

**REVENUE BUDGET, CAPITAL STRATEGY AND COUNCIL TAX 2022/23**

Committee: Full Council

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[W143]

**1 ISSUE**

1.1 This report sets out the Council's proposed revenue budget, capital strategy, and the proposed level of Council Tax in 2022/23. The report assesses the robustness of the budgets, the adequacy of reserves and up-dates the Council's Medium Term Financial Strategy (MTFS).

**2 RECOMMENDATIONS**

2.1 Full Council is asked to approve:

- The formal Council Tax Resolution which calculates the Council Tax requirement as set out in Appendix 1;
- The draft revenue budget for 2022/23 and MTFS for 2023/24 to 2025/26 as set out in Appendices 2(a) and 2(b);
- A £5 increase in Council Tax in 2022/23;
- The Statement of Reserves as set out in Appendix 3;
- The 2022/23 Fees and Charges as set out in Appendix 4;
- The Capital Strategy and financing as set out in Appendix 5.
- To approve the Business Rate reliefs detailed in Section 6.7 of this report.

**3 BACKGROUND / OPTIONS**

3.1 At the Full Council meeting on 23<sup>rd</sup> February 2021, members approved a net budget for 2021/22 of £8,437,168 and a frozen Council Tax. The budget had a planned draw of £2,072,648 from the Surplus Savings Reserve. The Medium Term Financial Strategy at that time showed a balanced budget in 2022/23 (using further resources from the Surplus Savings Reserve and an increase in Council Tax of £5 in 2022/23), but with then significant budget deficits in 2023/24 and 2024/25.

3.2 The outturn position for 2020/21 was reported to the Finance and Assets Committee on the 22<sup>nd</sup> July 2021. This showed that due to the actions taken by management to reduce the Council's cost base prior to and during 2020/21 and the additional grants in relation to Covid-19 provided to the Council by Government, the Council underspent in 2020/21 by £2,165,572. This was transferred into the Surplus Savings Reserve.

- 3.3 For clarity, the Government grants detailed above relate to non-ringfenced grant provided to all councils to ensure the continuation of service through the pandemic; compensation grant for the loss of income, fees and charges (such as car parking income) and new burdens grant, paying the Council for the work it undertook managing the business grant and Council Tax hardship schemes on behalf of the Government. Regarding the non-ringfenced grant, many lower tier councils spent a significant element of this on homelessness, but due to the limited homelessness problem in East Cambridgeshire only limited spending was required from this grant.
- 3.4 Management has continued to reduce the Council's cost base during the current financial year. This work has led to further one-off and on-going savings being made; which both contribute to the projected outturn underspend for this financial year and also provide savings throughout the term of the MTFs. The current yearend forecast underspend for 2021/22 is £533,833, this too will be transferred to the Surplus Savings Reserve at yearend and has been reflected in the figures in this report.

#### 4 BUDGET AND SPENDING REVIEW 2021

- 4.1 Local Government was expecting a major change in the way it is funded by Government in 2022/23. At this time last year we were expecting a:
- Spending Review, a major review by Government of all of its spending plans, determining the quantum of funding that will be made available to each Department for a number of years.
  - Local Government Fair Funding Review, a review of the relative needs of all local authorities to determine how much of the funding allocated above, would be allocated to each individual authority.
  - Business Rates Retention Scheme revision, which would result in local authorities retaining 75% of Business Rates collected, rather than the current 50%; but at the same time some direct grants paid to councils by Government, such as Revenue Support Grant and Rural Services Delivery Grant were expected to be withdrawn.
- 4.2 The Spending Review was announced on the 27<sup>th</sup> October 2021, and provided details of the Government's spending plans for the next three years, 2022/23 to 2024/25. The Review announced that Local Government would be allocated an additional £4.8 billion over these three years, £1.6 billion in each year, with the detail regarding how this would be allocated to be announced in the Local Government Finance Settlement.
- 4.3 In a separate statement at this time by the Secretary of State for Levelling up, Housing and Communities, it was announced that plans to move to 75% Business Rates retention by local government were to be scrapped as this was not considered consistent with the Levelling-up agenda. As a consequence of this, it is now anticipated that the Rural Services Delivery Grant will be retained beyond the implementation of the Fair Funding Review.
- 4.4 The Business Rate multipliers were also announced in the Spending Review, with a decision being made to freeze these at 2021/22 levels. The small business non-

domestic multiplier will therefore remain at 49.9 pence and the multiplier for larger businesses (rateable values greater than £51,000) will be 51.2 pence.

## 5 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 5.1 The Final Local Government Finance Settlement was published on the 7<sup>th</sup> February 2022 supported by a written ministerial statement. This followed the publication of the Provisional Settlement on the 16<sup>th</sup> December 2021.
- 5.2 The Settlement confirmed that the Local Government Fair Funding Review would not be implemented in 2022/23, but instead an extension to the previous year's funding settlement was to be actioned. It also confirmed that the Baseline Reset of Business Rates would also not happen in 2022/23.
- 5.3 The Revenue Support Grant figure was increased, in 2021/22 we received £11,829, which increases to £12,579 for 2022/23.
- 5.4 The Settlement made a change in the awarding of New Homes Bonus grant. The scheme was extended by a further year, with amounts earned for year 12 of the scheme, between October 2020 and October 2021, attracting one year's worth of reward in 2022/23 only. Prior to 2020/21 awards had been for four years, and this continues for those awarded prior to this year, but for 2020/21, 2021/22 and 2022/23 there is only one year of reward. What this therefore means is that we received four years of reward in 2020/21, but this reduced to three years in 2021/22 and will be two years in 2022/23. The current expectation is that the grant will be discontinued at this time, but, like all other funding sources in local government, this will be wrapped up within the Local Government Fair Funding Review. There is a view that Government remain committed to incentivising housing growth, but the exact form of this is unclear and there appears to be a growing view that New Homes Bonus is not the answer and they would prefer something more "targeted".
- 5.5 That said, due to the continued high level of house building in the District in the past year, our New Homes Bonus grant for 2022/23 will be £1,112,624, which is an increase from the £540,959 received in 2021/22.
- 5.6 The Settlement includes details of other grants that are being rolled forward, including the Rural Services Delivery grant, an allocation to the most rural authorities, which will be £169,586 in 2022/23 (this is the same as that received in 2021/22).
- 5.7 The new Lower Tier grant, first awarded in 2021/22 to all lower tier authorities responsible for homelessness, planning, recycling and refuse collection, and leisure services, was extended for a further year; East Cambs was awarded £105,054 in 2021/22 and this has been increased to £112,817 for 2022/23 (this is a small increase on the amount announced in the Provisional Settlement).
- 5.8 Government also announced a new grant for 2022/23, the 2022/23 Services Grant, this is the method used to distribute some of the £1.6 billion allocated in the Spending Review. It is seen very much as a one year grant, with this being absorbed into the results of the Local Government Fair Funding Review from 2023/24. East Cambs allocation is £170,007.

- 5.9 The Settlement further identified the local authorities who will have Business Rates Pools during 2022/23, Cambridgeshire was amongst those councils (see paragraph 6.5).
- 5.10 The Settlement makes provision for shire districts to increase Council Tax by up to 2% or £5, whichever is the greater, in 2022/23 without the need for a referendum. Members will be aware that the MTFS approved in February 2021 included an assumption of a £5 increase in Council Tax each year from 2022/23; this paper is written based on that assumption. To put a value on this, the £5 increase in 2022/23 (this is the higher figure for us) would generate additional income of £155,576 in that year.

## 6 BUSINESS RATES

- 6.1 The NNDR 1 return for 2022/23 was produced by the end of January in line with statutory requirements. Figures from this have been included in the budget as presented.
- 6.2 While the Council benefits significantly from the growth in Business Rates since the last Base reset in 2013, there is always a risk that appeals against Business Rates can be lodged and, if successful, can be backdated for several years. The Council does therefore include a provision for appeals in determining how much of the rates collected should be posted into the budget.
- 6.3 The MTFS assumed that the Collection Fund for Business Rates would be in balance as at 31<sup>st</sup> March 2022 once the allocation of the forecast deficit from 2020/21 had been accounted for. The 2020/21 deficit was a consequence of the reduction in receipts as a consequence of the pandemic and it was agreed by Government that this could be recovered over three years, as opposed to the usual one. However, the completed NNDR1 for 2022/23 shows that the Fund will again be in deficit at the end of the 2021/22 financial year. This deficit, however, relates to reliefs provided to retail, leisure and hospitality venues and nursery (children) establishments by the Government after the budget was set. The Government is covering these reliefs by providing Section 31 Grant to councils. This Section 31 grant, is technically 2021/22 income, but it is proposed that the Council carries forward this grant via the use of a reserve to match against the shortfall in 2022/23.
- 6.4 After the impact of the Section 31 Grant is taken into account, the Collection Fund is forecast to be in credit at the end of 2021/22 and this has been allocated as funding in 2022/23. The impact of this is that this Council will have an additional £38,976 of funding in 2022/23.
- 6.5 East Cambridgeshire applied to be, and was accepted by Government to be, part of a continuing Business Rate Pool in 2022/23, alongside a number of other authorities in Cambridgeshire.
- Cambridgeshire County Council
  - Cambridgeshire Fire Authority
  - Fenland District Council
  - Peterborough City Council
  - South Cambridgeshire District Council

(Cambridge City Council and Huntingdonshire District Council are not members of the Pool.)

A review of the scheme was undertaken in the Autumn of 2021, supported by Pixel Financial Management, when it was forecast that this Pool will continue to provide benefit to this authority in 2022/23, despite the impact of the Covid-19 pandemic on Business Rates receipts.

- 6.6 As highlighted elsewhere in this report, forecasts for retained Business Rates beyond 2022/23 are almost impossible at this time, but the figures presented take a prudent view, showing a significant reduction on those expected in 2022/23. These have been informed by our external adviser Pixel Financial Management.
- 6.7 In the Budget / Spending Review the Government announced there will be a 50% Business Rates relief for retail, hospitality and leisure sectors (up to a maximum of £110,000 per business) in 2022-23 and the extension of the current Transitional Relief and Supporting Small Business schemes. With these discounts being fully funded by Government by Section 31 Grant, so there will be no impact on the overall financial position of the Council. As Business Rates is a local tax, Council formally has to agree to provide this discount to rate payers in the District and so this is included in the recommendations in Section 2 of this report.

## 7 THE 2022/23 BUDGET

- 7.1 Due to the proactive actions taken by management to reduce costs and generate new sources of funding in recent years, the revenue budget for 2022/23 is fully funded.
- 7.2 The draft budget for 2022/23 is set out in Appendix 2 to this report.
- 7.3 The following key assumptions have been made in preparing the draft budget:
- The April 2021 inflationary pay increase for staff has still not been agreed by the National Joint Council representing the employers and the unions representing staff, but the latest offer on the table is 1.75%. The staffing budget for 2022/23 has therefore been increased from its current un-inflated baseline by 1.75% to reflect this back-dated increase, an assumed 2% increase in April 2022 and then a further 1.25% additional employer National Insurance costs which comes in on the 1<sup>st</sup> April 2022;
  - Inflation has been put in at 20% for electricity and 5% for gas. For the latter, we are protected in 2022/23 by the terms of our current contract with ESPO having pre-procured the gas in mid-2021;
  - Inflation on other contracts has been included to reflect the expected increase in these during the year. These include insurance and IT licences;
  - 3% has been added to the Waste contract with East Cambs Street Scene (ECSS) and the Parks and Gardens contract with ECTC;
  - A significant amount of Internal Drainage Boards costs relate to electricity and as such, these Levies have been increased by 11%;
  - Other budgets have not been increased by inflation;
  - The RECAP partner contribution has been doubled for two years for 2022/23 and 2023/24 to £24,240, this to allow the partnership to develop a consolidated

response to the Governments Resources and Waste Strategy, thus allowing this to be implemented efficiently across the whole County area;

- Pension Fund revaluations take place every three years, with the last one being on the 31<sup>st</sup> March 2019, no change in rate will therefore be implemented in 2022/23 with the Council's contribution rate remaining at 17.2%, with in addition, the lump sum contribution remaining at £485,000 each year;
- The Housing Benefit budget reflects the position at the end of the third quarter for 2021/22 the latest information received from Anglia Revenues Partnership (ARP);
- No adjustments to spend have been made to reflect the anticipated increase in population within the District;
- Budgeted income from the commuter car park and the Leisure Centre management fee both remain reduced when compared to the value in the 2020/21 budget to reflect the on-going implications of the Covid-19 pandemic on these services.

## 8 RESERVES

8.1 The Council holds reserves, at levels which remain prudent. It is important to review the level of reserves on a regular basis, in particular to ensure that potential liabilities not in the Council's base budget can be funded from earmarked reserves; and that unearmarked reserves are at a sufficient level to cover any unforeseen events.

8.2 As part of the process of preparing this budget, officers have reviewed each reserve to ensure its purpose and level is appropriate. A Statement of Reserves is attached at Appendix 3.

8.3 The sole unearmarked reserve is the General Fund. This stands at £1,050,982. There is no statutory minimum level set for a local authority's reserves; it is a matter for each local authority's own judgement after taking into consideration the strategic, operational and financial risks it faces. It has been this authority's policy for some time that the level of the unearmarked reserve be set at 10% of the net operating budget, this is a reasonably prudent approach and a higher percentage than many other authorities locally. The proposed net operating budget for 2022/23 is £10,632,934. Using the 10% figure, this would require an unearmarked reserve of £1,063,293. An additional £12,311 will therefore be put into the General Fund, this being a transfer from the Change Management Reserve, rather than a draw from Council Tax.

### 8.4 Leisure Centre Sinking Fund

There is currently a reserve for the District Leisure Centre Sinking Fund. The original purpose of the fund was to allow for the Council to replace the District Leisure Centre, including plant equipment, if necessary, in future years.

GLL is the Operator of The Hive. In 2016 the Council awarded a twelve year contract which includes a five year option to extend. Throughout this period GLL is required to repair/refurbish The Hive as necessary, excluding the structure of the building and the plant equipment.

The forecast balance of the reserve at the end of 2021/22 is £165,849 and the current MTFS is forecasting a further £638,379 being transferred into the fund during 2022/23 and 2023/24.

As part of the budget setting process officers have considered whether this reserve is necessary and have explored alternative options should future investment be required. If, in the future, it is decided that it is necessary to replace the District Leisure Centre or the plant equipment, the Council could finance this in two ways. The first, through the Community Infrastructure Levy (or other planning gain that would exist at the time), and second, through a new Leisure Management Contract, for example, the Council could let a new contract to an Operator on the basis that the necessary replacements are carried out and the annual payable management fee to the Council would reflect the investment that the Operator is providing.

The Council recognises that investment in other leisure providers across the District is beneficial to the residents of East Cambridgeshire and this is reflected in the Corporate Plan 2021-2023. To meet this commitment, it is proposed that the Council creates a £300,000 reserve that will facilitate the improvement of the leisure offer for existing providers across the District. This fund will replace the historic Leisure Grants (£32,000 per annum) and will not be time limited. The intention of the fund is to enable leisure providers to make improvements to the business that facilitates sustainable growth in the future. A scheme, including criteria, will be designed and presented to the Operational Services Committee in March 2022.

It is therefore recommended that the Council looks to refocus the current reserve towards other leisure providers, end the Sinking Fund in its current form and utilises developer contributions in the future.

## 8.5 Affordable Housing

The reserve account for CLT Affordable Housing has a forecast balance at the end of 2021/22 of £465,710. The 2021/22 MTFS forecast a further £24,920 being transferred into the fund during 2022/23.

The reserve was created following a resolution of Council in January 2016 (Agenda Item 6) to incentivise and support CLT development. The decision was to ring fence and allocate the additional element of the New Homes Bonus received by Council for each affordable housing unit to CLTs. The Council is due to transfer £121,800 to various CLTs across the District. The amount payable is £2,100 per property (£350 per property for six years). The beneficiaries are Stretham and Wilburton CLT (23 units), Swaffham Prior CLT (8 units), Thrift for Soham CLT (8 units) and Haddenham CLT (19 units).

All future completions will fall outside of the period for which the Council will receive the New Homes Bonus and therefore will not be eligible for payments under the scheme. The funds in the budget (referenced above) are amended to reflect the actual amount expected to be needed.

The Council is committed to assisting CLTs in the District and currently has a start-up grant fund of up to £5,000 per community group to enable them to become legally incorporated and begin work to bring forward community led development in their area. The Council also has dedicated resource to provide technical advice and support to CLTs free of charge.

The ability to access funds between start up and commencement on site is limited for a CLT. In 2021/22 Homes England made funding available, however, this was a national scheme with a limited time to bid for funds. Two CLTs in East Cambridgeshire were successful. The scheme was oversubscribed and is now closed. The grants enabled CLTs to bridge the funding gap between start-up and commencement of development.

It is proposed that the Council creates a £100,000 fund that will enable new and existing CLTs to apply for pre-development finance support for independent advice on rent policies, viability assessments and community engagement support (not exhaustive). Additionally, for a CLT to provide affordable rent it must become a registered provider. This fund could provide financial support to assist CLTs through the Registered Provider registration process. A scheme, including criteria, will be designed and presented to the Finance and Assets Committee in March 2022.

## 9 FEES AND CHARGES

- 9.1 Officers have reviewed the fees and charges, and details of the proposed charges for 2022/23 are shown at Appendix 4. The proposed budgets include increases as a result of both volume and price.
- 9.2 There have been no new fees or charges introduced for 2022/23.
- 9.3 Where we have control over the fee level, as opposed to where these are negotiated nationally, and where the fee relates to work undertaken by officers, it is proposed to increase fees and charges by approximately 2%. This approach ensures that the additional cost of providing the service is met by the person / organisation benefiting from the service, rather than the general populous through Council Tax.
- 9.4 As external funding from Government grants continues to reduce, the Council's approach to fees and charges will need to reflect the increasing importance of this as an income source.

## 10 CAPITAL STRATEGY

- 10.1 The CIPFA revised 2017 Prudential and Treasury Management Codes required from 2019/20 all local authorities to prepare a capital strategy report, which provides:
- a high level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
  - an overview of how the associated risk is managed;
  - the implications for future financial sustainability.
- 10.2 This Council has no long term capital objectives at this time. The medium term capital programme has been reviewed, and is attached at Appendix 5. The programme is largely a continuation of the previous programme. The total value of the programme in 2022/23 is £4,407,037.
- 10.3 The Council's Treasury Management Strategy is a separate document, which is also on today's Full Council agenda.



- 10.4 With the Council's Waste Service now being provided by East Cambs Street Scene (ECSS), the Council is purchasing waste fleet and hiring this to the Company. The hire charge reflecting the Council's capital costs of doing this, both the MRP and interest costs. Spend in 2022/23 is forecast at £2 million as vehicles previously purchased by the use of the Weekly Collection Grant from Government, have now reach and indeed surpassed their useful, economic life and require replacing. It had previously been planned to change these vehicles in 2020/21 and then 2021/22, but with the Government due to announce further details of its Waste Strategy shortly – it has already been delayed a number of times - it has been deemed more sensible to wait to ensure that the vehicles purchased meet the new needs prescribed in this Strategy. It is also hoped that Government funding may become available at the same time. While these additional costs will be reflected in the charge to ECSS, the Council will need to increase the contract value it pays ECSS for providing the service as detailed in paragraph 13.4 to ensure that it can meet these additional costs.
- 10.5 The project to refurbish the depot has been deferred into 2022/23, while further feasibility work takes place and costings of the project reviewed. At this time the budget originally submitted in 2018/19 remains in place, but potentially this will need to be adjusted as new information comes to hand. A fuller report will be presented to the March meeting of Finance and Assets Committee, for consideration by Members.
- 10.6 There are a number of capital budgets that continue into 2022/23, having been in place in previous years, where there is a commitment to continue spending in each year of the capital programme:
- The purchase of new wheeled bins; as further residential properties are built within the District, these need to be supplied with bins, so the Council needs to have these available. The cost of these, estimated at £40,000, will be covered by a combination of Section 106 funding and capital receipts.
  - The Council's contribution to the A14 up-grade. When the scheme was originally designed, and funding agreed, it was agreed that councils within Cambridgeshire (Cambridgeshire County Council, East Cambridgeshire, Fenland, Huntingdonshire and South Cambridgeshire) would contribute to the costs of the project, this contribution was expected to start in 2021/22 and will be funded from CIL contributions. This is for £40,000 per year for 25 years.
  - Disabled Facilities, both mandatory and discretionary. The Council receives Government funding (from the Better Care Fund), via the County Council to assist with the funding of this work. The total budget in 2022/23 is £1,422,087, which includes a forecast carry forward from 2021/22 of £649,788. £716,942 being funded by grant, with the remainder (£705,145) being funded by the Council by the use of previously obtained capital receipts.
  - And vehicle replacement funding for the Parks and Gardens team, these vehicles are purchased by the Council using Section 106 funding, and then hired to ECTC at a rate to cover the notional MRP and interest costs using the same formula as with Waste vehicles.
- 10.7 There is one new budget in the 2022/23 capital programme, this relates to the cost of putting solar panels on the E-Space, North building as part of the Council's drive to become more sustainable. This scheme was approved in principle by Operational

Services Committee on the 15<sup>th</sup> November 2021 and currently has an estimated initial capital cost of £50,000.

- 10.8 As agreed in the 2017/18 budget, the Council now funds expenditure that would have previously be funded from external borrowing, on schemes such as the Leisure Centre, Waste fleet and the loan to the ECTC, from internal borrowing. As interest chargeable on external borrowing is higher than interest receipts on investments, this provides a net saving to the Council. The current expectation is that all borrowing in 2022/23 will be funded from internal borrowing, thus preventing any external borrowing costs. More details of the Council's borrowing requirement and investment strategy are detailed in the Treasury Management Strategy.
- 10.9 In summary therefore, the Council has limited exposure to the on-going costs of capital expenditure at this time. The MRP costs of the Leisure Centre are being met by the operator through the management fee; the loans to ECTC will be repaid in 2023 and in the intervening period a commercial interest rate is being charged, and the costs of the Waste fleet and some of the costs of the depot refurbishment will be passed onto ECSS, although the Council's revenue budget has been increased to reflect the replacement of the vehicles reaching the end of their useful life in 2022/23.

## 11 COUNCIL TAX

- 11.1 The MTFs assumed that the Collection Fund for Council Tax would be in balance as at 31<sup>st</sup> March 2022, once the allocation of the forecast deficit from 2020/21 had been accounted for. This deficit was a consequence of the reduction in receipts as a consequence of the pandemic and it was agreed by Government that this could be recovered over three years, as opposed to the usual one.
- 11.2 However, due to the increased number of houses built in the District during 2020/21 and the fact that Council Tax receipts were not impacted by the pandemic as much as expected the Fund is now forecast to be significantly in surplus at the end of this financial year. The net position being that the Council will benefit by £244,673 from the Collection Fund surplus in previous years.
- 11.3 At the time of calculating the number of band D equivalent properties for 2021/22, there was an expectation that unemployment would rise significantly in the Country as a consequence of the pandemic, especially at the point that the Government's job retention scheme, introduced to protect jobs, was wound down. With this in-turn increasing the number of residents claiming Local Council Tax Support, thus reducing the Council tax-base and the amount of Council Tax collected.
- 11.4 The taxbase for 2022/23 estimated in last year's budget was an equivalent of 30,105.5 Band D properties. However, the current forecast, including the real change in housing between October 2020 and October 2021 and an estimation of future movements in 2022/23 and a far less prudent view of the reduction in Council Tax as a consequence of the pandemic, based on evidence from the past year, means that the forecast for 2022/23 is now 31,115.3 Band D properties.
- 11.5 In accordance with the MTFs approved by Council in February 2021 it is proposed that the Council increases its Council Tax for a Band D property by £5 in 2022/23, bringing the Council's total charge to £147.14 in 2022/23, based on the Council Tax requirement of £4,578,305 divided by the taxbase of 31,115.3 properties.

- 11.6 The County Council, Fire and Police Authority budgets and precepts were considered by their respective decision making bodies in early February and we were notified of their precept requirements. The Cambridgeshire and Peterborough Combined Authority has not levied a precept in 2022/23.
- 11.7 It should be noted that the County Council's precept comes in two parts, a general precept and an adult social care precept, this following the Secretary of State's offer to all adult social care authorities (those with functions under Part 1 of the Care Act 2014). The offer was the option of an adult social care authority being able to charge an additional "precept" on its council tax without holding a referendum, to assist the authority in meeting its expenditure on adult social care. This arrangement has been in place since the financial year 2016-17.
- 11.8 All parish precepts have also been notified to the Council. These are reflected, along with the precepts set out in paragraphs 11.5 and 11.6, in the formal Council Tax Resolution as detailed as Appendix 1.
- 11.9 As is required, the Council has consulted with local businesses regarding the budget.

## 12 RISK AND SENSITIVITY ANALYSIS

- 12.1 The Local Government Act 2003 places two specific requirements on an authority's Section 151 Officer in determining the Council's budget and Council Tax. Under Section 25, the Section 151 Officer must advise on the **robustness of the estimates** included in the budget. The advice given to the Council on this issue is that the estimates have been produced on a prudent basis, with a strong emphasis on ensuring all cost pressures are included. Budget estimates have been developed with senior officers, with regular updates and discussions with members of Management Team.
- 12.2 The key risks are around funding of the Council. The Final Settlement provides clarity around grant funding for 2022/23, but looking beyond that, there is very limited information to put forward a MTFs based on confident assumptions on future Government funding. The risks from 2023/24 are significant; there is limited information on likely sources of funding and indeed the value of any funding to be received.
- 12.3 Possibly the greatest concern for this Council however, is that reports suggest that Government intend to implement a full Business Rate baseline reset in 2023/24. The current baseline was set in 2013, when all councils were given a share of Business Rates equal to their calculated needs. Since then councils have been allowed to keep a share of their growth, which for us as a district council has been 40%. In broad figures our baseline is £2.5 million, where we actually budget for £3.9 million of Business Rates because of this growth. If the baseline is fully reset, we could lose all of this growth and won't know what our revised baseline will be until the results of the Local Government Fair Funding Review (as detailed in 4.1) are announced. An allowance has been made in the MTFs for this probable reduction, but at this point, there is no certainty on what this is likely to be.
- 12.4 To mitigate the above risk, the Section 151 Officer will continue to report on a frequent basis to Management Team and members as new information becomes available.

- 12.5 The Section 151 Officer is also required to report on the **adequacy of reserves**. The projected level of reserves, specifically the General Fund Reserve and Surplus Savings Reserve, and their use in 2022/23 are **prudent** and show how these will sustain the functions of the Council in that year.
- 12.7 However, the MTFS assumes the remainder of the Surplus Savings Reserve is utilised during 2023/24 and 2024/25, which will reduce the overall level of reserves significantly. Reserves can only be utilised once and while the purpose of the Surplus Savings Reserve is to provide one-off funding to balance the budget in future years, the Council needs to be considering all options to reduce the speed that this is being utilised so that it remains available further into the future. The Council has a track record of delivering additional savings and generating extra income in advance of the budget requirement, so work done during 2021/22 and 2022/23 financial years will hopefully lead to a reduced draw from the Surplus Savings Reserve in these and future years through the MTFS period.
- 12.8 Another key risk for the Council is its loan to ECTC. Should ECTC encounter any financial difficulties and be unable to repay the £4,900,000 loan, then the Council will need to account for this within its financial statements. In such an event, the Council would need to draw on its reserves to meet such a liability. At this point however, it should be noted there is no indication that this is likely to be the case.

### 13 MEDIUM TERM FINANCIAL STRATEGY

- 13.1 The Council's Medium Term Financial Strategy is to set a robust financial framework for the Council's plans over the next four years which support the delivery of the Council's priorities within a context of an annual balanced budget. Specifically, the MTFS:
- Looks to the longer term to help plan sustainable services within an uncertain external economic and funding environment;
  - Maximises the Council's financial resilience and manage risk and volatility, including managing adequate reserves;
  - Helps ensure that the Council's financial resources are directed to support delivery of the Council's priorities over the medium term.
- 13.2 The MTFS covers the period 2022/23 to 2025/26. As highlighted earlier in the report, the Spending Review and Local Government Settlement announced by Government for 2022/23 provides assurance about the grant position for that year and these figures can therefore be considered robust.
- 13.3 However, it is extremely difficult to develop a robust MTFS to cover the period 2023/24 and beyond while the uncertainties around future funding levels from Government remain. The Government is currently considering options around the Local Government Fair Funding Review to determine how much of this funding is allocated to individual authorities. This issue creates considerable uncertainty for local authority funding; and is an issue which will require monitoring in the coming year, so the Council can adjust its MTFS as new information becomes available. Updates will be provided to the Finance and Assets Committee as further information becomes available.

13.4 The assumptions used in the MTFs include:

- Government funding through Revenue Support Grant, New Homes Bonus, Lower Tier Grant and the 2022/23 Services Grant will all end in 2022/23;
- Inflation on staff pay is included at 2% in all future years
- 2% inflation is added to the Waste contract on an annual basis, however additional budget is provided from 2023/24 when the new recycling vehicles (budgeted to be purchased in 2022/23) will start being charged to ECSS. (This cost increase would have occurred regardless of whom is undertaking the contract at this point);
- The next Pension Fund Revaluation is on the 31<sup>st</sup> March 2022, with any revision to our contribution rate implemented on 1<sup>st</sup> April 2023. At this time, we are assuming the rate will remain unchanged.
- The loans to ECTC are planned to be repaid in 2023, the interest received by the Council on these loans will therefore stop at this point. The loan repayments will be used to reduce / prevent the Council needing to borrow externally, therefore reducing costs, albeit not to the magnitude that income will be lost;
- There remains no assumption in the MTFs for any dividends being received from ECTC. (While noting that no dividends are budgeted for, it should not be forgotten that the Council continues to get significant benefits from ECTC, with interest being paid on the loans provided at a rate far higher than available from its investments, the recharge of management and support services costs to the Company (forecast to be £86,650 in 2022/23), the hire of the Market Place and part of the depot, as well as Capital Receipts, Section 106 contributions and eventually additional Council Tax receipts from the properties developed.)
- The Council has a track record of delivering cost reductions; it is anticipated therefore that a contribution to the budget deficit forecast in future years will be achieved during the term through general efficiencies and income generating opportunities; however, to be prudent, no account of these are shown within the forecasts within this report.

13.5 The impact of the above assumptions is attached at Appendix 2. This shows the budget for 2022/23 and 2023/24 is fully funded. However, there is significant budget shortfalls projected in 2024/25 and subsequent years. Clearly many things will change between now and then, so members should not focus on the precise numbers. What is far more important is that members appreciate the direction of funding facing this and many local authorities, and the likely scale. It will be necessary to develop a plan to meet these shortfalls, although the Council does have time (although limited) to put the necessary plans in place. The Council also has access to a reasonable level of reserves, as described in section 8 of this report.

13.6 While noting the uncertainty that is highlighted in this report about the 2023/24 financial year, it is considered unlikely that the quantum of funding from Government will increase and as such, this Council will need to identify measures to bridge the budget gap. A comparison between this year's MTFs and the past two last years does highlight a reducing forecast savings need to be identified in years three and four, although it should be noted that the budgets for 2021/22 and 2022/23 assume a £5 Council Tax increase from 2022/23, where this was not included in the 2020/21 budget. This therefore removes one of the options that the Council has to balance the remaining budget gap. It remains of great importance therefore that the Council continues to look for savings, to ensure that it can balance its budget in future years.

2020/21 Budget	
2020/21 – budget year	Balanced
2021/22 – MTFS year 1	Balanced
2022/23 – MTFS year 2	Savings to find £3,266,854
2023/24 – MTFS year 3	Savings to find £4,391,777
2021/22 Budget	
2021/22 – budget year	Balanced
2022/23 – MTFS year 1	Balanced
2023/24 – MTFS year 2	Savings to find £4,143,095
2024/25 – MTFS year 3	Savings to find £4,117,856
2022/23 Budget	
2022/23 – budget year	Balanced
2023/24 – MTFS year 1	Balanced
2024/25 – MTFS year 2	Savings to find £2,342,398
2025/26 – MTFS year 3	Savings to find £3,859,246

13.7 Options to resolve the budget shortfalls in future years come from:

- Efficiencies in the cost of service delivery
- Reductions in service levels
- Increased income from fees and charges
- Increased commercialisation via its trading companies

13.8 While noting the Council's favourable position of having a balanced budget (by use of the Surplus Savings Reserve) for 2022/23 and 2023/24, it is strongly recommended that early consideration is made to how savings in future years will be achieved. All the bullets above need to be considered, with a quickening of the pace of commercialisation and the review of all income generating opportunities, as these are potentially the areas that could generate the highest returns, while having least impact on the services provided by the Council. However, within the MTFS period, all options will need to be considered and potentially implemented.

13.9 Any savings achieved in 2021/22 and 2022/23 resulting in potential underspends in those years, will allow further funding to be moved into the Surplus Savings Reserve and therefore available to assist in the balancing of the budget in future years.

## 14 ARGUMENTS / CONCLUSIONS

14.1 The proactive actions already taken have led to balanced budgets for 2022/23 and 2023/24 (based on known information and the use of the Surplus Savings Reserve). The budget for 2022/23 therefore has minimal risks attached to it, although the Medium Term Financial Strategy and the new funding regime expected to come into place from 2023/24 do contain significant uncertainty and therefore risk. While there is little this Council can do to remove this uncertainty at this point, it does need to look now for opportunities within its own control, which will bridge some part of the funding gap currently forecast.

15 FINANCIAL IMPLICATIONS / EQUALITY AND CARBON IMPACT ASSESSMENTS

- 15.1 The proposed net operating budget of £10,632,934 will be financed by Revenue Support Grant, retained Business Rates, Council Tax and a contribution from the Surplus Savings Reserve.
- 15.2 An Equality Impact Assessment is not considered necessary, as no public facing services are being reduced in 2022/23.
- 15.3 A Carbon Impact Assessment (CIA) is also not considered necessary, as there will be no changes to service provision in 2022/23.

16 APPENDICES

- Appendix 1 – Formal Council Tax Resolution (to follow)  
Appendix 2 - Draft Budget 2022/23 and MTFS  
Appendix 3 - Statement of Reserves  
Appendix 4 - Schedule of Fees and Charges  
Appendix 5 - Capital Programme

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**Background Documents**

2021/22 Budget to Full  
Council – 23<sup>rd</sup> February  
2021

**Location**

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The Grange  
Ely

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MTFS up-date report to  
Finance and Assets  
Committee – 5<sup>th</sup> October  
2021

Budget Report to Finance &  
Assets Committee – 24<sup>th</sup>  
January 2022