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| Policy, Finance and Development Committee | Tuesday, 01 February 2022 | Matter for Information and Decision |
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Report Title: **Draft Budget and Medium Term Financial Strategy (2022/23) Update**

Report Author(s): **Comie Campbell (Head of Finance / Deputy Section 151 Officer)**
Jo Nacey (Interim Senior Finance Strategy Manager)

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| Purpose of Report: | The report details the Budget position for 2022/23 and the forecast MTFP position with a view to the Committee recommending the actions to close the budget gap to Full Council. |
| Report Summary: | The report sets out the draft budget estimates for 2022/23, Medium Term Financial Plan (MTFP) forecasts, and 2022/23 Capital Programme and the proposed sources of funding. |
| Recommendation(s): | <p>A. That the Committee notes the S151 Officer's statement on the robustness of the budget and the adequacy of reserves as set out in Appendix 3.</p> <p>B. That the Committee recommends Full Council approve the Draft Revenue Budget, subject to any final adjustments as may be required for new information prior to Full Council (such as the NNDR1 final estimates and the Final Finance Settlement 2022/23).</p> <p>C. That the Committee recommends to Full Council a basic Band D Council Tax of £239.50.</p> <p>D. That the Committee recommends that Full Council approve the HRA budget for 2022/23 as detailed in Appendix 1.</p> <p>E. That the Committee recommends that Full Council approves the new Capital Schemes of the General Fund and HRA.</p> <p>F. That the Committee recommends that Full Council approve the Capital Strategy at Appendix 5.</p> |
| Senior Leadership, Head of Service, Manager, Officer and Other Contact(s): | <p>Tracy Bingham (Director / Section 151 Officer) Tracy.Bingham@oadby-wigston.gov.uk</p> <p>Comie Campbell (Head of Finance / Deputy Section 151 Officer) (0116) 257 2713 Comie.Campbell@oadby-wigston.gov.uk</p> <p>Jo Nacey (Interim Senior Financial Strategy Manager) (0116) 257 2706 Jo.Nacey@oadby-wigston.gov.uk</p> |
| Corporate Objectives: | <p>Building, Protecting and Empowering Communities</p> <p>Growing the Borough Economically</p> <p>Providing Excellent Services</p> |

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| Vision and Values: | "A Strong Borough Together" (Vision) Innovation (V4) |
| Report Implications:- | |
| Legal: | There are no implications arising from this report. |
| Financial: | This report sets out the General Fund, Housing Revenue Account and Capital Programme and Strategy for 2022/23, which are needed for the Council to continue to deliver its services to residents, tenants and businesses. It also seeks approval for the basic level of Council Tax for 2022/23. |
| Corporate Risk Management: | Decreasing Financial Resources (CR1) Effective Utilisation of Assets/Buildings (CR5) Regulatory Governance (CR6) Organisational/Transformational Change (CR8) Economy/Regeneration (CR9) |
| Equalities and Equalities Assessment (EA): | There are no implications arising from this report. EA not applicable. |
| Human Rights: | There are no implications arising from this report. |
| Health and Safety: | There are no implications arising from this report. |
| Statutory Officers' Comments:- | |
| Head of Paid Service: | The report is satisfactory. |
| Chief Finance Officer: | As the author, the report is satisfactory. |
| Monitoring Officer: | The report is satisfactory. |
| Consultees: | None. |
| Background Papers: | None. |
| Appendices: | Appendix 1: HRA Appendix 2: Capital Programme Schemes Appendix 3: Robustness of Reserves Appendix 4: Flexible use of Capital Receipts Policy Appendix 5: Capital Strategy |

1. Introduction

- 1.1 The report sets out the draft estimates for 2022/23, Medium Term Financial Plan (MTFP) forecasts, and the 2022/23 Capital Programme and the proposed sources of funding.
- 1.2 As reported in our report to Full Council in December 2021, the Provisional Settlement has now been announced and has indicated some additional grant finding which has been added to our "gap" table. The Settlement is again, a one-year allocation which is not helpful for planning purposes. We still await details of a revised New Homes Bonus scheme and the results of the Fair Funding Review and Business Rates reset. These are not now expected until 2023/24.

- 1.3 The report details the latest position and the proposal to close the residual budget gap with the use of reserves.

2. Medium-Term Financial Strategy (MTFS)

- 2.1. Our current medium term financial plan looks ahead to the forthcoming five-year period and projects a sizeable budget gap from 2022 which is forecast to increase year on year if corrective action is not undertaken.
- 2.2. The current General Fund budget gap for the financial year 2022/23 is summarised in the table below. The table shows the movement in the gap over the Medium term. The budget gap position takes into account key assumptions that are set out later in the report.

General Fund MTFP table:

| | 2021/22 | 2022/23 | 2023/2024 | 2024/2025 | 2025/2026 | 2026/2027 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | £ | £ | £ | £ | £ | £ |
| Net Service Costs | 6,018,651 | 5,681,391 | 5,933,062 | 6,175,172 | 6,351,672 | 6,530,074 |
| Net Interest Costs | 210,900 | 220,900 | 226,300 | 233,600 | 233,600 | 233,600 |
| Provision for Repayment of Borrowing | 852,100 | 505,300 | 614,850 | 660,800 | 708,750 | 708,750 |
| Earmarked Reserves - Other | -579,827 | -244,327 | 0 | 0 | 0 | 0 |
| General Reserves | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Budget Requirement | 6,501,824 | 6,163,264 | 6,774,212 | 7,069,572 | 7,294,022 | 7,472,424 |
| Funded By: | | | | | | |
| Retained Business Rates | -2,120,801 | -1,655,319 | -1,692,878 | -1,753,206 | -1,819,810 | -1,954,388 |
| Business Rates prior year (surplus)/deficit | 2,178,713 | 45,495 | 45,495 | 0 | 0 | 0 |
| S31 Business Rates EMR Funding | -2,178,713 | 0 | 0 | 0 | 0 | 0 |
| Pooling Dividend | 0 | 0 | 0 | 0 | 0 | 0 |
| Lower Tier Grant | | -69,182 | 0 | 0 | 0 | 0 |
| Services Grant - One-off | | -106,320 | 0 | 0 | 0 | 0 |
| Covid Support Grant | -242,000 | 0 | 0 | 0 | 0 | 0 |
| New Homes Bonus | -195,000 | -131,610 | 0 | 0 | 0 | 0 |
| Council Tax—ODBC | -4,117,515 | -4,215,703 | -4,346,745 | -4,479,997 | -4,615,485 | -4,753,236 |
| Council Tax prior year (surplus)/deficit | 173,492 | -30,625 | 16,936 | 0 | 0 | 0 |
| Total Funding | -6,501,824 | -6,163,264 | -5,977,192 | -6,233,203 | -6,435,295 | -6,707,624 |
| Gap – Increase/In-year | 0 | 0 | 797,019 | 39,349 | 22,357 | -93,927 |
| Gap – Cumulative | 0 | 0 | 797,020 | 836,369 | 858,727 | 764,800 |

- 2.3. Like all councils, the one-year settlement provided as part of the provisional local government finance settlement means that understanding our funding post 2022/23 is extremely difficult. The Council's ability to offset any reduction in its funding through growth, and thereby new homes bonus and additional council tax, is limited. However, the council performs well compared to peers in respect of the level of council tax per head, having taken advantage of the flexibility to increase council tax year on year.
- 2.4. The changes to the funding regime anticipated as part of the Fair Funding review and Business Rates Reform aren't likely to hit the Council's finances as hard as may be the case for some authorities, but we still expect our modest business rates funding to reduce in the future when these reviews are implemented. As a result, we expect the council will be worse off over the coming five year period to 2026/27.
- 2.5. Ensuring financial sustainability both as a result of and in spite of future funding changes remains a key challenge for the council. Building on the recommendations made as part of the 2021 Local Government Association Financial Health Check, we recognise the need for a strategy and over the course of the coming year, the new Strategic Director will lead the development of a new Medium-Term Financial Strategy document which will set out how the organisation will overcome the financial challenges ahead and include a clear and deliverable Member-approved plan.

3. 2022/23 General Fund Revenue Budget and Medium Term Financial Plan

- 3.1. The General Fund Revenue Account is the Council's main fund and shows the income and expenditure relating to the provision of services which residents, visitors and businesses all have access to including planning, environmental services, car parks, certain housing functions, community services and corporate services.
- 3.2. The Council directly charges individual consumers for some of its services through fees and charges. The expenditure that remains is mainly funded through a combination of local taxation (including council tax and a proportion of business rates) income and through grant funding from Central Government (including New Homes Bonus and other non-ring-fenced and specific grants/subsidy).
- 3.3. Each year the Council sets an annual budget which details the resources needed to meet operational requirements. The annual budget should be prepared within the context of priorities and objectives identified by Members which are embedded in the Council's current Corporate Strategy.
- 3.4. The Draft Budget included in this report sets out a proposed balanced budget position for 2022/23. The Gap Tracker in Section 5 will show that the Council has had to resort to closing the budget gap by using £244,000 of earmarked reserves which have become available due to a review - these reserves have been identified as no longer being required for the original purpose they were established or set aside for and have remained unspent for some time.
- 3.5. Clearly, utilising reserves to balance the budget on an ongoing basis is not sustainable. Section 12 will highlight the actions which will be needed in order to provide a sustainable position and show that the Council is a Going Concern and has plans to close future budget gaps.

4. Key assumptions

- 4.1. A number of assumptions have already been made in arriving at the current budget position for 2022/23. Costs have been uplifted in a number of areas in line with inflation assumptions. Some areas such as Electricity and Water have been increased significantly. We have used Office for Budget Responsibility (OBR) forecasts and trend analysis to estimate usage and inflationary impact.
- 4.2.
 - Council Tax increase of £5 at Band D;
 - Staff cost inflation of 2%;
 - HRA recharge of 3.75%
 - Utilities – at various rates
 - Interest Rates - reflect the recent increase in Bank of England Base Rates;
 - A 98.5% Council Tax Collection Rate.
- 4.3. Of particular significance are changes to the core budget for 2022/23 also include:
 - The removal of the COVID contingency budget of £500,000;
 - Savings of £117,500 in relation to funds set aside for the Local Plan Reserve; and
 - Fees and charges increases that were agreed at Council in December 2021 – £117,000

5. Gap tracker

- 5.1. The budget gap of £200,565 was reported to Full Council in December. Since that time we have updated our estimates to show the latest position. These updates are listed below:

Summary of Budget changes since December 2021 Full Council:

| Base Budget 2022/23 | Movement (£) | Budget Gap (£) |
|---|--------------|----------------|
| Budget Gap as at Full Council 21 Dec 2021 | | 200,565 |
| Latest CT forecast - includes growth | 45,026 | 245,591 |
| Latest Interest payable estimate | 10,000 | 255,591 |
| MRP update following Capital Programme approval | 36,297 | 291,888 |
| Updated CT deficit 21/22 position (now in surplus) | -47,561 | 244,327 |
| Budget Gap funded from Earmarked Reserves | -244,327 | 0 |
| Budget Gap as at PFD Committee 1 Feb 2022 = £0 | | 0 |

- 5.2. The budget summary shows the Authority is intending to close the residual gap by using Earmarked reserves which have been repurposed. The use of reserves to close a budget gap should be a last resort as it does not address the ongoing pressure. We discuss this further later in the report.

6. Council Tax

- 6.1. Following confirmation in the Provisional Finance Settlement that Districts are able to increase Council Tax by up to the greater of 1.99% or £5 (on a Band D) in 2022/23 without the need for a referendum, Full Council, at the December meeting, were minded to approve the £5 increase on annual Band D Council Tax to £239.50. This represents an increase of 2.13% - 10 pence per week for a Band D Taxpayer.
- 6.2. The Council Tax Base for 2022/23 is 17,602 properties.1 Band D Equivalents, an increase of 43.4 (0.25%) compared to the 2021/22 tax base. This has been communicated to the major preceptors, for use in their funding calculations.
- 6.3. The budget estimates for Council Tax income for OWBC is therefore $17,602.1 \times £239.5 = £4,215,703$. This represents a total increase of £98,188 compared to the previous year. The budget estimates are calculated as follows:

| | £ |
|---|------------------|
| Council Tax Income Budget 2021/22 | 4,117,515 |
| Increase due to change in Tax Base (Band D equivalents) | 10,177 |
| Increase due to £5 increase in Tax Rate | 88,011 |
| Council Tax Income Estimate 2022/23 | 4,215,703 |

7. Business Rates Retention

- 7.1. We receive a significant proportion of our funding through the Business Rates Retention (BRR) System. OWBC operates within the Leicestershire Business Rates Pool which provides the opportunity to retain the majority of business rates growth levy that would be paid to Central Government outside of a pool.

- 7.2. We provided the following table to Full Council in December. We are still compiling the finalised NNDR1 figures which will be completed in January and give us our position for 2022/23. Currently the figures are as below.

Business Rates Retention Provisional Estimates – as at December 2021

| Business Rates Retention Provisional Funding Estimates | 2022/23 Provisional Estimates £ |
|---|--|
| Share of Business Rates Yield | 4,072,760 |
| Rates yield from renewable energy | 8,446 |
| Tariff to Government | -3,761,260 |
| Levy Payment | -11,188 |
| S31 Grant funding for Reliefs | 1,346,561 |
| Cost of Collection Grant | 55,451 |
| Net Retained Business Rates Funding | 1,710,770 |

- 7.3. The draft budget does not assume a pooling gain in 22/23 as this is subject to the completion of the NNDR1 initially. This will be updated following completion of the NNDR1 and will ultimately only be confirmed based on the outturn for the Pool at the end on next financial year. Final estimates will be reflected in the final budget report to Council in February.
- 7.4. The Government is still committed to reviewing the business rates retention and relative needs and resources funding distribution but the detail from the Autumn Statement suggests this has again been delayed, possibly to 2023/24 or even later.

8. Capital Budget

- 8.1. The 2022/23 New Proposed Capital Schemes total £5.052m which comprises of £3.830m HRA and £1.222m General Fund see **Table 1**. The HRA capital schemes include a budget of £2.330m for housing development at Horsewell Lane which would be funded by a combination of borrowing and the use of One for One capital receipts.
- 8.2. These new General Fund capital scheme budgets for 2022/23 include:
- An Invest to Save £0.350m and Transformation of £0.400m, which will facilitate income generation schemes coming in to operation from 2022/23 onwards. At this moment in time, these projects are yet to be defined. Further details will be brought back to Members for approval before any expenditure is incurred against these budget headings;
 - Energy efficient technologies at the site (£0.200m) would result in revenue savings by reduced energy costs and the wind turbine would be a source of income through excess electricity being sold back to the National Grid suppliers;
 - The Council is currently exploring options regarding a joint venture partnership for the development of the Oadby Pool site. The 2022/23 capital programme will likely need to be updated and brought back to Council for approval, depending how this progresses.

Table 1

| New Proposed Capital Schemes | Total 2022/23 |
|-------------------------------------|----------------------|
| Fund | £000's |

| | |
|-------------------------|--------------|
| Housing Revenue Account | 3,830 |
| General Fund | 1,222 |
| Total Programme | 5,052 |

The capital programme is shown in **Appendix 2** to this report.

8.3. Funding for the programme is likely to be as follows:

Table 2

| Funding | £000's |
|-------------------------------|---------------|
| Borrowing (General Fund) | 2,652 |
| Usable Capital Receipts | 400 |
| Usable 1 4 1 Capital Receipts | 500 |
| Major Repairs Reserve | 1,500 |
| Total | 5,052 |

8.4. Current schemes in the 2021/22 Capital Programme will be assessed, carried forward and brought to Members after year end. **Table 3** shows a summary of the current 2021/22 capital programme and the proposed new capital schemes for 2022/23.

Table 3 - Capital Programme Summary

| Fund | Revised Budget 2021/22 | New Schemes 2022/23 | Capital Total |
|--------------------------------|-------------------------------|----------------------------|----------------------|
| | £'000 | £'000 | £'000 |
| General Fund | 4,610 | 1,222 | 5,832 |
| Housing Revenue Account | 2,449 | 3,830 | 6,279 |
| Total | 7,059 | 5,052 | 12,111 |

9. Reserves

- 9.1. The Local Government Act 2003 requires the Council's Section 151 Officer to report on the robustness and sustainability of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This assessment is included at **Appendix 3**. It is particularly pertinent at this time to consider the level of reserves as, as a last resort, they may be called upon to close some of the budget gap. The Council's policy is to carry out an annual review of all reserves as part of the budget-setting process. This review includes identifying the reserves purpose and advising the appropriate level for each reserve. This work is being undertaken.
- 9.2. The Council General Fund Reserves balance need to be maintained at a level to enable the Council to mitigate any current or future risks. The General Fund balance is £1.348m and is forecast to be £1.189m at 1 April 2022, assuming current year financial outturn is as forecast at Q3.
- 9.3. Currently the Council is exploring income generation opportunities that will increase the level of reserves over the next few years to build resilience. Certain earmarked reserves,

identified as no longer being required, have been repurposed to assist in funding the 2022/23 budget gap of £0.244m.

9.4. General Fund Reserves Summary Table:

| Type of Reserve | 1 April 2021 Opening Balance £000s | Used to close budget/in-year variance £000s | 1 April 2022 Estimated Balance £000s |
|---|---|--|---|
| General Fund | 1,348 | -159 | 1,189 |
| Earmarked Reserves | 949 | -244 | 705 |
| Total Usable Revenue Reserves | 2,297 | -403 | 1,894 |
| Capital Reserves | 1,883 | -400 | 1,483 |
| Capital Grants Unapplied | 24 | 0 | 24 |
| Total Usable Capital Reserves | 1,907 | -400 | 1,507 |
| Ringfenced - Covid 19; Disabled Facilities and S31 Monies | 4,205 | -4,182 | 23 |
| Total General Fund Reserves | 8,409 | -4,985 | 3,424 |

- 9.5. Whilst at first sight, the reserves look reasonably healthy in 2021/22, c£1.5m of that is restricted in its use (capital). Our opening balance also includes a significant Covid-19 support balance (£1.7m) which may need to be returned to Central Government (this has been reflected in the table). We also hold £2.12m of S31 Collection Fund reserves which are directly linked to our Business Rates and will be used to offset volatility in the returns and also to fund the shortfall which has occurred directly in relation to business rates extended reliefs. These S31 funds are provided by Central Government to offset the reliefs given by the local authorities.
- 9.6. We also committed £579,827 (£500k for Covid Contingency) of earmarked reserves in 2021/22 to close the 2021/22 budget gap. This is reflected in the opening Earmarked Reserve Balance of £949k which has been reduced by that amount.
- 9.7. The in-year overspend is reflected against the first line of the table as this is customarily taken from the General Fund Reserve. This reserve must not fall below the minimum acceptable level of £700k. To ensure the reserve is maintained well above this level, the Council has reviewed its earmarked reserves and allocated the amount required to balance the budget for 2022/23, thereby maintaining the projected balance of £1.189m in April 2022. Clearly, for future years, the Council must seek to address the budget gap through the delivery savings and/or income generation and more detail around proposals will be brought back to members in due course.

10. The Housing Revenue Account (HRA)

- 10.1. The Housing Revenue Account (HRA) includes any expenditure associated with the Council's function as a social housing landlord and is shown in below. The items that can be debited and credited to the account are determined by statute. This includes an average rent increase of 4.1% (CPI +1%) for 2022/23, taking it to an average rent of £81.93 per week (increase of £3.23 per week). The increase of 4.1% has been applied to HRA associated services offered to tenants. Further details are shown in **Appendix 1**.

11 Flexible Use of Capital Receipts

- 11.1 The Spending Review 2015 allowed local authorities additional flexibility for the three year period 2016-17 to 2018-19 to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and support the delivery of future savings. This represented a significant departure from the previous requirements which restricted the use of receipts from asset sales to funding new capital investments.

- 11.2 This flexibility was subsequently extended until 2021/22. In the Provisional Settlement announced in December 2021, the Department for Levelling Up, Communities and Housing (DLUH) announced that this flexibility was to be extended again. We have still not however, had the details of this extended scheme. The DLUH have said *"We announced as part of the local government finance settlement in February 2021 that we would extend the flexibility to use capital receipts for further three years and at the time we said we would follow up with the details of the flexibility. Information on the parameters beyond 31 March 2022, including if previous years receipts can be utilised, are still in the process of being finalised. We needed time to assess the impact and benefits of extending the flexibility in different ways, while making sure it has the relevant safeguards. In light of the Spending Review and other recent changes, these have taken longer than expected. We understand that local authorities need time to plan for their spending over the years and will publish these details shortly."*
- 11.3 We have not previously used this flexibility but now feel it would be appropriate with some eligible projects we are currently working on. We have therefore produced a draft Strategy as attached at **Appendix 4**. We will return to Committee with further details when they become available from DLUH and provide more detail on the suggested projects.

12 The Long Term Position; Medium Term Financial Strategy; and Capital Strategy

- 12.1 The MTFP Table at 2.2 shows that we have a significant budget gap to address in future years. By 2025/26 this gap is forecast to increase to £859k. In relation to the forecast expenditure budget of £7.294m this is 11.8%. It is regrettable that we have been unable to instigate savings to address all of the 22/23 budget gap and have had to use a material amount of our, already depleted, earmarked reserves.
- 12.2 In order for the situation to improve; for the Council to continue as a going concern and; for the Council to be able to demonstrate to the external auditors and other stakeholders that we have deliverable plans to address the gap in the medium term, we must find ongoing savings and/or ongoing new income streams.
- 12.3 We have been prudent in the setting of the 2022/23 budget by not including savings which may not materialise and not including new income streams which have not yet been fully scrutinised and are not yet "in-flight". Our 2022/23 budget is therefore robust. We have a number of proposals currently being looked at and are confident that some of these will come to fruition during 2022/23, thus giving a "windfall" in year, albeit it will not be a full year effect. We have other projects which will take longer to instigate. Due diligence on all the proposals is key and will be undertaken before Members are presented with details for approval.
- 12.4 We have also produced a Capital Strategy which is included at Appendix 5 which details our approach to Treasury Management; Investments and our Capital Programme. The Treasury Management Strategy and accompanying appendices will be presented to Full Council in February in a separate report.

13 Conclusion

- 13.1 The Council has a large budget gap forecast in future years. It will need to improve its financial position in order to become financially resilient. We may see an improvement in the 2022/23 position, following the completion of the NNDR1 later this month, but this is currently uncertain and there are many factors which affect the Business Rates Retention figure including the risk of appeals. We must seek to replenish our reserves and we must

ensure that new income streams are prioritised and brought forward as soon as possible, following appropriate due diligence.

- 13.2 We do have some promising projects which have been proposed by budget holders/managers and we need to focus our attentions on our medium term resilience, rather than limiting our attention to a one-year window. This medium term focus is made additionally difficult by the one-year settlement from Central Government and the regular delays to the Fair Funding Review; the Business Rates reset and; the review of the New Homes Bonus Scheme.
- 13.3 We are therefore, clearly, not the only council to face difficulties in the medium term and continued lobbying by the LGA for multi-year settlements draw attention to the need for certainty, to enable us to plan effectively and reassure ourselves and our stakeholders that we can continue to provide services without having to look for further cuts.