

Indicative Draft Budget 2022/23

GENERAL FUND REVENUE ACCOUNT

December 2021

1. Background and Introduction

- 1.1 The updated Medium-Term Financial Plan (MTFP) 2022/23 to 2026/27 – which set the framework for developing draft 2022/23 budget proposals for the General Fund – was adopted by Cabinet on 11th October 2021.
- 1.2 The October 2021 MTFP identified a projected deficit of £1.504 million on the General Fund for 2022/23, which needed to be eliminated if the statutory requirement to set a balanced budget was to be achieved in the forthcoming financial year.
- 1.3 Since the agreement of the MTFP, the following processes have been undertaken:
 - The financial assumptions made in the MTFP have been reviewed to ensure that they remain relevant; this includes inflation assumptions and a re-evaluation of assumed interest-rates on Qualis loans
 - Subsequent developments – with financial consequences – that have emerged since the MTFP was prepared, have been incorporated; this includes the Government's Autumn Budget and Spending Review 2021 announced by the Chancellor on 27th October 2021
 - Senior officers have undertaken a detailed review of income and expenditure budgets, alongside priorities in their respective service areas with a view to pinpointing potential savings options for 2022/23 and beyond in the light of the anticipated budget deficit(s) highlighted in the October 2021 iteration of the MTFP; and
 - Initial draft budgets have been prepared.
- 1.4 The purpose of this report is to present to Cabinet, an initial draft budget for the 2022/23 General Fund, for consideration, prior to scrutiny by the Stronger Council Select Committee on 18th January 2022.
- 1.5 Although the Council's financial position is significantly less volatile than at the same stage last year (at the peak of the pandemic), Members are reminded that the budget is still an early draft given that the Local Government Finance Settlement for 2022/23 – which follows on from the Autumn Budget and Spending Review 2021 – is expected to be announced (imminently) during December 2021, so just misses the deadline for preparing this report.

2. Indicative Draft Budget 2022/23: summary position, including movements since October 2021

2.1 The MTFP adopted by the Cabinet in October 2021 has been followed, with detailed preparatory work nearing completion. It is now possible to report that an early draft balanced budget has been achieved. The table below provides a high-level corporate summary of how the General Fund base budget has transitioned from the 2022/23 element of the October 2021 MTFP through to a balanced position for 2022/23.

2022/23 General Fund Budget Evolution			
Description	2021/22 MTFP (October 2021)	Movements	2021/22 Draft Budget (December 2021)
	£000's	£000's	£000's
Employees	24,814	711	25,525
Premises	3,107	(279)	2,828
Transport	369	(48)	321
Supplies & Services	9,057	(15)	9,042
Support Services	52	(33)	19
Contracted Services	6,667	134	6,801
Transfer Payments (H Bens)	22,078	133	22,210
Financing Costs	3,211	(948)	2,263
Gross Expenditure	69,355	(346)	69,009
Fees and Charges	(16,823)	(651)	(17,474)
Government Contributions	(23,869)	(408)	(24,277)
Misc. Income (inc. Qualis)	(5,098)	636	(4,462)
Other Contributions	(2,965)	539	(2,426)
HRA Recharges	(4,578)	(647)	(5,225)
Net Expenditure	16,021	(876)	15,145
Council Tax	(8,640)	1	(8,639)
Business Rates	(4,962)	(54)	(5,016)
Collection Fund Adjustments	150	0	150
Council Tax Sharing Agreement (CTSA)	(550)	(398)	(948)
Grants (New Homes Bonus)	(452)	0	(452)
Other Grants (Non-Specific)	(12)	(177)	(189)
Credit Loss Adjustment	(51)	0	(51)
Contribution to/(from) Reserves	0	0	0
Total Funding	(14,517)	(628)	(15,145)
(Surplus)/Deficit	1,504	(1,504)	0

- 2.2 The table above shows the elimination of the deficit of £1.504 million reported in the October 2021 MTFP. The net movement is the product of a range of other movements; both positive and negative. The most significant items include:

EXPENDITURE

- **Employees (£25.525 million)** – the increase of £711,000 in Employee costs compared to the October 2021 MTFP is primarily driven by a change in internal accounting practice. The Homelessness cost centre has been moved from the HRA to General Fund, so now reflects its correct legal status as a General Fund service. The adjustment added £474,800 in salary costs to the Communities & Wellbeing directorate budget, which is offset by a higher net recharge to the HRA once non-staff costs are factored in (the total cost transfer was £566,180; see comment below on HRA recharges).

The draft budget also now includes, as announced in the Autumn Budget 2021, an increase of 1.25% in Employer National Insurance contributions (funded by the Government) is scheduled for 2022/23; the additional budget requirement has been calculated at £176,770 and has been included (see further discussion below regarding the assumption on Government funding). This was purposely excluded from the October 2021 MTFP (as an assumed cost neutral item).

In addition, there is a single Growth item of £40,000 now included in the draft budget for the expansion of the successful Highway Rangers scheme (as originally envisaged). The teams play a key role in the sustainability and environmental agenda as well as improving the condition of the High Streets and rural areas. The revenue bid is to fund the employment of two apprentices.

The provisional 2.0% pay increase reported in October 2021 for 2022/23 has been retained. In addition, on 19th October 2021, the local government National Employers reaffirmed to their “full and final offer” of a 1.75% pay offer for 2021/22. At the time of reporting, agreement has yet to be reached with trade unions. An award of 1.75% is 0.25% in excess of the current 1.5% provision within the 2021/22 budget. Consequently, an additional 0.5% has been assumed on Employee costs aimed at ameliorating any potential pressure on the base budget in 2022/23 due to the eventual 2021/22 pay award; in the event of a local settlement of 1.75%, an additional 0.25% would be available as a small inflation contingency to support any additional costs that might emerge from the 2022/23 pay award. If the actual pay settlement exceeds this amount, budget holders will be expected to contain any additional costs within their budgets through the identification of offsetting savings.

And finally, as reported in the October 2021 MTFP, a further £240,000 has been included in Employee costs due to unbudgeted pension costs regarding previous commitments in respect of unfunded/added years pension payments to former employees; this is not an additional cost but enhances transparency, as this was a cost previously treated as an accounting adjustment outside the budget process

- **Premises (£2.828 million)** – costs are marginally lower on Premises than originally anticipated. The October 2021 MTFP included an assumed increase of 5.0% in Premises costs due to rapidly increasing energy costs. Further work has largely confirmed this with increases in Gas and Electric expected to rise by 5.6% within the Commercial & Technical directorate. However, and in contrast, although an underlying price increase of 5.0% is assumed within the Housing & Property directorate, the closure/vacating of Epping Town Depot and Hemnall Street Offices is expected to lead to a net cost decrease of 2.9%

- **Supplies & Services (£9.042 million)** – the October 2021 iteration of the MTFP assumed 2.0% inflation on Supplies and Services for 2022/23, which was driving an estimated cost pressure of £177,100. This was a significant contributory factor in the projected £1.504 million forecast budget deficit at the time. Therefore, in preparing this initial draft budget, budget holders were given a target of containing their 2022/23 budgets for Supplies and Services at 2021/22 levels. This was successful, with the eventual budget growth on Supplies & Services primarily due to unavoidable cost pressures reported in the October 2021 MTFP (impact £80,000) and an expenditure reclassification within the Safer Communities Programme (impact £108,000)
- **Contracted Services (£6.801 million)** – the cost of Contracted Services is slightly higher than anticipated, which partly reflects the latest available inflationary statistics. For example, the Waste Management contract is increased annually in accordance with RPI each November (e.g. October 2021 RPI was 6.0%). In addition, the additional household waste generated at the start of the pandemic has continued, leading to the Council incurring additional contract payments (as previously reported in the October 2021 MTFP)
- **Transfer Payments (£22.210 million)** – Housing Benefit related budgets have now been further reviewed in detail by the Housing Benefits Team based on the latest available intelligence. A reduction compared to 2021/22 is still expected, although not quite as large as anticipated in October 2021, as customers continue to migrate to Universal Credit; and
- **Financing Costs (£2.263 million)** – estimated Financing Costs are significantly lower than forecast in October 2021. This is due to the reclassification of PWLB Interest Payable on Qualis Loans. Forecast interest rate costs of £1.830 million for Qualis Loans have been recalculated based on latest available published PWLB rates and updated assumptions on draw down dates; these are now netted against Interest Receivable on Qualis Loans (within Miscellaneous Income), which enables a clearer understanding of the loan margins receivable by the Council.

INCOME

- **Fees and Charges (£17.474 million)** – more detailed work on the income assumptions from Fees and Charges has now been completed (see **Appendix D**). This has generally been very successful in identifying additional income. The positive news reported in the October 2021 MTFP on the Leisure Centre contract in particular has been added to with significantly increased income anticipated from Development Control Fees expected upon the finalisation of the Local Plan (£735,000) as well as additional income from North Weald Airfield (Hanger 1 and Gym Club £180,000 plus Market Rents £142,000).

This agenda also includes proposals to alter Off-Street Parking Charges across the district which, in budgetary terms, is expected to yield an additional £110,000 in 2022/23

- **Government Contributions (£24.277 million)** – as mentioned above, Housing Benefit related budgets have now been further reviewed in detail by the Housing Benefits team based on the latest available intelligence leading to slightly higher income expectations
- **Miscellaneous Income (£4.462 million)** – as mentioned above, the reclassification of PWLB Interest Payable on Qualis Loans is responsible for a net reduction here

- **Other Contributions (£2.426 million)** – the level of “Other Contributions” in the budget is lower than projected in the October 2021 MTFP by £539,000, which reflects the outcome of the more detailed budget exercise, including some changes in the internal accounting treatment of both internal and external funding balances, which improves transparency as well as accounting practice; and
- **HRA Recharges (5.225 million)** – as previously reported in quarterly Budget Monitoring reports, the General Fund budget assumption for HRA recharges has been overly conservative in recent times. However, the primary reason for the increase of £647,000 in HRA recharges compared to the projection included in the October 2021 MTFP, is due to the transfer of the Homelessness cost centre to the General Fund as described above (impact £566,180). This has previously been held in the HRA with a recharge being made to the General Fund; this is an important step in the simplification of internal recharges (recharge now eliminated).

FUNDING

- **Council Tax (£8.639 million)** – the draft Council Tax Base for 2022/23 has now been determined and the preceptors have been notified. A stronger than expected recovery in Council Tax collection in 2021/22 has allowed an expected return to an assumed collection rate of 98.0% in 2022/23 (up 0.5%). However, the draft Tax Base estimate is very close (just 5.4 Band D equivalents different) to the October 2021 projection, leading to little change in the assumed precept. A Council Tax increase of £5 for a Band D property, which was assumed in the October 2021 MTFP, remains unchanged at this stage. Members of course have the option to vary this assumption
- **Business Rates (£5.016 million)** – the Business Rates calculation has been updated to reflect the announcements in the Autumn Budget 2021. The Chancellor set out a new relief for eligible Retail, Hospitality and Leisure properties with 50% relief granted on bills up to £110,000 per business as well as an extension of the current Transitional Relief and Supporting Small Business schemes. A freezing of the multipliers at 49.9p (small business multiplier) and 51.2p (standard multiplier) was also announced. The updated calculation assumes that the Council will receive 100% compensation through the Section 31 grant scheme
- **Collection Fund Adjustments (£0.150 million)** – as noted in the October 2021 MTFP, the complexities created by the pandemic make an accurate estimate of the Collection Fund adjustment very difficult at this stage. However, as at 31st March 2021, the Council held an Earmarked Reserve of £6.650 million funded by surplus Section 31 money paid by Government as compensation for extended Business Rates Reliefs granted in response to the pandemic; this represents 40.1% of the cumulative deficit on the Business Rates share of the Collection Fund at the same point in time. Consequently, a ‘zero adjustment’ is still assumed in 2022/23 for Business Rates.

In contrast, the cumulative deficit on the Council Tax share of the Collection Fund is not mitigated by an Earmarked Reserve. At this stage therefore a negative Collection Fund adjustment of £150,000 (13.7% of cumulative deficit) is still being assumed for Council Tax.

Members should note that, the outputs from the “Academy” revenues system – as at 31st December 2021 – will be used in conjunction with the latest available intelligence from professional sources to update both the Business Rates income line and the Collection Fund Adjustment assumptions; some – relatively small – adjustments are likely in the final draft budget to be presented in February 2022

- **Council Tax Sharing Agreement (CTSA) (£0.948 million)** – the continuation of the Essex CTSA has now been agreed for 2022/23 with Epping Forest performing especially well in terms of Council Tax collection at the Quarter 2 stage in 2021/22 (raising the projected increase in the share back percentage from 12% to 14%). The 2022/23 agreement consolidates the 14% share back percentage for all districts and there are also some complex formula changes in the methodology, which also favours districts. On that basis, the October 2021 MTFP assumption has been raised by £398,000 from £550,000 to £948,000 (based on draft estimate provided by Essex County Council on 2nd December 2021)
- **Grants (New Homes Bonus) (£0.452 million)** – following the demise of Revenue Support Grant (RSG) funding from the Government, the most significant remaining grant within the annual Settlement is the New Homes Bonus (NHB). The Government consulted on a replacement for the NHB earlier this year. Any new housing incentive scheme will reflect a more targeted approach that rewards local government where they are ‘ambitious’ in delivering housing growth. At this stage, there is no further detail on what form the new scheme will take, although some further clarity would seem likely when the Local Government Finance Settlement for 2022/23 is announced. The October 2021 assumption therefore remains unchanged for now, with legacy payments of £451,720 assumed for 2022/23 only; and
- **Other Grants (£0.189 million)** – the expected level of Other Grants in 2022/23 has been raised by £0.177 million to reflect the Government announcement in the Autumn Budget 2021 to support the public sector in the increased costs of meeting a 1.25% increase in National Insurance contributions for Employers (noted above under Employee costs). At the time of preparing this report. It is unclear as to precisely how (in what form) the Government will do this; greater clarity is expected when the Local Government Finance Settlement for 2022/23 is announced in December 2021. This could lead to the reclassification of this item prior to preparing the final draft budget.

2.3 An Income and Expenditure analysis by Service Directorate can be found in **Annex A1** below.

3. General Fund Budget Setting 2022/23: the way forward

3.1 The draft budget will now be presented to the Stronger Council Select Committee on 18th January 2022 for their consideration and comment ahead of the February Cabinet meeting.

3.2 Alongside the scrutiny process, officers will further refine the assumptions and projections in the budget accordance with the direction provided by Cabinet and emerging intelligence, including the imminent Local Government Finance Settlement for 2022/23.

Annex A1: Draft Income & Expenditure Analysis 2022/23

DRAFT Income & Expenditure Analysis 2022-23 (@ December 2021)															
Subjective Description	Chief Executive	Commercial & Technical	Community & Wellbeing	Corporate Finance	Corporate Services	Customer Services	Internal Audit	Place	Planning & Development	Property Services	Strategy, Delivery & Performance	Quails	Other	HRA Recharges	General Fund Total
	£s	£s	£s	£s	£s	£s	£s	£s	£s	£s	£s	£s	£s	£s	£s
Employee Expenses	549,342	5,980,771	1,796,507	830,913	5,332,047	3,896,688	200,477	576,036	3,729,040	886,689	580,129	302,706	863,628	0	25,524,995
Premises Related Expenses	0	1,253,685	402,760	0	15,000	0	296	18,000	2,000	1,136,429	0	0	0	0	2,028,090
Transport Related Expenses	2,040	244,637	9,129	1,020	13,464	7,538	5,804	1,071	23,746	12,087	306	0	0	0	320,861
Supplies And Services	128,820	1,542,551	505,370	283,040	4,298,307	320,030	181,140	48,100	1,417,880	52,620	263,160	0	0	0	9,042,018
Support Services	0	5,762	1,575	41	6,567	1,543	0	127	2,857	646	0	0	0	0	19,118
Contracted Services	0	6,800,497	0	0	0	0	0	0	0	0	0	0	0	0	6,800,497
Transfer Payments	0	0	0	0	0	22,210,196	0	0	0	0	0	0	0	0	22,210,196
Financing Costs	0	0	0	0	0	0	0	0	0	0	0	0	2,263,440	0	2,263,440
Total Expenditure	680,202	15,827,823	2,715,342	1,115,014	9,665,385	26,436,015	387,717	644,334	5,175,522	2,088,481	843,595	302,706	3,127,068	0	69,009,204
Fees & Charges	0	-13,605,324	-366,680	-32,000	-205,774	0	-5,050	0	-3,233,410	-26,200	0	0	0	0	-17,474,448
Government Contributions	0	-2,450	-532,440	0	0	-23,486,935	0	0	-255,000	0	0	0	0	0	-24,276,825
Miscellaneous Income	0	-5,202	0	0	-1,295	-494,190	0	0	-17,483	0	0	-3,944,200	0	0	-4,482,370
Other Contributions	0	-2,105,039	-16,759	0	-4,080	-131,080	-1,561	-102,000	-63,056	-2,346	0	0	0	0	-2,425,921
HRA Recharges	0	0	0	0	0	0	0	0	0	0	0	0	0	-5,224,665	-5,224,665
Total Income	0	-15,718,015	-915,889	-32,000	-211,139	-24,112,205	-6,611	-102,000	-3,569,959	-28,546	0	-3,944,200	0	-5,224,665	-53,064,229
Net Cost Of Services	680,202	109,808	1,799,453	1,083,014	9,454,246	2,323,810	381,106	542,334	1,606,563	2,059,935	843,595	-3,641,494	3,127,068	-5,224,665	15,144,976