

2023/24 Budget Setting Process

Strategy & Resources Committee – 30th June 2022

Report of: Chief finance Officer (S151)

Purpose: For information

Publication status: Unrestricted

Wards affected: All

Executive summary:

The Council is legally obliged to set a balanced budget in advance of each new financial year. Constructing a budget that is robust, deliverable and understood by Members, budget holders and residents is a process that takes a significant amount of preparation, with the engagement of key stakeholders.

This report sets out the proposed process for setting the 2023/24 budget, including indicative timescales. The report includes context on the continued uncertainty and expected constraints around Local Government funding, along with the areas of risks and opportunities that need to be explored.

The report also references the key interdependency between the budget setting process and the Future Tandridge Programme which is subject to the *2022/23 Budget – Tranche 3 Savings and Future Tandridge Programme Update* report elsewhere on this Committee's agenda.

This report supports the Council's priority of: Building a better Council/
Creating the homes, infrastructure and environment we need/
Supporting economic recovery in Tandridge/
Becoming a greener, more sustainable District

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Recommendation to Committee:

That the Committee notes the proposed process and timescale for setting the 2023/24 budget and Medium-Term Financial Strategy (MTFS), and the financial context in which it will be prepared.

Reason for recommendation:

It is good practice for Members to be engaged early in the budget setting process and to understand the financial context in which the Council is preparing its budget and MTFS.

Formally setting out this context to the Strategy & Resources Committee ensures that the Committee (which is charged with putting forward the overall budget to Council) is sighted on and has opportunity to shape the manner in which the budget is prepared.

1. Introduction

- 1.1 The Council is legally obliged to set a balanced budget in advance of each financial year. This requires all expenditure to be matched either by expected funding or planned savings. It is good practice to begin development of the budget as early as possible to ensure that plans are deliverable and robustly costed with sufficient engagement of stakeholders, including Members.
- 1.2 This report sets out the process for producing the 2023/24 Budget and Medium-Term Financial Strategy, preparing for Strategy & Resources Committee on the 31st January 2023 and Full Council on the 9th February 2023.

2. Financial Context

- 2.1 The 2022/23 Budget of £11.351m and the MTFS to 2023/24 was approved by Full Council on 10th February 2022, having been considered by the Strategy & Resources Committee on the 1st February 2022.
- 2.2 The 2022/23 Budget was balanced with funding of £11.351m, consisting of the following movements from 2021/22:

| Table 1: 2022/23 Budget | £k |
|--|---------------|
| 2021/22 Opening Budget | 11,295 |
| Pressures (including £0.9m pension correction) | 1,167 |
| Savings | (1,111) |
| 2022/23 Final Budget | 11,351 |

2.3 The MTFs, as presented to Full Council in February 2022, indicated a gap for 2023/24 of £874k. This is set out in the table below, along with an early illustration of scenarios for 2023/24, illustrating pessimistic, optimistic and neutral assumptions. The detail underpinning each scenario is set out in the following paragraphs. At this stage it is not the intention for the scenarios to represent robust estimates of the position for next year, but to demonstrate a plausible range in the requirement for additional savings.

| | Full Council (February 2022) £k | Indicative Scenarios | | | Reference |
|--|--|-----------------------------|--------------------------|-----------------------|------------------|
| | | Pessimistic £k | Optimistic £k | Neutral £k | |
| Opening Budget | 11,351 | 11,351 | 11,351 | 11,351 | |
| Pressures | 1,280 | 1,700 | 1,300 | 1,500 | Section 2.4 |
| Savings itemised in February Council | (713) | (513) | (713) | (613) | Section 2.5 |
| Net Budget | 11,918 | 12,538 | 11,938 | 12,238 | |
| Indicative Funding | 11,044 | 11,044 | 11,624 | 11,351 | Section 2.6 |
| Additional savings to be identified | (874) | (1,494) | (314) | (887) | Section 3 |
| Total Savings Requirement | (1,587) | (2,007) | (1,027) | (1,500) | |

2.4 Pressures

The MTFs reported to Council in February itemised £1.280m of pressures for 2023/24. This included a contribution to build reserves of £433k. The extent to which a budgetary contribution to reserves is necessary will depend on a decision needed from the Department for Levelling Up, Housing and Communities (DLUHC) following the Council's application to use capital receipts to secure more robust General Fund reserves. These pressures, including the requirement to grow reserves, will need to be fully reviewed.

- The **pessimistic** scenario assumes that the pressures itemised at February Council stand, but that a further £0.4m may be necessary to manage a sharp increase in the rate of inflation (running at 9% for CPI in April 2022) since the budget was set (on the basis of 4.2%). This £400k increase is included in all three scenarios
- The **optimistic** scenario works back from the pessimistic scenario, but assumes that DLUHC approve the use of capital receipts to bolster General Fund Reserves, and so the full £433k of reserves growth is not necessary.

- The **neutral** scenario assumes that, through a combination of reviewing reserves and managing inflationary pressure, pressures can be held at a mid-point between the optimistic and pessimistic scenarios.

2.5 Savings

The MTFS reported to Council in February included itemised savings of £713k.

- The **pessimistic** scenario assumes that £200k of these savings prove to be undeliverable in the manner envisaged.
- The **optimistic** scenario assumes that the £713k is deliverable in-full.
- The **neutral scenario** assumes a mid-point pending a full risk-based review.

2.6 Funding

The MTFS reported to Council in February made the following assumptions on funding, to total £11.044m for 2023/24 (a reduction of £307k), as set out in the table, below:

| | 2021/22 £k | 2022/23 £k | 2023/24 £k |
|--|---------------|---------------|---------------|
| Council Tax | 8,690 | 8,937 | 9,195 |
| 2020/21 Collection fund - 3 year spread | (32) | (22) | (22) |
| Collection fund | 0 | 19 | 27 |
| Business Rates (Incl Collection Fund deficit offset by s31 grants) | 1,459 | 1,632 | 1,474 |
| Government Grants | | | |
| New Homes Bonus | 341 | 618 | 30 |
| Lower Tier Grant* | 340 | 65 | 340 |
| Local Government Services Grant | | 101 | |
| Covid-19 | 498 | | |
| Grant Funding | 1,178 | 784 | 370 |
| Total Funding | 11,295 | 11,351 | 11,044 |

Council Tax Funding projected to increase by £265k

Tax Base: increase by 0.6%

Council Tax Rate: increase by 2.2% / £5 to £235.98 for a Band D Property

Collection Fund: increase by £5k

Business Rates projected to reduce by £158k: a modest increase offset by the removal of a £174k pooling gain (one-off for 2022/23)

Grants projected to reduce by £414k: to reflect the reduction of New Homes Bonus and the one-off Local Government Services Grant. This assumption was based on the Government's "Fair Funding Review" being implemented in 2023/24, which was the stated intention of DLUHC at the time.

- The **pessimistic** scenario adopts the same assumptions included in the February Council MTFs, as set out above.
- The **optimistic** scenario (based on projections by LGFutures, a funding advisory body) assumes that business rate income, including S31 business rates grants will be £500k higher, with Council Tax Base growth £100k higher. Business Rates have proved to be highly uncertain with the impact of Covid-19 and so this scenario would require a significant amount of additional testing before it could be adopted.
- The **neutral scenario** assumes that funding will remain flat at 2022/23 levels, with the "Fair Funding Review" delayed to at least 2024/25.

2.7 Overall position

The pessimistic, optimistic and neutral scenarios set out a range of assumptions which will need refinement as the budget process develops. Government funding is unlikely to be confirmed before the Local Government Finance Settlement in December 2022. In the meantime the Council, in common with Local Government as a whole, will lobby the Government for additional funding to meet the impact of high inflation on the cost of delivering services.

- 2.8 The range of additional savings required, to be delivered through the Future Tandridge programme, is likely to range between £0.3m and £1.5m, with a neutral estimate of £0.9m.

3. Future Tandridge Programme

- 3.1 The Future Tandridge Programme is subject to a separate paper on this Committee's agenda: *Tranche 3 Savings and Future Tandridge Programme Update*. The production of business cases for September Committees is a key part of the budget process.
- 3.2 The FTP and associated service reviews represent the key mechanism to identify the savings needed for 2023/24. All savings, including those already identified in the February Council papers and the additional savings required, are in scope for the FTP. The Benefits Board, part of the overall FTP Governance, will oversee delivery.
- 3.3 The Key Lines of Enquiry developing from the FTP will need to be pursued in context of the likely funding gap for 2023/24 and the likelihood of further constrained funding in 2024/25 and beyond.

4. Proposed Process

- 4.1 The 2023/24 Budget Process will culminate on the 9th February 2023, when Council is scheduled to discuss and approve the budget and MTFs. The Constitution determines that the S&R Committee “shall consider the aggregate of all Committee estimates and, after making such amendments as it thinks fit, submit the aggregate estimates to the Council for approval, together with recommendations as to the Council Tax to be levied for General Fund expenditure.” For 2023/24, S&R is scheduled for the 31st January 2023. An indicative timetable leading up to that point is set out below, including plans to engage with the other Policy Committees:

| Time Period / Date | Activity / Milestone |
|-------------------------------------|---|
| 30th June 2022 | 2023/24 Budget Process Report to S&R Committee |
| July – September 2022 | Initial estimates of Pressures and Savings developed, alongside Future Tandridge Programme Business Cases Review of Fees and Charges Review of Staff Allocations and charges to Housing Revenue Account |
| August – September 2022 | Engagement with Members on 2023/24 initial Pressures, Savings, Fees and Charges |
| September 2022 | Committee Cycle – Future Tandridge Programme Business Cases and Initial Pressures and Savings |
| October – November 2022 | Engagement with Members on 2023/24 Draft Budget |
| 1st December 2022 | 2023/24 Draft Budget and Capital Programme, including Tax Base to S&R |
| December 2022 | Expected publication of Local Government Finance Settlement – finalisation of funding estimates |
| December 2022 to January 2023 | Engagement with Members on 2023/24 Final Budget Engagement with residents and Business Rate payers on 2023/24 Budget |
| January 2023 | Committee Cycle – 2023/24 Final Budget, Capital Programme and Medium-Term Financial Strategy |
| 31st January 2023 | 2023/24 Final Budget, Capital Programme and Medium-Term Financial Strategy to S&R Committee |

| Time Period / Date | Activity / Milestone |
|-------------------------------------|--|
| 9th February 2023 | 2023/24 Final Budget, Capital Programme and Medium-Term Financial Strategy to Council |

5. Consultation

- 5.1 The Council has a statutory obligation to consult with Business Rate payers, and it is good practice to engage residents on the shape of the budget. Alongside the initial work to quantify budget pressures and identify savings through the Future Tandridge Programme, consideration will be given to an appropriate form of consultation with these stakeholders.
- 5.2 The publication of a Draft Budget in December will form the basis of that consultation, in order to shape the final budget to Council in February 2023.

6. Key implications

Comments of the Chief Finance Officer

- 6.1 Although significant progress has been made to improve the Council's financial position, the medium-term financial outlook beyond 2022/23 remains uncertain. With no clarity on central government funding in the medium term, our working assumption is that financial resources will continue to be constrained, as they have been for most of the past decade. This places an onus on the Council to continue to consider issues of financial sustainability as a priority to ensure stable provision of services in the medium term.
- 6.2 The report sets out how the Council will work to deliver a balanced and achievable budget for 2023/24 and the financial implications are set out throughout this report, alongside the *2022/23 Budget – Tranche 3 Savings and Future Tandridge Programme report* also on this Committee's agenda.

Comments of the Head of Legal Services

- 6.3 Under section 25 of the Local Government Act 2003, the Chief Finance Officer of an authority is required to report on the following matters:
- the robustness of the estimates made for the purposes of determining its budget requirement for the forthcoming year; and
 - the adequacy of the proposed financial reserves.

Equality

- 6.4 The Council has specific responsibilities under the Equality Act 2010 and Public Sector Equality Duty. Part of this is to ensure that the potential effects of decisions on those protected by the equalities legislation are considered prior to any decision being made.
- 6.5 Section 149 of the Equality Act 2010, provides that a public authority must, in the exercise of its functions, have due regard to the need to:
- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the EA;
 - advance equality of opportunity between persons who share a relevant protected characteristic (as defined by the EA) and persons who do not share it;
 - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 6.6 The three parts of the duty applies to the following protected characteristics: age, disability, gender reassignment, pregnancy/maternity, race, religion/faith, sex and sexual orientation. Marriage and civil partnership status applies to the first part of the duty.
- 6.7 Members should have due regard to the public-sector equality duty when making their decisions. The equalities duties are continuing duties they are not duties to secure a particular outcome.
- 6.8 Officers will review the budget proposals against the initial equalities screening tool.

Climate Change implications

- 6.9 There are no direct impacts on environmental aspects in this budget report. Climate change implications will be assessed as part of any changes to Service provision through a business case process.

Appendices

Appendix A – Glossary

Background papers

- Strategy & Resources Committee 1st February 2022 – [2022/23 final budget and 2023/24 MTFS](#)
- Strategy & Resources Committee 1st February 2022 – [Future Tandridge Programme](#)
- Strategy & Resources Committee 7th April 2022 - 2022/23 [Budget – Tranche 2 Pressure and Savings Distribution](#)

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Appendix A – Glossary of Terms

| Term | Definition |
|-------------------------------------|--|
| Balanced Budget | Budget pressures fully offset by budget savings and funding changes. |
| Business Rates Pool | Local authorities can join together in order to retain more growth from the Business Rates system (e.g. pay Government less of a levy against any increase in Business Rates over the Baseline). In Surrey, pool participation is dictated by the expected level of Business Rate retention. Whilst authorities can choose <i>not to</i> take part, they only qualify for inclusion if Business Rates growth indicates maximum gain for the County-area overall. TDC qualified and took part in 2021/22 but not 2022/23. |
| Capital receipts | The income received when assets are sold (such as land or buildings) in Tandridge DC, these receipts will include the monies received from Freedom Leisure Loan. Capital receipts can only be used to buy or fund capital expenditure or fund transformation programmes under the flexible capital receipts directive. Capital expenditure is the money spent on buying assets that have a lasting value. These assets could be land, buildings or large pieces of equipment such as refuse vehicles. Any other utilisation of receipts must be approved by the Director of Local Government. |
| Collection Fund | A ring-fenced fund to collect Business Rates and Council Tax and then distribute to the billing and precepting authorities (i.e. Tandridge, Surrey County Council, Surrey Police and Crime Commissioner and Parish Councils) |
| Collection Fund Surplus and Deficit | The difference between the budget for Business Rate and Council Tax collection and the actuals generated. If actuals are higher than budget, they are distributed in the following financial year. If lower, they are charged in the following year. The COVID-19 deficit in 2020/21 is spread over 2021/22 to 2023/24. |
| Lower Tier Services Grant | Lower Tier Services Grant was a new grant for 2021 to 2022, provided specifically to lower-tier authorities to support funding levels. It is assumed this grant (or more accurately funding of a broadly similar amount) will continue into 2022/23. |
| Minimum Revenue Provision | An amount of revenue budget set aside each year to repay debt on capital assets. Each year a charge is made to revenue to spread the cost of borrowing over the life of the asset and ensure that cash is set aside to repay loans when they mature. |

| | |
|--------------------------------|--|
| New Homes Bonus | A grant from Government to reward local authorities for increases to the tax base. The future of NHB has been unclear for a number of years but the budget assumes that an amount equivalent to 2021/22 funding will be received in 2022/23. |
| Pressure | Known budgeted expenditure increases and income reductions due to the following: <ul style="list-style-type: none"> • Growth factors – e.g. demographic, inflation and/or increased demand for services; • Full year effects – to take account of changes to expenditure or income which have taken effect in-year and need to be accounted for in future years as they are of an ongoing nature, e.g. ongoing changes to car parking income due to the pandemic; and/or • Other increases in expenditure or reduction in income as a result of strategic, governance, funding or policy changes e.g. additions to the organisational structure or additional service activities undertaken and not budgeted for as they occur after the budget is set and have ongoing implications. |
| Saving | Known budgeted expenditure reductions and income increases which result due to the following: <ul style="list-style-type: none"> • Containing additional costs of Inflationary increases in contracts or pay; • Driving forward efficiencies in the provision of existing services i.e. providing services in an improved way to deliver better value for money; • The delivery of new or additional services; and/or • Optimising sources of income. |
| S31 Business Rate Grants | Grants issued by Government to compensate Local Authorities for reduced Business Rate income resulting from Government decisions on rate reliefs. |
| Reserves: General Fund balance | A contingency fund - money set aside for emergencies or to cover any unexpected costs that may occur during the year, such as unexpected repairs. |
| Reserves: Earmarked Reserves | Funds set aside by Council for a particular purpose, such as buying or repairing equipment or the maintenance of public parks or buildings or equalising over time a particular income stream. |