

Division(s): N/A

CABINET – 19 October 2021

Budget and business planning report 2022/2023 – 2025/26

Report by the Director of Finance

RECOMMENDATION

1. **The Cabinet is RECOMMENDED to:**
 - a) **Endorse the report;**
 - b) **Approve the budget and business planning process for 2022/23; and**
 - c) **Approve a four-year period for the medium-term financial strategy to 2025/26 and ten-year period for the capital programme to 2031/32.**

Executive summary

2. This report is the first in the series on the budget and business planning process for the forthcoming year and forms context and background information ahead of and part of the process which will culminate in Council setting a budget for 2022/23; a medium-term financial strategy to 2025/26 and capital programme to 2031/32 in February 2022.
3. Information on latest and expected government announcements and their impact as well as an overview of the potential on-going financial impact of the COVID-19 pandemic are set out in the report.
4. Following the County Council elections in May 2021, a new administration was formed: the Oxfordshire Fair Deal Alliance. The alliance has an aim to make Oxfordshire a greener, fairer county. To support this, a set of nine policy objectives have been identified to explain how the administration will develop and deliver this aim. More detailed service proposals aligned with these themes will be developed as part of the 2022/23 budget and business planning process.
5. A new strategic plan will also be developed and used as the basis by which future performance will be evaluated and by which the council will report back to local communities and residents.

Introduction

6. 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 medium-term financial strategy (MTFS) agreed in February 2021 is based, information arising from government and other announcements plus new and emerging financial issues for 2022/23 and beyond which will be incorporated into the new MTFS. It also explains the process for the new strategic plan as well as the timetable of events for the budget and business planning process.
7. The following annexes are attached to this report:
 - Annex 1a: Previously agreed budget changes 2022/23 – 2025/26
 - Annex 1b: Assumptions in the existing MTFS
 - Annex 2: Business and Budget Planning timetable for 2022/23
8. It is proposed that the new MTFS is aligned with the term of the Oxfordshire Fair Deal Alliance until 2025/26. The capital programme will be extended by one year to cover the 10 year period to 2031/32.

Assumptions in the existing medium-term financial strategy

Investments, pressures and savings

9. The existing MTFS agreed by Council in February 2021 includes the requirement for £6.4m of savings to be made from 2022/23 to 2025/26. These will offset funding reductions and to meet additional expenditure pressures and investments totalling £6.8m over the same period.
10. The existing MTFS also includes on-going funding totalling £65.8m for demographic and other directorate expenditure pressures over the period 2022/23 – 2025/26 and provides for 2.5% pay inflation, up to 3% contract inflation and 2% income inflation. No inflation is provided for general prices¹.
11. The directorate savings and additional pressures and investments in the existing MTFS for 2022/23 to 2025/26 are included at Annex 1a.

Funding

12. The Financial Strategy for 2021/22 approved by Council in February 2021 set out that in relation to 2022/23, the proposed MTFS had a budgeted shortfall of £7.0m in 2022/23. This was based on the estimated anticipated impact of the business rate baseline reset and the settlement funding assessment reduction relating to the expected Fair Funding Review which were expected to be implemented from 2022/23. Beyond 2022/23 the existing MTFS assumes that once these funding changes were implemented, funding would remain stable with the local share of business rates increasing in line with inflation. No assumptions about future growth in

¹ Applied to costs of premises, transport and supplies and services.

the overall collection of business rates above the reset baseline have been built in.

13. Core council tax increases of 1.99% are assumed across all years of the existing MTFS. The remaining 2.00% balance of the 3.00% adult social care (ASC) precept announced for 2021/22 (which could be spread over 2021/22 and 2022/23) is assumed for 2022/23 giving a total planned council tax increase of 3.99%. The current plan assumes no further adult social care precept is allowable after that. The existing MTFS includes council taxbase increases of 1.5% for 2022/23 and 1.75% for subsequent years.
14. Surpluses on council tax collection are estimated to be £2.0m in 2022/23 and £4.0m in each remaining year of the MTFS. This is based on previous years' surpluses that have been above that level in the last five years. In 2021/22 the Council Tax collection surpluses were £6.3m.
15. Further details on the assumptions in the existing MTFS are provided in Annex 1b.

Earmarked reserves and general balances

16. Earmarked reserves (reserves held for a specific purpose) were forecast to be £101.7m at the end of 2021/22 in the existing MTFS. The latest forecast in the Business Management and Monitoring report elsewhere on the agenda, shows earmarked reserves totalling £169.1m at the end of 2021/22. As with general balances, the level of earmarked reserves is reviewed each year, to determine their appropriateness and adequacy as part of the budget and business planning process through the earmarked reserves and general balances policy statement.
17. The existing MTFS assumed general balances would be £30.5m at the start of 2021/22. The actual position taking into account the position at the end of 2020/21 was £34.6m. The business management and monitoring report elsewhere on the agenda currently forecasts that general balances will be £33.2m at the end of 2021/22, assuming the corporate contingency of £5.6m is used in full to meet in year pressures. The risk assessed level for balances in 2021/22 is £28.8m and a review will be undertaken as part of the budget and business planning process to determine the level of appropriate balances for 2022/23.

Ongoing impact of COVID-19

18. While the immediate impact of the COVID-19 pandemic has become clearer, there is still uncertainty about the long-term impact on demand for council services, sources of income, and the investment required for broader recovery and renewal within the community. Direct costs associated with managing the pandemic are expected to continue into 2022/23 with demand pressures extended to at least 2023/24.
19. As set out in the Business Management & Monitoring report £23.4m one – off funding is available to support additional costs in 2021/22 and future

years. The use of this funding from 2022/23 onwards will be considered through the budget and business planning process.

Government announcements

Spending review

20. On 7 September 2021, the government announced that there will be a multi-year Spending Review which will set revenue and capital budgets for 2022/23 to 2024/25. This will conclude on 27 October 2021, alongside the Autumn Budget 2021.
21. In the letter announcing the spending review, the chancellor of the exchequer set out the need to put the public finances on a sustainable path in the medium term. The envelope for the spending review 2021 will follow the path of resource and capital spending that was set out in the 2020 budget, with the addition of the net revenue raised by the new Health and Social Care Levy.

Build Back Better – The government’s new plan for the NHS and social care

22. On 7 September 2021 the Government published ‘Build Back Better – Our Plan for the NHS and Social Care’. The proposals for adult social care, which will take effect from October 2023, include:
 - A lifetime cap on care costs of £86,000
 - Changes to the thresholds for means-tested contributions towards care
 - A bigger role for councils in organising care for people who self-fund and an expectation that people who self-fund their care will pay care fees at local authority fee rates
 - Applying these new arrangements for all adults who use social care services
 - A £500m workforce fund.
23. The impact on the council will include:
 - (i) The direct cost to the council of the increase in employer’s national insurance contributions.
 - (ii) The impact of the changes in the ‘cap’ and the capital limits on existing charges for care and also additional costs of services for people who currently fund their own care but who will be eligible to have their care funded under the new arrangements.
 - (iii) Resourcing the increase in the number of contacts and assessments which will come through the council due to the changes in the limits.

- (iv) the impact of the planned 'market equalisation' of care costs on the rates that the council pays for care.
 - (v) The impact of the increase in employer's national insurance on the contracted rates for all contracts that include staff costs.
24. Additional costs arising from the changes will be funded by a new health and social care levy. This will be generated through a 1.25% increase in national insurance which will also be paid by people over 65 who are earning an income; and also a 1.25% increase in dividends tax. It is estimated that this will raise a total of £36Bn nationally over the next three years. £5.4Bn of that total will be available to support Adult Social Care.
25. Importantly, the plan sets out an expectation that demographic and unit cost pressures will be met through council tax, social care precept and long-term efficiencies.
26. Detail on the phasing of the additional £5.4bn at a national level for social care is expected to be announced as part of the spending review. Specific funding allocations for each local authority are expected to be confirmed as part of the local government finance settlement. More details on how the changes will be implemented are expected in a white paper anticipated to be published by the end of the year.

Financial planning assumptions for 2022/23

Local government funding reforms

27. The government is expected to set out the future plan for local government funding at the 2021 spending review. The government has set out that, in determining a way forward, it will need to 'take stock of the impact the pandemic has had on both local authority resources and service pressures to determine the appropriateness of the previous proposals for local government finance reform'. Given this statement implementation of the Fair Funding Review and business rates reforms including a business rates reset are unlikely to be implemented for April 2022. It is therefore reasonable to assume that funding allocations for 2021/22 will be rolled forward into 2022/23. This will remove the estimated funding gap of £7.0m in the existing MTFs for 2022/23 and shift it to 2023/24.

Dedicated Schools Grant (DSG)

28. In July 2021, the Department for Education (DfE) announced a provisional 2022/23 DSG allocation of £512m for Oxfordshire. This includes the schools, high needs and central block but excludes early years and funding for growth. Schools' DSG will increase by 3% from £426m to £438m in 2022/23, excluding growth funding. High needs DSG will increase by 8%, or £6m, to a total of £88m in 2022/23.
29. The high needs cumulative deficit was £22m as at 31 March 2021. As set out in the business management and monitoring report to Cabinet in

September 2021 the forecast in-year deficit in 2021/22 is £12m. The continued increase in demand means that future year deficits are expected to rise despite the anticipated £6m or 8% increase in funding.

30. Under the Dedicated Schools Grant (DSG) conditions, any local authority with a DSG deficit of any size should have a plan for managing its DSG account over the medium term and must keep its school forum regularly updated about its plan, including high needs pressures and potential savings. It must also respond to enquiries from the DfE about the plan. There is no deadline by which to submit a plan.
31. Initiatives seeking to reduce spend in high needs are being managed under the special educational needs and disabilities transformation project and feed into the deficit management plan. Following a consultation process this is expected to be considered by Cabinet in early 2022.

Inflation

32. The Bank of England forecast CPI² inflation to increase up to 4% from the second half of 2021 returning to the 2% target in the second half of 2023. As well as inflationary pressures there are also a number of supply side issues that could impact on expenditure over the medium term. While the MTF5 includes funding for up to 3% contract inflation for each of the remaining years of the MTF5, there is a risk that expenditure could increase beyond that level.

Strategic plan

33. Following the county council elections in May 2021, a new administration was formed: the Oxfordshire Fair Deal Alliance. The alliance aims to make Oxfordshire a greener, fairer county through nine priority themes:
 1. Put action to address the climate emergency at the heart of our work.
 2. Tackle inequalities in Oxfordshire.
 3. Prioritise the health and wellbeing of residents.
 4. Support carers and the social care system.
 5. Invest in an inclusive, integrated and sustainable transport network.
 6. Improve access to nature and green spaces.
 7. Create opportunities for children and young people to reach their full potential.
 8. Play our part in a vibrant local democracy.
 9. Work with local businesses and partners for environmental, economic and social benefit.
34. To develop a new strategic plan (to replace the current corporate plan) the council will draw on relevant socio-economic and environmental data, and public and stakeholder feedback. The plan will be made widely accessible, with residents as the key audience. This new strategic plan (with an accompanying suite of measures) will be used as the basis by which future

² Bank of England Inflation Report August 2021

performance will be evaluated and by which the council will report back to local communities and residents.

35. The new strategic plan will be completed by the end of March 2022 and the intention is that this will reflect and complement the 2022/2023 budget. Both documents will form part of the formal consultation ahead of budget and council tax setting in February 2022.

Engagement on the new strategic plan and budget priorities

36. Public and stakeholder engagement is being planned or underway to support the development of the council's new strategic plan and 2022/23 budget priorities. It focuses on five areas of work.
1. A residents' survey to inform the development of the new strategic plan and the priorities for the 2022/23 budget-setting process.
 2. Independently run public discussion groups to explore attitudes to the priorities and gauge what people value within them.
 3. Youth-focused discussion groups to ensure that young people's voices are included in the development of the new strategic plan and budget priorities.
 4. Cabinet-led workshops to discuss the priorities with stakeholders, including the voluntary and community sector, businesses, and town and parish councils.
 5. Discussions at locality groups to ensure the views of all councillors are sought.
37. An independent market research agency has been commissioned to deliver the resident satisfaction survey taking the form of a postal questionnaire, supported by an online survey. This is currently being sent to a randomly selected section of households across Oxfordshire. The survey will run until the 14 November 2021 with interim data available from 1 November. A final report will be available the week starting 22 November.
38. The data from the survey will be used alongside the qualitative research on the priority themes to feed into the priority-based budget and strategic planning process. The survey will also provide a baseline for the new administration to understand residents' priorities and experiences.
39. Six residents' discussion groups are being managed by a professional research agency to ensure a neutral and independent approach. Participants are currently being recruited to represent a broad cross section of the county's population, representing different geographies, life stages and socio-economic circumstances. The focus groups will take place during the weeks starting 11 and 18 October.
40. For the stakeholder engagement around the priorities, a small number of workshops with representatives from the voluntary and community sector, local businesses, partners, and parish and town councils will also be held during September and October.

41. Options for youth engagement are being scoped. Participants will be recruited from existing groups (eg Children in Care Council and Voice of Oxfordshire Youth), schools and through partners such as Oxfordshire Youth. The children and young people will reflect a range of different ages, geographies and lived experiences to ensure a lively discussion. The session will be very interactive to ensure that all children and young people are engaged, feel able to have their say on all nine priority themes and enjoy the experience.
42. Four online stakeholder workshops will be run during the weeks starting 18 October and 1 November, with the audience segmented as follows:
 1. Voluntary, community and faith sector, education, key partners and other stakeholders such as universities.
 2. Parishes and town councils.
 3. Business breakfast.
43. Councillor views on the priority themes will be sought through locality meetings taking place between 4 - 26 October. Councillors, and those who are invited to attend the stakeholder workshops, will also be able to have their say through an online survey (from 4 - 29 October) using the council's new digital consultation and engagement platform Let's Talk Oxfordshire.
44. These five strands of activity mark the start of a new longer-term approach to consultation and engagement, which aims to engage with residents in a more active and inclusive way. This would include the launch of a series of ongoing public engagement events called 'Oxfordshire Conversations' in spring 2022. A new consultation and engagement strategy outlining our approach to public and stakeholder engagement will be submitted to Cabinet for consideration on 16 November.
45. A second-stage public consultation on the substance of the 2022/23 budget will start on 2 December, hosted on Let's Talk Oxfordshire, with additional opportunities for people to share their views offline.

Budget and business planning timetable

46. Revenue budget proposals will be published on 2 December 2021, ahead of being considered by the Performance & Corporate Services Overview & Scrutiny Committee on 10 December 2021. A public consultation on the budget proposals will commence when the information is published.
47. Capital proposals will be considered by the Performance and Corporate Services Overview and Scrutiny Committee on 14 January 2022.
48. Cabinet will take into consideration the comments from the Performance and Corporate Services Overview and Scrutiny Committee in December 2021 and January 2022 and comments from the public consultation alongside the funding available announced as part of the provisional settlement, in setting out its proposed budget on 18 January 2022. The capital and investment

strategy, including the treasury management strategy, and review of charges will be included as part of the proposed budget.

49. The district councils are required to provide council tax bases, council tax collection surpluses/deficits and business rate forecasts by 31 January 2022. Provisional figures are expected in mid-December 2021 which will be used to inform the budget considered by Cabinet in January 2022.
50. The provisional local government finance settlement is expected to be announced in early to mid - December 2021. The final settlement is likely to be announced in late January/early February 2022. This will confirm the general funding available to the Council for 2022/23.
51. The Council meeting to agree the 2022/23 revenue budget, medium term financial plan and capital programme will take place on 8 February 2022.
52. A timetable for the budget and business planning process is attached at Annex 2.

Capital programme planning

53. The council considers capital investment and programming activity as an integral part of the budget and business planning process. In view of this, and the delivery period of significant investment programmes, it is proposed to extend the capital programme by a further year to cover the period to 2031/32.
54. The existing capital programme differentiates between firm schemes to address identified need and elements of a pipeline programme of forecast costs to address predicted needs. The firm programme is balanced to the funding available and agreed level of prudential borrowing.
55. Existing capital programmes and schemes are being reviewed alongside emerging investment pressures and the priorities of the Oxfordshire Fair Deal Alliance. These will be brought forward through the autumn to inform the capital planning process.
56. Full Council is required to approve the capital and investment strategy annually to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The capital and investment strategy incorporates the treasury management strategy and the investment strategy and is supplemented by the property strategy and highways asset management plan.

Staff implications

57. There are no staffing implications arising directly from the report. Further information will be shared through the budget and business planning process.

Equality and inclusion implications

58. There are no equality and inclusion implications arising directly from this report. A high-level assessment of the broad impact of the revenue budget proposals will be included as part of the published information in December 2021. More detailed impact assessments, which will take account of feedback from the public consultation and from scrutiny, will accompany Cabinet's proposed budget in January.

Risk management

59. Risks and opportunities to the council and levels of reserves and balances will be considered as part of the budget and business planning process.

Financial implications

60. The Council is required by law to set a balanced budget for 2022/23 before 1 March 2022. Alongside this, there is a requirement under Section 25 of the Local Government Finance Act 2003 for the Chief Finance Officer to prepare a statement on the robustness of the budget estimates and the adequacy of reserves. This report is the first stage in the process to achieve these objectives.

Comments checked by:

Lorna Baxter,
Director of Finance

Legal implications

61. The Council is required under the Localism Act 2011 to set a council tax requirement for the authority. This report provides information which, when taken together with the future reports up to January 2022, will lead to the council tax requirement being agreed in February 2022, together with a budget for 2022/23, four-year medium term financial strategy and ten - year capital programme.
62. The Council has a fiduciary duty to Council Tax payers, which means it must consider the prudent use of resources, including control of expenditure, financial prudence in the short and long term, the need to strike a fair balance between the interests of the Council Tax payers and ratepayers and the community's interest in adequate and efficient services and the need to act in

good faith in relation to compliance with statutory duties and exercising statutory powers.

Comments checked by:
Sukdave Ghuman Head of Legal Services
Sukdave.ghuman@oxfordshire.gov.uk

LORNA BAXTER
Director of Finance

Contact Officers:
Kathy Wilcox: Head of Financial Strategy
Tel: 07788 302163

Louise Tustian: Head of Insight and Corporate Programmes
Tel: 07741 607452

Kerry Middleton: Head of Communications, Marketing and Engagement
Tel: 07586 479081

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