

Report to: **Executive**

Date: **21 September 2023**

Title: **Medium Term Financial Strategy 2024/25 to 2026/27**

Portfolio Area: **Cllr J Brazil – Budget Setting Process**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

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**RECOMMENDATIONS:**

**It is RECOMMENDED that the Executive considers the Medium Term Financial Strategy and:**

- a) Notes the forecast budget gap for 2024/25 of £382,194 (2.9% of the projected Net Budget of £13.05million) and the position for future years; and**
- b) Tasks the Senior Leadership Team and Executive Members with bringing back further options of how to close the predicted budget gap for 2024/25, as part of future budget reports (once more detail of the Local Government Finance settlement is known), for Members' consideration.**

**1. Executive summary**

- 1.1 The Council's Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling three year timeframe to 2026/27. The Council adopted a three year timeframe for its MTFS in 2021, as this dovetailed to the timescales of the Corporate Strategy. This timeframe gives a good balance between long term financial planning and having realistic assumptions to be able to work with. This is in light of the current volatility within local government financial planning, due to the lack of certainty from continued one-year financial settlements. The previous one year financial settlements announced by the Government have aimed to address short-term pressures rather than focus on long term sustainability.
- 1.2 The Council, along with other local authorities, has faced unprecedented reductions in Government funding. Between 2009/10 and 2020/21, the Council's Core Government funding has reduced by £4 million. The

Council now receives minimal Government Grant (Revenue Support Grant) of £138,000 to fund its services and the Council has to be self-sufficient.

- 1.3 The Council has continued to work in partnership with West Devon Borough Council which has allowed South Hams to achieve annual savings of £3.9 million and more importantly protect all statutory front line services. Between both Councils the annual shared services savings being achieved are over £6 million per annum. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending.
- 1.4 It is important to note that this Medium Term Financial Strategy (MTFS) sets out the budget strategy for the Council for the next three years, with regular reviews (at least annually) and updates when items are further known or are announced by the Government.
- 1.5 This is the starting point for developing a meaningful three year strategy that sets out the strategic intention for all of the different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions.
- 1.6 Prudent financial management in the past, has meant that the Council was in a relatively healthy position financially before the pandemic hit. The management of risk and promoting financial resilience is a key principle of our budget strategy and this has helped facilitate our response. Key to the authority's financial resilience are our reserves, which are at a prudent level.
- 1.7 The challenges presented by the war in Ukraine with its broader implications along with the current 'cost of living crisis' have had an impact on the Council's finances as well as the finances of the residents of the District. The Council's approach to delivering services remains steadfast.
- 1.8 The Consumer Price Index (CPI) was 6.8% (July 2023 CPI), which is down from 7.9% in June. Inflation over the past 18 months has been at a 40 year high. An extra £450,000 cost pressure for inflation on goods and services and increases in utility costs has been included within the cost pressures in Appendix A. The latest minutes from the meeting of the Monetary Policy Committee (MPC) state that it is expected that inflation will drop back to 4.8% by the end of 2023, accounted for by lower energy, and to a lesser degree, food and core goods price inflation. At present, there is no indication from Government of any additional funding to meet inflationary cost pressures.
- 1.9 The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2026/27 although this

has not been confirmed by the Government so the MTFS assumes that these changes will happen in 2026/27.

1.10 The key assumptions within the Medium Term Financial Strategy are as below. Each of these is described in more detail in Section 3.

- The business rates baseline reset will be deferred until 2026/27 at the earliest (with no negative Revenue Support Grant in 2024/25 or 2025/26)
- There will be a phasing in of negative Revenue Support Grant as part of the business rates baseline reset (predicted to be in 2026/27) with a transition period, to avoid Local Authorities losing/gaining too much in one go. The modelling assumes negative RSG of £450,000 in 2026/27. Some of the negative RSG could be offset by growth.
- It is assumed Council Tax limits for District Councils will remain at the higher of £5 or 2.99% for 2024/25 onwards
- It is assumed that 2024/25 will be another roll over settlement, which will give an amount of around £500,000 of NHB funding (or a similar replacement housing incentive scheme) that could be used to fund the 2024/25 revenue base budget.
- A business rates pooling gain of £300,000 has been modelled for 2024/25 and 2025/26, with no further gains for 2026/27 onwards.
- A council tax surplus of £80,000 for 24/25 has been assumed, with a council tax collection rate of 98% (98.55% was achieved in 2022/23)
- Rural Services Delivery Grant has been assumed to continue annually at the same level for 23/24 (£478,583)
- A 4% pay increase has been modelled from 2024/25 onwards (4% equates to £456,000 on total pay of £11.4m). The pay assumption has been reduced to 3% in 2025/26 and 2026/27

1.11 The following table illustrates the predicted budget gap from 2024/25 onwards for the Council **as shown in Appendix B**:

Budget Gaps	2024/25 £	2025/26 £	2026/27 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	382,194	389,045	1,488,045	2,259,284
*Cumulative Budget Gap	382,194	771,239	2,259,284	3,412,717

\* (Cumulative Budget Gap assumes annual new budget gaps have not been addressed)

1.12 **The forecast budget gap for 2024/25 is £382,194. This is 2.9% of the Projected Net Budget for 24/25 of £13.05million.** A cumulative budget gap of £771,239 is predicted for 2025/26 (the £771,239 assumes that the 24/25 budget gap of £382,194 has not been closed). The cumulative

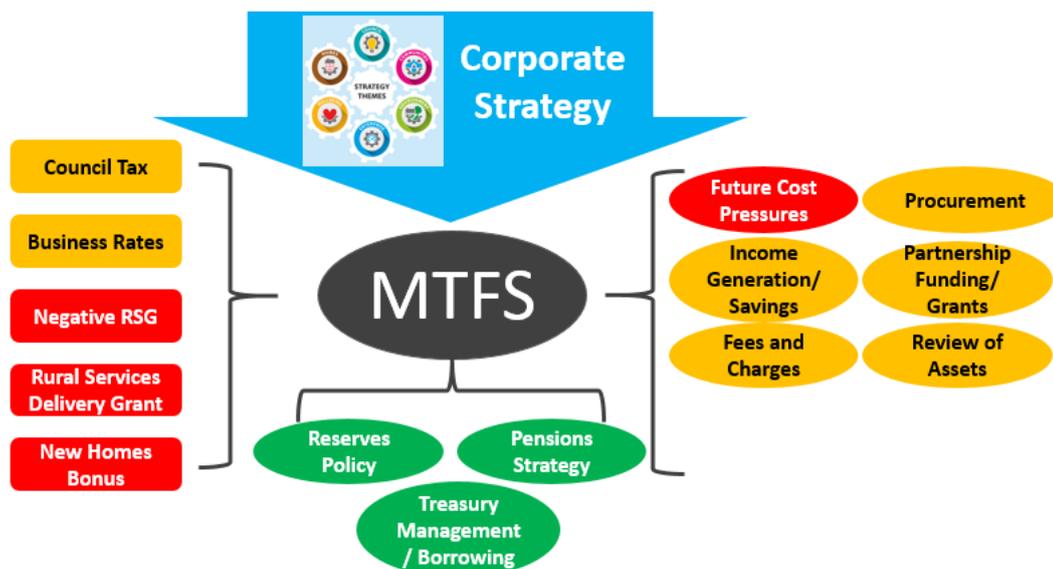
aggregated Budget Gap by 2026/27 is £3.41 million, if no action has been taken in each individual year to close the budget gap annually.

- 1.13 The budget gap for next year of £382,194 is very much in line with the level expected at this point in the financial planning cycle. In the year after the budget gap is £389,045. The budget gap increases to £1.488m in three year's time, 2026/27, due to the local government reforms that are expected. These are the reset of the business rates baseline, the fair funding review and the impact of negative RSG (Revenue Support Grant), coupled with the loss of the business rates pooling gain.
- 1.14 There are continuing uncertainties about the level of local government funding for 2024/25 and there is no indication yet of the detailed local government funding levels for 2024/25 and beyond. Therefore there are many uncertainties in preparing for the challenges we know we will face in the near future. It is thought that the first realistic opportunity for implementing funding reforms is 2026/27. There is now a very pressing need to update population and council tax data (both of which are at least a decade old). It is assumed that the core finance settlement for 2024/25 will increase in a similar manner as that for 2023/24.
- 1.15 Further options for Members' considerations of how to close the predicted budget gap of £382,194 will be presented as part of future budget reports.

## 2 **COMPONENTS OF THE MEDIUM TERM FINANCIAL STRATEGY**

- 2.1 The Diagram below sets out all of the component parts which constitute the make-up of a Medium Term Financial Strategy. Items in Green denote those elements where the Council has a large degree of control over the setting of policies and strategies. Items in Amber denote those components of the MTFs where the Council has a degree of control. Red items signal components where the Council has hardly any control over funding allocations which are decided by the Government and future cost pressures which can largely be outside of the Council's control or influence.

**2023/24 Net Budget £11.74 million**



2.2 The key assumptions within the MTFs are set out in Section 3.

### OVERALL POSITION – BUDGET GAP

2.3 Financial modelling has been undertaken for the next three years to predict the Council's financial situation for the short and medium term.

2.4 **Appendix A** to the Medium Term Financial Strategy sets out the Budget Pressures forecast for the next three years and the additional savings and income forecast. **Appendix B** illustrates the overall financial forecast for the forthcoming three years. The Council's Net Budget is £11.74 million in 2023/24.

2.5 A Summary forecast is shown below of the potential budget situation if all of the budget pressures and the savings and income generation in Appendix A were approved. It also shows the situation if the Council Tax is increased by £5 per annum (shown in Appendix B).

2.6 The following table illustrates the predicted budget gap from 2024/25 onwards for the Council **as shown in Appendix B**:

Budget Gaps	2024/25 £	2025/26 £	2026/27 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	382,194	389,045	1,488,045	2,259,284
*Cumulative Budget Gap	382,194	771,239	2,259,284	3,412,717

\* (Cumulative Budget Gap assumes annual new budget gaps have not been addressed)

2.7 **The forecast budget gap for 2024/25 is £382,194. This is 2.9% of the Projected Net Budget for 24/25 of £13.05million.** A cumulative

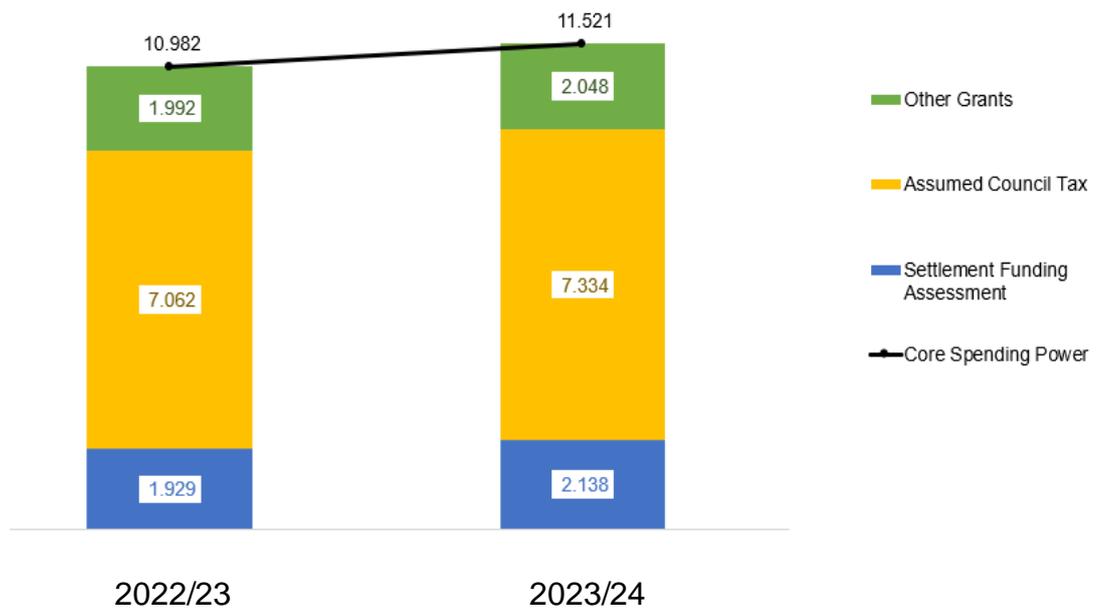
budget gap of £771,239 is predicted for 2025/26 (the £771,239 assumes that the 24/25 budget gap of £382,194 has not been closed). The cumulative aggregated Budget Gap by 2026/27 is £3.41 million, if no action has been taken in each individual year to close the budget gap annually.

- 2.8 The Council awaits the details of the local government finance settlement for 2024/25, which will be announced in December 2023. Further options for Members' considerations of how to close the predicted budget gap of £382,194 for 2024/25 will be presented as part of further budget reports.

### **3 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES**

- 3.1 The SFA is essentially the business rates baseline and is the amount of money the Council retains from its share of the business rates income. The breakdown of the increase in SFA for 2023/24 is shown below.
- 3.2 The 'Core Spending Power' is a headline figure used by MHCLG to represent the key revenue resources available to local authorities, including an estimate of actual and potential council tax, as below. The Council now receives no main Government grant (Revenue Support Grant).
- 3.3 ***Core Spending Power for South Hams (which is a measure of how much extra funding a Council has received for next year) increased by 4.9% for 2023/24.*** Core Spending Power is the term the Government use to say how much money Councils have to run their services. On looking at the detail below, it can be seen that the extra funding is mainly coming from assumed Council Tax increases in 2023/24.
- 3.4 The calculation of Core Spending Power already assumes that a Council will increase its council tax up to the maximum allowed under the referendum limits for 2023/24 – so for SHDC a 2.99% council tax increase (less than 10pence per week) for 2023/24 was included within this 4.9% increase in funding. New Homes Bonus is also included in the measure of Core Spending Power in 'Other Grants'.
- 3.5 Core Spending Power for South Hams increased from £10.982m in 2022/23 to £11.521m in 2023/24 as shown below.

#### **Core Spending Power for 2022/23 and 2023/24**



### Council Tax

- 3.6 The Council Tax Referendum limits for District Councils for 2023/24 was the higher of 2.99% or £5. An increase in council tax of £5 for the next three years has been modelled for council tax purposes. This would equate to a Band D council tax for the District Council of £190.42 in 2024/25 as shown in Appendix B (an increase of £5 for the year, less than 10 pence per week) which equates to a 2.70% increase. The Council's share of the council tax for 2024/25, will be set at the Council meeting on 15th February 2024. (A 1% increase in council tax generates £75,000 of extra council tax income).
- 3.7 The table below shows how an average Band D council bill is made up for South Hams District Council for 2023/24, compared to 2022/23. Of an average Band D Council Tax within the District of £2,261.19, an amount of £185.42 is the element of a council tax bill set by South Hams District Council. Therefore 8pence of every £1 paid (8%) in council tax is received by South Hams District Council to pay for our services. The rest of the council tax bill is set by Devon County Council, the Fire, the Police and Town and Parish Councils to fund the services they provide. In 2023/24, the council tax for an average Band D property in South Hams increased by £105.89, an annual increase of 4.91% as shown below.

<b>Precepting Authority</b>	<b>Band D 2022/23</b>	<b>Band D 2023/24</b>	<b>£ Increase</b>	<b>% Increase</b>
South Hams District Council	£180.42	£185.42	£5.00	2.77%
Devon County Council Precept	£1,372.59	£1,419.21	£46.62	4.99%
Adult Social Care Precept *	£183.87	£214.92	£31.05	
Devon & Cornwall Police & Crime Commissioner	£246.56	£261.56	£15.00	6.08%
Devon & Somerset Fire & Rescue	£91.79	£96.79	£5.00	5.45%
Average Parishes/Towns	£80.07	£83.29	£3.22	4.02%
<b>TOTAL</b>	<b>£2,155.30</b>	<b>£2,261.19</b>	<b>£105.89</b>	<b>4.91%</b>

- 3.8 The District Council is responsible for collecting all the Council Tax debt of approximately £86m as South Hams DC is the Billing Authority. After keeping 8% of the council tax collected to run the Council's services, the rest is paid over to Devon County Council, the Police, the Fire and Town and Parish Councils. **The Council collected 98.55% in council tax in 2022/23 which was in the top quartile of all Councils nationally.**
- 3.9 A council tax collection rate of 98% has been assumed for 2023/24.
- 3.10 It has been assumed that the number of properties within the District will increase by 500 per annum from 2024/25 onwards.
- 3.11 In 2023/24 the Government set no council tax referendum principles for Town and Parish Councils. It has not yet been announced by the Government whether any referendum principles will apply to Town and Parish Councils in 2024/25 onwards.

### **Business Rates and Negative Revenue Support Grant (RSG)**

- 3.12 It has been assumed that the Business Rates Reset will be delayed to 2026/27. Whilst this change is not confirmed by the Government, a reset based on the current taxbase would appear very unlikely.
- 3.13 The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2026/27 although this has not been confirmed by the Government so the MTFs assumes that these changes could happen in 2026/27. The 2025/26 finance settlement will be the first year of a new spending review period.

- 3.14 The MTFs assumes that the full range of changes from the Fair Funding Review will be implemented based on the proposals in the December 2018 consultation paper, plus the latest population estimates (2022) and the latest council tax data. It is assumed that the business rates baseline reset will happen in 2026/27.
- 3.15 Estimates have been made of the business rates baseline funding levels for 2024/25 onwards and the relative deductions for negative RSG in 2026/27. For example in 2024/25, the £3.45m is the amount the Council is projected to retain from its business rates income collected of around £25 million (this equates to around 14p in every £1 collected of business rates).
- 3.16 **The 2022/23 collection rate for South Hams for business rates was 97.95%, which was in the second quartile of all Councils nationally.**
- 3.17 It is modelled to take £400,000 funding from the business rates retention on an annual basis. This would reduce the business rates retention reserve by £1.2m over the next 3 years to smooth the impact of the business rates baseline reset and the future loss of pooling gains. There will also be £1.5m coming out of this business rates retention reserve in 2023/24, for the transitional cost of the waste and recycling service coming back in house in October 2022. This reserve is predicted to have more business rates income being set aside into the reserve in 23/24, due to the way that business rates income flows through the collection fund over a period of years.

#### **Devon Business Rates Pool**

- 3.18 South Hams District Council will continue to be part of a Devonwide Business Rates Pool for 2023/24 and it is expected that this opportunity will also be there for 2024/25 (until the baseline reset happens in 2026/27). A business rates pooling gain of £300,000 has been modelled for 2024/25 and 2025/26 with no further gains for 2026/27 onwards when the baseline reset is expected to happen.

#### **Rural Services Delivery Grant**

- 3.19 Rural Services Delivery Grant has been modelled to continue for 2024/25 onwards at previous levels (SHDC share of £478,583) and the methodology for distribution is assumed to remain unchanged from 2023/24. This is Government grant to recognise the additional cost of delivering services in rural areas.

#### **New Homes Bonus (NHB)**

- 3.20 A decision on the future of New Homes Bonus funding (NHB) will be announced before the 2024-25 finance settlement. The consultation on the future of NHB was in February 2021. In the absence of any decision or announcement, it is assumed that NHB will continue for one more year in 2024-25.

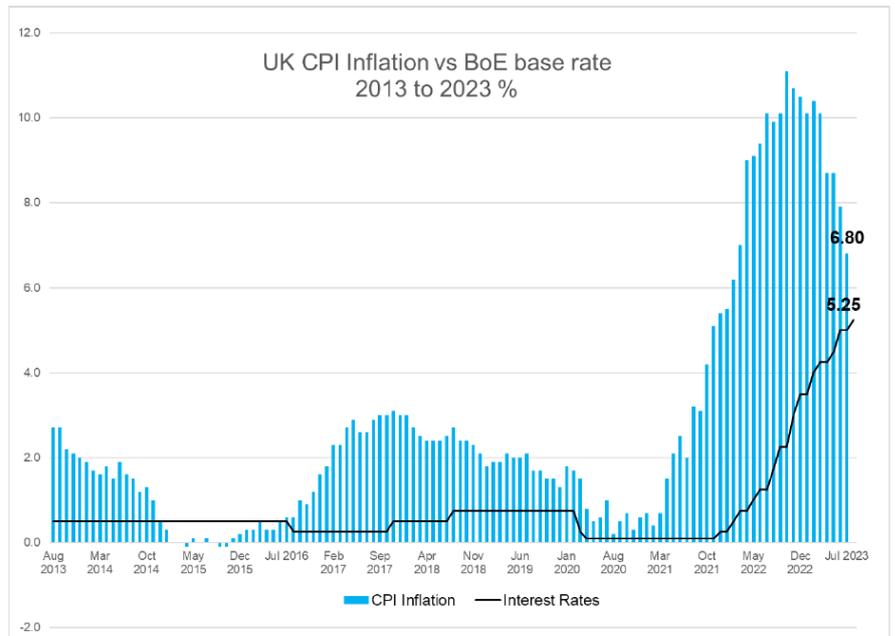
3.21 In 2023/24 the NHB allocation for the Council was £456,012. It is assumed that the roll over settlement for 2024-25 will give an amount of £500,000 of NHB funding (or a similar replacement housing incentive scheme) that could be used to fund the 24/25 revenue base budget.

**Other assumptions within the Medium Term Financial Strategy (MTFS)**

3.22 The Consumer Price Index (CPI) was 6.8% (July 2023 CPI), which is down from 7.9% in June. Inflation over the past 18 months has been at a 40 year high. An extra £450,000 cost pressure for inflation on goods and services and increases in utility costs has been included within the cost pressures in Appendix A. The latest minutes from the meeting of the Monetary Policy Committee (MPC) state that it is expected that inflation will drop back to 4.8% by the end of 2023.

**Inflation**

- Chart shows inflation vs BoE base rate since August 2013.
- The target for CPI inflation is 2.0%.
- UK CPI Inflation for July 2023 was **6.8%**.
- Fall from **7.9%** in June.
- The BoE base rate interest rate stands at **5.25%**, up from **5.00%** on 3 August.



3.23 A provision for the 2024/25 pay award has been modelled in the MTFS at 4% (£456,000), with total pay being £11.4million. This has been reduced to 3% in 2025/26 and 2026/27.

3.24 The Medium Term Financial Strategy is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council. The Council is particularly affected by inflation in terms of the Local Government Pay Award as staffing forms a significant proportion of the Council's budget.

- 3.25 The pay award for 2023-24 has also not yet been finalised or agreed. The current employers' offer is for £1,925 per Scale Point or a 3.88% increase for Scale Point 44 upwards. This would cost an extra £550,000 and this amount also needs to be built into the Base Budget for 2024-25 as a 'catch up' as the budget for 23/24 has already been set.
- 3.26 As per the report to Council on 13 April 2023, an extra £270,000 per annum needs to be built into the base budget for the waste collection, recycling and cleansing service. A breakdown of the £270,000 is shown in the Waste Memorandum note in Appendix A.
- 3.27 Cost pressures for insurance (£130,000) and IT inflation cost pressures (£90,000) have also been built into the MTFS.
- 3.28 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates (Bank Base rate) will increase in September to 5.5% (Bank Base rate is 5.25% as at August 2023). The prediction is that the bank base rate will start decreasing to 5.25% in June 2024 and 4.25% in December 2024. The increase in Bank Rate will increase the Council's income from treasury management investments and additional income of £700,000 has been built into the MTFS for 2024/25.

### **Corporate Strategy**

- 3.29 There is a separate report on this Executive agenda on the Draft Corporate Strategy for the period 2024-2028. Once adopted, the strategy will be the Council's overarching strategic document setting out our ambitions and priorities for the District. The report also sets out how we will continue with consultation on the strategy in order to shape delivery plans for consideration by Council in December 2023.

### **Climate Change**

- 3.30 The Council's annual delivery plan on 'Adapting and mitigating climate change and increasing biodiversity' sets out the Council's action plan for addressing climate change and the carbon/biodiversity impact.

### **OTHER BUDGET ITEMS**

- 3.31 The Levelling Up and Regeneration Bill is making its way through Parliament but the proposals within it will not be able to be implemented until 2025-26. There is a proposal within the bill to allow Billing Authorities the discretion to charge second home owners a council tax premium of 100% (so a second home dwelling would pay double the council tax charge). The Bill requires Billing Authorities to have a minimum period of 12 months between making its first determination and the financial year in which it takes effect. That means the earliest that Councils can introduce it is for the start of the 2025-26 financial year, i.e. 1 April 2025. At Council on 16 February 2023, Council approved charging up to an extra 100% council tax in second homes. Modelling shows that extra council tax income of £800,000 could be generated and this has been modelled for the 2025-26 financial year.

- 3.32 The Council will be reviewing core service delivery through on-going service reviews and will bring reports back to Members at the appropriate point, linking back to the emerging corporate strategy.
- 3.33 The revenue budget monitoring report to the Executive on 21 September shows an overall projected surplus of £79,000 for the 2023/24 financial year. This is 0.7% of the overall net budget set of £11.738million.

#### **4. Treasury Management and Borrowing Strategy**

- 4.1 The Council has previously taken external treasury management advice on the Council's overall borrowing levels and debt levels. The Council set an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £75 million in 2019 and it is not proposed to change this limit at present.
- 4.2 In 2022/23 the long term borrowing of the Council decreased from £14,284,000 (21/22) to £13,825,000. Short term borrowing increased from £96,000 to £459,000. This is due to the profiling of the debt repayments where long term borrowing has moved to short term borrowing. No further external borrowing took place during 2022/23.
- 4.3 Council has also approved future borrowing of up to £5.5million for the Plymouth and South Devon Freeport (Council report 30<sup>th</sup> March 2023, Council Minute CM 77/22). The borrowing will be paid for from the business rates income generated by the Freeport and therefore it will be self-financing.

#### **5 FEES AND CHARGES**

- 5.1 As part of the budget process, fees and charges will be reviewed. A delegation is in place to enable service managers to increase fees and charges by inflation where these are not material changes or increases.
- 5.2 DEFRA has confirmed that the implementation of the Extended Producer Responsibility (EPR) will be deferred from October 2024 to October 2025.
- 5.3 As referenced in the report to Council on 13<sup>th</sup> April 2023, the setting of fees and charges for the waste and recycling service is delegated to the Director of Customer Service and Delivery, in consultation with the Leader of the Council, the lead Executive Members for waste and recycling and the Section 151 Officer (Minute reference CM 84/22).

#### **6 FINANCIAL SUSTAINABILITY AND TIMESCALES**

- 6.1 The Council will continue to assess various options for closing the budget gap for 2024/25 onwards, and in the longer term, to achieve long term financial sustainability and further options will be presented to Members in further budget reports. This will consider ways to reduce the Council's operating costs and generating further income and savings.

- 6.2 Making the best use of our resources and setting a balanced budget annually is within the Council's Delivery Plan.

## **7 Earmarked and Unearmarked Reserves Policy**

- 7.1 Unearmarked Reserves total £2.113 million at 31 March 2023. There was a surplus of £57,000 on the outturn position for 2022/23 (0.5% of the net budget of £10.464m) as shown in the Draft Statement of Accounts for 2022/23 published by the end of June 2023. In accordance with normal accounting practice, this underspend has gone into Unearmarked Reserves.
- 7.2 **Earmarked Reserves** have reduced by £5.415m in 2022/23 moving from £20.839m on 1 April 2022 to **£15.424m at 31 March 2023**. This follows the application of £3.066 million of the S31 Business Rates compensation grant received in 2020/21 and 2021/22 which was held in the S31 Compensation Grant Business Rates Reserve. This is a technical adjustment as part of the Collection Fund. In addition, the Business Rates Retention Earmarked Reserve has reduced by £2.570 million in 2022/23 partly due to supporting the costs of bringing the Waste and Recycling Service back in house from October 2022 (£1.448 million) and partly to support the Business Rates Collection Fund deficit in 2022/23 (£0.785 million).
- 7.3 There is a separate report on this Executive agenda regarding a review of Earmarked Reserves. This report has identified £1.541m of Earmarked Reserves which are potentially available to support the delivery of the emerging corporate strategy. These are one-off amounts.
- 7.4 The proposed contributions to/from Earmarked Reserves for 2024/25 are shown in Appendix C. It is recommended to make an annual contribution of £75,000 to a JLP reserve, to commence the JLP review.
- 7.5 Reserve levels will be kept under constant review and will be reviewed throughout the budget setting process to consider commitments against Earmarked Reserves, their unallocated balance and the contributions to/from Earmarked Reserves for 2024/25 and future years also. This will form part of the December 2023 Budget report to the Executive and will be able to be considered alongside details of the Government's Draft Local Government Finance Settlement for 2024/25 (due to be published December 2023).
- 7.6 At Council on 16<sup>th</sup> February 2023, Members set a minimum balance for Unearmarked Reserves of £1.5million, with an operating level of a minimum of £2million (Minute reference CM 59/22). This was based on a risk assessment basis and a sensitivity analysis. Therefore the current level of £2.113million at 31 March 2023 is still above these levels which are set annually.

- 7.7 Legislation does not prescribe how much the minimum level of reserves should be. The Section 151 Officer is tasked with recommending the minimum level of reserves required as part of the budget setting process having regard to elements of risk in the Council's finances (this was recommended at £1.5million being the minimum level in February 2023, with an operating level of £2million). Section 25 of the Local Government Act 2003 requires the Section 151 officer to report on the adequacy of the Council's financial resources on an annual basis.
- 7.8 The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.
- 7.9 As highlighted above there is a high degree of uncertainty about future levels of funding for local government. However, the Section 151 Officer is keeping a close watch on developments and planning for this longer-term uncertainty.

## **8 CAPITAL PROGRAMME AND PRUDENTIAL BORROWING**

- 8.1 The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing. The Capital Budget Proposals for 2024/25 will be a separate report to the Executive in December 2023.
- 8.2 Capital projects will be scored on the following criteria:
- Health and Safety compliance
  - Essential to keep operational assets open
  - Fit with the Council's Delivery Plans for the new emerging Corporate Strategy
  - To rationalise service delivery or service improvement
  - To generate income, capital value or to reduce revenue costs
- 8.3 It is important that future bids for capital are aligned with the review of the new emerging Corporate Strategy.

### **Capital Reserves**

- 8.4 The Capital Receipts Reserve (which holds capital receipts which can be used to finance capital projects) has a balance of £2.92m as at 31.3.2023. These capital receipts are earmarked for current projects within the Council's capital programme.
- 8.5 The Capital Grants Unapplied Reserve has a balance of £409,000 as at 31 March 2023. This is mainly Disabled Facilities Government Grant which will be utilised in 2023/24.
- 8.6 The Council's Asset Base is £108.2 million at 31 March 2023. The Council will continually review and challenge its asset base in order to deliver the optimum value for money from the Council's Assets.

## 9 NEXT STEPS AND PROPOSED WAY FORWARD

- 9.1 The MTFFS is the starting point for developing a meaningful three year strategy that sets out the strategic intention for different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions.
- 9.2 The Council's budget is essentially fixed in cash terms and its ability to raise income is limited as there are national controls in place around council tax and business rates.
- 9.3 Officers will continue to work with the Executive and the results of this will be incorporated into future Budget reports. This will consider ways to reduce the Council's operating costs and generating further income and savings.
- 9.4 Further options for Members' considerations of how to close the predicted budget gap of £382,194 will be presented as part of the 30<sup>th</sup> November report. The table below shows the budget timetable for the budget meetings for the 2024/25 Budget process.

21st September 2023	Executive – To consider the three year MTFFS (Medium Term Financial Strategy) for 2024/25 to 2026/27
30 <sup>th</sup> November 2023	Executive – To consider draft proposals for the Revenue and Capital Budget for 2024/25
Early January 2024	Member Scrutiny of the Budget proposals
25th January 2024	Executive – To recommend Final Budget Proposals to Council for 2024/25
<b>12th February 2024 (9am)</b>	<b>Date which Council Procedure Rule 16 applies</b>
15th February 2024	Full Council – To approve Final Budget Proposals for 2024/25 and set the SHDC share of the Council Tax
22 February 2024	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2024/25 (This is SHDC share plus all other precepting authorities share).

**Note 1-** Council Procedure Rule 16 states that ‘Where a member intends to move a motion or amendment in relation to the Budget, the text of that motion or amendment must be put in writing and submitted to the Head of Paid Service by 9am on the third working day before the meeting, in order that officers may have sufficient time to consider and advise the Council of the financial implications of any such motion or amendment’. As per the timetable above, this would need to be submitted by 9am on Monday 12th February 2024.

### 10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>The Executive is responsible for recommending to Council the budgetary framework. It is the role of the Overview and Scrutiny Committee to scrutinise the Budget proposals being proposed by the Council on an annual basis. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.</p> <p>The preparation of the Budget report is evidence of whether the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in accordance with statutory requirements, and in particular, that it will set a lawful budget.</p>
Financial implications to include reference to value for money		<p><b><i>The forecast budget gap for 2024/25 is £382,194. This is 2.9% of the Projected Net Budget for 24/25 of £13.05million.</i></b> A cumulative budget gap of £771,239 is predicted for 2025/26 (the £771,239 assumes that the 24/25 budget gap of £382,194 has not been closed). The cumulative aggregated Budget Gap by 2026/27 is £3.41 million, if no action has been taken in each individual year to close the budget gap annually.</p>

		<p>There is no indication yet of the detailed local government funding levels for 2024/25 and beyond. Therefore there are many uncertainties in preparing for the challenges we know we will face in the near future.</p> <p>As part of Grant Thornton's external audit of the Statement of Accounts for 2022/2023, they will assess the arrangements the Council has in place for:-</p> <ul style="list-style-type: none"> <li>• Improving economy, efficiency and effectiveness</li> <li>• Financial Sustainability</li> <li>• Governance</li> </ul> <p>The outcome of Grant Thornton's work in this area will be reported to Members at the Audit Committee meeting in March 2024.</p>
Risk		Each of the budget options taken forward by Members will consider the risks of the option.
Supporting Corporate Strategy		The majority of activities set out in the Council's delivery plans can be delivered through refocusing and reprioritisation of existing resources however, in order to realise the ambition set out in the strategy, some of the activities will require additional resources.
Climate Change - Carbon / Biodiversity Impact		<p>The Council declared a Climate Change and Biodiversity Emergency on 25 July 2019 and the potential for this to have significant financial implications for the Council was highlighted.</p> <p>A Climate Change Action Plan was presented to Council in December 2019. Following this report, a strategy is being implemented as to how the Council can finance the items within the Action Plan, whether that is from external grant sources or some funding from the Council's own resources.</p> <p>The Council has Earmarked £400,000 in a Climate Change Earmarked Reserve as part of the 2020/21 Budget, with a further £200,000 being agreed as part of the 2021/22 Budget Process.</p> <p>Further detail is set out in the Council's 'Better Lives for All' Thematic Delivery Plan.</p>

Comprehensive Impact Assessment Implications		
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
Equality and Diversity		Equality Impact Assessments are completed for the budget proposals.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

### **Supporting Information**

#### **Appendices:**

- Appendix A – Budget pressures and savings
- Appendix B – Modelling of the Budget Position
- Appendix C – Contribution to/from Reserves

#### **Background Papers:**

None