

Thursday, 31 August 2023

Report of the Leader of the Council

Budget and Medium Term Financial Planning Process 2024/25

Purpose

To seek agreement to the Proposed Budget and Medium Term Financial Planning Process for General Fund and the Housing Revenue Account for 2024/25.

Recommendations

It is recommended that the proposed process for the General Fund and Housing Revenue Account Budget and Medium Term Financial Planning Process for 2024/25 be adopted.

Executive Summary

When Council approved the 2023/24 Budget and Medium Term Financial Strategy in February 2023, it faced the ongoing uncertain economic conditions.

On 12th December 2022, the Secretary of State for Levelling Up, Communities and Local Government published a written ministerial statement which was accompanied by a policy statement on the 2023/24 local government finance settlement and assumptions about the 2024/25 local government finance settlement.

This statement came ahead of the 2023/24 provisional local government finance settlement announcement, which was published in December 2022, detailing local authority-level figures for 2023/24.

The Government has set out some planning assumptions for the 2024/25 local government finance settlement as follows:

- The Review of Relative Needs and Resources ('Fair Funding Review') and a reset of Business Rates growth will not be implemented in the next two years.
- The council tax referendum principles will continue the same as 2023/24.
- Revenue support grant will continue and be uplifted in line with baseline funding levels (assumed now to be now based on September 2023 CPI), while social care grants will increase.
- Business rates pooling will continue.
- The Government will set out the future position of New Homes Bonus ahead of the 2024/25 local government finance settlement.

This settlement represents a 'holding position' until the next Parliament, aiming at stability. The ruling out of a business rates reset, or a fair funding review, means that the funding distribution will stay fairly stable (with the exception of Extended Provider Responsibility funding). But this means that the big questions about the future of the funding system remain unaddressed one way or another.

While this means the Council will be able to retain its business rate growth for 2023/24 and 2024/25, it also means that the uncertainty continues and potentially the Council still faces losing this growth from 2025/26.

There are also further uncertainties arising from current cost pressure and inflationary increases which have compounded the likely price increases for supplies that are required for building or construction/maintenance works.

In addition, and following the mini budget on 23rd September, there are continuing cost pressures due to the financial markets' response to the contents of that budget with regard to increasing interest rates. This has a negative effect on the price of goods and services but a positive effect from the return from the Council's Treasury investments.

Energy efficiency is likely to be a significant future across all of our property portfolio including Council Housing. The commitment to achieve zero carbon within our own operations will present difficulties when considering our historic buildings like the Assembly Rooms, Castle and Town Hall. It is likely that investment in the property portfolio will be needed which has not yet been quantified and will need to be considered in future, in line with the Corporate Capital Strategy objectives.

It is anticipated that amendments to the Decent Homes Standard will look at building safety and energy efficiency for Council Housing. The cost is likely to be significant and could mean exploration of new ways of funding such as the application of service charges and support through available grants.

Income from the commercial/industrial portfolio has held up during the pandemic, but underlying market issues and the increase in online shopping (increased by the pandemic) mean that there is an immediate risk in relation to the income achievable from the Council's commercial property portfolio, including the Ankerside Shopping Centre, while not known at present, could result in a significant loss of income.

Financial resilience is and has been the key requirement for local authorities at any time, but in the current crisis it has assumed unprecedented importance.

The overriding goal is to make sure our organisation remains fit for the future, while protecting services to the most vulnerable in our community.

The Recovery & Reset Programme package of savings originally reported in July 2022 estimated savings to be in the region of c£3.5m over 5 years; £2.8m of which was unbudgeted capital costs for continuing to occupy Marmion House.

As part of the update report to Cabinet on 10th November 2022, including those already built into the medium-term financial plan, the revised programme potentially delivers efficiencies of c£5.1m over the next 5-year medium term. This includes the c£3.5m already identified; plus, an additional £1.6m already delivered through the service re-design project within the programme.

In light of the base budget and MTFS forecast considered by Cabinet on 1st December 2022, following the Leaders Budget Workshop on 30th November 2022, Managers were asked to identify further areas for potential savings – which have now been included in the policy changes, amounting to c.£1.8m over 5 years.

Corporate Management Team (CMT) and Cabinet review the most up-to-date budget forecasts on a quarterly basis, and discuss the delivery of the planned savings to support our Medium Term Financial Strategy (MTFS).

As a result of the updated forecast at quarter 1, July 2023, the forecast projections now identify General Fund balances of £3.7m by 2025/26 (compared to £1.1m as part of the approved

MTFS forecast in February 2023), a shortfall of £0.7m by 2026/27 (compared to a shortfall of £4.1m), a shortfall of £4.8m by 2027/28 (compared to a shortfall of £9m), with a shortfall of £9.5m by 2028/29.

Under the best case scenario, General Fund balances are forecast at £4.3m by 2025/26, £1.1m by 2026/27, with a shortfall of £2.9m by 2027/28, and £6.9m by 2028/29.

Under the worse case scenario, General Fund balances are forecast at £0.3m by 2025/26, with a shortfall of £5.3m by 2026/27, £10.7m by 2027/28, and £16.6m by 2028/29.

As members will be aware, savings are usually considered annually as part of the budget process. This update is the first step in reviewing the MTFS forecast during July as part of the Qtr 1 financial healthcheck report for Corporate Scrutiny and Cabinet - in light of the latest information available - including any further indications from government and those from the LGF Settlement for 23/24 & indications for 24/25. This will then inform the scale of the cost reductions needed as part of the budget process – **managers will again be asked to identify further areas for potential savings for consideration by Members as part of the budget process.**

With the ongoing uncertainty around the fair funding review and business rates reset, it makes it difficult to plan in the longer term - which is what we have experienced for the past 10 years as the review has been deferred numerous times and now is a question of if rather than when it could happen.

A further consideration is the potential scale and scope of any government funding reductions, which need to be forecast. There needs to be a balance between hoping for the best and planning for the worst - which would include consideration of cost efficiencies, increased income and ultimately service reductions.

Housing Revenue Account

With regard to the Housing Revenue Account, a 5 year MTFS was approved by Council including significant investment in meeting future housing needs to sustain the HRA in the longer term.

As a result of the updated forecast at quarter 1, July 2023, the forecast projections now identify HRA balances of £1.5m by 2025/26 (compared to £2.8m as part of the approved MTFS forecast in February 2023), £1.3m by 2026/27 (compared to £2.4m), £1.2m by 2027/28 (compared to £2.2m), with balances of £1m by 2028/29.

Under the best case scenario, HRA balances are forecast at £3.5m by 2025/26, £4.3m by 2026/27, £5.3m by 2027/28, and £6.2m by 2028/29.

Under the worse case scenario, HRA balances are forecast at £1.4m by 2025/26, £1.2m by 2026/27, £1m by 2027/28, and £0.9m by 2028/29.

However, this does not include the anticipated cost pressures for the HRA capital programme arising from the ongoing work in updating the 30 year HRA business plan. Previous indications from the modelling are a potential shortfall over 30 years of £42m plus a significant and unsustainable increase in HRA debt levels arising from the capital programme pressures (of over £200m over 30 years).

As part of the budget process, Policy Changes are required in order to amend base budget provision. As grant and other income levels are forecast to reduce in the future, where increased costs are unavoidable then managers **are required to identify compensatory savings. Unfunded growth proposals cannot be considered without the identification of a compensatory saving.** Where savings are identified they must be accompanied by a robust implementation plan. Robust business case templates will have to be submitted to Cabinet and CMT for all Policy Change submissions (Revenue and Capital).

The attached Project Plan at Appendix A lists the stages, deadlines and the responsible officers for the production of the budget and medium term financial plan. Appendix B contains an outline of the process whilst Appendix C shows the flow of key stages over the process period.

Draft 2023 annual residents survey – The Tamworth Conversation

To help elected members set the council budget and priorities every year we consult residents, businesses and the voluntary sector on spending and savings options in line with the council priorities. We also conduct a survey to hear what people think about Tamworth as a place to live.

In the past these were separate consultations, however, to avoid duplication and make an efficient use of resources, they are now combined into one 'Tamworth Conversation' in late summer/early autumn.

In order to benchmark with wider local government, we use the Local Government Associations recommended question set. This allows us to analyse the local results over time and benchmark across local government. To use these appropriately, these questions need to be at the beginning of the survey (detailed at **Appendix E**), to reduce bias when answering.

The results feed into the budget setting process and where timing allows, the State of Tamworth Debate (constitutionally due in March).

Outline methodology

Following our existing approach, our annual survey is a self-selecting survey – people must volunteer to take part, as such communications and marketing activity will be essential to the success of this survey.

The digital by default is the most environmentally friendly and cost-effective approach to delivering this survey, however we recognise that not everyone in the town has digital access so other options will be made available.

Paper copies of the surveys will be made available from the TIC and customer services staff will offer the opportunity of completing the survey over the phone for those less able to engage or for those without digital access.

To encourage responses, we propose to:

- Contact a random sample of 1,200 Tamworth residents inviting them to take part. This is roughly 120 addresses in each ward.
- Contact specific groups directly inviting them to take part:
 - Our citizens' panel,
 - Community & Voluntary Groups,
 - Tamworth Businesses,
 - Housing tenants,
 - Tamworth Borough Council staff (61% of which are residents).
- Issue press releases and deliver social media promoting the survey.
- Develop a flyer promoting the survey to hand out at town centre events (E.g. We Love Tamworth), on market days and in the TIC/Assembly Rooms.
- Ask customers visiting the TIC to complete a paper copy of the survey (or share with them a flyer).
- Ask elected members to share the survey with their constituents.
- Consider completing the survey face to face with people in the town centre.

As an incentive, those taking part were also entered into a prize draw to win one of three £30 gift voucher prizes to spend at a Tamworth store.

Proposed timetable

Action	Date
Cabinet	31 August 2023
Launch survey	4 September 2023
All members' budget seminar	Late Sept/Oct 2023
Survey close	13 Oct 2023
Survey results to CMT	Mid-Late Nov 2023
Survey results to elected members to inform budget setting decisions	By 30 th Nov 2023

Timetable

Significant milestones in the process, detailed at **Appendix A**, are planned as:

- a) Budget Consultation Members Seminar – by 30th September;
- b) Emerging Policy Changes / Capital Programme bids Members Seminar (by 31st October);
- c) Consultation process - results to Cabinet by 30th November;
- d) Base budget and technical adjustments to Cabinet 30th November;
- e) Cabinet to consider Council Taxbase calculation on 14th December and Business Rates Forecast on 25th January;
- f) Cabinet proposals to a Leaders Budget Workshop 29th November;
- g) Provisional RSG settlement assessment to Corporate Management Team and EMT in December;
- h) Joint Scrutiny Committee (Budget) to be held on 31st January 2024;
- i) Final Budget and Medium Term Plan reports to Cabinet 22nd February 2024;
- j) Budgets set at Council 27th February 2024.

It should be noted that the complexity of some of the issues and the reliance on the Government for Business Rates Retention and RSG data to report will mean that some reports have to be treated as urgent items and/or are considered at a later meeting.

Members are asked to endorse the process to be followed.

Options Considered

None

Resource Implications

There are no financial or resource implications arising from the implementation of the Budget and Medium Term Planning Process.

Legal/Risk Implications Background

It is considered that a Medium Risk to the achievement of the planned timetable exists due to the potential for a delay in the:

- Provision of information from managers; and
- Publication of the Local Government Finance Settlement information for each individual authority by the Department for Levelling Up, Housing & Communities (DLUHC).

There also remains a high degree of uncertainty arising from the most significant changes in Local Government funding for a generation - arising from the Fair Funding Review, review of the Business Rates Retention (BRR) scheme, reset of the Business Rates baseline and the ongoing uncertainty over the funding for the New Homes Bonus scheme.

While we are aware of these forthcoming change, little to no information is available on the potential impact for individual Councils' finances.

We will therefore need to consider the approach to forecasting and planning for these uncertainties balancing the risk to the MTFs against the need for savings and potential service reductions.

The Key Risks are:

- Future Government financial support and Revenue Support Grant levels for future years - the budget setting process has faced significant constraints in Government funding in recent years - following years of austerity.

On 12th December 2022, the Secretary of State for Levelling Up, Communities and Local Government published a written ministerial statement which was accompanied by a policy statement on the 2023/24 local government finance settlement and assumptions about the 2024/25 local government finance settlement.

This statement came ahead of the 2023/24 provisional local government finance settlement announcement, which was published in December 2022, detailing local authority-level figures for 2023/24.

The Government has set out some planning assumptions for the 2024/25 local government finance settlement as follows:

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- Revenue support grant will continue and be uplifted in line with baseline funding levels (assumed now to be now based on September 2023 CPI), while social care grants will increase as set out in the table above.
- Business rates pooling will continue.
- The Government will set out the future position of New Homes Bonus ahead of the 2024/25 local government finance settlement.

This settlement represents a 'holding position' until the next Parliament, aiming at stability. The ruling out of a business rates reset, or a fair funding review, means that the funding distribution will stay fairly stable (with the exception of Extended Provider Responsibility funding). But this means that the big questions about the future of the funding system remain unaddressed one way or another.

While this means the Council will be able to retain its business rate growth for 2023/24 and 2024/25, it also means that the uncertainty continues and potentially the Council still faces losing this growth from 2025/26.

There is a high risk that these reforms will have a significant effect on the Council's funding level from 2025/26.

- There are also further uncertainties arising from current cost pressure and inflationary increases which have compounded the likely price increases for supplies that are required for building or construction/maintenance works.

In addition, and following the recent mini budget on 23rd September, there are cost pressures expected due to the financial markets' response to the contents of that budget. There is an increased likelihood of a rise in interest rates, and it can be expected that this will have a negative effect on the price of goods and services but a positive effect from the return from the Council's Treasury investments.

There will also be price rises for the Council's energy supplies. This did not have an immediate effect as supplies are bought in market price 'baskets' negotiated between Oct and March for units rates charged for the year commencing April.

Energy efficiency is likely to be a significant feature across all of our property portfolio including Council Housing. The commitment to achieve zero carbon within our own operations will present difficulties when considering our historic buildings like the Assembly Rooms, Castle and Town Hall. It is likely that investment in the property portfolio will be needed which has not yet been quantified and will need to be considered in future, in line with the Corporate Capital Strategy objectives.

It is anticipated that amendments to the Decent Homes Standard will look at building safety and energy efficiency for Council Housing. The cost is likely to be significant and could mean exploration of new ways of funding such as the application of service charges and as included within the 2022/23 capital programme, through grants available.

An increase in the cost of repairs has been included in the MTFs due to the current market cost pressures. The RICS through their Building cost indicator service (BCIS) are predicting increasing tender prices over the next 5 years so this is likely to impact on existing contracts. There is the risk that if costs continue to increase in excess of CPI, contractors will seek further uplifts. The impact on planned work is that less work will be done, this will extend the renewal period for key components which will increase demand on responsive repairs. The volume of responsive repairs is unlikely to change.

Income from the commercial/industrial portfolio has held up during the pandemic, but underlying market issues and the increase in online shopping (increased by the pandemic) mean that there is an immediate risk in relation to the income achievable from the Council's commercial property portfolio including the Ankerside Shopping Centre, while not known at present, could result in a significant loss of income.

- For 2021/22 a 1.75% increase in Local Government pay was agreed. For 2022/23, an offer of a £1,925 increase on all pay points has been subject to union ballot and has been agreed. Future years remain uncertain but a 4.0% increase has been assumed for 2023/24 with annual increases of 2.5% p.a. from 2024/25.
- Challenge to continue to achieve high collection rates for council tax, business rates and housing rents – in light of the welfare benefit reforms and the impact of the current cost pressures on economic conditions and uncertainty.

Equalities Implications

None

Environment and Sustainability Implications (including climate change)

None

Background Information

- a) The Government's **Fair Funding Review (FFR)** of the distribution methodology includes:
 - a. changes to the needs assessment (which will determine each Council's share of the national funding for Local Government – it is likely that this will reflect the impact of Social Care demands and that funding will be redistributed to Unitary and County Councils to the detriment of District Councils);
 - b. treatment of relative resources (to determine how much each Council can fund locally through income from fees and charges and council tax);
 - c. any transitional arrangements to protect Councils from significant reductions in funding – and the impact from their unwinding.
- b) **Spending Review** – where the total spending allocation for Government Departments will be set – including national control totals for Local Government spending. It sets UK Government departments' resource budgets.
- c) The ongoing **review of the Business Rates Retention (BRR) scheme** –work on the design of the new system including the impact of 'rolling in' grants such as Housing Benefit administration and New Homes Bonus.
- d) The planned **reset of the Business Rates baseline** for each Council could mean redistribution of the growth, or a proportion of such, achieved since 2013.
- e) **New Homes Bonus scheme** - review planned on operation of the scheme including local growth in housing numbers and share of the national pool (including the 'deadweight' for which Councils no longer receive grant).

Report Author

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List of Background Papers

Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2023/24, Council 28th February 2023.

Appendices

Appendix A

Project Plan for the Budget and Medium Term Financial Planning Process for the year 2024/25

Appendix B

Outline of the Budget and Medium Term Financial Planning Process

Appendix C

Flowchart of the Budget & Medium Term Financial Planning Process

Appendix D

Appendix E

2023 annual residents survey – The Tamworth Conversation

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