

MEDIUM TERM FINANCIAL STRATEGY UPDATE

Committee: Finance & Assets Committee

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1 ISSUE

- 1.1 To provide Committee with an up-date on the Medium Term Financial Strategy (MTFS) since the 2022/23 budget was approved in February 2022.

2 RECOMMENDATIONS

- 2.1 Members are requested to note the contents of this report.
- 2.2 Members are requested to recommend to Full Council the increased premiums chargeable on long term empty properties as detailed in Paragraph 5.4.

3 BACKGROUND

- 3.1 The Council approved the budget for 2022/23 and with it the MTFS for 2023/24 to 2025/26 at its meeting on the 22nd February 2022. At that point, via the use of its Surplus Savings Reserve, the Council had a balanced budget for 2022/23 and 2023/24, but with then significant savings to be found in the following years.
- 3.2 The Budget / MTSF was approved on the basis that the Council would not put up Council Tax in the budget year, but then put it up by the maximum allowed, £5 per year, each subsequent year. This paper is drafted on the same assumption, no Council Tax increase in the budget year (2023/24), but with then a £5 increase in each future year.

4 CHANGES TO THE PLAN SINCE FEBRUARY 2022

- 4.1 The Council ended the 2021/22 financial year with an underspend of £2,367,039 this has been added to the Surplus Savings Reserve and is available to support the MTFS in future years.
- 4.2 The Council is also forecasting an overspend of £106,400 in 2022/23, this will be an additional draw on the Surplus Savings Reserve in year, and has again been included in these MTFS papers.

5 ASSUMPTIONS MADE

- 5.1 Fair Funding Review

Members will be aware that the Fair Funding Review has been promised, but not delivered by Government for a number of years (originally planned for 2020). In simplistic terms, the Fair Funding Review is Government calculating how much of its

overall funding of Local Government goes to each individual Council. As a full Baseline reset is expected at this time, this Council would lose the benefit it is currently receiving from the high level of Business Rate growth in the District since 2013. The delay has therefore been good news for us.

No decision has yet been announced regarding if the Fair Funding Review will take place this year and the Government's official position remains that it will take place from April 2023. That said, with the current issues facing Central Government, regarding the new leader determining their route forward and the general cost of living crisis and a lack of any consultation documents regarding the Review, the strong opinion of most commentators, including our own advisers, Pixel Financial Management, is that the Review will not be implemented until April 2025 after the next General Election.

In preparing this report, I have assumed that the Review will not be implemented until April 2025, and it therefore shows a far more favourable position than previous reports as we gain from the Business Rate growth in 2023/24 and 2024/25.

Clearly if the Review does go ahead in April 2023, there will be a considerable downside to the Council, compared to the figures in this report, but this report does present what is strongly believed to be the most likely scenario. I will of course be monitoring the situation throughout the autumn period and will up-date Committee immediately if this assumption proves wrong, before presenting the draft budget report to Committee in January, at which point we will have full details of all Government Funding.

5.2 Inflation

The Council has benefited in previous years from low inflation levels that have allowed us to leave many budgets at the same cash value as previous years. While this will still remain the case on some budgets, far more will need to have an inflationary element added to them to ensure that service levels can be maintained in the coming years.

I have made some assumptions regarding inflation levels in this report, but over the coming months, the amount of inflation needed to be added to individual budget lines will be reviewed as additional information becomes available, especially, as an example if the April 2022 pay claim is settled. My final budget report will further contain some sensitivity analysis about the impact of inflation at various levels moving forward.

Taking pay as an example, I have included an 8% increase between the 2022/23 and 2023/24 budget. This is only an estimate, but represents the cost of a 6% rise from April 2022 (we already have 2% in) and a further 4% rise from April 2023.

5.3 Council Tax

The Council and all the other preceptors determine, as part of their budget preparations, how much they wish to collect in Council Tax and set their tax level in February, prior to the year of collection, at a value to ensure that the required amount is collected. In year, this Council (as the collection authority) will pay across to the

other preceptors and indeed ourselves, the budgeted value from the Council Tax Collection Fund.

The amount of Council Tax collected is usually determined by two factors, the Council Tax value for a band D property as determined by the Council and the number of band D equivalent properties in the District. But perhaps a third factor this year, will be the number of accounts getting into arrears because of the cost of living crisis.

It is assumed at this stage that the value of Council Tax in 2023/24 for a band D property will remain at £142.14.

An initial calculation of the number of equivalent Band D properties in the District will be undertaken shortly, but I have made allowance in the figures in this report for the potential of more rate payers getting into arrears, as compared to the number in the budget report approved in February 2022. Again, this figure will be reviewed and updated over the Autumn period.

5.4 Council Tax – Long Term Empty Property Premium

Since April 2013 Councils have had the discretion to charge up to 50% empty homes premium for properties that have been empty for over two years. In offering these powers, Government was seeking to influence owners to bring empty homes back into use. This Council has previously agreed to charge this 50% premium on these properties, resulting in the total bill being 150% of the “normal value”.

More recently Government has announced further flexibilities in relation to charging additional Council Tax premiums on Long Term Empty properties. Legislation now allows Councils to charge an additional 50% on empty properties over two years old, bringing the premium to 100% and the total Council Tax bill to 200%. With, in addition, a further 100% increase on properties empty for over five years, bringing the premium to 200% and the total Council Tax bill to 300%. And then further still, a further 100% increase after 10 years, bringing the premium to 300% and the total Council Tax bill to 400%.

Initial estimates suggest that there are 143 properties in East Cambridgeshire that would be required to pay these additional premiums benefiting this Council by around £19,000 with our other preceptors benefiting more or less depending on the size of their precept.

While clearly, there is a financial benefit here, the main reason for the change is the hope that the additional premium will encourage homeowners to bring these properties back into use and Committee is therefore asked to recommend to Full Council that these additional premiums are applied to bills with effect from 1st April 2023.

5.5 Business Rates

Councils are required to prepare a report to Government (called the NNDR1) by the end of January each year, detailing the amount of Business Rates they anticipate collecting during the following financial year. The final budget presented to Council in February will reflect the figures detailed in this return, but for now, the figures in this report match those forecast by Pixel Financial Management and assume the

continuation of the benefit we are gaining from Business Rate growth in the District as discussed in 5.1 above.

6 IMPACT ON THE MTFs

- 6.1 As eluded to above, it is very difficult at this time to forecast the longer term implications on the Council's finances, with the major unknowns being around the timing of the Fair Funding Review for local government, inflation and Council Tax receipts.
- 6.2 The figures detailed in appendix 1, therefore need to be treated with great caution, these will be up-dated further during the coming months as further information becomes available, with the Director, Finance up-dating Finance and Assets Committee as appropriate.
- 6.3 The figures presented however show that the 2023/24 financial year remains balanced via the use of the Surplus Savings Reserve, and we are now also showing 2024/25 as balanced. This is mainly as the result of the change of assumption around the timing of the Fair Funding Review.
- 6.4 While therefore the Council is not expecting any issues with being able to publish a legal budget for 2023/24, savings are still required in year three of the MTFs period (2025/26), after the implementation of the Fair Funding Review. It is important therefore that work must continue to look for opportunities and put in place plans to make savings or increasing income levels in 2023/24 and future years, to reduce the immediate draw from the Surplus Savings Reserve, so that further funds are available in the future.
- 6.5 To this end, options to resolve the budget shortfalls in future years come from:
- Efficiencies in the cost of service delivery
 - Reductions in service levels
 - Increased income from fees and charges
 - Increased commercialisation via its trading companies

7 APPENDIX

- 7.1 Appendix 1 – MTFs Model as at 1st September 2022

<u>Background Documents</u>	<u>Location</u>	<u>Contact Officer</u>
2022/23 Budget as approved by Full Council on the 22 nd February 2022, Agenda item 11	Room 104 The Grange Ely	Ian Smith Director, Finance Telephone: (01353) 616470 E-mail: ian.smith@eastcambbs.gov.uk

DRAFT BUDGET 2023-24

	Budget 2022-23 £	Estimate 2023-24 £	Estimate 2024-25 £	Estimate 2025-26 £	Estimate 2026-27 £
Committees:					
Operational Services	5,802,153	6,302,526	6,847,149	6,963,096	7,074,424
Finance & Assets	5,607,728	5,949,926	6,181,810	6,593,252	6,793,012
Net District Spending	11,409,881	12,252,452	13,028,959	13,556,348	13,867,436
New Homes Bonus Grant	-1,112,624	-600,000	-600,000	0	0
Rural / Lower Tier Services Grant	-452,410	-452,410	-452,410	-169,586	-169,586
Covid-19 Grant	0	0	0	0	0
Internal Drainage Board Levies	571,955	598,764	616,727	629,062	641,643
Contributions to / from Corporate Reserves	216,132	216,132	216,132	216,132	216,132
Net Operating Expenditure	10,632,934	12,014,938	12,809,408	14,231,956	14,555,625
Contribution from Surplus Savings Reserve	-1,221,563	-2,343,005	-2,429,838	-2,030,101	0
Savings to be identified	0	0	0	-2,354,960	-4,468,400
ECDC Budget Requirement	9,411,371	9,671,933	10,379,570	9,846,895	10,087,225
Parish Council Precepts	2,739,806	2,849,398	2,920,633	2,993,649	3,068,490
DISTRICT BUDGET REQUIREMENT	12,151,177	12,521,331	13,300,203	12,840,544	13,155,715
<u>Financed by:</u>					
Council's share of Collection Funds Surplus/De	-283,649	201,376	0	0	0
Revenue Support Grant	-12,579	-12,579	86,263	-389,202	-394,910
Locally retained Non-Domestic Rates	-3,999,110	-4,630,360	-5,003,828	-3,757,982	-3,822,568
Plus: NNDR from Renewable Energy	-693,304	-764,928	-764,928	-764,928	-764,928
COUNCIL TAX REQUIREMENT	7,162,535	7,314,840	7,617,710	7,928,432	8,173,309

	Estimate 2022-23 £	Estimate 2023-24 £	Estimate 2024-25 £	Estimate 2025-26 £	Estimate 2026-27 £
Unallocated Surplus Savings Reserve					
In hand at 1st April	8,130,907	6,802,944	4,459,939	2,030,101	0
Movement in year	-1,327,963	-2,343,005	-2,429,838	-2,030,101	0
In hand at 31st March	6,802,944	4,459,939	2,030,101	0	0

IMPLIED BAND 'D' COUNCIL TAX (District only i.e. excluding parish levies)					
Demand on Collection Fund as above	7,162,535	7,314,840	7,617,710	7,928,432	8,173,309
Less Parish Precepts as above	2,739,806	2,849,398	2,920,633	2,993,649	3,068,490
	4,422,729	4,465,442	4,697,077	4,934,783	5,104,819
Council Tax Base	31,115.3	31,415.8	31,922.5	32,435.8	32,485.8
District Council Tax - Band D	142.14	142.14	147.14	152.14	157.14