

Budget Update 2022/2023

For Finance and Governance Cabinet Advisory Board on 12 October 2021

Summary

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

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Wards Affected: All

Approval Timetable	Date
Management Board	29 September 2021
Portfolio Holder	28 September 2021
Finance & Governance Cabinet Advisory Board	12 October 2021
Cabinet	28 October 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 December with draft proposals prior to public consultation.

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 in-year revenue and capital management reports.
- 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's financial support for Local Government to assist in the delivery of local services due to the pandemic has ended, although the financial impact of the pandemic continues to place a strain on the council's finances.
- 1.4 A budget deficit of £1.7 million is currently forecast for 2022/23 (an improvement on the £1.8m previously reported) 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 £6.4 million by 2027/28, which would need to be funded from new income, further cost reductions or support from central Government.
- 1.5 For 2022/23 Revenue Support Grant (RSG) for this Council is expected to remain at zero and at the time of writing there are no firm details of government financial support. It is now looking more likely that funding settlements will continue to be for a single year until a comprehensive spending review is undertaken. 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 continue 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.
- 1.8 As part of the Government reshuffle, The Ministry of Housing, Communities and Local Government (MHCLG) has been rebranded as the Department for Levelling-Up, Housing and Communities (DLUHC).

2. Introduction and Background

- 2.1 This is the second report of the budget setting cycle leading to the setting of the 2022/23 budget at Full Council on 23 February 2022. The main reports in the budget setting process are set out below which will also be considered by the Finance and Governance Cabinet Advisory Board.
 - Budget Projection and Strategy - July
 - Budget Update - October

- Draft Budget for consultation - December
- Final Budget for approval - February

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.

Spending Review (SR21)

- 2.3 The launch of the spending review (SR21) was delayed in July 2021 by the parliamentary recess. Many of the Government's key policy and funding announcements are linked to the SR21, which will take place in the Autumn.
- 2.4 The Government's budget is scheduled to take place on 27 October 2021 along with the Office of Budget Responsibility's (OBR) fiscal update. This should give an indication of the fiscal envelope available to the government in their deliberations on the amounts that might be available for non-protected services, such as local government in the spending review.

Fair Funding Review

- 2.5 There appears to have been no substantive progress on the Fair Funding Review over the Summer and implementing any funding reform in the short-term appears unlikely. A technical paper would normally have been issued by now to enable local government finance professionals to sense check proposed changes from the DLUHC.

Levelling-up and devolution

- 2.6 A white paper on levelling-up is expected later in the Autumn. Indications are that it will focus on devolution and how levelling-up is delivered through local structures. It will focus on taking devolution to the 70 per cent of England that does not have it at the moment.

Local Government Finance Settlement

- 2.7 The Departmental Expenditure Limit (DEL) allocated to the DLUHC will determine how much 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 be another single year 'roll over' rather than the multi-year settlement needed for effective financial planning.

Government Financial Support for the impact of the Pandemic

2.8 Financial support to partly compensate for the additional cost pressures and reduction in income from sales, fees and charges ended on the 30 June 2021. The financial impact however continues to be felt locally and places an additional strain on the council's services and financial resources.

New Homes Bonus (NHB)

- 2.9 The 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.
- 2.10 Since 2011 various amendments have been made to dilute the financial incentive and in advance of consulting on changes the Government announced that in effect the current scheme will be phased out and a consultation paper was published in February 2021.
- 2.11 It was 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. This timescale now looks to be in doubt.
- 2.12 The Council is only set to receive the final legacy payment of £222,000 in 2022/23.

Retained Business Rates

- 2.13 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 impact of the Covid-19 pandemic on the commercial rental market.
- 2.14 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, but this now looks to be in doubt.
- 2.15 The Council will continue to be a member of the Kent business rate pool. The use of the existing 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 shown below.

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

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

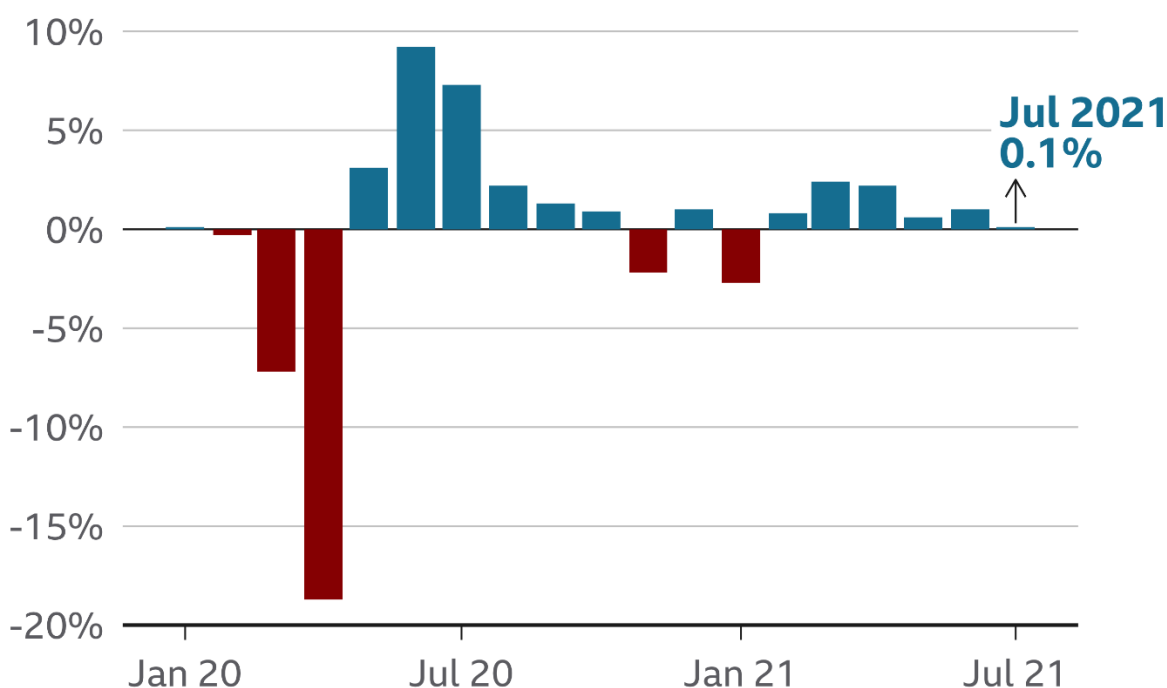
National Economic Forecasts

2.17 The Office for National Statistics (ONS) reported that the UK economy grew by just 0.1 per cent in July 2021 as the last of the last covid restrictions were lifted. It was the economy's sixth consecutive month but the increase was much lower than the previous month, which saw growth of 1 per cent. Arts, entertainment, and recreational activities helped the rise, but the 'pingdemic' kept many workers at home. The UK economy is still 2.1 per cent below the pre-pandemic peak.

2.18 The July figures showed that the bounce-back of the economy was stalling and that the recovery cannot be taken for granted. The primary cause was the upsurge in covid-19 cases, tempering the impact of the full reopening of the economy. Recovery is also likely to be impacted from the phasing out of pandemic support and the impact of labour and other shortages.

UK economy grew 0.1% in July 2021

Monthly GDP growth



Source: Office for National Statistics



Inflation

2.19 The Consumer Prices Index (CPI) measure of inflation saw a sharp increase in the year to August 2021, up from the Bank of England's target measure of 2 per cent in July, to 3.2 per cent. The council's exposure to inflation is far greater than that included within the CPI which is based on a basket of household goods. The cost of

providing local services is more closely determined by the costs of local labour, construction materials, external contracts and national policy burdens which are not offset with the ability to increase income.

Local Economic Forecasts

- 2.20 The impact of coronavirus varies depending on the type of business and location of operation. This borough has been very resilient during previous recessions and economic disruptions with the impact being less severe and the rate of recovery quicker than the national situation. However, this health and economic situation is like no other and the borough remains exposed to the change in peoples working lives and the impact on the local economy.
- 2.21 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 offices or the outcome from businesses reviewing their property asset requirements.
- 2.22 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.
- 2.23 A summary of the local economic data is shown below:
- Unemployment Rate continues to fall and for July 2021 stood at 3.6 per cent (2,550 claimants) and the 3rd lowest in Kent where the average is 5.0 per cent. The furlough scheme ended on 30 September 2021.
 - Council Tax collection rates to August 2021 are up 0.38 per cent compared to target.
 - Business Rates collection rates to August 2021 are down 5.72 per cent compared to target.
 - Empty business properties were 350 (8.5 per cent) in August 2021 compared to 314 properties pre-pandemic.
 - The occupancy rates of the multi-storey car parks is around 25 per cent of capacity.

Budget Projection 2022/23

- 2.24 The current year's budget forms the base budget upon which projections are made over the medium-term 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.

2.25 The major variances over the base budget are shown below:

Budget Projection as at October 2021	£000s
Employment Costs	547
Transport	0
Premises	37
Business Rates	46
Supplies and Services	0
Contracts	208
Pandemic recovery	(1,500)
Ending of New Homes Bonus	638
Settlement Funding Assessment	40
No Collection Fund Deficit	(65)
Council Tax Increase	(226)
Cease use of General Fund	1,935
Budget Gap	1,659

2.26 A subjective breakdown of the current year's budget is available on the Council's website.

Budget Pressures

- 2.27 Parliament recently approved an increase to the employers' rate of National Insurance to fund the National Health Service and then at a later point to assist with social care costs. This will place an additional recurring employment cost of £125,000 per annum and is included in the above projections.
- 2.28 The increase demand on the Democratic Services Team through the supporting of members and committees in addition to an electoral review will require additional resources of £40,000.
- 2.29 The migration away from Skype for business to cloud based products under the banner of Microsoft 365 will require an additional £30,000 per annum.
- 2.30 Income from sales, fees and charges continues to be disrupted from the impact of the pandemic. In addition, increased competition is putting pressure on the income streams at the crematorium. Income will be considered by Cabinet in November as part of the fees and charges report.
- 2.31 The pressures faced by the council by virtue of operating in one of the most expensive parts of the country combined with very low unemployment levels is further compounded when external contracts are reprocured.

Major External Contracts

2.32 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.

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

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

Budget Opportunities

2.34 The Council is the subject of an electoral review by the Local Government Boundary Commission and decisions on the frequency of elections and the number of councillors is required.

2.35 The Council is also in the process of procuring a partner to deliver co-working within the Town Hall which should contribute towards the increasing cost of maintaining and operating the building and reduce the council's share of accommodation costs.

Budget Strategy

2.36 There remains a deficit forecast for 2022/23 of £1,659,000 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.”

2.37 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

2.38 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.

2.39 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

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

Car Parking Charges

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

Staff Savings and Efficiencies

2.42 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

2.43 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

2.44 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

2.45 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.

2.46 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 after 2022/23 without further utilisation of reserves:

	31-Mar-21 Actual £000's	31-Mar-22 Forecast £000's	31-Mar-23 Forecast £000's	31-Mar-24 Forecast £000's	31-Mar-25 Forecast £000's	31-Mar-26 Forecast £000's
General Fund	4,301	4,301	4,301	4,301	4,301	4,301
Earmarked Reserves	13,662	9,241	8,086	6,830	6,225	5,725
2021/22 Budget Deficit Q1 Projection		-1,660	-1,660	-1,660	-1,660	-1,660
2022/23 Budget Update Deficit			-1,659	-1,659	-1,659	-1,659
Grant Volatility (Collection Fund adj)	15,398	2,602	1,301	0	0	0
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
Total Reserves	39,466	18,265	14,150	11,593	10,988	10,488
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	-1,922	-1,845	-1,768	-1,691	-1,614
Amelia Scott (additional funding)	0	-2,000	-1,920	-1,840	-1,760	-1,680
Total Outstanding Financing	-5,604	-9,141	-8,694	-8,247	-7,800	-7,353

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.

2.47 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

2.48 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

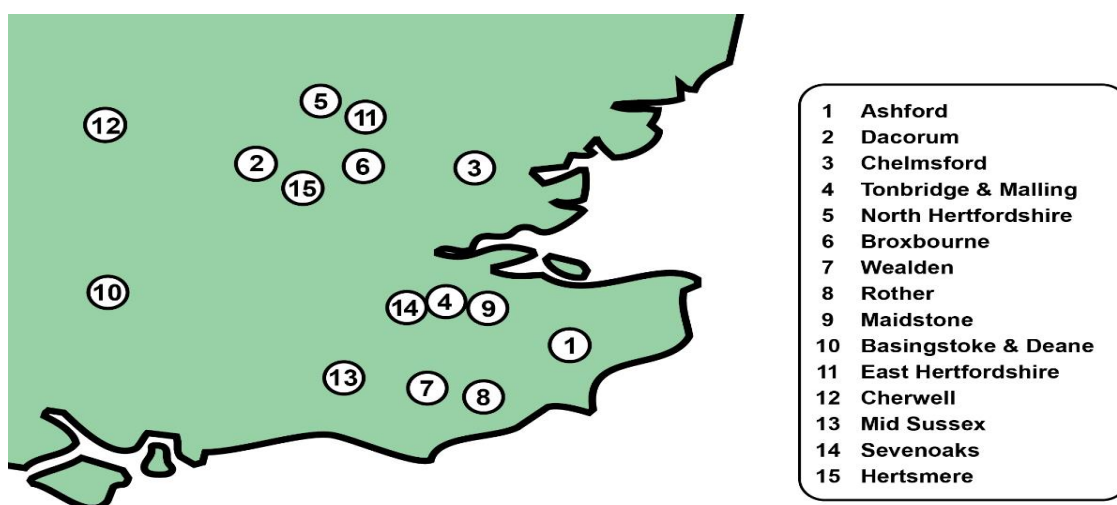
from local taxation for 2020/21, but future lower collection levels could put the Collection Fund into deficit.

- Collection of income from Sales, Fees and Charges. The Government's compensation scheme ended on 30 June 2021.
- Additional expenditure to aid recovery from the impact of the pandemic.
- 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 cost 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.

Benchmarking

2.49 Comparison with other councils can be useful provided the context is understood. There are around 180 other shire district councils left in England with similar statutory responsibilities (the number of shire district and shire county councils continues to reduce as more areas establish unitary councils). Each shire district council is a separate legal entity and over many decades the range of discretionary services has also evolved to reflect the individual political priorities of that area. The range, scope and quality of services provided by each council (statutory and discretionary) will be different and influenced by the history, geographic, demographic, and economic factors which makes direct comparisons difficult.

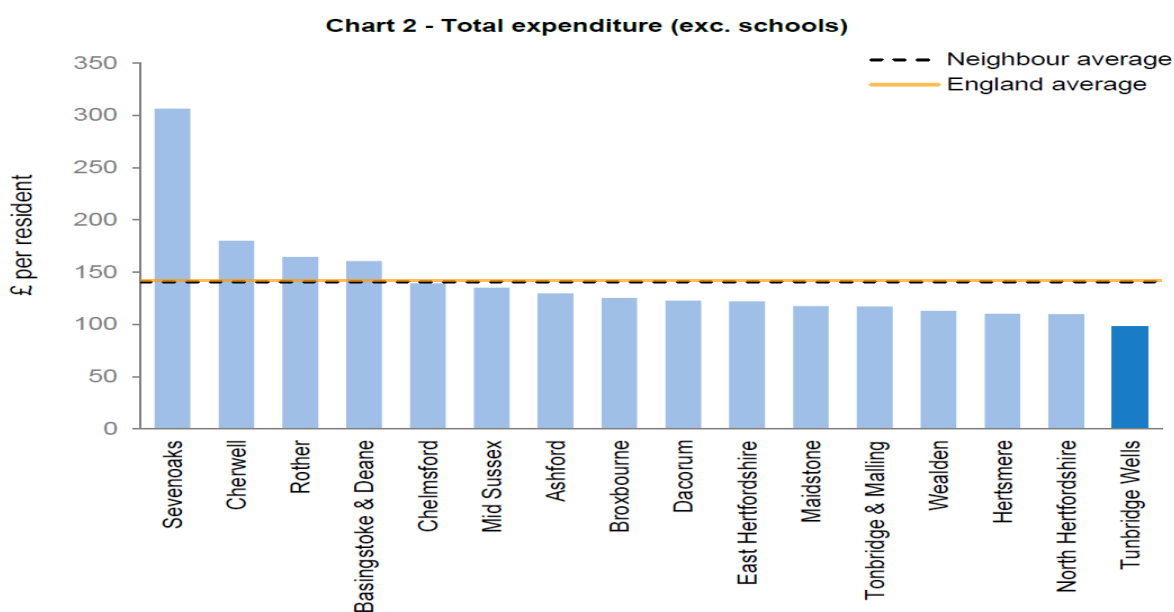
2.50 To compare the net costs of services provided by this council use has been made of the Chartered Institute of Public Finance and Accountancy (CIPFA's) nearest statistical neighbours which have been combined with the geographical neighbours shown below.



2.51 The DLUHC is the government body that oversees and collects data from each local authority. A report comparing the unit costs between the authorities shown above, using budgeted expenditure from each authorities' Revenue Account (RA) returns for 2020/21 is attached as Appended B. The report is intended to act as an initial guide for further investigation into areas where unit costs differ to those of similar authorities and where there may be potential scope for savings. A summary of this benchmarking exercise is shown below.

Overview of unit costs

2.52 Unit costs are based on net current expenditure. Between 2019/20 and 2020/21 unit costs for TWBC **reduced by 4.7 per cent** and were **the lowest of all councils** within the comparator group and below the average for England.



2.53 The benchmarking exercise considers notional savings that could be achieved by setting the unit costs of TWBC to certain levels relative to other councils. A summary of potential savings is shown below.

Table 3 - Potential savings by major service

Notional savings  Additional expenditure

Service	Bottom 20%	Bottom 40%	Median	Top 40%	Top 20%
Highways & Transport	-£2.2m	-£2.6m	-£2.7m	-£2.8m	-£3.2m
Housing Services (GFRA only)	£0.1m	£0.0m	-£0.1m	-£0.2m	-£0.4m
Cultural & Related Services	£1.7m	£1.2m	£0.9m	£0.8m	£0.0m
Environmental & Regulatory Services	£0.0m	-£0.5m	-£0.7m	-£0.9m	-£2.1m
Planning & Development Services	£0.9m	£0.5m	£0.5m	£0.4m	-£0.7m
Central Services	-£0.5m	-£1.2m	-£1.3m	-£1.3m	-£2.6m
Total (excluding schools)	£0.0m	-£2.7m	-£3.4m	-£4.0m	-£8.9m

Negative figures indicate increased expenditure. Your authority would incur additional expenditure if its unit costs are currently below the relevant benchmark level.

- 2.54 The above results indicate very limited scope for savings which is further confirmation that after a decade of austerity combined with low levels of council tax income and government grant this council is still operating on a very lean base. This has been achieved over many years through a rigours process of efficiency, making best use of digital technology and partnership working. There are two areas shown in green where savings could be made namely;

Cultural & Related Services

Whilst the exercise indicates that significant savings can be made in this area this reflects the fact that most similar councils do not provide or subsidise a theatre, museum and other discretionary cultural activities to the level of this council. The council has chosen to further invest in the cultural offer through the Amelia Scott building and the ability to reduce costs would require a change in political priorities.

Planning and Development Services

The exercise indicates that savings can be made in this service, but this does not reflect the significant planning considerations of the borough which include, over 75 per cent of the borough being located within the High Weald AONB or Green Belt and having many significant sites of special scientific interest along with the rich natural and built heritage and conservation features. Previous attempts to reduce costs were reversed as politically the importance of a high-quality planning function remains a local priority.

- 2.55 Whilst the benchmarking exercise is reassuring in that the council is operating at very low unit costs and is exceptionally efficient. This does severely limit the ability to further reduce costs without reducing the range and quality of services provided or by generating additional new income.

Resilience

2.56 Council finances are under intense pressure following a decade of austerity and then from the impact of the pandemic. Despite all this uncertainty out of 333 councils very few have got into financial difficulty. All tend to be upper tier councils; districts should not get into cash-flow difficulties due to the diverse range of discretionary services and multiple income streams they can influence and are not exposed to providing Adult Social Care.

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 continues 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: Medium-Term Budget Projections
- Appendix B: Financial Benchmarking

Background Papers:

- None

8. Cross Cutting Issues

Issue	Implications	Sign-off
Legal including Human Rights Act	The Five-Year Plan and budget form part of the Council’s Policy Framework.	Director of Finance, Policy and Development, 18 September 2021
Finance and other resources	This report forms part of the Council’s Budget and Policy Framework.	Director of Finance, Policy and Development, 18 September 2021

Staffing establishment	Where savings proposals impact on staff then this will be managed in accordance with Human Resources policies.	Director of Finance, Policy and Development, 18 September 2021
Risk management	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, 18 September 2021
Environment and sustainability	The budget has regard to the environmental sustainability priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 18 September 2021
Community safety	The budget has regard to the community safety priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 18 September 2021
Health and Safety	The budget has regard to the Health and Safety obligations and priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 18 September 2021
Health and wellbeing	The budget has regard to the health and wellbeing priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 18 September 2021
Equalities	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, 18 September 2021