

REPORT TO: Cabinet 7 February 2022

LEAD CABINET MEMBER: Councillor John Williams,
Lead Cabinet Member for Finance

LEAD OFFICER: Peter Maddock, Head of Finance

Summary General Fund Revenue Budget 2022/2023

Executive Summary

1. To consider the summary General Fund Revenue Budget for 2022/2023 and to recommend the Revenue Budget to Council.
2. This is a key decision because it results in the authority incurring expenditure which is, or the making of savings which are, significant having regard to the Council's overall budgets.

Recommendations

3. That Cabinet is requested to consider the report and, if satisfied, to:
 - (a) Take into account the detailed budgets presented at Appendix B, and summarised at Appendix A, with an estimated General Fund Gross Operating Expenditure for 2022/2023 of £78.807 million, estimated Gross Operating Income of £52.728 million and estimated General Fund Net Operating Expenditure of £26.079 million.
 - (b) Acknowledge the key factors which have led to the proposed 2022/2023 General Fund Revenue Budget, with service pressures summarised at Appendix C and offsetting efficiency savings/policy options summarised at Appendix D.
 - (c) Acknowledge that the 2022/2023 General Fund Revenue Budget gross expenditure is covered by forecast income sources (assuming no change in Government grant) and, therefore, any addition(s) to expenditure that are made by the Cabinet or Council will need to be met from the General Fund Balance.
 - (d) Approve the 2022/2023 General Fund Revenue Budget taking into account the statement by the Chief Finance Officer on the risks and robustness of the estimates as required under Section 25 of the Local Government Act 2003 (reproduced at Appendix F).
 - (e) Set the Council Tax Requirement for 2022/2023 at £10,489,403.
 - (f) Approve an increase in the District element of the Council Tax of £5 per annum, giving an average Band D Council Tax of £160.31, plus the relevant amounts required by the precepts of the Parish Councils,

Cambridgeshire County Council, Cambridgeshire Police & Crime Commissioner, and the Cambridgeshire Fire Authority.

- (g) Authorise the Head of Finance, on the basis of the proposals set out in the report, to prepare the formal Council Tax Resolution for presentation to Council at its scheduled meeting on 22 February 2022.
- (h) Approve the estimates of the amounts required to be made under the Non-domestic Rating (Rates Retention) Regulations 2013 as set out in paragraphs 44 and 45.
- (i) Approve the acceptance of any grants made during 2022/2023 by the Government under Section 31 of the Local Government Act 2003 in respect of Business Rates.
- (j) Approve the use of the additional income from the Business Rate Pool, estimated at £1,100,000 in 2022/2023, for transfer to the established Renewables Reserve for priority projects.
- (k) Subject to any changes to the recommendations above, recommend to Full Council:
 - (i) The 2022/2023 General Fund Revenue Budget based on known commitments at this time and planned levels of Service/functions resulting in a Budget Requirement of £22.668 million.
 - (ii) The District Council Precept on the Collection Fund (Council Tax Requirement) of £10.489 million in 2022/2023 (based on the Provisional Government Settlement) and a Band D Council Tax of £160.31.

Reason for Recommendations

- 4. To enable the Cabinet to recommend to Full Council the 2022/2023 General Fund Revenue Budget.

Details

(A) Prospects for Local Government

- 5. This report sets out the draft revenue budget proposals for 2022/2023 that have been prepared in the context of an economic landscape that has continued with a degree of uncertainty and volatility during 2021, with the impact of the UK withdrawal from the European Union on 31 January 2020, and the ongoing financial challenges as a result of the Coronavirus pandemic (COVID-19). In addition, there is continued uncertainty about the timing of local government funding reforms that, when implemented, could have a significant impact on the distribution of resources.
- 6. The local government funding reforms had previously been planned for introduction from April 2021 but had been delayed and there was no additional announcement within the 2021/2022 Local Government Settlement. It is

envisaged that the reforms will include the planned increase in local business rate share to 75% (from 50%), a business rate baseline reset, a Fair Funding Review, and other changes to key funding streams, such as social care and New Homes Bonus (NHB). A consultation on the replacement for NHB has taken place, with changes expected to be implemented from 2022/2023, but there is no confirmation of the timescale for implementation of the wider local government reform package. Given the provisional settlement it is now clear that the reforms will not now impact until 2023/2024 at the earliest.

7. A detailed refresh of the Medium-Term Financial Strategy (MTFS) was considered by Cabinet, at its meeting on 6 September 2021, and this provided (i) an assessment of the resources available to the Council over the medium term and (ii) an assessment of spending pressures based on existing levels of service delivery and known policy/legislative changes. The determination of the 2022/2023 revenue budget has, therefore, been informed by the MTFS financial forecasts, together with established and effective budget monitoring arrangements that have created a sound foundation for the management of the Council's financial resources. A further refresh of this is required in light of the provisional settlement and proposed 2022/23 budget.
8. The financial landscape requires a reliance on an effective budget strategy and sound medium-term financial planning to ensure that the Council's limited resources are targeted to priority services and outcomes.

(B) Economic Outlook

9. The economic landscape has continued with uncertainty in the last 12 months with the full effects of the Coronavirus pandemic acting as a dampener on growth and impacting on Council services. A support package has continued to help Councils respond to the Coronavirus pandemic and to ensure financial sustainability in the future. The Government also introduced a number of financial measures that sought to help businesses survive the crisis caused by the Coronavirus pandemic, including the Coronavirus Job Retention Scheme (Furlough Scheme) which concluded on 30 September 2021. The withdrawal of these support packages could, however, impact recovery (e.g. a rise in the level of insolvencies, ability to pay etc) and endeavours have been made to take into account the effect on Council services, and income and expenditure levels, as part of the 2022/2023 budget setting process.
10. Inflation used to drive expenditure and income assumptions in revenue budget planning have been based on the Bank of England and Office for Budget Responsibility (OBR) forecasts; the percentage applied in the MTFS and in the proposed budget is 2.5% for employee related costs and 2% for other costs reflecting the Government target for the Consumer Price Index (CPI). In terms of current economic performance, inflation (measured in terms of CPI), was recorded at 5.1% in the 12-month period to November 2021, up from 4.2% in the 12 month period to October 2021 and well above the Bank of England's target of 2%.

11. The Council lends its cash balances externally on a short-term basis, with a view to generating a return that can be spent on delivering council services whilst managing both security and liquidity of the cash. In response to the prevailing economic conditions the Bank of England Base Rate has been maintained at its record low of 0.1% since its reduction from 0.25% on 19 March 2020. This low rate has decreased the return on the Council's Money Market Fund holdings and gives a reduced return on maturing deposits when reinvested. It is expected that rates will remain at low levels throughout 2022/2023. The anticipated path of any base rate change reflects the fragility of the recovery and this will continue, therefore, to have a direct impact on the investment return achieved by the Council.
12. Short term loans were used during 2021/2022 to fund lending to Ermine Street Housing and to fund other items in the Capital Programme and it is anticipated that external borrowing will be required during 2022/2023. Further clarity about borrowing from the Public Works Loan Board (PWL), and the new borrowing restrictions for investment in commercial assets primarily for yield, has enabled appropriate changes to be considered as part of the annual review of the Capital, Investment and Treasury Management Strategies. For budgeting purposes, available interest rates have been factored into the borrowing cost projections associated with the capital programme.

(C) Budget Formulation

13. The detailed budgets presented this year are rather different to previous years in that they are now presented in service area packs. Each pack has a title page, a budget summary, individual budget pages (with similar budgets grouped together) and a subjective analysis which shows the service area spend by type of expenditure.
14. The budget summary gives the total of each of the budget pages and the overall budget for the service area. Below that is an analysis of the budget between what is ongoing (referred to as the Continuing Services Budget) and what is financed from Earmarked Reserves. The longer term objective is for all one off expenditure to be funded from Earmarked Reserves and all ongoing expenditure to be funded from the General Fund. By doing this it makes longer term financial planning easier in that we can see at a glance what our long term budgetary commitments are and what items are in the budget for a fixed period of time.
15. The detailed budget pages give some commentary on each service budget to make it clear what the purpose of that particular budget is, along with reference to any bids and savings relating to the budget.
16. The subjective analysis shows the total budget by type of expenditure as defined by the Service reporting code of practice (SeRCOP). SeRCOP is recognised across the local authority sector as the standard way of reporting expenditure and income by type.

17. The budget is divided up into distinct areas known as Cost Centres and these are either Direct Services or Support Services sometimes referred to as frontline or back office. The accounting code requires us to allocate all support services to direct services and therefore the budget presented represents the total cost of direct services including the support costs relating to them. It is important to note however that cost control and responsibility for support services rests with the service area where the support service resides not the service area where the cost is eventually allocated.
18. This point is particularly pertinent to the transformation programme which comes at a significant cost to deliver further ongoing savings and is by definition a support service. In 2022/2023 a substantial amount of work will be carried out within the planning service but the cost of this work whilst charged to Planning Services is funded from the Transformation Reserve which is a Corporate Services Reserve that is not part of the ongoing planning budget. The budget summary for Planning Services therefore shows this element as being funded from Earmarked Reserves not the General Fund.
19. The other point to note is the cost of pensions. Some years ago the rules on accounting for pensions changed and from then each service had to bear the cost or value of the pension fund relating to the employees that work in that service area rather than just the employers contributions made relating to those employees. Until 2021/2022 these costs were excluded from the budget and only accounted for in the final accounts. Best practice is to account for them in both and that is what we now do. The 'Current Service Cost' as this is a larger number than the employer's contributions and therefore has the effect of inflating service budgets and the current service cost has been increasing significantly more than inflation as it affected by the performance of the investments that are made by the pension fund. Having said this none of this affects the overall budget as legislation requires the council to charge only the contributions to the Council Tax and therefore the General Fund.
20. In looking specifically at the 2022/2023 Revenue Budget, the Council needs to be mindful of the financial backdrop and will need to ensure that any proposals, in particular around efficiencies and policy options, need to be realistic and above all sustainable. The financial landscape will, therefore, require reliance on an effective budget strategy and sound medium-term financial planning to ensure that the Council's limited resources are targeted to priority services and outcomes.
21. The Revenue Budget has been prepared in accordance with the Council's MTFs approved by Cabinet on 6 September 2021. The clear message is that budget setting and medium-term financial planning will be tough over the duration of the MTFs (to 2027) and, as such, the financial objectives identified at paragraph 66 below have helped guide the budget process. In determining the 2022/2023 revenue budget, due and proper regard has been given to its ongoing sustainability and the observance of a number of overarching principles. This has involved:

- (a) An overall commitment to endeavour to increase annual income sources and reduce annual expenditure without materially reducing front line services provided by the Council;
 - (b) A comprehensive review of the base budget to provide greater assurance for the future. The review has been based upon regular established monitoring processes, and has incorporated a review of the alignment between the original budget and service activity;
 - (c) The commitment, in response to the financial challenges, to an ambitious 4-year plan to transform service quality, realign financial resources to business plan priorities and improve customer service.
 - (d) A positive commitment to achieve better value for money for the service areas whilst maintaining quality, accessible front-line services, and the adoption of a Value for Money Strategy by the Cabinet on 4 September 2019.
 - (e) The continued review and tight control of the capital programme given the impact of borrowing on the revenue budget.
22. The resulting draft 2022/2023 revenue budget sets out the Council's finances and the efficiencies required to produce a balanced budget in the light of the ongoing reduction in Government grant funding and other pressures.
23. In preparing the budget for 2022/2023 a detailed revised estimate for 2021/2022 has also been prepared taking into account the changes to expenditure and funding as a result of COVID-19. The two key effects to the General Fund are the increased expenditure that has been caused by the pandemic and lost service-related income due to the various lockdowns and resulting downturn in activity.
24. Whilst additional expenditure is expected to exceed £1 million in 2021/2022, with a consequent increase in service costs, the Government support in the form of additional un-ringfenced grant to manage the immediate and long-term impacts of the pandemic has been continued, with final payments made in April 2021. The overall effect on Council finances is, therefore, expected to be broadly neutral with the increased amount to be met from Government Grants and Taxpayers offset by the available amount for financing from Taxation and Grants.
25. With regard to lost service-related income, the extension of the Government Sales, Fees & Charges Scheme also continued into the first three months of 2021/2022. This means that local authorities have continued to absorb the first 5% of all relevant, irrecoverable income losses compared to budgets, on a pro rata basis, with the government compensating Councils for 75 pence in every pound of loss thereafter.
26. In line with accounting requirements, the revised budget for 2021/2022 and proposed budget for 2022/2023 continue to include relevant pension

adjustments. Accounting requirements are such that the pension costs recognised in the net cost of services should be the value of the pension fund related to those employees delivering the services, rather than the actual contributions to the fund in relation to those employees. The effect of this is to increase the net cost of services but reverse the effect out within the net operational expenditure.

(D) Provisional Settlement – Funding Sources

27. The 2021 Spending Review, announced on 27 October 2021, confirmed that the Core Spending Power for local government was expected to increase by 6.9% in cash terms. In addition, it was confirmed that there would not be a reset of the business rates baseline in 2022/2023. The provisional finance settlement announcement, on 17 December 2021 made no significant changes to the funding allocations compared to 2021/2022. Whilst this benefits the Council in 2022/2023, there remains very significant risks to the funding level for District Council's in future years with the expectation that the Council will lose a significant share of its funding as a result of the funding changes – the expected, but deferred, business rate baseline reset could be particularly damaging. To offset the adverse impact of the local government funding reforms, when implemented, some form of damping support would be expected, although this would be phased out over time.
28. The key headlines in relation to the Provisional Local Government Finance Settlement are as follows:
 - (i) Council Tax referendum principle of the higher of 1.99% or £5 per dwelling for 2022/2023.
 - (ii) Continuation of the existing Business Rate Retention Scheme for a further year, with 100% business rates pilots continued for a further year. It is not clear what is happening on the Business Rates reset though there is an indication that a comprehensive review of Local Authority funding will take place during 2022. The Cambridgeshire Business Rates Pool was also confirmed for a further year.
 - (iii) Continuation of the additional Lower Tier Services Grant un-ringfenced grant of £113,000 in 2022/2023. Indications in the 2021/22 settlement were that this was a one off grant for that year but it has been continued for 2022/23.
 - (iv) Continuation of the Rural Service Grant of £137,000 for a further year in recognition of the additional cost of providing services in sparse rural areas, pending implementation of the Fair Funding Review.
 - (v) A one off services grant of £182,000. Although the settlement states this is for one year only it also states the total amount of £882 million will remain within local government but be allocated differently in future years.

- (vi) A consultation on the New Homes Bonus (NHB) scheme closed on 7 April 2021 proposing a range of options to provide an incentive that is more focussed and targeted on ambitious housing delivery. It had been assumed that the support provided in the provisional settlement would be on the basis of a revised scheme however the Council has received an allocation of £2,376,000 on the basis of the current scheme. Rather unexpectedly it now seems likely that there will be a further consultation on NHB during 2022/23 which means there is still considerable uncertainty around support going forwards. Having said that the allocation is rather higher than assumed in the MTF5 which is at least positive.

29. The spending power of the Council, based upon the provisional settlement, can be summarised as follows:

	2021/2022 £'000	2022/2023 Provisional £'000	Change %	2023/2024 £'000
Settlement Funding Assessment (SFA):				
- Business Rates Baseline	2,647	2,647	0%	2,700
- Revenue Support Grant (RSG)	-	-	-	-
Total SFA – Per 2022/2023 Settlement	2,647	2,647	0%	2,700
- Rural Services Grant	131	137	4.6%	-
- Lower Tier Services Grant	113	113	0%	-
- Services Grant	-	182	100%	-
New Homes Bonus (NHB) Grant	2,193	2,376	8.3%	1,000
Council Tax Income	9,998	10,489	4.9%	11,066
Core Spending Power	15,088	15,944	5.7%	12,066

30. While the level of Settlement Funding Assessment (SFA) for 2022/2023 remains stable as a result of the one-year settlement that has been announced, there remains considerable uncertainty relating to the SFA for 2023/2024 and beyond. The outcome of the Fair Funding Review, a probable baseline reset (and potential review of the Business Rate Retention system), and the further review of NHB create uncertainty.
31. The key elements of local government funding, some of the assumptions made for the period from 2023/2024 and local prospects were outlined in the refresh of the MTF5 reported to Cabinet on 6 September 2021. These are outlined in more detail in the “Funding the Budget Requirement” Section below.

(E) Spending Baseline, Spending Pressures and Savings

32. The table below sets out headline movements from the 2021/2022 approved budget. Detailed analysis by service area is outlined in **Appendices A and B**.

	Increased Resource	Reduced Resource
Resources	£	£
Council Tax	574,000	
Business Rates		
Rural Services Grant/Lower Tier Grant	189,000	
New Homes Bonus	183,000	
Net increase in Resources	946,000	

	Reduced Spending/ Funding changes	Increased Spending
Spending	£	£
Chief Executive		410,000
Shared Waste and Environmental Services		994,000
Finance Services		889,000
Housing Services		138,000
Planning Services		2,206,000
Transformation, HR & Corporate Services		170,000
Contingency & Unallocated	99,000	
Interest Payable		113,000
Investment Income		185,000
Other Levies & Contributions		1,191,000
Capital Financing & MRP	2,890,000	
Contribution to Earmarked Reserves	1,966,000	
Contribution to General Fund		2,105,000
Spending differences between 2021/2022 and 2022/2023	4,955,000	8,401,000

33. The most significant of these are set out below:
- (a) The “Net Increase in Resources” is set out in more detail at Section “G” below (paragraphs 40 to 54). The increase in Council Tax is based upon a £5 increase on 2021/2022 levels.
 - (b) Spending pressures and growth bids have been submitted and have been refined as part of the budget build process. These are summarised at **Appendix C**.
 - (c) Pay and prices incorporate a pay increase of 2.5% and an assessment of contracted service inflation.

- (d) Funding changes (e.g. incorporating the additional S31 grants related to business rates and additional income from the Council's investments).
 - (e) Capital financing charges to support the forward capital programme (see separate report on the agenda).
 - (f) Savings proposals are set out in detail at **Appendix D**.
34. It has been established practice, since 2020/2021, to maintain a prudent level of revenue contingency to enable unforeseen and "one off" needs (i.e. having no long-term ongoing revenue commitment) to be considered for funding during the financial year. The draft 2022/2023 revenue budget maintains the sum of £250,000 for this purpose, which represents approximately 1% of the net operating expenditure.

(F) Proposed Savings

35. The Council has embarked on an ambitious plan to transform service quality, realign financial resources to business plan priorities and improve customer service.
36. Progress with the range of savings proposals, including income generation opportunities, has been considered and refined as part the ongoing budget monitoring reports to Cabinet. The proposals have been subject to further refinement and consultation with stakeholders and the schedule of proposals, at **Appendix D**, have been included in the 2022/2023 Revenue Budget.
37. The profile of savings is influenced by deliverability and lead in times and the analysis by years is shown in **Appendix D** together with an estimate of how much is expected to fall on the General Fund and how much on the HRA.
38. There continues to be, in addition, a great deal of work undertaken, in consultation with Heads of Service on budget challenge, in order to identify other savings on budgets sufficient to reduce the level of costs to the level of resources available, or to ensure that budgets are appropriately aligned. This has resulted in budget adjustments being made in the context of maintaining the relationship between resource allocation and the Council's Business Plan priorities.
39. In relation to partnership arrangements, a "recharge model" was introduced in 2020/2021 for existing shared services in order to ensure that recharges are fair and consistently applied and that taxpayers in one area are not subsidising services provided in another. This resulted in a further adjustment to the level of recharges applied and this has been factored into the 2022/2023 revenue budget.

(G) Funding the Budget Requirement

40. Funding the Budget Requirement incorporates:
- (i) Revenue Support Grant/Business Rates
 - (ii) Other Specific Grants
 - (iii) Council Tax
- (i) Revenue Support Grant/Business Rates Retention
41. The Business Rate Retention Scheme (BRRS) was introduced in April 2013 to provide Councils with stronger financial incentives to support property development and boost the economy in their local area. It means that Councils bear a proportion of the real terms change in business rate revenues in their area: gaining when revenues grow in real terms, losing when they fall. The proportion was initially set at 50% across England. In two-tier areas, like Cambridgeshire, 40% is retained by the District Council and 9% is retained by Cambridgeshire County Council and 1% by the Cambridgeshire Fire Authority.
42. The review of Local Government Finance that will comprise (i) the quantum and how existing funding streams will feature within this and (ii) the methodology to allocate funding (known as Fair Funding) has now been further delayed. It is uncertain when the introduction of the new funding model predicated on changes to BRSS to enable a 75% retention of Business Rates (with most, if not all of the 25% increase, allocated to authorities with adult social care responsibilities) will be introduced. The 2022/2023 revenue budget has, therefore, been based upon the existing funding regime.
43. The Provisional Local Government Finance Settlement was announced on the 16 December 2021 and sets out the Council's SFA for 2022/2023. This is identified in the table below, together with the other factors relevant to determining the Business Rates Yield for 2022/2023:

	2021/2022 £'000	2022/2023 Provisional £'000	Change %	2023/2024 £'000
Settlement Funding Assessment (SFA):				
- Baseline Funding Level	2,647	2,647	0%	2,700
- Tariff	26,482	26,482	0%	27,012
- Business Rates Baseline	29,129	29,129	0%	29,765
- Section 31 Grants	2,562	4,667	82%	-
Total SFA – Per 2022/2023 Settlement	2,647	2,647	0%	2,647
Safety Net Threshold	2,449	2,449	0%	-
Levy Rate (p in £) applicable if outside pool	£0.50	£0.50		£0.50

44. Specifically, in relation to the preparation of the 2022/2023 Revenue Budget:
- (a) The net Business Rates Yield has been estimated at £85.130 million for 2022/2023 as set out in **Appendix E**. The Council's share of this

together with the deficit set out in Appendix E equates to £32.601 million compared to a Business Rates Baseline of £29.129 million as set out in the table above. The forecast is based on the number and rateable values of non-domestic properties currently shown in the valuation list. The Business Rates forecast is predicated on the following assumptions:

- Where growth or decline in the tax base, i.e. new developments, can be predicted with reasonable certainty this is reflected in the forecast yield.
 - There will be no significant changes to the overall value of reliefs, e.g. empty property rate relief or charitable rate relief over the course of the financial year.
- (b) The Council is entitled to a number of Section 31 Grants in relation to Business Rates to compensate for yield that is foregone due to national government policy, for example, the extension to eligibility for Small Business Rate Relief. These Section 31 Grants are included within the Council's net expenditure (at Appendix F).
- (c) One of the key issues in relation to forecasting the Business Rates Yield is the volatility arising from settlement of valuation appeals. This needs to be considered in terms of previous "2010 List" and the current "2017 List". Nationally the estimated eventual loss arising due to appeals is 4.7%, however, based on an analysis of appeals since 2017 under the new Check Challenge Appeal process, a reduction in this level has been evident. The increase in appeals going forward is, however, expected to continue (in part due to the pandemic) and it is, therefore, felt that the national rate of 4.7% should continue to be applied in 2022/2023 for the appeals provision.
- (d) There is also significant concern around the long-term effects of the pandemic and how business rates income will be affected in terms of the ongoing need for businesses to retain property to operate and how much debt will eventually turn bad due to business failures. The Government also introduced a number of financial measures that sought to help businesses survive the crisis caused by the Coronavirus pandemic, including the Coronavirus Job Retention Scheme (Furlough Scheme) which concluded on 30 September 2021. The withdrawal of the Government support packages could impact recovery (e.g. a rise in the level of insolvencies, ability to pay etc) and the effect on Council services, and income and expenditure levels, will need to be fully taken into account as part of the 2022/2023 budget setting process.
45. Under the business rates retention scheme local authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area. The Council successfully applied to be the lead authority of a consortium which also

includes Cambridgeshire County Council, Peterborough City Council, Fenland District Council, East Cambridgeshire District Council and Cambridgeshire Fire Authority. The formal designation of the pool was confirmed on 18 December 2019 and was introduced on 1 April 2020. The Pool successfully continued in 2021/2022 and has also been re-designated to continue in 2022/2023. It is estimated that the Council will benefit from an additional income in excess of £1.1 million during 2022/2023 and, in line with established policy, it is proposed that the sum continues to be transferred annually to top up the Renewables Reserve to fund priority projects determined by the Council.

(ii) Rural Services Grant

46. The Council currently receives a Rural Services Grant in the sum of £137,000 in recognition of the additional cost of providing services in sparse rural areas. This has been confirmed to continue into 2022/2023 before being phased out.

(iii) Lower Tier Services Grant

47. This is the continuation of a new un-ringfenced grant of £113,000, introduced in 2021/2022 for lower tier authorities to support service provision.

(iv) New Homes Bonus

48. The New Homes Bonus (NHB) was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. The aim of the bonus was to provide a financial incentive to reward and encourage local authorities to help facilitate housing growth. It is based on the amount of extra Council Tax revenue raised from new-build homes, conversions and long-term empty homes brought back into use. NHB funding has been based on the following:

- (a) NHB is payable on housing growth over a threshold of 0.4% of the Tax Base.
(b) Payments are based on a rolling 4-year period.

49. Housing growth has been significant for this Council area and, as such, the Council has benefited from high levels of NHB. The Government had, however, stated its commitment to review NHB and the long-awaited consultation on the replacement for NHB was published on 10 February 2021 and closed on 7 April 2021. The consultation outlined a number of options for reforming NHB to provide an incentive that is more focused and targeted on ambitious housing delivery, that complements the reforms outlined in the Planning White Paper, and dovetails with the wider financial mechanisms the government is putting in place, including the community infrastructure levy and the Single Housing Infrastructure Fund. The Council has been a major beneficiary of the grant, receiving a peak of £5.2 million in 2016/2017 and there is a risk that the review could result in a reduced financial benefit.

50. The longevity of legacy payments was, in any event, reduced when NHB was initially reformed in 2017/2018. New legacy commitments ceased to be made

in allocations from 2020/2021 and the government confirmed that it had no intention to reintroduce the concept of legacy payments. It had been expected that the changes to NHB would be implemented from 2022/2023 onwards, alongside the wider local government reform package however it had become increasingly clear in recent weeks that the provisional settlement would be on a similar basis to 2021/22 and that proved to be the case. The 2022/2023 budget therefore includes a reward from NHB in the sum of £2.376 million based on the existing scheme. It is unclear what the status of the NHB consultation earlier in the year now is as it has been suggested a further NHB consultation will be carried out shortly.

51. In line with the agreement of the partners, 10% of NHB has been set aside as a contribution to the Greater Cambridge Partnership (GCP) Investment and Delivery Fund from 2021/2022 (a reduction from the 30% level that applied up to 2020/2021).

(v) Council Tax

52. Council Tax has been the most predictable and stable element of Local Government funding, despite the uncertainty created by COVID-19. This source of income is predicted to yield £10,489 million in 2022/2023 based upon an assumed £5 increase in Council Tax (the maximum level permitted by Government) and an increase in tax base based upon the latest estimates of housing growth. An additional £35,000 is also estimated from the Council Tax sharing agreement.
53. The Local Government Finance Act 1992 requires the Council to set its Council Tax Base for the ensuing financial year by 31 January preceding the start of the new financial year and to notify precepting bodies of the Tax Base that will apply to their area. The Council Tax base for the financial year 2022/2023 has been set at 65,432.00 Band D equivalent properties (an increase of 1.67% (1,078.20) compared to the 2021/2022 Tax Base of 64,353.80).
54. The proposed increase in Council Tax for 2022/2023 is 3.4%. This proposal equates to an increase of £5.00 on the average Band D property giving a Council Tax of £160.31 based upon the 2022/2023 Council Tax base of 65,432.0 Band D dwellings. The proposed 3.4% increase in Council Tax, results in a total yield from Council Tax of £10.685 million (including £0.195 million Collection Fund surplus and £0.035 million from the council tax sharing agreement).

(H) Review of Reserves

55. A review of Reserves has been made as part of the budget setting process following that, it is recommended that the Brexit Preparation Reserve holding £38,000 as at 1st April 2021 be released to the General Fund on the basis that there is no expenditure in 2021/2022 expected in relation to this.

56. It is proposed to set up a new reserve for use by the Enforcement Group which is a cross service co-ordinating group on such issues. The group would consider requests for funds from members of the group to finance works in default or similar expenditure. It is proposed that initially £40,000 is allocated to this from the Planning Reserve and this be reviewed annually as part of the budget setting process.

(I) Capital Programme

57. A review of the capital programme has been undertaken in conjunction with lead officers to ensure that proposed investment is prudent, sustainable, and affordable and a separate detailed report to the Cabinet proposes a revised profiled capital programme. The Capital Financing implications of the proposed capital programme are reflected in the proposed General Fund Revenue Budget. In the event that all changes are approved, and the latest forecast capital receipts are forthcoming, a forecast borrowing requirement of £148.6 million will be needed to support the total capital programme to 2026/2027.
58. The revenue implications of the Capital Programme have also been taken into account in the draft 2022/2023 revenue budget and are detailed at **Appendix A**.
59. In determining the 2022/2023 revenue budget, annual contributions to the following Reserves established in 2020/2021 have been made:
- (a) Repair and Renewal (Equipment & Plant) Fund: An annual revenue contribution of £50,000 to this Reserve for the purpose of defraying expenditure to be incurred from time to time in repairing, maintaining, replacing, and renewing IT equipment and operational building plant and equipment belonging to the Council.
 - (b) Software Fund: An annual contribution of £50,000 to this Reserve for the purpose of defraying expenditure to be incurred from time to time on IT replacement software solutions.
 - (c) Property Investment Reserve: An annual contribution of £100,000 to this Reserve for the investment and refurbishment costs above and beyond tenant repairing lease obligations (e.g. investment to encourage improved re-letting terms). This could include upgrades to improve environmental standards.

(J) Fees and Charges

60. An annual review of fees and charges has been made as part of the revenue budget process in order to determine the non-regulatory fees and charges to be set by the Council for the provision of services from April 2022. A separate report was considered by Cabinet agenda at its meeting on 6 December 2021 and the additional income from the revised fees and charges (albeit marginal) has been included in the draft 2022/2023 revenue budget.

(K) General Fund Revenue Budget Summary

61. The 2022/2023 General Fund Revenue Budget Summary is detailed at **Appendix A** and the following is relevant:

(i) **Revenue Support Grant (RSG) and Business Rates**

These figures reflect the provisional Settlement for 2022/2023. Any adjustment (dependent on its effect) will be reported to Council on 22 February 2022.

(ii) **Council Tax Collection Fund Balance in aid of Council Tax**

The Council's share of estimated Council Tax surplus as at 31 March 2022 has been determined by the Head of Finance and totals £0.195 million.

(iii) **Net District Requirement from Council Tax**

After allowing for the increase in the Council's Taxbase, the average Band D Council Tax will be **£160.31**.

(iv) **District Precept on Collection Fund**

In accordance with legislative requirements the District Precept on the Collection Fund will include Parish Precepts when known.

62. **In pursuance of Section 25 of the Local Government Act 2003 the Chief Finance Officer is required to make a statement on the robustness of estimates and the adequacy of Reserves in relation to the Council's budget calculations. Provided Members fully take into account the risks that are outlined in the report at Appendix F, I can confirm that Heads of Service are satisfied with the level of budgets put forward for 2022/2023 relating to their respective service areas although it must be recognised that the budget allocations in 2022/2023, and the future prospects for service delivery, will be challenging and that pressures and constraints during the next financial year will be inevitable.**

Options

63. There are options to remove or add items to the budget but, based on previous Cabinet decisions and the detailed discussions held with spending officers, the General Fund Revenue Budget as presented includes all items required to deliver council services and member priorities. The gross expenditure is covered by forecast income sources (assuming no change in Government grant) and, therefore, any addition(s) to expenditure that are required will need to identify matching savings and/or additional income if the proposed level of Council Tax is not to change.

Implications

64. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Policy

65. The MTFS, approved by Council on 23 September 2021, identifies that the Council will ensure that annual ongoing General Fund revenue expenditure can be covered by annual income sources across the MTFS period in order to ensure a continuously stable financial base for the provision of Council services and functions. In doing so, the Council recognises that any significant use of reserves to fund ongoing expenditure commitments is unsustainable in the medium term.
66. The MTFS identifies that a prudent level of revenue contingency will be maintained to enable unforeseen and "one off" needs (i.e. having no long-term ongoing revenue commitment) to be considered for funding and, in this regard, the proposed General Fund Revenue Budget includes a revenue contingency of £250,000.
67. In accordance with the MTFS, the following financial objectives have guided the formulation of the 2022/2023 revenue budget:
- A sustainable medium term financial plan that allows the achievement of the Council's key objectives;
 - Realistic levels of year on year spending which are supportable via annual income streams and do not require the use of general reserves to support recurring expenditure;
 - General reserves should be maintained at all times at or above the agreed minimum level;
 - Constraining annual Council Tax increases to an acceptable level;
 - The pursuance of "invest to save" opportunities with a financial return on the investment in transforming activities over an acceptable payback period;
 - A commitment to explore income generation opportunities and to maximise income from fees and charges;
 - A commitment to maximise efficiency savings;
 - The continued review and control of the Capital Programme given the impact on borrowing (see separate report on the agenda).

Legal

68. The Council is required by law to set a balanced revenue budget each year. There are two specific dates in relation to budget and Council Tax setting that are required by statute to be achieved. Firstly, it is a requirement that each local authority approves its Revenue Budget by 28 February each year for the forthcoming financial year. Secondly, a billing authority (i.e. this Council) is required to set the Council Tax for its area by 11 March each year for the forthcoming financial year.
69. It is a legal requirement (under Section 25 of the Local Government Act 2003) that before approving the ensuing year's Capital and Revenue Budget, the Council are required to receive and take into account a report of the Chief Finance Officer (Head of Finance) on the robustness of the estimates leading to the Council's Council Tax requirement and the adequacy of financial reserves. This needs to cover issues of affordability (having regard to Council Tax implications), prudence (having regard to Council policies/strategies) and sustainability (having regard to forecast annual expenditure and income). This report is attached at **Appendix F**.

Financial

Budget Overview

70. The proposed 2022/2023 revenue budget is set out in the table at **Appendix A**.

Government Funding Settlement

71. This report is based on the Provisional Government settlement relating to the revenue support grant and business rates redistribution. The consultation on the proposed settlement ended on 13 January 2022 but the final settlement has not yet been formally confirmed. It is, therefore, recommended that:
- if the Government grant were increased it is recommended that the balance would be transferred to the General Fund Reserve.
 - if it is reduced that this be the first call on the general contingency.

Parish Council Precepts

72. Parish Councils had until 31 January to notify the Council of their precepts for the forthcoming year and, as such, the total of the precepts will be reported directly to Full Council on 22 February 2022 as part of Council Tax Resolution.

Risk

General

73. The Revenue Budget for 2022/2023 has been prepared on a prudent basis but there are risks which may affect the budget. These risks include the following:

- The extent of service pressure being higher or lower than anticipated.
- The delivery of planned efficiency savings.
- Unforeseen costs during the year which may exceed the provision in the general contingency of £250,000.
- The economic situation is either better or worse than anticipated with fluctuations in income sources (NB: This affects capital financing costs and fees and charges).
- Increases in inflation above those known or expected at this time.
- Member aspirations regarding service levels.
- The impact of changes in legislation.

It is also critical that the budget setting timescale is followed to ensure that statutory deadlines are complied with.

Specific

74. When the Council considers each revenue service and function budget endeavours are made to identify potential risks. Inevitably, during the year, some of these risks will occur and impact on the budget by either requiring further expenditure or by reducing the Council's budgeted income. The budget process has identified a number of service specific risks relating to the range of District Council Services and related budgets. An overall assessment of risk and an assessment of the robustness of estimates are set out in **Appendix F**.

Environmental

75. There are no environmental implications arising from this report.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Budget Report – Report to Cabinet: 3 February 2021/Council: 23 February 2021
- Medium Term Financial Strategy – Report to Cabinet: 6 September 2021
- Medium Term Financial Strategy – Report to Cabinet: 23 September 2021
- Capital Programme Update and New Bids – Report to Cabinet: 6 December 2021
- 2021/2022 Revenue & Capital Budget Monitoring – Report to Cabinet: 6 December 2021

Appendices

- A Revenue Budget 2022/2023: Summary
- B1-7 Revenue Budget 2022/2023: Detailed Budgets
- C Service Pressures Taken into Account
- D Service Efficiencies/Income Generation Opportunities
- E Business Rate Yield Estimate 2022/2023
- F Revenue Budget: Risks and Robustness

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