

Report to: Policy and Resources Committee, 13th December 2022

Report of: Corporate Director - Finance and Resources

Subject: DRAFT MEDIUM TERM FINANCIAL PLAN 2023-2028 AND DRAFT BUDGET & COUNCIL TAX 2023/24

1. Recommendations

- 1.1 That the Committee refers the Draft Medium Term Financial Plan 2023-2028, and the proposed Draft Budget & Council Tax for 2023/24, including the financial management priorities and key assumptions for the short term and medium-term planning horizon, to Members for consideration at the committee meetings in January 2023 and feed back to the Policy and Resources Committee on 7 February 2023;**
- 1.2 That the Committee approves, in accordance with the Local Authorities (Calculation of Tax Base) Regulations 1992, the Local Authorities (Calculation of Council Tax Base) (Amendment) (England) Regulations 2003 and the Local Authorities (Calculation of Council Tax Base) Regulations 2012, that the Council Tax Base calculation for the year 2023/24 will be 32,954.0 for Worcester City Council, including 3,976.6 for Warndon Parish Council and 2,179.3 for St Peter's Parish Council (as detailed in Appendix 3);**
- 1.3 That the Committee notes that the proposals will be updated for any agreed changes following budget consultation with Members, and for any significant changes following the publication of the Local Government Finance Settlement. Formal adoption of the MTFP and the Budget & Council Tax 2023/24, will be recommended to Full Council for approval on 21 February 2023; and**
- 1.4 That the Committee invites all political groups and/or individual Members to notify the Corporate Director of Finance and Resources no later than 31 December 2022 of any other budget proposals that they wish officers to explore and request the Corporate Director to include such proposals in the reports for consideration by Members at the January meetings of the relevant policy committees.**

2. Background

- 2.1 The Council's medium term financial plan (MTFP) provides the financial framework within which the Council can plan its revenue and capital resources and earmarked reserves utilisation over the next five-year period.**

2.2 The MTFP is reviewed and updated on a regular basis to take into account any alterations that may be required as a result of changed circumstances locally and nationally, particularly on the assumptions underpinning local government financing.

2.3 The Medium Term Financial Plan (MTFP) 2023-2028 is outlined in section 4 of this report, and in a number of appendices as listed below:

Appendix 1: summary MTFP 2023-2028

Appendix 2: draft Capital Programme and Capital Financing 2023-2028.

2.4 Details on the Draft Budget & Council Tax 2023/24 are outlined in section 5 of this report, and in a number of appendices as listed below:

Appendix 1: summary Draft Budget 2023/24

Appendix 3: proposed Council Tax Base 2023/24.

2.5 The MTFP and the Draft Budget & Council Tax 2023/24 will be updated for the Policy and Resources Committee meeting on 7 February 2023 with the following:

- the Local Government Finance Settlement
- the outcome of the budget consultation exercise
- Pay Policy Statement 2023/24
- detailed Fees & Charges 2023/24
- proposed utilisation of Earmarked Reserves
- Treasury Management Strategy 2023/24.

3. Spending Review and Autumn Statement 2022

3.1 The Autumn Statement was delivered on 17 November 2022 concerning Local Government Finance. However, there are a number of existing commitments by the Department for Levelling Up, Housing and Communities (DLUHC) regarding future funding for local government, concerning:

- introducing reforms to the business rates retention system
- reviewing the funding formula that determines funding allocations through the annual local government finance settlement ('Fair Funding')
- The distribution of support for individuals, households and businesses through local authorities, with related New Burdens funding.

3.2 Owing to other Government pressures, no plans for business rates and funding reform have been brought forward. A revaluation of business rates is to take place in 2023. Once this process is complete there will be transitional arrangements for implementing any changes and further consideration of how the funding system might change is expected to follow. There are no further details at this stage and the draft budget and reserves statement continues to include prudent assumptions regarding the potential future loss of growth in business rates income.

3.3 There was no announcement indicating a replacement for New Homes Bonus or whether the Lower Tier and/or Services Grants will be continued. Local government core funding is to be maintained at the level announced in the 2021 review, including expected rises in Council Tax and business rates. Overall, the departmental control totals show a 42% increase over the four-year settlement period, as follows:

	2021/22	2022/23	2023/24	2024/25
DLUCH Local Government total planned spend	£10.7bn	£11.8bn	£15.7bn	£15.3bn

3.4 There are expectations of growth in activities built into these assumptions and allowance for inflation and other pressures. However, no additional allowance has been made for inflation over and above the assumptions made in 2021. No assumptions about changes in settlement funding have been made in the MTFP at this stage. When plans for adjustments to the Government's 'core spending power' calculations are made clear, these will be incorporated into future budgets.

4. Medium Term Financial Plan 2023-2028

Key Priorities

4.1 The key priority for the Council is to set a realistic and balanced budget for the next financial year, which is achievable, sustainable, able to withstand financial pressures and can deliver the following outcomes:

- a planned budget, which safeguards Council services, to enable the Council to deliver its service requirements in support of the City Plan;
- ongoing investment to deliver the agreed cross-party City Plan objectives and the completion of approved major capital programmes;
- further investment in the capital infrastructure of the Council to ensure good quality service delivery;
- minimal reliance on the use of general fund balances to achieve a three-year balanced budget, with general fund balances maintained at a minimum of £1.1m to meet short-term in year risks and help transition to future funding levels;
- continuous improvement in value for money and customer focus, working with staff and our partners to deliver the best possible outcomes.

Key Financial Assumptions

4.2 The preparation of a five-year MTFP is based on a number of working assumptions. These inevitably become more difficult to predict as the period covered lengthens. Potential medium-term implications are considered as part of the risk assessment section of the report.

4.3 The key financial assumptions, based on known and expected changes, in the revised MTFP 2023-2028 are detailed below and are summarised as follows:

- i. Business rates income – pending the result of the 2023 revaluation, the overall Business Rates income is unchanged from the previous MTFP. (section 4.7);
- ii. Securing a level of external funding through capital schemes (section 4.12);
- iii. Council Tax Base (dwellings) – an increase of 1.31% in 2023/24 (section 4.13) and growth of 0.5% p.a. thereafter;
- iv. Council Tax model increases of 2.99% at Band D equivalent for 2023/24, which is £6.00 per annum and £5.00 per annum thereafter (section 4.14);
- v. An assumed pay award of 5.0% p.a. for 2023/24, 2.0% for subsequent years and maintaining the adoption of the Real Living Wage (section 4.16);

- vi. The annual back-funding charge for the Pension Fund is reduced from £1.1m to £0.25m and the pension forward funding rate increased from 18.2% to 19.1% over the next three years (section 4.18);
- vii. Selective prices inflation at an average of 7.5% to reflect contractual commitments and price risk areas (section 4.20);
- viii. No additional borrowing for 2023/24 with capital spending on the large infrastructure projects funded by grants receivable;
- ix. Interest rates receivable budget in 2023/24 of 3.25% in line with advice provided by our treasury advisers;
- x. A continuing investment of £3m in Property Funds at an estimated return of 4.0% generating interest receivable of £120k;

Financial Assumptions	2023/24	2024/25	2025/26	2026/27	2027/28
C Tax Base increase/(decrease)	1.3%	0.5%	0.5%	0.5%	0.5%
Council Tax increase	2.99%	2.42%	2.36%	2.31%	2.25%
Interest rates (receivable)	3.25%	2.75%	2.50%	2.25%	2.00%
Salary inflation	5.0%	2.0%	2.0%	2.0%	2.0%
Non-pay inflation (average/selected items)	7.5%	2.0%	2.0%	2.0%	2.0%

4.4 The MTFP derived from these assumptions is shown in **Appendix 1** and is summarised in the table below. This will provide for a balanced budget for 2023/24 after drawing £3.046m from the Risk Reserve. Thereafter a budget deficit remains for 2024/25 at £3.581m increasing to £5.272m in 2027/28.

	Medium Term Financial Plan £'000				
	2023/24	2024/25	2025/26	2026/27	2027/28
Forecast Draft Net Budget	13,732	14,517	15,441	16,233	16,897
<u>Grant & Taxation Financing</u>					
Services Grants	0	0	0	0	0
New Homes Bonus for Budget	0	0	0	0	0
Business Rates	3,842	3,919	3,997	3,997	3,997
Council Tax	6,818	7,017	7,219	7,422	7,627
Council Tax Surplus/(Deficit)	26	0	0	0	0
Net Transfer (to)/from Reserves	0	0	0	0	0
Forecast Budget Financing	10,686	10,936	11,216	11,419	11,624
Forecast Budget GAP	3,046	3,581	4,225	4,813	5,272

This position could improve by up to £2.043m as noted in the table below if the Government confirms that the other funding streams noted elsewhere in this report are to continue to apply for 2023/24.

Funding Stream	Estimate £'000	
New Homes Bonus	890	Based on the amount received in 2022/23
Services' Grants	300	
Homelessness Support Funding	475	
Other Grants	378	Based on allocation of new funding streams (e.g. UKSPF) to existing costs
Total	2,043	

Government Funding

- 4.5 Core Government funding has previously been awarded in five streams. These are funds which are not ringfenced for any purpose and reflect the Government's view of the resources local councils need to deliver core services. With the addition of Council Tax income and other grants, where relevant, they represent the calculation of 'core spending power'. In the recent years the Government has committed to a principle that there will be no reduction in 'core spending power' for each local authority and has used the last two grants in the list to ensure this:
- Revenue Support Grant (RSG) – ended in 2019/20
 - Localised Business Rates (BR)
 - New Homes Bonus (NHB)
 - Lower Tier Services Grant (for 2021/22 and 2022/23)
 - Services Grant (for 2022/23)
- 4.6 The Council is currently a member of the Worcestershire Business Rates Pool which means the pool is able to retain 50% of growth in business rates income for 2022/23. Following a meeting of County-wide Treasurers in October 2022 it was resolved to continue the pool for 2022/23 but with the inclusion of Herefordshire Council. This will increase the level of income growth retained locally. In order to meet the department's deadlines, this decision was made under the Managing Director's urgency powers.
- 4.7 The Business Rate baseline is expected to grow only in line with the inflation assumptions set in 2021 and has been frozen for 2023/24. Local authorities will be fully compensated for the lost income. A full revaluation of business rates will take place in 2023 and transitional relief will be applied for large increases. Again, the Council would expect to be compensated for the impact of the scheme. As yet, there is no clear indication of what impact this may have on retained income from business rates. An element of the risk reserve amounting to £1.4m is held to mitigate any short-term impacts of business rates redistribution in line with the revised Income Generation Strategy approved by the then Income Generation Sub-committee in July 2021. This is sufficient to cover the loss of one full-year's income growth.
- 4.8 New Homes Bonus has now ended with no further payments due to be received, the last award being for one year only. The Government has not confirmed whether there will be a further round of New Homes Bonus Payments in 2023-24 or if an

alternative source of funding will be introduced. In 2022/23 this income amounted to £0.890m, including the final legacy payment of £0.203m.

- 4.9 The period 2022 to 2025 represents a period of considerable change in external funding. The Council has secured significant capital investment of £41.5m through the Future High Streets Fund, Towns Investment Plan, Culture Development Fund and Accelerated Towns Fund. These proposals are enabling major investment in the City and have the potential to create new cost and income streams over the medium and longer term. The Council has also been successful in securing £2.665m in Green Homes Grant since 2019/20. This is funding provided to help improve energy efficiency of local housing. This includes up to £95,500 in 2022/23 for administrative costs. Further grant for 2023/24 is anticipated.
- 4.10 The City Council has submitted a bid for the new Levelling-up fund. This will focus on three main projects which are the Nunnery Wood Sports Complex, the Engine Works at Shrub Hill and the Pitchcroft Grandstand. These all support the themes of the new City Plan.
- 4.11 In addition to Council has been awarded £2.442m for the Shared Prosperity Fund for the years 2022/23 to 2024/5. This includes £117k for administrative costs. Some of the activities funded can be delivered by officers and therefore a proportion of existing costs can also be charged to this grant. On the other hand, UKSPF may be included in calculations of 'core spending power' which would offset any gains from this 'additional' funding. Therefore, no assumptions have been made in the draft MTFP regarding the use of this grant for salary costs.
- 4.12 Since 2021/22, the budget has recognised the introduction of this new form of direct funding to ensure that the costs of developing bids for, and client-side management cost of, the projects are built into revenue budgets and charged to the relevant projects where the funding scheme allows. Therefore, estimates of revenue costs (salaries and overheads) that will be charged to these schemes have been included in the MTFP as shown below. Further options for charging existing costs to external grants are being considered, as noted above. :

Grant	2023/24	2024/25	2025/26
Future High Streets Fund	Salary cost of employees assigned to the project £45k Overheads for support services circa £45k Total £90k	Total £90k	Total £90k
Towns Investment Plan	Salary cost of employees assigned to the project £50k Overheads for support services circa £50k Total £100k	Total £100k	Total £100k
Total for revenue budget	£190k	£190k	£190k

Council Tax

- 4.13 It has been calculated that the Council Tax base will increase by 1.31% in 2023/24. This includes a small decrease of 1% in Single Persons Discount and a 6% decrease in the number of claimants for Council Tax Support. The latter reflects the gradual unwinding of the impact of the Covid-19 pandemic on household incomes. The MTFP assumes that the Council Tax Base will grow by 0.5% p.a. from 2024/25. The forecast represents underlying growth of approximately 425 band D equivalent new homes in 2023/24 and 165 p.a. for the future years.
- 4.14 In the November Statement, the Government indicated that the maximum amount that Council Tax could be raised before holding a local referendum would be 2.99%. This has been held at £1.99% or £5 per week for the past three years and the Council has agreed the £5 increase. The uplift to 2.99% will, all other things being equal, generate an additional £35k per year on the 2022/23 Council tax base.
- 4.15 The draft MTFP assumes a 2.99% increase for a Band D equivalent home for 2023/24 which is equivalent to a £6.00 increase. For the years thereafter an increase of £5.00 per annum has been assumed, which was the increase previously allowed by the Government. The Government had also previously agreed that the Council Tax deficit of £0.105m for 2020/21 could be spread over the following three years. The Council Tax income in the MTFP for 2023/24 therefore includes £0.035m Council Tax deficit in respect of 2020/21 and the projected surplus for 2022/23 of £(0.061)m. The amount of Council Tax arising in 2023/24, based on the above tax base assumptions, will be £6.818m resulting in a net total income of £6.844m for the year.

Pay and Prices

- 4.16 The estimate for the annual pay award for 2023/24 is 5.0% and 2.0% for 2024/25 onwards subject to continuing to maintain the Real Living Wage. This is against a backdrop of the 2022/23 increase being a flat £1,925 for all employees, which represents an average increase of 7.5%. Inflation for the 12 months to September 2022 was 10.1%. The Bank of England forecast is for it to fall to 5.5% for 2023 and to 1.8% for 2024. Each 1% increase in salaries costs the Council an extra £125k.
- 4.17 The Autumn Statement in 2022 included the announcement that national insurance (NI) rates were to rise by 1.25% for both employers and employees. This has now been rescinded by the Government and has therefore been removed from the MTFP. The Services Grant for 2022/23 included an uplift to compensate local authorities for this increase. It is anticipated that any equivalent grant will be reduced accordingly. The government has not yet indicated whether the over-payment for 2022/23 will be clawed back.
- 4.18 Payments to the pension fund are to be based on the new 2022 actuarial valuation. The forward funding rate is to be increased from 18.2% to 19.1%, which is an additional cost of £70k. However, the back-funding is to be reduced from an annual cost of £1.10m to £255k with small increases in the following years. This is a benefit of £(845)k. The latter is a payment required by the actuary to bring the pension fund into a 100% funding position following a government decision to allow authorities to move away from this level to 75% funding in the 1980s.

- 4.19 On the basis of information provided by the Pension Fund trustees, the MTFP assumes no further change for either the forward or back-funding charges for the period after 2025 when the next actuarial valuation is due to take place.
- 4.20 Prices inflation is included at various rates on specific expenditure items, averaging 7.5% (£0.558m) per annum for 2023/24 and 2.0% from 2025-2028.
- 4.21 Income inflation is also included at an average of 7.5% (£0.564m) per annum for 2023/24 and 2.0% from 2025-2028. However, this is subject to the outcome of the annual review of the Council's Fees and Charges.

Income and Efficiencies Plan

- 4.22 The Income and Efficiencies Plan that was adopted as part of the budget setting in 2021-22 has now concluded. It had targeted savings of £1.02m from staff costs, income growth and service efficiencies. This was largely achieved from the savings in staff costs derived from the voluntary redundancy programme and the management restructure that took place in 2021.

4.23 Further measures are under consideration to generate income and reduce the Council's cost base in order to address the budget deficit. The intention is to remove the current reliance on reserves to balance the budget.

General Fund balance

- 4.24 The minimum approved level of the general fund balance is £1.1m. This is felt to be sufficient to cover any unexpected risks that the Council may face. There is also a separate Income Contingency reserve of £0.2m held within earmarked reserves as a contingency against decline in demand-led income. There is also a reserve of £1.4m held to offset a reduction in business rates, as identified above, and the cost of future Business Rates appeals.

MTFP Summary Financial Headlines

- 4.25 The draft medium-term revenue forecast delivers a balanced budget for 2023/24, including drawing £3.046m from the contingency reserve.
- 4.26 The MTFP includes total income and expenditure pressures of £0.751m which includes the following:
- Fuel – the price of diesel has increased by 40p per litre in the last 12 months, which is 27%. This is the highest it has been since 2013 and creates a budget pressure of £80k against an existing budget of £373k, a 21% increase.
 - Insurance – the Council's insurance broker is flagging a potential significant increase in the annual premium when it is renewed in June 2023. A cost pressure of £40k has been added to the MTFP;
 - Utility costs – the costs of electricity and gas are set to increase significantly in the next few months. The current broker of supplies to the Council's own operations (excluding Leisure centres) estimates that this will be a budget pressure of £332k, which is a 94% increase over the existing budget;

Leisure – the cost of energy used in the Council’s leisure centres is also set to increase significantly. The operator has requested support of up to £523k to alleviate the situation and this has been included in the budget. An exercise to determine potential means of reducing the impact of this increase is underway and is expected to report as part of the budget-setting process

- Property maintenance – the contract in place with the Council’s main works contractor allows for a 3% price increase each year. To date this has not been applied. However, in light of current inflation levels, the contractor has advised that this will now be applied in full for 2023/24 creating a budget pressure of £93k;
- Guildhall income – the pandemic caused a significant drop in income from room hire at the Guildhall. This has prompted a review of the strategy and with several key members of staff having left, it is no longer the intention to stage large scale weddings and parties that also require a bar. This creates an income pressure of £77k but will be more manageable with the small team and removes the risk of damage to the building and its contents. The revised income budget will be £35k compared to the maximum income achieved pre-pandemic of £69k.
- Pensions – as noted above, the pensions back-funding charge is to decrease from £1.1m to £255k, a reduction of £845k;

4.27 The Capital Programme is for £40.975m over the five-year period from 2023/24 to 2027/28. This includes £13.005m in respect of the Future High Streets Fund and £12.751m for the Towns Fund.

4.28 Income from Fees and Charges was significantly affected by the reduced activity arising from the pandemic in 2020. Whilst some income streams have recovered and are close to achieving the budget, others, such as car parking and Development Management, are still falling short.

4.29 The approach adopted for budget setting in this MTFP has been to continue the methodology of basing the budget on the average income of the previous five years, excluding the period of the pandemic, and to consider the potential additional income that may arise from the review of Fees and Charges. An average increase of 7.5% - in line with cost increases – has been assumed for the purposes of compiling the draft MTFP.

4.30 The effects on each income stream are as follows:

Income source	Actual 2021/22 £'000	Forecast 2022/23 £000	Proposed Budget 2023/24 £000	Difference £'000
Car Parking	3,190	3,695	4,208	513
Trade Waste	736	820	887	67
Garden Waste	536	578	618	40
Development Management	656	600	710	110
Leisure	317	473	509	36

Bereavement	1,440	1,507	1,640	133
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Notes:

- i. Car Parking - this is the Council's largest source of income. It was reduced significantly by the pandemic but has recovered and is currently approximately 90% of the pre-pandemic level. The 10% reduction is likely to be the result of greater home working by office-based staff and the increase in internet shopping. It still remains to be seen at what level the ongoing monthly income will settle. The average income for the three years pre-pandemic was £3.775m. The budget of £4.208m for 2023/24 is therefore based on this, an element of the 10% lost income returning and an assumed 9.0% increase in the parking tariff from April 2023.
- ii. Trade Waste – the level of income has grown by 25% since 2019/20. This includes the addition of the contract with the University and the introduction of charges for additional weight collected over and above the contracted amount (the 'pay-by-weight' system). The budget of £887k is based on further limited growth and an expected inflationary increase in the tariffs subject to the review of Fees and Charges.
- iii. Garden Waste - the income from garden waste collections has grown year on year and now has approximately 9,000 accounts. It grew by 14% in 2021/22 and is forecast for a further 8% growth in 2022/23. The budget assumes no further growth and an inflationary increase of 7.5% in the charge.
- iv. Development Management – the trend of income from planning applications and Land Charges tends to vary and can be distorted by large one-off planning applications. The proposed budget of £710k, which is unchanged from the last 2 years, was last achieved in 2015/16. The average income over the last 5 years has been £659k and there is therefore a risk of circa £50k.
- v. Leisure – the pandemic forced leisure centres to close for much of 2020/21 and a consequent reduced membership through 2021/22. This has now improved and the full management fee is expected to be received for 2022/23. The budget for 2022/23 assumes that the leisure centres will be fully open and no income contingency is therefore proposed. However the recent significant increase in energy costs has prompted a request from the operator for financial support of £523k, see para 4.26.
- vi. Bereavement – The forecast income for 2022/23 is £1.507m which is £102k below the budget. The budget of £1.640m for 2023/24 is based on the 2022/23 forecast plus an average inflationary price increase of 7.5%.

Capital Programme 2023-2028

- 4.31 An overall capital programme of £40.975m is proposed. This compares to a programme of £38.393m previously proposed for 2023/24 to 2026/27 with £1.478m now added for 2027/28. This includes the following projects with increases against the previous MTFP noted where appropriate.

Vehicles – the budget has been re-phased to reflect the latest operational requirements on vehicle replacement and is £0.529m greater than last year.

This a 9% increase which is in mainly due to price increases driven by a significant increase in the price of steel and the gradual migration to electric vehicles.

Food Waste collection – the Government indicated in May 2021 that it intends to introduce compulsory food waste collection. Originally this was to be from 2023 but it has been delayed and is now believed to be from 2025. The Council estimates that this will require the purchase of 5 vehicles and a bin for every household, a total cost of £1m. It is assumed that this will be fully funded by a grant from Government.

ICT infrastructure / projects – this includes the ongoing development of agile working for employees and Council Members and the implementation of software upgrades and enhancements, including the completion of the move to cloud-based operations.

House renovations – the programme of Disabled Facilities Grants continues to be an important part of the Council’s support to the local community. We await conformation from Government of funding for 2023/24 and future years. The budget assumes ongoing funding of £0.688m per annum which is consistent with previous years.

The Arches project – the budget of £1.094m is to complete the opening up of the footpath from Foregate Street down to the river Severn and is to be met from the remaining Cultural Development Fund grant, which has been extended to July 2024. The arches that have been converted are now fully let.

Future High Streets Fund - the Council’s bid was approved by the Government and initial funding has been received. Properties have been purchased for renovation and plans are being drawn up including some variations to the original proposal. The project is scheduled to last a further two years and the total spend in that period is budgeted at £13.005m, of which £10.884m is funded by grants.

Towns Improvement Plan – the Council has been allocated funds of £19.6m by the Government. The profile in the capital programme for the next three years is for £12.751m and excludes the revenue element of the grant.

Hostile Vehicle Mitigation – £0.223m for the completion of the addition of physical security measures to the city centre to reduce the risks from terrorist activity.

Housing – temporary accommodation – the provision of further Council-owned temporary accommodation utilising the remaining £0.360m funding in the City Plan;

Wheelie Bins – £0.309m for the purchase of new bins for the collection of domestic, trade and garden waste. The fee-paying elements of the service have grown their customer base over the last 2 years and bin stocks now need replenishing.

5. Draft Budget and Council Tax 2023/24

5.1 The MTFP approved by Council in February 2022 included a forecast deficit for 2023/24 of £2.295m increasing to £2.602m by 2024/25. As noted above, the budget deficit for 2023/24 is now £2.991m. The main reasons for this increase are summarised in the table below.

	£'000	
Budget Deficit for 2023/24 (as per MTFP 2022/23)	2,295	
<u>Salary and Pensions</u>		
Salary increase	1,090	Salary increases for 22/23 and 23/24 greater than previously budgeted
Pensions	-845	Reduction in cost of pension back-funding
<u>Inflation</u>		
<u>Fees and charges increases</u>	-564	
<u>Cost inflation</u>	558	
<u>Other Budget Pressures</u>		
Utility costs	332	Effect of significant increase in energy prices on Council's operations particularly in Leisure and Bereavement
Leisure	523	
Property maintenance	93	Contractual increases advised by main contractor
Fuel	80	Diesel prices increased by 27% in last 12 months
Guildhall income	77	Reduction of size of events to be held and with no bar.
Bereavement income	100	Reduction based on 2022/23 forecast
Other	49	
Interest receivable	-593	Recent significant increase in interest rates
Council Tax	-149	2.99% increase and a surplus for 2022/23
Draft Budget 2023/24	3,046	

5.1.1 In line with the consideration under 'Government Funding' above, it is proposed to continue to allocate £0.190m of existing revenue costs to the expected project budgets for the Future High Street Fund and Towns Fund to cover the client-side costs of delivering those schemes. This is reflected in the MTFP.

5.1.2 The Council also has a number of opportunities that may help address this forecast deficit:

- New Homes Bonus – the scope for the building of new homes in the city means this is of limited potential to the City Council, although it has been an important income source, with increasing amounts being used to fund revenue budgets. The Government consulted on the future of the scheme in February 2021 but has not produced a response to the consultation.

- Services Grants – in 2021/22, the Government provided a new Lower Tier Services grant to District Councils as a one-year award. However, it was repeated for 2022/23 and an additional Services Grant was provided. The total received was approximately £300k. The grants may be extended for a further year as they provide a means of maintaining or moderating ‘core spending power’ to achieve a balance in resources across authorities in different local government tiers. .
- Levelling Up Fund – the City Council has submitted a bid for this source of funding. If successful, it may be possible to charge the cost of time that existing officers will spend on the various projects against the grant provided, in line with the Towns Fund and the Future High Streets Fund.
- UK Shared Prosperity Fund – it may also be possible to charge the cost of time that existing officers will spend on the various projects against the grant provided.
- County Council support – in 2019 the City Council agreed to contribute £157k p.a. towards the cost of operating the libraries in the city. This was added to the annual budget for 2019/20 and has since been increased by inflation each year. The current budget is £178k. Discussions are now underway to review this arrangement.
- Earmarked reserves – a review of the Council’s reserve balances has identified a number where the project has been completed and the balance of the reserve remaining is no longer required. Similarly, there are some where the project is no longer going ahead and the reserve is not required. This includes £128k that is part of the City Delivery Fund, that was created from the Budget surplus for 2020/21. The full list is in **Appendix 4**.
- Community Grants – the Council has a budget of £75k for small and medium grants to local organisations. In 2018 the Council set up the Worcester Community Lottery. There are currently 80 local good causes who are members of the lottery and their supporters buy tickets each week and thereby fund the grant that the good cause receives. The lottery is currently raising £30,000 per annum for these good causes. It is proposed to reduce the Council’s grants budget by £25k and encourage greater use of the lottery as a means of fund raising.

Council Tax 2023/24

- 5.2 Billing authorities are required to set a Council Tax Base annually between 1 December and 31 January. The Council Tax Base information must be notified to our major precepting authorities (Worcestershire County Council, West Mercia Police Authority and Hereford and Worcester Fire and Rescue Authority), and our parishes, by 31 January 2023.
- 5.3 The Council Tax Base represents the estimated full year equivalent number of chargeable dwellings in an area expressed as the equivalent number of Band D dwellings, after allowing for discounts, exemptions, and expected movements for the year. Separate calculations are required for a) the whole of the Authority’s area and b) for the individual Parishes and the unparished areas of the City.

5.4 The Council Tax Base for 2023/24 has been calculated in accordance with the appropriate legislation and regulations as 32,954. Details are set out in **Appendix 3** as follows:

Table 1 shows how the estimated total number of chargeable dwellings in each band is converted to a Band D equivalent figure which forms the initial stage for the calculation of the Tax Base. It also reflects the impact of the Council Tax Support scheme across the various bands;

Table 2 takes the equated Band D equivalent Tax Base for the whole area and analyses the total into each parish. An allowance is then made for the non-collection of Council Tax in year, which equates to 0.75% of Band D equivalents income.

Table 3 shows the Council Tax Base calculation, including the allowance for non-collection for Worcester City and both parishes. This shows a Tax Base of 26,798 for Worcester; 3,976 for Warndon Parish Council and 2,179 for St Peter's Parish Council giving a total of 32,954, an increase of 426 Band D equivalents on last year (1.31%).

5.5 This Tax Base increase plus a modelled increase of 2.99% (£6.00) on 2022/23 price levels (to £206.88 per Band D equivalent property), provides an annual Council Tax income of £6,817,544. In addition, there is estimated to be a Council Tax surplus of £61,000 for 2022/23. Also, last year, the Government's announced that the deficit for 2020/21 was to be spread over the three years from 2021/22. There is therefore a £35k deficit to account for in 2023/24. The resulting Council Tax income in the MTFP for 2023/24 is therefore £6.844m.

Reserves

5.6 At 31 March 2022, the Council is forecast to hold reserves, excluding the General Fund minimum balance, of £11.242m of which £0.321m (net) is yet to be committed to a specific project or use and £3.778m is forecast to be in income and business rates risk reserves. In addition, there is a forecast of a further £0.736m of funds relating to S106 schemes.

5.7 The Council holds Earmarked reserves as follows:

	Balance at 1 April 2022	Forecast balance at 1 April 2023
Risk Reserves	9,504	2,165
City Plan Fund	2,545	2,166
Earmarked reserves	4,324	3,268
Transformation Fund	116	93
Income Generation Fund	216	164
City Delivery Fund	367	210

Small Projects Fund	62	62
Museums	298	269
Total	17,433	8,398

The forecast balance of £2.165m on the Risk Reserves at 31 March 2023 comprises:

- the Income Contingency reserve of £0.170m, which is to mitigate future reductions in income generated locally by Council services.
- Business Rates risk reserve of £1.934m which includes:
 - £1.400m is to provide an estimated 1 year’s mitigation of the potential Business Rates reset by Government and to cover future Business Rates appeals;
 - £0.410m received as a Section 31 grant in 2020/21 and intended for reliefs in 2023/24;
- Worcester County Hardship fund of £0.060m.

6. Comments of Corporate Director of Finance and Resources

- 6.1 The MTFP, as presented, will provide a balanced budget for 2023/24 but only through the repurposing of existing reserves and if all assumptions regarding increased income and reduced costs are achieved. For the subsequent years, the Council faces a potential budget deficit which will need to be addressed through further, as yet unidentified, income and efficiency improvements, the latter leading to cost reductions. It will be important for the Council to monitor implementation timelines, service performance and delivery of these improvements within the agreed timelines. Failure to achieve that would put future year balanced budgets under significant risk.
- 6.2 The MTFP assumes a £6.00 increase in Council Tax for 2023/24 and £5.00 for the years thereafter. It is also subject to confirmation, in the Local Government Finance Settlement, that the assumptions on Government funding are robust and the current limit on Council Tax increases, set by Government, is not reduced beyond the expected levels.
- 6.3 The plan is based on current Government policies and any known future changes to the way local government is funded. Other potential changes will need to be understood and built into future financial projections. This could present opportunities as well as threats for the Council and the finer details will need to be scrutinised once detailed proposals emerge.
- 6.4 The draft budget and draft MTFP will be kept under review as the budget process is taken forward through consultation and the update process in January and February, prior to Full Council consideration and approval of the budget in February 2023.

7. Implications

- 7.1 Financial and Budgetary Implications

Financial and budget implications are set out in the report.

7.2 Legal and Governance Implications

In line with the Budget and Policy Framework Procedure Rules in part 4 of the Constitution, consultation on the draft budget proposals should take place over a period of at least six weeks, prior to full Council approval of the budget on 21 February 2023.

The method used to calculate the Tax Base is prescribed by the Local Authorities (Calculation of Council Tax Base) Regulations 2012 (SI 2012/2914). A billing authority is required to set a Council Tax Base between 1 December 2022 and 31 January 2023 and this is approved by the Policy and Resources Committee.

7.3 Risk Implications

As always with financial planning assumptions, there are risks associated with the accuracy and robustness of the forecasts, which become more difficult to predict as the period covered lengthens. To mitigate against medium term planning uncertainty, the forecasts are updated on a regular basis throughout the year.

However, risks on forecasting remain for both the Draft Budget 2023/24 and the medium-term period to 2027/28.

Localised Business Rates – there is volatility in the system on business rates as was experienced by the 2015 GP surgeries appeals and subsequent appeals in relation to cash machines and partial closures. Prudent assumptions are built into the MTFP on growth and collection rates. The 2017 revaluation of rateable values saw large increases in some properties' rateable values and appeals are being processed. The next valuation is due to take place in 2023. The government has yet to take a position regarding revisions to the system of funding local authorities through business rates.

Collection of Council Tax and Business Rates income – the Council normally achieves collection rates of 98%. Although the cost of living crisis is having a significant effect on the local economy, the current collection rate for Council Tax remains high. However, the collection rate for Business Rates is lower than normally expected at this time of year. The situation is being closely monitored but a 1% fall in collections would affect the MTFP by circa £100k.

Pay review – the MTFP assumes an annual pay award from 2023/24 of 5.0%. If the increase that is agreed is 1% higher or lower than this, the effect on the MTFP would be £125k.

Capacity to deliver – the forecast Budget deficit emphasises the need for further income and efficiencies to be identified. Should efficiency proposals give rise to one-off costs, additional transfers from reserves may be needed to fund these. The Government from time-to-time allows the capitalisation of service transformation costs under certain circumstances in order to allow authorities to spread the cost of these initiatives.

Reserves and balances – are likely to come under more intense scrutiny from Government with pressure to utilise reserves to fund service delivery. It is therefore essential that reserves are clearly earmarked for specific purposes and that where no

specific purpose exists, or the policy objectives in respect of a specific reserve changes, then the reserve is released to the General Fund or reallocated by the Policy and Resources Committee.

7.4 Corporate/Policy Implications

The budget and Medium Term Financial Plan proposals provide resources for the Council's service delivery priorities and all of the City Plan delivery priorities. There are no planned reductions in service incorporated into the draft MTFP.

7.5 Equality Implications

The Council's budget sets out spending plans that have equal application to all residents of Worcester and other stakeholders. The impact of any changes in spending in relation to specific services is considered as part of service planning processes. The Income and Efficiencies plan sets out to deliver the same front line service outcomes.

7.6 Human Resources Implications

Extra resources will continue to be required to deliver some of the Income and Efficiencies Plan and costs for these resources will be built into the relevant project budgets.

7.7 Health and Safety Implications

None directly arising from this report.

7.8 Social, Environmental and Economic Implications

The draft budget maintains the Council's commitment, through the City Plan, to improving the city as a place to work in, to visit and to be a resident of.

Ward(s): All
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Background Papers: None