

Appendix A

2022/23 Budget Overview 12th January 2022

Impact of the Settlement December 2021

Councillors will be aware that the Settlement figures are normally distributed to the Council in mid December and at the same time the Secretary of State makes his statement on local government funding for 2022/23 (referred to as 'the Statement' in this paper). The Settlement was announced on the 16th December 2021.

Key elements of the Statement that impact on the budget position for 2022/23 are:

- Confirmation of settlement figures for 2022/23. It was hoped that a three year settlement would be received but only one year was confirmed.
- Continuation of New Homes Bonus
- Council Tax increase thresholds
- Any changes to Business Rate Baseline
- Information relating to additional funding streams

Alongside the Settlement the government also published a technical consultation paper on:

- The provisional local government finance settlement 2022/23.

As such the funding position for 2022/23 is very much a one year settlement and it is difficult to make assumptions from it as to the level of funding in future financial years, as a number of the funding streams are one-off grants or are funding streams that may disappear.

There is still substantial uncertainty surrounding how changes to Business Rate Retention and the Fair Funding Review will impact on Blaby. Members will recall that these changes were originally proposed to be put in place for 2020/21.

These changes will not therefore directly impact on the budget for 2022/23 but the MTFS at the end of this paper illustrates the impact this may have on the Council's finances in future years. Officers will be monitoring the situation throughout the forthcoming year and inform Members as any impact on future funding is understood.

Throughout this document reference is made to the Settlement Statement within the relevant section to provide information to Members.

Budget Gap

On receipt of the Settlement it became clear that the Council were facing a significant budget gap of **£1.35M** for the 2022/23 Financial Year. This has arisen as a result of increased costs but also reductions in funding and income levels.

Funding the Budget

The impact of the pandemic continues to impact on some of the Council's revenue streams and is reflected in income levels for some service areas. Income from services is netted off against the costs within the net budget requirement so is not shown in the funding figures.

The table below illustrates how the budget is funded and how the Council's reliance on certain income streams has impacted on the magnitude of the budget gap.

Sources of funding are as follows:-

	Approved Budget 2021/22	Working Budget 2021/22	Base Budget 2022/23	Variance Compared to Approved Budget
	£	£	£	£
Income from Business Rates	5,364,853	7,413,500	1,367,158	3,997,695
Contributions from Business Rates Reserves	(8,841,432)	(8,621,563)	(2,159,762)	(6,681,670)
S31 Grant - Business Rates Compensation	(1,058,322)	(3,417,893)	(3,275,451)	2,217,129
COVID-19 Emergency Funding	(411,883)	(411,883)	0	(411,883)
COVID-19 Sales, Fees & Charges Compensation	(54,200)	(54,200)	0	(54,200)
New Homes Bonus Grant	(1,607,070)	(1,607,070)	(1,020,820)	(586,250)
Lower Tier Services Grant	(786,461)	(786,461)	(911,919)	125,458
Services Grant	0	0	(153,747)	153,747
Council Tax (Surplus)/Deficit	73,302	73,302	72,774	528
Council Tax Demand on Collection Fund	(5,888,787)	(5,888,778)	(5,931,016)	42,229
Funding Envelope	(13,210,000)	(13,301,046)	(12,012,783)	(1,197,217)

This reflects:

- Redistributed NNDR has decreased by £466k from 2021/22 to 2022/23. Whilst we have seen units at Fosse Park West opening, we have a considerable number of empty units and uncertainty around rateable values which have contributed to this decrease.
- COVID Emergency Funding – none assumed for 2022/23.
- COVID Sales Fees & Charges Compensation – none assumed for 2022/23.
- New Homes Bonus (NHB) Grant has reduced by £586k. It was expected that NHB would be significantly reduced in 2022/23, however this was less significant with the payment of another one year only NHB payment of £240k.
- Lower Tier Services grant – a one off grant to compensate Councils to ensure core spending power has not reduced.
- Services Grant – A distribution of £1.5bn additional funding – distributed utilising the 2013/14 funding formula and has favoured more deprived areas – a mechanism for levelling up.
- Council Tax precept has increased by £42k. This is before any increase is applied but reflects the increase in the tax base (increase in properties) in the

district. It should be noted that the increase in the taxbase is lower due to reduced build rates in 2022/23 that haven't recovered to pre-Covid levels.

Business Rates

Since the Localisation of Business Rates in 2013/14 local authorities have been in a position to benefit from a proportion of growth in business rates and Blaby has, like most councils, needed to release this growth to support the budget.

It has been especially difficult to forecast the growth within the budget figures in 2022/23. This is due to:

- New properties within Fosse Park West not being officially rated by the Valuation Office (VO) and estimates have been included.
- Estimating empty properties for Fosse Park West
- The ever present risk that appeals put forward by businesses may impact unfavourably on the amount of income that Blaby is able to release.

Blaby use advice from experts to understand the appeals that have been put forward and to make a provision for these appeals. Increasing the provision will reduce the amount of business rate income that can be retained.

Councillors will be aware that the mechanism for the distribution of business rates was expected to be changed in 2021/22 but has been delayed further. This does not impact on 2022/23 financial year but will be a consideration for future years.

New Homes Bonus

The Council has continued to generate New Homes Bonus (NHB) from the increase in houses built in the district. Since 2013/14 the New Homes Bonus has been used to underpin the budget requirement as government funding has reduced. In 2022/23 an amount of **£1.0m** is being utilised to fund services; a reduction of £586k.

Initially NHB earned was paid for a period of 6 years and then in 2018/19 this was reduced to a further 4 years. Since 2020/21 the government have only paid NHB earned for one year and payments of NHB have been expected to be phased out. Within the NHB of 2022/23 is **£781k** of legacy NHB. It is the last year that the Council will benefit from this legacy funding.

Surprisingly in 2022/23 a one year payment of **£240k** was received. This one off amount is significantly lower than historic years, given the impact Covid-19 continues to have on the build figures within the District.

The future of NHB is very uncertain and poses a considerable future financial risk for the Council. There has been little mention of the future of NHB in the Fair Funding review discussions.

Lower Tier Services Grant

Members will have seen from the Funding Table that the council has received a Lower Tier Services Grant of **£912k**. This is a new grant that was first paid in 2021/22. It is principally designed to ensure that no authority's core spending power is lower in 2022/23 than it was for 2021-22. Distribution of this grant has been heavily weighted towards District Councils with large NHB reductions. There is no suggestion that this grant will continue in future years.

Service Grant

Also included in the funding table is a Service Grant of **£154k**. This is a new grant and is the mechanism used to distribute an element of the £1.5bn additional funding to Local Government that was announced in the Spending Review 2022/23. Whilst 40% of this was allocated to fund social care, an amount of £822m was distributed to all authorities through the Service Grant. An out of date funding formula from 2013/14 was used to determine the allocation which appears to have favoured areas of deprivation and has been a mechanism for levelling up.

This grant is expected to be rolled into the funding reforms of 2023/24.

Addressing the Budget Gap

The budget gap arising for the 2022/23 Financial Year is **£1.35M**.

Given the significance of this gap measures have been taken to include options open to the Council within the portfolio reports presented to you during the Scrutiny sessions. These are detailed below and illustrate how the gap can be reduced.

Council Tax Increase

Members will be aware that over recent years there has been more of an expectation nationally that Council's will increase Council Tax as a mechanism for closing the financial gap. This continues to be reflected in 'the Statement'.

For 2022/23 the threshold for Council Tax increases for "core" Band D Council Tax has remained unchanged with local authorities able to increase their Council Tax by up to 2% (1.99%). An additional amount of **£118k** would be generated with a 1.99% increase which equates to an increase of £3.45 per annum; £176.77 for a Band D equivalent property.

District Councils may however raise Council Tax by **£5** without triggering a referendum. This is an option that has been included for the purpose of reducing the gap, given it is larger (2.88%) than the 1.99% increase. This option would generate an additional **£171k**; £178.32 for a Band D equivalent property.

For Shire County Councils increases for 'core' Band D Council Tax has also been retained with an increase of up to 2% being allowed.

It is important to also note that within the Settlement those Authorities with responsibility for Adult Social Care, such as Leicestershire County Council, retain the

additional flexibility to increase their current Council Tax referendum threshold by up to 1% on top of the core principle for an Adult Social Care precept.

The Leicestershire County Council proportion of the total Council Tax charge forms approx. 70% of the total charge (based on 2021/22).

Police and Crime Commissioners are able to increase their Council Tax precept by £10 and Fire & Rescue Authorities are limited to a referendum principle of 2% but those in the lower quartile (including LFRS) can increase by £5.

Should all preceptors decide to increase Council Tax at the maximum levels (with Parish Councils increasing by the average amount based on 2021/22) the total annual increase on a band D property would be approximately £63.

Cumulative Impact of Council Tax increases

It is important to understand the cumulative impact of not increasing Council Tax. For a three year period from 2011 the Council chose not to increase Council Tax but instead to be compensated with a Council Tax Freeze grant which the Council no longer benefit from. Had Council Tax been increased during that three year period the Council Tax income would today be higher by £704k.

Release of NNDR Reserve

Members will be aware that the Council holds a NNDR reserve which the Council put in place to smooth the income caused by the fluctuations on income levels and the unpredictability of business rate appeals. This is income earned by the Council through business rates which has not yet been released to fund budget expenditure. It is proposed to release **£500k** of this reserve into the budget for the 2022/23. The reserve will therefore reduce to £1.20M

Increase in Vacancy Savings Provision

Included within the budget is an allowance for vacancies occurring throughout the course of the year. This is an estimate of how much the Council will underspend due to posts not being filled in a timely manner. While we do often fill vacant posts temporarily, we have been seeing an underspend net of temporary staff costs of almost £300k. In our initial budget an allowance of £100k provision had been budgeted. We are therefore proposing to increase this provision by a further £100k so reducing the establishment budget by a further **£100k**. Note that the Council will not delay employment of staff to keep within this vacancy savings provision should we be in a position to fill the posts.

Removal of Trade Waste Concession to Schools and Charities

Currently the Council provides Trade waste services to schools and charities free of charge. It is proposed to introduce charges to this sector which will increase income to the Council by **£110k**.

Further increase of Green Waste Charges

Consideration is being given to increase the Garden Waste charges by £3.80 (240 litre bin) to £41.70 and similarly an increase of £2.56 (140 litre bin) to £28.16. This would generate an additional **£80k** in income to the Council and increase the garden waste charges to be mid-range when compared with other Leicestershire authorities.

Cease Publication of the Contact Magazine

During COVID we have ceased to publish the Contact Magazine and we have been successful in communicating with our residents through other means. It is therefore being considered to cease publication of the magazine which will generate a saving of **£27k**.

Total Budget Requirement and remaining Budget Gap

The proposed General Fund Revenue Account Net Budget Requirement for 2022/23 is **£13.04m**. The comparable Net Budget Requirement for 2021/22 that was approved in February 2020 was **£13.2m**. It should be noted that the 2021/22 budget included extended costs associated with the pandemic and funding associated with those costs.

After taking into account the proposed measures to reduce the funding gap the adjusted gap is now **£360k**, which is at a level that may be met with a contribution from General Fund Balances.

General Assumptions within Budget Requirement

- The establishment budget allows for an increase of 2% in establishment costs for 2022/23. This is in addition to a 2% allowance allowed for in 2021/22 budget which, as of yet, has not been finalised.

The budget proposals for 2022/23 take into account the cost of employers' national insurance and pension contributions, contractual increments, and the Apprenticeship Levy. (More detail relating to this point was included within the report "Establishment 2021/22 22/23" presented to Cabinet Executive on 8th November 2021). Allowance has been made for the additional Health and Social Care levy of 1.25% within the national insurance contributions.

- Planning appeals are not included within the budget requirement but expenditure will be funded from balances if it is necessary.
- Portfolio figures are shown before any recharges from department to department in order that the spending service is scrutinised rather than the method of apportionment across departments.

Further Cost Pressures

Huncote Leisure Centre Site: Members will be aware that the Council has had to respond to a major incident concerning landfill gas on the site of the Huncote Leisure Centre. As such a reserve of £500k has been set aside to deal with the emergency situation, which is detailed in Appendix B as the Huncote Major Incident Reserve.

At the time of writing this report revenue costs associated with this incident currently stand at £60k. Capital funds committed for works to install monitoring equipment are currently £180k.

At this time none of these costs or ongoing costs are included within the budget of 2022/23. As the work is completed assessment will be made as to what ongoing action is required and costs that may be required to include in the budget. This will be highlighted in the final budget report to be considered by Council in February.

ICT costs: In December 2010 Blaby DC delegated responsibility for the ICT service to Hinckley & Bosworth Borough Council (HBBC) who outsourced the delivery to Sopra Steria. The contract with Sopra Steria ceased to exist from 31 December 2021 and the service has been brought back in house for HBBC to manage directly. As a result of this, there is an extension to costs of the ICT service in 2022/23 and beyond. A briefing note accompanies this report at Appendix F to provide detail regarding this matter.

Financial Budget Summary

BUDGET SUMMARY BY PORTFOLIO

	Approved 2021/22 £	Working 2021/22 £	Base 2022/23 £
<u>Net Direct Expenditure</u>			
Finance, People & Performance	2,209,515	2,321,103	2,308,060
Housing, Community & Environmental Services	2,333,370	3,128,357	2,535,039
Health & Wellbeing, Community Engagement & Business Support Leader	330,345	933,605	350,345
Neighbourhood Services & Assets	1,408,236	1,500,503	1,440,676
Planning Delivery, Enforcement & Corporate Transformation	2,709,426	2,811,340	2,550,096
Net Direct Expenditure	2,767,032	3,207,425	2,817,157
Revenue Contributions towards Capital Expenditure	11,757,924	13,902,333	12,001,373
Minimum Revenue Provision	215,000	824,814	100,000
Provision for Loss of Income due to COVID-19	1,327,964	1,145,597	1,173,162
Unallocated COVID-19 Emergency Funding	458,200	2,600	0
	411,883	345,633	0
Net Total Expenditure	14,170,971	16,220,977	13,274,535
Contribution to/(from) Earmarked Reserves	(312,430)	(2,785,119)	(230,940)
Contribution to/(from) General Fund Balances	(648,541)	(134,812)	
Net Budget Requirement	13,210,000	13,301,046	13,043,595
Income from Business Rates	5,364,853	7,413,500	1,367,158
Contributions from Business Rates Reserves	(8,841,432)	(8,621,563)	(2,659,762)
S31 Grant - Business Rates Compensation	(1,058,322)	(3,417,893)	(3,275,451)
COVID-19 Emergency Funding	(411,883)	(411,883)	0
COVID-19 Sales, Fees & Charges Compensation	(54,200)	(54,200)	0
New Homes Bonus Grant	(1,607,070)	(1,607,070)	(1,020,820)
Lower Tier Services Grant	(786,461)	(786,461)	(911,919)
Services Grant	0	0	(153,747)
Council Tax (Surplus)/Deficit	73,302	73,302	72,774
Council Tax Demand on Collection Fund	(5,888,787)	(5,888,778)	(6,102,119)
Funding Envelope	(13,210,000)	(13,301,046)	(12,683,886)
Funding Gap/(Surplus)			359,709