



WEST OXFORDSHIRE
DISTRICT COUNCIL

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| Name and Date of Committee | EXECUTIVE – 17 JANUARY 2024 |
| Subject | DRAFT BUDGET 2024/25 – VERSION 2 (INCLUDING LOCAL GOVERNMENT FINANCE SETTLEMENT) |
| Wards Affected | ALL |
| Accountable Member | Councillor Alaric Smith – Executive Member for Finance. Email: alaric.smith@westoxon.gov.uk |
| Accountable Officer | Madhu Richards – Director of Finance. Email: madhu.richards@westoxon.gov.uk |
| Report Author | Madhu Richards – Director of Finance. Email: madhu.richards@westoxon.gov.uk |
| Summary/Purpose | To provide an update on the developing Budget for 2024/25 following the Local Government Funding Settlement on 18 December 2023. |
| Annexes | Annex A – Details of Base Budget Changes by Service Area; Annex B – Prior Year Comparison; Annex C – Draft Capital Programme; Annex D – Draft MTFS; Annex E – MTFS Graphs; Annex F – Council Tax Base; Annex G – Proposed Fees and Charges. |
| Recommendation(s) | That the Executive Resolves to: 1) Approve the draft fees and charges for 2024/25, as detailed in Annex G, for inclusion as part of the Budget recommendations to Council on 28 th February 2024. And Resolves to Recommend to Council to: 2) Approve the Council Tax Base shown in Annex F, calculated as £47,841.03 for the year 2024/25; 3) Authorise the Director of Finance to submit the National Non-Domestic Rates Return I (NNDRI) to Department for Levelling Up, Housing and Communities by the submission date of 31 January |

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| | 2024. |
| Corporate Priorities | <ul style="list-style-type: none"> Working Together for West Oxfordshire |
| 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

The Council is required to set the budget for 2024/25 by 11 March 2024. The first draft of the 2024/25 budget was presented to the Executive on 13 December 2023.

- 1.1 This second draft has been updated for the government funding settlement received on 18th December 2023, the revenue investment approved in the Review of Legal Services paper at the 13 December Executive, draft fees and charges and the final Council Tax surplus.
- 1.2 A final budget, along with strategy papers will be prepared for the Executive and Council meetings in February 2024.
- 1.3 This report provides details of the funding settlement and the assumptions made for both the revenue budget and the Medium-Term Financial Strategy (MTFS) including the current drivers of growth.
- 1.4 Although the settlement is now known, there are still items under consideration, such as the details of the capital programme, and therefore this draft of the budget is still subject to change.

2. MAIN POINTS

- 2.1 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.
- 2.2 This second draft of the 2024/25 budget, is a surplus of £14,670, with the picture from 2025/26 onwards becoming less optimistic with an increasing reliance on the use of reserves to fund front line services and the difficulty in identifying new, sustainable income streams.
- 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 13th 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 29th 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).

4. 2024/2025 LOCAL GOVERNMENT FUNDING SETTLEMENT

- 4.1 The Local Government Funding Settlement was announced on 18th December 2023.
- 4.2 The settlement is in line with the assumptions made for the first draft of the 2024/25 budget, taken to the Executive on 13th December 2023, as the settlement was in line with the Autumn Statement (22nd November 2023) and Policy Statement (5th December 2023).
- 4.3 There is a 5.1% increase in funding from 2023/24 to 2024/25 (assuming a £5 increase in the Council Tax is enacted).
- 4.4 There is a significant reduction in the New Homes Bonus, compared to assumptions made for the first draft of this budget, which is temporarily offset by an increase in the funding guarantee. See table below for the funding assumed in the MTFS taken to the Executive in December and the final funding amounts.

| MTFS Line Item | December Exec MTFS | Settlement | Difference |
|------------------------|--------------------|-------------------|----------------|
| Revenue Support Grant | £230,000 | £230,095 | + £95 |
| New Homes Bonus | £1,579,635 | £1,009,640 | - £569,995 |
| Funding Guarantee | £963,864 | £1,597,337 | +£633,473 |
| Rural & Services Grant | £221,000 | £162,556 | -£58,444 |
| Total | £2,994,499 | £2,999,628 | +£5,129 |

- 4.5 There were no further changes to the Band D Council Tax Referendum thresholds. £5 or 2.99%
- 4.6 As this was the effectively the second year of a two-year settlement, the key uncertainties around future funding still exist. With the prospect of significant cuts in funding from the local share of business rates and other funding streams, medium- and longer-term financial planning is extremely difficult.

5. 2024/2025 BUDGET ASSUMPTIONS

- 5.1 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.
- 5.2 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 **£14,670 surplus** 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

| Budget Movements | £ | £ |
|---|-------------|----------|
| <u>Changes in expenditure</u> | | |
| Reversal of one off items from 23/24 | (1,116,591) | |
| 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 |
| <u>Changes in income</u> | | |
| 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 Portfolio holder approval | (165,000) | |

| | | |
|---|-----------|-------------------|
| Investment Property rent free periods | 351,608 | |
| Homelessness Hostels | (43,240) | |
| Reduction in loss of Housing Benefit subsidy for temp accommodation | (140,846) | |
| GLL contract income | (449,171) | |
| | | <hr/> 323,510 |
| <u>Changes in funding</u> | | |
| 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) | |
| | | <hr/> (1,614,419) |
| | |) |
| <hr/> 2024/25 DRAFT BUDGET | | <hr/> (0) |

Budget deficit presented to the Executive in Dec 23 (0)

Budget Movements since presentation to Executive £ £

Revenue Changes

| | | |
|----------------------------------|----------|--------------|
| Legal Services review | 74,678 | |
| Fees & Charges | (52,284) | |
| 2 Year Economic Development Post | 30,579 | |
| | | <hr/> 52,973 |

Funding Changes

| | | |
|--|----------|----------------|
| Local Government Funding Settlement | (5,129) | |
| Earmarked Reserves funding Economic Development post | (30,579) | |
| Council Tax surplus | (31,935) | |
| | | <hr/> (67,643) |

5.3 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 unavoidable impact of the proposed capital fleet replacement programme which will go forward to Members for approval in February 2024.
- For context there are 25 waste and recycling lorries coming to the end of their economic life in 2024, plus 6 ancillary vehicles. A phased replacement programme will allow the Council to take advantage of new technologies as they mature and become more reliable in the next two to three years. Spreading the cost over the next three to four years limits the amount of external borrowing needed at the current higher interest rates. In 2024/25 it is anticipated that the Council will purchase 6 replacement waste vehicles with the remainder of the fleet brought in through contract hire arrangements.
- The revenue costs of the Ubico contract will fall by an estimated £350,000 in 2025/26 as hire vehicles are replaced and repair costs of the existing end of life fleet fall.
- 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 6th December 2023.
- It is proposed that Council Tax increases by the maximum amount of £5 on a Band D property.
- The following growth requests were not included in the first draft of the budget:
 - Posts and system resulting from the Review of Legal Service paper approved by the Executive on 13th December meeting.

- Economic Development Team Assistant – two-year fixed term post funded by earmarked reserves.

6. MEDIUM TERM FINANCIAL STRATEGY ASSUMPTIONS

- 6.1** The timing and impact of local government reforms makes the development of an MTFS a challenging exercise with single year funding settlements adding to the uncertainty in future years.
- 6.2** 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.
- 6.3** 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.
- 6.4** 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.
- 6.5** 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.
- 6.6** 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.
- 6.7** 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.
- 6.8** The MTFS is based on the most reasonable forecasts of income and expenditure that can be inferred at this point in time.

7. FEES AND CHARGES

- 7.1** 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.

- 7.2 For the setting of the 2024/25 draft budget a comprehensive review has been undertaken to analyse the fees set on a cost recovery basis. As a result Land Charges and Water Sampling fees will increase by 6.7%
- 7.3 The government announced an increase in Planning Application fees from 6th December 2023 of 25% and an increase of 35% for major applications. This has increased our budgeted income for 2024/25 by £182,000.
- 7.4 Other fee generating services i.e. food safety, private water supply testing and licences (excluding premises) were found to be under recovering their costs and therefore the fees have been uplifted as detailed in Annex G.
- 7.5 A new charging regime for Pre Application Planning Advice is being introduced in 2024/25 which builds on intelligence gathered from a similar exercise undertaken by one of our Publica partner Councils in 2022/23. This regime should provide a modest increase in fee income of £15,000 and will cover the costs of delivering the service.
- 7.6 Green Waste licences are to increase by £5, generating expected additional income of £165,000. This new licence charge of £50 compares to the average cost across 10 neighbouring Councils of £54.09 in 2023/24.

8. CAPITAL PROGRAMME

- 8.1 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.
- 8.2 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.
- 8.3 The main programmes are the proposed Ubico vehicle replacement strategy, decarbonisation of Council buildings and solar PV schemes.
- 8.4 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.
- 8.5 Similarly, the Transformation Group is reviewing the council's Asset Management Strategy and this work will identify areas of capital spend in future years.
- 8.6 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.

9. STATUTORY OVERRIDE PROVISION

- 9.1 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.
- 9.2 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.
- 9.3 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.

10. BUDGET CONSULTATION

- 10.1 The Council’s budget consultation, via the online engagement platform CitizenLab, ran from 13th November to 18th December 2023.
- 10.2 The Council used a wide range of communication channels to promote the consultation including media engagement, social media, website, stakeholders and newsletters.
- 10.3 A total of 377 responses (308 for 2023/24) were received as a result of this consultation.

11. BUDGET REVIEW TIMETABLE

- 11.1 This revision of the budget is presented to the Executive and Council in January 2024 for approval of the fees and charges, the Council Tax Base and submission of the National Non Domestic Rates I (NNDRI) Return ahead of the 31st January 2024 deadline.
- 11.2 A final budget will be presented to the Executive on 14th February 2024.
- 11.3 It will be debated at Council on 28th February.

12. CONCLUSIONS

- 12.1 This latest version of the budget is a **surplus of £14,670**.
- 12.2 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.
- 12.3 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.
- 12.4 This report contains the second draft of the 2024/25 budget. Feedback from committee meetings and the budget consultation process will provide inputs into the final budget,
- 12.5 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.

13. FINANCIAL IMPLICATIONS

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

14. LEGAL IMPLICATIONS

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

15. RISK ASSESSMENT

15.1 None required as a result of the content of this report.

16. EQUALITIES IMPACT

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

17. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

17.1 None.

18. BACKGROUND PAPERS

Budget papers – February 2023 and December 2023.

(END)