

*Report Number: SWT 101/21*

# **Somerset West and Taunton Council**

## **Corporate Scrutiny – 1 December 2021**

### **Draft 2022/23 General Fund Budget Update**

**This matter is the responsibility of Executive Councillor Henley, Corporate Resources**

**Report Author: Emily Collacott, Lead Finance Business Partner and Deputy S151 Officer**

#### **1 Executive Summary**

- 1.1 The purpose of this report is to provide Members with an update on progress regarding Budget Setting for 2022/23, the latest Medium Term Financial Plan (MTFP) forecasts, and the areas to be finalised.
- 1.2 The Council's initial MTFP (July 2021) projected an early indicative balanced budget for 2022/23, utilising a significant £3.7m of one-off funding from general and earmarked reserves in line with the agreed financial strategy. Following further review of the baseline budgets and up to date information some further pressures and savings have been identified for inclusion in the MTFP, leading to an increase in the budget gap of £963k in 2022/23. Plans to mitigate this additional financial pressure will be included in the Draft Budget report to Members in the new year.
- 1.3 It is anticipated that 2022/23 will be the final budget year for Somerset West and Taunton as a district Council with its assets, liabilities, and functions due to transfer to the new Somerset unitary council once it is created. The MTFP is therefore prepared on a shorter term basis including an indicative forecast of SWT costs in 2023/24. Currently the forecast budget gap in 2023/24 is £6.4m including the additional net pressures that are ongoing.
- 1.4 The budget planning process is ongoing and there remains some areas where estimates are to be finalised therefore the estimated Gap is likely to change and will be reflected in the final draft Budget. The Executive is due to recommend its final budget proposals to Full Council in February 2022.

#### **2 Recommendations**

2.1 This report is to be noted as the updated estimates for the 2022/23 Budget and latest Medium Term Financial Plan forecasts, and the areas to be finalised.

### 3 Risk Assessment

3.1 There remain some key risks within the budget and medium term forecasts. These are summarised in section 10 of the report.

### 4 Background and Full details of the Report

4.1 The Financial Strategy for Somerset West and Taunton Council (SWT) was approved by the Executive on 21 July 2021. This report outlined the Council's approach to developing the 2022/23 budget and provided Members with an update on the Medium Term Financial Position (MTFP) forecasts.

4.2 Since then officers have been reviewing the detailed budget estimates taking into account the underspends and overspends identified in the 2020/21 outturn, ongoing reviews of base budget estimates for services, and the changing economic climate. This has identified some changes to the base budget which are reflected in the updated MTFP figures below. The most significant change relates to the major reduction in car parking income which currently appears to be sustained following the 4th national lockdown earlier this year. Reducing the budget for parking income is prudent however it should be noted there is a higher than normal margin for error in forecasts which will be considered when assessing adequate minimum reserves.

4.3 There are still some items which are unknown at this stage of the budget process. These are covered in section 9.

4.4 The Financial Strategy and MTFP in July showed a provisional balanced position up to 2022/23, with a predicted budget gap of £4.949m for 2023/24. This large gap in 2023/24 is mainly driven by the expected reduction in business rates and new homes bonus grant funding plus the impact of ongoing costs that will be funded by one-off use of reserves in 2022/23. A mixture of unavoidable pressures and identified base budget savings have been identified and these have now been incorporated into the MTFP resulting in a further budget gap of £963k:

**Table 1 - Summary 2022/23 Budget Gap Reconciliation**

	£k	£k
<b>2022/23 Budget Gap as reported as per Financial Strategy</b>		<b>0</b>
<b>Service Cost Pressures:</b>		
Car Parking income – assumption that parking income improves on current demand but remains approximately 25% lower than base budget.	1,475	
21/22 Proposed Pay Award – the current proposed pay award is now 1.75% (previous estimate 1.5%)	76	

	£k	£k
Leisure Contract savings deferred	135	
Staff Costs	437	
Health and Safety	28	
Water Sampling	10	
Contract increases	123	
Legacy investment rent income decrease	13	
Homelessness	113	
Other various minor pressures	98	
<b>Subtotal – Service Cost Pressures</b>		<b>2,508</b>
<b>Service Cost Savings:</b>		
Remove Asset Maintenance Increase	-298	
CCTV savings	-73	
Asset rents (non-investment)	-253	
Other various minor savings	-116	
<b>Subtotal – Service Cost Savings</b>		<b>-740</b>
<b>Other Items</b>		
COVID Grant Earmarked Reserve	-135	
Homelessness Reserves/Grants	-113	
BRR Reserve to offset updated Collection Fund Deficit	-22	
Estimated BRR Pooling Gain	-250	
Council Tax Grant	-39	
Reduction in RCCO for Desktop Hardware Replacement	-130	
Council Tax Base Provisional Calculation increase	-116	
<b>Subtotal – Other Items</b>		<b>-805</b>
<b>2022/23 Latest Budget Gap Estimate November 2021</b>		<b>963</b>

4.5 The following table sets out a summary of the updated Medium Term Financial Plan for Somerset West and Taunton as at November 2021.

**Table 2 – Updated MTFP Summary 2022/23 – 2023/24 (November 2021)**

	2021/22 £k	2022/23 £k	2023/24 £k
Total Spending on Services	21,020	23,664	23,524
Investment Properties	-5,562	-7,157	-7,327
Net Financing Costs	1,903	3,624	4,307
SRA Contribution	98	99	100
Special Expenses	29	29	30
Earmarked Reserves	2,415	-3,442	-15
General Reserves	-1,160	-1,000	0
<b>Net Expenditure</b>	<b>18,743</b>	<b>15,817</b>	<b>20,619</b>
Retained Business Rates	-6,182	-4,199	-4,281
Business Rates Pooling	-250	-250	0
Business Rates prior year deficit	12,556	1,953	1,331

	2021/22 £k	2022/23 £k	2023/24 £k
Business Rates S31 Grant	-12,117	-1,474	-897
Additional Grants (COVID)	-1,221	0	0
Revenue Support Grant	-6	-6	-6
Rural Services Delivery Grant	-253	-253	-253
New Homes Bonus	-1,743	-851	0
Council Tax	-9,490	-9,797	-10,092
Council Tax–Special Expenses	-29	-29	-30
Council Tax prior year surplus	-8	52	53
<b>Net Funding</b>	<b>-18,743</b>	<b>-14,854</b>	<b>-14,175</b>
<b>Budget Gap</b>	<b>0</b>	<b>963</b>	<b>6,444</b>
Gap – Change on Previous Year	0	963	5,481

**Note:** The 2021/22 figures are based on the revised budget as per the Financial Strategy.

## 5 Local Government Reorganisation in Somerset

- 5.1 The current draft MTFP does not yet include any allowance for transitional costs related to implementing the new unitary council for Somerset.
- 5.2 The County Council and four district councils in Somerset have agreed to form the Local Government Reorganisation Joint Committee (LGRJC) (see SWTC Executive Committee 20 October 2021). The LGRJC will consider the principles and basis for cost sharing and make requests of the five Councils pending the statutory provisions that are due to guide the process. Initial estimates indicate that Members should prepare for a request above £0.9m as a contribution towards the estimated £16.5m implementation costs as identified in the One Somerset Business Case. On this basis it is proposed to plan for costs of up to £1m allowing for a small contingency.
- 5.3 In addition, it is anticipated that additional capacity will be required within Somerset West and Taunton Council to mitigate the impact of transition on ‘business as usual’ service delivery. Initial estimates suggest it would be prudent to allow a one-off budget of £375k for this purpose.
- 5.4 Based on the above, it is anticipated that an additional one-off funding requirement will need to be included in the final proposed budget for 2022/23, indicatively estimated to be £1.375m. Subject to final budget proposals it is assumed this one-off additional cost will need to be funded from General Reserves in 2022/23 as it is not currently affordable within the base budget without further savings. This will be finalised and clarified as part of the draft budget report in January.

## 6 Closing the Gap

- 6.1 The agreed financial strategy for SWT plans to use £3.7m of reserves (funded by business rates gains, treasury and investment savings) towards balancing 2022/23 on a one-off basis. Reserves will therefore fund approximately 15% of service costs next year. The underlying financial pressure will remain (and increase) in 2023/24. The approach adopted recognises that significant savings are expected to follow in subsequent years through the implementation of a unitary council, and it would be counter-productive to pre-empt service priorities and operational design in advance of the implementation programme. Despite this approach it is important that leadership focusses on sustainable options as a minimum to counter the gap increase for 2022/23.
- 6.2 Equally there are currently significant uncertainties regarding funding with the Spending Review (SR) due to be announced on 27 October 2021, and the provisional settlement due in December. There is £2m of one-off funding in 2021/22 (COVID emergency funding £813k, Lower Tier Services Grant (LTSG) £995k, Local Council Tax Support (LCTS) tax base compensation £225k). It is prudently assumed none of this funding continues in 2022/23, in the absence of information to the contrary. In addition, it is assumed we will only receive the final legacy payment for New Homes Bonus Grant income, which is a reduction of £892k compared to 2021/22. The funding position will not be known with certainty until the Provisional Settlement is announced in December.
- 6.3 The leadership team and Executive will finalise proposals to close the additional gap and share this for consultation with members through the draft budget report to Corporate Scrutiny Committee on 26 January 2022. Within the terms of the voluntary LGRJC formed by the 5 councils, it is agreed that the draft budget plans will also be shared with the LGRJC on a voluntary basis and the SWT Council should consider the feedback from the Joint Committee when making its decisions.

## 7 General Reserves

- 7.1 General Reserves are currently estimated to be at £5.793m at 31st March 2022. The financial strategy includes using £1m of General Reserves in 2022/23 which would reduce the balance to £4.793m.

**Table 3 – GF General Reserve Balance**

	<b>Approval</b>	<b>£000</b>
<b>Balance Brought Forward 1 April 2021</b>		<b>7,914</b>
2021/22 Original Budget Transfer from Reserve	Council 18/02/21	-1,160
Supplementary Budget - Local Poll	Council 04/05/21	-86
Supplementary Budget - Phosphates	Executive 21/07/21	-200
Supplementary Budget - Health & Safety	Executive 21/07/21	-126
Supplementary Budget - Parks & Open Spaces	Executive 21/07/21	-100
Supplementary Budget - Asset Management	Executive 21/07/21	-150
Supplementary Budget - Asset Management Compliance	Executive 21/07/21	-100
Supplementary Budget - Revenues Service Capacity	Executive 21/07/21	-130

Supplementary Budget - Business Intelligence Capacity	SMT 23/06/21	-50
Supplementary Budget - Project Management Resources	Director/S151 15/07/21	-19
<b>Current Balance</b>		<b>5,793</b>
Planned Use of Reserve in 2022/23 for Base Budget		-1,000
<b>Projected Balance 31 March 2023</b>		<b>4,793</b>
Recommended Minimum Balance		2,400
Projected Balance above Minimum Reserve Balance		2,393

- 7.2 The table above does not include the anticipated requirement for £1.375m to fund LGR transitional costs including additional capacity within SWTC services (see section 5 above). This would reduce the Projected Balance to c£3.4m.
- 7.3 Equally the table does not include the outturn for 2021/22 financial year, which is currently projected to report an underspend as per the Quarter 2 report. This will be updated and only known with certainty at the end of the financial year.
- 7.4 The S151 Officer advises that it is prudent to retain headroom within the general reserves balance to mitigate financial risks and volatility in the lead up to formation of the new unitary council.
- 7.5 The current recommended Minimum Reserve Balance is £2.4m. The S151 Officer will review the minimum reserve requirement in February 2022 as part of the final budget recommendations.

## 8 Council Tax

- 8.1 The assumptions used have not changed for Council Tax Charge increases. For financial planning purposes it has been assumed Council Tax Charges will increase by 1.99% each year. This is subject to consideration by the Executive through the budget process, which will formally recommend its Council Tax proposals to Council each February as part of the Budget report. It is not known at this stage whether the Secretary of State will continue the option for the 'threshold for excessive council tax increases' for shire districts to increase tax by up to £5 (on a Band D charge). This is subject to confirmation annually through the Finance Settlement.
- 8.2 The provisional estimate of the Council Tax Base has been calculated resulting in an increase to the base providing £116k more income. The final Council Tax Base is due to be approved by the s151 officer in December 2021 and any changes will be reported in the next budget update report.

## 9 Areas Still to be Completed

- 9.1 Budget Holders put forward their proposals for Fees and Charges and the impact of these is being reviewed by Finance. The S151 Officer has delegated authority to agree these (with the exception of Parking Charges) and an update will be provided within the next budget update report.

- 9.2 The Business Rates Retention provisional estimates will be completed in January 2022. It is unlikely this will affect the current draft estimate significantly based on current information; however, this is a complex calculation and also subject to change following the Provisional Local Government Finance Settlement.
- 9.3 Capital financing costs and investment income estimates will be finalised in December as draft capital plans are agreed.
- 9.4 Savings options and plans to mitigate the additional financial pressures identified in this report.
- 9.5 Completion of review of earmarked reserves, which could see changes in levels of contingencies required and potentially the release of funds to General Reserves if no longer required for their original purpose.

## **10 Risk, Opportunities and Uncertainty**

- 10.1 Ongoing risks and uncertainty for the budget at this stage include:
  - a) **Not achieving the efficiency savings target within the Financial Strategy:** It is essential that work progresses to meet the savings targets included in the Draft Budget and that the Council delivers efficiencies to meet this target.
  - b) **Commercial Strategy:** The MTFP includes estimates of total investment income and financing costs on the assumption the £100m fund is fully invested. Budget estimates will be updated in December to reflect the position of the Fund at that stage.
  - c) **Local Government Finance Settlement (LGFS):** We have not yet received the Provisional Finance Settlement and are expecting this in late December 2021/early January 2022. The funding projections within the MTFP are based upon prudent estimates. There is significant uncertainty around this in terms of core funding and any additional funding towards the ongoing impacts of the pandemic on local government costs and income.
  - d) **New Homes Bonus (NHB):** A Government consultation on the future of New Homes Bonus closed on 7 April 2021. If the calculation method is unchanged for 2022/23 the NHB annual increment could be up to £700k more than our current budget estimate. However, the Consultation indicated the level of grant will be reduced and may be targeted differently, and that legacy payments will not be reintroduced. Government has yet to provide an update on Policy or grant method following the consultation, but it is prudent to assume no additional grant until Government provides a clear position. It is recommended by the S151 Officer that if NHB income in 2022/23 is greater than current forecast the increase is fully allocated towards the annual budget and reduce the gap in 2022/23.

- e) **Business Rate Retention (BRR):** The annual budget estimate return is due to be completed in January 2022 and therefore the forecast for BRR income could change for 2022/23, although it is unlikely the funding forecast will change significantly with net BRR projected to be at the Safety Net.
- f) **Council Tax:** The budget for council tax income is subject to the completion of the final Tax Base in December and the approved rate of tax increase in February 2022. Any variation from current assumptions will affect Council Tax income estimates.
- g) **Fees & Charges:** Proposals for 2022/23 fees and charges are currently being prepared by service managers and the finance team. Final proposals may impact on the current estimated income for next financial year and will be confirmed in the next budget report.
- h) **Business Rates Pooling:** SWT will not operate within the Somerset Business Rates Pool in 2022/23, with the Council exiting the Pool on 31 March 2022. This is to de-risk the Pool from the major reduction in business rates income following the expected decommissioning of Hinkley Point B nuclear power station. The remaining Pool members (Somerset County Council and the other three district councils) have agreed that SWT will receive a contribution from 2022/23 pooling gains in lieu of agreement to exit the pool. The actual pooling gain share will not be confirmed until the end of 2022/23 financial year with the draft budget based on a reasonable estimate.
- i) **Review of minimum reserves:** The S151 Officer will review reserves as part of the budget setting process in February 2022 to ensure reserves remain robust.
- j) **Collection Fund Surplus/deficit –** This will be finalised in mid-January and therefore the estimates included in the MTFP could change.
- k) **Minimum Revenue Provision (MRP):** This is being reviewed and will be addressed in the final budget report.
- l) **B&B Homelessness:** The budget for temporary accommodation, and the wider housing options service, is demand led and relies significantly on specific grant funding. Grant funding tends to be announced one year at a time or is subject to successful bidding. Income for the service as well as demand led costs are therefore both subject to volatility.
- m) **Inflation on Major Contracts:** Final budget estimates for some of the Council's major contracts will not be agreed until later this calendar year. The MTFP includes an estimated increase for our major contracts and any further changes will be reflected in further reports.



- n) **IFRS 16 Leases:** Work is currently being undertaken on the impact of this new financial reporting standard. This changes the means by which the authority accounts for many of its contracts for items such as equipment, photocopiers, vehicles etc. They become leases featuring on the Council's Balance Sheet. Whilst the total cost to the Council over the life of a given contract is expected to remain unchanged, there will be some variation in the profile and appearance of costs in the Council's budgets and accounts in future years. Until relevant contractual rent agreements have been identified and assessed, it will remain uncertain what direct impact there will be on the budgets and accounts. Completion of this work is envisaged in early 2022.

## **11 2022/23 General Fund Capital Programme**

- 11.1 The Council set a two-year capital programme in February 2021 therefore bids have not been requested this year. Officers are reviewing the programme and if there are any unavoidable items that need to be considered these will be included in further budget update reports.

## **12 Next Steps**

- 12.1 The Leadership Team and Executive will prepare options to close the increased 2022/23 Budget Gap, which will be presented to Members within the next report.
- 12.2 The Finance Team will continue to finalise remaining budget estimates where work is in progress.
- 12.3 The Spending Review and Provisional Settlement will be reviewed, and budgets updated with new information as it emerges.
- 12.4 Final Draft Budget reports will be submitted to Members as follows:

26 January 2022	Corporate Scrutiny	Draft Budget and MTFP 2022/23
Date TBC	LGR Joint Committee	Draft Budget and MTFP 2022/23
9 February 2022	Executive	Final Draft Budget recommendation
24 February 2022	Full Council	Final Budget Approval Council Tax Resolution Approval

## **13 Links to Corporate Strategy**

- 13.1 The Council's MTFP underpins the planning of resources needed to meet the priorities and objectives within the Corporate Strategy and related plans.

## **14 Finance / Resource Implications**

- 14.1 The Council's financial position is set out above within the body of this report.
- 14.2 It is important that Councillors have a good understanding of the financial position

and forecasts over the medium term and consider ongoing financial sustainability of services in financial decision making. There is an important added factor in that future service design and priorities will be led through the implementation one of the workstreams. This has a strong influence on the Council's short term financial strategy, but Members should also consider the legacy financial position in 2023/24 when considering budget options.

## **15 Legal Implications**

- 15.1 The Council is required by law to set a balanced budget and failure to do so would result in serious financial and service implications and lead to Government intervention.

## **16 Climate and Sustainability Implications**

- 16.1 No direct carbon/environmental impacts arising from the recommendations. Budgeted support towards the Council's climate and sustainability priorities is included within the MTFP.

## **17 Equality and Diversity Implications**

- 17.1 No direct equality or diversity impacts arising from the recommendations within this report. Officers and members will need to consider whether there are any impacts for detailed policy updates and proposals within the detailed budget plans as these are developed and presented for decision.

## **18 Partnership Implications**

- 18.1 The Council's budget includes significant expenditure on services provided by other key partners such as Somerset Waste Partnership, SHAPE Legal Partnership and Somerset Building Control Partnership.

## **19 Scrutiny Comments / Recommendations**

- 19.1 *To be updated following the committee.*

### **Democratic Path:**

- **Corporate Scrutiny – 1 December 2021**
- **Executive – 15 December 2021**
- **Full Council – No**

**Reporting Frequency: Ad-hoc**

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