Rother District Council

Report to:	Cabinet
Date:	13 December 2021
Title:	Medium Term Financial Plan 2022/23 to 2026/27
Report of:	Antony Baden – Chief Finance Officer
Cabinet Member:	Councillor Dixon
Ward(s):	All
Purpose of Report:	To consider the recommendations arising from the Overview and Scrutiny Committee meeting held on 22 November 2021, regarding the financial issues affecting the Council and their impact on the financial forecast for the five years ending 2026/27. The report and recommendations arising are reproduced below and the Minutes of that meeting (Appendix D) should be read in conjunction with this report.
Decision Type:	Key
Officer Recommendation(s):	It be **RESOLVED**: That:

1) the financial forecast and proposed way forward be noted;

2) the Council maintain its policy of maximising the annual increase in Council Tax within the Government's referendum limit, (see paragraph 25);

3) the Chief Finance Officer be authorised to finalise the wording of the budget consultation literature in conjunction with the Cabinet Portfolio Holder for Finance and Performance Management; and

4) the Council continues to be part of the East Sussex Business Rate pool in 2022/23 and that the Chief Finance Officer be given delegated authority to finalise the necessary agreement with the Member authorities in consultation with the Cabinet Portfolio Holder for Finance and Performance Management (see paragraph 18).

Reasons for Recommendations:	If supported, the recommendations underpin some of the key assumptions within the financial forecast presented in this report. This provides the basis for the development of the detailed revenue budget for 2022/23 and the Capital Programme for approval in February 2022. The forecast also forms the basis of the public consultation on next year's budget and council tax.

Introduction

1. This document sets out the latest forecast budget for 2022/23 and updates the Medium Term Financial Plan (MTFP) for the period 2023/24 to 2026/27, (see Appendix A). It represents the latest view of the Council's financial position over this five-year period and is subject to confirmation of Government funding and several other factors that may affect the Council's finances.

2. The lack of certainty surrounding local government funding continues to limit the ability to produce reliable financial forecasts for the MTFP, especially in respect of Business Rate income, the potential for a negative Revenue Support Grant (RSG) and the replacement of the New Homes Bonus (NHB) grant. The situation is compounded by the continuing uncertainty around the economic impacts of the pandemic, climate change and the UK exit from the European Union.

3. This report describes the key financial pressures facing the Council and sets out the need to use reserves to balance its budget, which is a legal requirement. However, reserves can only be used once so the Council will need to make some difficult decisions within the next 12 months to achieve an affordable and sustainable budget, as set out in the Corporate Plan.

4. Members should note that the financial forecast at Appendix A is a work in progress and some of the issues discussed in this report have yet to be fully quantified.

The Budget Process

5. The budget process follows three main phases. The first phase is to update the MTFP, which sets out budget pressures and estimates the size of the budget deficit over the next five years. The second phase is to produce a detailed draft budget for Cabinet's consideration in January 2022. The third phase is to finalise the budget once the national funding settlement has been announced and incorporate the Capital Strategy and revised Capital Programme into the MTFP for approval by Cabinet and full Council in February 2022.

Local Government Settlement 2022/23 and beyond

6. Since 2010, the Council has seen a substantial fall in funding. Its RSG and share of Business Rates was £6.6m in 2010, but it no longer receives the former and its share of Business Rates income in 2021/22 is estimated at £3.7m. This is a fall of £2.9m in cash terms and ignores the effects of inflation on the Council's costs. Furthermore, the average Band D council tax charge was frozen between 2010 and 2016, which has had a knock-on impact on council tax income levels.

7. In July 2020, the Government announced its intention to undertake a local government 'Fair Funding Review'. This has been further delayed and it is not yet clear when it will take place, although they have indicated their intention to reduce the amount of grant funding pots to simplify the grant bidding process. The funding settlement for 2022/23 is expected in December 2021.

Cost Pressures

8. **Homelessness** – Members approved an increase of £250,000 in the Homelessness base budget in response to the high levels of demand experienced in 2020/21. Although demand continues to be high, the Temporary Accommodation (TA) acquisition project has alleviated budget pressure by reducing the use of more expensive private rented accommodation and no further increase has been made in the forecast.

9. **Planning Appeals** – The forecast includes a provision of £450,000 in 2022/23 only for known potential appeal costs. These would increase further in the event of further successful appeals.

10. **Net Financing Costs** – The forecast includes a significant increase in financing costs due to the planned increase in capital investment on major projects such as the Property Investment Strategy and TA acquisition programme. An interest rate of 1.93% has been used in relation to new borrowing over a 50-year repayment period. Given the potential volatility around future interest rate increases, it is prudent to assume a slightly higher rate than the current prevailing rate of 1.7%. Interest rates will be kept under review during phase 2 of the process and amended should further material changes occur.

11. **Staffing Costs** – the forecast assumes an annual increase of 1% for the annual pay award, which adds approximately £100,000 to the budget requirement. Staffing budgets have also been decreased by a 2% vacancy allowance to allow for staff turnover, which reduces the budget requirement by about £200,000 each year. The impact of the 1.25% increase in the employer's national insurance contribution rate still needs to be assessed and so has not been included in the forecast, but it is expected to increase the budget requirement by a further £70,000.

12. **Non-Pay Inflation** – inflation increases of between 1.8% and 2% have been applied to non-pay and income budgets, which is estimated to add between £123,000 and £148,000 to the budget each year. The fallout from the pandemic has made inflation forecasts extremely volatile with energy costs being subject to far higher than normal uplifts. These will be reviewed further and updated during phase 2 of the budget.

Rother District Council Corporate Plan

13. The new Corporate Plan was adopted by Full Council on 5 July 2021. It includes several priority objectives, some of which may require revenue capital investment if they are to be successfully delivered. This presents a major risk to the revenue budget so a financial framework to underpin the Corporate Plan is currently being developed. The forecast currently does not include any additional funding to deliver its objectives.

14. One of the Corporate Plan's priority objectives is, however, to achieve financial stability by the end of 2025/26. This means rectifying the deficit and replenishing those reserves that are currently used to balance the revenue budget and requires that the overall Corporate Plan at worst must achieve cost neutrality.

Financial Stability Programme (FSP)

15. The FSP was agreed by Cabinet on 29 March 2021 (Minute CB20/120 refers) with the aim of achieving financial stability within five years by delivering cost savings and income. It consists of four main work themes as follows:

    a) **Service Devolvement** (Protecting Discretionary Services) – transfer some assets and related services to Bexhill Town Council;

    b) **Invest To Save** – undertake process reviews and investment designed to generate service efficiencies and cost savings;

    c) **Income generation** – increase income from new and existing charges, sell services to external parties and undertake further property investment; and

    d) **Service Prioritisation** – reduce the level of discretionary service provision.

16. Cabinet approved the creation of an Invest To Save (ITS) fund of £750,000 at the same meeting. This is to be used to meet any one-off costs required to secure an ongoing savings and income. The annual required savings from the FSP is summarised in the table below:

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£'000	£'000	£'000	£'000	£'000
Required Savings	635	2,137	2,197	2,197	2,197

COVID-19 impact

17. There is still great uncertainty over the impact that the pandemic may have on the economy and several areas could still be at risk from increased costs or reduce income, e.g. rent from Commercial Tenants, financial support to culture and leisure operators (such as the De La Warr Pavilion and Freedom Leisure), Homelessness, etc. No additional costs have been factored into the forecast, but Members should be aware of the risk.

Business Rates (Non-Domestic Rates)

18. The Council is currently part of the East Sussex 50% Business Rate Pool, which means the Government levy on business rate growth is retained by the pool. The pooling arrangement will be reviewed, but it has previously been financially beneficial and for the purposes of this forecast it is assumed that it will continue. It should be noted that the Government has announced it will not proceed with plans to allow councils to retain 75% of their business rates, but there is no indication yet that this will be extended to 50% pooling arrangements.

19. There is still no indication as to when the Government will proceed with its Business Rate reset as part of the Business Rates review so whilst the risk of a redistribution of resources away from the Council still exists, no assumptions have been included in the forecast.

20. Further announcements relating to business rate charges, which will be effective from April 2022 were made as part of the Chancellor's October budget statement and included the following:

a. a new 50% relief for retail, hospitality and leisure businesses with bills up to £110,000;
b. a freezing of the business rate multipliers; and
c. an extension of the current Transitional Relief and Supporting Small Business schemes.

21. The Council will be compensated by way of a grant for any losses suffered from the above, so no changes are required to the forecast.

22. The Government have also committed to a triennial revaluation cycle starting from 2023, as part of its review. It is not possible to predict at this stage how this might impact the Council's budget.

Non-Specific Revenue Grants

23. In December 2016, the Government announced a reduction to the number of years that New Homes Bonus grant would be paid, with the last year payable being 2021/22, (the Council receiving £272,000 in 2021/22). No announcement has been made regarding the future or otherwise of NHB, therefore the forecast assumes that the Council will not receive any further funding in this respect.

24. The forecast assumes the COVID-19 grant will cease with effect from 2022/23. Other grants have been increased by 2.4% and are subject to confirmation in the Local Government finance settlement.

Council Tax and Council Tax Base

25. For 2021/22, Council Tax was again only allowed to increase by the maximum of 2% or £5 per Band D average before a referendum would have been required. The Government has made no final announcement yet on this year's referendum limits, so the forecast has assumed an increase of £5 for each year of the MTFP.

26. The Council Tax Base in the forecast allows for an annual increase in new builds from housing developments based on the Council's targets less an allowance for collection losses and Council Tax Reduction claimants. This results in an additional 450 to 600 properties. Based on previous performance, this increase is expected to be optimistic and is likely that it will reduce when the formal tax base calculations are undertaken during phase 2 of the budget process.

Collection Fund Surplus/Deficit

27. The forecast Collection Fund outturn for 2021/22 (which will impact 2022/23 financial year) will be updated during phase 2 when the impact of the Government's announcements on business rates reliefs has been assessed and the Council Tax Base data reviewed.

Revenue Reserves

28. The latest financial monitoring for 2021/22 predicts Revenue Reserves to fall to £9.814m by the end of the current financial year, which is only £76,000 lower than the original budget estimate of £9.890m.

29. The MTFP forecast estimates that a further £5.263m of Reserves will be needed to support the Revenue Budget over the next three years, including £747,000 to support the Capital Programme. From 2025/26 it is predicted that the Council will be able to begin replenishing its level of Revenue Reserves over the next two years by £1.125m.

30. By the end of the five-year forecast, the balance of Revenue Reserves is forecast to be about £5.752m, having dipped to a minimum level of £4.627m by 2024/25. Appendix B summarises the Revenue Reserves five-year forecast.

31. The forecast level of Reserves is largely dependent on the successful delivery of the FSP savings targets summarised in paragraphs 15 and 16. The two tables below set out the impact on Reserves should only 50% and 25% of those savings be achieved:

Delivery of 50% FSP savings targets

Potential Use of Reserves	Revised 2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)
Earmarked Reserves and General Reserves	(13,209)	(9,890)	(5,977)	(3,637)	(2,191)	(1,479)
Use of/(Contribution to) Reserves	3,319	3,913	2,340	1,446	712	420
Total Reserves	**(9,890)**	**(5,977)**	**(3,637)**	**(2,191)**	**(1,479)**	**(1,059)**

Delivery of 25% FSP savings targets

Potential Use of Reserves	Revised 2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)
Earmarked Reserves and General Reserves	(13,209)	(9,890)	(5,857)	(2,983)	(1,003)	243
Use of/(Contribution to) Reserves	3,319	4,032	2,874	1,980	1,246	954
Total Reserves	**(9,890)**	**(5,857)**	**(2,983)**	**(1,003)**	**243**	**1,197**

32. Members will note that if only 50% of the savings are delivered, Reserves would fall to an unsustainably low level and if only 25% are delivered, the Council would run out during 2025/26. In either of these scenarios, the Council's only option would be to make cuts to statutory services and cease the provision of some non-statutory services altogether. The Chief Finance Officer may also be obliged to issue a section 114 notice. Under the Local Government Finance Act 1988, a Chief Finance Office must issue such a notice if they conclude that the Council cannot balance its budget in-year and the necessary action to rectify the situation was not supported by Members. At this point, spending on all but essential services would cease. It is not envisaged that this would be the case as the Council has robust plans in place to deal with the budget deficit. The external auditor has made no adverse comments on the Council's plans and is currently reviewing the latest MTFP.

Capital Programme

33. Members will be aware that whilst there has been a major increase in the Council's planned capital investment, COVID-19 has had a significant impact on the pace of its delivery. The draft Capital Programme at Appendix C totals

some £143m and includes schemes already approved by Members, e.g. £105.5m on housing development projects [of which an estimated £80m to be delivered by Alliance Homes Rother (AHR)], £14.5 on the Property Investment Strategy and £7.3m on the TA acquisition programme.

34. The scale of the investment will significantly increase the Council's borrowing requirement over previous levels, and this has been reflected in the forecast – see paragraph 10. The Council's Treasury Management consultants are currently advising on financing structure for the housing development programme to be delivered by AHR. The £80m reflects the business plan previously approved by Members, but the actual borrowing incurred by the Council is expected significantly lower. This is because the development will be phased with each phase being sold to either a registered provider or to the market. The sales proceeds will then either be recycled in full or part into funding the subsequent development phase or used to repay AHRs debt to the Council. The final funding structure will be designed to minimise the overall interest costs to the housing development.

35. For the purpose of this report, slippage from 2021/22 projects have been included in 2022/23 but more accurate cash flow timings will be developed during phase 2 of the budget process, as will the capital financing.

Budget Consultation

36. The Council is required to consult on its budget and council tax proposals with its residents and local businesses. The opinions of residents, partner organisations, businesses and other interested parties are an important part of the budget setting process. It is planned to consult between 14 December 2021 and 31 January 2022. An interim report on the consultation will be reported to this committee on 24 January 2022.

37. In addition to the likely council tax proposals, the consultation will need to highlight the scale of the financial challenge and the Council's response for dealing with it. Cabinet will be requested to agree that the Chief Finance Officer be authorised to finalise the wording of the consultation literature in conjunction with the Cabinet Portfolio Holder for Finance and Performance Management.

Conclusion

38. Despite the many pressures, the Council can deliver a balanced budget with a combination of sound financial management and the successful delivery of the FSP. The importance of this cannot be overstated and failure to achieve the objectives of the FSP will result in the Council having to make difficult decisions around the provision of local services.

39. It is highly likely that its resources will need to be reorganised if the priorities and objectives of the Corporate Plan are also to be achieved. To this end, the Council will need to maintain a suitable level of Reserves and continue to operate within the approved budget each financial year to prevent further unplanned calls on reserves. Failure to do so will impact on the Council's ability to meet its statutory obligations.

Financial Implications

40. As outlined in the report.

Human Resources Implications

41. The report does not specifically mention the possibility of changes to staffing levels over the period of the financial forecast. If changes are required, the Council would need to follow its established procedures for this including consultation with the relevant Unions and Staff Side.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	Yes
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	No

Chief Executive	Malcolm Johnston
Report Contact Officer:	Antony Baden, Chief Finance Officer
e-mail address:	Antony.Baden@rother.gov.uk
Appendices:	A – Financial Forecast. B – Revenue Reserves C – Capital Programme D – OSC Minutes 22.11.21
Relevant Previous Minutes:	None.
Background Papers:	None.
Reference Documents:	None.

Appendix A

Rother District Council
2022/23 to 2026/27 Medium Term Financial Plan

	Revised 2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)
Departmental Budgets						
Corporate Core	1,998	1,998	1,998	1,998	1,998	1,998
Environmental Services	609	613	611	611	611	611
Strategy and Planning	1,043	1,493	1,043	1,043	1,043	1,043
Acquisitions, Transformation and Regeneration	(329)	(542)	(1,291)	(1,974)	(2,318)	(2,372)
Housing, Community & Neighbourhood Services	8,672	8,190	8,177	8,177	8,177	8,177
Resources	3,293	3,298	3,295	3,295	3,295	3,295
Total Cost of Services	**15,286**	**15,049**	**13,834**	**13,150**	**12,807**	**12,752**
Interest from Investments	(326)	(342)	(342)	(342)	(342)	(342)
MRP	513	1,059	1,078	1,098	1,118	1,116
Interest payments	914	844	832	820	808	796
Pay Inflation	0	99	100	101	102	103
Non Pay & Income Inflation	0	123	132	135	145	148
Salaries turnover	0	(197)	(201)	(205)	(210)	(214)
Growth						
Council Transformation	0	0	0	0	0	0
Corporate Plan	0	0	0	0	0	0
Savings and Income generation						
(i) Increase income - Property Investment Strategy	0	0	0	0	0	0
(ii) Increase income (net) - other	(107)	(202)	(202)	(202)	(202)	(202)
(iii) Lean and Demand	(180)	(180)	(180)	(180)	(180)	(180)
(iv) Service Prioritisation/Devolvement	(250)	(158)	(1,660)	(1,720)	(1,720)	(1,720)
(v) Reduced Staffing Structure	(95)	(95)	(95)	(95)	(95)	(95)
Net Cost of Services	**15,755**	**15,999**	**13,296**	**12,559**	**12,230**	**12,162**

	Revised 2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)
Special Expenses	(692)	(702)	0	0	0	0
Business Rates						
Local Share of business rates @ 40%	(7,043)	(7,043)	(7,043)	(7,043)	(7,043)	(7,043)
s31 Grants	(2,020)	(2,020)	(2,020)	(2,020)	(2,020)	(2,020)
Tariff	5,121	5,121	5,121	5,121	5,121	5,121
Levy	195	195	195	195	195	195
Non-Specific Revenue Grants						
New Homes Bonus Grant	(272)	0	0	0	0	0
Rural services delivery grant	(31)	(32)	(33)	(33)	(34)	(35)
Local Council tax Support Grant	(146)	(150)	(153)	(157)	(161)	(164)
Benefits Administration Grant	(223)	(228)	(234)	(239)	(245)	(251)
Homelessness Grant - New Burdens	0	0	0	0	0	0
Homelessness Grant - Preventions	(462)	(473)	(484)	(496)	(508)	(520)
Flexible Homeless Support Grant	0	0	0	0	0	0
Covid Support Grants	(519)	0	0	0	0	0
Council Tax Requirement (Rother only)	(7,097)	(7,501)	(7,694)	(7,890)	(8,082)	(8,283)
Other Financing						
Collection Fund (Surplus)/Deficit	134	134	134	134	0	0
Total Income	**(13,054)**	**(12,699)**	**(12,211)**	**(12,429)**	**(12,777)**	**(13,000)**
Funding Gap	**2,700**	**3,301**	**1,085**	**130**	**(546)**	**(839)**

Appendix B

Revenue Reserves

Potential Use of Reserves	Revised 2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)
Earmarked Reserves and General Reserves	(13,209)	(9,890)	(6,215)	(4,944)	(4,627)	(5,043)
Use of/(Contribution to) Reserves	3,319	3,675	1,271	317	(416)	(709)
Total Reserves	**(9,890)**	**(6,215)**	**(4,944)**	**(4,627)**	**(5,043)**	**(5,752)**

Analysis of (Use of)/Contribution to reserves						
To fund capital expenditure	619	374	186	187	130	130
To balance the budget	2,700	3,301	1,085	130	(546)	(839)
TOTAL	**3,319**	**3,675**	**1,271**	**317**	**(416)**	**(709)**

Appendix C

Rother District Council
Capital Programme Summary

Line		2021/22 Revised Budget £ (000)	2021/22 Estimated Outturn £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	Total £ (000)
	Acquisitions, Transformation and Regeneration								
	Other Schemes								
1	Community Grants	130	60	130	130	130	130	130	**710**
2	Cemetery Entrance	172	88	84					**172**
3	Rother Transformation ICT Investment	384	155	229					**384**
4	Corporate Document Image Processing System	435	36	399					**435**
5	1066 Pathways	66	20	46					**66**
6	Ravenside Roundabout	200		200					**200**
7	Development of Town Hall Bexhill	460	374	86					**460**
8	Installation of AV equipment in the Town Hall	70	82						**82**
	Property Investment Strategy								
9	Office Development NE Bexhill	0							
10	Mount View Street Development - Public/Commercial	964		964					**964**
11	PIS - Beeching Road/Wainwright Road	963	373	2,590					**2,963**
12	PIS - Barnhorn Road	3,402	343	9,161	403				**9,907**
13	PIS - Beeching Road 18-40	501	249	252					**501**
14	PIS - 35 Beeching Road								
15	PIS - 64 Ninfield Road	100	100						**100**
	Housing Development Schemes								
16	Community Led Housing Schemes	600	559	41					**600**
17	Blackfriars Housing Development	10,728	2,076	8,652					**10,728**
18	Mount View Street Development - Housing	6,940		10,597	3,482				**14,079**
19	Alliance Homes (Rother) Ltd	25,000		62,000	18,000				**80,000**
20	Alliance Homes share capital	100	100						**100**
21	King Offa Residential Development	21	21						**21**
22	Former Bexhill High School site - Housing								
	Housing and Community Services								
23	De La Warr Pavilion - Capital Grant	54	56	55	56	57			**224**
24	Sidley Sports and Recreation	811	341	470					**811**
25	Land Swap re Former High School Site	1,085	185	900					**1,085**
26	Bexhill Leisure Centre - site development			189					**189**
27	Bexhill Leisure Centre - refurbishment	140		140					**140**
28	Disabled Facilities Grant	1,625	584	1,625	1,625	1,625	1,625	1,625	**8,709**
29	New bins	125	157	125	125	125	125	125	**782**
30	Bexhill Promenade - Outflow pipe	100	100						**100**
31	Bexhill Promenade - Protective Barriers	47	50						**50**
32	Bexhill Promenade - Shelter 1		60						**60**
33	Fairlight Coastal Protection		18						**18**
34	Housing (purchases - temp accomodation)	7,300	2,986	4,314					**7,300**
	Strategy & Planning								
35	Payments to Parishes - CIL	88	40	48					**88**
	Executive Directors & Corporate Core								
36	Accommodation Strategy								**0**
	Resources								
37	ICT Infrastructure – Ongoing Upgrade Programme	123	2	121					**123**
38	Development of Council Owned Sites	8	8						**8**
	Total Capital Programme	**62,742**	**9,223**	**103,418**	**23,821**	**1,937**	**1,880**	**1,880**	**142,159**

Line		2021/22 Revised Budget £ (000)	2021/22 Estimated Outturn £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	Total £ (000)
	Funded By:								
39	Capital Receipts	1,085	185	900	0	0	0	0	**1,085**
40	Grants and contributions	13,914	3,362	8,620	1,625	1,625	1,625	1,625	**18,482**
41	CIL	431	293	391	0	0	0	0	**684**
42	Borrowing	20,874	4,763	30,070	4,010	125	125	125	**39,218**
43	Capital Expenditure Charged to Revenue	1,438	620	1,437	186	187	130	130	**2,690**
44	Borrowing - Alliance Homes (Rother) Ltd	25,000	0	62,000	18,000	0	0	0	**80,000**
	Total Funding	**62,742**	**9,223**	**103,418**	**23,821**	**1,937**	**1,880**	**1,880**	**142,159**

Appendix D

<u>Minutes of the Overview and Scrutiny Meeting – 22 November 2021</u>

OSC21/34. **MEDIUM TERM FINANCIAL PLAN 2022-23 TO 2026-27**

Members received and considered the report of the Chief Finance Officer on the Council's Medium Term Financial Plan (MTFP) 2022/23 to 2026/27, which would be considered by Cabinet at their meeting on 13 December 2021. The MTFP set the financial framework for the next five years and would be modified as the financial situation of the Council changed during that period. Appendix A to the report gave details of the MTFP, showing a £3.3m funding gap by 2022/23, but a surplus by 2025/26. Appendix B to the report illustrated the impact on the Council's Reserves. Members noted that the figures quoted were as robust as possible, but the financial forecast was a work in progress.

The following salient points were noted:

- Budget Process: The Council followed a three phased budget process. The first phase was to update the MTFP, which set out budget pressures and estimated the size of the budget deficit over the next five years. The second phase was to produce a detailed draft budget for Cabinet's consideration in January 2022. The third phase was to finalise the budget once the national funding settlement had been announced and incorporate the Capital Strategy and revised Capital Programme into the MTFP for approval by Cabinet and full Council in February 2022.
- Government Funding: Since 2010, the Council had seen a substantial fall in income. Its Revenue Support Grant and share of Business Rates was £6.6m in 2010, but it no longer received the former and its share of Business Rates income in 2021/22 was estimated at £3.7m. This was a fall of £2.9m in cash terms and ignored the effects of inflation on the Council's costs. Furthermore, the average Band D council tax charge was frozen between 2010 and 2016, which had had a knock-on impact on council tax income levels. In July 2020, the Government announced its intention to undertake a local government 'Fair Funding Review'. This had been further delayed and it was not yet clear when it would take place. The funding settlement for 2022/23 was expected in December 2021.
- Cost Pressures: These included the predicted increase in the base Revenue Budget for planning appeal costs, net financing costs due to the planned increase in capital investment on major projects such as the Property Investment Strategy and Temporary Accommodation (TA) acquisition programme, the annual pay award and non-pay inflation increases.
- Corporate Plan: The new Corporate Plan was adopted by full Council on 5 July 2021 and included several priority objectives, some of which could require revenue and capital investment if they were to be successfully delivered. One of the objectives of the Corporate Plan was to achieve financial stability by the end of 2025/26, therefore the Corporate Plan must be cost neutral.
- Financial Stability Programme (FSP): There were four main work themes designed to achieve financial stability within five years by

delivering cost savings and income, namely Service Devolvement Invest to Save, Income Generation and Service Prioritization. Cabinet approved an Invest to Save fund of £750k to meet any one-off costs required to deliver ongoing savings and income.

- COVID-19 Impact: There was still great uncertainty over the impact that the pandemic may have had on the economy and several areas could still be at risk from increased costs or reduced income.
- Business Rates: The Council was part of the East Sussex 50% Business Rate Pool, which meant the Government levy on business rate growth was retained by the pool. The pooling arrangement would be reviewed, but it had previously been financially beneficial and for the purposes of the forecast it was assumed that it would continue. There was still no indication as to when the Government would proceed with its Business Rate reset as part of the Business Rates review. Further announcements relating to business rate charges effective from April 2022 were made as part of the Chancellor's October budget statement and the Council would be compensated by way of a grant for any losses suffered.
- Non-Specific Revenue Grants: No announcement had been made regarding the future or otherwise of New Homes Bonus grant; the forecast assumed no further funding as well as no further COVID-19 grant.
- Council Tax: For 2021/22, it was anticipated that Council Tax would again only be allowed to increase by the maximum of 2% or £5 per Band D average before a referendum would be required. The Government had made no final announcement yet on the current year's referendum limits, so the forecast had assumed an increase of £5 for each year of the MTFP. The Council Tax Base allowed for an annual increase in new builds from housing developments based on the Council's targets less an allowance for collection losses and Council Tax Reduction claimants. This resulted in an additional 450 to 600 properties.
- Revenue Reserves: The latest financial monitoring for 2021/22 predicted Revenue Reserves to fall to £9.814m by the end of the current financial year, which was only £76,000 lower than the original budget estimate of £9.890m. The MTFP forecast estimated that a further £5.263m of Reserves would be needed to support the Revenue Budget over the following three years, including £747,000 to support the Capital Programme. From 2025/26 it was predicted that the Council would be able to begin replenishing its level of Revenue Reserves over the following two years by £1.125m. By the end of the five-year forecast, the balance of Revenue Reserves was forecast to be about £5.752m, having dipped to a minimum level of £4.627m by 2024/25. The forecast level of Reserves was largely dependent on the successful delivery of the FSP savings targets
- Capital Programme: Whilst there had been a major increase in the Council's planned capital investment, COVID-19 had had a significant impact on the pace of its delivery. The Capital Programme totalled £143m and included schemes already approved by Members, e.g. £105.5m on housing development projects (of which an estimated £80m to be delivered by Alliance Homes, £14.5 on the Property Investment Strategy and £7.3m on the TA acquisition programme).

- Treasury Management: The scale of the investment in the Capital Programme would significantly increase the Council's borrowing requirement, and this had been reflected in the forecast. Slippage from 2021/22 projects had been included in 2022/23, but more accurate cash flow timings would be developed during phase 2 of the budget process, as would the capital financing.
- Budget Consultation: Would be held between 14 December 2021 and 31 January 2022. An interim report on the consultation would be reported to the Overview and Scrutiny Committee on 24 January 2022.

The Council could deliver a balanced budget with a combination of sound financial management and the successful delivery of the FSP. The importance of this could not be overstated and failure to achieve the objectives of the FSP would result in the Council having to make difficult decisions around the provision of local services.

RESOLVED: That the report be noted.

(Overview and Scrutiny Committee Agenda Item 6).