

North Hertfordshire District Council

Medium Term Financial Strategy  
2024-29

### **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 is significantly impacted by inflation, including both the known impacts (e.g. the embedded impact of the high levels of inflation that we have already seen) and the unknown impacts (e.g. current and future pay inflation, future contract inflation levels). The Council's main source of income is Council Tax. Even with the additional flexibility of a 3% increase, that was (and still is) significantly less than general inflation. Most of the financial impacts of Covid-19 have now passed, although we are still seeing parking income that is less than pre-pandemic levels.

The Council is aware that high inflation levels are also affecting many of our residents. The strategy assesses our ability to use reserves to manage 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. The 2023/24 funding settlement gave some indications of what 2024/25 funding would be. But, on one hand, that was at a time when inflation was forecast to drop more quickly than it seems to be. And, on the other hand, was more optimistic about the overall state of Government finances. Beyond 2024/25 there is very little indication of what Local Government funding will look like. It seems increasingly likely that a new funding formula will be further delayed. The positive from that is that the threat of "negative RSG" is further deferred.

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 will 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 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 years.

Over the last few years, we had taken the opportunity to increase the level of our general fund reserves. The plan is that we can use these to soften the impact of inflationary pressures and expected future funding reductions. 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 2024 will be focused on 2024/25, but will also consider the medium term impact.

### Our current budget position

Our budget for this year (2023/24) was set at a meeting of Council in February 2023. 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 2023/24 as reported at the end of the first quarter of the year (up to end of June).

	<b>£ millions</b>
General Fund balance at the end of 2022/23	11.990
Less: How much we plan to spend during 2023/24	(17.879)
Add: Our expected funding during 2023/24	17.394
Add: other reserves that we plan to use to fund our expenditure / release in to the General Fund *	1.144
Equals: General Fund balance at the end of 2023/24 (start of 2024/25)	12.649

\* We can only use our reserves once. The use of reserves in response to 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 provides 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. On top of the amounts that we know that we will need to cover collection fund impacts, 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). On top of the £1.144m, detailed in the table above, we have a further £1.86m to release to 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.

### Covid-19 impacts

In 2022/23 and 2023/24 we set aside central budgets to cover the potential ongoing impacts of Covid-19. We have seen those impacts substantially subside, so the assumption is that there will not need to be a central budget in 2024/25 (or beyond). In 2023/24, car parking income (including season ticket sales) has still not recovered to pre-pandemic levels, but are still continuing to improve back towards those levels. There will not be a permanent adjustment made to the budget, but it is highlighted as a risk.

### Inflation and cost of living impacts

The UK (as well as many other countries) has seen a period of very high inflation. The Bank of England are forecasting that high inflation (above the 2% target) will persist until the first half of 2025. Even as inflation comes down, it still just means that prices are rising less quickly. The impact is already embedded in the prices that the Council needs to pay.

As a result of high inflation 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
- 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 with the following weightings: 35% wage inflation, 40% general inflation, 15% fuel inflation and 10% uninflated. The increase in May 2023 was 9.9%, and we are forecasting an increase of 3% in May 2024, before returning to around 2% from May 2025. The May 2024 inflation estimate is partly driven by a reduction in fuel costs (since inflation was last calculated in May 2023) and this can be affected by wider global and political events.

Inflation on our ground maintenance contract is linked to CPI and the increase for 2024/25 is estimated at around 5%.

Electricity and gas prices seem to have stabilised after some exceptionally high increases. We are forecasting an increase of 5% for 2024/25. As with fuel prices, these can be affected by wider global and political events.

Overall the estimate for contract expenditure inflation is around £600k in 2024/25, and then reducing to around £325k from 2025/26 onwards.

### **Pay inflation**

For 2023/24, we increased our inflation estimate up to 4% (it had previously been 2%), and kept it at 2% for each year from 2024/25 onwards. The pay award for 2023/24 has still not been settled. In the Quarter 1 (2023/24) budget report, the forecast spend was increased to be in line with the employer offer. This has also been adjusted in future projections. The final pay award may still be higher than this.

As inflation has not subsided, it will be necessary to increase the pay award estimate for 2024/25. It is estimated that this should be 4%. For 2025/26 onwards it is expected that inflation should be around 2%, but as it is unlikely to be at that level by April 2025 it is recommended that 3% is assumed for the 2025/26 pay award. The estimates for 2026/27 onwards can stay at 2%.

The Council struggles to recruit staff, especially in certain professional areas (e.g. planning, estates, legal, IT and environmental health). Whilst the Council promotes the non-financial benefits it can offer employees, a lot of this struggle will relate to pay. The pay award estimates will not affect the Council's attractiveness in the employment market. That would require a much more significant change to the employment offer. That is not covered within this strategy but has to be considered in the context of delivering the Council Plan and the Council Delivery Plan.

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

It has previously been decided that parking charges should be modelled on assuming a 2% increase each year. That is not a target increase, and actual increases will need to consider managing demand, cost of provision, encouraging modal shift away from private car use and supporting the vitality of town centres. This assumption of a 2% increase will be retained. The Council will also bring forward the date of implementation of increases in each year, to reverse the delays (during the year) that arose following the Covid-19 pandemic. The target will be that the increases are applied from September in 2024/25, July in 2025/26 and June from 2026/27 onwards.

The Council has previously made a decision to change the garden waste charge to £49 for an extended 18 month period (up to April 2025). The current assumption is that this will revert to being an annual charge from April 2025 onwards. This will need to be reviewed during 2024, when the costs of the waste contract from May 2025 are known.

We believe that trade waste and the trade recycling market can bear increases in costs, and that we should be pricing in line with the wider market. The starting assumption is that increases in charges should be in line with forecast contract collection cost increases and disposal cost increases. This will be reviewed prior to April each year, and actual increases may be higher or lower.

Where fees and charges are set by regulation (e.g. planning fees) then the Council will set charges in line with those regulations. The assumption is that any ancillary charges will be increased in line with increases in general fees and charges.

All other fees and charges provide a relatively low amount of income. These have historically been increased in line with CPI + 2%. This has been adjusted in recent years as CPI has been exceptionally high. The target is that these fees and charges should recover the full cost of provision. Costs of provision are generally likely to increase with pay inflation. Therefore the assumption will be that prices should increase in line with pay inflation estimates.

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 moved to a banded scheme for working-age CTRS eligibility in April 2023. The new scheme and current economic conditions have resulted in an increase in the total value of support that is being provided. This has been seen in the tax base calculations (the weighted number of properties that pay Council Tax) which have decreased by 0.34%. Our budget assumptions are based on a net 0.5% increase in the tax base to reflect property growth. We actually expect the increase in properties to be around 0.65%, as some of the Council Tax from each additional property will be used to fund the direct costs (i.e. waste collection) that we will incur.

The Council Tax forecasts for 2024/25 will be based on this lower than expected Council Tax base. The exact reasons for the increased eligibility will be examined during the remainder of this year and in to early 2024/25. The forecasting assumption is that there will be a reversal of the tax base drop.

### **Interest Rate changes**

Even though inflation is starting to come down, it is looking more likely that higher interest rates will need to stay in place for longer than previously expected to return (and keep) inflation at target levels. The medium-term assumption is that interest rates will return to around 2% (in line with the Bank of England inflation target). As the Council currently has minimal borrowing and relatively high cash investment balances, this could mean in the short-term that significant additional income will be generated (compared to previous forecasts). These forecasts will be updated as part of the Investment Strategy (to be approved at February Council) and will incorporate interest rate forecasts from our treasury advisors.

### **Pension costs**

The latest triennial valuation (for March 2022) was completed before the 2022/23 budget was set. That valuation set our pension contribution rates for the next three years up until 2025/26. Forecasts for 2026/27 onwards will be based on the current valuation.

### **Contract costs**

The Council is currently in the middle of procurements for its waste and street cleansing contract, and for its leisure contract. As we do not have final tenders for either contract, the current forecasting assumption is that these contracts will continue in line with current budgets (with adjustments for inflation). However, we are aware that other Councils have seen exceptional increases in prices when looking at new contracts, even where there were inflationary clauses over the previous contract period. There is therefore a risk of an increase in these contract amounts.

### **Waste legislation changes**

Government have previously 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. The latest feedback is that we will still have flexibility as to how we collect recyclable materials (i.e. including co-mingled collections) and will be able to charge for garden waste collections. We will be required to provide a weekly food collection service (as we already do) and may get some new burdens funding for that (only to be added in to the budget when we know how much it would be). We may be required to collect residual waste at least fortnightly, with indications that such a change would not be covered by new burdens funding.
- Introduction of a Deposit Return Scheme (DRS), 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 (EPR), which places the financial burden for waste on those that are producing it at source.

It is still not yet fully known if, how and when the above will be adopted (especially DRS and EPR). Where they are adopted, we would usually expect (see comments above in relation to fortnightly residual collections) to receive New Burdens Funding, but we don't know how this will be calculated and allocated. However, for forecasting purposes it will be assumed that there will be a net zero impact on waste costs, although there are risks in relation to that.

### **Housing growth, planning income and impact on tax base**

The adoption of the Council's Local Plan means that there will be large new developments in the District. The precise timing of these developments is not known, and may be affected by the impacts of high interest rates, high inflation and a potential economic recession.

As these sites go through the planning process, they will generate significant planning income. Some of the capacity to deliver these has already been included in previous staffing growth bids. There will also be additional internal and external resource required. Where possible, the cost of short term external resources, and to a limited extent the internal resources, will be met through Planning Performance Agreements. However, these are voluntary agreements and cannot be required. The forecast cost of longer-term internal resources is forecast to be less than the additional income generated. Due to the uncertainty over timing, it is not possible to come up with a precise planning income forecast, and the impact and timing of the expected planning fee increases are not yet confirmed. So, the approach will be to develop a prudent estimate averaged over a number of years, with higher proportions of the total in later years. Where there are over-achievements in early years, these will be put into a central reserve to enable the smoothing of any shortfalls in later years. When prudent, any balance in the reserve will be released back to the General Fund. The reserve will not be used to directly fund additional planning expenditure. The estimates relating to this planning income will be developed in time for the setting of the 2024/25 budget. They are not incorporated into the estimates contained in this strategy.

The Council has not yet fully assessed the impact on its costs of significant housing growth (beyond estimating additional waste collection costs). So, even though that housing growth will lead to a significant increase in the tax base, this is not assumed as additional Council Tax funding income. Instead (as detailed in the section on CTRS) average annual net 0.5% growth will be assumed.

**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. The Council will continue to monitor the projects that support the delivery of the Council Plan through the Council Delivery Plan. The Council Delivery Plan is reviewed on a quarterly basis by Overview and Scrutiny and Cabinet.

As detailed in the previous section on pay inflation, the Council is facing issues with staff recruitment and retention. This is impacting on the delivery of the Council Delivery Plan and will continue to do so. Cabinet will be carrying out a prioritisation review of the Council Delivery Plan.

The table below details those projects that are in the current Council Delivery Plan (as reported to Cabinet in September 2023) and the financial implications of those projects in 2024/25 onwards:

**APPENDIX A**

<b>Project</b>	<b>Resources</b>
Churchgate area regeneration	Overall expected that the scheme will be at least cost neutral in net revenue terms, including the revenue effects of any capital spend.
New Ways of delivering housing on Council Land	Overall expected that the scheme will be at least cost neutral in net revenue terms, including the revenue effects of any capital spend.  The impact of delays to capital receipts will need to form part of any decision.
Resident/ Public EV charging in our car parks	Grant funding has been awarded, so no further costs assumed, subject to finalisation of the private sector partner funding
Royston Leisure Centre Solar Thermal  Solar PV on leisure centres	This funding may be reallocated to provide match funding for a Public Sector Decarbonisation Fund (PSDF) bid. That bid may enable more energy saving schemes to be delivered for a similar level of Council contribution.  If PSDF bid is not successful, then the projects will progress. The schemes have a payback that means they will generate revenue savings that exceed the revenue cost of capital. These savings are not yet included in future forecasts.
Town Centre Strategies	Likelihood of additional costs as there is not the capacity to deliver through existing staff resources and further studies will be required. May be reflected as a financial risk.
Charnwood House	There is a capital budget allocated for improvement works. This will require some match funding from a community group. The revenue budget assumes that the Council will not incur any property management costs from 2025/26 onwards.
Place Narrative for North Herts	Being delivered via existing staff.
Cycling Networks	An infrastructure plan is expected to have been adopted by April 2024. The actual cycling infrastructure is expected to be delivered via developer contributions, as well as old grant funding that is held in a reserve.
Empty Homes Strategy	Strategy will be adopted by April 2024. Being delivered by existing staff, although low level of resource available.
Alternative Methods of Payment for parking	Funding included in the capital programme. Assumed that no impact on parking income.
Financial Sustainability	Being delivered via existing staff.
Health inequalities	Fully dependent on external funding. We have been flexible with funding to offer some job security to those staff undertaking work on this.
Leisure centre procurement	To be completed before April 2024
Local Authority Housing Fund	Due to be completed before April 2024.
Master Planning	Income through voluntary Planning Performance Agreements is expected to match any additional external costs.
Museum Storage	Funding included in the capital programme. To review alternative options and any additional ongoing revenue costs before making a decision on proceeding.
Oughtonhead Common Weir	Funding included in the capital programme.
Playground Renovation Programme	Planned as a continuous cycle which requires an extra year of funding to be added in each budget cycle.
Royston Town Hall Annexe	May generate income or a capital receipt (not budgeted) but dependent on Estates staff resource to progress.



## APPENDIX A

Shared Prosperity Fund	All direct costs funded from the grant. However it does require some resource in terms of project delivery, project monitoring and required grant returns. Some of the grant administration can be covered from the grant.
Town Centre Recovery	Mainly being delivered via the Shared Prosperity Fund, although that is time limited funding (to March 2025).
Waste and Street Cleansing Contract Procurement	The majority of the procurement work should be completed by April 2024. Project support (including project management, Legal and professional advice) is being funded from the waste reserve.
Work with relevant partners to prevent and relieve homelessness whenever possible	Mostly being delivered from grant funding. Risk in relation that grant funding continuing.
Enterprise Strategy	Expectation is that the Strategy will set out what is due to be delivered using existing resources.
Local Plan delivery and review	Expectation is that can be delivered from existing staff resource, with previously agreed (and to be proposed) budget growth. Recruitment and retention may increase costs if that means greater use of agency staff or consultants.
Waste depots	There is a capital allocation in place for a new depot in Baldock. It has not yet been possible to test the accuracy of the forecast costs or any associated additional revenue costs. Therefore, there is likely to be a need to update those budget estimates in future years.

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 last year it was the greater of 2.99% or £5 on a band D property (with the other bands increased in proportion). In previous years it was 1.99% or £5.
- 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 2026/27, although it is possible that it could be from 2025/26.

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. Although the assumption is that the cut will be £1m, rather than being inflated from the 2019/20 total. Also, assuming that it would be phased in over two years, with half the impact (£0.5m) in the first year (2026/27).

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. The assumption is that New Homes Bonus will continue for one more year. However, this is somewhat superseded by guarantees in relation to Core Spending Power.

The Councils 'Core Spending Power' (a measure of funding determined by Government) is made up of the following:

- Baseline retained Business Rates
- Council Tax
- New Homes Bonus
- Other general grants- in 2023/24 this included a Services Grant of £100k.

For 2023/24 the Council's Core Spending Power is £17.2m. In 2023/24 there was a guarantee from Government that core spending power (before the impact of Council Tax rate increases, but after an assumption on growth in the base) would increase by at least 3%. Where this was not going to be achieved through other funding, Councils would receive a funding guarantee grant from Government. The Council did not get a funding guarantee grant, as it received a high level of New Homes Bonus. Based on announcements in 2023/24, it is assumed that the 3% promise will also apply for 2024/25. For 2025/26 onwards we will assume that Core Spending Power will not reduce, even where negative RSG is applied.

### **Council Tax**

As detailed previously, we will assume that our Council Tax base for 2024/25 will be based on the latest September 2023 Tax base calculation. For 2025/26 we will assume that the base will be 1% higher than the 2023/24 budgeted Council Tax base (i.e. a reversal of the reduction seen for 2024/25). The assumption for 2026/27 onwards is a net tax base growth of 0.5% per year. 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 allow Council Tax increases for 2024/25 by up to 2.99% 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 2025/26 onwards we are assuming that Government will revert to increases of up to 1.99% without a local referendum for lower tier Councils. The assumption is that the Council will choose to increase by this amount.

For each year it is likely that there will also be the provision for Council Tax increases of £5 for a band D property (other bands pro rata), even if this is more than the stipulated percentage. The Council's tax rate is now at a level where the percentage increases will be higher than the £5 increase.

### **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 2023/24 this gave a minimum balance of £2.5m. 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 2024/25 will be £12.65m. We will plan to use our reserves to smooth some of the impact of the savings that we are forecasting that we need to deliver. We will also plan to retain reserves to give us time to respond to the further uncertainties that are detailed in this strategy. 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	2024/25	2025/26	2026/27	2027/28	2028/29
General Fund balance at the start of the year	12,649	12,649	12,037	11,331	11,979
Less: How much we plan to spend during the year on existing services (before making savings)	18,999	19,771	19,152	18,770	18,617
Add: Our expected funding during the year	17,894	17,907	17,927	17,938	17,944
Add: other reserves that we plan to use to fund our expenditure	1,105	751	0	0	0
Add: additional net savings that we need to deliver *	0	500	1,000	1,000	600
Equals: General Fund balance at the end of the year	12,649	12,037	11,331	11,179	11,106

\* 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 **£3.1 million**.

**Addressing our funding gap**

The table above shows savings that we need to deliver to achieve a balanced budget by 2028/29. 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.

It is expected that the majority of the work to identify savings will need to take place after the May 2024 elections, as that will give the administration at that time the ability to fully align their spending and priorities over the 4-year period of the election cycle. The current level of the Council’s reserves allows that approach, as long as any investments (increases in spend, decreases in income) in the 2024/25 budget are focused on essential areas only.

**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. Previously that has meant that the revenue cost of our capital investments has been fairly low. However, as interest rates are currently over 5%, every £1m of capital investment is an annual revenue cost of £50,000 in lost income.

Over the next few years we will run out of capital reserves. When that happens, we have to 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 intention is that 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. If interest rates are still around 5% when we have to make a MRP charge then the cost of capital would be around 8% (i.e. every £1m of capital investment is an annual revenue cost of £80,000).

In the longer term we will also have to borrow externally to fund borrowing costs too (in addition to MRP). The cost of that borrowing will depend on interest rates at the time, but the cost of borrowing will always be at a premium above investment returns.

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.

Any opportunity to generate capital receipts from the sale of surplus land and buildings will help to provide additional capital funding and reduce the revenue costs of capital that have been described.

**ANNEX 1 Other Budget Assumptions**

- Treasury Investment income will be assessed as part of the Investment Strategy each year. Yields will be based on estimates from our treasury advisors.
- 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
- A vacancy factor set at approximately 2.5% of salary budget to yield in the region of £400k 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.
- All assumptions are subject to further refinement during the budget process as more certain information becomes available.