

# Budget Projection and Strategy 2022/2023

For Finance and Governance Cabinet Advisory Board on 13 July 2021

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## Summary

**Lead Member:** Councillor Tom Dawlings, Leader and Finance and Governance Portfolio Holder

**Lead Director:** Lee Colyer, Director of Finance, Policy and Development

**Head of Service:** Jane Fineman, Head of Finance and Procurement

**Report Author:** Lee Colyer, Director of Finance, Policy and Development

**Classification:** Public document (non-exempt)

**Wards Affected:** All

Approval Timetable	Date
Management Board	23 June 2021
Portfolio Holder	22 June 2021
Finance & Governance Cabinet Advisory Board	13 July 2021
Cabinet	29 July 2021

## Recommendations

Officer / Committee recommendations as supported by the Portfolio Holder:

1. That officers continue to work towards reducing the projected budget deficit in line with the Budget Strategy and report back in October with proposals prior to public consultation on the draft budget in December.

# 1. Purpose of Report and Executive Summary

- 1.1 This report provides an update to the budget projections for the 2022/23 budget and subsequent years, building on the approved budget for 2021/22 and the unaudited outturn for 2020/21.
- 1.2 The report also provides an update on the financial impact of the Covid-19 pandemic and the progress of the local economic recovery.
- 1.3 The Government has announced some time limited financial support for Local Government to assist in the delivery of local services whilst the financial impact of the pandemic continues add strain to Local Government finances. Local Government funding settlements continue to be for just one year at a time until the Government undertakes a Comprehensive Spending Review.
- 1.4 A budget deficit of £1.8 million is currently forecast for 2022/23 which is based on the economic data at this time although the extent and rate of recovery (or further restrictions) from the pandemic will continue to influence this forecast. If left unmanaged the deficit would increase to an annual deficit of £3.8 million by 2026/27, which would need to be funded from new income, further cost reductions or from central Government.
- 1.5 For 2022/23 Revenue Support Grant for this Council is expected to remain at zero and at the time of writing there are no firm details of government financial support. The Council will again, need to be financially self-sufficient and deploy its own financial resources to ensure the continued delivery of essential local services.
- 1.6 This report will enable Directors/Heads of Services to begin the service planning process and to develop proposals with their respective portfolio holder(s) for savings, changes to service delivery and to replace lost income.
- 1.7 The longer the economic restrictions and health issues persist the more fundamental the impact will be on residents, businesses, and visitors to the borough.

# 2. Introduction and Background

- 2.1 This is the first report of the budget setting cycle leading to the setting of the 2022/23 budget at Full Council on 23 February 2022 and will include the main reports set out below which will also be considered by the Finance and Governance Cabinet Advisory Board. The detailed timetable is set out in Appendix B.
  - Budget Projection and Strategy
  - Budget Update
  - Draft Budget for consultation
  - Final Budget for approval

## Government Funding Settlement

- 2.2 The Government's four-year funding settlement ended in 2019/20 and has been followed by single year 'roll overs' which required the council to be financially self-sufficient. Since 2010 when cuts to funding of Local Government commenced, the ability to fund local services continues to be dependent on growing the local economy and sharing in the proceeds of business rates growth.

## Comprehensive Spending Review (CSR)

- 2.3 On 21 October 2020 The Treasury confirmed that a planned three-year spending review has been abandoned in favour of a one-year review at the end of November 2020. The Chancellor Rishi Sunak said the decision was taken in order to prioritise the response to COVID-19 and focus on supporting jobs, setting departmental resources and capital budgets for next year, and block grants for devolved administrations. In response the chairman of the Local Government Association, said;

“It is hugely disappointing that councils will only get a one-year funding settlement for the third year in a row. This makes it incredibly difficult for them to plan how to provide local services our communities rely on and which have proved so vital during the pandemic,”

- 2.4 The Departmental Expenditure Limit (DEL) allocated to the Ministry of Housing Communities and Local Government (MHCLG) will determine how much if any funding is to be allocated to Local Government. Individual councils' allocations are usually set out within the Provisional Local Government Finance Settlement which should be published in early December. It is looking more likely that there will another single year 'roll over' rather than the multi-year settlement needed for effective financial planning.
- 2.5 Until a CSR is approved the Government is not able to set out the financial package of support for councils beyond that which has already been announced for 2021/22 as this would require a fiscal policy decision.

## Public Accounts Committee (PAC)

- 2.6 In May 2021, The Public Accounts Committee (PAC) published their fourth report on the impact of the pandemic on Local Government Finance. The full report is available on the Parliament website, but in summary the main findings of the PAC are as follows;
- Despite receiving additional funding during Covid, many local authorities are in a precarious financial situation and will experience long-term financial effects from the pandemic.
  - Many expect to make cuts to their budgets for local services in 2021–22.
  - Typical council tax bills will rise by an average of 4.3% across England in 2021–22, meaning that local people could be paying more for less.
  - The government does not have sufficient information about how these financial pressures will impact on local services.
  - The MHCLG has acted effectively to stave off widespread financial failure within the sector.

- Regular submission of financial data by local authorities has given the Department a timely evidence base to support local authorities.
- While the MHCLG has worked well with local authorities, it was not sufficiently prepared for the financial impacts of the pandemic.
- Across government, support schemes have not always been designed with sufficient knowledge or consideration of local government finance, which can create confusion and excessive bureaucracy.
- Crucially, uncertainty about government funding and support has hindered local authority financial planning for the year ahead and been a driver for cost cutting.
- Longer-term reform of local government finance has been delayed twice, first by Brexit and now by the pandemic, and reform to adult social care remains undelivered.
- Even if the sector's current financial situation is stabilised, there is a looming problem in local government finance that needs a structural solution which needs to take account of the impacts of the pandemic.

2.7 The above report refers to the Local Government Sector as a whole and whilst the issues raised are relevant, the financial position of this council remains sound and members have options available to them to reprioritise financial resources and to generate additional funding.

## **Government Financial Support for the impact of the Pandemic**

2.8 In part recognition that the council will continue to incur additional cost pressures due to the pandemic the government has provided a further £486,359 to cover costs until the 30 June 2021. At the time of writing this is intended to be the end of financial support to cover additional expenditure.

2.9 This council is financially self-sufficient and therefore receives the majority of its funding through sales, fees and charged which have been severely affected by the pandemic. The Government will continue the compensation scheme for reductions in income up to 30 June 2021.

## **New Homes Bonus (NHB)**

2.10 NHB scheme was introduced by the Government in 2011 as a “powerful, predictable, permanent incentive to reward the delivery of housing growth”, funded by a £900 million top-slice of Revenue Support Grant.

2.11 Since 2011 various amendments have been made to dilute the financial incentive and in advance of consulting on changes the Government announced last year that in effect the current scheme will be phased out and consultation paper was published in February 2021.

2.12 It is expected that any replacement scheme or amendment to the existing NHB scheme will be implemented from 2022/23 as part of a wider reform package for local government finance.

2.13 The Council is only set to receive the final legacy payment of £222,000 in 2022/23 and this has been included within the forecast budget.

## Retained Business Rates

- 2.14 In July 2020 HM Treasury undertook a call for evidence on the fundamental review of the business rates system. The planned revaluation of business rates has been postponed until April 2023 and is to be based on the property market on 1 April 2021 so will reflect the impacts of the Covid-19 pandemic on the commercial rental market.
- 2.15 It was expected that the reset of the business rates baseline that determines the Settlement Funding Assessment for local authorities would take place in the autumn as part of wider reforms of Local Government Finance or as part of the ‘Levelling Up’ proposals.
- 2.16 The continuation of business rate pooling using the exiting baseline will enable this council to continue to retain a share in the proceeds of business rates growth for a further year, the current distribution method is show below.

Type of Authority	Local Business Rate Growth Share
Districts	40%
Kent County Council	9%
Kent Fire & Rescue Service	1%
<b>Total</b>	<b>50%</b>
<b>Government</b>	<b>50%</b>

- 2.17 The Council has prudently not included the proceeds of business rates growth within the base budget and transfers any receipts into reserves.

## Financial Strategy – Covid-19 Pandemic

- 2.18 The unaudited outturn for 2021/22 shows that the council managed to deliver 2021/22 provision of services within budget. From the outset of the pandemic the council formulated a strategy to continue the funding services, co-ordinated requests for financial support and to lobby government for national support for the leisure, charity, and business sectors.
- 2.19 The Council also played a leading role in working with the MHCLG to assist their understand of the particular financial pressures that are faced by district councils who are required to make fixed instatements of business rates and council tax income regardless of whether the receipts have been collected.

## Government Financial Support

- 2.20 The schemes that have helped to compensated councils for the additional expenditure incurred in dealing with and responding to the pandemic are not expected to continue into 2022/23.
- 2.21 The compensation for loss of income from sales, fees and charges and irrecoverable losses from Council Tax and Business Rates income are also not expected to be continue into 2022/23.

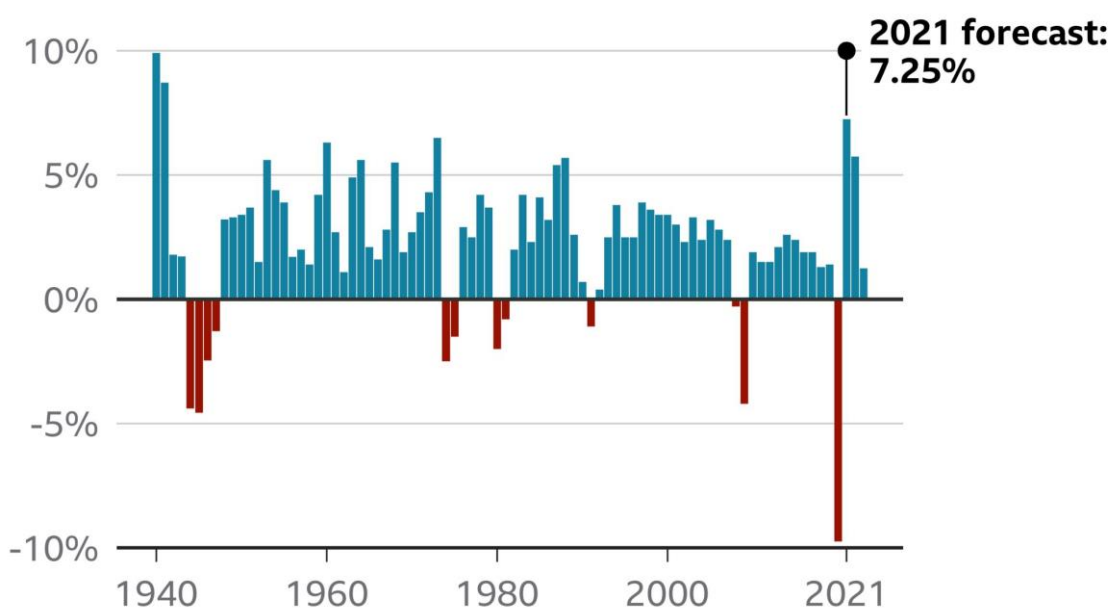
- 2.22 The situation still remains fluid and the legacy of the pandemic will continue for some time. Should further economic or health restrictions be necessary there are now financial compensation systems which could be reintroduced by the government if necessary.
- 2.23 The council will continue to update projections on a monthly with Cabinet retaining the ability to revise the budget on a quarterly basis reflecting:
- Actual monthly outturn of income and expenditure compared to budget forecasts,
  - Economic data including unemployment, collection rates, businesses activity and local footfall; and
  - Government support packages and other announcements.
- 2.24 This approach worked well during 2021/22 and still holds true to ensure that the council remains agile and capable of assisting the community should the need arise.

## National Economic Forecasts

- 2.25 The Bank of England's (BoE) Monetary Policy Report for May 2021 explained that; UK Gross Domestic Product (GDP) is expected to have fallen by around 1½ per cent in 2021 Q1, which is less than was assumed in the February Report. Due to the pandemic the country experienced the deepest recession in over a hundred years but is now set to enjoy the fastest growth in more than 70 years. The economy is expected to expand by 7.25 per cent this year, with extra government spending helping to limit job losses.

### UK economy set to grow at fastest rate since WW2

Historical UK GDP



Note: Pre-1949 data based on Bank of England estimates

Source: Bank of England



- 2.26 The report said that new Covid cases in the United Kingdom have continued to fall, the vaccination programme is proceeding apace, and restrictions on economic activity are easing. Reflecting these developments, GDP is expected to rise sharply in 2021 Q2, although activity in that quarter is likely to remain on average around 5 per cent below its level in 2019 Q4. GDP is expected to recover strongly to pre-Covid levels over the remainder of this year in the absence of most restrictions on domestic economic activity.
- 2.27 Demand growth is further boosted by a decline in health risks and a fall in uncertainty, as well as announced fiscal and monetary stimulus. Consumer spending is also supported by households running down over the next three years around 10 per cent of their additional accumulated savings. After 2021, the pace of GDP growth is expected to slow as the boost from some of those factors' wanes. The level of activity is higher in each quarter of the forecast than in the February projections.
- 2.28 The outlook for the economy, and particularly the relative movement in demand and supply, remains uncertain. It continues to depend on the evolution of the pandemic, measures taken to protect public health, and how households, businesses and financial markets respond to these developments.
- 2.29 In the central projections of the MPC's May Report, the economy experiences a temporary period of strong GDP growth and a temporary period of modestly above-target CPI inflation, after which growth and inflation fall back, with inflation around the target two and three years ahead.
- 2.30 The Governor of the Bank of England said that the recovery is 'strong' but likened it to more of a 'bounce back' than a boom. He added that the surge in growth was good news but would only return the UK economy to the size it was in 2019.

### 2.31 **Local Economic Forecasts**

- 2.32 The impact of coronavirus varies depending on the type of business and location of operation. The borough has been very resilient during previous recessions with the impact being less severe and the rate of recovery quicker than the national situation. However, this recession is like no other and the borough remains exposed to the change in peoples working lives and the impact on the local economy.
- 2.33 The actual reduction to major income streams provides an indication of the local economic recovery. The town centre economy is particularly reliant on office workers during the week and at this time it is not known whether the town's major employers expect their staff to return to their office.
- 2.34 The major influence over the size of the budget deficit for 2022/23 will be determined by the point at which the monthly reduction in income appears to level off. The situation remains fluid and projections will continue to be updated in accordance with the budget strategy.
- 2.35 A summary of local economic data is shown below:

- Unemployment Rate for May 2021 for the borough is 4.0 per cent (2,875 claimants) and the 3rd lowest in Kent where the average is 5.6 per cent.
- Council Tax collection rates to May 2021 are up 0.65 per cent compared to target.
- Business Rates collection rates to May 2021 are up 0.80 per cent compared to target.
- Empty business properties were 362 in May 2021 compared to 314 properties pre-pandemic.

## Budget Projection 2022/23

2.36 The current year's budget forms the base budget upon which projections are made for the next five years to reflect the Council's Five-Year Plan and other strategies. The projection model has been updated to reflect expected changes at this time and is summarised in Appendix A.

2.37 The current position of adhering to the budget strategy is shown below:

### Budget Projection and Strategy June 2021

	£000s
Employment Costs	461
Transport	0
Premises	37
Business Rates	46
Supplies and Services	0
Contracts	208
Pandemic recovery	(1,247)
Ending of New Homes Bonus	638
Settlement Funding Assessment	40
No Collection Fund Deficit	(65)
Council Tax Increase	(227)
Cease use of General Fund	1,935
<b>Funding Gap</b>	<b>1,825</b>

2.38 A subjective breakdown of the current years budget is available on the Council's website.

## Budget Strategy

2.39 There remains a deficit forecast for 2022/23 of £1,825,000 which, if left unmanaged, would need to be funded from reserves. In normal times the use of general reserves is unsustainable over the longer term which led Cabinet in 2012 to set a definition of a balanced budget as follows:



*“Where ongoing expenditure is met from fees, charges, government grant and council tax with only the use of earmarked reserves being used to meet one-off priority expenditure.”*

- 2.40 These are not normal times and the Council will need to continue to meet as a priority the impact of the recovery from the pandemic but ensure that it remains on a sound financial footing over the medium-term.

## **Council Tax Strategy**

- 2.41 One source of funding for the provision of local services is council tax. This Council has historically had a policy of very low council tax levels and the strategy is for council tax to increase up to the threshold for triggering a referendum.
- 2.42 In previous years, the most efficient authorities such as this Council will be able to increase council tax up to £5.00 a year rather than the cap of 2 per cent. The Government assumes this Council will increase Council Tax by the maximum permitted in their assessment of this Council’s available financial resources. It will be for Full Council in February 2022 to decide the level of Council Tax.

## **Fees and Charges**

- 2.43 For the fees and charges which are not imposed by central government a report will be considered by Cabinet in November.

## **Car Parking Charges**

- 2.44 There are no plans to increase pay and display car parking charges.

## **Staff Savings and Efficiencies**

- 2.45 Directors/ Heads of Services and Portfolio Holders have been busy trying to identify further efficiency options to reduce the cost of their services and to increase income. These are still in the discussion stage and need refining before they can be submitted to the Cabinet Advisory Board or in the case of staffing changes through the process set out within the HR Policies.

## **Digital Transformation**

- 2.46 It is not possible to keep working harder and faster with fewer resources and still provide safe, effective services. The Council will need to find new ways of working smarter and deliver services in a more digitally efficient form which meets with the way the public now interact with service providers. The Council has a Digital Services and Transformation Team in place to improve operational delivery and transform the way that services are provided. Details of these projects are reported quarterly to Cabinet and the resulting efficiencies will be incorporated into the budget-setting process.

## **Capital and Revenue Reserves**

- 2.47 The Medium-Term Financial Strategy maintains the following as an adequate level of reserves:

	Minimum
General Reserves (Revenue)	£3.0 million
Capital Receipts	£1.0 million

2.48 The reserves and balances are currently forecast to meet the above levels although maintaining this position relies on delivering not just a balanced budget in 2022/23 but a sustainable budget for the future.

2.49 In addition to the revenue and capital budget, the Council has earmarked reserves which form part of the Budget and Policy Framework and are available to fund the specific purpose of the reserve in accordance with the virement procedure rules. The projected balances of these reserves are shown below and assume that the revenue budget is balanced from 2022/23 without further utilisation of reserves:

	31-Mar-21 Actual	31-Mar-22 Forecast	31-Mar-23 Forecast	31-Mar-24 Forecast	31-Mar-25 Forecast	31-Mar-26 Forecast
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund	4,301	4,301	4,301	4,301	4,301	4,301
Earmarked Reserves	13,662	7,819	7,164	5,908	5,303	4,803
2022/23 Budget Deficit	0	-1,825	-1,825	-1,825	-1,825	-1,825
Grant Volatility	15,398	2,602	1,301	0	0	0
Net off Collection Fund adj.	-15,398	-2,602	-1,301			
Capital Grants & Contributions	2,781	2,781	2,781	2,781	2,781	2,781
Capital Receipts Reserve	3,118	1,000	1,000	1,000	1,000	1,000
Amelia Scott Capital Receipt	7,680	7,680	7,680	7,680	7,680	7,680
Amelia Scott Capital Spend	-7,474	-7,680	-7,680	-7,680	-7,680	-7,680
<b>Total Reserves</b>	<b>24,068</b>	<b>14,076</b>	<b>13,421</b>	<b>12,165</b>	<b>11,560</b>	<b>11,060</b>
Outstanding Financing						
33 Monson Road	-1,496	-1,425	-1,354	-1,282	-1,211	-1,140
Dowding House	-1,960	-1,870	-1,781	-1,692	-1,603	-1,514
The Lodge, Calverley Park	-489	-468	-447	-426	-404	-382
Royal Victoria Place	-966	-924	-882	-840	-798	-756
Waste Bins & Caddies	-598	-532	-465	-399	-333	-267
Civic Site Essential Works	-95	-1,867	-1,792	-1,718	-1,643	-1,568
Amelia Scott (additional funding)	0	-2,000	-1,920	-1,840	-1,760	-1,680
<b>Total Outstanding Financing</b>	<b>-5,604</b>	<b>-9,086</b>	<b>-8,641</b>	<b>-8,197</b>	<b>-7,752</b>	<b>-7,307</b>

Note: Schemes not funded from reserves need to be charged to revenue and this repayment is reflected in the reduction in financing over the life of the asset.

2.50 The Council does not have any external debt but with borrowing costs reducing to record low levels the s151 Officer has the flexibility to take advantage of this situation and borrow as an alternative to utilising capital receipts.

## Significant Areas of Risk and Uncertainty

2.51 With the country emerging from a pandemic and recession, there are some sectors of the economy which face an uncertain future. The following areas of uncertainty carry a significant risk to the Councils budget forecasts:

- Collection of Council Tax and Business Rates. The Government has announced a Tax Income Guarantee scheme to partly compensate councils for reduced income from local taxation for 2020/21, but future lower collection levels could put the Collection Fund into deficit.
- Collection of Income from Sales, Fees and Charges. The Government's compensation scheme is only currently in place until the first quarter on 2021/22.
- Additional expenditure to aid recovery from the impact of the pandemic particularly.
- A significant increase in local unemployment and a significant reduction in economic activity.
- Labour shortages and high costs from operating in one of the most expensive parts of the country places additional costs and risks on the Council and its contractors.
- A reduction to the town centre workforce as major employers review their property assets and the work-from-home practice continues.
- A lack of confidence by the private sector to invest in the borough.

## Major External Contracts

2.52 The council currently has in place three major contracts which were all procured in a very different economic climate and with the contractors being responsible for risks which have now come to pass. They were procured in a healthy and competitive marketplace which may now not be the case following the legacy of the pandemic. This presents a significant risk to the council in financial terms and potentially being exposed to additional risk going forwards. The above budget does not reflect this risk as decisions have yet to be taken on the course of action for each contract, the current expiry dates are as follows.

- Leisure Centre Management 31 March 2022
- Grounds Maintenance 31 December 2022
- Waste and Street Sweeping 31 March 2027

2.53 Individual reports will come forward in due course setting out the issues and options to Cabinet and will be listed on the Forward Plan.

## **Benchmarking**

2.54 As part of the development of the budget the council will make use of the updated service expenditure benchmarking data using the Chartered Institute of Public Finance and Accountancy (CIPFA) nearest statistical neighbours and the income and governance data from the geographical neighbours.

## **Resilience**

2.55 Council finances are under intense pressure following ten years of austerity and then from the impact of the pandemic. Despite all this uncertainty out of 343 councils very few have got into financial difficulty. All tend to be upper tier; districts should never get into difficulty due to diverse range of services and multiple income streams they can influence and are not exposed to providing Adult Social Care.

2.56 To help avoid councils from getting into financial difficulties and subsequently issuing a S114 notice or requesting a Capitalisation Direction, CIPFA developed a set of risk indicators. This uses publicly available data to compare similar authorities across a range of factors to improve understanding of a council's financial risk. The latest release of the Resilience Index will be used as part of the development of the budget setting process.

## **National Policy and Legislative Changes**

2.57 The above forecasts are subject to changes from the following government activities:

- The health and financial measures required for the impact of, and recovery from the Pandemic
- The Provisional Local Government Finance Settlement; and
- The White Paper on 'Levelling Up' and reforming Local Government Finance.

## **3. Options Considered**

3.1 The budget-setting process is well rehearsed and has largely been successful in delivering a balanced budget and engaging with the public. There may be other alternatives but ultimately the Council must produce a budget which meets its statutory responsibilities.

## **4. Preferred Option and Reason**

4.1 This report is the start of the formal budget-setting process which will be informed through consultation and research. Decisions on priorities and services will be communicated on a regular basis.

## **5. Consultation on Options**

- 5.1 The Council already has a wealth of information from previous budget consultation exercises and residents' surveys, the most recent being undertaken in 2015.
- 5.2 Early public engagement is essential to arrive at suitable feedback which can be developed in time to be incorporated within the budget. Information will be placed on the Council's website along with articles in Local which allows members of the public, staff and businesses to provide their ideas for how to reduce spending and optimise income while protecting the quality of public services.
- 5.3 The Cabinet Advisory Boards will continue to provide a good source of challenge in developing the budget and to the level of service provided.
- 5.4 The above will form an overall picture of prioritisation. Cabinet proposals for savings and growth can then be tested through consultation in December when the draft budget will be placed on the Council's consultation portal.

## **6. Implementation**

- 6.1 This report sets out the mechanism by which Cabinet will deliver its service and budget strategy. The report and recommendations will be subject to comment by the Finance and Governance Cabinet Advisory Board and further reports to Cabinet in due course. The draft budget proposals will be considered by Cabinet in December and published onto the consultation portal. Final proposals for the budget will be agreed by Cabinet in February and proposed for approval by Full Council in February 2022.

## **7. Appendices and Background Documents**

Appendices:

- Appendix A: Five Year Budget Projections

Background Papers:

- None

## 8. Cross Cutting Issues

Issue	Implications	Sign-off
<b>Legal</b> including Human Rights Act	The Five-Year Plan and budget form part of the Council's Policy Framework.	Director of Finance, Policy and Development, 17 June 2021
<b>Finance</b> and other resources	This report forms part of the Council's Budget and Policy Framework.	Director of Finance, Policy and Development, 17 June 2021
<b>Staffing establishment</b>	Where savings proposals impact on staff then this will be managed in accordance with Human Resources policies.	Director of Finance, Policy and Development, 17 June 2021
<b>Risk management</b>	An assessment of the risk factors underpinning the budget will accompany the final budget report. The Strategic Risk Register also includes a risk on funding streams which is being monitored by Cabinet and the Audit and Governance Committee.	Director of Finance, Policy and Development, 17 June 2021
<b>Environment</b> and sustainability	The budget has regard to the environmental sustainability priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 17 June 2021
<b>Community safety</b>	The budget has regard to the community safety priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 17 June 2021
<b>Health and Safety</b>	The budget has regard to the Health and Safety obligations and priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 17 June 2021
<b>Health and wellbeing</b>	The budget has regard to the health and wellbeing priorities within the Five-Year Plan.	Director of Finance, Policy and

		Development, 17 June 2021
<b>Equalities</b>	Changes to service delivery may impact on equalities; however, heads of service will ensure that an equality assessment is in place where this has been identified.	Director of Finance, Policy and Development, 17 June 2021