become an all too vivid reality and we, while benefitting from past prudence, must take rapid action to stop us falling into the same category.

3. FEES & CHARGES

3.1. Fees and charges are set on three separate bases.

- Fees that are set centrally over which the Council has no control i.e. premises licences and penalty notices.
- Fees that are set on a cost recovery basis i.e. Building Control, taxi licences and Street Trading. The Council is required to make sure that fees are set at a level that does not generate a profit compared to the cost of providing the service
- Fees that are discretionary where the Council has full control. These are the commercial services that operate where the Council is in competition with the private sector i.e. Pre Application (Planning) advice, pest control, trade waste, bulky waste and green waste.

3.2. For the setting of the 2023/24 draft budget a comprehensive review has been undertaken to analyse the fees set on a cost recovery basis. This analysis has identified that no increase in fees is possible for Building Control and Markets as the cost of these services are being fully recovered. Land Charges been uplifted by 6%.

3.3. Other fee generating services i.e. food safety, private water supply testing, licences (excluding premises) and stray dogs were found to be under recovering their costs and therefore the fees have been uplifted as detailed in Annex H.

3.4. Discretionary fees have been increased by 10% where possible i.e. Pest Control, Trade Waste, Bulky Waste and Pre App (Planning) advice.

3.5. Green Waste licences are recommended to increase by £5, generating expected additional income of £166,000 with the increase of other discretionary and cost recovery fees expected to generate an additional £102,000.

3.6. Increasing the budget does not necessarily deliver an equivalent increase in income. Caution must be taken when considering the suggested fee increases against the backdrop of the cost of living crisis, where some residents of the District will no doubt be looking to cut back on their expenditure. This may affect Green Waste licence take up more than other services like Pest Control as it is more likely to be seen as a "nice to have" household cost.

4. KEY RISKS AND NEXT STEPS

4.1. 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.

4.2. 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.

4.3. 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 quickly to unprecedented levels, 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.

4.4. There is currently one shared resource between the three Publica Councils who looks after the contracts operationally. There is an urgent requirement, at least over the next couple of years, for additional resource to provide a strategic intervention 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. This additional resource is an option that is still under consideration and may not be approved but without intervention it is unlikely that we will realise the management income from the remaining years of the contract and our MTFS forecast will worsen.

4.5. 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.

4.6. The costs of delivering our Waste service have also risen year on year for the last few years with unavoidable pressures, mainly from additional salary and fuel costs, this year pushing the budget up by around £750k. 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 worked on and we expect these figures to be provided in early January. 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 commercially focused resource referenced in 4.4 above would be expected to be accountable for both areas, including supporting the ongoing work on commercial areas such as trade waste where intervention has already started to turn around its loss making status. WODC will review its waste services to ensure that they offer excellent value for money and continue to result in excellent recycling rates.

4.7. 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.

4.8. 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. With this in mind we have reduced the investment expectation over the next few years.

4.9. As well as attempting to manage these key risks and find any means to reduce expenditure, the Council does try to increase its income where possible and this is reflected in the rises in some (but not all) of the Fees and Charges where we have attempted to keep pace with the costs of providing that service. Outside of new projects that generate revenue as discussed above, it's often difficult for Councils to raise additional income as most of our services are provided to residents who are also struggling with the effects of inflation on their own households.

4.10. 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 our current position and expected significant future funding cuts 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. While we now know our funding settlement, the argument remains, any permanent 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.

4.11. 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.

(END)