

Cherwell District Council

Executive

4 October 2021

Budget and Business Planning Process 2022/23 – 2026/27

Report of the Director of Finance

This report is public

Purpose of report

This report is to inform the Executive of the proposed approach to the 2022/23 Budget and Business Planning Process and provides context and background information on the existing Medium-Term Financial Strategy and information on latest government announcements relevant to the Strategy.

1.0 Recommendations

The meeting is recommended to:

- 1.1 Approve the Budget and Business Planning Process for 2022/23
- 1.2 Approve a five-year period for the Medium-Term Financial Strategy to 2026/27 and five-year period for the Capital Programme to 2026/27.

2.0 Introduction

- 2.1 This report is the first in the series on the Budget and Business Planning process for the forthcoming year. It forms context and background information ahead of and part of the process which will culminate in Council setting a budget for 2022/23; a medium-term strategy to 2026/27, the capital programme to 2024/25 and a Corporate Plan in February 2022.
- 2.2 The Medium-Term Financial Strategy (MTFS) to 2025/26, agreed by Council in February 2021, identified savings of £7.3m to be delivered in 2022/23. The MTFS also reflects expected growth for demographic and other additional directorate spending needs and inflationary costs plus impacts of agreed savings and other income growth.
- 2.3 Information on latest government announcements and their impact, as well as an overview of new and emerging pressures which will need addressing through the Budget and Business Planning process for 2022/23, are set out in the report.

- 2.4 There is uncertainty in government funding for 2022/23 and beyond pending the outcome of the Spending Review 2021, recently announced and being reported on 27 October 2021. In addition, announcements are anticipated with regards to the introduction of a new Fairer Funding Formula and the implementation of 75% Business Rates Retention, alongside a Business Rates Reset. These are now expected to be introduced from 2023/24. This level of uncertainty remains as high as last year; however, in forming the MTFS prudent assumptions will be made based on the latest information available and using scenarios and a sensitivity analysis to form a view.

3.0 Report Details

- 3.1 This initial report sets the context and the starting point for the Budget and Business Planning process. It sets out the assumptions on which the existing MTFS agreed in February 2021 is based, information arising from government and other announcements plus new and emerging financial issues for 2022/23 and beyond which impact on the existing MTFS. It also sets out the process for updating the Corporate Plan as well as the timetable of events for the Budget and Business Planning process.
- 3.2 The following appendices are attached to this report:
- Appendix 1: Previously agreed budget changes 2021/22 – 2025/26
 - Appendix 2: Budget and Business Planning timetable for 2021/22
- 3.3 It is proposed that the MTFS continues to cover a five-year time frame given the financial challenges the Council is facing and is therefore extended by one year to cover 2026/27. It is also proposed that the Capital Programme is extended by three years to cover the same five-year period to 2026/27 as the MTFS.

Assumptions in the existing Medium-Term Financial Strategy

Additional Spending & Savings

- 3.4 The 2021/22 – 2024/25 MTFS agreed by Council in February 2021 identified the requirement for annual savings of £7.3m in 2022/23 to offset funding reductions and to meet additional expenditure needs. Due an assumption that the business rates reset will now take place in 2023/24, the required on-going annual target for new savings is now estimated to be £1.6m in 2022/23 with a further £5.5m in 2023/24. Delivery of savings identified in February 2021 for implementation in 2021/22 of £4.4m are being monitored through the monthly Performance, Finance and Risk Monitoring Reports to Executive throughout the financial year. To the extent that savings anticipated in 2021/22 are not delivered on an ongoing basis this will increase the level of savings required in 2022/23. The Council is working to minimise any ongoing savings non-delivery in 2021/22.
- 3.5 The existing MTFS also includes an additional £0.5m per year of on-going funding for pay awards of 2.5% and contract inflation at 2% and increases in the Council's fees and charges of 2% per annum. No inflation is provided for general prices. This will be reviewed a part of the Budget and Business Planning process.

- 3.6 Details of the savings and growth assumed in the existing MTFS for 2022/23 to 2025/26 are set out in Annex 1.

Funding

- 3.7 The MTFS for 2021/22 approved by Council in February 2021 identified temporary funding received in 2021/22 as a result of the delay to the proposed reset of business rates growth within the Business Rates Retention System and a further year's payment of the New Home Bonus grant prior to its winding down. As a consequence, the existing MTFS has a budget shortfall of £7.3m in 2022/23. There is also considerable uncertainty surrounding the financial implications of the Spending Review and introduction of a new formula to allocate funding across local government.
- 3.8 However, now that the business rates reset is expected to be delayed until 2023/24, the income retained from the Business Rates Retention Scheme is estimated to remain in the region of £10.5m in 2022/23. The amount retained in 2023/24 is now expected to reduce by £6.3m but is predicated on the assumption that growth in business rates above the baseline reduces with the expectation of a business rates reset in April 2023.
- 3.9 Revenue Support Grant, which was extended for another year in 2021/22, is expected to drop out in 2022/23. The continuing phased reduction of the New Homes Bonus grant is also assumed.
- 3.10 Maximum council tax increases of £5 for a Band D property are assumed across all years of the existing MTFS. It is assumed the Council Tax base will increase 1.6% on average annually. Total income from Council Tax (not including collection surpluses) is estimated to be £9.8m a year by 2026/27.
- 3.11 Taken together, these result in an overall funding reduction of £2.8m for 2022/23. This is slightly offset by a planned reduction in expenditure of £0.8m, resulting in an overall gap in 2022/23 of £1.6m after adjusting for the anticipated delay in the business rates reset and forecast non-delivery of savings. Details are set out in the table below.

Table 1: MTFS as approved February 2021

MTFS Movements	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m
Base budget b/f	22.374	0	0	0	0
Service Pressures	(2.818)	(0.619)	0.370	0.012	0
Service Savings Proposals	(0.470)	(0.142)	(0.121)	0.001	0.001
Capital Impact	(0.043)	0.045	0	0	0
Corporate changes	4.941	(1.836)	(0.389)	0.045	0
Inflation	0.493	0.494	0.494	0.495	0.495
Use of reserves	(4.083)	0.321	0	0	0
Additional government grants	1.830	0	0	0	0
Net Budget Requirement	22.224	(1.737)	0.354	0.553	0.496
Revenue Support Grant	0	0	0	0	0
Council Tax	(8.085)	(0.428)	(0.448)	(0.405)	(0.400)
Business Rates	(10.730)	5.894	(0.457)	(0.446)	0
New Homes Bonus	(1.767)	1.767	0	0	0
Total Income	(20.582)	7.233	(0.905)	(0.851)	(0.400)
Funding Gap / (Surplus)	1.642	5.496	(0.551)	(0.298)	0.096

Earmarked Reserves and General Balances

- 3.13 Earmarked reserves (reserves held for a specific purpose) are forecast to be £30.1m at the end of 2021/22. The latest forecast estimates that general balances will remain around £5.0m at the end of 2021/22. As with general balances, the level of earmarked reserves is reviewed each year as part of the Budget and Business Planning process.
- 3.14 CDC introduced a new reserves policy for 2021/22 and earmarked reserves will be reviewed in line with the new policy. A risk assessment to determine the level of appropriate balances will also be undertaken as part of the Budget & Business Planning process.

Covid-19 Pandemic

- 3.16 The Covid-19 pandemic continues to result in areas of financial uncertainty, in particular how the economy recovers and the corresponding impact on business rates and council tax. The Government's recently announced winter plan aims to keep the economy fuller opens but does envisage some circumstances where further disruption could occur. There are currently no indications that there will be further compensatory funding from the Government in 2022/23 for ongoing costs/income losses.
- 3.17 It remains unclear whether businesses will be able to continue to operate and grow at the rates assumed in the MTFS. There are clearly significant challenges for businesses following the "stall" in the economy due to the various lockdowns implemented to reduce the spread of Covid-19. While an Oxfordshire wide Economic Recovery Plan is in place to mitigate Covid-19 impact, if the economic

recovery is not swift enough then some businesses may not continue into 2022/23 putting at risk the anticipated growth of business rates. Business rates reductions were provided to retail and leisure businesses for the first quarter of 2021/22 but were required to start paying business rates in full from 1 July 2021. In addition, if business rates growth is less than anticipated for 2021/22, this will result in a deficit to the Collection Fund which will have to be considered when setting the 2022/23 budget.

- 3.18 In addition to the reduced rates of growth in business rates, CDC has seen increases in the levels of those eligible for working age Council Tax Support and receiving discounts on their council tax bills. There is a risk that, as the furlough scheme ends, levels of working age Council Tax Support will continue to increase. This could have the impact of reducing levels of Council Tax that will be received by the Council compared to the MTFS.
- 3.19 It is also very early in the recovery phase of the pandemic to understand whether some of the additional costs and income losses faced by the Council will continue into 2022/23.

Government Announcements

- 3.20 Since Council approved the 2021/22 budget, MTFS and Capital Programme, there have been a number of impacts on local government finance which have created unprecedented uncertainty for 2022/23 and beyond are:
- the on-going financial impact of the Covid-19 pandemic
 - an expected three-year Spending Review reporting on 27 October 2021
 - an expected further delay in implementing the Fair Funding Review, which may now be implemented from April 2023
 - an expected further delay in Business Rates Reform, including a move to retaining 75% of business rates and a business rates reset, which may now be introduced from April 2023
 - the Business Rates Revaluation, expected to happen in April 2023

Spending Review 2021

- 3.21 The Spending Review (SR) sets the overall funding envelope for Government departments for the Spending Review Period. The Government has recently announced a three-year Spending Review for 2022/23 to 2024/25 which will conclude on 27 October 2021 alongside Autumn Budget 2021. Whilst the SR will not provide specific funding levels for individual local authorities, it will give a clear steer on the trajectory of local government funding as a sector and assist with planning scenarios.

Further Medium-Term Uncertainty

- 3.22 To compound the planning uncertainty, there are major changes to the way local government funding works, and how that funding is allocated between authorities, which have already been delayed by two years and are not now expected to be implemented in April 2022 either. The current assumption is that they will be introduced from 2023/24 onwards as part of the Fair Funding Review, the proportion of business rates retained by local government and how local authorities are rewarded for generating growth in business rates will change; however, it is not possible to predict the overall financial impact of these proposals as they are still

being designed and yet to be consulted on. Therefore, for now the planning assumption is that they are cost neutral.

- 3.22 There has been no Government consultation issued on how the anticipated business rates reset could be implemented. Due to the lead time required for a consultation and implementation of how a business rates reset would work, the Council no longer expects the business rates reset to take place in 2022/23, but expects it to be delayed until 2023/24.

Savings Proposals

- 3.23 Given the challenging situation relating to funding and the high levels of uncertainty, CDC will undertake to identify savings proposals of £1.6m in 2022/23 and a further £5.5m in 2023/24; this results in a total ongoing savings of £7.1m being required. This takes into account the impacts identified in the MTFS approved in February 2021 and also the potential financial impacts of Covid-19. Assumptions will be revisited and revised as information becomes clearer, but it is important to note that the actual implications will not be known until very late in the Budget and Business Planning process
- 3.24 The Budget and Business Planning Process will consider the impact that savings proposals may have on the strategic priorities of:
- Housing that meets your needs
 - Leading on environmental sustainability
 - An enterprising economy with strong and vibrant local centres
 - Healthy, resilient and engaged communities
- 3.25 The strategy for identifying savings will be based on the plan to address the MTFS gap which was approved by Council in February 2021. The Council will look to identify what savings can be provided by services and how they impact on priorities.

Business Plan

- 3.26 The 2022/23 Business plan will include the Business Plan itself, finance, leadership risks and the performance management framework supporting the delivery of the priorities.
- 3.27 The overarching priorities of this Business plan will be closely linked to the budget supporting each of the revised priorities. The residents satisfaction survey results will support the priorities of this business plan along with the budgets to support delivery taking into account the reductions within the MTFS.
- 3.28 It is proposed that these issues should be considered alongside existing priorities for formal incorporation into the new business plan illustrating the new revised priorities for next year.
Work will be required to identify the tangible change associated with each priority area and how the issue is best incorporated into the overall planning framework – whether into the Business Plan or into service specific plans. Where issues are agreed as priority areas, consideration should be given through the budget process of how refocussing of these issues affects budget priorities.

- 3.29 In addition to revising the council priorities, in line with the budget priorities, service plans will also reflect the revised priorities and direction of the council.
- 3.30 The Outcomes Framework and the Leadership Risk Register will also be revised to reflect the new priorities, ensuring the framework accurately describes the priorities and performance actions supporting the plan.
- 3.31 Performance indicators (key performance indicators and qualitative measures) will be reviewed and updated to ensure that they have a clear and direct line to outcomes and the new council's priorities. The performance measures and target setting process will ensure that the reasons for changing or maintaining a target across years are transparent and support the priorities.

Consultation and Engagement

- 3.32 Residents and service users expect to be consulted about council spending and council tax levels. There are no prescriptive guidelines on how and when councils should consult. Some councils prefer to consult early and explore the principles by which the council could approach balancing its budget ie on the 'shape of the budget', whereas others prefer to consult later and consult on the 'substance' of the budget when more formed proposals have been developed. Some council's do both and some do neither.
- 3.33 The common law duty to consult applies to budget consultation as residents' and service users' views and feedback could legitimately be expected to inform the council's budget setting process. There are also legal duties to consult residents and services users on the detail of specific service change proposals and particularly cuts, and these are judged on a case-by-case basis.
- 3.34 Under section 65 of the Local Government Finance Act 1992, billing authorities must 'consult persons or bodies appearing to be representative of persons subject to non-domestic rates under section 43 and 45 of the 1998 Act about the rateable value (hereditaments) of properties.' We will engage businesses in our second-stage autumn consultation set out below.

Early engagement

- 3.35 We have commissioned a representative residents' satisfaction survey having paused last year due to the pandemic. It focused on service importance and satisfaction and interim data from this survey is included with this report to inform the priority-based budget and business planning process.
- 3.36 This was delivered using a postal eight-page questionnaire, supported by an online equivalent survey sent to a randomly selected section of households across the district. We aim to deliver 1,060 completed surveys (across all methods), providing a +/-3% confidence with the final report due in early October.

Formal consultation

- 3.37 A second stage public consultation will follow at the start of December on the 'substance' of the budget, to give the wider population and stakeholders (including businesses to meet our statutory duty) the opportunity to feedback on the council's

'formed' budget proposals. It does not, however, replace the need to specifically consult on service change proposals relating to significant service changes and where there is a legal requirement to do so.

- 3.38 The second stage consultation exercise will include a consultation booklet and accompanying questionnaire. Our approach will be digital first, using Cherwell District Council's new Let's talk Cherwell consultation platform. Paper copies of both the booklet and questionnaire will also be available in public buildings and customer services will be fully briefed to support inclusion, for example to enable materials in alternative formats to be requested. A communications promotional plan will support this exercise.

Budget and Business Planning Timetable

- 3.39 An online public consultation on CDC's budget proposals will commence when the information is published at the start of December 2021, with Budget Planning Committee (BPC) considering the budget pressures and savings on 9 December 2021. Comments from BPC, along with other responses, will feed into the final formulation of proposals.
- 3.40 Capital proposals will also be considered by Budget Planning Committee on 9 December 2021. The Capital & Investment Strategy which incorporates the Treasury Management Strategy will be considered at the meeting in January 2022.
- 3.41 The Executive will take into consideration the comments from the BPC in December 2021 and comments from the public consultation alongside the funding available announced as part of the provisional settlement expected during December 2021, at its meeting on 7 February 2021 in setting out its proposed budget to Council.
- 3.42 The provisional local government finance settlement is not expected until mid-late December 2021, with the final settlement not expected until early late January/early February 2022. This will confirm the general funding available to the Council for 2021/22 and the Council Tax referendum limit to be applied.
- 3.43 The Council meeting to agree the 2022/23 revenue budget, MTFS and capital programme will take place on 28 February 2022.
- 3.44 A timetable for the Budget and Business Planning process is attached at Annex 2.

4.0 Conclusion and Reasons for Recommendations

- 4.1 The Council has a legal obligation to set a balanced budget and ensure it maintains a suitable level of reserves each year. The process laid out in this report will allow CDC to develop budget proposals that will allow it to meet these legal obligations.

5.0 Consultation

None required

6.0 Alternative Options and Reasons for Rejection

- 6.1 The Council has a legal obligation to set a balanced budget and evaluate its level of reserves to ensure they are held at a suitable level. Therefore; there are no alternative options other than to carry out a budget process that reviews the levels of reserves and identifies a budget proposal that can be delivered within the overall level of resources available to the Council.

7.0 Implications

Financial and Resource Implications – Mandatory paragraph

- 7.1 There are no immediate financial implications associated with agreeing a budget process.

Comments checked by:

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Legal Implications – Mandatory paragraph

- 7.2 The Council legally has to set a balanced budget each year. Ensuring there is a robust process in place will help it to achieve that.

Comments checked by:

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Risk Implications - Mandatory paragraph

- 7.3 The Council faces significant risks given the scale of the financial challenge for 2022/23 and 2023/24. Having a robust process in place to develop budget proposals and the associated Corporate Plan will help to mitigate these. These risks are managed as part of the operational and leadership risk register.

Comments checked by:

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Equalities and Inclusion Implications

- 7.4 There are no equalities implications associated with agreeing a budget process.

Comments checked by:

Emily Schofield, Acting Head of Strategy, 07881 311707, emily.schofield@cherwell-dc.gov.uk

Sustainability Implications

There are no sustainability implications associated with agreeing a budget process.

Comments checked by:

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8.0 Decision Information

Key Decision **No**

Financial Threshold Met: **No**

Community Impact Threshold Met: **No**

Wards Affected

All

Links to Corporate Plan and Policy Framework

The Budget and Business Planning Process cuts across the entire Corporate Plan and Policy Framework

Lead Councillor

Cllr Ilott, Finance and Governance

Document Information

Appendix number and title

- Appendix 1 – Previously agreed budget changes 2021/22 – 2024/25
- Appendix 2 – Budget and Business Planning Timetable for the 2022/23 Process

Background papers

None

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