Harborough District Council

Report to the Cabinet
Meeting of 5th December 2022

Title:	**2023/24 Budget & MTFS - Budget Principles & Reserves Strategy**
Status:	Public
Key Decision:	No
Report Author:	Clive Mason – Interim Deputy Chief Executive (& s.151 officer)
Portfolio Holder:	Cllr James Hallam, Finance
Appendices:	**Appendix 1**: Financial Performance 2022/23 Q2: Potential Medium-Term Impact of Cost/Inflationary Pressures. **Appendix 2**: Discretionary Fees & Charges: exceptions to blanket increase **Appendix 3:** Inflation Graphs (Pay, CPI/RPI, DERV and Gas/Electricity **Appendix 4:** Budget Principles for the 2023/24 Budget and MTFS (2023/24 to 2026/27) **Appendix 5:** Reserves Strategy

Executive Summary

In February each year, the Council is required to approve the Council Tax for the forthcoming year. To achieve this, the Council has to:

- prepare an annual budget that has to comply with statutory regulations as well its own Constitution and local corporate priorities.
- a medium-term financial strategy (MTFS) that aids future decision making.

All budgets are organic in nature, in that they are a best estimate of resource allocation to meet the Councils corporate priorities; consequently, they can change over time; as the coronavirus pandemic and the current cost-of-living/inflationary economic climate is currently showing.

An essential part of the budget setting process is the agreement of a set of “budget principles”, which are detailed later in this report. These principles set the foundation upon which the budget will be built. Further, it is also opportune for the Cabinet to review and agree any updates to the Reserves Strategy.

Recommendations
To approve the: • Delegations to the Director; Finance, ICT and Assets to agree, in consultation with the Portfolio Holder for Finance once known respective increases in Discretionary Fees & Charges (3.2.4) • budget principles and definitions that are summarised in **Appendix 4.** • Reserves Strategy in **Appendix 5.**

Reasons for Recommendations
To develop the foundation on which to support the development of the Budget and Medium-Term Financial Strategy.

1. Purpose of Report

1.1 To:

- highlight to members the budget setting process and get agreement on key principles to support the development of the Budget 2023/24 and Medium-Term financial Strategy (2024/25 to 2027/28), and
- confirm the principles of the Reserves Strategy.

2. Background

Introduction; 2022/23 Budget and Medium-Term Financial Strategy

2.1 In February 2022, the Council approved the 2022/23 Budget and Medium-Term Financial Strategy (MTFS) (2023/24 to 2026/27); the key aspects of the budget and MTFS are as follows

i. for 2022/23:
- a net expenditure budget of £11.6m,
- a budget requirement of £13.0m,.
- a net contribution to reserves of £1.4m,
- an increase in Council Tax of £5 to £177.97.

ii. for the MTFS, by 2026/27:
- net expenditure increasing to £13.6m (+17.2%).
- budget requirement decreasing to £11.6 (-10.8%).
- a total contribution from reserves of £5.5m; of which £3.0m from Earmarked Reserves and £2.5m from General Reserves.
- a notional increase in Council Tax of £5 per year to £197.97.

Current Forecast Budgetary Pressure

2.2 Elsewhere on the agenda, Cabinet will receive the 2022/23 Quarter 2 report which forecast an “in-year” pressure of £810k; this being a new reduction in the bduget gap of £231k when compared to Quarter 1.

	£
• Inflationary	385k
• Underachievement of Savings	560k
• Normal operational delivery	(135k)
Total:	**810k**

2.3 These pressures are a mix of causes; including:

- recent international impacts on the national economy i.e. higher utility costs as a consequence of the Ukraine war and the impact on wholesale gas prices, which then links to pay-inflation due to the higher cost of living,
- changes in local policy development i.e. exploring opportunities for strategic working, and optimistic savings targets, and
- changes in user demand i.e. car parking usage.

2.4 Some aspects of the 2022/23 pressure are expected to extend into future years. The exact future finanical impacts are difficult to quantify, but in respect of 2023/24 the pressure is currently expected to be circa £1.45m (see **Appendix 1**, this is also reported in the Q2 financial performance report elsewhere on the agenda**)**. This is the best proxy at this time before the application of the budget principles discussed elsewhere in this report and any budget propositions that will be reported in the 2023/24 Draft Budget & MTFS report to Cabinet in January 2023.

2.5 Primarily, the budget pressure can be mitigated in three ways

i. **Corporate Resources,** if the pressure is short-term and due to changes in member/corporate priority or transformation, then reserves can be used or corporate grants can be applied.
ii. **All-Services**, if the pressure is something that is applicable to all services, then all-services should contribute to meeting the pressure.
iii. **Service Specific**, if the pressure is due to a service not delivering on an intended action, a non-statutory policy change, a change in service priority or a service specific demand pressure; then the specific service should make every endeavour to meet the pressure from within their own resources. Of course, service related pressures can be mitigated by

either direct or in-direct service savings or income generation opportunities.

3. Details

Strategic Budget Principles, and longer-term budget setting.

3.1 For the forthcoming 2023/24 budget/MTFS setting round, it is proposed that the Strategic Budget Principles noted in (A) to (B) below are adopted; both of which were adopted last year.

Strategic Budget Principles:

A. To maintain, within expected service constraints, service expenditure within the approved net expenditure envelope.

B. To ensure that over the medium term, financial sustainability can be achieved.

C. The Council will only support the consequential cost-shunting transfer from other areas of the public sector where there is either a statutory obligation or a significant impact on the Harborough residential and business community.

3.2 In respect of:

A. the approved net expenditure envelope will be the "Updated Budget" that was reported to Cabinet in September as part of the Quarter 1 Financial Performance Monitoring (i.e. approved budget + approved carry-forward)

B. it is fair to acknowledge that this principle was a challenge when setting the 2022/23 budget & MTFS because there were pressures that came to the fore in the latter years of the MTFS (namely, compounding of pay awards and the potential impact of changes to Waste Services). With the more recent pressures due to inflation along with changes in service delivery and demand (1.5) the pressures over the MTFS are expected to remain.

C. the purpose of this principle is to avoid the Council having to meet the consequential cost increases of services that other public service bodies have decided to reduce or cease providing.

3.3 As a consequence of the review of Code of Financial Management that was reported to Audit & Standards Committee in June 2022, next year's budget, as well as including an MTFS through 2027/28, will also include a Long-Term Financial Strategy; thereby giving members a full 8 year financial planning horizon (i.e. a further 3 years).

Budget Inflation & Growth

3.4 In any budget setting process, it is necessary to set-out the inflation principles within which certain aspects of the budget will be set. Considering the financial challenge that the Council continues to face the inflation principles that will be applied for 2023/24, and over the MTFS period, will remain similarly "tight" as they were for this year. This "tighter" approach is necessary to help mitigate cost inflation and ensure that the limited financial resources available to the Council are used in the most effective way possible.

Income

3.5 **General Service Income**;

3.5.1 **Statutory Fees & Charges**; it is recommended that where the Council has to set a level of fees by law, then those fees are increased at the earliest time possible.

3.5.2 Some internal services are statutory consultees to other services and where this occurs the consultee services have had to carry the cost of this additional burden. For some services this burden has been increasing and therefore the service has had to ration its scarce resources away from its other, potentially chargeable services. It is therefore considered equitable that from April 2023 detailed "full absorption" costing will be undertaken to ensure that "consultee services" receive fair proportion of funding to support the delivery of their statutory consultee services, thereby minimising the impact on their discretionary fee-paying services.

3.6.3 **Discretionary Fees & Charges**; it is recommended that all service income lines applicable to discretionary services are reviewed on a 3-year cyclical basis to ensure that they achieve cost-neutrality; for the 2 intervening years the prevailing CPI rate that was published in the preceding October is applied. The rate to be applied for the 2023/24, based on the CPI rate announced in October 2022 is 10.1% (subject to the exemptions noted in **Appendix 2**). For the 2022/23 budget, the equivalent rate was 1.1%.

Budget Principle (1)
General Service Income;

i. ***Statutory Fees & Charges, where:***
- **the Council has to set a level of fees by law, then those fees are increased at the earliest time possible.**
- **a service is required to "consult" with other internal services, that an appropriate recharge of the income is made to the**

consultee service. This avoids individual services carrying an unfair burden to meet statutory requirements. This will be determined and implemented during 2023/24.

ii. ***Discretionary Fees & Charges, subject to the exceptions noted in (i) below:***
   - **all service income lines applicable to discretionary services and are reviewed on a 3-year cyclical basis,**
   - **for the 2 intervening years then the prevailing CPI rate for the October of the preceding year is applied. *The CPI rate to be agreed by the Director; Finance, ICT and Assets in consultation with the Portfolio Holder for Finance.***

There are some exceptions to the aforementioned approach for discretionary fees and charges, these are addressed at Appendix 2.

Costs

Inflation

3.7 Our Treasury Advisors have provided graphical forecasts in respect of the Strategic Inflation Indices (Retail Prices Index & Consumer Prices Index) and Energy Indices (Gas/Electricity) for the period through to December 2024 at **Appendix 3**. Although these graphs show a reduction in all inflation indices through 2023 and until mid-2024, what needs to be recognised is that the cost of goods and services will be at a "new" higher base – so the cost of delivering services will be significantly higher than at present.

3.8 **Pay Inflation**; the Council is part of the national local government pay-bargaining process and following union negotiation, the agreed 2022/23 increase is a flat rate of £1,925 to all grades. A flat rate increase of £1,925 is significantly above the 1.75% that the Council had budgeted for and based on the current establishment the forecast additional cost is £317k, the pay inflation per grade is shown in **Table 1** below:

2022/23 Grade Inflation Increase over 2021/22 Salary After Application of Flat Rate of £1,925		Table 1
Grade	Lowest Spinal Point	Highest Spinal Point
2	10.0%	9.6%
3	9.4%	9.1%
4	8.7%	8.0%
5	7.7%	7.0%
6	6.8%	6.2%
7	6.0%	5.6%
8	5.4%	5.0%
9	4.9%	4.5%
10	4.3%	4.0%
11	3.7%	3.5%
12	3.2%	3.1%
13	2.6%	2.5%
14	2.4%	2.2%
Chief Executive	1.8%	1.6%

3.8.1 Shown below are the pay inflation rates included within the current MTFS. In respect of 2023/24, Councils across Leicestershire are modelling various increases, ranging from 3% to 6%. It is therefore proposed that for 2023/24 the Council includes an increase of 4%, decreasing to 3% by 2027/28:

	Current MTFS	**Next MTFS**
• 2023/24:	2%	4.0%; £375k
• 2024/25	2%	3.5%; £341k
• 2025/26	2.5%	3.0%; £302k
• 2026/27	2.5%	3.0%; £312k
• 2027/28	N/a	3.0%; £321k

Budget Principle (2)
Pay Inflation: to be increased to 4% for 2023/24, decreasing to 3.5% for 2024/25 and then decreasing to 3% for the following 3 years of the MTFS.

3.9 **Pay Oncosts**; as an employer the Council is required to charge oncosts for National Insurance and Pension. In respect of 2023/24 the rate for:

- **National Insurance** will be 13.8%. This is lower than that applied for 2022/23 as the government proposed in its mini-budget in September

2022 to remove the 1.25% NIC Levy in respect of Social Care. This lower amount will be charged for each year of the MTFS.
In respect of the NIC Levy, for 2022/23 local authorities received a grant uplift to compensate for this additional burden; however it is expected that this grant will be removed for 2023/24 and onwards.

- **Pensions** will be 32.4%, an estimated increase of 1% over the 2022/23 rate and will be applied for each year of the MTFS. The Council is part of the Leicestershire Local Government Pension Scheme and 2023/24 will be the first year of a new triennial valuation period.

Budget Principle (3)
Pay Oncosts: National Insurance and Pensions Oncosts to be 13.8% and 32.4% respectively for 2023/24. For subsequent years of the MTFS Pension to be increased by 1% per annum from 32.4% (2023/24 rate), the NI rate to remain as 2023/24.

3.10 **Vacancy Factor**; the Council includes a Vacancy Factor (VF) within its budget; such factors are a proxy that reflects salary savings that are likely to accrue between a "Leaver" leaving and a "New Starter" starting. For 2023/24 the VF was increased to £180k reflecting the preceding two years where the VF gap exceeded that previously set. For 2023/24 and each year of the MTFS, it is proposed to keep the VF at the 2023/24 rate.

Budget Principle (4)
Vacancy Factor: for 2023/24 and each year of the MTFS to maintain the VF at £180k (as applied in 2022/23).

3.11 **General Service Inflation**; for the second time, 2022/23 the Council set a general service inflation rate of 0%. A 0% rate introduces direct cost-control within the Councils service budgets which effectively means that services have to meet service-related contractual inflation from within their approved budgets. Following some initial budget discussions with services, this principle still holds for many service related costs. It is therefore proposed that this principle is maintained except for the items shown in paragraph 3.12 (i and ii) below.

3.12 In respect of:

i. **utility costs**, as noted in the 2022/23 Quarter 2 Financial Performance report elsewhere on this agenda, from a Value for Money point of view the Council had little choice but withdraw from the Green Electricity Tariff from October (by way of example, for The Symington Building the Council would have seen an increase in cost of 700%; £207k). Reflecting on:

a. the fact that the government has introduced a domestic and business price cap for the winter of 2022/23 and for the following 12 months, and

b. the energy indices shown in **Appendix 3**, the Council is now anticipating higher energy costs lasting for the whole of 2023/24 and 2024/25, with a gradual reduction through 2025/26.

It is therefore proposed that the following inflation indices are applied for:

- 2023/24 +20%
- 2024/25 +10%
- 2025/26 budgets to remain at 2024/25 levels.

ii. **larger contractor costs**; namely FCC for Environment/Waste and Grounds and SLT for Leisure.

- **FCC**, this contract is financially significant to the Council; for 2022/23 the cost is £5.1m which represents 41.8% of the Councils gross expenditure. It is therefore essential that the cost of the contract remains structurally integral to the Councils overall budget. The efficiency of the contract is continually under review but even under such scrutiny, other than 2021/22 (as shown below) the inflationary costs associated with the contract have been increasing year-on-year:

  - 2018/19 3.79%
  - 2019/20 4.02%
  - 2020/21 2.63%
  - 2021/22 -1.06%
  - 2022/23 6.67%

  The Council does not receive "confirmed" inflation increases from FCC until the January/February preceding the new financial year. However, the Council has to include something in respect of its Draft Budget in January. Initial indications are showing a significant increase in costs for 2023/24 (14%, £467k) but then a more modest increase for each year thereafter (4.9%, £67k). these will be applied in the preparation of the draft budget but may be adjusted for the final budget in February.

- **SLM**, on a gross cost basis, the gross cost of the current contract is £2.6m with a net cost of £Nil. However, members will recall that prior to the Coronavirus pandemic, the Council was earning an income of around £384k per annum from its Leisure contract. During the pandemic, as common with all local authority contracted leisure providers, the contract was operating via an "Open Book Process" (i.e. no profit/cost recovery only) and has continued since. For next year and the MTFS, no additional cost or income generation is to be included (i.e. remain as per 2022/23).

New Larger Contracts:

3.13 **Implications of the Environmental Act and New Depot**

3.13.1 From 2025/26 the Council will be required to let a new environmental contract. In respect of the revenue budget, it is recommended that for the new contract:

i) the current environment contract estimate, as at 2024/25 is inflated by the average of the inflation increases over the duration of the current FCC for each year of the MTFS.

ii) A 5% cost escalator is added to the evaluated annual cost to reflect the potential costs associated with the government's potential changes to future waste collection (environmental act).

3.13.2 At this time the Council does not have its own depot from which any relet service can be based. This could potentially pose a significant "cost risk" to the Council if a depot is not acquired in time for the contract relet. When the 2022/23 budget was approved by Council in February 2022 (Table 6), this included a £5m capital allocation for the development of a new depot in 2025/26. As well as the capital programme allocation, the associated revenue financing costs; Minimum Revenue Provision (MRP) were also included in the revenue budget. The inclusion of the annual revenue "MRP" amount will not only recognise the cost of capital for any new depot but it will also mitigate against the potential cost risk if the Council is not able to acquire a new depot and has to include additional revenue resources within its own budget to meet any such liability of a new provider. Over the past months the Council has been working with both public and private sector partners to determine possible locations and indicative costs of development; in respect of the latter it is now considered that the current capital allocation of £5m is too low, a similar project undertaken by Leicestershire County Council came in at £8.5m. Considering current inflation it is considered prudent to increase the estimated capital cost to £10m.

3.14 **Leisure Contract**

3.14.1 From 2024 the Council will have a new leisure contract. Current expectations are showing that the new contract is likely to achieve a £Nil net cost per annum, this will be included for 2024/25 and each year thereafter.

3.14.2 In respect of utility costs, the current contract includes within its terms and conditions that SLM will meet all utility costs and there is no indication that SLM will be seeking to recover such costs from the Council for the remainder of the contract. However, current soft market testing is indicating that any future contract will not include utility costs i.e. the Council will have to bear this cost. The current estimated annual utility cost for leisure is £312k (83% of the total premises costs) and it is estimated that from the start of the new contract the additional utility cost will be circa £188k per annum based on the Council current utility contract; this will be included within the budget (please note that this information was taken in July 2022 and may not include any subsequent expected cost of living crisis increases)

Budget Principle (5)

General Service Inflation to be set at 0%, except for:

i) ***Utility costs; an inflationary increase of 20% for 2023/24, 10% for 2024/25 and then remain at 2024/25 thereafter.***

ii) ***the FCC Contract; an inflationary increase of 14% for 2023/24 and a more modest increase of 4.9% for each remaining year of the contract.***

iii) ***the current SLM Contract, no inflationary increase for all years of the remaining period of the contract..***

iv) ***the implications of the new environmental act and new depot from 2025/26 onwards:***
- ***The annual cost to be based on the current 2024/25 environmental contract cost; inflated annually by the average inflation rate of the current contract (4.9%).***
- ***An additional 5% cost escalator to reflect the potential cost of the government's changes to waste collection.***
- ***A higher capital allocation of £10m be included in the capital programme.***

v) ***the new leisure contract from 2025/26 onwards, annual contract costs not to recognise any additional income but recognise an additional utility cost of £188k per annum.***

3.15 **General Service Growth**; the assumption is that there will not be any general service growth over the medium term. The only permitted growth will be:

i) budget corrections, or growth approved via previous budget approvals,
ii) any subsequent transformation programme,
iii) statutory or regulatory changes, and

iv) items approved separately by Council.

Where posts are regraded that result in a higher grade, then savings elsewhere need to be made to finance the wage growth.

Budget Principle (6)

General Service Growth; there will not be any general service growth, except where:

i) ***there are required budget corrections, growth that has been permitted via previous budget approvals, statutory/regulatory changes, and any subsequent transformation programme or that which has been approved separately by Council.***

ii) ***where costs must increase (i.e. due to post regrading's), savings elsewhere will be required to neutralise the additional cost.***

Non-Service Funding & Related Indices

3.16 **Non-Domestic Rates** (NDR, or Business Rates); the Council is currently part of the Leicestershire Business Rates Pool (LBRP) and up to March 2021, the total contributions to the to LBRP are £43.2m; of which £41.2m has been allocated for investment across Leicestershire. Of this, approximately:

- £10m (23%) relates to receipts from the Harborough area that would otherwise have been paid over to the government (this is based on the pooling arrangement since 2015/16).
- £1.6m (21%) of the District allocations has been allocated to the Harborough area for investment *(NB. £1.6m represents 7% of total contributions, but the LBRP would not exist if Leicester City and Leicestershire County Councils, as "Top-Up" authorities were not part of the LBRP)*.

3.17 Currently, the Rates Pool allocation arrangement is being reviewed and receipts from 2020/21 onwards are yet to be distributed. At this time no estimate of future receipts will be included in the budget, MTFS or capital programme.

3.18 However, in respect of the Councils own NDR, it is recommended that the Council continues with its prudent approach of budgeting for NDR receipts at previous year's budget levels, with any increases only based on:

- known commercial developments that will deliver "certain" NDR growth within the MTFS period, and
- the governments annually set NDR multiplier (this will not be known until the provisional financial settlement is announced later in the year).

The reason for this prudent approach is so that it provides a more stable stream of funding from which the Council can deliver services sustainably over the medium-term.

Budget Principle (7)
Non-Domestic Rates:

- **i)** ***future receipts from the Leicestershire Rates Pool will not be included in the budget, MTFS or capital programme.***
- **ii)** ***only known commercial developments that will deliver "certain" NDR growth (increase in NDR).***
- **iii)** ***the NDR income stream will be inflated by the government's stipulated multiplier.***

3.19 **New Homes Bonus** (NHB); for 2021/22 the Council committed to start to remove NHB from its base budget, and for 2022/23 the Council committed to use the NHB receipts to meet future known Collection Fund deficits.

3.20 In respect of NHB it is understood that NHB will:

- remain for 2023/24 and likely for 2024/25; thereby supporting the government's commitment to giving local government a two-year settlement.
- be single year allocations (i.e. no legacy payments).

3.21 With regard to application of future NHB receipts; NHB is to be applied to support specific net spend commitments, known budget risks, collection fund deficits or other inflationary pressure, with any residual NHB is to be allocated 33% to Community, Economic & Infrastructure, 67% to Commercial Investment.

Budget Principle (8)
New Homes Bonus; to be applied to meet specific net spend commitments, known budget risks, collection fund deficits or inflationary pressure, with any residual NHB to be allocated to earmarked reserves; 33% to Community, Economic & Infrastructure, 67% to Commercial Investment.

Fair Funding

3.22 Fair Funding (FF) is a government led initiative to develop a new funding formula. Its intention is to rebase local government funding to enable a more equitable distribution of centrally allocated funds; primarily via the business rates system. It is anticipated that FF will have a negative impact on the southern and midlands councils and current modelling is showing a worsening funding settlement over the medium-term. In addition, it is expected that the government will “reset” the NDR baseline; this will remove some of the “growth” currently within the Councils NDR receipts. However, because of the coronavirus pandemic the government had originally planned to delay FF until 2022/23; but with the recent change in Prime Minister and the current cost-of-living crisis; current intelligence is indicating that the FF may be some years off. In anticipation of a potential negative FF impact, it is recommended to again include a prudent “negative funding adjustment” as in previous years. However, considering that the government has committed to a two-year settlement the likelihood of FF being introduced before 2025/26 is considered unlikely. The current negative FF adjustments are shown below along with the proposed adjustments over the MTFS period:

	Current MTFS	**Next MTFS**
• 2022/23	£ 99k	N/a
• 2023/24	£198k	£0
• 2024/25	£297k	£0
• 2025/26	£396k	£ 99k
• 2026/27	£495k	£198k
• 2027/28	N/a	£297k

Budget Principle (9)
Fair Funding: To help mitigate the future impact of Fair Funding (& the NDR “reset”), to include a negative funding stream of £0k for 2023/24 and 20224/25; £99k, 2025/26; £198k, 2026/27; £297k, 2027/28.

Collection Fund (Surplus)/Deficit

3.23 In January each year the Council is required to calculate its estimated share of the Collection Fund as at the forthcoming 31st March. If it is a surplus, this increases the funding available to the Council, but if it is a deficit this is an additional funding pressure.

3.24 As a consequence of Covid-19, the Council is currently modelling a Collection Fund deficit of £804k for the next 2 years; partially financed from government support of £503k per annum. However, a definitive surplus or deficit cannot be calculated until January due to the inbuilt volatility within the Collection Fund account (i.e. an individual or business’s ability to pay).

Budget Principle (10)
Collection Fund (Surplus)/Deficit:
The Council will spread any forecast 31st March 2021 Collection Fund Deficit in line with legislation.

Council Tax Base

3.25 The Local Government Finance Act 1992, as amended, requires the Council to fix the Council Tax base for 2023/24 between 1 December 2022 and 31 January 2023. The calculation will be prepared in accordance with the Regulations 'Local Authorities (Calculation of Council Tax Base) Regulations 2012 (SI: 2012/2914)' which came into force on 30 November 2012, to enable local authorities to calculate the tax base for the financial year 2023/24. The Council Tax Base is defined as the number of Band D equivalent properties in a local authority's area. An authority's tax base is considered when it calculates its council tax. It is calculated by adding together the “relevant amounts” (the number of dwellings) for each valuation band then multiplying the result by the Council’s estimate of its collection rate for the year (this collection rate will reflect past rates and an estimate of bad debt). For 2022/23 there was an overall increase in the council tax base, although some individual parishes tax bases did decrease. Because of the Coronavirus Pandemic, for 2021/22 and 2022/23 the Council significantly increased its irrecoverable rate (increased from 1% to 2%). With Coronavirus restrictions no longer being in place there is a fair argument for the irrecoverable rate being returned back to pre-pandemic levels (1%). However, with the ongoing cost-of-living crisis and the potential for recession, it would be prudent to continue the higher (2%) rate for 2023/24 as Council Tax debt performance remains marginally below pre-pandemic levels and there is also a risk of a slow-down in housing development if there is a deep recession.

Budget Principle (11)
Council Tax Base:
Subject to modelling, an irrecoverable rate of 2% is applied when the Council Tax Base is calculated prior to budget setting.

Reserves Strategy

3.26 In November 2020, Cabinet approved a Reserves Strategy, this was then agreed by Council the following February; it is now opportune to review the Strategy.

3.27 In essence, the Reserves Strategy introduced a new approach to reserves management that included:

- a minimum level of General Fund (Unallocated) Reserves (15% of net expenditure),
- a series of new Earmarked Reserves, and
- new governance arrangements in respect of the management of reserves.

3.28 The freedoms permitted by the Reserves Strategy has:

- given the Council a locally agreed minimum level of reserves that it must make every effort not to breach to ensure that it can continue to deliver its immediate services.
- provided a clear set of Earmarked Reserves that have a clear purpose.
- allowed proactive and pragmatic management of reserves to support the ongoing delivery of services.

3.29 **Updating of Reserves Strategy**; the strategy approved by Council in 2021 included a 15% minimum level of General Fund (Unallocated) Reserves (GFUR) (para 5.1.1/5.1.2 of the strategy). However, at each budget setting the Council has maintained its GFUR at 20% of net expenditure. This higher level was considered prudent considering the higher risks faced by the Council in respect of the Pandemic and it is considered prudent that this higher level should remain as the Council faces the current inflationary/cost-of-living crisis. Other than the change in the GFUR, there are no other changes to the strategy; the updated strategy is attached at **Appendix 5**.

General Budget Definitions

3.30 Having prepared the budget last year, some "definitions" of aspects of the budget is necessary to aid understanding and its operation:

1) The **Budget** is for the year that the Council Tax is set and a commitment of resource allocation. It includes the following revenue items:
    - net service expenditure,
    - capital financing (otherwise known as minimum revenue provision; MRP),

- reserve contributions,
- grants,
- collection fund surplus, and
- council tax – but for only the year that the Council Tax is being set.

2) The **Medium-Term Financial Strategy (MTFS)** shows an intention to future years resource allocations. The duration of the MTFS is for the 4-years following the Budget year.
3) The **Capital Programme** includes the gross capital expenditure and sources of finance and covers both the budget year and the duration of the MTFS. Movements within the Capital Programme are permitted providing the overall resourcing envelope is not exceeded; including changes in fundings sources providing budgeted revenue commitments are not exceeded.
4) The Budget, MTFS and Capital Programme are **'organic' plans** for spending and can flex to reflect current and future financial commitments. However, there is the statutory requirement to deliver a balanced budget. Where during the year it is established that there will be an increase in service net expenditure and/or reductions in grant, NDR or Council Tax; this "net excess budget position" (underachievement of budget) can only be financed by a higher than planned increase in the General Fund (Unallocated) reserve allocation (the opposite is true where there is a "net reduction in the budget position" i.e. overachievement of budget). Such allocations will be reported to Cabinet and Scrutiny as part of the routine quarterly financial performance monitoring process. The use of Earmarked Reserves is as per the agreed process within the Reserves Strategy.

4. Implications of Decisions

4.1. Corporate Priorities

The contents of this report supports the Council in the development of next year's budget and medium-term financial strategy; which then provides the resource allocations to delivery its Corporate Priorities.

4.2. Financial

These budget principles will set the foundation for the setting of the 2023/24 budget and the MTFS. These principles are similar in nature to those applied for the 2022/23 budget (& MTFS). Further they are complementary to the Councils service transformation programme. The Reserves Strategy determines how reserves are to operate, there is only one change to what has previously been agreed.

4.3. Legal

This report supports the Chief Financial Officer in meeting his statutory responsibilities in respect of the proper administration of the Councils financial affairs [s.151 of the Local Government Act 1972].

4.4. **Policy**
No policy issues arise directly from this report.

4.5. **Environmental Implications including contributions to achieving a net zero carbon Council by 2030**
There are no direct environment implications arising from this report.

4.6. **Risk Management**
The budget principles and reserves strategy will help to mitigate the risks associated with budget setting, manage expectations, and permit the Council to delivery its services as efficiently and effectively as possible.

4.7. **Equalities Impact**
There are no direct equality implications arising from this report..

4.8. **Data Protection**
There are no direct data protection implications arising from this report.

5. Summary of Consultation and Outcome
Consultation has been undertaken with the Portfolio Holder.

6. Alternative Options Considered
Not applicable.

7. Background papers
None.