

**Report to Cabinet – 22 February 2023**

**Revenue Budget and Council Tax Proposals 2023/24**

Report of the Finance and Resources Portfolio Holder

**Recommended:**

1. That the Forecast for 2022/23, as set out in Column 3 of Annex 1 to the report, be noted.
2. That the Income Generation Proposals, Savings Options and Revenue Pressures, as set out in Annexes 2 – 4 of the report, be approved.
3. That the transfers to or from reserves, as detailed in paragraph 4.35 in the report, be approved.
4. That subject to recommendations 2 and 3 above and taking due regard of the Head of Finance and Revenues' comments in Annex 8 to the report, the budget for 2023/24, as set out in Column 6 of Annex 1 to the report, be approved.
5. That subject to recommendations 2, 3 and 4 above, the revenue estimates for each Service, contained in Annex 7 to the report, be approved.
6. That a Council Tax Requirement for 2023/24 of £10,585,319 be approved.
7. That a Special Expenses Levy of £343,667 be made in respect of the area of Andover to cover the cost of providing burial grounds, sports grounds and playgrounds, as set out in Annex 9, to the report.
8. That a general precept of £8,258,235 be levied for the year 2023/24.
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 £158.91 in 2023/24 be approved.

**Recommendation to Council**

**SUMMARY:**

- This report presents proposals for the final Revenue Budget and Council Tax for the financial year 2023/24.
- The report takes into account the previous budget information and options for changes in service delivery that were presented to the Cabinet in October 2022 and January 2023.
- The headline financial figures in the report are :-
  - ◆ Band D Council Tax (excluding Parishes and Special Expenses) to be increased by £5.00 to £158.91.

- ◆ Income generation proposals totalling £1.758M – Annex 2.
- ◆ Revenue savings proposals totalling £267,000 – Annex 3.
- ◆ Additional spending pressures on services of £1.088M – Annex 4.
- The final recommendations arising from this meeting for the Budget and Council Tax for 2023/24 will be considered by Council on 23 February 2023.

## **1 Introduction**

- 1.1 Cabinet considered the Budget Strategy for 2023/24 in October 2022. The report showed a best, middle and worst case scenario of the budget gap the Council expected to face for 2023/24.
- 1.2 An update of the budget forecast was presented to Cabinet in January 2023 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 2023/24.
- 1.3 This report presents the proposals for the 2023/24 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 2023/24 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
  - Very high levels of inflation
  - 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.
- 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 18 January 2023.

## **3 2022/23 Revised Forecast**

### Service estimates

- 3.1 Detailed work on the revised forecasts for all services has been finalised, and show an estimated £1.633M positive variance, primarily from salary savings and additional investment income.

3.2 This report does not make any recommendations about the possible utilisation of budget variances expected to arise in the current financial year.

**4 2023/24 Budget Proposals**

4.1 Annex 1 sets out the proposed budget for 2023/24. 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 £15.285M and the Council Tax Requirement is £10.585M.

4.5 The budget gap shown in the January budget update was £104,000. 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.

|  | <b>£'000</b> |
|--|--------------|
| <b>Budget Gap per January report</b>   | <b>104</b>   |
| Additional income (see Annex 2)  | (66)         |
| Additional savings (see Annex 3)   | (143)        |
| Additional pressures (see Annex 4)   | 107          |
| Additional investment income (see para 4.16 – 4.18)  | (487)        |
| Transfer to capital receipts reserve (see paras 4.18 and 4.35)   | 487          |
| Net additional income from retained Business Rates Income after transfers to / from Collection Fund Reserve (see para 4.25 - 4.34) | (2)          |
| <b>Final Budget Position – Balanced Budget</b>   | <b>0</b>     |

**Council Tax Charge in 2023/24**

- 4.6 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 core spending power calculations which include Council Tax and an expectation that Councils will apply Council Tax increases to sustain their existing spending power.
- 4.7 The current level of Council Tax at £153.91 is still very low when compared to district council tax levels across the country. The Council's ability to sustain this low level means that it is one of only 31 district councils across the country where a £5 increase will be allowable and not trigger a referendum. In 2022/23 the average charge was 27<sup>th</sup> lowest out of 181 district councils in England and £42 (20%) lower than the average charge.
- 4.8 The Council has ambitious plans to regenerate both Andover and Romsey town centres. With interest rates rising rapidly over the past year, the cost of borrowing is more expensive, and there is a need for the Council to build capacity to ensure that the regeneration plans can be delivered. The recommended increase in Council Tax levels will help to maintain income levels and support our delivery of those key infrastructure projects.
- 4.9 Looking towards the medium term, the Council faces a number of risks. The Local Government Finance Settlement is for one year only with a set of principles outlining no cuts to core spending power in 2024/25. There is the potential to lose accumulated growth from the business rates retention scheme in a national re-set, and the impact of inflation on expenditure remains a risk. Annex 6 shows a potential budget gap of some £1.8M for 2025/26 which takes each of these risks into account. 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.
- 4.10 Against this background, it is recommended that the Band D Council Tax charge is increased by £5.00 from £153.91 to £158.91 for the 2023/24 financial year. This is an increase of 3.25%, which is considerably lower than the current CPI inflation level of 10.5%.
- 4.11 The Council approved its Council Tax Support scheme for 2022/23 at its meeting on 18 January 2023. 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.
- 4.12 In addition, the Council has established a £100,000 cost-of-living grants scheme to support local organisations who are helping our most vulnerable households. The Council will also be implementing the new Council Tax Support relief scheme which will provide a £25 reduction in Council Tax for all households in receipt of Council Tax Support in 2023/24.

- 4.13 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**

- 4.14 Full details of the Provisional Local Government Finance Settlement were given in the Budget Update report to Cabinet on 12 January and are not repeated here.
- 4.15 The Final Local Government Finance Settlement figures were confirmed earlier this month. There were some very minor changes to individual grant amounts but the overall settlement funding remains unchanged.

### **Investment Income**

- 4.16 The Bank of England Monetary Policy Committee voted to increase the base rate from 3.5% to 4% on 2<sup>nd</sup> February. Current forecasts are that further rises to 4.5 % can be expected during 2023/24 before rates start to reduce.
- 4.17 This, along with a detailed review of the council's forecast cashflow following changes to the capital programme for 2023/24, has yielded an additional £487,000 of investment income.
- 4.18 This additional income is recommended to be transferred to the Capital Receipts Reserve to support future capital works.

### **Project Enterprise**

- 4.19 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.
- 4.20 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.
- 4.21 The amount of investment in completed projects is currently £31.174M. This excludes investment in development projects which are yet to be completed. Net rental income from these completed investments is forecast to be £2.430M in 2023/24. This represents an average return on investment of 7.8%.
- 4.22 In contrast, the Council's cash investment portfolio is forecast to generate an average return of 3.60% in 2023/24. Had the Council not purchased the additional properties and left the investment in cash reserves, this would be expected to generate £1.122M in 2023/24.
- 4.23 Income from Project Enterprise investments is therefore expected to be £1.308M greater than would have been achieved by retaining the balances in cash. This differential is smaller than in previous years due to the increases in interest rates in 2022/23.

- 4.24 Some of the income generated from the completed investments is used to replenish the Capital Receipts Reserve over the lifetime of the investment. For 2023/24, £473,000 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**

- 4.25 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.
- 4.26 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.
- 4.27 If this was not complicated enough, the Government has introduced a further layer of complexity in awarding grants to offset the impact of policies aimed at protecting small businesses, something that has been exaggerated by the business support schemes, such as the Retail, Hospitality & Leisure discount, 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.
- 4.28 There is a national business rates revaluation that takes effect from 1<sup>st</sup> April 2023 which has led to changes in the estimates for the income that the Council can expect to receive for 2023/24. There are assumptions built in for transitional payment protection and levels of reliefs and it won't be known how accurate these assumptions are until the outturn for business rates is calculated in May 2024.
- 4.29 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). An example of the reasons to maintain a reserve to protect against rates income volatility arose in late 2022 when a number of supermarkets were successful in appealing their rateable values going back over a six-year period. The repayment required to pay back overpaid rates amounted to more than £3.5M.
- 4.30 The Collection Fund Equalisation Reserve therefore serves two purposes:
- To mitigate against volatility in income during the lifecycle of the current rating list, to allow for successful appeals by ratepayers and / or timing differences in cashflows caused by, for example, new reliefs
  - To build capacity against a potential loss of all retained income when a re-set of the business rates accounting arrangements takes place. This will enable any losses to be tapered in over several years, reducing the need for major budgetary overhaul in one financial year.

## ANNEX D

- 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:

|   | <b>2023/24<br/>£'000s</b> | <b>2024/25<br/>£'000s</b> | <b>2025/26<br/>£'000s</b> |
|---|---------------------------|---------------------------|---------------------------|
| Business rates income   | 4,524                     | 5,189                     | 3,471                     |
| Section 31 grants   | 5,873                     | 2,062                     | 0                         |
| 2022/23 surplus on collection fund  | 1,992                     | 0                         | 0                         |
| Provision for levy payable to government                                    | (3,120)                   | (2,080)                   | 0                         |
| Renewable energy rates 100% retained  | 505                       | 505                       | 505                       |
| <b>Total income from business rates retention scheme</b>                    | <b>9,774</b>              | <b>5,676</b>              | <b>3,976</b>              |
| Less income from business rates retention scheme included in January report | 5,504                     | 5,504                     | 3,804                     |
| <b>Increase in retained income from business rates retention scheme</b>     | <b>4,270</b>              | <b>172</b>                | <b>172</b>                |

- 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 2025/26 financial year. This removes the Council's share of accumulated growth in rates income since 2013 (£2.718M) and instead assumes that the baseline income forecast of £2.470M plus £1.0M in transitional or damping support and local retention of rates from renewable energy schemes (£505,000) only are built into the ongoing base budget.
- 4.33 This 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 2023 revaluation exercise and the potential re-set of the Business Rates Retention Scheme which has been delayed until at least 2025/26.
- 4.34 The next budget strategy will consider a number of scenarios relating to the potential impacts in 2024/25 and beyond. It is unlikely to have any certainty at that stage, but will include any latest information from central government. The Head of Finance & Revenues keeps the level of this reserve under regular review. Ultimately, if the impact of a rates re-set is more favourable than forecast, the balance on the Collection Fund Equalisation Reserve will be able to be deployed to other Council areas; however, it is not recommended that the balance is re-allocated at this time.

**Transfers to / from Reserves**

- 4.35 The following table details the recommended transfers to or from reserves. Draws from reserves are expected to be for one-off or specific expenditure.

| <b>Reserve</b>  | <b>Transfer to / (from)<br/>£'000s</b> |
|---|--|
| Investment equalisation reserve                             | 300                                    |
| Pension equalisation reserve                                | 245                                    |
| Leisure contract equalisation reserve                       | 350                                    |
| Environment Act reserve                                     | 82                                     |
| Regeneration reserve (net of £500,000 to and £136,000 from) | 364                                    |
| Chantry Centre planned maintenance reserve                  | 172                                    |
| Borough elections reserve                                   | (105)                                  |
| Housing reserves  | (102)                                  |
| Local Development Fund reserve                              | (262)                                  |
| New Homes Bonus reserve (net of £1.2M to and £176,000 from) | 1,024                                  |
| Collection Fund equalisation reserve                        | 4,268                                  |
| Other earmarked reserves*                                   | (130)                                  |
| <b>Total transfers to earmarked reserves</b>                | <b>6,206</b>                           |
| <b>Transfer to Asset Management Plan reserve</b>            | <b>2,000</b>                           |
| <b>Transfer to Capital Receipts reserve</b>                 | <b>2,270</b>                           |

\* includes small draws from reserves including the apprenticeship reserve, capacity building reserve and budget carry forward reserve.

**Robustness of Estimates and Adequacy of Revenue Reserves**

- 4.36 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**

- 4.37 The detailed triennial calculation for the Andover Special Expenses Levy is set out in Annex 9.
- 4.38 For 2023/24, it is recommended to be reduced by £0.12 per Band D property from £19.82 to £19.70.
- 4.39 The overall income to be generated by the Levy in 2023/24 will be £343,667, which is a small increase on the £339,854 in 2022/23.
- 4.40 The reason that the charge has gone down whilst the overall cost has gone up is due to an increase in the tax base in the special expenses levy 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 2025/26 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 £400,600 in 2024/25 increasing by £1.443M to a deficit of £1.844M in 2025/26. 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 2025 in which all accumulated growth is lost but includes an assumption of £1M damping or other transitional protection.
- 5.3 This forecast also assumes a draw from the Collection Fund Equalisation Reserve that has been established to ameliorate the impact of a full rates re-set in 2025/26 of £1.5M.
- 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 2024/25 based on a best, middle and worst case scenario will be presented to Cabinet in October 2023.
- 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 The next update to the MTFs in October 2023 will also take account of the objectives and projects identified in the new Corporate Plan for 2023-27 and the updated Corporate Action Plan.
- 5.7 Clearly, other factors will come into play, e.g. a potential move to 75% retention of Business Rates, uncertainty over how long interest rates will remain high, inflation, 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 2023/24 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 2023) 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 2.6 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 Impact of a changing climate**

- 10.1 The Council has recently been successful in securing government funding towards the installation of energy efficiency measures at the Bourne House depot in the south of the borough, through the Public Sector Decarbonisation Scheme.
- 10.2 This has required a matched contribution of over £200,000 from our own revenue reserves and demonstrates the commitment being made to reduce the environmental impact the Council has in delivering its services.
- 10.3 Delivering on the objectives of our Climate Emergency Action Plan will continue to be a priority in the coming financial year and into the medium term.

### **11 Conclusion and reasons for recommendation**

- 11.1 This report is the culmination of a process that started in the summer of 2022. It shows the savings and additional income that have been identified to enable the Council to propose a balanced budget for 2023/24.
- 11.2 If approved, the recommendations of this report will be considered by Council on 24 February 2023.

## ANNEX D

Background Papers (Local Government Act 1972 Section 100D)

[Final local government finance settlement: England, 2023 to 2024 - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

### 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:

9

File Ref:

N/A

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Report to:

Cabinet

Date:

22 February 2023