

2023/24 BUDGET AND COUNCIL TAX REPORT

Head of Service:	Lee Duffy, Chief Finance Officer
Wards affected:	(All Wards);
Urgent Decision?	No
Appendices (attached):	Appendix 1 - Summary of 2023/24 Estimates Appendix 2 - Updated Financial Plan 2020-24 Appendix 3 - Updated Efficiency Plan 2020-24

Summary

This report provides an update on the preparation of the budget for 2023/24. The report seeks any final guidance from the Panel prior to the preparation of the Budget and Council Tax report for the Council on 14 February 2023.

Recommendation(s)

The Panel is asked to:

- (1) Provide the Chief Finance Officer with any further guidance needed to finalise the 2023/24 Budget and Council Tax report;
- (2) Note the provisional Government financial settlement for 2023/24;
- (3) Support that the budget gap for 2023/24 should be funded from the Corporate Projects Reserve, as set-out in Section 9;
- (4) Support that the deficit on 2022/23 business rates income and that any change in projected business rates income for 2023/24 will be offset by a transfer to or from the Collection Fund Equalisation Reserve, as set-out in Section 11;
- (5) Support a recommendation to Council of a council tax increase of 3 percent (£6.39 for a Band D equivalent property);
- (6) Note the updated four-year Financial Plan and Efficiency Plan.

1 Reason for Recommendation

- 1.1 The recommendations will assist the Council to meet its statutory duty to set a balanced budget for 2023/24.

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2 Background

- 2.1 Service estimate reports for 2023/24 have been prepared for each of the four policy committees and circulated to all Councillors, via email, in the draft Budget Book 2023/24.
- 2.2 The estimates have been prepared on the basis of the budget guidelines and targets agreed by Strategy & Resources Committee on 26 July 2022, which were as follows:-
 - 2.2.1 That estimates be prepared including the delivery of savings already identified in the Financial Plan for 2023/24 totalling £215,000.
 - 2.2.2 That at least £396,000 additional revenue, equivalent to a 6 percent increase, is generated from an increase in discretionary fees and charges;
 - 2.2.3 That a service-specific savings target of £243,000 should be set for homelessness.
 - 2.2.4 Phasing of savings over the next 3 years to achieve a balanced budget with no reliance on revenue reserves to fund the delivery of services by 2025/26. Thus supporting the use of £1,170,000 of strategic reserves during this period to manage the impact on services.
 - 2.2.5 That Directors and Heads of Service should work to produce specific income generation and savings options to meet the remaining budget deficit of £1.7m.
 - 2.2.6 That any new growth items (i.e. cost pressures) supported by policy committees will need to be fully funded from existing budgets.
- 2.3 The estimates prepared for 2023/24 reflect the impact on services post Covid.
- 2.4 The funding of the capital programme was considered and supported by Capital Member Group in November, subject to schemes being supported by policy committees in the January committee cycle.
- 2.5 The general fund summary position as contained in the 2023/24 Budget Book reflects the draft services estimates. There are, however, external financing income levels that still need to be finalised:-
 - 2.5.1 The 2023/24 final local government finance settlement;
 - 2.5.2 The level of business rates income that will be retained;

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2.5.3 Revenue from council tax depending on the level of any increase for next year.

- 2.6 For pay inflation, the budgeted provision is £446,000 to reflect an annual uplift in pay of 3.0%. This is in accordance with the Council's agreed four year pay policy linking increases to CPI. Although CPI indicated an increase of 10.1 percent, the annual award is capped at 3 percent as agreed within the pay policy to ensure that any increase remains affordable.
- 2.7 This report provides details of the provisional local government finance settlement and seeks guidance from the Panel on the presentation of the budget and council tax report for 2023/24.

3 Covid-19

- 3.1 Within the approved budget for 2022/23 agreed in February 2022, the Council had set a-side a £600,000 contingency to offset the long-term impact of Covid-19 on Council services and its finances.
- 3.2 As the UK recovered in early 2022/23 with the lifting of pandemic-related restrictions, the Council undertook a re-basing exercise to reset individual service budgets to reflect post pandemic demand.
- 3.3 The re-basing exercise reported to Strategy & Resources Committee in July 2022 identified that the long-term impact of Covid-19 on Council services was worse than predicted, with a net loss of income of £1.119m.
- 3.4 Included within the same report, Strategy & Resources Committee also agreed funding of the £519k shortfall from a number of sources to offset the increased cost of pandemic.
- 3.5 The 2023/24 policy committee budgets have been prepared on the basis of the latest information available and reflect demand for services post-pandemic.

4 Cost of Living Crisis

- 4.1 Following on from the pandemic the UK is now experiencing rising levels in inflation not experienced since the 1980's. This has resulted in significant increases in the cost for energy and other supplies and services purchased by the Council.
- 4.2 The government has provided some limited financial support for energy payments during 2022/23 but this support is expected to reduce substantially in 2023/24. If no further support were made available, then the Council may expect its energy costs to treble compared to what it was paying prior to the crisis.

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- 4.3 The 2023/24 revenue budget includes an increase of c.£600,000 in its contingency to £892,000 to finance inflationary increases within the Council's cost base.

5 2023/24 Provisional Government Settlement

- 5.1 Details of the provisional local government finance settlement were sent to all councillors via email on 21 December 2022.
- 5.2 The settlement appears to represent a 'holding position' until the next Parliament. Government has also ruled out a business rates reset and a 'Fair Funding Review' until at least 2025/26. The Fair Funding Review is a review of the distribution of government and business rates funding between Councils, and when complete, it is expected to favour unitary and upper tier councils, ahead of districts such as EEBC.
- 5.3 The following table shows government's provisional settlement funding assessment for EEBC for 2023/24:-

Provisional Settlement Funding Assessment 2023/24	2022/23	2023/24
	£'000	£'000
Revenue Support Grant (RSG)	0	53
Negative RSG	0	0
Retained Business Rates – Baseline	1,420	1,473
Settlement Funding Assessment	1,420	1,526

- 5.4 The impact of delaying the business rates reset means the Council can retain its surplus business rates income above its baseline for a couple more years, which provides a favourable benefit of c.£186,000.
- 5.5 In 2016, government introduced Negative RSG as part of the Council's four-year settlement. The settlement identified that in 2019/20 the Council would have to make an on-going payment back to central government of £624,000, known as Negative RSG. However, after significant lobbying from affected councils including EEBC, the Government decided to remove Negative RSG from annual settlements since 2019/20.
- 5.6 The delay of the Fair Funding Review means that Negative RSG continues to be excluded from 2023/24's settlement, however, the risk still remains that Negative RSG will feature as part of the future Fair Funding Review calculation when this is eventually introduced.

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- 5.7 The Government has provided assurance only for 2023/24 that Negative RSG will not be applied. For Epsom and Ewell Borough Council, if applied, Negative RSG would equate to a potential loss of funding of c£700,000 (taking account of inflation since 2019/20) in future years. However, it is still unclear whether Negative RSG will be re-introduced in 2024/25, or once Government completes its Fair Funding Review.
- 5.8 The projections at Appendix 1 now assume that Negative RSG will NOT be re-introduced until 2025/26 and that when introduced, a transitional period will be applied.
- 5.9 If government makes any changes in the finalised local government finance settlement, these will be communicated to the Panel, or reported to all councillors if not available for the meeting.

6 New Homes Bonus Grant

- 6.1 The Council benefits from New Homes Bonus, which is awarded by Government based on the number of new residential properties built in the borough in the preceding year, with a supplement for affordable housing.
- 6.2 The amount of funding available from New Homes Bonus has diminished substantially since Government changed the methodology for awarding the grant from 2018/19 onwards.
- 6.3 Originally the Council received a rolling 6 years of individual allocations, but from 2018/19 this was reduced down to 4 years, alongside further reductions by only awarding funding for growth in homes above a 0.4% per annum baseline.
- 6.4 In 2020/21, further changes were announced to remove new homes bonus grant and legacy payments from the annual award by 2023/24.
- 6.5 For context, back in 2016/17 the Council received in excess of £2 million, but now expects to receive £135,000 in 2023/24, with further reductions expected in subsequent years.

New Homes Bonus	2022/23	2023/24
	£'000	£'000
2019/20	21	
2020/21		
2021/22		
2022/23	153	
2023/24		135
Total	174	135

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- 6.6 Since 2019/20, the Council's budget has removed any reliance on New Homes Bonus Grant as a source of funding to support on-going services. All New Homes Bonus funding is transferred to the Corporate Project Reserve to fund one off projects.
- 6.7 Government is continuing to review the future of New Homes Bonus, it is therefore unclear whether this grant will continue in future years.

7 Other Grants

- 7.1 In addition to the Finance Settlement and New Homes Bonus, Government announced the removal of the Lower Tier Services Grant totalling £64,000, and a reduction of the Services Grant from £98,000 down to £55,000. The reduction in the Services Grant was principally due to the cancellation of an increase in employer's national insurance contributions.
- 7.2 The Settlement introduced a new Funding Guarantee Grant, an award of £255,000 in 2023/24 for Epsom & Ewell Borough Council. This grant has been introduced to provide a funding floor for all local authorities, so that no local authority would see an increase in Core Spending Power that is lower than 3%. However, this grant has been part funded by the removal of the Lower tier Services Grant.
- 7.3 The methodology for distributing this funding is expected to change as part of government's Fair Funding Review, meaning neither source of funding can be relied on beyond 2024/25.

8 Core Spending Power

- 8.1 In its spending announcements the Department for Levelling Up, Housing and Communities (DLUHC) also refers to changes in 'core spending power'. This is a term used to measure the impact of all government grant changes on local authority budgets. Core spending power is different from government funding as this includes income received from New Homes Bonus and council tax.
- 8.2 In its assessment of core spending power, shown in the following table, government assumes that councils should increase council tax by the maximum permissible amount.

Core Spending Power	2022/23	2023/24
	£'000	£'000
Retained Business Rates	1,420	1,473
Compensation for Government under-indexing the business rates multiplier	145	251
New Homes Bonus	174	135
Council Tax *	7,090	7,335

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Lower Tier Services Grant	65	0
2022/23 Services Grant	98	55
Council Tax Support Grant	53	0
Revenue Support Grant	0	53
Funding Guarantee Grant	0	225
Core Spending Power	9,045	9,527

* From Government's provisional financial settlement

- 8.3 Nationally there is an increase in spending power for 2023/24 of 9.2%, but for Epsom and Ewell Borough Council, core spending power will increase by £482,000 or 5.3%.

9 Budget Overview

- 9.1 The service estimates are contained in the draft Budget Book 2023/24.
- 9.2 The draft Budget Book currently shows a balanced budget position for next year, however this has been achieved through contributions from the Corporate Projects Reserve of £166k within S&R Committee:

General Fund Budget Summary	2023/24 Draft Budget
	£'000
Net Cost of Services (as per the Budget Book)	8,296
Add back contribution from Corporate Projects Reserve	166
Updated Net Cost of Services	8,462
Funded by:	
Council Tax (based on 2.99% annual increase)	7,361
Retained Business Rates*	1,659
Revenue support Grant	53
Guaranteed Funding grant	225
Services grant	55
Surplus on prior year council tax	27
Deficit on prior year business rates*	(1,085)
Sub-Total Funding	8,296
Underlying budget deficit in 2023/24	166

*See section 11 – Retained Business Rates

- 9.3 Using the Corporate Projects Reserve as a temporary funding source to meet the budget deficit enables the Council to produce a balanced budget for 2023/24, while it continues to progress a number of strategic reviews, with the aim of delivering a sustainable budget and removing reliance on the use of reserves by 2025/26.

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- 9.4 The Budget Book includes a £500,000 contribution from revenue to assist in funding the annual capital programme and a provision of c£900,000 to mitigate the impact of inflation and the cost-of-living crisis on services next year, especially the anticipated increase in energy prices.
- 9.5 The Strategy and Resources Committee budget currently includes a £50,000 general contingency to mitigate any unforeseen costs in implementing changes to services identified as part of the 2023/24 budget process, or due to unforeseen additional expenditure on agreed policies and priorities. These provisions reduce the need for services to hold their own individual contingencies.
- 9.6 The funding position included within the Budget Book reflects a provisional prior year deficit on business rates, which is still being finalised as part of statutory collection fund returns to be completed by 31 January. Any changes in business rates funding will be met by an appropriation from the Collection Fund Equalisation Reserve.

10 Funding from Investment / Commercial Property (including EEPIC)

- 10.1 Epsom & Ewell Property Investment Company Ltd (EEPIC), the Council's wholly-owned subsidiary, holds two commercial properties outside the Borough. The properties were acquired in 2017 to generate additional income for the Council, before the introduction of new MHCLG statutory guidance in 2018, which restricted the ability to acquire further properties outside the Borough using borrowing.
- 10.2 For 2023/24, dividend income from EEPIC is currently expected to increase to £1.3m (from £0.6m in 2022/23), as a temporary reduction in rental income from one tenant comes to an end on 31 March 2023 (as agreed at S&R Committee in December 2020). Should income from EEPIC fall below budget for any reason, the Council holds the Property Income Equalisation Reserve which can be used to neutralise the impact on the revenue budget in the short term.
- 10.3 The Council itself owns four other properties in the Borough which were acquired through the use of external borrowing – 64-74 East Street, Emerald House on East Street, 2 Roy Richmond Way and Parkside House. The Council budgets to receive net rental income (excluding borrowing costs) from these four properties of £1.6m, although with two of the properties currently vacant or partially vacant, it is expected that an appropriation of £1.1m from the Property Income Equalisation reserve will be required to achieve this budgeted income in 2023/24. Depending on how long properties remain vacant, the Council may need to develop plans in the longer term to replenish the Property Income Equalisation reserve.

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11 Retained Business Rates

- 11.1 Government sets a level of business rates that should be collectable by a local authority each year and then, using a national formula, determines how much can be retained by the Council (the funding baseline).
- 11.2 Should the local collection of business rates exceed the government-set baseline, the Council retains a 50% share of the surplus above the baseline. However, should local collection of business rates fall short of the baseline, the Council is liable for a 50% share of the deficit.
- 11.3 The business rates collected for 2022/23 is currently predicted at £2.7m below the original budget forecast. There was modest surplus brought forward from 2021/22 of £39,000. This results in a net provisional deficit on the fund of £2.7m with the Council's share being £1,085,000.
- 11.4 The deficit on the collection fund is principally due to continued additional mandatory business rates reliefs awarded to eligible businesses during 2022/23, as instructed by central government. The Council should be compensated for the reliefs with additional grant funding to offset the reduction in collectable business rates income.
- 11.5 The Council holds the Collection Fund Equalisation Reserve to mitigate the impact of changes to planned funding from business rates income. Any compensatory grants from government are set-aside in the Collection Fund Equalisation Reserve and used to fund the provisional £1,085,000 deficit in 2023/24 and future years, in accordance with collection fund regulations.
- 11.6 The Budget Book currently shows retained business rates income for 2023/24 of £1,659,000 based on provisional figures.
- 11.7 The funding position on retained business rates income for 2023/24 remains provisional, pending submission of statutory collection fund returns to DLUHC at the end of January. Any changes in the overall level of funding will be included in the Final Budget Book and offset by a contribution to or from the Collection Fund Equalisation Reserve.
- 11.8 The Council has been included within the Surrey Business Rate Pool for 2023/24. This is an invitation for 2023/24 only but is expected to benefit this Council by £150,000 in retained business rates income for the year, which has been budgeted for within S&R Committee.

12 Council Tax Options

- 12.1 It was announced as part of government's provisional settlement for 2023/24 that District Councils will be allowed to increase their council tax by either £5 per annum (per Band D equivalent property) or up to 3% (whichever is highest) before needing to hold a referendum.

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- 12.2 For financial planning purposes, the Medium Term Financial Strategy and Budget Book now assumes an annual council tax increase of 2.99%, which equates to an additional £6.39 per annum or 12¼ pence per week for a Band D equivalent property.
- 12.3 To the average band 'D' council tax payer (those not receiving discounts or support), the annual charge for borough services would increase from £213.21 to £219.60 per property.
- 12.4 With CPI inflation at 10.1% (as at September 2022), this still represents a below inflationary increase for residents, and a significant real terms funding cut for the Council.
- 12.5 For the Council's finances, revenue from council tax provides critical income to pay for services, assisting to replace funding lost from government revenue support grant and new homes bonus.
- 12.6 The Panel may feel it appropriate for options of 0% and 2.99% to be included in the budget report to full Council, as set out in the following table:

Council Tax Change	0% Freeze	2.99% Increase
Council Tax (Band D)	£213.21	£219.60
Increase per annum	£0	£6.39
Increase per week	0p	12¼p
Additional Income Generated 2023/24	£0	£214,200
Adjustment needed to Draft Budget Book	£214,200 Adverse	£0
On-going Income received in Future Years	£0	£214,200

- 12.7 **Appendix 1** comprises an overview of the draft budget for 2023/24 showing the impact of levels of council tax options, with proposals shown for a freeze and an increase of 2.99%.
- 12.8 Surrey County Council has provisionally proposed a 1.99% council tax increase to help their future funding position. However, this may increase when the Surrey County Council and Surrey Police Authority charges (precepts) are confirmed early in February.

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13 Capital Programme and Level of Capital Reserves

- 13.1 The Draft Capital Programme for 2023/24 recommended by Capital Member Group on 30 November totalled £1,464,000 with £348,000 funded from useable capital receipts, £785,000 from Disabled Facilities Grants, £250,000 funded from budgeted planned revenue contributions and £81,000 from Section 106 receipts.
- 13.2 The Council recognises the need to invest in IT systems, and an ICT investment strategy has been developed. £250k of budgeted revenue contributions has been provisionally set aside for the ICT programme of works for 2023/24 until the ICT Strategy is formally adopted.
- 13.3 Funding the programme in this way will maintain the level of uncommitted capital receipts reserves at £3.475 million by the end of 2023/24.
- 13.4 The Council agreed within its current Medium Term Financial Strategy to maintain a minimum level of capital reserves of £1 million.
- 13.5 The current Financial Plan includes an additional £100,000 of funding each year from revenue to provide resources for a sustainable capital programme. The 2023/24 revenue budget includes annual funding for the capital programme of £500,000.

14 Financial Plan 2020-24 and Forecast to 2025/26

- 14.1 The Financial Plan 2020-2024, approved by Full Council in February 2020, has been updated with the latest projections (including a medium-term forecast) and is presented at Appendix 2.
- 14.2 The forecast anticipates a reduction in retained business rates income from 2025/26 due to the outcome of the 'Fair funding review' and business rates baseline reset. The forecast aims to provide funding for a sustainable capital programme from revenue by 2026/27.
- 14.3 To be able to reduce reliance on these external sources of funding, the Council is projected to need to deliver additional annual savings or income of around £1.6 million by the end of 2025/26.

15 Risk Assessment

Legal or other duties

15.1 Equality Impact Assessment

15.1.1 Not applicable

15.2 Crime & Disorder

15.2.1 None arising from the contents of this report.

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15.3 Safeguarding

15.3.1 None arising from the contents of this report.

15.4 Dependencies

15.4.1 None arising from the contents of this report.

15.5 Other

15.5.1 The main financial risks will be presented to Full Council in a corporate budget risk assessment in February.

15.5.2 The highest service financial risks are the impact of the increased cost of living on the Council's costs and income streams, and the potential for increased demands for housing and homelessness prevention next year.

15.5.3 The Council holds both revenue and capital reserves, and has set aside a £900k provision in next year's budget, which all act as contingencies against financial risk in regards of the 'Cost-of-Living Crisis'. Despite these contingencies, the level of overall revenue budget risk in 2023/24 is deemed to be high, due to continuing high levels of economic uncertainty within the UK.

15.5.4 Higher risk also remains for the financial outlook beyond 2023/24, due to the uncertainty on the outcome on the Government's 'Fair Funding' Review and the possibility of cuts in core funding for Epsom and Ewell Borough Council in the 2025/26 settlement.

15.5.5 It is anticipated that the 'Fair Funding Review' – the mechanism used to determine individual authority settlements – will generally be used by Government to reduce funding for District Councils.

16 Financial Implications

16.1 The forecast budget position for 2023/24 is summarised in this report.

16.2 The Council is expected to benefit from additional income of £150,000 from retained business rates as a result of being part of the Surrey Business Rates Pool in 2023/24.

16.3 Council tax is an important and secure source of funding and provides income to support core services delivered by the Council. The referendum limits set by Central Government limits the annual increase that can be made to council tax without requiring a referendum to 3 percent.

16.4 An increase of £6.39 for a band d property, the maximum permitted without triggering a referendum generates additional income of £214,200.

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- 16.5 The 2023/24 budget includes planned net transfers from strategic reserves of £2,362,480. The significant transfers are as follows:-
- 16.5.1 The Corporate Projects Reserve is expected to make a net transfer of £31,123 to fund general fund services, £166,456 funding for services offset by £135,333 from New Homes Bonus grant.
- 16.5.2 A transfer of £1,126,840 from the Property Income Equalisation Reserve to offset reduced rental income for the period from our investment properties.
- 16.5.3 A provisional transfer of £1,085,000 from the Collection Fund Equalisation Reserve to fund the prior year deficit on business rates collection.
- 16.6 The reserve transfers are provisional and any further budget changes may need to be offset by an appropriation to/from reserves. For example, any change in business rates funding that may arise from the statutory government return (due by 31 January) would be met by adjusting the appropriation from the Collection Fund Equalisation Reserve.
- 16.7 There is no use of New Homes Bonus Grant to fund services, with the full grant allocation to be transferred to the Corporate Projects Reserve to fund one-off initiatives.
- 16.8 The draft Budget Book 2023/24 is highly detailed therefore please can any queries be sent to relevant officers in advance of this Committee meeting wherever possible.
- 16.9 **Section 151 Officer's comments:** The forecast budget position for 2023/24 is summarised in this report.

17 Legal Implications

- 17.1 The Council will fulfil its statutory obligations to produce a balanced budget and to comply with its policy on equalities.
- 17.2 Although there are no direct legal implications arising from this report, decisions taken about the budget will impact the services which can be delivered. In the event of any impact, there will need to be an equalities impact assessment in relevant cases.

18 Policies, Plans & Partnerships

- 18.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.
- 18.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

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18.3 **Climate & Environmental Impact of recommendations:** None arising from the contents of this report.

18.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.

18.5 **Partnerships:** None arising from the contents of this report.

19 Background papers

19.1 The documents referred to in compiling this report are as follows:

Previous reports:

- 2023/24 Strategic Financial Planning, Strategy & Resources Committee - 26 July 2022
- Review of Reserves, Financial Policy Panel – 30 November 2021

Other papers:

- Policy Committee 2023/24 Budget Reports (January 2023 Committee Cycle)
- Draft Budget Book 2023/24
- Medium Term Financial Strategy 2020-2024