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Supplementary Papers

South Oxfordshire District Council
Listening Learning Leading

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FOR THE MEETING OF

Council

held in the Didcot Civic Hall, Britwell Road, Didcot, OX11 7JN

on Thursday 13 February 2025 at 6.00 pm

Open to the public including the press

The reports marked ‘to follow’ on the agenda published on 5 February 2025 are attached. Please bring these with you to the meeting.

11. Revenue Budget 2025/26 and Capital Programme 2025/26 to 2029/30

Report of the chief financial officer on the robustness of the budget estimates and the adequacy of the reserves attached.

South Oxfordshire District Council

Report of the chief financial officer on the robustness of the budget estimates and the adequacy of the reserves.

1. Section 25 of the Local Government Act 2003 places a duty on the chief finance officer (at this council the head of finance) to make a report to the council on the robustness of the estimates and the adequacy of the reserves. This report fulfils this requirement and provides councillors with assurance that the budgets have been compiled appropriately and that the level of reserves is adequate. It is a statutory requirement that councillors must consider this report when considering and approving a budget.

2. In presenting this report the head of finance is mindful of other associated statutory safeguards designed to prevent the authority from over-committing itself financially, namely:

   - Section 151 of the Local Government Act 1972 which requires the authority to make arrangements for the proper administration of its financial affairs and that the head of finance as the chief financial officer has personal end to end responsibility for such administration;

   - Sections 32, 43 & 93 of the Local Government Finance Act 1992 which requires the authority to set a balanced budget;

   - The Prudential Code sets out the framework within which the authority must manage its investments, including officer advice, adequate planning and budget estimates;

   - The external auditor’s duty to assess the adequacy of the authority’s proper arrangements to secure economy, efficiency and effectiveness (‘value for money’) and the actions taken by members and statutory officers to achieve that.

3. To reinforce these obligations, section 114 of the Local Government Finance Act 1988 requires the head of finance as the chief finance officer to report to all the authority’s councillors, in consultation with the monitoring officer and the chief executive, if there is or is likely to be unlawful expenditure or an unbalanced budget. Professional standards also require that, should the statutory officers have concerns that cannot be addressed within the council, they will escalate as appropriate to relevant external bodies.

Robustness of the budget estimates

BACKGROUND TO 2025/26 BUDGET SETTING

4. The background to budget setting was detailed in a budget scene setting report to Cabinet in October 2024. During 2024/25 inflation has fallen back compared to the levels experienced in recent years and the Bank of England suggest that it is expected to return to closer to their two per cent target in 2025/26. However, the cost of services will remain permanently higher as a result of previous inflation. Against these cost increases, the council has benefitted from interest rates remaining higher than anticipated for longer. It is still expected that they will fall

back but this process may take place over a number of years and as in previous years, the budget reflects the latest available view of the Office for Budget Responsibility (OBR).

5. Budget setting activity for 2025/26 took place amidst ongoing uncertainty over the future of local government funding. Ultimately, the government provided another one-year settlement. This saw core revenue spending power remain the same for the council, which meant that as the council tax element increased in line with the increase in the council tax base and expected increases in council tax levels, the government's contribution to our budget was reduced on a like for like basis.

6. However, in what will likely prove a one-off, the government provided further funding outside of core revenue spending power through the Extended Producer Responsibility for Packaging Scheme (pEPR). This, together with additional funding to partially compensate councils for increased employer National Insurance (NI) costs meant that government funding increased for 2025/26, albeit that the compensation for additional costs for NI is insufficient to cover our anticipated additional costs.

PREPARATION, REVIEW & SCRUTINY

7. In accordance with best practice and using accruals accounting, the council provides for realistic estimates of costs and known liabilities.

8. The initial revenue base budget estimates were prepared jointly by the Deputy Chief Executives and statutory officers, after considering the views of their heads of service and appropriately qualified staff from the council's strategic finance team. Following a review of the initial base budgets across the council, a more in-depth senior officer and cabinet member budget challenge exercise was undertaken similar, but more robust, to those undertaken in recent years.

9. A thorough capital budget challenge exercise, again involving senior officers and cabinet members, has taken place which reviewed the current capital programme.

10. Scrutiny committee considered the budget at its meeting on Tuesday 4 February. This followed an informal briefing from the head of finance open to all members on the factors taken into account in determining the budget. It is these factors, and the approaches outlined above that contribute to the ability of the Head of Finance to endorse the budget process as being robust and acceptable.

REVENUE BUDGET

11. Similar to most district councils the most significant costs within the revenue budget are:

    - staff salaries and related costs,
    - payments under contracts for services,
    - housing benefit and council tax support payments.

12. The estimates of staff costs are prepared by calculating the appropriate proportional cost of employing each member of staff by each council for the full year. The budget also makes provision for recruitment and training costs. Staff

costs include incremental progression and an allowance for the cost of any locally agreed pay award. The final pay award remains under negotiation with UNISON, as outlined within our formal collective bargaining agreement with them.

13. Under normal circumstances, the risk of overspending on staff costs is considered negligible. The budget assumes a level of expected vacancy savings of £500,000, and this will be monitored throughout the year. Over recent years, the high level of staff retention across the Council has meant that this assumed vacancy level has not been achieved, and the consequences of this have been covered by savings or increased income across the council. Uncertainty in the Local Government Reorganisation timeline is likely to increase staff turnover, but in turn this will likely increase, rather than reduce cost pressures as alternative models of recruitment may need to be used.

14. The costs of the most significant council contracts are linked to increases in the various price indices, usually the Retail Prices Index (RPI) or the Consumer Price Index (CPI). Allowance has been made in the budget for cost inflation but it is possible that such allowance may be insufficient if inflation was to increase. If this happens then the contingency budget may need to be called upon. Allowance has also been made within the budget for potential increased costs of service delivery, additional costs arising from demographic growth and increased demand for services (e.g. additional properties leading to increased waste collection costs).

15. The risk of overspending on contract costs exists and there remains a financial risk from a contractor failing to deliver services in accordance with the contract. Such risks are managed by the relevant senior officer through the council's contract monitoring and risk management procedures but cannot be eliminated.

16. The cost of housing benefit is still largely met through government subsidy. Subsidy levels for certain types of temporary accommodation are capped, meaning a continual shortfall to the council in this area, although this can be alleviated in part through the council owning its own supply of housing stock for this purpose. Income from housing benefit overpayments also carries financial risk. Close contract management by the council's revenues and benefits team means that financial risks in this area are regularly monitored.

17. The areas of expenditure where there is a greater level of risk are within the demand led budgets such as the costs of homelessness (including temporary accommodation). Given the current economic conditions these budgets may come under greater pressure than that experienced in earlier years. Experience of demand in the current and recent years has been used to inform the 2024/25 budget.

18. A number of revenue income streams are sensitive to changes in market conditions, including planning fees, building control fees, and land charges fees which all respond directly to the fluctuating characteristics of the housing market. Car parking income can also be volatile and responds to the general economy and retail market, though the level of any charges themselves seem to have little impact on usage. In setting the budget, adjustments have been made to reflect anticipated prevailing market conditions but, particularly given the current economic situation, there will always be a risk that budget targets are not met.

INVESTMENT INCOME

19. The returns on the council's investment portfolio, which has been diversified in accordance with the treasury management strategy, are relied upon to support the cost of services. After many years of low interest rates, since 2022 they had increased to 5.25 per cent in 2023, before falling back to their current rate of 4.75 per cent in November 2024. Prudent assumptions of future interest rates, using forecasts provided by our treasury management advisors MUFG Corporate Markets Treasury Limited, have been used to estimate earnings for both the 2025/26 financial year and future years in the MTFP. Most of the investment income earned in year is not committed until the year after it is earned, providing certainty about the amount available when the budgets are set.

REVENUE CONTINGENCY SUM

20. For the 2025/26 budget, the contingency budget remains unchanged at £400,000. In the context of the above narrative, the Head of Finance is confident that this is a suitable level.

FUNDING FROM CENTRAL GOVERNMENT

21. In December 2024 the government announced the provisional 2025/26 local government settlement, and the final settlement was confirmed in February 2025.

22. When calculating councils' spending power the Government assumes councils increase their council tax to the maximum level allowable before a referendum would need to take place.

23. As noted earlier, the 2025/26 settlement is another one-year settlement under which the council has seen its overall funding from government go up, albeit the increase is most likely a one-off. The government has committed to multi-year settlements in future, along with:

    - A review of councils' needs and resources, which could include redirecting funding away from this council to other councils,
    - A reset of the business rates retention system,
    - The end of New Homes Bonus in its current form.

24. In estimating future local government funding, officers have made the following assumptions:

    - The business rates reset will be phased over three years. As such, the council will see a phased reduction in its earnings above baseline before the reset, with the council seeing modest growth in retained business rates above the baseline in later years,
    - pEPR and compensation for increased employer National Insurance contributions will continue to be paid at current levels, and
    - Core revenue spending power will be maintained over the duration of the MTFP – this will mean that government funding will fall as council tax increases. It is assumed that the current council tax referendum limits will continue to apply.

25. The council remains constrained by its current low level of council tax. In 2024/25, its Band D council tax level of £146.24 per annum was the 10th lowest in the country for shire districts. The average for shire districts was £215.14 per annum – a gap of £68.90 per property or 47 per cent. It remains to be seen whether the new government will reconsider the position on council tax referendum limits in the longer term, but they have not done so this year.

CAPITAL PROGRAMME

26. The council's project management system is used to manage capital schemes. This is designed to reduce the risks of both overspends and slippage in the programme.

27. For major projects the council engages external advisors to assist it. Whilst these measures can manage and mitigate risk some capital schemes, by their nature, will still contain financial risks.

28. In the capital programme recommended to the cabinet, allowance has been made for works considered necessary to the council's land and property assets.

29. The council has a sufficient capital contingency and reserves to meet any potential capital programme overspends.

30. The capital programme is not intended to be seen as definitive in terms of timescales but always seeks to reflect the earliest point of expenditure, which can be impacted by a wide range of factors, this approach means that, at worst, there will be slippage in the programme, rather than significant unexpected increases.

MEDIUM TERM FINANCIAL PLAN

31. An updated MTFP has been included in the budget report. The plan sets out provisional revenue spending plans and the estimated use of reserves through to 2029/30. In 2025/26 and 2026/27 a contribution is made to reserves. However in later years, reserves are used in all years of the MTFP to support the revenue budget, ranging from just under £2.8 million in 2027/28 to over £5.4 million in 2029/30.

32. To support ensuring future financial sustainability, the Head of Finance, after consultation with other senior officers, is recommending that parameters for the sustainable use of reserves to support the revenue budget are introduced. Under the recommended parameters for sustainable use of reserves, the first three years of the MTFP period show a sustainable use of reserves. However, from 2028/29 onwards, the use of reserves is increasingly unsustainable and if future government funding is as estimated, action will be required by the council to address the increasing budget gap.

33. Whilst the council has been able to avoid cutting services up until now, it may not be possible to do so in future. This matter is something that officers will bring forward proposals for cabinet to consider in future years should this prove necessary.

PRUDENTIAL INDICATORS

34. The prudential code requires the calculation of a number of prudential indicators, which measure the sustainability of the council's MTFP, explicitly with regard to affordability, prudence, value for money, stewardship, service objectives and practicality, all of which take precedence over local decision making when viewed 'in the round'. This is backed up by a specific requirement to monitor performance against forward-looking indicators and report and act on significant deviations.

BUDGET MONITORING

35. Three times a year heads of service complete budget monitoring returns forecasting their year-end positions which are reported to cabinet. Other monitoring occurs, but that is within services and of a different nature.

RISK MANAGEMENT & INSURANCE

36. The council's risk management arrangements are overseen by the council's internal audit and risk team.

37. The main risks inherent in the council's MTFP are:

- government grant funding is less than estimated,
- ongoing economic uncertainty,
- Unforeseen growth in essential expenditure which is not managed within the budgetary envelope available to the council to remain financially sustainable.

Adequacy of reserves

38. The Chartered Institute of Public Finance and Accountancy has issued guidance on local authority reserves and balances in LAAP Bulletin 55. It sets out the three main purposes for which reserves can be held.

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – which forms part of general reserves;
- A contingency to cushion the impact of unexpected events or emergencies – also part of general reserves;
- A means of building up funds, often referred to as earmarked reserves, to meet known or well evidence and likely predicted liabilities.

39. The council's Medium Term Financial Strategy (MTFS) states that the council will hold £50 million of investments of which up to £35 million can be invested in capital schemes that will produce a return of certainty. The remaining balance can be invested in treasury investments. Whilst the treasury investments are capable of being realised, investment in capital schemes is not capable of being realised.

40. Excluding the £50 million investment, the council is expected to hold £23.8 million of general revenue balances and £5.5 million of earmarked revenue reserves as at 31 March 2030.

41. Finally, the council is expected to only hold unspent capital receipts of £1.5 million as at 31 March 2030 which form the capital receipts reserve, despite a prediction of borrowing of £29.1 million. These monies can only fund capital expenditure except in specific prescribed circumstances. The ongoing increases in borrowing, as usable capital receipts are used up, creates increased costs to be borne by the revenue budget over the life of the borrowing, at a time when there is ongoing uncertainty over future funding for the council.

42. In light of the likely financial pressures in future years, officers intend to conduct a further review of the capital programme early in 2025/26 in which all schemes that are not funded through Section 106 or government grant funding will be scrutinised to ensure that they should proceed. At the levels predicted within the MTFP, the Council will not be able to retain its current levels of service delivery or discretionary spend during the final years of the MTFP. The need for long-term funding certainty from Government is therefore now a financial imperative.

Conclusion

43. The budget estimates have been prepared following a properly controlled and professionally supported process. They have been subject to significant challenge, due consideration and all identifiable risks should be capable of management by officers.

44. Overall, the level of reserves at the end of 2025/26 is adequate in relation to the proposed revenue budget and capital programme.

45. The revenue reserves are not reduced other than by the sums already earmarked. The income earned on these reserves is therefore a sustainable source of funds for the council at this time.

46. Whilst the level of reserves is adequate for the 2025/26 financial year and over the early years of the MTFP period, the use of reserves to balance the revenue budget in the last two years of the MTFP is currently unsustainable. Therefore, if the estimates included in the MTFP prove to be correct then the council will need to take action to ensure financial sustainability is maintained over the medium to long term, that it is likely could only be addressed by a reduction in service levels, which is likely to be disproportionately borne by any discretionary activity.

47. As with all future projections, the position will need to be regularly monitored by the head of finance and, should it become necessary, they will liaise with the other statutory officers to ensure that action is taken to ensure that reserves remain adequate, which will include ensuring that members remain fully briefed and are publicly aware of the situation.

Simon Hewings (Head of finance and chief finance officer)

6 February 2025