



**Policy, Finance  
and Development  
Committee**

**Tuesday, 06  
December  
2022**

**Matter for  
Information  
and Decision**

**Report Title:** **2024/25 Draft Revenue Budget and Medium-Term  
Financial Plan update**

**Report Author(s):** **Bev Bull, (Head of Finance / Acting Chief Finance  
Officer -S151)**

<b>Purpose of Report:</b>	<p>To present the revised General Fund Annual Budget for 2024/25 and an updated MTFP for 2024/25 to 2026/27.</p> <p>To provide an update on the capital programme for 2024/25.</p> <p>To present the HRA Annual Budget for 2024/25.</p>
<b>Report Summary:</b>	<p>The report outlines the draft budget position for the 2024/25 year for the Council's General Fund, which is an anticipated deficit position of £1.267m.</p> <p>The report outlines an updated MTFP position for 2024/25 to 2026/27, which shows a cumulative gap of £6.883m.</p> <p>The report recommend that reserves are no longer used to balance the budget, noting the depleting reserve balance and that reserves will run out in 2025/26.</p> <p>The report recommends Service Delivery Changes – Financial Sustainability Plan to address the budget gap.</p> <p>The proposed Capital Programme for 2024/25 is presented which is as per the indicative capital programme with no new schemes being added.</p> <p>The report outlines the draft budget position for the 2024/25 year for the Council's HRA, which is an anticipated surplus.</p>
<b>Recommendation(s):</b>	<p><b>That the Committee:</b></p> <ol style="list-style-type: none"><li><b>1.</b> Note the content of the report and appendices;</li><li><b>2.</b> Recommends to Council that the general fund balance reserve is no longer used to balance the budget; and</li><li><b>3.</b> Recommends to Council that the Service Delivery Changes – Financial Sustainability Plan is approved;</li><li><b>4.</b> Recommends to Council an increase in housing rents, service charges and garage rents by the maximum social rent level of 7.7% (subject to any changes being announced on the rent setting formula).</li></ol>

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<b>Strategic Objectives:</b>	Our Council (SO1)
<b>Vision and Values:</b>	"Our Borough - The Place To Be" (Vision) Resourceful & Resilient (V4)
<b>Report Implications:-</b>	
Legal:	There are no implications arising from this report.
Financial:	The implications are as set out in the report.
Corporate Risk Management:	Decreasing Financial Resources / Increasing Financial Pressures (CR1) Reputation Damage (CR4) Regulatory Governance (CR6) Organisational / Transformational Change (CR8)
Equalities and Equalities Assessment (EA):	There are no implications directly arising from this report. EA not applicable
Human Rights:	There are no implications arising from this report.
Health and Safety:	There are no implications arising from this report.
<b>Statutory Officers' Comments:-</b>	
Head of Paid Service:	The report is satisfactory.
Chief Finance Officer:	As the author, the report is satisfactory.
Monitoring Officer:	The report is satisfactory.
<b>Consultees:</b>	SLT 27/11/2023
<b>Background Papers:</b>	<ol style="list-style-type: none"> <li>1. 2023/24 Revenue Budgets, Medium Term Financial Plan, 2023/24 – 2027/28 Capital Programmes – Full Council 23 February 2023</li> <li>2. Budget Setting Approach for 2024/25 and Medium-Term Financial Plan Update – Full Committee 26 September 2023</li> </ol>
<b>Appendices:</b>	<ol style="list-style-type: none"> <li>1. Analysis of 2024/25 budget gap movement</li> <li>2. MTFP 2024/25 to 2026/27</li> <li>3. MTFP Budget Assumptions</li> <li>4. Service Delivery Changes – Financial Sustainability Plan</li> <li>5. Draft Fees and Charges</li> <li>6. Capital Programme 2024/25 to 2026/27</li> </ol>

## **1. Introduction**

- 1.1 In February 2023, Full Council received a report to approve the 2023/24 budget, this included a five-year Medium Term Financial Plan (MTFP) showing the forecast financial outlook for each year to 2026/27. At that time the MTFP forecast a deficit of £269k for 2024/25, and a total deficit over the MTFP of £2.653m before any sustainability programme savings.
- 1.2 During the year a number of budget workshops have been held with members where updates have been provided to members on movements to the MTFP position and an update was reported to Full Council in September 2023, when the budget approach for 2024/25 was agreed.
- 1.3 Following the detailed budget setting process for 2024/25 and the updating of the MTFP a significant deficit is forecast for 2024/25 and future years. The forecast deficit for 2024/25 is now 1.267m, and a total deficit over the MTFP of £6.883m.
- 1.4 The Council has, low and depleting reserves. Historically, the Council has utilised reserves to balance the budget, with a significant depletion of reserves. The reserves levels are now at their lowest level, and they cannot continue to be used to balance the budget.

## **2. 2024/25 Annual Budget**

- 2.1 The budget process and principles approved by Full Council in Sept 2023, were the same principles followed by budget managers in setting their budgets. These were:
  - The 2023/24 revised budget will form the base budget for 2024/25.
  - Inflation assumptions are based on latest information, in respect of:
    - Salaries
    - Utilities
    - Fuel
    - Contracts (as per Contract terms)
    - Interest rates (investment/borrowing)
  - Growth/pressures on costs and reduced income, insofar as is possible, are off by making savings in other areas.
  - Budgets have been reviewed looking at historical budgets and actuals to identify budgets to offset pressures and create savings.
  - Savings have been built into the budget where efficiencies have been made, such as post being deleted, and contract reduced or ceased.
  - Income has been increased where income generation initiatives have been identified such as for Advertising and Sponsorship and Hire of the Civic Suite.
- 2.2 Star Chamber has taken place where the Leader, Deputy Leader, Chair of Policy, Finance and Development Committee, Chair of Services Committee and member of the opposition party received information from each Head of Service on their service areas

and budgets. The Members scrutinised the budgets and movements in budget between 2023/24 and 2024/25 for all of the service areas.

- 2.3 Table 1 shows the revised budget gap/deficit following the detailed budget setting process for 2024/25 compared to the forecast position at February 2023. Appendix 1 analyses all the pressures and growth and the savings that have been identified, resulting in the revised gap.
- 2.4 The budget gap has increased by £998k to £1.267m in 2024/25.

**Table 1 - 2024/25 Budget Gap**

	<b>MTFP - Approved Feb 2023</b>	<b>Budget Setting - November 2023</b>	<b>Movement in Gap</b>
Net Expenditure 24/25	<b>7,696,000</b>	<b>8,812,000</b>	<b>1,116,000</b>
Funding 24/25	<b>-7,427,000</b>	<b>-7,545,000</b>	<b>-118,000</b>
<b>GAP</b>	<b>269,000</b>	<b>1,267,000</b>	<b>998,000</b>

### 3. 2024/25 to 2027/28 Medium Term Financial Plan (MTFP)

- 3.1 Table 2 below shows the MTFP budget gaps approved in the February budget report before any savings targets for the sustainability programme.

**Table 2 – MTFP Forecast Budget Gaps – February 2023.**

<b>Financial Year</b>	<b>In-year gap</b>	<b>Cumulative gap</b>
<b>2023/24</b>	<b>£431,000*</b>	<b>£431,000</b>
<b>2024/25</b>	<b>£269,000</b>	<b>£700,000</b>
<b>2025/26</b>	<b>£810,000</b>	<b>£1,510,000</b>
<b>2026/27</b>	<b>£686,000</b>	<b>£2,196,000</b>
<b>2027/28</b>	<b>£457,000</b>	<b>£2,653,000</b>

\* The 2023/24 budget was set utilising £431k of general reserve to achieve a balanced budget.

- 3.2 The budget changes identified in the detailed budget setting process for 2024/25 are in the main permanent changes to budgets and therefore the impact is then ongoing throughout the MTFP. The MTFP has been updated to reflect the ongoing impact of these changes and the assumptions included in the MTFP have also been updated.
- 3.3 The updated MTFP summary 2023/24 to 2027/28 is shown in Appendix 2 and the MTFP assumptions are shown in Appendix 3. Table 3 below shows the updated MTFP budget gaps. The forecast deficit over the MTFP of £6.883m.

**Table 3 – MTFP Forecast Budget Gaps – November 2023.**

<b>Financial Year</b>	<b>In-year gap</b>	<b>Cumulative gap</b>
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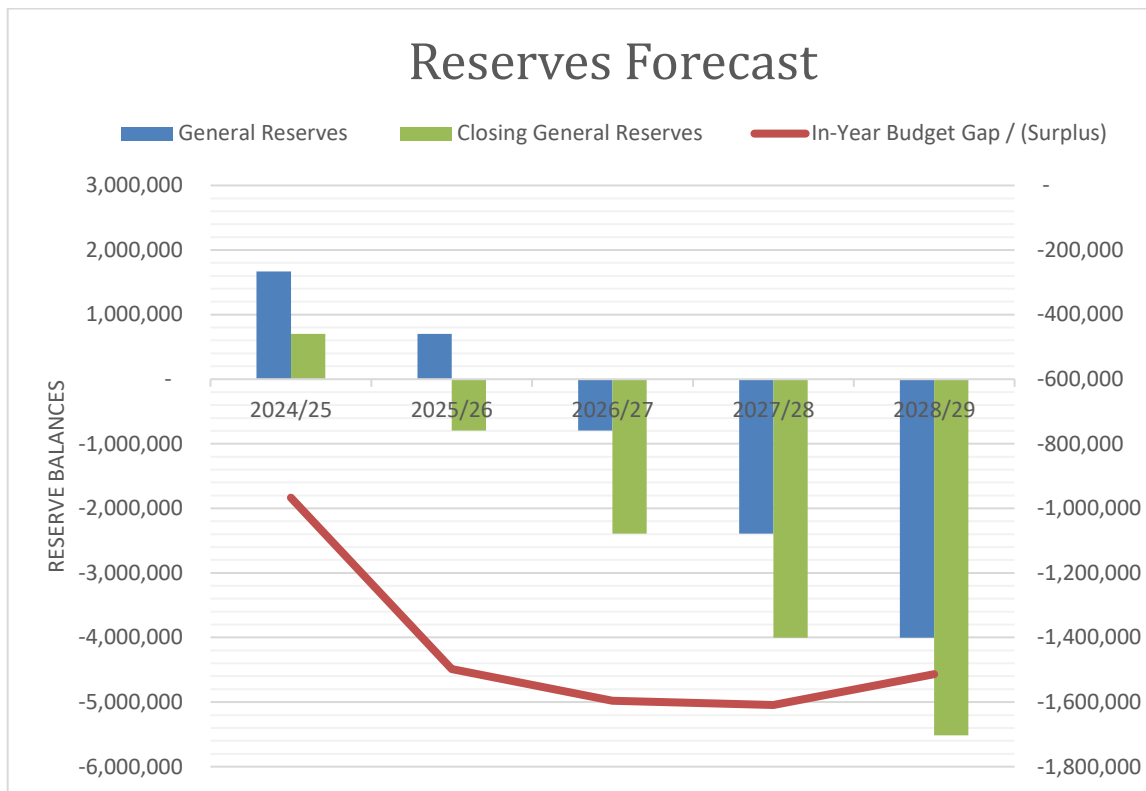
<b>2023/24</b>	<b>£912,566</b>	<b>£912,566</b>
<b>2024/25</b>	<b>£1,267,000</b>	<b>£2,179,566</b>
<b>2025/26</b>	<b>£1,498,000</b>	<b>£3,677,566</b>
<b>2026/27</b>	<b>£1,596,000</b>	<b>£5,273,566</b>
<b>2027/28</b>	<b>£1,609,000</b>	<b>£6,882,566</b>

3.4 The impact of the forecast budget gaps on the General Fund Reserve Balance is shown in Table 4.

**Table 4 – Forecast General Fund Reserve Balance 2023/24 to 2027/28.**

<b>General Fund Reserve</b>	<b>£</b>
<b>Opening Balance</b>	<b>-1,412,772</b>
Use of reserve in setting the budget for 23/24	430,187
Supplementary Budget	33,000
Forecast overspend Q2	488,381
Sales Fees and Charges clawback as per Q1 report	198,670
Return from the Business Rates Pool 20/21 and 21/22 as per Q1 report	-732,194
Re-purposing of earmarked reserves	-72,912
Estimate of return from the Business Rates Pool 22/23 and 23/24.	-600,000
<b>Estimated Closing Balance 31 March 2024</b>	<b>-1,667,640</b>
2024/25 Budget Gap	1,267,000
Estimate of return from the Business Rates Pool 24/25.	-300,000
<b>Estimated Closing Balance 31 March 2025</b>	<b>-700,640</b>
2025/26 Budget Gap	1,498,000
<b>Estimated Closing Balance 31 March 2026</b>	<b>797,360</b>
2026/27 Budget Gap	1,596,000
<b>Estimated Closing Balance 31 March 2027</b>	<b>2,393,360</b>
2027/28 Budget Gap	1,609,000
<b>Estimated Closing Balance 31 March 2028</b>	<b>4,002,360</b>

3.5 The impact of the forecast budget gaps on the General Fund Reserve Balance is also shown in the chart below.



- 3.6 Both Table 4 and the chart show that if no action is taken to reduce the forecast budget gaps the Council will deplete reserve early in 2025/26.
- 3.7 The General Fund Reserve Balance is needed to provide resilience for unforeseen one-off pressures and shocks, reserve balances are not supposed to be used to balance the budget. Requiring the use of reserve in balancing the budget demonstrates the Council is not financially sustainable as its expenditure is exceeding its funding.
- 3.8 The Council has consistently utilised reserves to balance its budget. Between 2021/22 to 2023/24 amounts of between £100k up to £600k have been utilised each year to balance the budget. Previous budget reports also informed Council that there was significant depletion of reserves between 2014/15 and 2017/18 and that this was a trend that should not be reintroduced.
- 3.9 This suggests that the Council has been operating on a financially unsustainable basis.
- 3.10 The historic strategy of a reliance on reserves to balance the budget demonstrates that the Council has been spending beyond its means and not been operating on a financially sustainable basis. Urgent action is needed to move the Council to a financially sustainable position. The Senior Leadership Team’s recommendations for delivering a balanced budget for 2024/25 are included at Appendix 4 - Service Delivery Changes – Financial Sustainability Plan.
- 3.11 Table 5 below shows the impact on the future years budget gaps of the Service Delivery Changes – Financial Sustainability Plan being implemented.

**Table 5 – Forecast Budget Gap 2025/26 to 2027/28 after Service Delivery Changes**

	2025/26	2026/27	2027/28
	£	£	£
<b>Total Gap</b>	<b>1,498,000</b>	<b>1,596,000</b>	<b>1,609,000</b>

Service Delivery Changes – Financial Sustainability Plan	-1,267,000	-1,267,000	-1,267,000
<b>Gap still to meet</b>	<b>231,000</b>	<b>329,000</b>	<b>342,000</b>

#### 4. Local Government Financial Outlook

- 4.1 The Council is part of the Local Government Funding system which is determined by the local government finance settlement. The settlement for 2023/24 was a one-year settlement, meaning understanding the funding position beyond 2023/24 is extremely difficult. The provisional financial settlement is expected around the 19th December 2023 and the budget position will be updated for the impact, it is not envisaged there will be any significant changes to the funding system for 2024/25.
- 4.2 On the 22<sup>nd</sup> November the Chancellor delivered his Autumn Statement. The statement does not contain any indications that there will be any changes to the Local Government Funding system.
- 4.3 Some of the relevant announcements included in the statement are detailed below:
- New powers to **de-couple the business rates multipliers** will be used from 2024-25. As we expected, the small business rates multiplier will be frozen, and the standard multiplier indexed (to 54.6p based on September CPI).
  - **75% Retail, Hospitality and Leisure (RHL) discounts** will continue for a further year.
  - Local authorities will be “fully compensated for the loss of income from these business rates measures”.
  - **Local Housing Allowance (LHA)** rates will be raised to the 30% percentile of local market rents from April 2024. No direct impact on local authorities but this should indirectly reduce pressure on temporary accommodation. *(At this stage it is not possible to calculate the impact this will have on reducing the pressure at OWBC, as more information becomes available it will be factored into the budget position).*
  - **Long-term freeze in capital investment** in the public sector.
  - Local authorities will be able to increase **planning fees for applications from larger businesses** (to recover the full costs) but will have to return fees if timelines not achieved.
- 4.4 Local government funding reforms were first announced in 2016 and there have since been a number of deferrals. The reforms include:
- A review of the Needs and Resources assessment (previously Fair Funding Review announced in 2016) is due to determine a new mechanism for allocating resources within the sector;
  - The Business Rates Retention Scheme is due to be reset potentially removing all of the previously generated growth in the system
  - A review of the New Homes Bonus
- 4.5 The potential impact of these changes represents significant uncertainty in terms of the financial resources available from 2025/26 onwards.

- 4.6 Council Tax is the largest source of funding to the authority, the ability to increase the level of Council Tax is restricted by the referendum limits set by Central Government. This has been set for 2023/24 and 2024/25 at the higher of £5 or 3%, beyond this period there is no certainty. The decision regarding the level of increase of the Council Tax within the referendum limits sits with the members of the Council.

#### Global and National Economics

- 4.7 The current global and national economic climate remains unstable. In October 2022 inflation peaked at 11.2% and as at August 2023 it was 6.7%. Whilst inflation has fallen during 2023/24, the high inflation levels during 2022/23 are embedded into the current and ongoing costs and the existing rates of inflation remain higher than the Bank of England inflation target of 2%.
- 4.8 The Bank of England have increased the bank rate from 4.25% at April 2023, the beginning of the year, to the current rate of 5.25%. At the last Monetary Policy Committee meeting it was agreed to maintain the rate at 5.25%, for the past 14 meetings the rate has been increased. The bank rate impacts on the interest rate earned on investments and influences the interest rate on borrowing.

#### Inflation and service demands

- 4.9 The high inflation rates have impacted on pay negotiations in 2022/23 and 2023/24 which has resulted in higher pay awards than previous years. Where the final pay award agreed differs to the budget assumptions this creates a budget pressure in year and an ongoing pressure as the pay awards are embedded in to the current and ongoing salary costs, this was the case in 2022/23 and 2023/24.
- 4.10 Energy and fuel inflation rates have been impacted by the Russian invasion of the Ukraine, the increases have reduced since this time last year. This remains an area where prices are volatile.
- 4.11 The high levels of inflation are also impacting on the costs of supplies and contracts and are adding risk to the viability of some suppliers which increases the contract risk exposure.
- 4.12 The level of increases in pay awards, energy and fuel and general costs, which are being influenced by the high inflation in the economy, are in excess of the increases received in funding. This increases the budget gaps and requires additional savings to be found.
- 4.13 Demands on outcomes to be delivered are increasing, especially in specific areas such as providing temporary accommodation for the homeless. Increasing demands therefore increases the need for financial resources and requires the use of limited financial resources to be prioritised.

## **5. Sales Fees and Charges**

- 5.1 The Council charges for a number of its services that are provided to the public. All fees and charges are reviewed on an annual basis as part of the budget process. Charges set by the Council are increased in line with inflation or other factors taken into consideration, in line with the Corporate Charging Policy:

- Statutory obligations
- Policies objectives of the Council;
- Local market research and competition (where relevant);
- The impact of price changes on activity level of demand;



- Changes in taxation;
- Budget position and any associated gap;
- The cost of providing the service.

5.2 Included at Appendix 5 is the draft proposed charge position, together with of explanation of changes to individual charges. This will be updated to reflect further changes that are agreed as actions to balance the budget.

## **6. Capital programme**

6.1 An indicative capital programme for 2024/25 to 2026/27 was approved in February 2023 and the impact of this is incorporated into the capital financing charges included in the MTFP. This is included at Appendix 6.

6.2 A number of capital bids have been made as part of the budget setting process. The capital bids received do not identify any funding. This means they would be required to be funded through 'prudential borrowing'. This would increase the capital charges in the General Fund, as a 'Minimum Revenue Provision' (MRP) is required, which effectively is a method of repaying the capital amount borrowed from revenue over the asset life and interest charges would also increase.

6.3 Due to the challenging financial pressures the Council is currently facing it is not recommended to approve any additional capital schemes to be added to the capital programme funded by 'prudential borrowing'. It is recommended a list of priority schemes should be approved with a view to them only progressing if capital receipts are received and/or other capital funding is identified. If capital receipts are received, the Section 151 Officer in consultation with the Chief Executive, Chair of PFDC, the Leader of the Council and the Leader of the Opposition will need to consider the use of the receipts in terms of the need to repay existing debt to reduce revenue costs or to commence priority capital schemes.

6.4 The capital bids received are outlined below; some require more information to enable the schemes to be prioritised. A prioritised list of schemes will be presented for approval in the February Budget report.

### **Brocks Hill Roof and Installation of Solar Panels £465k**

During the course of refurbishing the Brocks Hill building, it came to light that the existing roof tiles to the building are degraded and require replacement. This did not form part of the scope of works or budget and it is to do with the existing fabric of the building. Given that the roof tiles currently remain watertight it was decided to leave the work to a later date. Once the tiles are replaced this will then enable solar panels to be fitted to the roof which will contribute towards the Council contribution towards the reduction of CO2 as set out in our Climate Change Strategy.

**Fludes Lane** - Continue resurfacing £150k

**Aylestone Lane Allotments New Road/cart track road** - £200k

**Play Areas refurbishment programme** -£150k

**Willow Park Improvements** - £95k

**Pathway Improvement (various locations)** - £40k

**Cemetery Improvements** - £30k

## Wigston Road Allotment Improvements - £45k

A number of other small schemes.

### 7. HRA Budget 2024/25

7.1 Table 6 shows the 2023/24 revised budget and the 2024/25 proposed budget for the HRA.

**Table 6 – HRA Budgets 2023/24 and 2024/25**

Description	2023/24 Revised Budget	2024/25 Proposed Budget	Movement
<b>Income</b>			
Rents, Charges and Contributions	(5,677,146)	(6,067,320)	(390,174)
Interest and investment income	(10,000)	(50,000)	(40,000)
Misc Income	(17,300)	(11,600)	5,700
Total Income	(5,704,446)	(6,128,920)	(424,474)
<b>Expenditure</b>			
Repairs and Maintenance	1,025,100	1,080,100	55,000
Supervision and Management	731,718	673,430	(58,288)
Interest payable and similar charges	757,397	790,281	32,884
Depreciation and impairments of fixed assets	1,580,000	1,580,000	0
Debt Management Costs	10,000	10,000	0
Contribution to the Bad Debt Provision	75,000	35,000	(40,000)
Recharge from General Fund	1,433,803	1,468,803	35,000
Rents, Rates, Taxes and other charges	10,000	10,000	0
Computer Software	110,400	124,800	14,400
Sheltered Schemes & Communal Services	309,240	212,240	(97,000)
Estate Management costs	53,200	50,400	(2,800)
Total Expenditure	6,095,858	6,035,054	(60,804)
<b>Net Cost of HRA Services</b>	<b>391,412</b>	<b>(93,866)</b>	<b>(485,278)</b>

7.2 The draft net cost of service position for the 2024/25 year is estimated to be a surplus of £94k. This represents an improvement of £485k on the 23/24 forecast outturn of a deficit of £391k.

7.3 In summary the changes are:

- Funding - (£414k)
- Cost pressures - £170k
- Savings – (241k)

Further analysis of the budget movements and the assumptions are set out in Appendix 7.

7.4 The assumed rent increase is 7.7 % in line with the national rent increase formula of CPI at September + 1%. In 2023/24 the rent increase was capped at 7% this was announced in the Autumn Statement 2022. No information was announced in respect

of social rent increase for 2024/25 in the Autumn Statement 2023. If any future announcements are made this assumption will be updated and reported to this Committee in February.

- 7.5 The proposed average rent for 2024/25 is £94.49 per week, increasing by £6.76 from £87.73.
- 7.6 In line with rental income, service charges and garage rents are proposed to increase by 7.7%.
- 7.7 By adopting the maximum rent increase the Council will ensure it maximises its funding position to ensure essential repairs and maintenance are undertaken.