Public Document Pack

NORTH HERTFORDSHIRE DISTRICT COUNCIL

COUNCIL

THURSDAY, 23RD SEPTEMBER, 2021

SUPPLEMENTARY AGENDA

Please find attached supplementary papers relating to the above meeting, as follows:

Agenda No	Item
9.	**MEDIUM TERM FINANCIAL STRATEGY** **(Pages 3 - 16)**
	To consider the Medium Term Financial Strategy.
	Please find enclosed the covering report and Appendix B – MTFS 2022-2027 (updated)

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FINANCE, AUDIT AND RISK COMMITEE
15 SEPTEMBER 2021

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: MEDIUM TERM FINANCIAL STRATEGY

REPORT OF: *Service Director- Resources*

EXECUTIVE MEMBER: *Finance and IT*

COUNCIL PRIORITY: BE A WELCOMING, INCLUSIVE AND EFFICIENT COUNCIL / BUILD THRIVING AND RESILIENT COMMUNITIES / RESPOND TO CHALLENGES TO THE ENVIRONMENT / ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY / SUPPORT THE DELIVERY OF GOOD QUALITY AND AFFORDABLE HOMES

1. EXECUTIVE SUMMARY

This report recommends the Medium Term Financial Strategy (MTFS) for 2022/23 to 2026/27 to guide and inform the Council's Business Planning Process. The focus is primarily on setting a budget for 2022/23, as well as determining the actions that will be necessary in setting a longer term budget following on from that. It reflects on the many uncertainties that the Council faces, including impacts of Covid-19. Whilst it recommends a five year budget strategy, there is likely to be a need to amend the strategy over time as further information becomes available.

The MTFS supports and is supported by the Council Plan. This reflects that the Council can only deliver priorities and projects that it can afford and should prioritise its spending around delivering its priorities.

2. RECOMMENDATIONS

2.1. That Finance, Audit and Risk Committee note and comment on the Medium Term Financial Strategy.

2.2. That Finance, Audit and Risk Committee recommend to Cabinet that they recommend to Full Council the adoption of the Medium Term Financial Strategy 2022-27 as attached at Appendix A.

3. REASONS FOR RECOMMENDATIONS

3.1 Adoption of a MTFS and communication of its contents will assist in the process of forward planning the use of Council resources and in budget setting for 2022/2023 to 2026/2027, culminating in the setting of the Council Tax precept for 2022/23 in February 2022. This will (alongside the Council Plan) support the Council in setting a budget that is affordable and aligned to Council priorities.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 The Council needs to have a strategy for setting its budget to ensure that it meets its statutory duty to set a balanced budget over the medium term, and ensure that spend is prioritised towards delivering statutory services and its strategic aims (as set out in the Council Plan).

4.2 In line with the Financial Management Code (published by the Chartered Institute of Public Finance and Accountancy), the Council aspires to set a longer-term financial strategy (e.g. 10 years) that considers the various risks and plans scenarios to deal with them. However this MTFS deliberately takes a shorter-term view, which reflects the significant uncertainty faced in relation to the continued response to, and recovery from, Covid-19.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 The Executive Member for Finance and IT (and Deputy) and the Leader of the Council (and Deputy Leader) have been consulted in developing this Strategy.

5.2 No external consultation has been undertaken in the preparation of this report.

5.3 Members will be aware that consultation is an integral part of the Corporate Business Planning process, and consultation on the individual actions and projects planned to support the Objectives will be carried out in accordance with the Corporate Business Planning Timetable and the Council's Consultation Strategy.

5.4 As in previous years, Member workshops will be held in regard to corporate business planning proposals.

6. FORWARD PLAN

6.1 This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan.

7. BACKGROUND

7.1 The Council is required to set a balanced budget each year. This can include using reserves if this is affordable over the medium term. The Council therefore sets a 5 year Medium Term Financial Strategy each year to help determine the approach that it will take to setting the detailed budget for the following year.

8. RELEVANT CONSIDERATIONS

8.1 The Medium Term Financial Strategy is attached as Appendix A. It details the forecast impact of reducing resources and quantifies what the Council will need to do to balance its budget in the medium term. It also reflects the significant uncertainty over funding, expenditure and income and therefore highlights the need to be able to react to any changes.

9. LEGAL IMPLICATIONS

9.1 Cabinet's terms of reference include at 5.6.38 the power, by recommendation "to advise the Council in the formulation of those policies within the Council's terms of reference". Council's terms of reference include at 4.4.1(b) "approving or adopting the budget". The MTFS is part of the budget setting process.

9.2 Councillors are reminded of the requirement, under section 30 of the Local Government Finance Act 1992, to set a balanced budget prior to the commencement of the financial year in question; and also that the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of estimates and the adequacy of reserves allowed for in the budget.

10. FINANCIAL IMPLICATIONS

10.1 Revenue financial implications are covered in Appendix A.

10.2 The main purpose of the Medium Term Financial Strategy is to consider the revenue funding, income and expenditure for the Council. This includes considering the revenue implications of capital expenditure which are linked to the reduced income from treasury investments (as capital reserves are spent) and the costs of borrowing (which is forecast to be required when capital reserves are used up). The Strategy also considers discretionary capital spend (i.e. not directly linked to continuing service delivery) and the need to deliver value for money. This would include using capital expenditure to reduce revenue costs or generate income.

11. RISK IMPLICATIONS

11.1 The key risks within the budget assumptions are referred to in Appendix A.

11.2 There are financial and reputational risks involved in arriving at a balanced budget against the uncertainty surrounding levels of government funding. We seek to mitigate the risks by scenario planning, use of the established corporate business planning process and early involvement of members in the process. The Council has a Corporate Risk of "Managing the Council's Finances". This is monitored by the Finance Audit and Risk Committee. Having a MTFS is a key mitigation to this risk.

12. EQUALITIES IMPLICATIONS

12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 The MTFS attempts to align resources to the delivery of the Council Plan, which sets the corporate objectives. Through its corporate objectives the Council is seeking to address equality implications in the services it provides and through the remainder of the Corporate Business Planning Process will carry out Equalities Impact Assessments for relevant Efficiency or Investment options.

13. SOCIAL VALUE IMPLICATIONS

13.1. The Social Value Act and "go local" requirements do not apply to this report.

14. ENVIRONMENTAL IMPLICATIONS

14.1. There are no known Environmental impacts or requirements that apply to this report.

15. HUMAN RESOURCE IMPLICATIONS

15.1 The MTFS makes assumptions in relation to pay inflation. As the actual rate of inflation will be subject to national pay bargaining, the actual costs will depend on the results of those negotiations. The budget also makes assumptions around funding for increments. The budget does not make any allowance for pay increases above inflation. This means that there will be no improvement to the Council's ability to attract staff in relation to pay, which will particularly impact on difficult to fill posts. The Human Resources Team and the Leadership Team continually try to identify staff benefits that are not related to pay, and therefore more affordable.

14.2 The delivery of projects to deliver council objectives depends on having adequate people resources with the requisite skills.

14.3 The development of budget proposals will take up staff time. As they are developed these budget proposals will identify the ongoing impact on staff.

16. APPENDICES

16.1 Appendix A- Medium Term Financial Strategy

16.2 Appendix B – Medium Term Financial Strategy (Updated)

17. CONTACT OFFICERS

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14.4 Isabelle Alajooz, Legal Commercial Team Manager and Deputy Monitoring Officer, Isabelle.alajooz@north-herts.gov.uk, ext 4346

18. BACKGROUND PAPERS

18.1 *None*

North Hertfordshire Council

Medium Term Financial Strategy
2022-27

[cover page that is the same as or similar to the Council Plan]

Purpose of the Strategy

This strategy sits alongside the Council Plan for the same period. It sets out our financial forecasts over the next five years and how we will manage the funding that we think we will have available, to deliver as much as we can, in line with our priorities.

The strategy has been heavily affected by the impacts of Covid-19. We have had to use some of our reserves to fund the impacts of Covid e.g. closing leisure centres and suspending garden waste collections, and we also have to consider the impact on our costs and income in the future. We also face continued uncertainty over our future funding. All this means that we are likely to have less time to react as the financial outlook becomes clearer.

This strategy goes hand in hand with the development of our Council Plan, as we can't promise to deliver things that we can't afford. The detailed projects contained within the Council Plan have been incorporated into our forecasts.

Delivering our Vision and Priorities

Our vision and priorities are set out in detail in our Council Plan.

Our vision is We put people first and deliver sustainable services, to enable a brighter future together
Our priorities therefore focus on: People First, Sustainability and A Brighter Future Together.

Most of the money that the Council spends is on delivering statutory services. We will always look to deliver these services in line with our priorities. Even as our funding has continued to reduce, we have tried to maintain our ability to offer discretionary services that are linked to our priorities. Our forecasts are that we will need to further reduce our costs in the future. This will mean that difficult decisions may need to be taken. We will make those decisions in line with our priorities.

Some of what we might like to achieve uses up resources (such as money, staff time or energy). We will look to be creative in identifying opportunities that deliver our priorities without using up resources.

Looking forward

We would like to use this document to provide a long-term (10 year) overview of our future funding, and risks and opportunities in relation to our spending and income. Unfortunately, we are faced with such significant uncertainty in the short to medium term in relation to our future funding from Government, Brexit impacts and recovery from Covid-19, that our focus has to be on that. That means that this strategy is focused on the next five years, with a particular focus on the next two -three years.

Over the last few years, we had taken the opportunity to increase the level of our general fund reserves. The plan was that they would be used soften the impact of expected future funding reductions. We have been using these reserves to respond to Covid-19 and expect that this need will continue. If our financial recovery from Covid-19 is fairly quick, then some of the reserves may still be available for their initial purpose.

This strategy is based on significant uncertainty and as better information becomes available then this will be used. The budget that we set in February 2022 will be focused on 2022/23, but will also consider the medium term impact.

Our current budget position

Our budget for this year (2021/22) was set at a meeting of Council in February 2021. This also set indicative budgets for future years. In June 2021 we reported our end of year position for 2020/21. This report also detailed spend that had not taken place in 2020/21, that would now take place during 2021/22. The numbers below also reflect our forecasts for 2021/22 as reported at the end of the first quarter of the year (up to end of June).

	£ millions
General Fund balance at the end of 2020/21	8.87
Less: How much we plan to spend during 2021/22	(19.36)
Add: Our expected funding during 2021/22	15.14
Add: other reserves that we plan to use to fund our expenditure *	2.91
Equals: General Fund balance at the end of 2021/22 (start of 2022/23)	7.56

* We can only use our reserves once. The use of reserves in response to Covid-19 is exceptional and can not form part of a sustainable strategy.

We also have a Special Reserve which was set-aside for a number of purposes, including the delivery of transformation projects and if contract prices go up by a significant amount when they are re-let. The balance on this reserve at the end of 2020/21 was £740k. It is being used to fund a team that is looking at how technology can be used to automate processes and improve the ways that residents can contact us. It is also being used for Covid-19 community support grants, although the majority of these are now being funded from some grant money that we have secured. The total expected spend this year is £90k. That will leave a remaining balance of £650k. This balance will be transferred into the General Fund in 2022/23.

We also have a Business Rates grant reserve. Government provide business with various Business Rate reliefs and provide us with funding to cover them. Due to the way that Business Rate income is dealt with, we often receive the funding earlier than the actual impact on our accounts. So, the funding is put into a reserve until it is needed. In the past we have also gained from Business Rate pooling arrangements and have put these gains into the reserve to protect us from future risks. The total balance on the reserve as at the end of 2020/21 was £14.35m. We know that we will need to use around £10.4m over the three years (2021/22 through to 2023/24) to cover the Covid-19 impact on Business Rates from 2020/21. We will also use £2.5m of the accumulated pooling gains to help balance the budget in 2021/22 and 2022/23. We will review the remaining balance as part of the budget-setting process, to see if more can be released into our General Fund balance.

The following sections consider the significant factors that impact on us setting a budget for the next 5 years, including the assumptions made and the impact of those on setting a balanced budget.

Covid-19 impacts

We made the following assumptions when setting the budget for 2021/22:

- £2m of support to Stevenage Leisure to enable our leisure centres to reopen as Government restrictions were lifted
- We would not receive any payment from Hertfordshire County Council in relation to the Waste Alternative Financial Model (AFM). The AFM provides a financial reward to district councils for encouraging recycling and minimising residual waste. The reward is paid a year behind, so the reward we receive in 2021/22 will be based on performance in 2020/21. That performance was hugely impacted by Covid-19 and more people staying at home.
- We increased the minimum General Fund balance by £0.5m to reflect the expected (but unknown) risk to other areas of our budget. This includes the cost of homelessness provision, income from parking, the net cost of disposing of recyclable materials, income from trade waste and income from bookings and events at Hitchin Town Hall.

- We assumed that the number of residents eligible for the Council Tax Reduction Scheme would continue to be high and offset any growth in the overall number of properties. Previously we had assumed at least 1% per year growth in the number of properties in the district, and a net 1% increase in Council Tax income.

Our income levels have started to improve as lockdown restrictions have eased. In July 2021, car parking income was up to about 80% of the level in 2019/20. Stevenage Leisure Limited have seen increases in gym and swimming lesson memberships. Whilst events are now taking place at Hitchin Town Hall, the speed and extent of recovery is very uncertain. The recovery in these areas is only likely to continue if there are no further periods of restrictions. They may also never return to pre-pandemic levels.

For those areas of spend and income that have a more direct link to economic recovery and changes to the way business operates (e.g. trade waste, homeless provision and car park season tickets) there is even more uncertainty.

The net cost of disposing of recyclable materials is also very uncertain. This is dependent on global markets and even before the pandemic these could be very volatile.

The receipt of AFM payments will depend on general changes in waste volumes (e.g. a general move to working from home may mean an ongoing increase in household waste) and how much of it our residents recycle. We will assume a gradual transition back to pre-pandemic levels.

It would not be sensible to try and forecast future year impacts for individual budgets, but it does seem prudent to set an overall provision for recovery across the next two years (in 2022/23 and 2023/24). This will be instead of increasing the level of the minimum General Fund balance. The basis for setting the provision in each year is set out below:

Type of spend/ income	Normal budget (£m)	Basis of provision for 2022/23	Amount of provision in 2022/23 (£m)	Basis of provision for 2023/24	Amount of provision in 2023/24 (£m)
Leisure Centre management fee income	0.82	25% of management fee	0.21	10% of management fee	0.08
Pay as you use parking income	2.02	5% of annual income	0.10	2.5% of annual income	0.05
Hitchin Town Hall	0.23	20% of annual income	0.05	10% of annual income	0.02
Trade Waste income	1.01	10% of annual income	0.10	5% of annual income	0.05
Homeless costs	0.08	100% increase	0.08	50% increase	0.04
Car park season tickets	0.32	20% of annual income	0.06	10% of annual income	0.03
Recyclable materials	0.29	100% increase	0.29	50% increase	0.15
AFM income	0.42	50% of annual income	0.21	25% of annual income	0.10
			1.10		**0.52**

The number of our residents that continue to be eligible for the Council Tax Reduction Scheme is likely to be linked to the general economic recovery. There could be a further increase in eligibility when the furlough scheme comes to an end. There will also be an increase if there are further periods of restrictions. The Council Tax Base is also affected by the building of new properties. On the assumption that the Local Plan is adopted during 2021/22, that should start to have an impact on the number of properties being built. For budget planning purposes, the previous assumption (of zero tax base growth over five years) will be revised upwards to 0.5% growth per year from 2023/24.

Pay costs

The pay claim for council staff for 2021/22 is still outstanding. The final offer from the employers is being considered by the Unions and is due to be voted on by Union members. The amounts offered are 2.75% for grade 1, 1.5% for Grades 13 upwards (Service Directors and Managing Director) and 1.75% for all other grades. The average increase of this offer across our staff is around 1.7%. If this pay claim is agreed then it will just be for one year. We increased our assumptions around future pay increases (from 2% to 2.75%) last year to reflect the Government push to increase the National Living Wage. There are two reasons to change this assumption back down, (1) the Government policy direction seems likely to change in light of general economic conditions and the pay increases that Government are offering, and (2) increases in the grades affected by Living Wage changes can be achieved without offering the same increase to all grades. We are therefore assuming a 2% inflationary pay increase for each year from 2022/23. We will also continue to make a separate estimate relating to our staff eligible for incremental increases in their pay.

As the allowances above reflect national pay bargaining, they have no impact on our pay compared with other Councils. This means that where we have posts that are difficult to recruit to, this position is unlikely to improve in terms of salary. However we will continue to promote the other advantages of working for us. We could carry out a more fundamental review of our pay scales, but is likely to be a very significant cost and the actual impact on being able to recruit would still be uncertain.

Our employees are eligible to join the Local Government Pension Scheme (LGPS), which is a defined benefit scheme. We make annual contributions to the scheme based on a percentage of payroll costs and a lump sum. The lump sum is to cover past service costs. Our budget assumes that the percentage rates will remain unchanged and the lump sum will increase with inflation. This may need to change after the next actuarial review, which will be undertaken in 2022/23 and the outcome will determine annual contributions for the following three financial years (2023/24 – 2025/26).

Waste costs

Prior to Covid-19, HCC had already informed us of planned reductions in the pot of money that would be available to be distributed as part of the AFM. The impact of this reduction has been built into the budget. There is a risk that HCC will seek to make further reductions to this payment.

Government have consulted on a series of proposals in relation to waste collection. These include:

- Introducing consistent waste collection across all areas of the country (e.g. same materials in the same types of bins) and being stopped from charging for garden waste collections.
- Introduction of a Deposit Return Scheme, which would have an impact on what we collect at the kerbside. It is likely to mean that higher value recycling materials would be taken to deposit return locations, leaving us to collect the remainder. This would affect the net costs of disposal for recycling materials.
- Extended Producer Responsibility- places the financial burden for waste on those that are producing it at source.

It is not yet known which of the above will be adopted. Where they are adopted, we should expect to receive New Burdens Funding, but we don't know how this will be calculated and allocated.

A number of the factors described above and in the Covid-19 impact section (e.g. waste volumes, types and frequencies of collections) are likely to affect the cost of the waste contract when it is due for renewal in May 2025.

As there are so many uncertainties above (both in terms of costs and funding) we have not assumed any specific financial impact at this stage. But we will have to review this as more information becomes available and have to consider that the impact could be significant.

As there may be a change to what we can charge for garden waste, we will retain the annual charges at their current levels. We will also continue to offer a discount for our residents who are on lower incomes.

Car parking income

To support our Town Centres during the pandemic we chose not to increase parking charges in 2020/21. We also delayed the increase in 2021/22 to October 2021. This will be a double increase to cover both years.

In line with declaring a climate emergency we will continue to increase car parking charges by 2%, to encourage alternative forms of transport.

We will gradually move the month when car parking charges are increased to bring it back to the start of the Summer. In 2022/23 the increase will be applied from September, August in 2023/24, July in 2024/25 and June from 2025/26 onwards.

Delivering our priorities

As well as setting out our vision and priorities for 2022-27, our Council Plan details some of the projects that will contribute towards delivering those priorities.

The table below shows the status of each of these in terms of resources:

Project	Resources
Charnwood House refurbishment	Level of any capital contribution unknown, to be added to budget if required
Royston Town Hall Annex	Expected that could generate a capital receipt or income, not included in budget forecasts yet
Town centre strategies	Funding sources identified, including using specific reserves
Interactive playground equipment	Within existing capital budget forecasts
New Green Space Management Strategy	Expected to deliver cost savings, to contribute towards 2022/23 savings target
Leisure centre refurbishments	Within existing capital budget forecasts
Solar thermal technology at Royston Leisure Centre	Within existing capital budget forecasts
Sustainable recycling and waste service	See comments in section above. Uncertain financial impact at the moment so not factored in to the budget
New website	In progress and resources identified
Online customer portal	In progress and resources identified
Enabling cash payments at convenient locations	In progress and resources identified
Community engagement	Ongoing work to be delivered from existing resources

Future funding from Government

Our funding is controlled by Government in the following ways:

- If we want to increase our Council Tax by more than a certain amount, then we must hold a referendum. Government set this limit each year and in recent years it has been the greater of 1.99% or £5 on a band D property (with the other bands increased in proportion).
- They set how much of the Business Rates that we collect that we can retain.
- They determine how funding from New Homes Bonus works. This is a reward to Councils for encouraging the building of new homes.
- They can allocate other general funding and grants.

There was supposed to be a significant change to the way that we and other local authorities were funded. This would have included a new funding formula and a change to how much of the Business Rates that we collect we could retain. It is now expected that the earliest that this change will be introduced will be 2023/24.

We had been told that in 2019/20 our funding from Business Rates would be cut by over £1m. This had become known as negative RSG (Revenue Support Grant). This cut in funding has not yet taken place. When a new funding formula is introduced, we are working on the assumption that it will be broadly in line with the formula that determined we should have a negative RSG imposed upon us.

We currently provide our Parish, Town and Community Councils with a total of £39k of funding, in addition to what they raise through their precepts. This was initially linked to the localisation of Council Tax support (CTRS). Our policy has been that this support should reduce in line with the funding that we receive from Government. The amount that each Council receives is very small and could be covered by a small increase in their precept.

There has been a consultation on the New Homes Bonus, which made several proposals on how it might be changed in future years. There has not yet been any indication of what might be adopted.

For 2022/23, the forecast is made on the following assumptions:

- Negative RSG will **not** be applied.
- We will receive New Homes Bonus funding of £131k. This is based on previous estimates of what we would receive as the old scheme is withdrawn.

For 2023/24 onwards, these assumptions are used:

- Negative RSG (or the equivalent of) will be applied.
- A replacement New Homes Bonus Scheme will be introduced. On the assumption that the Local Plan will be adopted and that we will see more significant housing growth, then estimate that this will generate rewards of at least £150k per year from 2024/25.
- There is the potential that we will also be able to gain from the Business Rates that we collect being above whatever baseline level is set. However, at this stage, this is not included in the forecasts.
- When Negative RSG is applied, we will cease to provide funding to Parish, Town and Community Councils relating to Council Tax support.

Council Tax

As detailed previously we will assume that our Council Tax base will grow by a net 0.5% per year from 2023/24. The actual growth is expected to be higher, but some of the additional income will be needed to provide services to the new properties (e.g. waste collection).

We are assuming that Government will continue to allow Council Tax increases by up to the higher 2% or £5 for a band D property (with the other bands increased in proportion), without the need for a local referendum. In calculating the funding that is available, Government assume that Councils will increase their Council Tax by the maximum available. To do as much as we can to maintain our service provision we will increase our Council Tax by the maximum possible, without the need for a referendum. For a band D property this increase will be around £5 per year, or 10p per week.

Our reserves

We are required to make sure that we have a certain level of reserves when we set our budget. This is to provide protection against known and unknown risks. This includes us being able to react to changes in demand and any emergencies that may arise. Our allowance of known risks is based on estimating the monetary impact of an event happening and applying a percentage to this, based on the likelihood of it happening (high, medium or low). Our allowance for unknown risks is based on 5% of net expenditure and 3% of budgeted income (excluding Housing Benefit). For 2021/22 this gave a minimum balance of £3.35m. In 2021/22 we further increased this by £0.5m to reflect the ongoing risks in relation to Covid-19. As detailed previously we have changed the ways that we will reflect these Covid-19 risks in 2022/23 and 2023/24.

We are forecasting that our General Fund reserves at the start of 2022/23 will be £8.57m. We expect that we will need to use some of these reserves in recovering from Covid-19 and in adjusting to new funding levels. In planning our future budgets we need to make sure that we stay above the minimum General Fund level.

Our future forecasts and savings required

Based on all the assumptions detailed in the previous sections (and the additional assumptions detailed in Annex A), we are forecasting the following budget position over the next five years.:

£ millions	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
General Fund balance at the start of the year	7.56	7.10	5.36	4.53	4.21
Less: How much we plan to spend during the year on existing services	(15.96)	(16.18)	(16.39)	(16.29)	(16.26)
Less: provision for additional Covid-19 costs	(1.10)	(0.52)	0	0	0
Add: Our expected funding during the year	15.21	14.46	14.86	15.22	15.59
Add: other reserves that we plan to use to fund our expenditure	1.19	0	0	0	0
Add: additional net savings that we need to deliver *	0.20	0.40	0.40	0.40	0.40
Equals: General Fund balance at the end of the year	7.10	5.36	4.53	4.21	4.19

* These are the additional savings that need to be delivered in each year. Over the five year period the cumulative annual savings that will be required are £1.8 million.

Addressing our funding gap

The table above shows savings that we need to deliver to achieve a balanced budget by 2026/27. That means that by that year our funding will equal our expenditure. Savings could mean any of the following:

- Being able to deliver our existing services at a lower cost. The use of technology and automation may enable to do this in some areas. But generally the savings that we have delivered across a number of years have been through efficiencies, meaning that there are few opportunities left.

- Being able to generate additional income from services that we are able to charge for, less any costs in providing that additional level of service.
- Being able to generate income from commercial activities. The opportunities to do this are limited by economic conditions. We also need to make sure that these activities are in line with our priorities.
- Reducing the level of services that we provide, or no longer providing services that we are not required to provide. Whilst we would always want to avoid this, we have to consider the overall sustainability of our Council.

They are also shown as net savings. This means that there is some scope for adding in new costs to meet our priorities, but this needs to be offset by increases in the savings that we deliver.

As we are forecasting that we will need to address a significant budget shortfall, we have set up a budget challenge process. Through this process we aim to:

- Review all the Council’s budgets to understand what they deliver and how they align to the Council priorities
- Review opportunities for making savings on those budgets, when those savings could be achieved and the implications of making those savings
- When there is greater clarity over our future funding, come up with a list of savings to consult with our residents and other stakeholders on. Before then we will continue to deliver savings where there is a time constraint on when they can be delivered (e.g. contract renewal) or we don’t think there will be a significant impact on the services that we offer.
- Use the feedback to set an action plan for what savings will be taken forward and monitoring the delivery of those savings.
- Receive regular updates on future budget and funding forecasts and take more urgent action if it is clear that there is a risk to our financial sustainability.

Capital budgets

We are currently able to fund our capital expenditure (spend on assets that have a useful life of more than one year) from our capital reserves. This means that the revenue cost of our capital investments is minimal. Over the next five years we may run out of capital reserves and will need to borrow to fund our capital spend. That will add to our revenue costs as we will have to fund borrowing charges and Minimum Revenue Provision. Therefore all discretionary capital spend will be assessed on the assumption that funding costs will be incurred.

We are also aware that there is significant inflation on construction and material costs at the moment. As this might continue for some time, the potential for cost increases will be assessed when considering options for new capital spend.

ANNEX 1 Other Budget Assumptions

- Investment income is based on cashflow projections and a 0.1% return. This is significantly affected by the timing of expenditure in the capital programme.
- Contract inflation in accordance with the individual contract terms.
- No allowance is made for general inflation on remaining expenditure. Although after allowing for salary and contractual inflation, the remaining amount is insignificant.
- Discretionary fees and charges income will be increased by CPI (Consumer Price Index) at September, plus 2%. This will be where it is legally possible and subject to a market impact assessment. This excludes parking (which is assumed to increase at 2%) and garden waste (no increase).
- An assumed 99% collection rate for the purposes of calculating the Council Tax base.
- An assumed 97% collection rate for Business Rates
- Any future changes to the local Council Tax Reduction Scheme will aim to have a cost neutral impact.
- A vacancy factor set at approximately 2.5% of salary budget to yield in the region of £300k is included in the base budget in each year.
- The Council will not subsidise areas which are the responsibility of another precepting body other than through a one-off match-funding arrangement where this is in the interests of the local Council taxpayers.
- The potential impacts of Brexit are not reflected. The impacts of Covid-19 are only reflected to the extent mentioned.
- All assumptions are subject to further refinement during the budget process as more certain information becomes available.