

*****Appendix to Budget Planning Committee Report*****

Cherwell District Council

Executive

5 October 2020

Budget and Business Planning Process 2021/22 – 2025/26

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 2021/22 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 Executive is recommended to:

- 1.1 Approve the Budget and Business Planning Process for 2021/22
- 1.2 Approve a five-year period for the Medium-Term Financial Strategy to 2025/26 and three-year period for the Capital Programme to 2023/24.

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 2021/22; a medium-term plan to 2025/26, the capital programme to 2023/24 and a Corporate Plan in February 2021.
- 2.2 The Medium-Term Financial Strategy (MTFS) to 2024/25, agreed by Council in February 2020, identified additional savings of £7.7m to be delivered in 2021/22. This reflects expected growth over the same period for demographic and other directorate pressures and inflation. Reflected as well are savings and other income growth which reduce the net budget requirement over the period. The pressures in the MTFS mainly relate to reductions in Funding.
- 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 2021/22, are set out in the report.

- 2.4 There is uncertainty in government funding for 2021/22 and beyond due to awaiting the announcement of a full Spending Review in 2020. In addition, announcements are anticipated with regards to the introduction of a new Fairer Funding Formula and the implementation of 75% Business Rates Retention. These are expected to be introduced from 2022/23. This level of uncertainty is unusual; 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 2020 is based, information arising from government and other announcements plus new and emerging financial issues for 2021/22 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 2020/21 – 2024/25
 - Appendix 2: Budget and Business Planning timetable for 2020/21
- 3.3 It is proposed that the MTFs continues to cover a five-year time frame and is therefore extended by one year to cover 2025/26. It is also proposed that the Capital Programme is extended by one year to cover the three-year period to 2023/24.

Assumptions in the existing Medium-Term Financial Strategy

Additional Spending & Savings

- 3.4 The 2020/21 – 2024/25 MTFs agreed by Council in February 2020 identified the requirement for annual savings of £7.7m required in 2021/22 to offset funding reductions and to meet additional expenditure pressures. Due to Covid-19 pressures, the required on-going annual savings target is now estimated to be £9.5m. Delivery of savings identified in February 2020 of £5.9m are being monitored through the Performance, Finance and Risk Monitoring Reports to Cabinet throughout this financial year.
- 3.5 The MTFs also includes an additional £1m per year of on-going funding for pay and contract inflation. No inflation is provided for general prices.
- 3.6 Details of the savings and growth assumed in the existing MTFs for 2021/22 to 2024/25 are set out in Annex 1.

Funding

- 3.7 The MTFs for 2020/21 approved by Council in February 2020 identified temporary funding received in 2020/21 as a result of the delay to the proposed reset of

business rates growth allocations within the Business Rates Retention System and the winding down the New Home Bonus grant. As a consequence, the existing MTFS has a budget shortfall of £7.7m in 2021/22. There is also considerable uncertainty surrounding the financial implications of the Spending Review and new formula to allocate funding across local government.

- 3.8 The income retained from the Business Rates Retention Scheme is estimated to reduce to £5.8m in 2021/22, a 52% reduction from £12.1m in 2020/21. The reduction is predicated on the assumption that growth in business rates above the baseline reduces with the expectation of a business rates reset in April 2021. In addition, the Business Rates Tariff is expected to increase from £29m in 2020/21 to £37m in 2021/22 (29%) as funds are redirected to areas of government priority spending.
- 3.9 Revenue Support Grant, which was extended for one year, is expected to drop out in 2021/22. The continuing phased reduction of the New Homes Bonus grant is also assumed.
- 3.10 Council tax increases of £5 for a Band D property are assumed across all years of the MTFS. It is assumed the Council Tax base will increase 2.9% on average annually. Total income from Council Tax (not including collection surpluses) is estimated to be £9.6m a year by 2024/25.
- 3.11 Taken together, these result in overall reductions in funding totalling £9.3m for 2021/22. This is slightly offset by a planned reduction in expenditure of £1.6m, resulting in an overall gap in 2021/22 of £7.7m. Details are set out in the table below.

Table 1: MTFS as approved February 2020

| MTFS Movements | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 |
|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Base Budget b/f | 19,091 | | | | |
| Unavoidable service pressures | 835 | (265) | (53) | 0 | 0 |
| Service Growth | 2,588 | (1,506) | (89) | (178) | 0 |
| Service Efficiencies | (445) | (565) | 0 | (1,704) | 1 |
| Service Savings Proposals | (1,394) | (222) | (5) | (100) | (58) |
| Capital impact | 11 | (32) | (24) | 45 | 0 |
| Corporate Pressures | 3,731 | (67) | (313) | (348) | (328) |
| Pay & contract inflation | 0 | 1,077 | 1,077 | 1,077 | 1,077 |
| Use of reserves | 1,186 | (53) | (7) | 321 | 0 |
| Net Budget Requirement | 25,604 | (1,633) | 586 | (887) | 692 |
| Base funding b/f | | | | | |
| Revenue Support Grant | (116) | 116 | 0 | 0 | 0 |
| Council Tax | (7,692) | (213) | (529) | (546) | (578) |
| CTRS | 175 | (175) | 0 | 0 | 0 |
| Business Rates related income | (12,134) | 6,357 | (602) | (612) | (622) |
| New Homes Bonus | (5,836) | 3,208 | 861 | 1,767 | 0 |
| Total Income | (25,604) | 9,294 | (270) | 609 | (1,200) |
| Funding Gap / (Surplus) | 0 | 7,661 | 316 | (278) | (509) |

Earmarked Reserves and General Balances

- 3.13 Earmarked reserves (reserves held for a specific purpose) are forecast to be £23.4m at the end of 2020/21. The latest forecast estimates that general balances will remain around £2.0m at the end of 2020/21. 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 is developing a new reserves policy which will be in place 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

- 3.15 Since the Government announced a lockdown due to the Covid-19 pandemic CDC has seen significant increased costs and reductions in income. The Government has partially covered some of the immediate costs and income losses and CDC has agreed a Revised Budget for 2020/21 to address the shortfall.
- 3.16 There are some key areas of uncertainty for which it is unclear whether compensating funding will be required or received for next year, in particular around business rates and council tax.
- 3.17 It is 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 and if the recovery from the “stall” in the economy is not swift enough then some businesses may not continue into 2021/22 putting at risk the anticipated growth of business rates. Retail and leisure businesses have not been required to pay business rates in 2020/21 but are currently expected to go back to paying business rates as normal from 1 April. In addition, to the extent that business rates growth was less than anticipated this year, this will result in a deficit to the Collection Fund which will have to be repaid.
- 3.18 Linked 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 2021/22.

Government Announcements

- 3.20 Since Council approved the 2020/21 budget, MTFS and Capital Programme, there have been a number of major immediate impacts on local government finance which have created unprecedented uncertainty for 2021/22 and beyond are:
- the financial impact of the Covid-19 pandemic
 - the delay in the announcement of the Spending Review until November 2020
 - a delay in the Autumn Budget until mid-late November

- the delay in implementing the Fair Funding Review, which is now expected to be implemented from April 2022
- the delay in Business Rates Reform, including a move to retaining 75% of business rates, which may now be introduced from April 2022
- the delay in Business Rates Revaluation which will now happen in April 2023

Spending Review Delay

3.21 The Spending Review (SR) sets the overall funding envelope for Government departments for the Spending Review Period, anticipated to be the three years from 2021/22 – 2023/24. The SR was originally intended to report in July 2020. Whilst this would not have provided specific funding levels for individual local authorities, it would have given a clear steer on the trajectory of local government funding as a sector and assisted with planning scenarios. The SR has been delayed and is now expected to be announced in the autumn, with many commentators suggesting this could be around mid-November.

Further Medium-Term Uncertainty

3.22 To compound the planning uncertainty, there are major changes to the way local government funding works that are currently planned to be introduced from 2022/23 onwards, specifically around how funding is allocated between local authorities. 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 too early to predict the overall financial impact of these proposals as they are still being designed and consulted on. Therefore, for now the planning assumption is that they are cost neutral.

Savings Proposals

3.23 Taking all of the uncertainty into account and the challenging situation relating to funding, CDC will undertake to identify savings proposals of £9.5m in 2021/22. This takes into account the impacts identified in the MTFs approved in February 2020 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 to prioritise “Corporate Building Blocks”. This will identify savings which will help to mitigate the need to make savings from front line service provision. Examples of Corporate Building Blocks include reviewing contracts, reviewing whether we continue to require all the assets we own and maximise income streams.

- 3.26 Whilst savings are expected to be delivered from the Corporate Building Blocks, it is still anticipated that Directorates will be required to identify savings. This will require services to consider the levels of service provided, whether the service can be redesigned and whether the Council is fully charging for the service.

Corporate Plan

- 3.27 The overall corporate planning framework includes the Corporate Plan itself, finance, Leadership risks and the service plans of individual directorates and services.
- 3.28 It is proposed that these issues should be considered alongside existing priorities for formal incorporation into the overall corporate plan framework to drive action and outcomes. 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 Corporate Plan or into service specific plans. Where issues are agreed as priority areas, consideration should be given through the budget process of how refocussing on these issues affects budget priorities.
- 3.29 In addition to revising plan priorities, within the current cycle of corporate planning, there is an opportunity to redesign and represent elements of the current Corporate Plan to better articulate for residents, councillors, staff and partners the existing and emerging narrative and purpose. Supporting materials to the Corporate Plan should include a highly visual plan on a page that articulates to internal and external audiences the Council's mission and clear links from the leadership risk register to the overarching priorities.
- 3.30 Updating the Corporate Plan will necessarily require a parallel update to the Outcomes Framework and the Leadership Risk Register to ensure that the framework accurately describes the priorities and actions in the plan. Alongside updating content, there is an opportunity to continue to improve the Outcomes Framework reflecting feedback and challenge received through the new reporting process. Performance indicators (key performance indicators and measures) will be reviewed to ensure that they have a clear and direct line to outcomes and the target setting process will be reviewed to ensure that the reasons for changing or maintaining a target across years are transparent.

Budget and Business Planning Timetable

- 3.31 An online public consultation on CDC's budget proposals will commence when the information is published at the start of December 2020, with Budget Planning Committee (BPC) considering them ahead of formal Executive sign off on 7 December 2020. Comments from BPC, along with other responses, will feed into the final formulation of proposals.
- 3.32 Capital proposals will be considered by Budget Planning Committee in January 2020 alongside the Capital & Investment Strategy which incorporates the Treasury Management Strategy. The Review of Charges will also be considered.
- 3.33 The Executive will take into consideration the comments from the BPC in December 2020 and comments from the public consultation alongside the funding available announced as part of the provisional settlement expected during December 2020, at its meeting on 1 February 2020 in setting out its proposed budget to Council.

- 3.34 The provisional local government finance settlement is not expected until mid-late December 2020, with the final settlement not expected until early late January/early February 2021. This will confirm the general funding available to the Council for 2021/22 and the Council Tax referendum limit to be applied.
- 3.35 The Council meeting to agree the 2021/22 revenue budget, MTFS and capital programme will take place on 22 February 2021.
- 3.36 A timetable for the Budget and Business Planning process is attached at Annex 2.

Capital Programme Planning

- 3.37 The Council considers capital investment and programming activity as an integral part of the Budget and Business Planning process. This ensures that the creation of a new asset or investment in existing assets is justified through detailed business cases and delivery models for the service, and implications for MTFS are clearly identified. Existing capital schemes are being reviewed alongside emerging investment pressures and priorities. These will be brought forward over the autumn to inform the capital planning process.
- 3.38 Full Council is required to approve annually the Capital & Investment Strategy in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability, affordability and appetite for risk. The overall Capital & Investment Strategy incorporates the Treasury Management Strategy and the Investment Strategy.

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

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

Comments checked by:

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Legal Implications

- 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.

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Risk Implications

- 7.3 The Council faces significant risks given the scale of the financial challenge for 2021/22. 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.

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8.0 Decision Information

Key Decision No

Financial Threshold Met: No

Community Impact Threshold Met: No

Wards Affected

None

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

Document Information**Appendix number and title**

- Appendix 1 - Previously agreed budget changes 2020/21 – 2024/25
- Appendix 2 - Budget and Business Planning timetable for 2020/21

Background papers

None

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