Report to:	**Cabinet**
Date:	**8 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 Stephen Holt, Deputy Leader of the Council, Cabinet Member for Finance**
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 Eastbourne Borough Council of 2.99% (per annum) resulting in a Band D charge for general expenses of £269.68 (per annum) for 2023/24.

1.4. The revised General Fund Capital Programme 2023/24 as set out in Appendix 6.

1.5. 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.

1.6. To note the Section 151 Officer's sign off as outlined in the report.

1.7. To give delegated authority to the Section 151 Officer in consultation with the Cabinet member for finance to

make any late adjustments necessary following the announcement of final financial settlement, prior to Full Council submission.

Reason for recommendations:	**The Cabinet must recommend to Full Council the setting of a revenue budget and associated Council Tax for the forthcoming financial year by law.**
Contact Officer:	**Name: Homira Javadi** **Post title: Director of Finance & Performance (CFO & S151)** **E-mail: Homira.Javadi@lewes-eastbourne.gov.uk** **Telephone number: 01273 085011**

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. Eastbourne Borough Council (EBC) also has faced its share of challenges. However, it has maintained key services, and has even managed to invest in new facilities. This has been done by delivering saving efficiencies and redirecting resources to key priorities.

1.3 The council has generated significant net savings, both from the Recovery and Stabilisation Programme (R&SP) and tighter management of its stretched resources. For example, EBC has been able to increase its provision of emergency and temporary accommodation by making use of properties within the Eastbourne Housing Investment Company estate and create additional support for those residents with greater vulnerability during these challenging economic climate.

1.4 In addition, by making use of external funding, such as the Levelling Up fund, Community Infrastructure Levy contributions and the UK Shared Prosperity Fund we have been able to secure further funding for the borough. Improvements such as Black Robin Farm, the Towner and Terminus Road have been possible because of this.

1.5 But nonetheless, the scale of the financial challenge faced by all councils, including Eastbourne, is unprecedented. This year’s work on the budget started early, and for the last five months every team across the organisation has been tasked with finding new ways to generate income or save money. Initially, the Council needed to find an additional £2.5m in 2023/24 but helped by the tremendous hard work from every team across the council, a balanced budget has been achieved. Most importantly, this has been done without making any reductions to front-line services.

1.6 That said, like all Councils across the country there remain financial challenges over the medium term not only in terms of increased demand for key services and loss of revenue but the uncertainty surrounding local government funding reforms, which means the financial planning work continues.

1.7 The proposed financial plans makes additional budgetary provisions for measures to invest in energy efficiency across the council's housing stock and includes plans to introduce more environmentally efficient waste services.

1.8 In 2022/23, the Council makes additional provision to support its residents badly impacted by the rising living expenses by increasing its Cost of Living Crisis fund by £0.1m. This fund was set up in 2022/23 to support the local voluntary and community sector with practical support for those in most need. Providing addition resource to this fund in the coming year will ensure this vital community support continues.

1.9 These are exactly the sort of services that are threatened by cuts elsewhere. Investments for service purposes are taken or held primarily and directly for the delivery of public services rather than commercial gain. Some future projects will include elements of both purposes, so judgments are taken on the primary purpose. In 2023/24, the Council is planning capital expenditure of £63.9m (and £146.0m over the next three years). Please see appendix 6 of this report for more details.

1.10 We also plan to consult on charging extra council tax on second homes as and when the law changes to allow us to do so, we believe it is right that those with the luxury of a second home make a fair contribution to local services.

1.11 This has been an extremely challenging budget to put together. I am proud that, despite the financial squeeze, we are continuing to invest in the Borough. Ultimately, we want to make Eastbourne a fairer and more equal place to live, and we think this Budget helps us to achieve that.

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 and gives interested parties the opportunity to comment and be consulted on the Council's budget proposals for the financial year (2023/24). The report covers all aspects of the Council's spend:

- General Fund revenue expenditure funded by the council taxpayer,
- Government grant and other sources of income,
- Housing Revenue Account (HRA) expenditure, funded by council tenants' rents, and
- the Council's Capital Programmes (General Fund and HRA) funded by capital receipts.

2.2 The proposed Medium Term Financial Strategy reports:

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

(b) 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.

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

(d) Assumes a council tax increase of 2.99% for 2023-24 and 2024-25 and annual Council Tax increases of 1.99% thereafter. This rate 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.

(e) 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.

(f) Facilitates capital investment of £146.0m over the period.

For ease of reading, this report is split into four sections:

2.3 Section 3 - Economic context, our priorities and budget setting strategy
Section 4 - General Fund Revenue Budget
Section 5 - Housing Revenue Account (HRA) Budget
Section 6 - Capital Programme

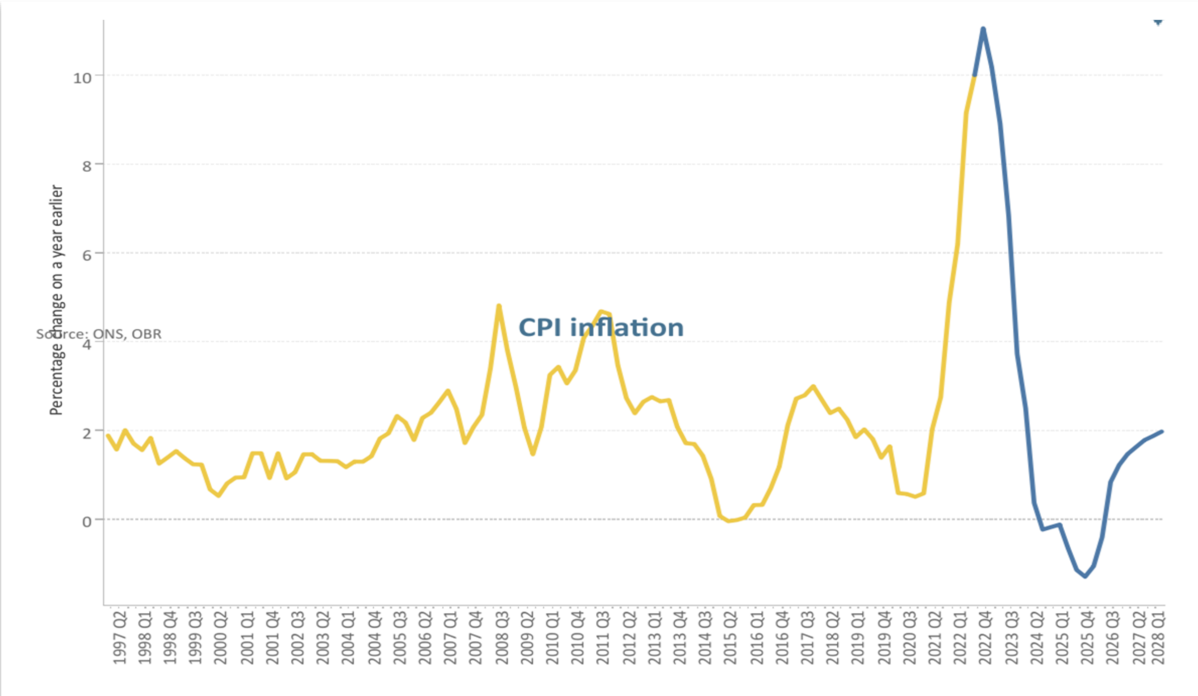
3 Economic Context, Our Priorities and Budget Setting Strategy

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 of "Ensuring the best possible use of limited resources to deliver high quality customer service, value for money services and responsibly manage risk".

3.2 The Council operates a 'priority-based budgeting 'model which seeks to support and maintain services from income stream driven from fees and charges and financial returns from our wholly owned companies.

3.3 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%.

Table 1: UK Inflation Forecasts



3.4 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.

- 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.

- 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.

- 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.

- 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. Interest rates on PWLB loans continue to be at a record low’.

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

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

3.5 The Chancellor’s Autumn Statement originally planned for 31 October was finally 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 departmental efficiencies and tax rises, with significant elements of this freezing tax thresholds. The main implications for local Government are:

Council Tax

3.6 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.

3.7 In addition, local authorities with social care responsibilities will be able to increase the adult social care precept by up to 2% per year in 2023/24.

Business Rates

3.8 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.

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.

3.9 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.

3.10 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.

3.11 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

3.12 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

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

Household Support Fund

3.14 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

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

3.16 It is noticeable that the autumn statement is silent on a number of key points including:

i) Government plans to implement increases to planning fees
ii) New Homes Bonus - replacement
iii) Business rates re-set
iv) Fair Funding Review
v) The future of DEFRA's waste consistency reforms
vi) The length of this year's local government funding settlement

Local Government Finance Settlement

3.17 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.

3.18 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

3.19 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.

3.20 The Service and Financial Planning review has been undertaken by:

- Reviewing all four years assumptions around changes to the base budget
- Introducing officer proposals to reduce spend or in some instances increase 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 we hold
- 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 over the four year period.

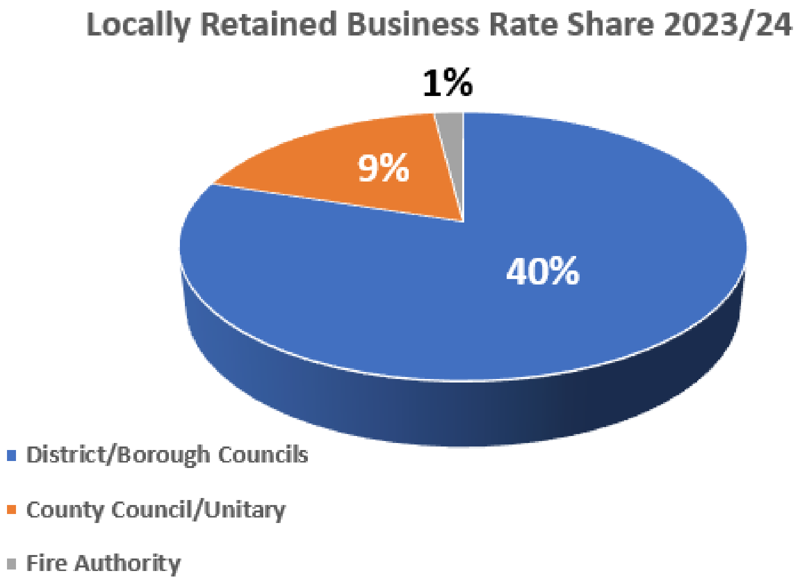
3.21 Taking account of this review the key assumptions are outlined below.

4 General Fund Revenue Budget

Retained Business Rates

4.1 Business rates income collected by Eastbourne Borough Council as billing authority is split 50/50 with central government with the billing authority's 50% share split to be distributed based on the following local shares:

Chart 2: Split of Local Share of Business Rates



4.2 The recent Spending Review 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 1 April 2023.

4.3 The assumption for budgeting purposes is that this change will be delayed for a further year and beyond resulting in a one-off increase in business rates income over that previously assumed in the interim MTFS of £0.636m in 2023/24. The Provisional Finance Settlement on 21 December provided little indication of future reforms and has therefore been assumed to continue at this stage and will be kept under review.

4.4 Business Rates work continues to be finalised as the Council nears the end of the financial year and the statutory returns required to inform next year's baselines. Cabinet and Council will be updated as more detailed information is available and if this requires updates to the likely business rates income assumptions for budgeting purposes.

East Sussex Business Rates Pool Arrangements

4.5 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 local financial return to pool members given the interaction of levy payments to Government.

4.6 Eastbourne Borough Council benefits from the pooling arrangements which are estimated to amount to £0.212m in 2023/24.

Levelling Up and Regeneration Bill

4.7 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 in 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%; and,
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.

4.8 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.

4.9 Based on current numbers of second homes and dwellings that are empty for between one and two years approving the amendments could raise around £0.2m additional council tax income per annum assuming a reasonable attrition rate.

New Homes Bonus (NHB)

4.10 For 2022-23 the Government made a one-off New Homes Bonus payment of £0.013m 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 Eastbourne of £0.015m for 2023/24.

Council Tax

4.11 The Autumn Statement included provision to increase the council tax referendum levels 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 as 2023-24.

4.12 The recommendation is to increase council tax by 2.99% for 2023-24 with a similar increase assumed for 2024-25 before returning back to 1.99% for the remainder of the MTFS period. Each 1% increase in Council Tax represents approximately £0.2m in additional annual income for the Council, although movements in the underlying taxbase also affects any potential increase.

Investment Interest

4.13 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%. Latest figures show inflation is currently about five times that target. Analysts currently predict that the base rate could reach 4.75% next year. These interest rate rises will ultimately feed through to increases in PWLB borrowing and the council's investments.

4.14 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.

4.15 Eastbourne Homes Investment Company Ltd (EHICL) – The Council provides subsidy control compliant loans to its wholly owned company EHICL and makes a return above that which it borrows from PWLB. The average interest charge is currently at 4.3%. The Council has made loans of approximately £14.2m. Since the company provides housing provision support to the council and in doing so helps to reduce EBC's growing cost of temporary (TA) and emergency accommodation (EA) housing need, the company's financing cost has been adjusted to reflect the corresponding reduction in the housing need costs. Based on average market rents, a placement within an EHICL property could save the Council up to £10k per annum per property compared with external TA and EA costs. Due to the current economic climate, any interest due is accrued rather than paid. At this point the total of accrued interest is £0.6m.

Inflation

4.16 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 nationally recorded metrics such as CPI, these total £0.034m.

Utility Costs

4.17 Budgeted expenditure on electricity and gas in respect of council buildings is around £1.2m 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.

4.18 Due to the ongoing volatility within global energy markets and the potential ending of Government support to businesses an additional budgeted provisional increase of £0.562m 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 Council's external energy consultants.

4.19 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.

4.20 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 during 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.

4.21 If the proposed budget increase in 2023/24 is agreed the Council will have increased its budgets for gas and electricity by some £0.701m over the past 24 months. It is assumed 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 that value. This will be kept under review as more information and time progresses, with the next review being undertaken next year.

Pay Assumptions

4.22 The 2023/24 budget includes provisional pay costs of £0.835m, this is a reduction of £0.248m previously shown in the interim MTFS presented in November/December due to a refresh of assumptions and calculation of increments

4.23 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.

4.24 Pay related cost incorporated into the budget include 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 £0.039m

4.25 Cost of living assumptions and the associated budgeted values over the MTFS are as follows:

MTFS Financial Year	Budget Assumption	Budget Provision - General Fund £m
2023/24	4.0%	£0.334
2024/25	3.0%	£0.363
2025/26	2.5%	£0.310
2026/27	2.5%	£0.318

Pensions

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

4.27 The 2022 valuation confirmed that the Fund's total assets, which as 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.

4.28 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.

4.29 For Eastbourne BC the employer pension contribution rates for 2023/24, 2024/25, & 2025/26 will be 18.65% per annum, which were based on an annual primary rate of 19.7% reduced by 1.8% secondary rate plus 0.75% relating to the Early Retirement and Voluntary Severance (ERVS) Scheme.

4.30 The next actuarial review will be at 31 March 2025 and the revised contribution schedule with any budget implications will be built into budgets for 2026/27 onwards. An allowance of 18.65% has been built into 2026/27 as an initial estimate.

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

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

- To pay the primary employer contribution rate at 19.7% 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

4.33 Capital financing for the draft Capital Programme is detailed in Section 6. Given the budgetary pressures experienced by 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.

The MTFS assumes no growth in the financing cost of capital programme other those for health and safety purposes or where there is a clear business case that helps the Council maintain financial stability.

4.34 Revised Budget 2022/23

At Cabinet on the 14 December the Council reported a projected outturn overspend of £1.188m for 2022/23 as part of the Q2 corporate performance monitoring. This was against a backdrop of the impact of price inflation on energy costs, increased cost of goods and services and pressures in services due to rising volumes in the number of homelessness and rough sleeper placements.

4.35 There were also pressures following the conclusion and agreement of the pay award for 2022/23 which was significantly above (£0.469m) the budgeted pay award of 2.5% allowed for.

4.36 Through careful planning and re-profiling during the 2021/22 year-end, the Council was able to provide resilience by setting aside specific reserves to address and mitigate as far as practicable to provide financial support to relevant and emerging cost pressures.

4.37 At the December Cabinet it was agreed for further work to be undertaken regarding the Council's financial position for 2022/23 and review additional support to ensure a balanced position for the year.

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

4.38 Contingencies

The 2022-23 budget included a general contingency of £0.25m funded from general fund reserves if required. This contingency has proved useful in managing the budget for the current financial year and therefore the draft budget proposes to maintain it for 2023-24.

4.39 The general contingency is to cover any associated risks within the budget and will be available to adjust budgets if necessary, given:

i) The emerging pressures in relation to utilities and inflation.

ii) the uncertainty of COVID, ongoing financial implications from it, and uncertainty of the government funding associated with it
iii) the uncertainty of the economic recovery and subsequent demand for services. 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

4.40 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.

Fees and Charges are set for the council's discretionary services. These have been reviewed in light of the current economic trends, market forces and inflationary movements but crucially, recovering the costs of providing the services and incorporated into the budget resulting in a proposed increase in income of £0.119m.

Budget Growth

4.41 Budget growth splits into three distinct categories.

Unavoidable budget pressures

4.42 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.

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

- Homelessness Pressures £0.510m – The number of individuals and families requiring support due to homelessness has risen significantly during 2022/23 (75% increase in numbers). The proposal provides further budget to support this over the coming 12-18 months.
- Energy Costs £0.562m – increased base budget provision for the likely increasing costs of energy for the council following the end of government support and underlying unit costs of energy remaining significantly above the long-term averages.
- Contractual fee for SEESL £0.490m – the increase in the contractual fee for South East Environmental Services Limited (SEESL) the Council's LATC to allow for cost increases covering areas such as staff pay, interest and inflationary pressures.
- External Audit Fees £0.102m – 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

4.44 These can be seen in Appendix 3c, the most material of these investments are as follows:

- Cost of Living Support Scheme £0.10m – this proposal provides for further support during 2023/24 for residents and households during the cost of living crises.
- Investment in energy surveys £0.07m – the investment provides the budget to allow for a comprehensive implementation of energy surveys across the Councils estate.
- Provision for increase in Members allowances £0.05m
- Resourcing increase – Election Team £0.034m
- Provision for additional resources £0.193m – various investment in services supporting household, communities & individuals

One off or time limited budget pressures

4.45 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.

4.46 Efficiencies and Income Generation

A total of -£0.518m efficiencies and -£1.082m 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:

- Homelessness Prevention Grant (HPG) -£0.698m – 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.
- Agency and temporary staffing costs -£0.50m – this efficiency looks to challenge and deliver a reduction in the expenditure on agency and temporary staffing across all areas of the Council with each department allocated with a cash target.
- Interest Receivable -£0.265m – the council is projecting an increase in the income received from bank deposits and investments due to the underlying increase in the bank base rates seen over the past 12 months.

Technical Adjustments total £0.04m

4.47 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 and/or technical adjustments that do not directly affect service budget such as capital financing arrangements. 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.

4.48 Appendix 1 sets out the Net Budget Requirement (NBR) for 2023/24 and for each year of the Council's MTFS, after allowing for the assumptions on funding and income set out in the report. The additional savings/efficiencies projected at this time to be found over the MTFS term is likely to be in the region of some £1.12m although it should be noted that this is based on existing assumptions which may change.

Reserves

4.49 The unallocated General Reserve is forecast to be £3.18m by 31 March 2023 which is within the appropriate levels and £1.18m above the recommended minimum level of £2m. 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.

4.50 Appendix 5 sets out the reserves position projected at year-end 2022/23 with this position to be updated as part of the financial year-end outturn and closedown 2022/23.

Risks

4.51 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

Capital Programme

4.52 Sets out capital expenditure plans over the medium term. This is aligned with the Revenue Budget where it results in costs of borrowing and income streams. Capital Investment Strategy is updated on an annual basis and sets out the framework for investing in capital assets over the medium term, with the objectives:

- Ensure capital expenditure contributes to the achievement of the Council's organisational strategy
- Set a Capital Programme which is affordable and sustainable
- Maximise the use of assets
- Provide a clear framework for decision making and prioritisation relating to capital expenditure
- Establish a corporate approach to the review of asset utilisation Treasury Management Investment Strategy. Sets out the approach to managing the cash available to the Council and how to maximise its value. Also sets out the Council's investment and borrowing arrangements and controls

General Fund Capital Programme

4.53 The latest General Fund Programme covering 2023/24 to 2026/27, shown in Appendix 6, amounts to around £79.7 million. 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.

4.54 The programme 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.

4.55 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

4.56 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.

4.57 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.

4.58 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.

4.59 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

4.60 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.

4.61 The strategic objectives of our Capital Programme can be summarised as follows:

- To maintain a four-year rolling Capital Programme which remains within the approved affordable, sustainable and prudential limits;
- 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;
- To identify opportunities for investment in new schemes that result in capital growth and/or new revenue income streams;

- To maximise available resources by actively seeking external funding to support Council priorities and disposing of surplus assets; and
- To use internal resources alongside external resources where appropriate to support the Capital Programme and minimise any borrowing costs.
- 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

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

CAPITAL PROGRAMME - Summary	**Revised**	**Proposed Programme**			
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£000	**£000**	**£000**	**£000**	**£000**
HRA Housing	14,495	13,591	10,344	9,928	5,450
General Fund Housing	1,871	1,200	1,200	1,200	1,200
Loans to Housing Companies	2,302	751	0	0	0
Community Services	1,377	3,136	698	3,160	315
Tourism & Leisure	198	150	50	50	0
Corporate Services	1,629	570	400	400	400
Regeneration (Levelling Up Fund)	4,436	17,947	333	430	100
Asset Management	3,099	4,256	1,740	555	100
Total HRA & GF Programme	**29,407**	**41,601**	**14,765**	**15,723**	**7,565**
FINANCING					
Total HRA Financing	14,495	13,591	10,344	9,928	5,450
Total GF Financing	14,912	28,010	4,421	5,795	2,115
Total HRA & GF Financing	**29,407**	**41,601**	**14,765**	**15,723**	**7,565**

Capital Programme – Revenue Budget Implications

4.63 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.

4.64 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.

4.65 The ongoing running costs and/or income generated by new capital assets such as buildings are embedded in the revenue account budgets.

Capital Programme Oversight Board

4.66 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.

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

4.67 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 £39.3 million.

Legal Implications

4.68 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.

4.69 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.

4.70 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.

Financial Implications

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

4.72 Consultation will be undertaken with the General Public for a period of six weeks in accordance with CIPFA Guidance.

4.73 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.

4.74 The Local Government Act 2003, section 25 requires the Council's Section151 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.

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

Risks

4.76 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.

4.77 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.

4.78 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 further drawdown of £1.26m reserves, which has been planned and is considered prudent.

Equalities And Fairness Analysis

4.79 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 additional allocation of £0.10m being made for the Cost of Living Fund.

4.80 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 impacted more as the year progresses, as well as older people particularly by increased heating costs in autumn and winter.

4.81 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.

4.82 Other proposals set out in the budget may have equality implications which will be considered in more detail as part of future reporting.

4.83 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.

Conclusion

4.84 The council continues to face significant financial uncertainty for the MTFS planning period, covering the financial years 2023/24 to 2026/27. The uncertainty relating to future government financial settlements is exacerbated by the ongoing impact of the pandemic alongside increases in base budget pressures from inflation, national living wage, and waste services.

4.85 The MTFS forecasts at this stage would indicate a significant budget gap next year and the need for additional savings to be identified for 2024/25.

4.86 The application of reserves to balance the budget is not a sustainable solution to the financial challenges we face. Whilst the review is undertaken and until there is greater clarity, the programmes and projects funded from a range of earmarked reserves will need to be paused at this time.

4.87 Planning will continue in relation to the identification of further savings to enable future years budgets to be balanced, which alongside the review of reserves will ensure the council is able to respond to the immediate financial forecasts whilst developing its longer term plans.

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 - Reserves
- Appendix 6 – Capital Programme

4.88 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