

Hambleton District Council

Report To: Cabinet

Date: 8 February 2022

Subject: **Revenue Budget 2022/23**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 Cabinet on 7 December approved a draft revenue budget for 2022/23 for consultation. This report feeds back the results of the consultation, updates the budget for the local government finance settlement that was announced in late December and proposes a final budget for Council to determine on 22 February 2022.
- 1.2 The changes to local government structure come into effect in North Yorkshire from 1 April 2023. This means that this is the final budget for Hambleton District Council services in isolation. However, the budget before Cabinet continues the strong financial management culture that has always underpinned the decisions of Members within Hambleton District Council. It is mindful of the on-going implications of any spending decisions and the impact on future service levels to residents and any impact on the financial viability of the new authority. Therefore, a revised Financial Strategy has been incorporated into this paper to show the implications of 2022/23 budget on the next two years if Hambleton District Council was a continuing authority.

2.0 Financial Strategy

- 2.1 In February 2021, the Council approved a 4-year Financial Strategy that highlighted assumptions made on future income generation from fees and charges, levels of Government grants to be received, savings targets and Council Tax levels. This assumed that fundamental changes to Business Rates and Government funding were imminent. However, the Budget from the Chancellor of the Exchequer and the Local Government Finance Settlement indicate a different landscape over the next three years. Therefore a new Financial Strategy for the period 2022 to 2025 has been produced that will help inform the Local Government Review process and the financial planning for the new authority. This is attached at Annex A.
- 2.2 The budget before Members has been set in line with this strategy and the assumptions that underpin it include:-
 - Provisional salary increase of 2% has been included for 2022/23. However, the salary settlement for 2021/22 remains in abeyance at the time of writing. There is an assumption of 2% in the financial strategy for that.

- The salary budget has also been increased by 1.25% for the additional national insurance level to fund social care. It was indicated in the budget that public sector employers would be reimbursed this by Government grant. This has not been included in the budget at this stage.
- Expenditure agreements and contracts have been increased by the appropriate index with non-pay or fuel inflation amounting to £75,000
- Energy prices continue to be volatile, but the contracts procured has limited the impact on the Council. However, new arrangements will need to be put in place in 2022/23 and a large increase likely. Based upon recent negotiations for the Crematorium, £100,000 has been added specifically for increased electricity costs.
- All fees and charges have been reviewed for next year. Increases have been applied in line with inflation or national guidelines to some services. No increases have been applied to car parking or green waste.
- Investment in new services was part of the approved Financial Strategy to improve facilities for residents and generate income. This budget includes new income from the Crematorium (£300,000) and Treadmills (£60,000).
- Council Tax will be increased by £5 for 2022/23 in line with plans.
- A new Business Rate Retention Scheme for North Yorkshire Councils (excluding Harrogate and Selby) for 2022/23 has been agreed with the Government. This scheme enables the Council to keep a proportion of that locally. Whilst the actual amount retained will depend upon actual collection rates a prudent assumption of £200,000 has been included in the budget.
- The level of Government support is based upon the one-year settlement announced in late December in the Local Government Settlement.
- Debt will be drawn down in the current year to fund the major investment in the capital programme. The full year impact of that debt is within the budget. Balances have been used to fund this expenditure as interest rates continue to remain low at 0.25%. This will continue to be reviewed as events change.
- No specific savings are highlighted in the draft 2022/23 budget. This is in line with the assumptions being made across the other North Yorkshire councils heading into local government reorganisation.

3.0 Revenue Budget 2022/23

- 3.1 Consultation on the draft budget was undertaken with the business community and wider stakeholders of Hambleton through targeted e-mail and the Council's website. Several comments were received and are attached at Annex C for Members consideration. The consultation prompted a detailed question from a specific business on how the level of investment made by the Council in green initiatives. This was answered directly and well received.

- 3.2 One material change for Members to consider is an increase of allocation to Making a Difference (MaD) grants. Cabinet agreed to setting aside £250,000 for the MaD scheme in 2022/23. The applications have now been received and the panels have met and reviewed these applications. There are potentially £140,000 of schemes above the original funding level that could be delivered in 2022/23. Members are asked to consider increasing the budget for 2022/23 by £140,000 to £390,000.
- 3.3 The budget before Members incorporates all the resource requirements to deliver the approved service delivery plans of the organisation. The salary budgets have a fully costed establishment. All ongoing direct service costs are shown within the relevant cost centres. All cost centre budgets are shown gross and do not include inter-service recharges.
- 3.4 The summary draft revenue budget or 2022/23 is shown below in Table 1. An indication of what the 2023/24 budget would be should there be no local government reorganisation has been included for completeness. The detailed cost centres are included in Annex B.

Table 1 Summary Draft Budget 2022/23

Budget 2021/22 £	Service Area	Budget 2022/23 £	Estimate 2023/24 £
432,830	Economy & Planning	924,010	942,490
3,604,330	Environment	3,960,850	4,040,067
3,533,900	Finance & Commercial	4,137,070	4,015,814
1,248,150	Law & Governance	1,272,570	1,298,021
1,402,540	Leisure & Communities	1,711,900	1,195,338
<u>129,330</u>	Internal Drainage Boards	<u>129,330</u>	<u>129,330</u>
10,351,080		12,135,730	11,621,060
	<u>Specific Funding:</u>		
	One Off Fund	(740,000)	
	New Income Streams		(200,000)
	Car parking income		(120,000)
	Pre-paid Grant	<u>(29,360)</u>	
10,351,080	Net Revenue Budget	11,366,370	11,301,060
	<u>Funded from:</u>		
3,353,084	Business Rates	3,825,330	3,825,330
	Business Rate Pool	200,000	-
2,420,393	Government Grants	2,285,182	2,285,182
4,275,014	Council Tax	4,529,176	4,836,681
	Collection Fund Surplus	89,196	
<u>302,589</u>	Reserves	<u>437,486</u>	<u>353,867</u>
10,351,080		11,366,370	11,301,060

- 3.5 The budget has increased from £10,351,080 in 2021/22 to £12,135,730 in 2022/23. As highlighted above there has been inflationary pressure on the budget from pay and fuel. Pay increase for 2021/22 are likely to be more than the amount included in the budget and there is the increase to employer national insurance contributions. On the other hand, additional income from investments in assets such as the Crematorium has also come on stream. However, the costs of that investment now need to be incorporated in the budget. Table 2 below looks at the major increases in the budget.

Table 2 Major Changes incorporated in draft Budget 2022/23

Original Budget 2021/22		10,351,080
<u>Inflation</u>		
Salary	590,000	
Agency Staff	185,000	
Energy	100,000	
Other	<u>75,000</u>	950,000
<u>Policy Impact</u>		
Make a Difference	390,000	
Community Grants	150,000	
New Waste Round	175,000	
MRP and Interest (impact of investments)	<u>250,000</u>	965,000
<u>Additional Income</u>		
Fees & Charges increase	(150,000)	
Full year of Thirsk & Sowerby leisure	(175,000)	
Crematorium	(300,000)	
Treadmills	<u>(50,000)</u>	(675,000)
Base budget adjustments for reserves		544,650
Draft Budget 2022/23		12,135,730

3.6 **Expenditure Increases**

Salary inflation covers the expected pay rises in 2021/22 and 2022/23. Additional agency staffing has been included to help maintain service standards in Revenues and Benefits and Corporate Finance. Recruitment continues to be difficult here and the funding identified is the maximum that could be required. Members have already approved the Making a Difference and Community grants policies in October but a further £140,000 has been added as described in paragraph 3.2. This budget reflects those decisions and when the monies will be spent. MRP is a revenue charge that needs to be applied when assets are funded via debt. This reflects the investment in Crematorium.

3.7 Income Increases

Members determined to maintain the level of charges for car parking and green waste at the 2021/22 level. Other Fees and Charges have been increased in line with service expectations. Additional income will be received by the Council in 2022/23 the new Crematorium and occupied elements of Treadmills. There will be further increases in 2023/24 and 2024/25 as the Treadmills site is fully occupied and functional.

3.8 Base Budget adjustments for Reserves

A review of reserves has been undertaken as part of the 2022/23 budget setting process to ensure any on-going expenditure funded via the reserves is included in the actual budget.

3.9 Funding of Budget

£740,000 is identified from the One-Off Fund. This meets the cost of the Make a Difference and Community grants programmes and the provision for agency staff as they do not remain an on-going commitment and fully utilises that reserve. Government grants have been announced of £2.285m for 2022/23 to fund revenue expenditure. Hambleton has joined in a business rate pool for North Yorkshire for 2022/23. This will contribute £200,000 to fund the revenue budget. Retained business rates have been estimated in line with the latest data on NNDR1. As stated above, the Council Tax will increase by £5 at Band D to the level of £119.48.

3.10 Council Tax Requirement

This report is seeking an increase of Council Tax of £5 per band D property for 2022/23. This is the maximum allowed under the current rules without a referendum. Setting this level of increase creates a Council Tax Requirement of 4,529,176 that Council will need to formally set as part of the council tax billing report.

4.0 Balances and Reserves

4.1 Hambleton District Council has historically held many earmarked reserves for various purposes. In the light of Local Government Reorganisation (LGR) and 2022/23 being the final budget of the Council as an independent organisation, the reserve strategy has been changed. All reserves are being amalgamated on 1 April 2022 after funding the 2021/22 revenue budget and capital programme into three. There will be the LGR Reserve that was set up in December 2021 specifically to meet costs of reorganisation outside of normal budgets, the One-Off reserve that will fund the One-Off expenditure in the 2022/23 budget identified in paragraph 3.10 of this report and the general fund balance (reserve). This approach is consistent with the methodology of the budget formulation as stated in paragraph 3.9 above.

4.2 The estimated level of reserves as at 31 March 2022 is £11.8m. The proposed revenue budget requires the use of £437,486 to balance the expenditure plans to the available resources and an additional £769,360 is required for one-off items and pre-paid grants. In addition £522,800 of reserve funding will be utilised for the local government reorganisation expenditure in 2022/23 and capital funding allocation of £921,588 bringing the total call on reserves of £2.6m. This will leave the Council with £9.2m reserves at 31 March 2023. Members will see that that dependency reduces in 2023/24, if Hambleton were to continue to be a going concern, to

£353,867. Further action will be required in the future but that will be part of the wider local government transformation programme.

4.3 Section 25 of the Local Government Act

4.3.1 The Act requires that the Council's Section 151 Officer to report on the robustness of the budget, its assumptions and on the adequacy of the level of reserves that the Council holds and plans to use. The assumptions set out in the Financial Strategy and specifically in determining the 2022/23 budget are realistic and reasonable.

4.3.2 The key risks within 2022/23 budget are inflation, increases in interest rates and loss of income.

- An additional 1% increase in pay would impact c£150,000 on the budget.
- Increases in interest rates would not affect the loan element of the budget as the Council borrows on long term fixed rates. It may result in the Council receiving additional investment income.
- Loss of income continues to be a risk. The budget includes some £7.5m service income. A 10% loss would impact £750,000 on the budget. This would normally seem excessive but the recent Covid crisis saw income loss need a £1.5m recovery pot.

4.3.3 There is no regulatory or statutory guide on the minimum level of reserves that the Council should hold or budget to hold. Good practice suggests that it should be between 3% and 5% of the Council's gross expenditure for a Council like Hambleton. 5% equates to £1.85m. In the light of recent experience it is sensible to reconfirm the minimum level of reserves is £2m.

4.3.4 The estimated level of reserves at 31 March 2023 after funding this budget is £9.2m. The Financial Strategy in Annex A identifies further use of reserves of £370,000 over the following two years to enable a balanced revenue budget to be delivered if Hambleton District Council continued to operate.

4.3.5 The Interim Director of Finance views that the proposed budget is robust and in line with delivering the policies of Hambleton District Council. The plans will be delivered in the financial year 2022/23. The underpinning assumptions are reasonable. The level of reserves at 31 March 2023 is estimated to be £9.2m which is well above the minimum required level of balances. The Financial Strategy, should Hambleton remain an independent Council and in line with the underlying going concern principle, identifies future use of reserves of £0.37m over the following two years. This is a reasonable and sensible approach to robust budgeting and service delivery.

5.0 Link to Council Priorities

5.1 The budget is the plans of the Council set out in monetary terms. Agreeing the proposed budget will enable all the Council's agreed programmes and priorities to be delivered.

6.0 Risk Assessment

6.1 The key risks and implications of the draft financial budget are detailed below.

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative action	Net Prob	Net Imp	Net Total
The Local Government Finance Settlement has only been for 2022/23. Future funding levels may decrease.	Loss of Income	3	5	15	After April 2023, the new North Yorkshire Authority will be in place and looking to deliver transformational savings.	3	3	9
Salary settlements in 2021/22 and 2022/23 are more than the 2% allowance in the budget	Increased costs	3	4	12	This can be met in the short term from reserves whilst future savings are identified.	3	2	6
Income generation from services does not return to the levels anticipated in the budget	Loss of Income	3	4	12	With the reserves remaining at £8.6m, the implications can be mitigated short term.	3	3	9

6.0 Legal Implications

6.1 It is a legal requirement under the Local Government Finance Act 1992 to set a balanced budget and monitor progress. This report is the first stage of that process.

7.0 Equality/Diversity Issues

7.1 Equality and Diversity Issues have been considered and there are no specific issues associated with this report.

8.0 Recommendation

8.1 It is recommended that Cabinet approves and recommends to Council:-

- (1) adding a further £140,000 to the 2022/23 Make a Difference budget;
- (2) approve a Net Revenue Budget for 2022/23 of £11,366,370;
- (3) approve an increase of £5 to set a Council Tax of £119.48 per band D property; and
- (4) approve the Council Tax Requirement for Hambleton District Council for 2022/23 of £4,529,176.

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Background papers: 2022/23 Budget Working Papers
Local Government Finance Settlement 2022/23

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