

Report to: Cabinet

Date: 2 February 2023

Title: General Fund Revenue Budget 2023/24 and Capital Programme

Report of: Homira Javadi, Director of Finance and Performance (Chief Finance Officer – S151 Officer)

Cabinet member: Councillor Zoe Nicholson, Deputy Leader of the Council, Cabinet Member for Finance and Assets

Ward(s): All

Purpose of report: To agree the General Fund Budget 2023/24 and updated Medium Term Financial Strategy, together with the updated Capital Programme and Treasury Management position.

Decision type: Budget and Policy Framework

Officer recommendation(s):

1. Members are asked to recommend the following proposals to Full Council:
 - 1.1. The General Fund Budget 2023/24 (original) and projected MTFS as set out in Appendix 1.
 - 1.2. The General Fund Budget 2022/23 (revised) as set out in Appendix 2.
 - 1.3. An increase in the Council Tax for Lewes District Council of 1% (per annum) resulting in a Band D charge for general expenses of £204.10 (per annum) for 2023/24.
 - 1.4. The revised General Fund Capital Programme 2023/24 as set out in Appendix 6.
 - 1.5. The rates of Fees and Charges proposed within Appendix 5 to apply from 1 April 2023 and to implement changes to statutory fees and charges for services shown within Appendix 5 as and when notified by Government.
 - 1.6. The Council introduce from 1 April 2024 a new discretionary council tax premium on second homes of up to 100% and apply a premium of up to 100% on homes which have been empty for longer than 1 year following the Levelling Up and Regeneration Bill becoming law.
 - 1.7. To note the Section 151 Officer's sign off as outlined in the report.

Reasons for recommendations: **The Cabinet has to recommend to Full Council the setting of a revenue budget and associated Council Tax for the forthcoming financial year by law.**

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1. OPENING REMARKS

- 1.1. With austerity, Brexit, Covid-19, the war in Ukraine and now spiking inflation, the last decade has seen an unprecedented squeeze on the finances of councils across the country. Most councils have had to make difficult decisions and face reductions to their services and planned investments.
- 1.2. Several councils have declared bankruptcy, and others have said they may face that outcome in the coming year/s. We have also faced our share of the challenges such the increasing cost of goods and services in particular the energy prices as well as having to respond to the increasing demand for some of our key services. However, we have maintained vital services, and have even managed to invest in new facilities. Indeed, we have made additional budgetary provisions for measures to provide Cost of Living Support, Community Wealth building, invest in energy efficiency across our housing stock; and planning to introduce more environmentally efficient waste services.
- 1.3. We generated significant efficiencies, both from the Recovery & Reset Programme (R&RP) and also through careful management of our resources. By making use of external funding, such as the Levelling Up fund, Towns Fund and Future High Streets fund we have been able to secure further investment for the district. Initiatives such as the Marine Workshops and other town centre improvements in Newhaven in particular have been possible because of this. But nonetheless, the scale of the financial challenge faced by all councils, including Lewes, is unprecedented.
- 1.4. We started our work on the budget early this year, and for the last five months every team across the organisation has been tasked with finding new ways to generate or save money. I am pleased to say that after the hard work from every team across the council, a balanced financial plan has been achieved without making reductions to front-line services.
- 1.5. However, like all Councils across the country there remain financial challenges over the medium term not only in terms of pressures on demand and finances but the uncertainty surrounding local government funding reforms.
- 1.6. The new financial plan, which takes us to April 2027, also includes £169.2m (GF of £84.7m and Housing Revenue Account £84.5m) of investment in capital programme during those four years. The main General Fund capital projects scheduled for 2023/24+ are as follows:
 - New Business Unit, Avis Way Newhaven
 - Local Energy Schemes
 - New Crematorium & Green Burial Facility

- Waste Vehicle Repalcement
- Newhaven (Levelling Up Fund)
- Marine Workshops, Newhaven
- The Friars, Lewes.

Note: The Housing Revenue Account (HRA) is a ring-fenced account which ensures that the Council's housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.

- 1.7. This has been an extremely challenging budget to put together, despite the financial pressures, we continue to invest in the District. Ultimately, we want to make Lewes a fairer and more equal place to live and this Budget helps the Council to achieve that.

Homira Javadi
Director of Finance and Performance

2. INTRODUCTION

- 2.1. This report sets out the Council's Medium Term Financial Strategy (MTFS) and associated spending plans for the four years 2023/24 to 2026/27. The reports cover all aspects of the Council's expenditure:

- a) General Fund revenue expenditure funded by the council tax payer
- b) Government grants and other sources of income
- c) the Council's Capital Programmes (General Fund and HRA) funded by capital receipts, revenue and borrowing.

- 2.2. The proposed Medium Term Financial Strategy:

- 2.2.1. Financially balanced in 2023/24 with the remaining three years to be balanced through a combination of the of use of reserves and additional savings and efficiencies, to mitigate existing budget gaps.

- 2.2.2. Assumes Fairer Funding reforms to business rates, which are likely to disadvantage the Council, are further delayed by the Government beyond the next General Election

- 2.2.3. Assumes New Homes Bonus continues largely unaltered over the MTFS until formal consultation on fair funding reforms are announced, and its replacement.

- 2.2.4. Assumes a Council Tax increase of 1% for 2023-24, followed by 2.99% in 2024-25 and annual Council Tax increases of £5 thereafter. The rate of 3% has been confirmed in the Autumn Statement as the rate at which there is no requirement for a referendum. Although this rate has not been confirmed for 2024-25 there are indications in the Autumn Statement that, this will be the case.

- 2.2.5. Assumes an increase in council house rents of 7% in 2023-24 following the outcome of the Autumn consultation and Government policy announcement in December 2022.

2.2.6. Facilitates capital investment of £169.2m over the four year period.

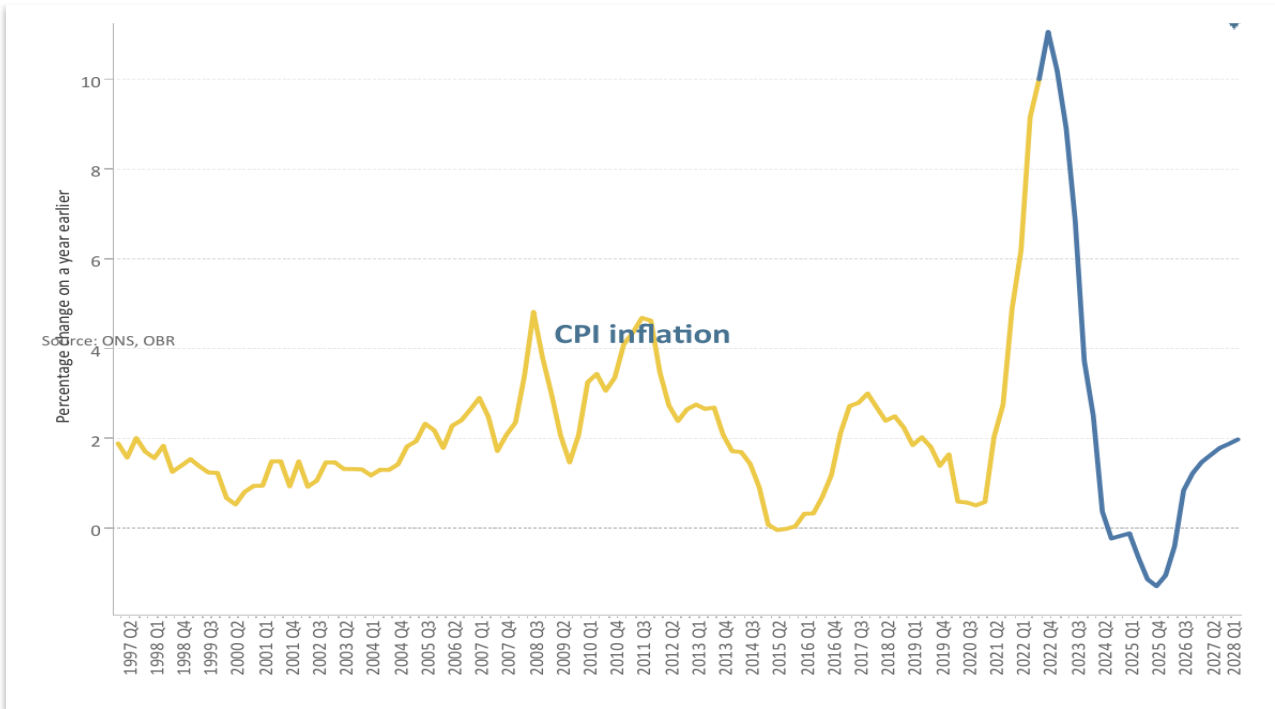
3. ECONOMIC CONTEXT, PRIORITIES AND BUDGET SETTING STRATEGY

- 3.1. This report sets out the Council's financial plans for the period 2023/24 to 2026/27. The plans make assumptions about income from Government grants, Council Tax and rents. The plans underpin service provision and the Council's vision, set out in the corporate plan, of "using our council resources wisely whilst respecting and following the principles of open governance, equality, open data and being a responsible employer."
- 3.2. The Council seeks to support and maintain services from income stream driven from fees and charges and financial returns from its trading activities.

Economic Context

- 3.3. The UK is beginning 2023 on the brink of recession as households and businesses come under intense pressure from the cost of living crisis, with inflation at the highest rates since the early 1980s.
- 3.4. The Bank of England has said the country is on track for a prolonged recession, as households struggle to keep up with the soaring costs of food, energy and other basic essentials.
- 3.5. In October 2022 CPI inflation rose to 11.1% against the 12 months previous, considerably higher than the Bank of England target of 2%. It is expected that this measure will peak at close to 11% in quarter 4 of 2022 although it is expected to fall shortly in the middle of next year. The latest forecasts by the Office for Budget Responsibility (OBR) are that inflation for this year will be 9.1% before falling to 7.4% in 2023 and then 0.6% in 2024. This is in comparison to the highest period of annual inflation since the year 2000, in 2011 when inflation reached 4.1%.
- 3.6. However, falling rates of inflation don't necessarily mean prices are coming down. Living costs are expected to remain far higher than pre-Covid levels, with energy bills likely to remain more than double historical levels even after taking account of the government's energy price guarantee, keeping up the pressure on households and businesses.

Table 1: UK Inflation Forecasts



- 3.7. Economic activity slowed sharply in recent months as consumers tighten their belts in response to soaring living costs, while business investment has slumped amid concerns over the strength of the UK and global economy.
- 3.8. Britain remains the only G7 economy with Gross Domestic Product (GDP) below its pre-pandemic level. The Bank of England expects the recession to last for at least the whole of 2023 and the first half of 2024, before only a gradual recovery thereafter.
- 3.9. Continuing high energy prices are expected to weigh on activity, while higher borrowing costs for businesses and households after sharp rate increases from the Bank of England will also act as a drag. Company bosses warn that business investment will remain weak, with added headwinds from Brexit red tape and additional costs for exporters.
- 3.10. On the 3 November 2022 the Bank of England base rate increased by 0.75% from 2.25% to 3% this is the eighth successive rise from a rate of only 0.1% in December of last year. Link Asset Management, the Councils Treasury advisors, have given their view on interest rate forecasts as shown below:

‘Base rates will continue to increase, peaking at 4.5% before starting to fall back from June 2024 onwards. Investment earnings will likewise rise as illustrated in 3- 12 month money whilst borrowing will equally rise and then fall as indicated. 10. Interest rates on PWLB loans continue to be at a record low’. The debt held by the Council are in respect of HRA self-financing. The balance as at 31 March 2023 will be around £53.7 million, with fixed interest rates range of between 2.70% to 3.50% covering up to 50 years.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Table 2: Interest Rate Forecasts from December 2022 to December 2025

1.1. The Council capital programme is heavily financed by borrowing although the Council currently uses internal funds, as these are the cheapest form of borrowing. As the Capital Financing Requirement increases so will the need to undertake external borrowing.

Autumn Statement 2022

1.2. The Chancellor's Autumn Statement originally planned for 31 October was announced on 17 November. The current economic crisis gave rise to a substantial reported gap in Government finances of around £55 billion. The Autumn Statement fully funded this gap from service efficiencies and tax rises.

The main implications for local Government are:

Council Tax

1.3. From April 2023 (2023/24 only but expected to be for 2024/25 additionally), the referendum limit for increases in council tax will rise to 3% per year or £5, whichever is greater. In addition, local authorities with social care responsibilities will be able to increase the adult social care precept by up to 2% (previously 1%) per year over the same timeframes.

Business Rates

1.4. It is stated that local authorities will be fully compensated for the loss of income as a result of the new business rates measures detailed below and local authorities will receive new burdens funding for administrative and ICT costs.

1.5. Revaluation: from 1 April 2023, business rate bills in England will be updated to reflect changes in property values since the last revaluation in 2017. A package of support worth £13.6 billion over the next 5 years will support businesses as they transition to their new bills.

1.6. Multipliers: business rates multipliers will be frozen in 2023-24 at 49.9 pence and 51.2 pence, preventing them from increasing to 52.9 pence and 54.2 pence. This will mean bills are 6% lower than without the freeze, before any reliefs are applied.

1.7. Transitional relief scheme: Upwards Transitional Relief will support properties by capping bill increases caused by changes in rateable values at the 2023 revaluation. This £1.6 billion of support will be funded by the Exchequer rather than by limiting bill decreases, as at previous revaluations. The 'upward caps' will be 5%, 15% and 30%, respectively,

for small, medium, and large properties in 2023-24. They will be applied before any other reliefs or supplements.

- 1.8. Retail, Hospitality and Leisure Relief: support for eligible retail, hospitality, and leisure businesses is being extended and increased from 50% to 75% business rates relief up to £110,000 per business in 2023-24.

Capital Investment

- 1.9. Levelling Up Fund (LUF): the second round of LUF will go ahead. It will allocate at least £1.7 billion to priority local infrastructure projects. Successful bids will be announced before the year end.

Social Housing

- 1.10. Rents for social housing will be capped at 7% in 2023-24.

Household Support Fund

- 1.11. This will be extended for the whole of 2023-24 with total funding of £1 billion. Funding will presumably continue to be channelled through county and unitary councils.

National Living Wage

- 1.12. This will increase for individuals aged 23 and over by 9.7% to £10.42 an hour from 1 April 2023.

- 1.13. It was noticeable that the Autumn Statement was silent on a number of key points including:

- Government plans to implement increases to planning fees
- Future of New Homes Bonus
- Business rates re-set
- Fair Funding Review
- The future of DEFRA's waste consistency reforms
- The length of this year's local government funding settlement

Local Government Finance Settlement

- 1.14. The Local Government Finance Settlement released in the week commencing 19 December 2022, confirmed what had already been expected with no major changes or surprises from pre-published material already circulating within local government finance networks. The Settlement announced limited changes to service grants and the replacement of the previous lower tier services grant with the Funding Guarantee Grant, in essence a recalculation of the remaining revenue support grant to councils to maintain their spending powers.

- 1.15. Although the settlement included the levels of New Homes Bonus and Business Rates reliefs as per previous years and underlying assumptions the settlement continued the silence of policy guidance regarding key areas of local government funding set out in 3.17.

Consultation and Planning

1.16. As in previous years the budget has been prepared in line with corporate priorities, as set out in the corporate plan This plan was consulted on widely at the time of production. The budget will be considered first by Cabinet and then by Full Council in February 2023.

1.17. The Service and Financial Planning review has been undertaken by

- Reviewing all four year assumptions of the MTF5 around changes to the base budget
- Introducing officer proposals to reduce spend or in some instances increasing income where it is prudent to do so
- Liaison with the Council's wholly owned companies on their future business plans and adjusting the amount of financial return and dividend to the Council accordingly
- Maximising the use of the assets that the Council holds
- Using reserves to smooth out fluctuations in the General Fund over the four year period whilst ensuring that such reserves are not depleted further over the four year period.

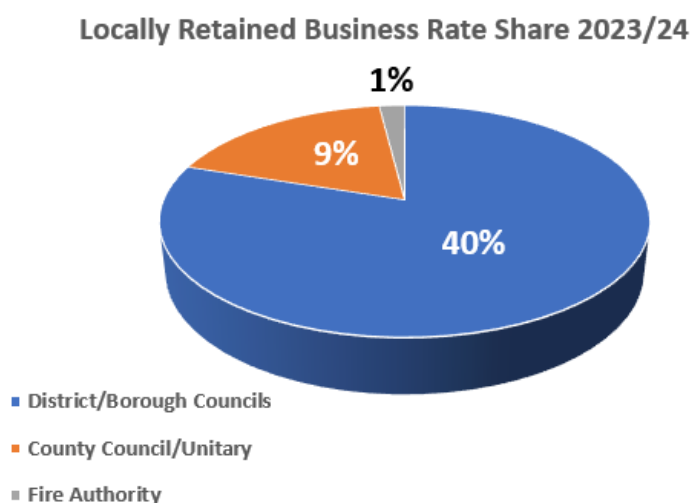
1.18. Taking account of this review the key assumptions are outlined below.

2. GENERAL FUND REVENUE BUDGET - KEY ASSUMPTIONS

Retained Business Rates

2.1. Business rates income collected by Lewes District Council as the billing authority is split 50% with and to central government, with the remaining local 50% share to be distributed based on the following local shares, as set out in the framework for business rates:

Chart 2: Split of Local Share of Business Rates



2.2. The recent Spending Review and Autumn Statement 2022 was not explicit in terms of the reforms in respect of Business Rates Retention, (known as Fairer Funding). The implementation of these reforms has been delayed for the past 3 years and is likely to be

delayed again since there is insufficient time for the Government to implement these changes by financial year 2023/24 and probably before the next general election. Any proposals would need to go through a consultation process first, any implementation could only take place as early as 2024/25. This timeframe is so close to a general election it would be highly unlikely to be undertaken as this point.

- 2.3. For budgeting purposes the figures for 2023/24 have now been confirmed following the financial settlement which result in an increase of some £1.045m additional business rate income in 2023/24 compared to those previously assumed in the interim MTFs.
- 2.4. The assumption that reform to business rates is delayed for a further year and beyond has been modelled across the MTFs and the opportunity to equalise business rate income flowing into the general fund through the adoption and use of an equalisation reserve has also been taken. This provides clarity and consistency over the medium term until such time as future reforms are communicated by government and will be kept under review.

East Sussex Business Rates Retention Pool Arrangements

- 2.5. For 2023-24 as in previous years the East Sussex Business Rates Pool consisting of East Sussex County Council (ESCC), Lewes District Council (LDC), Hasting Borough Council (HBC), Rother District Council (RDC), Wealden District Council (WDC) and Eastbourne Borough Council (EBC) will continue. This is to optimise the financial return to Pool members given the interaction of levy payments to Government.
- 2.6. Lewes District Council provisional benefits from the pooling arrangements amount to £0.383m in 2023/24.

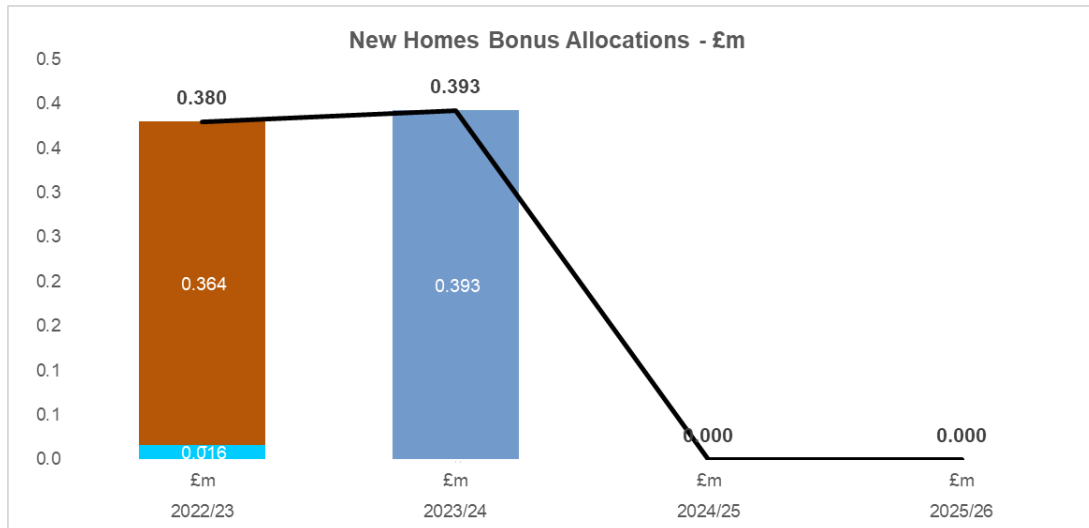
Levelling Up and Regeneration Bill

- 2.7. The Levelling Up and Regeneration Bill, given its first reading on 11 May 2022 is a key component of the Government's wider programme to level up the country, as set out in the Levelling Up White Paper published in February 2022. The bill is currently making its way through Parliament. Within the bill there is provision to allow local authorities to:
 - a) Introduce a new discretionary council tax premium on second homes of up to 100%
 - b) Apply a council tax premium of up to 100% on homes which have been empty for longer than one year rather than the two years that local authorities are currently able to do.
- 2.8. The Local Government Finance Act 1992 requires that such amendments can only be made one year after the billing authority has made a determination to implement and not before financial year beginning 1 April 2024 i.e. a determination by the Council made in this year's budget process, assuming the Levelling Up and Regeneration Bill is enacted may only be implemented from 1 April 2024.
- 2.9. Based on current numbers of second homes and dwellings that are empty for between 1 and 2 years approving the amendments could raise around £0.2m additional council tax income per annum assuming a reasonable attrition rate.

New Homes Bonus (NHB)

2.10. For 2022-23 the Government made a one off New Homes Bonus payment of £0.365m to the Council but this did not come with the four year legacy payments that existed under the previous methodology. The Local Government Finance Settlement in December confirmed NHB payments to Lewes District Council of £0.393m during 2023/24.

Chart 3 – New Homes Bonus Allocations (source: LG Futures)



Council Tax

2.11. The Autumn Statement included provision to increase the council tax referendum level to 3% or £5 whichever is the higher for District Councils for 2023-24. Although there is no mention of this referendum level for 2024-25 the indication is that the level will be the same.

2.12. The recommendation is to increase council tax by 1% for 2023-24 with an increase of 2.99% assumed for 2024-25 before returning back to £5 for the remainder of the MTFs period. An annual increase of Council Tax by one additional percentage point represents approximately £0.3m of additional annual income to Lewes District Council, although this varies year by year depending on the movements of the underlying tax base.

2.13. The aggregate Band D council requirement comprises two elements:

- Special Expenses in respect of the cost of managing and maintaining parks and open spaces. The budget of each site is charged to the council taxpayers of that part of the district area in which the facility is located.
- General Expenses, all other costs.

2.14. The Council has made a commitment to passing on changes in the cost of the upkeep of open spaces. Special Expenses amounts are shown in table 3.

Town/Parish Area	Special Expenses 2022/23 £	Band D 2022/23 £	Special Expenses 2023/24 £	Band D 2023/24 £
Lewes	343,000	56.70	353,377	56.90
Newhaven	134,940	37.09	139,035	36.06
Telscombe	57,720	23.10	59,480	23.37
Seaford	58,590	6.23	60,396	6.32
Peacehaven	41,100	8.65	42,360	8.51
Chailey	1,120	0.81	1,149	0.80
Ringmer	4,410	2.26	4,548	2.20
Total Special Expenses	640,880	17.45	660,346	17.45

Table 3: Special Expenses by Town/Parish

2.15. Applying a 1% increase to the General Expenses element of the Council Tax gives a Band D tax amount of £204.10 as shown in the table 4 below:

Table 4: Proposed Band D rates

	2022/23 £	2023/24 £	Change £	Change %
Band D				
Special Expenses	17.45	17.45	0.00	0.00%
General Expenses	202.08	204.10	2.02	1.00%
Total	219.53	221.55	2.02	0.92%

Investment Interest

2.16. On the 3 November 2022 the Bank of England increased base rates by 0.75% to 3%, the eighth consecutive interest rate rise since December 2022. It is also assumed that the base rate will continue to increase further as Bank of England tries to meet its target of keeping inflation at 2 per cent. Latest figures show inflation is currently about five times that target. Analysts currently predict that the base rate could reach 4.75 per cent next year. These interest rate rises will ultimately feed through to increases in PWLB borrowing and the council's investments. Investment rates should increase with a subsequent positive impact on the council's finances. Increases in PWLB rates will have an adverse impact on the council's capital financing costs directly and indirectly including HRA and its wholly owned housing companies since PWLB is its main source of capital financing. This could ultimately impact on the council's financial return.

Inflation

2.17. Most budgets are cash limited. The Consumer Prices Index (CPI) rose by 11.1% in the 12 months to October 2022 up from 10.1% in September. The most significant impact is on materials purchased in respect of repairs and maintenance and the council's capital programme, for which budgetary provision has been made. Provision has been made for specific contracts the Council has which contractual holds the Council to awarding inflationary increases many of which are linked to national recorded metrics such as CPI.

Utility Costs

- 2.18. Budgeted expenditure of electricity and gas in respect of council buildings is around £0.15m per annum. The Government have placed a unit cap on the maximum amount that will be paid by business and residents for a 14-month period ending 31 March 2023. Although further measures will be extended for some households beyond this period.
- 2.19. Due to the ongoing volatility within global energy markets and the potential ending of Government support to businesses an additional budgeted provisional increase of £0.1m has been made within the 2023/24 budget allowing for the price cap not to continue beyond March 2023. This is following advice from the Councils external energy consultants.
- 2.20. However, Government have now confirmed that support to businesses beyond March 2023 will take the form of a discount on the underlying market unit prices for energy rather than a cap on the unit price. This although welcome will mean businesses and the Council will be subject to increased uncertainty on the costs of energy due to the volatility of global markets.
- 2.21. Therefore, the proposed budgeted provision will be held corporately and used to support service budgets as clarity on price caps, government support and market rates become clearer. Monthly budget reporting over the course of 2023/24 will provide updates on demand and allocation of this provision which is to be delegated to the Director of Finance and Performance in consultation with the Portfolio Holder for Finance.
- 2.22. If the proposed budget increase in 2023/24 is agreed the Council will have increased its budgets for gas and electricity considerably over the past 24 months. It is currently assumed and modelled that energy rates will return to long term averages during the financial year 2026/27 of the MTFS and result in a budgeted reduction of £0.134m in that year. This will be kept under review as more information and time progresses, with the next review being undertaken next year.

Pay Assumptions

- 2.23. The 2023/24 budget includes provisional pay award costs of £0.422m, this is a reduction of £0.406m shown in the interim MTFS due to a refresh of assumptions and calculation of increments.
- 2.24. The budgeted provision for cost-of-living award in 2023/24 will be held as a corporate provision until such time as the actual pay award is agreed. Service budgets at the point of award and payroll transaction will be uplifted to reflect the correct and agreed pay award ensuring that budgets across the Council are representative of agreed values and reported against accurately.
- 2.25. Pay related cost in the budget includes the following:
- Adjustment to the base budget to reflect the final 2022/23 staff pay award of £1,925 per FTE post agreed in November 2022, compared to the base budget position of 2.5%.
 - Adjustment to the base budget to reflect the final 2021/22 staff pay award of 1.75% compared to the base budget of 2.50%.
 - Contractual increments where staff are not at the top of their pay grade for 2023/24, resulting in a budgeted provision of £0.046m.

2.26. Cost of living assumptions and the associated budgeted value over the MTFs are as follows:

MTFS Financial Year	Budget Assumption	Budget Provision - General Fund £m	Budget Provision - HRA £m
2023/24	4.0%	£0.376	£0.053
2024/25	3.0%	£0.409	£0.059
2025/26	2.5%	£0.349	£0.050
2026/27	2.5%	£0.357	£0.051

Pensions

2.27. The Medium Term Financial Strategy includes an increase from the current contribution in line with pay inflation increases. The next triennial review will be with effect from 1 April 2023.

Employer Pension Costs

2.28. The approach will be consistent with the actions agreed following the current actuarial review of the East Sussex Local Government Pension Fund at 31 March 2022; the outcome has been profiled into the budget for the three years to 2025/26.

2.29. The 2022 valuation confirmed that the Fund's total assets, which at 31 March 2022 were valued at £194.0m. There was an improvement in the reported funding level from 102.2% to 116.8% and a change in the funding surplus from £3.22m to a surplus of £28.0m.

2.30. Each employer has a contribution requirement set at the valuation, with the aim of achieving full funding within an agreed time horizon and probability measure, as set out in the Fund's Funding Strategy Statement. Individual employers' contributions from April 2023 to March 2026 have been set in accordance with this requirement.

2.31. For Lewes District Council the employer pension contribution rates for 2023/24, 2024/25, & 2025/26 will be 22.85% per annum, which were based on an annual primary rate of 23.9% reduced by 1.8% secondary rate plus 0.75% relating to the Early Retirement and Voluntary Severance (ERVS) Scheme.

2.32. The next actuarial review will be on 31 March 2025 and the revised contribution schedule with any budget implications will be built into budgets for 2026/27 onwards.

2.33. For 2023/24 this budget reflects the outcome of the 2022 Pension Fund Revaluation and the funding options offered to employers by the Fund.

2.34. As part of budget-setting 2023/24, the approved approach will be:

- To pay the primary employer contribution rate at 23.9% of salaries. This has been factored into the 2023/24 base budget.
- To reduce the annual primary contribution above by the secondary employer credit/rate at -1.8%.

- To pay the 0.75% relating to the Early Retirement and Voluntary Severance (ERVS) Scheme.
- To continue to rebuild the Pensions Reserve ready for the next revaluation in 2025.

Capital Financing

2.35. Capital financing for the draft Capital Programme is detailed in Section 5. Given the budgetary pressures experienced from the Council no revenue contributions have been assumed to finance capital which is largely funded by borrowing, the revenue implications of which have been included in the budget.

Revised Budget 2022/23

2.36. At Cabinet on the 8 December the Council reported a projected overspend of £1.091m due to the backdrop of the impact of price inflation on energy costs, increased cost of goods and services and pressures in demand services such as a rising number of homelessness supported.

2.37. There were also pressures following the conclusion and agreement of the pay award for 2022/23 which was significantly above (estimated as £0.50m) the budgeted pay award of 2.5% allowed for.

2.38. The Council was prudent and set aside reserves as at 2021/22 year-end to provide resilience and as a result was able to bring £1.012m of one-off funds to support the 2022/23 position, resulting in the reported projected overspend.

2.39. At the December Cabinet it was agreed that further work would be undertaken regarding the plan to transfer £0.841m into reserves in 2022/23 and other support to ensure a balanced position for the year.

2.40. A proposed revised balanced budget for 2022/23 is available in Appendix 2.

Contingencies

2.41. The 2022-23 budget included a general contingency of £0.350m. This contingency has proved useful in managing the budget for the current financial year.

2.42. For 2023/24, a number of earmarked reserves are available to cover any associated risks within the budget and will be available to adjust budgets if necessary, given:

- emerging pressures in relation to utilities and inflation.
- the uncertainty of COVID, ongoing financial implications from it, and uncertainty of the government funding associated with it
- the uncertainty of the economic recovery and subsequent demand for services.

2.43. The release of this contingency will be at the discretion of the Director of Finance & Performance in consultation with the Finance portfolio holder.

Fees and Charges

2.44. Although infection levels arising from the COVID 19 pandemic appear to be reducing the financial impact on businesses and the local authority's finances continues to be felt. Income level forecasts from the main income streams continue to be an issue although

many of these forecasts set last year there has been a review of fees and charges as part of the budget setting process.

2.45. Fees and Charges are considered appropriately discretionary and are only reviewed in the light of covering the costs of providing the services.

2.46. Details of specific fees and charges increases in 2023-24 are given in Appendix 5 the impact of these has been incorporated into the budget which results in an increase in income of £0.12m.

Budget Growth

2.47. Budget growth splits into three distinct categories:

Unavoidable budget pressures total £0.333m

2.48. These are changes and additions to the baseline 2022/23 budget in order to reflect the anticipated cost of current service provision and adjusted for the anticipated demand for services in 2023/24.

2.49. These can be seen in Appendix 3b, the most material of these pressures are as follows:

- Local Election Costs £0.110m – the cost of running local elections was not previously budgeted for either through the creation of a provision or budgeted for in the year of elections. This is a base budget proposal to fund a provision which will then be available to drawdown and fund election costs as required.
- Energy Costs £0.096m – increased base budget provision for the likely increases costs of energy for the council following the end of government support and underlying unit costs of energy.
- External Audit Fees £0.055m – The Public Sector Audit Appointments (PSAA) have advised the council, along with most councils in the country, that the next external audit appointments will cost approximately 150% more than previous appointments.

Service Investment total £0.994m

2.50. This is ongoing service investment built into the base budget improve service delivery. The investment was included following CMT prioritisation along with consultation with Cabinet portfolio holders and Cabinet itself which allocated the resources to the areas it was felt there was the greatest need for service investment or a clear business case for change or improved outcomes.

2.51. These can be seen in Appendix 3c, the most material of these pressures are as follows:

- LDC Waste Establishment £0.360m – this proposal provides the base budget to fund the revised establishment agreed in 2022/23 following consultation and the revised pay grades within the waste service
- Investment in renewable diesel £0.174m – the investment provides the budget to allow the waste service to move forward with the Councils commitment to environmental methods of operation with the adoption of renewable diesel.

- Food Waste Collections £0.134m – following notification from DEFRA requirement for food waste collections, this investment allows the recruitment of staff to deliver the service.

One off or time limited budget pressures total £0.250m

2.52. This budget growth includes growth where there is uncertainty about the timing or impact of some changes, for time limited projects, invest to save schemes or to fund something for a defined period of time.

2.53. These can be seen in Appendix 3e and include the following proposal:

- Local Council Elections £0.250m – this one-off budget in 2023/24 provides for the costs of the local elections taking place in the Lewes district in 2023.

Efficiencies and Income Generation total -£2.011m

2.54. A total of -£0.114m efficiencies and -£1.897m income generation are included in the budget for 2023/24, full details are provided in Appendix 3d, the most material of these are as follows:

- Increase in Investment Income -£0.875m - Increase in interest income related to underlying increases in interest rates in the wider financial markets.
- Homelessness Prevention Grant (HPG) -£0.535m – the HPG is a ringfenced grant provided from government to support homelessness provision/services within the district. Previously this grant has been considered an un-ringfenced income and included as part of general financing/income along with council tax and therefore it is not new income but purely a presentational change. The proposal embeds the grant into the income budget of the service to support and fund the provision of homelessness rather than using general financing/income to fund the support. The expenditure budget of the service is unaffected.
- Inflationary increase in charges to HRA -£0.305m – inflation increase to the HRA recognising the support the HRA receives from service provision from the general fund covering various support services and facilities
- General increases in Fees & Charges -£0.120m – this is the cumulative increase in the proposed income resulting in the review of fees and charges across services.

Technical Adjustments total £0.5m

2.55. Essentially, these are adjustments to the budget to reflect previous decisions relating to taking out of the budget those items that had previously been incorporated as one-off budget items. They are therefore reversed in the following year's budget to ensure they do not remain in the base budget as they are no longer required.

Reserves

2.56. The General Reserve is forecast to be £3.95m by 31 March 2023 which is within the appropriate levels and £1.95m above the recommended minimum level of £2m.

- 2.57. The final budget report to Full Council will include a review of reserves and their adequacy as part of the Section 151 Officer's Section 25 Report. This will also include a more detailed narrative on the application and purpose of each reserve and will also include review of the budget proposals robustness.
- 2.58. Appendix 7 sets out the reserves position as at year-end 2022/23 with this position being updated as part of the financial year-end outturn and closedown.

Risks

- 2.59. The main risks to the balanced position of the General Fund budget are that:
- a) Savings from efficiencies and transformation not achieved
 - b) Council income streams continue to be affected by the pandemic beyond the provisions already made in the MTFS
 - c) Failure or uncertainty of major partners to deliver
 - d) Pay negotiations are more than budgeted from April 2023 onwards
 - e) Reduction assumption in future inflationary rates are incorrect
 - f) Additional cost capital
 - g) Companies do not perform as well as expected leading to reduced income to the Council
 - h) Business Rates income is lower than forecast
 - i) Variations in interest rates or non-performance of property portfolio and other delivery vehicles effecting returns to council
 - j) Slippage in the capital programme adversely affects revenue savings and additional income in the MTFS
 - k) Cuts by partner organisations such as the County Council adversely affect service provision

3. GENERAL FUND CAPITAL PROGRAMME

- 3.1. The latest General Fund Programme, shown in Appendix 6, amounts to around £182.6m (GF of £98.1m and HRA £84.5m) of investment over four years. The current Capital Investment Strategy was reported to Cabinet in February 2022, and it sets out a framework for funding and investment decisions in respect of capital assets, in the context of the Council vision and priorities and available financial resources. The Capital Investment Strategy demonstrates that the Council take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.
- 3.2. It sets out the long-term context in which capital expenditure and investment decisions are made and considers the risk, reward and impact on the achievement of the Council's priority outcomes. When setting its capital programme, the Council takes into consideration the following:
- Service objectives – the capital spending plans should be consistent with the Corporate Plan;
 - Stewardship of assets – as demonstrated by our asset management planning approach;
 - The value for money offered by investment plans – as demonstrated by the appraisal of the options;
 - The prudence and sustainability of investment plans – their implications for external borrowing;

- The affordability of capital investment plans – the implications for the council tax; and
 - The practicality of capital expenditure plans – whether the forward plan is achievable.
- 3.3. Decisions on the Capital Programme have an impact on the Revenue Budget, in relation to:
- The revenue costs of financing capital, including prudential borrowing; and
 - The ongoing running costs and/or income generated by new capital assets such as buildings. Capital investment decisions therefore have implications for the Revenue Budget.
- 3.4. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within the financial plans and to demonstrate that the capital investment is affordable. The revenue and capital budgets are integrated with the financial impact of the proposed Capital Programme, being reflected in the Revenue Budget estimates.
- 3.5. The Council will only invest where capital spending plans are affordable, prudent and sustainable. The key constraint on capital investment is the scope to afford the financial implications in terms of acceptable council tax levels. As supported by the Capital Investment Strategy, the Council's capital investment plans over the next 4 years are set out in the Capital Programme.
- 3.6. The efficient and effective use of capital resources, including sound asset management, is fundamental to achieving the Council long- and medium-term aims and objectives. It is also critical to achieving the delivery of the required savings and income across the Council to secure a balanced budget.
- 3.7. The Council's Capital and Investment Strategy is reviewed and reported to Full Council on an annual basis to reflect the changing needs and priorities of the Council including residents, businesses and places.

Medium Term Capital Programme

- 3.8. While Revenue Budget expenditure is concerned with the day-to-day running of services, the Capital Programme is concerned with investment in the assets required to deliver services or the delivery of new income streams. The Medium-Term Capital Programme sets out how capital resources will be used to achieve the Council's vision and corporate priorities.
- 3.9. The strategic objectives of our Capital Programme can be summarised as follows:
- i.* To maintain a four-year rolling Capital Programme which remains within the approved affordable, sustainable and prudential limits;
 - ii.* To ensure capital resources are aligned with our strategic vision and corporate priorities by ensuring all schemes are prioritised according to the Council's prioritisation methodology;
 - iii.* To identify opportunities for investment in new schemes that result in capital growth and/or new revenue income streams;
 - iv.* To maximise available resources by actively seeking external funding to support Council priorities and disposing of surplus assets; and

- v. To use internal resources alongside external resources where appropriate to support the Capital Programme and minimise any borrowing costs.

3.10. That decisions on the financing of the capital programme are taken with consideration to the impact on the revenue budget, the treasury management strategy and the investment strategy.

Capital Programme 2022/23 to 2026/27

3.11. The Council forecasts its Capital Programme over a 4-year period and the latest position is set out below.

Summary of Capital Programme	Revised	Proposed Programme			
	Programme	2023/24	2024/25	2025/26	2026/27
	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
HRA Programme	14,706	19,684	16,125	31,603	26,584
Recovery and Stabilisation	1,052	20	-	-	-
Regeneration	14,625	35,223	10,655	340	-
Energy Schemes	62	500	3,895	4,250	2,200
Service Delivery	1,137	6,331	7,167	3,327	227
Specialist (Flooding & Coastal Defences)	688	236	236	236	236
Information Technology	404	213	150	150	150
Asset Management	2,373	2,930	250	100	100
Open Spaces / Biodiversity	220	610	-	-	-
Indoor Leisure Facilities	1,183	2,159	1,100	300	300
Parks and Pavilions	1,006	200	200	200	200
Community Infrastructure	900	900	900	900	900
Finance Transformation	329	150	150	150	150
Total Capital Programme	38,684	69,156	40,828	41,556	31,047
Financed By:-					
HRA					
Capital Receipts	7,493	4,901	766	2,398	2,470
Grants & Contributions	-	1,935	-	3,100	2,371
Major Repairs Reserve	5,035	4,965	4,965	4,965	4,979
Revenue Contributions	100	100	100	100	100
Borrowing Need	-	4,648	8,159	18,905	14,529
General Fund					
Capital Receipts	589	1,859	3,645	4,000	96
Grants & Contributions	12,510	29,888	12,255	2,340	2,000
Earmarked Reserves	1,978	436	436	436	436
Borrowing Need	10,979	20,424	10,502	5,312	4,066
Total Funding	38,684	69,156	40,828	41,556	31,047

Capital Programme - Revenue Budget Implications

3.12. As explained above, with the exception of earmarked s106 funds, the Council no longer has significant capital reserves, therefore, while a small number of schemes will continued to be funded from capital grants and other contributions, the majority of the approved Capital Programme must be funded through prudential borrowing.

3.13. The costs of repaying this borrowing fall on the revenue budget as treasury management costs in Central budgets. Treasury management budgets have been updated to reflect the costs of borrowing for the approved Capital Programme for 2023/24 onwards net of interest on forecast balances and company loan repayments. Details are set out in the Treasury Management Strategy for 2023/24 that will be approved in February 2023.

Capital Programme Oversight Board

3.14. A Capital Programme Oversight Board (CPOB) has been established to provide strategic direction, oversight and corporate assurance for the General Fund capital programme and Housing Revenue Account (HRA) Business Plan across Council. The CPOB will be responsible for addressing programme issues, reviewing risk and financial implications, driving through the Assurance Review recommendations in respect of the capital programme and move towards a fully sustainable capital programme and asset release.

3.15. CPOB Responsibilities are to:

- Be responsible and accountable for feeding into the annual Service & Financial Planning process.
- Establish and embed a robust and effective governance framework through which all Councils capital projects will be evaluated, prioritised for development and delivery, subject to Member approval;
- Provide oversight of the capital programme and the Housing Revenue Account (HRA) Business Plan;
- Agree recommendations to relevant Committee(s), as required, to ensure the programme achieves its objectives in-line with initial proposals, Business Cases and assessed options appraisals;
- Scrutinise and challenge programmes and projects at a strategic level in relation to budgets, actual spend, timing, and overall financial strategy;
- Monitor the achievement of the capital programme's core aims and objectives;
- Monitor the HRA Business Plan assumptions in line with Section 76 of the Local Government and Housing Act 1989;
- Monitor the critical path for delivery across the capital programme and take timely decisions as the capital programme evolves, while ensuring that the capital programme is delivered in a joined-up way across Council departments.
- Assist with resolving issues across Council departments while ensuring appropriate resources, capacity and capability are in place to deliver the capital programme and where necessary, commit resources as required;
- Ensure risks are being effectively managed and updated, and mitigations are identified appropriately required.

Housing Revenue Account Capital Programme

3.16. The draft HRA Capital Programme is intrinsically linked to the HRA Business Plan since the resources to fund the Programme are largely generated through housing rents. Appendix 6 shows the existing HRA capital programme over the next four years totalling £84.5m.

3.17. Notable inclusions are:

- New Acquisitions & New Build
- Retirement schemes equipment's
- Retirement schemes - Guest House
- Improvements to Stock

3.18. The Tenants of Lewes District (TOLD) have been consulted on the Housing Revenue Account (HRA) Revenue Budget and Rent Setting 2023/24 and HRA Capital Programme 2023-27. The proposed rent increase reflects the requirements under The Direction on the Rent Standard 2019 together with the Rent Policy Statement for Social Housing February 2020.

4. LEGAL IMPLICATIONS

4.1. Section 151 of the Local Government Act 1972 requires that every local authority make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.

4.2. Sections 42A of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.

4.3. The Chief Finance Officer, appointed under section 151 mentioned above, has a duty to report on the robustness of estimates and adequacy of reserves under section 25 of the Local Government Act 2003.

5. FINANCIAL IMPLICATIONS

5.1. These are covered within the main body of the report Legal Implications 113. Section 30 of the Local Government Finance Act 1992 requires that a local authority 'must set a balanced budget and council tax before the 11th March in the financial year preceding that for which it is set'.

5.2. The Local Government Act 2000 in particular Section 9 states that it is the responsibility of the full council, on the recommendation of the executive to approve the budget and related council tax demand.

5.3. The Local Government Act 2003, section 25 requires the Council's Section 151 Officer to report to the council on the robustness of the estimates made and the adequacy of the proposed financial reserves assumed in the budget calculations. This will be done at Council in February 2023 when the Budget is approved.

5.4. Failure to set a legal budget may lead to intervention from the Secretary of State under section 15 of the Local Government Act 1999.

- 5.5. The S151 Officer will submit her Section 25 report on the robustness of estimates and adequacy of reserves to Full Council in February 2023. This report will be based on a detailed financial resilience and stress test of the Council's proposed income and expenditure plans.

6. RISK IMPLICATIONS

- 6.1. The pandemic, COVID 19 resulted in a significant reduction in the Council's income streams over the last year with the negative impact on some of these income streams some as commercial rents, lettings and car parks still being experienced with some unlikely to return to pre COVID levels, as organisations like ours change their ways of working.
- 6.2. The delayed Autumn Statement has done little to clarify Government thinking at an individual authority level as to the general direction of business rates income retained by the authority.
- 6.3. In spite of these issues and other risks around expenditure which are explained in the report the Council has been able to set a balanced budget in 2023/24, albeit with a limited drawdown of £0.229m on reserves.

7. EQUALITIES AND FAIRNESS ANALYSIS

- 7.1. An Equality & Fairness Analysis has been undertaken on the councils budget for 2023/24. This has concluded that the only significant equality implication relates to the setting of council tax at 1%, rather than at the proposed government maximum of 3%. The cost-of-living crisis is likely to continue to impact household budgets across the board, with utilities, food products and fuel increasing in price. Working-age people on low-incomes or squeezed budgets are likely to be impacted more as the year progresses, as well as older people particularly by increased heating costs in autumn and winter.
- 7.2. Residents in rural locations who rely on oil to heat their homes will be subject to increased oil costs. People reliant on cars, including those in rural locations, could be impacted by increased running costs. Food items have already seen some price increases, and households – particularly larger ones – are likely to feel that increased cost.
- 7.3. Other proposals set out in the budget may have equality implications which will be considered in more detail as part of future reporting.
- 7.4. It is hoped these proposals will go some way towards helping to mitigate some of the current cost of living challenges. The full Equality Analysis is available from the report author.

8. CONCLUSION

- 8.1. The Council faces considerable financial challenges in the medium term, primarily relating to changes and uncertainty in both public finances and the wider economic environment.

8.2. Appendices

- Appendix 1 – Budget Summary 2023/24 and MTFs
- Appendix 2 – Budget Summary 2022/23 Base & Revised
- Appendix 3a – Budget Proposals - Pay Related

- Appendix 3b – Budget Proposals – Unavoidable Budget Pressures
- Appendix 3c – Budget Proposals – Service Investment
- Appendix 3d – Budget Proposals – Efficiencies and Income Generation
- Appendix 3e – Budget Proposals – Budget Pressures – One-Off (funded from reserves) and Technical Adjustments
- Appendix 4 - Budget Summary by Directorate & Service 2023/24
- Appendix 5 – Proposed Fees and Charges 2023/24
- Appendix 6 – Capital Programme
- Appendix 7 – Reserves

Background Papers

8.3. The background papers used in compiling this report were as follows:

- Local Government Finance Settlement 2023/24
- Interim Medium Term Financial Strategy 2023/24 to 2026/27