

2023/24 Budget Update

Report of the Finance and Resources Portfolio Holder

Recommended:

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

SUMMARY:

- This report updates Cabinet on changes to the 2023/24 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, revenue savings and budget pressures.
- It also provides an updated Medium Term Financial Forecast covering 2023/24 to 2025/26.
- In order to achieve a balanced budget, it will be necessary to close the remaining gap of £104,000 before figures are finalised in February 2023.

1 Introduction

- 1.1 The Budget Strategy and financial forecast for 2023/24 were presented to Cabinet on 26 October 2022.
- 1.2 Since that time, work has been carried out to revise the current year estimates, prepare original estimates for 2023/24 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 (LGFS) and how it affects Test Valley.
 - 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 £104,000 in order to achieve a balanced budget for 2023/24.

2 2022/23 Revised Forecasts

- 2.1 Work is progressing well in preparing the revised forecasts for 2022/23. 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 2022/23 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 26 October that summarised the most significant budget variances in the first half of the financial year. The report identified that net expenditure in Services was £408,000 less than forecast and that additional income of £341,000 from cash investments had been generated to the end of September.
- 2.4 Given the rapid increase in interest rates throughout 2022, it is anticipated that the additional income from investment returns will continue to grow when compared to original forecasts. This increase in interest rates is also a significant factor in the budget forecasts for 2023/24.
- 2.5 No recommendations for utilisation of any variance will be made until the final outturn position is reported in spring 2023.

3 2023/24 Budget Forecast

- 3.1 Final decisions on the budget will not be made until February 2023 when the overall budget will be set.
- 3.2 The most significant changes to the budget forecast since the MTFS was approved, including the impact of the provisional Local Government Finance Settlement (LGFS) are explained in the following paragraphs.
- 3.3 Budget Forecast 2023/24

As with the revised forecast figures for 2022/23, the original estimate figures for 2023/24 are being worked on and there may be further changes before the final budget is presented in February.

When the MTFS was presented in October, there was a budget gap of £205,000. The work undertaken on the detailed estimates for 2023/24, combined with figures included in the provisional LGFS and recommended transfers to reserves, have reduced the gap to £104,000. A reconciliation of the movement in this gap is shown in Annex 1.

There are a number of factors that will impact on the completion of the estimates for 2023/24 that still retain a degree of uncertainty. These are discussed in the following paragraphs.

3.4 Local Government Finance Settlement (LGFS)

The provisional LGFS was announced on 19 December 2022 and has provided the headline grant figures that the Council can expect to receive in core funding in 2023/24. A policy statement indicating some of the main assumptions to be used in the settlement had been released the week before.

The figures are based around core spending power (CSP) and a commitment in the government's policy paper to increase CSP by at least 3% on 2022/23 levels, before any decisions are taken locally regarding Council Tax.

The provisional LGFS is for one-year only. However, the principles of the settlement will carry forward into 2024/25 and so it can be assumed that core spending levels will be at least sustained for a further year. Beyond that, there is no certainty regarding ongoing funding levels.

Core spending levels in 2022/23 and provisionally in 2023/24 are shown in the following table.

	2022/23 CSP £'000	Per MTFS	2023/24 CSP £'000	Difference To MTFS £'000
Baseline retained business rates	2,382	2,405	2,470	65
Compensation for under-indexing business rates	243	243	421	178
Council Tax (including rolled up grants)	8,477	8,838	8,838	0
New Homes Bonus	2,105	0	1,200	1,200
Services Grant / Lower Tier Services Grant	541	200	93	(107)
Funding Guarantee Grant	0	0	1,356	1,356
Total Core Spending Power	13,748	11,686	14,378	2,692

The two largest movements are clearly shown as the continuation of the New Homes Bonus (see 3.13 below) and the introduction of the Funding Guarantee Grant (FGG).

The Council has benefited from its previous successes in attracting NHB and from not including annual allocations in the base budget throughout the period that the NHB has operated.

The settlement does make reference to 2024/25 but stops some way short of providing actual funding allocations for that year. However, there does appear to be a commitment to protecting overall core spending power for at least one more year. The updated medium term financial forecast therefore assumes that the provisional allocations for the Services Grant and FGG will be unchanged in 2024/25 before coming out of the forecast in 2025/26.

3.5 Council Tax Increase – Referendum Threshold

The Budget Strategy assumed that the Band D level of Council Tax would increase by £5 from £153.91 to £158.91 for 2023/24. The details in the provisional LGFS set out that a £5 increase for 2023/24 will be allowable and would not trigger a referendum.

When the Cabinet next meets on the 22nd February, the final LGFS 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 23rd February.

Test Valley Borough Council's long-standing ability to sustain Council Tax levels at comparatively low levels means that it is one of only 31 district councils across the country where the £5 cap is still applicable in the context of Council Tax setting.

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 2023/24 has been set
- The Collection Fund outturn for 2021/22 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 2023/24. The final tax base has now been set at 51,968, an increase of 630 on the previous year which generates approximately £23,000 of additional income.

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 2021/22 Collection Fund has been completed and can return a one-off contribution of £167,000 in respect of greater amounts of Council Tax collected than was budgeted for.

3.7 Andover Special Expenses Levy (ASEL)

The ASEL is a charge made by the council in the area of Andover in respect of the management and maintenance of cemeteries, parks and open spaces.

This charge is reviewed on a triennial basis and is scheduled to be recalculated ahead of the 2023/24 financial year. This work is ongoing and will be reported in more detail with the final budget proposals in February 2023.

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. This continues to be the case in the current provisional settlement and therefore no direct RSG will be received by the council.

3.9 Inflation

The MTFS set out that the impacts of the current cost-of-living crisis, in part caused by very high levels of inflation, are the biggest risk to the budget setting process for 2023/24. The MTFS built in more than £1M in additional inflationary pressure compared to that included in the previous strategy.

As detailed work on the estimates has progressed, this estimate has been re-forecast. The latest position is that the inflationary pressure can be reduced by £90,000 from that included in the MTFS.

This will continue to be monitored until the final budget proposals are considered in February.

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.

Interest rates rose eight times in 2022, from an all-time low position of 0.1% to 3.5% at the end of the year – the highest it has been since 2008. Interest rates have continued to rise consistently as the Bank of England attempts to counter the impacts of persistently high inflation.

No further update on potential investment income is included in this report as the main assumptions included in the MTFS remain unchanged. A full review of estimated cashflows and interest rate forecasts will be undertaken before the final budget report is presented in February.

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. New items brought forward in this report are shown separately from those already considered in the MTFs.

Annex 2 shows income generation proposals with a total annual income of £623,000 have been added since the MTFs was approved. The most significant of these relate to income from commercial property. Included in this total is £172,000 from the Chantry Centre. This represents a higher net income level than forecast when the centre was purchased in 2019. The additional income is recommended to be transferred to a reserve for future use on the centre or to cover periods where income falls below expected levels.

Annex 3 follows the same format as Annex 2 and shows the savings options that have been proposed. The total of these items is £124,000.

Annex 4 shows the total growth requirement in budgets. The total amount of new pressures identified in this report is £849,000.

The most significant budget pressures relate to:

- A one-off cost for running the borough elections in 2023. A transfer has been made to earmarked reserves in the past three years; however, with changes to legislation and increased running costs, it is forecast that a one-off pressure of £158,000 will be required. The annual transfer to earmarked reserves will be increased in future years to help meet the cost of the next borough election in 2027.
- It is estimated that the cost of business rates that the council is liable for will increase by £108,000 following the national revaluation of all business rates properties that will take effect from April 2023.
- A reduction in planning income fees of £100,000 is forecast. This reflects actual income levels in recent years and expectations of ongoing fee income throughout 2023/24.

3.12 Transfers to and from reserves

The updated forecast reconciliation, shown in Annex 1, includes changes to the assumptions for the transfers to / draws from earmarked reserves.

The income generation proposal in respect of sale of recycled glass is only expected to be sustained for the next two years. Rather than build this into the base budget and create a pressure in 2025/26, it is recommended that the additional income be transferred to the Environment Act Reserve – a reserve created in 2021/22 to help meet the, as yet uncertain, costs of implementing the required changes arising from the Environment Act 2021.

A number of costs related to the regeneration programmes in Andover and Romsey have been identified and are recommended to be included in the budget. These costs will be met from the Regeneration Reserve which was established to meet this type of cost.

Alongside these transfers to / from reserve, the council funds a number of revenue streams from earmarked reserves. These include works to progress the Local Plan and projects related to housing / homelessness which are funded from government grants. These will continue to be needed in 2023/24 and details will be included in the final budget report.

The Asset Management Plan (AMP) update report to Cabinet on 7 December identified that the balance on the AMP reserve is forecast to reduce to £595,000 by 31 March 2024, from a balance of £3.07M on 31 March 2022. The AMP is largely financed by contributions from revenue although certain projects, such as the playground refurbishment programme, are funded from the New Homes Bonus Reserve.

Similarly, the Capital Programme update on the same agenda forecast that the balance on the Capital Receipts Reserve by 31 March 2025 would fall to £2.37M. A sustainable capital programme can be financed through contributions from revenue; external contributions (e.g. s106) or asset sales.

The budget update has built in an additional £500,000 transfer to the above two reserves for each of the next two financial years to reduce the impact of the forecast reductions in reserve balances.

No draws from budget equalisation reserves are planned in the budget setting for 2023/24.

3.13 New Homes Bonus (NHB)

The MTFs assumed that the NHB would cease in 2022/23 and that no further payments would be received.

The provisional settlement has extended the scheme for a further year and there will now be a distribution in 2023/24. The Council's provisional allocation is £1.2M.

This grant will be transferred into the New Homes Bonus reserve, consistent with the approach taken in previous years, and therefore does not impact the overall budget gap.

There will be further consultation on the future of the NHB in the coming year. The principle set out in the provisional LGFS is that each Council's core spending will not be reduced in 2024/25. It is now assumed that either NHB or another similar grant will continue into that year. Therefore, a further year's NHB allocation of £1.2M has been assumed for that year too.

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 provisional settlement sets out that there will be no major overhaul of business rates baselines or accounting until at least the 2025/26 financial year. The potential pressure arising from a reset of the rating system is the biggest risk to the Council's medium term budgeting and so this certainty will help planning ahead for the 2024/25 budget cycle.

The detailed estimates for retained growth and Collection Fund forecasts for 2023/24 will be completed in late January to coincide with statutory returns to central government. The increases in CSP related to business rates, shown in para 3.4, are not yet built into the budget forecast. It is anticipated that any budgetary impacts arising from this exercise will be managed through the Collection Fund Equalisation Reserve so as not to impact the overall budget gap.

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 2023/24 is addressed in section 3 above.
- 4.2 Current forecasts indicate a deficit of £784,000 in 2024/25, though this will reduce to £680,000 if the savings to close the remaining gap for 2023/24 are sustainable over more than one year. A further £1.543M is then expected to be needed to close the forecast budget gap for 2025/26.

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 One response was received which supported the Council's "cautious and sensible" approach to ensuring financial sustainability. The respondent recommended that the Council continue to look at areas such as; support for local communities in respect of cost-of-living; sustainable options including transport; and skills & training development.

6 The Next Steps in the Budget Process

- 6.1 The Budget Panel of the Overview & Scrutiny Committee was scheduled to meet on 17 January 2023. Any recommendations from the panel will be considered by OSCOM on 23 January, whose recommendations will be considered by Cabinet on 22 February when the final budget report will be presented.

6.2 The final budget will be considered by Council on 23 February 2023.

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 26 October 2022.

8 Resource Implications

8.1 The resource implications of the 2023/24 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 2022. It takes into account the latest developments that will affect the budget process and forecasts a budget gap of £104,000 for 2023/24.

10.2 The final budget report will be presented to Cabinet on 22 February 2023.

Background Papers (Local Government Act 1972 Section 100D)

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:	5	File Ref:	N/A
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Report to:	Cabinet	Date:	18 January 2023