

Budget Update 2022/23

Report of the Finance & Resources Portfolio Holder

Recommended:

1. That the savings options, income generation proposals and budget pressures, shown in Annexes 2 – 4 to the report, be noted.
2. That the Medium Term Financial Forecast, shown in Annex 5 to the report, be noted.

SUMMARY:

- This report updates Cabinet on changes to the 2022/23 budget forecast since the Medium Term Financial Strategy was presented in October. This includes; the provisional Local Government Finance Settlement, New Homes' Bonus provisional allocations, the impacts of coronavirus, revenue savings and budget pressures.
- It also provides an updated Medium Term Financial Forecast covering 2022/23 to 2024/25.
- In order to achieve a balanced budget, it will be necessary to close the remaining gap of £62,000 before figures are finalised in February 2022.

1 Introduction

- 1.1 The Budget Strategy and financial forecast for 2022/23 were presented to Cabinet on 27 October 2021.
- 1.2 Since that time, work has been carried out to revise the current year estimates, prepare original estimates for 2022/23 and update the Medium Term Financial Forecast.
- 1.3 The purpose of this report is to;
 - Provide the latest available information on the provisional Local Government Finance Settlement and how it affects Test Valley.
 - Review the impact that coronavirus is expected to have on Council budgets into 2022/23.
 - Provide an update on the latest savings options, income generation proposals and revenue pressures.
 - Update the Medium Term Financial Forecast after considering the above.
 - Outline the remaining stages of the budget process.

1.4 Assuming no changes to the figures presented in this report, the Council has to close a gap of £62,200 in order to achieve a balanced budget for 2022/23.

2 2021/22 Revised Forecasts

2.1 Work is progressing well in preparing the revised forecasts for 2021/22. A revised forecast for the current year's estimates will be included with the final budget recommendations in February.

2.2 The original budget for 2021/22 assumed there would be no change in the level of general reserves. This remains the same and general reserves are expected to remain at £2.6M at the end of the year.

2.3 Cabinet received a mid-year budget monitoring report on 8 December that summarised the most significant budget variances in the first half of the financial year. The report identified that net expenditure in Services was £504,000 less than forecast and that additional income of £44,000 from cash investments had been generated to the end of September.

2.4 No recommendations for utilisation of any variance will be made until the final outturn position is reported in June 2022.

Coronavirus

2.5 The budget for 2021/22 includes a total pressure due to the impact of Covid-19 on services of £2.544M, which reduces to a net pressure of £1.050M after taking account of support from central government in the form of Sales, Fees & Charges compensation and other support grants.

2.6 The underlying assumption when the 2021/22 budget was set was that all service areas affected by coronavirus would return to pre-pandemic levels by the start of the 2022/23 financial year.

2.7 In the majority of cases, this forecast is expected to be broadly accurate. However, one area that has not fully recovered is income from car parking charges. The mid-year monitoring report showed that parking income was more than £100,000 below the estimate for the year, after taking into account expected variations as a result of the pandemic. The estimated ongoing impact of that is built into the forecast for next year and explained further in the following section.

3 2022/23 Budget Forecast

3.1 Final decisions on the budget will not be made until February 2022 when the overall budget will be set.

3.2 The most significant changes to the budget forecast, including the impact of the provisional Local Government Finance Settlement (LGFS) are explained in the following paragraphs.

3.3 Budget Forecast 2022/23

As with the revised forecast figures for 2021/22, the original estimate figures for 2022/23 are being worked on and there may be further changes before the final budget is presented in February.

When the budget forecast was presented in October 2021 there was a budget gap of £434,900. The estimates process combined with figures included in the provisional LGFS have reduced the gap to £62,200. A reconciliation of the movement in this gap is shown in the table below. Further detail supporting this table is also shown in Annex 1 to the report.

	£'000
Budget gap per October report	435
Changes to forecast Council Tax income – para 3.6	(196)
Government grants included in draft LGFS – para 3.7	(588)
Increased income from cash investment portfolio – para 3.10	(250)
Savings proposals – Annex 2 & para 3.11	(179)
Income generation proposals – Annex 3 & para 3.11	(253)
Pressures – Annex 4 & para 3.11	1,592
Changes to assumed transfers to and draws from earmarked reserves – para 3.12	(499)
Current Budget gap	62

There are a number of factors that will impact on the completion of the estimates for 2022/23 that still retain a degree of uncertainty. These are discussed in the following paragraphs along with explanation of the figures shown in the table.

3.4 Local Government Finance Settlement

The provisional LGFS was announced on 16 December 2021 and has provided the headline grant figures that the Council can expect to receive in core funding in 2022/23.

Despite a significant amount of lobbying from the sector, the settlement is for one year only. This provides much greater certainty for the coming year, but leaves a great deal of uncertainty for the medium term. The updated assumptions in this report reflect on the short-termism of the settlement so as not to build potentially short-lived grant streams into the base budget.

The Medium Term Financial Strategy presented to Cabinet on 27 October made assumptions about the Finance Settlement. The impact of any changes needed to those assumptions is explained in the following paragraphs.

3.5 Council Tax Increase – Referendum Threshold

The Budget Strategy assumed that the Band D level of Council Tax would increase by £5 from £148.91 to £153.91 for 2022/23. The details in the provisional LGFS set out that a £5 increase for 2022/23 will be allowable and would not trigger a referendum.

When the Cabinet next meets on the 23 February, the final Local Government Finance Settlement figures will have been announced. Members will then have the opportunity to consider options for Council Tax levels to recommend to Full Council on the 25 February.

As in previous years, no Council Tax referendum principles will be applied to parish and town councils.

3.6 Income from Council Tax

There have been two changes to the forecast for Council Tax income since the MTFS was approved. These are:

- The tax base for 2022/23 has been set.
- The Collection Fund outturn for 2020/21 has been finalised.

The tax base is the number of band D equivalent properties that are subject to Council Tax. The tax base multiplied by the annual charge is the amount of income that is budgeted for each year.

The MTFS allowed for an increase of 500 band D equivalent properties in 2022/23. The final tax base has now been set at 51,338, an increase of 1,022 on the previous year. The main reasons for the increase are a greater number of new properties in the borough and a reduction in the number of households in receipt of Council Tax Support. This has led to an increase in forecast income from Council Tax of £87,000.

The timing of allocations of income and expenditure from the Collection Fund (the statutory account that is maintained to record Council Tax and Business Rates income) is phased over three years. The final reconciliation of the 2020/21 Collect Fund has been completed and can return a one-off contribution of £109,000 in respect of greater amounts of Council Tax collected that was budgeted for.

3.7 Government Grants in Provisional LGFS

The provisional LGFS included two grant allocations that were not included in the MTFS.

The Lower Tier Services Grant which was introduced in 2021/22 has been continued into 2022/23. The overall national allocation of £111M has been retained, but the distribution method has been changed.

The Council's provisional allocation is £424,000 (2021/22 - £573,000 which was used to cover the forecast deficit caused by the pandemic). As this was introduced last year with no certainty of it being continued, it was not built into the base budget.

A new Services Grant has been introduced to ensure that no Council has a lower cash terms spending power than the current year. From a national distribution of £822M, this Council's provisional allocation is £164,000.

This grant has been confirmed as being for one year only. The total allocation will be subject to a fundamental review of local government financing which is expected to start in early 2022.

When the government announced increases to the employer's national insurance rate earlier in the year, they also committed to support the burden in the public sectors. The additional cost (estimated at £145,000) is built in to the grants above, so it is possible that the additional cost will only truly be met by government in the first year.

3.8 Revenue Support Grant

Revenue Support Grant (RSG) is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the LGFS.

Test Valley Borough Council's RSG was reduced to £nil in 2019/20 and is theoretically negative. As no grant is received from this source, the Council will not benefit from the above inflationary increase in RSG that has been included in the provisional LGFS.

3.9 Inflation

As work has progressed on the preparation of the detailed estimates for 2022/23 it has been necessary to reassess the amount of inflationary pressure on the Council's budget for next year.

Inflation levels have spiked in recent months with CPI at 5.1%, largely caused by well-publicised increases in vehicle fuel, gas and electricity costs. Forecasts published on gov.uk suggest that inflation will peak around April 2022 at close to 6%.

The budget pressures, shown in Annex 4, include additional requirements for increases to utility budgets that could not be contained within the inflation estimate included in the MTFS.

3.10 Investment Income

The income that the Council earns from its investment portfolio is dependent on three key factors; the prevailing base interest rate, the level above or below the base rate that the Council can invest at and the size of the investment portfolio.

The MTFS acknowledged that there were realistic prospects of interest rate rises but did not anticipate any increases in the base rate until Q2 of 2022. The Bank of England has already raised the interest rate to 0.25% and has indicated that, if inflation remains persistently high, that further increases will be considered.

Against this background and having reassessed the expected cash-flow balances over the next year and the performance currently being achieved by the investment portfolio, it has been possible to increase the level of investment income forecast for 2022/23.

To provide some mitigation against the increased estimate, it is recommended that £100,000 of the growth in income be set aside in the Investment Income Equalisation Reserve that was fully depleted when interest rates dropped to 0.1%.

3.11 Savings Options, Income Generation Proposals and Budget Pressures

This report identifies a number of savings options, increased income streams and budget pressures. These have been identified by Heads of Service, budget holders and Service Accountants as the estimates for next year have been progressed.

Annex 2 shows the savings options that have been proposed. The total of these items is £179,000.

Annex 3 follows the same format as Annex 1 and shows income generation proposals with a total annual income of £253,000.

Annex 4 shows the total growth requirement in budgets. The total amount identified is £1.892M which is partly offset by draws from ring-fenced earmarked reserves of £747,000. The net pressure included in Annex 4 is £1.145M.

The most significant budget pressure relates to car parking income which remains significantly below pre-pandemic levels. As explained above, the medium term forecast approved in February 2021 assumed that all COVID budget impacts would revert to normal levels from April 2022. It is apparent that this will not be the case and therefore a pressure of £500,000 has been included for 2022/23. It is recommended that a draw from the budget equalisation reserve of £250,000 is taken to spread the impact of this pressure over two financial years.

3.12 Transfers to and from Reserves

The latest forecast shows changes to the assumptions for the transfers to / draws from earmarked reserves. The effect of these is shown in Annex 1.

Housing Grant Reserves – this represents expenditure to be committed from ring-fenced government grant. The amount of the draw from reserves is equal to a budget pressure for the anticipated costs in 2022/23. This is also the subject of a separate report on this agenda.

Local Development Framework Reserve – a standard base budget is not prepared for the LDF because of the volatility in expenditure levels from one year to another. The Head of Planning Policy & Economic Development has forecast the requirements over the coming two years. The draw from the reserve is again offset by a budget pressure. It is recommended that £200,000 of the one-off additional grants identified in paragraph 3.7 be used to provide funding for future years' requirements.

Similarly, it is recommended that £150,000 be used to provide additional funding for the Council's Asset Management Plan from the grants that are expected to be received for 2022/23 only.

The budget forecast for the current year has shown that income from car parking fees remains significantly below pre-pandemic levels. A budget pressure of £500,000 is included in Annex 1 to reflect this. It is recommended that £250,000 be drawn from the Budget Equalisation Reserve in 2022/23 to spread the impact of the pressure over two financial years. This will allow time for any trends to parking fees to be monitored before a revised forecast for parking income can be prepared for 2023/24.

Where budget savings or pressures are offset by a transfer to, or withdrawal from, earmarked reserves, they are shaded on Annexes 2 and 4 respectively.

3.13 New Homes Bonus

The MTFs included a final legacy payment for year 9 of the scheme (2019/20) but no further payments. Consultation had been undertaken during the year surrounding the future of New Homes Bonus and no formal notification of the outcome of that has yet been released.

The provisional settlement has extended the scheme for a further year and there will now be a year 12 distribution in 2022/23 that will be for one year only, with no legacy payments. The Council's provisional allocation is £1.304M.

This grant will be transferred into the New Homes Bonus reserve, consistent with the approach taken in previous years.

3.14 Localisation of Non-Domestic Rates (NDR)

The Business Rates Retention Scheme was introduced in 2013/14. This scheme incentivises local authorities to deliver growth in NDR by enabling them to retain a share of income collected above a pre-determined baseline level.

The government has already confirmed that the business rates multiplier which is used to calculate each businesses' rates bill will be frozen for 2022/23. The provisional LGFS has also now set out that the tariff the Council is required to pay the government will also be frozen. This is a logical step as there will not be an inflationary uplift in rates collected.

Further work to determine the amount of retained income from business rates is being undertaken and final figures will be included in the February budget report.

Given the uncertainty over the Council's ability to retain its share of accumulated growth into the medium term, a cautious approach to budget setting will be taken.

4 Medium Term Financial Forecast

- 4.1 The Medium Term Financial Forecast has been updated to reflect the above changes and the latest version is shown in Annex 5. The position in respect of 2022/23 is addressed in section 3 above.
- 4.2 The figures for 2023/24 and 2024/25 assume that all savings to close the remaining budget gap for 2022/23 are sustainable and will continue in the medium term.
- 4.3 Current forecasts indicate a deficit of £3.378M in 2023/24. A further £319,000 is then expected to be needed to close the forecast budget gap for 2024/25.

5 External Consultation on the Budget

- 5.1 The Council consulted the Test Valley business community through the Hampshire Chamber of Commerce (to which branches in Andover, Romsey and Stockbridge belong or are affiliated) and the Federation of Small Business which has strong links with Test Valley.
- 5.2 The responses are generally supportive of the approach taken to setting the budget for 2022/23 and recognise the particular difficulties that are currently being faced. There was also commendation of the Council's action in delivering COVID support to businesses.
- 5.3 Looking forward, the responses encourage the Council to focus on areas including; sustainable energy / transport schemes; supporting business opportunities through flexible and affordable work space; and supporting businesses to access the latest digital technology platforms.

6 The Next Steps in the Budget Process

- 6.1 The Budget Panel of the Overview & Scrutiny Committee was scheduled to meet on 10 January 2022. Any recommendations from the panel will be considered by OSCOM on 19 January, whose recommendations will be considered by Cabinet on 23 February when the final budget report will be presented.
- 6.2 The final budget will be considered by Council on 25 February 2022.

7 Risk Management

- 7.1 A risk assessment has been completed in accordance with the Council's Risk management process and has identified some significant (red and amber risks). These are detailed in the Medium Term Financial Strategy report presented to Cabinet on 27 October 2021.

8 Resource Implications

8.1 The resource implications of the 2022/23 budget process and the Medium Term Financial Forecast have been discussed throughout the report.

9 Equality Issues

9.1 This report is for information purposes, so the Council's EQIA process does not need to be applied.

10 Conclusion and reasons for recommendation

10.1 This report provides an update on the budget strategy that was approved by Council in November 2021. It takes into account the latest developments that will affect the budget process and forecasts a budget gap of £62,200 for 2022/23.

10.2 The final budget report will be presented to Cabinet on 23 February 2022.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	5	File Ref:	N/A
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