

2023/24 Budget Update

Cabinet Member Cllr Bob Deed, Leader and Cabinet Member for Finance
Responsible Officer Andrew Jarrett – Deputy Chief Executive (S151)

Reason for Report: To present to Member's the updated 2023/24 Budget position and to discuss further options for cost savings or income generation. This is the third update on the progress towards balancing the Council's budgets for 2023/24 and sets out further savings options required in order to move towards a balanced budget for 2023/24. The January suite of PDG's are requested to discuss further changes required in order for the Council to move towards a balanced budget for 2023/24.

The Capital Programme shows further minor adjustments from the previously reported position as the specific details are further refined. In addition, the financing associated with the 3 Rivers Developments Ltd Business Plan reviewed by recent Scrutiny and Audit Committees has now been included. This increases the overall Capital Programme to £98,375k with a Deliverable Budget of £30,034k for 2023/24. The associated forecast level of borrowing required now stands at £46,170k, split £12,695k for the General Fund and £33,475k for the HRA. (see section 5).

The overall 5-year deficit on the Housing Revenue Account has reduced to £2,001k following the changes to a number of assumptions, with 2023/24 looking indicatively balanced.

RECOMMENDATION: For Cabinet to:

- 1. Consider the updated 2023/24 budget position for the General Fund, Capital Programme and the HRA;**
- 2. Consider the further options as set out in Appendix 3, or any additional suggestions to balance the remaining shortfall and circulate them to the Policy Development Groups for further input during their January suite of meetings prior to the formal recommendation back to Cabinet and Council in February.**

Relationship to Corporate Plan: The Annual Budget sets out the financial resources available for the year to deliver the Council's ongoing Corporate Plan priorities.

Financial Implications: The current budget for the General Fund shows a deficit of £905k, with an increasing funding deficit projected in future years. This highlights the need to take steps to plan for further reductions to our ongoing expenditure levels. The Capital Programme shows a requirement for approval of £98,375k investment in services within 2023/24 underpinned by £45,671k of assumed borrowing. The HRA continues to show an indicatively balanced budget for 2023/24 but an increasing funding shortfall in future years.

Budget and Policy Framework: The Annual Budget provides an overarching steer of what the Council can afford to deliver in the year.

Legal Implications: None directly arising from this report, although the Local Government Finance Act 1992 places a legal requirement on the Council to approve a balanced budget. There are legal implications arising from any future consequential decisions to change service provision, but these would be assessed at the time.

Risk Assessment: The current forecast continues to make a number of financial assumptions based on a sensible/prudent approach, taking account of the most up to date professional advice that is available. Management must ensure that any proposed savings required to balance the budget are robust and achievable

Equality Impact Assessment: No implications arising from this report.

Climate Change Assessment: The allocation of resources will impact upon the Council's ability to implement/fund new activities linked to climate change.

1 Introduction to the Medium Term Financial Plan

- 1.1 On 1 November, the first draft of the Medium Term Financial Plan covering the period 2023/24 to 2027/28 for the General Fund (GF), Capital Programme and Housing Revenue Account (HRA) was presented to Cabinet. The GF indicated a deficit of over £5,219k by the end of the 5-year timeframe, with the increase largely due to the implications of the cost of living crisis. The Capital Programme showed indicative investment of £125,978k over the 5-year timeframe, subject to appropriate business cases and funding available, mainly in the development of additional housing. The HRA also showed a deficit position of £4,985k across the MTFP timeframe, largely due to the rising interest rates associated with the required debt financing for the planned housing developments included within the recent Housing Strategy.
- 1.2 The 29 November update focused on 2023/24 with a reduction in the projected shortfall for the General Fund down to £960k. The overall Capital Investment for 2023/24 had increased from £82,653k to £86,823k. However the position for the HRA had improved with the initial funding shortfall of £261k completely mitigated largely due to the clarification of the increase in the Rent cap threshold.
- 1.3 This report provides an updated position across those three strands of the Council's finances following a detailed budgetary review and seeks agreement to the various Budget Options and Fees and Charges recommended by the PDGs.

2 2023/24 General Fund Budget – Revised Position

- 2.1 Following identification of the proposed options shown in the last update report, and updates to reflect known changes and assumptions, the draft budget deficit for 2023/24 is £905k. The current overall position is included with **Appendix 1**, while **Appendix 2** shows the movement at a more granular service level.

2.2 Below is a high level summary table showing the provisional budget movements by category of spend, with some headline explanation of the reasons for the increases.

Category	2022/23 Annual Budget £	MTFP Adjustment £	Round 1 Detailed Update £	Provisional 2023/24 Budget £	Increase / (Decrease) £	Increase / (Decrease) %
Employees	15,302,741	1,459,718	227,018	16,989,477	1,686,736	11.0%
Premises	3,016,550	380,046	1,149,978	4,546,574	1,530,024	50.7%
Transport	1,215,001	101,311	45,228	1,361,540	146,539	12.1%
Supplies & Services	20,837,621	(254,295)	487,577	21,070,903	233,282	1.1%
Recharges	(1,714,560)	(85,728)	(71,942)	(1,872,230)	(157,670)	9.2%
Capital	686,660	3,138	13,466	703,264	16,604	2.4%
Income	(39,344,013)	510,622	(3,061,192)	(41,894,583)	(2,550,570)	6.5%
	0	2,114,812	(1,209,867)	904,945	904,945	#DIV/0!

- Employees Costs – included is the additional element of the 2022/23 Pay Award over and above the 2% budgeted (c.£450k, plus an assumption of 3% for 2023/24 (c.£400k). This can be further broken down as follows:

Category	2022/23 Annual Budget £	MTFP Adjustment £	Round 1 Detailed Update £	Provisional 2023/24 Budget £	Increase / (Decrease) £	Increase / (Decrease) %
Basic Pay	10,857,014	1,170,633	(221,517)	11,806,130	949,116	8.7%
Annual Increment	-	-	164,681	164,681	164,681	0.0%
National Insurance	1,074,652	(5,750)	48,458	1,117,360	42,708	4.0%
Pension Costs	2,525,647	91,718	225,188	2,842,553	316,906	12.5%
Overtime	297,112	-	1,518	298,630	1,518	0.5%
Agency	182,380	-	(55,670)	126,710	(55,670)	(30.5%)
Training + Apprenticeship Levy	178,746	200,000	(207,333)	171,413	(7,333)	(4.1%)
Other Employee Costs	187,190	3,117	271,693	462,000	274,810	146.8%
	15,302,741	1,459,718	227,018	16,989,477		

- The calculation of annual increments is a broad calculation of known movements up the pay scale;
- National Insurance – the increase is limited by the removal of the increase in rate following the scrapping of the Social Care Levy;
- Pension Costs – the ongoing contribution rate has increased by 2.4% to 19.0%, while the deficit recover payment has reduced by c£200k;
- Agency – this has reduced due to the planned increase in staffing to avoid the need for agency;
- Other Employee Costs – includes Employee Insurance, protective clothing and additional staffing for the Elections following a change in regulations, largely funded from reserves and assumed grant funding.

- Premises – included is the increase in energy costs of c£625k, plus the planned maintenance of £841k, which is largely funded from Sinking Funds and Maintenance Reserves;
- Transport – included is c.£140k of additional fuel costs following the increase in prices;
- Supplies & Services – included is the planned contribution to reserves to cover a range of costs, plus some specific costs such as the Cullompton HAZ;
- Recharges – this is the net recharge to the HRA following the increase in costs, particularly staffing.
- Capital – this is the movement in costs to cover the planned implications of the Capital Programme;
- Income – this is the increased income including revised Fees and Charge, Grant Funding assumptions, Business Rates and Council Tax Precepts, along with the planned drawdown from reserves to cover a range of the above costs.

2.3 The main reasons for the movement from the previously reported £960k shortfall are:

- Significantly higher than expected rise in Energy costs covering the period October 2022 to March 2024;
- Likely increase in Business Rates income following the national revaluation – this is subject to further guidance and clarification from Government, part of which forms part of the Local Government Funding Settlement which will be published on 21 December 2022 (an update paper will be provided prior to the meeting);
- Likely increase in the treasury returns – subject to finalisation of the Capital Programme and borrowing/lending levels and approval of the 3 Rivers Developments Ltd Business Plan;
- Increased staffing FTE to combat the need for expensive short term agency cover;
- Updates recharges to and from the HRA based upon updated Salary Estimates; and
- Updates to the assumed savings and pressures previously included.

2.3.1 Within the last week, the Council has received its energy tariffs from its supplier, Laser. This shows a significant increase in our energy costs, with a projected increased from the current c£400k spend to £1,000k in 2023/24. There will also be a significant increase on the in-year position, albeit this is partially limited by the Government Cap which ends in March 2023.

2.3.2 Following the recent national Business Rates Revaluation exercise, the Rateable Value of many local businesses has increased. This is mainly because we have a higher proportion of industrial category companies, as opposed to Retail or Office based companies whose Rateable Values have reduced. This should lead to additional income for the Council. However, nationally the revaluation should be cost neutral, therefore the Government apply relief to

those that have increased. The Council's increased income should be protected, but we await full guidance and clarification on the scheme of reliefs and funding support. Therefore the projected increase is subject to change – plus or minus.

- 2.3.3 The Cost of Living crisis has seen significant increases in interest rates, with the Bank of England base rate having risen from 0.1% to 3.5% over recent months. This affects both borrowing costs and the returns on our investments. As such, the Council will see a marked increase in investment yields in the short term, i.e. 2023/24. This includes the financial implication of the 3 Rivers Developments Ltd Business Plan as recently reviewed by Scrutiny and Audit Committee. This indicates £900k of interest will be earned from lending to the company to complete their housing developments. However, given the ambition of the Capital Programme, the internal borrowing capacity of the Council will diminish over time and it will need to borrow externally to support the planned projects, most likely in future years.
- 2.3.4 As reported during the year, recruitment and retention has been an issue for many services. Therefore the use of more expensive temporary and agency staff has been high. In an attempt to combat this, some frontline services plan to increase the staffing to reduce the call on such temporary support.
- 2.4 There is still a way to go to balance the 2023/24 budget. **Appendix 3** shows further budget options for the Cabinet and the January Policy Development Groups to consider. Both Cabinet and the PDG's are also asked to identify any additional or alternative savings options. A summary of the Residents survey results will be shared with the Committees to help inform the discussions. The PDG's will be asked for their views on service prioritisation, ideally identifying which services are critical in their opinion and which they believe reductions will be acceptable, before reviewing specific budgets options related to their services.

3 Local Government Finance Settlement

- 3.1 On 12 December, Michael Gove (Secretary of State for Levelling Up, Housing and Communities) released a Ministerial Statement on the Government's intentions for the Local Government Funding Settlement due to be published after this report has been published. However, it has not given much greater clarity on the detailed funding for the Council. Its main statement clarified:
- The Settlement will cover 2023/24 and will set out the key assumptions for 2024/25 (full details will be published in the 2024/25 provisional local government finance settlement – expected December 2023);
 - The additional sums announced in the Autumn Statement will be included – albeit, the bulk of funding will go towards Councils with Social Care responsibilities;
 - All Councils will see a minimum 3% increase in their Core Spending Power before taking any local decisions on Council Tax levels;

- Confirmation of the increase in the referendum limit to 3% for both 2023/24 and 2024/25;

3.1.1 More specifically to MDDC,

- The Rural Services Delivery Grant will remain unchanged;
- The Services Grant will reduce in 2023/24. This is in part because there will no longer be an increase in National Insurance Contributions, therefore the government will not be compensating Local Government for these contributions from 2023/24;
- The Government will repurpose the Lower Tier Services Grant and a proportion of the expired New Homes Bonus legacy payments to create a new one-off, funding guarantee. This will ensure that all authorities will see at least a 3% increase in their Core Spending Power before any decision they make about organisational efficiencies, use of reserves, and Council Tax levels;
- There will be new rounds of New Homes Bonus (NHB) payments in 2023/24 using the existing calculation methodology. Although, as with last year, these will not attract new legacy payments;
- The consolidation of 4 grants into the Local Government Finance Settlement. These are the Independent Living Fund; Council Tax Discounts – Family Annexe; Local Council Tax Support Administration Subsidy; and Natasha’s Law. All of the 4 grants will keep their existing distribution;
- The Business Rates Pooling will continue in 2023/24 and 2024/25.

3.1.2 Based on an interpretation of this announcement, the Council can expect to increase in its central grant funding of c.£50k. An update paper will be provided prior to the meeting.

3.1.3 The Government are also “encouraging local authorities to consider whether they can use their reserves to maintain services in the face of immediate inflationary pressures, taking account, of course, of the need to maintain appropriate levels of reserves to support councils’ financial sustainability and future investment.”

3.1.4 “2024/25 brings with it a significant new funding stream, subject to successful delivery of the Extended Producer Responsibility for packaging (pEPR) scheme as soon as is feasible within this financial year; local authorities can expect to receive additional income from the scheme whilst being asked to submit data relevant to their waste collection services.”

3.1.5 The proposals set out in the “pEPR” consultation during the summer of 2021 work together to create a scheme that incentivises producers to design packaging that is easy to recycle and ensure that they pay the full net cost of managing this packaging once it becomes waste. This is in line with the polluter-pays principle.

4 Resident's Survey

- 4.1 During November and December, the Council undertook a Resident's Survey. The feedback from which will be summarised and considered at the next round of PDG meetings in January and then at the February Cabinet.

5 Capital Programme

- 5.1 A revised summary of the Capital Programme expenditure and funding is included in **Appendix 4**. The overall Capital Programme for 2023/24 is forecast at £98,375k, with the deliverable budget for the year of £30,034k. The level of borrowing required in 2023/24 stands at £20,304k, split £12,695k for the General Fund and £7,609k for the HRA. It continues to include assumptions of significant 1-4-1 receipts and grant funding to support the ambitious Housing Development programme within the HRA.
- 5.2 This includes the financial implications of the 3 Rivers Developments Ltd Business Plan considered by the recent Scrutiny and Audit Committees. Once the final Business Plan is approved, this will be updated as necessary.
- 5.3 The delivery of housing development will continue to be refined following further work and the latest survey assessments, as will all projects.

6 Housing Revenue Account

- 6.1 The latest position continues to show the HRA at a breakeven position for 2023/24 – see **Appendix 5**. The deficit in future years has also decreased following further review and now stands at £2,001k. Options will continue to be investigated and assumptions updated as we progress through the years.
- 6.2 An update on the latest housing development plans, and the likely level of rent required will be reviewed and finalised at the January Homes PDG and recommended to Cabinet.

7 Conclusion

- 7.1 The significant General Fund budget deficit remaining is a challenge and the identification of further budget reductions is critical to balancing the budget for 2023/24.
- 7.2 Moving forward, Members and Officers need to look to reduce the pressures over the next few years reflected in our MTFP and will need to identify ongoing savings to prevent the reliance upon reserves.
- 7.3 In order to conclude the statutory budget setting process, this updated draft budget position will go through another round of PDG's in January, a final

meeting of the Cabinet before being agreed at Full Council on the 22 February 2023. During this period Officers will continue to identify and examine further savings possibilities that can reduce the longer term budget gap.

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Circulation of the Report: Cabinet, Leadership Team