



WEST OXFORDSHIRE  
DISTRICT COUNCIL

**WEST OXFORDSHIRE DISTRICT COUNCIL**

Name and Date of Committee	<b>EXECUTIVE – 13 DECEMBER 2023</b>
Subject	<b>DRAFT BUDGET 2024/25</b>
Wards Affected	ALL
Accountable Member	Councillor Alaric Smith – Executive Member for Finance. Email: <a href="mailto:alaric.smith@westoxon.gov.uk">alaric.smith@westoxon.gov.uk</a>
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Summary/Purpose	To provide an update on the developing budget for 2024/25.
Annexes	Annex A – Draft Medium Term Financial Strategy (MTFS) Annex B – MTFS Graphs Annex C – Draft Capital Programme
Recommendation(s)	That the Executive Resolves to: <ol style="list-style-type: none"><li>I. Note the update on the developing budget for 2024/2025.</li></ol>
Corporate priorities	<ul style="list-style-type: none"><li>• Working Together for West Oxfordshire</li></ul>
Key Decision	NO
Exempt	NO
Consultees/ Consultation	Meetings with Assistant Directors, Business Managers, Interim S151 and Chief Accountant. Officers also met with key stakeholders from GLL and Ubico.

## **1. BACKGROUND**

- 1.1 The Council is required to set the budget for 2024/25 by 11<sup>th</sup> March 2024. This first draft of the revenue budget 2024/25 has been compiled in advance of the announcement of the government funding settlement in December and therefore is subject to change.
- 1.2 This report provides details of the assumptions made for both the revenue budget and the Medium-Term Financial Strategy (MTFS) including the current drivers of growth.

## **2. MAIN POINTS**

- 2.1 This first draft of the budget has assumed that there will be no reduction in government funding in 2024/25, with the official settlement announcement expected on 19<sup>th</sup> December 2023. The focussed work has been done on the revenue part of the budget i.e. the cost of providing services, with the funding element left as is for now. The MTFS has a range of funding assumptions, over a number of years, which can be seen in Annex B.
- 2.2 In year reporting is forecasting an overspend this financial year of £433,041 over and above the approved deficit budget of £350,129, mainly driven by Investment Property, the Waste contract and some fee generating services. The draft budget for next year being balanced, at this initial stage, is encouraging, but the picture from 2025/26 onwards is less optimistic with an increasing reliance on the use of reserves to fund front line services.
- 2.3 While the reserves position for the Council is currently relatively healthy, there remains a financial gap which unless resolved could exhaust reserves over the life of this MTFS.
- 2.4 Single year settlements have exacerbated the financial strain on the Council, restricting our ability to confidently plan for more than one year in advance. Added to the long running uncertainty over the timing of the Business Rates reset, which has been delayed since 2020, and the phasing out of New Homes Bonus, this makes our funding assumptions speculative.
- 2.5 Unavoidable budget pressures, such as general and wage inflation, waste & recycling costs put additional strain on our financial position which we will struggle to offset with ongoing savings or additional income generation.
- 2.6 The Publica review has added a significant element of uncertainty around the financial impact of returning the majority of services back to the Council in terms of both one off and ongoing costs. Initially one off costs will be funded from earmarked reserves and ongoing costs will be included in the 2025/26 base budget.
- 2.7 The use of reserves to manage short term fluctuations in the Council's financial position is necessary but cannot be sustained over the longer term where the significant budget gap, over a number of years, will exhaust these reserves.

## **3. ECONOMIC ENVIRONMENT**

- 3.1 The Local Government Association (LGA), in their letter to Jeremy Hunt on 13<sup>th</sup> October 2023 referred to the “intense financial pressure” that councils are under and the “ongoing inflationary and pay pressures alongside spiking demand and market challenges ..... This

is happening at a time of low financial resilience across the sector following a 27.0 per cent real-terms reduction in core spending power since 2010/11.”

- 3.2 This view of the financial challenges facing councils 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 latest being Nottingham City Council on 29<sup>th</sup> November 2023.
- 3.3 The last decade has seen a reduction in core funding for Councils. Single year settlements and uncertainty about the timing and impact of the proposed local government finance reforms creates an ever more challenging financial environment. The prospect of a general election in 2024 may further delay these reforms.
- 3.4 Interest rates and inflation have been higher than budgeted in the current year. Uncertainty about these continues and assumptions have been made about these for the 2024/25 budget and Medium Term Financial Strategy (MTFS).
- 3.5 The Autumn Statement provided little detail with regards to local government funding for 2024-25 and beyond, including council tax referendum principles, grant funding and total increase in spending power. The Local Government Finance Settlement is anticipated in mid-December.

#### 4. 2024/2025 BUDGET ASSUMPTIONS

- 4.1 The 2024/25 budget setting process has been informed by the financial performance in the current year and the key drivers of variances to budget to date.
- 4.2 The table below shows the key changes to the budget and expected funding that have changed the £350,129 deficit in 2023/24 to a balanced budget in 2024/25. In the income and expenditure sections of the budget a negative figure represents a saving and a positive figure additional expenditure. In the funding section, a negative figure represents an increase in funding and vice versa.

2023/24 budget deficit		350,129
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<b>Budget Movements</b>	<b>£</b>	<b>£</b>
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#### Changes in Expenditure

	(1,116,591)	
Reversal of one off items from 23/24	)	
Publica Review estimate of ongoing pension costs	75,000	
Publica Review one off costs	200,000	
Retained Staff	90,650	
Closure of Elmfield as an operational building	(97,625)	
External Audit fees	132,375	

Marriotts service charges	34,910	
Secondary pension contribution	96,900	
Budget Manager Review	(38,305)	
Publica contract growth	647,452	
Ubico contract growth	826,014	
Additional Legal fees for Planning Appeals/Inquiries	90,000	
		940,780
<b><u>Changes in Income</u></b>		
Between Towns Road development opportunity	452,037	
Additional Planning Application income	(181,800)	
Investment Property voids	323,850	
Land Charges, Building Control and Stray Dogs fees	176,072	
Green Waste licences - subject to Porfolio holder approval	(165,000)	
Investment Property rent free periods	351,608	
Homelessness Hostels	(43,240)	
Reduction in loss of HB subsidy for temp accommodation	(140,846)	
GLL contract income	(449,171)	
		323,510
<b><u>Changes in Funding</u></b>		
Minimum Revenue Provision movement	(186,775)	
Earmarked reserves funding posts & Publica review one off costs	(807,996)	
Reverse Investment Recovery projected income in 23/24 base	175,000	
Reduction in external borrowing costs	(432,950)	
Council Tax reduction in surplus	75,000	
Treasury Management income	(54,000)	
Council Tax	(330,194)	
Provisional government funding assumptions	(52,504)	
		(1,614,419)
<b>2024/25 DRAFT BUDGET</b>		<b>(0)</b>

**4.3** The key changes to the budget from 2023/24 to 2024/25 are as follows:

- The reversal of one-off growth items in 2023/24 which includes the contingency against leisure contract income and the budgeted movement to and from earmarked reserves. Earmarked reserve movements are recalculated every year and are used to fund posts that have been agreed by the Executive in advance.

- Estimated one off costs of £200,000 associated with the Publica Review have been included to cover external consultancy in the areas of HR, TUPE, Project Management, Legal and Finance, with an additional £75,000 for the ongoing additional pension costs estimated in the Human Engine Report, based on an estimated phase one completion in Q3 of 2024/25.
- Publica contract growth is included in the budget at 5% pay inflation, agreed across the Publica partnership Councils, as an indicative figure in advance of a more developed transition plan becoming available. When more information is available around the timing and structure of phase one of the TUPE of staff back to the Council, these costs will transfer from the Publica contract to the Council's retained staff budget line.
- Extensive work has been undertaken with Ubico on how to most efficiently, effectively and sustainably deliver the Waste Service over the next decade. The growth included in the 2024/25 budget represents wage inflation and the revenue impact of a proposed phased capital fleet replacement programme which will go forward to Members for approval in January 2024.
- The revenue costs of the Ubico contract will fall by an estimated £350,000 in 2025/26 as hire vehicles are replaced and we transition over time from Hydrotreated Vegetable Oil (HVO) vehicles to electric or hydrogen alternatives, depending on how the technology advances in the next 3 to 4 years. The switch of our waste fleet from diesel to HVO by the start of the 2024/25 financial year will reduce our carbon emissions by 1.3m tonnes per annum, an 89% reduction from current diesel fuel.
- Public Sector Audit Appointments (PSAA) is tasked with appointing external auditors, consulting on and setting the external audit scale fee that is charged to Public Bodies. The PSAA have recognised the increased volume of work required to provide assurance in Local Government audits and has increased the scale fee by 151%.
- 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. Whilst these discussions are underway and until development plans are finalised it is expected that the property will remain void throughout 2024/25 with a loss of rental income of £350,000 and additional costs associated with Business Rates liability and making sure the building remains secure.
- 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 commonplace that tenants negotiate an initial rent free period at the start of their lease term. A six month rent free period will reduce our income over the course of a 15 year lease by less than 4%.  
The revenue budget includes the 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.

- It is proposed that the annual Green Waste licence charge be increased by £5 to £50. A benchmarking exercise on 10 neighbouring Councils shows an average green waste licence cost in 2023/24 of £54.09.
- Fees & charges are reviewed each year on a cost recovery basis and also assessed on whether the income budget is achievable. Land Charges and Building Control have been consistently below their income budget for some years and therefore have been reduced to an achievable level.  
The reasons for the fall in income in both areas has been consistently reported in the quarterly budget monitoring reports over the last three years. Unfortunately, remedial action to recover market share has not been successful.
- The budget has been updated to include the full contractual income from the leisure contract net of a contingency of 10%. Discussions are ongoing with our leisure provider to maximise the benefits of the contract for both parties and to ensure the viability of this contract in the future.
- The prohibitive cost of capital has brought the Investment Recovery strategy to a halt for now due to the lack of available opportunities which meet the Council's agreed criteria. The one potential project currently being investigated is the redevelopment of Between Towns Road. The 2023/24 budget assumed a level of Investment Recovery activity that will no longer be achieved with the resultant reduction in both MRP and external borrowing costs in 2024/25.
- The approval by the Executive in October to recruit an additional finance officer in the Homelessness team is expected to reduce our loss of Housing Benefit subsidy on temporary accommodation by £140,000 a year.
- The government announced that there will be a 35% rise in planning fees for major applications and a 25% rise for all other applications from 6<sup>th</sup> December 2023.
- It is proposed that Council Tax increases by the maximum amount of £5 on a Band D property.

## **5. MEDIUM TERM FINANCIAL STRATEGY ASSUMPTIONS**

- 5.1** Consensus seems to be that central government is unlikely to significantly increase funding to local government. Any reallocation of funding is likely to benefit councils with responsibilities for Adult Social Care and Children Services rather than district councils. Three different funding scenarios are included in the MTFS (Annex B) showing a cash flat settlement, a 10% reduction in funding and a 20% reduction in funding. It is inevitable that the actual settlement will fall somewhere in between.
- 5.2** The timing and impact of local government reforms makes the development of an MTFS a challenging exercise with single year funding settlements announced after the completion of the first draft of the budget.
- 5.3** The MTFS (Appendix A) assumes that New Homes Bonus will be paid for the last time in 2024/25 with an assumption that some kind of replacement funding will be rolled into the Settlement Funding Assessment (SFA) in 2025/26.

- 5.4 The business rates reset, delayed since 2020, is forecast to take place in 2026/27 with a possible 30% reduction in business rates income as a result as retained business rates are reduced to the baseline funding level.
- 5.5 The MTFS assumes a general inflationary increase of between 4% and 2% will apply to cost of services from 2025/26 onwards, excluding contracts where the actual inflationary increase is known i.e. Ubico contract, salary inflation, Publica contract and some software licence agreements.
- 5.6 Salary inflation over the last 3 years has been higher than we have historically estimated. For 2024/25 there is an assumed 5% increase but this is expected to fall back over the life of the MTFS.
- 5.7 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.
- 5.8 This Council, like all local authorities, is facing external budget pressures that will impact the MTFS. Energy prices, inflation and interest rates have all had a significant impact on the financial performance in the current year and will continue to do so in the coming years.
- 5.9 The MTFS is based on the most reasonable forecasts of income and expenditure that can be inferred at this point in time.

## **6. CAPITAL PROGRAMME**

- 6.1 The outturn report for 2023/24 will identify any capital slippage which is requested to go forward into 2024/25. So far this year, there has been significantly lower capital expenditure than was anticipated, due to a lack of viable investment projects given the increase in interest rates.
- 6.2 A detailed review of the capital programme has been carried out during the 2024/25 budget process. The draft Capital Programme is attached in Appendix C.
- 6.3 The main programmes are the proposed Ubico vehicle replacement strategy, decarbonisation of Council buildings and solar PV schemes.
- 6.4 A Strategic Housing Development & Enabling Manager is included in the revenue budget for 2024/25 and this post will inform a strategic housing capital programme in 2025/26 and beyond.
- 6.5 Similarly, the Transformation Group is reviewing the council's Asset Management Strategy and this work will identify areas of capital spend in future years.
- 6.6 As always, inclusion in the Capital Programme at this stage does not mean that the expenditure is authorised. Identifying the possible spend, and including it in the Capital Programme, ensures that potential borrowing requirements are identified. In most cases, a business case would still need to be prepared and brought forward for review.

## **7. STATUTORY OVERRIDE PROVISION**

- 7.1** The statutory override for pooled funds, which requires fair value gains and losses to be taken to an unusable reserve unless the fund is sold, is set to end in 2025/26. The ending of the override would require any gains and losses to be recognised in revenue accounts 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.
- 7.2** Our Pooled funds currently have a capital value below their purchase price because of rising interest rates and high inflation. This “loss” would have to be moved to the General Fund in 2025/26 if the statutory override is not extended.
- 7.3** It is therefore advised, by our Treasury advisors Arlingclose, that it would be prudent to set aside 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.

## **8. BUDGET CONSULTATION**

- 8.1** The Council’s budget consultation, via the online engagement platform CitizenLab, will run from 13<sup>th</sup> November to 18<sup>th</sup> December 2023.
- 8.2** The Council has used a wide range of communication channels to promote the consultation including media engagement, social media, website, stakeholders and newsletters.
- 8.3** Feedback from the consultation will be presented to the Executive in January 2024.

## **9. BUDGET REVIEW TIMETABLE**

- 9.1** A next draft of the budget, including the Local Government Finance Settlement will be taken to the Overview and Scrutiny Committee on 10<sup>th</sup> January 2024.
- 9.2** A final budget will be presented to the Executive on 14<sup>th</sup> February 2024.
- 9.3** It will be debated at Council on 28<sup>th</sup> February.

## **10. CONCLUSIONS**

- 10.1** There are significant pressures on the Council’s current 2023/24 budget which may mean that the general fund balances will be called upon in the current financial year to bridge the gap.
- 10.2** There are continued uncertainties and cost pressures, as detailed in this report, that will have an impact on the 2024/25 budget and the medium-term strategy.
- 10.3** This report contains the first draft of the 2024/25 budget. The Local Government Finance Settlement expected in December, the feedback from committee meetings and the budget consultation process will provide inputs into the final budget,
- 10.4** The Council will need to set realistic budgets, balancing current need and future financial stability, to ensure that adequate reserves are maintained over the medium term.



## **11. FINANCIAL IMPLICATIONS**

**11.1** There are no financial implications arising from this paper as it outlines the approach and context of the 2024/25 budget setting process.

## **12. LEGAL IMPLICATIONS**

**12.1** Apart from the statutory duties and obligations set out in this report, with regards to budget setting process, there are no further implications.

## **13. RISK ASSESSMENT**

**13.1** None required as a result of the content of this report.

## **14. EQUALITIES IMPACT**

**14.1** No direct equalities impact with regards to the content of this report.

## **15. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS**

**15.1** None.

## **16. BACKGROUND PAPERS**

Budget Papers – February 2023

(END)