

## Rother District Council

**Report to:** Cabinet

**Date:** 12 December 2022

**Title:** Medium Term Financial Plan 2023/24 to 2027/28

**Report of:** Antony Baden – Chief Finance Officer

**Cabinet Member:** Councillor Jeeawon

**Ward(s):** All

**Purpose of Report:** To consider the recommendations arising from the Overview and Scrutiny Committee meeting held on 21 November 2022, regarding the financial issues affecting the Council and their impact on the financial forecast for the five years ending 2027/28. 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;
- 3) delegation be granted to the Chief Finance Officer to finalise the wording of the budget consultation literature in consultation with the Cabinet Portfolio Holder for Finance and Performance Management;
- 4) the Council continues to be part of the East Sussex Business Rate Pool in 2023/24 and that the Chief Finance Officer be granted delegated authority to finalise the necessary agreement with the Member authorities in consultation with the Cabinet Portfolio Holder for Finance and Performance Management; and
- 5) officers develop proposals, which will enable the Council to maintain or replenish its level of Revenue Reserves to one third of net expenditure or £5m, whichever was the lesser.

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 2023/24 and the Capital Programme for approval in February 2023. 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 2023/24 and updates the Medium-Term Financial Plan (MTFP) for the period 2024/25 to 2027/28, (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 ongoing lack of certainty surrounding local government funding continues to limit the ability to produce reliable financial forecasts especially in respect of Business Rates income and Government grant. The situation is exacerbated by the economic crisis, rising energy costs and wider global issues.
3. The report describes the financial pressures facing the Council and sets out how it can fulfil its statutory obligation and set a balanced budget. This will again necessitate the need to use reserves, but Members will note that this cannot be a permanent solution and the Council will need to make some difficult decisions over the next 12 months to achieve an affordable and sustainable budget.
4. Members should note that the financial forecast at Appendix A is work in progress and some issues discussed in the report still need to be fully quantified.

## **The Budget Process**

5. The budget process consists of three phases and this report is the result of the first phase. The process is outlined below:
  - i. Phase 1 - Update the MTFP setting out budget pressures and high-level estimates over the next five years;
  - ii. Phase 2 - Produce a detailed draft budget to be considered by Cabinet and referred to Overview & Scrutiny Committee in January 2023;
  - iii. Phase 3 - Finalise the budget, including the Capital Strategy and Capital Programme, for approval by Cabinet and full Council in February 2023.

## **Local Government Settlement 2023/24 and beyond**

6. In June 2022, the Levelling Up Secretary, Michael Gove, made a couple of key announcements concerning local government funding. Firstly, he indicated his intention to introduce a two-year financial assessment with effect from next year. Secondly, he stated that the Department for Levelling Up, Housing & Communities (DLUHC) would complete the local government 'Fair Funding Review' in consultation with local authorities in 2022. He also announced that the DLUHC would look to reduce the number of funding pots that Councils must bid for in order to secure resources for specific initiatives.
7. The funding settlement for 2023/24 is expected around mid-December 2022, but at this stage it is unclear whether it will contain further clarification about the June 2022 announcements.

## Cost Pressures

8. **Contractual Inflation** – The base budget has been increased by £543,000 to allow for inflationary increases built into certain service contracts. The largest increases are in the Waste Collection (£410,000) and Grounds Maintenance contracts (£100,000).
9. **Homelessness** - The budget in 2020/21 was increased by £250,000 to meet increasing demand. The Temporary Accommodation (TA) acquisition project has also alleviated budget pressure by reducing the use of private rented accommodation however, as reported to Cabinet in the Quarter 2 monitoring report, volumes have increased again in 2022/23. Therefore, a further £260,000 has been included in the 2023/24 budget.
10. **External Audit fees** – Local authority external audits have received much criticism in recent years from the Financial Reporting Council, mainly over the quality of audits and the delays in completing them. Audit companies responded by stating that such audits would require additional resources to rectify these problems. The contract for delivering the audit is currently with Grant Thornton, but it expires at the end of 2022/23. A procurement process was conducted by the Public Sector Audit Appointments (PSAA) Limited earlier this year on behalf of the Council. The Council has since been advised by the PSAA that our audit costs could increase by £98,000 from 2023/24 onwards.
11. **Net Financing Costs** – The Council continues to deliver an ambitious capital programme, especially with regards to the Property Investment Strategy and TA acquisition programme. Most of the programme will be financed from borrowing, which will incur significant financing costs and presents an affordability risk that has been exacerbated by recent interest rate rises. The budget assumes an underlying borrowing rate of 4%, which is in line with forecasts received from the Council treasury management advisors, however, the Council will be able to use capital receipts of almost £7m to offset its overall borrowing requirement. As a result, the 2023/24 budget includes borrowing costs of £1.4m, rising to £2.1m from 2024/25.
12. The Council has a fixed rate borrowing portfolio of about £32 million, which means that it is protected from interest rate increases. However, Members should note that the financing costs estimates are extremely sensitive to changes in future interest rates and capital expenditure cash flows. Therefore, larger and more complex schemes in the capital programme will be subject to a detailed affordability review before being reported to Members with any recommendations to approve. This is further discussed in paragraph 41.
13. Rising interest rates means that the Council will receive higher than anticipated investment income. The 2023/24 budget has been increased by £183,000 and this additional income will partially offset borrowing costs.
14. **Staffing Costs** – the forecast assumes an annual increase of 3% for the 2023/24 pay award and 2% per annum for each of the following years. This increases the full year budget requirement by approximately £207,000. Staffing budgets have also been decreased by a 1% vacancy allowance to allow for staff turnover, which reduces the budget requirement by about £106,000. The impact of the 1.25% increase in the employer's national

insurance contribution rate had been reversed at the time of writing this report, thus reducing the budget requirement by a further £86,000.

15. **Non-Pay Inflation** – Based on forecast information from Link Asset Services, (the Council's Treasury Management advisors), non-pay inflation has been applied at a rate of 4.57% (£259,000) for 2023/24, 2.69% in 2024/25 (£152,400) and 3.37% (£191,000) per annum thereafter. An increase of 10% for Fees and Charges has also been included although this will be subject to approval by Members in a separate report to Cabinet later this financial year.
16. **Electricity** – The Council re-tendered its electricity contract earlier this year with the new prices being implemented from September 2022. Unsurprisingly, the cost has increased dramatically by 61.16%, which is estimated to increase costs by about £88,000 in a full year.
17. **Budget Contingency** – The 2022/23 revenue budget includes a contingency of £200,000, which was set up to absorb unexpected/additional inflationary cost pressures. The economic outlook remains extremely uncertain so it would be prudent to retain the budget contingency in each year of the financial forecast. However, Members will note that Finance will work with budget holders to contain any cost increases within existing budgets.

### **Rother District Council Corporate Plan**

18. The Corporate Plan was adopted by full Council on 5 July 2021. It includes several priority objectives, some of which may require revenue and/or capital investment. The MTFP forecast does not include any additional funding to deliver these objectives, so any proposals for further investment will need to be considered for affordability. This may also necessitate a need to realign existing resources or make compensatory savings elsewhere from the budget.
19. One of the Corporate Plan's priority objectives is to achieve financial stability by the end of 2025/26. The current forecast in Appendix A shows that without further action, an underlying budget deficit will remain until at least 2027/28 and the Council will not be able to replenish revenue reserves. This issue is discussed further in paragraph 22 below.

### **Financial Stability Programme (FSP) and Further Savings**

20. 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. The MTFP forecast includes a savings target of £2.137m in 2023/24 and £2.197m in the following plan years.
21. Significant progress has been made in areas such as the devolution of services and other smaller initiatives will deliver savings of £133,000 in the current financial year. However, further work will be required if the Council is to achieve the targets referred to in paragraph 20 above. The situation will be kept under review by officers and any revision to the delivery timeline will be reported to Members along with any impact on the revenue budget.
22. Even with the achievement of the FSP targets, the Council still faces an underlying budget deficit therefore further savings will have to be identified.

Officers have already held preliminary discussions with Members and will develop proposals as to how the funding gap should be addressed.

### **Business Rates (Non-Domestic Rates)**

23. The Council remains part of the East Sussex Business Rate Pool, which means it retains the levy on business rate growth which would otherwise be returned to central Government. The pooling arrangement will be reviewed, but it has previously been financially beneficial for the Council to remain in the pool so for the purpose of this forecast it is assumed that it will continue to do so. In September the DLHUC wrote to all councils in the pool asking them to indicate their preference, subject to confirmation by the Secretary of State that pooling arrangements will continue in 2023/24. The CFO provisionally accepted the invitation to remain in the pool, but this needs to be approved by Members.
24. There is still no indication as to when the Government will proceed with its Business Rate reset. Their original intention was to reset the baseline (the amount of business rates it expects councils to collect) by 2020, but various events have delayed this, e.g. a snap general election, Brexit, Covid, etc. The risk of a redistribution of business rates away from the Council still exists, but no assumptions have been included in the forecast.
25. In November 2021 the DLUHC announced its intention to implement a system of triennial property revaluations with effect from April 2023. It is not yet possible to predict the impact but the DLUHC have indicated that councils will be compensated for any adverse changes.

### **Non-Specific Revenue Grants**

26. The Council has engaged the services of local government policy specialists LG Futures to forecast likely government grant funding levels from 2023/24. The table below shows the forecast net decreases against the 2022/23 base budget in each year of the MTFP:

<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
£295,000	£266,000	£257,000	£306,000	£296,000

27. The main change is due to a £408,000 predicted reduction in the New Homes Bonus grant as this assumes that the Government will wind up the scheme by 2026/27. However, it is expected that this will be partially offset by increases in other grants, mainly the Homelessness Preventions and Services grants.
28. The above information will be confirmed in the local government funding settlement and any changes will be reported to Members in January 2023.

### **Council Tax and Council Tax Base**

29. For 2022/23, Council Tax was again only allowed to increase by the maximum of 2% or £5 per Band D average before a referendum would be required. There has been no indication that Government will change these parameters in the funding settlement, so the forecast includes these same assumptions.

30. 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. The increases for each year of the MTFP are set out in the table below:

<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
426.0	462.1	657.4	612.8	572.8

31. The above increases will be reviewed during phase 2 of the budget process once the final council tax base figures are submitted to DLUHC in December.

### **Collection Fund Surplus/Deficit**

32. The forecast Collection Fund outturn for 2022/23, which will impact 2023/24 financial year, will be updated during phase 2 of the budget process.

### **Revenue Reserves**

33. Appendix B sets out the reserves position based on the updated MTFP. The MTFP forecast estimates that a further £5.186m of reserves will be needed to support the Revenue Budget and Capital Programme over the next five years and even at that point, an underlying budget deficit would still exist.
34. By the end of the five-year forecast, the balance of Revenue Reserves is forecast to be about £2.342m, which is well below the £5m level that has previously been used as the Council's preferred minimum level. Members will note that Grant Thornton (the Council's external auditors) recently published a paper entitled 'Lessons from recent Public Interest reports' and it includes a strong emphasis on the importance of maintaining an adequate level of reserves. There is no formal definition as to what constitutes adequate, but Grant Thornton's view is that reserves should be a minimum of 5% of net spending and preferably be somewhere between 5% and 10%. The table below sets out what this would look like for the Council:

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b>Forecast Net Spend</b>	<b>15,205</b>	<b>14,814</b>	<b>14,172</b>	<b>14,097</b>	<b>14,404</b>
<b>Reserves @ 5%</b>	<b>760</b>	<b>741</b>	<b>709</b>	<b>705</b>	<b>720</b>
<b>Reserves @ 10%</b>	<b>1,520</b>	<b>1,481</b>	<b>1,417</b>	<b>1,140</b>	<b>1,440</b>
<b>Forecast Reserves</b>	<b>5,110</b>	<b>3,471</b>	<b>2,860</b>	<b>2,593</b>	<b>2,342</b>

35. The above table shows that the Council's predicted level of reserves would remain well above the threshold stated in Grant Thornton's paper. However, Members should note that the paper is only intended as a high-level guide and the judgment on the adequacy of the reserves is the responsibility of the Council. In the view of the Chief Finance Officer (CFO) it would be prudent for the Council to ensure that its Revenue Reserves are at least £5m and where this cannot be achieved in the short term, to develop proposals that replenish reserves to that level. Members will recall that in 2020/21 the Council incurred additional expenditure of £3.3m in response to the pandemic and whilst £2.8m

was covered by central Government grants, this perfectly highlighted the need to maintain a prudent level of reserves. Furthermore, there will also be an expectation on the part of the Council's external auditors that reserves are maintained at a suitable level.

36. The forecast level of Reserves is largely dependent on the delivery of the FSP and any additional savings targets as explained in paragraphs 20 to 22. Failure to meet agreed targets will obviously exacerbate the pressure on reserves and mean that they would fall to an unsustainably low level. If this were to be the case the CFO may be obliged to issue a section 114 notice. Under the Local Government Finance Act 1988, a CFO 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.
37. As mentioned in paragraphs 22 and 36 the Council will need to identify additional savings in order to maintain its reserves at a sustainable level. Once the local government funding settlement has been announced, officers will develop a more detailed plan in the current financial year as to how this will be achieved and will report back to Members in due course.

### **Capital Programme**

38. The draft Capital Programme covering the current MTFP timeframe is shown in Appendix C. It comprises a range of strategic projects that span more than one year and many operate for several years or have recurrent investments. Some projects have recurring investment by the Council to deliver key priorities.
39. Projects that have not spent all their allocation in the year of inception can, if still required, have the remaining funding carried forward into the next financial year. This is known as 'slippage'. The CFO continues to work with Heads of Service to undertake a fundamental review of the capital schemes in 2022/23 and beyond, focusing on outcomes and affordability.
40. For the purpose of this report, slippage from prior year projects has been included in the capital programme in Appendix C, but more accurate cash flows will be developed during phase 2 of the budget process.
41. As mentioned in paragraph 12 capital financing costs estimates are extremely sensitive to changes in interest rates and along with inflation rises, this will have a significant impact on the affordability of some capital schemes. Therefore, larger and more complex schemes will be subject to a detailed affordability review by the CFO and Heads of Service before any proposals are reported to Members for their consideration.

### **Budget Consultation**

42. The Council is required to consult on its budget and council tax proposals with 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 9 December 2022 and 31 January 2023. An interim report on the consultation will be reported to this Committee on 23 January 2023.

43. The consultation will need to highlight the continuing scale of the financial challenge facing the Council, and its response for dealing with it. Cabinet will be requested to agree that delegation be given to the CFO and Deputy Chief Executive to finalise the wording of the consultation in conjunction with the Cabinet Portfolio Holder for Finance and Performance Management.

## Conclusion

44. There is no doubt that the Council's financial outlook has deteriorated over the last twelve months. Global economic uncertainty, the cost of living crisis and spiralling inflation are predicted to have a major adverse impact on budgets over the next few years. Inflationary pressures alone are predicted to add approximately £1m to the budget deficit in 2023/24 and this will be exacerbated by increasing interest rates, although the Council will seek to offset the latter by use of capital receipts and an increase in investment income. Also, uncertainty around future levels of government grant funding may well worsen the situation.
45. Further savings are inevitable if the Council is to set a balanced and sustainable budget that is not reliant on the use of reserves. Furthermore, resources will probably need to be realigned if the objectives of the Corporate Plan are to be achieved. Therefore, it is essential that the Council maintains an adequate level of reserves and continues to operate within its approved budget each financial year to prevent further unplanned drawdowns. Failure to do so will impact on the Council's ability to meet its statutory obligations.
46. However, despite the multiple financial pressures, the Council can deliver a balanced budget with a combination of sound financial management and the successful delivery of the FSP and Savings targets. The importance of this last point cannot be overstated and failure to achieve it will result in the Council having to make difficult decisions around the provision of local services.

## Financial Implications

47. As outlined in the report.

## Human Resources Implications

48. 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

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Appendices:	A – Financial Forecast B – Revenue Reserves C – Capital Programme D – OSC Minute Extract
Relevant Previous Minutes:	None.
Background Papers:	None.
Reference Documents:	None.

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

	Revised 2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	2027/28 Budget £ (000)
<b>Departmental Budgets</b>						
Corporate Core	2,173	2,173	2,173	2,173	2,173	2,173
Environmental Services	629	674	674	674	674	674
Strategy and Planning	1,325	1,063	1,113	1,113	1,113	1,113
Acquisitions, Transformation and Regeneration	(11)	(456)	(1,000)	(1,716)	(1,760)	(1,734)
Housing, Community & Neighbourhood Services	8,211	8,889	8,593	8,581	8,571	8,754
Resources	3,302	3,443	3,443	3,443	3,443	3,443
<b>Total Cost of Services</b>	<b>15,629</b>	<b>15,785</b>	<b>14,996</b>	<b>14,268</b>	<b>14,213</b>	<b>14,423</b>
Net Financing Costs	1,542	889	1,428	1,476	1,455	1,553
Inflation and Staff turnover savings	0	467	386	425	425	425
Budget Contingency	200	200	200	200	200	200
Financial Stability Programme	(635)	(2,137)	(2,197)	(2,197)	(2,197)	(2,197)
<b>Net Cost of Services</b>	<b>16,736</b>	<b>15,205</b>	<b>14,814</b>	<b>14,172</b>	<b>14,097</b>	<b>14,404</b>

	Revised 2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	2027/28 Budget £ (000)
Special Expenses	(702)	0	0	0	0	0
Business Rates - retained share	(3,747)	(3,995)	(3,995)	(3,995)	(3,995)	(3,995)
Non-Specific Revenue Grants (Government)	(1,650)	(1,355)	(1,383)	(1,393)	(1,344)	(1,354)
Council Tax Requirement (Rother only)	(7,392)	(7,623)	(7,983)	(8,303)	(8,620)	(8,934)
Collection Fund (Surplus)/Deficit	(59)	0	0	0	0	0
<b>Total Income</b>	<b>(13,551)</b>	<b>(12,973)</b>	<b>(13,361)</b>	<b>(13,691)</b>	<b>(13,959)</b>	<b>(14,283)</b>
<b>Funding Gap</b>	<b>3,186</b>	<b>2,232</b>	<b>1,452</b>	<b>481</b>	<b>138</b>	<b>121</b>

## Revenue Reserves

Potential Use of Reserves	Revised 2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	2027/28 Budget £ (000)
Earmarked Reserves and General Reserves	(11,088)	(7,528)	(5,110)	(3,471)	(2,860)	(2,593)
Use of/(Contribution to) Reserves	3,560	2,418	1,639	611	268	251
<b>Total Reserves</b>	<b>(7,528)</b>	<b>(5,110)</b>	<b>(3,471)</b>	<b>(2,860)</b>	<b>(2,593)</b>	<b>(2,342)</b>

## Rother District Council Capital Programme Summary

	Prior year costs	2023/24		2024/25		2025/26		2026/27		2027/28		Project Budget to date
		Revised Budget	Variance (Slippage)	Revised Budget	Variance (Slippage)	Revised Budget	Variance (Slippage)	Revised Budget	Variance (Slippage)	Revised Budget	Variance (Slippage)	
Capital Project	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)
<b>Acquisitions, Transformation and Regeneration</b>												
<b>Other Schemes</b>												
Corporate Document Image Processing System	15	105	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	120
Rother Transformation ICT Investment	269	268	138	138	38	38	(0)	(0)	(0)	(0)	(0)	537
Community Grants	693	96	(0)	130	(0)	130	(0)	130	(0)	130	(0)	789
Ravenside Roundabout	0	200	100	100	0	0	0	0	0	0	0	200
UK Shared Prosperity Fund	0	334	0	0	0	0	0	0	0	0	0	334
<b>Property Investment Strategy</b>												
PIS - 35 Beeching Road	2,417	0	0	0	0	0	0	0	0	0	0	2,417
PIS - Beeching Road/Wainwright Road	384	3,549	3,549	3,549	3,549	3,549	3,549	3,549	3,549	3,549	3,549	3,933
PIS - Beeching Park Estate	0	450	0	0	0	0	0	0	0	0	0	450
PIS - Barnhorn Road	2,831	7,520	(73)	(73)	0	0	0	0	0	0	0	10,351
PIS - Redevelopment at Beeching Rd - Wainwright Rd	2,050	12,950	5,450	5,450	0	0	0	0	0	0	0	15,000
<b>Housing Development Schemes</b>												
Community Led Housing Scheme - CHF	297	469	0	0	0	0	0	0	0	0	0	766
RDC Housing Company Limited funding	4,000	75,923	45,923	45,923	20,923	20,923	0	0	0	0	0	79,923
RDC Housing Company share investment	0	301	301	301	1	1	1	1	1	1	1	301
Development of council owned sites	87	182	182	182	132	132	0	0	0	0	0	270
Community Led Housing Schemes	0	0	0	0	0	0	0	0	0	0	0	0

	Prior year costs	2023/24 Revised Budget	2023/24 Variance (Slippage)	2024/25 Revised Budget	2024/25 Variance (Slippage)	2025/26 Revised Budget	2025/26 Variance (Slippage)	2026/27 Revised Budget	2026/27 Variance (Slippage)	2027/28 Revised Budget	2027/28 Variance (Slippage)	Project Budget to date
	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)
<b>Capital Project</b>												
<b>Housing and Community Services</b>												
De La Warr Pavilion - Capital Grant	290	41	41	98	0	0	0	0	0	0	0	331
Land Swap re Former High School Site	0	1,085	0	0	0	0	0	0	0	0	0	1,085
Fairlight Coastal Protection	87	204	104	104	54	54	(0)	(0)	(0)	(0)	(0)	291
Disabled Facilities Grant	6,570	1,625	0	1,625	0	1,625	0	1,625	0	1,625	0	8,195
New bins	536	121	4	129	0	125	0	125	0	125	0	658
Housing (purchases - temp accommodation)	4,670	5,412	412	412	0	0	0	0	0	0	0	10,083
Housing (purchases - temp accommodation)	0	817	817		0		0		0		0	817
Bexhill Promenade - Outflow pipe	28	172	172	172	0	0	0	0	0	0	0	200
Bexhill Leisure Centre - refurbishment	131	9	9	9	(0)	(0)	(0)	(0)	(0)	(0)	(0)	140
<b>Strategy &amp; Planning</b>												
Payments to Parishes - CIL	40	96	0	0	0	0	0	0	0	0	0	136
CIL Scheme 1 Village Hall Energy Project	0	500	500	500	0	0	0	0	0	0	0	500
<b>Resources</b>												
ICT Infrastructure Replacement Programme	137	12	12	12	0	0	0	0	0	0	0	149
New website development	23	9	9	9	0	0	0	0	0	0	0	31
Invest To Save initiatives (Financial Stability Prog)	29	721	721	721	721	721	721	721	721	721	721	750
<b>Total Capital Programme</b>	<b>25,584</b>	<b>113,172</b>	<b>58,372</b>	<b>59,492</b>	<b>25,419</b>	<b>27,299</b>	<b>4,272</b>	<b>6,152</b>	<b>4,272</b>	<b>6,152</b>	<b>4,272</b>	<b>138,757</b>
	Prior year funding	2023/24 Revised Budget	2023/24 Variance (Slippage)	2024/25 Revised Budget	2024/25 Variance (Slippage)	2025/26 Revised Budget	2025/26 Variance (Slippage)	2026/27 Revised Budget	2026/27 Variance (Slippage)	2027/28 Revised Budget	2027/28 Variance (Slippage)	Total Project Budget
	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)
<b>Funded By:</b>												
Capital Receipts	0	1,085	0	0	0	0	0	0	0	0	0	1,085
Grants and contributions	6,954	3,449	921	1,729	54	1,679	(0)	1,625	(0)	1,625	(0)	10,403
CIL	40	596	500	500	0	0	0	0	0	0	0	636
Borrowing	13,461	31,567	10,677	10,802	4,441	4,566	4,271	4,396	4,271	4,396	4,271	45,029
Capital Expenditure Charged to Revenue	1,129	251	50	237	(0)	130	(0)	130	(0)	130	(0)	1,380
Borrowing and Loan for Rother DC Housing Company Ltd	4,000	76,224	46,224	46,224	20,924	20,924	1	1	1	1	1	80,224
<b>Total Funding</b>	<b>25,584</b>	<b>113,172</b>	<b>58,372</b>	<b>59,492</b>	<b>25,419</b>	<b>27,299</b>	<b>4,272</b>	<b>6,152</b>	<b>4,272</b>	<b>6,152</b>	<b>4,272</b>	<b>138,757</b>

Minutes of the Overview and Scrutiny Meeting – 21 November 2022OSC22/33. **MEDIUM TERM FINANCIAL PLAN 2023/24 TO 2027/28**

(5)

Members received and considered the report of the Chief Finance Officer (CFO) on the Council's Medium Term Financial Plan (MTFP) 2023/24 to 2027/28, which would be considered by Cabinet at their meeting on 12 December 2022. 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 forecasting a £2.2m funding gap in 2023/24 but this was subject to confirmation of Government funding and several other factors that might affect the Council's finances. 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 and an update would be reported to Members in January.

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 2023. 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 2023.
- **Local Government Funding Settlement:** In June 2022, the Levelling Up Secretary, Michael Gove, announced the introduction of a two-year financial settlement with effect from 2023/24; and that the Department for Levelling Up, Housing & Communities (DLUHC) would complete the local government 'Fair Funding Review' in consultation with local authorities in 2022. He also announced that the DLUHC would look to reduce the number of funding pots that Councils must bid for in order to secure resources for specific initiatives. The funding settlement for 2023/24 was expected around mid-December 2022, but at this stage it was unclear whether it would contain further clarification about the June 2022 announcements.
- **Cost Pressures:** These included inflationary increases built into certain service contracts, increasing demand in Temporary Accommodation (TA), predicted increase in external audit costs, net financing costs due to the planned increase in capital investment on major projects such as the Property Investment Strategy and TA acquisition programme, the annual pay award, non-pay inflation increases, increasing electricity costs and a budget contingency of £200k.
- **Corporate Plan:** The 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. The MTFP forecast did not include any

additional funding to deliver these objectives, so any proposals for further investment would need to be considered for affordability. This may also necessitate a need to realign existing resources or make compensatory savings elsewhere from the budget. One of the objectives of the Corporate Plan was to achieve financial stability by the end of 2025/26. The current forecast shown in Appendix A to the report showed that without further action, an underlying budget deficit would remain until at least 2027/28 and the Council would not be able to replenish revenue reserves.

- **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 Prioritisation. Significant progress had been made in areas such as the devolution of services and other smaller initiatives, however further work would be required if the Council was to achieve the targets set.
- **Business Rates:** The Council remains 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. In September, the DLUHC wrote to all councils in the pool asking them to indicate their preference, subject to confirmation by the Secretary of State that pooling arrangements would continue in 2023/24. The CFO provisionally accepted the invitation to remain in the pool, but this would need to be approved by Members.
- **Non-Specific Revenue Grants:** The Council had engaged the services of local government policy specialists LG Futures to forecast likely government grant funding levels from 2023/24 and the information provided forecasted a net decrease of £295,000 compared to the 2022/23 base budget. The main change was due to a £408,000 predicted reduction in the New Homes Bonus grant, as this assumed that the Government would wind up the scheme by 2026/27. However, it was expected that this would be partially offset by increases in other grants, mainly the Homelessness Preventions and Services grants.
- **Council Tax:** For 2022/23, Council Tax was again only allowed to increase by the maximum of 2% or £5 per Band D average before a referendum would be required. 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. The report had been written before the recent budget, which raised the permitted increase to a maximum of 3% before a referendum was required; however this would only result in an additional £30k per year. The increases for each year of the MTFP, as set out in the report, would be reviewed during phase 2 of the budget process once the final council tax base figures were submitted to the DLUHC in December.
- **Revenue Reserves:** The MTFP report predicted Revenue Reserves to fall to £2.342m by the end of 2027/28, which was well below the £5m level that had previously been used as the Council's preferred minimum level. It was though above the levels indicated in a paper issued by Grant Thornton, which advised that ideally

Reserves should be at least 10% of an authority's net expenditure. The view of the CFO was that the Council should ensure its Revenue Reserves were at least £5m and where this could not be achieved in the short term, they should develop proposals to replenish reserves to that level. He supported this by explaining that the Council's pandemic response meant that it unexpectedly had to find £3.3 million and although most of this was reimbursed by central government grants, it made clear the need to proof itself against unexpected financial shocks.

- **Capital Programme:** The draft Capital Programme was shown at Appendix C to the report and comprised a range of strategic projects that spanned more than one year and many operated for several years or had recurrent investments. Some projects had recurrent investment by the Council to deliver key priorities. Projects that had not spent all their allocation in the year of inception could, if still required, have the remaining funding carried forward into the next financial year, which was known as 'slippage'. Slippage from prior year projects had been included at Appendix C, but more accurate cash flows would be developed during phase 2 of the budget process.
- Capital financing costs estimates were extremely sensitive to changes in interest rates and along with inflation rises, this could have a significant impact on the affordability of some capital schemes. Therefore, larger and more complex schemes would be subject to a detailed affordability review before proposals were taken to Members for consideration.
- **Budget Consultation:** This would be held between 9 December 2022 and 31 January 2023. An interim report on the consultation would be reported to the Overview and Scrutiny Committee on 23 January 2023.

Members were given the opportunity to ask questions and the following points were noted during the discussions:

- increasing the staff pay award assumption to 4.5% would add a further £90k to the budget requirement in 2023/24 and increase the base budget by approximately £150k to allow for the full year effect;
- the impact of a 100% Council Tax Reduction Scheme was estimated at approximately £711k in total, of which Rother District Council's share would be approximately £77k;
- under the Local Government Finance Act 1988, a CFO must issue a section 114 notice if they concluded that the Council could not balance its budget in-year and the necessary action to rectify the situation was not supported by Members. Members recommended that reserves should be maintained at a level of one third of net expenditure or £5m, whichever was the lesser;
- senior officers across the Council were working with each team to identify savings and look at the consequences of those savings; and
- the total spend on the Town Hall Renaissance Project to date was £667k. A budget for the project had not been included in the MTFP beyond the current year as it was still in the pre-development phase.



Despite the multiple financial pressures, the Council could deliver a balanced budget with a combination of sound financial management and the successful delivery of the FSP and savings targets. The importance of this last point could not be overstated and failure to achieve it would result in the Council having to make difficult decisions around the provision of local services.

**RESOLVED:** That Cabinet be requested to agree 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;
- 3) delegation be granted to the Chief Finance Officer to finalise the wording of the budget consultation literature in consultation with the Cabinet Portfolio Holder for Finance and Performance Management;
- 4) the Council continues to be part of the East Sussex Business Rate Pool in 2023/24 and that the Chief Finance Officer be granted delegated authority to finalise the necessary agreement with the Member authorities in consultation with the Cabinet Portfolio Holder for Finance and Performance Management; and
- 5) officers develop proposals, which will enable the Council to maintain or replenish its level of Revenue Reserves to one third of net expenditure or £5m, whichever was the lesser.