

Blaby District Council

Cabinet Executive

Date of Meeting	20 February 2023
Title of Report	General Fund Budget Proposals 2023/24 This is not a Key Decision and is on the Forward Plan
Lead Member	Cllr. Maggie Wright - Finance, People & Performance (Deputy Leader)
Report Author	Strategic Director (Section 151 Officer)
Corporate Priority	Medium Term Financial Strategy (MTFS)

1. What is this report about?

- 1.1 The report sets out the Council's General Fund budget proposals for the forthcoming financial year. This includes details of the financial settlement that will support service delivery, and a high level summary of planned expenditure by portfolio. The Council holds a number of reserves that it can draw upon to fund future expenditure. The level of reserves is noted within this report, along with an update of the Medium Term Financial Strategy.

2. Recommendation(s) to Cabinet Executive and Council

- 2.1 To have regard to the comments of the Executive Director (Section 151 Officer) in paragraph 4.7 in respect of the requirements of the Local Government Finance Act 2003.
- 2.2 To approve the 2023/24 General Fund Revenue Account net expenditure budget of **£14.665m**.
- 2.3 That delegated authority is given to the S151 Officer in consultation with the Portfolio Holder to make amendments to the Budget prior to the commencement of the financial year should it be necessary.

3. Reason for Decisions Recommended

- 3.1 It is a requirement for the Cabinet Executive and Council to take into account the requirements of the Local Government Finance Act 2003 in relation to the robustness of the budget and the adequacy of reserves.
- 3.2 Cabinet and Council are required to consider and approve the General Fund Revenue Account budget proposals in order to set the budget and Council Tax for the forthcoming financial year

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| 3.3 | Delegated authority is sought in order to make any amendments to the Budget should any new information become available following approval by full Council. |
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4. Matters to consider

4.1 Background

The Council formulates an annual budget based on our best estimates of income and expenditure for the forthcoming financial year. Officers monitor actual income and expenditure against the budget during the year, and quarterly progress reports are presented to Cabinet Executive, highlighting any significant variances against the budget.

Alongside the annual budget, the Medium Term Financial Strategy (MTFS) provides a forecast of the Council's revenue position up to a period of five years in the future.

Perhaps the most significant strand to the budget setting process is the Local Government Finance Settlement, which sets out the amount of Government funding that will be made available to support the Council's budget for the forthcoming year, and the amount by which we are permitted to raise council tax.

Members will be aware that the settlement funding assessment for 2023/24 was announced on 19th December 2022. It had been hoped that the Secretary of State would announce a multi-year settlement to commence in 2023/24. However, as has been the case in recent years, only a single year settlement was released. This makes it far more difficult to gauge the level of funding in future financial years, as a number of the funding streams for 2023/24 are either one-off grants or are funding streams that may end after the next financial year.

On top of this, there remains a great deal of uncertainty over how changes to Business Rates Retention and the Fair Funding Review will impact our financial position. We had expected that these changes may have started to be implemented in 202/24 however we now expect that these changes will not take effect until 2025/26. The updated MTFS, at Appendix C, is predicated on the assumption that the Business Rates Baseline will be re-based from 1st April 2025, and this is expected to lead to the loss of any growth in business rates that have accumulated since 2013/14.

4.2 Proposed Budget

The General Fund Revenue Account net expenditure budget of **£14.665m** has been prepared by:

- Including an estimate of the costs associated with the annual pay settlement which is yet to be agreed by the National Joint Council for Local Government.
- Incorporating increases in employer's pension in line with the triannual review.
- Including changes in external funding.
- Updating both income and expenditure forecasts to reflect inflationary pressures and any review of charges, particularly in respect of some of our key income streams.
- Utilising earmarked reserves where applicable to do so to support services to continue to be delivered.
- Estimating the amount of business rates receivable based on properties on the rating list, entitlement to various reliefs, expected growth, and the likelihood of appeals.

Contingent events such as planning appeals are not included within the budget requirement but expenditure will be funded from balances if it is necessary.

Funding the Budget Requirement

Service expenditure is presented net of fees and charges, and other specific grant income, to arrive at the net budget requirement of £14.665m.

The net budget requirement is met through a combination of council tax, business rates, and government grants.

Council Tax – proposals for Council Tax are included in a separate report on this agenda. The budget proposals include an assumption that the Band D Council Tax is increased by 2.99%; an increase of £5.33 per annum in 2023/24. Applying this to the Council Tax Base of 34,369.72 Band D equivalents, generates estimated Council Tax income of £6,311,930 in 2023/24.

Business Rates – income from Business Rates has been significantly impacted by the pandemic over recent years, mainly due to the expanded retail relief introduced by the Government to support businesses that were affected by the lockdown, but also in terms of an increase in empty properties, reduced growth, and an increase in the number of appeals against rating assessments. However, this position has been mitigated by the receipt of Section 31 Grant paid by the Government in compensation for expanded retail relief losses and other similar measures.

At the time when Scrutiny was presented with the draft budget proposals, Members were advised that income from Business Rates was expected to increase by approx. £1.54m between 2022/23 and 2023/24. Further work has been undertaken to refine the budget estimates in line with completion of the statutory NNDR1 return, however overall, the figure has not altered significantly. Income from Business Rates of **£6,292,638** has been built into

the 2023/24 budget, including a contribution of £453,500 from the NNDR Income Reserve.

New Homes Bonus Grant – New Homes Bonus Grant has again been extended for a further year. As a result we will receive **£430,029** in 2023/24 (a reduction of £559,464 compared to 2022/23). The future of New Homes Bonus is very uncertain and we await to hear if there will be a continuation of New Homes Bonus Grant in the future or if anything will replace it.

Funding Guarantee Grant - A new grant introduced this year to ensure every authority has an increase in Core Spending Power (CSP) of at least 3%. This has been funded from the discontinuation of the Lower Tier Services Grant and the reduction in the payment nationally of New Homes Bonus. Blaby has been allocated **£1.531m** for 2023/24.

Services Grant – This was a new grant in 2022/23 and was the mechanism used to distribute an element of the £1.5bn additional funding to Local Government that was announced in the Spending Review of 2022/23. Included in 2023/24 is grant funding of **£90,200** reduced from £154,000.

Balances and Reserves

The adequacy of the Councils balances and reserves are essential factors to be taken into consideration when preparing the annual budgets. The Council maintains a General Fund working balance and a number of specific earmarked reserves and provisions to meet liabilities.

In 2023/24 it is proposed that the Council makes a contribution from the General Fund Balance of £166k to support the budget and contributions from earmarked reserves are proposed to be utilised as follows:

- £100,000 from the Election reserve to be utilised to fund the Blaby District elections
- £53,000 from the IT Reserve Fund to support capital schemes
- £47,000 from the Blaby District Plan Reserve to support capital schemes
- £55,000 from the Ongoing Projects Reserve represents upfront funding to be carried forward and delivered in 2023/24
- £31,327 from the New Homes Bonus Reserve released to general reserves.

In addition to these contributions from earmarked reserves, we are also utilising £1,502,156 from the S31 Grant Reserve and £453,500 from the NNDR Income Reserve. The former relates to grant monies received in 2020/21 that were carried forward to offset the Business Rates deficit arising in 2021/22 and subsequent years, as a result of the pandemic. The latter is being utilised to support the overall Business Rates income stream in 2022/23.

It should also be noted that an addition £45,000 is to be made to the Property Fund Reserve. This reflects income that is expected to be received from the

investment in the property fund. Initially none of the income is being utilised within the Council's budget, but instead is being placed in a reserve to mitigate against any potential reductions in value which may have to be recognised by the Council in the future.

Information relating to specific Balances and Reserves are set out below:

General Fund Balance

The Council's General Fund balance plays an important part in maintaining the financial stability of the authority primarily by:-

- Meeting unforeseen additional expenditure and reductions in income during the course of the financial year.
- Meeting the cost of one-off items of expenditure.
- Supporting the stability of the Council's finances by providing a source of funding in times of uncertainty.

In 2023/24 there is a requirement to make a contribution of **£166k** from the General Fund to support expenditure. This is on the basis that Cabinet Executive and Council approve the Council Tax increase that is the subject of the following report.

The estimated balance at 31st March 2024 would, therefore, be **£3.642m** representing **24.8%** of the proposed net revenue budget for 2023/24. This is below the current limit within the Council's policy to hold no higher than 35% of the proposed relevant annual net revenue budget.

NNDR Income Reserve

Since 2015/16 the Council has recognised and released income generated from the growth in Business Rates to support the budget.

Officers monitor Business Rates throughout the year and although appeals and unpredictability of growth rates and empty properties make it difficult to forecast the outturn position, the Council has continued to benefit from seeing growth within the District. It is anticipated that the NNDR income reserve will have a balance of **£2.744m** by 31st March 2023 reducing to £2.291m by 31st March 2024.

S31 Grant Reserve

The balance on this reserve represents compensation received in 2020/21 towards expanded retail relief granted to businesses as part of the Government's response to COVID-19. The Government passed legislation allowing local authorities to spread any Business Rates deficit at 31st March 2021 over 3 financial years. The majority of this deficit has been recognised in 2021/22 with reducing balances being charged to the General Fund in 2022/23 and 2023/24. This is the final year of the release of this reserve and

the balance on this reserve at 31st March 2023 is expected to be **£1.502m** which will be applied in full during 2023/24.

Huncote Major Incident Reserve

As part of the Council's response to the major incident at the Huncote Leisure Centre site, in relation to landfill gas, the Council approved that **£0.500m** be set aside towards the cost of remedial works. At the time we were aware that expenditure was likely to fall across at least two financial years, 2021/22 and 2022/23. The majority of the works have now been completed, with some of those works being capital in nature. Consideration is being given as to whether it would be more beneficial to borrow to fund the capital element of works, and thus spread the cost over a number of years rather than take a one-off hit on reserves up front. In this regard, it is expected that the accounting treatment of this expenditure is reported at the year end and the reserve position correctly reflected.

Other Earmarked Reserves

Appendix B gives details of the expected movement on earmarked reserves in 2022/23 and 2023/24. If any planned expenditure for 2022/23, backed by contributions from earmarked reserves, does not take place before 31st March 2023, consideration will be given to carrying the budget forward to 2023/24. In such cases the funding will remain in the earmarked reserve until required.

Medium Term Financial Strategy

The MTFS financial assumptions have been updated to reflect the recent Settlement and to take account of the anticipated reduction in future funding and the consequential risks that the Council faces in future financial years. A summary of the MTFS appears at Appendix C. The MTFS gives an indication of our future financial position based on the limited information we currently have regarding the changes to Business Rates and the introduction of Fairer Funding, both of which are likely to be implemented from 1st April 2025/26.

The main assumption contained within the MTFS is that rebasing will take place from 2025/26, based upon the level of collectable Business Rates in 2023/24. This will effectively remove any growth attained between 2013/14 and 2023/24 by increasing the tariff payable to Government out of Blaby's share of the collectable rates.

This is expected to lead to a budget deficit of around £2.5M in 2025/26 after damping. Once again, there is no certainty that the Government will introduce any form of damping but it is thought likely that they will, in order to smooth the impact of the loss in funding across more than one financial year. The MTFS at Appendix C builds in an assumption that the loss in funding will be limited to 5% of the funding level for 2025/26. However, this is just one possibility and is by no means guaranteed.

The future of New Homes Bonus is very uncertain and we await to hear if there will be a continuation of New Homes Bonus Grant in the future or if anything will replace it. For the purposes of the MTFS a similar level of New Homes Grant Funding has been assumed for 2024/25 but that this income stream is discontinued in the years that follow.

4.3 Relevant Consultations

Cabinet Executive Members, Senior Leadership Team and the Service Managers have all been consulted in the preparation of budget proposals for the forthcoming year. The Scrutiny Commission has also had opportunity to challenge and understand the budget process and outcome.

4.4 Significant Issues

Local Government Act 2003 – Budget Calculations and Revenue Reserves

The Council's Section 151 Officer, is required to report to Members about the robustness of the budget proposals and to comment on the adequacy of the reserves.

This provision is designed to strengthen the financial reporting requirements of local government and to reduce the risk of authorities getting themselves into financial difficulty. The reason for this is that there is no prospect, under normal circumstances, of levying a supplementary Council Tax once a Council sets its level of tax for the forthcoming year.

Robustness of Budget Proposals

The preparation of the 2023/24 budget has been undertaken in accordance with best practice, including individually costing each establishment post and examining each cost centre budget line against current year and prior year performance. This has produced a tight, tailored budget which will require careful monitoring throughout the forthcoming financial year. Capital charges have been calculated in accordance with the Accounting Code of Practice and the Council's policies in relation to depreciation and the Minimum Revenue Provision.

Those specific grants known of at the time of preparation are included in the budget and the declared level, where Ministers have already confirmed the arrangements for 2023/24. Where this is not the case a similar level to that received in 2022/23 has been used for ongoing grants. Where there is uncertainty no provision has been assumed.

No specific provision has been incorporated into the proposed revenue budgets for 2023/24 for future potential redundancy or employment tribunal costs. It is proposed that any such costs be met from the Council's balances as and when required.

Adequacy of Major Reserves and Balances

Appendix B of this report sets out in detail the Council's overall position in relation to its reserves and balances.

The Council's proposals to utilise some of these reserves throughout the year illustrate how a structured approach is being taken to balance sustainable service delivery with financial prudence.

For the purposes of the requirements of Section 25 and 26 of the Local Government Act 2003, the Executive Director (S151) considers that the estimates for 2023/24 are robust and the proposed levels of balances and reserve are adequate.

Given the uncertainty that the Fair Funding Review and particularly the Business Rate Reform and changes to New Homes Bonus presents in future years there is a question as to whether the reserves are sufficient to underpin future financial pressures. This will be something that will be monitored by the Executive Director (S151) and brought to Council's attention as soon as information allows. As a matter of course, the reserves position is reported to Cabinet Executive on a quarterly basis. Based on the Council's 2021/22 Unaudited Accounts, usable revenue reserves (including earmarked reserves) at 31st March 2022 sit at 99% of net revenue expenditure. Whilst this puts Blaby at the lower end of the scale in terms of its level of usable revenue reserves, for the 2022/23 financial year the proposed level of balances and reserves are considered to be robust and adequate.

5. What will it cost and are there opportunities for savings?

- 5.1 The financial implications are included in the main body of the report and also documented in the papers provided to the Scrutiny Commission during January 2023.

6. What are the risks and how can they be reduced?

- 6.1 The risks to the Council in 2023/24 and future years are detailed in the Medium Term Financial Narrative document at Appendix C.

7. Other options considered

- 7.1 None – The Council is required to set its budgetary requirement and for the Council to consider the opinion of the Executive Director (S151 Officer) as to the robustness of the proposed budget and the levels of reserves and balances being adequate.

8. Environmental impact

- 8.1 This report itself has no environmental impact. Should further funding be required for environmental initiatives, these will be brought for consideration within independent reports and the financial implications considered at the time of bringing these reports before Cabinet and Council.

9. Other significant issues

- 9.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

10. Appendix

- 10.1 Appendix A – Summary of Net Expenditure and Budget Requirement
- 10.2 Appendix B – Analysis of Reserves (to follow)
- 10.3 Appendix C – Medium Term Financial Strategy (MTFS)

11. Background paper(s)

- 11.1 Establishment Report to Cabinet Executive - 7th November 2022.
Detailed budget working papers held by Financial Services.
Reports provided to the Scrutiny Commission Meetings of 11th and 18th January 2023.

12. Report author's contact details

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