



**Report to: Policy and Resources Committee, 19<sup>th</sup> December 2023**

**Report of: Corporate Director - Finance and Resources**

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**Subject: DRAFT MEDIUM TERM FINANCIAL PLAN 2024-2029 AND DRAFT BUDGET & COUNCIL TAX 2024/25**

**1. Recommendations**

- 1.1 That the Committee refers the Draft Medium Term Financial Plan 2024-2029, and the proposed Draft Budget & Council Tax for 2024/25, 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 2024 and feed back to the Policy and Resources Committee on 6 February 2024;**
- 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 2024/25 will be 33,002.0 for Worcester City Council, including 3,977.2 for Warndon Parish Council and 2,179.9 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 and Council Tax 2024/25, will be recommended to Full Council for approval on 20 February 2024; 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 2023 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) 2024-2029 is outlined in section 4 of this report, and in a number of appendices as listed below:

**Appendix 1:** summary MTFP 2024-2029

**Appendix 2:** draft Capital Programme and Capital Financing 2024-2029.

2.4 Details on the Draft Budget & Council Tax 2024/25 are outlined in section 5 of this report, and in a number of appendices as listed below:

**Appendix 1:** summary Draft Budget 2024/25

**Appendix 3:** proposed Council Tax Base 2024/25.

2.5 The MTFP and the Draft Budget & Council Tax 2024/25 will be updated for the Policy and Resources Committee meeting on 6 February 2024 with the following:

- the Local Government Finance Settlement
- the outcome of the budget consultation exercise
- Pay Policy Statement 2024/25
- detailed Fees & Charges 2024/25
- proposed utilisation of Earmarked Reserves
- Treasury Management Strategy 2024/25.

### **3. Spending Review and Autumn Statement 2024**

3.1 The Autumn Statement was delivered on 22 November 2023. This did not comment on any of the 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, with the exception of an extension of the Retail, Hospitality and Leisure Relief scheme and the extension of the Homes for Ukraine 'thank you' payments.

3.2 A revaluation of business rates took place in 2023 which resulted in some improvements in the Council's own business rates liability. Further consideration of how the funding system might change is expected to follow but there are no further details provided at this stage. 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 although the Government remains committed to supporting new housing through the Affordable Homes Guarantee Scheme and the Local Authority Housing Fund. The 'thank you' payments under the Homes for Ukraine scheme will be extended into a third year.

3.4 It is anticipated that the Services Grants will be continued so that local government core funding can be maintained at the level announced in the 2021 five-year spending review, including expected rises in Council Tax and business rates. Overall, the departmental control totals show a planned decrease in 2023/24 and an increase

in 2024/25 compared to the 2021 review, affirmed in the 2023 budget statement. This reflects delays in funding for changes arising from the Environment Act (food waste and Extended Producer Responsibilities for packaging):

	2022/23	2023/24	2024/25
DLUCH Local Government total planned spend			
Spring 2023	£11.9bn	£15.7bn	£15.3bn
Autumn 2023	£11.8bn	£14.6bn	£17.0bn

3.5 There are expectations of 1% per year growth in activities built into these assumptions and allowance for inflation and other pressures, excluding additional funding provided for the extension of the Retail, Hospitality and Leisure relief scheme. However, no additional allowance has been made for inflation over and above the assumptions made in the spring. Moreover, the autumn statement indicates that public sector spending is expected to fall as a proportion of GDP to 2027/28. 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 2024-2029

##### 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.

4.2 In seeking to deliver against the City Plan, the budget and MTFP reflects spending which supports the five key themes of the Plan in general terms. Commentary on proposed changes in spending, reflecting changing priorities within these themes will be included in the budget report, following the budget consultation exercise, to be presented at the 6 February 2024 meeting.

## 5. Key Financial Assumptions

- 5.1 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.
- 5.2 The key financial assumptions, based on known and expected changes, in the revised MTFP 2024-2029 are detailed below and are summarised as follows:
- i. Business rates income – the 2023 property revaluation resulted in only a marginal increase in the total rateable value, hence 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 0.15% in 2024/25 (2023/24 1.31%) (section 4.13) and growth of 0.5% p.a. thereafter;
  - iv. Council Tax model increases of 2.99% at Band D equivalent for 2024/25, which is £6.19 per annum and 2.99% per annum thereafter (section 4.14);
  - v. An assumed pay award of 6.0% p.a. for 2024/25, 4.0% for 2025/26, 3% for 2026/27 and 2.0% for subsequent years and maintaining the adoption of the Real Living Wage (section 4.16);
  - vi. The pension forward funding rate is maintained at 19.1% until the next actuarial valuation in 2025/26 (section 4.18);
  - vii. Selective prices inflation at an average of 6.0% for 2024/25, 4.0% for 2025/26, 3% for 2026/27 and 2.0% for subsequent years to reflect contractual commitments and price risk areas (section 4.20);
  - viii. No additional borrowing for 2024/25 with capital spending on the large infrastructure projects funded by grants receivable;
  - ix. Interest rates receivable budget in 2024/25 of 4.50% 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;

<b>Financial Assumptions</b>	<b>2024/2 5</b>	<b>2025/2 6</b>	<b>2026/2 7</b>	<b>2027/2 8</b>	<b>2028/2 9</b>
C Tax Base increase/(decrease)	0.15%	0.5%	0.5%	0.5%	0.5%
Council Tax increase	2.99%	2.99%	2.99%	2.99%	2.99%
Interest rates (receivable)	4.50%	3.50%	2.75%	2.50%	2.25%
Salary inflation	6.0%	4.0%	3.0%	2.0%	2.0%
Non-pay inflation (average/selected items)	6.0%	4.0%	3.0%	2.0%	2.0%

- 5.3 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 2024/25 after drawing £0.378m from the Risk Reserve. Thereafter a budget deficit remains for 2025/26 at £1.267m increasing to £2.432m in 2028/29.

	<b>Medium Term Financial Plan</b>				
	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Forecast Draft Net Budget</b>	<b>12,607</b>	<b>13,934</b>	<b>15,012</b>	<b>15,694</b>	<b>16,231</b>
<u>Grant &amp; Taxation Financing</u>					
Services Grants	1,278	1,391	1,504	1,617	1,730
New Homes Bonus for Budget	0	0	0	0	0
Business Rates	3,919	3,997	3,997	3,997	3,997
Council Tax	7,032	7,279	7,534	7,798	8,071
Council Tax Surplus/(Deficit)	0	0	0	0	0
Net Transfer (to)/from Reserves	0	0	0	0	0
<b>Forecast Budget Financing</b>	<b>12,229</b>	<b>12,667</b>	<b>13,035</b>	<b>13,412</b>	<b>13,798</b>
<b>Forecast Budget GAP</b>	<b>378</b>	<b>1,267</b>	<b>1,978</b>	<b>2,282</b>	<b>2,432</b>

## Government Funding

5.4 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 and 2023/24)

The budget for 2024/25 assumes that the Government will provide for a net 1% increase in core spending power, which is worth £113k. Each 1% better or worse than this in the final Settlement will vary accordingly by the same £113k.

5.5 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 2023/24. The Council has confirmed its intention to remain part of the pool for 2024/25.

5.6 The Business Rate baseline is expected to grow only in line with the inflation assumptions previously set. The small business rates multiplier is to be frozen for 2024/25, and the standard multiplier indexed (to 54.6p based on September CPI). Local authorities will be fully compensated for the lost income. A full revaluation of business rates took effect in 2023 and transitional relief is being applied for large increases/reductions. Again, the Council is being 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.

- 5.7 New Homes Bonus (NHB) has now ended with no further payments due to be received. The Government has not confirmed whether an alternative source of funding will be introduced. However, in 2023/24 a payment in lieu of NHB was made as part of maintaining the council's core spending power. Should a further payment be made for 2024/25, the Services Grant would be expected to reduce to maintain the consistent overall 'core spending power' position.
- 5.8 The Council has previously secured significant capital investment of £45.1m through the Future High Streets Fund, Towns Investment Plan, UK Shared Prosperity Fund, Levelling Up, Cultural 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 £1.830m in Green Homes Grant since 2019/20. This is funding provided to help improve energy efficiency of local housing. This includes up to £36,800 in 2023/24 for administrative costs. A further grant of £0.607m for 2024/25 has been allocated for the City Council.
- 5.9 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. The reduction from £500k in 2023/24 to £190k for 2024/25 reflects the fact that these projects are well underway from the perspective of officer time as opposed to the work being done by third parties.

<b>Grant</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Future High Streets Fund	Salary cost of employees assigned to the project £150k Overheads for support services circa £150k Total £300k	Total £90k	Total £40k
Towns Investment Plan	Salary cost of employees assigned to the project £100k Overheads for support services circa £100k Total £200k	Total £100k	Total £60k
<b>Total for revenue budget</b>	<b>£500k</b>	<b>£190k</b>	<b>£100k</b>

## **Council Tax**

- 5.10 It has been calculated that the Council Tax base will increase by 0.15% in 2024/25 (1.31% 2023/24). This includes a small increase of 0.5% in Single Persons Discount and a 1.1% increase in the number of claimants for Council Tax Support. The MTFP assumes that the Council Tax Base will grow by 0.5% p.a. from 2025/26. The forecast represents underlying growth of approximately 48 Band D equivalent new homes in 2024/25 and 165 p.a. for the future years. The 48 new homes for 2024/25 will generate an additional £10k of Council Tax income.
- 5.11 The draft MTFP assumes a 2.99% increase for a Band D equivalent home for 2024/25 following a similar increase in 2023/24. This is equivalent to a £6.19 increase and will generate an additional £210k per year of Council Tax income. For the years thereafter an increase of 2.99% per annum has also been assumed. The amount of Council Tax arising in 2024/25, based on the above tax base assumptions, will be £7.032m.

## **Pay and Prices**

- 5.12 The estimate for the annual pay award for 2024/25 is 6.0%, 4.0% for 2025/26, 3.0% for 2026/27 and 2.0% thereafter, subject to continuing to maintain the Real Living Wage. This is against a backdrop of the 2023/24 increase being a flat £1,925 for all employees up to a salary of £49,950. For salaries above that there is an increase of 3.88%. Together this represents an average increase of 6.65%. Inflation for the 12 months to October 2023 was 4.6% which was a reduction from 6.7% in September. The Bank of England forecast is for it to fall to 4.0% for 2024 and to 2.0% for 2025. Each 1% increase in salaries costs the Council £125k.
- 5.13 Payments to the pension fund are based on the 2022 actuarial valuation. The forward funding rate is 19.1% and the back-funding is a cost of £267k with small increases in the following years. 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.
- 5.14 Prices inflation is included at various rates on specific expenditure items, averaging 6.0% (£0.483m) per annum for 2024/25, 4.0% for 2025/26, 3.0% for 2026/27 and 2.0% thereafter.
- 5.15 Income inflation is also included at an average of 6.0% (£0.250m) per annum for 2024/25, 4.0% for 2025/26, 3.0% for 2026/27 and 2.0% thereafter. However, this is subject to the outcome of the annual review of the Council's Fees and Charges. It should be noted that this assumes a 6.0% increase in car parking charges for 2024/25, which should yield additional income of £206k.

## **Savings Plan**

- 5.16 Following the successful Income and Efficiencies Plan that was adopted as part of the budget setting in 2021-22 and concluded in 2022/23, a new Savings Plan initiative was launched in 2023. The initial savings target for 2024/25 was set at £2.5m.
- 5.17 A wide range of savings have been identified, including a new voluntary redundancy programme, resulting in an overall annual saving of £2.339m by 2026/27. Where this will mean a reduction in service level, member approval has been obtained.

5.18 With the budget gap set to increase in future years, there is an ongoing need to identify further savings and efficiencies and more proposals are therefore being considered.

### **General Fund balance**

5.19 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 are also a number of risk reserves designed to offset the impact of specific reductions in income or increases in costs. The balance at 31 March 2023 on these reserves is given below. The expected balances at 31 March 2024 will be determined following the outcome of the budget consultation and budget-setting exercises:

<b>Risk reserve</b>	<b>Balance at 31 March 2023 £'000</b>	<b>Notes</b>
Income	208	To provide a contingency against a decline in demand led income
Business Rates	1,951	For a potential Business Rates reset by Government and to cover future appeals
Hardship	213	Funding to alleviate hardship including temporary accommodation in extreme weather conditions (SWEP)
Total	2,372	

### **MTFP Summary Financial Headlines**

5.20 The draft medium-term revenue forecast delivers a balanced budget for 2024/25, including drawing £0.378m from the Business Rates Risk Reserve.

5.21 The MTFP for 2023/24 included a number of expenditure pressures. The updated position on each these is as follows:

- Fuel – the price of diesel has fallen back from its peak in 2022, but is still approximately 20% higher than it was in 2021, including the general effect of inflation. The 2023/24 MTFP included a budget pressure of £80k. In light of the current price level, this has now been reduced by £50k.
- Vehicle maintenance – the 2023/24 budget included a cost pressure of £80k reflecting the increased cost of maintaining an ageing fleet. The actual costs in 2023/24 continue to exceed the budget. However, a number of vehicles have been replaced recently, including several large RCV's, and it is anticipated that this will lead to a reduction in costs with more repair work covered under warranty.



- Utility costs – the costs of electricity and gas have increased significantly over the past 2 years. A significant budget pressure of £332k, a 94% increase, was applied in the 2023/24 budget and the latest forecast is for this budget to be achieved. The 2024/25 budget therefore assumes that this level of expenditure will be maintained;
- Leisure – the cost of energy used in the Council’s leisure centres has also increased significantly. In 2022 the operator flagged the potential need for support to alleviate the situation and £318k was included in the 2023/24 budget. Since then, new energy contracts have been agreed at better than expected prices and energy usage has also been reduced. To date no financial support has actually been requested nor paid, although it remains a risk. The 2024/25 budget therefore assumes that the £318k support is reduced by £190k to £125k. There is potential for further reductions, which will be assessed as part of ongoing budget meetings with Freedom Leisure.
- External audit fee – the external audit process for this council is currently 2 years behind where it should be, with most other councils in a similar position. The audit firms claim they do not have enough resources and that the current fees do not cover the work required. The Public Sector Audit Appointments body have now set the fees from 2023/24 with a significant increase. The base fee for this council is to rise from £40k to £147k. The MTFP already anticipated some of this increase but a further budget pressure of £66k is now required.

5.22 The Capital Programme is for £31.468m over the five-year period from 2024/25 to 2028/29. This includes £9.187m in respect of the Future High Streets Fund and £10.470m for the Towns Fund.

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

5.24 The approach adopted for income 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 for 2024/25 of 6.0%, in line with cost increases, has been assumed for the purposes of compiling the draft MTFP.

5.25 The effects on each income stream are as follows:

<b>Income source</b>	<b>Average of last 5 years £'000</b>	<b>Budget 2023/24 £'000</b>	<b>Forecast 2023/24 £000</b>	<b>Proposed Budget 2024/25 £000</b>	<b>Difference £'000</b>
Car Parking	3,669	4,097	4,137	4,480	343
Trade Waste	681	887	888	940	52
Garden Waste	459	618	639	655	16
Development Management	620	705	483	705	222
Leisure	500	520	530	540	10

Bereavement	1,640	1,640	1,508	1,640	132
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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 achieving the budget including a 9% increase in charges, which was applied from 1 April 2023. The budget assumes this continues with a further 6% increase in charges proposed for 2024/25. The increase in the income budget of £343k, noted above, is £206k arising from the increase in charges and £137k due to a reassessment of the arrangement with the County Council for the provision of on-street and off-street Parking Enforcement in the city.
- ii. Trade Waste – the level of income has grown by 35% 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 £940k is based on 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 over 9,000 accounts. It grew by 2% in 2022/23 and is forecast for a further 17% growth in 2023/24. The budget assumes no further growth with an inflationary increase of 6% 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 £705k, which is unchanged from the last 2 years, was last achieved in 2018/19. The average income over the last 5 years has been £620k and there is therefore a risk of circa £85k. This should be addressed by the increases in statutory planning fees that are to take effect from 6 December 2023. Applications for major developments are to increase by 35% and by 25% for all other applications.
- v. Leisure – the pandemic forced leisure centres to close for much of 2020/21 and led to a consequent reduced membership through 2021/22. This has now improved, the full management fee was received for 2022/23 and is also expected for 2023/24. The budget for 2024/25 assumes that this will continue.
- vi. Bereavement – The forecast income for 2023/24 is £1.508m which is £132k below the budget. The proposed budget of £1.640m for 2024/25 is based on the average income of the last 5 years (excluding the pandemic) plus an average inflationary price increase of 6%. This means the budget for 2024/25 will be unchanged from the 2023/24 budget despite a 6% increase in charges and is effectively a budget pressure of £100k.

### Capital Programme 2024-2029

- 5.26 An overall capital programme of £31.468m is proposed. This compares to a programme of £40.975m previously proposed for 2023/24 to 2026/27 with £1.862m now added for 2028/29. This includes the following projects with increases against the previous MTFP noted where appropriate.

Vehicles – the budget over the 5 years of £4.446m has been re-phased to reflect the latest operational requirements on vehicle replacement and is £1.339m lower than last year. This follows a forecast spend for 2023/24 of £2.132m including the replacement of several of the large RCV's.

Food Waste collection – the Government is still committed to introducing compulsory food waste collection. The timetable has not yet been confirmed but could 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.

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 2024/25 and future years. The budget assumes ongoing funding of £0.688m per annum which is consistent with previous years.

Future High Streets Fund - 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 year with a budgeted spend of £9.017m.

Towns Improvement Plan – the Council has been allocated funds of £19.6m by the Government. The profile in the capital programme for the next two years is for £10.470m 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.

Wheelie Bins – £0.970m 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 2024/25

- 1.1 The MTFP approved by Council in February 2023 included a forecast deficit for 2024/25 of £2.250m increasing to £2.766m by 2025/26. As noted above, the budget deficit for 2024/25 is now £0.378m. The main reasons for this decrease are summarised in the table below.

	£'000	
<b>Budget Deficit for 2024/25</b>	<b>2,250</b>	as per MTFP 2023/24
Salary increase	462	Salary increase for 24/25 now assumed to be 6%, greater than the 2% previously budgeted
Pensions	0	No change in pension assumptions

Fees and charges increases	(276)	6% inflation now assumed compared to 2% previously budgeted for 2024/25. Includes £100k pressure on Bereavement income.
Cost inflation	299	
Savings Plan	(2,028)	As per budget reports provided to Committees in October and November
Energy support for leisure operator	(190)	Energy prices and usage now reduced
Housing Benefit Subsidy	100	Realigning the budget closer to the current actual
External audit fee	66	Significant increase advised by Public Sector Audit Appointments body.
Fuel	(50)	Prices lower than last year
Other cost pressures	73	Several smaller cost pressures
Interest receivable	(200)	Interest rates higher than last year
Council Tax	(15)	2.99% increase now assumed
Service grants	(113)	1.0% increase in core spending power assumed
<b>Draft Budget 2024/25</b>	<b>378</b>	

1.1.1 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.

1.1.2 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 to indicate whether a similar source of funding will be launched.
- Services Grants – in 2021/22, the Government introduced 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. This continued for 2023/24 as part of a commitment to increase core spending power by 3%. The

MTFP assumes a further prudent increase of 1% for 2024/25 and subsequent years.

- 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. The total identified of £0.574m will primarily be required to fund the cost of the recent voluntary redundancy programme. The full list is in **Appendix 4**.

## **Council Tax 2023/24**

- 1.2 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.
- 1.3 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.
- 1.4 The Council Tax Base for 2024/25 has been calculated in accordance with the appropriate legislation and regulations as 33,002. 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 26,846 for Worcester; 3,977 for Warndon Parish Council and 2,179 for St Peter’s Parish Council giving a total of 33,002, an increase of 48 Band D equivalents on last year (0.15%).

- 1.5 This Tax Base increase plus a modelled increase of 2.99% (£6.19) on 2023/24 price levels (to £213.08 per Band D equivalent property), provides an annual Council Tax income of £7,032,087.

## **Reserves**

- 1.6 At 31 March 2024, the Council is forecast to hold reserves, excluding the General Fund minimum balance, of £7.971m of which £0.044m (net) is yet to be committed to a specific project or use and £2.229m is forecast to be in income and business

rates risk reserves. In addition, there is a forecast of a further £1.841m of funds relating to S106 schemes and Community Infrastructure Levy.

1.7 The Council holds Earmarked reserves as follows:

	<b>Balance at 1 April 2023 £'000</b>	<b>Forecast balance at 1 April 2024 £'000</b>
Risk Reserves	1,888	2,403
City Plan Fund	2,251	2,058
Earmarked Service reserves	3,962	2,925
Transformation Fund	83	32
Income Generation Fund	209	171
City Delivery Fund	165	37
Small Projects Fund	62	42
Museums	323	302
<b>Total</b>	<b>8,943</b>	<b>7,971</b>

The forecast balance of £2.403m on the Risk Reserves at 31 March 2024 comprises:

- the Income Contingency reserve of £0.208m, which is to mitigate future reductions in income generated locally by Council services. As per previous decisions of the Committee, this fund should be maintained at a minimum balance of £0.5m as set out in the Council's Income Strategy 2021-2024.
- Business Rates risk reserve of £2.021m ;
  - £1.400m is to provide an estimated 1 year's mitigation of the potential Business Rates reset by Government, as set out in the Income Strategy and
  - £0.621m to cover future Business Rates appeals, of which £292k will be transferred to the Income contingency to restore the required balance;
- Worcester County Hardship fund of £0.174m, including Severe Weather Protection (SWEP) £25k.

## 1.8 Future challenges

The MTFP does not yet include the effect of a number of challenges that the council faces in the next few years. These are set out below and will be included in the MTFP once the financial implications are available:

- Leisure contract extension – the existing leisure contract started in January 2016 and will expire in December 2025. A contract extension is being discussed and we await a proposal from the operator. However, there is a risk that the current management fee of £520k p.a. may not continue to be achieved.
- Crematorium refurbishment – plans are being drawn up for a major refurbishment of the crematorium. The cost is estimated at £3.5m including non-recoverable VAT. The site will be closed for the period of the work and there will therefore be a significant loss of income in that financial year. This loss can be mitigated by transferring business to nearby facilities temporarily and continuing to provide some functions at the site. Further estimates will be provided at future meetings.
- Food waste collection – the Government is still committed to introducing the collection of food waste from both domestic and trade customers. The deadline for starting the service has yet to be confirmed but is anticipated to be 2025. The MTFP includes capital of £1m for the purchase of vehicles and bins, with the assumption that this will be funded by a Government grant. It does not include any revenue related costs e.g. personnel or disposal costs.
- Scala Arts Centre running costs – the centre is due to undergo a major refurbishment as part of the Future High Streets funding. Once open there will be running costs for staff, utilities, business rates etc. and the level of income, particularly at the start, may be insufficient to cover all the costs. In that event, the Council may need to provide a subsidy until the revenue streams were fully developed.
- Ash die back contingency – the Council has recognised that it needs to address the issue of Ash die back which may result in a significant number of trees needing treatment or complete removal to prevent them becoming a hazard. No estimates of the cost of this work are currently available.
- Air Quality action plan - in 2019 the Council implemented a Worcester City Air Quality Management Area. In response to this, the Council has a duty to develop and submit an Air Quality Action Plan (AQAP) to DEFRA within a 'reasonable timescale'. A timetable for publication of the AQAP in 2024/25 was approved by Environment Committee on 7 November 2023. It is anticipated that there may be required spending arising from the plan in that and/or subsequent financial years but the scale of that potential requirement is not yet known.

## **6. Comments of Corporate Director of Finance and Resources**

- 6.1 The MTFP, as presented, will provide a balanced budget for 2024/25 but only through a transfer from the Risk reserve of £378k 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 2.99% increase in Council Tax for 2024/25 and 2.99% 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 2024.

## **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 20 February 2024.

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 2023 and 31 January 2024 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 2024/25 and the medium-term period to 2028/29.

**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 and 2023 revaluations of rateable values saw large increases in some properties' rateable values and appeals are being processed. 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%. The cost of living crisis is having a significant effect on the local economy and the current collection rates for Council Tax and Business Rates are slightly 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 for 2024/25 of 6.0% and 2% per annum thereafter. 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 apart from those already approved by members.

#### 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.

#### 7.6 Human Resources Implications

Extra resources may be required to deliver some of the council's projects 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