

BABERGH DISTRICT COUNCIL

COMMITTEE: Cabinet	REPORT NUMBER: BCa/22/39
FROM: Councillor David Busby, Cabinet Member for Finance	DATE OF MEETING: 6 February 2023
OFFICER: Melissa Evans, Director, Corporate Resources	KEY DECISION REF NO. CAB378

GENERAL FUND BUDGET 2023/24 AND FOUR-YEAR OUTLOOK

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the General Fund Budget for 2023/24 and four-year outlook.
- 1.2 To enable Cabinet Members to consider key aspects of the 2023/24 Budgets, including Council Tax and make any recommendations to feed into the final Budget report to Council on 20 February 2023.

2. OPTIONS CONSIDERED

- 2.1 Setting a balanced budget is a statutory requirement, therefore no other options are appropriate in respect of this.

3. RECOMMENDATIONS

- 3.1 That the General Fund Budget proposals for 2023/24 and four-year outlook set out in the report be endorsed for recommendation to Council on 20 February 2023.
- 3.2 That the General Fund Budget for 2023/24 is based on a 2.99% increase to Band D Council Tax, which is equivalent to £5.30 per annum (10p per week) for a Band D property.

REASON FOR DECISION

To bring together all the relevant information to enable Cabinet Members to review, consider and comment upon the Council's General Fund budget for endorsement and recommendation to Council.

4. KEY INFORMATION

Background

- 4.1 In February 2022 Babergh District Council approved the General Fund Budget 2022/23 and Four-Year Outlook. The budget setting approach for 2022/23 recognised that the Council has tended to underspend the budget that has been set in recent years, primarily due to additional income being received.
- 4.2 Managers have traditionally used a worst-case scenario when putting their budget proposals together. Amalgamating these assumptions across the whole organisation has, in recent years, resulted in underspends. The unintended consequence is that resources are committed during the budget process that could be used for other priorities or alternatively savings must be made that are not actually needed.
- 4.3 For 2022/23 stretching, but realistic, assumptions were used when putting budget proposals together across both expenditure and income. However, global events, rising inflation and interest rates have created an unprecedented financial challenge for the Council resulting in a likely overspend position as detailed in 4.10 below.

National Economic Position

- 4.4 The national economic position has changed significantly since the budget for 2022/23 was set.
- 4.5 The Office for Budget Responsibility's (OBR) economic forecasts, provided alongside the Chancellor's Autumn Statement in November, showed a worse position than the numbers from March 2022. A lower growth rate for Gross Domestic Product (GDP) is the driving factor behind the UK's worsening economic prospects. In March 2022, the Office for Budget Responsibility (OBR) forecast that the UK would recover from the economic impact of the pandemic, and then continue to grow at around 1.7% per year from 2023 onwards.
- 4.6 The Bank of England forecast in its November Monetary Policy Committee (MPC) report that the economy will contract by 0.75% in the second half of 2022, and then continue to fall during 2023 and into the first half of 2024. The OBR is not quite as pessimistic but still forecasts a recession starting in the second half of 2022 and extending into 2023.
- 4.7 The pandemic led to a massive increase in public sector borrowing and the current crisis will lead to a second (smaller) peak. Increased borrowing is caused by higher interest rates (impact on the Government's debt payments), higher inflation (pensions and benefits linked to inflation), and the wider economic slowdown. Bringing down borrowing is central to the Chancellor's fiscal plans. Net borrowing was previously expected to settle around £50bn per annum but on current plans will settle at a higher level, at around £70-80bn in 2026/27 and 2027/28.
- 4.8 The Consumer Price Index (CPI) increased significantly in 2022, led by high energy prices. Inflation peaked at 11.1% in October and dropped to 10.7% in November. The OBR expects inflation to return to its target level by 2027 but is forecasting it will be much lower than that beforehand and potentially even negative in 2025. Most independent forecasters take the same view as the OBR about inflation but there are still serious risks that higher levels of inflation persist into 2024 and beyond.

2022/23 Budget and Forecast Outturn

4.9 On 21 February 2022, the Council set a balanced budget for 2022/23. Excluding both housing benefits payments and income, the budget comprised of £20.6m expenditure and £10m income, to give a net service budget of £10.6m. The 2022/23 budget is primarily funded from council tax, business rates and government grants. Chart 1 below shows how the £20.6m expenditure is allocated across the services and Chart 2 below shows the breakdown of the £10m service income.

Chart 1: Expenditure by Service Area (excl. housing benefits) 2022/23 (£20.6m)

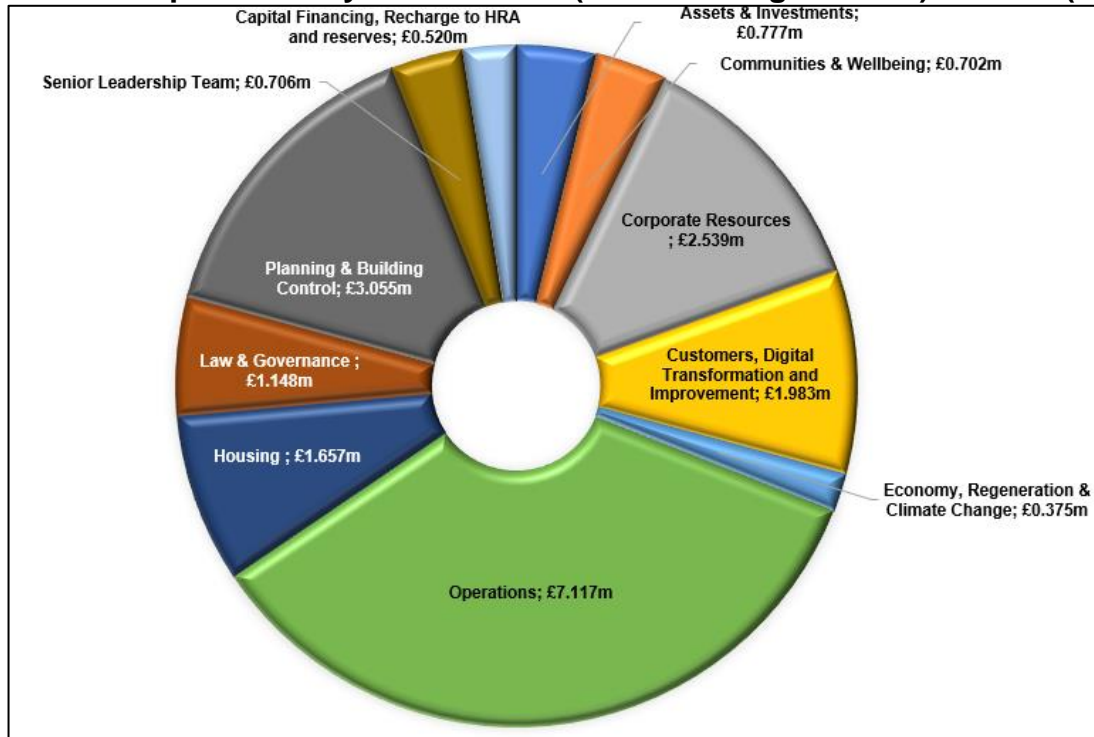
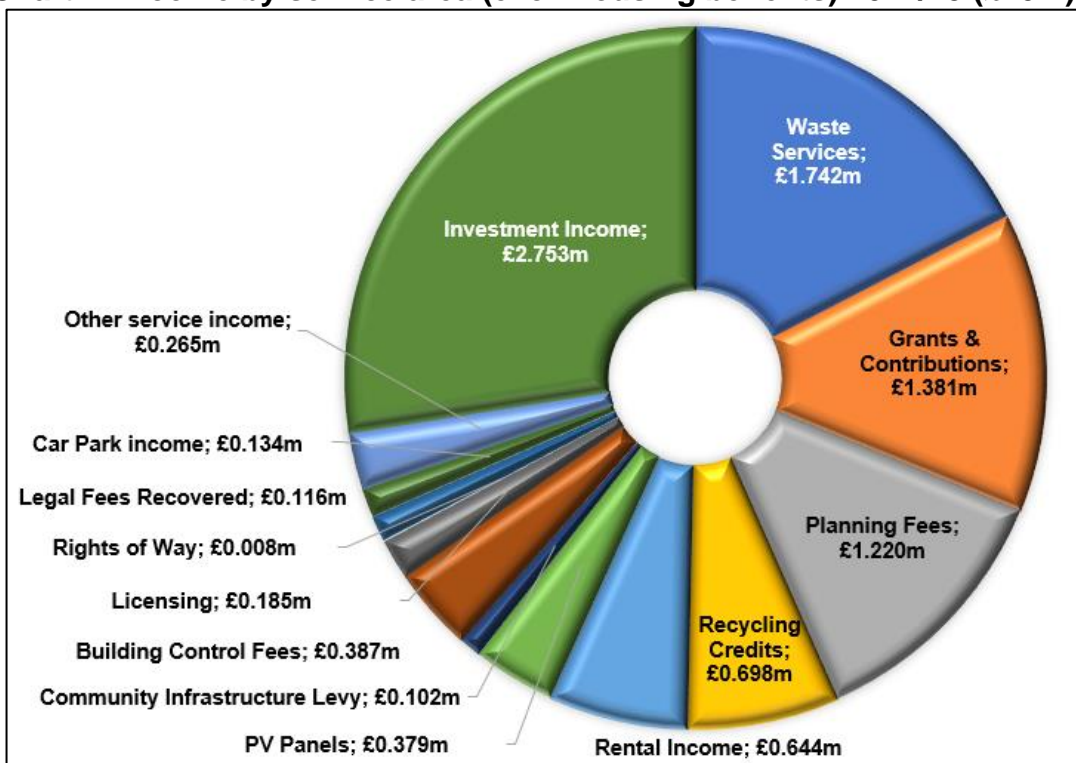


Chart 2: Income by service area (excl. housing benefits) 2022/23 (£10m)



- 4.10 The second quarter 2022/23 budget monitoring report was presented to Cabinet on 5 December 2022 showing a forecast overspend against budget at 31 March 2023 of £693k. The Council created an Inflationary Pressure Reserve of £500k in 2021/22 to mitigate against the impact of inflation in 2022/23. It is expected that this reserve be used to fund the majority of the deficit and that the remainder be funded by a reduced contribution to the Strategic Priorities Reserve (£527k budgeted, reduced to £334k).
- 4.11 The third quarter position will be presented to Cabinet on 6 March 2023.

2023/24 Budget

- 4.12 The approach to the budget setting for 2023/24 has been to take the 2022/23 outturn position as a starting point as the most up to date position of the Councils financial requirements going forward.
- 4.13 The Finance Team have worked closely with budget managers and the Senior Leadership Team to update the Councils budget requirements for 2023/24, taking into account known pressures and identifying efficiencies and savings to help offset this without negatively impacting on service delivery.
- 4.14 The summary in Table 1 below shows the breakdown of the Council's net cost of service for 2023/24 (£12.45m) compared to 2022/23 (£10.43m), an increase of £2.02m.
- 4.15 The Council's 2023/24 gross expenditure is £34.49m and income is £22.04m giving a net cost of service of £12.45m. Funding only equates to £12.227m leaving a budget gap of £221k for the 2023/24 budget, which will be funded from the Covid19 Reserve.

Table 1: General Fund Budget Summary 2023/24

		2022/33	2023/24	Movement
		Budget	Budget	2022/23 to
		£'000	£'000	2023/24
				£'000
Service Expenditure	Employees	9,983	11,613	1,630
	Premises	1,536	1,197	(339)
	Supplies & Services	3,917	4,800	883
	Transport	352	353	1
	Contracts	4,270	4,612	342
Service Income	Grants and Contributions	(1,381)	(1,461)	(80)
	Sales, Fees & Charges	(4,109)	(4,075)	34
	Other income (incl. rental & PV panel income)	(1,771)	(1,848)	(78)
Housing Benefits	HB Transfer Payments	12,972	11,769	(1,203)
	HB Grants and Contributions	(13,107)	(11,885)	1,222
Net Service Expenditure		12,663	15,074	2,411
Recharges	Recharge to HRA/Capital (Corporate Overheads)	(1,347)	(2,017)	(669)
Capital Financing Charges	Interest Payable - CIFCO long term	380	208	(172)
	Interest Payable - Other	60	1,271	1,211
	Minimum Revenue Provision (MRP)	1,445	1,708	263
Investment Income	Pooled Funds Net Income	(569)	(569)	-
	Interest Receivable - CIFCO	(2,169)	(2,187)	(18)
	Interest Receivable - Other	(15)	(15)	-
Reserves	Transfers to/from Reserves	(18)	(1,025)	(1,007)
Total Net Cost of Services		10,430	12,448	2,019
Government Grants	New Homes Bonus	(802)	(825)	(23)
	Revenue Support Grant (RSG)	-	(112)	(112)
	Services Grant	(147)	(83)	64
	Rural Services Delivery Grant	(238)	(238)	-
	Funding Guarantee	-	(100)	(100)
	Lower Tier Services Grant	(96)	-	96
Business Rates	Business Rates	(3,041)	(3,849)	(808)
	Growth / Pooling Benefit	(333)	(340)	(7)
	Enterprise Zone income	(216)	(238)	(22)
	Business Rates (surplus) / deficit	218	(6)	(224)
Council Tax	Council Tax	(6,185)	(6,416)	(230)
	Council Tax (surplus) / deficit	(116)	(21)	95
Total Funding		(10,957)	(12,227)	(1,270)
Strategic Priorities Reserve		527		(527)
Shortfall / (Surplus Funds)		0	221	221

2023/24 Budget Assumptions and Risks

- 4.16 Constructing a budget that runs to 13 months beyond when it was approved means that several assumptions have to be made about the conditions that are likely to exist over an extended period. Assumptions made when constructing the budget for 2023/24 were reviewed and assessed by the Overview and Scrutiny Committee in November 2022 and in January 2023, report reference BOS/22/01 and BOS/22/02 and so have not all been repeated here.
- 4.17 The budget for 2022/23 was a surplus of £527k however due to a continuation of financial pressures outlined in table 2, and a shortfall in funding to meet the overall increasing costs, the position for next year has worsened by £748k as shown in table 2 below.

Table 2: General Fund Overall budget changes

	£'000	£'000
2022/23 Surplus		(527)
Pressures		
Pay award, increments, and pay review (of which £790k is reserve/grant funded)	1,900	
Short term borrowing –higher interest rates £19m @ 3.5%	665	
Short term borrowing – new borrowing	375	
Minimum Revenue Provision – capital spend on refuse freighters	260	
Waste contract inflation and disposal costs increase	390	
Reduction to planning income	230	
Insurance premiums - current costs + 10% inflation	80	
Shared Revenues Partnership - increase to contract costs	70	
Removal of Savings contingency	70	
Bank charges increase	70	
Additional Training budget requirement	50	
ICT contract increase	50	
Increase in Postage costs	40	
Revenue costs associated with the implementation of the Parking Strategy	40	
Residents Survey	30	
Other smaller items	203	
Total Draft Pressures		4,523
Savings/additional income		
Removal of Pension lump sum	(400)	
Recharge to HRA for Grounds maintenance	(420)	
Income from garden waste and recycling credits	(180)	
Recharge to HRA / Capital	(330)	
Additional Homelessness Grant	(130)	
Joint Local Plan – reduction in Professional fees	(130)	
Removal of security costs Hadleigh Offices	(110)	
Savings Endeavour House	(50)	
Increase in chargeable amount for CIL admin	(50)	
Vacancy Management Factor – 5% but increased due to pay award	(70)	
Licensing income growth and additional fees	(40)	
Other items	(165)	
Total Draft Savings/additional income		(2,075)
Movement in Reserves		(430)
Funding Changes		(1,270)
Total Net increase		748
2023/24 Draft funding Gap		221

4.18 The charts below show the breakdown of expenditure and income excluding Housing Benefits payments and compensating income. Chart 3 below shows how the £22.7m service expenditure is allocated across the services, and Chart 4 shows the breakdown by expenditure type. Chart 5 shows the breakdown of total income of £10.2m.

Chart 3: Expenditure by Service Area (excl. housing benefits) 2023/24 (£22.7m)

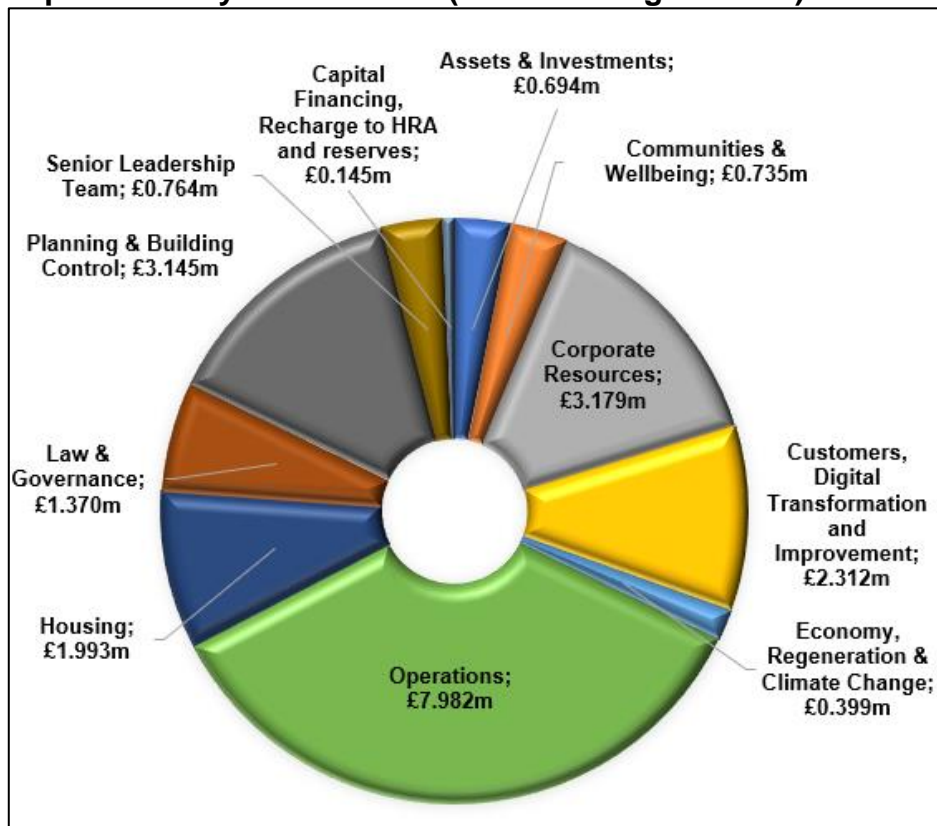


Chart 4: Expenditure by Type (excl. housing benefits) 2023/24 (£22.7m)

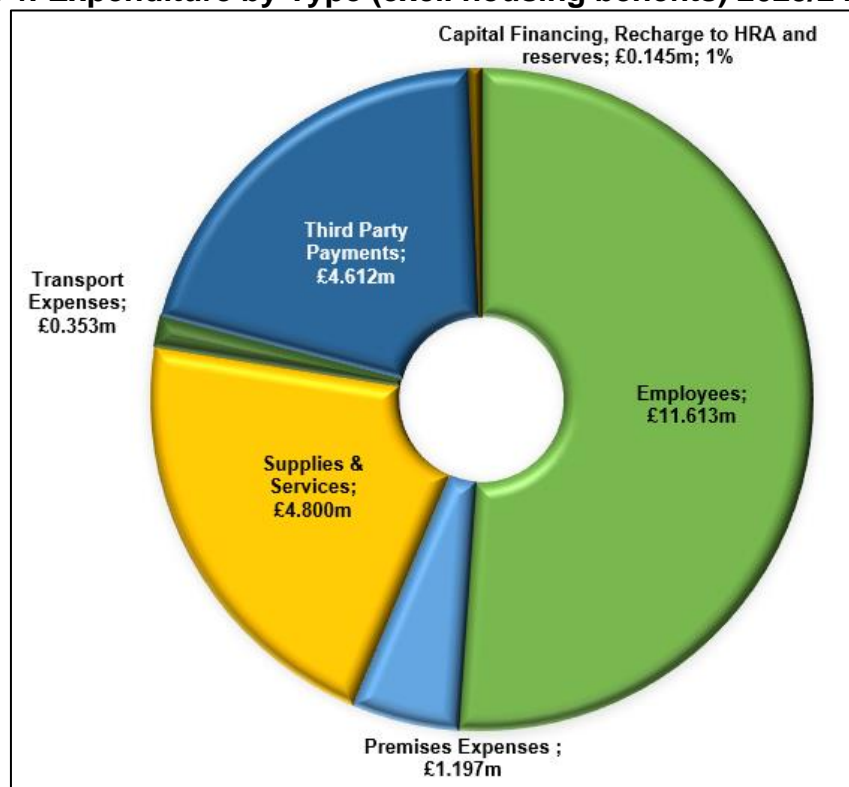
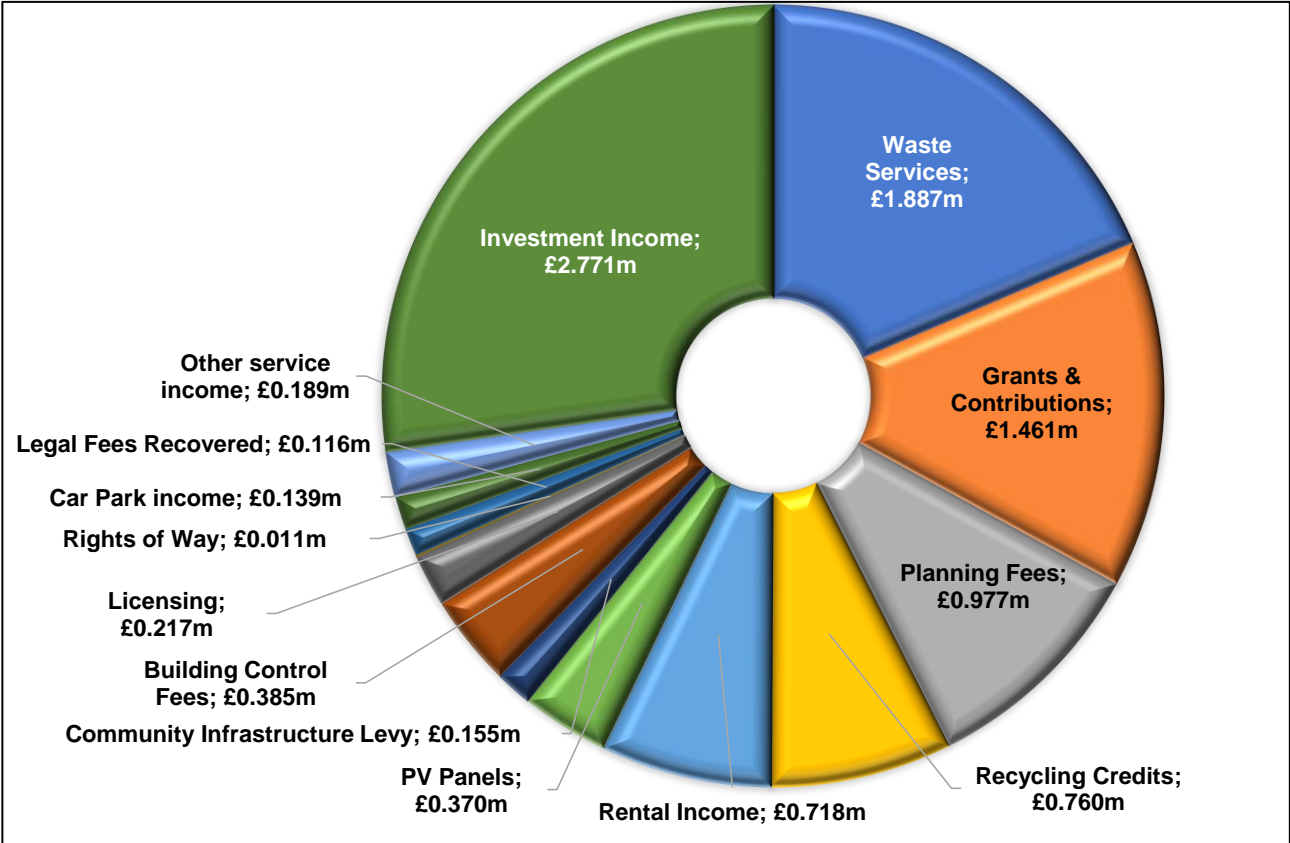


Chart 5: Total Income (excl. housing benefits) 2023/24 (£10.2m)



Funding

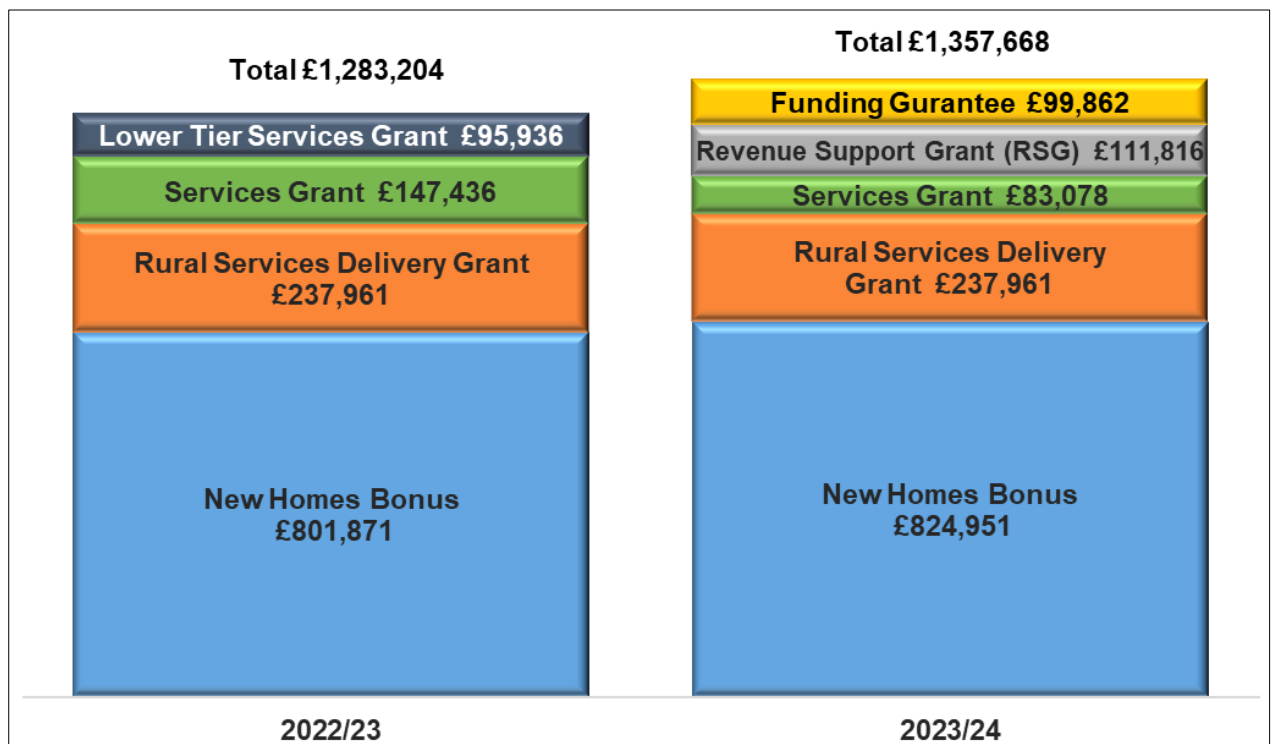
4.19 The Chancellor presented the Autumn Statement on 17 November 2022 in the context of the national economic position. A Policy Statement on 12 December 2022 announced the key principles that ministers would use in both the 2023/24 and 2024/25 local government finance settlement. The provisional local government finance settlement for 2023/24 was then announced on 19 December 2022. Some of the key headlines for local government and specifically our council are as follows:

- Core spending power estimated to increase annually by an average of 8%, but this assumes maximum council tax increases. A large part of this is due to increases in adult social care grants.
- Council tax increase thresholds increased from 1.99% to 2.99% and a further 2% for social care. For District Councils’ council tax can be increased by the higher of 2.99% or £5, which the Government believes protects local taxpayers from excessive council tax increases.
- Business rates announcements included the following:
 - The business rates multiplier will be frozen. Compensation for this will be provided based on the Consumer price Index (CPI) at 10.1% via an uplift to Baseline Funding Level of 3.74%, with the remainder paid via section 31 grant.
 - 75% discount for retail, hospitality, and leisure sectors (50% in 2022/23).
 - 3-year support for small businesses for properties losing Small Business Rates Relief or Rural Rates Relief.

- Revaluation to go ahead as planned in 2023/24, with a transitional relief scheme for businesses.
- The current approach to the New Homes Bonus (NHB) is being applied to 2023/24 with a further one-year allocation for housing growth between October 2021 and October 2022. There will be no further legacy payments with the final one being made in 2022/23.
- Revenue Support Grant (RSG) will be received in 2023/24. This is due to family Annex Council Tax Discount Grant and LCTS Administration Grant being rolled up into the settlement. These were previously accounted for within service income, so this change does not impact the overall budget position.
- Rural Services Delivery Grant is being maintained at the same level as 2022/23.
- Services Grant has reduced. Part of the reduction is the removal of funding for the National Insurance Contribution increase.
- Lower Tier Services Grant has been abolished from 2023/24 onwards.
- A new grant has been created to ensure every authority has an increase in Core Spending Power (CSP) of at least 3%. This Funding Guarantee Grant will be funded from the Lower Tier Services Grant (LTSG) and the reduced cost of New Homes Bonus (NHB).

4.20 The Councils 2023/24 provisional grant allocations have increased by £74.5k (5.8%) compared to 2022/23 as shown below.

Chart 6: Government grant allocations 2022/23 and Provisional 2023/24



New Homes Bonus

- 4.21 Since NHB was introduced in 2011/12 the Council has received £12.7m in total. The Council continues to be reliant on NHB to support the budget, but in the last three years has been able to use some to supplement the Strategic Priorities reserve. For 2023/24 Babergh will be using the entire £825k allocation of NHB to balance the budget.
- 4.22 As shown in Table 3 below, the use of NHB to balance the budget has increased from 34% in 2022/23 to 100% in 2023/24.

Table 3: New Homes Bonus used from 2017/18 to 2023/24

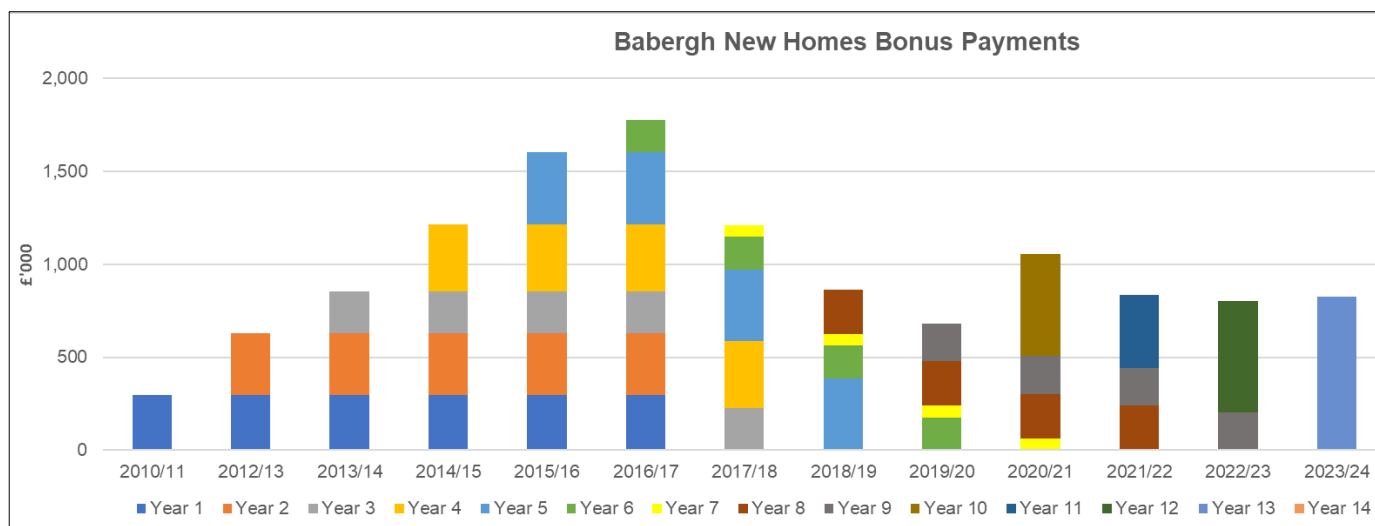
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amount of NHB received	1,212	866	683	1,055	835	802	825
NHB used to balance the budget	1,197	866	683	343	692	275	825
% of NHB allocation to balance budget	99%	100%	100%	33%	83%	34%	100%

- 4.23 Table 4 and Graph 1 below shows the NHB over the last twelve years. This shows how NHB has declined from a peak of £1.8m in 2016/17 to £825k in 2023/24, after the Government announced it would reduce the allocation from 6 years to 5 years in 2017/18 and to 4 years in 2018/19 and continued to phase out the legacy payments, as well as introducing a 0.4% growth baseline in 2017/18.
- 4.24 For 2023/24 the 0.4% growth baseline for Babergh means that the first 161 new homes built received no payment.

Table 4: New Homes Bonus sums per year

Payments	2010/11	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Provisional 2023/24
Year 1	295	295	295	295	295	295							
Year 2		334	334	334	334	334							
Year 3			226	226	226	226	226						
Year 4				360	360	360	360						
Year 5					387	387	387	387					
Year 6						177	177	177	177				
Year 7							63	63	63	63			
Year 8								239	239	239	239		
Year 9									205	205	205	205	
Year 10										548			
Year 11											391		
Year 12												597	
Year 13													825
Year 14													
Year 15													
Year 16													
Total	295	630	856	1,215	1,602	1,779	1,212	866	683	1,055	835	802	825

Graph 1: New Homes Bonus Payments



Council Tax

- 4.25 The impact from Covid19 on collection rates, the number of Local Council Tax Reduction (LCTR) claimants and the build rate of new homes across the district has all influenced the tax base for 2023/24. A 1.6% increase has been calculated, which will generate additional council tax income of £99k.
- 4.26 On the 23 January 2023 Babergh Council approved changes to the Working Age Local Council Tax Reduction Scheme. The changes will allow up to 100% maximum reduction for all legacy benefit households and introduce a simplified scheme for Universal Credit (UC) customers that will allow 'passported' claims to be automated based on the UC financial data without additional verification. The approval included the provision of a transitional protection scheme to support those households who would be worse off under the simplified UC scheme. The cost of the scheme will be a one off and will be funded from the Covid19 reserve.
- 4.27 An increase in Band D Council Tax of 2.99% has been included for 2023/24, which will generate additional income of £188k.
- 4.28 A surplus of £21k is currently projected for the Collection Fund in 2022/23, which is £95k less than the previous year. The way that the Collection Fund operates means that this surplus will be recognised in the Council's budget in 2023/24.

Business Rates

- 4.29 The headlines for Business Rates are as follows:
- An increase of just over £800k, mainly as a result of the Government commitment to compensate Councils for the freeze on the multiplier.
 - A Government return (NNDR1) that is required to be submitted by 31 January 2023, may result in some further changes to the business rates figures. Depending on the value, this may be managed through the Business Rates Reserve.

- The benefit from being part of the Suffolk business rates pool will increase by £7k and the impact of the Collection Fund forecast balance at the end of March 2023 increases the resources available by £224k.
- Additional income of £22k is forecast from the Enterprise Zone at Sproughton.

Reserves

- 4.30 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year the Council must have regard to the level of reserves needed to provide enough resources to finance estimated future expenditure plus any appropriate allowances that should be made for contingencies.
- 4.31 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.
- 4.32 In 2023/24 the Council is using £1.1m from earmarked reserves against specific service expenditure and projects as shown below.
- 4.33 The Covid19 reserve with a balance of £998k, will help to fund initiatives in response to the cost-of-living crisis and will be used to close any budget gap for 2023/24.
- 4.34 Alongside transfers from reserves, the Council is also transferring £71k to earmarked reserves in 2023/24 to fund future years' specific service expenditure, made up of £20k to the elections reserve and £51k to Neighbourhood planning reserves.
- 4.35 Table 5 below shows the planned earmarked reserves movements and balances from 31 March 2022, forecast through to 31 March 2024.

Table 5: Reserves

	Balance 31 March 2022 £'000	Forecast balance 31 March 2023 £'000	To reserves £'000	From reserves £'000	Estimated balance 31 March 2024 £'000
Business Rates & Council Tax	4,967	1,547			1,547
Business Rates Retention Pilot (BRRP)	812	546		(60)	486
Carry forwards	420	0			0
Climate Change and Biodiversity	309	239		(61)	178
Community Housing Fund	140	119		(28)	90
Commuted Maintenance Payments	937	937		(28)	908
COVID 19	1,674	1,221		(223)	998
Elections Equipment	35	35			35
Elections Fund	70	90	20		110
Government Grants	259	254		(25)	229
Homelessness	277	176		(100)	76
Joint Local Plan	100	0			0
Neighbourhood Planning Grants	48	272	51	(27)	297
Planning (Legal)	668	698		(141)	557
Planning Enforcement	93	133			133
Rough Sleepers	88	57			57
Strategic Planning	93	93			93
Strategic Priorities	1,704	689		(217)	472
Temporary Accommodation	238	163		(59)	104
Waste	230	195		(122)	73
Well-being	176	274		(6)	267
Inflationary Pressures Reserve	500	0			0
TOTAL	13,838	7,737	71	(1,097)	6,712
General Fund Reserve	1,200	1,000			1,000

Note: the current projected deficit for 2023/24 (£221k) as outlined in section 4.15 of the report is not yet shown in table 5 above.

Medium Term Projections

- 4.36 Table 7 below shows the forecast position for the period 2024/25 to 2026/27. The position for 2023/24 is a deficit of £221k followed by projected deficits of £980k, £1.6m and £548k to give a cumulative shortfall of £3.3m up to 2026/27.
- 4.37 Over the next three years the net cost of service increases by £2.4m, mainly due to pay awards and increments, inflationary increases on major contracts and capital financing charges and less use of reserves. The estimated tax base growth over the same period (£221k) only covers 9% of this increase. For a summary of the assumptions used, see table 6 below.

Table 6: Budget assumptions 2024/25 onwards

Description		2024/25 £'000	2025/26 £'000	2026/27 £'000
Employee Costs	Pay Award - 2%	228	234	244
	Increments - 2%	228	234	244
Contracts	Insurance Premiums • 2024/25 - 6%, • 2025/26 & 2026/27 - 2%	18	10	10
	Refuse contract - 2%	141	59	61
	Shared Revenues Partnership - 3%	34	35	36
	ICT contract - 3%	8	8	9
Charge to HRA / Capital	Charge to HRA / Capital - 4%	(78)	(69)	(72)

- 4.38 No increase in council tax other than taxbase growth has been built into the projections over the next three years. However, a 2.99% increase every year for the next three years would generate an additional £613k which is only 25% of the increase in net cost of service over the same period.
- 4.39 A Policy Statement on 12 December 2022 announced the key principles that ministers would use in both the 2023/24 and 2024/25 local government finance settlement.
- 4.40 There remains some uncertainty for 2024/25, so this is not a fixed two-year settlement. We do not yet know the future of NHB, which is not expected to continue beyond 2024/25, or whether the Government will provide alternative funding in its place.
- 4.41 We also do not know the level of inflation next September (it is expected to be around 7.5%), and whether ministers will decide to freeze the multiplier again.
- 4.42 However, with the Policy Statement, we do have a reasonably good idea of what 2024/25 could look like and funding estimates for 2023/24 are taken from analysis provided by the Funding Advisory Service at Pixel based on these principles.
- 4.43 When calculating the expected level of funding for the next four years, the following assumptions have been made:
- New Homes Bonus will continue for 2023/24 and 2024/25 only.
 - Revenue Support Grant (RSG) will be awarded for 2024/25 at the same level as 2023/24, but no further funding after that.
 - The Funding Guarantee will continue into 2024/25 only, at the same level as 2023/24
 - Business rates are projected to continue at the same level as 2023/24
 - Nothing has been included for forecast Business Rates surplus or deficit beyond 2024/25 based on the assumption that the equalisation earmarked reserve will accommodate this.
 - Council Tax increases of 2.99% for 2023/24 only, no increase modelled thereafter.
 - Tax base growth of 1.6% in 2023/24, 1.17% in 2024/25, 0.83% in 2025/26 and 0.52% in 2026/27, which generates approximately £221k more council tax income over the period.

4.44 Taking the assumptions in 4.43 above, funding decreases by 5.8% over the 4-year period from 2023/24 to 2026/27.

Table 7: Forecast Position 2024/25 - 2026/27

		2022/33	2023/24	2024/25	2025/26	2026/27
		Budget	Budget	Forecast	Forecast	Forecast
		£'000	£'000	£'000	£'000	£'000
Service Expenditure	Employees	9,983	11,613	11,423	11,898	12,392
	Premises	1,536	1,197	1,198	1,201	1,203
	Supplies & Services	3,917	4,800	4,731	4,731	4,732
	Transport	352	353	355	355	356
	Contracts	4,270	4,612	4,795	4,898	5,003
Service Income	Grants and Contributions	(1,381)	(1,461)	(1,443)	(1,443)	(1,443)
	Sales, Fees & Charges	(4,109)	(4,075)	(4,075)	(4,075)	(4,075)
	Other income (incl. rental & PV panel income)	(1,771)	(1,848)	(1,848)	(1,848)	(1,848)
Housing Benefits	HB Transfer Payments	12,972	11,769	11,769	11,769	11,769
	HB Grants and Contributions	(13,107)	(11,885)	(11,885)	(11,885)	(11,885)
Net Service Expenditure		12,663	15,074	15,019	15,601	16,203
Recharges	Recharge to HRA/Capital (Corporate Overheads)	(1,347)	(2,017)	(2,031)	(2,100)	(2,172)
Capital Financing Charges	Interest Payable - CIFCO long term	380	208	208	208	208
	Interest Payable - Other	60	1,271	1,496	1,496	1,496
	Minimum Revenue Provision (MRP)	1,445	1,708	1,829	1,928	1,980
Investment Income	Pooled Funds Net Income	(569)	(569)	(569)	(569)	(569)
	Interest Receivable - CIFCO	(2,169)	(2,187)	(2,187)	(2,187)	(2,187)
	Interest Receivable - Other	(15)	(15)	(15)	(15)	(15)
Reserves	Transfers to/from Reserves	(18)	(1,025)	(110)	(74)	(74)
Total Net Cost of Services		10,430	12,448	13,641	14,288	14,871
Government Grants	New Homes Bonus	(802)	(825)	(825)	-	-
	Revenue Support Grant (RSG)	-	(112)	(112)	-	-
	Services Grant	(147)	(83)	(83)	-	-
	Rural Services Delivery Grant	(238)	(238)	(238)	(238)	(238)
	Funding Guarantee	-	(100)	(100)	-	-
	Lower Tier Services Grant	(96)	-	-	-	-
Business Rates	Business Rates	(3,041)	(3,849)	(3,849)	(3,849)	(3,849)
	Growth / Pooling Benefit	(333)	(340)	(340)	(340)	(340)
	Enterprise Zone income	(216)	(238)	(345)	(452)	(452)
	Business Rates (surplus) / deficit	218	(6)	-	-	-
Council Tax	Council Tax	(6,185)	(6,416)	(6,548)	(6,603)	(6,637)
	Council Tax (surplus) / deficit	(116)	(21)	-	-	-
Total Funding		(10,957)	(12,227)	(12,440)	(11,482)	(11,516)
	Strategic Priorities Reserve	527	-	-	-	-
Shortfall / (Surplus Funds)		0	221	1,201	2,806	3,354
	2023/24 deficit		221	221	221	221
	2024/25 deficit			980	980	980
	2025/26 deficit				1,605	1,605
	2026/27 deficit					548
Total Shortfall / (Surplus Funding)		-	221	1,201	2,806	3,354

Medium Term Financial Strategy (MTFS) 2023-2026

4.45 To achieve its Vision, the Council needs to take a medium-term view of the budget through a robust financial strategy that is focused on delivering the six corporate strategic priorities.



4.46 The Council's main strategic financial aim remains to become self-financing i.e., not reliant on Government funding. The Council's parallel aim is to generate more funds than are required purely for core services, to enable additional investment into the district.

4.47 There are 3 key elements that need to be carefully balanced to ensure success, which are:

- Cost management
- Income generation and
- Service levels.

4.48 The approach over the medium term is to transform the Council into an organisation that is thriving and not just surviving, by continuously reviewing, remodelling, and reinventing the way the Council operates. For the Council to thrive, a strong focus is placed on the wellbeing of our staff and residents.

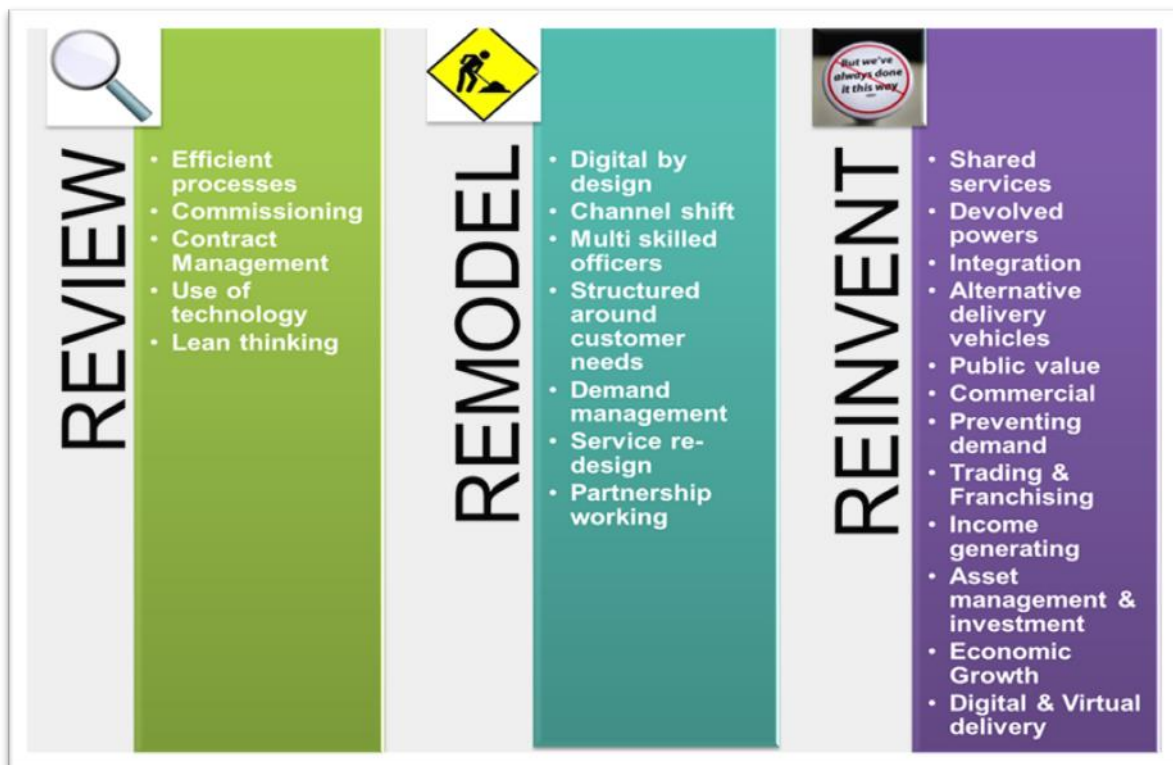
The following overarching principles are considered when evaluating ideas and opportunities for change:

- Reduce our costs (both internally and across the wider system)
- Increase our income
- Provide better / “best” value
- Increased social value
- Provide a better service for our customers
- Reduction in administration costs, without compromising service
- Reduced climate change and biodiversity impact

4.49 The focus is on:

- internal efficiencies and improvements
- continuously streamlining work and reducing waste in processes
- greater cross-functional working and multi-skilling
- improving ways of working to move away from ‘professional silos’ and toward integrated services for the public
- customer demand understood, analysed, and met through new services and business models
- demand is re-shaped and managed while engaging service users to ascertain priorities.

4.50 The approach below shows in more detail for each element the methodology that has been adopted to achieve this.



4.51 Over the three-year period from 2024/25 the Council’s cumulative deficit of £3.3m must be addressed through delivering further savings and generating additional income. The Council acknowledges that it can still benefit from further work across the organisation to create efficiencies through driving down cost and cutting out work that does not add value. Opportunities exist in terms of improving digitisation and automation of some processes.

- 4.52 As part of the 2023/24 budget setting work, Corporate Managers and Directors identified a number of areas where further savings and efficiencies could be made across the organisation. This work will continue during 2023/24 to develop a delivery and implementation plan to support the MTFs and to enable some broad-based numbers to be put against a 2-3 year programme.
- 4.53 It is likely that additional resources and investment will be required in order to deliver efficiencies and savings in the longer term. The Council will continue this approach to further transform the way it operates over the next three years.
- 4.54 A further key element of the Strategy is having adequate reserves available to manage any unexpected changes to spending and funding plans. They are a fundamental part of the way the Council manages its business risks and maintains a stable financial position.
- 4.55 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.
- 4.56 Reserves only provide one-off funding, so a core principle is that reserves should not be used to cover ongoing gaps between expenditure and funding and should be replenished as soon as practicable when used.
- 4.57 There are generally two types of reserves: unallocated and earmarked. The unallocated reserve is known as the General Fund Balance and is held by the Council to manage the financial risks it faces, and to ensure that it can remain solvent should any of these risks become realised. This reserve currently stands at £1m and represents about 8% of the net budget.
- 4.58 Earmarked reserves are held by the Council's services and used to pay for specific commitments or set aside for anticipated projects and programmes. The projected earmarked reserves position at 31 March 2023 is £7.7m as shown in Table 5.

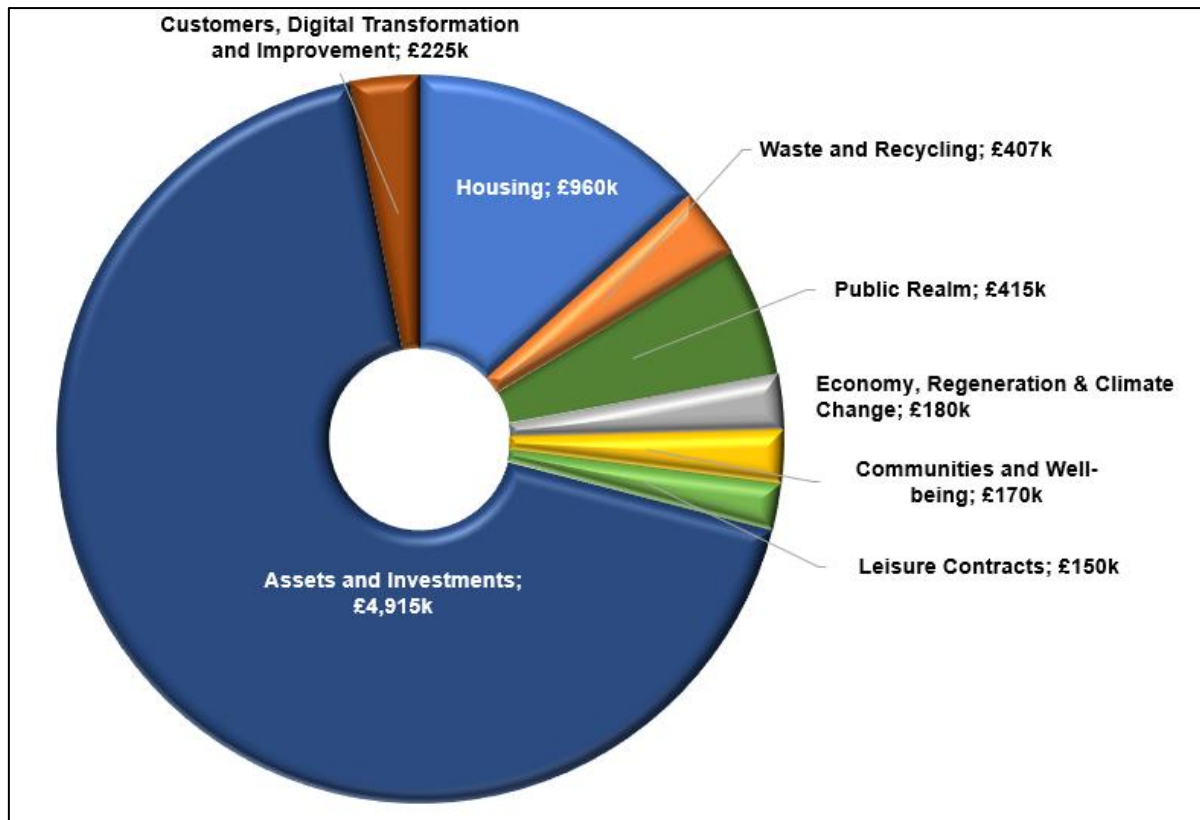
5. FEES AND CHARGES

- 5.1 Fees and charges have been reviewed by budget holders as part of this budget setting process and a separate report was presented to Cabinet in January 2023. (BCa/22/39) The impact of the charges agreed have been built into the budget for 2023/24.
- 5.2 There is no planned increase included for 2024/25, 2025/26 or 2026/27.

6. CAPITAL PROGRAMME

- 6.1 The detailed Capital Programme is attached at Appendix A. The new capital allocation for the 2023/24 budget totals £7.2m and is shown in Chart 7 below. Along with an anticipated carry forward of £6.3m at the end of the current financial year, the total capital programme for next year is expected to be £13.5m in total.

Chart 7: Capital Budget 2023/24 (excluding carry forwards) - £7.2m



- 6.2 The most significant items for new planned spend are the proposed Commercial Workspace Development at Hadleigh (£1.1m) and funding for Babergh Growth (£3.8m) to undertake housing developments at sites already in progress or ones currently under negotiation for purchase over the next 3 years as well as purchasing additional land for further development. Funding is also included to continue the range of annual capital initiatives such as housing and community grants.
- 6.3 Following review by Joint Audit and Standards Committee in January 2023, the Capital and Investment Strategy will have further details of the Council's borrowing capacity and the impacts of the capital programme, this will be presented to Council in February along with the final budget report.

7. LINKS TO THE CORPORATE PLAN

- 7.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Corporate Plan and aligns to the corporate outcomes against a backdrop of efficiency, and sound financial robustness. The underlying principle of the Medium-Term Financial Strategy is to be financially sustainable.

8. FINANCIAL IMPLICATIONS

- 8.1 These are detailed in the report.

9. LEGAL IMPLICATIONS

- 9.1 The provisions of the Local Government Finance Act 1992 (LGFA 1992) requires the Council to set a balanced budget with regard to the advice of its Chief Finance Officer

(Section 151) in relation to the level of reserves and the risks associated with the proposed budget.

10. RISK MANAGEMENT

10.1 Key risks are set out below:

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
We may be unable to react in a timely and effective way to financial demands	3 - Probable	4 - Disaster	Continued monitoring and reporting of the Councils financial forecast via quarterly reports to Cabinet	Strategic Risk Register - SRR004 BDC
If Government funding does not keep pace with demand and other pressures, then the Council will have to consider how it continues to fund existing service levels	2 - Unlikely	3 - Bad	The Council will continue to lobby Government both directly and via networks such as the District Councils' Network (DCN) and the Rural Services Network (RSN)	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007
If demand pressures and cost inflation exceed forecasts, then the Council could be in an overspend position at the year-end	2 - Unlikely	2 - Noticeable	Service areas will identify and analyse data that enable the best possible forecasts to be determined and act where possible to contain costs in year to offset the impact	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007
If income levels are below forecast, then the Council could be in an overspend position at the year-end	2 - Unlikely	2 - Noticeable	Service areas will identify and analyse data that enable the best possible forecasts to be determined and act where possible to generate income to anticipated levels	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
If borrowing costs exceed projections, then the Council may need to fund the excess costs from reserves at year-end	2 - Unlikely	2 - Noticeable	Discussions with the Council's treasury management adviser on interest rates to be used when setting the budgets	Finance, Commissioning and Procurement Operational Risk Register – 005BDC
If capital projects exceed budgeted figures, then the Council will achieve less with the resources available	2 - Unlikely	2 - Noticeable	Capital projects will include an appropriate level of contingency that will cover potential increases in costs	Finance, Commissioning and Procurement Operational Risk Register – 005BDC

11. CONSULTATIONS

11.1 Consultations have taken place with Directors, Corporate Managers and other Budget Managers as appropriate.

12. EQUALITY ANALYSIS

12.1 Directors and Corporate Managers will undertake an Equality Impact Assessment for any individual budget proposals that have the potential to impact any of the protected characteristics under the Equality Act 2010.

13. ENVIRONMENTAL IMPLICATIONS

13.1 Directors, Corporate Managers and other Budget Managers will continue to consider the environmental impact of their budgets and take the opportunity to reduce their carbon footprint as opportunities arise.

13.2 In support of the Council's commitment to be Carbon Neutral by 2030, several initiatives have and are being undertaken from a combination of the Council's own resources and those secured from external sources. Some of these are set out below.

13.3 The Councils' Sustainable Travel Vision and Local Cycling and Walking Infrastructure Plan (LCWIP) was approved by cabinet in April 2022. The Sustainable Travel Vision will be used to inform the public about our key values, aims, ambitions and narrative around Sustainable Travel. The key functions of the LCWIP are to inform SCC Highways and our own planning team of our active travel infrastructure ambitions, in order to capture opportunity for delivery. To compliment the LCWIP, the [Quiet Lanes Suffolk](#) project continues to support Parishes across the district to identify and designate suitable rural lanes as 'Quiet Lanes' to make them safer for people to use for exercise and more active forms of travel.

- 13.4 In December 2022, funding of £300k was secured from the Office for Zero Emission Vehicles (OZEV) for the installation of EV charge points in 12 car parks across both Mid Suffolk and Babergh Building upon the bid's success, the Councils are working in partnership with SCC to create an EV charge point infrastructure plan. The plan will cover:
- Place of Business destination charging
 - Provision for existing social housing residents
 - Provision of rapid charging for taxis
- 13.5 In conjunction with SCC, the Council is engaging with local primary schools, running theatrical workshops, to highlight the issue of poor air quality and to promote sustainable travel.
- 13.6 Following completion of the solar carports, 40 of our existing car parking spaces now help to power Kingfisher Leisure Centre in Sudbury providing just over 16% of the centre's annual electricity demand. Babergh, alongside Mid Suffolk are among the UK's first rural local authorities to trial the technology, which will reduce the centres' reliance on the grid and cut carbon emissions. The site also includes battery storage so excess energy produced during sunnier periods can be saved for later, as well as electric vehicle charging points.

14. APPENDICES

Title	Location
Capital Programme	Appendix A
Budget, Funding and Council Tax Requirements	Appendix B
Robustness of Estimates and Adequacy of Reserves	Appendix C

15. BACKGROUND DOCUMENTS

Provisional Local Government Finance Settlement

General Fund Financial Monitoring 2022/23 – Quarter 2 - BCa/22/32

Draft General Fund 2023/24 – BOS/22/01

Fees and Charges 2023/24 - BCa/22/39

General Fund and Housing Revenue Account 2023/24 Review of Savings Proposals update position – BOS/22/02

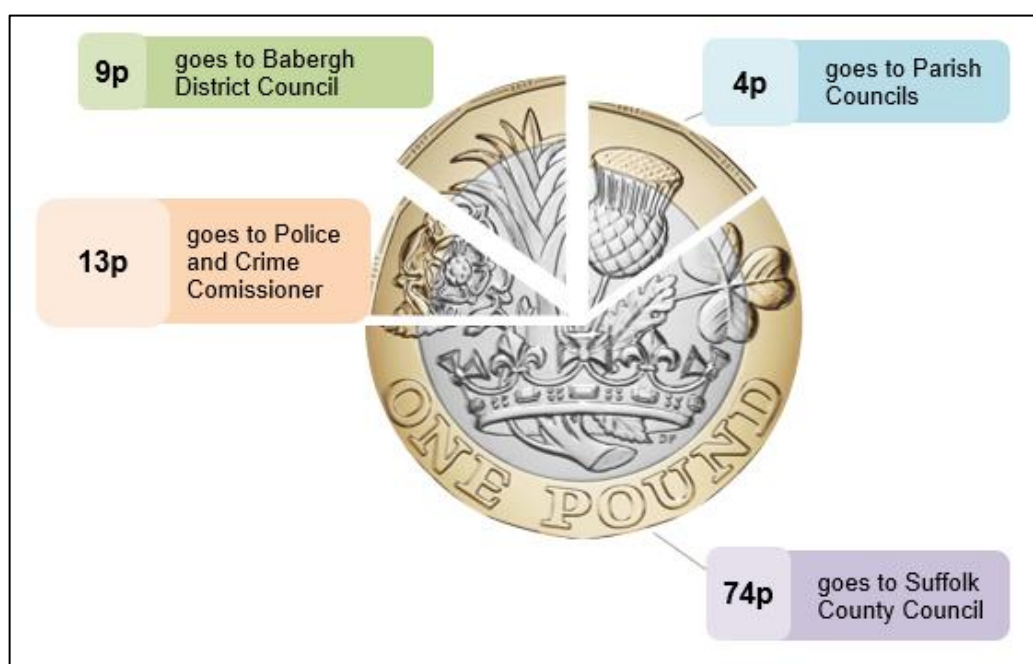
CAPITAL PROGRAMME 2023/24 TO 2026/27

Babergh District Council - General Fund Capital Budgets 2023/24 to 2026/27	2022/23	2023/24	2023/24	2024/25	2025/26	2026/27
	Anticipated C/Fwds	Budget for Approval	Total Spend Required	Forecast	Forecast	Forecast
	(A)	(B)				
	£'000	£'000	£'000	£'000	£'000	£'000
Housing						
Mandatory Disabled Facilities Grant	106	760	866	760	760	760
Renovation / Home Repair Grants	40	100	140	100	100	100
Empty Homes Grant	241	100	341	100	100	100
Grants for Affordable Housing	200	0	200	0	0	0
Total Housing	587	960	1,547	960	960	960
Waste and Recycling						
Replacement Refuse Freighters - Joint Scheme	0	152	152	231	0	0
Recycling Bins	0	75	75	75	75	75
Total Waste and Recycling	0	227	227	306	75	75
Economy, Regeneration and Climate Change						
Belle Vue Refurbishment / Replacement	1,901	0	1,901	0	0	0
EV Charge Points in Car Parks	0	180	180	0	0	0
Total Economy, Regeneration and Climate Change	1,901	180	2,081	0	0	0
Public Realm						
Vehicle and Plant Renewals	0	120	120	100	100	175
Planned Maintenance / Enhancements-Car Parks	0	45	45	15	15	15
Parking Strategy Implementation	0	165	165	155	0	0
Pin Mill Planned maintenance	35	25	60	25	25	25
Gaol Lane, Sudbury toilet refurbishment	0	60	60	0	0	0
Total Public Realm	35	415	450	295	140	215
Communities and Well-being						
Play equipment	239	50	289	50	50	50
Community Development Grants	15	120	135	120	120	120
Total Communities and Well-being	254	170	424	170	170	170
Leisure Contracts						
Kingfisher Leisure Centre Planned Maintenance	641	100	741	100	100	100
Hadleigh Leisure Planned Maintenance	0	50	50	50	50	50
Total Leisure Contracts	641	150	791	150	150	150
Assets and Investments						
Corporate Buildings - Planned Maintenance / Enhancements	0	30	30	30	30	30
Leases on Property (accounting change under new IFRS16)	0	0	0	136	0	0
Borehamgate	0	60	60	60	60	60
Strategic Investment Fund	1,906	0	1,906	0	0	0
A1071 Roadside Commercial Workspace Development	903	1,075	1,978	0	0	0
Babergh Growth Ltd	0	3,750	3,750	3,750	0	0
Total Assets and Investments	2,809	4,915	7,724	3,976	90	90
Customers, Digital Transformation and Improvement						
Replacement Finance Management System	0	75	75	0	0	0
ICT - Hardware / Software costs	112	150	262	150	225	150
Total Customers, Digital Transformation and Improvement	112	225	337	150	225	150
TOTAL General Fund Capital Spend	6,339	7,242	13,581	6,007	1,810	1,810
GF Financing						
External Grants and contributions	106	895	1,001	760	760	760
Capital Receipts	1,100	115	1,215	0	0	0
Borrowing	5,133	6,232	11,365	5,247	1,050	1,050
Total GF Capital Financing	6,339	7,242	13,581	6,007	1,810	1,810

Budget, Funding and Council Tax Requirements

- 1) The precept requirements of Parish / Town Councils must be aggregated with the requirement of this authority to arrive at an average Council Tax figure for the district / parish purposes. This figure however is totally hypothetical and will not be paid by any taxpayer (other than by coincidence). A schedule of the precept requirements from Parish / Town Councils will be reported to Council on 20 February 2023.
- 2) The County and the Police and Crime Commissioner's precept requirements are added to this.
- 3) The legally required calculation is set out below:
 - a) The General Fund Budget requirement for the District Council purposes in 2023/24 will be £182.64, based on a 2.99% increase to Council Tax for a Band D property.
 - b) The County Council precept requirement is still to be determined but is likely to be £1,496.43 for a Band D property in 2023/24, an increase of £57.51 (3.99%).
 - c) The Police and Crime Commissioner's precept requirement is still to be determined but is likely to be £262.62, an increase of £14.94 (6.03%).
 - d) At the time of preparing this report, not all Parish / Town Councils have supplied formal notification of their 2023/24 precept. The final figures will be reported to Council later this month.
- 4) Each £1 of council tax collected by the District Council is distributed as per chart 8 below.

Chart 8: Where the Council Tax collected goes



- 5) Babergh is a billing authority and collects council tax and non-domestic rates on behalf of the other precepting authorities i.e. Suffolk County Council, Suffolk Police and Crime Commissioner and Parish / Town Councils. The dates that monies collected are paid over to the County Council, and the Police and Crime Commissioner (“precept dates”) need to be formally agreed under Regulation 5(i) of the Local Authorities (Funds) (England) Regulations 1992.
- 6) Established practice is for payments to be made in 12 equal instalments on the 15th of each month or the next banking day if the 15th falls on a weekend or bank holiday. Accordingly, the precept dates applicable for 2023/24 are expected to be as follows:

17 April 2023	16 May 2023	15 June 2023	17 July 2023
15 August 2023	15 September 2023	16 October 2023	15 November 2023
15 December 2023	15 January 2024	15 February 2024	15 March 2024

Section 25 report on the robustness of estimates and adequacy of reserves

1. Background

- 1.1 Section 25 of the Local Government Act 2003 requires Councils, when setting its annual General Fund budget and level of council tax, to take account of a report from its Section 151 Officer on the robustness of estimates and adequacy of reserves. This report fulfils that requirement for the setting of the budget and council tax for 2023/24.
- 1.2 This is to ensure that when deciding on its budget for a financial year, Members are made aware of any issues of risk and uncertainty, or any other concerns by the Chief Financial Officer (CFO). The local authority is also expected to ensure that its budget provides for a prudent level of reserves to be maintained.
- 1.3 Section 26 of the Act empowers the Secretary of State to set a minimum level of reserves for which a local authority must provide in setting its budget. Section 26 would only be invoked as a fallback in circumstances in which a local authority does not act prudently, disregards the advice of its CFO and is heading for financial difficulty. The Section 151 Officer and Members, therefore, have a responsibility to ensure in considering the budget that:
 - It is realistic and achievable and that appropriate arrangements have been adopted in formulating it.
 - It is based on clearly understood and sound assumptions and links to the delivery of the Council's strategic priorities.
 - It includes an appropriate statement on the use of reserves and the adequacy of these.

2. Basis of Advice for Section 25 Report

- 2.1 In forming the advice for this year's Section 25 report, the CFO has considered the following:
 - a) The role of the Chief Finance Officer
 - b) The effectiveness of financial controls
 - c) The effectiveness of budget planning and budget management
 - d) The adequacy of insurance and risk management
 - e) The mitigation of strategic financial risks
 - f) The Capital Programme

a) Role of the Chief Finance Officer

- 2.2 The statutory role of the Chief Finance Officer in relation to financial administration and stewardship of the Council, and its role in the organisation are both key to ensuring that financial discipline is maintained.
- 2.3 The statutory duties of the Chief Finance Officer are set out in the Financial Regulations which form part of the Council's Constitution. These include the requirement to report to council if there is an unbalanced budget (under Section 114 of the Local Government Act 1988).

2.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) published a Statement on the Role of the Chief Financial Officer (CFO) in Local Government. The Statement requires that in order to meet best practice the CFO:

- a) is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
- b) must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and
- c) must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

- d) must lead and direct a finance function that is resourced to be fit for purpose; and
- e) must be professionally qualified and suitably experienced.
- f) The CIPFA Financial Management Code came into effect from the 1st April 2021, the code complements the Statement on the Role of the Chief Financial Officer, including a set of financial management standards that the Council is complying with. The standards emphasise how financial management is a collective responsibility of the Council's Corporate Leadership Team, acting alongside the CFO, stating that "it is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. These standards have been considered in drafting this statement.

b) Financial Controls

2.5 CIPFA's Financial Resilience Index, made publicly available for the first time in 2019, aims to support good practice in the planning of sustainable finance. The index does not come with CIPFA's own scoring, ranking or opinion on the financial resilience of an authority. However, users of the index can undertake comparator analysis drawing their own conclusions. The tool is based on a series of indicators relating to the sustainability of reserves, external debt, fees and charges and income from local taxation (business rates and council tax).

2.6 The 2022 index, which provides the relative position for the 2021/22 financial year, is the most up to date index currently available. Councils' performance is ranked relative to those in the selected 'comparator group'.

2.7 Babergh is seen as having higher risks around the level of external debt, interest payable and the proportion of fees and charges income against total revenue expenditure. The external debt includes that associated with the HRA, so the Council will always be seen as a higher risk compared to those councils without housing stock, but it is balanced against the value of the housing stock on the Council's balance sheet.

- 2.8 The other elements are all linked to the investment that the Council has made in CIFCO by increasing General Fund debt levels, higher interest payments, but also higher investment income coming back to the Council and is secured by charges on the properties acquired by CIFCO.
- 2.9 Alongside the statutory role of the CFO the Council has in place a number of financial management policies and financial controls which are set out in the Financial Regulations.
- 2.10 Other safeguards which ensure that the Council does not over-commit financially include:
- a) the statutory requirement for each local authority to set and arrange their affairs to remain within prudential limits for borrowing and capital investment;
 - b) the balanced budget requirement of the Local Government Finance Act 1992 (Sections 32, 43 and 93); and
 - c) the auditors' consideration of whether the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).
- 2.11 The Council conducts an annual review of the effectiveness of the system of internal control and reports on this in the "Annual Governance Statement".
- 2.12 The internal and external audit functions play a key role in ensuring that the Council's financial controls and governance arrangements are operating satisfactorily. This is backed up by the review processes of Cabinet and the Joint Audit and Standards Committee undertaking the role of the Council's Audit Committee.

c) **Budget Planning and Budget Management**

- 2.13 The financial planning process is Councillor-led as Cabinet decides the principles and policies that underpin budget planning. The Budget Report describes the strategy for 2023/24 and beyond.
- 2.14 Cost pressures and variations in key areas of income and expenditure have been carefully considered and reflected in the budget.
- 2.15 Key assumptions have been made and updated during the budget process to reflect the changing economic position and latest information. Budget assumptions for 2023/24 have also been considered and included in the process.
- 2.16 Detailed scrutiny, review and challenge of budgets has been undertaken by finance officers and the Senior Leadership Team.
- 2.17 There has been an examination by the Overview and Scrutiny Committee in advance of the budget being approved. The recommendations made by the

Committee are considered by Cabinet before the budget is presented to Council.

2.18 A key factor in effective budget management is the Council's regular monitoring of spending against budgets throughout the year and at year-end. Budget managers are required to update their forecasts during the year, and these are subject to review by Cabinet on a quarterly basis. The development of budget managers and initiatives to strengthen budgetary control and financial management throughout the Council is an ongoing process.

2.19 The Council has a proven track record on budget management, which is confirmed by Ernst & Young in their Annual Audit Letter. The auditors are required to form a conclusion on the arrangements the Council has put in place to secure economy, efficiency and effectiveness in its use of resources. There has been a delay in the external audit process for 2020/21, but an unqualified opinion was achieved for 2019/20 and is expected again for 2020/21.

2.20 As part of the audit work for the 2019/20 and 2020/21 financial statements, a going concern review was undertaken in light of Covid19. The Council has demonstrated that it is currently in a strong financial position with the level of reserves it has and the funding received from the Government mitigating the financial impact forecast.

d) Adequacy of Insurance and Risk Management

2.21 The Council's insurance arrangements are in the form of external insurance premiums with regular reviews being undertaken of the level at which risks are insured.

2.22 A critical area where risk management thinking can add significant value is to enhance the planning and budgeting process. Utilising a risk-based approach directly links to the Council's risk appetite to its core financial and economic performance, supported by the Council's Significant Risk Register. The goal when integrating risk management into budget planning is to understand the assumptions that the budget is based on.

2.23 The effective application of the Council's risk management principles enhances many processes within the context of managing its services and enables management to make better and more informed decision.

2.24 Our approach is to identify the major line items of each service budget, the personnel who contributed to them and the basis of estimation and then to ask key questions such as:

- What are the potential risks that could interfere with the accuracy of the estimate?
- What is the likelihood of these risks materialising?
- What would the impact on the organisation be if they did materialise?

e) **Mitigation of Strategic Financial Risk**

2.25 No budget can be completely free from risk, and this is especially true with the inflationary pressures and cost of supplies currently affecting the Councils finances. Some comments on the areas of the budget having key financial impacts or significant changes for 2023/24 are set out below:

- **Pay and Pensions** – The budget includes provision for pay increases of 4% for 2023/24 and 2% for each of the following 3 years to 2026/27 and continues to provide for annual progression through pay scales where employees are not at the top of their grades. A 1% change in pay amounts to around £110k per annum.

Based on the 2022 triennial pension fund valuation the contribution rate has been increased to 26% from 23% from 2023/24 and the lump sum contribution towards the deficit removed.

The Council's establishment budget is based on a full establishment. To allow for in-year vacancy savings the budget includes an annual vacancy saving of £570k, which equates to 5%.

- **Price Increases** – Allowances for price increases have been made on some budgets including major contracts, where there is a contractual requirement to do so. For other areas the budget assumes any price inflation is absorbed by the service. A 1% change in the refuse and ICT contracts and the Shared Revenues Partnership is around £40k.
- **Income from Fees and Charges** – A significant part of the Council's costs continue to be met from fees and charges. For some of these headings it is difficult to predict the level of income to be received e.g. planning fees, so progress against these income targets will need to be monitored throughout the year, particularly in the light of continuing economic volatility. A 1% change in fees and charges income including from planning, building control, garden waste, car park and recycling performance payments income is around £41k.
- **Investment Income and Interest Payable** –The Council has diversified its investments into a property fund and other pooled funds, following advice from Arlingclose, to increase the return on investment. Following implementation of International Financial Reporting Standards (IFRS) and how changes to the year-end values of pooled funds have to be treated could encourage the redemption of holdings and reduce the anticipated level of return, but this will not come into force until April 2025.
- **Business Rates Retention** – As business rates is an increasingly important source of income for the Council, measures for closer monitoring have been put in place. Under the current retention system, the General Fund's exposure to variances can come from economic decline, cessation of business from a major ratepayer and appeals to rateable values. The Council operates a Business Rates and Council Tax Collection Fund Reserve to cover for this possibility as appropriate and the Government provided some funding to cover irrecoverable tax losses.

The change to 75% retention of business rates is now unlikely to be taken forward and the reset has been deferred. The figures beyond 2023/24 assume a continuation of resources at the current level, but this is unknown. If baseline funding levels should reduce, the Business Rates and Council tax Collection Fund Reserve could be used to support a short-term reduction, but medium-term plans and resources would need to be reviewed.

- **Council Tax Income and the Tax Base** – the impact from Covid on collection rates, the number of Local Council Tax Reduction (LCTR) claimants and the build rate of new homes across the district has been less than anticipated when the budget for 2022/23 was set. This means that a 1.6% increase has been calculated for the tax base for 2023/24, which will generate additional council tax income of £99k. As a result of the improved position, a surplus of £21k is anticipated on the Collection Fund for 2022/23, which is included in the budget for 2023/24.
- **Government Funding** – Revenue Support Grant (RSG) will be received in 2023/24 as a result of the Family Annex Council Tax Discount Grant and LCTS Administration Grant being rolled up into the settlement. These were previously accounted for within service income, so does not impact the overall budget position.

The Council's core Government funding also includes the Rural Services Delivery Grant (RSDG), New Homes Bonus (NHB), Lower Tier Services Grant and the Funding Guarantee Grant. This is a new grant has been created to ensure every authority has an increase in Core Spending Power (CSP) of at least 3%. This Funding Guarantee Grant will be funded from the Lower Tier Services Grant (LTSG) and the reduced cost of New Homes Bonus (NHB).

There remains uncertainty beyond 2023/24, so the medium-term figures are based on the current level of RSDG continuing and NHB reducing in 2025/26 and future years.

- **Welfare Reforms, Benefits and Council Tax Reductions** – At a forecast of £12m for 2023/24, housing benefit remains one of the Council's largest financial transactions, which due to the welfare reforms and introduction of Universal Credit and the Council Tax Reduction scheme is subject to increasing risk and change. This will continue to be closely monitored in order to protect the Council from any emerging risks and liabilities.

f) Capital Programme

2.26 The Council's new capital programme funding for the next 4 years is £16.9m which is largely funded through borrowing and is based upon reasonable estimates of cost and capacity to deliver the programme. The programme has been developed to support the key deliverables of the Council and its ambition through the Joint Corporate Plan.

2.27 A key risk therefore to consider in the Council's budget planning is the interest cost and provision for repayment of debt (Minimum Revenue Provision – MRP) that it will need to meet commitments on the borrowing it undertakes for capital

purposes. The Government is currently reviewing feedback from a consultation on MRP which ended in February 2022. This included an amendment which would require the Council to start making MRP on its loans to its companies, rather than set aside the capital receipts from repayments as it does currently. If this change is implemented this could increase costs.

- 2.28 Review of the capital programme on an ongoing basis is required to ensure that future borrowing is targeted on projects that deliver the most for the district and are affordable within the current revenue resources.
- 2.29 The borrowing strategy and MRP policy are set out in detail in the Capital, Investment and Treasury Management Strategies document.

Conclusion

- 2.30 Taking all of the above into consideration, the Section 151 Officer's opinion is that the Council's budget and estimates are reasonable based on the assumptions and available information, but cannot be absolutely robust, so a full assurance cannot be given that there will be no unforeseen adverse variances.
- 2.31 This is an expected and acceptable situation for any organisation that is dealing with a large number of variables. Also, the general economic situation continues to impact on expenditure and income. The minimum safe level of reserves proved to be sufficient to manage the impact of the Covid-19 pandemic in 2020/21 and 2021/22, alongside the support provided by the Government, which has been the single largest impact on local authorities' finances in recent years, so provided this is maintained, any variations arising as a result of lack of robustness in the estimates should be manageable.

3 Adequacy of Reserves

- 3.1 There is no available guidance on the minimum level of reserves that should be maintained. Each authority should determine a prudent level of reserves based upon their own circumstances, risk and uncertainties. Regard has been had to guidance that has been issued to CFO's and the risks and uncertainties faced.
- 3.2 The Council is required to maintain adequate financial reserves to meet the needs of the authority. This is the General Reserve and provides a safe level of contingency.
- 3.3 The minimum level of unearmarked reserves in 2023/24 will remain at £1m after being reduced from £1.2m in 2022/23. This represents 8% of the annual General Fund Budget. There is currently no intention to increase the reserve, this is partly based on the understanding that there are further sums available in earmarked reserves that will not be fully spent during 2023/24 as set out below.
- 3.4 Levels of earmarked reserves (excluding those relating to the Housing Revenue Account but including the Strategic Priorities Reserve) are forecast to be £6.7m at 31 March 2024. The Strategic Priorities Reserve is continuing to support the delivery of the Council's Joint Corporate Plan in 2023/24.

4. Background Documents

Local Government Act 2003; Guidance Note on Local Authority Reserves and Balances – CIPFA 2003; Medium Term Financial Strategy

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