

**TITLE: REVENUE BUDGET, CAPITAL STRATEGY AND COUNCIL TAX  
2023/24**

Committee: Council

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Author: Director, Finance

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Contact Officer:

Ian Smith, Director Finance

[ian.smith@eastcamb.gov.uk](mailto:ian.smith@eastcamb.gov.uk)

01353 616470

Room 104, The Grange, Ely

## **1.0 ISSUE**

1.1 This report sets out the Council's proposed revenue budget, capital strategy, and the required level of Council Tax in 2023/24. The report assesses the robustness of the budgets, the adequacy of reserves and up-dates the Council's Medium Term Financial Strategy (MTFS).

## **2.0 RECOMMENDATION(S)**

2.1 To approve:

- i) The formal Council Tax Resolution which calculates the Council Tax requirement as set out in Appendix 1
- ii) The draft revenue budget for 2023/24 and MTFS for 2024/25 to 2026/27 as set out in Appendices 2(a) and 2(b)
- iii) A Council Tax freeze in 2023/24
- iv) The Statement of Reserves as set out in Appendix 3
- v) The 2023/24 Fees and Charges as set out in Appendix 4
- vi) The Capital Strategy and financing as set out in Appendix 5
- vii) The extension of Business Rate reliefs (which will be fully funded by the Government through Section 31 grants) as detailed in Sections 6.6 to 6.10 of this report.
- viii) The discretionary element of the Council Tax Support Fund as detailed in paragraphs 11.9 to 11.11.

## **3.0 BACKGROUND / OPTIONS**

3.1 At the Full Council meeting on 22<sup>nd</sup> February 2022, members approved a net budget for 2022/23 of £9,411,371 and a frozen Council Tax. The budget had a planned draw of £1,221,563 from the Surplus Savings Reserve. The Medium Term

Financial Strategy at that time showed a balanced budget in 2023/24 (using further resources from the Surplus Savings Reserve and an increase in Council Tax of £5 in 2023/24), but with then significant budget deficits in 2024/25 and 2025/26.

- 3.2 The outturn position for 2021/22 was reported to the Finance and Assets Committee on the 23<sup>rd</sup> June 2022. This showed that due to the actions taken by management to reduce the Council's cost base prior to and during 2021/22 and the prudent forecast of Business Rates receipts, the Council underspent in 2021/22 by £2,367,039. This was transferred into the Surplus Savings Reserve.
- 3.3 Management has continued to look for opportunities to reduce the Council's cost base during the current financial year. This work has led to further one-off and on-going savings being made; which both contribute to the projected outturn for this financial year and also provide savings throughout the term of the MTFS. Although in year, these have been matched by inflationary increases far in excess of those expected when the budget was built. The current yearend forecast for 2022/23, as presented to Finance and Assets Committee on the 23<sup>rd</sup> January 2023, is an underspend of £191,100, this too will be transferred to the Surplus Savings Reserve at yearend and has been reflected in the figures in this report.

#### **4.0 LOCAL GOVERNMENT FINANCE – POLICY STATEMENT**

- 4.1 Local Government has for a number of years been expecting a major change in the way it is funded by Government. At this time last year we were expecting a:
- Local Government Fair Funding Review, a review of the relative needs of all local authorities to determine how much of the funding allocated to local government by Government would be allocated to each individual authority.
  - At the same time as the review taking place, a Business Rates base line reset was expected to take place, this would result in all the growth in Business Rates since the last Review (2013) to be allocated out as part of the Review. This was expected to result in this Council retaining significantly less in Business Rates, as we would lose the benefit of the growth which has taken place in the District since this time.
- 4.2 The Policy Statement, announced on the 12<sup>th</sup> December 2022, stated that any funding reforms or changes in funding distribution will not be implemented until at the earliest 2025/26. With the next two years basically being rollover settlements, although in practice this is more likely to be firm figures for 2023/24, with principles for 2024/25.

#### **5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT**

- 5.1 The Final Local Government Finance Settlement was announced on the 6<sup>th</sup> February 2023. The Provisional Settlement had previously been announced on the 19<sup>th</sup> December 2022.
- 5.2 The Council's Revenue Support Grant increased, in 2022/23 we received £12,579, with this increasing to £102,089 for 2023/24. The £12,579 was increased by 10.1% to £11,425, but then added to it were two previously separate grants. These grants being the Family Annex Council Tax Discount Grant and the LCTS Administration Subsidy Grant.

- 5.3 The Settlement made a further change in the awarding of New Homes Bonus grant. The scheme was extended by a further year, with amounts earned for year 13 of the scheme, between October 2021 and October 2022, attracting one year's worth of reward in 2023/24, with no legacy payments in future years. In 2022/23 we received two years' worth of grant, for the year October 2020 to October 2021 and then one year's legacy payment from a previous year.
- 5.4 That said, due to the continued high level of house building in the District in the past year, our New Homes Bonus grant for 2023/24 will be £837,838, which while a decrease on the £1,112,624 received in 2022/23, is considered high when it is considered it is for one year, as opposed to two last year. Government will be undertaking a consultation on the future of New Homes Bonus later this year, so this grant is not confirmed for 2024/25, but a similar value has been built into the Council's budget, as it is thought that Government will continue to provide some incentive for housing growth, and it is considered highly unlikely that it would be removed without some replacement to ensure that overall grant levels remain reasonably consistent.
- 5.5 The Settlement also included details of other grants, including the Rural Services Delivery grant, an allocation to the most rural authorities, which will be £189,538 in 2023/24 (this is an increase of £19,952 when compared to that received in 2022/23).
- 5.6 The Lower Tier grant first awarded in 2021/22 to all lower tier authorities responsible for homelessness, planning, recycling and refuse collection, and leisure services was abolished; East Cambs had been awarded £110,622 in 2022/23.
- 5.7 Government also announced the extension of the Services Grant, first awarded in 2022/23, this at the time, was seen as the method used to distribute some of the £1.6 billion allocated in the 2021 Spending Review. East Cambs allocation in 2022/23 was £170,007, with this reducing to £99,740 in 2023/24. The 2022/23 value included an amount to assist local authorities fund the additional National Insurance contributions introduced in that year, but as this increase was later withdrawn, then the amount of grant allocated in 2023/24 has been likewise reduced.
- 5.8 The Settlement also introduced a new grant to ensure that every authority has an increase in Core Spending Power of at least 3%. The 3% Funding Guarantee will be worth £353,678 to East Cambs.
- 5.9 The Settlement further identified the local authorities who will have Business Rates Pools during 2023/24, Cambridgeshire was amongst those councils (see paragraph 6.4).
- 5.10 The Settlement makes provision for shire districts to increase Council Tax by up to 3% or £5, whichever is the greater, in 2023/24 without the need for a referendum.
- 5.11 The Business Rate multipliers were also announced in the Settlement, with a decision being made to freeze these at 2022/23 levels. The small business non-domestic multiplier will therefore remain at 49.9 pence and the multiplier for larger businesses (rateable values greater than £51,000) will be 51.2 pence.

## **6.0 BUSINESS RATES**

- 6.1 The NNDR 1 return for 2023/24 was produced by the end of January in line with statutory requirements. Figures from this have been included in the budget as presented.
- 6.2 While the Council benefits significantly from the growth in Business Rates since the last Base reset in 2013, there is always the risk that appeals against Business Rates can be lodged and, if successful, can be backdated for several years. The Council does therefore include a provision for appeals in determining how much of the rates collected should be posted into the budget.
- 6.3 There was a major shortfall in Business Rates collected in 2020/21, when to support businesses through the pandemic, Government provided Business Rate relief to all businesses in the fields of retail, leisure, hospitality and nurseries (children). Because this was considered an exceptional event, Government allowed local authority to recover this deficit over three years, rather than the usual one. This resulted in the MTFs detailing a shortfall in carried forward Business Rates in 2023/24 of £194,781, however because of movements in Business Rate collections since this time, the figure now in the budget is £137,317.
- 6.4 East Cambridgeshire applied to be, and was accepted by Government, to be part of a continuing Business Rate Pool in 2023/24, alongside a number of other authorities in Cambridgeshire.
- Cambridgeshire County Council
  - Cambridgeshire Fire Authority
  - Fenland District Council
  - Peterborough City Council
  - South Cambridgeshire District Council

(Cambridge City Council and Huntingdonshire District Council are not members of the Pool.)

A review of the scheme was undertaken in the Autumn of 2022, supported by Pixel Financial Management, when it was forecast that this Pool will continue to provide benefit to this authority in 2023/24.

- 6.5 As highlighted elsewhere in this report, forecasts for retained Business Rates beyond the Fair Funding Review, now assumed to be in 2025/26, are almost impossible at this time, but the figures presented take a prudent view, showing a significant reduction on those expected in 2024/25. These figures have been informed by our external adviser Pixel Financial Management.
- 6.6 The Government announced in November 2022 that following the Revaluation of properties for Non-Domestic rates, effective from 1<sup>st</sup> April 2023, that Retail, Hospitality and Leisure Relief (RHL) and Supporting Small Business Relief (SSB) will be extended into 2023/24 financial year. Local Authorities are expected to use their discretionary relief powers (section 47 of the Local Government Act 1988, as amended) to grant these reliefs in line with the relevant eligibility criteria set out in the guidelines. The full cost of granting these reliefs will be compensated through a Section 31 grant from Government.

- 6.7 RHL and SSB reliefs are automatically applied to accounts without the need for businesses to apply. RHL relief is applicable to occupied properties which fall within the definitions of being Retail, Hospitality or Leisure premises. RHL relief is being increased from 50% relief to 75% with effect from 1<sup>st</sup> April 2023. The 75% reduction is applied after Transitional and Small Business Rate Reliefs have been applied to reduce the amount payable by the ratepayer.
- 6.8 SSB is being implemented to assist ratepayers following the 2023 Revaluation. Any business that was in receipt of Small Business Rate Relief prior to 2023, and who lost part or all of that relief following the 2023 revaluation, would have their Business Rates bill increase limited to a maximum of £600 per annum. The remainder of any increase would be subject to SSB relief.
- 6.9 Both reliefs require the granting of the Council's discretionary relief powers.
- 6.10 With the National Budget to take place on 15<sup>th</sup> March 2023, if any further discretionary reliefs to Business Rates are announced, Council is asked to give the Director, Finance approval to implement these, as long as they are fully funded by Government via Section 31 Grant.

## **7.0 THE 2023/24 BUDGET**

- 7.1 Due to the proactive actions taken by management to reduce costs and generate new sources of funding in recent years, the revenue budget for 2023/24 is fully funded.
- 7.2 The draft budget for 2023/24 is set out in Appendix 2 to this report.
- 7.3 The following key assumptions have been made in preparing the draft budget:
- The April 2023 inflationary pay increase for staff has been assumed at 4%;
  - Inflation has been put in at 80% for gas and electricity;
  - Where known, inflation on contracts has been included to reflect the expected increase in these during the year. These include insurance and IT licences.
  - 21% has been added to the Waste contract with East Cambs Street Scene (ECSS) and 6% for the Parks and Gardens contract with ECTC;
  - Internal Drainage Board Levies have been inflated by 14%;
  - Other expenditure budgets have been increased by 6% for inflation;
  - Pension Fund revaluations take place every three years, with the last one being on the 31<sup>st</sup> March 2022. The consequence of this revaluation is that the Council's primary rate will be increased from 17.2% to 17.4% for the three years from April 2023. In addition, the Council's lump sum contribution will also be changing, the Council paid £485,000 in 2022/23, and this will change to £493,000 in 2023/24, £465,000 in 2024/25 and £437,000 in 2025/26;
  - The Housing Benefit budget reflects the mid-year position for 2022/23 the latest information received from Anglia Revenues Partnership (ARP);
  - No adjustments to spend have been made to reflect the anticipated increase in population within the District;
  - Budgeted income from the commuter car park and the Leisure Centre management fee both remain reduced when compared to the value in the 2020/21 budget to reflect the on-going implications of the Covid-19 pandemic and subsequent "cost of living crisis" on these services.

## **8.0 RESERVES**

- 8.1 The Council holds reserves, at levels which remain prudent. It is important to review the level of reserves on a regular basis, in particular to ensure that potential liabilities not in the Council's base budget can be funded from earmarked reserves; and that unearmarked reserves are at a sufficient level to cover any unforeseen events.
- 8.2 As part of the process of preparing this budget, officers have reviewed each reserve to ensure its purpose and level is appropriate. A Statement of Reserves is attached at Appendix 3.
- 8.3 The sole unearmarked reserve is the General Fund. This currently stands at £1,050,982. There is no statutory minimum level set for local authority reserves; it is a matter for each local authority's own judgement after taking into consideration the strategic, operational and financial risks it faces. It has been this authority's policy for some time that the level of the unearmarked reserve be set at 10% of the net operating budget, this is a reasonably prudent approach and a higher percentage than many other authorities locally. The proposed net operating budget for 2023/24 is £12,375,513. Using the 10% figure, this would require an unearmarked reserve of £1,237,551. The increase will be funded by a transfer from the Change Management Reserve, ensuring that this increase in reserve will not be an additional charge to the Council Tax payer.

## **9.0 FEES AND CHARGES**

- 9.1 Officers have reviewed the fees and charges, and details of the proposed charges for 2023/24 are shown at Appendix 4. The proposed budgets include increases as a result of both volume and price.
- 9.2 There have been no new fees or charges introduced for 2023/24.
- 9.3 Where we have control over the fee level, as opposed to where these are negotiated nationally, and where the fee relates to work undertaken by officers, it is proposed to increase fees and charges by approximately 7%. This approach ensures that the additional cost of providing the service is met by the person / organisation benefiting from the service, rather than the general populous through Council Tax and reflects an element of catch up as fees and charges approved in last year's budget only increased by 2%, which proved to be less than costs increased.
- 9.4 As external funding from Government grants continues to reduce, the Council's approach to fees and charges will need to reflect the increasing importance of this as an income source.

## **10.0 CAPITAL STRATEGY**

- 10.1 The CIPFA revised 2017 Prudential and Treasury Management Codes required from 2019/20 all local authorities to prepare a capital strategy report, which provides:
- a high level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
  - an overview of how the associated risk is managed;

- the implications for future financial sustainability.
- 10.2 This Council has no long term capital objectives at this time. The medium term capital programme has been reviewed, and is attached at Appendix 5. The programme is largely a continuation of the previous programme. The total value of the programme in 2023/24 is £6,569,299.
- 10.3 The Council's Treasury Management Strategy is a separate document, which is also on today's Council agenda for approval.
- 10.4 With the Council's Waste Service now being provided by East Cambs Street Scene (ECSS), the Council is purchasing waste fleet and hiring this to the Company. The hire charge reflects the Council's capital costs of doing this, both the MRP and interest costs. Spend in 2023/24 is forecast at £2.775 million as vehicles previously purchased by the use of the Weekly Collection Grant from Government, have now reached and indeed surpassed their useful, economic life and require replacing. It was originally planned to change these vehicles in 2020/21, but with the Government due to announce further details of its Waste Strategy shortly – it has already been delayed a number of times - it has been deemed more sensible to wait to ensure that the vehicles purchased meet the new needs prescribed in this Strategy. It is also hoped that Government funding may become available at the same time. While these additional costs will be reflected in the charge to ECSS, the Council will need to increase the management fee it pays ECSS for providing the service as detailed in paragraph 13.4 to ensure that it can meet these additional costs.
- 10.5 While no decision has yet been made, if the Government's Waste Strategy results in the Council moving towards a three bin solution, then bins will also need to be purchased, with the timing of this to be in parallel with the new vehicles, as a decision will need to be made whether the new vehicles have lifts. A capital provision of £1 million is therefore included for the purchase of these wheeled bins if it is decided to move forward with this option.
- 10.6 With the Council's drive to becoming more sustainable, there is capital funding available to undertake a further instalment of solar panels. Members will be aware that the 2022/23 capital programme, contained provision to put panels on the E-Space, North building and it is planned for another building to be done in 2023/24.
- 10.7 Council at its meeting on the 21<sup>st</sup> April 2022, approved a further loan facility to East Cambs Trading Company of £7.5 million. Much of this will be provided in the current year (2022/23), but the original profile of this facility assumes that £1.7 million would be provided in 2023/24. This funding is to ensure that ECTC has the finance available to progress three further building developments, at the former Paradise Pool site and for phase two and three at the former MoD site in North Ely. The Council has security in place with regard to this loan in the form of a debenture which will provide it with first ranking security over all unsecured assets of the Company, once the loan to the Cambridgeshire and Peterborough Combined Authority is repaid, which is expected to be in 2022/23.
- 10.8 There are a number of capital budgets that continue into 2023/24, having been in place in previous years, where there is a commitment to continue spending in each year of the capital programme:

- The purchase of new wheeled bins; as further residential properties are built within the District, these need to be supplied with bins, so the Council needs to have these available. The cost of these, estimated at £40,000 per annum, will be covered by a combination of Section 106 funding and capital receipts.
  - The Council's contribution to the A14 up-grade. When the scheme was originally designed, and funding discussed, it was agreed that councils within Cambridgeshire (Cambridgeshire County Council, East Cambridgeshire, Fenland, Huntingdonshire and South Cambridgeshire) would contribute to the costs of the project, the Council's contribution started in 2022/23 and will be funded from CIL contributions. This is for £40,000 per year for 25 years. In addition, Cambridgeshire Horizons was also due to make a contribution, so now that the cash held by this organisation has been allocated to councils across Cambridgeshire, we will also need to make a further contribution for our share of the Cambridgeshire Horizons funding promise. This will be £42,000 per year and funded from the reserve created when the money was first received.
  - Disabled Facilities, both mandatory and discretionary. The Council receives Government funding (from the Better Care Fund), via the County Council to assist with the funding of this work. The total budget in 2023/24 is £772,299.
  - Vehicle replacement funding for the Parks and Gardens team, these vehicles are purchased by the Council using Section 106 funding, and then hired to ECTC at a rate to cover the notional MRP and interest costs using the same approach as with Waste vehicles.
- 10.9 As agreed in the 2017/18 budget, the Council now funds expenditure that would have previously be funded from external borrowing, on schemes such as the Leisure Centre, Waste fleet and the loan to the ECTC, from internal borrowing. As interest chargeable on external borrowing is higher than interest receipts on investments, this provides a net saving to the Council. The current expectation is that all borrowing in 2023/24 will be funded from internal borrowing, thus preventing any external borrowing costs. More details of the Council's borrowing requirement and investment strategy are detailed in the Treasury Management Strategy (also on the agenda for approval at this meeting).
- 10.10 In summary therefore, the Council has limited exposure to the on-going costs of capital expenditure at this time. The MRP costs of the Leisure Centre are being met by the operator through the management fee; the loan to ECTC is due to be repaid in full by March 2026 and in the intervening period a commercial interest rate is being charged, and the costs of the Waste fleet and some of the costs of the depot refurbishment will be passed onto ECSS, although the Council's revenue budget has been increased to reflect the replacement of the vehicles reaching the end of their useful life in 2023/24.

## **11.0 COUNCIL TAX**

- 11.1 The MTFs assumed that the Collection Fund for Council Tax would be in balance as at 31<sup>st</sup> March 2023. However, due to the increased number of houses built in the District during 2022/23 and the fact that Council Tax receipts were not impacted by the pandemic as much as expected the Fund is now forecast to be in surplus at

the end of this financial year. The net position being that the Council will benefit by £36,810 from the Collection Fund surplus in 2023/24.

- 11.2 The taxbase for 2023/24 estimated in last year's budget was an equivalent of 31,565.8 Band D properties. However, the current forecast, including the real change in housing between October 2021 and October 2022 and an estimation of future movements in 2023/24, plus a top-slice to reflect the potential reduction in Council Tax collection as a consequence of the "cost of living crisis", means that the new forecast for 2023/24 is now 31,964.9 Band D properties.
- 11.3 As detailed earlier in this report, the Local Government Settlement detailed that district councils can increase Council Tax by up to 3% or £5 without the need for a referendum. A 1% increase in Council Tax for this Council would generate an additional £45,434, whereas a £1 increase would generate a further £31,965. For this Council therefore the £5 figure would be the highest, generating additional income of £159,824 in the year.
- 11.4 This budget is however drafted on the assumption that the Council will freeze Council Tax at £142.14 for the tenth 10<sup>th</sup> consecutive year in 2023/24.
- 11.5 Council is reminded that at its meeting on the 20<sup>th</sup> October 2022 it agreed to increase premiums chargeable on long-term empty properties from the 1<sup>st</sup> April 2023. The revised premiums are 100% on properties empty for over two years, bring the total Council Tax bill to 200%. With in addition, a further 100% increase on properties empty for over five years, bringing the premium to 200% and the total Council Tax bill to 300%. And then further, a further 100% increase after ten years, bringing the premium to 300% and the total Council Tax bill to 400%.
- 11.6 The County Council, Fire Authority, Police Authority and Cambridgeshire and Peterborough Combined Authority budgets and precepts were considered by their respective decision making bodies in early February and we have been notified of their precept requirements.
- 11.7 It should be noted that the County Council's precept comes in two parts, a general precept and an adult social care precept, this following the Secretary of State's offer to all adult social care authorities (those with functions under Part 1 of the Care Act 2014). The offer was the option of an adult social care authority being able to charge an additional "precept" on its council tax without holding a referendum, to assist the authority in meeting its expenditure on adult social care. This arrangement has been in place since the financial year 2016-17.
- 11.8 All parish precepts have also been notified to the Council. These are reflected along with the precepts set out in paragraphs 11.4 and 11.6, in the formal Council Tax Resolution as detailed in Appendix 1.
- 11.9 **Council Tax Support Fund**
- 11.10 Alongside the provisional Local Government Settlement on the 19<sup>th</sup> December 2022, Government announced £100 million of additional funding for local authorities to support the most vulnerable households in England. The Government expects councils to use the majority of their funding allocation to reduce Council Tax bills for current working age and pension age Local Council Tax Support (LCTS) claimants by £25. The remainder of the allocation can then be used as councils feel appropriate as part of a discretionary scheme, to provide further

support to vulnerable households, this using their discretionary powers under S13A(1)(c) of the Local Government Finance Act 1992.

11.11 East Cambridgeshire has been allocated £95,062 of funding and proposes to adopt the following local approach:

- To apply the stipulated reduction of up to £25 to all current LCTS claimants to their 2023-24 Council Tax bills (the mandatory scheme)
- Use the remaining funds to support economically vulnerable household using our local approach (the discretionary scheme) as follows:
  1. To provide an additional reduction of £5 to the Council Tax bills of all current LCTS claimants, so that the overall reduction for each household is £30.
  2. To provide additional support via a S13A(1)(c) Exceptional Hardship Payment (EHP) pot until 31<sup>st</sup> March 2024 or until the fund is exhausted to:
    - support new LCTS claimants by awarding one-off reductions to their 2023/24 Council Tax bills of £30;
    - provide additional support to economically vulnerable customers via the existing EHP claim form route, any households who are not in receipt of LCTS but are considered economically vulnerable can continue to apply for help through this hardship payment route.

## 12.0 **RISK AND SENSITIVITY ANALYSIS**

12.1 The Local Government Act 2003 places two specific requirements on an authority's Section 151 Officer in determining the Council's budget and Council Tax. Under Section 25, the Section 151 Officer must advise on the **robustness of the estimates** included in the budget. The advice given to the Council on this issue is that the estimates have been produced on a prudent basis, with a strong emphasis on ensuring all cost pressures are included. Budget estimates have been developed with senior officers, with regular updates and discussions with members of Management Team.

12.2 The key risks are around Government funding of the Council and inflation. The Settlement provides clarity around grant funding for 2023/24 and to a lesser degree for 2024/25, but looking beyond that, there is very limited information to put forward a MTFs based on confident assumptions on future Government funding.

12.3 Possibly the greatest concern for this Council however, is the Government's intention to implement a full Business Rate baseline reset at the time of the Fair Funding Review. The current baseline was set in 2013, when all councils were given a share of Business Rates equal to their calculated needs. Since then councils have been allowed to keep a share of their growth, which for us as a district council has been 40%. In broad figures our baseline is £2.56 million, where we actually budget for £4.84 million of Business Rates because of this growth. If the baseline is fully reset, we will lose this growth and won't know what our revised baseline will be until the results of the Local Government Fair Funding Review (as detailed in 4.1) are announced. An allowance has been made in the MTFs for this

probable reduction, but at this point, there is no certainty on what this is likely to be.

- 12.4 Unlike the position for a number of years, inflation is playing a major part in the economy at the moment, and so needs to be considered with much greater focus this year. Section 7.3 of this report details the inflation built into the 2023/24 budget, but in addition to this a £100,000 provision of additional unknown inflation has been built into the budget. To put some context to this figure, as detailed earlier, we have budgeted for a 4% increase in staff costs from the 1<sup>st</sup> April 2023, if pay was to increase by 5% this would cost the Council a further £91,326.
- 12.5 To mitigate the above risks, the Section 151 Officer will continue to report on a regular basis to Management Team and members as new information becomes available.
- 12.5 The Section 151 Officer is also required to report on the **adequacy of reserves**. The projected level of reserves, specifically the General Fund Reserve and Surplus Savings Reserve, and their use in 2023/24 are **prudent** and show how these will sustain the functions of the Council in that year.
- 12.6 However, the MTFS assumes the remainder of the Surplus Savings Reserve is utilised during 2024/25 and 2025/26, which will reduce the overall level of reserves significantly. Reserves can only be utilised once and while the purpose of the Surplus Savings Reserve is to provide one-off funding to balance the budget in future years, the Council needs to be considering all options to reduce the speed that this is being utilised so that it remains available further into the future. The Council has a track record of delivering additional savings and generating extra income in advance of the budget requirement, so work done during 2022/23 and 2023/24 financial years will hopefully lead to a reduced draw from the Surplus Savings Reserve in these and future years through the MTFS period.
- 12.7 Another key risk for the Council is its loan to ECTC. Should ECTC encounter any financial difficulties and be unable to repay the £7,500,000 loan facility, then the Council will need to account for this within its financial statements. In such an event, the Council would need to draw on its reserves to meet such a liability. At this point however, it should be noted there is no indication that this is likely to be the case and indeed not all of the loan facility has, as yet, been drawdown. To limit this risk further and as detailed in 10.7 above, the Council has security in place with regard to this loan in the form of a debenture which will provide it with first ranking security over all unsecured assets of the Company, once the loan to the Cambridgeshire and Peterborough Combined Authority is repaid, which is expected to be in 2022/23.
- 12.8 A potential further risk for the Council is the possible need to up-date the Local Plan in the next four years. No costs are built into this budget to reflect the costs of this at this point.

### **13.0 MEDIUM TERM FINANCIAL STRATEGY**

- 13.1 The Council's Medium Term Financial Strategy is to set a robust financial framework for the Council's plans over the next four years which support the delivery of the Council's priorities within a context of an annual balanced budget. Specifically, the MTFS:

- Looks to the longer term to help plan sustainable services within an uncertain external economic and funding environment;
  - Maximises the Council's financial resilience and manage risk and volatility, including managing adequate reserves;
  - Helps ensure that the Council's financial resources are directed to support delivery of the Council's priorities over the medium term.
- 13.2 The MTFS covers the period 2023/24 to 2026/27. As highlighted earlier in the report, the Policy Statement announced by Government for 2023/24 provides assurance about the grant position for the budget year and to some degree 2024/25 so these figures can be considered reasonably robust.
- 13.3 However, it is extremely difficult to develop a robust MTFS to cover the period 2025/26 and beyond while the uncertainties around future funding levels from Government remain. As detailed earlier in this report, the Government is currently considering options around the Local Government Fair Funding Review to determine how much of this funding is allocated to individual authorities. This issue creates considerable uncertainty for local authority funding; and is an issue which will require monitoring in the coming years, to ensure the Council can adjust its MTFS as new information becomes available. Up-dates will be provided to the Finance and Assets Committee when further information becomes available.
- 13.4 The assumptions used in the MTFS include:
- Government funding through Revenue Support Grant, New Homes Bonus, Rural Services Grant, Services Grant and Funding Guarantee Grant will all end in 2024/25 when the Fair Funding review takes place;
  - Inflation on staff pay is included at 3% in 2024/25 and then 2% in all future years
  - 4% inflation has been added to the Waste contract for 2024/25, however additional budget is also provided in that year, when the new recycling vehicles (now budgeted to be purchased in 2023/24) will start being charged to ECSS. (This cost increase would have occurred regardless of whom is undertaking the contract at this point);
  - The loans to ECTC are planned to be repaid in 2026, the interest received by the Council on these loans will therefore stop at this point. The loan repayments will be used to reduce / prevent the Council needing to borrow externally, therefore reducing costs;
  - There remains no assumption in the MTFS for any dividends being received from ECTC. (While noting that no dividends are budgeted for, it should not be forgotten that the Council continues to get significant benefits from ECTC, with interest being paid on the loans provided at a rate higher than available from its investments, the recharge of management and support services costs to the Company (forecast to be £92,715 in 2023/24), the hire of the Market Place and part of the depot, as well as Capital Receipts, Section 106 contributions and additional Council Tax receipts from the properties developed.)
  - The Council has a track record of delivering cost reductions; it is anticipated therefore that a contribution to the budget deficit forecast in future years will be achieved during the term through general efficiencies and income generating opportunities; however, to be prudent, no account of these are shown within the forecasts in this report.

- 13.5 The impact of the above assumptions is attached at Appendix 2. This shows the budget for 2023/24 and 2024/25 is fully funded. However, there are significant budget shortfalls projected in 2025/26 and subsequent years. Clearly many things will change between now and then, so members should not focus on the precise numbers. What is far more important is that members appreciate the direction of funding facing this and many local authorities, and the likely scale. It will be necessary to develop a plan to meet these shortfalls, although the Council does have time (although limited) to put the necessary plans in place. The Council also has access to a reasonable level of reserves, as described in Section 8 of this report.
- 13.6 While noting the uncertainty that is highlighted in this report about the 2025/26 financial year, it is considered unlikely that the quantum of funding from Government will increase significantly and as such, this Council will need to identify measures to bridge the budget gap. A comparison between this year's MTFS and the past two last years does highlight an increased forecast savings need to be identified particularly year four.

<b>2021/22 Budget</b>	
2021/22 – budget year	Balanced
2022/23 – MTFS year 1	Balanced
2023/24 – MTFS year 2	Savings to find £4,143,095
2024/25 – MTFS year 3	Savings to find £4,117,856
<b>2022/23 Budget</b>	
2022/23 – budget year	Balanced
2023/24 – MTFS year 1	Balanced
2024/25 – MTFS year 2	Savings to find £2,815,916
2025/26 – MTFS year 3	Savings to find £4,021,675
<b>2023/24 Budget</b>	
2023/24 – budget year	Balanced
2024/25 – MTFS year 1	Balanced
2025/26 – MTFS year 2	Savings to find £1,645,402
2026/27 – MTFS year 3	Savings to find £4,797,033

- 13.7 Options to resolve the budget shortfalls in future years come from:

- Efficiencies in the cost of service delivery
- Reductions in service levels
- Increased income from fees and charges
- Increased commercialisation via its trading companies

- 13.8 While noting the Council's favourable position of having a balanced budget (by use of the Surplus Savings Reserve) for 2023/24 and 2024/25, it is strongly recommended that early consideration is made to how savings in future years will be achieved. All the bullets above need to be considered, with a quickening of the pace of commercialisation and the review of all income generating opportunities, as these are potentially the areas that could generate the highest returns, while having least impact on the services provided by the Council. However, within the MTFS period, all options will need to be considered and potentially implemented.

13.9 Any savings achieved in 2022/23 and 2023/24 resulting in potential underspends in those years, will allow further funding to be moved into the Surplus Savings Reserve and therefore available to assist in the balancing of the budget in future years.

#### **14.0 ARGUMENTS / CONCLUSION(S)**

14.1 The proactive actions already taken have led to balanced budgets for 2023/24 and 2024/25 (based on known information and the use of the Surplus Savings Reserve). The budget for 2023/24 therefore has minimal risks attached to it, although the Medium Term Financial Strategy, especially when the new funding regime comes in, now expected in 2025/26, does contain significant uncertainty and therefore risk. While there is little this Council can do to remove this uncertainty at this point, it does need to look now for opportunities within its own control, which will bridge some part of the funding gap currently being forecast.

#### **15.0 FINANCIAL IMPLICATIONS / EQUALITY IMPACT STATEMENT / CARBON IMPACT ASSESSMENT**

15.1 The proposed net operating budget of £12,375,513 will be financed by Revenue Support Grant, retained Business Rates, Council Tax and a contribution from the Surplus Savings Reserve.

15.2 An Equality Impact Assessment is not considered necessary, as no public facing services are being reduced in 2023/24.

15.3 A Carbon Impact Assessment (CIA) is also not considered necessary, as there will be no changes to service provision in 2023/24.

#### **16.0 APPENDICES**

Appendix 1 – Formal Council Tax Resolution (To Follow)

Appendix 2 - Draft Budget 2023/24 and MTFS

Appendix 3 - Statement of Reserves

Appendix 4 - Schedule of Fees and Charges

Appendix 5 - Capital Programme

#### **Background Documents:**

2022/23 Budget to Full Council – 22<sup>nd</sup> February 2022

MTFS up-date report to Finance and Assets Committee – 4<sup>th</sup> October 2022

Budget Report to Finance and Assets Committee – 23<sup>rd</sup> January 2023