

In-Year Budget Review 2022/2023

For Cabinet on 20 July 2022

Summary

Lead Member: Councillor Andrew Hickey, Finance and Performance, Cabinet Member

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

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

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

Classification: Public document (non-exempt)

Wards Affected: All

Approval Timetable	Date
Management Board	22 June 2022
Cabinet Member	14 June 2022
Finance & Governance Cabinet Advisory Board	12 July 2022
Cabinet	20 July 2022

Recommendations

Officer / Committee recommendations as supported by the Cabinet Member:

1. That Cabinet approve the in-year budget revisions and the direction of travel in setting the budget for 2023/24 with the aim of rebalancing the council's finances over the medium-term.
2. Cabinet delegate to the Head of Economic Development and Property in consultation with the Portfolio Holder for Finance and Performance, authority to commence listing, for potential disposal or lease, of the following surplus assets; Mount Pleasant Avenue Car Park, Great Hall Car Park, the Gateway and Land at Warwick Park.
3. Cabinet delegate authority to the Head of Finance, Procurement and Parking in consultation with the Portfolio Holder for Rural Communities (Deputy Leader) to produce Terms of Reference for operating a Community Support Fund.

4. Cabinet approve the virement of £2.5 million from the Town Hall conversion budget to the Asset Acquisition budget to further the economic development of the town centre through the acquisition and/or redevelopment of property. The Director of Finance, Property and Development be given delegated authority to negotiate and agree terms to enter into contracts utilising this budget in consultation with the Monitoring Officer and the Cabinet Members for Finance and Performance and Tunbridge Wells Town Centre and Local Areas; and
5. Cabinet delegate to the Head of Legal Partnership authority to negotiate and complete all necessary agreements, deeds and documents arising or ancillary to the purchases and/or refurbishments on terms negotiated and agreed.

1. Purpose of Report and Executive Summary

- 1.1 Following the formation of a new political administration on the 25 May 2022 and the signing of a Borough Partnership this report commences the work programme on the first of five priorities namely;
1. **Safeguarding finances.**
 2. *Vibrant and safer towns and villages*
 3. *Carbon reduction*
 4. *Genuinely affordable and social rental housing*
 5. *Digital access, transparency and local democracy*
- 1.2 This report seeks to align the aims of the new administration by making some in-year budget revisions that will; reduce expenditure, increase income, and provide a mandate for generating capital receipts to reduce the planned use of council reserves during 2022/23 along with establishing a Community Support Fund.

2. Introduction and Background

- 2.1 In February 2022 Full Council approved the budget for 2022/23 which requires the use of £944,000 from reserves to fund the Revenue Budget in addition to approving new Capital Schemes of £2,140,500.
- 2.2 The Budget 2022/23 and Medium-Term Financial Strategy Update report also included projections for future years of a £2,969,000 deficit for 2023/24 and a cumulative deficit of £20,676,000 if left unmanaged, assuming the economy did not recover.
- 2.3 The Full Council report also included a statement by the s151 Officer in accordance with s25 of the Local Government and Finance Act 2003 on the robustness of the estimates and adequacy of reserves. The statement included the following advice.

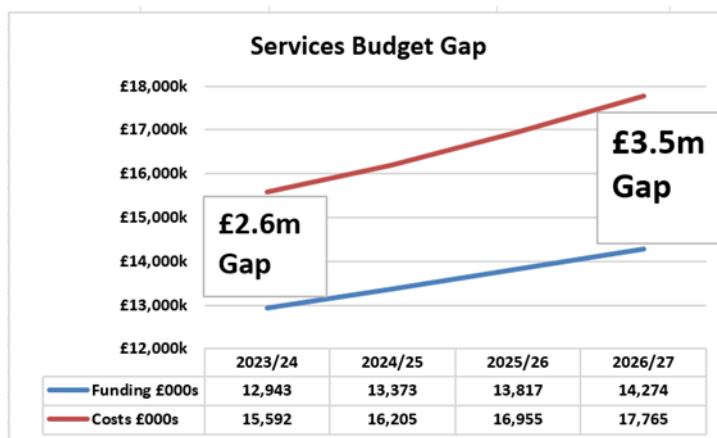
With regards to the adequacy of the reserves the Council must act within the medium-term to bring the cost and demand of providing local services to within the level of income that can be generated and to balance the revenue budget without reliance on reserves.

Historically the Council has delivered a supply of capital receipts to help fund the capital programme, but this supply has stalled, and no major receipts have been achieved in 2021/22. A method of cross-party decision-making is required to ensure those assets approved as surplus to requirements are delivered.

- 2.4 Since the setting of the 2022/23 budget there have been a number of significant events which will impact on finances, namely;

1. The impact from the pandemic is receding and life is starting to settle.
2. The invasion of Ukraine is resulting in higher energy costs in excess of 100 per cent.
3. The Bank of England's Monetary Policy Report is forecasting inflation of 10 per cent.
4. A cost-of-living crisis, as salaries and income fail to keep pace with rising costs.

2.5 The budget forecasts have been updated for the above and the graphic below illustrates the growing budget gap between the cost of providing services and the funding available.



2.6 The new administration intends to act as a matter of urgency to safeguard the council's finances. This will ensure the delivery of essential local services whilst supporting those most in need. Four in-year financial interventions are required. These are set out below:

- Reduction in expenditure
- Increase in income
- Market testing of surplus assets
- Establishing a Community Support Fund

Reduction in Expenditure

2.7 The combination of national labour shortages, the growth of working from home following the pandemic combined with Tunbridge Wells being an expensive part of the country, have all exacerbated the struggle to recruit and retain staff. The Council needs to recruit and retain a wide variety of predominately professionally qualified and experienced staff to deliver local services but is facing very high levels of competition from the private sector and neighbouring councils with upward pressure on salaries.

2.8 The council assumes a budget saving for the period from which a post becomes vacant and when it is filled. A saving also occurs from the policy of appointing all new staff at the entry point for the grade whereas exiting staff are more likely to be at the top point of the grade. These savings are referred to as the Vacancy Factor which is currently budgeted to be £180,000 a year. With the above difficulties continuing (until the employment market eases or the council revises its Human Resources Strategy) it is appropriate to increase the annual level of savings to £250,000. Although there is still

more than half a year left in 2022/23, with no change to market conditions insight, the full amount of £70,000 is expected to be achieved in-year and recurring for future years.

- 2.9 When the 2022/23 budget was set a Contingency of £72,000 was provided for which represented £22,000 for the Council's baseline liability should it need to respond under its statutory obligations under the Civic Contingencies Act 2004. The remaining £50,000 was provided for should there be further costs or a return of the pandemic which would not be funded by the Government. It is now considered that this £50,000 can be released following the ending of the pandemic.

Increase in Income

- 2.10 The Consumer Prices Index (CPI) for April 2022 is 9 per cent with the Bank of England forecasting 10 per cent for this year. Energy costs have increased significantly with the council's rates increasing by 100 per cent. To help mitigate the impact of these additional costs it is proposed to have an in-year report for those major Sales, Fees and Charges where the costs of provision has increased significantly. Along with most other organisations the council is not able to absorb higher costs without reviewing related income and needs to act in-year to enable the additional income from some charges to be receivable from 1 October 2022.
- 2.11 Car Parking Charges across all tariffs have not been increased since April 2017 and cognisant of the need to reflect the changes in costs of provision and striking an appropriate balance on the number of cars being encouraged into the town centre a review of car park charges has also been undertaken.
- 2.12 As part of the process for developing the 2023/24 budget the possibility of environmental based differential charges will be considered which may also generate additional income.

Open Market Listing of Surplus Assets

- 2.13 There have been no major asset disposals over the past couple of years and the section 25 Statement in the Budget report 2022/23 explained that capital receipts are required to fund the capital programme. The council has already declared a number of assets to be surplus to requirement and it is proposed that officers be instructed to commence open market listing of the following assets either for freehold disposal or the issuing of a lease.
- Mount Pleasant Avenue Car Park
 - Great Hall Car Park
 - Gateway
 - Land at Warwick Park
- 2.14 A separate decision would be required to dispose of any assets or award a lease, the process for making such decisions is set out in the constitution.
- 2.15 A full review of council assets will take place as part of the Budget 2023/24 process.

Community Support Fund

- 2.16 The cost-of-living crisis is directly impacting on many of the most vulnerable households in the borough. To help, the council will create a Community Support Fund which will receive an initial allocation from the additional income raised from sales, fees and charges.
- 2.17 The distribution of funding from the Community Support Fund will be determined on recommendations from the Grants Assessment Panel for awards to local organisations.

Summary of Proposed Budget Revisions

- 2.18 If all the proposed budget revisions referred to in this report and amendments to sales, fees and charges set out in a separate report elsewhere on the agenda are implemented, the revised budget forecast will be as follows.

Financial Category	Annual Amount £	Half-Year £	2022/23 Budget £	2023/24 Forecast £
Budget Gap			944,000	2,649,000
Reduction in Expenditure				
Release of vacancy factor	(70,000)	(70,000)		(70,000)
Release of pandemic contingency	(50,000)	(50,000)		(50,000)
Increase in Income				
Increase to car park hourly tariffs last done in 2017	(408,620)	(204,310)		(408,620)
Increase off-street season tickets	(20,950)	(10,475)		(20,950)
Increase on-street Residents Permits by £10 to £70 (17%) & £90 (13%)	(31,180)	(15,590)		(31,180)
Increase to visitor voucher charges	(3,850)	(1,925)		(3,850)
Introduce parking charges at Dunorlan	(73,000)	(36,500)		(73,000)
Increase to Garden Waste Charge to £56, £4 = 8%	(143,048)	(71,524)		(143,048)
Standard Cremation Fee up £25, 3%	(47,650)	(23,825)		(47,650)
Revenue Budget Impact			(484,149)	(848,298)
Set up Community Support Fund			100,000	
Revised Budget Gap			559,851	1,800,702
Net Improvement to Budget Forecast			384,149	848,298

- 2.19 It is assumed that some of the changes can be implemented by 1 October 2022 therefore providing for half the annual impact to be received in-year with the full impact delivered in 2023/24 and recurring.
- 2.20 The above revised budget forecasts will continue to change as further cost pressures materialise throughout the year and the economic conditions vary across services.

National Economic Forecasts

- 2.21 In May 2022 the Bank of England published its Quarterly Monetary Policy report and made some significant changes to their previous forecasts. The current rate of inflation had risen significantly higher than the target of 2 per cent. The BoE expect inflation to rise to 10 per cent this year. The explanations given were that;

Higher prices for goods are one of the main reasons for this.

As economies around the world opened up after Covid restrictions eased, people started to buy more goods.

Sellers had problems getting enough goods to sell which led to higher prices.

Higher demand and supply disruption has led to more increases in the processing of energy and food.

The BoE cannot do anything about global supply problems or the energy prices that are pushing up inflation.

Interest rates have continued to increase.

2.22 The Council is already experiencing increases of 10 per cent on its main contracts and energy prices have increased by 100 per cent. To put this into context, the Council's ability to increase Council Tax is still 'capped' at £5 (2.6 per cent) a year. The increasing divergence between the Council's costs and ability to raise income through Council Tax is unsustainable.

2.23 The cost of external service contracts and energy is fixed and there is no immediate ability to either find cheaper ways of providing outsourced services or significantly reducing energy consumption from existing civic buildings, leisure facilities or the crematorium. In the short-term alternative ways of raising new income are necessary to fund the additional inflationary costs.

2.24 The BoE also reported that pay growth has continued to strengthen in line with the sustained tightening in the labour market. Whole economy average weekly earnings growth rose to 5.4 per cent in the three months to February relative to a year ago, partly reflecting strength in bonuses. HMRC data also suggests that median pay growth, which is less affected by compositional effects, had already reached 5 per cent in the three months to March. This will further put pressure on the council's ability to recruit and retain staff in a competitive marketplace where working from home gives wider access to London based salaries.

Local Economic Data

2.25 The borough continues to recover from the pandemic with strong demand from investors for business premises and new housing. Economic vibrancy has returned to the town centres as office workers have returned and visitors look to enjoy the facilities on offer.

2.26 In Tunbridge Wells demand for premises is exceeding supply in The Pantiles, and the High Street is fully occupied, mostly due to a strong independent business sector. The top of the town around the Shopping Centre has been more challenging as large national retailers review their asset portfolios and decide which towns to focus on. However, the opening of The Amelia Scott appears to be a catalyst for nearby vacant premises being quickly taken over and new restaurants opening, attracted by the increase in footfall.

2.27 A summary of local economic data is shown below:

- Residents of Tunbridge Wells have the second highest Gross Disposable Household Income per Head in Kent of £28,503 (Sevenoaks £31,654). Source: Office for National Statistics (ONS) in 2021 using 2019 data.
- The unemployment rate for Tunbridge Wells was 2.4 per cent (1,745 claimants) in April 2022, compared to the Kent average of 3.6 per cent. Source: Department for Work and Pensions (DWP), 17 May 2022.
- Resident based weekly earnings in Tunbridge Wells are the third highest in Kent at £698.07 and are in the top 20 areas in the country. Source: ONS using data from 2021 Annual Survey of Hours Earnings (ASHE).
- Residents of the borough continue to rank as the least deprived in Kent. Source Ministry for Housing, Communities and Local Government, Index of Multiple Deprivation (IMD2019).

2.28 As with all areas of the country there is still some deprivation, and this has been the subject of an Overview and Scrutiny Task and Finish Study. Changes to economic circumstances do not occur evenly and further work is needed to identify those adversely affected. Moreover, this review makes immediate provision for those most affected by current inflationary pressures by providing a discretionary Community Support Fund. This provision can only be made if the council makes immediate budget adjustments and seeks to balance its budget over the medium-term.

Value for Money Conclusion Recommendations

2.29 In December 2021 the External Auditor issued their value for money conclusion which provided a clean financial bill of health and did not identify any significant weaknesses in; financial sustainability, governance or in terms of achieving economy, efficiency, or effectiveness.

2.30 The report also concluded that the actions taken during the pandemic placed the council in a strong financial position and the council had a robust financial planning process. However, like other Authorities, the report commented that the council is under pressure to identify savings in the years ahead.

2.31 The report made the following recommendations which will be addressed as part of the budget 2023/24 budget setting process.

1. A savings plan based on the five-year budget projections will need to be developed.
2. Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the internet.

Budget Strategy

2.32 There currently remains a deficit forecast for 2023/24 of £2,648,644 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 reserves being used to meet one-off priority expenditure.”

- 2.33 These are not normal times but the sooner the Council acts to reduce the deficit in-year the greater the impact will be on future forecasts, providing actions are recurring and permanent.
- 2.34 The budget setting process for setting the 2023/24 budget will include more detailed consideration of ways to reduce the deficit and to deliver on the new administration’s objectives *earmarked*.

Budget Timeline

- 2.35 To achieve the objective of Safeguarding the Council’s Finances a three-stage approach is proposed:

Three Stages to Safeguarding Finances	2022/23				2023/24				2024/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
In-year Budget Review 2022/23									
Development and approval									
Implementation									
Budget 2023/24 and MTFS Update									
Budget Projection and Strategy									
Review services with Cabinet Members									
Budget Update and Benchmarking									
Draft Budget for Consultation									
Final Budget									
MTFS 2024/25 - 2027/26									
Review range & method of service delivery									
Review Assets Required									
Consultation									
Implementation									

Digital Transformation

- 2.36 It is not possible to keep working harder and faster with fewer resources and still provide safe, effective services. The Council has a strong track record of delivering new ways of working smarter and 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.
- 2.37 A recent example was the need to create from scratch a mechanism for businesses to provide details to enable the Council to quickly and efficiently distribute over £53 million in business grants. A similar system was developed to handle the £150 energy payments for those residents that the council does not hold bank details for.
- 2.38 The public now expect services to be available digitally and 73 per cent of all service requests by the public are on-line. The Mid-Kent Improvement Partnership received £560,000 Transformation Challenge Award which has been used to implement;
- A customer services platform
 - Unified communications

- Business Intelligence Software

- 2.39 A new website was launch in September 2020 which was designed and built in-house. Other new websites were also delivered for Visit Tunbridge Wells, March 2021 and TWBC Climate Action, February 2022.
- 2.40 The weekly council newsletter sent by email now has 11,500 subscribers. Work is in progress of providing a Customer Access (My TW Account) to enable residents to access all their personalised information such as bin collections, nearby planning applications and council tax account in one place.
- 2.41 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

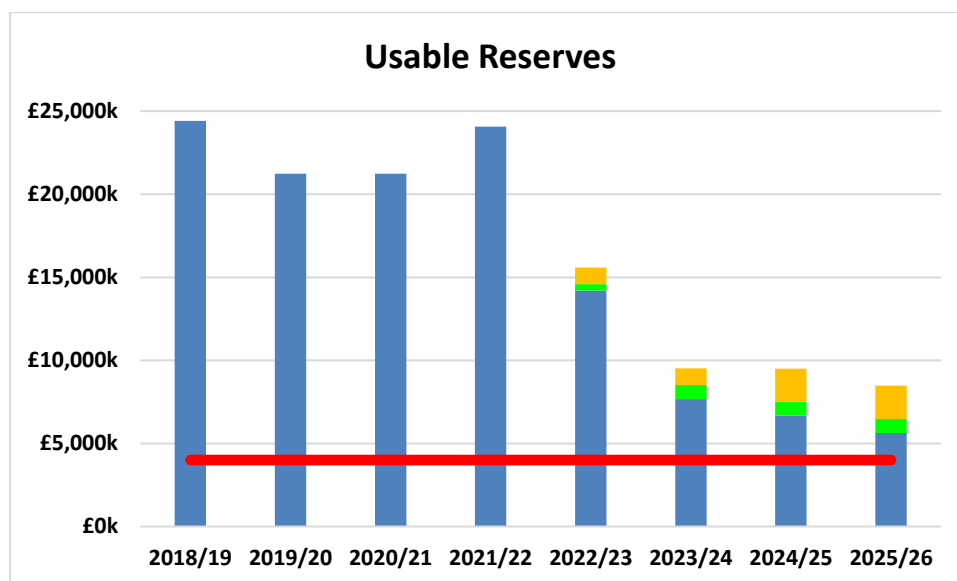
- 2.42 The Medium-Term Financial Strategy maintains the following as an adequate level of reserves:

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

- 2.43 The reserves and balances are currently forecast to meet the above levels although maintaining this position relies on delivering not just a balanced budget over the medium-term but also not using reserves to fund the capital programme.
- 2.44 In addition to the revenue budget and capital programme, 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 virement procedure rules. The projected balance of these reserves and the forecast position without intervention is shown below. The table also shows a track record of delivering the year-end outturn without calling on reserves. However, for reasons set out within the report this outcome should not be relied upon to occur under the current economic conditions.

	31-Mar-20 Actual £000's	31-Mar-21 Actual £000's	31-Mar-22 Actual £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	4,090	4,301	4,336	4,336	4,336	4,212	3,481
Earmarked Reserves	11,261	13,662	15,701	6,538	2,000	2,000	2,000
Use of reserves to fund budget deficit	0	0	0	-944	-2,649	-2,832	-3,138
Capital Grants & Contributions	1,802	2,781	3,280	3,280	3,280	3,280	3,280
Capital Receipts Reserve	4,076	3,324	2,200	1,000	712	0	0
Total	21,229	24,068	25,517	14,210	7,679	6,660	5,623
Collection Fund	0	15,398	6,976	1,366	0	0	0
Total Reserves	21,229	39,466	32,493	15,576	7,679	6,660	5,623

- 2.45 If all the actions set out within this report are delivered as intended, then the decline in council reserves shown in blue below will benefit from reduced in-year usage shown in green and new capital receipts shown in orange:



- 2.46 The red line signals the minimum level of reserves that this Council should hold.

Economic Development

- 2.47 The new administration is focused on furthering the economic vitality of Tunbridge Wells town centre and local areas, with the creation of a Cabinet member for this purpose.
- 2.48 On 6 October 2021 Full Council agreed a budget of up to £5 million to enable the conversion of the Town Hall for co-working. That report explained the economic benefit the scheme would deliver to the town centre. The contract with Town Square has been agreed and not all of this budget is required.
- 2.49 To further build on other opportunities to stimulate economic vitality it is being recommended that £2.5 million of the Town Hall conversion budget is transferred to an Asset Acquisition budget to provide the funds to acquire and/or redevelop properties in the town centre which deliver wider economic benefits.

Significant Areas of Risk and Uncertainty

- 2.50 With the country emerging from a pandemic and the economic outlook including both a possible recession and continued high inflation there are some factors that carry a significant risk to the Council's budget forecasts:
- Collection of Council Tax and Business Rates. The Government's scheme to partly compensate councils for reduced income from local taxation has ended, but future lower collection levels could put the Collection Fund into deficit.

- Collection of income from Sales, Fees and Charges is dependent on the demand for services and the ability to pay. The Government's compensation scheme for helping councils with reductions to income has ended.
- 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.

3. Options Considered

- 3.1 There may be other alternatives but ultimately the new administration has set out a cross party response to improve the financial position of the council and to reduce the planned use of reserves for 2022/23.

4. Preferred Option and Reason

- 4.1 This report seeks to realign the budget with the aims of the new political administration of the Council. This approach also accords with the Government's aim, set out in the Queen's Speech of "ensuring that the public finances are returned to a sustainable path once economic recovery is secure."

5. Consultation on Options

- 5.1 The Council has recently undergone an election and a change in political administration which provides the mandate to act as a matter of urgency to review and implement in-year budget changes.
- 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 and other communication methods 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 prioritisation 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 immediate in-year intervention to be implemented by 1 October 2022. A proposed timetable also sets out the direction of travel to ensure that the Council's finances are safeguarded to enable the continued deliver of statutory services and local objectives.

Appendices and Background Documents

Appendices:

- None

Background Papers:

- None

7. Cross Cutting Issues

Issue	Implications	Sign-off
Legal including Human Rights Act	Full Council is responsible for setting the budget and policy framework. Cabinet has the ability to revise individual budgets in accordance with the thresholds set out in Part 4 of the constitution through the reallocation of funding.	Claudette Valmond, Monitoring Officer 17 June 2022
Finance and other resources	<p>The intention of the report is to reduce the planned use of reserves by implementing actions that would revise expenditure budgets downwards and increase income budgets.</p> <p>The impact would be to improve the finances of the council in-year and to reduce the cumulative forecast deficit over the medium-term.</p> <p>Further detailed work will be undertaken as part of the 2023/24 budget setting process to continue to close the budget deficit and to safeguard the council's finances.</p>	Director of Finance, Policy and Development, 17 June 2022
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, 17 June 2022

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, 17 June 2022
Environment and sustainability	The budget has regard to the environmental sustainability priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 17 June 2022
Community safety	The budget has regard to the community safety priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 17 June 2022
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, 17 June 2022
Health and wellbeing	The budget has regard to the health and wellbeing priorities within the Five-Year Plan.	Director of Finance, Policy and Development, 17 June 2022
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, 17 June 2022