

2024/25 Budget Update

Report of the Finance and Resources Portfolio Holder

Recommended:

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

SUMMARY:

- This report sets out changes to the 2024/25 budget forecast since the Medium Term Financial Strategy was approved in October. This includes updates on; the provisional Local Government Finance Settlement, revenue savings and budget pressures and a reconciliation showing how the budget gap has been closed.
- It also provides an updated Medium Term Financial Forecast covering 2024/25 to 2026/27.

1 Introduction

- 1.1 The Budget Strategy and financial forecast for 2024/25 were presented to Cabinet on 4 October 2023.
- 1.2 Since that time, work has been carried out to revise the current year estimates, prepare original estimates for 2024/25 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.
 - 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 is in a position to set a balanced budget for 2024/25.

2 2023/24 Revised Forecasts

- 2.1 Work is progressing well in preparing the revised forecasts for 2023/24. A more detailed update of the current year's estimates will be included with the final budget recommendations in February.

- 2.2 The original budget for 2023/24 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 An in-depth review of the current year's budgetary position is set out in the Corporate Financial Monitoring report elsewhere on this agenda.
- 2.4 At its meeting on 20 December 2023, Cabinet recommended that the investment income budget for the year be increased by £1M and that this sum be transferred to the Capital Receipts Reserve in respect of costs associated with the cultural hub development. That recommendation was subsequently approved by Council on 17 January 2024.
- 2.5 No further recommendations for utilisation of any variance will be made until the final outturn position is reported. This is expected to be at the 29 May Cabinet meeting.

3 2024/25 Budget Forecast

- 3.1 Final decisions on the budget will not be made until February 2024 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.

Budget Forecast 2024/25

- 3.3 As with the revised forecast figures for 2023/24, the original estimate figures for 2024/25 are being finalised. Final reconciliations are taking place; however, it is not expected that there will be any further significant variances from the figures set out in this report.
- 3.4 When the MTFS was presented in October, there was a budget gap of £450,000. The work undertaken on the detailed estimates for 2024/25, combined with figures included in the provisional LGFS have enabled the complete closure of the budget gap. A reconciliation of the movement in this gap is shown below.

	Movement in budget gap £'000
Budget gap per MTFS	450
Changes to funding of staff re: Disabled Facilities Grants	(23)
Change to Council Tax base assumption	67
Budget Savings / Additional Income	(641)
Budget Pressures	342

	Movement in budget gap £'000
Net increase in government grants as part of provisional settlement	(116)
Reduced contingency provision	(79)
Budget Gap remaining	0

- 3.5 The changes to staffing re DFG has already been approved by Cabinet and the updated figures built into the budget forecasts.

Council Tax Base

- 3.6 The MTFs allowed for an increase of 500 band D equivalent properties for Council Tax purposes in 2024/25. This was based on experience of actual increases in prior years.
- 3.7 The 2024/25 tax base was set on 22nd December at 52,059. This is an increase of just 91 from 2023/24 and creates a budget pressure of £67,000 (being the deficit of 409 multiplied by the forecast precept of £163.91).

Savings and Pressures

- 3.8 The detailed budget process has identified several new savings and additional income items, which have been partly offset by new budget pressures. Annexes 1 and 2 show the detail of each item.
- 3.9 Overall, additional savings / income of £641,000 have been identified along with £342,000 of new budget pressures.
- 3.10 The areas where the most significant amounts of additional income have been identified are in commercial property rents (£314,000) and planning application fee income (£100,000).
- 3.11 The largest pressures relate to forecast reductions in the net income recovered from Housing Benefit overpayments; increases to external audit fees; and cleaning and maintenance of public conveniences (including the running costs of the new Changing Places toilets).

Contingency provision

- 3.12 The budget for 2023/24 included a £94,000 provision for increased fuel costs linked to HVO. That provision has not been required in the current year and could be reduced substantially for 2024/25. This doesn't in any way reduce the commitment to continuing to use HVO as an alternate fuel to diesel. Should there be any need for additional budget during 2024/25, any additional costs will be met from the remaining contingency provision or, if necessary, the Budget Equalisation Reserve.

Local Government Finance Settlement (LGFS)

- 3.13 The provisional LGFS was announced on 18 December 2023 and has provided the headline grant figures that the Council can expect to receive in core funding in 2024/25. This is a one-year only settlement, with no guarantees or commitment to any funding beyond 2024/25.
- 3.14 The figures are based around core spending power (CSP) and a commitment in the government's 2023 policy paper to increase CSP by at least 3% on 2023/24 levels, before any decisions are taken locally regarding Council Tax. Overall, this council's CSP has increased by 4.8% compared with 2023/24.
- 3.15 The 2024/25 CSP figures are shown below and compared with the 2023/24 figures and the forecasts that were included in the MTFs.

	2023/24 CSP £'000	2024/25 Per MTFS	2024/25 CSP £'000	Difference To MTFs £'000
Baseline retained business rates	2,470	2,470	2,586	116
Compensation for under-indexing business rates	421	421	491	70
Council Tax (including rolled up grants)	8,838	9,180	9,246	66
New Homes Bonus	1,200	1,200	230	(970)
Services Grant / Lower Tier Services Grant	93	93	15	(78)
Funding Guarantee Grant	1,356	1,356	2,504	1,148
Total Core Spending Power	14,378	14,720	15,072	352

- 3.16 Figures in respect of the top three rows, related to Council Tax and Business Rates will be superseded with our own calculations and have therefore already been built into the estimates for next year, with the exception of an additional £16,000 in grants related to compensation for discretionary Council Tax discounts.
- 3.17 The biggest differences relate to the split of the final three grants. Overall, the total amount included in the settlement was £100,000 more than forecast; however, there were some very significant movements between their expected and actual distribution.

- 3.18 The New Homes Bonus (NHB) allocation has dropped significantly, with the shortfall being offset by a larger increase in the Funding Guarantee Grant, the latter introduced in 2023/24 to meet the government's pledge that all Councils would receive a minimum 3% increase in CSP. This drop in NHB is also reflected in the lower-than-forecast increase in the tax base for 2024/25 (see para 3.7)
- 3.19 The Council has benefitted from the long-standing decision not to include the NHB in the base budget each year, instead transferring the sum received into an earmarked reserve. Both the Services Grant and Funding Guarantee Grant have been used as part of the base budget in setting a balanced budget.
- 3.20 If this principle were to be followed again, the budget gap would be closed and a large surplus identified. However, there is a significant lack of certainty regarding the Funding Guarantee Grant's longevity and the risk of placing reliance on this as a funding source is considered too great to take forward.
- 3.21 Instead, it is recommended that the amount of grant included in the MTFs for NHB continues to be transferred to that reserve, preventing an over-reliance on the (potentially short-lived) Funding Guarantee Grant.

Revenue Support Grant

- 3.22 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.
- 3.23 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.

Council Tax Increase – Referendum Threshold

- 3.24 The Budget Strategy assumed that the Band D level of Council Tax would increase by £5 from £158.91 to £163.91 for 2024/25. The details in the provisional LGFS set out that a £5 increase for 2024/25 will be allowable and would not trigger a referendum.
- 3.25 When the Cabinet next meets on the 28th 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 29th February.
- 3.26 Test Valley Borough Council's long-standing ability to sustain Council Tax levels at comparatively low levels means that it is one of only 28 district councils across the country where the £5 cap is still applicable in the context of Council Tax setting. In all other Councils, the 3% maximum increase exceeds the £5 threshold.
- 3.27 As in previous years, no Council Tax referendum principles will be applied to parish and town councils.

Inflation

- 3.28 The MTFS increased the forecast inflation estimate for 2024/25 due to ongoing, persistently high rates of CPI.
- 3.29 Inflation has started to reduce and the figures announced in December were down to 3.9%. Although the rate is dropping, this has not had a significant impact on budget forecasts for 2024/25 and therefore the inflation allowance remains unchanged at the level included in the MTFS.

Investment Income

- 3.30 Members will be aware of the rapid increase in the amount of income generated from cash balances over the last two years, following more than a decade of record-low interest rates. This has been reported throughout the year in the Corporate Financial Monitoring reports, with a £1M surplus being allocated to regeneration programme funding in the current year.
- 3.31 The MTFS takes into account this increase in income but also recognises the risks of becoming over-reliant on it as a way to balance the budget.
- 3.32 The MTFS set out that any income above the 2023/24 base level of £2.55M would be transferred to reserves (at the time, this was a forecast transfer of £1.2M, split between regeneration; local plan delivery; and Environment Act).
- 3.33 The forecast has not been fully revised at this time as any change will not affect the budget gap. A full re-forecast of the estimated investment income, and recommendations for how any surplus should be distributed, will be included in the final budget report.

Transfers to and from reserves

- 3.34 A core part of the budget setting process is reviewing the levels of reserves held by the Council and the contributions to / from those reserves in setting a balanced budget.
- 3.35 A summary of the forecast transfers to revenue reserves of £3.312M (shown in the 2024/25 column of Annex 3) is set out in the following table.

Reserve	£'000
New Homes Bonus *	1,046
Regeneration	850
Environment Act	584
Local Development Framework	455
Leisure Contract Equalisation	318
Borough Elections Equalisation	75

Reserve	£'000
Other net draws from reserves	(16)
Total	3,312

* the figure shown above is a transfer into the reserve of £1.2M less £154,000 committed to meet ongoing grant schemes.

- 3.36 The Head of Finance and Revenues is required to report on the adequacy of reserves at the time the Council considers its budget requirement. A more detailed analysis of the reserves position will, therefore, be presented to the February Cabinet meeting, where the final budget proposals will be considered.
- 3.37 The Budget Panel of OSCOM has considered revenue reserve levels as part of its deliberations on the budget process.
- 3.38 No draws from equalisation reserves are planned in the budget setting for 2024/25.

Localisation of Non-Domestic Rates (NDR)

- 3.39 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.
- 3.40 The assumption in the MTFS was that there will be no major overhaul of business rates baselines or accounting until at least the 2026/27 financial year. No information was included in the provisional settlement regarding any potential re-set of business rates baseline levels and therefore this assumption remains unchanged.
- 3.41 The potential pressure arising from a reset of the rating system is the biggest risk to the Council's medium term forecast and is the main reason for the large increase in forecast budget gap arising in 2026/27.
- 3.42 The detailed estimates for business rates income and retained growth forecasts for 2024/25 are being finalised. 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 position.

Wider budget setting context

- 3.43 There has been a great deal of publicity in recent months concerning the financial stability of the local government sector. Eight councils have resorted to issuing s114 notices (an effective declaration of bankruptcy) since late 2020 with many more publicly reporting budget deficits that will be very difficult, if not impossible, to close without major knock-on impacts on the quality of service they provide.

- 3.44 Against this backdrop, being able to reveal a balanced budget at this stage of the process is a huge boost to reassuring our residents and local businesses of our own financial stability.
- 3.45 This stability has not come at the expense of large historic Council Tax increases (our charge is the 27 lowest out of 164 districts in 2023/24), but instead as a result of prudent investment through our Project Enterprise programme and sound financial management practices.
- 3.46 Not only have we delivered certainty about the budget for the coming year, but also the capacity to set aside funds for key corporate projects, such as the regeneration programme, to ensure that they are delivered, affordably, in the coming years.

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 3. The position in respect of 2024/25 is addressed in section 3 of the report.
- 4.2 Current forecasts indicate a deficit of £394,000 in 2025/26. A further £1.928M is then expected to be needed to close the forecast budget gap for 2026/27.

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), Federation of Small Business which has strong links with Test Valley, Stockbridge Business Association as well as the members of the Manufactured in Andover group and to the Test Valley Business Distribution List.
- 5.2 Two response were received; one from the Hampshire Chamber of Commerce and one from an individual business owner.
- 5.3 The feedback was generally supportive of the approach taken by the Council and it encouraged the continuing support to businesses and the importance of maintaining and developing relationships with the business community – both in terms of Council events, briefings & support, and in looking for opportunities to manage costs or increase income.
- 5.4 Other comments included a desire to see the Council support businesses to introduce alternative, sustainable forms of power and the need for the Council to continue to focus on seeking efficiencies in areas such as headcount and income generation.

6 The Next Steps in the Budget Process

- 6.1 The Budget Panel of the Overview & Scrutiny Committee met on 11 January 2024 and were supportive of the work undertaken to close the budget gap. The panel will feedback to OSCOM on 7 February, whose recommendations, if any, will be considered by Cabinet on 28 February when the final budget report will be presented.

6.2 The final budget will be considered by Council on 29 February 2024.

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 have previously been considered in the Medium Term Financial Strategy report presented to Cabinet on 4 October 2023.

7.2 There have been no material changes to the risks identified in that report.

8 Resource Implications

8.1 The resource implications of the 2024/25 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 October 2023.

10.2 It takes into account the latest developments that will affect the budget process and has set out how a balanced budget for 2024/25 is expected to be presented.

10.3 The final budget report will be presented to Cabinet on 28 February 2024.

<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:	3	File Ref:	N/A
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