



Meeting:	Overview & Scrutiny	6th December 2021
	Cabinet	8th December 2021
Subject:	Draft Money Plan 2022-27 & Budget Proposals 2022/23	
Report Of:	Leader of the Council & Cabinet Member for Performance and Resources	
Wards Affected:	All	
Key Decision:	No	Budget/Policy Framework: Yes
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Appendices:	1. Money Plan 2022/23 – 2026/27 2. Budget Pressures & Savings 3. Budget Efficiencies & Savings Programme 4. 2022/23 – 2026/27 Capital Programme 5. Draft Budget Book	

FOR GENERAL RELEASE

1.0 PURPOSE OF REPORT

1.1 To review the Council’s Draft Money Plan.

2.0 RECOMMENDATIONS

2.1 Overview and Scrutiny Committee is asked to consider the report, to seek clarification on any further points, as appropriate and to make any recommendations to Cabinet.

2.2 **Cabinet** is asked to **RESOLVE** that:

(1) That the assumptions contained in the Council’s Draft Money Plan from 2022/23 to 2026/27 and revisions to the draft revenue budget be approved.

(2) The Draft Money Plan and attached appendices be updated when there is more certainty regarding Local Government financing, be noted.

3.0 Introduction

3.1 The Money Plan sets out the Council’s strategic approach to the management of its finances and presents indicative budgets and Council Tax levels for the medium term. It covers the General Fund Revenue Budget, the Capital Programme and Earmarked Reserves. It also comments on the significant financial risks facing the Council in the forthcoming years and explains what the Council is doing to reduce those risks.

3.2 The main objectives of the Money Plan are to:

- explain the financial context within which the Council is set to work over the medium term.
- provide a medium-term forecast of **Page 5** resources and expenditure.

- identify the financial resources needed to deliver the Council's priority outcomes, in line with the Council's plan.
- achieve a stable and sustainable budget capable of withstanding financial pressures.
- achieve a balanced base budget, minimising the use of balances to meet recurring baseline spending, with the General Fund balance being maintained at a minimum of 10% of net expenditure by the end of the plan period;
- where possible, additional investment and spending decisions will be made to reflect Council priorities and strategic commitments, with disinvestment and budget savings being made in non-priority areas; and
- ensure capital financing is established at a level that maintains ongoing robustness in the capital programme.

4.0 The Local Government Finance Environment

- 4.1 The Council's Money plan provides the framework within which revenue spending decisions can be made over the medium term. It is reviewed and updated on an annual basis to consider any alterations that may be required as a result of changed circumstances. The Money Plan covers a five-year period up to 2026/27.
- 4.2 Local Government continues to face a tough financial outlook, with funding pressures set to continue. The Local Government Finance Settlement for Gloucester City Council in recent years has seen unprecedented reductions in settlement funding assessment.
- 4.3 The COVID-19 pandemic introduced considerable risk and uncertainty into the Money plan. The response and recovery have seen reductions in income as well as increased costs. The Money Plan and budget for 2022/23 will continue to review any implications on income streams while looking to place the Council in a strong position to continue to support the recovery within the City.
- 4.4 The Council's Revenue Budgets for 2022/23 and Capital Programme will be presented to full Council in February 2022 for approval.
- 4.5 On the 27th October 2021 the Chancellor, announced the Budget & Spending Review 2021 (SR2021). The Chancellor has announced the Spending Review 2021 that will cover the next 3 years (2022-23 to 2024-25).

SR2021 and the forthcoming settlement have been drawn up in unique circumstances. The primary aim, throughout this challenging period, has been to ensure councils have the resources and stability to continue to provide vital public services and tackle the pandemic.

On the face of it, the spending review is good news for local government and better than anyone was expecting, however until the Local Government Finance Settlement is announced in December the implications for the Council are unknown.

Some key areas announced in the Spending Review were:

- Local government in England will receive £4.8bn increase in grant funding over the next 3 years (£1.6bn in each year).
- Additional funding will be made available for social care reform, £3.6bn over 3 years to implement "the cap on personal care costs and changes to the means test").
- £1.7bn will be allocated over 3 years to improve the wider social care system.
- Of the £4.8bn, it is estimated that around £3.6bn will be allocated through the Settlement Funding Assessment (SFA) to all types of authority. This means that there will be increases in funding for district councils and fire authorities – possibly even real-terms growth in SFA.

- There are various smaller allocations within the core funding announcement, including £200m for the “cross-government Supporting Families programme”, £37.8m for cyber security, and £34.5m for “strengthen local delivery and transparency”.

One surprise in the settlement the announcement that core council tax will increase by 2%. At this point we are not clear if this as in previous years will be 2% or £5 whichever being the greater. Based on current advice the plan has assumed 2% or £5 whichever is the greater.

The implications on the Council will be better understood upon receipt of the provisional Local Government Finance Settlement in the middle of December.

- 4.6 The funding position for local authorities for 2022/23 onwards remains uncertain. Central Government is carrying out a “Fair Funding Review” which aims to set out the basis by which funding is allocated across the country between Councils. This process will not generally be about redistributing Government grants, as this now forms only a small part of national funding, but about setting the baselines which determine how much local business rates may be retained in each area. These baselines are also due to be reset, there is uncertainty as to when this reset will take place.

Local Government Finance Settlement 2022/23

- 4.7 The Local Government Finance Settlement 2022/23 is not expected until the middle of December. For the draft Money Plan the following assumptions have been made.
- Continued flexibility for District Councils to increase Council Tax by 2% or £5.
 - Proposed retention of New Homes Bonus, with no change to the baseline.

- 4.8 The settlement is expected to continue to use the ‘core spending power’ measure. Core spending power is made up of the following elements.

Settlement Funding Assessments (SFA)

This is made up of:

- Revenue Support Grant

The SFA is expected to detail level of Tariff on retained business rates and the Safety Net Threshold.

Instead of cutting all SFA by a set percent, Government take into account the ability to raise Council Tax locally. There are four key variables:

- Funding reductions
- Split of reductions between tiers
- Council Tax Base
- Council Tax Rate

Council Tax Requirement (CTR)

The core spending power assumes district councils will increase Band D Council Tax by 2% or £5, whichever is the higher. The plan assumes an increase of £5.

New Homes Bonus (NHB)

NHB is expected to reduce from £0.803 m in 2021/22 to £0.020m in 2022/23.

- 4.9 If as in the previous financial year the Council receive additional one off NHB it is recommended that these additional sums are placed in the Budget Equalisation Reserve to

further protect the council against future uncertainties including potential long-term impacts on the sources of income through Fees & Charges.

5. **Business Rates Retention**

- 5.1 The Gloucestershire authorities have agreed to continue the pooling arrangements during 2022/23. This scheme increases the business rates retained locally by reducing the levy that is payable to Central Government.

6. **General Fund Revenue Budget - Principles and Key Assumptions**

- 6.1 The principles underpinning the proposed revenue strategy are:

Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources.

- i. No long-term use of balances to meet recurring baseline expenditure.
- ii. Resources will be targeted to deliver Corporate Plan priorities and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.
- iii. Maintaining the General Fund balance at approximately 10% of net revenue budget. This assumes a minimum level of £1.4m by the end of the plan.
- iv. Year on year savings targets where required to be met by ongoing efficiency gains, income generation and service transformation.

- 6.2 **Table 1** below, lists the major **assumptions** that have been made over the five years of the strategy:

Table 1	2022/23	2023/24	2024/25	2025/26	2026/27
Council Tax base growth	0.75%	0.75%	0.75%	0.75%	0.75%
Council Tax inflation	£5	£5	£5	£5	£5
Interest Rates (Earned)	0.75%	1.00%	1.25%	1.50%	2.00%
Inflation – Pay	2.50%	1.50%	1.50%	1.50%	1.50%
Inflation – contracts	2.50%	2.50%	2.50%	2.50%	2.50%
Inflation – other income	2.50%	2.50%	2.50%	2.50%	2.50%

7. **Revenue Budget Increases**

Pay and Prices Increases

- 7.1 A 2.5% pay award allowance has been included for 2022/23. It should be noted that pay awards in Local Government are covered by collective bargaining between employers and trade unions and is not subject to direct control from Central Government. However, it is reasonable to assume that Local Government will mirror what happens in the rest of the public sector.
- 7.2 In addition to the increases to reflect employee pay awards, provision has also been made to meet ongoing additional payments to the pension fund required from the employer to recover the deficit.
- 7.3 The pension fund is subject to a triennial actuarial valuation, the most recent of which has been undertaken by Hymans Robertson LLP during 2019, on behalf of Gloucestershire County Council, the pension fund administrator. As a result of the triennial valuation the actuary confirmed that increase to the council's contribution can be frozen. This still assumes that the council will be fully funded in line with the current strategy of 17 years. Work on the next triennial valuation is due to commence during the financial year 2022/23 with new contribution rates to commence from April 2023. The plan assumes no further increase in pension contributions.

- 7.4 Prices inflation has been included on selected non-pay items, namely contractual obligations. All other inflationary increases are expected to be absorbed within base budget which represents a real time reduction through efficiency gains.
- 7.5 Prices inflation is included on selected fees and charges at 2.5% for each year of the plan. It should be noted that no increase on income has been assumed in 2022/23 for Cultural Services and Car Parking because of the impact of COVID-19.

Cost Pressures and Savings

- 7.6 Cost pressures and savings are included in **Appendix 2** and total a net income of £0.100m
- 7.7 Significant cost pressures that have been highlighted through budget monitoring are highlighted at **Appendix 2**. Some key pressures are highlighted below:
- Alignment of Waste and Streetcare budgets.
 - One Legal Structure costs
 - Apprentices.
- 7.8 The budget savings identified in **Appendix 2** for 2022/23 relate to several areas where actions undertaken by the Council have led to savings or income growth. Some of the key areas are highlighted below:
- Docks Regeneration
 - Democratic Services - Election
 - Pension Prepayment
 - Recycling Income
 - Housing & Homelessness
 - HKP Savings
 - Transformation & Commercialisation

8. Efficiency Savings/Income Generation

- 8.1 With the inclusion of assumed settlement figures for 2022/23 and the assumption of further formula grant reductions over the life of the plan, further efficiencies may be required.
- 8.2 The expected impact of COVID-19 has unfortunately returned the Council to the position of having to find further efficiencies and savings in both 2022/23 and 2023/24. Appendix 3 provides details of proposed measures for 2022/23 to enable the Council to balance the budget.

9. Overall Costs

- 9.1 The total costs of the Council (the “Net Budget Requirement”) over the five-year period of the Money Plan change from £14.180m in 2022/23 to £14.230m in 2026/27. Any further spending pressures identified in addition to those detailed in **Appendix 2**, over the five-year period of the Money Plan, will need to be funded by additional savings.

10. Revenue Funding

Formula Grant / Localised Business Rates / Revenue Support Grant

- 10.1 Our current grant from Government for 2022/23 comprises two formula driven components - Revenue Support Grant (RSG) and a retained Business Rates target.
- 10.2 The council will expect to receive £0.087m RSG in 2022/23.

New Homes Bonus

- 10.3 New Homes Bonus is a grant that is effectively a reward for increasing the number of residential properties within an area. With the current uncertainty regarding funding we still await announcement as part of the Spending Review on the future of this grant.
- 10.4 The Council is expected to receive New Homes Bonus in 2022/23 of £0.020m, reducing to zero by 2023/24.

Council Tax

- 10.5 The Local Government Finance Settlement includes Council Tax Requirement (CTR) as part of the Councils 'Core Spending Power'. CTR is assumed to grow as part of the settlement as follows:
- an average growth in Council Tax Base, based upon the years 2013/14 to 2015/16,
 - increased by an assumed growth based upon CPI at an average of 1.75%.
 - assumed increase of £5 or 2% whichever the greater

Therefore, to maintain CTR in line with Government assumptions the minimum year on year increase should in line with bullet points above.

- 10.6 The Money Plan assumes an increase in Council Tax of £5.

11. General Fund Balance

- 11.1 The estimated level of the general fund balance in each financial year is shown in **Appendix 1**. The General Fund level is above the minimum required level by the end of the Money Plan.
- 11.2 It should also be noted, that although £1.4m is considered an appropriate level of General Fund balances to retain each year, the position should be reviewed if the Council delivers a budget surplus at year end.
- 11.3 In the financial year 2021/22 it is proposed to decrease the General Fund by £0.084m

12.0 Capital Programme and Capital Financing

- 12.1 The key financial details on capital expenditure and financing in the revised money plan for the 5 years from 2022/23, are shown in detail at **Appendix 4**, and summarised below:
1. Capital programme expenditure of £106.928m (£27.337m in 2022/23). Key projects include: Completion of Kings Square; Kings Walk improvements, Food Dock, Railway Station Improvements, High Streets - Heritage Action Zone project and commencement of the delivery of the Forum.
 2. Capital financing comprises grants, Capital receipts and borrowing.
- 12.2 Kings Square is a key deliverable in the overall Kings Quarter regeneration programme. The regeneration of Kings Square is key to delivering the assumed income growth in Kings Walk Shopping Centre and will enhance the opportunities to deliver new income streams in future phases of the Kings Quarter development. The investment in the square will be financed as part of the overall capital programme.
- 12.3 The regeneration of the Kings Quarter has now commenced on site and the Forum development is a significant proportion of the Capital programme and the required borrowing.
- 12.4 The capital programme assumes the majority of capital financing will be funded through the use of current and expected future capital receipts, where these are not available it will be met from external grants and borrowing. The future financial commitments will be approved based on specific income generating, or revenue saving business cases to fund the cost of the borrowing. The main exceptions to this policy will be essential works on the Council's

buildings and ICT systems, which will result in a reduced maintenance liability or potential increase in asset value and ensure delivery of the Councils transformation programme.

- 12.5 Wherever possible and desirable, additional one-off capital investments on a business case basis will be made, providing corporate objectives are delivered, and financing is available and affordable within existing budgets, or preferably with the provision of a “spend to save” revenue saving on existing budgets.
- 12.6 The strategy on borrowing is to ensure that any borrowing is only undertaken on a business case basis, and is affordable and paid off over the life of the asset.
- 12.7 **Appendix 4** shows the proposed capital budgets for 5 years from 2022/23 incorporating any carried forward capital budgets and new, approved schemes. The capital programme will be updated for any future additions, such as Kings Quarter further development, subject to the required level of approval being made.

13.0 Earmarked Reserves

- 13.1 The Council has limited earmarked reserves with the balance at 31 March 2021 being £4.890m, consisting of;

• Insurance reserve	£0.010m
• Historic buildings reserve	£0.053m
• Housing Survey	£0.060m
• Shopmobility reserve	£0.029m
• Repairs reserve	£0.023m
• Environmental Insurance	£0.900m
• Regeneration reserve	£0.082m
• VAT Shelter reserve	£0.160m
• Business Rates reserve	£1.024m
• Land adoption reserve	£0.873m
• Community Builder Reserve	£0.062m
• Planning Strategy Reserve	£0.248m
• Flooding Works Reserve	£0.010m
• Lottery Reserve	£0.022m
• Great Place Reserve	£0.022m
• Museum Reserve	£0.305m
• Transformation Reserve	£0.100m
• Budget Equalisation Reserve	£0.021m
• Destination Marketing	£0.200m
• Homelessness Reserve	£0.100m
• Planning Appeals	£0.050m
• Communities	£0.030m
• Climate Change	£0.100m
• Neighbourhood Spaces	£0.100m
• Defibrillator	£0.006m
• Property Sinking Fund	£0.300m

- 13.2 Where earmarked reserves are not ring fenced for a specific use, then if necessary, these reserves may potentially be used to support the General Fund.
- 13.3 The Council does face significant uncertainty from 2022/23 and it is expected there will be a significant reduction in retained funding from business rates either through reset or the impact of the COVID-19 pandemic. The Council will need to ensure there is sufficient funding in the Business Rates reserve to offset this. The plan assumes £1m will be drawn from this reserve.

13.4 During 2022/23 the Council will also draw on earmarked reserves in continuing delivery of agreed programmes. However, it is prudent and sensible to return and increase the level of earmarked reserves to protect the Council going forward particularly in these uncertain times.

13.5 The table provides a forecast position on earmarked reserves:

Reserves Forecast	Balance at 31/03/2021	Transfers 2021/22	Forecast 31/03/2022	Transfers 2022/23	Forecast 31/03/2023
	£m	£m	£m	£m	£m
Historic Buildings	0.053		0.053		0.053
Housing Survey	0.060		0.060		0.060
Shopmobility	0.029		0.029		0.029
Regeneration	0.082	0.150	0.232		0.232
Insurance	0.010		0.010		0.010
Land Adoption	0.873		0.873		0.873
VAT Shelter	0.160	0.200	0.360	0.200	0.560
Business Rates	1.024		1.024	(0.500)	0.524
Environmental Insurance	0.900		0.900		0.900
Repairs	0.023		0.023	0.100	0.123
Community Builder	0.062		0.062		0.062
Planning Strategy	0.248	(0.150)	0.098	(0.050)	0.048
Flooding Works	0.010		0.010		0.010
Lottery	0.022		0.022		0.022
Great Place	0.022		0.022		0.022
Museum Bequest	0.305		0.305		0.305
Transformation Reserve	0.100		0.100	(0.075)	0.025
Budget Equalisation Reserve	0.021	0.532	0.553		0.553
Destination Marketing	0.200	(0.100)	0.100		0.100
Homelessness	0.100		0.100		0.100
Planning Appeals	0.050		0.050		0.050
Communities	0.030		0.030		0.030
Climate Change	0.100	(0.025)	0.075		0.075
Neighbourhood Spaces	0.100		0.100		0.100
Defibrillator	0.006	(0.006)	0.000		0.000
Property Sinking Fund	0.300	(0.300)	0.000		0.000
Total	4.890	0.301	5.191	(0.325)	4.866

14.0 Alternative Options Considered

14.1 The Council must set a balanced budget in time to start collecting Council Tax by 1st April 2022. Alternative proposals put forward for budget savings will be considered as part of this process.

15.0 ABCD Implications

15.1 There are no ABCD implications as a result of this report.

16.0 Financial Implications

16.1 Contained in the body of the report.

17.0 Legal Implications

17.1 Legislation places a duty on the Council, as the Billing Authority, to calculate its budget requirement for 2022/23. The Council also has a statutory requirement to set a balanced budget.

18.0 Risk & Opportunity Management Implications

- 18.1 Covered in the report. The budget is prepared based on the information available at the time of writing. The budget pressures facing the Council have, as far as possible, been built into the budget.
- 18.2 The risks are set out more fully in the report but in summary centre around the continuing economic situation and the impact this is likely to have on the public sector, driving changes to Government funding in future years and the level of the Council's spend from 2022/23 onwards.
- 18.3 In addition to the risks identified in the report, a list of additional identified risks for both the Draft Money Plan and the Budget for 2022/23, along with the mitigations is also shown below:

Risk Identified	Inherent Risk Evaluation (scale 0-16?, where 16 represents highest risk)		Proposed measures	Residual Risk Evaluation (scale 0-16?, where 16 represents highest risk)	
	Risk Score			Risk Score	
<ul style="list-style-type: none"> ▪ Employee-related costs will be more than assumed ▪ Other costs will be more than assumed 	Risk Score	6	<ul style="list-style-type: none"> ▪ Figures based on known commitments and estimated future costs. Any further pressures will need to be matched by additional identified savings. 	Risk Score	4
		8			
<ul style="list-style-type: none"> ▪ Pension fund contributions will be higher than expected. 	Risk Score	8	<ul style="list-style-type: none"> ▪ The financial plan will continue to be reviewed and updated annually for a five year period, based on known changes and informed by the most recent actuarial triennial valuation. 	Risk Score	4
<ul style="list-style-type: none"> ▪ Planned budget reductions will not be achieved 	Risk Score	8	<ul style="list-style-type: none"> ▪ Close monitoring of budgets will be carried out in each financial year. ▪ Continuous monitoring of service pressures and ongoing focus on preventative support. 	Risk Score	6
<ul style="list-style-type: none"> ▪ Income from fees, charges and other sources will not be as high as planned 	Risk Score	12	<ul style="list-style-type: none"> ▪ Close monitoring of income budgets will be carried out in each financial year. 	Risk Score	8
<ul style="list-style-type: none"> ▪ Timing of Capital Receipts will be later than anticipated or lower than estimated ▪ Timing of Capital payments may be earlier than estimated 	Risk Score	8	<ul style="list-style-type: none"> ▪ Close monitoring of the timing and payments of capital expenditure/income will be carried out in each financial year. Alternative savings will be identified, or contingency arrangements agreed 	Risk Score	4

20.1 People Impact Assessments will be carried out for each line of the budget savings, to ensure that all relevant considerations are taken into account.

21.0 Other Corporate Implications

1. Community Safety
None
2. Environmental
None
3. Staffing
None
4. Trade Union
Ongoing discussions with the Trade Union on both the money plan and budget represent a key element of the overall consultation process.

Background Documents:

Money Plan 2021-26, February 2021