

Budget setting process 2023/24

Oversight & Scrutiny Committee (OSC)

8 November 2022

Key themes for the presentation

- Overview of the budget setting process for 2023/24
- Update on national and local funding position for Government
- Update - Medium Term Financial Strategy ('MTFS')
- Outline Council process for Council Tax setting in February 2023
- Discuss the consultation process for the Budget 2023/24

Terms of Reference for OSC

- To review and scrutinise the executive's decisions, including prior scrutiny of proposed executive decisions and decisions made by committees and officers.
- To contribute to the development of the Budget and other financial strategies, and review the performance of the executive against the Budget and other financial targets.

District budget context (2022/23 Base)

- General Fund Gross Annual Revenue Spend £104.5 million
- General Fund Gross Annual Income £91 million
- Council tax requirement – £13.5m
- Band D Council Tax - £279.09 (excluding Parish precepts)
- Number of Council Tax Bills sent out – 53,358 (97% collected)
- Number Business Rates Bills sent out – 3,987 (98% collected)

District budget context cont'd

- HRA (Housing Revenue Account):
 - Gross Annual Revenue Spend - £13.1 million (before contribution to capital)
Gross Annual Income - £17.3 million
- Capital Programme to 2026/27: £148 million (prudential borrowing)
- Budget lines circa 4,000-5,000

General Fund Revenue Budget requirement

There are 4 core funding streams for this :

- Council Tax – decided by Council but limited by central government
 - Referendum limit: 1.99% or £5 (whichever greater)
- Business Rates (after Government and County shares)
- Government Grant (e.g. S31 Grant but no Revenue Support Grant and no New Homes Bonus from 2023/24)
- Other income (e.g. fees and charges, investment income)

National picture – Budget pressures

Pressures and challenging times:

- The war in Ukraine and its impact on the world economy and financial climate
- Unprecedented increases in the price of utility costs such as electricity and gas
- Huge fluctuations in the price of crude oil and supply side pressures
- Significant increases in consumer price inflation (CPI) now at 10.1% in the U.K.
- Rapidly increasing Bank of England base rates, now at 3.00% with further increases possible to combat inflation
- Increases in the cost of borrowing due to higher interest rates
- Turbulent political times recently at Westminster level – funding gap of £28bn - £40bn post ‘Mini Budget’
- Volatility in the bond and currency markets affecting the financial climate.

The Chancellor of the Exchequer, the Right Honourable Jeremy Hunt MP will be announcing a range of fiscal measures in the new Medium-Term Fiscal Plan on 17 November 2022.

The Chancellor also signalled further savings may be required as the Government may have to bridge a funding gap of £28bn+ if it is going to meet its fiscal target of falling debt by the medium term. Government departments will be asked to find efficiency savings within their budgets.



National picture – Budget pressures cont'd.

Current Local Government Financial pressures

- **Spending Round (review) 21 allocations from 2022/23** – flat cash in 2023-24 and 2024-25 – so essentially no further growth for inflation pressures or pay award
- **National Insurance Contributions reduction by 1.25%** – savings of around £400m for local government – assuming no reversal (RISK)
- **Business rates multiplier** – increase with CPI inflation (10%+) is unlikely, so cap or freeze – will local government be fully compensated? £1.5bn cost to Central Government if Local Government compensated.
- **Council tax** – 2% core plus 1% ASC precept – reasonable forecasting assumption but case for either higher or lower thresholds
- **Re-purposing existing grants within Core Spending Power** (22-23 Services Grant, Lower Services Grant, New Homes Bonus)
- **Provisional local government settlement still anticipated in December 2022**

Medium Term Financial Strategy (“MTFS”)

- Key strategic document driving the Council
- Key 4 year financial strategy for the Council
- Includes Corporate Plan priorities, key aims & service objectives
- Projects cumulative funding position on a rolling year basis
- Forecasts external economic and funding factors
- Modelled and stress tested
- Key part of the budget process and Council Tax setting

Key MTFS headlines

Medium Term Financial Forecast (excludes growth & savings)

| Financial Forecast | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 | 2026/27 £'000 |
|----------------------------------|------------------|------------------|------------------|------------------|
| Net Revenue Expenditure Forecast | 19,696 | 20,353 | 20,997 | 21,612 |
| Deficit / (Surplus) | 4,286 | 4,501 | 4,961 | 4,751 |
| Cumulative Deficit | 4,286 | 8,787 | 13,478 | 18,499 |

| | £'000 |
|---|--------------|
| Inflationary pressures | 1,601 |
| Net interest payable | 386 |
| Collection fund adjustments | (1,599) |
| Energy cost increases | 211 |
| Revenue contribution to capital | (1,622) |
| Other service / technical changes | 384 |
| Net Movement in Reserves (removal from 22/23 base budget) | 4,924 |
| Forecast MTFS Budget Deficit Before Growth and Savings Proposals | 4,286 |

MTFS Assumptions / indices used

| MTFS Assumptions used | BASE £'000 | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast | 2026/27 Forecast |
|---|---------------|---------------------|---------------------|---------------------|---------------------|
| General inflation – prices* | | 7.0% | 5.0% | 4.0% | 4.0% |
| Pay bill growth (excl. on costs) | 13,832 | In negotiation | 2.0% | 2.0% | 2.0% |
| CPI (where applicable) | | 10.1% | 7.0% | 4.0% | 2.0% |
| Interest rate used - medium term investments | | 5.0% | 4.9% | 3.8% | 3.8% |
| Interest rate used for borrowing assumptions | 5% | 5.2% | 4.9% | 4.7% | 4.7% |
| Increase in Council Tax | | 1.99% on Band D | 1.99% on Band D | 1.99% on Band D | 1.99% on Band D |
| Band D equivalent Council Tax (incl. special expense) | 279.09 | 284.64 | 290.30 | 296.08 | 301.97 |

*N.B. Major contracts have been inflated based on embedded contractual terms

Future strategies to reduce MTFS gap

- **In-year savings:**
 - 2022/23 savings to be identified to ease pressures in future financial years.
- **Re-focusing of Priorities:**
 - The Council needs to prioritise and rephrase the work it is undertaking to recognise the financial & capacity challenges it faces.
 - A holistic review of services will be performed to identify opportunities to improve the efficiency and effectiveness of service delivery and improve ways of working.
- **Strategic Investments:**
 - The Council is looking to take advantage of its position with a number of developments to produce financial returns whilst at the same time supporting the delivery of housing, regeneration and sustainable growth across the district.
- **Reserves:**
 - Using reserves in a sustainable and prudent manner to support the Council's strategies and priorities. These are informed by the reserves strategies approved annually by the Council.
- **Maximise Opportunities:**
 - Review of available underutilised assets to deploy funds for investment in capital schemes and through flexible capital receipts policy for efficiency improvements.
 - Using opportunities as they arise including government initiatives or incentives. In particular, the Council will seek to participate in the Business Rates Pooling scheme to maximise the financial benefit from this area.

General Fund reserves update

Reserves available at Q2 – 2022/23 as reported to Cabinet in October 2022

| Reserve | Balance at 1/4/2022 | Latest Budget | Projection | Change | Balance at 31/3/2023 |
|-----------------------------------|------------------------|----------------|----------------|--------------|-------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Earmarked | | | | | |
| Business Rates | 2,662 | (803) | (1,021) | (218) | 1,641* |
| Leisure Reserve | 447 | 50 | 50 | 0 | 497 |
| Carry Forwards | 1,356 | (144) | (144) | 0 | 1,212 |
| VET Reserve | 287 | (217) | (214) | 3 | 73 |
| Maintenance of Graves | 12 | 0 | 0 | 0 | 12 |
| New Homes Bonus (NHB) | 1,997 | (1,589) | (1,589) | 0 | 408* |
| Corporate Initiatives | 960 | (18) | 26 | 44 | 986 |
| IFRS Reserve | 5 | 0 | 0 | 0 | 5 |
| Economic Development | 1,985 | (1,546) | (915) | 631 | 1,070 |
| Community Led Housing | 310 | (55) | (55) | 0 | 255 |
| Lydd Airport | 9 | 0 | 0 | 0 | 9 |
| Homelessness Prevention | 958 | (21) | (21) | 0 | 937 |
| High Street Regeneration | 1,575 | (543) | (418) | 125 | 1,157* |
| Climate Change | 4,880 | (854) | (880) | (26) | 4,000* |
| Covid Recovery | 3,526 | 0 | (874) | (874) | 2,652 |
| Total Earmarked Reserves | 20,969 | (5,740) | (6,055) | (315) | 14,914 |
| Total General Fund Reserve | 3,112 | 2,911 | 6,058 | 3,147 | 6,058 |

* = earmarked reserves which are uncommitted and without conditions around use

What is the “right” level of reserves?

- No statutory minimum, Council sets own policy. Currently:
 - General Fund £1.5m
 - HRA £2.0m
- Important for future pressures or unexpected events
- Maintain working capital requirements
- Long term planning and sustainability, earmark for plans

Next steps - Budget Strategy - December

- Aligned to direction & objectives of the MTFS
- Outlines path to balanced budget for coming financial year
- Budget Growth
- Savings & efficiencies
- Emerging issues e.g. legislation or Autumn Statement changes
- Provide a revised (or improved) deficit position following officer work
- Annual Fees and Charges review
- The Budget Strategy will be considered in December/January by Scrutiny Committees

Setting the detailed Budget - January

- Detailed GF Revenue & HRA Budget considered in January
 - (Heads of Service attend meeting for deeper dive scrutiny)
- Local Government Finance Settlement
 - Provisional position pre-Christmas
 - Outcome reported in February
 - Referendum limits, grant funding, reliefs for NNDR etc

Council Tax setting - February

- Local Government Finance Act 1992
 - Requirement for Council Tax
 - Council Tax base (taxable capacity of the district)
 - Final resolutions agreed
- Legal duty to set balanced budget
- LG Act 2003 S151 Officer must advise the council about the robustness of budget estimates & adequacy of reserves
- Council tax billing

Budget Consultation

- Questionnaire online for public contributions, promoted on social media channels
- Business Advisory network
- Joint Parish Council Committee
- Responses
 - 20/21 Budget – 3 individual pieces of feedback
 - 21/22 Budget – 4 individual pieces of feedback plus one from business community
- Ideas?

Questions?