WEST OXFORDSHIRE DISTRICT COUNCIL	**WEST OXFORDSHIRE DISTRICT COUNCIL**
Name and date of Committee	**FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE - WEDNESDAY 1 FEBRUARY 2023**
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) The Medium Term Financial Strategy 3) The response from the statutory budget consultation
Annexes	Annex A – Detail of base budget changes by service area Annex B – Prior year comparison Annex C – Budget increase proposals Annex D – Draft Capital Programme Annex E – Draft MTFS – v1 & 2 Annex F – MTFS Graphs Annex G – Council Tax Base Annex H – Fees & Charges 2023/24 Annex I – Responses from the annual statutory budget consultation
Recommendation	That FMOS consider the latest update of the draft budget.
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. A pre settlement draft was circulated in December for comment. This update includes the annual settlement which is given in December. A further update incorporating the NNDR calculation will be prepared in advance of the Council meeting later in February. It was hoped that this final calculation would be available for these papers but a combination of late advice from government and the delay of a software patch from our system providers Civica – which affects all Councils who run this system – has meant that this figure is unfortunately not yet available. Although the settlement is now known for 2023/24, as well as the rates calculation which is still outstanding and could change the funding figures, 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. The government settlement in December proved generous with New Homes Bonus, which was expected to be discontinued, remaining, albeit at a lower level but with an additional funding guarantee grant being given to make up the difference. We have also been told that the rates reset has been postponed to at least 2025/26.

2.2. 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 baseline rates resets, 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 <u>after</u> budget increase proposals, due to the funding gap being much wider this year, the settlement gives us a surplus of only £189k <u>before</u> budget increase proposals.

2.3. While we have operated for several years now under the threat of funding cuts, what we could not have foreseen 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 with 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 the risk that funding cuts could make the gap insurmountable without radical interventions. We can see from the overspends being reported in our Q3 financial performance report that the unexpected additional cost and reduction in income being incurred this year is likely to consume the £1.6m surplus we initially projected and is further confirmation of the trajectory of our finances.

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 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.

2.5. The Council had already put in place an investment strategy to generate additional income and had initiated efficiency reviews in areas such as 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.

2.6. 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	**£**	**£**
Changes in expenditure		
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
Changes in income		
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)
Changes in funding		
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**

2.7. The settlement has increased our funding significantly for the coming year, temporarily reversing the deficit. It is worth remembering that all of these funding changes are beyond our control. We cannot earn or guarantee them for future years and it's just as possible that they disappear at short notice as they are to be maintained – which is why we cannot afford to be complacent about the unexpected providence of the current year. In our response to the recent consultation on the settlement we highlighted, as I'm sure other Councils also did, the difficulty of long term planning in the context of only short term sight of our funding.

Budgeted deficit presented to Scrutiny in December 2022		**£1,855,222**
	£	**£**
Revenue Changes		
SWAP contract inflation	7,991	
Interest on external borrowing	(120,000)	
Investment Recovery Income	87,500	
Elmfield Rental income	(75,000)	
HB Subsidy loss on temporary emergency accommodation	250,000	
Member Training, NI and Allowances	44,200	
Publica savings	(64,998)	
Council Tax Leaflet	15,000	
Ongoing Cyber security non staff cost	14,500	
Google 365 & MFD identified savings	(21,000)	
Bulky Waste	(11,540)	
Pension fund additional contribution	50,000	
		176,653
Funding Changes		
Council Tax surplus	(64,114)	
MRP	(72,850)	
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)	
		(2,221,207)
2023/24 DRAFT BUDGET SURPLUS		**(189,332)**

2.8. The most notable changes are anticipated partial year rental income from Elmfield, some Publica savings from postage and IT, increases to the member allowance budget both in general allowance level and the increase in the number of members of the executive and a budget for the Council Tax advice leaflet which has become annual practice. There is a lowered expectation of income from the investment strategy which reflects the difficulty of finding suitable investment opportunities. 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).

2.9. The other notable increase is a larger provision for subsidy loss on temporary emergency accommodation. The numbers of people housed increased hugely during the pandemic but has not subsequently dropped. This level of overspend was seen as a one off during Covid but Q3 analysis has identified it as likely to incur the same level of variance in the current year and the expectation is that it will remain at this level next year too.

2.10. 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. Publica officers were also asked to bring forward other requests for inclusion in the budget. This resulted in several initiatives being proposed.

2.11. These have subsequently been reviewed by the Executive and CExs, and the final list of recommendations are shown below. 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. While many of these are currently existing posts, the issue is that they were previously funded either by a specific short term allocation outside of the revenue budget or external funding that has now come to an end so in order for them to continue they would need to be funded from our base budget.

2.12. After initial review, two posts have been removed on the basis that we expect to receive grant funding for them.

2.13. A further review was done with some posts being recommended as permanent growth items and some as fixed term posts. Where the post is recommended to be fixed term, the intention is that there is a clear exit strategy at the end of the term and that the post is not continued unless external funding can be found.

2.14. The expectation of the Asset Management Post is that this will save £35k in revenue spend on consultancy and professional fees in 2023/24 and will result in an increased rental income of over £75k by the following year resulting in a net saving overall of £50k.

2.15. The expectation of the post implementing our revised leisure strategy and reviewing our income generating services is that it will reduce losses in all of these areas far in excess of the cost of the post.

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

2.17. Both the taxbase and fees and charges have been approved for inclusion in the final draft of the budget to be presented to Council.

2.18. Three of the posts below 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. These are proposed to move from being funded by ear marked reserves to being part of the baseline budget from 2023/24

		£	£
Permanent	Climate Change Manager	53,030	
Permanent	Market Towns Officer	35,960	
1yr FT	Democratic Services Assistant	12,033	
1yr FT	Biodiversity Land Management Post	46,859	
1yr FT	Climate Change Post	39,137	
Permanent	Woodgreen Reception/Executive Assistant	31,275	
Permanent	Finance Business Partner	20,000	
Permanent	HR Specialists x 3	23,000	
1yr FT	Waste Partnership Manager	10,250	
1yr FT	Empty Homes Co-Ordinator	8,060	
2yr FT	Implement leisure strategy and review income generation	95,100	
Permanent	Environment and Regulatory Services additional resource	32,000	
Permanent	Flooding/Land Drainage Post	39,000	
Permanent	Asset Management Post	63,000	
Permanent	Cyber Security Post	71,190	
			579,894
One off	Revenue expenditure on new Planning software	166,000	
			166,000

2.19. 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. Spend against this has not yet started and unspent funds from this year will be rolled to next. There was a request in the growth items for an additional £250k but a timeline has since been established on spend which shows that the profile is likely to be £505k in 23/24, £185k in 24/25 and £275k in 25/26, giving a total of £965k. This means that the budget rolled forward from the current year will be enough to cover expenditure next year, including the fixed term planning policy post and no additional budget will be requested until next year at the earliest. There is also £100k which was set aside as contingency last year so the request in future years is not anticipated to exceed the £250k that has been signalled.

2.20. Council Tax is expected 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.

2.21. 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.

2.22. 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 as 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.

2.23. 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 could deplete reserves in 2027/28. With the additional growth to the budget we are projecting that we will deplete them just beyond the end of the 2026/27 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 is not estimated at unreasonable levels but may not happen.

2.24. 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 other 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 prevent 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. This change in habits has been borne out by the responses to the budget consultation.

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. There is an urgent requirement for a strategic intervention to turn the centres around.

4.4. The budget survey highlighted the importance of leisure facilities to our residents with a strong emphasis on the swimming pools – but also an understanding of the current financial constraints and support to make changes to the service provision in order to protect them. The other theme from the survey, unsurprisingly, was that residents are finding the current economic environment extremely difficult and as such, their strongest need was for us above all else to care for their wellbeing with "Putting residents first" emerging as their highest priority, closely followed by "A good quality of life".

4.5. 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.

4.6. 2022/23 looks set to be a good year in terms of our ambitions to invest with one recent high profile investment and another smaller one 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.

4.7. 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.

4.8. 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 in all everything we'd want to. Requests have been 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 has been asked as to whether that requirement is temporary or permanent. While we now know our funding settlement, the fact remains that any permanent growth to base budget, even if temporarily funded this year will 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.

4.9. 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.

4.10. The Executive have committed to holding an away day to discuss the options available to bring future budgets back into balance and to reverse the drain on reserves. These measures are unlikely to be easy or welcome but will be necessary to reverse the current financial trend which is unsustainable.

(END)