

Cherwell District Council

Executive

3 July 2023

Budget and Business Planning Process 2024/25 – 2028/29

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 2024/25 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 2024/25
- 1.2 Approve the base assumptions to be used for the 2024/25 budget.
- 1.3 Approve a five-year period for the Medium-Term Financial Strategy to 2028/29 and five-year period for the Capital Programme to 2028/29.
- 1.4 Approved the revised Reserves Policy at Appendix 4.

2.0 Introduction

- 2.1 This report is the first in the series on the Transformation Budget and Business Planning process for the forthcoming year. It forms context and background information and is part of the process which will culminate in Council setting a budget for 2024/25; a medium-term financial strategy to 2028/29, the capital programme to 2028/29 and a Business Plan in February 2024.
- 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 2027/28, agreed by Council in February 2023, identified savings of £4.7m to be delivered in 2024/25. 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 2024/25, are set out in the report.
- 2.6 There is uncertainty in government funding for 2024/25 and beyond; whilst there was a three-year Spending Review announced in 2021, local authority specific funding allocations have not yet been announced beyond 2023/24. The Council does not 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. 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 reviewing and updating 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 2023 is based, information arising from government and other announcements plus new and emerging financial issues for 2024/25 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 Savings 2023/24 – 2027/28
 - Appendix 2: Previously agreed Growth 2023/24 – 2027/28
 - Appendix 3: Budget and Business Planning timetable for 2024/25
 - Appendix 4: Reserves Policy
- 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 2028/29. It is also proposed that the Capital Programme also cover the same five-year period to 2028/29 as the MTFS.

Assumptions in the existing Medium-Term Financial Strategy

Additional Spending & Savings

- 3.4 The 2023/24 – 2027/28 MTFS agreed by Council in February 2023 identified the requirement for additional annual savings of £4.7m in 2024/25 to offset funding reductions and to meet additional expenditure needs – this is in addition to the £0.3m savings already planned for 2024/25. Delivery of savings identified in February 2023 for implementation in 2023/24 of £1.0m 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 2023/24 are not delivered on an ongoing basis this will increase the level of savings required in 2024/25. The Council is working to minimise any ongoing savings non-delivery in 2023/24.
- 3.5 The existing MTFS has provided for inflation on pay, contracts, and fees and charges within the budget. It assumes that there will be 5 percent pay awards in the three years to 2025/26. In the remaining two years of the MTFS period pay awards are assumed to increase at 2.5 percent annually. Contract inflation had been provided for at 6 percent in 2023/24 in the February 2022 MTFS. This provision has been increased by £3m for 2023/24 to reflect inflationary pressures on utilities, and other contracts with ongoing provision in future years at 2 percent. Fees and charges have been reviewed and increased for 2023/24 to reflect cost recovery and are then assumed to increase by 2 percent annually. For 2024/25, the Council will look to consider uplifting fees and charges by 10% (where not set by another body) to reflect the ongoing impact of high levels of inflation faced by the Council.
- 3.6 Details of the savings and growth assumed in the existing MTFS, approved by Council in February 2023, for 2023/24 to 2027/28 are set out in Appendix 1 and 2.

Funding

- 3.7 The MTFS for 2023/24 approved by Council in February 2023 identified temporary funding received as a result of the delay to the proposed reset of business rates growth within the Business Rates Retention System and a further two year's payment of the New Home Bonus grant prior to its winding down. Despite this, the existing MTFS has a budget shortfall of £4.7m in 2024/25. If the Government chooses not to continue New Homes Bonus funding in 2024/25 then the funding gap could be greater in 2024/25.
- 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 £14.6m in 2024/25. The amount retained in 2025/26 is now expected to reduce by £10.3m 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 2025.
- 3.9 Revenue Support Grant, which was extended for another year in 2023/24, is now expected continue in 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 £10.4m a year by 2027/28.

3.11 Details of the MTFS approved in February 2023 are set out in Table 1 below.

Table 1: MTFS as approved February 2023

MTFS Movements	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Base budget b/f	23.492	0.000	0.000	0.000	0.000
Service Pressures	2.009	(0.222)	0.013	0.171	0.001
Service Savings	(1.004)	(0.297)	(0.218)	(0.214)	(0.104)
Capital Impact	0.288	(0.056)	0.024	0.022	0.106
Corporate changes	3.309	0.909	(2.940)	0.612	0.001
Inflation	3.504	1.213	1.214	0.529	0.562
Use of reserves	(1.667)	0.462	0.454	0.472	0.000
Additional government grants	(1.757)	0.000	2.993	0.000	0.000
Net Budget Requirement	28.174	2.009	1.540	1.592	0.566
Revenue Support Grant	(0.132)	0.000	0.132	0.000	0.000
Council Tax	(9.290)	0.170	(0.481)	(0.419)	(0.422)
Business Rates	(17.127)	2.495	10.262	(0.207)	(0.297)
New Homes Bonus	(1.625)	0.000	1.625	0.000	0.000
Total Income	(28.174)	2.665	11.538	(0.626)	(0.719)
Funding Gap / (Surplus)	0.000	4.674	13.078	0.966	(0.153)

Earmarked Reserves and General Balances

- 3.12 When the Council set its budget in February 2023, earmarked reserves (reserves held for a specific purpose) were forecast to be £25.9m at the end of 2023/24. The latest forecast estimates that general balances will remain around £6.0m at the end of 2023/24. 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.
- 3.13 Executive approved the Reserves Policy (Appendix 4) which is reviewed periodically. Section 6.1 of the policy introduced far tighter restrictions on the ability to use reserves with the Executive being required to approve contributions to and from reserves where there is not a specific ringfence around how the money must be spent. In cases where such a ringfence exists, the S151 Officer is able to authorise expenditure in line with the specific ringfence.
- 3.14 Section 6.2 is proposed as an addition to the approval process to reflect the complexities recently experienced in relation to extended external audits and their impact on the reserves position. The outturn report to Executive (normally presented in June) is the final opportunity for reserves uses/contributions to be approved for the financial year being reported.
- 3.15 However, with the example of the 2021/22 audit, technical changes required to the 2021/22 accounts could have an impact on the opening reserves position for 2022/23 and could change how the Council would choose to prudently manage its

balances in 2022/23 after the outturn report is finalised and approved by the Executive. The proposed addition at 6.2 reads as follows:

The current trend for external audits to extend beyond the end of the next financial accounting year can result in changes to the accounts which could have an impact on useable reserves. Therefore, for changes to and from useable reserves which come about as a result of external audit following the submission of the annual outturn report, the Section 151 Officer will have delegated authority, in consultation with the Portfolio Holder for Finance, to manage the impact on useable reserves of such changes to ensure the long-term resilience of the Council. Any such changes made under this delegated power will be reported to the Executive when the audit is complete.

- 3.16 This allows the S151 Officer to ensure that the General Balances and Earmarked Reserves positions remain at the level identified as prudent in the annual Section 25 report (described at section 4 of the policy). Any reserves movements approved by the S151 Officer under this new section will be reported to the Executive as soon as possible after the audit that resulted in them is finalised.

Cost-of-Living Crisis

- 3.17 The economy remains beset by a cost-of-living crisis wherein inflation remains at persistently high levels, 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.
- 3.18 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 future measures to help them have not yet been released. If the economic recovery is not swift enough, then some businesses may not continue into 2024/25 putting at risk the anticipated growth of business rates. In addition, if business rates growth is less than anticipated for 2023/24, this will result in a deficit to the Collection Fund which will have to be considered when setting the 2024/25 budget.
- 3.19 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.
- 3.20 It is inevitable 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 2024/25.

Government Announcements

- 3.21 Since Council approved the 2023/24 budget, MTFS and Capital Programme, there have been a number of impacts on local government finance which have attempted to reduce uncertainty for 2024/25 and 2025/26. However, beyond that the following will impact on the Council:
- the on-going financial impact of the cost-of-living crisis

- an expected further delay in implementing the Fair Funding Review, which is now expected to be implemented from April 2025
- an expected further delay in Business Rates Reform, which is now expected to be introduced from April 2025
- Anticipated consultation on a revised NHB scheme
- Extended Producer Responsibility – waste reforms and the impact this will have on the Council when collecting waste and recycling.

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 four years and are not now expected to be implemented until April 2025. 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.
- 3.23 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 government has indicated a reset won't take place until 2025/26.
- 3.24 As there is so much uncertainty around future local government funding, in particular from 2025/26 onwards, the MTFS will be updated to include a number of scenarios that make differing assumptions about a business rates reset. The current MTFS assumes a full reset with all growth redistributed. Alternative options could include a phased reset or a partial reset of the system.

Savings Proposals

- 3.25 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.
- 3.26 In line with the MTFS approved in February 2023 the Council will:
- Adopt a transformational approach to service delivery to shape the thinking for the future design of the Council.
 - Review the Council's priorities and alignment of resources to maximise delivery of priorities within the resources available
 - Maximise income opportunities
 - Continue to lobby policy makers
- 3.27 Savings proposals will take the form of both expenditure reduction and increases in income. These will take into account the impacts identified in the MTFS approved in February 2023 and also the financial impacts 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.

- 3.28 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
- 3.29 The strategy for identifying savings will be based on the plan to address the MTFS gap which was approved by Council in February 2023. 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 the Council’s strategic delivery themes identified in the Business Plan.

Business Plan

- 3.30 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

<p>Housing that meets your needs</p> <ul style="list-style-type: none"> • Support the delivery of affordable and green housing. • Ensure minimum standards in rented housing. • Work with partners supporting new ways to prevent homelessness. • Support our most vulnerable residents. • Prepare the Local Plan. 	<p>Supporting environmental sustainability</p> <ul style="list-style-type: none"> • Work towards our commitment to be carbon neutral by 2030. • Promote the green economy. • Support waste reduction, reuse, and recycling. • Work with partners to improve air quality.
<p>An enterprising economy with strong and vibrant local centres</p> <ul style="list-style-type: none"> • Support business retention and growth. • Work with partners to support skills development and innovation. • Work with others to support growth. • Work with partners to promote the district as a visitor destination and attract investment in our town centres. • Work with businesses to ensure compliance and promote best practice. 	<p>Healthy, resilient, and engaged communities</p> <ul style="list-style-type: none"> • Support and encourage active lifestyles and health and wellbeing. • Support development of leisure services and facilities meeting the needs of residents. • Support community and cultural development. • Work towards our commitment to equalities, diversity, and inclusion. • Work with partners to address the causes of health inequality and deprivation. • Work with partners to reduce crime and antisocial behaviour.

- 3.31 The Outcomes Framework, will also be revised to make sure it reflects our strategic priorities, ensuring the framework accurately describes the performance actions supporting the plan. Furthermore, the council Risk Strategy and Leadership Risk Register will be reviewed to ensure they both align with the objectives stated in the Business plan, reflecting any risks to their delivery.
- 3.32 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 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

- 3.33 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.
- 3.34 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.
- 3.35 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 autumn consultation set out below.

Formal consultation

- 3.36 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.
- 3.37 Our approach will be digital first, using Cherwell District Council's consultation platform, Citizens Space Cherwell. In line with our commitment to Equality, Diversity and Inclusion, paper copies of both the booklet and questionnaire will also be available and customer services will be fully briefed to support residents if they need to request materials in alternative formats A communications promotional plan will support this exercise.

Budget and Business Planning Timetable

- 3.38 An online public consultation on CDC's budget proposals will commence when the information is published at the end of November 2023, with Budget Planning Committee (BPC) considering the budget pressures, savings and Fees & Charges proposals and on 5 December 2023. Comments from BPC, along with other responses, will feed into the final formulation of proposals. An All-Member briefing will be scheduled for early December 2023.
- 3.39 Capital proposals will also be considered by Budget Planning Committee on 5 December 2023. The Capital & Investment Strategy which incorporates the Treasury Management Strategy will be considered at the meeting in January 2024.
- 3.40 The Executive will take into consideration the comments from the BPC in December 2023 and comments from the public consultation alongside the funding available announced as part of the provisional settlement, at its meeting on 5 February 2024 in setting out its proposed budget to Council.
- 3.41 At this time, there are no indications when we can expect the provisional local government finance settlement, though it is anticipated that it will be received in late December as in previous years. This will confirm the general Government funding available to the Council for 2024/25 and the Council Tax referendum limit to be applied.
- 3.42 The Council meeting to agree the 2024/25 revenue budget, MTFS and capital programme will take place on 26 February 2024.
- 3.43 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

- 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.

Comments checked by:

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Risk Implications

- 7.3 The Council faces significant risks given the scale of the financial challenge for 2024/25 and 2025/26. 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:

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Sustainability Implications

- 7.5 There are no sustainability implications arising directly from this report to initiate the budget process. However, the implications of proposals arising from the process will need to be reviewed to consider whether they have sustainability impacts. As the Council looks to reduce its spend it would be hoped that this would also lead to a reduction in carbon impact as well.

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 Nell, Finance

Document Information

Appendix number and title

- Appendix 1 – Previously agreed Savings 2023/24 – 2027/28
- Appendix 2 – Previously agreed Growth 2023/24 – 2027/28
- Appendix 3 – Budget and Business Planning Timetable for the 2024/25 Process
- Appendix 4 – Reserves Policy

Background papers

None

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