CABINET | **COUNCILLOR PAUL TAYLOR**
CORPORATE SERVICES PORTFOLIO HOLDER

15 NOVEMBER 2022

REPORT NO. FIN2234

KEY DECISION? ~~YES~~/NO

BUDGET STRATEGY 2023/24

SUMMARY:
This report sets out the budgetary framework to support the preparation of the 2023/24 budget.

The report also provides a summary of the financial position of the Council and sets out how members will be kept informed of material changes in the forecast over the medium-term for financial planning purposes. Final decisions on the overall budget and Council Tax level will be made by Council in February 2023.

CABINET is RECOMMENDED to:

(i) Note the revised budget gap contained within this Budget Strategy update for 2023/24 as outlined in paragraph 4.7
(ii) Endorse the budget principles in section 5.2
(iii) Note the intended approach to developing new savings and income proposals to close the projected gap in section 5.8

1. INTRODUCTION/BACKGROUND

1.1. This report updates members on the estimated future financial position (building on the assumptions in the February 2022 Cabinet report – FIN2210) and sets out how the strategy for addressing the projected budget deficit.

2. SUMMARY OF STRATEGIC ISSUES

2.1. With a only a limited number of exceptions, nearly every local authority, including Rushmoor Borough Council faces a significant and immediate set of financial challenges, many of which will continue over the medium term.

2.2. It is estimated that at least 1 in 6 Local Authorities in the England will fully deplete their reserves in 2023-24 without substantial spending cuts, with the trajectory over the medium term looking equally challenging with some authorities looking to closing a budget gap equivalent of 69% of the Net Revenue Budget. Such positions genuinely brings into perspective the ability of some authorities to effectively discharge the required duties and it appears evident that many authorities will need to consider at a base level how they can continue provide even the base level of services.

2.3. There are several drivers of change that affect the way in which the Council's financial plans are developed – Population, Economy, Policy Decisions, Capital Investment need and delivery of Savings and Transformation plans. Each element has a differing effect on the Councils current or future financial position and currently certain factors are placing significant strain on the Councils position.

2.4. Currently the inflationary environment is proving incredibly challenging. Pressures relating to inflation typically manifest in the main in the following three ways:

- The cost of everyday goods, services and fuel as reflected in the Retail Price Index (RPI) and Consumer Price Index (CPR) that converts into a higher wage demands and therefore pay inflation.
- The cost of everyday goods, services and fuel as reflected in the Retail Price Index (RPI) and Consumer Price Index (CPR) that converts into the need to fund increase service delivery costs both directly in terms of service provision or through contracts held by the Council
- The subsequent impact rising inflation has on interest rates that impact Local Authorities in terms of the rates it can access borrowing at to fund its Capital Investment requirements.

2.5. In addition to above it is appropriate to recognise the current Economic Climate partly driven from a Government Policy perspective has had an adverse effect and has been seen very clearly in the latter element as the interest rates on borrowing have seen rapid increases over recent months, notwithstanding part reversal/normalisation in more recent weeks.

2.6. These drivers continue to impact on the Councils finances both in the present and looking forward and can assist members in decision making, however the level of uncertainty around national policy issues (Levelling-up and the Local Government Finance Settlement in particular) and the global economy makes it more difficult to predict the impact on the Council in the near-term.

2.7. Given the level of uncertainty around the national economic and political environment, this report will provide members with an overview of the key factors that are likely to have an impact on revenue budget and MTFS update. This report focuses on specific issues including the Local Government Funding context with the main focus on 2023/24 and reviewing the key assumptions that inform the MTFS 2024/2 to 2026/27.

3. MTFS BASE POSITION

3.1. As with other local authorities, Rushmoor had an actual and inferred funding gap identified in the February 2022 MTFS relating to 2023/24. The headline figure shows (as seen on the table below) an indicative position outlined for

2023/24 of deficit of £1.042m, as reported to Council in February 2022). It was noted at the time that a revised approach to Savings Plan was required given the deficit position forecast over the MTFS period.

Item		MTFS Period 2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)
Portfolio Net Expenditure		11,620	11,620	11,370	11,370
Corporate Items		1,811	3,314	4,446	4,596
Inflation		100	661	1,221	1,782
Portfolio + Corporate Items		**13,531**	**15,595**	**17,038**	**17,748**
Additional Items & Budget Pressures		0	0	0	0
Budget Proposals		0	0	0	0
Risk items (Waste)		0	350	350	350
Savings Plan		(1,028)	(2,097)	(2,404)	(2,662)
Draft Net Revenue Budget		**12,503**	**13,848**	**14,984**	**15,437**
Funded by:					
Council Tax		7,196	7,434	7,675	7,921
Business Rates		4,031	2,550	2,601	2,653
New Homes Bonus		344	0	0	0
Covid Funding		0	0	0	0
Other Funding		273	609	359	0
Council Tax/NNDR Surplus or (Deficit)		(314)	(286)	0	0
TOTAL Funding		**11,530**	**10,306**	**10,635**	**10,574**
Funding Gap / (Surplus)		**973**	**3,542**	**4,349**	**4,863**
Additional Cost Reduction and Savings Target		(500)	(2,500)	(3,000)	(3,500)
Additional Income Target		0	0	0	0
Revised Funding Gap / (Surplus)		**473**	**1,042**	**1,349**	**1,363**

3.2. The estimated budget gap for 2023/24 of £1.042m was stated on the basis that c£2.500m of 'Additional Cost Reduction and Savings Targets' would be developed and that all other assumptions at the time of casting the gap held, including the in-year delivery of the agreed 'Savings Plan' as shown above and represented by the line showing (£2.097m) in 23/24. As with all savings plans the accurate future profile of savings is difficult in current circumstances and as such it is reasonable to state that some elements of the £2.097m plan were at the time of the report in development and therefore not yet finalised.

3.3. Taking in account these inferred savings and recognising the need for the further development of specific proposals, it is legitimate to suggest that the Council has an underlying budget challenge in excess of £4.000m, being the £1.042m gap, the £2.500m additional cost reductions required and the need to substantiate elements of the Savings Plan.

4. MTFS REFRESH

4.1. A full refresh of the MTFS has been undertaken, led by Finance with input form the Executive Leadership team and service managers where applicable. The methodology used has been to build upon the existing budgetary assumptions and assess on a line-by-line basis, using the best available estimates and insights, the potential changes to existing assumptions in determining a credible budget gap for 23/24. Given the highly uncertain forecasting environment, on both the service expenditure side and the income/financing side, we must recognise the limitations of the forecast in so far as the numbers that will appear in the final budget setting report in February 2023 will most likely be different to those estimates in October 2022, but they nonetheless form a credible basis for the purpose of financial planning.

4.2. The assessment is comprised of 2 main areas, the updating of service expenditure pressures and corporate expenditure items, and the testing of income assumptions from a funding perspective inclusive of an assessment of appropriateness of reserves.

Service Expenditure & Income Updates

4.3. Service expenditure updates in the main are comprised of 2 main areas, demand side pressures and inflationary side pressures. The main update from a service expenditure perspective:

- An estimated increase of up to **£500k** for contracts in relation to the inflationary provisions.

Corporate Expenditure & Income Updates

4.4. Corporate expenditure unlike service expenditure is less subject (in the main) to variations in service demand and more directly affected by factors such as the economic environment and interest rates alongside Council wide inflationary factors.

4.5. In relation to the key corporate expenditure items, a number of updates based on estimates have been determined as follows, all of which add to the budget gap:

- Additional Pay Inflation provision of 3% (in addition to the 2% already assumed) making a total inflation increase pay provision of 5%, equating to **c£420k**
- Additional costs of borrowing due to the unfavourable interest rate environment equating to **c£1.250m** of additional borrowing costs to support existing capital expenditure funded from borrowing.
- Reversal of previous income assumptions in relation to new commercial property income streams estimated at **c£400k**

4.6. In relation to the key corporate income items, a number of updates based on estimates have been determined as follows, all of which reduce the budget gap.

- Assumed Local Government Finance Settlement realised a funding position that is cash flat compared to 22/23 that had suggested a decrease equating to **£1.100m**
- Continuation of New Homes Bonus previously expected to have ceased, a continuation of the scheme would realise a benefit of at least **c£390k**
- Reduce budgeted cost of paying the National Insurance Employers Contribution increase following the reversal of the Government Policy, **c£100k**
- Continuation of in year savings rolled forward into 23/24, **c£300k**
- Following a positive triennial actuarial valuation regarding the Local Government Pension Scheme and a positive funding position overall from Rushmoor's perspective the revenue contribution previously set aside to establish fund resilience can now be offered up, releasing **c£500k** per annum

Impact of revised Estimates om the Budget Gap

4.7. The above estimates when combined with a number of more minor adjustments realise a revised 2023/24 savings gap of **c£3.250m**.

4.8. It should be recognised that the gap is not static and factors will continue to affect the value on a frequent basis, both favourably and adversely. As an example (and also on this meeting agenda) proposals are being brought forward that will realise new savings (as part of the Organisational Redesign paper) of up to £171k in future years and £159k in 22/23. Alongside this on the proviso that the current New Homes Bonus (NHB) scheme remains in place, there could be additional income to the Council of c£300k. Both are examples how dynamic the budget gap is.

5. BUDGET PRINCIPLES AND STRATEGY

Budget Principles

5.1. Many Councils across England and the UK are facing difficult times in setting a balanced budget for the forthcoming year, whilst Rushmoor's challenge is not proportionally as extreme as some other Local Authorities it is still a significant challenge for the Council to address.

5.2. Having a clear set of budget principles for the Council to accept and work toward helps a clear framework on the journey to setting a balanced budget for the forthcoming year, as such Rushmoor has developed the followed principles:

- A clear focus on fulfilling the **Councils Best Duty Value**. Developing and mobilising a continuous savings programme to close the majority of any gap by driving out costs from the running expenditure of the Council, focused both in the short (23/24) and medium term (24/15 onwards).

- The Council will not rely on the use of one-off funding sources to address recurring budgetary pressures, specifically it **should not place material reliance on use of reserves** for revenue purposes
- Recognising the challenging inflationary environment the Council is currently operating in and the increased in service costs, where services are charged for, **fees and charges need to be set at an optimal price**, ensuing full cost recovery as a minimum.
- Recognising the Councils capital investment imperatives and the importance to the residents of the Borough, a sustainable funding solution should eb developed to fund all new capital acquisitions – with a specific focus on **funding all new capital activity predominantly from asset sales with minimal borrowing**
- Ensuring the long-term viability of service provision from as stable a position as possible is vital to continued success of quality service delivery, there a **continued focus on budget sustainability** will be key to all considerations with a reduce use of one off measures or borrowing to fund activity.

Budget Strategy

5.3. The Council has historically used a variety of methods to generate new savings and income opportunities to support setting a balanced budget. The Savings and Transformation Plan (STP) has delivered multimillion-pound savings for a number of years and has been an effective transformation vehicle in driving cost from service activity.

5.4. The estimated scale of the challenge currently faced for 23/24 of c£3.250m suggests that it is appropriate for the Council to consider the most suitable methodology or methodologies it can deploy to produce new savings and income at a level suited to the materiality of the budget gap.

5.5. Regardless of which methodology or methodologies are chosen, it is vital that all savings and new opportunities to reduce expenditure are developed under a single programme of change, centrally co-ordinated and adequately resourced. A single change programme is advantageous for a number of reasons including the maximum opportunities being pursued by looking cross council particularly in support functions, implementing consistent practice, avoiding duplication and the avoidance of double counting savings. It also provides a clear and transparent framework for governance and oversight and good grip from a delivery perspective thus facilitating future monitoring.

5.6. In determining which methodology or methodologies should be deployed to address the budget gap, it is necessary to assess the appropriateness of the approach across the ability to deliver a significant enough quantum of savings vs. time available. Each of the considerations have their relative merits and challenges and need to be triangulated against organisational capacity and need for material change.

5.7. The Council has looked at best practice from a number of other Local Authorities and drawn on experience of the interim Exec Head of Finance in working up and considering the approaches that are appropriate for Rushmoor, the following options have been considered:

- **Outcomes Based Budgeting** – hierarchy of budgets, prioritisation, tiers
- **Zero Based Budgeting** – build the Council's budget afresh, bottom-up approach
- **Duties and Powers** review – stat vs. non-stat & provision levels and determination of service standards
- **Specific targeted measures** – e.g. universal recruitment freeze, tiers and spans, efficiency agenda
- **Departmental targets** – allowing departments or services full autonomy to deliver savings against a pre-determined corporate target
- **Shared Services** – Hart – developing opportunities for shared services across areas that align and for which the necessary business case supports

5.8. In choosing a preferred methodology, officers (Executive Leadership Team and Service Managers) have shared their views with Cabinet on the most appropriate approach and workshopped the benefits and disadvantages of each. Through this consultation and engagement it proposed that the Council uses **Outcomes Based Budgeting** as the primary methodology for addressing the budget gap for 23/24 and future year

6. RESERVES AND FINANCIAL RESILIENCE

6.1. The Council holds balances and reserves to provide financial capacity to deal with unexpected events that are unable to be addressed in the short term and for financing future expenditure plans for specific reason. Although the exact amounts are unable to be determined at this stage in year, it is anticipated that the Council will hold approximately **£18.4m of earmarked reserves** and £2m in balances by the end of the current financial year (22/23).

6.2. Looking at the level of reserves on a global level, in terms of overall value, it could be suggested that they are generous or in excess of what a local authority such as Rushmoor should hold given the relative size of the Councils net revenue budget. That would be view that didn't fully take into account the specific purposes and requirements many of the reserves are held for and the potential capacity needed to deal with a variety of challenging operating risks and a highly uncertain environment.

6.3. In assessing the sufficiency of the reserves, it is the view of the Interim Head of Executive Finance (s151 officer) that Rushmoor has reasonable reserve capacity and that deployment of a minimal amount of reserves will be appropriate for the purpose of transitioning into a programme of savings that in itself should be the primary way of addressing any budget gap.

7. CAPITAL INVESTMENT

7.1. Rushmoor has ambitious plans to really change the way the Borough looks and feels. Central to this vision is the desire to invest in assets to enhance the Borough, the services it provides and to facilitate economic growth. Capital investment is necessary to achieve this vision, and careful and prudent consideration both in terms of timings and scale needs to be given to what extent in the current financial climate this is achievable.

7.2. Given the financial constraints faced due the immediate challenges on the revenue budget, an approach to capital investment should be developed that places the lowest reliance possible on funding forms that have a direct revenue consequence such as use of borrowing. Notwithstanding the current unfavourable borrowing environment, where discretion can be applied to reduce or minimise any impact on the revenue account it should be exercised until such time it can be clearly demonstrates that the Council is in a position to set a balanced budget for 23/24.

7.3. The most credible and sustainable way of bringing forward a new capital investment is both to consider the most appropriate way of funding and to carefully think through sequencing of investment, as such it is appropriate to work to the following capital principles:

- All new capital investment priorities should be funded from either capital receipts or external sources (grants)
- The financing of new capital investment should focus on ensuring borrowing is limited to the lowest possible value
- Schemes should be sequenced credibly, and added each year through only the Budget Setting report – single decision point for investment.

7.4. The approach to new capital investment will be based around the following process to ensure that all new investment is prudent, affordable and sustainable:

- Create a hierarchy of new capital investment priorities (officers and Members)
- Develop a pipeline of asset disposals ringfenced to fund the new capital investment – timing and value need to be accurate

- Complete a global view of cashflows and funding need of the hierarchy
- Determine any resultant borrowing need and test affordability vs. MTFS budget gap

8. IMPLICATIONS

Legal

8.1. The Council through its Members has a legal obligation to set a balanced budget and this report provides the information that informs the approach to be taken in the budget setting process for 2023/24.

Equalities Impacts

8.2. Although there are no direct equalities impacts as a result of this report as its focus is on approach and strategy, each savings proposal when brought forward will be assessed for impacts from an equalities perspective and shown in the final budget report to Cabinet in February.

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