

Rother District Council

Report to:	Overview and Scrutiny Committee
Date:	23 January 2023
Title:	Draft Revenue Budget 2023/24 Proposals
Report of:	Antony Baden – Chief Finance Officer
Ward(s):	All
Purpose of Report:	To receive the draft Revenue Budget 2023/24 referred from Cabinet at its meeting held on Monday 9 January 2023. 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 2023/24 Draft Revenue Budget at its meeting on 6 February 2023.

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 2023/24 by outlining the predicted financial position and the key issues Members need to consider.
3. Members will note that the 2023/24 budget requires £2.403 million from Usable Revenue Reserves in order to deliver the Council's services. Appendix A details the summary draft Revenue Budget for 2023/24 and an update on the five-year forecast, Appendix B gives summary information for each service area and Appendix C details the main changes from the 2022/23 Budget. Appendix D summarises the Council's Revenue Reserves position.
4. All Budgets are shown at "Net Operational Expenditure Levels" and exclude support service recharges. This ensures Members are provided with a clear identifiable core cost for each service.

Section 25 of the Local Government Act 2003

5. The Local Government Act 2003 (Section 25) requires that when a local authority agrees its annual budget and precept, the Section 151 Officer must report to it on the robustness of the estimates made for the purposes of the calculations and the adequacy of its Reserves. As the Council's designated Section 151 Officer, the Chief Finance Officer in writing this report confirms that

the estimates have been prepared on a robust basis and is satisfied with the adequacy of its Reserves. Further information to support this statement is given in paragraphs 6, 34 and 35.

Budget Assumptions

6. The following assumptions were made when calculating the draft budget:
 - a. **Inflation** – a standard increase of 4.57% has been applied to non-pay budgets except for contracts where specific indices are applied, (see paragraph 25 below).
 - b. **Salaries** – an increase of 3% has been applied, with effect from September 2023 and an allowance of 1% has been assumed for staff turnover.
 - 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 12 December 2022.
 - e. **Interest rates** – rates ranging between 3.2% and 4.4% have been used to calculate the financing costs on capital investment schemes.
 - f. **Investment Returns** – returns on investment have been calculated using the following rates:
 - i. Bank current & deposit accounts between 0.05% and 1.75%;
 - ii. Investments with other institutions/local authorities – 2.50%;
 - iii. Property Fund investments – 4.40%.
 - g. **Council Tax Base** – numbers are based on the latest December 2022 forecast and assumes a collection rate of 98.3%.

Local Government Finance Settlement

7. The draft Local Government Finance Settlement (LGFS) was announced by the Government on the 19 December 2022 and applies to 2023/24 and 2024/25. It does not give the Council any indication of funding streams beyond this two-year period. The Government had previously committed to undertake a Fair Funding review and a reset of the business rates system, but this was not addressed as part of this Spending Review. However, it has reaffirmed its commitment to do this in the next Parliament.
8. Each year, the Government sets the Council's Core Spending Power (CSP) as part of the LGFS. The CSP is a measure of the resources available to local authorities to fund service delivery. It sets out the money that has been made available through the LGFS. The table below shows that the 2023/24 CSP is £12.3 million, which is an increase of just over 5% (£0.9 million) on the 2022/23 figure:

	£ M
Core Spending Power 2022/23	11.4
Consisting of:	
Settlement Funding Assessment (SFA)	2.6
Compensation for under-indexing the Business Rates multiplier	0.4
Council Tax	8.4
Total	11.4
New Homes Bonus Grant (NHB)	0.2
Rural Services Delivery Grant (RSD)	0.1
Lower Tier Services Grant (LTSG)	0.0
Services Grant	0.1
Funding Guarantee Grant	0.5
Core Spending Power 2023/24	12.3

9. The SFA consists of the Council's share of business rates income and Revenue Support Grant, (RSG). Its baseline funding figure of £2.6 million is an increase of £0.2 million from 2022/23 and there is also an increase of £0.4 million due to the freezing of the business rates multiplier. This brings the total SFA to £3.0 million but because the expected share of business rates income comfortably exceeds £3.0 million the Council yet again will not receive an RSG. The LGFS did explicitly state though that local authorities would not be expected to make a payment to the Department for Levelling Up, Housing and Communities (DLUHC) for a 'negative RSG'. Other key points that directly impact on the Council are discussed in paragraphs 10 to 16.
10. **Business Rates** - As mentioned in paragraph 7, the Business Rate baseline reset, which was originally planned for 2020, has been delayed again until the next Parliament. The risk of a redistribution of business rates away from the Council still exists but no assumptions have been included in the five-year forecast. The Business Rates Multiplier for 2023/24 will remain frozen again at 49.9p but Councils will be compensated for any reduction in income as a result of this decision. Finally, the Government has committed to reimburse Councils for any negative impact on its business rates income arising from the implementation of the 2023 revaluations.
11. **East Sussex Business Rates Pool** - Further to Cabinet's decision on the 12 December 2022 to continue its participation in the East Sussex Business Rates Pool (Minute CB22/54 refers), DLUHC has since written to the Council to approve the arrangement for 2023/24 and 2024/25.
12. **Revenue Support Grant** – The DLUHC has increased the overall RSG in line with Consumer Price Index inflation, however as explained in paragraph 9, the Council effectively has a negative RSG. Members will note that the DLUHC has confirmed, in common with previous years, Councils will not be required to pay over negative RSG.
13. **Council Tax setting** – The LGFS includes additional flexibility in setting the council tax for 2023/24 and 2024/25. The Council can now increase it by the higher figure of 3% (was 2% for 2022/23) or £5. Members could decide to set a higher increase but would need consent via a local referendum. A 3% increase would yield approximately £30,000 more than an increase of £5. The draft Revenue Budget assumes that the Council will increase Council Tax by the maximum allowed, which is 3% in this case. The Council will need to ensure

that it remains within this limit, including Special Expenses. An estimated increase to about £198.85 for an average Band D property is anticipated and this will be confirmed in phase three of the budgeting process, which will be reported to Cabinet on the 6 February 2023. This will be subject to agreement by Full Council on the 20 February 2023.

14. **Council Tax (other preceptors only)** – Whilst not directly impacting on the Council, Members may wish to note that the LGFS also included council tax setting flexibilities for precepting authorities. These are outlined below:
 - a. County Councils with social care responsibilities can again set an adult social care precept of up to 2% per year, without a referendum.
 - b. Council tax referendum principles continue **not** to apply to Town and Parish councils meaning there are no limits on their increases.
 - c. Fire & Rescue authorities are subject to a £5 referendum principle on Band D bills.
 - d. Police and Crime Commissioners are subject to a £15 referendum principle on Band D bills.

15. **The Council Tax Base** - The 2023/24 base has been calculated at 38,520.8 and shows an increase of 293.80 Band D equivalents since December 2021. The main reasons for the change are as follows:
 - a. An increase of 250.0 in chargeable dwellings;
 - b. A continued 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 the base by 82.0;
 - c. An increase in the number of eligible Discounts, which has decreased the base by 46.3;
 - d. Other minor changes, which has increased the base by 8.1.

16. **Other announcements** – The Government has indicated that it expects local authorities to benefit from a significant new funding stream in relation to the 'Extended Producer Responsibility for packaging' scheme. This will be assessed during 2023/24 and further details will be announced in due course.

Non-Specific Revenue Grants

17. As outlined in the table in paragraph 8, the Council will receive £856,000 in government grants as part of the LGFS and a further £900,000 in other grants, making a total of £1.756 million, (excluding New Burdens funding) as shown in Appendix A. This represents an increase of £106,000 from 2022/23. Further information is given in paragraphs 18 to 23.

18. **New Homes Bonus (NHB)** – This grant is paid to encourage councils to develop housing growth in their area. For 2022/23, the Council was allocated funding of £467,000, which included £32,000 for legacy payments, (legacy payments refer to homes brought into use in prior years). In 2023/24 legacy

payments will no longer be payable (see also paragraph 20), however, a new round of NHB payments have been included in the 2023/24 settlement. The Council's allocation is £226,000, which is £241,000 less than 2022/23. The Government will set out the future position of the NHB before 2024/25 LGFS.

19. **Rural Services Delivery Grant** – This grant remains unchanged at £64,000.
20. **Lower Tier Services Grant** – In response to the inflationary pressures facing local authorities the DLUHC have repurposed this grant and combined it with NHB legacy payments to form the Funding Guarantee Grant. The Council's allocation is £473,000 in 2023/24.
21. **Services Grant** – This has been reduced because the Council no longer must fund the 1.25% increase in employers National Insurance Contributions. The impact of this has been built into the department budgets. The Council's allocation is £92,000 in 2023/24, which is £32,000 less than 2022/23
22. **New Burdens Grants** – From time to time the Council receives funding for the net additional costs of new burdens placed on it by the Government. In 2023/24 the Council will receive an allocation of £32,000 to implement the requirements of the Elections Act 2022 and an unspecified grant to administer the impact of the Business Rates revaluations, (£20,000 has been included in the budget).
23. **Other grants** – the Benefits Administration, Local Council Tax Support and Homelessness Prevention grants do not form part of the CSP calculation and are still subject to confirmation. This will be reported to Members during phase three of the budget setting process.

Review of Cost Pressures

24. In the Medium-Term Financial Plan (MTFP) forecast reported to Cabinet on the 12 December 2022, 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 25 to 31 below.
25. **Contractual Inflation** – The base budget has been revised upwards to £628,000 to allow for inflationary increases on other smaller service contracts.
26. **Homelessness** – The pressures on the Council's budget are well documented. Members will recall an overspend of £260,000 was outlined in the Quarter 2 monitoring report to Cabinet on the 31 October 2022 (Minute CB22/47 refers) and included in the first draft of the MTFP. Further discussions with the Head of Service have indicated that an additional £240,000 is required for the 2023/24 budget, bringing the total additional cost since 2022/23 to £500,000. The Senior Leadership Team will be actively managing this issue in order to reduce the forecast costs to a more manageable level.
27. **External Audit fees** – The forecast has been revised downwards slightly since the MTFP report to Cabinet on the 12 December 2022 by about £8,000 from 2023/24 onwards.
28. **Net Financing Costs** – Since phase one of the budget reported an estimated cost of £889,000 the forecast has been reviewed for subsequent changes in interest rates. In general terms the PWLB rates have decreased slightly whilst

conversely the Bank of England base rate has yet again increased. This means that forecast borrowing is slightly cheaper whilst our income returns from investments has increased. This has resulted in a net reduction of £246,000. Members should note however, that these estimates continue to be extremely sensitive to changes in interest rates and capital expenditure cash flows. Therefore, the need to review larger and more complex schemes on an individual basis for affordability must remain in place.

29. **Staffing Costs** – The salaries budget has been calculated from first principles and has resulted in an overall cost increase of about £502,000, which is broadly in line with original expectations. The main changes are as follows:
- a. Impact of 2022/23 pay award and the 3% increase payable from September 2023 - £722,000;
 - b. Net reduction of 1% in employer pension contribution rates – (£36,000);
 - c. Reversal of the 1.25% increase in the employer's national insurance rate – (£99,000);
 - d. Staff turnover of 1% - (£105,000);
 - e. Other minor changes - £20,000.
30. **Non-Pay Inflation and Electricity** – These forecasts remain unchanged.
31. **Housing Benefits** – As reported to Cabinet on the 31 October 2022 in the Quarter 2 monitoring paper (Minute CB22/47 refers) there is a cost pressure in the Housing Benefits budget due to less than anticipated recovery of Housing Benefit overpayments arising from the improved performance of claims processing. Whilst it represents only around 2% of the overall expenditure on Housing Benefit payments, the cost is nonetheless significant. A detailed review was carried out between the Revenues and Benefits Manager and the Chief Finance Officer and an estimate of £520,000 has been built into the 2023/24 Budget. Further work will continue in order to identify a possible reduction.

Financial Stability Programme (FSP) and further Savings

32. Further progress has been made in respect of the service devolution part of the FSP and discussions have taken place with some Parish and Town Councils. The outcome of these will be costed and reported as part of phase three of the budget setting process.
33. Work has also begun to identify further savings in order to address the underlying budget deficit. Managers are completing service plans for their areas of budget responsibility and this will be completed by the 31 January 2023. Plans will include savings proposals, which will be discussed with Members. Although these savings are not required as part of the 2023/24 budget setting process, it is crucial that proposals are developed and implemented as early as possible in order to give the Council greater budget flexibility.

Usable Revenue Reserves

34. The draft Revenue Budget for 2023/24 proposes the use of £2.217 million from Usable Revenue Reserves and the drawdown of £186,000 to support capital expenditure. This would be a total drawdown of £2.403 million, which will reduce Reserves to £5.125 million by the 31 March 2024. Appendix D sets out the impact on Usable Revenue Reserves of the five-year forecast if the actions explained in paragraphs 32 and 33 are not implemented.
35. Reserves are currently forecast to be about 45% of the Council's Net Revenue Expenditure by the end of 2022/23 and this is forecast to reduce to about 33% by the end of 2023/24. It is highly likely that many other local authorities will be in a similar position. Members should also note that in the context of this Council's budget setting process, Reserves means Usable **Revenue** Reserves. It does **not** include, for example, Capital Receipts, which until recently were permitted to be used to fund revenue expenditure.
36. Whilst one of the Council's corporate objectives was to achieve Financial Stability by the end of 2025/26 and so end the revenue budget's reliance on Reserves, the current financial crisis has made this significantly more difficult to achieve. The LGFS does little to alleviate the problem and there is an expectation on the part of Government that councils will use their Reserves to fund revenue expenditure. In fact, the written statement issued by the Secretary of State for Levelling Up, Housing & Communities on the 19 December 2022 *'encourages local authorities to consider whether they can use their reserves to maintain services in the face of immediate inflationary pressures, taking account, of course, of the need to maintain appropriate levels of reserves to support councils' financial sustainability and future investment. The Government notes the significant increase in some local authority reserves over the two years of the pandemic'*. As a result, the DLUHC are intending to publish reserves data currently collected in the Local Authority Revenue Expenditure and Financing Outturn statistics.

Collection Fund Surplus/Deficit

37. The Collection Fund will be reviewed during the third phase of the budget process and reported to Cabinet at the 6 February 2022 meeting.

Budget Consultation

38. The budget consultation is due to close on the 31 January 2023 and interim results will be reported to the Overview and Scrutiny Committee at their meeting on the 23 January 2022.

Conclusion

39. The Council's financial outlook has significantly deteriorated over the last 12 months due to economic uncertainty, the cost of living crisis and increasing inflation. Its ability to deliver a balanced budget is now even more dependent on strong financial management, the delivery of the FSP and now the delivery of further Savings. Resources will also need to be reorganised if the priorities and objectives of the Corporate Plan are also to be achieved.

40. Therefore, it is essential that the Council maintains a suitable level of Reserves and continues 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 and will result in Members having to make more difficult decisions around the provision of local services.

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
Sustainability	No	Exempt from publication	No
Risk Management	No		

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 Appendix B - Revenue Budget Summary - Cost of Services Appendix C - Main changes in net cost of services between 2021/22 and 2022/23 Appendix D – Usable Revenue Reserves Appendix 1 – Cabinet Minute Extract
Relevant Previous Minutes:	CB22/54 CB22/47
Background Papers:	Local Government Settlement 2023/24
Reference Documents:	None.

Appendix B

Revenue Budget Summary - Cost of Services

Appendix B

Revenue Budget Summary - Cost of Services	Revised Budget 2022/23	Budget 2023/24		
		Gross Expenditure	Income	Net Expenditure
	£	£	£	£
Acquisition, Transformation and Regeneration	(12,710)	2,715,180	(3,024,713)	(309,533)
Environmental Services, Licensing and Community Safety	629,220	1,035,740	(359,740)	676,000
Corporate Core	2,172,870	2,297,300	(78,110)	2,219,190
Housing and Community	8,212,150	14,335,903	(4,904,240)	9,431,663
Resources	3,302,595	19,294,060	(15,426,440)	3,867,620
Strategy and Planning	1,324,940	2,179,100	(1,050,300)	1,128,800
Total	15,629,065	41,857,283	(24,843,543)	17,013,740

Acquisitions, Transformation and Regeneration	Revised Budget 2022/23	Budget 2023/24		
		Gross Expenditure	Income	Net Expenditure
	£	£	£	£
Economic Development & Regeneration	(1,215,950)	1,232,090	(2,731,163)	(1,499,073)
Head of Service Acquisitions, Transformation and Regeneration Programme and Policy Office	595,890	786,570	(233,560)	553,010
Transformation	281,790	275,750	(29,050)	246,700
	325,560	420,770	(30,940)	389,830
Total	(12,710)	2,715,180	(3,024,713)	(309,533)

Environmental Services, Licensing and Community Safety	Revised Budget 2022/23	Budget 2023/24		
		Gross Expenditure	Income	Net Expenditure
	£	£	£	£
Food and Safety	264,930	310,730	(31,500)	279,230
Licensing	31,880	231,400	(199,500)	31,900
Pollution	318,810	482,250	(128,740)	353,510
Service Manager Environmental Services	13,600	11,360	0	11,360
Total	629,220	1,035,740	(359,740)	676,000

	Revised Budget 2022/23	Budget 2023/24		
		Gross Expenditure	Income	Net Expenditure
Corporate Core				
	£	£	£	£
Chief Executive	364,900	390,600	(6,540)	384,060
Communications	51,660	52,820	0	52,820
Democratic and Electoral Services	618,770	663,300	(11,060)	652,240
Emergency Planning	32,670	42,560	0	42,560
Facilities	378,730	346,700	(20,230)	326,470
Human Resources	304,430	353,720	(35,930)	317,790
Internal Audit	155,740	169,800	(4,350)	165,450
Legal Services	265,970	277,800	0	277,800
Total	2,172,870	2,297,300	(78,110)	2,219,190

	Revised Budget 2022/23	Budget 2023/24		
		Gross Expenditure	Income	Net Expenditure
Housing and Community				
	£	£	£	£
Customer Services	486,460	542,290	(16,480)	525,810
Head of Service Housing & Community	93,060	97,040	(9,540)	87,500
Housing	1,769,180	3,609,543	(1,175,250)	2,434,293
Neighbourhood Services & Contracts	5,588,080	9,785,780	(3,696,930)	6,088,850
Property & Maintenance services	275,370	301,250	(6,040)	295,210
Total	8,212,150	14,335,903	(4,904,240)	9,431,663

	Revised Budget 2022/23	Budget 2023/24		
		Gross Expenditure	Income	Net Expenditure
Resources				
	£	£	£	£
Assistant Director	880	0		0
Finance	1,657,265	1,658,140	(39,750)	1,618,390
ICT	975,680	1,010,470	(69,700)	940,770
Revenues and Benefits	668,770	16,625,450	(15,316,990)	1,308,460
Total	3,302,595	19,294,060	(15,426,440)	3,867,620

	Revised Budget 2022/23	Budget 2023/24		
		Gross Expenditure	Income	Net Expenditure
Strategy and Planning				
	£	£	£	£
Building Control	56,910	58,130		58,130
Business Support	132,000	361,500	(200,930)	160,570
Development Management	522,440	1,098,270	(797,110)	301,160
Enforcement	115,740	123,080		123,080
Planning Strategy	489,510	527,230	(52,260)	474,970
Service Manager Strategy and Planning	8,340	10,890	0	10,890
Total	1,324,940	2,179,100	(1,050,300)	1,128,800

MAIN CHANGES IN NET COST OF SERVICES BETWEEN 2022/23 AND 2023/24

	£'000	£'000
Revised Revenue Budget 2022/23		16,736
Draft Revenue Budget 2023/24		15,860
Net Increase in Cost of Services		(876)

Analysis of Variations**Expenditure**

Additional savings from the Financial Stability Programme	(1,353)	
Increased income returns from Investments	(244)	
Reduction in Borrowing costs due to reprofiling of the capital progra	(664)	
Increasing Homelessness costs	500	
Increase in Housing Benefit costs - reset of Overpayment recovery	520	
Increased Property rental income	(639)	
External Audit fees	98	
Removal of Planning Appeals from the 2022/23 base budget	(300)	
Pay Inflation	722	
Other changes in Pay, e.g. removal of the Health & Social Care levy	(220)	
Contractual Inflation	628	
Non Pay Inflation	270	
Increase in Fees & Charges	(199)	
Other Minor Changes	6	
Total Increase in Cost of Services		(876)

Usable Revenue Reserves

	Revised 2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	2027/28 Budget £ (000)
Potential Use of Reserves						
Earmarked Reserves and General Reserves	(11,088)	(7,528)	(5,125)	(3,815)	(2,847)	(2,780)
Use of/(Contribution to) Reserves	3,560	2,403	1,310	968	67	57
Total Reserves	(7,528)	(5,125)	(3,815)	(2,847)	(2,780)	(2,723)
<u>Analysis of (Use of)/Contribution to reserves</u>						
To fund capital expenditure	374	186	187	130	130	130
To balance the budget	3,186	2,217	1,123	838	(63)	(73)
TOTAL	3,560	2,403	1,310	968	67	57