Cabinet
07 February 2023

2023/24 Budget

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

Reason for Report: This report provides the proposed budgets for the General Fund and the Housing Revenue Account for the year 2023/24 and recommends the Band D Council Tax charge for 2023/24.

RECOMMENDATIONS:

Cabinet are asked to recommend to Council the following:

1. **A Council Tax Requirement of £6,724,350 calculated using a Council Tax of £225.40 for a Band D property, an increase of £6.56 or 2.99% from 2022/23 and a Tax Base of 29,832.98, in accordance with the Local Authorities (Calculation of Tax Base) Regulation 1992, as amended, after the relevant adjustments in respect of the Council tax support scheme approved by Cabinet on 3 January 2023;**
2. **The overall budgeted Cost of Services within the General Fund of £16,720,364 for 2023/24 is approved as detailed across Appendices 1 – 2 and inclusive of the adjustments included within Table 1 in paragraph 5.1;**
3. **The 2023/24 budget requires no transfer from the General Fund Balance and a further temporary transfer of £57,657 from the New Homes Bonus EMR in order to balance and agree all of the transfers to and from Earmarked Reserves as detailed in Appendix 3;**
4. **HRA budget for 2023/24 be approved – Appendix 4;**
5. **HRA fees/charges are approved based on the attached Appendix 5;**
6. **Work on strategic planning for delivering a balanced budget for 2024/25 is commenced immediately.**

Relationship to Corporate Plan: This budget delivers the Corporate Plan priorities within existing financial resources.

Financial Implications: This is a financial report and the implications are contained within it. This report proposes a balanced GF and HRA budget for 2023/24 without materially reducing service delivery.

Legal Implications: None directly arising from this report, although there is a legal obligation to balance the 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: In order to comply with the requirement to set a balanced budget, management must ensure that the proposed savings are robust and achievable. We must also ensure that the assumptions we have used are realistic and prudent. Failure to set a robust deliverable budget puts the Council at risk of not being able to meet its commitments and casts doubt on its “going concern” and “Value for Money” status.

Equality Impact Assessment: There are no Equalities Impact implications relating to the content of this report. All Policy Development Group meetings have considered and made decisions based on summary feedback from the recently completed resident's survey.

Climate Change Assessment: The General Fund, Capital Programme and the Housing Revenue Account all contain significant investment in order to work towards the Council's Carbon Reduction Pledge.

1 Introduction

1.1. The balancing of the Council's budget continues to be a challenge year-on-year following the Government's austerity measures and the subsequent reduction in funding. Adding to this pressure, the financial impacts of Covid-19 continue to disrupt service delivery and reduce fee income and now the Cost of Living Crisis significantly adds to our costs and is likely to increase demand for services.

1.2. To mitigate these austerity measures, the Council has already secured and delivered significant savings for over a decade in order to "balance the books" and maintain service delivery during the austerity period.

1.3. Leadership Team, Corporate Managers and the Finance Team have been involved in discussions to secure savings, without reducing service delivery as far as possible. However it is now a fundamentally more difficult challenge year-on-year and therefore, looking to the future, a new more strategic process will be required to match service provision to available funding. This needs to begin as soon as possible to give time for options to be identified and implemented.

1.4. On 1 November 2022, the report to Cabinet advised that the General Fund (GF) forecast a budget deficit of £2,111k in 2023/24 rising to over £5,219k by the end of the 5-year timeframe, based upon a number of key assumptions (e.g. Government funding, inflation rates, pay award, Council Tax levels, use of balances/reserves, etc.). Following a detailed review, particularly of fees and charges income, the 2023/24 deficit had reduced to £960k as reported to Cabinet on 30 November 2022. Within the 3 January Cabinet report, this has further reduced to £905k through additional service efficiencies.

1.5. During the January suite of Policy Development Group (PDG) meetings, further options largely around vacancy management were discussed with a view to achieving a savings target to balance the 2023/24 Budget. In addition, the PDG's were asked to identify what they viewed as the highest priority services, and those of a lower priority where additional savings could be considered.

1.6. This report shows the progress made towards balancing the 2023/24 General Fund Budget and recommends the associated Band D Council Tax charge for 2023/24 and summarises the Capital Programme and Housing Revenue Account for the year 2023/24.

2. January PDGs and Cabinet – Budget Update

2.1. Policy Development Group (PDG) and Scrutiny Committee meetings in January received an update on the latest budget shortfall position, which, as stated in paragraph 1.4, had reduced to £905k due to minor service efficiencies following a further review.

2.2. Throughout the budget process Scrutiny Committee and the PDGs have been kept informed and have considered various options during the drafting of the proposed 2023/24 Budget. During their January meetings, Scrutiny and the individual PDGs were asked to determine what they viewed as the highest priority services, and those of a lower priority where additional savings could be considered to help reduce the budget deficit. The following recommendations were made:

2.2.1. Environment Policy Development Group agreed:

- The Weed Team should not be reinstated;
- Waste Collection/Recycling/Open Spaces should be protected from budget and service provision reductions;
- Property Service Staff Unit and Administration Buildings could be considered for budget and service provision reductions.

2.2.2. Economy Policy Development Group agreed:

- The Economic Development team be considered a high priority service area which should be protected and recognised as generating income for the Council at a high ratio (relative to the cost of the service).

2.2.3. Homes Policy Development Group

Although no formal recommendations were made, the committee were comfortable to:

- To promote the Piper Alarm scheme to increase the customer base for this important service to the community;
- To support the HRA budget as set out.

In addition, the committee were keen to explore opportunities to generate additional income through the Repairs and Maintenance Team and through the redevelopment of garages into dwellings.

2.2.4. Community Policy Development Group agreed:

- That a vacancy factor should be set for Leisure services, as long as this does not impact on health and safety or income generation;
- That planned maintenance could be reduced, as long as this does not impact on health and safety;
- That community safety should be considered a high priority service area which should be protected;
- That Public Health should be considered a high priority service area which should be protected.

2.2.5. Scrutiny Committee agreed:

- Officers provide a report on a system of vacancy control that is transparent and inclusive of Members and the Scrutiny Committee. To include the projected targets for vacancy control and how it might be implemented;

- Officers to provide a report on the future funding of the Leisure Centres including the possibility of an inclusive budgeting exercise involving the electorate on the future funding of the leisure centres.

In addition, the committee reinforced the recommendation from Environment PDG regarding not reinstating the Weed Team.

3. Key Assumptions for the 2023/24 Budget

3.1. Members and Officers have carefully scrutinised all existing budgets and the service risks associated with delivering them. It has also examined all material income sources, especially discretionary fees and charges which have been increased, where applicable, to reflect the additional cost pressures faced.

3.2. In such rapidly and frequently changing circumstances (not to mention unprecedented), assumptions soon become superseded by events. Many of the original assumptions included within the original MTFP report on 1 November 2022 have now been replaced with actual numbers, such as the Financial Settlement. However, those related to inflation largely remain, for example the Pay Award will not be agreed prior to setting the Budget and fuel/commodity prices will fluctuate throughout the year. In respect of the Pay Award, the assumption has been updated to 5.5% (from 3%) based on the latest information available. This should be broadly sufficient for a flat cash increase similar to the 2022/23 uplift.

3.3. It is also difficult to assess levels of demand for services with continuing recovery from Covid-19, but likely implications arising from the Cost of Living Crisis, for example increases in benefits claimants but possibly reductions in planning applications. Therefore careful monitoring of service demands will need to be undertaken to ensure the organisation flexes to meet demand. This could have an impact on costs, i.e. agency costs to meet short term peaks, but may also offer opportunities to deliver savings through vacancy management and reductions in energy consumption.

3.4. Corporate Managers, in conjunction with the Finance Team, review all areas of income and expenditure for known increases / decreases based on both prevailing and predicted changes in demand, price inflation, contractual obligations, etc., when proposing the 2023/24 Budget. More volatile budgets are subject to sensitivity analysis and a reasonably prudent assessment is made.

3.5. In addition to the above, regard has been made to our existing and future levels of reserves and balances which are required. We have a number of ongoing commitments already made against these reserves and balances (e.g. future capital contributions, economic development and building projects, “spend to save” projects, business transformation, town centre regeneration, future grant settlements).

3.6. However, given the prevalence of uncertainty, it should be noted this budget may well vary to a material extent. The Deputy Chief Executive (S151 Officer) proposes this budget on the basis of the information that is available at this time and his judgement of the most likely outcomes. Any adverse movement in these numbers will require support from other areas of the General Fund, or potentially utilising reserves as a last resort. Therefore there will be a need for much earlier intervention on reducing spend if financial monitoring indicates a shortfall position at the year end.

3.7. In January 2019 Cabinet amended the minimum level of general reserves required to be maintained at £2m. Although this level continues to be prudent due to the resilience offered by the level of Earmarked Reserves which the Council holds for specific projects, the potential implications of the 2022/23 outturn forecast may require this level to be reviewed. Furthermore, Government are highlighting the level of local authority reserves and advising that they should be used to mitigate the impact of the Cost of Living Crisis.

3.8. Using these reserves to fund recurrent General Fund expenditure must be considered an option of last resort. It is inherently unsustainable (they can only be spent once) and with the forecast financial challenges this Council will face in the coming years, it is imperative that they are maintained at the highest level possible.

4. Requirements for Council Tax Setting

4.1. In recent years the Government (via the DLUHC) has become far more prescriptive with regard to acceptable levels of Council Tax increases. The implementation of the Localism Act has effectively replaced Government set “capping limits” and replaced them with principles that allow the local electorate to call for a referendum if the Council is planning to increase its Council Tax above an acceptable level. The level for District Councils announced as part of the Autumn Statement and confirmed within the Settlement was set at a maximum of the greater of 3% or £5 for the 2023/24 budget year.

4.2. Although lobbying continues from the sector to increase this “cap” to £10, the ‘acceptable level’ is defined by the Chancellor as part of the national budget-setting process and all government calculations on ‘spending power’ of local authorities are on the basis that authorities increase Council Tax to the maximum amount permitted.

4.3. The Council Tax income included in the proposed budget includes a £6.56 (2.99%) increase. This equates to a Band D charge of £225.40 (a 1% variation to our Council Tax changes the income generated by approximately £65k).

5. General Fund Budget 2023/24

5.1. The proposals contained in this report result in a balanced budget for the General Fund (see **Appendices 1 and 2**). The forecast budget deficit last reported to Cabinet stood at £905k. The following table shows the recommended actions necessary to move towards a balanced position.

Table 1 – Reconciliation of proposed balancing adjustments

Movements	Amount £k
Budget Shortfall presented to January Cabinet, PDG's / Scrutiny	**905**
Implications of the Finance Settlement and other Government Grants	7
Additional Business Rates Growth / Revaluation – net of contributions to EMR	(205)
Introduction of vacancy management targets – Supported by PDGs / Scrutiny	(400)
Further refinement of the Planned Maintenance budget – Supported by Community PDG	(250)
Further Service savings (in lieu of contributions from Town/Parish Councils):	
Grounds Maintenance – reduction in grass cutting	(66)
A review of Paddling Pools – leading to possible mothballing	(70)
Refinement of Service Budgets (assumptions for Fuel, 3-Weekly Recycling)	(86)
Net Refinement of Salary Budgets (including the increase to 5.5% pay award)	+ 281
Finalisation of the recharges to HRA	(12)
Contribution to Planning Appeals EMR	+ 100
Further increase in the Council Tax in-year collection surplus	(25)
Refinement of Contributions from Reserves	(121)
Current Budget Shortfall for 2023/24 (see 5.8)	**58**
Temporary transfer from New Homes Bonus EMR	**(58)**

5.2. Members have previously been provided with a summary of the Finance Settlement implications. Further analysis and subsequent grant announcements have further improved the position from the £180k gain indicated within the previous summary.

5.3. The significant element of this settlement gain relates to Business Rates. The Business Rates NNDR1 return is included as a separate report on this meeting's agenda. This has shown a healthy increase in the rateable value of the businesses within the district. In addition, as highlighted previously to Cabinet, 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. The ever-present risk of appeals, which the Valuation Office consider on a daily basis, and the heightened risk of bad debts arising necessitates that we prudently set aside significant funds in our Business Rates Smoothing Reserve to mitigate these risks.

5.4. The vacancy factor has been considered by all PDG's and Scrutiny. Although not ideal, Members understood the need for this and the potential implication for service delivery during 2023/24. Scrutiny requested regular progress updates against this target which will be provided.

5.5. Further short-term reductions to scheduled maintenance has been identified. This is where maintenance is due, but following a review of the assets it has been deemed low risk to delay that maintenance. There is no health and safety risk with this reduction, and all assets will continue to be monitored to ensure that works can be undertake if the need is identified.

5.6. As previously outlined, the Council has approached the Town and Parish Councils for additional financial support. Although there is on-going dialogue, it appears that no additional funding has been agreed. Therefore, Environment PDG considered some specific service reductions in relation to reducing the number of Grass Cuts per annum, and a review of paddling pools, which could result in them being mothballed if insufficient funds are available to maintain them adequately. The PDG did not endorse these ideas, but due to the scale of the budget shortfall, it is proposed these savings are approved.

5.7. Despite further analysis work and discussions with Members and Budget Holders, and a number of other further savings options identified by officers, it was not possible to identify the full £905k ongoing savings target set.

5.8. Therefore the remaining budget shortfall has been reduced on a one-off basis in the very short term by the use of reserves. To set a balanced budget, that continues to provide the current level of service provision wherever possible, will require an additional use of £58k from the New Homes Bonus Earmarked Reserve.

5.9. Members should note that the Final Settlement will not be announced until after publication of this report (indeed possibly after Cabinet have met). Any additional funding announced will reduce the need to draw further from the New Homes Bonus reserve. With the demise of this as an ongoing funding source, the Council has started planning for a balanced budget without drawing on this historic funding source.

6. Future Funding Concerns/Cost Pressures

6.1. It is clear that Members' preference is to explore all revenue-raising options before cutting services. However, due to the increasing pressures on our budgets and the continuing reduction in our Central Government funding, the Council will need to reassess its overall corporate priorities and therefore where it allocates future budgets, it will also need to consider:

- Statutory vs Discretionary service provision;
- Resident priorities – as per the recent consultation undertaken (budget related summary previously circulated);
- How it can work more closely with Towns/Parishes;
- Explore more commercial and regeneration opportunities (being aware of the risks);
- Continue to consider any partnership possibilities;
- Review Treasury options;
- Maximise all income possibilities;
- Impact of funding changes: Fair Funding Review; NNDR baseline reset; changes to NHB;
- The need to create investable propositions for our carbon reduction ambitions.

6.2. The Council has stated its intent to try and achieve a net zero carbon operation by 2030. There remains a substantial challenge ahead if this target is to be achieved. From a carbon accounting perspective, the fact that we retain direct control (and ownership) over the majority of services means that while our influence is unfettered by long-term commissioning or contractual arrangements, we retain ownership of the significant challenges around decarbonisation. The future year's Capital Programme includes a range of investments in improving the energy efficiency of our property estate, subject to securing sufficient funding.

6.3. Not least in the area of social housing provision, where we have to balance the long-term viability of our social housing stock for the needs of future generations, with the need to invest substantially to reduce emissions (housing stock makes up the bulk of MDDC emissions). The Capital Programme includes a number of substantial housing developments increasing the amount of housing stock with highly efficient (zero carbon) modular buildings, subject to securing sufficient external funding. This continues across the 5-year Medium Term Financial Plan with the aim of developing 500 new properties.

6.4. However, with limited funding available from Government, and any such funding subject to a bidding process, in the short term we will be trying to achieve the maximum possible locally, while taking every opportunity to bid into future funding pots as they arise.

6.5. The NHB grant monies have been considered at risk for some time. It's possible that a further one-off allocation could be announced for 2024/25. It remains unclear what will happen to the funding associated with the current scheme. While we do not yet know what any new scheme may include, it can be assumed that meeting and exceeding our growth targets will be critical to ensuring that we access whatever revised distribution methodology the government implements.

6.6. As such, it's important to highlight how much New Homes Bonus is being used to help fund our General Fund and Capital Budgets in 2023/24. A total of £1,700k is being used to contribute towards various one-off General Fund projects, including:

- £364k one-off annual grant for 2023/24
- £218k towards the Cullompton HAZ from the existing EMR;
- £80k towards Business Development from the existing EMR;
- £45k to the Grand Western Canal from the existing EMR; and
- £993k to support the existing Capital Programme from the existing EMR.

As stated in para 5.8 above, to close the budget gap, it is recommended that this be increased by a further £58k, as referred to in **Recommendation 3** of this report.

6.7. It is clear is that local authorities are in desperate need of a multi-year funding agreement rather than the current year-to-year arrangements which do not allow a considered medium term view of the resources that will be available, and, how these may be managed to optimise service provision within the scope of the Corporate Plan.

7. Overall General Fund (GF) position at 31 March 2023

7.1. Recent verbal updates, and the detailed report included alongside this Cabinet report, indicate the in-year budget position is trending towards a substantial overspend. This largely relates to the Pay Award, which significantly exceeded the assumed 2% uplift. Similarly, the increases in energy and fuel costs also dwarf the assumed budget increases. If the Outturn position does continue as forecast, the General Fund Reserve balance will reduce below the current agreed minimum level of £2,000k. The S151 will review this position at year end and may recommend an alteration to that minimum balance, or the release of Earmarked Reserves to bolster the General Reserve back to that recommended minimum level. Therefore, no draw on General Reserves is recommended to support the 2023/24 Budget.

8. Transfers To and (From) Earmarked Reserves

8.1. **Appendix 3** shows in detail which amounts are being contributed to, or drawn down from, various earmarked reserves in 2023/24.

8.2. It is proposed to transfer £1,598k into earmarked reserves to help mitigate future pressures. This includes:

- £1,161k into various Sinking Funds relating to property, plant and equipment maintenance, and Vehicle replacement and repairs;
- £137k into Business Rates Smoothing;
- £120k into the Statutory Development Plan;
- £100k into a Planning Appeals reserve;
- £50k into a Business Systems Migration reserve; and
- £25k into District Elections.

8.3. It is also proposed to drawdown £3,266k to fund expenditure in 2023/24, this includes:

- £965k utilisation of Sinking Funds and Maintenance budgets supporting the investment in our assets;
- £478k utilisation of vehicle reserves supporting the investment in our vehicle fleet;
- £358k of funds to cover prior year deficits on the Collection Fund;
- £343k utilisation of New Homes Bonus (as outlined within para 6.6)
- £270k supporting the Statutory Development Plan;
- £205k towards the delivery of the Cullompton HAZ;
- £182k towards the cost of the Homes for Ukraine Scheme;
- £125k towards the cost of the District Election and Member development;
- £122k supporting the development of the Garden Village; and
- £116k towards the one off costs forecast with services
- £80k released back to the General Fund.

This gives a net reduction in Earmarked Reserves of £1,667k, prior to the proposed £58k balance adjustment through NHB.

9. Housing Revenue Account Budget 2023/24

9.1. The Housing Revenue Account (HRA) is ring fenced and accounts for the income and expenditure associated with the Council's statutory housing obligations to its tenants. The HRA has an obligation to provide a high quality, value for money service for its tenants coupled with affordable rent levels.

9.2. The Council continues to undertake valuable benchmarking work in conjunction with Housemark. These findings are then used to inform the budget setting process. In doing so, MDDC are able to better identify their position in relation to other authorities in the sector and identify areas for improved efficiency.

9.3. The overall HRA budget has been constructed on a detailed line-by-line examination of expenditure and income, having regard to last year's outturn, this year's forecast position and the on-going improvement of the housing service.

9.4. Some items of expenditure can be defined quite accurately whilst others require managers to exercise business judgement based upon their experience, particularly in the case of new commitments. Where such judgement has been applied, the proposals before Members are based upon realistic assumptions.

9.5. The main proposals for the 2023/24 budget can be summarised as follows:

Expenditure:

- An update to the base budget to reflect the additional cost of the higher than expected pay award for 2022/23;
- An assumed pay award for 2023/24 equivalent to 5.5%;
- An Increase in the Pension Contribution rate of 2.4% to 19.0%;
- Increased energy costs of c180% and fuel costs of c40%, along with a significant increase in waste disposal costs;
- The increased financing costs associated with the ambitious development programme.

Income

- A below inflation increase of 7% is proposed on existing rents in line with the Governments cap for 2023/24;
- Garage rents and Garage plot ground rents to be frozen, remaining unchanged at £10.71 per week and £275 per annum respectively.
- Increased interest yields on balances held.

9.6. The overall rental income was materially affected by the Governments previous policy to reduce Rents by 1% each year for four consecutive years. Although the current policy is to enable rents to be increased by 1% above inflation, the Government have capped this to 7% given the current level of inflation. A more detailed analysis of the proposed rent increase can be found in **Appendix 5** that shows that the average housing rent will increase to £89.88 on a 52 week basis.

9.7. Current legislation on Right to Buy means that we're likely to sell several properties in future years. We estimate, based on historic data that 16 will be sold next year.

9.8. Similarly, we forecast that we will have a number of void properties during the year. We have a prudent forecast of 70 voids across the year in line with previous years to reflect the financial implications on tenants of the Cost of Living

Crisis (this was previously increased to reflect the move to Universal Credit and Covid-19). This is broadly in line with the forecast Council Tax collection rate of 96.5%. Combined, these reductions affect our ability to fund property maintenance and development as well as servicing any existing or new debt.

9.9. Budget continues to be included to address legislation post Grenfell and to undertake further Fire Risk remedial action. However, significant further investment will be required to further contribute to the decarbonisation of the Housing Estate and achieve Net Zero by 2030.

9.10. It has been deemed as prudent to maintain the HRA reserve balance at £2,000k and it is expected to remain so throughout 2023/24. At the start of 2022/23, other HRA reserves totalled £21,233k. This included £15,863k in the Housing Maintenance Fund (HMF); £814k in the Renewable Energy Fund (REF) and £255k in Major Repairs Reserve. It is intended that any expenditure funded from the REF monies be used on renewable energy schemes.

9.11. The final budget summary for the 2023/24 HRA is shown in **Appendix 4**. It will continue to provide for an enhanced housing service which will allow for more capital investment and additions to our existing stock.

9.12. The ambition to build a significant number of new properties continues across the 5-year Medium Term Financial Plan. The prospect of building new social housing raises the issue of significant future capital financing requirements. Budget at assumed interest rates of circa 5% is included within the future years of the MTFP to finance the build of a number of new highly efficient (zero carbon) modular buildings, subject to securing sufficient funding. Members are reminded that the constraint on increasing stock is still an issue of affordability, not the access to borrowing.

10. Capital Programme 2023/24

10.1. Full detail on this matter is included within in a separate agenda item on this meeting.

10.2. In summary, it shows that the 2023/24 programme includes projects expected to start in 2023/24 totalling £98,375k. In addition, there is £39,432 rolling forward from the current programme. The nature of capital projects means that they span more than one year, therefore, within this overall approval, £64,826k is expected as the Deliverable Budget for 2023/24.

10.3. The Deliverable Budget includes a significant investment in Housing, either through the HRA Housing delivery programme (£15,655k) or through 3 Rivers (£26,108k – subject to approval of a Business Plan). A prudent assumption has been included for the utilisation of 1-4-1 receipts or for additional grant funding to be made available from Homes England; although a substantial element of the cost remains with the Council.

10.4. In addition, plans continue with the HIF projects in Cullompton at a cost of £13,105k. The latest Levelling-Up bid was again rejected, therefore the associated funding is yet to be identified but the Council is actively pursuing all avenues. As with all capital projects, these are all subject to a full appraisal.

10.5. The most significant funding source required to support the 2023/24 programme is the £43,294k of assumed borrowing from the Public Works Loan Board (PWLB). The associated capital financing costs are included within the relevant GF or HRA budget. However, it should be recognised that wherever possible, the Council will continue to maximise its usage of internal borrowing to minimise the financing costs.

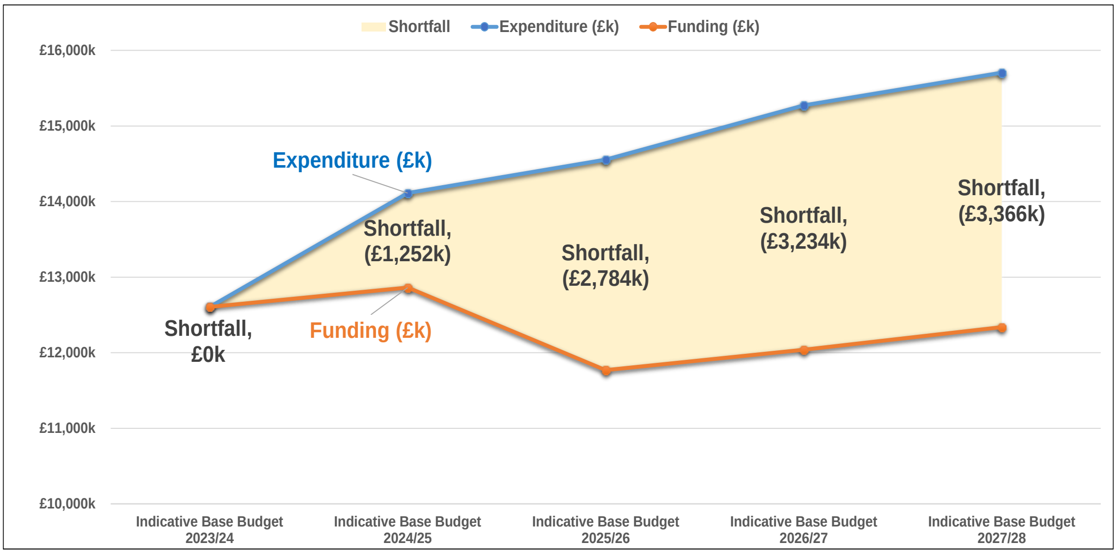
10.6. The future year's Capital Programme shows increased investment in improving the energy efficiency of our property estate and the continuation of investment to increase the HRA Housing stock. The overall borrowing requirement rises accordingly and therefore so does the capital financing costs within the Revenue Budget. These projects will be further refined over time and will be subject to sufficient funding being available.

11. Updated MTFP position

11.1. The new General Fund MTFP summary position is shown in the table below. It shows a cumulative shortfall of £3,366k over the remaining four-years of this MTFP which remains to be addressed.

Table 2 – Future Medium Term Financial Plan – General Fund

	2024/25 £k	2025/26 £k	2026/27 £k	2027/28 £k
Annual Surplus / Deficit	1,252	1,532	450	132
Cumulative Surplus/Deficit	**1,252**	**2,784**	**3,234**	**3,366**



11.2. The underlying budget shortfall falls largely in 2024/25 due to a reduced assumption of Earmarked Reserves supporting expenditure, and in 2025/26 due to the expectation of the implementation of the long overdue funding reforms. The latter years are forecast to be broadly more manageable.

11.3. This forecast position also makes a number of prudent assumptions, including:

- No new grant due to MDDC within the replacement New Homes Bonus Scheme and no further one-off allocations of NHB from 2025/26;
- A loss of historic growth in business rates above the baseline, on reset of the business rates system in 2025/26;

- No collection fund surplus or deficit from Council Tax or Business Rates until 2025/26;
- No Business Rates pooling income, which would probably not continue after a reset of the system;
- No further continuation of the allocation of Lower-Tier Services grant (initially announced as one-off);
- No grant funding continuing post 2025/26 other than the Rural Services Delivery Grant;
- The reduction in Council Tax referendum principles back to previous levels (£5 or 2%) from 2025/26;
- Pay Award and general inflation in line with assumptions reverting back to “normal” levels across the MTFP timeframe.

11.4. The same level of uncertainty will be facing all local authorities across the country.

12. Conclusion

General Fund

12.1. The General Fund budget has been set against a backdrop of over a decade of cuts to Public Sector funding, a global pandemic and now a once in a generation Cost of Living Crisis. However, the proposed balanced budget protects service delivery at current levels. This has been achieved with the use of a small amount of one-off funding from reserves and balances and that the vacancy management savings can be managed to minimise any impact on service delivery. However, further ongoing budget savings options will need to be identified to mitigate the underlying budget shortfall across the remainder of this MTFP.

12.2. Significant uncertainty remains for the future funding of Local Government. Further delays were announced to the outcomes of the Fair Funding Review and potential changes to both Business Rates and New Homes Bonus. These changes are now due in 2025/26.

HRA

12.3. The HRA budget for 2023/24 continues to address a number of important factors, such as the Post Grenfell and Fire Risk Assessment requirements and a marked increase in the overall number of units through significant investment. These investments continue across the whole 5-year MTFP period.

12.4. Rents are proposed to increase by 7% in line with the Government’s guidance and neighbouring authorities. A prudent allowance has been made for voids and non-collection, in line with that applied to Council Tax, taking into account the current economic climate.

12.5. This report has set out a proposed balanced budget for the HRA for 2023/24, with appendices attached showing the following:

Appendix 4 – The overall makeup of the budget at summary level
Appendix 5 – The proposed rent and fees and charges for 2023/24

12.6. Similarly to the General Fund, the longer term position for the HRA shows the funding shortfall although not to the same degree. Along with 2023/24, 2024/25 is indicatively balanced with relatively small shortfalls in years 2025/26 to 2027/28, as follows:

Table 3 – Future Medium Term Financial Plan – HRA

	2024/25 £k	**2025/26 £k**	**2026/27 £k**	**2027/28 £k**
Annual Surplus / Deficit	0	62	193	212
Cumulative Surplus/Deficit	**0**	**62**	**255**	**468**

12.7. Work continues to refine the position in order to balance the budget for the years ahead.

Capital Programme

12.8. The Capital Programme for 2023/24 includes the beginning of a programme of significant investment in social and affordable housing. The capital MTFP also includes investment into improving the energy efficiency of our property estate, and in the economic regeneration of the district. However these projects, as with any capital project, are subject to the Council receiving sufficient grant funding and a robust business case.

12.9. Therefore assumptions are built in that the Council will be successful in attracting funding through the increasing number of bid schemes for grant funding. Additional borrowing is also projected which is forecast to increase our Capital Financing Requirement to c.£97m (see Treasury Management Strategy included elsewhere on this agenda), although wherever possible, this will be mitigated through maximising the use of internal borrowing. The Revenue MTFP includes the associated financing implications.

12.10. It is, therefore, imperative that capital funds are only spent on those projects that enable the Council to deliver its Corporate Plan objectives, reduce operational cost, or generate a financial return.

Future Budgets

12.11. The Council will need to prepare for the future in a timely manner and this is why it will continue to discuss how it can provide a wide range of services in a much reduced funding envelope. The process will continue to involve all staff, Members and our local residents/businesses.

12.12. Cabinet are asked to agree the contents of this report and recommended its approval by Council in February 2023.

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Circulation of the Report:	Leadership Team, Cabinet
Background Papers:	November & January Cabinet & PDG’s (MTFP, Budget Draft and Budget Update reports)