

BROMSGROVE DISTRICT COUNCIL

Cabinet

16th February 2022

**THE COUNCIL'S 2022/23 BUDGET AND MEDIUM TERM FINANCIAL PLAN
FOR 2022/23 TO 2024/25 - DRAFT**

Relevant Portfolio Holder		Councillor Geoff Denaro
Portfolio Holder Consulted		Yes
Relevant Head of Service		Chris Forrester
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Wards Affected		N/A
Ward Councillor(s) consulted		N/A
Relevant Strategic Purpose(s)		All
Non-Key Decision		
If you have any questions about this report, please contact the report author in advance of the meeting.		

1. RECOMMENDATIONS

1.1 The Cabinet RECOMMEND that Full Council approve: -

1) the overall net general fund revenue budgets (as set out in Section 4.9) of:

**2022/23: £12.069m
2023/24: £11.947m
2024/25: £12.076m**

2) the unavoidable costs as attached at Appendix 1:

**2022/23: £0.250m
2023/24: £0.016m
2024/25: £0.016m**

3) the Revenue Bids as attached at Appendix 2:

**2022/23: £0.148m
2023/24: £0.107m
2024/25: £0.086m**

4) the Identified Savings as attached at Appendix 3:

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2022/23: £0.176m

2023/24: £0.176m

2024/25: £0.176m

- 5) an increase of the Council Tax per Band D equivalent of £5 for 2022/23.**
- 6) the transfer from General Fund Balances of £0.411m for 2022/23.**
- 7) the planned reallocation of £0.382m from Earmarked reserves to General Fund Balances as set out at Appendix 5.**
- 8) the General Fund capital programme as at Appendix 4 of:**

2022/23: £2.410m

2023/24: £1.390m

2024/25: £1.946m

1.2 And that the Cabinet ask the Council to note

- 1) the 2020/21 Capital Outturn as reported at Appendix 7.**
- 2) The Chief Financial Officer (CFO) Opinion on Estimates and Reserve Levels as reported in Appendix 6.**

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2. BACKGROUND

Purpose

- 2.1 The purpose of this report is to set the Council's (General Fund) Revenue and Capital Budget for 2022/23, as well as the Medium-Term Financial Plan (MTFP) for the period 2022/23 to 2024/25.
- 2.2 The Council's Medium Term Financial Plan (MTFP) provides the framework within which the revenue and capital spending decisions can be made.
- 2.3 The Strategic Purposes that drive the financial considerations are:
- Run and grow successful business
 - Work & financial independence
 - Living independent, active & healthy lives
 - Affordable & sustainable homes
 - Communities which are safe, well maintained & green
- 2.4 This report includes recommendations to Council to enable a balanced budget to be set for 2022/23 and the proposed Council Tax for 2022/23. The recommendations will then be presented to Council on 23rd February 2022 together with the resolutions once we have received all the precepting bodies Council Tax calculations.

Financial Context

- 2.5 The Council faces a challenging financial context having:
- i) identified (but still needs to deliver) significant savings over the medium term;
 - ii) reserve balances which are currently adequate (but no more) and above minimum levels – but which are forecast to reduce without further action; and
 - iv) high levels of planning uncertainty with regards to the levels of available funding in coming years and with regard to the impact of Covid-19 on key income streams such as car parking and Leisure.
- 2.6 The Council therefore needs to continue to carefully consider how it prioritises resources and balances budgets in a sustainable and affordable way, as part of this (and future) budget round(s).

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- 2.7 Members and officers have therefore reviewed the services provided by the Council over the last 6 months to consider the levels of funding available to the Council and identified where potential savings can be made or additional income generated.
- 2.8 The Finance and Budget Working Group established by the Overview and Scrutiny Board has met on a regular basis to review budget related issues (including reports on underlying risks, pressures and uncertainties as well as income matters and fees and charges opportunities).

Unprecedented Levels of Uncertainty

- 2.9 It should be noted that the future of the system of local government finance remains uncertain. The government has committed to re-assess the baseline need for spend in each local authority (through its 'Fair Funding review'). This has been pushed back (again) to 2023/24 at the earliest - but is still expected to happen. This review will have a significant impact on the government's calculation of the Settlement Funding Assessment for (and therefore the amount of funding available to) this council - and remains therefore a significant risk.
- 2.10 It also remains uncertain as to what the Government's plans are with regards to the system of business rates - including the share of business rates retained locally.
- 2.11 A one-year provisional Local Government Finance Settlement was announced on 16th December 2021 and has been incorporated into this report. It remains unclear as to when Government will announce more funding certainty through a multi-year financial settlement for Local Government.
- 2.12 Furthermore, the short, medium and long term impact of the Covid- 19 pandemic and UK's exit from the European Union (on residents, the economy and the state of national and local government finance) remains uncertain. Locally, the impact of Covid-19 on car parking and Leisure services income is particularly relevant given the importance of these income streams.
- 2.13 Taken together therefore (the outcome of the fair funding review, the future of business rates and the local government financial settlement, COVID-19, Brexit and the state of the local and national economy) represents a challenging context within which to set the budget and MTFP - one characterised by an unprecedented level of uncertainty.

3. FINANCIAL IMPLICATIONS

- 3.1 In order to clearly explain the basis of the Budget proposals this report (which sets out all financial implications) will be structured as follows:

4) General Fund Revenue

i. The Prior Year MTFP 2021/22 – 2023/24

This section which will summarise the previous Council approved MTFP as a reminder of the previously approved starting point.

ii. Updated Forecast Outturn Position for 2021/22

This section will update the starting revenue position for 21/22 and therefore update the opening balances for 22/23.

iii. The 22/23 Budget and (updated) MTFP for the period 22/23 – 24/25

This section will set out the updated Budget and MTFP forecast for approval.

iv. The Updated MTFP and General Fund Forecasts

This section will summarise the impact of the updated 22/23 Budget and MTFP forecast on the Council's General Fund balance position over the medium term.

v. Reconciling the current updated MTFP to the Feb 2021 Approved MTFP

This section will analyse and explain the movements from the previous approved Budget and MTFP to the updated 22/23 Budget and MTFP.

vi. Council Tax increase

vii. Reallocation of Earmarked Reserves to General Fund

This section sets out those reserves previously earmarked for specific purposes that can be release back to the General Fund Reserve.

viii. Covid General Grant

This section summarises the position on general Covid grant funding received by the Council.

5) Collection Fund and Precepts

6) Capital Programme

4. GENERAL FUND REVENUE

The Prior Year MTFP 2021/22 – 2023/24 (approved February 2021)

- 4.1 The Council's MTFP is updated annually and was previously approved for the three-year period 2021/22 to 2024/25 by full Council in February 2021.
- 4.2 The following table sets out what, at that point (Feb 2021) the MTFP forecast in terms of annual budget deficits and opening and closing general fund balances.

Table 1: The Prior Year MTFP and General Fund Balance Forecasts

	21/22	22/23	23/24
General Fund	£000's	£000's	£000's
Opening Balance	4,284	4,306	3,206
Annual (Deficit) / Surplus	22	(1,099)	(1,472)
Closing Balance	4,306	3,206	1,735

- 4.3 Table 1 shows that the previously (Feb 2021) approved MTFP predicted a surplus of £22k in 2021/22. The Council was expected to move to an in-year deficit position of £1.099 million in 2022/23 and £1.472 million in 2023/24.
- 4.4 Annual deficits require the Council to utilise its General Reserve balances. As at February 2021, the MTFP, based on the annual deficits forecast above, showed that the Council's General Fund Balances would reduce from £4.284 million a 1st April 2021 to £1.735 million at 31st March 2024.

Updated Forecast Outturn Position for 2021/22

- 4.5 The forecast outturn position for the General Fund balance at the end of this current year (2021/22) is currently £4.257m (after forecast 21/22 Outturn and technical adjustments but before any unplanned transfers from Earmarked Reserves).

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The 22/23 Budget and (updated) MTFP for the period 22/23 – 24/25

- 4.6 The MTFP has been updated for the period 2022/23 to 2024/25 to model the impact of changes in assumptions, budgetary pressures, reductions in funding and savings.
- 4.7 The 22/23 Budget and updated MTFP is summarised (in terms of its annual revenue and general fund forecasts) for the period 2022/23 to 2024/25 in the table below:

Table 2: The Updated MTFP and Annual Revenue Budgets

- 4.8 The proposed budget is summarised in the table below:

	2022-23	2023-24	2024-25
	£000	£000	£000
Departmental base budget	11,673	11,682	11,890
Incremental Progression/Inflation on Utilities	174	318	260
Unavoidables Pressures	250	16	16
Revenue Bids & Revenue impact of capital bids	148	107	86
Savings and Additional income	-176	-176	-176
Changes in Specific Grant/Funding Movements	0	0	0
Net Revenue Budget Requirement	12,069	11,947	12,076
Financing			
Funding from reserves	-100	0	0
Lower Tier Services Grant	-700	0	0
Business Rates Net Position	-2,510	-2,510	-2,510
New Homes Bonus	-363	0	0
Collection Fund Deficit (Council Tax)	-175	0	0
Council Tax	-8,937	-9,243	-9,560
Investment Income	-0	-0	-0
Interest Payable	260	262	249
MRP (Principal)	1,081	1,172	1,078
Discount on advanced pension payment	-214	-40	-120
Funding Total	-11,658	-10,360	-10,864
General Balances	2022-23	2023-24	2024-25
	£000	£000	£000
Opening Balances 21/22 (projected)	4,257	3,846	2,259
Contribution (from) / to General Balances	-411	-1,588	-1,213
Closing Balances	3,846	2,259	1,046

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Explanatory Notes

- 1) *All Service Teams / Departments have a base budget which includes staff budgets.*
- 2) *Staff budgets are subject to incremental progression as staff become more experienced within graded posts.*
- 3) *A number of budget pressures that have been deemed “unavoidable” and are further analysed in this report.*
- 4) *Budget setting includes a ‘bidding process’ for additional resources – set out below.*
- 5) *Budget setting includes the identification of savings and income – set out below.*
- 6) *Specific grant funding, where confirmed, is set against services as appropriate.*
- 7) *Financing includes an element of planned reserve usage.*
- 8) *The Council receives a ‘Lower Tier’ grant from Central Government.*
- 9) *The Council retains an element of its business rates receipts to fund services.*
- 10) *The Council retains its own element of council tax bills (it collects for all precepting authorities). The budget includes an increase of £5 (band D) - the maximum allowable without a referendum.*
- 11) *An element of Collection Fund surplus / deficit impacts on the Council General Fund.*
- 12) *New Homes Bonus has been confirmed by Central Government.*
- 13) *The Council earns interest on investment balances.*
- 14) *Minimum Revenue Provision costs reflect capital borrowing / repayment costs.*
- 15) *Borrowing costs based on forecast interest rates.*
- 16) *The Council has benefitted financially from paying some of its Pension commitments calculated at the last Actuarial Review in one lump sum (to Worcestershire Local Government Pension Fund).*

4.9 The above table sets out how the Council’s expenditure profile will be met by a combination of external funding and use of reserves over the period.

4.10 The table also shows that the General Reserve Balance is forecast to remain above minimum levels (currently set at £1.5m) until partway through the 24/25 financial year.

Analysis of key changes to the MTFP – Forecast General Fund Balances

4.11 The following table sets out how the draft MTFP (as summarised in Section 4.9) compares to the previous MTFP in terms of forecast closing general fund balances:

4.12 **Table 3: The Updated (versus Previous) MTFP and General Fund Forecasts**

General Fund Closing Balance	21/22	22/23	23/24	24/25
	£000’s	£000’s	£000’s	£000’s
Previous approved	4,306	3,206	1,735	N/A
Updated (per this report)	4,257	3,846	2,259	1,046

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- 4.13 The table above shows that the 2021/22 General Fund closing position remains largely unchanged (£4.257 million as opposed to £4.306 million) than that forecast when the budget was approved in Feb 2021.
- 4.14 The table demonstrates that the updated MTFP forecasts a General Fund Balance of £3.846 million at the end of 2022/23 (compared to £3.206 million) which remains above minimum set levels of £1.5 million.
- 4.15 Table 4 shows that the General Fund balance is now forecast to total £2.259 million at the end of 2023/24 (compared to £1.735 million in the previous MTFP), and (without further action) reduce to £1.046m at the end of 24/25 which is below minimum set levels.

Reconciling the current updated MTFP to the Feb 2021 Approved MTFP

- 4.16 Changes need to be made to the Council's budget and MTFP to keep them up to date and robust. In order to make these changes as transparent as possible these changes have been summarised in Table 4 below.
- 4.17 Table 4: Reconciliation of Previous and Updated MTFP - Adjustments made to the Annual Budget Forecasts 22/23 and 23/24

	22/23	23/24
	£000s	£000s
Previous Forecast Deficit (Feb 21 Budget)	1,099	1,472
+ Corrections and Assumption changes	45	169
+ Pressures	250	16
+ Funding impact	-956	0
+ Resource Planning and Prioritisation (RPP)	-28	-69
= Updated Forecast Surplus / Deficit	411	1,588

- 4.18 The above summary shows that the annual budget deficits (before appropriation of General Fund Balances or General Covid Grant) are now forecast at £0.411m for 2022/23 (previously £1.099m), and £1.588m for 23/24 (previously £1.472m).
- 4.19 In order to better explain what is driving these changes in budget forecasts, this summary is further explained and analysed below:

Corrections and Assumption changes (net £45k in 22/23)

- 4.20 All budgets include estimates and assumptions. Eg. Inflation and interest rates. These are updated annually.
- 4.21 One of the outcomes of budgetary control, closedown and setting procedures is also the identification of inaccuracies. There are a large number of such amendments which are individually usually small. The larger factors to the overall changes here include:
- Inflation. One of the pressures to the budget is general inflation on utility costs along with additional costs in relation to pay. The costs relating to pay inflation are above that initially anticipated. The original budget included a 1% pay award however the best estimate is now 2% which adds an additional pressure of circa £80k pa. Other pressures have been contained within budgets where possible.
 - MRP, interest costs and investment income budgets lines have all been reviewed and reduced compared to prior year forecasts. These changes are due to a review of the capital programme to reflect more accurately planned spend. This reduces significantly MRP and borrowing costs – but also investment income (which has also been revised to take account of the short-term focus on delivering the Levelling up Programme of work rather than alternative strategic investments). The overall net impact is a £129k saving in 22/23.
 - This budget also includes the impact of recent decisions to amend the Council's policies with regards to Council Tax premiums and discounts which aim to incentivise more empty homes being brought back into use from 2022/23.

Pressures

- 4.22 Expenditure (and income) budgets required to deliver previously approved strategies and plans are subject to a multitude of market forces, sector issues, demographics and other matters.
- **Unavoidable Costs/Bids (£250k 22/23).** When proposing the budget officers have also identified a number of budget pressures that have been deemed “unavoidable”. These unavoidable pressures include the ongoing effects of pressures identified during 2021/22 together with any issues that have been raised as fundamental to maintaining service provision as part of the budget process. In addition, income shortfalls that cannot be managed by improved marketing or price increases have been addressed during the budget planning. They are set out in full in Appendix 1.

- Unavoidable pressures include a £200k estimated reduction on car park income which represents the best estimate of the impact of Covid-19 on usage in 22/23. As part of the RPP process, proposals to increase car park income through higher charges were put forward and discussed. In light of concerns about the impact of price increases on demand, and the knock-on impact on the High Street, these proposals were not progressed within this Budget. This budget area remains an area of risk for the Council which will require careful monitoring – particularly given the circa £1 million (pre Covid) annual budgeted income level. Fees will inevitably also need to be revisited in future budget rounds.
- It should be noted that the Council's Leisure budgets remain a risk area for the Council given the degree of uncertainty concerning Covid-19 and its impact on the leisure sector. The Council's budget includes (Pre Covid agreed contracted) income levels of £0.557m for 2022/23. It is not proposed that this income budget is amended at this time. However, it is acknowledged that this is an area of very specific risk that must be considered in the context of the Council's reserve balances (including Covid General Fund grant funding).

Resource Planning and Prioritisation (RPP):

4.23 RPP is the outcome of the steps taken to identify options to do things differently and more efficiently, to identify savings but also required areas of investment. It is the culmination of a 'check and challenge' process with regards to the Council's budgets, led by the Corporate Management Team and presented to Cabinet (and ultimately full Council). It is a critical element of the Council operating within available resources.

- **Bids (£148k 22/23).** In addition to the unavoidable pressure's revenue bids have been identified and included at Appendix 2. Bids relate to new funding requests made by officers to improve service delivery or to realise future efficiencies. Revenue 'bids' included in these budget proposals include developments relating to ICT (re maintaining core digital and cyber security related infrastructure) and supporting greater agile work. Work is also planned in relation to lower carbon emissions which requires investment. Additional capacity is also required for Business Improvement activity.
- **Identified Savings/additional income (£176k).** A number of savings have been identified which are set out in Appendix 3. These relate to a variety of areas and relate to delivering efficiencies (eg cutting paper and print costs and reduced insurance costs) and additional income (eg bulky waste, lifeline and recharge income).

Funding Impact (£0.956m in 22/23)

4.24 The main factors to the changes related to funding include:

- **Lower Tier Services Grant (£0.7m).** The finance settlement in December announced we are due to receive a Lower Tier Services Grant for £0.7million in 2022/23 most of which was not previously budgeted for. This grant is intended to compensate those local authorities whose core spending power did not increase in the finance settlement.
- **New Homes Bonus (NHB) (£0.068m).** The amount of NHB for 2022/23 has been confirmed as £0.363 million which is £68k more than anticipated in the MTFP. This is due to the Government funding an additional year of New Homes Bonus.
- The Councils share of the Collection Fund surplus is £175k which was not budgeted for previously.

Council Tax Increase

4.25 As part of the Financial Settlement the Council can increase Council Tax by up to 2% or £5 whichever is higher without the need for a referendum. These budget proposals include £5 increase for 2022/23 (Band D). The Council Tax relating to the Councils services will rise for Band D from £233.00 to £238.00. This is unchanged from the previous approved MTFP.

Reallocation of Earmarked Reserves to General Fund

- 4.26 A review has been undertaken of reserves previously earmarked for specific purposes. This has identified £0.382 million that can provisionally be released back to the General Fund Reserve. See Appendix 5.
- 4.27 In addition as set out in Appendix 5, some reallocations have been made within Earmarked Reserves to reflect current priorities.

Covid General Grant

4.28 In recognition of this negative impact on the Council's resources (and particularly for councils reduced income levels achievable for car parks and Leisure), the Council was awarded £1.666 million of General Covid-19 Grant across a number of tranches received in 2020/21 and the early part of 2021/22.

- 4.29 After allocating this funds against Covid related pressures in 20/21 some £0.949 million of this grant was carried forward to the current financial year (ie 21/22). It is forecast that £397k of this General Covid Grant will be carried forward at 31/3/2022 (after funding the negative impact on 21/22 Budgets). This will be available (alongside General Fund balances) to mitigate pressures on budgets – at least in the short term – particularly in relation to prevalent risks associated with car park income and contracted income from the Council's Leisure services provider.
- 4.30 It must however be emphasised that this funding is not expected to be a recurring income stream to the Council. Further work must therefore be done to reduce the gap between spend and income on a sustainable and ongoing basis.

5. COLLECTION FUND AND PRECEPTS

- 5.1 The anticipated collection fund surplus £1.431m, which will be distributed amongst the major preceptors using the prescribed formulae. The Councils share of the surplus payable as a one-off sum is £175k (prior year £36k).
- 5.2 The precepts from Worcestershire County Council, Hereford and Worcester Fire Authority and the West Mercia Police and Crime Commissioner are due to set their precepts in the week commencing 8th February. This will enable the Council to set the Council Tax on 23rd February 2022. The precepting bodies Council Tax requirements will be included in the formal resolutions which will be presented to Council on 23rd February.

6. CAPITAL PROGRAMME

- 6.1 The Capital Programme has also been updated including proposed new bids required to deliver services to the community. These are included in the proposed Capital Programme at Appendix 4. The borrowing costs have been factored into the revenue budget for the financial plan. It should be noted that a housekeeping review of the Capital Programme has been recently undertaken in order to challenge the deliverability (and timing) of some schemes which has resulted in some rationalisation.
- 6.2 It should also be noted that there are a number of capital related businesses cases in the pipeline that may require further consideration, and subject to those business cases, amendment to the budget in line with the Council's constitution.

7. LEGAL IMPLICATIONS

- 7.1 As part of the budget and the Council Tax approval process, the Council is required by the Local Government Finance Act 1992 to make specific calculations and decisions in approving a balanced budget for the following financial year and setting the Council Tax Level. These will be included in the resolutions and presented to Council on 23rd February 2022.
- 7.2 The Council has a legal obligation to set a balanced budget (s32 of the Local Government Finance Act 1992). The amount of the budget requirement must be sufficient to meet the Council's budget commitments and ensure a balanced budget. The 2022/23 budget requirement must leave the Council with adequate financial reserves.
- 7.3 A lawful Council Tax is required to be made on or before 11 March 2022.
- 7.4 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (CFO) to report to the Council the robustness of estimates included in the budget and the adequacy of the reserves when it is making the statutory calculations required to determine its Council Tax or precept. See Appendix 7.

8. STRATEGIC PURPOSES - IMPLICATIONS

Relevant Strategic Purpose

- 8.1 The Strategic purposes are included in the Council's corporate plan and guides the Council's approach to budget making ensuring we focus on the issues and what are most important for the district and our communities. Delivering against all our Strategic Purposes is therefore integrated within our MTFP.

Climate Change Implications

- 8.2 No direct implications identified.

9. OTHER IMPLICATIONS

- 9.1 No direct equalities and diversity implications identified.

Operational Implications

- 9.2 The MTFP will enable services to be maintained.

10. RISK MANAGEMENT

10.1 The risks posed by the challenging financial context and the unprecedented levels of uncertainty (re the outcome of the fair funding review, the future of business rates and the local government financial settlement, COVID-19, Brexit and the state of the local and national economy) with regard to the budget have been set out within Section 2 as background to this report.

10.2 Risks prevalent in this area also include:

- Reductions in government funding leading to a reduction in the level of services delivered to the public
- Reductions in business rates income as a result of appeals or reduction in the rateable value leading to a lower level of income for the Council.
- Identification of sufficient and ongoing revenue savings to deliver a balanced budget.
- Allocation of sufficient resources to meet the needs of service delivery and the Councils priorities.
- Maintain adequate revenue and capital balances as identified in the MTFP to ensure financial stability.

10.3 This budget (and the processes underpinning it including the check and challenge of the Resource Planning and Prioritisation and 'bidding' processes, revisiting all budget assumptions and the identification of income and savings) provides a framework for managing and mitigating this risk.

10.4 In addition, Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (CFO) to report to the Council the robustness of estimates included in the budget and the adequacy of the reserves when it is making the statutory calculations required to determine its Council Tax or precept. This is set out in full within Appendix 7.

11. APPENDICES and BACKGROUND PAPERS

Appendix 1 - Unavoidable costs

Appendix 2 - Revenue Bids

Appendix 3 - Identified savings

Appendix 4 - Proposed Capital programme

Appendix 5 - Earmarked Reserves

Appendix 6 - Chief Financial Officer (CFO) Opinion on the Estimate Process and Reserve Levels.

Appendix 7 – Capital Outturn Position

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12. REPORT SIGN OFF

Department	Name and Job Title	Date
Portfolio Holder	Councillor Geoff Denaro	
Lead Director / Head of Service	James Howse, Exec Director of Resources (S151 Officer)	
Financial Services	Chris Forrester, Head of Finance and Customer Services	
Legal Services		
Policy Team (if equalities implications apply)		
Climate Change Officer (if climate change implications apply)		