

Divisions - NA

CABINET – 13 OCTOBER 2020

BUDGET AND BUSINESS PLANNING REPORT 2021/2022 – 2025/26

Report by the Director of Finance

RECOMMENDATION

1. **The Cabinet is RECOMMENDED to:**
 - (a) **Note the report;**
 - (b) **Approve the Budget and Business Planning Process for 2021/22; and**
 - (c) **Approve a five-year period for the Medium Term Financial Strategy to 2025/26 and ten-year period for the Capital Programme to 2030/31.**

Executive Summary

2. This report is the first in the series on the Budget and Business Planning process¹ 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 2021/22; a medium term financial strategy to 2025/26 and capital programme to 2029/30 and a Corporate Plan in February 2021.
3. Information on latest government announcements and their impact as well as an overview of the potential on-going financial impact of the Covid-19 pandemic, which will need addressing through the Budget and Business Planning process for 2021/22, are set out in the report.
4. There is extreme uncertainty in government funding for 2021/22 and beyond due to the cancellation of the Autumn Budget, the awaited outcome of the Spending Review and the ongoing financial impact of Covid 19. In addition, there is a delay in the introduction of a new needs-based funding formula alongside proposed changes in the proportion of business rates retained by local government and how local authorities are rewarded for generating growth in business rates. This level of uncertainty is unusual, however in forming the Medium Term Financial Strategy (MTFS) prudent assumptions will be made based on the latest information available and using scenarios and a sensitivity analysis to form a view.

¹ The term 'Budget and Business Planning' replaces 'Service and Resource Planning' to describe the annual process of agreeing a financial strategy, balanced revenue budget and capital programme. The Medium Term Financial Plan is also renamed the Medium Term Financial Strategy (MTFS).

Introduction

5. 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 2020 is based, information arising from government and other announcements plus new and emerging financial issues for 2021/22 and beyond which will be incorporated into the new MTFS. It also sets out the process for updating the Corporate Plan as well as the timetable of events for the Budget and Business Planning process.
6. The following annexes are attached to this report:
 - Annex 1a: Previously agreed budget changes 2021/22 – 2023/24
 - Annex 1b: Review of Assumptions in the existing MTFS
 - Annex 2: Business and Budget Planning timetable for 2021/22
7. It is proposed that the new MTFS covers a five-year time frame (current MTFP is four years) and projections and assumptions will therefore be extended by two years to cover 2024/25 and 2025/26. The extended period will enable the MTFS to capture the benefits of investment decisions, including invest to save models that might otherwise fall outside the timeframe of the MTFS. It is also proposed that the Capital Programme is extended by one year to cover the 10-year period to 2030/31.

Assumptions in the existing Medium Term Financial Strategy

Additional Spending & Savings

8. The existing MTFS agreed by Council in February 2020 includes the requirement for £17.4m of savings to be made over 2021/22 to 2023/24 to offset funding reductions and to meet additional expenditure pressures.
9. The MTFS also includes an additional £45.1m of on-going funding for demographic and other directorate expenditure pressures added over the period 2021/22 – 2023/24 and provides for 2.5% pay inflation, up to 3% contract inflation and 2% income inflation. No inflation is provided for general prices².
10. Details of the savings and additional funding in the existing MTFP for 2021/22 to 2023/24 are set out in Annex 1a.

Funding

11. The Financial Strategy for 2020/21 approved by Council in February 2020, set out that in relation to 2021/22 the proposed MTFS had a budgeted shortfall of £24.4m in 2021/22. Within this shortfall, it was assumed that £26.3m of

² Applied to costs of premises, transport and supplies and services.

funding would fall out in 2021/22. This included the estimated impact of the business rate baseline reset (£4.7m), social care support grant ending (£12.0m), the Settlement Funding Assessment reduction relating to the expected Fair Funding Review (£5.8m), the Fire Fighters pension grant ending (£1.4m), and the New Homes Bonus scheme winding down (£2.4m).

12. Council tax increases of 1.99% are assumed across all years of the MTFP. Council taxbase increases of 5,000 home per annum were assumed across the MTFS. Total income from Council Tax (including collection surpluses) is estimated to be £444.6m a year by 2023/24.
13. Further details on the assumptions in the existing MTFS are provided in Annex 1b.

Earmarked Reserves and General Balances

14. Earmarked reserves (reserves held for a specific purpose) were forecast to be £56.6m at the end of 2020/21 in the MTFS. The latest forecast in the Business Management and Monitoring report elsewhere on this agenda, shows earmarked reserves totalling £80.0m at the end of 2020/21. As with general balances, the level of earmarked reserves is reviewed each year as part of the Business and Budget Planning process through the Earmarked Reserves and General Balances Policy Statement.
15. The MTFS assumed general balances would be £25.8m at the start of 2020/21. The actual position taking into account the 2019/20 outturn was £28.7m. The Business Management & Monitoring report elsewhere on the agenda currently forecasts that general balances will be £30.3m at the end of 2020/21, assuming the corporate contingency and Covid contingency are used in full. The risk assessed level for balances in 2020/21 is £23.4m and a review will be undertaken as part of the Budget and Business Planning process to determine the level of appropriate balances for 2021/22. At this stage it is envisaged that the level of balances available for 2021/22 will be sufficient to meet the risk assessed level.

Ongoing impact of Covid-19 Pandemic

16. As a result of the Covid-19 pandemic the Council has seen significant increases in costs and reductions in income. The Government has partially funded some of the immediate, exceptional costs and income losses and the Council has agreed a Revised Budget for 2020/21 to address the shortfall in year. Looking ahead to 2021/22, there are some key areas of uncertainty for which it is unclear whether compensating funding will be required or received; in particular around business rates and council tax.

Business Rates

17. The existing MTFS assumes that there will be a break-even position on the Business Rate Collection Fund. There are clearly significant challenges for

business and if the recovery from the “stall” in the economy is not swift enough then some businesses may not continue into 2021/22 resulting in reduced collection rate. This is particularly a risk for sectors, such as the retail and leisure industry, that have not been required to pay business rates in 2020/21 (for which compensatory funding has been received from government for 2020/21) but are currently expected to go back to paying business rates as normal from 1 April. There may also be a deficit to the Business Rate Collection Fund which will have to be repaid if the assumptions for growth applied by the City and District Councils for 2020/21 are higher than the actual activity in year. The current planning assumption is that the impact for the County Council could be £2.0m in 2021/22.

Council Tax

18. Linked to the reduced rates of growth in business rates and strength of the economy, the City and District Councils have reported increases in the levels of those eligible for the Council Tax Reduction Scheme. There is a risk that as the furlough scheme ends, this will increase further. This could have the impact of reducing the Council Tax Base and the levels of Council Tax that will be received by the Council compared to the assumptions in the MTFs. The current planning assumption is that the impact for the County Council is likely to be between around £4.0m which equates to a 1% reduction in the Council tax base.
19. It is currently estimated that there will be a loss of £6.0m on the Collection Fund Account arising in 2020/21 as a result of increased eligibility for the Council Tax Reduction Scheme. On 2 July the Secretary of State for MHCLG announced that government would work with the Chartered Institute of Public Finance and Accountancy (CIPFA) to agree amendments to statutory guidance to allow councils to manage the impact of this loss over three years (2021/22 to 2023/24). The £6.0m Collection Fund Reserve created as part of the revised budget is expected to be sufficient to manage this pressure.

Exceptional and additional costs plus lost income

20. It is difficult to forecast what additional costs and income losses experienced by the Council in 2020/21 will continue into 2021/22. The Country is still in the early stages of the recovery from the pandemic and there is significant uncertainty about how Covid-19 will impact on Council services. These costs could occur as a result of additional demand, increased costs to deliver services or loss of income from sales, fees and charges.

Government Announcements

21. Since Council approved the 2020/21 budget, MTFP and Capital Programme, there have been a number of the two major immediate impacts on local government finance created significant levels of financial uncertainty for 2021/22 and beyond are:

- the financial impact of the Covid-19 pandemic
- the cancellation of the Autumn Budget
- the delay in the outcome of the Spending Review until November 2020.
- the delay in implementing the Fair Funding Review, which is now expected to be implemented from April 2022
- the delay in Business Rates Reform, including a move to retaining 75% of business rates, which may now be introduced from April 2022
- the delay in Business Rates Revaluation which will now happen April 2023

Spending Review Delay

22. The Spending Review sets the overall funding envelope for Government departments for the Spending Review Period, anticipated to be the three years from 2021/22 – 2023/24. The Spending Review was originally intended to report in July 2020. Whilst this would not have provided specific funding levels for individual local authorities, it would have given a clear steer on the trajectory of local government funding as a sector and assisted with planning scenarios. The Spending Review has been delayed and is now expected to be announced in the autumn, with many commentators suggesting this could be early to mid-November.

Further Medium-Term Uncertainty

23. To compound the planning uncertainty, there are major changes to the way local government funding works that are currently planned to be introduced from 2022/23 onwards around how funding is allocated between local authorities, as part of the Fair Funding Review, the proportion of business rates retained by local government and how local authorities are rewarded for generating growth in business rates. It is too early to predict the overall financial impact of these proposals as they are still being designed and consulted on, so for now the planning assumption is that they are cost neutral.

Financial planning assumptions for 2021/22

24. Given the delays in implementing the new funding formula, the lateness of the spending review and the wider financial challenges relating to Covid 19, it is reasonable to assume that grant allocations for 2020/21 which were expected not to continue, will be rolled forward into 2021/22. This will remove the funding gap of £24.4m in the existing MTFS for 2021/22.
25. It is anticipated that there will be new and emerging pressures from 2021/22 from the ongoing impact of Covid-19, predominantly relating to Council Tax and Business Rate but also from continued loss of income and exceptional costs as set out in paragraphs 17 to 23 above. 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.

26. It is proposed that the corporate service redesign and transformation savings from 2021/22 are re-baselined with the savings required in the MTFs included as part of the savings target for 2021/22; £9.6m service redesign savings planned for 2021/22 and £3.6m brought forward from 2020/21 which have been delayed primarily as a result of the Covid-19 pandemic.
27. Taking into account the potential pressures from Covid-19 and the re-baselining of the corporate service redesign and transformation savings, a savings targets of £25m for 2021/22 has been set.
28. A set of corporate building blocks will be used to help form the proposals needed to meet the expected budget gap including
 - reviewing the Council's assets, including those that are leased and owned, to reduce costs and maximise income streams.
 - exploring opportunities to reduce third party spend through joint procurements and contract renewals
29. Whilst savings are expected to be delivered from the corporate building blocks, it is still anticipated that Directorates will be required to identify savings. This will require services to consider the levels of service provided, whether the service can be redesigned and whether the Council is fully charging for the service.

Dedicated Schools Grant (DSG)

30. In July 2020, the DfE announced the provisional DSG for Oxfordshire of £508m for 2021/22 for the Schools, High Needs and Central Block. Grants worth £19.8m for Teachers Pay & Pension are now rolled into DSG and included in the total. Excluding these grants, Schools DSG will increase by 3.25% and High Needs DSG by 9.59%.
31. The High Needs budget is estimated to overspend by circa £15m in 2021/22, the impact of the increased DSG is to reduce that overspend to £7.5m.
32. Under the Dedicated Schools Grant Conditions of grant for 2020/21, any local authority with a Dedicated Schools Grant deficit of any size should have a plan for managing its Dedicated Schools Grant account going forward, 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 Department for Education about the plan. Officers are working with stakeholders and reviewing all expenditure to arrive at options to reduce the deficit.

Updating the Corporate Plan

33. The 2021/2022 Corporate Plan will reflect on this year's challenges and look to refresh the supporting outcomes of the six overarching priorities listed below. Officers will be working closely with directorates to review and refine

their specific performance indicators and measures to ensure that they are SMART, support the agreed priorities and are aligned to their budgets and risks.

- We listen to residents so we can continuously improve our services and provide value for money
- We help people live safe and healthy lives and play an active part in their community
- We provide services that enhance the quality of life and protect the local environment
- We strive to give every child a good start in life and protect everyone from neglect
- We enable older and disabled people to live independently and care those in greatest need
- We support a thriving local economy by improving transport links to create jobs and homes for the future

34. At the corporate level issues for consideration include:

- Climate action, the council's commitment to carbon neutrality by 2030 and other environmental issues including air quality;
- Investment and property strategies and restated ambition in these areas;
- Addressing the wider impact and opportunities of growth across services and the community;
- Our role in addressing inequalities in social, economic and health outcomes;
- Locality working and local leadership including devolution of services, the need for more impactful area governance and the community leadership role of members;
- Ongoing ambition to expand our role in fostering social action including developing our relationship with the voluntary and community sectors;
- The further development of the Cherwell-OCC partnership alongside further development of wider partnership working;
- New and emerging cross-cutting strategies including for digital and culture;
- The relationship with health and the development of an Integrated Care System;
- Continuing focus on the role of prevention and managing demand;
- Future workforce.

35. The overall corporate planning framework includes the Corporate Plan itself, finance, Leadership risks and the service plans of individual directorates and services.

36. It is proposed that these corporate issues should be considered alongside existing priorities for formal incorporation into the overall corporate plan framework to drive action and outcomes. Work will be required to identify the tangible change associated with each priority area and how the issue is best

incorporated into the overall planning framework – whether into the Corporate Plan or into service specific plans. Where issues are agreed as priority areas, consideration should be given through the budget process of how refocussing on these issues affects budget priorities.

37. In addition to revising plan priorities, within the current cycle of corporate planning, there is an opportunity to redesign and represent elements of the current Corporate Plan to better articulate for residents, councillors, staff and partners the existing and emerging narrative and purpose. Supporting materials to the Corporate Plan should include a highly visual plan on a page that articulates to internal and external audiences the Council's mission and clear links from the leadership risk register to the overarching priorities.
38. Updating the Corporate Plan will necessarily require a parallel update to the Outcomes Framework and Leadership Risk Register to ensure that the framework accurately describes the priorities and actions in the plan. Alongside updating content, there is an opportunity to continue to improve the Outcomes Framework reflecting feedback and challenge received through the new reporting process. Performance indicators (key performance indicators and measures) will be reviewed to ensure that they have a clear and direct line to outcomes and the target setting process will be reviewed to ensure that the reasons for changing or maintaining a target across years are transparent.

Business and Budget Planning Timetable

39. Budget proposals will be published on 2 December 2020, alongside the report for Performance Scrutiny Committee on 10 December. A public consultation on the budget proposals will commence when the information is published at the start of December 2020.
40. Capital proposals will be considered by Performance Scrutiny Committee in early January 2020 alongside the Capital & Investment Strategy which incorporates the Treasury Management Strategy. The Review of Charges will also be considered.
41. Cabinet will take into consideration the comments from the Performance Scrutiny Committees in December 2020 and January 2020 and comments from the public consultation alongside the funding available announced as part of the provisional settlement expected during December 2020, in setting out its proposed budget to Cabinet on 19 January 2021.
42. The District Councils are required to provide Council Tax bases, Council Tax collection surpluses/deficits and business rate forecasts by 31 January 2021. Provisional figures are expected in mid-December 2020 which will be used to inform the budget considered by Cabinet in January.
43. The provisional local government finance settlement is not expected until mid-late December 2020, with the final settlement not expected until early late January/early February 2021. This will confirm the general funding available to the Council for 2021/22 and the Council Tax referendum limit to be applied.

44. The Council meeting to agree the 2021/22 revenue budget, medium term financial plan and capital programme will take place on 9 February 2021.
45. A timetable for the Business and Budget Planning process is attached at Annex 2.

Capital Programme Planning

46. The Council considers capital investment and programming activity as an integral part of the Business and Budget Planning process. This ensures that the creation of a new asset or investment in the existing asset and infrastructure network is justified through detailed business cases and delivery models for the service, and implications for the MTFS are clearly identified. 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 2030/31. This will provide an additional year of funding in the programme.
47. Existing capital programmes and schemes are being reviewed alongside emerging investment pressures and priorities. These will be brought forward through the Autumn to inform the capital planning process.
48. Full Council is required to approve annually the Capital & Investment Strategy in order 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 overall Capital & Investment Strategy incorporates the Treasury Management Strategy and the Investment Strategy and is supplemented by the Property Strategy and Highways Asset Management Plan.

Equality and Inclusion Implications

49. The Public Sector Equality Duty, under section 149 of the Equality Act 2010, places a responsibility on local authorities to exercise 'due regard to the need to eliminate unlawful discrimination... advance equality of opportunity... and foster good relations.'
50. There are no equality and inclusion implications arising directly from this report. A high-level assessment of the broad impact of new savings options will be included as part of the published information in December 2020. 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.

Financial and Legal Implications

51. This report is mostly concerned with finance and the implications are set out in the main body of the report. 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 2021, will lead to the council tax requirement being agreed in February 2021, together with a budget for 2021/22, five-year medium term financial strategy and ten year capital programme.

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