

FINANCIAL PLANNING FOR 2024/25 BUDGET AND NEW FOUR YEAR MEDIUM TERM FINANCIAL STRATEGY

Head of Service:	Lee Duffy, Chief Finance Officer
Wards affected:	(All Wards);
Urgent Decision?	No
Appendices (attached):	Appendix 1 – Financial Planning Timetable Appendix 2 – Revenue Reserves Forecast

Summary

This report seeks guidance on the approach to producing the Council's budget for 2024/25 and Medium Term Financial Strategy for 2024-28.

Recommendation(s)

The Committee is asked to agree:

- (1) The proposed approach to be taken to 2024/25 budget setting and the Medium Term Financial Strategy 2024-28, as set out in this report;**
- (2) That officers should work with Policy Committee Chairs, as set out in section 7 of this report, to produce specific income generation and savings options, in addition to savings already targeted, to meet the initial projected deficit of £2.5m per annum by 2027/28;**
- (3) That owing to the Council's projected budget deficit, any additional new revenue growth items (i.e. service enhancements resulting in increased net expenditure) supported by Policy Committees will need to be fully funded from existing budgets;**
- (4) That the emerging annual / business plan and the budget process are aligned to ensure that any commitments are affordable;**
- (5) The budget reporting timetable in Appendix 1.**

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1 Reason for Recommendation

- 1.1 Approving the recommendations will provide a clear framework for the Council to develop its new four-year Medium Term Financial Strategy and a balanced budget for 2024/25. Strategy and Resources Committee has agreed one of its key priorities is to achieve financial stability for the Council.

2 Background

- 2.1 It is a requirement of the Council to agree a Medium Term Financial Strategy (MTFS) every four years. The MTFS aims to maintain the financial health of the Council whilst delivering the priorities in the Corporate Plan. This report considers the steps needed to achieve balanced budgets during the term of the financial strategy.
- 2.2 The report proposes revenue and capital budget reporting timetables for preparing the new Medium Term Financial Strategy and the 2024/25 budget.
- 2.3 The Council will review its overall financial position and agree a new MTFS alongside agreeing a budget for 2024/25.
- 2.4 This report proposes:-
 - 2.4.1 A framework for the 2024/25 budget review, and
 - 2.4.2 A programme of medium-term service and financial planning.

3 Financial Position 2022/23

- 3.1 2022/23 represented the first financial year that Council services were not directly impacted by restrictions imposed by Government due to Covid-19.
- 3.2 Strategy & Resources Committee agreed a report on 22 July 2022 that quantified the adverse impact that the pandemic had on the Council's finances, through permanent changes in demand for services and increased expenditure. For 2022/23, it was estimated that the underlying ongoing cost of the pandemic to the Council is £1.1 million per annum.
- 3.3 At the same meeting it was also agreed to fund the required increase in budgets from a mix of reserves, contingencies, increased commercial income from properties and savings.
- 3.4 The Council has subsequently produced unaudited accounts for 2022/23. The draft outturn for 2022/23 showed a surplus position which has resulted in a contribution of £264k to the General Fund working balance; as at the end of 2022/23 the balance on this reserve was £3.1 million.

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- 3.5 The Council had an approved capital programme of £4.02 million for 2022/23 and spent £1.55m with the majority of the unspent capital programme expected to be carried forward in to 2023/24. The level of uncommitted capital receipts reserves stood at £2.9m at the end of 2022/23.
- 3.6 More detail on the Council's financial performance for 2022/23 is provided in the separate Provisional Financial Outturn report, also on this meeting agenda.

4 Budgeted Position for 2023/24

- 4.1 The 2023/24 budget provides a good platform for budget planning. The service estimate, agreed by Council in February this year, required c.£2.4m of strategic reserves to fund services and balance the budget.
- 4.2 The approved budget included a £500,000 revenue contribution to assist in the funding of the annual capital programme.
- 4.3 The Council is also expected to benefit from additional retained business rates by £150,000 in 2023/24 due to being invited to participate in the Surrey Business Rate Pool. However, the invitation is only for 2023/24.
- 4.4 The Council also set aside a c.£900,000 provision in 2023/24's budget, which acts as a contingency to mitigate financial risk, enabling the Council to fund elevated utility and operational costs due to inflation (i.e. the 'cost-of-living crisis').

5 Revenue Reserves

- 5.1 The current level of revenue reserves is shown at Appendix 2.
- 5.2 The Council uses its reserves proactively to manage risks, to invest in service transformation for the future, or to respond to unexpected events or emerging needs. Generally, reserves should not be used to fund day-to-day services on an ongoing basis, as reserves would eventually become depleted without a plan for replenishing them.
- 5.3 The 2023/24 budget plans to use c.£2.4m from the Council's reserves to balance, which was considered a reasonable approach in the short term, as this use of reserves has enabled the Council to assess the financial environment post pandemic and cost of living crisis, before taking major decisions around the future of service delivery.
- 5.4 It is important for the Council to maintain reserves at a level that ensures future risks can be mitigated and managed, and provide the capability to fund corporate initiatives. At 31 March 2023, the Council holds £2.2m (subject to audit) of uncommitted un-ringfenced revenue reserves, after deducting agreed minimum balances.

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- 5.5 In agreeing to temporarily use reserves to fund 2023/24's budget, members noted the requirement to remove unsustainable reliance on reserves to fund the day-to-day revenue services.
- 5.6 The importance of removing reliance on reserves has been recently reiterated by the Council's external auditors, Grant Thornton, whose 2021/22 Annual Auditor's Report (dated May 2023) recommends:
- 5.7 *"The Council needs to set a timeline for how it will develop longer term saving plans that will ensure reserves are not further depleted"*.

6 Budgeted Forecast 2024/25 and Beyond

- 6.1 The 2023/24 local government finance settlement represented a 'holding position' until the next Parliament. As part of the settlement, Government also ruled out a business rates reset and a 'Fair Funding Review' until at least 2025/26, which should provide the Council with relative external funding stability until then.
- 6.2 An initial four year forecast has been produced for financial planning purposes, as set-out in the following table.

Table 1 - Updated MTFS Projections	2023/24 Agreed Budget	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
	£'000	£'000	£'000	£'000	£'000
Net Cost of Services	10,673	10,748	11,313	12,164	13,038
Budgeted Use of Reserves	(2,383)	0	0	0	0
Subtotal - Net Budget Requirement	8,290	10,748	11,313	12,164	13,038
External Funding					
Council Tax (3% annual increase)	7,361	7,620	7,888	8,165	8,452
Retained Business Rates	1,653	1,686	1,720	1,754	1,789
Prior Year Collection Fund Deficit	(1,056)	0	0	0	0
Lower Tier Services Grant	333	333	333	333	333
Subtotal - External Funding	8,290	9,639	9,941	10,253	10,575
Projected Budget Shortfall for Financial Planning	0	1,109	1,372	1,911	2,464

- 6.3 It can be seen that the initial forecast anticipates that savings/additional income of c.£2.5 million will be needed by 2027/28 to achieve a balanced budget at the end of this period. Key assumptions within the forecast are as follows:

- 6.3.1 Annual staff pay inflation (i.e. the 'cost of living' uplift) and prices inflation are forecast at 3% per annum. This assumption will be updated when any new pay deal is agreed.

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- 6.3.2 Fees and charges income is forecast to increase by 6% in both 2024/25 and 2025/26 (as previously agreed by S&R in July 2022), then by 3% for both 2026/27 and 2027/28.
 - 6.3.3 Council tax increases are forecast at 3% per annum for a Band D equivalent.
 - 6.3.4 Treasury management investment income earned on reserves is projected to achieve an average 4% annual return and be applied to fund services over the four-year period.
 - 6.3.5 Parkside House will return to be fully income generating from 2024/25 (as reported to S&R in January 2023), but no income will be generated from the vacant 64-74 East Street property.
 - 6.3.6 Revenue funding towards the financing of a sustainable capital programme is forecast to increase to £750,000 per annum by 2026/27.
 - 6.3.7 Existing agreed savings totalling £57,000 in 2024/25 and £38,000 in 2025/26 will be delivered.
 - 6.3.8 Retained income from business rates and government grants is forecast to remain broadly stable over the four-year period, however there is a specific risk to this income stream from central government's ongoing Fair Funding Review and the possibility of a significant reduction in retained business as an outcome of the review.
- 6.4 The Fair Funding Review is being undertaken by central government to re-assess the distribution of government and business rates funding between Councils. When complete, it is expected to favour unitary and upper tier councils, ahead of districts such as Epsom & Ewell Borough Council.
- 6.5 In 2016, central government introduced Negative Revenue Support Grant as part of EEBC's four-year settlement. The settlement identified that in 2019/20 the Council would have to make an on-going payment back to central government of £624,000, known as Negative RSG. However, after significant lobbying from affected councils including EEBC, government decided to remove Negative RSG from annual settlements.
- 6.6 The delay of the Fair Funding Review means that Negative RSG continues to be excluded from EEBC's settlement, however, the risk still remains that Negative RSG will feature as part of the future Fair Funding Review calculation when this is eventually introduced.

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- 6.7 For Epsom and Ewell Borough Council, if applied, Negative RSG could equate to a potential loss of funding of c£700,000 (taking account of inflation since 2019/20) per annum. However, it is still unclear whether Negative RSG will be re-introduced once Government completes its Fair Funding Review. The current forecast anticipates that Negative RSG will be gradually re-introduced from 2028/29, however this is not certain and the Council holds the Collection Fund Equalisation Reserve to mitigate the risk of it being introduced earlier.
- 6.8 The highest service financial risks are considered to be the impact of increased inflation on the Council's costs and income streams, and the potential for increased demands for housing and homelessness prevention next year. In particular, the cost-of-living crisis is expected to impact on any new Pay Policy. The current forecast includes an estimate of 3% for the staff pay annual cost of living increase, however, recent public sector pay settlements for 2023/24 have been significantly higher than 3%.
- 6.9 With significant cuts in direct Government funding since 2010, the Council has had to innovate by identifying alternative sources of income to provide services. The Council has achieved this through increasing income from commercial activities, however, these sources of income are far more susceptible to fluctuations within the economy and could be at heightened risk in any economic downturn.

7 Achieving a Sustainable Balanced Budget

- 7.1 Officers have drafted a work programme to assist in addressing the £1.1m annual funding shortfall for 2024/25, rising to £2.5m by 2027/28 as set out in Table 1.
- 7.2 The key features of the programme comprise:-
- 7.2.1 Officers to be tasked with identifying further efficiencies, although these are becoming harder to achieve after over a decade of austerity.
 - 7.2.2 A base review, which entails reviewing the year end position for 2022/23, identifying any potential savings, additional cost pressures and areas where savings can be developed.
 - 7.2.3 Service Reviews focusing primarily on discretionary services to be undertaken over the next four years with the aim of increasing efficiencies and effectiveness whilst reducing cost.

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- 7.2.4 Review of existing asset utilisation, to realise cost reductions in Council operational buildings and increased income from investment properties. Should it be agreed to move from the existing Town Hall site to 64-74 East Street, the Council would need to generate a net annual income/cost savings in the region of £600,000 from the remaining Town Hall site if it wishes to replace foregone commercial income associated with moving to 64-74 East Street.
- 7.2.5 Investigate income streams to maximise revenue from new and existing services, such as invest to save opportunities. Ensure any new powers are considered to generate additional income for the Council, such as the pending new charging policy for waste.
- 7.2.6 Undertake a review of reserves, providing a justification for the level of reserves retained.
- 7.2.7 A target to increase fees and charges income by 6% in both 2024/25 and 2025/26 (as previously agreed by S&R in July 2022), then by CPI+1% for both 2026/27 and 2027/28. Heads of Service review fees and charges annually to ensure increases are achievable and report fees and charges to policy committees for approval.
- 7.2.8 To maximise external funding and partnership opportunities.

8 New Corporate Plan and Medium Term Financial Strategy

- 8.1 Available resources will need to be matched to deliverables within any new corporate plan, to ensure that objectives within the plan are prioritised, resourced and deliverable.
- 8.2 It is proposed that owing to the Council's projected budget deficit, any additional new revenue growth items (i.e. service enhancements resulting in increased net expenditure) supported by Policy Committees will need to be fully funded from existing budgets;
- 8.3 It is proposed that officers undertake the work outlined in 7.2 above and present members with a list of proposals that could help deliver balanced budgets from 2024/25 onwards.

9 Timetable for Delivery of 2024/25 Budget and MTFS

- 9.1 A proposed formal committee timetable for the new medium term financial strategy, revenue and capital programme is presented at Appendix 1.
- 9.2 In addition to the formal committee meetings, officers will maintain engagement with Policy Chairs throughout the budgeting process.

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- 9.3 The Council needs to agree a timeframe in which it plans to achieve a balanced budget with no reliance on revenue reserves to fund the delivery of services. Based on the latest forecasts, the Council is anticipating a funding shortfall of £2.5m by 2027/28.

10 Risk Assessment

Legal or other duties

10.1 Equality Impact Assessment

10.1.1 The Council has a statutory duty to set a balanced budget each year, demonstrating how planned expenditure on services will be fully funded.

10.1.2 Should the Council not progress the proposed budget strategy and fail to achieve a significant net reduction in its cost of services, there is a clear risk that reserves will continue to diminish with the Council eventually becoming unable to set a balanced budget.

10.1.3 A full budget risk assessment will be presented to Full Council alongside the final 2024/25 budget proposals in February 2024.

10.2 Crime & Disorder

10.2.1 None arising from the contents of this report.

10.3 Safeguarding

10.3.1 None arising from the contents of this report.

10.4 Dependencies

10.4.1 The Council's Annual Plan for 2024/25 should be set to be deliverable within the Council's available financial resources.

10.5 Other

10.5.1 None arising from the contents of this report.

11 Financial Implications

11.1 The provisional financial outlook for 2024/25 and future years is covered in this report.

11.2 In preparing the Council's new Medium Term Financial Strategy the Council will also need to approve a new pay policy, enabling details from the new approved policies to be incorporated into the financial strategy.

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11.3 The Council has adequate resources to carry out a budget review supporting the delivery of the cost reduction plan. Should the Council require a more comprehensive review of services, additional resources and expertise may be required.

11.4 **Section 151 Officer's comments:** The Medium Term Financial Strategy 2024-28 must ensure that the Council's finances are sustainable whilst delivering the priorities of the Corporate Plan.

12 Legal Implications

12.1 The Council has a statutory responsibility to set a balanced budget each year.

12.2 The provisions of section 25 of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (s.151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The report will be formally made to the Council's budget setting meeting in February.

12.3 **Monitoring Officer's Comments:** None arising from the contents of this report.

13 Policies, Plans & Partnerships

13.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.

13.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

13.3 **Climate & Environmental Impact of recommendations:** None arising from the contents of this report.

13.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.

13.5 **Partnerships:** None arising from the contents of this report.

14 Recommendations

14.1 Support the approach for delivery of the 2024/25 revenue and capital budget along with the new Four Year Medium Term Financial Strategy.

14.2 Support the proposed timetable including the level of engagement suggested with councillors.

15 Background papers

15.1 The documents referred to in compiling this report are as follows:

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Previous reports:

- 2023/24 Budget Report to Full Council, February 2023

Other papers:

- [Medium Term Financial Plan 2020-2024](#)