



**SOUTH HOLLAND DISTRICT COUNCIL**

**REPORT OF PETER COUPLAND, EXECUTIVE MEMBER FOR FINANCE  
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**DRAFT BUDGET SETTING REPORT AND ASSOCIATED FINANCIAL STRATEGIES - 2023/24-  
2027/28 (FOR CONSULTATION)**

## **FOREWORD TO THE BUDGET FROM COUNCILLOR PETER COUPLAND – EXECUTIVE BOARD MEMBER FOR FINANCE**

The creation of next year's budget has been one of the most challenging. It has been set within a background of unprecedented inflationary pressures and significant changes in resident, customer and business needs. Despite these challenges the Council's financial position means that it is well placed and able to take a considered approach to mitigating these exceptional challenges.

The Government has provided a one year settlement which has taken some uncertainty away regarding certain grants, however the uncertainty remains significant and into the medium term.

South Holland District Council remains sovereign in terms of its constitution and budget as do the Councils we partner with and our SHDC priorities are to ensure that the Council remains financially resilient, able to deliver services it has to by law and to provide support to the District's most vulnerable residents. Secondly to continue the process of redressing the imbalances created by the COVID-19 pandemic by appropriately focussing on the provision of financial support to underpin economic recovery for the District and seeking to invest in our places.

Despite the challenges of the pandemic over the past few years, work to develop new opportunities, efficiencies and income streams to support the Council's revenue budget have continued.

A significant element of the Council's budget is the Drainage Board Levy, like the Council the drainage boards are also experiencing increased cost demands. The Council is liaising with the Boards, who are attempting to limit future increases where possible. This is proving increasingly difficult with significant increases in power costs being experienced. Representations to government have been made and continue to be made due to the substantial loss of income to the Council, as the levy was previously funded through Revenue Support Grant (RSG).

Another key component of the council budget is its share of business rates income which is currently being reviewed and will be updated before the budget is finalised. In addition inflationary pressures have been seen across all areas of the council's budget, particularly pay, contracts, utilities and fuel.

The proposed council tax increase for 2023/24 is an annual increase of £5.76, for a band D property.

A series of short and medium term mitigations have been identified to balance the budget and these will be detailed further once the final budget for 2023/24 is produced.

The Council's revenue budget already provides for some annual contributions towards capital investment and we are delivering on our commitment to increase these by operating in a more commercial and business-like way to increase our ability to generate future capital receipts.

The Council has maintained a capital resource base commensurate with our capital delivery ambitions.

The Budget for 2023/24 proposes:

- A Council Tax increase of £5.76p per year (for Band D homes this is equivalent to 11.1p per week).
- To continue with the generation of additional efficiencies, shared services and income from commercial activities guided by our Delivery Plans.
- Increased capital investment in Council assets to help generate new income streams, reduce running costs and help deliver services more efficiently.



Councillor Peter Coupland, Portfolio Holder for Finance

## INDEX

	PAGE
1. EXECUTIVE SUMMARY AND INTRODUCTION	6
2. BUDGET ASSUMPTIONS	8
3. RESOURCES	10
4. SPENDING PLANS	10
5. BUDGET REQUIREMENT	19
6. RESERVES	22
7. CAPITAL PROGRAMME AND TREASURY	24
8. HOUSING REVENUE ACCOUNT	28
9. HRA RESERVES	31
10. HRA CAPITAL	31
11. CONSUTATION	32
12. SAVINGS TARGET	33
13. SOUTH AND EAST LINCOLNSHIRE COUNCILS PARTNERSHIP PLANS	34
14. RISK AND SENSITIVITY	35

<b>15.OPTIONS</b>	<b>38</b>
<b>16.RECOMMENDATIONS</b>	<b>38</b>

**TABLES:-**

**PAGE**

<b>1. ASSUMPTIONS WHICH INFLUENCE THE 5 YEAR FINANCIAL STRATEGY</b>	<b>8</b>
<b>2. BUSINESS RATES</b>	<b>11</b>
<b>3. COUNCIL TAX</b>	<b>12</b>
<b>4. PRECEPTING AUTHORITY BAND D CHARGES</b>	<b>13</b>
<b>5. REVENUE SUPPORT GRANT AND OTHER GOVERNMENT GRANTS</b>	<b>14</b>
<b>6. NEW HOMES BONUS</b>	<b>15</b>
<b>7. FEES, CHARGES AND RENTAL INCOME</b>	<b>16</b>
<b>8. OTHER INCOME</b>	<b>17</b>
<b>9. ALL SOURCES OF INCOME</b>	<b>18</b>
<b>10. SPENDING PLANS</b>	<b>19</b>
<b>11. BUDGET REQUIREMENT</b>	<b>21</b>
<b>12.YEAR CAPITAL PROGRAMME, FUNDING AND RESOURCE IMPLICATION</b>	<b>24</b>
<b>13.TREASURY ASSSUMPTIONS</b>	<b>27</b>
<b>14. SAVINGS TARGET</b>	<b>33</b>
<b>15. KEY RISKS</b>	<b>35</b>

## EXECUTIVE SUMMARY

	2022/23 (estimate)	2023/24 (estimate)
SHDC Precept	£5.574m	£5.831m
Council Tax Increase	£4.95	£5.76
Council Tax Band D	£189.63	£195.39
Government Funding	£1.995m	£1.924m
Retained Business Rates used to support budget	£1.818m	£6.942m
Spalding Special Expenses (£0.90p increase proposed)	£24.57	£25.47

### 1. INTRODUCTION

- 1.1 This appendix sets out the draft combined 2023/24 budget estimates and Medium Term Financial Strategy (MTFS) for the period 2023/24 to 2027/28 for the Council's General Fund and Housing Revenue Account. The Medium Term Strategy sets out the current and forecast future costs of the Council and is linked to the Corporate Plan and Delivery Plan, which sets out the aims and ambitions of the Council.
- 1.2 The MTFS establishes a set of financial policies and principles which aim to provide a sound basis for maintaining the financial integrity of the Council over the medium term and includes both the General Fund and the Housing Revenue Account Budget.
- 1.3 This Appendix sets out:
- The Council's Medium Term Financial Strategy for the period 2023/24 to 2027/28.
  - The 2023/24 General Fund Revenue Budget & Financing.
  - The General Fund Reserves Position.
  - The General Fund Capital Programme and Financing.
  - The 2023/24 Housing Revenue Account (HRA) Revenue Budget.
  - The HRA Reserves Position.
  - The HRA Capital Programme and Financing
  - Risks, key issues, sensitivity and monitoring.
  - Treasury management policy and investment strategy (to follow in final budget report).

- 1.4** The unprecedented challenges faced by all of us in 2021/22, 2022/23 have continued into 2023/24, with significant inflationary pressures. The government settlement delivered in mid December for South Holland included New Homes Bonus (£918k) and 3% funding guarantee (£285k).
- 1.5** In 2023/24 a budget is proposed that allows expenditure to be financed through the use of reserves in order to smooth the impact of the council's ongoing pressure, significant savings are required going forward as a result of increased inflationary costs and other cost pressures, including substantial pressure from the IDB levy. This means that the Council can continue to provide services whilst also supporting its overall objectives. The Council will continue to strive to be as efficient as possible in all its work, building on the South and East Lincolnshire Council's Partnership with its partners at East Lindsey District Council, Boston Borough Council and PSPS, whilst ensuring it maximises the income it receives.

## 2. BUDGET ASSUMPTIONS

### 2.1 Table 1 - assumptions which influence the 5 year financial strategy

Assumption	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Budgeted inflation <sup>1</sup>	0%	<b>0%</b>	0%	0%	0%	0%
Pay costs increase <sup>2</sup>	2%	<b>5%</b>	2%	2%	2%	2%
Full Time Equivalent Employees <sup>3</sup>	283.52	<b>298.3</b>	298.3	298.3	298.3	298.3
Staffing levels <sup>4</sup>	96%	<b>96%</b>	96%	96%	96%	96%
Pension contribution rate applied to staff budgeted in pension scheme <sup>5</sup>	17.4%	<b>23.8%</b>	23.8%	23.8%	23.8%	23.8%
Pension contribution cash amount to fund deficit on scheme	£894,000	<b>£232,000</b>	£241,000	£250,000	£250,000	250,000
Return on cash investments <sup>6</sup>	0.1%	<b>3.9%</b>	2.8%	2.1%	2.00%	2.00%
Utility cost rises <sup>7</sup>	30%	<b>150%</b>	0%	0%	0%	0%
Fuel cost rises <sup>8</sup>	0%	<b>25%</b>	0%	0%	0%	0%
Tax base increase <sup>9</sup>	1.61%	<b>1.52%</b>	1.50%	1.50%	1.50%	1.50%

#### Notes to Assumptions

These assumptions reflect, where known, future changes which may arise from the implementation of the council's organisational development plans including the South and East Lincolnshire Councils Partnership with Boston Borough Council and East Lindsey District Council (see Section 7).

1. Although inflation does affect the price of supplies and services that the Council procures, because services are given cash limited budgets they have to absorb the cost of inflation within the resources they have – as such the net impact of inflation is reduced to zero within the estimates. The only exceptions are those contracts which have an agreed inflationary arrangement built into them, we expect that contract costs will substantially increase on renew.
2. The nationally agreed pay award ended on 31<sup>st</sup> March 2022. An award for 2022/23 was agreed November 2022 averaging 7% across the pay spine. For 2023/24 onwards a 5% award has been prudently assumed.
3. Increase in FTE is as a result of Fixed Term contracts and transferred posts from previous shared arrangements?
4. An annual General Fund saving in staff costs (£400k) is built into the budget (equivalent to 4% of the staff budget) due to anticipated staff vacancies during the year.
5. Based on the Pension Triennial Valuation the pension contribution will be 23.8% in 2023/24 with an additional lump sum amount payable towards the deficit on the pension scheme – this rate is applied only to those staff in the local government pension scheme. A further review will take place which could change the amount from 2027/28 onwards. Any vacant posts



are assumed to be within the pension scheme. The pension contribution rate is assumed to stay at 23.8% throughout the life of the MTFS. The lump sum towards the deficit is confirmed for 2023/24.

6. These are the estimated returns on cash.
7. Utility costs have been inflated by 150% for 2023/24 as a result of increased wholesale prices. These will need to be kept under review, as it is an area that could be subject to future inflationary pressures.
8. Vehicle fuel costs are predicted to increase by 25% due to national trends.
9. The tax base projections for 2023/24 has provided for a growth of 448 band D equivalent properties. Future growth has been projected at 1.5% (see section 4.6 and Table 3).

### **3. RESOURCES**

- 3.1 The following section of the Appendix outlines the resources that will be available to the Council under 6 headings, Business Rates, Council Tax, Revenue Support Grant and other Government Grants, New Homes Bonus, Fees and Charges and Other Income.
- 3.2 On 19<sup>th</sup> December 2022 the Local Government Finance Settlement 2023/24 was delivered. The papers included a continuation of New Homes Bonus for 2023/24 and a new grant stream called Funding Guarantee, replacing the Lower Tier Service grant.
- 3.3 As part of the policy statement it was confirmed there would be no review of business rates or funding formula for at least 2 years.
- 3.4 As a result of this announcement it makes planning the years from 2025/26 onwards very difficult as many things could change because of these planned reviews and resets. As and when further announcements are made Members will be kept up to date accordingly and the financial impact assessed.

### **4. SPENDING PLANS**

- 4.1 Under the current arrangements for retained Business Rates, where a Council collects rates above an assessed baseline level set by the Government, a 50% levy is applied that is paid to the Government. In order to avoid this 50% levy a business rates pool was adopted with the County Council and other districts within Lincolnshire.
- 4.2 A revaluation exercise for business rates will take effect from 1 April 2023. The Council is expecting a number of appeals against the revaluation. A provision has been put aside based on intelligence from the Council's advisors to hopefully cover any effects from this but there still remains a large amount of uncertainty in this area.
- 4.3 Table 2 provides details of the anticipated business rates figures for 2022/23 and provisional figures for 2023/24 through to 2027/28.

- 4.4 It is important that members note that the potential changes to the retention of Business Rates from 2023/24 presents a significant uncertainty around future funding levels. It is very likely that as part of the ongoing reassessment of Area Needs the Government may significantly change the current baseline levels. As such the current amount of retained business rates that the Council is experiencing could be significantly reduced under these new arrangements.

Table 2 – Business Rates

	Budget 2022/23 £'000	Estimate 2023/24 £'000	Draft 2024/25 £'000	Draft 2025/26 £'000	Draft 2026/27 £'000	Draft 2027/28 £'000
Retained Business Rates	(9,371)	<b>(10,057)</b>	(10,259)	(10,465)	(10,675)	(10,889)
S 31 Grants relating to Business Rates	(2,152)	<b>(2,758)</b>	(2,813)	(2,869)	(2,927)	(2,985)
Tariff	5,892	<b>6,074</b>	6,195	6,319	6,446	6,574
<b>Pre- levy income</b>	<b>(5,630)</b>	<b>(6,741)</b>	<b>(6,877)</b>	<b>(7,015)</b>	<b>(7,156)</b>	<b>(7,230)</b>
Levy payment to Lincolnshire Pool	292	<b>385</b>	393	401	409	417
Estimated (Surplus)/Deficit) on Collection Fund	3,520*	<b>(586)</b>	0	0	0	0
<b>Net Retained Business Rates Income</b>	<b>(1,817)</b>	<b>(6,942)</b>	<b>(6,484)</b>	<b>(6,614)</b>	<b>(6,747)</b>	<b>(6,882)</b>
Net gain to SHDC from the Pool.	(438)	<b>(578)</b>	(589)	(602)	(614)	(626)
<b>Business rates used to support the budget</b>	<b>(1,379)</b>	<b>(6,364)</b>	<b>(5,894)</b>	<b>(6,012)</b>	<b>(6,133)</b>	<b>(6,257)</b>

\*The unusually high deficit is mainly as a result of retail reliefs granted to businesses because of the COVID-19 pandemic. These reliefs have been fully funded by the government and the income received in 2020/21 and 2021/22 therefore is covered by a reserve contribution shown in table 8.

4.5 As well as the potential for the authority to attract additional income through retained business rates there is also the risk of uncertainty through a reduction in the amount of business rates that it collects, this has been further exacerbated by the COVID-19 pandemic. This coupled with uncertainties relating to appeals against rateable values for business premises, with the potential for successful appeals being backdated makes estimating income accurately extremely challenging and potentially volatile.

## COUNCIL TAX

4.6 The MTFs assumes a Council Tax increase in line with the maximum allowed under the Local Government Settlement. In the case of SHDC for 2023/24 this is a £5.76 (3%) per annum increase (for band D properties). The increase is reflected through the life of the MTFs. See Table 3 below for the estimated changes in the tax base and council tax collected.

Table 3 – Council Tax

		2022/23	<b>2023/24</b>	2024/25	2025/26	2026/27	2027/28
a	Council Tax Base (band D equivalents)	29,393	<b>29,841</b>	30,289	30,743	31,204	31,672
b	Council Tax band D (£.p)	189.63	<b>195.39</b>	201.15	206.91	212.67	218.43
	Annual Increase £	4.95	<b>5.76</b>	5.76	5.76	5.76	5.76
	Annual Increase %	2.68%	<b>3.04%</b>	2.95%	2.86%	2.78%	2.71%
c	Annual Council Tax collected(a x b) £	(5,573,795)	<b>(5,830,633)</b>	(6,092,554)	(6,361,022)	(6,636,173)	(6,918,148)
	Annual Increase in Council Tax collected £	(257,309)	<b>(256,838)</b>	(261,999)	(268,402)	(275,121)	(281,960)
d	Surplus on the Collection Fund £	(37,130)	<b>(39,587)</b>	-	-	-	-
	<b>Gross Council tax (c + d) £</b>	(5,610,925)	<b>(5,870,220)</b>	(6,092,554)	(6,361,022)	(6,636,173)	(6,918,148)

4.7 The tax base for 2023/24 has been increased by 1.52% and by 1.50% per annum thereafter. This is based on the latest projected house building trajectory.

**Spalding Special Expenses**

	2022/23 £'000	<b>2023/24</b> <b>£'000</b>	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £000
Spalding Special Expenses	233	<b>241</b>	241	242	242	242

**Table 4 – Precepting Authority Band D charges**

Authority	Proposed Band D amount (£.p)	Increase over 2022/23 £	Increase over 2022/23 %
Lincolnshire County Council	TBC	TBC	TBC
Police and Crime Commissioner	TBC	TBC	TBC
South Holland DC	195.39	5.76	3%
Parishes (average)	TBC	TBC	TBC

**Revenue Support Grant and Other Government Grants**

4.8 The table below currently builds in the assumption that RSG will continue throughout the MTFs period until such time as we have more information regarding the outcome of the fairer funding review. Other than S31 grants for Business Rates (see table 2) the other main non-specific grants received by the Council relate to the Rural Services Delivery Grant (RSDG) and the newly announced Funding Guarantee grant. RSDG for 2023/24 is proposed to be £167k and the Funding Guarantee grant is £285k for 2023/24, the future of this grant into the longer term is not known however it now incorporates the previous Lower Tier Grant.

Table 5 - Revenue Support Grant and other Non-Specific S31 Government Grants

	2022/23 £'000	<b>Draft 2023/24 £</b>	Draft 2024/25 £	Draft 2025/26 £	Draft 2026/27 £	Draft 2027/28 £
Revenue Support Grant	(286)	<b>(424)</b>	(424)	(424)	(424)	(424)
Rural Services Delivery Grant	(167)	<b>(167)</b>	(167)	(167)	(167)	(167)
2022/23 Services Grant	(231)	<b>(130)</b>	-	-	-	-
Lower Tier Services Grant	(153)	-	-	-	-	-
Funding Guarantee (3% - New Grant)	-	<b>(285)</b>	-	-	-	-
<b>Total Received</b>	(837)	<b>(1,006)</b>	(591)	(591)	(591)	591
Annual Change in Resource £	(467)	<b>(169)</b>	415	415	415	415

### **New Homes Bonus**

- 4.9 New Homes Bonus (NHB) allocations were announced as part of the Local Government Finance Settlement for 2023/24 only as far as we are aware. The government has added a year of additional grant, as previously announced, the 2021/22 “in year” allocations did not have future years legacy payments nor has the 2023/24 allocation. If the scheme was to be continued in its current form next years payment would reflect just the growth in the previous year.
- 4.10 In light of current funding pressures and element of the New Homes Bonus is being used to support budgetary pressures (£500k). The balance will be transferred to Reserves.

Table 6 - New Homes Bonus

	2022/23 £'000	<b>Draft 2023/24 £</b>	Draft 2024/25 £	Draft 2025/26 £	Draft 2026/27 £
New Homes Bonus	(1,118)	<b>(918)</b>	-	-	-

Fees and Charges

- 4.11 The Council is dependent on direct payment for many of its services in the form of various fees, charges and rents. Fees and charges play an important role in the effective delivery of services; they not only raise income but can control access to services, help the council respond to competition, fund investment and guide client behaviour.
- 4.12 In some cases the levels of fees are set by the Government and the Council has no control over what is charged. Where the Council has had control it has not always increased these charges in line with inflation or other market conditions. Given future uncertainty around levels of government grant support and business rates income, the Council will have to develop policies for continually reviewing its fees and charges in order to maintain this income at current or higher levels. A review of fees and charges in light of inflationary pressures is currently underway.

Table 7 - Fees, Charges and Rental Income

Budget Area	2022/23 £'000	<b>2023/24 £'000</b>	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Building Control Fees	(337)	<b>(337)</b>	(337)	(337)	(337)	(337)
Planning Fees (including pre-planning advice)	(840)	<b>(840)</b>	(840)	(840)	(840)	(840)
Car Parking Income	(445)	<b>(396)</b>	(396)	(396)	(396)	(396)
Market Stall Fees	(34)	<b>(38)</b>	(38)	(38)	(38)	(38)
Waste Services	(556)	<b>(691)</b>	(691)	(691)	(691)	(691)
Rental Income	(1,310)	<b>(1,478)</b>	(1,478)	(1,478)	(1,478)	(1,478)
Sales, Fees and other Direct Income	<b>(1,122)</b>	<b>(956)</b>	<b>(956)</b>	<b>(956)</b>	<b>(956)</b>	<b>(956)</b>
<b>TOTAL</b>	(4,654)	<b>(4,736)</b>	(4,736)	(4,736)	(4,736)	(4,736)



## Other Income

4.14 The Council also receives other forms of income, as shown in the following table.

Table 8 - Other Income

	2022/23 £'000	<b>2023/24 £'000</b>	2024/25 £'000	2025/26 £'000	2026/27 £'000
Interest on Investments*	(282)	<b>(782)</b>	(782)	(782)	(782)
Housing Benefit Subsidy and Rent Rebates Subsidy.	(11,514)	<b>(10,264)</b>	(10,264)	(10,264)	(10,264)
Housing Benefit/Universal Credit Overpayments	(180)	<b>(180)</b>	(180)	(180)	(180)
Support Services	(2,853)	<b>(2,853)</b>	(2,853)	(2,853)	(2,853)
Council Tax and Housing Benefit Administration Grant	(243)	<b>(223)</b>	(223)	(223)	(223)
Specific Government Grants (Better Care Fund, UKSPF, NSAP and RSAP)	(861)	<b>(1,510)</b>	(1,564)	(1,532)	(1,531)
Court Income & Council Tax Penalties	(254)	<b>(254)</b>	(254)	(254)	(254)
Disabled Facility Grants	(831)	<b>(772)</b>	(772)	(772)	(772)
Other Grants and contributions	(886)	<b>(564)</b>	(478)	(478)	(478)
Use of Reserves	(6,366)	<b>(2,204)</b>	(2,825)	(2,825)	(2,825)
<b>TOTAL</b>	(24,270)	<b>(19,606)</b>	(20,195)	(20,163)	(20,162)

\*Assumptions have been made on investment income levels due to a variety of factors

- Use of Reserve values will change as and when new schemes are approved for inclusion within programme.
- Reductions in the Housing Benefit Subsidy income is due to a realignment of the budget to reflect current anticipated levels of activity – especially with the roll out of Universal Credit. There is a corresponding reduction in expenditure in section 4 below.

## Summary

Table 9 – All sources of income

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Business Rates (Table 2)	(1,818)	<b>(6,942)</b>	(6,483)	(6,614)	(6,747)	(6,882)
Revenue Support Grant (Table 5)	(286)	<b>(424)</b>	(424)	(424)	(424)	(424)
Lower Tier Services Grant (Table 5)	(153)	<b>(153)</b>	-	-	-	-
2022/23 Services Grant (Table 5)	(231)	<b>(130)</b>	(130)	(130)	(130)	(130)
Funding Guarantee (3%) (table 5)	-	<b>(285)</b>	(285)	(285)	(285)	(285)
Rural Services Delivery Grant (Table 5)	(167)	<b>(167)</b>	(167)	(167)	(167)	(167)
New Homes Bonus (Table 6)	(1,118)	<b>(918)</b>	-	-	-	-
Council Tax (Table 3)	(5,611)	<b>(5,870)</b>	(6,093)	(6,361)	(6,636)	(6,918)
<b>Funding subtotal</b>	<b>(9,381)</b>	<b>(14,736)</b>	<b>(13,600)</b>	<b>(13,999)</b>	<b>(14,407)</b>	<b>(14,824)</b>
Fees, Charges, Rents (Table 7)	(4,654)	<b>(4,736)</b>	(4,736)	(4,736)	(4,736)	(4,736)
Other Income (Table 8)	(24,270)	<b>(19,606)</b>	(20,195)	(20,163)	(20,162)	(20,161)
<b>Fees, Charges &amp; Other Income subtotal</b>	<b>(28,924)</b>	<b>(24,342)</b>	<b>(24,931)</b>	<b>(24,899)</b>	<b>(24,898)</b>	<b>(24,897)</b>

4.15 There is more uncertainty than ever with regard to the reliability of estimates from 2024/25 onwards

## 2023/24 SPENDING PLANS

4.16 Table 10 below shows the estimated Council spending plans for the next 5 years. It shows expenditure analysed by the CIPFA Standard classification. The paragraphs below the table provide explanations for the main variances across the MTFS.

4.16.1 The table below summarises the main changes in expenditure budgets between 2022/23 and 2023/24. The ongoing delivery of the Council's Efficiencies and Transformation Programme may introduce further changes in the year ahead and over the Medium Term.

Table 10 – Spending Plans

Description	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Employees	10,101	<b>11,375</b>	11,446	11,820	12,069	12,328
Premises	1,048	<b>1,378</b>	1,378	1,378	1,378	1,378
Transport	725	<b>1,152</b>	1,151	1,151	1,151	1,151
Supplies & Services	4,050	<b>4,650</b>	4,468	4,466	4,465	4,465
Drainage Board Levies	2,767	<b>3,115</b>	3,115	3,115	3,115	3,115
Parish Precepts	1,015	<b>1,015</b>	1,015	1,015	1,015	1,015
Transfer Payments	13,338	<b>11,869</b>	11,869	11,869	11,869	11,869
Capital Charges	2,484	<b>2,730</b>	2,730	2,730	2,730	2,730
Third Party Payments	3,041	<b>3,274</b>	<b>3,274</b>	<b>3,274</b>	<b>3,274</b>	<b>3,274</b>
Contributions From Reserves	1,381	<b>787</b>	784	747	736	734
<b>Gross Expenditure</b>	39,950	<b>41,345</b>	<b>41,230</b>	<b>41,565</b>	<b>41,802</b>	<b>42,059</b>

Employee costs have been prepared in accordance with the Council's Pay Policy. Pay generally has been increased by salary increments due to staff, and by an estimated 5% increase in 2023/24 and 2% thereafter. Pension cost estimates have been prepared on the basis of current staff in the pension scheme at October 2022/23, and all vacant posts assumed to be within the pension scheme. There have been some staffing changes which are mainly grant funded as a result of successful bidding to government departments. The employee costs also include the latest results of the Pension Triennial Review.

Premises budgets have increased in 2023/24. The main increase being the cost of utility wholesale increases in the price of gas and electricity. There has been an assumption of a 150% increase in the cost of utilities.

Transport costs have increased from 2022/23 levels due to the 25% increase in Fuel and additional maintenance costs associated with the vehicle fleet.

Supplies and Services budgets have increased slightly mainly due to removal of previously procurement savings/efficiency targets, increases in audit Fees, banking charges, agreed increases in council contracts in relation to RPI, additional inflationary costs in Environmental services and Homelessness.

Internal Drainage Board (IDB) increases, in total average 10% for 2023/24. Post 2023/24 increases have been estimated at this time, with an increase of 0% p.a. assumed thereafter until further information has been provided by the Internal Drainage Boards. At a time of significant increases in rising energy cost it would be safe to assume that increases will be greater than in previous years. The Council is liaising with the local Internal Drainage Boards to work towards limiting future increases where possible. Lobbying of government is also underway with the impact of this loss of revenue to the Council due to the embedded levy having an impact every year that passes.

Transfer Payments – There is a reduction to reflect the current estimated expenditure on benefits, there is a reduction in the budget for rent allowance payments (with an offsetting reduction in benefits income – see table 8 above)

Capital Charges – Changes in capital charges relate to revisions to the capital programme between years which do not affect the General Fund bottom line as they funded from reserves.

Third party payments - These budgets reflect payments to Public Sector Partnership Services and other outside bodies.

## 5. BUDGET REQUIREMENT

- 5.1 The budget requirement is formed by comparing resource prediction and spending plans.
- 5.2 **Appendices 1a and 1b** bring together the budgeted expenditure and income and show the overall MTFs position analysed by income and expenditure type, service area and by portfolio budgets.

Table 11 – Budget Requirement

	2022/23 Estimate	<b>2023/24 Estimate</b>	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£'000	<b>£'000</b>	£'000	£'000	£'000	£'000
Fees, Charges & Other Income (table 9)	(28,924)	<b>(24,342)</b>	(24,931)	(24,899)	(24,898)	(24,897)
Gross Expenditure (table 10)	39,950	<b>41,345</b>	41,230	41,565	41,802	42,059
Efficiency Target (table 15)	(397)	<b>(991)</b>	(1,442)	(1,409)	(1,239)	(1,081)
<b>Net Budget</b>	<b>10,629</b>	<b>16,013</b>	<b>14,877</b>	<b>15,276</b>	<b>15,684</b>	<b>16,101</b>
<b>Funded By</b>						
Retained Business rates (table 2)	(5,338)	<b>(6,356)</b>	(6,484)	(6,614)	(6,747)	(6,882)
Business Rates Collection Fund (table 2)	3,520	<b>(586)</b>	-	-	-	-
Revenue Support Grant (table 5)	(286)	<b>(424)</b>	(424)	(424)	(424)	(424)
Specific Grants (table 5)	(548)	<b>(582)</b>	(582)	(582)	(582)	(582)
New Homes Bonus (table 6)	(1,118)	<b>(918)</b>	-	-	-	-
SHDC Council tax (table 3)	(5,574)	<b>(5,830)</b>	(6,093)	(6,361)	(6,636)	(6,918)
Council Tax Collection Fund Surplus (table 3)	(36)	<b>(40)</b>	-	-	-	-
Spalding Special Expenses	(233)	<b>(241)</b>	(241)	(242)	(242)	(242)
Parish Precepts	(1,015)	<b>(1,035)</b>	(1,035)	(1,035)	(1,035)	(1,035)
<b>Total Funding</b>	<b>(10,629)</b>	<b>(16,013)</b>	<b>(14,877)</b>	<b>(15,276)</b>	<b>(15,684)</b>	<b>(16,101)</b>

- 5.3 Based on current assumptions the Council has a significant efficiency target for 2023/24 which plans are already underway to address. With uncertainty around Business Rates after 2023/24 as mentioned earlier it is very unclear at this stage what the financial impact will be.
- 5.4 Spalding Special Expenses
- 5.4.1 Spalding Special Expenses are a separate charge to the residents of Spalding for services provided in their town and are charged as a supplement to the main council tax. The Spalding Special Expenses budget for 2023/24 is estimated at £241k (2022/23, £233k). The detailed estimate will be reported 31st January 2023 to the Spalding Town Forum for review.

## **OTHER BUDGET ISSUES**

In order to meet its obligations, equality impact assessments will be carried out when the nature of proposed changes to services and the potential mitigation (if any) is clear, so that the implications of decisions are fully understood as they affect specific groups and communities. These have been, and will continue to be, regularly undertaken and considered as part of the decision making process.

## **6. RESERVES**

In order to comply with the requirements of the Local Government Act 2003, the Authority must undertake a review of the level of reserves as part of annual budget preparation. A review of the reserves has been undertaken to make sure that they have a defined purpose, identified and approved values for additions to and usage of each reserve, and that they are set at an appropriate value which identifies the current and future requirements and risks the Council might face. This has included an assessment of risk registers, pressures upon services, inflation and interest rates and any underwriting arrangements. The proposed budget has been developed on the basis of not requiring any long term support from reserves for the revenue budget.

### **General reserves**

The General Fund balance is estimated to stand at £2.078m for the next five years, which the Council's Section 151 Officer believes to be prudent for the Council at this time.

## **Specific Reserves**

Specific reserves are set up to provide funds for known future commitments or provide resources for unexpected events. Given the risks and uncertainties facing both the local and national economy the Council is committed to retaining robust levels of reserves, whilst ensuring resources are available to enable efficient service delivery.

## 7. CAPITAL PROGRAMME AND TREASURY MANAGEMENT

7.1 The Council's proposed 5 year Capital Programme and its 5 year capital resource projections are shown in the table below:

Table 13 – 5 year Capital Programme, funding and resource implications

CAPITAL PROGRAMME £'000	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total MTFS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ICT	528	149	33	0	0	0	182
Priory Road	149	0	0	0	0	0	0
South Holland Centre Re-roof	77	0	0	0	0	0	0
Castle Sports	125	0	0	0	0	0	0
Installation of Former Drinking Fountain	24	0	0	0	0	0	0
Ayscoughfee	306	0	0	0	0	0	0
West Marsh Road	141	0	0	0	0	0	0
Industrial Units - Development of external compound at Railway Lane	63	0	0	0	0	0	0
Bus Depot Resurfacing	100	0	0	0	0	0	0
Car Park Resurfacing	70	0	0	0	0	0	0
Footway Lighting	55	55	55	55	0	0	165
Moulton Park Play Area Development	100	0	0	0	0	0	0
New Sheep Market Toilets	200	0	0	0	0	0	0
Clear and Secure Old Swimming Pool area to make fit for use	15	0	0	0	0	0	0
Spalding Cemetery	25	0	0	0	0	0	0
Changing Places - Holbeach	65	0	0	0	0	0	0
Temporary Accommodation	31	10	1	0	0	0	11



Capital Acquisitions re Growth and Commercialisation	2,655	500	0	0	0	0	500
Electric Vehicle Charging	29	0	0	0	0	0	0
NSAP Property Acquisitions	84	0	0	0	0	0	0
RSAP Property Acquisitions	254	10	0	0	0	0	10
Kings Road Land Acquisition - Site Assembly	105	0	0	0	0	0	0
Kings Road - Station House	320	0	0	0	0	0	0
Chequers Yard Holbeach	163	0	0	0	0	0	0
Grants for Growth	247	0	0	0	0	0	0
UKSPF (UK Shared Prosperity Funding)	0	654	1,713	0	0	0	2,367
HIF Funding (Housing Infrastructure Funding)	1,000	0	0	0	0	0	0
Neighbourhoods	4,487	5,147	94	19	19	19	5,298
Disabled Facilities Grants	772	772	772	772	772	772	3,860
<b>Totals</b>	<b>12,190</b>	<b>7,297</b>	<b>2,668</b>	<b>846</b>	<b>791</b>	<b>791</b>	<b>12,393</b>

CAPITAL PROGRAMME £'000	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total MTFS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Funded by:</b>							
Replacement and Refurbishment Reserve	-17	0	0	0	0	0	0
Investment and Growth Reserve	-3,905	-649	-33	0	0	0	-682
Reserves Grants Carried Forward	-450	0	0	0	0	0	0
Grants	-2,295	-2,573	-2,560	-772	-772	-772	-7449
Unfunded	0	-75	-56	-55	0	0	-186
Internal Borrowing/MRP	-71	-1,074	0	0	0	0	-1074
Revenue Funding	0	-57	-19	-19	-19	-19	-133
Internal Borrowing	-3,053	0	0	0	0	0	0
Changing Places	-50	0	0	0	0	0	0
S106	-40	0	0	0	0	0	0
Spalding Special Reserve	-25	0	0	0	0	0	0
Virement From 75M	-25	0	0	0	0	0	0
Virement To 75L	-25	0	0	0	0	0	0
Welland Homes/Internal Borrowing	-2,234	-2,869	0	0	0	0	-2869
<b>Totals</b>	<b>-12,190</b>	<b>-7,297</b>	<b>-2,668</b>	<b>-846</b>	<b>-791</b>	<b>-791</b>	<b>-12,393</b>

- 7.2 The Capital Strategy, Asset Management Strategy and Economic Action Plan identify and will generate potential future capital investment requirements. Specific schemes and values will only be included in the recommended programme when the need and likely costs have been further established in detailed business cases, and the Council has ensured that it has sufficient capital and revenue resources to implement such schemes.
- 7.3 The Council has limited capital resources and must look to new ways of financing its capital expenditure. It must also seek to reduce the running costs of its assets and maximise capital receipts. The MTFS contributes all New Homes Bonus (NHB) into the Capital Reserve. NHB is assumed to cease over the life of the MTFS and as such the Council will need to create additional future revenue capacity to maintain adequate contributions to the Capital Reserve.

7.4 Funding for Disabled Facility Grants (DFGs) comes from the Better Care Fund via Lincolnshire County Council’s Health and Wellbeing Board. The value for 2023/24 and future years is assumed at £0.772m.

The Treasury Management Strategy Statement pulls together the decisions of capital investment and our cash flow and revenue budgets.

Table 14 – Treasury Assumptions

<b>Treasury Assumptions</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2025/26</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
Average Investment Balances	£47.0m	£38.8m	£26.3m	£17.2m	£11.8m	£11.8m
Investment return assumptions on non cashflow Balances.	2.30%	3.90%	2.80%	2.10%	2.00%	2.30%

7.5 These assumptions include:

- The Council’s available cash balances and investment returns will be influenced by the future development of the Council’s Asset Management Plan and all decisions made regarding the use of the Council’s Reserves for capital and revenue purposes.

## 8. HOUSING REVENUE ACCOUNT

8.1 The following table shows the summary HRA for 2023/24 compared to the 2022/23 position:

### HRA Estimates by Income & Expenditure 2022/23 to 2023/24

Description	2022/23 Estimate	2023/24 Estimate	Variance
	£000	£000	£000
Rent Income – Dwellings	(15,910)	(16,684)	(774)
Charges for Services & facilities	(1,182)	(1,215)	(33)
Contributions to Expenditure	(5)	(5)	-
<b>Total Income</b>	<b>(17,097)</b>	<b>(17,904)</b>	<b>(807)</b>
Repairs & Maintenance	2,915	3,242	327
Supervision & Management	2,714	3,132	418
Rents Rates Taxes and Other Charges	72	81	9
Depreciation	3,846	4,251	405
Provision For Doubtful Debts	271	271	-
Stat. Recharge to HRA for Support Serv.	3,047	3,047	-
<b>Total Expenditure</b>	<b>12,865</b>	<b>14,024</b>	<b>1,159</b>
<b>Contribution from Operations</b>	<b>(4,232)</b>	<b>(3,880)</b>	<b>352</b>
Investment Income	(13)	(521)	(508)
Interest on Loans			
Capital Expenditure charged to Revenue	2,348	2,348	-
<b>Net operating (surplus)/Deficit</b>	<b>(1,897)</b>	<b>(2,053)</b>	<b>156</b>

## 8.2 Explanation of Budget Variations

### 8.2.1 Rent Income - Dwelling Rents

- Rent increases from 2020/21 onwards were set at CPI + 1%, but with CPI at 10.1%, the government set new guidelines, proposing a 7% cap.
- The Council had 3,736 HRA dwellings and 28 Shared Ownership properties (15.9 equivalent properties) at 1<sup>st</sup> April 2022 with an average weekly rent of £81.07 (on a 52-week basis).
- The budget includes an assumed rent loss of 1% for void properties, 1.5% for bad debts and a rent loss from selling 25 homes per annum under Right to buy.

### 8.2.2 Charges for Services and Facilities

#### Sewage Charges

Charges for sewage are increased in line with the annual increase applied by Anglian Water. For 2023/24 this figure is not yet known so no increases have been applied. When we receive the information from Anglian Water, the estimates will be updated to reflect the increased level of charge.

### 8.2.3 Repairs & Maintenance

- Of the £325k variance, £75k is staffing related. There are no additional posts, so the variance all relates to Pay awards and pension increases. Repairs will increase by £245k. This reflects the actual spend for 2021/22, increases in raw material prices this year and an increased volume of repairs. Insurance is £10k pressure, vehicle fuel £10k, and a saving on increased recharges of £20k

### 8.2.4 Supervision & Management

- This service includes sheltered housing, alarm monitoring, community facilities, estate management and sewerage works, managing HRA Assets and delivery of the HRA affordable Housing Programme.
- £172k of the £418k pressure is staff related costs, £75k relating to 2 Cost of living Response officers, already agreed and in place in 2022, £65k pay award and £32k pension. A further £46k on insurance, £132k on electricity, £20k on Tenant surveys, £20k on hardship fund, and £15k on professional and contractor's fees

### 8.2.5 Depreciation

The Depreciation charge has increased and is mainly due to increases in values of properties and reflects increases in the actual charges made for 2021/22. The total depreciation amount is charged to the HRA and credited to Major Repairs Reserve and used to fund future capital expenditure.

### 8.2.6 Statutory Recharge to the HRA for Support services

A review of the Recharge and Allocation of costs from the General fund and the HRA is underway as part of the budgeting process

### 8.2.7 Capital Expenditure charged to Revenue

As part of the Council's year end accounts the annual revenue contribution to the capital programme has been credited to the Major Repairs Reserve (MRR). The HRA affordable housing programme was not achieved during 2020/21, 2021/22 and 2022/23 but activity has started to increase and is expected to resume in 2023/24. The Major Repairs Reserve will stand at over £3.9m before any 2022/23 funding. A further £4.3m funding is expected during 2022/23, and £4.2m in 2023/24. A revenue contribution from the HRA Working Balance, together with the use of existing capital reserves will be required in 2023/24 to support the delivery of the re-phased capital programme.

## 9. HRA RESERVES

- 9.1 The table below shows the unallocated reserve balances as at 31<sup>st</sup> March 2022 and the estimated movements to 31<sup>st</sup> March 2023. The balances within the table are funds that can be used to finance both revenue and capital expenditure, for example, one projects and to meet expenditure arising from unexpected events.

	<b>HRA Working Balance £'000</b>	<b>Insurance Reserve £'000</b>	<b>Major Repairs Reserve £'000</b>
<b>Balance at 1<sup>st</sup> April 2022</b>	24,464	200	3,944
<b>Transfers in</b>	1,897	-	4,251
<b>Transfers Out</b>	-	-	(7,780)
<b>Balance at 31<sup>st</sup> March 2023</b>	<b>26,361</b>	<b>200</b>	<b>415</b>
<b>Transfers in</b>	2,053	-	4,106
<b>Transfers Out</b>	(5,166)	-	(4,521)
<b>Balance at 31<sup>st</sup> March 2024</b>	<b>23,248</b>	<b>200</b>	<b>-</b>

The Major Repairs Reserve will be used to finance capital investment within the HRA.

## 10. HRA CAPITAL

- 10.1 Detailed planned maintenance programmes have been compiled from asset management data to address key decent homes criteria.
- 10.2 The Council has accrued just over £3.9m in its Major Repairs Reserve over the last 2-3 years due to slippage in the planned Affordable Housing Programme. A re-phased Affordable Housing Programme has now been established to replace units sold through increased right to buy (RTB) sales in order to:

- Ensure that reserves are spent effectively,
- Maximise the use of resources available through retained RTB receipts, and
- Access opportunities for additional grant funding through Homes England.

10.3 The Affordable Housing programme will be delivered through a combination of new build and the purchase of completed dwellings. A total of 25.8m has been allocated during the period of the MTFs from 2023/24 to 2027/28. This will allow the Council to deliver:

- Acquisition of 30 affordable rented homes, directly from developers, where the business case has already been approved by the authority.
- Acquisition of a further 6 shared ownership homes directly from developers to provide properties for individuals to get on the housing ladder, where the business case has already been approved by the authority.
- A programme of schemes which have not yet been identified and which may be delivered by a mixture of i) acquisitions from developers ii) design and build projects including those delivered on land which the authority already owns and iii) land purchases. These schemes could provide another approximately 140 affordable homes.

10.4 The programme also includes specific provision for:

- Major area works - environmental improvements on estates,
- Essential improvements to Sewage Plant works, and
- Sheltered Housing Alarm System Upgrade.

## 11. CONSULTATION

11.1 Under the Gunning Principles, the following points are the golden rules of consultation:

- Proposals being consulted upon must be at a formative stage;
- Proposals must contain enough information for the respondent to provide intelligent consideration;
- Must give adequate time for a response;
- Responses must be conscientiously taken into account.

11.2 Using these principles, the budget consultation process for the 2023/24 budget comprised a number of elements. It was published on the Council's website for consultation by all stakeholders, including the local business community.



- 11.3 In addition to this the Council consulted through a number of Member forums including Cabinet and Scrutiny; and on the governance aspects of its preparation through the Audit and Governance Committee.
- 11.4 Following the budget consultation process, comments received through the Member forums, preceptors and the public exercise were taken into account in preparing and recommending the proposed budget for Cabinet review and formal Council approval on 14<sup>th</sup> February and 2<sup>nd</sup> March 2023 respectively.

## 12. SAVINGS TARGETS

- 12.1 The projected budgets recognise an increasingly challenging and uncertain position through the five year period of our financial strategy. A key factor is that the Local Government Finance Act 2012 and future finance reviews demand a significant transformation in the way public services are both paid for and provided, with an emphasis on business and housing growth to both improve economic development and maximise funding to the Council to help offset ongoing reductions in overall resources.
- 12.2 Based upon current budget assumptions the value of efficiency savings required to set a balanced budget for the next five years are as follows:

Table 15 – Savings Targets

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Budget Savings Requirement (£'000) – annual	991	1,442	1,409	1,239	1,081

- 12.3 The ongoing delivery of a significant level of savings is recognised as a key challenge to the Council that will require both political and cultural direction to ensure it is met.

### 13. SOUTH AND EAST LINCOLNSHIRE COUNCILS PARTNERSHIP PLANS

- 13.1. As we think of 2023/24 there is great uncertainty with the central funding which could be allocated to South Holland. This is driven by several financial matters which remain unresolved such as the implications of the Fairer Funding Review, Business Rates baseline reset and a review of the Business Rates retention scheme. It should therefore be noted the Councils assumptions on future budget gaps whilst prudent could well be understated.
- 13.2. The Council is taking a positive response to this uncertainty by seeking to influence those matters raised above through both engagement and lobbying to ensure a fair deal is delivered for rural communities.
- 13.3. As we look forward into 2023/24 the Cabinet will be promoting projects which aim to drive commercial opportunities, place the customer at the centre of everything we do and achieve as much as is possible through greater collaboration through the South and East Lincolnshire Councils Partnership. Some of these key projects to be developed during 2023/24 include:-
- Residential house building
  - Realising efficiencies working together with Boston Borough Council and South Holland District Council through the South and East Lincolnshire Councils Partnership, with annual delivery plans.
  - A Council service modernisation programme
  - Building the case for investment in infrastructure
  - Empowering communities in the way services are provided
  - Commercialisation of services
  - Addressing Deprivation in the district
  - Tackling Climate Change through the Green Homes Initiative

## 14. RISK AND SENSITIVITY

14.1 The following table shows the key risks and how we intend to treat them through our risk management practices

Table 16 - Key Risks

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Action</b>
Fairer Funding and Business Rate reset/changes	High	High	To lobby as required
Increased Interest Rates	High	High	Market advice and forecasting for continuation
Growth plans may require borrowing at some point in the future	High	High	Continue to closely monitor and prioritise the Council's Capital Financing Requirement.
Increased demand for Homelessness Support Services – relating to Homelessness Reduction Act	High	High	Monitor service demand and impact on costs. Optimise use of grant funding and closely monitor impact.
Lack of clarity for funding levels beyond 22/23 and spending review	High	Medium	Prudent budget set to provide best estimate. Transitional arrangements have been applied in similar previous changes imposed on funding arrangements.
Universal Credit	High	Medium	The implementation of the Universal credit may impact on the General Fund in terms of running costs for the Benefits service and additional demand on other council services and on the HRA in terms of increased arrears. This will be closely monitored.
Fluctuation in business rates	High	High	Growth plans and accurate monitoring

Fair Funding Review could take into account actual levels of commercial	Medium	Medium	Prudent budget set to provide best estimate.
Pension fund deficit	Medium	Medium	Close links with LCC pension fund
Additional bad debts as a result of economic circumstances	Medium	Medium	The Council has pro-active debt management and pre-pay fee policies.
Increased maintenance costs of ageing physical assets	Medium	Medium	Asset management plan. Pro-active rather than reactive maintenance programme
Inflation rises by more than budgeted projections	Medium	Medium	Budget assumptions kept up to date with most recent projections.
Court Income	High	Low	Court income projections are in line with budget. The budget has not been increased due to concerns over collectability of this income. A year-end review will be undertaken to inform future year's budgets.
PSPS may be unable to deliver an effective service within the agreed contract price.	Low	Medium	Reviewing Service Level Agreements, activity levels and service priorities, develop a suitable Transformation Programme
Fluctuation in business rates	High	High	Growth plans and accurate monitoring
Fee Income volatility	High	High	Early monitoring of deviations
Contract Cost volatility	High	High	To seek to pre-purchase were necessary
Lack of funding to partners causing displacement of service demand	High	High	Engagement and realism
Inadequate capital resources to finance future desired plans	High	High	Proportionate spending and sale of surplus assets
Central Government policy changes	High	High	Engagement in consultation and policy creation

Reductions in NHB impacting on future plans	High	High	Lobbying and service transformation
VAT – partial exemption	High	High	Close forecasting VAT partial exemption position
Failure to deliver the required transformation programme	Medium	High	Effective programme and project management
Reduction in Investment Values	Medium	Medium	Regular Monitoring, allocation of specific Reserve
Central Government policy changes	High	High	Engagement in consultation and policy creation
A poor settlement for rural councils	Medium	Medium	Lobbying as a special interest group
Increased demand for services in general	Medium	Medium	A robust performance management framework

- 14.2 The changing environment of Local Authority finance means that the Council is facing increasing risks and uncertainty in respect of the resources that it will have available to it.
- 14.3 As noted at Section 4 reductions in Government funding is one element but there are probably even larger risks attached to the ability to generate and retain business rates. Growth in the business economy, changes in the retail price index, the impact of changing business rate valuations and the number of successful appeals against rateable values will all have an impact. Together with this is the ongoing effects of the COVID-19 pandemic on the local area and also on national spending decisions. Whilst the Council is working with a range of partners to address the issues the pandemic has raised the one thing that is certain is that from 2023/24 onwards the estimates of funding could well be significantly different than anticipated.
- 14.4 While predicting and controlling the level of external funding resources may be difficult, where possible the Council will use its budget management processes, reserves and general balances to mitigate those risks that it can try and control. It will also aim to deliver its services in a way which attempts to reduce its exposure to certain risks.

## **15. OPTIONS**

- 15.1 There are no alternative budget options presented, however if Council does not accept the proposed budget then any changes to income or expenditure which will produce a revised balanced budget must be presented and approved at the Council meeting

## **16. RECOMMENDATION**

16.1. Reason for recommendation - To comply with the budgetary and policy framework.

- Recommendation – That Cabinet recommends to Council to approve the budget setting report 2023/24 and associated financial strategies 2023/24 to 2027/28 which includes the Minimum Revenue Provision (MRP) Policy.