**Rother District Council**

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| **Report to:** | Overview and Scrutiny Committee |
| **Date:** | 24 January 2022 |
| **Title:** | Draft Revenue Budget 2022/23 Proposals |
| **Report of:** | Antony Baden – Chief Finance Officer |
| **Ward(s):** | All |
| **Purpose of Report:** | To receive the draft Revenue Budget 2022/23 referred from Cabinet at its meeting held on Monday 10 January 2022. The report and recommendations arising are reproduced below and the Minutes of that meeting (Appendix 1) should be read in conjunction with this report. |
| **Officer Recommendation(s):** | It be **RESOLVED**: That the comments of the Overview and Scrutiny Committee be considered by Cabinet when setting the 2022/23 Draft Revenue Budget at its meeting on 7 February 2022. |

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## Introduction

1. The Council is required to set a balanced budget each year. The Local Government Finance Act 1992 requires the Council to estimate revenue expenditure and income for the forthcoming year from all sources, including contributions from reserves, in order to determine its net budget requirement.

2. This report updates Members on the second phase of the budget process, which is to prepare the draft Revenue Budget for 2022/23 by outlining the likely financial position and the key issues Members need to consider. Appendix A details the summary draft Revenue Budget, Appendix B gives summary information for each service area and Appendix C details the main changes from the 2021/22 Budget. Appendix D summarizes the Council's Revenue Reserves position.

3. All Budgets are shown at "Net Operational Expenditure Levels" and exclude central costs and support service recharges. This ensures Members are provided with a clear identifiable core cost for each service.

## Budget Assumptions

4. As the Section 151 Officer, the Chief Finance Officer confirms that, in accordance with Section 25 of the Local Government Act 2003, these estimates have been prepared on a robust basis. The following assumptions were made when calculating the draft budget:
   a. **Inflation** – increases of between 1.8% and 2% have been applied to non-pay and income budgets except for contracts where specific indices are applied, (see paragraph 15 below);

b. **Salaries** – an increase of 1% has been applied, with effect from September 2022;

c. **Transfers** – the use of transfers between existing budgets has been applied to enable funding is re-directed to priority areas;

d. **Income** – where applicable, income budgets have been increased in line with the fees and charges approved by Cabinet on the 8 November 2021.

**Government Grant Settlement**

5. The draft Local Government Finance Settlement (LGFS) was announced by the Government on the 16 December 2021 and applies to 2022/23 only. It does not give the Council any indication of future funding streams.

6. Each year the Government sets the Council's Core Spending Power (CSP) in the LGFS. It is an estimate of the resources required to fund services across the district and notably includes income the Council collects from Council Tax. The table below shows that the 2022/23 CSP is £11.4 million, which is an increase of 6% (£0.7 million) on the 2021/22 figure:

| | **£ M** |
|---|---|
| **Core Spending Power 2021/22** | **10.7** |
| Settlement Funding Assessment (SFA) | 2.4 |
| Compensation for under-indexing | 0.2 |
| Council Tax | 8.0 |
| New Homes Bonus Grant (NHB) | 0.5 |
| Rural Services Delivery Grant (RSD) | 0.1 |
| Lower Tier Services Grant (LTSG) | 0.1 |
| Services Grant | 0.2 |
| **Core Spending Power 2022/23** | **11.4** |

7. The SFA consists of the Council's share of business rates income and Revenue Support Grant (RSG). The baseline funding figure of £2.4 million is unchanged from 2021/22 although there is a small increase of £0.2 million due to the freezing of the business rates multiplier in the LGFS. Furthermore, because our expected share of business rates income exceeds £2.4 million the Council continues not to receive any RSG.

8. The MTFP did not include any New Homes Bonus (NHB) in the forecast as the Department for Levelling Up, Housing and Communities (DLUHC) (previously known as the Ministry of Housing, Communities and Local Government (MHCLG)) had given no prior indication that this source of funding would continue beyond 2021/22. However, the LGFS includes about £0.5 million. It also includes funding of £0.2 million for Rural Services Delivery (RSD) and Lower Tier Services Grant (LTSG) grants, which have been continued from 2021/22, as well as a one-off grant of £0.2 million to fund general services pressures.

9. The Local Council Tax Support, Benefits Administration and Homelessness Preventions grants do not form part of the Council's CSP calculation. Paragraphs 22 to 25 give more information about grant funding.

## Review of Cost Pressures

10. In the Medium-Term Financial Plan (MTFP) forecast reported to Cabinet on the 13 December 2021 Members were advised of several cost pressures that may affect the Council's budget. These have been reviewed as part of the second phase of the budget process and are discussed in paragraphs 11 to 16 below.

11. **Homelessness** – Members approved an increase of £250,000 in the 2021/22 base budget in response to the high levels of demand experienced in the previous year. The Temporary Accommodation (TA) acquisition programme has successfully secured several properties across the district and this has reduced the cost of TA to the Council, but demand remains high. Furthermore, the costs associated with the discretionary placement of rough sleepers will continue into 2022/23 and place further pressure on this budget. Therefore, it is proposed to retain the additional £250,000 provision within the base budget.

12. **Planning Appeals** – This provision includes the costs unchanged from the MTFP forecast.

13. **Net Financing Costs** – These have been subject to very minor changes since the MTFP forecast.

14. **Staffing Costs** – These have been reviewed to assess the impact of the 1.25% increase in the employer's national insurance contribution rate, which is effective from April 2022 and other changes. As a result, the budgets have been increased in overall terms by £242,000.

15. **Non-Pay Inflation** – As previously reported the Chief Finance Officer reviewed inflation budgets to assess the impact of the current economic data and inflation on large contracts. Inflation on energy budgets has been estimated at 4.2% and has increased costs by over £22,000. More significantly, the Refuse Collection and Street Cleansing contract is aligned to the September consumer price index. As a result, it is subject to an uplift of 5%, which equates to an increase of £255,000.

16. **COVID-19 impact** – No further changes have been made to the budget at this stage although uncertainty continues to exist over the potential impact of the pandemic. Future lockdowns may have a negative impact on the budget. Officers will continue to monitor the situation throughout the financial year and update Members via the Quarterly Revenue Budget Monitoring reports.

## Budget Contingency

17. For 2022/23 only it is proposed to establish a contingency of £200,000. This budget will be controlled by the Chief Finance Officer in consultation with the Chief Executive and used to fund unexpected events that have not been included in the 2022/23 budget and are too big to be mitigated within existing budgets. Examples would include further significant inflation increases, judicial reviews and emergency building maintenance works.

## Financial Stability Programme

18. There have been no changes to the savings targets previously reported but Members are reminded of the importance of delivering them and the risks

associated with non-delivery. For example, if only 50% of the savings are delivered, Reserves would fall to an unsustainably low level and if only 25% are delivered, the Council would run out of Reserves during 2025/26. In either case, the Council would be forced to cut statutory services and stop providing some non-statutory services altogether. The Chief Finance Officer may also be obliged to issue a section 114 notice should he conclude that the Council cannot balance its budget in-year.

**Business Rates (National Non-Domestic Rates)**

19. Since the MTFP report the Chief Finance Officer has received a letter confirming that the Secretary of State has retained the East Sussex Business Rates Pool for 2022/23. This will be discussed with the section 151 officers from the other pool member authorities before the final budget phase is concluded but it is anticipated that it will remain financially advantageous for the Council to remain in the pool.

**Council Tax**

20. The 2022/23 council tax base has been calculated at 38,626.8 and shows an increase of 1,020 Band D equivalents since December 2020. The main reasons for the change are as follows:

    a. An increase of 356.0 in chargeable dwellings since December 2020;

    b. A projected increase of 399.8 in dwellings from new developments;

    c. A reduction in the take up of the Council Tax Reduction Scheme, (the number of claimants increased in 2020/21 due to the impact of lockdown), which has increased chargeable dwellings by 291.9.

21. The draft settlement confirms that the 2022/23 council tax referendum principles for shire districts, like Rother, will allow an increase in council tax of £5 or 2% whichever is the highest. The draft Revenue Budget assumes that the Council will increase Council Tax by the maximum allowed before a referendum is required. To ensure the Council remains within this limit, including Special Expenses, an increase of £4.67 to £193.38 has been assumed for Band D property. This is subject to agreement by Full Council and will increase Council Tax income by £373,000 to an estimated total of £7.47m.

**Non-Specific Revenue Grants**

22. The Council received notification of several government grants as part of the LGFS announcement and it will also receive other non-specific grants. These are listed below along with the expected amounts:

    a. New Homes Bonus - £467,000;
    b. Services Grant - £164,000;
    c. Lower Tier Services Grant - £107,000;
    d. Rural Services Delivery Grant - £64,000;
    e. Local Council Tax Support Grant (LCTS) - £150,000;
    f. Benefits Administration Grant (BAG) - £228,000;
    g. Homelessness Grant – Preventions (HPG) - £470,000.

**Grants receivable in 2022/23 only - £738,000**

23. The total amount of grant funding is expected to be £1.653 million. As mentioned previously the LGFS is a one-year settlement and it is unclear whether NHB funding (£467,000) will continue beyond 2022/23. However, the DLUHC have stated their commitment to address the scheme as part of the Fair Funding Review so there is a strong possibility that it will exist in some form or another. The Services grant is a one-off sum, which the Council will not receive after 2022/23. The LTSG was introduced in 2021/22 and although the DLUHC has indicated that it will be addressed as part of the Fair Funding Review, there is no specific commitment to continue funding after 2022/23.

**Grants expected to continue beyond 2022/23 - £912,000**

24. The Council receives a small grant in relation to RSD. It is anticipated that this will be carried over into 2022/23.

25. The Local Council Tax Support, Benefits Administration and Homelessness Preventions grants do not form part of the Council's CSP but are an established component of its funding envelope. The allocations for the first two grants are yet to be notified but it is anticipated that funding levels will be like those previously reported. The Homelessness Preventions grant has been notified at £470,000, which includes £8,000 to address the costs of homelessness arising as a result of domestic abuse.

**Revenue Reserves**

26. The draft Revenue Budget for 2022/23 proposes the use of £3.670m from reserves. Of this, £0.374m will be used to support capital expenditure with the other £3.296m being used to support revenue expenditure.

27. The total Revenue Reserves balance by the end of March 2023 is estimated to be £6.144m. Over the five-year financial forecast period Reserves are predicted to fall to a minimum of £4.4m by 2024/25, rising to £5.901m by 2026/27. In 2023/24 to 2025/26 Reserves will fall below the minimum level of £5m level previously agreed by Members, before exceeding it again in 2026/27.

**Collection Fund Surplus/Deficit**

28. The Collection Fund will be reviewed during the third phase of the budget process and reported to Cabinet at the 7 February 2022 meeting.

**Budget Consultation**

29. The budget consultation is due to close in January 2022 and interim results will be reported to the Overview and Scrutiny Committee at their meeting on the 24 January 2022.

## Conclusion

30. As previously reported the Council's ability to deliver a balanced budget heavily depends on strong financial management and the successful delivery of the FSP. It is highly likely that its resources will need to be reorganised if the priorities and objectives of the Corporate Plan are also to be achieved. To this end, the Council will need to maintain a suitable level of Reserves and continue to operate within the approved budget each financial year to prevent further unplanned calls on reserves. Failure to do so will impact on the Council's ability to meet its statutory obligations.

| Other Implications | Applies? | Other Implications | Applies? |
|---|---|---|---|
| Human Rights | No | Equalities and Diversity | No |
| Crime and Disorder | No | Consultation | Yes |
| Environmental | No | Access to Information | No |
| Risk Management | No | Exempt from publication | No |

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| Chief Executive | Malcolm Johnston |
| Report Contact Officer: | Antony Baden, Chief Finance Officer |
| e-mail address: | Antony.Baden@rother.gov.uk |
| Appendices: | Appendix A - Draft Revenue Budget – 2022/23 to 2026/27<br>Appendix B - Revenue Budget Summary - Cost of Services<br>Appendix C - Main changes in net cost of services between 2021/22 and 2022/23<br>Appendix D - Revenue Reserves |
| Relevant Previous Minutes: | None. |
| Background Papers: | Local Government Settlement 2022/23 |
| Reference Documents: | None. |

## DRAFT REVENUE BUDGET - 2022/23 TO 2026/27

**Appendix A**

| | Original 2021/22 Budget £ (000) | Revised 2021/22 Budget £ (000) | Projected 2021/22 Outturn at Qtr 2 £ (000) | 2022/23 Budget £ (000) | 2023/24 Budget £ (000) | 2024/25 Budget £ (000) | 2025/26 Budget £ (000) | 2026/27 Budget £ (000) |
|---|---|---|---|---|---|---|---|---|
| Corporate Core | 2,034 | 2,028 | 2,022 | 2,173 | 2,028 | 2,028 | 2,028 | 2,028 |
| Environmental Services | 658 | 609 | 522 | 670 | 611 | 611 | 611 | 611 |
| Strategy and Planning | 1,090 | 1,043 | 1,780 | 1,338 | 1,043 | 1,043 | 1,043 | 1,043 |
| Acquisitions, Transformation and Regeneration | (297) | 127 | (378) | (76) | (835) | (1,518) | (1,862) | (1,916) |
| Housing and Community Services | 8,739 | 8,186 | 8,665 | 8,211 | 7,938 | 7,938 | 7,938 | 7,938 |
| Resources | 3,350 | 3,293 | 3,509 | 3,307 | 3,295 | 3,295 | 3,295 | 3,295 |
| **Total Cost of Services** | **15,574** | **15,286** | **16,120** | **15,623** | **14,081** | **13,397** | **13,054** | **12,999** |
| Net Financing Costs | 1,101 | 1,101 | 278 | 1,542 | 1,550 | 1,558 | 1,566 | 1,552 |
| Salaries turnover & Inflation | (288) | 0 | 0 | 0 | 40 | 40 | 47 | 47 |
| Financial Stability Programme - Savings and Income generation | (632) | (632) | (158) | (635) | (2,137) | (2,197) | (2,197) | (2,197) |
| Budget Contingency | 0 | 0 | 0 | 200 | 0 | 0 | 0 | 0 |
| **Net Cost of Services** | **15,755** | **15,755** | **16,240** | **16,730** | **13,534** | **12,798** | **12,469** | **12,401** |

| | Original 2021/22 Budget £ (000) | Revised 2021/22 Budget £ (000) | Projected 2021/22 Qtr 2 £ (000) | 2022/23 Budget £ (000) | 2023/24 Budget £ (000) | 2024/25 Budget £ (000) | 2025/26 Budget £ (000) | 2026/27 Budget £ (000) |
|---|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | | |
| Special Expenses | (692) | (692) | (692) | (702) | 0 | 0 | 0 | 0 |
| Business Rates & Section 31 Grants | (3,747) | (3,747) | (3,747) | (3,747) | (3,747) | (3,747) | (3,747) | (3,747) |
| Non-Specific Revenue Grants | (1,653) | (1,653) | (2,045) | (1,650) | (934) | (956) | (979) | (1,003) |
| Council Tax Requirement (Rother only) | (7,097) | (7,097) | (7,097) | (7,470) | (7,759) | (8,086) | (8,414) | (8,741) |
| **Other Financing** | | | | | | | | |
| Collection Fund (Surplus)/Deficit | 134 | 134 | 134 | 134 | 134 | 134 | 0 | 0 |
| **Total Income** | **(13,054)** | **(13,054)** | **(13,447)** | **(13,435)** | **(12,306)** | **(12,656)** | **(13,140)** | **(13,491)** |
| **Contribution from Reserves/Funding Gap** | **2,700** | **2,700** | **2,793** | **3,296** | **1,229** | **142** | **(671)** | **(1,090)** |

**Appendix B**

## Revenue Budget Summary - Cost of Services

| Revenue Budget Summary - Cost of Services | Revised Budget 2021/22 | Budget 2022/23 | | |
|---|---|---|---|---|
| | | Gross Expenditure | Income | Net Expenditure |
| | £ | £ | £ | £ |
| Acquisition, Transformation and Regeneration | 124,495 | 2,285,470 | (2,361,960) | (76,490) |
| Environmental Services, Licensing and Community Safety | 608,210 | 2,723,310 | (2,053,060) | 670,250 |
| Corporate Core | 2,027,940 | 2,199,610 | (26,740) | 2,172,870 |
| Housing and Community | 8,189,635 | 12,601,680 | (4,390,250) | 8,211,430 |
| Resources | 3,292,410 | 22,623,845 | (19,316,750) | 3,307,095 |
| Strategy and Planning | 1,042,720 | 2,331,750 | (994,000) | 1,337,750 |
| **Total** | **15,285,410** | **44,765,665** | **(29,142,760)** | **15,622,905** |

| Acquisitions, Transformation and Regeneration | Revised Budget 2021/22 | Budget 2022/23 | | |
|---|---|---|---|---|
| | | Gross Expenditure | Income | Net Expenditure |
| | £ | £ | £ | £ |
| Economic Development and Regeneration | (1,049,215) | 1,022,880 | (2,288,070) | (1,265,190) |
| De La Warr Pavilion Client | 485,890 | 488,500 | | 488,500 |
| Programme and Policy Office | 235,920 | 221,790 | | 221,790 |
| Transformation | 309,540 | 345,560 | (20,000) | 325,560 |
| Director of Place and Climate Change | 142,360 | 206,740 | (53,890) | 152,850 |
| **Total** | **124,495** | **2,285,470** | **(2,361,960)** | **(76,490)** |

| Environmental Services, Licensing and Community Safety | Revised Budget 2021/21 | Budget 2022/23 | | |
|---|---|---|---|---|
| | | Gross Expenditure | Income | Net Expenditure |
| | £ | £ | £ | £ |
| Food and Safety | 269,330 | 1,061,670 | (800,020) | 261,650 |
| Licensing | 2,690 | 800,690 | (769,960) | 30,730 |
| Pollution | 327,000 | 847,350 | (483,080) | 364,270 |
| Head of Service | 9,190 | 13,600 | | 13,600 |
| **Total** | **608,210** | **2,723,310** | **(2,053,060)** | **670,250** |

| Corporate Core | Revised Budget 2021/22 | Budget 2022/23 | | |
|---|---|---|---|---|
| | | Gross Expenditure | Income | Net Expenditure |
| | £ | £ | £ | £ |
| Chief Executive Office | 229,600 | 364,900 | | 364,900 |
| Communications | 51,490 | 51,660 | | 51,660 |
| Democratic and Electoral Services | 617,030 | 618,770 | | 618,770 |
| Emergency Planning | 31,720 | 32,670 | | 32,670 |
| Facilities | 391,560 | 378,730 | | 378,730 |
| Human Resources | 289,930 | 331,170 | (26,740) | 304,430 |
| Internal Audit | 151,010 | 155,740 | | 155,740 |
| Legal Services | 265,600 | 265,970 | | 265,970 |
| **Total** | **2,027,940** | **2,199,610** | **(26,740)** | **2,172,870** |

**Appendix B continued**

## Revenue Budget Summary - Cost of Services

| Housing and Community | Revised Budget 2021/22 | Budget 2022/23 | | |
|---|---|---|---|---|
| | | Gross Expenditure | Income | Net Expenditure |
| | £ | £ | £ | £ |
| Customer Services | 527,280 | 486,460 | | 486,460 |
| Housing | 1,749,280 | 2,837,740 | (1,068,560) | 1,769,180 |
| Neighbourhood Services and Contracts | 5,570,475 | 8,909,770 | (3,321,690) | 5,588,080 |
| Property and Maintenance Services | 250,850 | 274,650 | | 274,650 |
| Head of Service | 91,750 | 93,060 | | 93,060 |
| **Total** | **8,189,635** | **12,601,680** | **(4,390,250)** | **8,211,430** |

| Resources | Revised Budget 2021/22 | Budget 2022/23 | | |
|---|---|---|---|---|
| | | Gross Expenditure | Income | Net Expenditure |
| | £ | £ | £ | £ |
| Financial Services | 1,631,870 | 1,670,825 | (9,060) | 1,661,765 |
| Information Communication Technology | 912,730 | 1,035,680 | (60,000) | 975,680 |
| Revenues and Benefits | 633,040 | 19,916,460 | (19,247,690) | 668,770 |
| Assistant Director, Resources | 114,770 | 880 | | 880 |
| **Total** | **3,292,410** | **22,623,845** | **(19,316,750)** | **3,307,095** |

| Strategy and Planning | Revised Budget 2021/22 | Budget 2022/23 | | |
|---|---|---|---|---|
| | | Gross Expenditure | Income | Net Expenditure |
| | £ | £ | £ | £ |
| Building Control | 56,540 | 56,910 | | 56,910 |
| Business Support and Land Charges | 131,530 | 326,000 | (194,000) | 132,000 |
| Development Management | 163,460 | 1,295,250 | (760,000) | 535,250 |
| Enforcement | 115,000 | 115,740 | | 115,740 |
| Planning Strategy | 477,860 | 529,510 | (40,000) | 489,510 |
| Head of Service | 98,330 | 8,340 | | 8,340 |
| **Total** | **1,042,720** | **2,331,750** | **(994,000)** | **1,337,750** |

## Appendix C

**MAIN CHANGES IN NET COST OF SERVICES BETWEEN 2021/22 AND 2022/23**

| | £'000 | £'000 |
|---|---|---|
| Revised Revenue Budget 2021/22 | | 15,755 |
| Draft Revenue Budget 2022/23 | | 16,730 |
| **Net Increase in Cost of Services** | | **976** |

**Analysis of Variations**

| | | |
|---|---|---|
| **Expenditure** | | |
| Reduction in staff recharges to capital projects | 56 | |
| Roll forward of Levelling Up Fund grant not spent in 2021/22 | (109) | |
| Savings on new photocopier contract | (13) | |
| Removal of one-off provision to fund new car parking machines | (48) | |
| Reduction in business rates on public conveniences | (52) | |
| Removal of one-off financial support to the Leisure contractor | (130) | |
| Reduction in business rates due to commercial property voids | (10) | |
| Reduction in Postage costs | (26) | |
| Increased in the Waste Collection base contract cost | 50 | |
| Increased in the Street & Beach Cleansing base contract cost | 72 | |
| Increased system software contract costs | 33 | |
| Additional resources to process planning applications backlog | 62 | |
| Planning Appeals | 300 | |
| Increase in Net Financing Costs | 442 | |
| Establishment of a central Budget Contingency | 200 | |
| Recovery of temporary accommodation running costs | (86) | |
| Increase in Garden Waste collection income | (203) | |
| Increase Property Investment Strategy rental income | (139) | |
| Increased income from Car Parking operations | (25) | |
| Increased fee income from Licensing | (14) | |
| Reduced pension fund top up payment | (20) | |
| Inflation | 639 | |
| Other Minor Changes | (3) | |
| **Total Increase in Cost of Services** | | **976** |

**Appendix D**

## Revenue Reserves

| Reserves | Quarter 2 2021/22 Forecast £ (000) | 2022/23 Budget £ (000) | 2023/24 Budget £ (000) | 2024/25 Budget £ (000) | 2025/26 Budget £ (000) | 2026/27 Budget £ (000) |
|---|---|---|---|---|---|---|
| Earmarked Reserves and General Reserves - Opening Balance | 13,209 | 9,814 | 6,144 | 4,729 | 4,400 | 4,941 |
| Use of Reserves | (3,395) | (3,670) | (1,415) | (329) | 0 | 0 |
| Contribution to Reserves | 0 | 0 | 0 | 0 | 541 | 960 |
| **Total Reserves** | **9,814** | **6,144** | **4,729** | **4,400** | **4,941** | **5,901** |
| **Use of/Contribution to Reserves** | | | | | | |
| To balance the Revenue Budget | (2,793) | (3,296) | (1,229) | (142) | 671 | 1,090 |
| To fund Capital Expenditure | (602) | (374) | (186) | (187) | (130) | (130) |
| **Total** | **(3,395)** | **(3,670)** | **(1,415)** | **(329)** | **541** | **960** |