

Report to Cabinet – 23 February 2022

Revenue Budget and Council Tax Proposals 2022/23

Report of the Finance & Resources Portfolio Holder

Recommended:

1. That the Revised Forecast for 2021/22 as set out in Column 3 of Annex 1 to the report be noted.
2. That the Savings Options, Income Generation Proposals and Revenue Pressures as set out in Annexes 2 – 4 to the report be approved.
3. That subject to recommendation 2 above and taking due regard of the Head of Finance & Revenues' comments in Annex 8 to the report, the budget for 2022/23 as set out in Column 6 of Annex 1 to the report be approved.
4. That subject to recommendations 2 and 3 above, the revenue estimates for each Service contained in Annex 7 to the report be approved.
5. That a draw of £250,000 from the Budget Equalisation Reserve in 2022/23 be approved.
6. That a Council Tax Requirement for 2022/23 of £10,089,081 be approved.
7. That a Special Expenses Levy of £339,854 be made in respect of the area of Andover to cover the cost of providing burial grounds, sports grounds and playgrounds.
8. That a general precept of £7,901,432 be levied for the year 2022/23.
9. That the Medium Term Forecast contained in Annex 6 to the report be noted.
10. That a Band D Council Tax excluding Parishes and Special Expenses of £153.91 in 2022/23 be approved – an increase of £5.00 on 2021/22 levels.

Recommendation to Council

SUMMARY:

- This report presents proposals for the final Revenue Budget and Council Tax for the financial year 2022/23.
- The report takes into account the previous budget information and options for changes in service delivery that were presented to the Cabinet in October 2021 and January 2022.
- The headline financial figures in the report are :-
 - ◆ Band D Council Tax (excluding Parishes and Special Expenses) to be increased by £5.00 to £153.91.
 - ◆ Revenue savings proposals totalling £131,000 – Annex 2

- ◆ Income Generation proposals totalling £253,000 – Annex 3
- ◆ Additional spending pressures on services of £1.457M – Annex 4
- The final recommendations arising from this meeting for the Budget and Council Tax for 2022/23 will be considered by Council on 25th February 2022.

1 Introduction

- 1.1 Cabinet considered the Budget Strategy for 2022/23 in October 2021. The report showed a best, middle and worst case scenario of the budget gap the Council expected to face for 2022/23.
- 1.2 An update of the budget forecast was presented to Cabinet in January 2022 in light of the provisional Local Government Finance Settlement and further work that had been carried out to identify the savings necessary to balance the budget for 2022/23.
- 1.3 This report presents the proposals for the 2022/23 Revenue Budget and Council Tax to be considered at this meeting before a final recommendation is made to Council.

2 Background

- 2.1 This report deals with the overall revenue budget and council tax for the Borough for the 2022/23 financial year. The key issue that needs to be considered is how to set a balanced budget with due regard to:-
 - The estimated cost of providing existing services at their current levels
 - Managing service delivery where external grant funding has reduced considerably
 - Predictions of a low, but slowly increasing level of investment income
 - The level of savings to be taken into account in setting the budget
 - The availability and use of balances to support revenue spending
 - The level of Council Tax to be set for the Borough of Test Valley
 - The impact on budget projections for the medium term, and
 - The ongoing impact of the coronavirus pandemic.
- 2.2 It is impractical to examine every possible permutation of the items set out above. Therefore, this report sets out a specific budget proposal for debate that incorporates all of these items and takes into account discussions that have been held with the Leader and Portfolio Holders.
- 2.3 The following sections provide more detailed information on the final budget proposals that have been put forward. They compare the figures to those presented to Cabinet on 12th January 2022.

3 2021/22 Revised Forecast

Impact of Covid-19

- 3.1 The budget for 2021/22 includes a 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.
- 3.2 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. The revised forecast for 2021/22 shows that this is broadly accurate, with one exception being car parking income which is forecast to remain below the estimate for the year, despite building in a forecast reduction in income of £500,000 as a result of the pandemic.
- 3.3 After the 2021/22 budget was set, the government announced additional Covid-19 related business rates reliefs. To offset the impact of these reliefs that have been given in the Collection Fund, the Government has given local authorities additional S31 grants in the year which are accounted for in the General Fund. The current estimate for the Council is £4.472M. This is accounted for in the General Fund in 2021/22 whilst the resulting share of the deficit in the Collection Fund will not be accounted for in the General Fund until 2022/23. The final figure will be calculated at outturn and the full amount received from S31 grants in relation to the Covid-19 business rates reliefs will be recommended to be transferred to the Collection Fund Equalisation Reserve to offset the deficit in 2022/23.

Service estimates

- 3.4 Detailed work on the revised forecasts for all services has been finalised, and show an estimated £862,000 positive variance, primarily from salary savings and additional income.
- 3.5 No recommendations for the utilisation of any variance will be made until the final outturn position is reported in June 2022.

4 2022/23 Budget Proposals

- 4.1 Annex 1 sets out the proposed budget for 2022/23. The figures shown take into account changes in the detailed estimates arising from the budget process together with the savings options and budget pressures set out in the annexes to this report.
- 4.2 The Net Cost of Services shown in Annex 1 includes some items of expenditure, such as depreciation and capital grants, that do not form part of the Council Tax calculation. These charges can vary significantly and distort the figures shown against each Service. Annex 5 shows the same figures as Annex 1 with these items removed.

- 4.3 Annex 7 sets out a summary of the estimates by main service area. The figures in Annex 7 exclude capital financing charges and are reconciled to the summary shown in Annex 5.

Overall Budget

- 4.4 All of the changes outlined in this report are reflected in the figures shown in Annex 1 which represents the proposed budget before the Cabinet. The Net General Fund Requirement is £9.376M and the Council Tax Requirement is £10.089M.
- 4.5 The budget gap shown in the January budget update was £62,200. Since then, there have been a number of movements, and the gap has now been closed. A summary of the movements is shown in the following table.

| | £'000 |
|--|--------------|
| Budget Gap per January report | 62 |
| Additional pressures (see Annex 4) | 312 |
| Additional income from retained Business Rates Income (see para. 4.6) | (350) |
| Other budget changes (see para. 4.7) | (21) |
| Additional investment income (see para 4.18 – 4.20) | (50) |
| Reduction in Lower Tier Services Grant in final local government finance settlement. (see para 4.17) | 47 |
| Final Budget Position | 0 |

- 4.6 Work has continued during January to calculate the impact of the Business Rates Retention Scheme. The budget for 2021/22 now includes an estimate of additional income from this source totalling £350,000 (see paragraphs 4.27 – 4.35 for further details).
- 4.7 Following the completion of the work on the detailed service estimates, a further £21,000 of savings have been identified.

Council Tax Charge in 2022/23

- 4.8 The Council's Medium Term Financial Strategy aims to keep Council Tax at a comparatively low level, taking into account spending priorities and Central Government funding. This is set in the context of central government's expectations that Councils will apply maximum Council Tax increases to sustain their existing spending power and the fact that at the height of the pandemic, last year's Council Tax increase was kept to £2.50 rather than the full £5.

- 4.9 The current level of Council Tax at £148.91 is still very low - the 27th lowest out of the 181 district councils in England, and the 5th lowest in Hampshire. It is also £43, or 20%, lower than the average Council Tax payable in the rest of England.
- 4.10 The Council has ambitious plans to regenerate both Andover and Romsey town centres. The recommended increase in Council Tax levels will help to maintain income levels and support our delivery of those key infrastructure projects.
- 4.11 Looking towards the medium term, the Council faces a great deal of uncertainty surrounding the future financing arrangements for business rates retention. Annex 6 shows a potential budget gap of some £3.6M for 2023/24 which is mostly attributable to the potential for accumulated growth to be lost in a national re-set. Some reserves are held to partly mitigate this loss of income, but the Council must sustain its controllable income levels to be able to safeguard frontline services in the medium term.
- 4.12 Against this background, it is recommended that the Band D Council Tax charge is increased by £5.00 from £148.91 to £153.91 for the 2022/23 financial year. This is an increase of 3.4%, which is considerably lower than the current CPI inflation level of 5.4%.
- 4.13 The Council approved its Council Tax Support scheme for 2022/23 at its meeting on 26th January 2022. This scheme helps to protect the most vulnerable households from the full effect of the Council Tax charge. The Council continues to offer up to 100% support for pensioner households and those in receipt of certain benefits. Up to 90% support is available for most working-age households.
- 4.14 The Council also expects to administer the £150 payments to households in Council Tax bands A-D which will help to mitigate the increasing costs of living being experienced at the present time. Detailed guidance for that scheme was awaited at the time of publishing this report.
- 4.15 Under delegated authority, the Head of Finance & Revenues sets the Council Tax base for the forthcoming financial year. The Council Tax Resolution is reported directly to Council for consideration with the budget proposals.

Local Government Finance Settlement

- 4.16 Full details of the Provisional Local Government Finance Settlement were given in the Budget Update report to Cabinet on 12th January and are not repeated here.
- 4.17 The Final Local Government Finance Settlement figures were confirmed earlier this month. The final figures have seen a reduction in the Council's allocation of Lower Tier Services Grant of £47,000 from the figure included in the provisional settlement.

Investment Income

- 4.18 The Bank of England Monetary Policy Committee voted to increase the base rate from 0.25% to 0.5% on 3rd February by a vote of 5-4. The other 4 voters had preferred a 0.5% increase and therefore further rises can be expected in the coming months; however, there is no certainty as to when this will be.
- 4.19 This move by the Bank of England has prompted a review of forecast income from cash balances in 2022/23. The Council holds a number of investments where the interest rate is fixed for part of the year, so the full impact of interest rate rises will take time to feed through. An additional £50,000 of investment income has been identified.
- 4.20 This additional income will offset the reduction in the Lower Tier Services Grant shown above.

Project Enterprise

- 4.21 Project Enterprise was established in 2014 to increase the income generated by the Council from its investments and reduce its reliance on the Government's Revenue Support Grant.
- 4.22 Since 2014, the Council has invested in a number of properties that have sought to generate additional revenue income. This additional income has been generated by investing the cash reserves held by the Council in projects that will yield greater returns than the current cash investment portfolio.
- 4.23 The amount of investment in completed projects is currently £28.976M. This excludes investment in development projects which generate a capital receipt and a small ground rent. Net rental income from these completed investments is forecast to be £2.086M in 2022/23. This represents an average return on investment of 7.2%.
- 4.24 In contrast, the Council's cash investment portfolio is forecast to generate an average return of 0.60% in 2022/23. Had the Council not purchased the additional properties and left the investment in cash reserves, this would be expected to generate £173,900 in 2022/23.
- 4.25 Income from Project Enterprise investments is therefore expected to be £1.912M greater than would have been achieved by retaining the balances in cash.
- 4.26 Some of the income generated from the completed investments is used to replenish the Capital Receipts Reserve over the lifetime of the investment. For 2022/23, £462,000 is included within the Transfer to Capital Balances line in Annex 1 for this purpose. The remainder of the income will be used to support Council services.

Business Rates Retention Scheme

- 4.27 The Head of Finance & Revenues has delegated authority (in consultation with the Finance & Resources Portfolio Holder) to approve the annual National Non Domestic Rates returns to Central Government. In so doing, this effectively sets the initial shares of income to be allocated to the main preceptors and the Government from the Collection Fund.
- 4.28 The Government introduced the Business Rates Retention Scheme in 2013. It is a complex scheme with baseline assessments, top ups and tariffs, levy payments and safety nets.
- 4.29 If this was not complicated enough, the Government has introduced a further layer of complexity in awarding S31 grants to offset the impact of policies aimed at protecting small businesses, something that has been exaggerated by the business support schemes introduced in response to the pandemic. This can create apparent surpluses or deficits in both the Collection Fund and General Fund and volatility in yearly cashflows.
- 4.30 This volatility in Collection Fund accounting for business rates is mitigated by transferring surpluses and deficits arising from these timing differences to an earmarked reserve (Collection Fund Equalisation Reserve). As detailed in paragraph 3.3, the Council will receive S31 grants to cover these reliefs which will be transferred into the earmarked reserve to fund the deficit that will need to be repaid in 2022/23.
- 4.31 It is estimated that income due to the Council in each of the next 3 years will be as per the following table:

| | 2022/23 £'000s | 2023/24 £'000s | 2024/25 £'000s |
|--|---------------------------|---------------------------|---------------------------|
| Business rates income | 3,079 | 2,405 | 2,405 |
| Section 31 grants * | 5,347 | 0 | 0 |
| 2021/22 deficit on collection fund | (2,053) | 0 | 0 |
| Draw from Collection Fund Equalisation Reserve | 2,053 | 0 | 0 |
| Provision for levy payable to government | (2,559) | 0 | 0 |
| Renewable energy rates 100% retained | 399 | 399 | 399 |
| Transfer to Collection Fund Equalisation Reserve | (609) | 0 | 0 |

APPENDIX A

| | | | |
|---|--------------|--------------|--------------|
| Total income from business rates retention scheme | 5,657 | 2,804 | 2,804 |
| Less income from business rates retention scheme included in January report | 5,307 | 2,820 | 2,820 |
| Increase / (reduction) in retained income from business rates retention scheme | 350 | (16) | (16) |

* assumes Section 31 grants are rolled up into the baseline business rates income from 2023/24.

- 4.32 The assumption built into the table above is that a full re-set of the business rates financing mechanism is implemented ahead of the 2023/24 financial year. This removes the Council's share of accumulated growth in rates income since 2013 (£2.853M) and instead assumes that the baseline income forecast of £2.405M and local retention of rates from renewable energy schemes (£399,000) only are built into the ongoing base budget.
- 4.33 This reduction in income is built into the Medium Term Forecast. It is extremely vulnerable to both the level of appeals that may occur as a result of the 2017 revaluation exercise and the potential re-set of the Business Rates Retention Scheme which has been delayed until at least 2023/24.
- 4.34 The estimates for 2023/24 and 2024/25 are a reasonable worst case scenario and exclude any growth in income above the baseline settlement figure and any transition or damping arrangements.
- 4.35 The next budget strategy will consider a number of scenarios relating to the potential impacts in 2023/24 and beyond. It is unlikely to have any certainty at that stage, but will include any latest information from central government.

Draws from Reserves

- 4.36 Draws from reserves are expected to be for one-off or specific expenditure.
- 4.37 This report recommends that £250,000 is drawn from the Budget Equalisation Reserve to ameliorate the impact of reductions in car parking income that have been suppressed since the start of the pandemic. No other draws from reserves are budgeted in 2022/23 to close the overall budget gap.

Robustness of Estimates and Adequacy of Revenue Reserves

- 4.38 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Head of Finance & Revenues) to report on the robustness of the budget estimates and adequacy of reserves at the time the Council is deciding the level of Budget Requirement and Council Tax for the forthcoming year. This is shown in full detail in Annex 8.

Andover Special Expenses Levy

- 4.39 The background to the Andover Special Expenses Levy was detailed in the 2020/21 budget report to Cabinet on 12th February 2020. The calculation is reviewed in detail on a triennial basis.
- 4.40 The last recalculation of the Andover Special Expenses Levy was undertaken as part of the budget setting for 2020/21 in February 2020 (see Annex 9 to budget report, Cabinet 12th Feb 2020). An adjustment was made to remove public halls from the calculation as part of the 2021/22 budget setting (see paragraphs 4.34 – 4.38 of the budget report, Cabinet 10th February 2021).
- 4.41 For 2022/23, it is recommended to be reduced by £0.30 per Band D property from £20.12 to £19.82.
- 4.42 The overall income to be generated by the Levy in 2022/23 will be £339,854, which is a small increase on the £333,348 in 2021/22. The reduction in the charge per property can be delivered as a result of the increasing tax base in the Andover area.

5 Medium Term Forecast and Beyond

- 5.1 Annex 6 sets out the Medium Term Forecast for the General Fund budget up to the 2024/25 financial year. The figures shown in Annex 6 are reconciled to the revenue summary shown in Annex 5.
- 5.2 In order to maintain a balanced budget, current forecasts indicate a deficit of £3.615M in 2023/24 increasing by £329,400 to a deficit of £3.944M in 2024/25. This is the level of cumulative savings needed to close the forecast budget gap and assumes a full reset of business rates takes place from April 2023 in which all accumulated growth is lost without damping or other transitional protection.
- 5.3 This forecast does not take into account any draws from the Collection Fund Equalisation Reserve that has been established to ameliorate the impact of a full rates re-set. Options for utilisation of this reserve will be included in the next Budget Strategy (see also para 4.30).
- 5.4 Work to identify options for Councillors to consider meeting these savings targets will flow from the Corporate Challenge process which will commence in the summer. An initial forecast for 2023/24 based on a best, middle and worst case scenario will be presented to Cabinet in October 2022.
- 5.5 Looking further ahead, financial forecasts become less certain, but it is inevitable that, with fewer opportunities to make savings and efficiencies, pressure will increase on the Council to use its reserves to ensure financial stability.
- 5.6 Clearly, other factors will come into play, e.g. a move to 75% retention of Business Rates, uncertainty over interest rates, Government policy and finance changes, but Cabinet is encouraged to keep this longer term uncertainty in mind when recommending a sustainable level of Council Tax for 2022/23 to Council.

6 Corporate Objectives and Priorities

- 6.1 The Budget encompasses all elements of the Council's activities and therefore contributes to all the Council's Corporate Objectives and Priorities.

7 Consultations

- 7.1 Consultation on the Budget has been carried out with the Leader, Deputy Leader, individual Portfolio Holders, Overview & Scrutiny Committee, Local Business groups (as detailed in the report to Cabinet in January 2022) and Heads of Service.

8 Risk Management

- 8.1 A risk assessment has been completed in accordance with the Council's Risk Management Methodology and has identified significant (Red or Amber) risks as detailed in paragraph 2.5 of Annex 8.

9 Equality Issues

- 9.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination or negative impact have been identified, therefore a full EQIA.

10 Conclusion and reasons for recommendation

- 10.1 This report is the culmination of a process that started in the summer of 2021. It shows the savings and additional income that have been identified to enable the Council to propose a balanced budget for 2022/23.
- 10.2 If approved, the recommendations of this report will be considered by Council on 25th February 2022.

Background Papers (Local Government Act 1972 Section 100D)

Final local government finance settlement 2022/23

[Final local government finance settlement: England, 2022 to 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/final-local-government-finance-settlement-england-2022-to-2023)

Confidentiality

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: | 8 | File Ref: | n/a |
| (Portfolio: Finance and Resources) Councillor M Flood | | | |
| Officer: | Jenni Carter | Ext: | 8236 |
| Report to: | Cabinet | Date: | 23 February 2022 |