



# **Report to: Cabinet Scrutiny Committee Council**

Report of Interim Head of Finance

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To: CABINET

4 February 2021

To: SCRUTINY COMMITTEE

9 February 2021

To: COUNCIL

11 February 2021

## **Revenue Budget 2021/22 and Capital Programme to 2025/26**

### **RECOMMENDATIONS**

1. That Cabinet recommends to Council that it:
  - a. sets the revenue budget for 2021/22 as set out in appendix A.1 to this report,
  - b. approves the capital programme for 2021/22 to 2025/26 as set out in appendix D.1 to this report, together with the capital programme changes as set out in appendix D.2 to this report,
  - c. sets the council's prudential limits as listed in appendix E to this report,
  - d. approves the medium-term financial plan to 2025/26 as set out in appendix F to this report,
  - e. allocates £500,000 to fund the Communities Capital and Revenue grant scheme,
  - f. asks officers to review the Medium-Term Financial Strategy (MTFS) following the 2021 spending review and Ministry of Housing, Communities and Local Government (MHCLG) announcements of changes to the council's future funding streams
2. That Cabinet agrees that the cabinet member for finance, in conjunction with the interim head of finance, may make minor adjustments to this report and the prudential indicators should they prove necessary prior to its submission to Council on 11 February 2021.

## Purpose of report

1. This report:

- brings together all relevant information to allow Cabinet to recommend to Council a revenue budget for 2021/22 and a capital programme for 2021/22 to 2025/26;
- recommends the prudential indicators to be set by the council in accordance with 'the Prudential Code' introduced as part of the Local Government Act 2003;
- contains the opinion of the council's chief financial officer on the robustness of estimates and adequacy of the council's financial reserves;
- contains the Medium-Term Financial Plan (MTFP) which provides details of the forward budget model for the next five years.

## Strategic objectives

2. The allocation of financial resources within the revenue and capital budgets needs to match the objectives agreed by the council.

## Revenue budget 2021/22

### Budget composition 2021/22

3. **Appendix A.1** summarises the movements in the base budget from £17,703,774 in 2020/21 to £20,308,954 in 2021/22. These movements are detailed below.
4. **Opening budget adjustment reduction (£740,820) (appendix A.2)**. This includes the removal of one-off growth items relating to 2020/21 and before, and the realisation of the full-year effect of savings proposals identified in previous years.
5. Additions to the base budget:
- **inflation, salary increments and other salary adjustments £462,099 (appendix A.3)**. The salary and contract inflation total £362,790. For council employees an overall increase in salary of two per cent is budgeted for 2021/22. Increments payable to council employees not at the top of their salary range total £151,917. Other salary adjustments are a net decrease of £52,609. This is primarily the result of a reduction in the fixed element of the council's contribution to the pension fund, following the previous actuarial review of the pension scheme liabilities.
  - **essential growth – one-off £1,832,730 and ongoing £1,450,866 (appendix A.4)**, these items comprise additional expenditure items, and reductions in income, which have been identified by officers and the cabinet member and are considered to be unavoidable and reflect changes that have occurred in the current year or which are known will happen in 2021/22. For 2021/22 this includes some items necessitated by the council's ongoing response to the Coronavirus pandemic, alongside provision for potential irrecoverable income losses, again due to COVID-19.

- **Increase in contingency budget £900,000 (appendix A.6)** As with essential growth above, the contingency budget has been increased for one year only to make provision for potential irrecoverable expenditure incurred whilst the council continues to respond to the pandemic. A breakdown of this figure is provided in a separate confidential version of appendix A.6 circulated to all councillors.
  - **Deductions from the base budget:**
    - **base budget reductions £1,271,213, (appendix A.5)** These base budget savings are reductions in costs identified by officers which may be the result of more efficient working or previously agreed policy decisions, cost reductions outside of the council's control, increases in income, or correction to budgets. These savings do not affect frontline service delivery.
    - **increase in managed vacancy factor £28,482**, this provision has been increased maintain the total as four per cent of the total salary cost.
6. As a result of these changes the council's revised base budget for 2021/22 is **£20,308,954** some **£2,655,180** higher than that set in 2020/21. This increase is primarily due to the council making provision for potential irrecoverable expenditure and income losses due to the pandemic, the course of which cannot be predicted at this time. The provisions are ring fenced for this purpose and, should they not be needed in full, then they can only be used for a different purpose if agreed by Cabinet and where necessary Council.

#### **Revenue growth and savings proposals**

7. There are no discretionary revenue growth and savings proposals being recommended to council for inclusion in the budget for 2021/22 at this time.
8. The council has adopted a new corporate plan since the last budget was set. As part of budget setting activity, officers had originally intended to bring forward for consideration items of growth that were linked to corporate delivery plan activities. This would be in addition to corporate plan delivery activities that are already funded within existing budgets.
9. The delivery plan reflects much of the activity that was included as "transformation" work, outlined when the 2021/21 budget was set. This was focussed on addressing the council's long-term financial position, and budget provision for this was made. Appendix B shows the corporate plan delivery activities for which budgetary provision – both within one-off and ongoing budgets – already exists.
10. Due to the need to prioritise the council's response to the Coronavirus pandemic, it has not been possible to build any more costs or savings relating to corporate plan delivery activity into the budgets for 2021/22 at this time. Deliverability of the activities for which budget provision already exists will be dependent on how long and how much officer resource is required to support the council's Coronavirus work.
11. Subject to capacity constraints, should the opportunity arise during the year to consider funding further corporate plan activities then these can be brought forward for consideration as supplementary estimates.

## Gross treasury income

12. Treasury income earned in 2021/22 is currently forecast to be **£1,846,610** and will be allocated as follows:
- £1,446,610 to support future revenue budgets; and
  - £400,000 reinvested in financial instruments.
13. This represents a significant reduction in the council's investment income and follows the reduction of the Bank of England base rate to 0.1 per cent, as a response to the Coronavirus pandemic. More details of treasury income can be found in the council's Treasury Management Strategy report<sup>1</sup>.
14. Including treasury income results in a net expenditure budget for the council of **£18,462,344** compared with **£15,121,054** in 2020/21.

## Reserves and other funding

### New Homes Bonus (NHB)

15. The provisional government allocation for NHB payment for 2021/22 is **£2,549,185**. Projections of future government grant funding are detailed later in this report.

### Transfers from reserves

16. The proposed transfers from earmarked reserves total **£121,943** and reflect:
- The transfer from reserves of treasury income earned in 2020/21 and earmarked to support the revenue account in 2021/22,
  - The transfer to reserves of treasury income earned in 2021/22,
  - Other transfers to / from the revenue grants reserve.
17. Based on the above use of reserves and other funding, the amount of revenue expenditure to be financed from government settlement and from council tax 2021/22 is **£11,531,987 (appendix A.1)**.

## Funding

### Local government settlement

18. Following the Spending Review in November 2020, the provisional local government settlement for 2021/22 was announced in December 2020. As with the previous year's settlement, this is for one year only.
19. Table 1 below details the government's funding for the council in 2021/22.

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<sup>1</sup> Considered by Cabinet 4 February 2021, Council 11 February 2021

**Table 1: provisional local government finance settlement 2021/22**

	<b>Provisional Settlement £</b>
Business rates retention scheme	(2,604,892)
Indexation	(135,726)
NDR at safety net	195,367
<b>Settlement Funding Assessment</b>	<b>(2,545,251)</b>
<b>Other funding</b>	
New Homes Bonus	(2,549,185)
Rural Services Delivery Grant	(44,314)
Lower tier grant	(110,935)
<b>Grand total</b>	<b>(5,249,685)</b>

20. The provisional settlement for 2021/22 is one percent lower than 2020/21. Whilst the provisional settlement, at a national level, includes an average increase in “core revenue spending power” of 4.5 per cent, council tax income is included in that definition and, in calculating the increase, government assumes that council tax will increase by the maximum allowed before a referendum is required. As shown in the government’s calculations, the council’s core revenue spending power will increase by 2.6 per cent, reflecting an increasing reliance on council tax income whilst government grant funding reduces.
21. Included within the government’s definition of core revenue spending power is NHB, which has become critical to the sustainability of the council’s MTFP. As identified above funding has been provisionally announced along with the settlement this year at **£2,549,185** for 2021/22. Government have confirmed that 2021/22 is the final year of the NHB.
22. Outside of core revenue spending power, government has also provided additional one-off funding to support the council’s response to the Coronavirus pandemic for 2021/22. This amounts to **£516,770**.
23. At the time of writing this report the final settlement figures had not been received from the government. It is not anticipated that when this information is available it will be significantly different to the provisional figures.
24. For budget setting purposes it has been assumed that the council’s “core revenue spending power” will remain at the same level throughout the MTFP period. In announcing the provisional settlement, government announced that no council would see a reduction in core revenue spending power for 2021/22 and, as noted above, the council did see a modest increase in that figure.
25. Adopting this approach over the MTFP period means that government funding reduces as a percentage of the total core revenue spending power whilst council tax increases. It is less pessimistic than the approach adopted previously and suggests a slower reduction in government grant funding than previously predicted. It should be noted that the government also indicated that no council should take this year’s core revenue spending power as a guarantee of future funding levels. However, without any certainty over those funding levels officers believe this approach offers a “middle way” between the most optimistic and

pessimistic forecasts of future funding and as such is a fair assumption for the remainder of the MTFP period.

26. The actual funding generated in future years will depend on the outcome of the review of the retained business rates scheme which will include changes to:

- The percentage of business rates growth is retained by the different tiers of local government,
- the baseline in accordance with the fair funding review,

together with the outcome of the review of NHB.

27. Business rates retained by the council as planning authority relating to facilities generating renewable energy within the district is estimated at **£76,894** (MTFP row 57).

### **Collection fund**

28. The surplus on the collection fund is estimated in 2021/22 to be **£472,194**.

### **Use of reserves**

29. The difference between expenditure requirement and the funding available is smoothed over the medium-term financial plan by transfers to and from earmarked reserves and the general fund balance. The net impact of these budget proposals is a draw on NHB reserves of **£3,985,509** and a draw on the enabling fund of **£273,720** in 2021/22.

## **Cabinet member for finance's revenue budget proposal**

30. Based on the amendments detailed above, and as shown in **appendix A.1** of this report, the cabinet member's budget proposal, including growth, is for a net revenue budget of **£11,531,987**. This revenue budget as proposed would result in an increase of £5.00 to current band "D" council tax to **£131.24**.

31. The Band D council tax in 2020/21 of £126.24 was the seventh lowest in the country for a shire district and compares to a national average in 2020/21 of £194.22. The proposed increase of £5.00 in 2021/22 is the maximum increase allowed under the draft council tax referendum principles announced in the provisional local government settlement.

32. **Appendix C** shows the breakdown of the revenue budget.

## **Capital programme 2021/22 to 2025/26**

### **Current capital programme**

33. The latest capital programme (before growth) is attached at **appendix D.1** and is summarised in table 3 below. It is the capital programme as set by Council in February 2020 plus: -

- slippage (caused by delays to projects) carried forward from 2019/20

- new schemes approved by Council during 2020/21
- re-profiling of expenditure on schemes from the 2020/21 financial year to future years where delays to schemes have occurred
- cabinet approved movement of schemes from the provisional to the approved capital programme
- the deletion of previously agreed schemes that have completed or are no longer being pursued at this time in their original form.

### Cabinet capital programme proposals

34. **Appendix D.2** contains a list of capital schemes that are being recommended for inclusion and amendment in the capital programme. Officers will amend the provisional capital programme to include the proposals if approved by Cabinet and Council.

### Financing the capital programme

35. **Table 2** contains a schedule showing the current and proposed capital programme and how it will be financed, including the growth proposals, if they are approved. The programme proposed can be fully funded from existing and anticipated capital resources. The total planned capital expenditure is **£55.7 million** over five years.

**Table 2: current and proposed capital programme with financing**

	2020/21 latest estimate	2021/22 estimate	2022/23 estimate	2023/24 estimate	2024/25 estimate	2025/26 estimate	GRAND TOTAL
	£000	£000	£000	£000	£000	£000	£000
<b>Capital programme before growth</b>							
- approved	3,718	19,018	13,097	1,453	1,119	920	39,325
- provisional	10,074	2,240	707	706	733	707	15,167
	<b>13,792</b>	<b>21,258</b>	<b>13,804</b>	<b>2,159</b>	<b>1,852</b>	<b>1,627</b>	<b>54,492</b>
Cabinet capital growth proposals	0	608	138	138	138	138	1,160
<b>Total expenditure</b>	<b>13,792</b>	<b>21,866</b>	<b>13,942</b>	<b>2,297</b>	<b>1,990</b>	<b>1,765</b>	<b>55,652</b>
<b>Financing</b>							
Grant funding	4,391	2,674	1,399	1,401	875	875	11,615
Developers' contributions/CIL	208	9,693	0	0	0	0	9,901
Usable capital receipts/revenue reserves	9,193	9,499	12,543	896	1,115	890	34,136
<b>Total financing</b>	<b>13,792</b>	<b>21,866</b>	<b>13,942</b>	<b>2,297</b>	<b>1,990</b>	<b>1,765</b>	<b>55,652</b>
<b>Estimated balances as at 31 March 2026 (excluding amounts ring-fenced as part of the the MTFS)</b>							
Usable capital receipts							<b>0</b>
General fund balance							<b>10,947</b>
New homes bonus:							
Unringfenced							<b>0</b>
Affordable homes							<b>1,764</b>

### Future pressures on the capital programme

36. **Table 2** also shows the use of council resources to fund the capital programme. Officers advise Cabinet not to earmark all available resources in proposing the budget to Council, as the prudential code requires local authorities to set sustainable budgets. By retaining unallocated balances, Cabinet can demonstrate that through a combination of this and future income (that can be expected beyond the period of the budget) it can fund future pressures.

## The prudential code and prudential indicators

37. In setting its revenue and capital budgets for 2021/22, the council must agree prudential indicators in accordance with the prudential code (see below). When recommending its budgets to Council, Cabinet must also recommend the prudential indicators.
38. From 1 April 2004, government control of local authorities' borrowing was abolished and replaced by a prudential system of self-regulation. Authorities are able to borrow based on need and affordability, which they demonstrate through compliance with the prudential code developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and given statutory force by government regulation.
39. The key objectives of the prudential code are to ensure that the capital investment plans of the authority are affordable, prudent and sustainable. To demonstrate that authorities have had regard to these objectives, the prudential code sets out a number of indicators that must be considered covering five distinct areas – capital expenditure, affordability, prudence, external debt and treasury management. Council must approve the indicators through the budget process before 1 April each year, but they can be revised during the year if required.
40. The key indicators that will drive the capital budget decision making process will be those concerning long term affordability, as these measure the impact of capital investment decisions on the overall revenue budget and in particular the precept against the collection fund.
41. In setting or revising the prudential indicators the council is required to have regard to:
- affordability e.g. implications for the precept
  - prudence and sustainability e.g. implications for external borrowing
  - value for money e.g. option appraisal
  - stewardship of assets e.g. asset management planning
  - service objectives e.g. strategic planning for the council
  - Practicality e.g. achievability of the forward plan.
42. Under the code, the interim head of finance as chief finance officer is responsible for ensuring that the council considers all relevant matters when setting or revising indicators through a report. The interim head of finance is also required to establish procedures to monitor performance against all forward-looking indicators; and report upon any significant deviations from forward forecasts with proposed actions.
43. **Appendix E** contains the recommended prudential indicators, which have been calculated based on the budget proposals. The interim head of finance is satisfied that these indicators show that the council's capital investment plans are affordable, prudent and sustainable.



## The Medium-Term Financial Plan (MTFP)

44. The MTFP provides a forward budget model for the next five years. **Appendix F** contains the MTFP for 2021/22 to 2025/26. This is a projection of the revenue budget up to 31 March 2026. The projection allows for budget pressures in later years and assumes that council approves all the budget proposals within this report. Officers have made no adjustments for the costs of contracts that will be re-let during this period. They could rise or fall depending on market conditions.
45. The MTFP identifies significant challenges ahead for the council. It reflects the updated provisional settlement figures published in draft by the government in December 2020 and shown in table 1 above. As discussed above, ongoing funding after 2021/22 is an estimate by officers and is subject to change. The estimates will be refined as more information on the future funding schemes becomes available.
46. Officers consider that the pressures highlighted are manageable in the period covered by the MTFP (in light of the reserves and balances available to the council and our ability to vary budgets and redirect funding). However, to balance the budget in all years covered by the MTFP requires a significant annual draw on reserves which is not sustainable over the medium and long term. Table 3 below shows how the value of council reserves that are estimated to be used over the MTFP period.

**Table 3: use of reserves during MTFP period to balance the revenue budget**

<b>Financial year</b>	<b>Use of reserves £000</b>
2021/22	4,259
2022/23	3,564
2023/24	3,632
2024/25	4,242
2025/26	5,140
<b>Total</b>	<b>20,837</b>

47. The council's MTFP 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 may in some cases be capable of being realised, investment in capital schemes is not capable of being realised. Such principles will need to be reviewed and potentially adjusted in accordance with the level of future government funding.
48. As at 31 March 2026 the council is currently projected to have invested or earmarked at least £30 million of the £35 million permitted in capital schemes, including an ongoing £15 million loan to South Oxfordshire Housing Association. A further £15 million has been invested in long term financial instruments.
49. Excluding the £50 million investment, the council is projected to hold £10.9 million of general revenue balances and £7.0 million earmarked revenue reserves as at 31 March 2026.

## **Communities Capital and Revenue Grant Scheme**

50. On an annual basis, the council has considered the amount to be made available for the Community Capital Grant Scheme. From 2018/19, some of this funding has been allocated to revenue projects. The council is asked to consider the amount to be made available for the Community Capital and Revenue Scheme and it is recommended that a grants budget of £500,000 be set for 2021/22 comprising:

- £180,000 for individual councillor grants,
- £320,000 for the communities' capital grants scheme.

Any underspend on the individual councillor grants will be available to fund additional spend on the communities' capital grants scheme.

## **The robustness of the estimates and the adequacy of reserves**

51. The Local Government Act 2003 places a duty on the chief finance officer (i.e. the interim head of finance) to report on the robustness of the estimates and the adequacy of reserves. The council must have regard to this report when making decisions about the setting of the budget.

52. The construction of the budget has been managed by qualified accountants and has been subject to challenge, specifically by the interim head of finance, other heads of service and cabinet members.

53. The challenge process included breaking down all costs and differentiating between statutory and discretionary expenditure. All expenditure has been scrutinised to identify potential efficiencies, whilst income budgets have been reviewed to ensure that they reflect expected fee levels. In addition, benchmarking information prepared by LG futures has been reviewed to compare our costs with those of our near neighbours – councils with similar economic and social characteristics – and the English average. In 2020/21, the revenue cost per resident for the council was £131.13. This compared to a near neighbour average of £143.93 and the English average of £141.91.

54. An informal briefing on the council's overarching budget position, which was open to all councillors, took place during December 2020. A further, more detailed briefing on this budget proposal will be given to the council's scrutiny committee members on 9 February 2021. This session will also be open to all councillors.

55. In view of the process undertaken and his own knowledge of the budget, the interim head of finance is satisfied that the budget is both prudent and robust. The budget allows retention of sufficient uncommitted balances at the end of the period to ensure that the overall level of reserves is adequate in relation to the proposed revenue budget and capital programme and that the budgets are sustainable over the course of the MTFP period.

56. The enabling fund balance as at 31 March 2026 is estimated to be £10.2 million. In the MTFP the 2025/26 revenue budget is balanced by using the enabling fund. This is based on current projections of government funding, which are

themselves subject to uncertainty pending further information on the results of the fair funding review and the review of NHB.

57. However, the need to use reserves to balance the MTFP across its duration, as shown in table 4 above, reflects the fact that the budget is not sustainable beyond the end of the MTFP period. In every year of the MTFP period, revenue expenditure exceeds revenue income. Although the budget is sustainable over the MTFP period it is not sustainable beyond that period. This situation has been made worse by the pandemic, particularly in respect of some of the council's key income streams, such as investment income, and it is unclear when those income streams will recover to pre-pandemic levels.
58. The transformation activity, which was identified in last year's budget setting report and now forms part of the corporate plan delivery activity, is central to the council's efforts to tackle the increasing budget gap. This work, which has been delayed due to the pandemic, focuses on both reviewing costs and seeking to maximise income. When resources allow, it will take place against the backdrop of the new corporate plan priorities. Those priorities may themselves have to be reviewed to help ensure that the council's finances remain sustainable in the future.
59. The interim head of finance's full report will be available at full Council.

### **Legal Implications**

60. The Cabinet needs to make recommendations to Council on its spending proposals. Under the Local Government Act 2000 it is Council that must agree the revenue and capital spending plans, and then set the council tax. Council will meet on 11 February 2021 in order to set the budget, and the council tax (including amounts set by Oxfordshire County Council and the Police and Crime Commissioner for the Thames Valley).
61. The requirement placed on the council by the Local Government Act 2003 to set prudential indicators and for the chief finance officer to make a report to the authority on the robustness of the estimates and the adequacy of reserves are addressed within the body of this report.

### **Other Implications**

62. Agreement of the revenue and capital budgets authorises expenditure in accordance with the council's delegated powers and financial procedure rules. The officer, councillor or councillor body taking those decisions will take into account the human resources, sustainability and equality and diversity implications of individual spending decisions.

### **Conclusion**

68. This report provides details of the revenue base budget for 2021/22, the capital programme 2021/22 to 2025/26, government grants (the settlement), uncommitted reserves and balances, the cabinet member for finance's budget proposals and the resulting prudential indicators.

69. In light of the information provided Cabinet must make a number of recommendations to Council regarding the revenue budget, the capital programme and the prudential indicators.

## **Appendices**

Appendix A.1	Revenue budget 2021/22
Appendix A.2	Opening budget adjustments
Appendix A.3	Inflation, salary increments and other salary adjustments
Appendix A.4	Essential growth
Appendix A.5	Base budget savings
Appendix A.6	Revenue contingency
Appendix B	Budgeted corporate plan activity
Appendix C	Service budget analysis
Appendix D.1	Capital programme before growth
Appendix D.2	Capital growth bids
Appendix E	Prudential indicators
Appendix F	Medium term financial plan

## **Background Papers**

Provisional settlement figures (December 2020)

Medium term financial strategy 2018/19-2022/23 – Cabinet 12 February 2018,  
Council 15 February 2018

Council tax base 2021/22 – Cabinet 3 December 2020, Council 10 December 2020

Treasury management strategy – Cabinet 3 February 2021, Council 10 February  
2021