

**REPORT TO:** Executive Board

**DATE:** 17 November 2022

**REPORTING OFFICER:** Operational Director, Finance

**PORTFOLIO:** Corporate Services

**SUBJECT:** Medium Term Financial Strategy 2023/24 – 2025/26

**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 To establish the Medium Term Financial Strategy for the period 2023/24 to 2025/26.

## **2.0 RECOMMENDATION: That**

- (i) the Medium Term Financial Strategy be approved;**
- (ii) the 2023/24 base budget be prepared on the basis of the underlying assumptions set out in the Strategy;**
- (iii) the Reserves and Balances Strategy be approved; and**
- (iv) the award of Council Tax Support for 2023/24 remains at the 2022/23 level of 21.55%.**

## **3.0 SUPPORTING INFORMATION**

3.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending. It has been based on information that is currently available. The most recent Public Sector Spending Review was published at the end of October 2021, setting Government Departmental Expenditure Limits for the following three financial years. The growth of 3.3% set out in the Spending Review was based on inflation predictions in October 2021, however inflation currently stands at 10.1%, eroding much of the increase in funding. Government confirmed in September 2022 that the funding envelope would not be revised to take account of rising inflation. Although the overall Local Government funding available during 2023/24 has already been determined, there are still several areas of uncertainty around how this funding will be distributed between individual Authorities. Details of the 2023/24 Local Government Finance Settlement are expected to be released in December 2022 on a provisional basis, with a final settlement expected in January 2023.

- 3.2 The uncertainty regarding 2023/24 financial resources means the financial information included within the MTFS is based on a large number of assumptions and best estimates. The financial forecast will be updated as and when further information is known.
- 3.3 There is considerable uncertainty surrounding Local Government Funding in 2023/24 and beyond. The Fair Funding Review, which changes how funding is apportioned between councils, was originally proposed in 2016 and has been repeatedly delayed, and there has been no confirmation from Government that this will still take place. The proposed Business Rates Baseline Reset and a move to 75% Business Rates Retention have also been postponed indefinitely.
- 3.4 High inflation is impacting on services during 2022/23, with significant cost increases being incurred for utilities and social care contracts. The proposed pay award for 2022/23 is in excess of the level predicted when this years' budget was set and will add to these inflationary pressures.
- 3.5 Legacy costs from the Covid-19 pandemic continue to impact on a range of services, with no additional funding available from Central Government
- 3.6 Appendix 1 details the Medium Term Financial Strategy from 2023/24 – 2025/26 which has been produced using a prudent estimate of the financial conditions over the course of the next three years.
- 3.7 Although the projections in the Strategy must be treated with a considerable degree of caution, they show there is continued need to make a significant level of savings over the next three years.
- 3.8 The Strategy provides initial guidance to the Council on its financial position into the medium term. Adopting a prudent view, the strategy identifies that revenue savings of approximately £21.1m, £1.9m and £2.0m are required over the next three years. As a result, a total of £25.0m will need to be removed from the Council's budget, by reducing spending or increasing income. This represents 22.4% of the 2022/23 net budget.

#### **4.0 POLICY IMPLICATIONS**

- 4.1 The MTFS represents the “finance guidelines” that form part of the medium term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and Strategies.

#### **5.0 FINANCIAL IMPLICATIONS**

- 5.1 The MTFS provides a guide to projected receivable funding resources over the three year term. The grant amounts included in the MTFS are based on the latest information provided by Government. As new information comes to light the forecast of future income streams will be updated. Decreases to funding resources will create further budget pressures for the Council in delivering its key objectives.

## **6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

- 6.1 The revenue budget and capital programme support the delivery and achievement of all the Council's priorities. Reductions of the magnitude identified within the Strategy are bound to have a negative impact upon the delivery of those priorities.

## **7.0 RISK ANALYSIS**

- 7.1 The MTFS is a key part of the Council's financial planning process, and as such minimises the risk that the Council fails to achieve a balanced budget.
- 7.2 The financial forecast is presented on a prudent basis but there is continued uncertainty around Government support, funding levels and the high cost of inflation. This will be reviewed on a constant basis to help mitigate the increased level of risk.

## **8.0 EQUALITY AND DIVERSITY ISSUES**

- 8.1 There are no direct equality and diversity issues.

## **9.0 REASON FOR THE DECISION**

- 9.1 To seek approval for the Council's Medium Term Financial Strategy for 2023/24 to 2025/26.

## **10.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

- 10.1 The alternative option of not maintaining a Medium Term Financial Strategy has been considered. However, this would not follow good financial management practice, as the Medium Term Financial Strategy is a key element in informing the Council's financial planning and budget setting processes.

## **11.0 IMPLEMENTATION DATE**

- 11.1 The Medium Term Financial Strategy 2023/24 will be implemented from 1st April 2023.

## **12.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

<b>Document</b>	<b>Place of Inspection</b>	<b>Contact Officer</b>
Local Government Grant Settlement 2022/23	Revenues and Financial Management Division, Halton Stadium, Widnes	Steve Baker

# Appendix 1

## Medium Term Financial Strategy 2023/24 – 2025/26

### 1.0 Introduction

- 1.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending covering the period 2023/24 to 2025/26. The projections made within the MTFS must be treated with caution and require continuous updating as the underlying assumptions behind them become clearer.
- 1.2 The MTFS represents the "finance guidelines" that form part of the medium-term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and other Strategies.
- 1.3 Beyond 2022/23 there is great uncertainty regarding the funding of local government. A number of major reviews to local government finance have been repeatedly delayed and there has been no firm commitment by the current Government as to whether these reviews will go ahead.
- 1.4 The following measures will continue to be considered throughout the period covered by the MTFS:
  - Fair Funding Review – A review of how cumulative local government funding should be apportioned between councils. The last review was in April 2013 and since then cuts made to local government have been made on a percentage basis. This has had the impact of protecting those authorities less reliant on Government grant funding whilst those councils which are more reliant (such as Halton) have had to deal with larger cuts in funding on a per head basis. The Fair Funding Review was due to be implemented in the 2021/22 financial year, and was postponed due to the impact of Covid-19. To date, only one indicative formula, relating to Adult Social Care, which will form part of the Fair Funding Review has been published. The formula suggests that deprivation will have a lower weighting under the new system which would disadvantage authorities such as Halton. As the Spending Review 2021 covers the following three financial years and no further details of Fair Funding have been published, it has been assumed that the review will not be implemented within the scope of the forecast.
  - 75% Business Rates Retention – It was anticipated that the percentage share of retained rates at a local level was to be set at 75% from the 2021/22 financial year. This was postponed and there has been no new commitment from Government that this will still go ahead. It was confirmed at Spending Review 2021 that Halton will continue to be part of the Liverpool City Region Business Rate Pilot until 2024/25 with 100% retention.
  - Business Rates Baseline Reset – A reset of the business rates baseline was due to take place in 2021/22. Halton has seen a high level of growth in business

rates since the previous reset in 2013 and would be expected to lose funding from a reset in the baseline. It is not known if there will be a transition process put in place to protect authorities from too high a loss in funding from an increase to the baseline position. The reset was postponed due to Covid-19, and it is unclear when this will now take place. It has been assumed for the purpose of this report that the reset will not take place within the timescale covered by the forecast.

- **Comprehensive Spending Review** – The Spending Review was published on 27 October 2021, covering the next three financial years. It was announced that Local Government will receive an increase in Core Spending Power of approximately 3% per year between 2022/23 and 2024/25, amounting to an additional £1.6bn of funding per year. It was confirmed in September 2022 that the Spending Review would not be revisited to adjust for higher than expected inflation. No details of how this funding will be distributed in 2023/24 or 2024/25, or whether it will be ring-fenced to specific services, was released. Full details are expected to be published as part of the Provisional Local Government Finance Settlement in December 2022.
- **Medium Term Fiscal Plan** – The Chancellor is expected to publish the Government's Medium Term Fiscal Plan on Thursday 17<sup>th</sup> November, the aim of which is to review the Government's annual revenue and fiscal deficit goals over a three-year horizon. It has been announced that as part of this, Government departments will be asked to make efficiencies within their budgets. There is no current detail as to what extent this will impact upon Local Government.
- **Social Care Reform** – The Government published a Plan for Health and Social Care in September 2021, focussing on the level of contributions that individuals will need to make towards their care by introducing a £0.086m cost cap for care costs and changing the thresholds at which the Council must contribute to care costs. A consultation on the distribution of funding to compensate Councils for these changes has currently been issued, but the outcome will not be known until the publication of the 2023/24 Local Government Finance Settlement. An additional £600m is due to be distributed to Councils to allow them to increase the rates paid to providers in order to strengthen the social care market. For the purposes of this forecast, it is assumed that all of the increased costs of these measures will be covered by additional funding, but this will need to be continuously reviewed over the period covered by the forecast.

## **2.0 Local Government Finance Settlement 2022/23**

2.1 Government announced the 2022/23 final Local Government Finance Settlement on 07 February 2022. Details included:

- I. **Council Tax** – The Council Tax referendum limit was set at 2% for local authorities, with social care authorities allowed to raise a 1% additional precept.
- II. **Business Rates Retention** – The three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff / Top Up amounts) were all increased by 4.9%, in line with the September 2021 RPI inflation figure. The Business Rates Multiplier was frozen in 2022/23, with councils receiving additional grant funding to compensate for this.

- III. New Homes Bonus - The 2022/23 allocations will be paid with the legacy payments due from 2019/20. There will be no legacy payments in future year allocations.
- IV. Social Care Support Grant – Government announced an additional £636m of funding to cover both Adult’s and Children’s Social Care. The value of the grant (including the existing Winter Care Pressures Grant) to Halton in 2022/23 was £7.0m.
- V. Lower Tier Services Grant – Funding of £111m for services provided by lower tier authorities was continued for another year. The value of the grant to Halton in 2022/23 was £0.215m.
- VI. Services Grant – New non-ringfenced funding of £822m was distributed via the 2013/14 Settlement Funding Assessment formula, funded from the reduction in New Homes Bonus payments. This grant includes an unspecified amount to compensate Councils for the increase in National Insurance payments between April and October 2022. It was emphasised that this grant was for one year only and this funding may be distributed in a different way or for a different purpose in future years. The value of the grant to Halton is £2.5m.

### **3.0 Council Tax Support**

- 3.1 Funding to support council tax discounts is received from Government through a grant included in the Settlement Funding Assessment. Every council is responsible for implementing a local scheme to offer council tax discounts to those residents who may have been eligible to this previously through Council Tax Benefit.
- 3.2 The Halton scheme uses as a basis the previous regulations relating to Council Tax Benefit, which ensures that support for claimants with disabilities, claimants with children, and claimants who are working is maintained. At the end of the existing support calculation, a reduction of 21.55% is made from every non-pensioner award of benefit, to cover the shortfall in the Government grant funding for Halton’s scheme.
- 3.3 In 2013/14 the level of grant awarded was shown separately within the formula for Settlement Funding Assessment but from 2014/15 the grant is no longer separately identifiable. It is assumed the level of funding will move in line with the Council’s overall Settlement Funding Assessment.
- 3.4 The MTFS assumes that the level of Council Tax Support given to existing claimants will remain at the rate of 21.55% for the period of the MTFS. It also assumes that Council Tax Support funding will not be shared with Parish Councils.

### **4.0 Business Rate Retention Scheme**

- 4.1 The aim of the business rates retention scheme is to promote economic development and generate future growth in business rates. The Council will only be rewarded if it increases its local share of business rates above a pre-

set baseline. Conversely if the local share of business rates collected falls below the baseline position, this would be to the Council's detriment.

- 4.2 An estimate of the Council's share of retained business rates will be provided to DLUHC in January 2023. In January 2021 it was confirmed that Government would provide grant funding to cover 75% of councils' relevant business rates deficits from the 2020/21 financial year when the economic downturn caused by Covid-19 led to a significant decrease in business rates collected nationally. The remaining 25% of the deficit is required to be carried forward, with one third charged to the Collection Fund in each of the three subsequent financial years. For Halton, this means that £2.525m of the 2020/21 business rates deficit will need to be accounted for in 2023/24. This is included within the forecast figures.
- 4.3 The business rates baseline was due to be reset in 2021/22, but this was postponed due to the Covid-19 pandemic. No new date has been given for the implementation of the reset, although as Spending Review 2021 has given a three-year indicative settlement, it has been assumed that this will not take place within the timescales covered by the MTFS.

#### **100% Business Rates Retention – Pilot Scheme**

- 4.4 As part of the Liverpool City Region, the Council has signed up to being a member of a pilot scheme for 100% business rates retention. The pilot scheme has been in operation since April 2017.
- 4.5 The pilot scheme results in Halton no longer being in receipt of Revenue Support Grant (RSG) through the Settlement Funding Assessment. RSG will be replaced by the additional business rates retained. In addition, the Improved and Additional Better Care Fund has been included in the pilot and funded by business rates retained.
- 4.6 DLUHC has confirmed the operation of the pilot scheme should be at no financial detriment to participating councils, therefore for as long as the pilot scheme operates Halton will be no worse off financially than it would have been if it was still operating under 49% rates retention.
- 4.7 Operation of no financial detriment within the pilot scheme means that any LCR authority who report a deficit as a result of the pilot will at first be reimbursed from other member pilot authorities who report a surplus as a result of the pilot. Only when any available surplus has been exhausted will Government step in and provide financial support.
- 4.8 For the first five years of the pilot scheme all LCR authorities reported a betterment position as a result of retaining 100% business rates, therefore surplus income from the pilot scheme has previously been used to balance the Council's revenue budget.



4.9 All authorities were due to move to 75% business rates retention in 2021/22, but the Government announced in July 2020 that this would be postponed. It was subsequently announced in the October 2021 Spending Review that current pilot schemes will remain in place until at least 2024/25.

## 5.0 Settlement Funding Assessment

5.1 In 2021/22 DLUHC allocated Halton a Settlement Funding Assessment (SFA) of £52.924m. This was made up of £46.857m business rates baseline funding and £6.066m of top-up grant funding. Top-up grant funding is received as the Council's funding baseline is greater than the business rate baseline i.e. the Council's needs are greater than the business rates it is estimated it can generate. The business rates baseline and funding level is set in the system and uplifted each year by the Consumer Price Index (CPI).

5.2 Table 1 shows the forecasts for business rate growth retained for the next three years and the difference between each of the years.

**Table 1 – Business Rate Retention**

	<b>2022/23 £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>
Projected Business Rates Income	49,463	56,912	58,050	59,211
Business Rates Surplus / (Deficit)	-2,172	-1,401	0	0
Section 31 Grants and Top-Up Multiplier Adjustment	8,248	10,212	10,416	10,625
Funding for Covid-Related Business Rates Reliefs	4,725	0	0	0
Top-Up Funding	6,067	777	793	808
<b>Forecast Business Rates Retained (Incl. Top-Up Funding)</b>	<b>66,331</b>	<b>66,500</b>	<b>69,259</b>	<b>70,644</b>
<b>Increase / (Decrease) in Business Rates Retained</b>	<b>0</b>	<b>169</b>	<b>2,759</b>	<b>1,385</b>

## 6.0 Council Tax Forecast

6.1 For 2022/23 the council tax for a Band D property in Halton is £1,595.67 (excluding Police, Fire, LCR and Parish precepts), which is expected to generate income of £57.174m.

6.2 When setting council tax levels, higher increases reduce the requirement to make budget savings. However, there are other factors that need to be considered when determining the appropriate increase in council tax. These factors include:

- Halton has the 4th lowest council tax level in the North West for 2022/23.

- Halton's 2022/23 council tax is £49.75 (3.0%) below the average council tax set by unitary councils in England.
- Inflation - the Consumer Price Index (CPI) as at August 2022 (latest available) is currently at 10.1% and the Retail Price Index (RPI) is at 12.6%.

6.3 The 2023/24 Council Tax Base shows an increase of 410 Band D equivalent properties to a total of 36,241, assuming a collection rate of 97%. The increase in the Tax Base will result in an increase of £0.654m of council tax income.

6.4 In 2022/23 the Council utilised £1.187m of council tax surplus income to balance the budget. It is estimated that there will be £1.190m of surplus available to fund the 2023/24 budget.

6.5 For the purposes of this strategy it is assumed the Council will apply a council tax increase of 1.99% in 2023/24. It is further assumed there will be a 1% increase for the Adult Social Care precept in 2023/24.

6.6 Table 2 below estimates the net amount of council tax income that will be produced for various percentage increases in Halton's Band D council tax for the next three years and assumes no change in council tax base beyond 2023/24.

**Table 2 – Additional Council Tax Income 2023/24 to 2025/26**

<b>Projected Increases in Council Tax Income</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>
0%	-	-	-
1%	578	584	590
2%	1,157	1,180	1,203
3%	1,735	1,787	1,841

## **7.0 Three-Year Financial Forecast**

7.1 The Medium Term Financial Strategy (MTFS) provides an estimate of the increase in revenue expenditure that will be required over the next three years in order to maintain existing policies and programmes. In effect, this represents an early estimate of the standstill budget requirement using the information that is currently available.

7.2 The Council's financial position over the course of 2023/24 – 2025/26 is extremely uncertain due to the continuing impacts of high inflation and the ongoing political uncertainty surrounding the future of local government funding. This forecast uses prudent estimates based on the information that is currently available. Figures should be treated with caution and will need to be continually updated as new information becomes available.

- 7.3 For the purposes of this forecast it has been assumed that the Fair Funding Review will not be implemented within the next three years. It has also been assumed that Halton will continue in the 100% business rates retention pilot scheme.
- 7.4 It has been assumed that council tax will rise by 2.99% in each year of the forecast which is currently the maximum allowed without a local referendum, and includes a precept for Adult Social Care of 1% per annum. Any increase in council tax below these levels would lead to an increase in the required level of budget savings.
- 7.5 The Retail Price Index (RPI) rate of inflation for August 2022 was recorded as 12.3%. 5% has been included for general price inflation in the 2023/24 forecast, with 8% added to domiciliary, residential care and direct payment budgets. £6.221m of inflationary costs have been added to the forecast in 2023/24,. Inflation of 2% has been added to prices for 2024/25 and 2025/26, in line with the Bank of England's inflation target. 8% inflation has been applied to income budgets for 2023/24 to match the estimated pay increases, reducing to 2% in each subsequent year.
- 7.6 Pay increases for 2023/24 and beyond are unknown. For the purposes of the forecast a rate of 6% has been applied for 2023/24, with 2% applied in each subsequent year.
- 7.7 No notification has yet been received from Cheshire Pension Fund regarding the employer contribution rates between 2023/24 and 2025/26. It has been assumed that the current rate of 20.6% will remain in place throughout the period covered by the forecast.
- 7.8 The operation of the New Homes Bonus grant was altered for 2020/21 to remove legacy payments from any new allocations. It was anticipated that the nature of the grant would change substantially in 2022/23 but no further announcements have been made by Government regarding the future of the New Homes Bonus scheme. As the legacy payments have now expired, it has been assumed that funding will be redistributed on a different basis in the Settlement. A prudent assumption has been made that 50% of Halton's existing funding will be lost in this redistribution, leading to a reduction of £0.426m in the 2023/24 forecast. A new one-off Services Grant was introduced for 2022/23, funded in part by the national reduction in New Homes Bonus payments. It is assumed that any change in the distribution of this funding in 2023/24 will be revenue neutral for Halton. No change to the Lower Tier Services Grant is anticipated over the period of the forecast.
- 7.9 Changes to the contributions that individuals make towards their care costs will come into force in October 2023. These measures consist of a new cap on care costs per person of £0.086m, and changes to the savings limit and income threshold which will entitle more people to help with the cost of their care. It is intended that Councils will receive funding to cover the additional costs arising from these changes. A consultation has been issued which includes different

options for distributing the available funding between Councils. Based on these figures, it has been anticipated that there will be no additional costs to Halton in 2023/24. An additional £600m has been allocated nationally to support Councils to increase the rates paid to social care providers. No indicative allocations have been issued for this funding, so it has been assumed in the forecast that any additional costs will be offset by new grant funding. The sufficiency of this funding will be kept under review as more details of how the changes will work in practice are released. No additional funding has been provided to address the existing challenges within Adult Social Care services.

- 7.10 The forecast includes the budgetary consequences of previous budget decisions, including one-off savings and the use of reserves to balance the 2022/23 budget. These add £1.351m and £6.762m respectively to the forecast for 2023/24.
- 7.11 The net revenue costs associated with the capital programme are included in the forecast. It is estimated that there will be an increase in costs of £0.318m in 2023/24. The Financial Forecast and MTFS assumes that any new capital projects which are approved over the medium term will be self-funded through capital grants, capital receipts or will generate revenue savings to fund the cost of borrowing.
- 7.12 A key assumption that has been used in constructing the forecast is that total spending in the current year is kept within the overall budget. In particular it can be difficult to control 'demand-led' budgets such as Children's and Adult Social Care as well as many income streams. In this context it is important to consider the contingency for uncertain and unexpected items. Due to the considerable uncertainty in inflation, interest rates and demand-led budgets, the spending forecast includes a contingency of £0.5m in 2023/24, £1.0m in 2024/25 and £2.0m in 2025/26.
- 7.13 Estimated additional service demand pressures of £2.009m will need to be added to the budget in 2023/24. The largest additional spend is projected within Children's Social Care (£1.0m) due to an anticipated increase in demand for high-cost residential placements. The ongoing demand pressures within Children's Social Care and the need for continuing work to bring about service delivery improvements, are also likely to result in additional one-off costs.

**Table 3 – General Fund Medium Term Spending Forecast 2023/24 – 2024/25**

Increase in spending required to maintain existing policies and services	Year on Year Change £'000		
	2023/24	2024/25	2025/26
Full Year Effect of Previous Year's Budget	8,113	0	0
Capital Programme	318	0	0
Pay and Price Inflation	11,872	3,279	3,342
Service Demand Pressures	2,009	1,600	550
Contingency	500	1,000	2,000
Reduction in New Homes Bonus Funding	426	0	0
Reduction in Surplus from Business Rates Pool	1,496	0	0
<b>Total Increase</b>	<b>23,634</b>	<b>5,879</b>	<b>5,892</b>

## 8.0 The Funding Gap

- 8.1 At this level of spending there is a funding gap with the forecast level of resources. Table 4 demonstrates the forecast gap between spending and forecast resources at different levels of council tax increase.

**Table 4: Funding Gap with a given % increase in Council Tax**

	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>
Increase in Net Spend Forecast (Table 3)	23,634	5,879	5,892
Decrease (Increase) in Business Rates Retained (Incl. Top-Up) (Table 1)	-169	-2,759	-1,385
Increase in Council Tax Base (Para 6.3)	-654	-578	-584
Decrease (Increase) in Council Tax Surplus (Para 6.4)	-3	1,190	0
<b>Funding Gap Before Council Tax</b>	<b>22,808</b>	<b>3,732</b>	<b>3,923</b>
<b>Funding Gap After Council Tax Increase at Various Levels</b>			
<b>0%</b>	22,808	3,732	3,923
<b>1%</b>	22,229	3,136	3,310
<b>2%</b>	21,651	2,529	2,671
<b>3%</b>	<b>21,073</b>	<b>1,909</b>	<b>2,010</b>

- 8.2 The table shows that total savings of £21.073m are forecast to be needed to balance next year's budget, assuming a 2.99% increase in council tax. This amounts to an 18.9% reduction to the 2022/23 net budget.
- 8.3 Further savings of £1.909m in 2024/25 and £2.010m in 2025/26 are required, assuming that council tax continues to increase by 2.99% per year. The total funding gap is £24.992m and represents 22.4% of the Council's 2022/23 net budget.
- 8.4 This represents a significant challenge for the Council to balance its budget. As a result every aspect of the Council's budget needs to be scrutinised to identify potential savings. In addition, all opportunities will continue to be taken to generate additional income from charging for services or attracting additional funding, in order to reduce costs whilst maintaining levels of service delivery.

## **9.0 Capital Programme**

- 9.1 The Council's capital programme is updated regularly throughout the year. Table 5 summarises the fully funded capital programme for the next two years.

**Table 5 – Capital Programme**

	<b>2023/24 (£'000)</b>	<b>2024/25 (£'000)</b>
<b>Spending</b>	<b>34,534</b>	<b>14,641</b>
Funding:		
Prudential Borrowing	14,334	7,032
Grants	18,131	4,540
Capital Receipts	2,069	3,069
<b>Total Funding</b>	<b>34,534</b>	<b>14,641</b>

9.2 The current system of capital controls allows councils to support and fund the capital programme by way of prudential borrowing. Such borrowing is required to be:

- prudent
- affordable, and
- sustainable

9.3 The capital programme is underpinned by the Capital Strategy agreed by Council in March 2022.

9.4 The Council has used prudential borrowing provided that the cost of borrowing has been covered by revenue budget savings and the spending forecast continues this assumption.

9.5 In previous years the Council has been extremely successful in attracting capital grants and contributions. In this way, the Council has been able to undertake significant capital expenditure without financing costs falling on the revenue budget and this approach will continue.

## **10.0 Reserves and Balances**

10.1 The Council's Reserves and Balances Strategy is attached in Appendix 2. It sets out the Council's strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

10.2 The level of balances and reserves will be reviewed as part of the budget monitoring and final accounts processes.

## **11.0 Conclusions**

11.1 This Strategy highlights that considerable budget savings will be required over the next three years, in order for the Council to deliver balanced annual revenue budgets. Alongside this, there is considerable uncertainty with regards to future funding.

- 11.2 The Business Rates Retention Scheme and Fair Funding Review carry further risks to the funding available to the Council over the medium and longer-term. The lack of certainty provided by Government means that it is very difficult to predict both the timing and extent of the impact upon the Council's budget of the planned funding changes.
- 11.3 Future levels of growth and savings required will be directly influenced by the decisions made concerning council tax increases. Council tax increases will reduce the level of savings required, although the legislative requirements regarding council tax referendums will restrict the Council's scope to implement these increases.
- 11.4 The Medium Term Financial Strategy has been based upon information that is currently available. Revisions will need to be made as new developments take place and new information becomes available.



## **APPENDIX 2**

### **RESERVES AND BALANCES STRATEGY**

#### **1.0 INTRODUCTION**

- 1.1 The following sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.
- 1.2 The overall strategy is to provide the Council with an appropriate level of reserves and balances in relation to its day to day activities and to ensure the Council's financial standing is sound and supports the achievement of its long term objectives and corporate priorities.
- 1.3 The Operational Director, Finance will undertake quarterly reviews of the level of reserves and balances and take appropriate action in order to ensure the overall Strategy is achieved. The outcome of the reviews will be reported to the Executive Board and will be used to inform the Medium Term Financial Strategy (MTFS), the annual budget setting process and the final accounts process.
- 1.4 The Strategy concentrates upon the Council's key reserves and balances, being those which may potentially have a significant affect upon the Council's financial standing and its day-to-day operations.

#### **2.0 RESERVE BALANCES**

- 2.1 It has been the Council's policy to maintain general balances at a reasonable level, based upon the financial risks and challenges it faces. This is particularly important at the current time, given the increasing demand-led pressures upon Children's Services and Adult Social Care. Close monitoring and control of budgets has meant this policy has been successfully achieved. As at 31 March 2022 the balance of the Council's general reserve was £5.147m.
- 2.2 In addition to the general reserve the Council holds earmarked reserves set aside for specific purposes. As at 31 March 2022 the balance of earmarked reserves was £131.872m. This is broken down as follows:
  - Contractual - £84.861m
  - Grants - £12.598m
  - Future Revenue Commitments - £18.754m
  - Capital Projects - £2.605m
  - Risk (inc Insurance) - £2.324m
  - Schools - £7.434
  - Other - £3.296m

#### **3.0 PROVISIONS**

## **Sundry Debtors**

- 3.1 The Council makes provision for bad and doubtful debts based upon an annual review of outstanding debts profiled by age and the associated risks of non-payment, depending upon the types of debt.
- 3.2 Past experience has shown that after 43 days (the period covering the initial stages of recovery action) the likelihood of sundry debts being paid reduces significantly and therefore the risk of them not being recovered increases greatly. Increased provision will therefore be made for all sundry debts outstanding for more than 43 days.
- 3.3 The bad debt provisions in respect of sundry debtors at 31 March 2022 totals £4.145m.

## **Council Tax / Business Rates (NNDR)**

- 3.4 Bad debt provisions are made in respect of Council Tax and National Non Domestic Rate (NNDR) debts. The bad debt provisions (Council Share) in respect of Council Tax and NNDR debtors at 31 March 2022 totals £13.924m.
- 3.5 The levels of bad debt provisions held are considered prudent in relation to the current level and age profile of outstanding debts. But they will be reviewed annually, particularly in the light of the prevailing economic climate. Therefore appropriate provisions will be made to minimise the risk of financial loss to the Council.
- 3.6 The Council is required to hold a provision for NNDR valuation appeal claims. The provision as at 31 March 2022 totals £6.654m.