

**SOUTH HAMS DISTRICT
COUNCIL**

10 FEBRUARY 2022

**2022/23
REVENUE AND CAPITAL
BUDGET PROPOSALS**

2022/23 REVENUE & CAPITAL BUDGET PROPOSALS – FINAL RECOMMENDATIONS

Purpose of the Report

This report provides an update of our overall financial position and details the formal proposals of the Executive to achieve a balanced budget. The minutes of the Executive meeting of 27 January 2022 are included elsewhere on this agenda and provide a more complete picture of the decisions taken.

The General Fund Revenue Budget, Medium Term Financial Strategy (MTFS) and the recommendations for the 2022/23 financial pressures and savings are summarised in Appendices A to D of this report. The MTFS has been rolled forward to enable Members to look ahead to future years in considering their spending plans and council tax levels.

The finance settlement announced on 16th December 2021 is for a single year only and there will be further details on proposed funding reforms and consultations in the New Year. Priority in the finance settlement is “stability in the immediate term”, with a more fundamental review of local government funding starting in 2022.

The Council no longer receives any Government Grant (Revenue Support Grant) to fund its services and the Council has to be self-sufficient. The Council Tax Referendum limits for District Councils will be the higher of £5 or 1.99% for 2022/23.

The Council’s Net Budget would be £10.5 million for 2022/23, for all of the services it delivers. Negative Revenue Support Grant (RSG) will be eliminated by the Government for 2022/23. The business rates baseline reset will be deferred until at least 2023/24. The Business rates multiplier has been frozen again for 2022/23. A business rates pooling gain of £300,000 has been modelled for 2022/23 with reduced gains for 2023/24 onwards.

New Homes Bonus has been ‘rolled over’ for another year, with legacy payments being honoured, resulting in an allocation of £1,007,557 for 2022/23.

Rural Services Delivery Grant will continue at the same level for 2022/23 (£428,206 for SHDC). This is Government grant to recognise the additional cost of delivering services in rural areas.

A new 2022/23 Services Grant has been introduced. This is a new one-off grant just for 22/23 and is to partly offset the cost of the 1.25% increase in National Insurance social care levy. It is also to fund general responsibilities. SHDC will receive £132,936 for 2022/23. The cost of the 1.25% increase in National Insurance social care levy is estimated to cost £70,000 per annum.

This report sets out the revenue budget proposals for a balanced budget for 2022/23. The Council is currently forecasting a budget gap of £0.44m for 2023/24. The cumulative aggregated Budget Gap by 2024/25 is £1.2million.

As part of these Revenue Budget Proposals, it is also proposed to allocate the following one off amounts - £407,557 to an Affordable Housing Earmarked Reserve,

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£280,000 to a Financial Stability Earmarked Reserve for future financial pressures from future local government funding reforms and a further £200,000 into a Community Composting Earmarked Reserve, as set out in the recommendations below.

Statutory Powers: Local Government Act 1972, Section 151
Local Government Finance Act 1992

RECOMMENDATIONS:-

(The references in the Recommendations below refer to the Appendices in this report or to the relevant Section of the 2022/23 Revenue Budget report presented to the Executive at its meeting on 27 January 2022).

It is RECOMMENDED that:

- i). Council Tax for 2022/23 be increased by £5 (Band D of £180.42 for 2022/23 – an increase equivalent to less than 10 pence per week or £5 per year – equating to a 2.85% increase). This equates to a Council Tax Requirement of £7,061,585;
- ii). the financial pressures (as shown in Appendix A of the presented agenda report and amounting to £1,044,600) be approved;
- iii). the net contributions to/(from) Earmarked Reserves of £561,600 as shown in Appendix D of the presented agenda report, including the proposed use of £500,000 of New Homes Bonus funding to fund the 2022/23 Revenue Budget as set out in section 3.30 of the Executive report of 27 January 2022 and £100,000 from the Business Rates Retention Earmarked Reserve as set out in section 3.21 of the Executive report of 27 January 2022.
- iv). £407,557 of the New Homes Bonus Grant allocation for 2022/23 be allocated to an Affordable Housing Earmarked Reserve as a one off contribution for 2022/23 (as set out in sections 3.30 to 3.31 of the Executive report of 27 January 2022). (NB. an amount of £60,000 from the £407,557 is to be allocated to the Step On Deposit scheme pilot);
- v). the savings of £404,000 (as shown in Appendix A of the presented agenda report) be approved;
- vi). it be noted that South Hams District Council will continue to be part of the Devon Business Rates Pool for 2022/23 following the announcement of the Local Government Finance Settlement for 2022/23;

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- vii). the Council should set its total net expenditure for 2022/23 at £10,464,367 (as set out in Appendix B of the presented agenda report);
- viii). the proposed Capital Programme Proposals for 2022/23 of £1,665,000 and the proposed financing of the Capital Programme (as set out in Appendix E of the presented agenda report) be approved;
- ix). Unearmarked Reserves should continue to have a minimum level of £1.5 million (as set out in the adopted Medium Term Financial Strategy in September 2021), but an operating level of a minimum of £2 million;
- x). the level of reserves (as set out within the Executive report of 27 January 2022) and the assessment of their adequacy and the robustness of budget estimates be noted (NB. this is a requirement of Part 2 of the Local Government Act 2003);
- xi). £280,000 be transferred from Unearmarked Reserves to a Financial Stability Earmarked Reserve as part of the process of closing the 2021/22 Accounts, to be available for any future financial pressures from future local government funding reforms and any other budget pressures (the predicted year-end balance of Unearmarked Reserves at 31 March 2022 is £2.28 million (as set out in Section 7.8 of the Executive report of 27 January 2022) (NB. this would leave an operating level of £2 million for Unearmarked Reserves); and
- xii). A one-off amount of £200,000 be transferred into a Community Composting Earmarked Reserve in 2021/22 as part of the process of closing the 2021/22 Accounts. NB. a scheme is to be set up with a one-off budget of £200,000 in 2022/23 for community composting, aligned to savings in the green waste element of the waste contract in 2021/22 (as set out in Section 3.40 of the Executive report of 27 January 2022).

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Part 1: The Executive's considerations in arriving at its final proposals for financial pressures, savings and Council Tax (Executive meeting held on 27 January 2022).

1. Over the last six months, the Executive has given the budget very detailed consideration and has sought views on budget proposals. This process has enabled and informed Members in their consideration of the appropriate level of service provision and council tax levels.

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2. The Executive are recommending increasing council tax by £5 and are recommending that Full Council approve this. This would mean the council tax would increase to £180.42 for 2022/23 (a 2.85% increase), an increase of £5 per year or the equivalent of less than 10 pence per week.
3. Council in September 2021 set the strategic intention to raise council tax by the maximum allowed in any given year, without triggering a council tax referendum, to enable the continued delivery of services. It was recognised that this measure would increase the base budget for ensuing years and protect the delivery of services and the Council's financial resilience. To balance the budget of £10.5 million, the Council has identified £0.4 million in savings. The Council is still forecasting a £0.44 million budget gap by 2023/24.
4. The Executive also recommends a capital works programme for 2022/23 amounting to £1,665,000 as set out in Appendix E of the presented agenda report. Projects include:-
 - Private Sector Renewals (including Disabled Facility Grants)
 - Waste fleet replacement programme
 - Coastal Asset repairs programme
5. Sensitivity analysis and risk analysis – The figures within the Budget proposals have been subject to a sensitivity analysis and a risk analysis. This has identified a potential adverse revenue effect of £1.39 million (from the sensitivity analysis in Appendix G). Revenue Reserves are recommended to be maintained at a minimum of £1.5 million (as set in the Medium Term Financial Strategy in September 2021), but at an operating level of a minimum of £2 million. Appendix G also sets out the CIPFA Financial Resilience Index for 2022, a comparative tool that can be used by S151 Officers as part of the annual budget report. The S151 Officer therefore confirms the robustness of the Budget Proposals and the adequacy of the reserves.

Part 2: Conclusion

6. The above paragraphs summarise the overall position faced by the Council and the considerations of the Executive in arriving at its final proposals to achieve a balanced budget.

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7. The proposed budget will leave the Council on a stable financial footing with a level of reserves which will help the Council manage the uncertainty of the future reforms of Local Government Finances. Examples are the Fair Funding Review, the reset of the business rates baseline, the future of the new homes bonus scheme and uncertainty around negative revenue support grant and the continuation of grants such as the rural services grant.
8. The Council no longer receives any Government Grant (Revenue Support Grant) to fund its services and the Council has to be self-sufficient. The Council is currently forecasting a budget gap of £0.44m for 2023/24. The aggregated Budget Gap by 2024/25 is £1.2million. The Peer Review report in 2019 stated that it will be important to ensure that financial self-sufficiency becomes the byword over the medium term and focus is maintained to achieve this.
9. In terms of unearmarked reserves, the recommendation of the s151 Officer is for the Council to continue to have a minimum level of unearmarked reserves of £1.5million (as set out in the Medium Term Financial Strategy in September 2021), but to have an operating level of a minimum of £2million for unearmarked reserves. The Council should be operating at a level of £0.5m above the minimum level on a day to day basis.
10. South Hams District Council continues to do everything it can to make sure that residents, businesses and front-line services come first. Forward planning has allowed us to ease the pressures on front line services and for those in our community who face financial difficulties in these unprecedented times.
11. In 2021, the Council declared a Housing Crisis and is now recommending putting additional money aside of £407,557 for Affordable Housing. Of this amount, £60,000 will be allocated to a Step On Deposit Scheme, to pilot a scheme that will provide an unconditional grant up to the total amount of the deposit needed to access shared ownership accommodation, for existing social housing tenants.
12. In addition as part of the budget proposals the Council is earmarking £200,000 of funding for a new community composting initiative.
13. This budget also proposes to allocate £280,000 from Unearmarked Reserves to a Financial Stability Earmarked Reserve as part of the process of closing the 2021/22 Accounts, to be available for any future financial pressures from future local government funding reforms and

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any other budget pressures. This would leave an operating level of £2m in unearmarked reserves. The Council is facing a budget gap of £444,000 in 2023/24 and a further £317,000 in 2024/25 and a financial stability reserve would help to smooth out some of these budget gaps in future years.

14. Local Government finances are increasingly stretched and there is a great deal of financial uncertainty for District Councils from 2023 onwards. The next few years will be challenging with the Government's Fair Funding Review and the reset of the Business Rates baseline being introduced, coupled with receiving no Government Grant and the cessation of the current New Homes Bonus scheme.
15. This is a budget to maintain frontline services, allocate £407,557 for Affordable Housing and a further £200,000 for a new community composting initiative, whilst also preserving the longer term future of the Council. Strong financial management over many years and the continual drive for efficiency has enabled the Council to accommodate service pressures while still maintaining a low level of council tax. I commend the budget proposals to the Council.

Councillor J Pearce
Leader of the Council

APPENDICES

- Appendix A – Budget pressures and savings
- Appendix B – Modelling of the Budget Position
- Appendix C – Schedule of Earmarked Reserves
- Appendix D – Contributions to/(from) Earmarked Reserves
- Appendix E – Capital Programme Proposals for 2022/23
- Appendix F – Revenue Budget Summary for 2022/23
- Appendix G – Sensitivity analysis and risk analysis

BACKGROUND PAPERS

Members' Budget Workshop presentation slides – dated Thursday 18 November 2021

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Executive 27 January 2022 – Draft Revenue and Capital Budget Proposals for 2022/23