

MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE EXECUTIVE

Decision Made: Wednesday 27 July 2022

Medium Term Financial Strategy

Issue for Decision

- 1.1 To approve the initial scoping and assumptions associated with development of an updated Medium Term Financial Strategy for the period 2023/4 – 2027/28 and budget for 2023/24.

Decision Made

That

1. The issues and risks associated with updating the Medium-Term Financial Strategy be noted;
2. The assumptions described in the report for planning purposes and to establish the remit for detailed budget development, and together with the additional information provided at Appendix 2, which shows the effect of 0% council tax increase on the four scenarios presented, be approved;
3. It be noted that Lead Members on the Executive, together with Officers and Members of Policy Advisory Committees, will carry out a detailed review of initial budget proposals. The purpose of this review will be to identify possible savings required to eliminate budget gaps; and
4. The proposed approach outlined to development of an updated Medium Term Financial Strategy for 2023/24 – 2027/28 and a budget for 2023/24 be approved.

Reason for Decision

- 2.1 The Medium-Term Financial Strategy (MTFS) sets out in financial terms how the Council will deliver its Strategic Plan over the next five years. The Council adopted a Strategic Plan for the period 2021 – 2045 in December 2018, and the existing MTFS for the period 2022/23 to 2026/27 reflects the Strategic Plan. The new MTFS will continue to reflect the Strategic Plan priorities.
- 2.2 A key outcome of the process of updating the MTFS is to set a balanced budget and agree a level of council tax for 2023/24 at the Council meeting on 22 February 2023. This is the first step towards achieving that objective.

Current Financial Position

- 2.3 Prior to the Covid-19 pandemic, the Council was broadly self-sufficient financially. It had ceased receiving direct government support in the form of Revenue Support Grant (RSG) and relied mainly on Council Tax and a range of

other locally generated sources of income, including parking, planning fees and the property portfolio, to fund ongoing revenue expenditure. However, during the pandemic, income fell and expenditure increased. The consequent budget gap, being the difference between cost of services and aggregate income, was covered with direct government funding. See graph below.

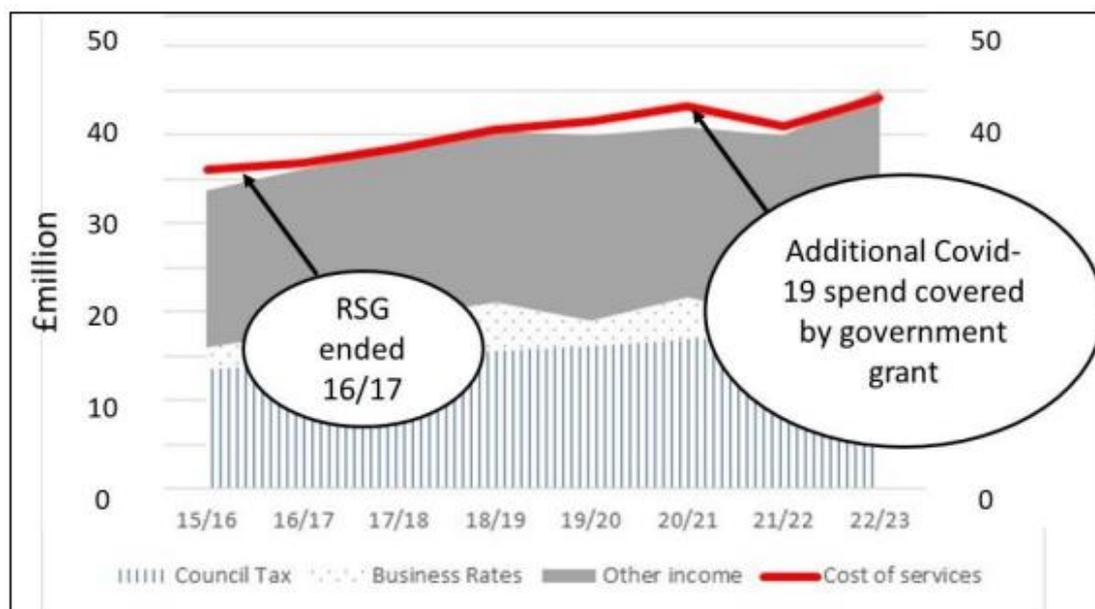


Figure 1: Revenue Funding Trends

- 2.1 In 2021/22, income recovered more strongly than expected from the pandemic and the Council generated a modest surplus compared with budget. For 2022/23, there is no more direct government funding to cover the costs of Covid, but the Council has been able to set a balanced budget. Additional provision of £1.3 million was made within the 2022/23 budget for the expected impact of higher inflation on the Council's input costs. At this early stage in the financial year, it is expected that, with this provision, the Council will remain within budget for the year. If at any stage it appears that an overspend is likely, measures will need to be taken in-year to bring the budget back into balance.
- 2.2 The Council's balance sheet position remains strong. As at the end of the financial year 2021/22, unallocated General Fund reserves amount to £9 million. Short-term investments – cash or equivalent – amounted to £41 million. Long term borrowing remained modest, at £9 million.
- 2.3 The Council has an ambitious capital programme, amounting to £230 million over five years. This will largely be funded from external sources, so borrowing will increase rapidly from the current low levels. In anticipation of higher interest rates, the Council has committed to forward borrowing of £80 million, which will be drawn down between 2024 and 21 2026. This provides a measure of assurance that the Capital Programme remains deliverable, notwithstanding increases in finance costs and potential future constraints on local authority borrowing from the Public Works Loan Board. The Council currently enjoys a sound financial position, with a balanced budget and a strong balance sheet

Future Financial Position

Economic Context

- 2.1 The prospects for the broader UK economy over the five years of the MTFS period are extremely challenging. The Bank of England projects negligible growth over the next two years and any subsequent recovery will be modest.

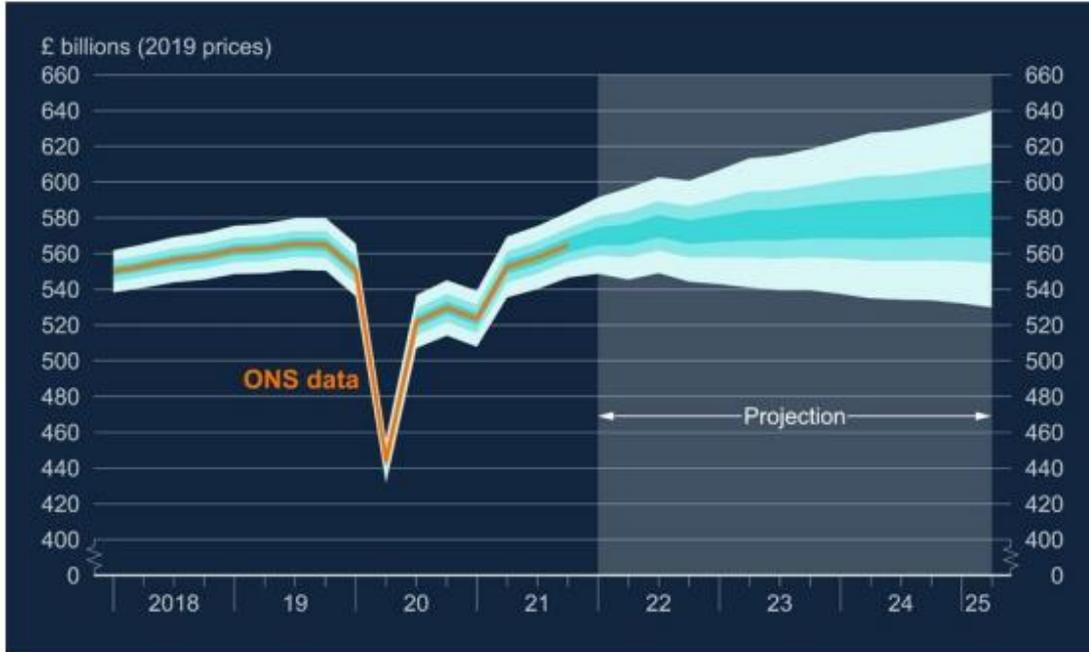


Figure 2: GDP projection based on market interest rate expectations

- 2.2 Stagnant economic growth will be accompanied, in the short term at least, by high inflation. The Bank of England forecasts that inflation will peak at over 10% later in 2022 before falling subsequently.

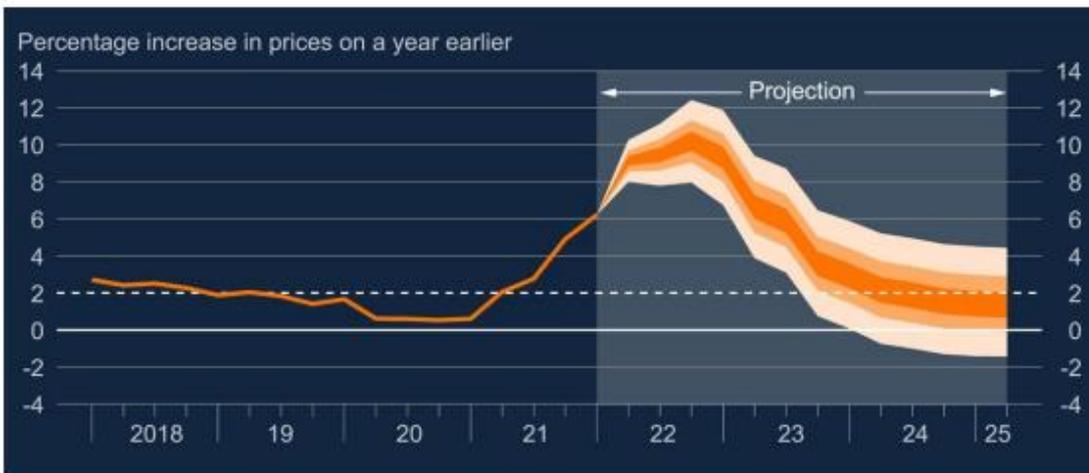


Figure 3: CPI inflation projection based on market interest rate expectations

- 2.3 The projections above indicate that inflation will fall rapidly. However, many commentators have challenged whether current policies will be successful in bringing down inflation. The example of the 1970s has been cited, when 'those countries that rapidly killed inflationary impulses with tight policy, led by the

West German Bundesbank, took the pain and suffered a short and shallow downturn. Those that followed a more accommodating path ended up with persistently higher inflation rates that required much deeper recessions in the early 1980s to stamp out inflation'. (Chris Giles, FT 09.06.2022).

2.4 The implications of this analysis are that the government and the Bank of England would need to tighten policy now in order to be sure of bringing down inflation. If inflation does not come down in line with projections, policy will have to be tightened eventually in any case. The two variables which must therefore be considered in constructing future scenarios are therefore (a) the performance of the economy, which is closely linked to the global economy and subject to all the pressures of war and constraints on energy supplies, and (b) how aggressively the government and the Bank of England respond to rising inflation. The possible scenarios, given these two key variables, can be shown as follows.

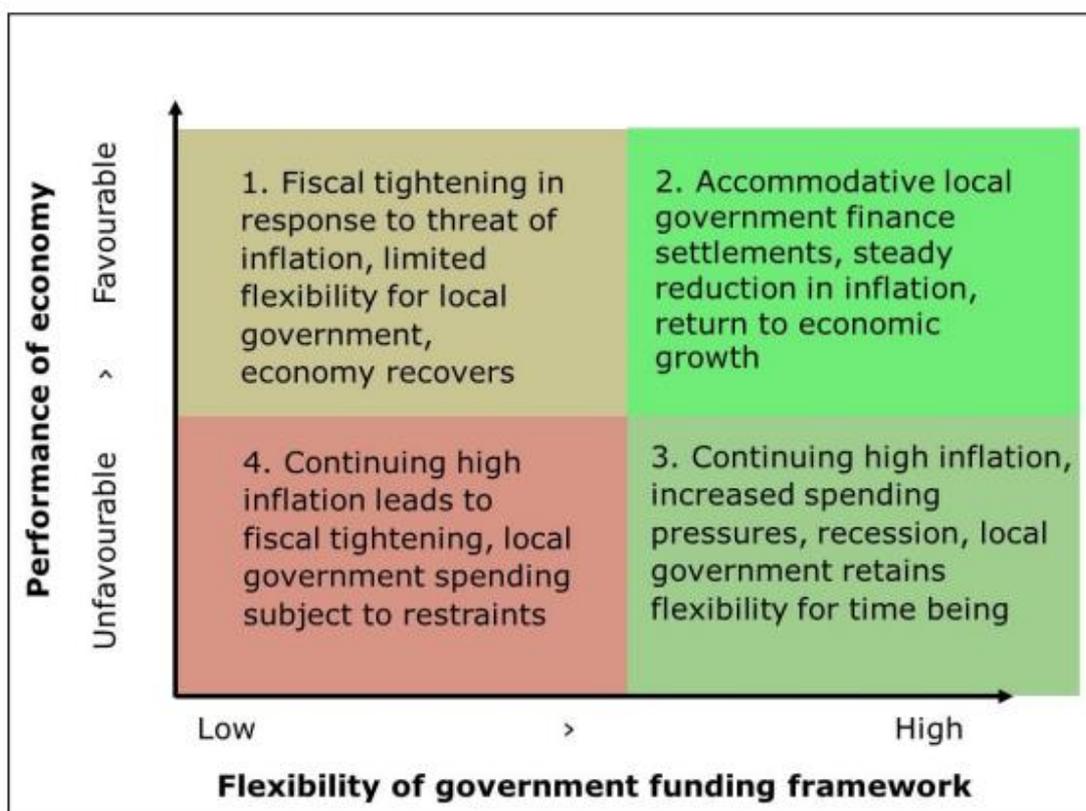


Figure 4: Potential future scenarios

2.1 In the top half of the table, the economy recovers, either in conjunction with aggressive government and Bank of England action to restrain inflation (Scenario 1) or without the need for such action (Scenario 2). In the lower half of the table, stagflation persists, and the government and the Bank of England either continue with their current, relatively passive, approach (Scenario 3), or respond aggressively (Scenario 4).

Impact on Maidstone

2.2 Maidstone Borough Council was largely self-sufficient financially prior to the Covid-19 pandemic, drawing most of its income from Council Tax and other

locally generated sources of income. The percentage of revenue raised locally increased from 82% in 2014/15 to 93% in 2019/20. However, this did not mean that the Council was insulated either from the wider economy or government policy. Covid-19 showed how vulnerable the Council's income was to a downturn in the economy, particularly in relation to services like parking.

- 2.3 Meanwhile, the local authority funding framework set by government remains a crucial determinant of the Council's future financial position. This is primarily because central government restricts the amount by which Council Tax can be increased through the referendum limit and it determines the share of business rates that can be retained locally.
- 2.4 Local authority funding was subject to a four-year settlement between 2016/17 and 2019/20, which provided a degree of certainty about the Council's funding position, even though the amount of central government support for local government fell steadily. The key elements of the settlement have been rolled forward every year since 2019/20, with Brexit and then Covid-19 limiting the capacity of central government to introduce any major changes. This has benefited authorities like Maidstone, which has a relatively strong business rates base, because we have enjoyed the advantages of continued growth in business rates, whereas a reset of the local government finance settlement would have been accompanied by a reset of the distribution of business rates between authorities in the interests of 'fair funding'. The Secretary of State has indicated that there will be a two-year settlement announced for 2023/24 and 2024/25.

Revenue Support Grant

- 2.5 It should be noted that the four-year funding settlement gave no Revenue Support Grant (RSG) to Maidstone Borough Council from 2017/18. It was originally envisaged that the four-year funding settlement would incorporate a clawback of £1.6 million from the Council in the form of negative RSG in 2019/20, as the level of central government support for the local authority sector as a whole was gradually reduced. Under pressure from local authorities like Maidstone and our parliamentary representatives, the government withdrew the proposal to levy negative RSG. This concession has continued to apply since 2019/20. However, without an overall increase in recurring funding available to local government, it is not clear how the local government financial settlement will be balanced in future years without the 'lost' negative RSG being recouped in some form. In practice, the introduction of 'fair funding' may have a similar impact to negative RSG.

New Homes Bonus

- 2.6 Whilst the Council no longer receives funding directly from the government in the form of RSG, it continues to benefit from New Homes Bonus (NHB), which amounts to £4.2 million in 2022/23. The Council has traditionally earmarked NHB for specific purposes, rather than treating it as a mainstream source of funding for revenue budgets. In 2022/23 the first £1 million of NHB has been allocated for strategic policy and planmaking, with the balance transferred to a Housing Investment Fund, to be used to subsidise the Council's Affordable Housing Programme.

- 2.7 NHB has gradually reduced over the years, although the impact has been mitigated by the introduction of two new grants – Lower Tier Services Grant with effect from 2021/22 and Services Grant from 2022/23. Because of uncertainty about the future of NHB, it is prudent to continue disregarding it when considering the funding of mainstream budgets.

Future local government finance settlements

- 2.8 At this stage it is not known when we will have clarity about the Council Tax referendum limit, the Business Rates baseline, or future specific grants such as NHB over the period of the proposed two-year settlement period 2023/24 - 2024/25. The usual pattern whereby the local government finance settlement is announced just before Christmas suggests that we will not have definitive figures until late December 2022.
- 2.9 Whilst it is likely that the existing funding regime will be rolled forward in broadly its current form for the next two years, there will probably be more significant changes in 2025/26. These are likely to include:
- Implementation of Fair Funding;
 - Resetting business rates baselines.
- 2.10 All of these factors mean that the government has a number of levers that are likely to be employed if there is an overall tightening of fiscal policy. The most relevant for Maidstone Borough Council, with its dependence on Council Tax income, is the Council Tax referendum limit.

Scenario Planning

- 2.11 As Maidstone's financial position is so dependent on the broader economy and on government policy, it is appropriate to model the impact of the different scenarios described above on the Council. The Medium-Term Financial Strategy will then address all potential scenarios, in order to ensure that the Council is equipped to deal with each.

Using the four scenarios sketched out in Figure 4, the impact of each would be as follows.

Scenario 1: Fiscal tightening in response to threat of inflation, limited flexibility for local government, economy recovers.

This is the scenario in which the government takes prompt action to bring down inflation. This would be likely to involve restrictions on government spending, including limits on Council Tax increases. If successful, this policy would mean that inflation would return to the government's long term target rate of 2% and the economy would recover, leading to renewed growth in the Council Tax base and the Council's other sources of income.

Scenario 2: Accommodative local government finance settlements, steady reduction in inflation, return to economic growth.

Current government and Bank of England policy is based on the assumption that drastic action is not required to combat inflation, and there will be a return to growth in any case. Growth would however be anaemic, with external income

returning to pre-Covid levels over a period of 3-4 years. There would continue to be growth in the Council Tax base, but constraints in the construction sector mean there is a slow-down for the first 2-3 years of the planning period. The Council would be able to fund inflationary increases in expenditure through matching increases in Council Tax. This is the most optimistic scenario.

Scenario 3: Continuing high inflation, increased spending pressures, recession, but local government retains flexibility for time being.

Heightened assumptions about the inflation rate, capacity constraints and low economic growth compared with other national economies lead to prolonged inflation in excess of the government's 2% target. As a result, there is no real terms growth in Council income. Whilst under this scenario, the Council would be able to match inflationary growth in costs through increases in Council Tax, the poor performance of the economy would nevertheless lead to an overall deterioration in its financial position.

Scenario 4: Continuing high inflation leads to fiscal tightening, local government spending subject to restraints.

In this scenario the government would eventually be forced to take action to bring down inflation. This would involve restrictions on government spending, including limits on Council Tax increases. The Council would not be able to match inflationary growth in costs through increases in Council Tax and the poor performance of the economy would mean minimal growth in the Council Tax base and other sources of income. This is the most pessimistic scenario.

Strategic Revenue Projection

2.12 For illustrative purposes, assumptions about what each of these scenarios might mean are set out in this section, and high-level revenue projections are shown for each. The key dimensions are:

- a) the Council Tax base;
- b) the level of Council Tax;
- c) retained Business Rates, which in turn depends on overall business rates income and government policy on distributing it between local authorities and central government;
- d) other local income, e.g. fees and charges;
- e) the cost-of-service delivery, which is subject to the effect of inflation on input prices.

Council Tax base

2.13 Projected Council Tax income for 2022/23 amounts to £18.2 million and is the Council's single biggest source of income. Council Tax is a product of the tax base and the level of tax set by the council. The tax base is a value derived from the number of chargeable residential properties within the borough and their band, which is based on valuation ranges, adjusted by all discounts and exemptions.

2.14 The tax base has increased steadily in recent years, reflecting the number of new housing developments in the borough. See table below:

Table 1: Number of Dwellings in Maidstone

	2017	2018	2019	2020	2021
Number of dwellings	69,633	70,843	71,917	73,125	75,034
% increase compared with previous year	1.63%	1.74%	1.52%	1.68%	2.61%

Note: Number of dwellings is reported each year based on the position shown on the valuation list in September.

2.15 The Council tax base is also affected by collection rates and the number of households benefitting from the Council Tax Reduction Scheme. Typically these factors do not vary significantly between years but in the event of a major downturn in the economy, collection rates could be expected to fall and more households would be eligible for the Council Tax Reduction Scheme.

Future growth assumptions for each scenario are set out below.

Council Tax base growth assumptions					
	23/24	24/25	25/26	26/27	27/28
Scenario 1 – Limited flexibility, economy recovers	1.5%	1.5%	2.0%	2.5%	3.0%
Scenario 2 – Some flexibility, economy recovers	1.5%	1.5%	2.0%	2.5%	3.0%
Scenario 3 – Some flexibility, continued stagflation	1.5%	1.0%	1.0%	1.0%	1.0%
Scenario 4 – Limited flexibility, continued stagflation	1.5%	1.0%	1.0%	1.0%	1.0%

Level of Council Tax

2.16 The level of council tax An alternative approach to developing an MTFS is A number of factors that influence the annual budget and the MTFS are not yet known. However, the disadvantage of this approach is that it could take some time for full information to emerge, and in the meantime the Council needs to take steps to set a budget for the coming year. increase for 2023/24 is a decision that will be made by Council based on a recommendation made by the Executive. In practice, the Council’s ability to increase the level of council tax is limited by the need to hold a referendum for increases over a government set limit. In 2022/23, the limit was 2%. The Council approved the maximum possible increase. The rationale for this approach was that:

- pressures on the Council’s budget mean that even a marginal difference in Council Tax income is of value;
- the referendum limit might revert to a lower level in later years;
- because the starting point for calculating the referendum limit in any given year is the previous year’s Council Tax, agreeing a lower increase reduces the Council’s room for manoeuvre in later years.

2.17 The referendum limit of 2% was intended broadly to reflect the rate of inflation. It was also assumed in the government’s planning for local government expenditure that local authorities would indeed increase by the maximum permissible amount, and this was reflected in the ‘Spending Power’ data

published for each local authority. At this stage there is no indication as to whether the government will set a higher referendum limit in 2023/24 to reflect current inflation levels.

- 2.18 Assumptions for each scenario are set out below, on the basis that these increases represent the government’s referendum limit and the Council follows its practice of increasing Council Tax by the maximum permitted.

Council Tax increase assumptions					
	23/24	24/25	25/26	26/27	27/28
Scenario 1 – Limited flexibility, economy recovers	2.0%	2.0%	2.0%	2.0%	2.0%
Scenario 2 – Some flexibility, economy recovers	5.0%	2.0%	2.0%	2.0%	2.0%
Scenario 3 – Some flexibility, continued stagflation	5.0%	4.0%	3.0%	3.0%	3.0%
Scenario 4 – Limited flexibility, continued stagflation	2.0%	2.0%	2.0%	2.0%	2.0%

Retained business rates

- 2.19 Under the current business rates regime, local government in aggregate retains 50% of business rates income. However, most of the 50% share collected locally is lost to Maidstone, because it is redistributed to other authorities and the government through a system of tariffs and top-ups.

Table 2: Projected Business Rates Income 2022/23

	£000	%
Maidstone Borough Council	5,285	10
Kent County Council	4,631	9
Kent Fire & Rescue Authority	515	1
Central Government	41,410	80
Total Business Rates Income	51,841	100

- 2.20 To the extent that business rates income exceeds a notional baseline, this growth element is retained locally, subject to a levy payable to central government by tariff authorities like Maidstone. The Council has been able to minimise the levy payable on business rates growth through its membership of the Kent Business Rates Pool. This is because, by pooling our income, the levy payable by some pool members (district councils) is offset against the top-up received by the major preceptors (Kent County Council and Kent Fire and Rescue).

The proceeds from membership of the pool are split as follows:

- 30% is allocated to a reserve which is used for specific projects that form part of the Council’s economic development strategy.
- 30% represents a Growth Fund, which has in the past been spent in consultation with Kent County Council on the Maidstone East development.

Following Maidstone's acquisition of Kent County Council's 50% share in the development in 2021/22, the Growth Fund will be split equally between Maidstone Borough Council and Kent County Council.

- 30% goes directly to Kent County Council.
- The residual 10% is held back to compensate Kent districts whose business rates income falls below the baseline or for whom it is not beneficial to belong to the Pool.

Total retained business rates income for 2022/23 is summarised below.

Table 3: Retained Business Rates Income 2022/23 including pool proceeds

	£000
Projected income before pooling	5,285
Pool proceeds earmarked for Economic Development	507
Pool proceeds earmarked for Maidstone East	204
Total	5,996

2.21 It is assumed at this stage that pool proceeds continue to be earmarked as shown above. Note that in the event of a business rates reset (see 2.4) there would initially be no growth available for pooling.

2.22 In general, projections of business rates income for the years after 2023/24 must, of necessity, take a cautious position on how much business rates income is likely to be retained locally, given that this is the element in our total resources that is most at risk from the vagaries of government policy. Future growth assumptions for each scenario are set out below.

Business Rates growth assumptions					
	23/24	24/25	25/26	26/27	27/28
Scenario 1 – Limited flexibility, economy recovers	0.0%	0.0%	3.0%	4.0%	5.0%
Scenario 2 – Some flexibility, economy recovers	2.0%	2.0%	3.0%	4.0%	5.0%
Scenario 3 – Some flexibility, continued stagflation	2.0%	2.0%	3.0%	3.0%	3.0%
Scenario 4 – Limited flexibility, continued stagflation	0.0%	0.0%	2.0%	2.0%	2.0%

Other income

The main components of other income are set out below:

Table 4: Projected Other Income 2022/23

	£ million
Fees and charges	9.2
Property rental income and service charges	6.9
Shared services trading income	3.3
Other income	2.3
TOTAL	21.7

2.23 Each component is subject to different inflationary factors. Some fees and charges are set by central government and are not necessarily increased annually. However, where the council has the flexibility to review fees and charges, it is assumed that they are increased in line with inflation. Rents may only change at the point of periodic rent reviews. Future growth assumptions, using a composite inflation rate, are set out below.

Other income growth assumptions					
	23/24	24/25	25/26	26/27	27/28
Scenario 1 – Limited flexibility, economy recovers	4.0%	2.0%	3.0%	4.0%	5.0%
Scenario 2 – Some flexibility, economy recovers	5.0%	2.0%	3.0%	4.0%	5.0%
Scenario 3 – Some flexibility, continued stagflation	4.0%	4.0%	4.0%	4.0%	4.0%
Scenario 4 – Limited flexibility, continued stagflation	5.0%	5.0%	5.0%	5.0%	5.0%

Cost of services

- 2.24 The cost of services is subject to inflation. Salaries account for around 50% of total input costs, and whilst salary increases tend to lag behind published inflation figures, market pressures are likely to mean that inflation will impact salaries in the medium term. Many other costs, in particular contract costs, are directly linked to inflation indices.
- 2.25 A recent benchmarking exercise indicates that salaries at Maidstone have fallen behind the policy target of the public and not for profit sector median level for any given grade. It is estimated that an additional £675,000 growth, including salary on-costs, less amounts that can be recharged, would be required to bring salaries into line. For the purposes of the MTFs projections, this growth has been excluded, on the basis that it will need to be self-financing, i.e. any growth will need to be funded from new savings.
- 2.26 Assumptions for each scenario, using a composite rate at this stage, are set out below. Note that these figures do not equate to inflation projections, because the growth in cost of services tends to lag behind headline inflation indices. The figures below exclude any growth to address the shortfall against the salary benchmark described in the previous paragraph.

Cost of services growth assumptions					
	23/24	24/25	25/26	26/27	27/28
Scenario 1 – Limited flexibility, economy recovers	5.0%	2.0%	2.0%	2.0%	2.0%
Scenario 2 – Some flexibility, economy recovers	5.0%	2.0%	2.0%	2.0%	2.0%
Scenario 3 – Some flexibility, continued stagflation	5.0%	5.0%	5.0%	5.0%	5.0%
Scenario 4 – Limited flexibility, continued stagflation	5.0%	5.0%	5.0%	5.0%	5.0%

2.27 For the purposes of detailed budget planning, a more granular approach is taken to forecasting budget growth, and specific percentages are applied to the different categories within cost of services.

Revenue Projections

2.28 Strategic revenue projections, based on the assumptions set out above, are summarised in table 5 below for the different scenarios. In light of the many uncertainties around future funding, it is important to note that projections like these can only represent a 'best estimate' of what will happen. These projections will be updated as more information becomes available, prior to a final version of the projections being included in the updated Medium Term Financial Strategy. The figures exclude the cost of changes in pay and grading as set out above (see 2.25).

Table 5: MTFS Revenue Projections 2023/24-2027/28

	23/24	24/25	25/26	26/27	27/28
	£m	£m	£m	£m	£m
Scenario 1 – Limited flexibility, economy recovers					
Total Resources ¹	46.7	47.8	49.5	51.6	54.1
Predicted Expenditure ²	47.9	50.2	51.9	54.1	55.8
Budget Gap	-1.2	-2.4	-2.4	-2.5	-1.7
Existing Planned Savings	0.4	0.7	0.7	0.7	0.7
Savings Required ³	-0.8	-1.7	-1.7	-1.8	-1.0
Scenario 2 – Some flexibility, economy recovers					
Total Resources	47.6	48.8	50.5	52.6	55.3
Predicted Expenditure	47.9	50.2	51.9	54.1	55.8
Budget Gap	-0.3	-1.4	-1.4	-1.5	-0.5
Existing Planned Savings	0.4	0.7	0.7	0.7	0.7
Savings Required	0.1	-0.7	-0.7	-0.8	0.2
Scenario 3 – Some flexibility, continued stagflation					
Total Resources	47.6	49.8	52.0	54.3	56.6
Predicted Expenditure	47.9	51.6	54.9	58.7	62.2
Budget Gap	-0.3	-1.8	-2.9	-4.4	-5.6
Existing Planned Savings	0.4	0.7	0.7	0.7	0.7
Savings Required	0.1	-1.1	-2.2	-3.7	-4.9
Scenario 4 – Limited flexibility, continued stagflation					
Total Resources	46.7	48.2	49.8	51.5	53.3
Predicted Expenditure	47.9	51.6	54.9	58.7	62.2
Budget Gap	-1.2	-3.4	-5.1	-7.2	-8.9
Existing Planned Savings	0.4	0.7	0.7	0.7	0.7
Savings Required	-0.8	-2.7	-4.4	-6.5	-8.2

Notes

1. Resources comprise Council Tax, retained Business Rates and Other Income.
2. Predicted expenditure comprises the cost of services and finance costs.
3. A negative figure represents the amount of savings required to balance the budget; a positive figure represents a budget surplus.
4. All scenarios incorporate the assumption that Council Tax income is increased by the maximum possible given the referendum limit, and fees and charges are increased in line with inflation to the extent that the Council has the flexibility to do so.

- 2.29 It can be seen that in Scenario 2 and 3, the budget can be balanced in 2023/24 without making more savings, provided that Council Tax is increased up to the referendum limit. The assumed referendum limit in these two scenarios is 5%, and it is furthermore assumed that the Council will take advantage of this to increase Council Tax by 5%.
- 2.30 In the case of Scenario 3, continued weakness in the economy means that savings are required in subsequent years. In the case of Scenario 2, there are budget deficits in years 2-4 of the planning period, but the position is balanced again in year 5.

- 2.31 In Scenarios 1 and 4, government constraints on local government spending, principally a freeze in the Council Tax referendum limit at the current level of 2%, lead to a deficit in 2023/24 if no further savings were to be made.
- 2.32 All scenarios other than Scenario 2 therefore require the Council to make savings to balance the budget, even if (as in Scenario 3) this is not necessary from the first year of the planning period.

Updating the Medium-Term Financial Strategy

- 2.33 The updated Medium Term Financial Strategy will need to balance the requirement to deliver the savings identified in the previous section with the key priorities set out in the Council's Strategic Plan:

'Embracing growth and enabling infrastructure recognises' the Council's role in leading and shaping the borough as it grows. This means taking an active role in policy and master planning for key sites in the borough, and where appropriate, investing directly ourselves.

'Homes and communities' expresses the objective of making Maidstone a place where people love to live and can afford to live. This means providing a range of different types of housing, including affordable housing, and meeting our statutory obligations to address homelessness and rough sleeping.

'A thriving place' is a borough that is open for business, attractive for visitors and an enjoyable and prosperous place to live for our residents. We will work to regenerate the County town and rural service centres and will continue to grow our leisure and cultural offer.

A 'safe, clean and green' place is one where the environment is protected and enhanced, where parks, green spaces, streets and public areas are looked after, well-managed and respected, and where people are and feel safe.

- 2.34 The next stage in development of the Medium-Term Financial Strategy will be to review budgets to identify opportunities for savings, or increased income, which can be delivered with the minimum impact on the strategic priorities. To the extent that further growth is planned, above and beyond existing budgets, this will need to be offset by further savings. It is envisaged that the outcome of this review will be a set of growth and savings proposals that can be incorporated in an updated Medium Term Financial Strategy.
- 2.35 It can be seen from Table 5 that the budget gap increases each year in Scenarios 3 and 4. Whilst the immediate priority will be to deliver a balanced budget in all scenarios in 2023/24, the Medium-Term Financial Strategy will need to set out what further steps would be required in subsequent years in the event of these scenarios materialising.

Capital Programme

- 2.36 The capital programme plays a vital part in delivering the Council's strategic plan, since it is only through long term investment that our ambitions for the borough can be realised. The capital programme is a rolling five year programme. The existing capital programme was approved by Council at its

budget meeting on 23 rd February 2022. An updated capital strategy and capital programme is due to be considered by the Executive in January.

Major schemes include the following:

- Affordable housing programme
- Private rented sector housing programme
- Temporary accommodation • Gypsy and traveller sites refurbishment
- Corporate property acquisitions
- Leisure Centre replacement / refurbishment
- Biodiversity & Climate Change capital projects
- Mote Park Visitor Centre
- Garden Community preliminary work

Schemes may be included in the capital programme if they fall within one of the four following categories:

- Required for statutory reasons, e.g. to ensure that Council property meets health and safety requirements;
- Self-funding schemes focused on strategic plan priority outcomes;
- Other schemes focused on strategic plan priority outcomes; and
- Other priority schemes which will attract significant external funding.

2.37 All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must reflect the Prudential Code, which requires that capital investment should be funded in a way that is prudent, affordable and sustainable.

2.38 The current capital programme amounts to £230 million over the next five years. In the light of inflation, this amount will need to be increased if the same outputs are to be delivered, and higher input costs will need to be factored into the appraisal of individual capital schemes to ensure that they are still affordable.

2.39 It is envisaged that the capital programme will primarily be funded from external borrowing. In view of uncertainty about the future trajectory of interest rates and the availability of funds from the Public Works Loan Board, the Council has secured forward borrowing of £80 million, which will be drawn down between 2024 and 2026.

Reserves

2.40 The Council maintains reserves as a safety net to allow for unforeseen circumstances. There is no statutory definition of the minimum level of reserves: the amount required is a matter of judgement. However, the Council has agreed to set £4 million as the minimum General Fund balance.

2.41 In addition to uncommitted General Fund balances, the Council holds reserves that are earmarked for specific purposes. Full details of reserves held are set out below:

Table 6: General Fund balances as at 31 March 2022

	31.3.21 £000	31.3.22 £000
General Fund		
Unallocated balance	9,196	9,124
Sub-total	9,196	9,124
Earmarked Reserves		
Local Plan	200	0
Neighbourhood Plans	96	96
Planning Appeals	286	286
Civil Parking Enforcement	158	389
Housing Prevention & Temporary Accommodation	773	1,279
Business Rates Earmarked Balances	3,774	1,999
Future Funding Pressures	970	970
Trading Accounts	30	0
Future Capital Expenditure	1,131	2,426
Invest to Save Reserve	500	500
Commercial Risk Reserve	500	500
Funding for future collection fund deficits	14,739	1,382
Covid-19 Response and Recovery	0	778
Resources carried forward from 2020/21 to 2021/22	1,077	0
Resources carried forward from 2021/22 to 2022/23	0	1,184
Sub-total Earmarked Reserves	24,234	11,789
Total General Fund balances	33,430	20,913
Total General Fund balances excluding Collection Fund deficits	18,691	19,531

2.42 The unallocated balances exceed the £2 million minimum. They are equivalent to around 20% of the gross revenue budget, which is comfortably in excess of the 10% benchmark that is sometimes cited as a reasonable level. It can therefore be seen that the level of reserves is adequate without being excessive.

3. Consultation Results and Policy Advisory Committee Feedback

3.1 A public budget consultation will take place this Autumn, then individual Policy Advisory Committees will be consulted on the details of the MTFS proposals as they affect the respective Committee portfolios.

3.2 At its meeting on the 13 July 2022, the issue was considered by the Corporate Services Policy Advisory Committee and the following recommendations were made:

RESOLVED: That

1. The issues and risks associated with updating the Medium-Term Financial Strategy be noted;

2. The assumptions described in the report for planning purposes and to establish the remit for detailed budget development, and together with the additional information provided to the Committee, which shows the effect of 0% council tax increase on the four scenarios presented, be recommended to the Executive for approval;
3. The Committee advise Lead Members on the Executive, together with Officers and Members of the PAC, to carry out a detailed review of the initial budget proposals. The purpose of this review would be to identify possible savings required to eliminate budget gaps, especially those identified in the additional information referred to in recommendation 2;and
4. The proposed approach outlined to development of an updated Medium Term Financial Strategy for 2023/24 – 2027/28 and a budget for 2023/24 be recommended to the Executive for approval.

Alternatives considered and why rejected

- 4.1 Option 1: The approach outlined to development of an updated Medium Term Financial Strategy for 2023/24 – 2027/28 and a budget for 2023/24 is agreed.
- 4.2 Option 2: Further options are considered for the development of an updated Medium Term Financial Strategy and the issue is reconsidered in the next Committee cycle.
- 4.3 Whilst there is a considerable amount of uncertainty about the future, this can be addressed through careful consideration of the risks and by building flexibility into our financial plans. The disadvantage of delaying is that it could take some time for full information to emerge, and in the meantime the Council needs to take steps to set a budget for the coming year.
- 4.4 The preceding paragraphs have indicated at several points the risks and uncertainty surrounding the Council's financial position. In order to address these in a structured way and to ensure that appropriate mitigations are developed, the Council has developed a budget risk register. This seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.

Background Papers

None.

I have read and approved the above decision for the reasons (including possible alternative options rejected) as set out above.



Signed: _____
Leader of the Council – Councillor David Burton

Full details of the report for the decision and any consideration by the relevant Policy Advisory Committee can be found at the following area of the [website](#).

Call-In: Should you be concerned about this decision and wish to call it in, please submit a call-in form signed by any three Members to the Proper Officer by: **5pm 4 August 2022**