

Cherwell District Council

Executive

3 October 2022

Budget and Business Planning Process 2023/24 – 2027/28

Report of Assistant Director of Finance

This report is public

Purpose of report

This report is to inform the Executive of the proposed approach to the 2023/24 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 2023/24
- 1.2 Approve a five-year period for the Medium-Term Financial Strategy to 2027/28 and five-year period for the Capital Programme to 2027/28.

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 2023/24; a medium-term strategy to 2027/28, the capital programme to 2027/28 and a Business Plan in February 2023.
- 2.2 The Business Plan will be supported by an Annual Delivery Plan which will set out the clear priorities and objectives for the year, it will establish a clear direction for the Council on an annual basis in support of the vision, aims and ambitions of the Council as contained in the Council's Business Plan.
- 2.3 The Annual Delivery Plan will enable an informed development of the Medium-Term Financial Strategy, a key policy framework of the Council, through ensuring that the resourcing strategy i.e. the annual budget supports the Annual Delivery Plan. Thus,

it is envisaged that an Annual Delivery Plan would accompany the annual budget cycle and approval process for the Council.

- 2.4 The Medium-Term Financial Strategy (MTFS) to 2026/27, agreed by Council in February 2022, identified savings of £5.5m to be delivered in 2023/24. 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.
- 2.5 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 2023/24, are set out in the report.
- 2.6 There is uncertainty in government funding for 2023/24 and beyond; whilst there was a three-year Spending Review announced in 2021, local authority specific funding allocations have not yet been announced beyond 2022/23. We don't expect to have received the Provisional Financial Settlement until December. In addition, announcements are awaited with regards to the introduction of a new Fairer Funding Formula, alongside a Business Rates Reset. As announcements have not yet been made, these are now expected to be introduced from 2025/26 within the MTFS. 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 2022 is based, information arising from government and other announcements plus new and emerging financial issues for 2023/24 and beyond which impact on the existing MTFS. It also sets out the process for updating the Business Plan, supported by our Annual Delivery 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 2022/23 – 2026/27
 - Appendix 2: Budget and Business Planning timetable for 2022/23
- 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 2027/28. It is also proposed that the Capital Programme is extended by three years to cover the same five-year period to 2027/28 as the MTFS.

Assumptions in the existing Medium-Term Financial Strategy

Additional Spending & Savings

- 3.4 The 2022/23 – 2026/27 MTFS agreed by Council in February 2022 identified the requirement for annual savings of £5.5m in 2023/24 to offset funding reductions and to meet additional expenditure needs. Due to an initial assumption that the

business rates reset would be delayed by one year and take place in 2024/25, the required on-going annual target for new savings was estimated in June 2022 to be £11m across the MTFS period to 2027/28. Delivery of savings identified in February 2022 for implementation in 2022/23 of £3m 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 2022/23 are not delivered on an ongoing basis this will increase the level of savings required in 2023/24. The Council is working to minimise any ongoing savings non-delivery in 2022/23.

- 3.5 The existing MTFS also includes an additional £0.5m per year of on-going funding for pay awards of 2.5%, contract inflation of 2% on an ongoing basis after an increase of 6% in 2022/23. Increases in the Council's fees and charges are included at 2% per annum. No inflation has been provided for general prices. Inflation will be reviewed as part of the Budget and Business Planning process.
- 3.6 Details of the savings and growth assumed in the existing MTFS for 2023/24 to 2026/27 are set out in Appendix 1.

Funding

- 3.7 The MTFS for 2022/23 approved by Council in February 2022 identified temporary funding received in 2022/23 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 £5.5m in 2023/24. 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 2025/26, the income retained from the Business Rates Retention Scheme is estimated to remain in the region of £11.4m in 2023/24. The amount retained in 2025/26 is now expected to reduce by £6.4m 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 2025.
- 3.9 Revenue Support Grant, which was extended for another year in 2022/23, is now expected continue in 2023/24 and 2024/25. The continuing phased reduction of the New Homes Bonus grant will also be 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 Details of the MTFS approved in February 2022 are set out in the table below.

Table 1: MTFS as approved February 2022

MTFS Movements	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m
Base budget brought forward	22.374	0.000	0.000	0.000	0.000
Service Pressures	(1.138)	(0.761)	(0.762)	0.348	0.000
Service Savings Proposals	(2.907)	(0.505)	(0.163)	(0.108)	(0.188)
Capital Impact	(0.061)	0.036	(0.014)	(0.014)	(0.014)
Corporate changes	6.045	(3.623)	0.367	1.570	0.333
Inflation	0.673	0.494	0.494	0.495	0.495
Use of reserves	(2.089)	(1.674)	0.462	0.454	0.472
Additional government grants	0.594	1.236	0.000	0.000	0.000
Net Budget Requirement	23.492	(4.797)	0.384	2.745	1.098
Revenue Support Grant	(0.121)	0.121	0.000	0.000	0.000
Council Tax	(8.511)	(0.043)	(0.455)	(0.411)	(0.407)
Business Rates	(11.398)	6.754	(0.306)	(0.233)	(0.025)
New Homes Bonus	(3.462)	3.462	0.000	0.000	0.000
Total Income	(23.492)	10.294	(0.761)	(0.644)	(0.432)
Funding Gap / (Surplus)	0.000	5.498	(0.377)	2.101	0.666

Earmarked Reserves and General Balances

- 3.12 Earmarked reserves (reserves held for a specific purpose) are forecast to be £18.4m at the end of 2022/23. The latest forecast estimates that general balances will remain around £6.0m at the end of 2022/23. As with general balances, the level of earmarked reserves is reviewed each year as part of the Budget and Business Planning process. 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 Recovery and Cost-of-Living Crisis

- 3.13 The economy continues to recover from the impacts of the Covid-19 pandemic and is now beset by a cost-of-living crisis wherein inflation is at its highest levels in over a decade, driven by increased fuel costs. Changes to national policy are being formulated in order to drive the growth in the economy to aid recovery and ward off a recession.
- 3.14 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 and the detail of measures to help them have not yet been released. 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 2023/24 putting at risk the anticipated growth of business rates. In addition, if business rates growth is less than anticipated for 2022/23, this will result

in a deficit to the Collection Fund which will have to be considered when setting the 2023/24 budget.

- 3.15 In addition to the reduced rates of growth in business rates, the Council 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 cost-of-living crisis continues, 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.
- 3.16 It is also possible that an economic downturn and the continuing cost-of-living crisis could mean additional costs and income losses could be felt by the Council in 2023/24.

Government Announcements

- 3.17 Since Council approved the 2022/23 budget, MTFs and Capital Programme, there have been a number of impacts on local government finance which have attempted to reduce uncertainty for 2023/24 and 2024/25. However, beyond that the following will impact on the Council:
- Any immediate impact of an Emergency Budget Announcement in 2022.
 - the on-going financial impact of the cost-of-living crisis and its impact on the recovery from the Covid-19 pandemic
 - an expected further delay in implementing the Fair Funding Review, which may now be implemented from April 2025
 - an expected further delay in Business Rates Reform, which may now be introduced from April 2025
 - the Business Rates Revaluation, expected to happen in April 2023

Decoupling

- 3.18 Following the decision taken to end the partnership between Oxfordshire County Council and Cherwell District Council, the Council has had to review how it provides its services as a standalone authority. Any ongoing costs identified as a result of this will be factored into the 2023/24 budget.

Further Medium-Term Uncertainty

- 3.19 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 three years and are not now expected to be implemented in April 2023 either. The latest expectation is that they will be introduced from 2025/26 onwards as part of the Fair Funding Review 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.
- 3.20 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 2023/24 but expects it to be delayed until 2025/26.

Savings Proposals

- 3.21 Given the challenging situation relating to funding and the high levels of uncertainty, the Council will undertake to identify savings proposals to address the MTFS gap. These will take into account the impacts identified in the MTFS approved in February 2022 and also the potential financial impacts of Covid-19 recovery and the cost-of-living crisis. 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.
- 3.22 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
 - Supporting environmental sustainability
 - An enterprising economy with strong and vibrant local centres
 - Healthy, resilient and engaged communities
- 3.23 The strategy for identifying savings will be based on the plan to address the MTFS gap which was approved by Council in February 2022. The Council will look to identify what savings can be provided by services and how they impact on priorities. In addition, the Council will undertake a cross-cutting review of strategic themes. These will aim to look across Council services for savings potential from, for example, customer focus, digitisation, and procurement opportunities.

Business Plan

- 3.24 The Business Plan sets a framework for the Council's vision, aims and ambitions of for our local communities. The four key strategic aims of the Business Plan are shown in Diagram 1 below supported by the priorities which will be contained in the Annual Delivery Plan. The overarching priorities of this Business Plan will be supported by the MTFS to achieve the strategic aims of the Council.

Diagram 1: Strategic Aims of the Business Plan



- 3.25 The Outcomes Framework and the Leadership Risk Register will also be revised to reflect our priorities, ensuring the framework accurately describes the priorities and performance actions supporting the plan.
- 3.26 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

- 3.27 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.
- 3.28 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.
- 3.29 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.

Formal consultation

- 3.30 A public consultation will be published at the end of November 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.
- 3.31 The consultation exercise will include a consultation booklet and accompanying questionnaire. Our approach will be digital first, using Cherwell District Council's consultation platform, Let's talk Cherwell. 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

- 3.32 An online public consultation on CDC's budget proposals will commence when the information is published at the end of November 2022, with Budget Planning

Committee (BPC) considering the budget pressures and savings on 6 December 2022. Comments from BPC, along with other responses, will feed into the final formulation of proposals. An All-Member briefing is scheduled for 1 December 2022.

- 3.33 Capital proposals will also be considered by Budget Planning Committee on 6 December 2022. The Capital & Investment Strategy which incorporates the Treasury Management Strategy will be considered at the meeting in January 2023.
- 3.34 The Executive will take into consideration the comments from the BPC in December 2022 and comments from the public consultation alongside the funding available announced as part of the provisional settlement, at its meeting on 6 February 2023 in setting out its proposed budget to Council.
- 3.35 At this time, there are no indications when we can expect the provisional local government finance settlement. This will confirm the general funding available to the Council for 2023/24 and the Council Tax referendum limit to be applied.
- 3.36 The Council meeting to agree the 2023/24 revenue budget, MTFS and capital programme will take place on 27 February 2023.
- 3.37 A timetable for the Budget and Business Planning process is attached at Appendix 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

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

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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.

Comments checked by:
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Risk Implications

- 7.3 The Council faces significant risks given the scale of the financial challenge for 2023/24 and 2024/25. 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.

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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 Adam Nell, Portfolio Holder for Finance

Document Information

Appendix number and title

- Appendix 1 – Previously agreed budget changes 2022/23 – 2025/26
- Appendix 2 – Budget and Business Planning Timetable for the 2023/24 Process

Background papers

None

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