

# Title of report: 2022/23 Budget setting

**Meeting: Cabinet**

**Meeting date: Monday 31 January 2022**

**Report by: Chief finance officer**

## **Classification**

Open

## **Decision type**

Budget and policy framework

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

## **Wards affected**

(All Wards);

## **Purpose**

To recommend to Council the proposed 2022/23 budget and associated medium term financial strategy and treasury management strategy for recommendation to Council 11 February.

The proposed budget reflects current and expected service delivery requirements and the provisional local government settlement announced on 16 December 2021. Overall the base budget for 2022/23 is proposed to increase to fund budget pressures. Savings of £2.6m are required in 2022/23 and an increase in council tax of 2.99% (inclusive of 1% adult social care precept) is proposed to deliver a balanced budget.

The draft medium term financial strategy (MTFS), attached at appendix A, has been updated to reflect current assumptions on future years funding and service requirements in line with the County Plan.

The treasury management strategy, attached at appendix D, includes the proposed borrowing and investment strategy, the council's expected minimum revenue provision and the associated prudential indicators which demonstrate that the council's proposed capital investment budget is affordable, prudent and sustainable.

## **Recommendation(s)**

**That: Cabinet recommend to Council for approval;**

- a) the council tax base of 70,252.52 Band D equivalents in 2022/23;**
- b) an increase in core council tax in 2022/23 of 1.99%;**
- c) an additional precept in respect of adult social care costs of 1% applied to council tax in 2022/23 resulting in a total council tax increase of 2.99%, increasing the band D charge from £1,652.30 to £1,701.70 for Herefordshire Council in 2022/23;**
- d) the balanced 2022/23 revenue budget proposal totalling £175.1m, subject to any amendments approved at the meeting, specifically the net spending limits for each directorate as at appendix C;**
- e) the use of the new service grant one off funding in 2022/23 to support the economy and environment three year savings delivery plan;**
- f) to use the one off collection fund surplus of £1.3m to fund property services budget costs in 2022/23;**
- g) delegates to the section 151 officer the power to make necessary changes to the budget arising from any variations in central government funding allocations via general reserves;**
- h) the medium term financial strategy (MTFS) 2022-25 at appendix A;**
- i) the treasury management strategy at appendix D be approved; and**
- j) the responses to scrutiny committee recommendations to follow in a supplementary paper be approved.**

## **Alternative options**

1. It is open to Cabinet to recommend alternative spending proposals or strategies; however, given the legal requirement to set a balanced budget, should additional expenditure be proposed compensatory savings proposals must also be identified. If it is proposed to spend less, the impact on service delivery of the proposed reduction should be considered.
2. Cabinet can agree a council tax increase above the referendum principle levels. This is not recommended as doing so would require the increase to be subject to a local referendum, incurring additional costs to the council.

## **Key considerations**

3. The medium term financial strategy (MTFS), attached at appendix A, has been updated to reflect current spending and savings plans. It reflects the provisional financial settlement announced on 16 December 2021 and the current understanding of future years funding and responsibilities.
4. Funding and service demand pressures continue, a balanced budget for 2022/23 is proposed. The proposal includes a 2.99% total increase in council tax and central government funding announced in the provisional financial settlement.
5. The proposed 2022/23 revenue budget is based on an assumed total council tax increase of 2.99%, 1.99% increase in core council tax and a 1% adult social care precept. This increases

the band D equivalent charge to £1,701.70 representing an increase of £0.95 per week. This is the maximum increase permitted, a higher increase would require the support of a referendum.

6. The 1% adult social precept will generate £1.5m of additional income to fund pressures identified in the adults and communities directorate reflecting both the demand and cost for services required for the county's residents.

### **Provisional 2022/23 Local Government Financial Settlement**

7. The provisional settlement shared on 16 December 2021 is for one year only. This is the fourth consecutive one-year local government finance settlement rolling forward key elements of the previous year alongside increases in major pressures and priority areas, such as social care. The settlement did not include Covid 19 specific support, if this is forthcoming it will sit outside the settlement funding. The settlement did confirm:-
  - a. Council Tax –the council tax referendum limit will be 2% for local authorities, with social care authorities allowed an additional 1% social care precept.
  - b. Business Rates Retention –the business rates multiplier has been frozen for 2022/23. The under-indexing multiplier grant has been increased to compensate local authorities with what would have been received from an increase in the multiplier.
  - c. 2022/23 Services Grant – this new grant has been distributed for one year only and that, whilst the funding will remain in future years, it will be distributed differently. £2,250k for Herefordshire.
  - d. Revenue Support Grant –this has been increased by 3.1%, in line with what would have been the increase to the multiplier.
  - e. Social Care Grant – the Social Care Grant has increased, by £2,183k for Herefordshire. Its distribution is based on the Adult Social Care Relative Needs Formula and has taken into account the ability of authorities to raise the additional social care precept.
  - f. Social Care Funding (New) – Called the “Market Sustainability and Fair Cost of Care Fund”, this new social care funding for the Adult Social Care Reform is included in the Core Spending Power figures for 2022/23 at £594k for Herefordshire. This has been distributed based on the Adult Social Care Relative Needs Formula.
  - g. Lower Tier Services Grant – A further year of lower tier services grant has been given.
  - h. Rural Services Delivery Grant – There has been no change to this grant, 2022/23 amounts remain the same as 2021/22.
  - i. Local Government Funding Reform – No papers were published relating to the Fair Funding Review or the Business Rates Reset. It would appear the government intend to make further announcements in the New Year, before then consulting on any potential changes.

### **2022/23 base budget proposed and savings plan**

8. The detailed base budget proposed for 2022/23 is summarised below and detailed in appendix C with the savings detail in appendix B:-

Detail	21/22 base budget £000	Pressures £000	Savings £000	22/23 proposed budget £000
Community and Wellbeing	58,939	4,233	(718)	62,454
Children and Young People	36,911	4,415	-	41,326
Environment & Economy	26,328	3,902	(1,384)	28,846
Corporate	18,150	4,68	-	22,318
<b>Sub Total</b>	<b>140,328</b>	<b>16,718</b>	<b>(2,102)</b>	<b>154,944</b>
Central	20,668	-	(500)	20,168
<b>TOTALS</b>	<b>160,996</b>	<b>16,718</b>	<b>(2,602)</b>	<b>175,112</b>
Funded by:-				
Council tax	112,944			119,549
Business rates	36,753			37,488
Collection fund deficit	(200)			1,2605
Revenue support grant	638			663
Rural sparsity delivery grant	5,353			5,353
Social care support grant	5,508			7,691
Market Sustainability & Fair Cost of Care	-			594
Lower Tier Services Grant	-			264
2022/23 Services Grant	-			2,250
<b>TOTALS</b>	<b>160,996</b>			<b>175,112</b>

9. Budget pressures are shown in the table below:-

Detail	Pressures £000	Budget bid £000
<b>Community and Wellbeing</b>		
Inflation and other contractual increases	2,500	
ILS (Independent Living Service)		115
All ages commissioning (bolstering of Children's Quality Assurance)		118
Loss of discharge to assess funding	1,500	
<b>Children and Young People</b>		
Inflation and other contractual increases	1,355	
High needs pressure	160	
Voice of the Child		200

Special Education Needs (SEN) Transport	200	
Placements	2,500	
<b>Economy and Environment</b>		
Inflation and other contractual increases	2,557	
Car parking		400
CCTV Monitoring		120
Planning income		400
Archaeology income		65
Public Realm:		
Impact of red diesel legislation changes		60
revenue impact of HCCI projects		100
Unresolved Savings 2021/2022		200
<b>Corporate</b>		
Inflation and other contractual increases	1,056	
Procurement resources: responding to the pipeline of projects	80	
Canvassers income : end to central government funding	60	
Additional PMO support for projects	300	
Legal external fees	200	
Democratic Services: additional revenue pressures expected in regard to re-thinking governance recommendations	87	
Legal services		1,005
Additional HR support re Childrens and Young People		60
Additional Health and Safety resource		60
Property Services, one year pressure to resolve structural issues	1,260	
<b>TOTALS</b>	<b>13,815</b>	<b>2,903</b>

10. The new services grant was announced in the provisional settlement as one off funding and the proposed use of this funding is as follows;-

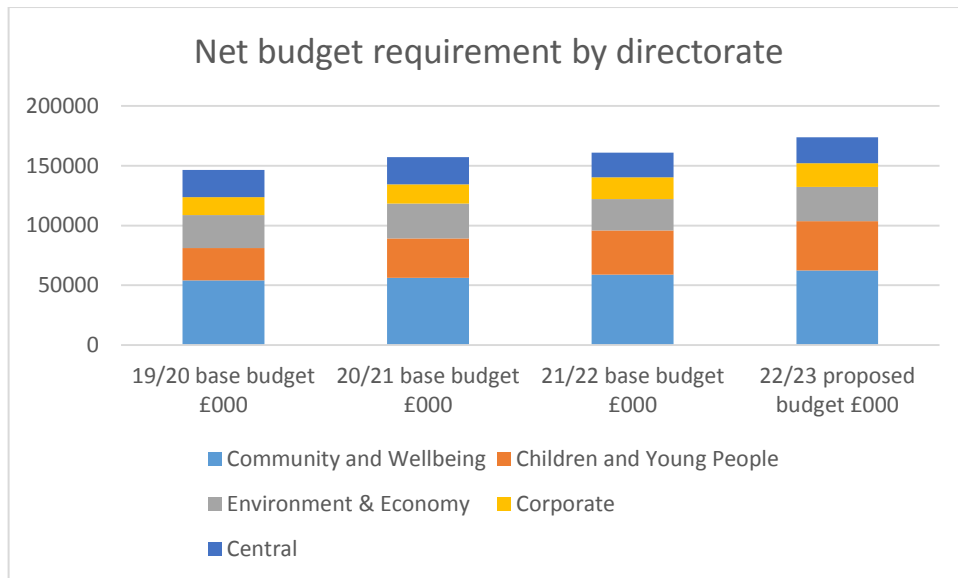
One-off monies (Local Services Grant 2022/2023 £2.25m less grant assumed recurring)	£ 1,800,000
E&E shortfall 2022/2023 (Year 1)	(£807,485)
E&E shortfall 2023/2024 (Year 2)	(£601,314)

Remaining balance	£391,201
To fund:	
Decarbonising the Education Estate (12 month programme one-off)	(120,000)
Public Right of Way (PROW)/Traffic management (TRO) insourcing (12 month programme one-off)	(115,000)
Investment in Public Right of Way (PROW) and Traffic Management (3 year programme)	(156,201)
Final Balance	Nil

11. The means that the saving requirement for economy and environment will be profiled over the next three years as follows;-

	<b>2022/2023</b>	<b>2023/2024</b>	<b>2024/2025</b>
Total Highways, Environment and Waste savings proposals identified	£558,515	£206,171	£601,500
Improvement in delivery of 2021/22 savings	£18,000	0	0
Total E&E Savings	£576,515	£206,171	£601,500
Total E&E savings requirement	£1,384,000	£807,485	£601,314
In Year Budget shortfall	£807,485	£601,314	0

12. The base budget proposed shows the net budget position; the gross budget includes the dedicated school grant, housing benefit subsidy, improved better care fund and public health grant. Appendix H details the three year Public Health budget. How the net budget requirement has changed by directorate is shown in the graph below.



13. If the final settlement provides additional monies to the draft base budget shown above, unless the use of those funds is specified by government, Cabinet will seek the views of the scrutiny committees as to the best way of deploying the extra funding. In the interim the funding will be allocated to reserves.

### Reserves

14. Earmarked reserves are amounts set aside for specific policy purposes or for general contingencies and cash flow management. For each reserve established, the purpose, usage and basis of transactions needs to be clearly defined. Cabinet reviews earmarked reserves on an annual basis, the last report to Cabinet was in September 2021. A forecast of the reserve position is attached at appendix D.
15. Following the decision taken by Council on the 24th of August 2008 to dispose of Grange Court, Leominster, to LARC Development Trust (a registered charity) a funding package was secured to carry out a range of refurbishments to the building by LARC Development Trust. This included a BIG Lottery grant of £1m and a bank loan of £0.450m.
16. In February 2010 LARC Development Trust entered into a 10 year Loan Agreement with Futurebuilders England Limited (Futurebuilders) for £450k. The purpose of the loan was the acquisition and refurbishment of Grange Court as a community hub. It was explicit in the Loan Agreement that the outstanding balance of the loan including all accrued interest was to be repaid at the end of the ten-year term. The agreed date of the end of the ten year term was 31<sup>st</sup> October 2021.
17. In September 2010 Herefordshire Council executed a guarantee to support the repayment of the loan by LARC Development Trust to Futurebuilders. This was a precondition to loan drawdown by LARC Development Trust. The Guarantee was widely drafted and covered all monies obligations or liabilities arising under the Loan Agreement. The Guarantee was enforceable by Futurebuilders against the Council without a demand being made to LARC Development Trust first.

In October 2021, the lender, now called the Social investment Bank (SIB), advised the Council that the remaining balance on the loan amounted to some £0.309m and as per the terms of the guarantee, required the Council to repay the outstanding balance; this was actioned at the end of October 2021, with the funds being taken from General Reserves.

## Community impact

18. The MTF5 and budget demonstrate how the council is using its financial resources to deliver the priorities within the proposed corporate plan.
19. The council is committed to delivering continued improvement, positive change and outcomes in delivering our key ambitions.
20. In accordance with the principles of the code of corporate governance, the council is committed to promoting a positive working culture that accepts, and encourages constructive challenge, and recognises that a culture and structure for scrutiny are key elements for accountable decision making, policy development, and review.

## Environmental Impact

21. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
22. Whilst this overarching budget setting document will not detail specific environmental impacts, consideration is always made to minimising waste and resource use in line with the council's Environmental Policy. A specific environmental impact assessment for the service specific budget proposals will be considered as appropriate to seek to minimise any adverse environmental impact and actively seek opportunities to improve and enhance environmental performance.

## Equality duty

23. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:
24. A public authority must, in the exercise of its functions, have due regard to the need to –
  - a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
25. A service specific equality impact assessments for the service specific budget proposals will be completed as required to assess the impact on the protected characteristic as set out in the Equality Act 2010. The duty means that the potential impact of a decision on people with different protected characteristics is always taken into account when these assessments have been completed then we will consider mitigating against any adverse impact identified. Where additional governance is required to support possible service delivery changes the impact of a decision on people with different protected characteristics will be fully detailed and disclosed in that governance decision report.



## Resource implications

26. The financial implications are as set out in the report. The ongoing operational costs including, human resources, information technology and property resource requirements are included in the draft budget and will be detailed in separate governance decision reports as appropriate.

## Legal implications

27. When setting the budget it is important that councillors are aware of the legal requirements and obligations. Councillors are required to act prudently when setting the budget and council tax so that they act in a way that considers local taxpayers. This also covers the impact on future taxpayers.
28. In acting prudently, the council has an obligation to determine whether any planned council increase is excessive (based on a set of principles defined by the Secretary of State, and approved by the House of Commons).
29. The level of council tax rise does not meet the definition of an excessive increase so can be approved without the need for a referendum.
30. The Local Government Finance Act 1992 requires a council to set a balanced budget. To do this the council must prepare a budget that covers not only the expenditure but also the funding to meet the proposed budget. The budget has to be fully funded and the income from all sources must meet the expenditure.
31. Best estimates have to be employed so that all anticipated expenditure and resources are identified. If the budget includes unallocated savings or unidentified income then these have to be carefully handled to demonstrate that these do not create a deficit budget. An intention to set a deficit budget is not permitted under local government legislation.
32. The council must decide every year how much they are going to raise from council tax. The decision is based on a budget that sets out estimates of what is planned to be spent on services. Because the level of council tax is set before the year begins and cannot be increased during the year, risks and uncertainties have to be considered, that might force higher spending more on the services than planned. Allowance is made for these risks by: making prudent allowance in the estimates for services; and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
33. Local government legislation requires the council's S151 officer to make a report to the full Council meeting when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals (the statement is contained within the risk management section of this report). This is done so that members will have authoritative advice available to them when they make their decisions. As part of the Local Government Act 2003 members have a duty to determine whether they agree with the S151 statutory report.
34. The council's budget and policy framework rules require that the chairpersons of a scrutiny committee shall take steps to ensure that the relevant committee work programmes include any budget and policy framework plan or strategy, to enable scrutiny members to inform and support the process for making Cabinet proposals to Council.
35. Section 106 of the Local Government Finance Act 1992 precludes a councillor from voting on a calculation which might affect the calculation of the council's budget, if he or she has an outstanding council tax debt of over two months. If a councillor is present at any meeting at which relevant matters are discussed, he or she must disclose that section 106 applies and may not vote. Failure to comply is a criminal offence.

## Risk management

36. Section 25 of the Local Government Act 2003 requires the S151 officer to report to Council when it is setting the budget and precept (council tax). Council is required to take this report into account when making its budget and precept decision. The report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.
37. The budget has been updated using the best available information; current spending, anticipated pressures and the provisional 2022/23 funding settlement.
38. The known most substantial risks have been assessed as part of the budget process and reasonable mitigation has been made where possible. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process.
39. We are maintaining a general fund reserve balance above the minimum requirement, ear marked reserves and an annual contingency budget to manage these risks.
40. The risks and mitigating action is shown in Appendix M4 of the MTFs, copied below:-

<b>Key Financial Risks</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Actions</b>
<b>Not delivering required improvements</b> The council must address its non-statutory improvement notice	Low	Medium	An improvement board is in place and working with the Department for Education advisor is underway Dedicated resources have been allocated to support this
<b>Unexpected events or emergencies</b> By its nature, the financial risk is uncertain	Low	High	Council maintains a Strategic Reserve at a level of between 3% and 5% of its revenue budget for emergency purposes Level of reserve is currently £9.1m (5.7% of budget) Additionally national resources have historically been provided
<b>Increasing demand for Social Care for adults and children</b> Demand for children's services continue and demand for adult services increase as the population gets older	High	Medium	Demand led pressures provided for within our spending plans Directorates monitor their performance and it's trends regularly and are able to identify changes in demand. Talk Community and strength Based Assessment have evidenced managing demand Investing in Early Help will also assist at an earlier stage.
<b>Potential overspend and council does not deliver required level of savings to balance spending plans</b>	Medium	Medium	High risk budget areas have been identified and financial support is targeted towards these areas Regular monitoring reports to Management Board and Cabinet

<b>Volatility in Government funding streams</b> The government settlement for 2022/23 is a one year settlement meaning that the MTFS is based on assumptions for future years that cannot be confirmed.	High	Medium	Prudent assumptions made in budget proposals
<b>EU exit</b> Impact of EU exit may lead to increased volatility in economic stability, increasing supply chain costs and reduced access to funds	Medium	Medium	Allowance included for potential availability and cost escalation impacts
<b>Interest/Inflation</b> Forecasts indicate these could temporarily increase significantly	Medium	Medium	The treasury management strategy uses latest forecasts and increases in borrowing rates will be offset by increases in investment returns

## Consultees

41. The council's constitution states that budget consultees should include parish councils, health partners, the schools forum, business ratepayers, council taxpayers, the trade unions, political groups on the council, the scrutiny committees and such other organisations and persons as the leader shall determine.
42. Local budget consultation zoom events were held in September 2021, 14 consultation events were held with Parish Councils and other key stakeholders. The aim of the sessions was to ask key questions specifically related to the 2022/23 budget but also to have more in-depth discussion about ideas that were introduced in last year's budget consultation sessions. There were 51 participants. There was support to increase the general Council Tax charge by 1.99%, which is the proposed increase. See Appendix F for a summary report.
43. An online public consultation was open between 27 August and 4 October 2021. The webpage was visited 442 times during the consultation period. A total of 134 responses were received to the online questionnaire, see Appendix G for details.
44. General scrutiny committee will be consulted with on 27 January 2022, their recommendations for consideration by Cabinet will be circulated as a supplementary paper to this agenda item.

## Appendices

- Appendix A Medium Term Financial Strategy
- Appendix B Savings Proposals
- Appendix C Proposed Directorate Base Budget
- Appendix D Treasury Management Strategy
- Appendix E Reserves

Appendix F Impact report on Local Budget Consultation

Appendix G Online budget consultation summary

Appendix H Public Health Three Year Budget

### **Background papers**

None identified

### **Report Reviewers Used for appraising this report:**

Governance	Sarah Buffrey, Democratic Services Officer	Date 07/01/2022
Finance	Audrey Clements	Date 07/01/2022
Legal	Alice McAlpine	Date 12/01/2022
Communications	Luenne featherstone	Date 10/01/2022
Equality Duty	Carol Trachonitis	Date 10/01/2022
Procurement	Mark Cage	Date 19/01/2022
Risk	Kevin Lloyd	Date 10/01/2022
Approved by	Andrew Lovegrove	Date 21/01/2022