APPENDIX A

North Herts Council

Medium Term Financial Strategy 2023-28

APPENDIX A

Purpose of the Strategy

This strategy sits alongside the Council Plan. 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 continues to be affected by the impacts of Covid-19. We will continue to use some of our reserves to fund ongoing impacts during 2023-24. It is also now heavily affected by the cost of living crisis, and specifically high levels of inflation. The strategy assesses our ability to use reserves to fund some of that impact, so we can avoid having to cut services at a time when our residents might need them the most.

We also face continued uncertainty over our future funding. It is expected that there will be a two-year funding settlement for 2023/24 and 2024/25 announced by the end of this calendar year. However, work on that will have been delayed by the process to elect a new Conservative party leader. It is also possible that Government priorities may change in relation to Local Government. 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 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 that '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 we spend 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. This will include looking for external funding and working with others.

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, recovery from Covid-19 and cost of living, 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 to 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 to soften the impact of expected future funding reductions. We have instead had to use these reserves to respond to Covid-19 and expect that this need will continue in 2023/24. We will also need to use them to help with the impact of rising costs from exceptionally high levels of inflation. Given the scale of these issues, we will also release any other reserves that we no longer need and add these to the general fund reserve. However reserves can only be spent once, and it is clear that spend will need to be reduced in the medium term and balanced against the funding we receive. This will require some difficult decisions on which services meet our statutory obligations and best deliver against our priorities.

This strategy is based on significant uncertainty and as better information becomes available then this will be used. The budget that Full Council sets in February 2023 will be focused on 2023/24, but will also consider the medium term impact.

Our current budget position

Our budget for this year (2022/23) was set at a meeting of Council in February 2022. This also set indicative budgets for future years. In June 2022 we reported our end of year position for 2021/22. This report also detailed spend that had not taken place in 2021/22, that would now take place during 2022/23. The numbers below also reflect our forecasts for 2022/23 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 2021/22	10.607
Less: How much we plan to spend during 2022/23	18.056
Add: Our expected funding during 2022/23	15.820
Add: other reserves that we plan to use to fund our expenditure *	1.183
Equals: General Fund balance at the end of 2022/23 (start of 2023/24)	9.554

* We can only use our reserves once. The use of reserves in response to Covid-19 and the cost of living crisis is exceptional and must not form part of an ongoing sustainable strategy.

We have a Business Rates grant reserve. Government provide businesses 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 2021/22 was £9.4m. Around £0.5m was previously agreed to be released to the General Fund in 2022/23, while we know that we will also need to use around £4.9m of the reserve to cover the unwinding of Covid-19 impacts on Business Rates and other costs in this year and next. We will also continue to set aside £1m to cover fluctuations in Business Rates income, which is made up of £0.5m for normal risk and an additional £0.5m to reflect the uncertainty from the current economic situation. Therefore £3m will be released into the General Fund.

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

APPENDIX A

Covid-19 impacts

For the 2022/23 budget we assumed that spend and income would be back to normal but made a central budget provision of £1.74m (i.e. these are assumed additional costs which are based on specific budget assumptions, but as the actual impact is very uncertain the resulting total budget will be managed corporately and allocated to individual budgets when there is greater certainty over the specific impacts). This was based on the table 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	50% of management fee	0.42	20% of management fee	0.16
Pay as you use parking income	2.02	10% of annual income	0.20	5% of annual income	0.10
Hitchin Town Hall	0.23	50% of annual income	0.11	20% of annual income	0.04
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	40% of annual income	0.12	20% of annual income	0.06
Recyclable materials	0.29	100% increase	0.29	50% increase	0.15
AFM income	0.42	100% of annual income	0.42	50% of annual income	0.21
			1.74		**0.81**

An amount for 2023/24 was also estimated. Whilst the Quarter 1 monitoring for 2022/23 shows differences in terms of specific continuing impacts, the overall estimate is currently about in line. Therefore, the overall assumption for 2023/24 of £0.81m will be retained. This then assumes that budgets will return to normal (pre Covid-19 levels) from 2024/25 onwards. It also assumes that any future waves of Covid-19 will not lead to significant mandatory or voluntary changes in behaviour, as these are likely to further delay the return to pre Covid-19 levels. There is also a risk that some budgets e.g. parking season tickets will never return to pre Covid-19 levels.

Inflation and cost of living impacts

The UK (as well as many other countries) is facing a period of extremely high inflation (expected to be above the target 2% target level for 2 years), and there is also an expectation that the UK will enter a period of recession. As a result the Council needs to consider the following impacts:

- The cost of providing contracted services
- Pay inflation for our staff
- Increases in fees and charges, and impact on demand/ ability to pay
- Eligibility for Council Tax Reduction Scheme
- Other support that the Council can provide
- Interest rate increases

Contracted services inflation

Our largest contract is for waste collection and street cleansing. The contract is inflated in May each year based on a basket of indicators (35% wage inflation, 40% general inflation, 15% fuel inflation and 10% uninflated). The increase in May 2022 was just under 10%, and forecasting a similar increase in May 2023, before returning to around 2% from May 2024.

Inflation on our grounds maintenance contract is linked to CPI and the increase for 2023/24 is estimated at around 5%.

Electricity and gas prices are expected to increase by around 20% in 2023/24, which is on top of a similar increase for 2022/23.

Overall the estimate for contract expenditure inflation is just over £800k in 2023/24, and then reducing to around £400k in 2024/25.

Pay inflation

Previous financial strategies had assumed average pay inflation of 2%. The pay claim from the Unions for 2022/23 sought a minimum £2,000 increase on all pay grades, or an RPI increase if this was greater. The employer offer is for a flat £1,925 increase across all pay grades. The percentage increase therefore varies by grade and ranges from around 10% (at grade 1 and the bottom of grade 2) to under 2% (at grade 16). The intention of the employer offer at a high level (compared to what had been budgeted by Councils) was to try and seek a relatively quick resolution, to get the money to employees and allow the focus to move to 2023/24. The Unions have said they are going to ballot their members on the offer, with one of them likely to recommend it is rejected and two of them expected to be neutral.. It needs two Unions (of the three) to agree.

For the purpose of medium term planning, we will assume:

- A 2022/23 pay award in line with the employer proposal, but noting the risk that this may turn out to be too low. The overall cost of this is £840k, or around 5% of the pay bill.
- A 2023/24 pay award at an average of 4%
- For 2024/25 onwards a pay award at an average of 2%, which is line with longer term inflation forecasts.

Increases in fees and charges, and impact on demand/ ability to pay

It has previously been decided that parking charges and garden waste changes should increase at a fixed 2% per year. These increases will be continued. We will also continue to gradually move the month when car parking charges are increased to bring it back to the start of the Summer. In 2023/24 the aim is that the increase will be applied from August, July in 2024/25 and June from 2025/26 onwards.

As mentioned previously, inflation on the waste contract is around 10%. We believe that trade waste and the trade recycling market can bear an increase of this level, so intend to pass on this increase. Other suppliers of this service will also be faced with costs increases that are heavily linked to fuel inflation. Therefore, we do not want to distort the market by increasing our charges by too small an amount.

For other fees and charges where we have discretion as to how they are set, we have previously assumed an increase of CPI + 2%. But against this presumption we have considered whether the charge is covering the full cost of the service and the impact on demand of a price increase.

Given the current high CPI level, we don't think that most of our costs will increase at quite that level and certainly would expect an increase at that level to have an impact on demand. Therefore we will assume that our other discretionary fees and charges will increase at around 4% for 2023/24, and then 2% per year thereafter. As part of the 2023/24 detailed budget process we will review all fees and charges (including concessions) and put forward proposals on what these charges should be. This will allow greater transparency as to how these charges are set.

Our current assumption is that increases at these levels would not affect demand. For most of our services we seek payment in advance of receiving the service, so we are also not expecting an increase in levels of overdue debt.

Eligibility for Council Tax Reduction Scheme

The Council Tax Reduction Scheme (CTRS) determines who is eligible for a discount on their Council Tax bill. For pensioners there is a mandatory scheme set by Government. For working age residents, we can determine how any discounts are determined.

We are developing a proposal to change the way that working-age CTRS eligibility is determined. This will be subject to consultation before a final decision is made by Council in January. The current modelling is that the proposed scheme would cost slightly more than the current scheme. The increase is sufficiently small that it can be absorbed into assumptions around future tax base growth. The impact of CTRS is that it decreases the equivalent number of properties that would pay Council Tax.

These tax base assumptions will also have to consider the general economy and the impact on household income levels. If the UK does enter into a recession, then this is likely to cause further problems beyond the impact of price inflation.

Rising building costs and lower householder income may have an impact on housebuilders' willingness to invest in new housing and bring housing to the market. This in turn impacts on Council Tax base growth. However, demand is still vastly outstripping supply, housebuilding projects take time to deliver and inflation is expected to be brought back under control.

Overall, it is considered reasonable to continue with estimated Council Tax base growth of 0.5% per year. This is lower than the forecasts pre-Covid-19. This forecast is a net increase, which reflects that actual increases will be higher but will be accompanied by costs that vary with numbers of households (i.e. waste collection). This assumes that Full Council will adopt the North Hertfordshire Local Plan. If the plan is not adopted then it is likely that housing growth will be lower.

Other cost of living support

Whilst we would like to be able to offer our residents more support during this very difficult economic time, we have to be mindful of the pressure on our own finances. Therefore, we will focus on continuing our discretionary services and working with our partners, voluntary sector and community groups to signpost where support can be obtained..

Pension costs

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 (although the actual amount still therefore goes up with inflation) and the lump sum will increase with inflation. There had been an early indication that the percentage contribution rate could decrease slightly, but that may have been impacted by high inflation and other economic factors. The latest triennial valuation (for March 2022) will be completed before the 2022/23 budget is set. That valuation will set our pension contribution rates for the next three years.

Waste costs

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 negatively affect the net costs of disposal for recycling materials.
- Extended Producer Responsibility, which places the financial burden for waste on those that are producing it at source.

It is still not yet known which of the above will be adopted, when they will be adopted or even if they 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. Councillor workshops on planning for the new contract have highlighted that there is likely to be a need to make decisions on how to try and keep costs under control. This will include decisions that take advantage of the fact that we have a joint contract with East Herts Council.

APPENDIX A

Delivering our priorities

Our Council Plan sets out our vision and priorities for 2022-27. As there have been no changes to that vision and priorities, it has not been necessary to update the Council Plan this year. However, the Council Plan that was set in 2022 did include some examples of our key Council projects. As we now monitor our key projects through a regularly updated Council Delivery Plan, this section of the Council Plan can now be deleted.

The Council Delivery Plan for 2022/23 was agreed by Cabinet in March 2022, and a Quarter 1 update will be provided to Overview and Scrutiny and Cabinet in September 2022.

The table below shows the status of each of these in terms of resources and medium term financial assumptions:

Project	Resources
Museum/ Hitchin Town Hall recovery	To be delivered from existing staffing resource. Assumed that income will return to pre-Covid-19 levels.
Tourism Strategy	Strategy to be delivered in 2022/23 from existing resources. No allowance for additional resource to deliver the resulting strategy.
Business Recovery Grants	Coping with delivery from existing resources. Expect to complete in 2022/23.
Town Centre recovery and strategies	Generally being delivered from existing and new (part of Shared Prosperity Fund) grant funding.
Health inequalities	Dependent on external funding (e.g. County Council Public Health funding). Some committed (elements led by Health and Wellbeing) but currently time limited and the remainder (elements led by Environmental Health) has not been bid for yet. No District Council funding assumed.
Economic Development Strategy	Strategy to be delivered in 2022/23 from existing resources. No allowance for additional resource to deliver the resulting strategy.
Resident/ Public EV charging in our car parks	Dependent on a private sector partner and Government funding. A small amount of match funding in capital programme.
Cycling network	To be delivered from existing staffing following adoption of the strategy by HCC, which will limit what can be achieved.
EV charging for Council Vehicles	To be completed in 2022/23.
Royston Leisure Centre Solar Thermal	To be completed in 2022/23.
Pay on exit review	Feasibility review to be completed in 2022/23. No resources identified for any capital works or impact on income.
Replacement of Royston Town Hall Annexe	Expectation that funding will come from a third party, no Council capital funding has been allocated.
Customer Portal	Elements will continue in future years, and will be subject to a business case to determine what will be taken forward. Currently not expecting any significant resources required.
Help Residents Make Payments at Convenient Locations	To be completed in 2022/23.
Supplier Self-Service	Currently cost unknown, with expectation that cost would be off-set by staff savings.
Empty Homes Strategy	Strategy to be adopted by Cabinet in 2022/23, no dedicated resource to implement
New Ways of Delivering Housing on Council Land	Investigation work part of ‘Enterprise’ work programme. No capital resource allocated, but will only continue if provides a net positive return compared to normal land sale. Impact on

Project	Resources
	timing of capital receipts would impact funding of capital programme.
Work with Stakeholders to Increase Accommodation for Homeless People	As the Council is not a stock holding Authority, the resource has to come from stakeholders (including Government). Support to be provided from existing staffing resources, although that is becoming challenging.
Local Plan Implementation	Anticipated that the Local Plan will be taken to Full Council for adoption in late 2022, adoption will follow predominately in 2023/24.
Master Planning	No dedicated resource with the expectation that funding will come from those looking to develop large sites.
Financial Sustainability/Balancing our Budget	Monitoring of impacts and prompting action to be met from existing resources. Will require decisions on priorities.
Full Review of Council Tax Reduction Scheme	To be completed in 2022/23.
Response to Government Resources and Waste Strategy	As detailed previously, no assumptions have been on the financial impact of this.
Green Space Management Strategy	To be delivered from existing resources, including capital programme allocations.
Charnwood House	Council decision in February 2022 was to support the project but not to allocate a specific amount of funding, pending plans (including direct and third-party funding contributions) from community groups. That is still the overall approach. However asbestos removal works are in the process of being undertaken as otherwise certain rooms cannot be accessed without specialist protective equipment. This is being funded from the existing property condition capital budget. This has been considered necessary to ensure the safety of those accessing the building, which will therefore help with generating community offers. It is also a pre-requisite for any improvements to the building. It was always expected that the total funding that the Council would provide would be greater than this amount, and the overall principle will still be to maximise third party contributions.
Museum Storage	Included in the capital programme with assumed income from commercial storage.
Local Government Boundary Review	Expected to be delivered from existing resources.
Other capital projects to reduce the Council's carbon impact	Some projects included within the existing capital programme (e.g. solar PV at leisure facilities). Any other projects would need be determined through a decarbonisation plan/ net zero roadmap, and capital resources allocated. Recent grant funding opportunities have all had requirements that the Council would not meet.
Shared Prosperity Fund	Grant includes an element for administration which will be used for required monitoring and performance returns.
Churchgate area regeneration	There will be a report setting out next steps. Overall expected that the scheme will be better than cost neutral. Cost neutral used for financial planning at this stage.

There is not currently any resource allocated for any new projects that are not listed above. Whilst these could be added as part of the budget setting process, the forecast section below determines that net savings need to be identified and delivered. Any discretionary cost increases will therefore increase the savings that have to be made in other areas.

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 2025/26, although it is possible that it could be from 2024/25. The assumption that it will be 2025/26 is based on a commitment from Government that there will be a two-year funding settlement this year, that would therefore cover 2023/24 and 2024/25.

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 2023/24 and 2024/25, the forecast is made on the following assumptions:

- There will be a two-year funding settlement, and therefore ‘negative RSG’ will **not** be applied.
- We will receive New Homes Bonus (or equivalent) funding of £150k. This is based on previous estimates of what we would receive as the old scheme is withdrawn, combined with the assumption that the Local Plan will be adopted and that we will see more significant housing growth.
- Continuing funding of £100k to cover the costs of the Social Care levy employer contributions. Assumed at a flat amount even though it should grow with inflation.

For 2025/26 onwards, these additional assumptions are used:

- Negative RSG (or the equivalent of) will be applied and phased in over two years. Half the total impact (estimated at £629k in 2025/26) and the full impact from 2026/27 (estimated at around £1.3m and to increase with inflation).
  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. The current funding will be reduced by half in 2025/26, and then withdrawn completely from 2026/27.

APPENDIX A

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 2022/23 this gave a minimum balance of £3.05m. It is assumed that it will need to continue to be at around that level.

We are forecasting that our General Fund reserves at the start of 2023/24 will be £9.5m. We will plan to use our reserves to continue deliver our existing services for as long as is financially viable, to support our residents through the current economic conditions. That means using a proportion of our General Fund reserves and the £3m released from the Business Rates grant reserve. In planning our future budgets we need to make sure that we stay safely 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.:

£ thousands	2023/24	2024/25	2025/26	2026/27	2027/28
General Fund balance at the start of the year	9,554	9,554	9,554	9,196	8,593
Less: How much we plan to spend during the year on existing services (before making savings)	17,223	17,350	17,376	17,244	16,918
Less: provision for additional Covid-19 costs	810	0	0	0	0
Add: Our expected funding during the year	15,883	16,326	16,092	15,841	16,220
Add: other reserves that we plan to use to fund our expenditure	1,950	724	326	0	0
Add: additional net savings that we need to deliver *	200	300	600	750	750
Equals: General Fund balance at the end of the year	9,554	9,554	9,196	8,543	8,545

* 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 **£2.6 million**.

Addressing our funding gap

The table above shows savings that we need to deliver to achieve a balanced budget by 2027/28. 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 fewer 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 and government policy. 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.

We have carried out a budget challenge process to identify the areas where we are most able to make savings through service reductions. We will revisit that work when we have greater certainty over our future funding, or if it becomes apparent that we cannot sustain the current strategy until that point. We will use public consultation to support our decisions on which services we should prioritise.

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 fairly low. Over the next few years we will 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 charge a Minimum Revenue Provision (MRP). A MRP charge is a revenue cost that spreads the cost of unfunded (i.e. not met from capital receipts or grant funding) capital expenditure over the life of the Councils assets, so that over time capital expenditure is fully funded. The life of the assets will be assumed to be 40 years, so for unfunded capital expenditure of £40m there would be a revenue cost of £1m per year for 40 years. In the longer term we will also have to fund borrowing costs too. 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.

Previously, we have made an assumption that we will dispose of our surplus land at the best price attainable (subject to the purchaser adhering to all planning conditions). Under our climate change strategy, we have committed to dispose of surplus land so to enable the building of ‘greener’ housing. It is estimated that this will result in a reduction in value of around 10% based on a high standard of sustainable housing.

ANNEX 1 Other Budget Assumptions

- Investment income is based on cashflow projections and a 1.79% 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.
- 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 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.