

Report to Cabinet

Subject: General Fund Revenue Budget 2023/24

Date: 16 February 2023

Author: Senior Leadership Team on behalf of Leader of the Council

Wards Affected

Borough wide.

Purpose

This report sets out the revenue budget which aligns to the Gedling Plan priorities, objectives and priority actions for the Council for the forthcoming year.

Key Decision

This is a Key Decision because the proposals will have a significant impact on all wards in the borough and include financial implications that are above the threshold of £0.5m determined by Council for decisions to be regarded as a Key Decision.

Recommendation(s)

Cabinet is asked to approve:

- i. a 5% discretionary income inflation increase for the individual portfolios as shown in the table at paragraph 2.5.5.

Cabinet is asked to recommend to Council on 2 March 2023:

- ii. that the financial threshold above which decisions will be regarded as Key Decisions be set at £0.5m for 2023/24;
- iii. a provisional Council Tax increase of 2.98% (£5.31) which balances the financing of a Net Council Tax Requirement of £7,060,700 in 2023/24;
- iv. that the detailed budget for 2023/24, as detailed in Appendix 2 be approved.

Background

- 1.1 The Constitution of the Council requires the Leader to present, before 21 February each financial year, a draft Budget and Performance Plan to the Cabinet for approval, highlighting budget priorities, growth items and proposed efficiencies.
- 1.2 The Executive is required to consider any comments made on the draft Budget and Performance Plan and to present the final drafts to Council for adoption in accordance with the statutory requirements. To fulfil these requirements the 2023/24 budget proposals together with the Gedling Plan will be presented to Budget Council on 2 March 2023. The Borough Council has a statutory responsibility to determine its Council Tax by 10 March.
- 1.3 This report ensures that these requirements will be met for the 2023/24 budget process.

Proposal

2. Proposed General Fund Budget 2023/24

- 2.1 The Council's proposed General Fund budget sets out the financial strategy and framework for overall financial control and administration for the Council. It also details how individual items such as Central Government Funding, Taxation levels, Resource Developments and Efficiency proposals impact on the annual budget and this has been taken into account in presenting this annual budget and Medium Term Financial Plan (MTFP) Summary.

2.2 Principles Underpinning the Budget Strategy

The Council has a number of agreed principles as a basis for financial management and budget planning as follows:

- Emerging pressures are managed within existing overall budgets;
- Spending is aligned to key priorities as set out in the Gedling Plan;
- Income is only included in the budget where supported by robust proposals and is deliverable;
- The Council will optimise its commercial income where possible to ensure that fee charging services break-even over time and are provided with a nil cost subsidy from the taxpayer where appropriate, or return a surplus where appropriate;
- Where possible, future liabilities are anticipated;
- Budgets are sustainable;
- Savings proposals are supported by project plans and the impact on service delivery is clear;
- Capital and revenue planning must be integrated to ensure that implications are fully anticipated;

- The Council's reserves and balances are not to be used as a primary method to balance the ongoing pressures in the budget. Earmarked reserves are used for specific one-off purposes to support the delivery of corporate objectives and to mitigate risks.

In light of the anticipated medium term financial pressure, the Council has developed a forward strategy to inform future financial planning, by providing a framework for reducing planned expenditure over the medium term to ensure that the Council is financially sustainable, while still delivering the Council's key priorities as set out in the Gedling Plan.

2.3 **Autumn Statement 2022**

On 17 November 2022, the Chancellor of the Exchequer presented his Autumn Statement to Parliament.

The Autumn Statement confirmed that government DEL budgets will be maintained at least in line with the budgets set at the Spending Review 2021 but then grow more slowly than previously expected. The Spending Review 2021 set UK government Departmental Expenditure Limit (DEL) budgets from 2022-23 to 2024-25. This included an average increase in Core Spending Power for local government of 3% in real terms over the Spending Review period. However, a substantial part of the additional £4.8 billion of new grant funding allocated at the time to local government is primarily to meet social care pressures which is an upper tier function and does not therefore benefit Gedling Borough Council.

At the Spending Review 2021, departments were also provided with funding to cover employer costs of the Health and Social Care Levy. As the Levy is no longer being introduced as a separate tax from April 2023 and departments will not face these additional costs, budgets have been adjusted centrally to remove this compensation.

To keep spending focused on the government's priorities and help manage pressures from higher inflation, the Autumn Statement indicated that government departments will be required to continue to identify efficiency savings in day-to-day budgets. To support departments to do this, the government is launching an Efficiency and Savings Review. This will include reprioritising spending away from lower-value and low-priority programmes, and reviewing the effectiveness of public bodies.

The Chief Secretary to the Treasury and the Minister for the Cabinet Office will work with all the cross-cutting government functions and departments to drive up professional standards, accelerate progress on innovation and automation, and further reduce waste and duplication. The government will report on progress with the Review in the spring. This is potentially an indication that increases in spending allocations will not be available in the future.

2.4 **Local Government Finance Settlement (LGFS) 2023/24**

2.4.1 The local government finance settlement is the annual determination of funding for local government, distributing revenue raised from business rates and other funding streams through:

- Revenue Support Grant and Baseline Funding level for Business Rates Retention known as the Settlement Funding Assessment;
- Other Key Grants – e.g. New Homes Bonus; a new Funding Guarantee Grant for 2023/24 (see para 2.4.6 below).

A full analysis of the provisional settlement announced on 19 December 2022 was completed by the Local Government Association and is attached at Appendix 1 for information.

The final settlement figures for 2023/24 were announced by the Secretary of State for Levelling Up, Housing and Communities (DLUHC) on 6 February 2023. The Government's assessment of the Core Spending Power of local authorities and its referendum principles for managing excessive council tax increases have also been confirmed.

2.4.2 **Settlement Funding Assessment (SFA)**

The 2023/24 Settlement determines how much Revenue Support Grant central government will give to each local authority in England in 2023/24 and sets the Baseline Funding Level for Business Rates (the actual amount of business rates funding will be determined by the actual amount of rates collected and movements in the business rates base in accordance with the business rates retention scheme).

The final settlement figures announced on 6 February 2023 related only to 2023/24 and is a one-year settlement and once again there was no multi-year settlement which many local authorities, including Gedling Borough Council lobbied for. However, the Government has attempted to provide some clarity for 2024/25 by confirming that the core settlement will continue in a similar manner for 2024/25 i.e. Revenue Support Grant and Baseline Funding Levels will continue in the same format as 2023/24 meaning there will be no implementation of the Fair Funding Review or reset of the Business Rates system in 2024/25 and confirming no future changes will be made to Council Tax referendum principles (see para 2.4.7 and 2.4.8 for further details). Further consideration will be given to the funding position of lower tier councils for 2024/25 and the future of the New Homes Bonus scheme will be set out ahead of the 2024/25 local government finance settlement.

The one year settlement means that there is still no clarity over funding levels after March 2024. This continues to hamper meaningful financial planning at a time when demand and inflationary pressures are now increasing beyond expectations.

The 2023/24 Settlement Funding Assessment (SFA) figures are set out in the table below along with those for previous periods for comparative purposes:

Year	Revenue Support Grant £	Business Rates £	Total SFA £	Cash (Reduction) /Increase £	Movement from Prev. Year	Movement from 2015/16 (last CSR)
2015/16	2,146,200	2,792,300	4,938,500			
2016/17	1,415,700	2,815,500	4,231,200	(707,300)	-14.3%	-14.3%
2017/18	780,500	2,873,000	3,653,500	(577,700)	-13.7%	-26.0%
2018/19	384,900	2,959,300	3,344,200	(309,300)	-8.5%	-32.3%
2019/20	0	3,027,100	3,027,100	(317,100)	-9.5%	-38.7%
2020/21	0	3,076,400	3,076,400	49,300	+1.6%	-37.7%
2021/22	0	3,076,400	3,076,400	0	0%	-37.7%
2022/23	500	3,076,400	3,076,900	500	0%	-37.7%
2023/24	117,500	3,191,600	3,309,100	232,200	7.5%	-33.0%

The new element of Revenue Support Grant (**RSG**) relates to the consolidation of grant funding that has previously been received outside of the Settlement Process, primarily being Council Tax Administration Subsidy i.e. **this is not new funding**. An offsetting reduction has been made in the core Revenue Budgets detailed at paragraph 2.5. The increase in business rates is due to adjustments made to baseline funding levels due to the revaluation of the system (see para 2.4.3)

The total cumulative settlement reductions equate to 33% or £1.63m in cash terms over the periods from 2016/17 to 2023/24 compared to the base position of 2015/16. Excluding the grants now consolidated into RSG i.e. not additional funding, the equivalent cumulative settlement reductions equate to 35% or £1.75m over the same period. Total settlement reductions compared to the amount received in 2010/11 are £5.65m or 64% by 2023/24. This is broadly the same position as last year.

SFA is reduced to 23% of Gedling's net budget for 2023/24, before accounting for new required efficiency targets, compared to 60% in 2010/11.

2.4.3 Business Rates Retention – Current 50% Retention Scheme

Business Rates growth compared to baseline funding levels of £3,191,600 for 2023/24 is estimated at **£1,928,700** giving total income from business rates of £5,120,300, including S31 grants to compensate for new reliefs and indexation introduced by the government since the scheme's introduction (Note: S31 Grants are used by central government to reimburse a local authority for additional activities which are not covered by existing funding methods).

Growth amounts for the medium term are currently forecast at the same level for 2024/25 and thereafter the budget has been set at a prudent level of £900,000 per annum from 2025/26 to 2027/28 due to the uncertainties that

remain in the estimation process due to the delay in the review of the future local government funding system, including business rates retention and the potential for a system reset. In addition, the business rates retention scheme has shown volatility in respect of the appeals process, the prediction of future growth, and the potential for significant local impact where a large business relocates/closes.

As part of the Final Settlement the Government confirmed the return of surplus on the business rates levy account arising from business rates growth to be distributed as a one-off grant based on each local authority's 2013/14 Settlement Fund Assessment. Gedling's allocation is **£25,801**.

2.4.4 New Homes Bonus

During 2011/12 Central Government introduced the New Homes Bonus (NHB) which is funded from the centrally retained share of Business Rates income and paid as a separate non-ringfenced grant in addition to the Settlement Funding Assessment.

The principles of the grant are to reward local authorities for each new property completed within their boundary plus an additional reward for returning empty properties back into use. The value of the reward was linked to the national average council tax band D property for a number of specified years, initially set at six years.

When the NHB was introduced, the then Department for Communities and Local Government (now the Department for Levelling Up, Housing and Communities) stated in its final scheme design that it was intended to be a predictable, permanent and enduring feature of local government funding. However, since its introduction a number of changes have been made as summarised in the table below:

Scheme Period	Growth Level Awarded	Number of Years of Award
2011/12 – 2016/17	All	6
2017/18 – 2019/20	Above 0.4% Threshold	4
2020/21 – 2023/24	Above 0.4% Threshold	1

During 2016/17 the Government made changes to the NHB with effect from 2017/18 with the intention of delivering savings to fund pressures in social care. The main changes to the scheme included:

- Reducing the length of time bonus is paid from six years to four years;

- Introduction of a 0.4% growth threshold, recognising that some housing would be built regardless of the NHB, to remove what Government terms as 'deadweight' from the payment. Local authorities need to achieve growth of greater than 0.4% in each year before they receive any NHB funding. For Gedling, this equates to 182 Band D properties before any payment is made. It was considered that the baseline could remove any incentive to grow in relatively low growth areas and penalise areas with limited opportunity to grow, for example in green belt areas.

The Government have confirmed that NHB will continue for 2023/24 on the same basis as 2020/21-2022/23, with no change to the way the NHB is calculated and the award being for one year only.

For the period measured for the 2023/24 New Homes Bonus i.e. October 2021 to October 2022, growth in Gedling was **390** band D equivalent houses, equivalent to 0.85% growth. This growth is above the national baseline of 0.4% and NHB has been confirmed at £332,930 for 2023/24 (to be paid for one year only) including an affordable homes premium based on a growth of 29 units in the period amounting to £10,150.

The impact of the scheme changes has been a significantly reduced award as demonstrated in the table below:

New Homes Bonus Projections Compared to 2016/17

Payment Relating to	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000	£000	£000	£000	£000
2011/12	339							
2012/13	410							
2013/14	366	366						
2014/15	448	448						
2015/16	468	468	468					
2016/17	369	369	369	369				
2017/18		9	9	9	9			
2018/19			11	11	11	11		
2019/20				93	93	93	93	
2020/21					270			
2021/22						2		
2022/23							428	
2023/24								333
Total MTFP	2,400	1,660	857	482	383	106	521	333
Reduction from 2016/17		(740)	(1,543)	(1,918)	(2,017)	(2,294)	(1,879)	(2,067)

There remains considerable uncertainty surrounding the future of the NHB scheme. During 2019/20 the then Secretary of State for MCHLG stated that it was not clear the NHB in its current form is focussed on incentivising homes where they are most needed and announced that the government would consult on the future of the incentive in the spring of 2020. This consultation was delayed for a year due to Covid-19 but was completed in April 2021. However, the results of the consultation have not yet been announced. It is now intended that the future of the NHB will be set out ahead of the 2024/25 local government finance settlement. However, given that the Fair Funding Review will not be completed in this timescale, for medium term financial planning purposes, a similar award to 2023/24 is assumed for 2024/25 and zero NHB awards are assumed thereafter.

2.4.5 Services Grant

The Government introduced a new Services Grant as part of the local government finance settlement for 2022/23 which was initially intended to provide funding for one year only to all tiers of local government in recognition of the services they provide and to manage inflationary pressures e.g. the planned increase in National Insurance contributions for Health and Social Care levy. This grant will be reduced in 2023/24 because there will no longer be an increase in employer National Insurance contributions. This is an unringfenced grant and Gedling's allocation is **£124,425** reduced from £212,082 in 2022/23.

2.4.6 Funding Guarantee Grant

In recognition of the inflationary pressures the Government have repurposed the previous Lower Tier Services Grant to create a new one-off funding guarantee. This is intended to ensure that all Council's see at least a 3% increase in their Core Spending Power (CSP) before any decision about efficiencies, use of reserves, and Council Tax Levels.

Gedling's Funding Guarantee grant allocation for 2023/24 is £349,912. This is partly offset by the removal of the Lower Tier Services grant which was £140,739 in 2022/23. A net increase of just **£209,173**, only 1.5% of Gedling's net revenue budget

As with the previous allocation methodology for the lower tier services grant which protected CSP at 2021/22 levels, there has still been no consideration of CSP reductions that have been suffered by Councils prior to 2021/22 and therefore this approach appears to continue to protect those Councils that have not previously suffered decreases in NHB irrespective of the already anticipated reductions in their NHB including legacy payments.

Whilst the Funding Guarantee is intended to recognise inflationary pressures this together with the Services Grant falls substantially below the actual inflationary pressures being faced by the Council, as detailed in paragraph 2.5.2.

2.4.7 Core Spending Power 2023/24 Compared to 2015/16

As part of the Settlement announcements the Government includes its projection and comparison of Core Spending Power for each authority. This demonstrates the movements in spending power for the four year spending review period 2016/17 - 2019/20 together with the 2020/21 and 2021/22 spending rounds and the first two years of the Spending Review 2021 (i.e. 2022/23-2023/24).

For Gedling the components of Core Spending Power include the Settlement Funding Assessment (revenue support grant and business rates), the Government's estimate of Council Tax Receipts, the New Homes Bonus, Funding Guarantee/Lower Tier Services Grant, the Services Grant and S31 grants and these are summarised in the table below:

Core Spending Power 2016/17 to 2023/24 (based on Government projections)

Year	SFA and S31 Grant £m	Assumed Council Tax £m	New Homes Bonus £m	Funding Guarantee/ Lower Tier Services £m	Services Grant £m	Total £m	Movement from Prior Year	Movement from 2015/16
2015/16	5.2	5.5	2.0	0.0	0.0	12.7		-
2016/17	4.3	5.5	2.4	0.0	0.0	12.3	-2.5%	-2.5%
2017/18	3.8	5.7	1.7	0.0	0.0	11.2	-9.0%	-11.2%
2018/19	3.5	6.0	0.9	0.0	0.0	10.4	-7.7%	-18.4%
2019/20	3.3	6.0	0.5	0.0	0.0	9.8	-5.8%	-21.5%
2020/21	3.3	6.3	0.4	0.0	0.0	10.0	+2.3%	-21.3%
2021/22	3.4	6.5	0.1	0.1	0.1	10.1	+1.4%	-20.2%
2022/23	3.6	6.7	0.5	0.1	0.2	11.1	+10.3%	-12.4%
2023/24	3.9	7.0	0.3	0.3	0.1	11.6	+4.8%	-8.0%

Core Spending Power for local authorities in England increased by 9.2% in 2023/24. The table shows an increase of 4.8% for Gedling in 2023/24 which is 4.4% below the average received by the sector as a whole. The Government's estimate of council tax receipts assumes that District/Borough Councils will increase Council Tax by the maximum possible equating to £255,000 for Gedling. However, actual council tax receipts will be determined by local decisions for council tax increases and actual tax base growth.

The Government forecast presents a total cumulative reduction in Core Spending Power by 2022/23 of **8%** when compared to 2015/16. **Gedling has the fifth largest reduction in Core Spending Power when comparing 2023/24 to 2015/16 out of 333 Councils in England. For 2022/23 Gedling was the seventh worst affected and for the previous two years, 2020/21 and 2021/22, Gedling was the worst affected Council in England.**

Note for comparative purposes – only 10 (3%) of Councils have seen a reduction in CSP of more than 5% when compared to 2015/16, 36 (11%) between zero and a 5% reduction, whilst 287 (86%) have seen an increase in CSP for the same period. The largest increase in CSP for a comparable district council is 33.1%.

2.4.8 Council Tax Increase Referendum Trigger

The Localism Act 2011 gives powers to the local community to either endorse or veto Council Tax rises that are above a limit which is to be set annually by the House of Commons. If a local authority decides to implement a council tax increase above the government set limit this will trigger a referendum so that local voters can either support or reject the proposed rise.

In the final settlement the Government confirmed the referendum principles for 2023/24. For Shire Districts a Council Tax increase will be considered excessive if it is either 3% (or more than 3%) and more than £5 greater than the amount for 2022/23. For Gedling the 3% limit equates to £5.34 in 2023/24. Any Council which sets an increase greater than the referendum limit and does not get support from the electorate via a referendum will have to revert to a council tax level that is compliant, and bear the costs of re-billing its residents.

For 2024/25, the Government has confirmed that the council tax referendum principles will continue the same as 2023/24 and that the referendum limit for increases will remain at 3% and £5.

2.4.9 Local Government Financing from 2024/25

As part of the Settlement announcements the Government has acknowledged that their ambition for Levelling Up the country requires them in the longer term to assess their commitments to update local government funding. They confirmed their previous commitment to carry out a Review of Relative Needs and Resources i.e. the Fair Funding Review (initially intended for implementation in April 2020), and a reset of accumulated business rates growth.

It has now been confirmed that this update of local government funding will not be implemented in this Spending Review period i.e. 2022/24 to 2024/25 but further commitments have been made to making improvements in the next Parliament. Therefore, the inequity of the current funding regime between local authority areas as demonstrated in the Core Spending Power statistics are not expected to be resolved until 2025/26 at the earliest.

Fair Funding Review

Funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of local authorities' relative needs and resources. This consists of a large number of economic and social indicators that underlie the distribution of Revenue Support Grant and the setting of tariffs and top-ups within business rate retention. The methodology behind this assessment was introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013/14.

Since that time, demographic pressures have affected local areas in different ways, as has the cost of providing particular services. In recognition of these pressures, the Fair Funding Review will address concerns about the fairness of current funding distributions which have diverged from the needs basis. The outcome of this review will enable the Government to reconsider how the relative needs and resources of local authorities should be assessed in a world in which they will continue to have greater control over the money that they raise.

Transitioning to the new funding distribution. The Government recognises that introducing a new needs and resources formula could result in significant changes to the funding baselines of some local authorities. It is therefore intended to introduce transitional arrangements that are fair, transparent and easily understood so that budgetary impacts can be accommodated. The latest consultation proposed that the starting baseline for the purposes of transition will be a measure of the current funding available to each local authority i.e. the Core Spending Power measure excluding one-off grants. This should mean that no authority will see its funding reduce as a result of the new system in the first instance. It proposed that transition be time-limited, establishing a fixed period of time to enable target allocations to be reached as soon as practicable.

Whilst the need for a transition period is usual in these circumstances there is a risk that the funding reductions that Gedling have suffered since 2015/16, as detailed in the CSP measure, will be locked in for a period if:

- a) the outcome of the review is that Gedling's funding is currently too low based on relative needs, which may be the case given that the disproportionate £1.5m CSP reductions (excluding one-off grants which may not be protected) we have faced are mainly due to the NHB scheme which takes no account of relative needs; and
- b) the current CSP is used as the comparative measure to apply protection similar to its use in the 2022/23 Lower Tier Services Grant.

Gedling will take an active part in any further Fair Funding Review consultation processes to ensure its position is understood and views are represented.

Future of Business Rates Retention

As detailed above the Business Rates Retention Scheme will be retained at 50% for next year and there will also be no reset of the business rates baseline for 2024/25 which provides some funding certainty for next two years. If the reset is implemented in 2025/26 it is expected that some existing business rates growth could be removed upon reset, reducing income levels.

2.5 General Fund Budget 2023/24 Summary

2.5.1 The following table summarises the proposed General Fund Budget for 2023/24. The detailed budgets are presented at Appendix 2. In developing a budget proposal, assumptions on the core budget have to be made and the various assumptions in respect of inflation are shown at Appendix 3. These have been included in both the annual base budget and MTFP calculations.

General Fund Budget Summary 2023/24

Portfolio	Original Budget 2022/23	Base Budget 2023/24	Variance
	£	£	£
Local Pride and Community Engagement	862,500	927,500	65,000
Lifestyles, Health and Wellbeing	1,686,500	2,133,600	447,100
Environment	5,899,000	6,400,200	501,200
Sustainable Growth and Economy	1,387,200	1,561,500	174,300
Corporate Resources and Performance	2,965,600	3,342,700	377,100
Net Portfolio Budget	12,800,800	14,365,500	1,564,700
Transfer to/(from) Earmarked Reserves	(426,700)	(165,600)	261,100
Net Council Budget	12,374,100	14,199,900	1,825,800

2.5.2. Major Budget Pressures

Since the approval of the original 2022/23 budget there has been a significant increase in inflationary pressures being faced by the Council, resulting in a substantial increase in costs across the medium term. The inflationary pressures arising have been caused by a range of factors: the aftermath of the Covid-19 pandemic; post-Brexit supply and labour shortages; the war in Ukraine and subsequent western sanctions; and more recently the previous Chancellor's fiscal statement and growth plan set out in September of last year; which all together created a 'perfect storm' culminating in an adverse impact on the economy, dampening growth with inflation rising significantly above the Bank of England target levels and resulting in an increasing Bank of England base rate.

The base budget includes the following major budget movements **greater than £50,000**, which are substantially above the previous medium term financial plan expectations due to prevailing economic conditions and resulting inflationary and demand pressures:

- An estimated 5% Pay Award in the amount of £774,900 for 2023/24 plus an additional £550,000 in recognition of the ongoing impact of the 2022/23 pay award being 7% i.e. 4% above the original 3% budgeted;
- Increase of minimum pay levels, moving from a minimum spinal column point 3 to point 5 to address lower pay and remain competitive in the employment market, costing an additional £76,000;
- Cancellation of the proposed increase in National Insurance Contributions in respect of the planned Health and Social Care Levy amounting to a saving of (£81,100);
- Inflationary pressures on utility contract prices amounting to £728,000;
- Running costs of the 2023/24 Local Elections amounting to £125,100;
- Costs of Council Tax Admin subsidy which is now consolidated in the RSG financing budget of £118,300 (overall impact for the Council is neutral);
- Additional borrowing cost (interest and minimum revenue provision) due to the rising interest rates and the Capital Programme financing amounts to £81,000;
- Due to an increase in Bank of England interest rates an additional (£171,000) investment income;
- Additional £63,400 business rates on council properties due to the revaluation of properties.

2.5.3 **Major Budget Reductions – Efficiency Programme**

In response to the budget pressures arising from the downturn in the economy and consequent reductions in central government grant funding, the Council has approved a number of efficiency/budget reductions programmes to ensure delivery of a sustainable Medium Term Financial Plan (MTFP).

The Council's efficiency programme has been developed in accordance with the themes contained in the approved Efficiency Strategy i.e.:

- **Efficiency & Effectiveness** – including: service efficiencies delivering the same level of service with a reduced level of resource; effective asset management; new ways of working including service re-engineering and new delivery methods; demand management; and service reductions or cessation;
- **Contract Management** – improved value for money in procurement;
- **Income Generation** – to maximise all income and reduce the level of subsidy provided in our discretionary service areas moving towards full cost recovery where appropriate; innovation/new ideas for new income streams.

Efficiency Programmes – Progress Update

Since 2014/15 Council have approved six separate efficiency programmes totalling £7.0m net of risk provision. The total programme remaining for delivery over 2023/24 to 2024/25 is £0.373m (net of risk provision).

The progress of the current programme delivery has been positive and budget reductions achieved remain broadly in line with the profiled estimate.

Efficiency Proposals – New Proposals 2023/24

Due to the uncertainties of future Settlement funding and the potential pressures arising from the ongoing impact of the Covid-19 pandemic, Council noted, at its meeting in March 2022, a further potential efficiency target of £1,100,000 as part of the medium term financial plan, requiring new detailed efficiency plans to be developed with a profile for delivery of £100,000 in 2022/23 and £1,000,000 in 2024/25 should the potential risks materialise.

As detailed above at paragraph 2.5.2 significant additional inflationary pressures are now being experienced due to a range of factors having an adverse impact on the economy, and whilst Services Grant and the Funding Guarantee Grant totalling £474,300 will be received in 2023/24 this does not cover the inflationary and demand pressures being experienced and the majority is indicated to be one-off funding. Additional ongoing inflationary pressures estimated across the five year medium term plan are now in the region of £2m higher per annum by 2024/25 than those estimated a year ago, being mainly pay award and utility costs.

Therefore, a new efficiency programme is being proposed for 2023/24 together with the establishment of future efficiency targets totalling **£2,857,000**, for which plans will need to be developed in the near future to ensure the Council can maintain a sustainable financial position as detailed in paragraph 3.

A new **efficiency programme totalling £443,500** for delivery in 2023/24 is now proposed for approval. An additional **risk provision of £50,000** is included in the budget to manage the inherent risks of efficiency programme delivery and a **Transformation Fund budget of £50,000** is included to facilitate the implementation of the overall programme.

The tables below summarise the proposed budget reductions analysed by Portfolio and Reduction type, a detailed list is included in Appendix 6.

Summary of Budget Reduction Proposals

Portfolio	2023/24 £
Local Pride and Community Engagement	20,500
Lifestyles, Health & Wellbeing	171,000
Environment	25,000
Sustainable Growth and Economy	0
Corporate Resources and Performance	227,000
Total	443,500

Budget Reduction Proposals Summarised by Type

Summary 2023/24 - 2025/26	Efficiency and Effectiveness £	Income £	Total £
Local Pride and Community Engagement	20,500	0	20,500
Lifestyles, Health & Wellbeing	21,000	150,000	171,000
Environment	20,000	5,000	25,000
Sustainable Growth and Economy	0	0	0
Corporate Resources and Performance	222,000	5,000	227,000
Total	283,500	160,000	443,500

2.5.4 Proposed Revenue Resource Developments 2023/24

Following discussions with the Leader, the Revenue Resource Developments detailed in the tables below are recommended to Cabinet for approval.

The table below show schemes scoring 15 points and above using the Council's approved methodology which assesses schemes in accordance with the level of contribution made towards the achievement of the Council's Priorities and Improvement Plans.

(a) Revenue Resource Developments 2023/24

Scheme	Revenue Bid 2023/24	Ongoing
	£	£
Waste Services – Move to Hydrogenated Vegetable Oil Fuel	50,000	70,000
Health and Safety Support	4,000	41,300
Planning Policy System – CDP Smart	3,500	3,500
Housing Enforcement Officer (funded by income)	0	0
Selective Licencing Phase 3 Netherfield (funded by income)	0	0
Total Revenue Bids	57,500	114,800

Further details of the revenue resource developments for 2023/24 are as follows:

- Waste Services – Move to Hydrogenated Vegetable Oil Fuel for the Council's vehicle fleet (£50,000) as a renewable fuel to deliver a reduction in CO2 emissions in line with the Carbon Management Strategy commitment;
- Health & Safety Support Officer – (£41,300) to ensure compliance with statutory responsibilities;
- Planning Policy System – CDP Smart (£3,500) GIS and mapping system to support the development of the Local Plan;
- Housing Enforcement Officer - £47,000 offset by penalty income from inspection of private sector housing stock;
- Selective Licencing Phase 3 £337,000 5 year scheme improvement of private sector housing standards funded by licence fees.

In addition to the revenue resource development proposals a capital resource development (see capital programme report an item elsewhere on this agenda) has ongoing revenue implications which have been included in the revenue budget and MTFP, as detailed in the following table:

(b) General Fund Ongoing Revenue Implications of the Proposed Capital Development and Asset Replacement Proposals (excluding borrowing costs)

Description	Capital Budget – For Information	Revenue Costs 2023/24 and ongoing
	£	£
Tree Management Software	16,000	3,700
Total Ongoing Revenue Costs/(Saving)		3,700

2.5.5 Discretionary Income Inflation

The Medium Term Financial Plan includes income inflation on discretionary income at 5% for 2023/24-2024/25 and 3% 2025/26-2027/28, (excluding leisure DNA memberships, garden waste, trade waste, building control, town centre car parking, taxi licencing), which equates to £148,200, and the increase per Portfolio is shown in the table below. Each additional 1% increase will raise a further £29,600. The 5% increase for 2023/24 and 2024/25 is 2% higher than originally anticipated due to the increased cost of service provision being experienced.

It is suggested that the Portfolio Holder agrees individual charges with the relevant Corporate Director, with discretion to vary the percentage increase, as long as the overall cash amount for that Portfolio is raised or exceeded.

Portfolio	Discretionary Income £	1% increase £	5% increase £
Lifestyles, Health and Wellbeing	(2,105,800)	(21,100)	(105,300)
Environment	(693,700)	(6,900)	(34,700)
Sustainable Growth and Economy	(2,200)	(0)	(100)
Corporate Resources and Performance	(161,100)	(1,600)	(8,100)
Total	(2,962,800)	(29,600)	(148,200)

Some of the services operated by the Council are not included in the general fee inflation increase due either to: the sensitivity of demand to price changes e.g. Leisure DNA memberships, or; being operated on a commercial basis and therefore required to breakeven e.g. Building Control. The levels of fees which are set in these areas are considered separately and the base budget amended to ensure appropriate fees are set.

Some fees for statutory services e.g. development control, are determined by central government and any changes are reflected in the base budget.

2.5.6 **Review of Balance Sheet Reserves**

The Local Government Act 2003 requires authorities to consider the level of reserves when calculating their budget requirements. Professional guidance is set out to assist in this deliberation.

Earmarked Reserves on the balance sheet have been reviewed to ensure appropriate levels of funds are retained for specific future purposes and risks. The estimated movement on reserves for 2022/23 and 2023/24 are detailed at Appendix 4 and show expected balances of £3.90m at 31 March 2024. Whilst the majority is set aside to cover specific risk issues e.g. insurance risks; to support approved capital projects; to support ongoing service provision; including ring-fenced partner funds and grants; they may be diverted to support general expenditure should the need arise.

Earmarked reserves of £300,000 that are no longer required for the purpose initially set aside for, or which have no specific approved plans for use, have been proposed for reclassification for general use at the end of 2022/23 to support the 2023/24 budget setting as detailed in Appendix 4. The classification of Earmarked Reserves will be kept under review and considered in the light of the outturn position for 2022/23 and recommendations made for further reclassification at that time if required.

The Council's minimum General Fund Balance level is set at £1m, or 7.5% of the Council's net operating expenditure, whichever is greater. For 2023/24 the required minimum General Fund balance at 31 March 2024 is £1,064,700 compared to the current projected closing balance of £1,224,800, i.e. just £160,100 above the minimum level.

This level of General Fund Balance indicates the increasing and immediate level of financial risk the Council is now facing as a result of the long history of government grant funding reductions, which are no longer related to the Relative Needs (as detailed in para 2.4.9) together with the substantial inflationary pressures now being encountered.

The medium term projection on the General Fund Balance is detailed in the Medium Term Financial Plan summary at paragraph 3 below which demonstrates that substantial budget reductions must be achieved in the future to maintain the minimum level of General Fund Balance and achieve a sustainable financial position in the absence of additional government funding.

2.5.7 Financing of the Capital Programme

As detailed in the Capital Programme report earlier on this agenda it is currently forecast that borrowing will be required to finance part of the capital programme in 2023/24 to 2027/28. Borrowing has an impact on the revenue budget in terms of interest costs and principal repayment. This is reflected in the Medium Term Financial Plan.

2.5.8 Collection Fund

Council Tax

On 15 January each year, the Council is statutorily obliged to prepare an estimate of its Collection Fund transactions for Council Tax, and its expected position at 31 March. This estimate enables Gedling and the three major precepting authorities to take account of any anticipated surplus or deficit on the Fund when they set their own authority budgets.

As detailed in Appendix 5, a surplus of £987,700 was declared on 15 January 2023 for the estimated position at 31 March 2023. This is net of a "spreading adjustment" of £207,200 representing 1/3 of the 2020/21 in-year deficit of £621,500 which was largely due to the impact of Covid-19 on the Council Tax Collection Fund and ensured that the full financial impact of the deficit did not fall on a single year's accounts. The spreading adjustment is required by regulations which came into force on 1 December 2020. The surplus of £987,700 will be shared by the preceptors with the sum of £89,800 received by the General Fund in 2023/24.

Business Rates

The estimated Business Rates Collection Fund surplus at 31 March 2023 of £3.438m was declared in January 2023, of which Gedling's share is £1.375m (40%) and will be received by the General Fund in 2023/24. The original 2022/23 estimate for retail reliefs and related S31 grants was £1.344m higher than the projected outturn for 2022/23. This reduces business rates S31 grant income due in 2022/23 but will be offset by the related increase in collectible business rates due from ratepayers which will not be received in the General Fund until 2023/24 due to the timing difference experienced between the Collection Fund and General Fund accounting requirements for the surplus/deficit and S31 grants. Over the two financial years 2022/23 and 2023/24 the impact of the lower reliefs and the increased collectible rates due from ratepayers is neutral. In 2021/22 £1.982m of additional S31 grant was received by the General Fund in 2021/22 for expanded retail reliefs and these were carried forward in the General Fund balance at 31 March 2022 in order to finance the related deficit in 2022/23.

2.5.9 Business Ratepayers Consultation

There is a statutory requirement to consult with business ratepayers on the budget proposal. The consultation has commenced and any responses will be reported at the meeting.

3. MEDIUM TERM FINANCIAL PLAN

- 3.1 The implementation of the Local Government Act 2003, which introduced a requirement for the Council's Chief Financial Officer to comment on the robustness of the Council's estimates, and the need to look at the medium term (3 years) in order to produce the required indicators as detailed in the Prudential Code, means greater emphasis needs to be placed on the Council's medium term financial planning. Although an absolute requirement to look over three years is required, it is considered good practice to look over as long a period as is reasonable. This Council has a history of producing a Medium Term Financial Plan (MTFP) over a 5 year horizon and this is still considered the appropriate period for this authority.
- 3.2 The MTFP 2023/24 to 2027/28 is presented against a backdrop of major and unprecedented economic uncertainty in the post Covid-19 pandemic environment and the impact of the war in Ukraine, particularly rapidly rising inflation, energy prices and problems in the global supply chain along with the recent upward movement in interest rates which have resulted in difficulties in forecasting both funding and spending pressures beyond next year. Other factors contributing to uncertainty associated with the MTFP include:
 - The latest one year Local Government Finance Settlement for 2023/24;
 - Likely continued upward pressure on pay awards in response to rising inflation, wage comparability and skills shortages in key areas;

- Substantial inflationary pressures for supplies and services, in particular energy prices, the future movement of which remains potentially volatile;
- The lack of a confirmed timescale for the Fair Funding Review and Business Rate system reset;
- The one-off nature of some government grant funding, for example the Funding Guarantee and New Homes Bonus.

3.3 The following table identifies the impact of all the proposals and assumptions that are contained in this report:

- Planned budget reductions and efficiency savings (paragraph 2.5.3)
- The incremental increase in base revenue expenditure from 2022/23 and budget growth items (paragraph 2.5.4);
- Pay Award of 5% for 2023/24, 3% for 2024/25 and 2% per annum from 2025/26 to 2027/28. The April 2022 pay award was settled with an average 7% impact on the Council's pay bill compared to the estimated 3%. Whilst the April 2023 pay award for Local Government staff will not be known for some time the request from the employee representatives is an increase equivalent to RPI + 2%, which at current prevailing rates is 15%. This level of pay claim presents a downside risk to the current MTFP projections, as do potential market adjustments that may be required to address skill shortages in key areas.
- Fees and charges to be increased by an average 5% in 2023/24 and 2024/25 and 3% in 2025/26 to 2026/27 (paragraph 2.5.5);
- Anticipated cost of borrowing to finance the capital programme for 2023-2028;
- A 2.98% Band D Council Tax increase (44p per month for a Band D property and 30p per month for a Band A property) has been assumed for 2023/24. Beyond that a 2.98% Council Tax increase has been assumed for each year of the MTFP to maintain increases without triggering a referendum. However, future council tax increases will be dependent upon future spending decisions, total local government funding and the achievement of efficiency savings;
- Reclassification of Earmarked Reserves back to General Fund Balance at 31 March 2023 of £300,000 (subject to review as detailed in paragraph 2.5.6).
- Based on the current information available, and in the absence of funding increases, in order to achieve a balanced MTFP and ensure the Council's balances do not fall below the minimum level required, additional ongoing budget reductions (to those detailed in paragraph 2.5.3) of **£2,857,000** will be required in the following profile, and are included in the MTFP:

Year	Future Efficiency Target £
2024/25	1,257,000
2025/26	1,400,000
2026/27	100,000
2027/28	100,000
Total	2,857,000

Any new demand pressures arising will require an increase in these budget reduction/savings projections to maintain a balanced budget.

Whilst these budget reductions are not yet supported by outline business plans meaning this aspect of the financial plan is less robust, given the prevailing backdrop of funding uncertainty detailed in paragraph 3.2 and that the first savings are not proposed for delivery until year 2 of the MTFP this gives the Council a good lead in time for developing detailed plans. The Council will not be complacent and will consider options for potential budget reduction options during 2023/24 which can be implemented from 2024/25 onward in the event that additional funding is not available in the next or future Local Government Finance Settlement(s).

The following table demonstrates a balanced medium term plan with a projected surplus on balances at the end of year 5 (2027/28) subject to securing budget reductions. The current budget still requires a significant contribution from balances in year 1, after which the General Fund Balance will be broadly in line with minimum levels with no further capacity to address funding gaps, indicating the increasing risk presented to the Council's financial sustainability arising from increased costs and constrained and uncertain funding levels, which is affecting many local authorities at this time.

MEDIUM TERM FINANCIAL PLAN 2023/24 TO 2027/28 - HIGH LEVEL SUMMARY

	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £
Net Council Budget	14,199,900	13,118,900	12,209,800	12,622,000	12,958,000
Financed by					
SFA Business Rates Baseline	(3,191,600)	(3,255,400)	(3,320,500)	(3,386,900)	(3,454,700)
SFA – Revenue Support Grant	(117,500)	(117,500)	(117,500)	(117,500)	(117,500)
Funding Guarantee Grant (2023/24 only)	(349,900)	0	0	0	0
Services Grant (assumed ongoing)	(124,400)	(124,400)	(124,400)	(124,400)	(124,400)
New Homes Bonus	(332,900)	(335,000)	0	0	0
Business Rate Levy	(25,800)	0	0	0	0
Council Tax Collection Fund Surplus	(89,800)	0	0	0	0
NNDR Growth/ Collection Fund(Surplus)/Deficit/ S31 Grant	(1,928,700)	(1,867,200)	(967,200)	(967,200)	(967,200)
NNDR Surplus Reliefs 2023/24	(1,344,700)	0	0	0	0
Less: Amount to Balances re NNDR Overpaid Relief Grant 2022/23	1,344,700	0	0	0	0
Less: Amount (from)/to Balances Core Budget	(978,700)	(68,000)	(36,800)	(79,700)	(33,900)
Council Tax Requirement	7,060,700	7,351,300	7,643,300	7,946,200	8,260,300
Council Tax increase	2.98%	2.98%	2.98%	2.98%	2.98%
Tax Base	38,504	38,929	39,304	39,679	40,054

The MTFP above assumes that a 2.98% increase will be applied between 2023/24 and 2027/28 but the actual increase will be determined on an annual basis by Council.

Expected balances at year end	1,224,800	1,156,800	1,120,000	1,040,200	1,006,300
Required balance	1,064,700	1,000,000	1,000,000	1,000,000	1,000,000
(Surplus)/Deficit on required balances	(160,100)	(156,800)	(120,000)	(40,200)	(6,300)

Note: Actual General Fund Balance at 1 April 2022 was £4,601,000 and the estimated balance at 1 April 2023 is £1,000,000 with the reduction including the payment of the 2022/23 Collection Fund deficit of £1,982,000 in respect of business rates relief S31 Grant being received in 2021/22, together with a reduction in business rate income in 2022/23 due to S31 Grant

business rates reliefs being lower than estimated by £1,344,700 which will be offset by the related Collection Fund surplus due in 2023/24 (as detailed paragraph 2.5.8 and in the table above). Estimated balances assume the reclassification of £300,000 of Earmarked Reserves back to General Fund Balance in 2022/23.

4. **COUNCIL TAX**

4.1 The Council Taxpayer has to meet the difference between the planned expenditure and the Government grant receivable after the use of any balances are taken into account. It is this difference that is used to calculate individual Council Tax bills for 2023/24.

4.2 Gedling’s share of the council tax for a band D property for 2022/23 is £178.07. The level of council tax for 2023/24 depends on the extent of service reductions/developments and financial risk issues (see paragraph 5 below) that the Council decides to provide for in the budget for next year. For illustration, an increase in council tax by 1% provides additional funding of £68,500. In the above MTFP a 2.98% (equivalent to £5.31) increase has been assumed for 2023/24. **The MTFP at paragraph 3.2 assumes that a 2.98% increase will be applied for the whole period of the plan but the actual increase will be determined on an annual basis by Council.** The Council Tax referendum limit for a shire district at which an increase is considered excessive is 3% or more and £5 whichever is greater. To illustrate the impact of the proposed 2.98% increase, the overall position in terms of the increase for the year ahead on each band would be as follows:

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Year	£3.54	£4.13	£4.72	£5.31	£6.49	£7.67	£8.85	£10.62
Per Week	7p	8p	9p	10p	12p	15p	17p	20p

4.3 At its meeting on 25 January 2023, the Council maintained its commitment to continuing the Council Tax Reduction Scheme unchanged, enabling a maximum award entitlement of up to 100% discount. This continues to mitigate the impact of council tax increases, including those levied by preceptors, for Gedling’s most financially vulnerable households.

5. **ROBUSTNESS OF ESTIMATES**

5.1 Sections 25 and 26 of the Local Government Act 2003 place a personal duty on the Chief Finance Officer to make a report to Council when considering its budget and Council Tax. The report must deal with the robustness of the estimates and the adequacy of reserves.

The Act requires Members to “have due regard to the report in making their decisions”. Where this advice is not accepted, it should be formally recorded within the minutes of the Council Meeting.

Under Section 25 of the Local Government Act 2003 the Section 151 Officer is required to provide a commentary assessing the robustness of the estimates when Cabinet and Council are considering the budget proposals.

The key strategic risks in considering the 2023/24 revenue budget proposals and Capital Programme in the context of the Medium Term Financial Plan are detailed in paragraphs 5.2 to 5.8 below.

5.2 Financial Settlement/Funding Streams

After a delay of two years, firstly due to Brexit and then the Covid-19 pandemic (resulting in one year spending rounds for 2019 and 2020 and consequently one year local government finance settlements), the much awaited 3 year 2021 Comprehensive Spending Review (CSR21) was announced in October of 2021. However, the 3 year Spending Review did not result in the 3 year local government finance settlement which had been requested by the sector with a further one year settlement being made for 2022/23.

In the Autumn Statement 2022 the Chancellor maintained the Government commitment to the departmental expenditure limits set out in the CSR 21, however once again this has not translated into a multi-year settlement for local government, with another one year settlement being made for 2023/24. The Government has now confirmed that the long awaited local government finance reforms i.e. Fair Funding Review and Business Rates Retention reset which were initially due for implementation in 2020 will not now be implemented until 2025/26 at the earliest.

This means that Councils still have no clarity or certainty of how services will be funded beyond next year which presents incredible challenges, inhibiting meaningful financial planning and the development of a sustainable medium term financial plan. This is further exacerbated by the uncertainties resulting from the economic downturn in terms of ongoing demand and inflationary pressures and how they will be financed.

The 2021 Comprehensive Spending Review outlined the Government's spending plans for the next three years by setting budgets for each central government department. This included an average increase in Core Spending Power for local government of 3% in real terms over the three year Spending Review period. However, a substantial part of the additional £4.8 billion of new grant funding to this department is primarily to meet social care pressures which is an upper tier function, presenting a risk that district and borough councils will not receive the full 3% increase in real terms across the 3 year period.

- **Business rates retention/Fair Funding Review**: The extension of the business rates retention scheme reset and implementation of the Fair Funding Review was originally planned for 2020/21 but this has now been delayed for five years with the earliest implementation expected to coincide with the next Comprehensive Spending Review period and the 2025/26 Local Government Finance Settlement. In the absence of a review of the local government funding, pilots for the 100% business rates

retention are continuing in 2023/24 but last year the Secretary of State for Levelling Up, Housing and Communities announced that the Government would abandon moves towards 75% Business Rates Retention as they considered that it conflicted with their levelling up agenda. Instead the Government plan to progress the Fair Funding Review and examine the mechanism for redistributing funding to the local authorities most in need.

Any retention of business rates will still require a mechanism to ensure funding is distributed in respect of need which will create winners and losers which will be determined by the Fair Funding Review. With an obvious emphasis already included in the Spending Review, and in the recent Autumn Budget 2022, to support upper tier authorities in respect of their funding for social care, there is a real risk that district councils could lose further under any new allocation process. The original intention of the business rates retention scheme was for it to be fiscally neutral and in order to achieve this, additional responsibilities would need to be transferred to Local Government in a move to 100% retention. In this scenario care will be needed to ensure that any new transferred responsibilities are capable of being fully funded in both the short and long term although the risk of this materialising is now reduced if the retention level stays at the current 50%.

The current retention of business rates has shown the volatility of this funding in respect of the appeals process, the prediction of future growth, and the potential for significant local impact where a large business relocates/closes. These changes may require local authorities to hold higher levels of reserves in the future depending on the outcome of the review of the local government finance system.

- **New Homes Bonus**: the main body of the report at paragraph 2.4.4, identifies the significant impact that changes to this funding stream has had for Gedling Borough Council due to the introduction of a 0.4% growth baseline resulting in significantly reduced awards since 2016/17.

In line with the one year only local government finance settlement, the NHB award has continued on a one year only basis for 2023/24. Previously the government has stated that it is no longer clear that the NHB in its current form is focussed on incentivising homes where they are needed most. A consultation on the future of the NHB was held in the spring of 2021 but there is, as yet, no firm indication as to how the Government will wish to proceed with amendments to the scheme. The Government has stated that it now intends to set out the future of the NHB ahead of the 2024/25 local government finance settlement which may result in further changes or reductions in advance of the Fair Funding Review which will not be completed in this timescale.

Whilst there may still be an opportunity to receive NHB in the future it is considered that there is a significant downside risk to this arising and it is not prudent to rely on this funding stream to support the revenue budget. This risk came to fruition for 2021/22 as Gedling received a zero

award because growth was below the threshold before receiving a positive allocation of £427,670 for 2022/23 reducing to £332,930 in 2023/24. The MTFP assumes that NHB will continue at the same level for 2024/25 but thereafter will be zero. In the event that the Council does receive some NHB in the longer term, this will be used to support projects or be transferred to balances to support future budget setting but, in all probability, this will be matched by a corresponding reduction in other government grants.

- **Council Tax**: The Government's Core Spending Power figures are based on the assumption that Council Tax will be increased by the maximum amount in accordance with the referendum principles and that growth in the tax base will be created through additional hereditaments. This rise is equivalent to the maximum possible without requiring a referendum and leaves no room for local discretion to set a higher Council Tax in order to plug any funding gaps. The MTFP contained in this report assumes that a 2.98% increase will be applied between 2023/24 and 2027/28 but the actual increase will be determined on an annual basis by Council. In the absence of additional ongoing funding in the local government finance settlement, any Council Tax increase below the 2.98% will require an increase in the efficiency/budget reduction targets to ensure that a balanced MTFP is secured.
- **Economic Growth/Inflation**: Both Brexit and Covid-19 and more recently the war in Ukraine have had a major adverse impact on the economy and ongoing uncertainty continues to create major challenges for economic forecasting. Overall the balance of risk to economic growth in the UK is now to the downside, with significant risks related to: labour supply shortages proving more enduring and depressing economic activity; inflationary pressures not being effectively controlled by monetary policy interventions; UK/EU trade agreements being effective. Without a multi-year settlement or an understanding of what the Fair Funding Review or business rates retention reset will bring, the demand and inflationary pressures arising from the economic downturn need to be managed within local resources i.e. from further budget reductions or efficiencies.

Inflation assumptions have been incorporated in the MTFP as detailed in Appendix 3, including pay award of 5% for 2023/24, 3% for 2024/25 and 2% per annum from 2025/26 to 2027/28. However, whilst the April 2023 pay award for Local Government staff will not be known for some time the request from the employee representatives is an increase equivalent to RPI + 2%, which at current prevailing rates is 15%. This level of pay claim presents a significant downside risk to the current MTFP projections, as do potential market adjustments that may be required to address skill shortages in key areas. However, given the uncertainties in the economy present there is a minor upside financial risk that future awards could be lower than 2% if a period of public sector austerity ensues and is reflected in local government finance reforms and Settlement.

A significant increase in contract prices for utilities is included in the 2023/24 budget. This aspect of the budget is likely to continue to be volatile and there is a downside risk that the full year effect of expected price increases will be higher than those currently projected. However, there is also an upside risk that energy prices will drop back and utility contract prices and budgets will fall back to some degree in the medium term.

- 5.3 A minimum balance of £1m on the General Fund, or 7.5% of net operating expenditure whichever greater, is recommended by the Chief Financial Officer to be a prudent amount given the scale of the business conducted by the Council. The external auditor regards this level of balance on the General Fund to be satisfactory, and it is also appropriate to reflect uncertainties in the financial position in the medium term. Given the substantial inflationary pressures being experienced and the scale of the future budget reductions likely to be required in the absence of funding increases, the level of minimum balances will be kept under review and may need to increase to reflect the increasing level of risk in the MTFP.
- 5.4 The (surplus)/deficit on balances in the MTFP table in 3.3 shows amounts (above)/below the recommended minimum General Fund balance in any one year. Current spending plans show a surplus of £160,100 in 2023/24 declining to £6,300 by the end of 2027/28. Achievement of this position is reliant upon efficiency plans being progressed and delivered during the period of the MTFP or additional funding being made available via the local government finance reforms. Underlying this is an annual deficit between the amounts of income expected and anticipated expenditure which needs to be managed beyond the five-year horizon but this is significantly reduced to manageable levels with the inclusion of the efficiency/savings programmes. However this still does not leave significant capacity to manage future budget and inflation pressures that may arise which will have to be managed by further budget reductions.

The Council has a substantial programme of budget reductions planned for delivery, as detailed in paragraph 2.5.3. Whilst risk provisions and transformation funds have previously been approved, (which mitigate the risk of non-delivery) and in the main the delivery of the programme has gone well, more recently difficulties have been experienced particularly with regards to projects that require more innovative and transformation approaches with inherent uncertainties which presents an increasing downside risk to successful delivery. Programmes are regularly monitored and progress reported to Cabinet to manage this risk and as detailed in paragraph 2.5.3 new efficiency proposals recommended to ensure this downside risk is effectively managed.

The challenges that lie ahead are increasing compared to those in previous years, due to inflationary pressures but whilst recognising the significant challenges ahead, this plan is considered robust. Gedling is not alone in facing this challenge - it is a national problem – but with the Council's long track record in delivering successful efficiency programmes, it is well placed to react and to develop strategies to meet the set efficiency targets.

- 5.5 Initiatives introduced to manage within reduced resources bring increased risks both financially and in terms of service delivery. For example:
- Reduced maintenance budgets – can be accommodated in the medium term but may bring pressures in the longer term as major capital investment plans may need to be accelerated as assets deteriorate faster. Increased public building maintenance budgets have been included in the capital budget proposals to mitigate this risk;
 - Earmarked reserves for specific purposes/risk management have been reviewed and will be managed at minimum requirement levels providing less scope for managing emerging risks.
- 5.6 The Authority continues with activities undertaken in association with a variety of partners. This requires reliance on partnership funding and/or the delivery of integrated programmes and is an approach which is integral to the Council's efficiency programme. However, a significant number of the Council's partners are public sector organisations which are also facing significant budget pressures and changing roles. This places increasing risk on the Council both directly, in respect of possible withdrawal of partnership funding, and indirectly, with the Council potentially facing additional burdens resulting from budget cuts in other organisations. This is especially true in respect of the most vulnerable in society which could therefore have a direct impact on families, homelessness and those with specialist housing need.
- 5.7 There is an increased risk arising from these assumptions and the level of minimum balances will be kept under review. As the Council is responding to the challenges through efficiency measures and service reductions it is considered that the annual and medium term budgets are robust, but given the above risk assessment the achievement of the estimated Medium Term Financial Plan will be a significant challenge to deliver.
- 5.8 Given the Council's excellent track record for budget management, careful budget monitoring and financial planning, which will continue, the structural deficit that remains in the Medium Term Financial Plan is now significant, and it should be expected that there may need to be some contraction of service delivery/performance if existing efficiency plans do not proceed in line with expectations or there are funding reductions following the implementation of the Fair Funding Review.

6. Risk Assessment

Gedling needs to review its Financial Strategy and Medium Term Financial Plan annually to ensure its projected expenditure is balanced with the income it receives, and where it doesn't, or is projected not to, corrective action needs to be identified and put in hand.

Risk	Impact	Comments
Time	Medium	<p>Gedling has always aimed to be at least one year ahead of the budget reductions it needs to make, so that any changes required are as trouble free as possible.</p> <p>The General Fund Balance is now forecast to be at minimum levels for next year and efficiency plans to meet the approved targets will continue to be implemented and developed over the next 4 years to help balance the MTFP.</p>
Viability	High	<p>The continuing one year local government finance settlements, the lack of a clear timeframe for the Fair Funding Review, uncertainty regarding the future of the New Homes Bonus and the rapidly increasing levels of inflation as well as the upward movement in interest rates increases the risks to the finances of the Council; reserves to cushion the impact, are quickly reducing and delivery of the approved efficiency programmes and the development of new efficiency programmes will be essential.</p>
Finance	High	<p>With the continued removal of central government support, the Council will increasingly rely on income generated by local fees and charges, and council tax, and these will need to be consistently increased year on year to offset the momentum of continual reductions in available budgets. The cost of living crisis presents an additional risk to income levels for discretionary services.</p>

Profile	High	The achievement of a balanced and sustainable MTFP is reliant upon the effective delivery of the efficiency programme, with £0.8m planned for delivery in 2023/24 to 2024/25. In the absence of additional funding in the next local government finance settlement, or reduced inflationary pressures, further budget reductions of £2.9m over 2024/25 to 2027/28 will be required.
Adaptability	High	Working with partners will be essential to successfully respond to the challenges that face the Council. The joint work with the DWP has provided a positive model of partnership working and Gedling is working more closely with the Police and the local Integrated Care Partnership to work laterally across the sector.

7. **Equality Issues**

The Council has a duty under the Equality Act 2010 to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between protected groups (such as disabled people or ethnic minority groups) when considering proposed new or changing policies, services or functions, including decisions on funding for services.

Heads of Service have been asked to assess the equalities impact of the proposals for service changes contained in this report. It is not anticipated that there will be any significant cumulative impact on any protected group arising from these budget proposals.

Where appropriate, individual Equality Impact Assessments will be carried out in relation to specific proposals identified in this report. Any equality issues arising will be brought to the attention of the decision maker when the decisions on those proposals are made.

8. **Key Decision Thresholds**

In accordance with the Council's Constitution, full Council will in each year determine the financial thresholds for each service or function above which expenditure or saving is regarded to be significant and should therefore be regarded as a Key Decision. Traditionally the threshold has operated at above £0.5m and it is proposed that this value be continued for 2023/24.

9. Alternative Options

Cabinet could consider recommending an alternative budget and service plan. Recommending an alternative budget may alter the level of recommended Council Tax for 2023/24. If Cabinet chose not to recommend a budget to Council this would be in contravention of the Council's Constitution and would not be in compliance with the Local Government Finance Act 1992.

10. Financial Implications

As detailed in the report.

11. Legal Implications

It is a statutory requirement under Local Government Finance Act 1992 that the budget is presented to Council for approval. The budget has been prepared taking into account the Council's Gedling Plan priorities and Council objectives for the coming year, as well as with regard to statutory requirements.

12. Carbon Reduction/Environmental Sustainability Implications

The Council has committed through the Gedling Plan to promote a sustainable environment, recognising the responsibility it has to safeguard the local environment by reducing its own Carbon Footprint, and working with the local community to reduce global warming. This commitment impacts on the budget in terms of investments and expenditure required to deliver such changes, and in considering the risk of climate change to the Council in terms of impact on its residents and delivery of services.

13. Appendices

- Appendix 1 - Local Government Association Settlement Briefing
- Appendix 2 - Detailed Gedling Plan Portfolio Budgets 2023/24
- Appendix 3 - Major Price Indices – Medium Term Financial Plan
- Appendix 4 - Movement on Earmarked Reserves
- Appendix 5 - Council Tax Collection Fund Estimate 2023/24
- Appendix 6 - Summary of Budget Reduction Proposals 2023/24 – 2026/27

14. Background Papers

- Central Government Report – Local Government Finance Report 2023/24
- Prudential and Treasury Indicators and Treasury Management Strategy Statement 2023/24
- Capital Programme and Capital Investment Strategy 2023/24 to 2027/28
- Gedling Plan 2023-2027

15. Reasons for Recommendations

To obtain approval of the General Fund Revenue Budget 2023/24 for referral to Council.

Statutory Officer approval:

Approved by: Chief Financial Officer

Date: 12 February 2023

Approved by: Monitoring Officer

Date: 8 February 2023