

Cherwell District Council
Budget Planning Committee

6 January 2020

<p>Budget Setting for 2020/21 and the Medium Term Financial Strategy 2020/24</p>

Report of the Executive Director – Finance (Interim)

This report is public

Purpose of report

This report provides information on the Council's Medium Term Financial Strategy (MTFS) for 2020/24 along with more detailed information on setting the Council's budget for 2020/21, which will be considered at Executive on 3 February 2020 and at full Council on 24 February 2020

1.0 Recommendations

The meeting is recommended:

- 1.1 To review and scrutinise the contents of this report and provide advice and guidance to the Executive to help them further shape both budget setting for 2020/21 and the MTFS for 2020 to 2024.

2.0 Introduction

- 2.1 Councils have for a number of years, in line with good practice, sought to set a budget for the forthcoming year as well as prepare a MTFS, typically over the forthcoming four-year period. This also forms part of the value for money judgement from our External Auditors, assessing whether as a Council we consider longer term financial sustainability when we make decisions about how we conduct our business.
- 2.2 Recent announcements from Government have indicated that there are likely to be significant changes to the way they fund local authorities over the medium term. The latest indications are that those changes will begin to take effect from 2021/22. All the information and intelligence received indicates that this will present Cherwell District Council (CDC) with a number of substantial financial challenges over the medium term, which the Council needs to prepare for as it sets the budget for 2020/21.
- 2.3 On Friday 20 December, the government published a one-year provisional settlement for Local Government which can be found here:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2020-to-2021>

2.4 The impact for CDC of this one-year settlement can be summarised as follows:

- Essentially a “roll-forward” of funding
- Confirmation that Council Tax can be raised by 2% or £5, whichever is greater (For CDC this is £5)
- That New Homes Bonus legacy payments from previous years allocations will be fully funded
- That a one-year only New Homes Bonus award for 2020/21 has been allocated to CDC

2.5 The settlement was as expected following announcements prior to the General Election in the Chancellor’s budget in September 2019. We had built our financial models on the indicative information provided at that point. Nothing has changed from when the provisional settlement was announced.

2.6 In order to support the Budget Planning Committee with its task of scrutinising the budget setting process for 2020/21 this report explains and explores the impacts of the various building blocks that make up the final budget of the Council including:

- estimated impact of the financial outturn for the Council for 2019/20
- cost of the services that we provide
- commercial activity and income
- financing the Council (borrowing and investments)
- inflationary and other price change impacts
- budget proposals (growth, savings and invest to save)
- capital investment proposals
- reserves and the use of reserves to support the budget
- national funding assumptions for future years and the medium-term funding gap

2.7 This report will explain how each of the above elements support the development of the budget for 2020/21 and the longer term MTFs and then summarise the next steps that will allow the Council to consider, approve and set a balanced budget on 24 February 2020.

3.0 Report Details

Financial Outturn 2019/2020

3.1 The Budget Planning Committee and the Executive regularly review the forecast outturn as part of the Performance, Risk and Finance report. This has shown a broadly balanced position apart from the impact of favourable financing, which has allowed an underspend in excess of £1m to be anticipated in overall terms. The impact of this underspend is shown below in the section considering reserves.

3.2 The overall forecast underspend derives mainly from treasury and financing returns and from commercial property and it is proposed to transfer these balances to the

Business Rates Risk Reserve and the Commercial Property Risk Reserve. These reserves have been set up to help manage the risk of these two income streams by putting away surpluses in growth years to help mitigate the impact in forthcoming anticipated lean years.

- 3.3 There are a small number of service pressures that continue to be managed by service managers who continue to try to achieve a balanced budget by the year end. Managers have taken into account their current operational and financial performance when considering their future year budget requirements and where necessary included growth pressures or proposed budget reductions as part of the budget setting process. These are described later in this report. The budget requirements and the changes requested by managers have been scrutinised by senior managers over a number of individual sessions allowing for challenge and consideration across the range of Council budgets. This helps to ensure the proposals align with the Council's objectives.

Net Cost of Services for 2021/22

- 3.4 Having reviewed the impact of prior years financial information, the next step in setting a budget is to consider the "Net Cost of Services" which includes the costs and income streams directly attributable to service delivery and commercial activities. Table 1 summarises the draft budget for 2020/21 by directorate.

Table 1: Net Cost of Services

	Net Budget 2020/21 £000
Customers and Service Development	4,009
Finance	775
Law and Governance	1,283
Place and Growth	3,457
Wellbeing, Environment & Regulatory Services	12,202
Service Sub-Total	21,726
Corporate Costs	3,878
Net Cost of Services	25,604

The largest proportion of the expenditure budget is spent on staffing (46%).

Income streams in this section include fees and charges (eg. planning fee income, income from car parks, licences etc.), service specific grants for which officers have applied or have been allocated from government, and rental income from all council-owned properties (including Castle Quay and Tramway Industrial Estate).

The cost of financing the purchase of commercial properties is included in the Corporate Costs section as borrowing is not attributable to individual projects, but rather is financed corporately in line with our treasury management procedures.

- 3.5 The budget from 2019/20 has been rolled forward and scrutinised on a line by line basis by budget holders, their Finance Business Partners and senior managers to ensure the budget aligns to future requirements; both by reducing where there are underspends and increasing where there are current year pressures. Inflation has been applied where appropriate, rather than across the board, to contracts and fees

and charges. The rate of payroll inflation is subject to ongoing local negotiation but has been included in the budget at a rate of 2.5%. This reflects both a potential cost of living increase but also recognises progression in pay scales for employees. An employers' pension contribution increases of 1% has also been included pending the outcome of the 31 March 2019 tri-annual valuation of the Oxfordshire Pension Fund which is expected in March 2020.

- 3.6 Table 2 Below shows the movement from the approved 2019/20 budget to the draft budget for 2020/21.

Table 2: Movement from 2019/20

	2019/20			2020/21
	Base Budget	Inflation	Movements	Budget
	£000	£000	£000	£000
Customers and Service Development	3,587	88	334	4,009
Finance	2,173	47	-1,445	775
Law and Governance	1,387	19	-123	1,283
Place and Growth	1,669	127	1,661	3,457
Wellbeing, Environment & Regulatory Services	10,347	227	1,628	12,202
Services Sub-Total	19,163	508	2,055	21,726
Corporate Costs	831	0	3,047	3,878
Net Cost of Services	19,994	508	5,102	25,604

- 3.7 Movements include both savings and pressures, such as £700,000 of contractual salary commitments, £1.3m of additional fees and charges, and £2.6m planned spend from reserves. Corporate Costs pressures, include an increase to the Minimum Revenue Provision and 50% of New Homes Bonus growth put to reserves. Also included within the 'Movements' column are the Growth Bids, Savings Proposals, Spend to Save Proposals and the revenue effect of Capital bids – all of which are detailed in Appendix A and summarised for 2020/21 in Table 5 below.

Commercial Property

- 3.8 Whilst commercial property sits within the net costs of services it is worth reflecting on the part this plays in terms of the overall budget of the Council. The Council owns 177 properties that it uses for a number of functions including:

- Operational assets - services delivered or operated out of these properties as well as assets leased out for community activities
- Landholdings
- Commercial properties – income producing.

- 3.9 The Council in recent years has expanded its commercial property portfolio and this has been both to regenerate our District as well as creating new revenue streams to support the work of the rest of the Council as other funding sources reduce.

- 3.10 The Investment portfolio comprises some 24 properties in the following primary groupings:

- Retail properties (i.e Castle Quay, High Street units, etc)
- Mixed use commercial properties (i.e Franklins House, Bridge Street)
- Industrial estate (i.e Tramway Industrial Estate, Antelope Garage, Thorpe Estate)
- Local Centres (i.e Bradley Arcade, Ferriston, Orchard Way, etc)
- Leisure Centres (run by Parkwood Leisure, i.e Spice Ball, Woodgreen, Bicester Ploughly Sports Centre, Kidlington Gosford)
- Car Parks (run by APCOA)

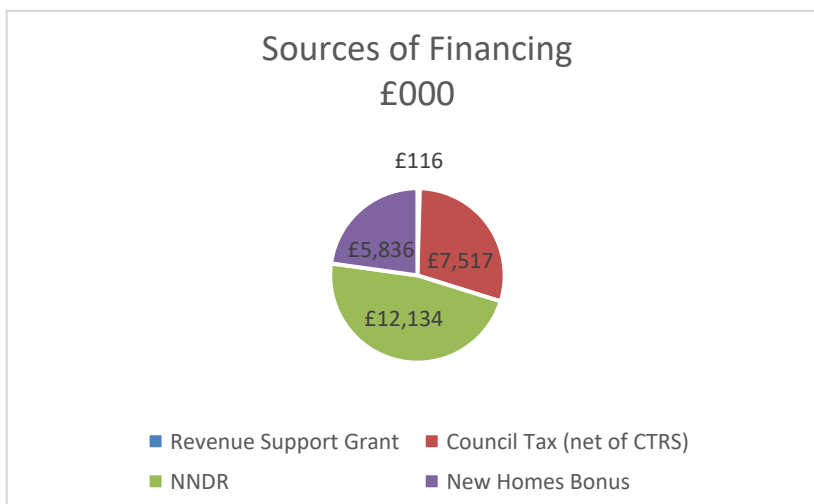
In setting the budget for 2020/21 we have considered any changes in tenancy arrangements and the budget has been set at circa £4.5m. The current value of these assets is £72m which gives a rate of return of 6.25%.

Council Financing

3.11 In addition to the income streams recorded in the Net Cost of Services, the council funds the balance of its activities from the following sources:

- Council tax: the tax base has been set at 55,559.9 and it is expected that the Council set a £5 increase on Council Tax from £128.50 to £133.50. This will be offset in 2020/21 by £175,000 payable to parishes under the CTRS scheme agreed last year. This is the final year that any payment will be made to parishes.
- National Non-Domestic Rates (NNDR): the budget is based on the value of the ratings list as at November and assumes 1% growth during the year.
- New Homes Bonus: as in previous years, 50% of the amount receivable has been used to finance the Council's activities and the remainder put to reserves for use on specific projects.
- Revenue Support Grant: following the provisional settlement on 20th December 2019 this remains the same as last year.

Table 3: Sources of Financing



3.12 The budget for 2020/21 therefore is balanced by these sources of funding as demonstrated below.

Table 4 : Full Budget 2020/21

	Net Budget 2020/21 £000
Net Cost of Services	25,604
Financed by	
Council Tax	(7,692)
CTRS Scheme	175
Non-Domestic Rates	(12,134)
New Homes Bonus	(5,836)
Revenue Support Grant	(116)
Balance	0

Budget Proposals (Growth, Savings and Spend to Save and Capital Impact)

- 3.13 The table below details the proposals which have been put forward as part of the budget process and which have been included in the Net Cost of Services.

All of these proposals have been included in the overall budget model for 2020/21 which would allow a balanced and legal budget to be set. Please note that amendments to any of them will have either a positive or negative impact on the Council's ability to set a balanced budget in February 2020. Any alternative proposals will need to consider the impact on the overall Council budget position and how this will be funded as necessary. The following table 5, summarises the inclusions by strategic priority, details of the proposals can be found in Appendix A.

Table 5 : Growth, Savings, Spend to Save and Capital Impact 2020/21

	Growth £000	Savings £000	Spend to Save £000	Capital Impact £000	Total £000
Clean, Green and Safe	130	(30)		(9)	91
District of Opportunity & Growth	875	(622)		(1)	252
Thriving Communities & Wellbeing	1,310	(145)		7	1,172
Response to Climate Emergency	50		69		119
Operational Excellence	12	(597)		14	(571)
Best Council to work for	24				24
Total	2,401	(1,394)	69	11	1,087

Capital Investment Proposals

- 3.14 The table 6 below details the capital investments proposed for 2020/21. Where these result in a revenue cost or savings, these have been adjusted for in the Net Cost of Services; therefore, as above, amending them may impact on the Council's ability to set a balanced budget.
- 3.15 Capital expenditure is funded either from Revenue, Capital Receipts, Capital Grants or Internal Borrowing. External Borrowing is used to manage the cashflow requirements of the Council and not linked to individual projects. Details of the Council's expected borrowing for 2020/21 is included in the Treasury Management

suite of strategies which are scrutinised by the Accounts, Audit and Risk Committee and will be included as appendices to the final budget report. These have already been reviewed in draft form on 20th November 2019, but will be finally considered on 22nd January 2020. The following table 6 summarises the inclusions by strategic priority, details of the proposals can be found in Appendix A.

Table 6 – Capital Bids 2020/21 through to 2024/25

	Capital Bids					Total £000
	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	
Clean, Green and Safe	1,051	1,021	689	1,127	1,316	5,204
District of Opportunity & Growth	137	62	12	12	12	235
Thriving Communities & Wellbeing	885	285	55			1,225
Operational Excellence	325					325
Total	2,398	1,368	756	1,139	1,328	6,989

Reserves

- 3.16 The table 7 below shows an analysis of the general and earmarked reserves in the Council's balance sheet. Starting with the forecast opening balance at 1 April 2019, the movements anticipated from 2019/20, including the underspend projected from the Council's overall budget, proposed movements to and from reserves during 2020/21 resulting in an estimated closing balance as at 31 March 2021.
- 3.17 It is the duty of the Section 151 Officer to ensure that the Council retains reserves at a level which provides the Council with financial resilience both in setting the budget for 2020/21 but also looking into the medium term and the MTFs. Reserves can be used for one-off expenditure but should not be used to finance ongoing Council activities.

Table 7 – Reserves

	£000
Opening balance – April 2019	22,059
Projected underspend 2019/20	1,299
Anticipated use of Reserves during 2019/20	(500)
Commercial income to reserves during 2019/20	2,193
Use of Reserves to support activities 2020/21	(2,600)
Projected Closing Balance March 2021	22,451

Medium Term Financial Strategy

Proposed Changes to Local Government Funding 2021/22 and beyond

- 3.18 The Council has previously been advised that local government funding will be changing in 2021/22. Whilst there isn't clarity of the precise impact of these changes, there have been a number of national consultations and working groups that have been reviewing the options. The Council has been able to model the most likely scenario and therefore consider what impact this is likely to have for Cherwell from

2021/22 onwards. This also takes into account announcements and indications in the recent Queen's Speech following the General Election, which have confirmed earlier modelling around the areas of likely change in terms of the Council funding. Fundamentally it can be broken down as follows:

Fair Funding Review Consultation

- 3.19 The Government is intending to simplify the way local government funding works to make it more objective and transparent. The Council provided feedback to the government consultation on the assessment of needs, resources and transitional arrangements. The consistent intelligence from various local government finance experts that the Council has consulted, is that the Fair Funding Review when applied, will reduce government funding available to CDC.

Business Rates Retention Consultation

- 3.20 The Government has also recently consulted on proposals for setting up a reformed business rates retention system to which we are awaiting the outcome. The consultation outlines proposals to update the balance of risk and reward to better reflect the wider context for local authorities, now likely in 2021/22, mitigate volatility in income and simplify the system. It is proposed that:

- the baseline be reset – this would impact CDC significantly as we have been consistently collecting above the baseline and retaining 50% of that growth under the current retention scheme. The baseline is likely to be reset at 2018/19 levels.
- Councils (as a whole sector) would retain 75% of business rates growth above the baseline which would eventually move to 100% retention – however, with the baseline reset, this will be 75%/100% of far less until our growth above the baseline increases again.
- Resets are likely to be more frequent in future than they have previously been

MTFS Funding Gap

- 3.21 The MTFS as presented in the table below represents the likely scenario without the benefit of any national transition funding. Planning on this basis is both prudent and sensible and ensures that the Council can respond to any changes coming forward and remain financially sustainable. It is important to note that 2020/21 reflects a balanced budget although this does include the planned use of one-off funds from some earmarked reserves. For future years of the MTFS a funding gap has been identified and the Council has established a strategy that will shape how we look to review opportunities to reduce this gap for future years and balance the budget in future years.
- 3.22 The table below also does not take account of any future spending reviews for local government as a whole where, along with our peers across all tiers of local government, we need to provide evidence and arguments about the totality of funding for our services. This year's settlement provided one year only and along with all government departments we need to be able to respond to information requests about how we spend our money and the impact this may have on users of our services. CDC have always taken an active role in these reviews and will continue to do so both on an individual Council basis but also through our professional bodies

and professional peer groups including the District Council Network (DCN), the Local Government Association (LGA) and SDCT (Society of District Council Treasurers).

3.23 The table 8 below sets out the Council’s future funding estimates. There remains much uncertainty regarding this position over the medium term with the upcoming changes proposed relating to the Fair Funding Review, Business Rates and the New Homes Bonus. However, we have based our estimates on advice from leading local government financial experts which forecasts the effects of the above changes to be in the region of a 30% reduction to our funding. This is a result of:

- the cessation of New Homes Bonus beyond legacy payments and the one-off payment in relation to growth in 2019/20 payable in 2020/21
- the business rates baseline reset at the 2018/19 level and growth at 1% thereafter (the Council has grown business rates significantly in recent years and this baseline reset results in the Council losing the benefit of this growth)
- the cessation of Revenue Support Grant, with the exception of the one-off payment in 2020/21
- Council Tax increases of £5 per annum with 1% annual growth of the Council tax base from 2020/21
- No assumptions have been made that we will receive any transitional finance support. We are aware that if this is available it is likely to be based on “Core Spending Power” which is a measure used by central government that does not include the impact from the loss of retained business rates. Given Cherwell’s significant growth over and above expectations in terms of business rates, we may not receive any financial protection from this drop in income.

3.24 As in previous years the Council is utilising a proportion of New Homes Bonus to support district economic development and growth as well as supporting communities in 2020/21. However, to smooth the impact of the total drop in funding over the MTFS period, for 2021/22 and its final payment in 2022/23, the MTFS incorporates 100% of this funding stream and does not set aside this 50% of funding into reserves.

3.25 The medium term financial strategy therefore indicates that with all of the assumptions around national funding changes that Cherwell will have a gap between its net budget requirement and its funding as shown in table 8 below.

Table 8 : Medium-Term Financial Strategy

	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Net Budget Requirement	25.6	23.9	24.5	23.6	24.3
Funding Total	(25.6)	(16.3)	(16.6)	(16.0)	(17.2)
Gap	0	7.6	7.9	7.6	7.1

How we Plan to Address the MTFS Gap

3.25 The Council has developed a strategy to meet the challenges highlighted in the MTFS which will include:

- Continue its partnering arrangements in the future including:

- a alignment with Oxfordshire County Council services where this will benefit our residents and businesses and make financial sense to do so
 - b joint contracting and commissioning arrangements
 - c continuing our journey to transform the way in which we deliver with other partners
- Considering further commercialisation – e.g. Building Control, trade waste, the commercial offer around Build!
 - “Growing our way” out of trouble by identifying opportunities with the right business cases
 - Continuing to lobby policy makers, highlighting where we have been delivering growth and driving benefits to others

4.0 Conclusions and Reasons for Recommendations

- 4.1 This report provides information around the various building blocks that make up the proposed budget for 2020/21 and beyond, allowing members to consider and scrutinise the elements of the budget and provide advice and guidance to the Executive to help them further shape both budget setting for 2020/21 and the MTFS for 2020/24.

5.0 Consultation

- 5.1 The report provides an update on the Council’s budget setting process, following the announcement of the Government’s Spending Review on 4 September 2019. The formal consultation surrounding the budget for 2020/21 will begin following this meeting and run up to the Executive meeting on 3 February 2020. The views and comments expressed at this meeting will be shared with and incorporated into the discussions at the Executive on 3 February 2020 ahead of the full Council consideration on 24 February 2020.

6.0 Alternative Options and Reasons for Rejection

- 6.1 This report provides an update on the Council’s budget setting process. As this is a update report, no further options have been considered. However, members may wish to request that officers provide additional information.

7.0 Implications

Financial and Resource Implications

- 7.1 The financial implications arising from the production of this report are being included within the Council’s Medium-Term Financial Strategy processes.

Comments checked by:

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Legal Implications

- 7.2 There are no legal implications arising directly from this report. The process outlined in this report will help to ensure that the Council sets a legally compliant budget in accordance with the Executive Director of Finance's requirement.

Comments checked by:

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Risk Management

- 7.3 The risk management aspects of the budget setting process are being managed as part of an overall Medium Term Financial Strategy and Budget Setting Project. This is managed as part of the operational risks and escalated as and when necessary.

Comments checked by:

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8.0 Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

All

Lead Councillor

Councillor Tony Illott, Lead Member for Finance and Governance

Document Information

Appendix No	Title
A	Budget Build Proposals Summary
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