

Report to Cabinet

23 November 2023

By the Cabinet Member for Finance and Resources



DECISION REQUIRED

Not Exempt

Update on the Council's financial position in 2023/24 and Medium-Term Financial Strategy update 2024/25 to 2029/30

Executive Summary

This report updates the Council's financial position in 2023/24 and the Medium-Term Financial Planning scenarios and assumptions and compares it to the budget set in February 2023. The 2024/25 draft settlement and budget challenge process will be completed in December, so the indicative numbers contained within this report are subject to amendment and change.

Economic uncertainty in the context of a cost of living crisis puts significant pressure on balancing the budget. Sustained levels of high inflation in services, materials and utilities together with pressure from salary increases bakes a high level of gross expenditure into the baseline. In these circumstances it is fortunate that the Council is not a borrowing authority and has kept high levels of reserves and thus is able, in the short term, to have time to make considered decisions. It is able to fund some of the rising costs with the interest from its investments. The Council will also have to increase fees and charges to balance the budget in 2024/25, potentially affecting residents that are struggling with the cost of living.

Prior to aligning the budget with the work being undertaken on the Council Plan Annual Plan for 2024/25, a balanced budget is currently estimated in 2024/25.

The medium-term remains very uncertain. We anticipate that a single year settlement in 2024/25 will be broadly similar to 2023/24. We do not expect a multi-year settlement until after the new parliamentary term which reduces the effectiveness of our planning. There are numerous risks to balancing future budgets, including inflation, the associated costs of our commitment to the environment and decarbonisation, the lack of clarity on the future of Government's funding of the sector, their plans for the reform of business rates or how levelling up will affect us, and the recent announcement for mandatory food waste collection by 2026. Spending reserves without generating a financial return or finding income and / or savings elsewhere to replace the lost investment income will exacerbate the situation.

The immediate risk is currently the high level of inflation and we are likely to require substantial action to set balanced budgets across the medium-term, although not necessarily in this forthcoming 2024/25 budget.

Recommendations

The Cabinet is asked to:

- i) Note the changes detailed in this report in the Council's financial position in 2023/24 and medium-term financial strategy.

- ii) Recommend to Council that the charges from 1 April 2024 for the garden waste subscription service are increased from £49 for the first bin to £54 and charge this price for any subsequent bins too.
- iii) Recommend to Council to increase the price of the multi-storey car park day pass tariffs from 1 February 2024 from £5.50 to £8.80 at Piries Place and £7.30 at Swan Walk, and from £3.95 to £5.60 at the Forum car parks.
- iv) Subject to Council approval, support those of working age on Council Tax Support with up to £195 in 2024/25, funded from any 2024/25 Funding Guarantee grant, or reserve and ask Council to approve that this is reflected in the 2024/2025 budget accordingly.
- v) Subject to the scheme status quo remaining and a similar settlement to 2023/24, (i) approve that the Council remains in the West Sussex Business Rates pool in 2024/25 and (ii) to delegate authority to the Director of Resources in consultation with the Cabinet Member for Finance and Resources to (a) agree the operational details of the pooling arrangements with participating authorities, and, (b) enter into any required documentation to give effect to this proposal.

Reasons for Recommendations

- i) The Council needs to acknowledge the effects that high levels of inflation will have on its financial position both in the short and medium-term. Deficits are predicted unless action is taken on fees and charges. Given the level of uncertainty in the projections, the economy and proposed Government action, the report does not recommend direct action to drastically reduce expenditure at this stage, but does recommend not worsening the revenue position now.
- ii) and iii) Council required to approve fees and charges, and expenditure as per the constitution.
- iv) Cabinet must approve any such support schemes.
- v) Remaining in the West Sussex business Rates pool should benefit the County and therefore the district by retaining locally generated business rates, using it to further support the economic regeneration of the wider West Sussex area.

Background papers:

- Budget and Medium-Term Financial Strategy report Cabinet 26 January 2023 (approved by Council on 2 February 2023).
- Report on the Council's Finance and Performance (2023/24 at Q1 & M4) Overview and Scrutiny Committee 25 September 2023.
- Report on the Council's Finance and Performance (2023/24 at Q2) Overview and Scrutiny Committee 20 November 2023.

Appendices:

- Appendix I: Summary of high-level assumptions and changes
- Appendix II: Potential capital infrastructure / carbon reducing costs during 2020s

Wards affected: All

Contact: Dominic Bradley, Director of Resources, dominic.bradley@horsham.gov.uk
Samantha Wilson, Head of Finance & Performance, samantha.wilson@horsham.gov.uk

Background Information

1 Introduction and background

- 1.1 The 2023/24 budget was set by Council in February 2023. Inflation as measured by Consumer Price Index has come down from its 11% peak, but remains high, with high energy prices, the general cost of living increases, and global events such as the ongoing war in Ukraine impacting prices and world supply chains, all contributing to budgetary pressures and to a pessimistic outlook. Increasing fees and charges, and the rapid increase in the Bank of England base rate which increases our investment income, has helped to mitigate this in the short term at least.
- 1.2 Rising salary and price costs and the introduction of a food waste collection scheme all contribute to a predicted significant gap of £3.2m in the Medium-Term Financial Strategy by 2029/30 if measures are not taken to minimise the deficit. This is before any expenditure on any new services or large project expenditures might widen the gap considerably.
- 1.3 To rebalance its position, the Council will need to carefully consider the fees that it charges, its service offers and / or ways in which it can generate more income. The Council's reserves mean that in the short term, we do not have to rush to take immediate action, but they cannot be seen as an alternative to taking decisions to bring the budget back to balance. Nor should they be spent without generating a financial return or generating income and / or savings elsewhere to compensate for the loss of investment income, as this will worsen the financial position. Balancing the budget would be difficult for us to do without cutting services.
- 1.4 Last year, Government indicated there would be a similar settlement for 2023-24 and 2024-25. The Fair Funding Review, business rates baseline reset, and other funding reforms are likely to be pushed back to 2025-26 after the new parliamentary term. With an increasing number of local authorities in financial difficulties, there have been calls in the sector for more funding. However, in September 2023, in response to these calls, the MP for Local Government, Lee Rowley, signalled that there "is no more money" with local government being asked to make further efficiency savings, which points to real term funding cuts in the medium-term.

2 Relevant Council policy

- 2.1 Look for opportunities to generate income and reduce costs in order to support our services. Council Plan 2023-27.

3 Details

- 3.1 The forecast outturn at Month 6 for 2023/24 is a £0.38m net overspend. Operationally, investment income from rising interest rates is so far covering the increase in inflationary costs, which include the anticipated £0.3m of salaries overspend because the national pay award offer of £1,925 or 3.88% per person is higher than the flat rate 4.5% in the budget. Extra staffing costs to help deliver priorities have increased the costs.
- 3.2 The updated budget position including the current year forecast and revised interim Medium-Term Financial Strategy is set out in table 1. Appendix I sets out a summary of the assumptions now, against the assumptions that were used when the 2023/24 budget was set and also summarises the key forecast movements in net expenditure between years. Details of the assumptions and any changes are set out in section 3 of the report.

Table 1: interim MTFS Nov 2023

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£000	£000	£000	£000	£000	£000	£000	£000
Estimated net expenditure	12,188	13,513	13,986	14,860	15,510	16,865	18,285	18,910
<i>In year budget adjustments</i>	121	248	-	-	-	-	-	-
<i>Over / (underspend) [*forecast M6*]</i>	(258)	4*	-	-	-	-	-	-
Estimated net expenditure	12,051	13,765	13,986	14,860	15,510	16,865	18,285	18,910
Funding: Council Tax	(10,700)	(11,154)	(11,557)	(11,908)	(12,320)	(12,745)	(13,185)	(13,670)
Government grants	(56)	(222)	(226)	(232)	-	-	-	-
Baseline Business Rates	(2,052)	(2,129)	(2,192)	(2,259)	(2,000)	(2,000)	(2,000)	(2,000)
Rural services grant	(11)	(11)	(11)	(11)	(10)	(10)	(10)	(10)
Total Funding	(12,819)	(13,516)	(13,986)	(14,410)	(14,330)	(14,755)	(15,195)	(15,680)
Net (Surplus) / Deficit rounded	(768)	248	0	450	1,180	2,110	3,090	3,230

Expenditure pressures:

- 3.3 Inflation and pay increases remain the significant area of concern in our projections. We are seeing greater pay pressures in our professions and difficulties in recruitment and retention generally which is compounded by the increase of home working, meaning officers who would work for us to avoid the daily commute to London are now moving into consultancy or London-based jobs because they pay better. We also know that the national cost of living crisis is starting to have an impact on middle income earners, which will include more Council staff on higher pay grades.
- 3.4 The national pay award offer for 2023/24 is £1,925 per post or 3.88% whichever is highest. This is an 8.6% increase for those on the lowest grades. It is projected to cost the Council an extra £0.3m on top of the £1m increase included in the budget which was based at an estimated 4.5% salary increase.
- 3.5 The Medium-Term Financial Strategy assumes a further 4.5% salary increase in 2024/25 as well, adding a further £1.1m, falling to rises of 2% (£0.5m) by 2027/28 on the assumption that a lower rate of inflation will eventually reduce this pressure over the period. The cumulative impact over the six year period to 2029/30 is approximately £4.4m of expenditure growth baked into the baseline which is a significant budgetary pressure ahead.
- 3.6 The inflation rate in August 2023 was 6.7% and 9.1% under the Consumer Price Index (CPI) and Retail Price Index (RPI) respectively, down from the peak of 11.1% and 14.2% respectively in October 2022. The Medium-Term Financial Strategy assumes an average rate of inflation of 6% in 2024/25, slowly falling towards the Bank of England 2% target towards the end of the decade. This is the single largest risk factor in the economic outlook. Inflation may stay higher for longer and may not ever fall back down to the 2% Bank of England target in the 2020s. Building materials are rising much higher than standard CPI / RPI inflation, and the budget for maintenance will need to increase just to stand still.
- 3.7 Other non-inflationary increased costs are expected in 2024/25. For example, budget pressures are being felt in Revenues & Benefits for a variety of reasons, but predominately from the Department for Work and Pensions drive to move more claimants to Universal Credit. This is reducing the amount of overpayments being made. Whilst this is good for Government, recovery of overpayments, which the Council keep, has previously subsidised the running of the service. The amount of recovered overpayments has also dipped as people struggle to make ends meet due to the higher cost of living. This is a budget pressure in addition to the potential loss of subsidy from breaching the upper Local Authority error threshold in the 2022/23 Housing Benefit claim which has yet to be audited.
- 3.8 The Revenues and Benefits budget is also at risk in the future from increases in Supported and Exempt Accommodation costs which are properties that are capped for subsidy. These properties require the Council, where they fall into the exempt classification, to pay benefit above the level of subsidy that can be claimed. This creates a direct pressure to the Council and these types of cases have been increasing each year. The total impact of all the pressures on the cost of the Revenues and Benefits service could be as much as £200,000 in 2024/25.
- 3.9 Public Sector Audit Appointments (PSAA) has informed us that the audit fee for 2023/24, which will take place in 2024/25, will increase by £100,000, so it reflects

current audit requirements. This will cover additional work on estimates and the value for money conclusion, as well as a 151% audit fee uplift to reflect the recent audit procurement outcome designed to keep external auditors in the public sector market.

- 3.10 In 2023/24, the Council extended their support to approximately 3,200 working age claimants on Council Tax Support after taking the impact of cost of living into consideration. Previous schemes since the outbreak of Covid-19 had seen West Sussex County Council (77.5%) and Horsham (22.5%) share the cost of the support scheme up to £150 per claimant. In 2023/24, Government provided full funding for the first £25 and WSCC provided funding for their 77.5% share of the next £25 with this Council providing the remaining funding, topping the support up to £195.
- 3.11 This report recommends support to those of working age on Council Tax Support with up to £195 in 2024/25. The cost of this is likely to be without WSCC support as they have already indicated that they do not have the budget for this. This cost may also be without any Government support either. Although claimants would receive the same amount as they did in 2023/24, it will cost the Council more owing to the lack of WSCC's contribution. The proposal would be funded using around £0.5m of any Funding Guarantee grant in 2024/25. If this grant is not received, it would be funded from reserves. The decision is being taken now so that implementation is earlier. Ideally this will be undertaken through annual billing which is more efficient for both Council and claimant, although this will not be possible if Government support goes ahead as this uses up all the systems functionality, making our process manual. Should any specific funding materialise from Government, it can be applied and the Council's own liability reduced.
- 3.12 The 2024/25 Annual Plan is currently being developed and as part of that process, Cabinet Members are discussing potential opportunities for spending that would support the delivery of the Council Plan objectives. These potential areas of increased spend are currently being refined and will be included in the draft budget. The draft budget would set out how these would be funded, either through increased fees and charges, budget reductions elsewhere in the organisation, or possibly through the one-off use of Reserves should the additional spend also be a one-off.
- 3.13 The 2024/25 budget will also address increased cost pressures to some of the Council's key contracts, as all parts of the economy are being affected by inflationary pressures.
- 3.14 On 21 October 2023 Government announced plans to mandate food waste collection by 31 March 2025 for commercial waste and 31 March 2026 for domestic waste. For a while now, we have been working with consultants Ricardo on the options and estimated costs of domestic food waste collection including a trial. The indicative cost is estimated to be £1.5m per annum for a 3,2,1 service where refuse is collected every three weeks, recycling and garden waste fortnightly and food waste weekly. The initial trial of 100 households indicated that there is capacity within the standard 140 litre residual waste bin once food waste is collected separately. A weekly opt-in absorbent hygiene product collection would increase the costs. Government is consulting on their proposed plans, noting though that their emphasis was on the collection of residual waste every two weeks or less which our data suggests is unnecessary. The estimated cost for the 2,2,1 proposal is higher at £1.8m per annum.

3.15 In anticipation of the introduction of food waste in the latter years of the MTFs, £1.3m from the 2023/24 Settlement was put aside in an earmarked reserve to help fund the first year of initial implementation. The Government announcements include reference to capital funding and some transitional revenue funding. The detail and requirements will emerge in due course and the MTFs will be updated. For now, our assumption is that any revenue funding from Government will be transitional and this together with the earmarked reserve only delays the £1.5m per annum impact to 2027/28 and 2028/29. However, transitional funding may last longer, in which case the full impact may be pushed out to a later year.

Income:

- 3.16 To help combat rising costs, the current budget forecast for 2024/25 includes a 2.99% (£5.15) increase in Council tax (inclusive of the unparished area special charge) adding £340,000 to overall income. This is split into a 2% increase in the Horsham Council Tax (£3.34) and a 35% increase in the special charge (£9.69), owing to the fact that there are fewer households in the unparished area. The special charge is currently much lower than the average parish council precept. Any reduction in Government funding increases the reliance on local Council tax in the future. Therefore, such an increase is sensible to ensure that future levels of Council tax income are 'banked' as the present cap and referendum thresholds mean that periods beneath the threshold cannot be caught up. If any surplus is generated when the budget is delivered, it could be reinvested for example to support the vulnerable and those in need from the cost of living crisis.
- 3.17 The Medium-Term Financial Strategy models an indicative 2.99% Council tax increase per year. This equates to approximately £5.46 each year for a band D equivalent and approximately £380,000 of income each year on average over the period. Future referendum threshold levels are unknown but we have assumed the threshold cap remains at limiting the increase to a maximum 2.99% or £5. Should the percentage cap fall to 2%, we would assume the £5 is used. The difference and impact on income is relatively small.
- 3.18 The wider economic situation has had one benefit to the Council in the form of high interest rates. Most economists are forecasting that the base interest rate will peak between 5.25% and 5.75% and that the days of very low interest rates are over. Arlingclose, our treasury management advisors, are predicting interest rates peak at 5.5% and then level out at around 4.5% in 2026. In 2023/24, we are forecasting income of £3m from our investments, which is helping to balance the overspend from high inflation on costs.
- 3.19 Being reliant on investment income though puts the Council at risk of a widening deficit if the interest rate falls or if the investments are spent on something that does not generate the same amount of return as Treasury Management.
- 3.20 The Council is also at risk of losing Government funding. In September 2023, in response to local government asking for more sector support, the Minister for Local Government, Lee Rowley, signalled that there "is no more money" with local government being asked to make further efficiency savings. We have consistently received just over £2m of business rates income as part of the annual settlement and in 2023/24 received £3m of temporary funding through a one-off funding guarantee grant to ensure no council had a decrease in Core Spending Power.
- 3.21 The expectation is that Government funding in 2024/25 will be broadly similar to 2023/24 but that the temporary funding will cease when either the current business

rates system is reformed or Government's funding of the sector is levelled up. The Medium-Term Financial Strategy models the removal of the temporary funding guarantee grant, which is not taken into revenue because it is classed as temporary, but retains the £2m from business rates (or equivalent). There is a risk that a significant change to business rates could reduce or remove this funding completely as well, albeit we do not expect this to be done before 2026 following a period of consultation. We may though only find out about this as part of a future December Settlement, but this could considerably worsen our funding position.

- 3.22 Some of our current contracts expire before 2029/30. The leisure services contract for running the leisure centres for example will need to be retendered in 2027/28. In the current market, were this to be retendered now, we are likely to find that the management fee income payment made to us would be significantly lower than the current £0.6m p.a. we currently receive. The Medium-Term Financial Strategy factors in some loss of income, but there is a risk that the loss of income could be worse.

Fees

- 3.23 To help the annual process of garden waste billing run smoothly, this report recommends to Council that the charges from 1 April 2024 for the garden waste subscription service are increased from £49 for the first bin to £54 and that fee is charged for all subsequent bins as well. This early notification will inform customers of the price increase at the same time as reminding them about their forthcoming subscription renewal. The fee rise will increase income by approx. £200,000 depending on whether the price increase causes any significant drop-off in subscriptions. The extra income will pay for the high cost of Hydrotreated Vegetable Oil fuel touching £1.90 per litre, rising salary costs and higher costs for maintenance and parts. The garden waste fee will still be the lowest in West Sussex.
- 3.24 Parking habits have changed since the advent of Covid-19 and the Parking service has reviewed its fees and charges for daily passes within the multi-storey car parks in Horsham. The daily passes offer more flexibility than a season ticket. This report recommends increasing the price of the multi-storey car park day pass tariffs from 1 February 2024 to £8.80 at Piries Place, £7.30 at Swan Walk and £5.60 at the Forum car parks. The changes from 1 February 2024 are not expected to make an impact on the 2023/24 budget as these passes can be bought in advance but additional income of around £150,000 will be added during the budget setting for 2024/25.
- 3.25 Given the level of uncertainty about the Council's funding position, future levels of inflation, and the strength of the reserves position, officers have not yet spent time drafting detailed significant savings proposals for 2024/25, or indeed later years yet, unless Councillors are minded to not increase Council Tax next year. Councillors must though be prepared to consider increasing fees and charges at levels matching inflation in 2024/25 and future years too, otherwise the net cost of services gap widens even further. Fee increases become more difficult as some of our customers are already feeling the effects of the rising cost of living and energy price increases.
- 3.26 Housing services are considering updating the rents of temporary accommodation housing rents to Local Housing Allowance rates. Some rents are currently set at January 2011 rates. Most households are on full housing benefit so this would not impact them. Hfurther work to identify those who are partially self-funded to assess

the impact and looking at the options for a transitional discretionary support fund. If all temporary accommodation rents were increased to current LHA rates, this could generate around £270,000 per annum. After setting aside some of these additional funds for the discretionary transitional support fund, this could be used to support other housing services.

Infrastructure, decarbonisation and improving the environment

- 3.27 The current Medium-Term Financial Strategy includes an indicative £0.1m revenue impact each year representing numerous anticipated smaller actions to improve our lower-level decarbonisation efforts through our climate action plan, and as we take a variety of steps to improve the natural environment. However, to get close to achieving the 2030 net zero target, and replace our aging infrastructure, we would need to address some significant and costly items over the remainder of the decade. These are not yet taken into consideration in the MTFS numbers as we may decide not to undertake them but are indicatively set out in Appendix II.
- 3.28 The expenditure in Appendix II is split into two unrefined categories. Some £20m might be considered more probable simply because we may have to do it, such as improving the carbon standing of our commercial investment portfolio to be able to continue to rent them out if Government requires landlords to achieve certain EPC type ratings, and replacement of our aging waste collection vehicles so that we can continue to collect the waste and recycling in the district. Some options though might come with a higher degree of choice, such as the refurbishment and decarbonisation of leisure centres or the Capitol Theatre where there is a not a statutory requirement to deliver the services or meet certain standards in the short to medium term. The estimate for this portion is around £25m.
- 3.29 Some of the larger decisions, in either category, to achieve net zero will considerably impact the Council's financial position in the medium and long term and will therefore need to be reviewed alongside the Council's decisions made in the revenue and capital budgets and the need to set a balanced budget, as is required by law, and which maintain sufficient reserve levels.
- 3.30 The unaudited useable Reserves as at 31 March 2023 contain £26.4m in the general fund reserve with £14.7m in an environment and infrastructure earmarked reserve. This level of reserves is significantly above the minimum level of reserves set at £6m. However, it should be seen in the context of a potential £3.2m forecast budget gap by 2029/30 which would cumulatively require £10m of the GF reserves to plug the deficits if no action is taken, and also the significant decarbonisation and infrastructure replacement costs set out in Appendix II.
- 3.31 The revenue impact from spending £45m on top of the £5m to £6m standard annual capital programme could be as much as £2.7m p.a. by the end of the period for loss of interest, borrowing costs and Minimum Revenue Provision. In addition, it is likely that some of the facilities would close for refurbishment. In the case of a leisure centre for example, it would reduce income through a reduction in management fee. Again, these have not yet been factored into the Medium-Term Financial Strategy yet but will need to be factored into the decision making.

The impact of a large capital project on the MTFS

- 3.32 A team of consultants were appointed in August 2022 to carry out a study to review options for refurbishment and redevelopment of the Capitol Theatre in support of the developing business plan. Several options are being explored to improve audience facilities, to improve the carbon efficiency of the building, to increase the

theatre capacity to try to reduce the annual subsidy, and to redesign and refurbish the venue. Such refurbishment and improvement will be very costly and a report will be brought to Council in due course.

- 3.33 The table below also sets out the estimated impact over the Medium-term if significant decarbonisation, refurbishment and seating replacement works of £11m started in the Capitol in early 2025, running across two years.

Table shown in £'000 and indicative impact [rounded]

Capitol £11m	2025/26	2026/27	2027/28	2028/29	2029/30	Reserves needed*
Original Net Deficit	450	1,180	2,110	3,090	3,230	10,000
Investment inc loss	250	300				
Capitol closure / reopen	50		(50)			
Reduction in subsidy			(125)			
MTFS cumulative effect	300	600	425	425	425	2,175
New Net Deficit [rounded]	750	1,780	2,530	3,525	3,650	12,175

- 3.34 The original net deficit would use £11m from reserves if no action is taken to close the deficits. The £11m Capitol refurbishment would use a further £2.2m of reserves and then leave a £3.6m deficit to plug each year by the end of the decade. It indicates that any major project brings with it a considerable revenue impact that would also need to be funded through additional income or by reductions to services elsewhere.
- 3.35 Savings in 2025/26 may require the closure or reduction of non-statutory public services. This is because action taken in November 2020 during the Covid-19 pandemic which put the Council in reasonable shape financially has stretched the capacity to deliver services with current levels of staff. Further savings could only be achieved if services were withdrawn.

Business Rates pooling in West Sussex

- 3.36 Authorities in West Sussex have another opportunity to form a business rates pool in 2024/25. A West Sussex business rates pool should benefit the County and therefore the district by retaining locally generated business rates, using it to further support the economic regeneration of the wider West Sussex area. This report recommends that Horsham remain in the pool with West Sussex County Council and the districts of Arun, Adur and Mid Sussex, as this combination maximises the amount of local retention. The 'gain' is estimated at £5m across the County, depending on how well business rates perform. Horsham have been part of the pool since 2022/23, when the Pool reformed after being disbanded in 2021/22 due to the perceived risk from the level of economic uncertainty on business rates under Covid-19.

4 Next steps

- 4.1 On 25 January 2024, the 2024/25 Budget will be taken to Cabinet to recommend approval at the 21 February 2024 full Council meeting where the Council Tax for 2024/25 will be set. The Medium-Term Financial Strategy will also be again updated at this time to take account of our settlement, if known at that date.

5 Views of the Policy Development Advisory Group and outcome of consultations

- 5.1 Finance and Resources Policy Development Advisory Group met on 13 November 2023 and discussed the key assumption in the immediate and longer-term, especially the ongoing impact of expenditure pressures on the Medium-Term Financial Strategy and the uncertainties and the implications to balance future budgets. The Environmental Health, Recycling and Waste PDAG met on 16 November 2023 and discussed the garden waste fees.
- 5.2 The Chief Executive, Directors, and Heads of Services have been involved in preparing the immediate budget forecast and will be finalising the 2024/25 budget in the ledger. Officers are already thinking of ways to address the medium-term financial gap through fee charges and income. They are supportive of its contents. The Monitoring Officer has also been consulted during the preparation of the document and acknowledges its contents.

6 Other courses of action considered but rejected

- 6.1 Making cuts to popular non-statutory services such as parks and countryside, planning enforcement and cultural and leisure services was considered. This was rejected because the scale of the proposed deficits in the future is very uncertain. While designed to protect services, this approach does risk the Council having greater difficulties balancing its financial position in two to three years' time and this could have a damaging impact on reserves, unless income is increased through fees and charges.

7 Resource consequences

- 7.1 Specific actions to address the future financial gaps are not detailed in this report. Over the next few weeks, the detailed 2024/25 budgets will be developed as part of the budget setting process in February 2024, alongside the 2024/25 Annual Plan.
- 7.2 The significant cost of infrastructure replacement and accompanying carbon reduction across the decade are not included in this Medium-Term Financial Plan as the costs and timings are broad estimates. Adoption of the 2030 net zero target and action plan to achieve net zero will considerably worsen the Council's financial position in the medium and long term. This together with the replacement of key infrastructure could cost as much £45m between now and 2030, as shown in appendix II. In the carbon improvement works done so far, as a rule of thumb, around one third of the costs might be attributable to carbon reduction.
- 7.3 The Chief Finance Officer's view is that the Council needs to maintain financial discipline, both now and in the future, and not spend more than is affordable. Additional spending now without financial return or extra income and / or savings to compensate will only sharpen the need for deeper cuts or much higher fees and charges increases later. It may also limit the scope in the future for capital projects

that produce social rather than financial returns. The CFO therefore advises that existing resources are reshaped, rather than added to.

8 Legal consequences

- 8.1 The Council is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. This report indicates the Council is able to get to a balanced budget for 2024/25 if income is increased through fees and charges, but may face difficulties in future years if it doesn't.
- 8.2 This report sets out the Council's current and expected financial position. The Director of Resources has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs.
- 8.3 The Local Government Act 1999 places a duty on the Council as a 'Best Value' authority to secure continuous improvement in the way its functions are exercised so as to secure economy, efficiency and effectiveness.
- 8.4 The Monitoring Office endorses the sentiment expressed by the Chief Finance Officer at paragraph 7.3 of this report.

9 Risk assessment

- 9.1 The Council's reliance on central government funding and balancing the Medium-Term Financial Plan is captured on the corporate risk register at CRR01. The risk on inflation and uncertainty in the economy reducing income is captured in CRR 19. The risk registers are regularly reviewed and updated and is monitored at Audit Committee on a quarterly basis.
- 9.2 Many figures provided in this report are estimated at this stage. There is a risk that actual reductions in income and stronger expenditure pressures that the Council faces could increase the range of losses.
- 9.3 There is a moderate risk that customer habits will change for paid services such as parking and the cultural and leisure offers if customers reduce their expenditure as they struggle financially. This is especially so if fees and charges are raised by inflationary levels. Income might not therefore hit the budgeted levels.
- 9.4 There is a high risk the Government's proposal for business rates reform will worsen the financial situation earlier or more deeply than current predicted. There is also a risk that Government implements other initiatives such Extended Producer Responsibility (EPR) for recycling packaging which may detrimentally affect the cost of operations.

10 Procurement implications

- 10.1 There are no procurement implications arising from this report.

11. Equalities and Human Rights implications / Public Sector Equality Duty

- 11.1 There are no equality or human rights implications arising from this report because there are no decisions for cuts in this report at this stage.

12 Environmental implications

12.1 There are no environmental implications because there are no decision for cuts or growth at this stage of our budget development.

13 Other considerations

13.1 There are no other considerations to take into account at this stage of developing the Medium-Term Financial Strategy.

Appendix I – summary of high-level assumptions and changes

Area	November 2023 assumptions	February 2023 assumptions
Inflation cost non-salaries	6% increase in 2024/25, falling to 2% by 2027/28. Risk that it remains higher.	6.5% average in 2024/25, falling by 1.5% each year across the period.
Income	5.5% increases in fees and charges on average in 2024/25, falling to 2% by 2027/28.	5% to 6% increases in fees and charges in 2023/24 on average, reducing to 3% by end of the period.
Increase in salaries budget	Increase of 4.5% in 2024/25, falling to 2% by 2027/28.	4.5% in 2023/24 falling by 0.5% each year across the period.
Contribution to pension fund	No change. 18% which is baseline minimum. Pension Fund £75m asset at 31 March 2023.	18% which is baseline minimum. Pension Fund £36m asset at 31 March 2022.
Local Business Rates	Business Rates review triggering a re-base lining in 2026/27. No worse off until then, but then reducing our funding.	Business Rates review triggering a re-base lining in 2025/26. No worse off until then, but then reducing our funding.
Increase in Council Tax	2.99% per year for future years across the period.	2% per year for future years across the period.
Increase in Band D equivalent dwellings	Significant impact of water neutrality dampening housing numbers. Less than 100 homes per year increasing to 500 per year by the end of the decade.	Impact of water neutrality dampening housing numbers. 600 to 700 per year.
New Homes Bonus	One-off single payment of £0.8m ending in 2023-24. Council instead hoping to receive Funding Guarantee grant in 2024/25 to ensure Council is no worse off overall.	One-off single year payment of £0.8m ending in 2023/24. Note that Council may receive Funding Guarantee grant instead in 2023/24 and 2024/25 to ensure Council is no worse off overall.
Minimum reserve level	£6m – no change.	£6m.
Food waste	Food waste from Autumn 2025 at £1.5m cost for a 3,2,1 service. Transitional one-year revenue funding and earmarked reserve £1.3m delays revenue impact to 2027/28 and 2028/29.	Food waste from Autumn 2025. £1.3m for a 3,2,1 service. No funding included – as we don't yet know.

Summary of key operational cost and income changes							Assumptions					
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Net cost b/fwd	13,516	13,986	14,860	15,510	16,865	18,285						
Inflation	1,055	861	607	418	448	479	6.00%	4.50%	3.00%	2.00%	2.00%	2.00%
Salaries	1,082	889	787	538	548	557	4.50%	3.50%	3.00%	2.00%	2.00%	2.00%
Salary catch up	350						£1,925 less 4.5%					
Investment income catch up	-1,100	-100					5% i.r.					
Other fee increases	-935	-725	-571	-396	-408	-420	5.50%	4.00%	3.00%	2.00%	2.00%	2.00%
Garden waste	-190	-190	-190	-190	-190	-190	£5	£5	£5	£5	£5	£5
Food waste				800	700		Govt fund Reserve					
Parking	-250											
Revs & Bens / Arb contract / Auc	400			-100								
Increased leisure costs				300	300					Contract renewal		
Carbon initiatives	100	100	100	100	100	100						
Other net income / costs - vario	-42	38	-82	-116	-78	99						
Net cost predicted	13,986	14,860	15,510	16,865	18,285	18,910						
Annual increase	470	873	650	1,355	1,420	625						
Additional C-Tax increase	-345	-356	-368	-381	-394	-409	2.99%	2.99%	2.99%	2.99%	2.99%	2.99%
To find	125	517	281	974	1,026	217						

Appendix II – potential capital infrastructure and added carbon reducing costs during 2020s

Medium and long-term indicative capital infrastructure with added carbon reducing commitments

	2024/25		2025/26	2026/27	2027/28	2028/29	2029/30	Total
Fleet vehicle replacement	1,540,000		1,410,000	1,000,000	1,500,000	4,000,000	4,500,000	13,950,000
Commercial portfolio infrastructure and carbon reduction	500,000		500,000	500,000	500,000	500,000	500,000	3,000,000
Car park refurbishment	180,000		170,000	150,000	150,000	150,000	150,000	950,000
Housing (temp)	150,000		150,000	50,000	50,000	50,000	50,000	500,000
Mowbray cemetery	2,000,000							2,000,000
<i>Capitol refurbishment</i>			5,000,000	6,000,000				11,000,000
<i>Leisure Centre/s refurbishment</i>					6,000,000	6,000,000		12,000,000
<i>Office refurb / move</i>						1,000,000	1,000,000	2,000,000
TOTAL	4,370,000		7,230,000	7,700,000	8,200,000	11,700,000	6,200,000	45,400,000

Notes:

- Most costs guesstimated at this stage
- Circa £5m to £6m in the 'standard' capital programme (e.g. disabled facility / housing enabling grants) each year not included here
- 'Lost' investment interest estimated at 5%
- Borrowing not assumed before 2028/29
- Borrowing costs estimated at 6% and MRP 2% on average
- By 2029/30, the revenue impact of the 'lost' interest, borrowing costs and MRP would add £2.7m p.a. to the revenue budget.