

Gloucester City Council

Meeting:	Cabinet	Date:	7 December 2022
Subject:	Draft Money Plan 2023-28 & Budget Proposals 2023/24		
Report Of:	Leader of the Council & Cabinet Member for Performance and Resources		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	Yes
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Appendices:	1. Money Plan 2023/24 to 2027/28 2. Budget Pressures & Savings 3. Budget Efficiencies & Savings Programme 4. Capital Programme 2022/23 to 2026/27		

FOR GENERAL RELEASE

1.0 PURPOSE OF REPORT

1.1 To review the Council's Draft Money Plan.

2.0 RECOMMENDATIONS

2.1 Cabinet is asked to **RESOLVE** that:

- (1) the assumptions contained in the Council's draft Money Plan from 2023/24 to 2027/28 and revisions to the draft revenue budget be approved
- (2) the uncertainties regarding future incomes, as shown in this report and Appendix 1, and the need to update the Draft Money Plan when there is more certainty regarding Central Government financing, be noted.

3.0 Introduction

3.1 The Money Plan sets out the Council's strategic approach to the management of its finances and presents indicative budgets and Council Tax levels for the medium term. It covers the General Fund Revenue Budget, the Capital Programme and Earmarked Reserves. It also comments on the significant financial risks facing the Council in the forthcoming years and explains what the Council is doing to reduce those risks.

3.2 The main objectives of the Money Plan are to:

- Explain the financial context within which the Council is set to work over the medium term;
- Provide a medium-term forecast of resources and expenditure;
- Identify the financial resources needed to deliver the Council's priority outcomes, in line with the Council's plan;
- Achieve a stable and sustainable budget capable of withstanding financial pressures;
- Achieve a balanced base budget, minimising the use of balances to meet recurring baseline spending, with the General Fund balance being maintained at a minimum of 10% of net expenditure by the end of the plan period;

- Where possible, additional investment and spending decisions will be made to reflect Council priorities and strategic commitments, with disinvestment and budget savings being made in non-priority areas; and
- Ensure capital financing is established at a level that maintains ongoing robustness in the capital programme.

4.0 The Local Government Finance Environment

- 4.1 The Council's Money Plan provides the framework within which revenue spending decisions can be made over the medium term. It is reviewed and updated on an annual basis to consider any alterations that may be required as a result of changed circumstances. The Money Plan covers a five-year period up to 2027/28.
- 4.2 Local Government continues to face a tough financial outlook, with funding pressures set to continue. The Local Government Finance Settlement for Gloucester City Council in recent years has seen unprecedented reductions in settlement funding assessment.
- 4.3 The current high inflation and cost of living crisis are placing significant pressure on the Councils revenue budgets. The plan has made best estimates on the ongoing implications for the Council during these challenging times. The COVID-19 pandemic introduced considerable risk and uncertainty into the Money plan. The response and recovery have seen reductions in income as well as increased costs. The Money Plan and budget for 2023/24 will continue to review any implications on income streams.
- 4.4 The Council's Revenue Budgets for 2023/24 and Capital Programme will be presented to full Council in February 2023 for approval.
- 4.5 On the 17th November the Chancellor will make his autumn statement setting out the Fiscal Plan for the public finances, and the announcement was accompanied by an assessment from the Office for Budget Responsibility (OBR).

The announcement including the following, :

- Adult social care funding. An additional £1bn of new grant funding in 2023-24 and then £1.7bn in 2024-25.
- Delaying adult social care charging reforms.
- Band D council tax thresholds. The core threshold will increase from 1.99% to 2.99%,
- Business rates multiplier. The multiplier will be frozen in 2023-24. Local authorities "will be fully compensated for the loss of income as a result of these business rates measures".
- Business rates reliefs. Extension of Retail, Hospitality and Leisure (RHL) reliefs into 2023-24, plus a Supporting Small Business Scheme (SSBS).
- Revaluation 2023. Revaluation will go ahead but there will be a more generous transitional scheme, with additional Government support.
- New Homes Bonus. No announcement on the future of NHB or the other grants within the settlement.

It seems very likely now that the Government will stick to the Spending Review (SR) 2021 allocations (for 2023-24 and 2024-25). This means no new funding for inflation pressures in local government in this year, or in the next two years. This means very severe real-terms cuts in funding.

It has been reported that the Fair Funding Review will be delayed for the remainder of this Spending Review period. Two rollover settlements in 2023-24 and 2024-25 now seem more likely than ever, with the Fair Funding Review and other funding reforms taking place in 2025-26 or later. The Draft Money Plan has been produced on this basis.

The implications on the Council will be better understood upon receipt of the provisional Local Government Finance Settlement in the middle of December.

- 4.6 One significant risk for the Council is the sharp increase in the cost of borrowing since June 2022. With the Council's ongoing Forum regeneration programme in progress there is risk of increased revenue pressures. For 2023/24 and 2024/25 these risks have been mitigated through the use of Leveling Up Funding and income as part of the development. Forecasts do expect borrowing costs to return to more sustainable levels in 2024 however this is something our treasury management will need to monitor closely. If this is not the case future plans will need to address these interest rate pressures.

Local Government Finance Settlement 2023/24

- 4.7 The Local Government Finance Settlement 2023/24 is not expected until the middle of December. For the draft Money Plan the following assumptions have been made:

- Flexibility for District Councils to increase Council Tax by 2.99%.
- Proposed retention of New Homes Bonus, with no change to the baseline.

- 4.8 The settlement is expected to continue to use the 'Core Spending Power' measure. Core Spending Power is made up of the following elements.

Settlement Funding Assessments (SFA)

This is made up of:

- Revenue Support Grant

The SFA is expected to detail level of Tariff on retained business rates and the Safety Net Threshold.

Instead of cutting all SFA by a set percent, Government take into account the ability to raise Council Tax locally. There are five key variables:

- Funding reductions
- Split of reductions between tiers
- Council Tax Base
- Council Tax Rate
- Lower Tier Grant

Council Tax Requirement (CTR)

The Core Spending Power assumes district councils will increase Band D Council Tax by 2.99%. The plan assumes an increase of £2.99%.

New Homes Bonus (NHB)

NHB is expected to reduce from £0.347 m in 2022/23 to £0.000m in 2023/24.

- 4.9 If as in the previous financial year the Council receive additional one off New Homes Bonus it is recommended that these additional sums are placed in the Budget Equalisation Reserve to further protect the council against future uncertainties including potential long-term impacts on the sources of income through Fees & Charges.

5. Business Rates Retention

- 5.1 The Gloucestershire authorities have agreed to continue the pooling arrangements during 2023/24. This scheme increases the business rates retained locally by reducing the levy that is payable to Central Government.

6. General Fund Revenue Budget - Principles and Key Assumptions

6.1 The principles underpinning the proposed revenue strategy are:

Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources.

- i. No long-term use of balances to meet recurring baseline expenditure.
- ii. Resources will be targeted to deliver Corporate Plan priorities and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.
- iii. Maintaining the General Fund balance at approximately 10% of net revenue budget. This assumes a minimum level of £1.4m by the end of the plan.
- iv. Year on year savings targets where required to be met by ongoing efficiency gains, income generation and service transformation.

6.2 **Table 1** below, lists the major **assumptions** that have been made over the five years of the strategy:

Table 1	2023/24	2024/25	2025/26	2026/27	2027/28
Council Tax base growth	0.75%	0.75%	0.75%	0.75%	0.75%
Council Tax inflation	2.99%	£5	£5	£5`	£5
Inflation – Pay	5%	5%	2.50%	2.50%	2.50%
Inflation – contracts	See para 7.4	2.5%	2.5%	2.5%	2.5%
Inflation – other income	See para 7.5	2.5%	2.5%	2.5%	2.5%

7. Revenue Budget Increases

Pay and Prices Increases

7.1 A 5% pay award allowance has been included in 2023/24 and 2024/25 of the plan as a result of the current high inflation. It should be noted that pay awards in Local Government are covered by collective bargaining between employers and trade unions and is not subject to direct control from Central Government. However, it is reasonable to assume that Local Government will mirror what happens in the rest of the public sector.

7.2 In addition to the increases to reflect employee pay awards, provision has also been made to meet ongoing additional payments to the pension fund required from the employer to recover the deficit.

7.3 The pension fund is subject to a triennial actuarial valuation, the most recent of which has been undertaken by Hymans Robertson LLP during 2022, on behalf of Gloucestershire County Council, the pension fund administrator. As a result of the triennial valuation the actuary confirmed that increase to the council's contribution can be reduced by £0.126m per annum for the next three years. This still assumes that the council will be fully funded in line with the current strategy of 17 years. The new contribution rates will commence from April 2023. The plan assumes no further increase in pension contributions.

7.4 Prices inflation has been included on selected non-pay items, namely contractual obligations. All other inflationary increases are expected to be absorbed within base budget which represents a real time reduction through efficiency gains. In contrast to previous years rather than place a percentage increase in 2023/24, significant contractual obligations have been reviewed and the plan at Appendix 1 & 2 has included expected pressure in areas such as waste, leisure, utilities and interest costs.

7.5 Prices inflation is included on selected fees and charges for each year of the plan. As with inflation on prices in 2023/24 the increases have been calculated taking into account the cost pressures on the Council. For subsequent years a 2.5% increase has been assumed.

Cost Pressures and Savings

- 7.6 Cost pressures and savings are included in **Appendix 2** and total a net cost of £0.166m
- 7.7 Significant cost pressures that have been highlighted through budget monitoring are highlighted at **Appendix 2**. Some key pressures are highlighted below:
- Waste and Streetcare.
 - IT hosting costs.
 - Aspire Management Fee.
 - Additional Utilities Costs.
- 7.8 The budget savings identified in **Appendix 2** for 2023/24 relate to several areas where actions undertaken by the Council have led to savings or income growth. Some of the key areas are highlighted below:
- Food dock
 - Recycling Income
 - Transformation & Commercialisation

8. Efficiency Savings/Income Generation

- 8.1 With the inclusion of assumed settlement figures for 2023/24 and the assumption of further formula grant reductions over the life of the plan, further efficiencies may be required.
- 8.2 The expected impact of current high inflation and cost of living crisis plus ongoing impact of COVID-19 requires Council to find further efficiencies and savings in both 2023/24 and 2024/25. Appendix 3 provides details of proposed measures for 2023/24 to enable the Council to balance the budget.

9. Overall Costs

- 9.1 The total costs of the Council (the "Net Budget Requirement") over the five-year period of the Money Plan change from £14.764m in 2023/24 to £15.188m in 2027/28. Any further spending pressures identified in addition to those detailed in **Appendix 2**, over the five-year period of the Money Plan, will need to be funded by additional savings.

10. Revenue Funding

Formula Grant / Localised Business Rates / Revenue Support Grant

- 10.1 Our current grant from Government for 2023/24 comprises two formula driven components - Revenue Support Grant (RSG) and a retained Business Rates target.
- 10.2 The council will expect to receive £0.087m RSG in 2023/24.

New Homes Bonus

- 10.3 New Homes Bonus is a grant that is effectively a reward for increasing the number of residential properties within an area.
- 10.4 The Council is expected to receive no New Homes Bonus in 2023/24.

Council Tax

- 10.5 The Local Government Finance Settlement includes Council Tax Requirement (CTR) as part of the Councils 'Core Spending Power'. CTR is assumed to grow as part of the settlement as follows:
- an average growth in Council Tax Base, based upon the years 2013/14 to 2015/16,
 - increased by an assumed growth based upon CPI at an average of 1.75%.
 - assumed increase of 2.99% whichever the greater

Therefore, to maintain CTR in line with Government assumptions the minimum year on year increase should in line with bullet points above.

10.6 The Money Plan assumes an increase in Council Tax of 2.99.

11. General Fund Balance

11.1 The estimated level of the general fund balance in each financial year is shown in **Appendix 1**. The General Fund level is above the minimum required level by the end of the Money Plan.

11.2 It should also be noted, that although £1.4m is considered an appropriate level of General Fund balances to retain each year, the position should be reviewed if the Council delivers a budget surplus at year end.

11.3 In the financial year 2023/24 it is proposed to increase the General Fund by £0.102m

12.0 Capital Programme and Capital Financing

12.1 The key financial details on capital expenditure and financing in the revised money plan for the 5 years from 2023/24, are shown in detail at **Appendix 4**, and summarised below:

1. Capital programme expenditure of £61.358m (£23.968m in 2022/23). Key projects include:
 - (a) The Forum
 - (b) Food Dock
 - (c) Museum Improvements
 - (d) Railway Station Improvements
 - (e) High Streets - Heritage Action Zone project.
2. Capital financing comprises grants, Capital receipts and borrowing.

12.2 The regeneration of the Kings Quarter has now commenced on site and the Forum development is a significant proportion of the Capital programme and the required borrowing.

12.3 The capital programme assumes the majority of capital financing will be funded through borrowing, the use of current and expected future capital receipts, and external grants. The future financial commitments will be approved based on specific income generating, or revenue saving business cases to fund the cost of the borrowing. The main exceptions to this policy will be essential works on the Council's buildings and ICT systems, which will result in a reduced maintenance liability or potential increase in asset value and ensure delivery of the Councils transformation programme.

12.4 Wherever possible and desirable, additional one-off capital investments on a business case basis will be made, providing corporate objectives are delivered, and financing is available and affordable within existing budgets, or preferably with the provision of a "spend to save" revenue saving on existing budgets.

12.5 The strategy on borrowing is to ensure that any borrowing is only undertaken on a business case basis, and is affordable and paid off over the life of the asset.

12.6 **Appendix 4** shows the proposed capital budgets for 5 years from 2023/24 incorporating any carried forward capital budgets and new, approved schemes. The capital programme will be updated for any future additions.

13.0 Earmarked Reserves

13.1 The Council has limited Earmarked Reserves with the balance at 31 March 2022 being £7.413m, as shown in the table in 13.4 below. Where earmarked reserves are not ring fenced

for a specific use then, if necessary, these reserves may potentially be used to support the General Fund.

- 13.2 The Council faces significant uncertainty from 2023/24 and it is expected there will be a significant reduction in retained funding from business rates when the Government eventually undertake their proposed Fair Funding Review. This Review has been delayed several times and is now not expected to occur prior to 2025. The Council needs to ensure there is sufficient funding in the Business Rates reserve to offset the expected changes when they occur and as such the plan assumes £1m will be drawn from this reserve from 2025 to 2028.
- 13.3 During 2023/24 the Council will draw on the appropriate Earmarked Reserves for the delivery of agreed Council programmes and activities. However, it is prudent and sensible to maintain and where possible increase the level of earmarked reserves to protect the Council going forward particularly in these uncertain times.
- 13.4 The table provides a forecast position on earmarked reserves:

Reserves Forecast	Balance at 31-Mar-22	Transfers 2022/23	Forecast 31-Mar-23	Transfers 2023/24	Forecast 31-Mar-24
	£m	£m	£m	£m	£m
Historic Buildings	0.053	-	0.053	-	0.053
Housing Survey	0.060	-	0.060	-	0.060
Shopmobility	0.029	-	0.029	(0.029)	-
Regeneration	0.145	(0.100)	0.045	-	0.045
Insurance	0.010	-	0.010	-	0.010
Land Adoption	0.873	-	0.873	-	0.873
VAT Shelter	0.167	(0.100)	0.067	0.200	0.267
Business Rates	1.023	-	1.023	-	1.023
Environmental Insurance	0.900	-	0.900	-	0.900
Repairs	0.023	-	0.023	0.100	0.123
Community Builder	0.029	(0.029)	-	-	-
Planning Strategy	0.165	(0.090)	0.075	(0.030)	0.045
Flooding Works	0.010	-	0.010	-	0.010
Lottery	0.020	-	0.020	-	0.020
Museum Bequest	0.305	-	0.305	(0.083)	0.222
Transformation	0.100	-	0.100	(0.075)	0.025
Budget Equalisation	0.243	(0.200)	0.043	0.380	0.423
Destination Marketing	0.150	(0.100)	0.050	(0.050)	-
Homelessness	0.100	-	0.100	-	0.100
Planning Appeals	0.050	-	0.050	-	0.050
Communities	0.024	(0.006)	0.018	-	0.018
Climate Change	0.066	(0.025)	0.041	-	0.041
Neighbourhood Spaces	0.057	-	0.057	(0.033)	0.037
Collection Fund Timing	2.811	(2.811)	-	-	-
Cyber Recovery	-	0.380	0.380	(0.380)	-
Total	7.413	(3.081)	4.332	-	4.332

14.0 Alternative Options Considered

14.1 The Council must set a balanced budget in time to start collecting Council Tax by 1st April 2023. Alternative proposals put forward for budget savings will be considered as part of this process.

15.0 Social Value Implications

15.1 There are no social value implications as a result of this report.

16.0 Financial Implications

16.1 Contained in the body of the report.

17.0 Legal Implications

17.1 Legislation places a duty on the Council, as the Billing Authority, to calculate its budget requirement for 2023/24. The Council also has a statutory requirement to set a balanced budget.

18.0 Risk & Opportunity Management Implications

18.1 Covered in the report. The budget is prepared based on the information available at the time of writing. The budget pressures facing the Council have, as far as possible, been built into the budget.

18.2 The risks are set out more fully in the report but in summary centre around the continuing economic situation and the impact this is likely to have on the public sector, driving changes to Government funding in future years and the level of the Council's spend from 2023/24 onwards.

18.3 In addition to the risks identified in the report, a list of additional identified risks for both the Draft Money Plan and the Budget for 2023/24, along with the mitigations is also shown below:

Risk Identified	Inherent Risk Evaluation (scale 0-16?, where 16 represents highest risk)		Proposed measures	Residual Risk Evaluation (scale 0-16?, where 16 represents highest risk)	
▪ Employee-related costs will be more than assumed ▪ Other costs will be more than assumed	Risk Score	6	▪ Figures based on known commitments and estimated future costs. Any further pressures will need to be matched by additional identified savings.	Risk Score	4
		8			4
▪ Pension fund contributions will be higher than expected.	Risk Score	8	▪ The financial plan will continue to be reviewed and updated annually for a five year period, based on known changes and informed by the most recent actuarial triennial valuation.	Risk Score	4

Risk Identified	Inherent Risk Evaluation (scale 0-16?, where 16 represents highest risk)		Proposed measures	Residual Risk Evaluation (scale 0-16?, where 16 represents highest risk)	
<ul style="list-style-type: none"> ▪ Planned budget reductions will not be achieved 	Risk Score	8	<ul style="list-style-type: none"> ▪ Close monitoring of budgets will be carried out in each financial year. ▪ Continuous monitoring of service pressures and ongoing focus on preventative support. 	Risk Score	6
<ul style="list-style-type: none"> ▪ Income from fees, charges and other sources will not be as high as planned 	Risk Score	12	<ul style="list-style-type: none"> ▪ Close monitoring of income budgets will be carried out in each financial year. 	Risk Score	8
<ul style="list-style-type: none"> ▪ Timing of Capital Receipts will be later than anticipated or lower than estimated ▪ Timing of Capital payments may be earlier than estimated 	Risk Score	8	<ul style="list-style-type: none"> ▪ Close monitoring of the timing and payments of capital expenditure/income will be carried out in each financial year. Alternative savings will be identified, or contingency arrangements agreed 	Risk Score	4

20.0 People Impact Assessment (PIA):

20.1 People Impact Assessments will be carried out for each line of the budget savings, to ensure that all relevant considerations are taken into account.

21.0 Other Corporate Implications

1. Community Safety

None

2. Environmental

None

3. Staffing

None

4. Trade Union

Ongoing discussions with the Trade Union on both the money plan and budget represent a key element of the overall consultation process.

Background Documents:

Money Plan 2022-27, February 2022