

**BRIDGNORTH TOWN COUNCIL
TOWN COUNCIL MEETING
18 JANUARY 2022**

RCW/2021

DATE: 11 JANUARY 2022

REPORT TO TOWN COUNCILLORS

AGENDA ITEM 11 – SETTING THE PRECEPT FOR FY 2022/2023

AIM

1. To approve the issuing of the precept for financial year 2022/2023.

BACKGROUND

2. The Town Council considered draft budgets at the Town Council meetings held on 19th October, 16th November and 14th December 2021.
3. The following resolution was passed at the December 2021 meeting under minute number 0266/2122:

RESOLVED:

- i) **To reconvene (the previously established) Budget Working Group with a revised remit to explore the use of capital receipts and earmarked reserves to develop a proposal for Full Town Council that will inform the level of precept and the general reserve in time for consideration at the Full Town Council meeting scheduled for January 2022.**

4. The Budget Working Group met on Monday 20th December 2021.

DISCUSSION/ COMMENT

5. A copy of the report from the Budget Working Group (WG) is attached for information (Flag 1). The WG considered the use of reserves. The report strives to identify a couple of options with regards to the budget for 2022/2023. The examples shown have taken into account the expenditure from reserves for the potential purchase of a new tractor and electrical tools. Apart from this, the draft budget for 2022/2023 has remained unchanged from that that was presented to Council at the December 2021 meeting.
6. At the Town Council meeting held in November 2021, Members gave an indication to Officers to aim for a possible increase in the Band D equivalent in the range of £8 to £12 per annum.

7. The setting of the precept for 2022/2023 is being informed by the draft budget that was presented to Council at the December 2021 meeting.

OPTIONS

8. Options, based on the Budget Working Group's produced ranges, include:
 - a. Precept of £707,668 which retains a target General Reserve of £205,165. Band D equivalent increase £15.13.
 - b. Precept of £684,300 which retains a target General Reserve of £181,797. Band D equivalent increase £10.02.
 - c. Precept of £672,300 which retains a target General Reserve of £169,797. Band D equivalent increase £7.39.

RECOMMENDATION(s)

9. The Town Council is recommended to set a:

Precept of £707,668 which retains a target General Reserve of £205,165. Band D equivalent increase £15.13.

(RFO's note: This recommendation is based purely on the level of expenditure contained within the draft budget presented to Council in December 2021 and the deliberations of the Budget Working Party. It appears to be the only prudent recommendation based on these factors. It stands to minimise the risk to the level of the General Reserve. The level of the Earmarked Reserves, that are currently held by Council, are not deemed to be at a sufficient level).

Ros Williams
Deputy Town Clerk/Responsible Financial Officer

Report of the Budget Working Group

Background

The Town Council agreed at its meeting of 14th December (draft minute 0266/2122) to:-

(To reconvene the previously established Budget Working Group with the remit) to explore the use of capital receipts and earmarked reserves to develop a proposal for Full Town Council that will inform the level of precept and the general reserve in time for consideration at the Full Town Council meeting scheduled for January 2022.

The group met on 20th December with the Town Clerk and RFO in attendance.

Present were councillors Aked, Buckley, N Cooper and Sawbridge.

This report describes what we looked at and the conclusions we reached about general reserves, earmarked reserves, capital receipts and the impact they might have on the precept for the next 3 years.

The draft budget for 2022/23

The budget as presented to Council on 14th December shows planned general expenditure to be £727,188 with forecast general reserves (our savings pot) on 31st March 2022 at £224,665.

The draft budget contains two items that are arguably “one offs” and could be paid for from general reserves in the current year. These are

- £12,500 contribution towards a replacement tractor
- £7,000 for new electric tools

Doing this reduces our planned expenditure to £707,688 and our general reserves to £205,165.

Reserves and Capital Receipts

The Council has four types of cash reserves

- **General reserves** – our savings pot that has built up over several years as a result of expenditure being less than planned
- **Earmarked reserves** – a separate savings pot that we have set aside to pay for known big ticket items that happen every few years or so. E.g. painting the Town Hall, replacing a tractor. Generally, we make planned contributions from our revenue budget to save up for the items. Sometimes we transfer funds from the general reserve to earmarked reserves to pay for the item.
- **Earmarked reserves (special)** – this is money that has been given to us for a specific purpose and cannot be spent on anything else
- **Capital receipts** – money that arises from the sale of buildings and other assets. In broad terms capital receipts can only be used to buy more assets or improve an asset. Capital receipts cannot be used to maintain an asset.

The Officers produced a detailed report setting out what is included in earmarked reserves and the potential uses of capital receipts (the report is included as a separate agenda item) The potential use of capital receipts is speculative because we have not yet developed a long-term asset management strategy. We do however know that we need to extend the cemetery (potential cost £300,000) and improve the energy efficiency of our buildings. There will be “grants” to cover some of these costs and we could also borrow money. If we chose to borrow we would have to increase our planned revenue expenditure to cover the mortgage costs. We will need to decide how to pay for these things in the longer term.

The Officers also gave an indication of the aspirational level of earmarked reserves. In summary the figures are

- | | | |
|-------------------------------|----------|-------------------------------|
| • Earmarked reserves (EMR) | £86,026 | (aspirational level £222,000) |
| • Earmarked reserves(special) | £52,289 | |
| • Capital receipts | £172,633 | |

In practice the divergence between actual and aspirational level EMRs is not quite as large as the figures suggest because we are planning to contribute a further £34,500 to EMRs over the next 12 months. (£12,500 from general reserves (see page1), £7,000 cyclical maintenance (2022-23 draft budget) £15,000 cemetery development (2021-22 budget))

General reserves are there to manage financial risk and the level at which a prudent Council sets them is a matter of judgment. Some examples of financial risk are

- Cashflow - not enough cash in the bank to pay bills because income has not yet turned up.
- Major equipment failure or urgent building repairs
- The need to provide temporary cover for key staff sickness/absence
- Significant overspending on the revenue account
- A totally unpredictable event (e.g., a global pandemic)

NALC suggests that general reserves should be set between 3 to 9 months of planned general expenditure – between £175,000 and £525,000 for the Council. Because we are a relatively large council and have EMRs and capital receipts in the bank it would be reasonable to set our target general reserve pot towards the lower end of the suggested range.

The Precept

Our general expenditure can be paid for from

- the precept (the property tax which Shropshire Council collects for us)
- our general reserves
- a mixture of the above

The precept is normally expressed as the amount of money that a property of “average” size (Band D property) must pay towards the council’s expenditure. The more properties there are the less each one must pay. For 2022/23 if each band D property paid £1 it would raise £4,572.09.

We can ask for a precept every year, but we can only use general reserves once (as they are savings and once they are gone they are gone)

We should plan to live sustainably and so, in normal circumstances, our general expenditure should be paid for by our precept. If our reserves were too high, it would be appropriate to return some money to our taxpayers by temporarily reducing the precept.

In 2021/22 the Council paid for its planned expenditure as follows

	£
General expenditure (planned)	691,866
Financed by	
Precept	638,498
General reserves	53,368
	691,866

This means that if we wish to match expenditure and precept in 2022/23 the result would be

	£
General expenditure (planned)	707,668
Financed by	
Precept - base	638,498
Precept -increase for spend increase	15,802
Precept - increase for moving to matching spend	53,368
	707,668
Total increase	69,170
Band D equivalent increase	15.13
	10.8%

Although our increase in planned expenditure between 2021/22 and 2022/23 results in an increase of £3.46 (2.5%) on the Band D property we would have to ask our taxpayers for an additional £11.67 (8.4%) to match expenditure and keep our reserves at the current level of around £205,000.

We also looked at whether we could spread the cost of reaching the point where the precept covers our planned expenditure over 3 years and what the impact would be on our general reserves. Two options are shown in Appendix B. Option 1 results in a precept increase of £10.02 in 2022/23 and general reserves of around £173,000 by 2024/25 whilst Option 2 gives an increase of £7.39 and reserves of around £152,000 by 2024/25.

Whilst we have not recommended the precept level, we should point out that Option 2 results in a perilously low level of reserves.

Nicky Cooper

For the Budget Working Group
8th January 2022

Alternatives - spreading the cost of reaching the point where the precept covers our recurrent spend

	2021/22	2022/23	2023/24	2024/25
OPTION 1 -Front loading				
general expenditure (planned)	£ -691,866	£ -707,668	£ -707,668	£ -707,668
Financed by				
Precept - base	638,498	638,498	684,300	699,300
Precept - increase for spend increase		15,802	0	0
Precept - increase for moving to matching spend		30,000	15,000	8,368
general reserves	53,368	23,368	8,368	0
	691,866	707,668	707,668	707,668
general reserves	205,165	181,797	173,429	173,429
Band D equivalent increase		£	£	£
Increase for spend increase		3.46	0.00	0.00
Increase for moving to matching spend		6.56	3.28	1.83
Total precept increase		10.02	3.28	1.83
Increase for spend increase		2.5%	0.0%	0.0%
Increase for moving to matching spend		4.7%	2.2%	1.2%
Percentage increase		7.2%	2.2%	1.2%
Precept (using new tax base)	£ 139.65	£ 149.67	£ 152.95	£ 154.78

	2021/22	2022/23	2023/24	2024/25
OPTION 2 -Equal contributions over 3 years				
general expenditure (planned)	£ -691,866	£ -707,668	£ -707,668	£ -707,668
Financed by				
Precept - base	638,498	638,498	672,300	690,300
Precept - increase for spend increase		15,802	0	0
Precept - increase for moving to matching spend		18,000	18,000	17,368
general reserves	53,368	35,368	17,368	0
	691,866	707,668	707,668	707,668
general reserves	205,165	169,797	152,429	152,429
Band D equivalent increase		£	£	£
Increase for spend increase		3.46	0.00	0.00
Increase for moving to matching spend		3.94	3.94	3.80
Total precept increase		7.39	3.94	3.80
Increase for spend increase		2.5%	0.0%	0.0%
Increase for moving to matching spend		2.8%	2.7%	2.5%
Percentage increase		5.3%	2.7%	2.5%
Precept (using new tax base)	£ 139.65	£ 147.04	£ 150.98	£ 154.78