



BUDGET SCRUTINY PANEL

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To: Councillors Charles (Chair), Haynes, Monk, Popley, Seaton and Westley (For attention)

All other members of the Council
(For information)

You are requested to attend the meeting of the Budget Scrutiny Panel to be held in Committee Room 1, at the Council Offices, Southfields, Loughborough on Tuesday, 24th October 2023 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

16th October 2023

PRESENTATION and VERBAL REPORT
(published following the meeting)

- | | | |
|----|---|---------|
| 6. | <u>FINANCIAL POSITION OF THE COUNCIL</u> | 3 - 29 |
| | Presentation. | |
| 7. | <u>APPROACH TO 2024/25 BUDGET SETTING</u> | 30 - 32 |
| | Verbal report. | |

BUDGET SCRUTINY PANEL

Financial outlook

Budgetary approach

Meeting 24 October 2023

Agenda

(note main focus on General Fund)

1. Financial outlook **(NOTE – informal update from published MTFS position)**
 - A. Council tax and government grant funding
 - B. Business Rate Pool receipts
 - C. Revenues & Benefits contract
 - D. Supported living – Housing Benefit subsidy loss
 - E. Other income and expenditure movements
 - F. Investment income
2. Headline Projection – General Fund
3. Sensitivities and risks
4. Note on the HRA
5. Approach to 2024/25 budget setting

1 A. Outlook – Council tax

- It is assumed that district councils will be able to increase council tax by the higher of 2.99% or £5 for future years; this is highly likely for 2024/25, probable for 2025/26 and assumed in the absence of further information for 2026/27
- Projected council tax increase of 3% is assumed to apply to the 2024/25 year; in subsequent years it is assumed increases will be in line with existing capping limits
- The risk / volatility with council tax projections is considered low

Council tax– summary projections

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Council tax	8.3	8.7	9.1	-
Loughborough Special Ex	1.4	1.4	1.5	-
Per Budget / MTFS	9.7	10.1	10.6	-
Council tax	8.3	8.6	9.0	9.4
Loughborough Special Ex	1.4	1.4	1.5	1.6
MTFS tracker	9.7	10.0	10.5	11.0
INCREASE / (DECREASE)	(0.0)	(0.1)	(0.1)	

- Local government funding reforms (long overdue) are not likely to be implemented before 2026/27 (due to probable timing of the next general election)
- The general pattern of funding in 2024/25 and 2025/26 is therefore likely to be similar to 2023/24
- Government tend to use for ‘damping’ and transitional funding so unlikely we would lose material levels of grant funding for these next two years
- Implementation of EPR now due in 2025/26 – this remains a key unknown
- Pixel believe some real term increase for 2024/25 (more positive outlook than MTFS) likely, but then less generous settlements - they suggest ‘cash flat’ 2025/26

- 2026/27 is therefore considered likely year from when funding reforms could take effect
- In terms of specific funding **risk**, this could arise from a re-basing of the business rate baselines (releasing £1.5bn nationally according to Pixel) which could then enable a redistribution of funding – in a worst case scenario this might result in a **net loss of funding of ~ £1m from 2026/27**
- **Generally this should be regarded as a key risk in the projections**

Government grant funding – summary projections

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Business rates retention	6.4	6.8	7.2	-
Revenue Support Grant	0.3	0.4	0.4	-
Other grants	2.8	2.4	2.0	-
Per Budget / MTFS	9.5	9.6	9.6	-
Business rates retention	6.4	6.8	7.2	6.8
Revenue Support Grant	0.3	0.4	0.4	0.4
Other grants	2.8	3.0	3.0	3.0
MTFS tracker	9.5	10.2	10.6	10.2
INCREASE / (DECREASE)	-	0.6	1.0	

B. Leicestershire Business Rates Pool (BRP)

- The BRP retains business rates that, in its absence, would otherwise have been remitted to central government
- Members comprise the City, County and all Leicestershire Districts
- Historically distribution of BRP retentions was undertaken by the LLEP; going forward there will be allocations direct to BRP local authority members
- A distribution of the BRP is now due
- It is estimated that the Council share of this (covering multiple years) maybe in excess of £1m which may (possibly subject to restrictions) be applied to future budgets

C. Revenues & Benefits

- **Exempt report** went to September 2023 Cabinet
- This indicated ongoing savings versus the MTFS of £0.3m - £0.4m pa
- Full effect of savings from 2025/26

D. Supported living – Housing Benefit subsidy loss

- Annual HB subsidy loss estimated at around £0.8m – to 30 June 2023
- Rent increases at the Carpenters Arms could see this increase to £1.4m annually from 1 July 2023
- We are requiring rent increases are justified in detail and working on mitigation strategies
- Assumption pro tem – some rental challenge and mitigation strategies will be successful resulting in ongoing HB loss of £1.1m pa – but note wide range (+/- £0.3m+ pa) on outcomes here

D. Supported Living – HB subsidy loss – MTFS impact

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Per Budget / MTFS	0.7	0.7	0.7	0.8
MTFS tracker	1.0	1.1	1.1	1.2
(INCREASE) / DECREASE	(0.3)	(0.4)	(0.4)	(0.4)

E. Other changes to previous projections

FAVOURABLE / (ADVERSE)	[Figures £m]			NOTES
	2023/24	2024/25	2025/26	
Pay awards	(0.2)	(0.7)	(0.7)	(i)
Leisure contract	(0.3)	(0.2)	(0.2)	(ii)
Bed & Breakfast costs	0.2	0.2	0.2	(iii)
Income stream – Planning	0.4	0.4	0.4	(iv)
Income stream – car parks	-	(0.2)	(0.2)	(v)
Other – net	0.1	0.2	-	
Net change to previous projections	0.2	(0.5)	(0.5)	

Other movements – all still subject to revision

- i. **Pay award** – original assumptions were increases of 4.75%, 3.5% and 2% in successive years of MTFS; revised assumptions now 6%, 5%, 4% (2023/24 award still not agreed)
- ii. **Leisure contract** – assumed necessary that the Council maybe required to forego the management fee due to challenging trading conditions
- iii. **Bed & Breakfast costs** – run rate seems to have settled down – it is above historical levels but below previous MTFS projections
- iv. **Planning fees** – uplift based on current run rate (5-year supply risk?)
- v. **Car parking income** – reduction based on current run rate (**opportunity?**)

F. Investment income

- Investment income projections are inherently volatile in the short term influenced on a day to day basis by – eg – UK inflation or US GDP growth numbers - which then drive interest rate expectations, and hence our forecasts
- Current interest rate projections are a little above budget / MTFS expectations, in terms of both peak rate expected, and the length of time higher UK base rates are likely to prevail
- A somewhat more positive view on investment income is therefore now assumed – but the underlying volatility should be noted

Investment income

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Per Budget / MTFS	1.5	1.0	0.8	
MTFS tracker	1.7	1.4	1.3	0.8
INCREASE / (DECREASE)	0.2	0.4	0.5	

2. HEADLINE - GF – Revised working balance projections at September 2023

BASED ON MTFS 2023 – 2026 UNLESS STATED		[Figures £m]		
	2023/24	2024/25	2025/26	2026/27
				Simple estimate
Revised balance b/f (outturn)	6.8			
Balance b/f prior MTFS year		5.7	4.1	2.4
Replenish Reinvestment Res	-	(0.5)	(0.5)	
Budgeted use of reserve	(1.3)			
Projected use of reserve		(1.6)	(2.5)	(2.0)
September updates (net totals)	0.2	0.5	1.3	
Revised working balance at y/e	5.7	4.1	2.4	0.4
<i>(minimum balance assessed by s151 officer = £2.5m)</i>				

3. Sensitivities and risks

Risks #1

Business rate retention (£6.3m budget 2023/24)

- Collection parameters set by Government year on year
- 'Rebasing'
- Assess minimal risk 2024/25, low/medium risk 2025/26 but more significant from 2026/27 subsequently – approx £1m

Government grants (£2.8m budgeted 2023/24)

- Minimal risk of material reductions 2024/25 versus revised projections and probably also the case for 2025/26
- Maybe 10% downside (£0.3m) would be upper end of risk in these years
- Post general election 2026/27, including possible Fair Funding Assessment – risk increases

Risks #2

Inflation

- Generally, an additional 1% inflation will add ~ £0.3m to our cost base
- Some areas have increased well beyond headline inflation rates – eg Utilities, building materials
- Consensus economic view that inflation has peaked but suggestions that may be ‘stickier’ than previously thought (reflected in revisions to MTFS projections)

Staff costs

- Pay offer £1,925 per FTE for 2023/24 has been rejected by Unions – pay increase above original assumptions reflected in revised MTFS but some further downside possible

General Fund – Risks #3

Specific contract risks

- Revised MTFS projections do not produce material differences to previous – assumptions still seem reasonable re Serco and Idverde

Income streams

- Planning ahead of budget – has been the case for some months but implementation of the local plan could change this
- Car parking income still lags – however, car parking strategy may improve this situation
- Diverse range of income streams offers some risk mitigation via portfolio effect

General Fund – Risks #4

Environment Act 2021

- Enacted - but key secondary legislation remains outstanding
- Additional costs (food waste collection, recycle handling) will be covered – but based on an ‘efficient waste authority’
- Extended Producer Responsibility delayed until 2025/26 – impact unclear
- Potential income loss – Garden Waste collection worth £1.7m pa

General Economic environment – impact on residents and businesses

- Increasing demand for services – ‘cost of living’
- Council tax and business rate collections

Unknown risks #5



General Fund – Opportunities

- Business rate retention – upside experienced in recent years (technical and difficult to predict; small margins on big numbers)
- Favourable settlement – we can get lucky
- Consolidation of estate; reduced accommodation costs
- ‘Windfalls’ – eg – specific grant receipts

Sensitivities - illustrative

RISKS					OPPORTUNITIES			
2026/27	2025/26	2024/25	2023/24	[Figures £m]	2023/24	2024/25	2025/26	2026/27
0.3	0.2	0.1	0.0	Council tax	0.0	0.1	0.2	0.3
1.0	0.5	0.3	0.0	Government grants	0.0	0.2	0.2	0.5
1.0	0.5	0.3	0.0	Business rate retention	0.1	0.3	0.5	0.7
1.7	1.7	0.0	0.0	Environment Act - garden waste charges	0.0	0.0	0.0	0.0
0.6	0.5	0.2	0.0	Environment Act - implementation of EPR	0.0	0.0	0.3	0.5
0.5	0.5	1.0	0.5	Leisure contract	0.1	0.1	0.2	0.3
0.5	0.5	0.5	0.5	Income streams	0.5	0.5	0.5	0.5
0.5	0.4	0.3	0.1	Supported living	0.2	0.3	0.5	0.8
0.3	0.5	0.5	0.0	General inflation	0.0	0.1	0.2	0.2
0.0	0.0	0.0	0.0	Assets and accomodation	0.0	0.0	0.3	0.6
0.0	0.0	0.0	0.0	Windfalls	0.5	0.5	0.5	0.5
6.4	5.3	3.2	1.1		1.4	2.1	3.4	4.9

4. Note on the HRA

- Possible to take a longer-term view of the HRA due to more certainty over future rental incomes
- Key immediate objectives will be to enable delivery of the core services and the capital plan
- Medium / longer term issues – balancing debt repayments originating from the end of the housing subsidy scheme* with funding to expand and maintain the social housing stock – key document is the 30-year business plan

* The Council had to borrow £79.2m to exit the housing subsidy scheme; the first principal repayment of £1m is due in October 2024; £2m is due in each following year to 2031; then £3m in ensuing years, etc – the final payment of £5m is due in 2062

5. Approach to 2024/25 budget setting - key dates

- Mechanics are broadly as previous years; key dates:
 - Initial Cabinet member discussion on savings options 26 Oct
 - Labour / Green group consultation
 - Final Cabinet discussion on savings and pressures to be included in draft budget 24 Nov
 - Draft budget for consultation proposed to Cabinet 14 Dec
 - Final budget recommended to Council by Cabinet 8 Feb
 - Budget setting meeting at Council 26 Feb
- (New Capital Plan 2024 – 2027 – follows same process)

Approach to 2024/25 budget setting - strategy

- See statement from Lead Member
- The overall budgetary strategy will be to:
 - Move towards financial sustainability across the life of the Council
 - Enable and ensure core services are performed to an appropriate standard
 - Increase the focus on the response to climate change, cost of living challenges faced by residents and investment in our communities by creating specific revenue and capital funds



Budget Scrutiny Panel: 24th October 2023

Agenda Item 7: Approach to 2024/25 Budget Setting

Report from Lead Member for Finance, Customer & Support Services, Revenues and Benefits

Background

Medium Term Financial Strategy (MTFS) 2023-26

This document, the most recent MTFS, considers the financial outlook for Charnwood Borough Council (CBC) for the three financial years 2023/24, 2024/25, 2025/26. The document focusses on the General Fund. The outlook for the Housing Revenue Account (HRA) is the subject of a separate 30 year HRA business plan.

The table below is a summary of forecast expenditure and income for the General Fund from this document (noting that there is considerable uncertainty in some of the figures).

	2023-24 £000	2024-25 £000	2025-26 £000
Total Expenditure	20540	21321	22699
Total Funding	19245	19709	20205
Projected use of working balance	1295	1612	2494
General Fund working balance at year end	4416	2804	(310)

Of significance, the forecasts indicate a diminishing reserve (working balance), indicating a structural deficit rising to £2.5m. The minimum working balance recommended by the Section 151 Officer is £2.5m. Hence, the above forecast indicates the council becoming insolvent in 2025-26 if no action is taken to address the structural deficit in the Council's General Account.

Outturn reports 2022-23

The General fund and HRA revenue outturn report (2022/23) were presented at cabinet on 13th July.

- The outturn position for the General Fund was a £199k surplus against an original budget figure of £189k deficit. Both expenditure and income higher than budget with adverse and favourable variances. A significant favourable variance was £1,076k interest received on balances, which is higher than budget by £776k
- Closing balance of £6766k against budget of £6,378k
- HRA outturn shows a surplus of £2,214k against a budgeted break-even position.

Whilst the financial position for the General Fund at the end of 2022-23 was better than forecast in the MTFS, a predicted structural deficit remains.

Overall Strategy for Budget Setting

Clearly, the structural deficit in the General Account needs to be taken into account in both short- and medium-term financial planning. This necessarily entails the forecast and planning of both

expenditure and income to the account whilst considering impact on council services (both statutory and non-statutory).

The overall strategy is not to attempt to return to a balanced budget in a single financial year as this would entail unnecessary irreversible decisions, significantly impacting current services whilst also compromising future options for income generation.

The approach then is to slow the use of reserves to enable a balanced budget to be achieved over the term of the council across a number of financial cycles, whilst protecting services and enabling investment in projects with significant future cost saving, income raising or service enhancement potential. At the same time, the projected end of year working balance will be closely monitored throughout the year in relation to the minimum level of £2.5m. Risks to the budget, such as the statutory service requirement to provide supported living housing benefit, and potential corrective measures will be determined to enable threats to the working balance falling below the minimum level to be addressed.

An additional consideration will be the pressures on budget and need for medium to longer term planning to deliver the Council's climate change strategy.

Approach to 2024-25 Budget Setting

The overall timetable for setting the budget is as follows:

Current: Options for change (O4C) formulated by Council Senior Leader Team discussed with Cabinet Leader and Finance Lead.

24 October: Budget Scrutiny Panel meeting - planning

26 October: Cabinet member briefing and discussion on O4C

November: Consultation with Green Party

24 November: Final cabinet member discussion on O4C for draft budget

12 December Budget Scrutiny Panel – draft budgets

14 December: Draft budget proposed to Cabinet

3 January: Budget Scrutiny Panel - report

18 January: Cabinet member discussion MTFS 2024-27

8 February: Final budget recommended to Cabinet. Proposed MTFS 2024-27 recommended to cabinet.

26 February: Final budget for approval at Council. MTFS 2024-27 for approval at Council.

As can be seen from the timetable above, the current position is one of considering options for change to the budget. These are primarily aimed at reducing costs or increasing revenue to move the General Account towards a balanced budget whilst also taking account of the timetable for implementation and savings, impact on service and any investment required to implement the

change. Pressures on the budget from potential increase in expenditure in 24-25 are also being considered.

Future Financial Planning.

It is important that in addition to investigating short term cost savings and revenue increases that we also look at the medium to longer. This may mean some investment in the short term to reap longer-term benefits.

An example of this is the investment of significant officer time in considering option for the Council's future Revenues and Benefits Service. This has resulted in the decision to take the service in house which it is projected will have benefits in both service delivery and medium term cost savings.

To this end, we are also currently considering investment, mainly in terms of officer time, in projects with the potential for medium to long term ongoing financial or service benefits. As part of the financial planning for 24-25, decisions will be made as to which of these projects to carry forward next financial year.

Ian Ashcroft

19/10/23