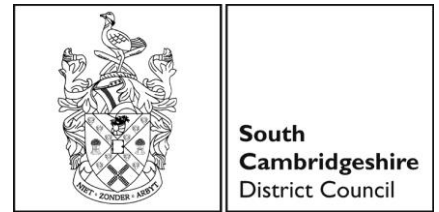


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2 February 2023

To: The Leader – Councillor Bridget Smith  
Deputy Leader – Councillor Brian Milnes  
Members of the Cabinet – Councillors Henry Batchelor, John Batchelor,  
Bill Handley, Dr. Tumi Hawkins, Peter McDonald and John Williams  
Quorum: Majority of the Cabinet including the Leader or Deputy Leader

Dear Councillor

This is a supplement to the previously-published agenda for the meeting of **Cabinet** on **Monday, 6 February 2023**, containing those reports which had not been received by the original publication deadline.

Yours faithfully  
**Liz Watts**  
Chief Executive

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## Agenda

14. **General Fund Budget 2023/2024**

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# Agenda Item 14



**REPORT TO:** Cabinet

6 February 2023

**LEAD CABINET MEMBER:** Councillor John Williams, Lead Cabinet Member for Resources

**LEAD OFFICER:** Peter Maddock, Head of Finance

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## Summary General Fund Revenue Budget 2023/2024

### Executive Summary

1. To consider the summary General Fund Revenue Budget for 2023/2024 and to recommend the Revenue Budget to Council.
2. This is a key decision because it results in the authority incurring expenditure which is, or the making of savings which are, significant having regard to the Council's overall budgets.

### Recommendations

3. That Cabinet is requested to consider the report and, if satisfied, to:
  - (a) Take into account the detailed budgets presented at Appendix B, and summarised at Appendix A, with an estimated General Fund Gross Operating Expenditure for 2023/2024 of £84.753 million, estimated Gross Operating Income of £54.622 million and estimated General Fund Net Operating Expenditure of £30.132 million.
  - (b) Acknowledge the key factors which have led to the proposed 2023/2024 General Fund Revenue Budget, with service pressures summarised at Appendix C and offsetting efficiency savings/policy options summarised at Appendix D.
  - (c) Acknowledge that the 2023/2024 General Fund Revenue Budget gross expenditure is covered by forecast income sources (assuming no change in Government grant) and, therefore, any addition(s) to expenditure that are made by the Cabinet or Council will need to be met from the General Fund Balance.
  - (d) Approve the 2022/2023 General Fund Revenue Budget taking into account the statement by the Chief Finance Officer on the risks and robustness of the estimates as required under Section 25 of the Local Government Act 2003 (reproduced at Appendix F).
  - (e) Set the Council Tax Requirement for 2023/2024 at £11,130,440.
  - (f) Approve an increase in the District element of the Council Tax of £5 per annum, giving an average Band D Council Tax of £165.31, plus the relevant amounts required by the precepts of the Parish Councils, Cambridgeshire County Council, Cambridgeshire Police & Crime Commissioner, and the Cambridgeshire Fire Authority.

- (g) Approve the estimates of the amounts required to be made under the Non-domestic Rating (Rates Retention) Regulations 2013 as set out in paragraphs 38 and 39.
- (h) Approve the use of the additional income from the Business Rate Pool, estimated at £1,000,000 in 2023/2024, for transfer to the established Renewables Reserve for priority projects.
- (i) Subject to any changes to the recommendations above, recommend to Full Council:
  - (i) The 2023/2024 General Fund Revenue Budget based on known commitments at this time and planned levels of Service/functions resulting in a Budget Requirement of £32.700 million.
  - (ii) The District Council Precept on the Collection Fund (Council Tax Requirement) of £11.130 million in 2023/2024 (based on the Provisional Government Settlement) and a Band D Council Tax of £165.31.

## Reason for Recommendations

- 4. To enable the Cabinet to recommend to Full Council the 2023/2024 General Fund Revenue Budget.

## Details

### (A) Prospects for Local Government

- 5. This report sets out the draft revenue budget proposals for 2023/2024 that have been prepared in the context of an economic landscape that has continued with a degree of uncertainty and market volatility during 2022, with the ongoing financial challenges associated with the recovery from the Coronavirus pandemic (COVID-19) and high inflation levels. In addition, there is continued uncertainty about the timing of local government funding reforms that, when implemented, could have a significant impact on the distribution of resources.
- 6. The funding reforms, previously planned for introduction from April 2021, had been further delayed and the long-standing funding issues remain unresolved. There was no update within the 2022/2023 Local Government Settlement on the business rates retention (BRR) reset or funding reform although the Government did announce that the BRR pilots would continue throughout the spending review period. It is reasonable to assume that these reforms are likely to be further delayed to 2024/2025 at the earliest, some five years later than originally planned. These reforms are expected to fundamentally change how, and to what level, all Local Authorities are to be funded but there remains uncertainty as to the level and distribution of local government funding beyond 2023/2024.
- 7. A detailed refresh of the Medium-Term Financial Strategy (MTFS) was considered by Cabinet, at its meeting on 12 December 2022, and this provided (i) an assessment of the resources available to the Council over the medium term and (ii) an assessment of spending pressures based on existing levels of service delivery and known policy/legislative changes. The determination of the 2023/2024 revenue budget has, therefore, been informed by the MTFS financial forecasts, together with established and effective budget monitoring arrangements that have created a sound foundation

for the management of the Council's financial resources. A further refresh of this is required in light of the provisional settlement and proposed 2023/2024 budget.

8. The financial landscape requires a reliance on an effective budget strategy and sound medium-term financial planning to ensure that the Council's limited resources are targeted to priority services and outcomes.

#### **(B) Economic Outlook**

9. The economic landscape has continued with uncertainty in the last 12 months, with the ongoing financial challenges associated with recovery from the Coronavirus pandemic and high inflation levels acting as a dampener on growth and impacting on Council services. UK inflation remains a concern with prices continuing to rise at nearly their fastest rate in 40 years. Consumer Price Index (CPI) inflation, as a measure of price rises, increased by 10.1% in September 2022 from 9.1% in August 2022 (based upon the Office for National Statistics (ONS) information). The prospects for economic growth and recovery are now a little more encouraging but a cautious approach is, however, being maintained given the level of uncertainty.
10. In response to the prevailing economic conditions the Bank of England Base Rate has been increasing during the financial year 2022/2023. The increase to 0.75% from 17 March 2022 was followed by further increases, in response to market conditions, to 1.00% from 5 May 2022, to 1.25% from 16 June 2022, and to 1.75% from 4 August 2022. The Bank of England's Monetary Policy Committee delayed its decision on whether to raise the base rate further, due the period of national mourning following the sad death of Her Majesty Queen Elizabeth II, but further increased the rate to 2.25% when the Committee reconvened on 22 September 2022. The base rate influences the interest rates that lenders charge for mortgages, loans and other types of credit.
11. Inflation used to drive expenditure and income assumptions in revenue budget planning have been based on the Bank of England and Office for Budget Responsibility (OBR) forecasts; the percentage applied in the MTFs and in the proposed budget is [5%] for employee related costs and for other costs inflation has been reflected using the percentage most suitable on an individual case basis taking the current economic situation into consideration.
12. The Council lends its cash balances externally on a short-term basis, with a view to generating a return that can be spent on delivering council services whilst managing both security and liquidity of the cash. Whilst there is marginal benefit from prevailing interest rates in terms of investment returns, local authorities have experienced unforeseen cost pressures as a result of increased energy prices, spiralling inflation, and national living wage pressures. These factors will need to be fully taken into account as part of the 2023/2024 budget setting process.
13. Long term loans were used during 2022/2023 to fund lending to Ermine Street Housing and to fund other items in the Capital Programme and it is anticipated that external borrowing will be required during 2023/2024. For budgeting purposes, available interest rates have been factored into the borrowing cost projections associated with the capital programme.

#### **(C) Budget Formulation**

14. The detailed budgets continue to be presented in service area packs. Each service pack has a title page, a budget summary, individual budget pages (with similar budgets

grouped together) and a subjective analysis which shows the service area spend by type of expenditure.

15. In looking specifically at the 2023/2024 Revenue Budget, the Council needs to be mindful of the financial backdrop and will need to ensure that any proposals, in particular around efficiencies and policy options, need to be realistic and above all sustainable. The financial landscape will, therefore, require reliance on an effective budget strategy and sound medium-term financial planning to ensure that the Council's limited resources are targeted to priority services and outcomes.
16. The Revenue Budget has been prepared in accordance with the Council's MTFS approved by Cabinet on 12 December 2022. The clear message is that budget setting and medium-term financial planning will be tough over the duration of the MTFS (to 2028) and, as such, the financial objectives identified at paragraph 57 below have helped guide the budget process. In determining the 2023/2024 revenue budget, due and proper regard has been given to its ongoing sustainability and the observance of a number of overarching principles. This has involved:
  - (a) An overall commitment to endeavour to increase annual income sources and reduce annual expenditure without materially reducing front line services provided by the Council.
  - (b) A comprehensive review of the base budget to provide greater assurance for the future. The review has been based upon regular established monitoring processes and has incorporated a review of the alignment between the original budget and service activity.
  - (c) The commitment, in response to the financial challenges, to an ambitious 4-year plan to transform service quality, realign financial resources to business plan priorities and improve customer service.
  - (d) A positive commitment to achieve better value for money for the service areas whilst maintaining quality, accessible front-line services, and the adoption of a Value for Money Strategy by the Cabinet on 4 September 2019.
  - (e) The continued review and tight control of the capital programme given the impact of borrowing on the revenue budget.
17. The resulting draft 2023/2024 revenue budget sets out the Council's finances and the efficiencies required to produce a balanced budget in the light of the ongoing reduction in Government grant funding and other pressures. A detailed revised estimate for 2022/2023 has also been prepared.
18. In preparing the budget for 2023/2024 a detailed revised estimate for 2022/2023 has also been prepared considering the changes to expenditure and funding owing to a number of national and global factors: Brexit, the Covid-19 pandemic, global supplies production, rising inflation, the fuel crisis and Russian sanctions.
19. In line with accounting requirements, the revised budget for 2022/2023 and proposed budget for 2023/2024 continue to include relevant pension adjustments. Accounting requirements are such that the pension costs recognised in the net cost of services should be the value of the pension fund related to those employees delivering the services, rather than the actual contributions to the fund in relation to those employees. The effect of this is to increase the net cost of services but reverse the effect out within the net operational expenditure.

## **(D) Provisional Settlement – Funding Sources**

20. The 2021 Spending Review, announced on 27 October 2021, set out Government's spending plans and departmental budgets for the period 2022/2023 to 2024/2025. It confirmed, at that time, that the Core Spending Power for local government was expected to increase by 3% per annum real terms (5% in cash terms). In addition, it was confirmed that there would not be a reset of the business rates baseline in 2022/2023 but there was no update on the timescale for the funding reforms.
21. The provisional finance settlement announcement, on 19 December 2022, made no significant changes to the funding allocations compared to 2022/2023, although allocations no longer include any ring-fenced spending for COVID-19. Whilst the delay in implementing the intended funding reforms benefits the Council in 2023/2024, there remains very significant risks to the funding level for District Council's in future years with the expectation that the Council will lose a significant share of its funding as a result of the funding changes – the expected, but deferred, business rate baseline reset could be particularly damaging. To offset the adverse impact of the local government funding reforms, when implemented, some form of damping support would be inevitable, although it will be phased out over time.
22. The key headlines in relation to the Provisional Local Government Finance Settlement are as follows:
  - (i) Council Tax referendum principle of the higher of 2.99% or £5 per dwelling for 2023/2024.
  - (ii) Continuation of the existing Business Rate Retention Scheme for a further year, with 100% business rates pilots continued for a further year. It remains unclear what is happening with the proposed Business Rates reset. The Cambridgeshire Business Rates Pool was also confirmed for a further year.
  - (iii) A new allocation referred to as the funding guarantee of £1,091,000 has been made. This is provided to ensure all authorities receive at least a 3% increase in core spending power. It was mooted in the budget in November 2022 that funding for local authorities would be broadly maintained at existing levels and this is the main reason the settlement is better than forecast.
  - (iv) The Lower Tier Services Grant un-ringfenced grant has been discontinued.
  - (v) Continuation of the Rural Service Grant of £137,000 for a further year in recognition of the additional cost of providing services in sparse rural areas, pending implementation of the Fair Funding Review.
  - (vi) A one-off services grant of £103,000. Although the settlement states this is for one year only it also states the total amount of £882 million will remain within local government but be allocated differently in future years.
  - (vii) The original consultation on the New Homes Bonus (NHB) scheme closed on 7 April 2021 proposing a range of options to provide an incentive that is more focussed and targeted on ambitious housing delivery. Further expected consultation during 2022/2023 did not take place which means there is still considerable uncertainty around support going forwards. It had been assumed that the support provided in the provisional settlement would be on the basis of

a revised scheme, however, the Council has received an allocation of £1,508,000 on the basis of the current scheme.

23. The spending power of the Council, based upon the provisional settlement, can be summarised as follows:

	2022/2023 £'000	2023/2024 Provisional £'000	Change %	2024/2025 £'000
Settlement Funding Assessment (SFA):				
- Baseline Funding Level	2,647	2,746	3.7%	2,950
- Revenue Support Grant (RSG)	-	-		
<b>Total SFA – Per 2023/2024 Settlement</b>	<b>2,647</b>	<b>2,746</b>	<b>3.7%</b>	<b>2,950</b>
- Rural Services Grant	137	137	0%	137
- Lower Tier Services Grant	113	-	-100%	113
- Funding Allocation Guarantee	-	1,091	100%	0
- Services Grant	182	103	-76.7%	190
New Homes Bonus (NHB) Grant	2,376	1,508	-57.6%	1,000
Council Tax Income	10,489	11,130	6.1%	11,824
<b>Core Spending Power</b>	<b>15,944</b>	<b>16,715</b>	<b>4.8%</b>	<b>16,214</b>

24. While the level of Settlement Funding Assessment (SFA) for 2023/2024 remains stable as a result of the provisional settlement that has been announced, there is still uncertainty relating to the SFA for 2024/2025 and beyond. The outcome of the Fair Funding Review, a probable baseline reset (and potential review of the Business Rate Retention system), and the review of NHB create uncertainty but this is now more likely to impact budgets from 2025/26.
25. The key elements of local government funding, some of the assumptions made for the period from 2024/2025 and local prospects were outlined in the refresh of the MTFS reported to Cabinet on 12 December 2022. These are outlined in more detail in the “Funding the Budget Requirement” Section below.

**(E) Spending Baseline, Spending Pressures and Savings**

26. The table below sets out headline movements between the 2023/2024 draft budget and the 2022/2023 approved budget (Column 1 and 7 on appendix A) Detailed analysis by service area is outlined in **Appendices A and B**.



	Increased Resource £'s	Decreased Resource £'s
<b>Resources</b>		
Council Tax	521,000	
Business Rates	6,980,000	
Funding Guarantee Allocation	1,091,000	
Rural Services Grant/Lower Tier Grant		193,000
New Homes Bonus		868,000
<b>Net Increase in Resources</b>	<b>8,592,000</b>	<b>1,061,000</b>

	Reduced Spending/ Funding changes £'s	Increased Spending £'s
<b>Spending</b>		
Chief Executive	442,000	
Climate, Environment and Waste Services		881,000
Finance Service		4,637,000
Housing Services		438,000
Planning Services	952,000	
Transformation, HR & Corporate Services		1,206,000
Interest Payable		1,713,000
Investment Income	1,548,000	
Other Levies & Contributions		219,000
Capital Financing & MRP	2,100,000	
Contribution to Earmarked Reserves		2,127,000
Contribution to General Fund		1,352,000
<b>Change in budget requirement between 2022/2023 and 2023/2024</b>	<b>5,042,000</b>	<b>12,573,000</b>

27. The most significant of these are set out below:

- (a) The "Net Increase in Resources" is set out in more detail at Section "G" below. The increase in Council Tax is based upon a proposed £5 increase on 2022/2023 levels.
- (b) Spending pressures and growth bids have been submitted and have been refined as part of the budget build process. These are summarised at **Appendix C**.
- (c) Pay and prices incorporate a pay increase of 5% and an assessment of contracted service inflation.

- (d) Funding changes (e.g. incorporating the additional S31 grants related to business rates and additional income from the Council's investments).
  - (e) Capital financing charges to support the forward capital programme (see separate report on the agenda).
  - (f) Savings proposals are set out in more detail at **Appendix D**.
28. It has been established practice, since 2020/2021, to maintain a prudent level of revenue contingency to enable unforeseen and "one off" needs (i.e. having no long-term ongoing revenue commitment) to be considered for funding during the financial year. The draft 2023/2024 revenue budget maintains the sum of £250,000 for this purpose, which represents around 1% of the net operating expenditure.

**(F) Proposed Savings**

29. The Council has embarked on an ambitious 4-year plan to transform service quality, realign financial resources to business plan priorities and improve customer service.
30. Progress with the range of savings proposals, including income generation opportunities, has been considered and refined as part the ongoing budget monitoring reports to Cabinet. The proposals have been subject to further refinement and consultation with stakeholders and the schedule of proposals, at **Appendix D**, have been included in the 2023/2024 Revenue Budget.
31. The profile of savings is influenced by deliverability and lead in times and an analysis by years at **Appendix D** together with an estimate of how much is expected to fall on the General Fund and how much are HRA related savings.
32. There continues to be, in addition, a great deal of work undertaken, in consultation with Heads of Service on budget challenge, in order to identify other savings on budgets sufficient to reduce the level of costs to the level of resources available, or to ensure that budgets are appropriately aligned. This has resulted in budget adjustments being made in the context of maintaining the relationship between resource allocation and the Council's Business Plan priorities.
33. In relation to partnership arrangements, a "recharge model" was introduced in 2020/2021 for existing shared services to ensure that recharges are fair and consistently applied and that taxpayers in one area are not subsidising services provided in another. The level of recharges applied has been factored into the 2023/2024 revenue budget.

**(G) Funding the Budget Requirement**

34. Funding the Budget Requirement incorporates:
- (i) Revenue Support Grant/Business Rates
  - (ii) Other Specific Grants
  - (iii) Council Tax

(i) Revenue Support Grant/Business Rates Retention

35. The Business Rate Retention Scheme (BRRS) was introduced in April 2013 to provide Councils with stronger financial incentives to support property development and boost the economy in their local area. It means that Councils bear a proportion of the real terms change in business rate revenues in their area: gaining when revenues grow in real terms, losing when they fall. The proportion was initially set at 50% across England. In two-tier areas, like Cambridge, 40% is retained by the District Council and 9% is retained by Cambridgeshire County Council and 1% by the Cambridgeshire Fire Authority.
36. The review of Local Government Finance that will comprise (i) the quantum and how existing funding streams will feature within this and (ii) the methodology to allocate funding (known as Fair Funding) has now been further delayed. It is uncertain when the introduction of the new funding model predicated on changes to BRSS to enable a 75% retention of Business Rates (with most, if not all of the 25% increase, allocated to authorities with adult social care responsibilities) will be introduced. The 2023/2024 revenue budget has, therefore, been based upon the existing funding regime.
37. The Provisional Local Government Finance Settlement was announced on 19 December 2022 and sets out the Council's SFA for 2023/2024. This is identified in the table below, together with the other factors relevant to determining the Business Rates Yield for 2023/2024:

	2022/2023 £'000	2023/2024 Provisional £'000	Change %	2024/2025 £'000
Settlement Funding Assessment (SFA):				
- Baseline Funding Level	2,647	2,746	3.7	2,950
- Tariff	26,482	33,902	28.0	36,416
- Business Rates Baseline	29,129	36,648	25.8	39,365
- Section 31 Grants	4,667	5,750	23.2	-
<b>Total SFA – Per 2023/2024 Settlement</b>	<b>2,647</b>	<b>2,746</b>	<b>3.7</b>	<b>2,950</b>
Safety Net Threshold	2,449	2,540	3.7	2,729
Levy Rate (p in £) applicable if outside pool	£0.50	£0.50		£0.50

38. Specifically, in relation to the preparation of the 2022/2023 Revenue Budget:
- (a) The net Business Rates Yield has been estimated at £96.749 million for 2023/2024 as set out in **Appendix E**. The Council's share of this together with the deficit set out in **Appendix E** equates to £45.557 million compared to a Business Rates Baseline of £36.648 million as set out in the table above. The forecast is based on the number and rateable values of non-domestic properties currently shown in the valuation list. The Business Rates forecast is predicated on the following assumptions:
- Where growth or decline in the tax base, i.e. new developments, can be predicted with reasonable certainty this is reflected in the forecast yield.

- There will be no significant changes to the overall value of reliefs, e.g. empty property rate relief or charitable rate relief over the course of the financial year.
- (b) The Council is entitled to a number of Section 31 Grants in relation to Business Rates to compensate for yield that is foregone due to national government policy, for example, the extension to eligibility for Small Business Rate Relief. These Section 31 Grants are included within the Council's net expenditure (at Appendix F).
- (c) The business rates revaluation has gone ahead as planned, and been carried out by the Government's Valuation Office Agency. After being delayed by a number of years by Government, this is the first revaluation since 2017 and the overall value of the rating list has increased by around £57 million and as a result so has the yield from business rates. The key issue in relation to forecasting the Business Rates Yield relates to the value of appeals and this is extremely difficult to predict. Given the economic situation and the cost of living crisis, not to mention that businesses are still recovering from the effects of the pandemic there is likely to be a significant number of appeals coming forward as a result of increased business rates liabilities. Appeals relating to the previous "2010 List" and "2017 List" have been resolved, and whilst the provision rate used was based on the national rate of 4.7% there is little confidence that this is a guide to future appeal rates and whilst there is no real data to base the provision on going forward a figure of 8% has been used to reflect the expectation that appeals lodged will be higher than those seen previously.
- (d) Where ratepayers are faced with increased rates liabilities, the government will apply transitional measures so that new liability levels are reached over a three-year period. The value of transitional relief in these cases is estimated at a little over £11 million. Those ratepayers that see reduced rates liabilities will benefit from those reductions immediately.
- (e) The estimated Business Rates Tariff and Baseline are both projected to increase by around 7.5% in 2024/25 but it is unlikely that actual income from business rates will increase by these sorts of levels given the expected level of appeals going forward, and economic climate, so it is proposed that some of the additional income in 2023/24 be set aside to meet the expected shortfalls in 2024/25 and beyond.
39. Under the business rates retention scheme local authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area. The Council successfully applied to be the lead authority of a consortium which also includes Cambridgeshire County Council, Peterborough City Council, Fenland District Council, East Cambridgeshire District Council and Cambridgeshire Fire Authority. The formal designation of the pool was confirmed on 18 December 2019 and was introduced on 1 April 2020. The Pool successfully continued in 2021/2022 and 2022/2023 and has also been re-designated to continue in 2023/2024. It is estimated that the Council will benefit from an additional income in excess of £1 million during 2023/2024 and, in line with established policy, it is proposed that the sum continues to be transferred annually to top up the Renewables Reserve to fund priority projects determined by the Council.

(ii) Rural Services Grant

40. The Council currently receives a Rural Services Grant in the sum of £137,000 in recognition of the additional cost of providing services in sparse rural areas. This has been confirmed to continue into 2023/2024 before being phased out.

New Homes Bonus

41. The New Homes Bonus (NHB) was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. The aim of the bonus was to provide a financial incentive to reward and encourage local authorities to help facilitate housing growth. It is based on the amount of extra Council Tax revenue raised from new-build homes, conversions and long-term empty homes brought back into use. NHB funding has been based on the following:

- (a) NHB is payable on housing growth over a threshold of 0.4% of the Tax Base.  
(b) Payments are based on a rolling 4-year period.

42. Housing growth has been significant for this Council area and, as such, the Council has benefited from high levels of NHB. The Government has, however, stated its commitment to review NHB and the long-awaited consultation on the replacement for NHB, published on 10 February 2021 and closing on 7 April 2021, outlined a number of options for reforming NHB to provide an incentive more focused and targeted on ambitious housing delivery, that complemented wider planning reforms, and that sought to dovetail with the wider financial mechanisms the government is putting in place, including the community infrastructure levy and the Single Housing Infrastructure Fund. The Council has been a major beneficiary of the grant, receiving a peak of £5.2 million in 2016/2017 and there is a risk that the long outstanding review could result in a reduced financial benefit.

43. It had been expected that the changes to NHB would be implemented alongside the wider local government reform package, but the timescale for the review remains uncertain. It is now evident that the provisional settlement would be on a similar basis to 2022/2023 and the 2023/2024 budget, therefore, includes a reward from NHB in the sum of £1.508 million based on the existing scheme.

44. In line with the agreement of the partners, 10% of NHB has been set aside as a contribution to the Greater Cambridge Partnership (GCP) Investment and Delivery Fund from 2021/2022 (a reduction from the 30% level that applied up to 2020/2021).

(iv) Council Tax

45. Council Tax has been the most predictable and stable element of Local Government funding, despite the uncertainty created by COVID-19. This source of income is predicted to yield £11.130 million in 2023/2024 based upon an assumed £5 increase in Council Tax (the maximum level permitted by Government) and an increase in tax base based upon the latest estimates of housing growth. An additional £35,000 is also estimated from the Council Tax sharing agreement.

46. The Local Government Finance Act 1992 requires the Council to set its Council Tax Base for the ensuing financial year by 31 January preceding the start of the new financial year and to notify precepting bodies of the Tax Base that will apply to their area. The Council Tax base for the financial year 2023/2024 has been set at 67,330.7

Band D equivalent properties (an increase of 2.9% compared to the 2022/2023 Tax Base of 65,432.00).

47. The proposed increase in Council Tax for 2023/2024 is 3.1%. This proposal equates to an increase of £5.00 on the average Band D property giving a Council Tax of £165.31 based upon the 2023/2024 Council Tax base of 67330.7 Band D dwellings. The proposed 3.1% increase in Council Tax, results in a total yield from Council Tax of £11.240 million (including £0.075 million Collection Fund surplus and £0.035 million from the council tax sharing agreement).

**(H) Review of Reserves**

48. A review of Reserves has been made as part of the budget setting process and a separate report on the agenda outlines the recommendations following the review.

**(I) Capital Programme**

49. A review of the capital programme has been undertaken in conjunction with lead officers to ensure that proposed investment is prudent, sustainable, and affordable and a separate detailed report to the Cabinet proposes a revised profiled capital programme. The Capital Financing implications of the proposed capital programme are reflected in the proposed General Fund Revenue Budget. In the event that all changes are approved, and the latest forecast capital receipts are forthcoming, a forecast borrowing requirement of £43.98 million will be needed to support the total capital programme to 2027/2028.

50. The revenue implications of the Capital Programme have also been taken into account in the draft 2023/2024 revenue budget and are detailed at **Appendix A**.

**(J) General Fund Revenue Budget Summary**

51. The 2023/2024 General Fund Revenue Budget Summary is detailed at **Appendix A** and the following is relevant:

(i) **Revenue Support Grant (RSG) and Business Rates**

These figures reflect the provisional Settlement for 2023/2024. Any adjustment (dependent on its effect) will be reported to Council on 21 February 2023.

(ii) **Council Tax Collection Fund Balance in aid of Council Tax**

The Council's share of estimated Council Tax surplus as at 31 March 2023 has been determined by the Head of Finance and totals £0.075 million.

(iii) **Net District Requirement from Council Tax**

After allowing for the increase in the Council's Taxbase, the average Band D Council Tax will be **£165.31**.

(iv) **District Precept on Collection Fund**

In accordance with legislative requirements the District Precept on the Collection Fund will include Parish Precepts when known.

52. In pursuance of Section 25 of the Local Government Act 2003 the Chief Finance Officer is required to make a statement on the robustness of estimates and the adequacy of Reserves in relation to the Council's budget calculations. Provided Members fully take into account the risks that are outlined in the report at Appendix F, I can confirm that Heads of Service are satisfied with the level of budgets put forward for 2023/2024 relating to their respective service areas although it must be recognised that the budget allocations in 2023/2024, and the future prospects for service delivery, will be challenging and that pressures and constraints during the next financial year will be inevitable.

## Options

53. There are options to remove or add items to the budget but, based on previous Cabinet decisions and the detailed discussions held with spending officers, the General Fund Revenue Budget as presented includes all items required to deliver council services and member priorities. The gross expenditure is covered by forecast income sources (assuming no change in Government grant) and, therefore, any addition(s) to expenditure that are required will need to identify matching savings and/or additional income if the proposed level of Council Tax is not to change.

## Implications

54. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

### *Policy*

55. The MTFS identifies that the Council will ensure that annual ongoing General Fund revenue expenditure can be covered by annual income sources across the MTFS period in order to ensure a continuously stable financial base for the provision of Council services and functions. In doing so, the Council recognises that any significant use of reserves to fund ongoing expenditure commitments is unsustainable in the medium term.
56. The MTFS identifies that a prudent level of revenue contingency will be maintained to enable unforeseen and "one off" needs (i.e. having no long-term ongoing revenue commitment) to be considered for funding and, in this regard, the proposed General Fund Revenue Budget includes a revenue contingency of £250,000.
57. In accordance with the MTFS, the following financial objectives have guided the formulation of the 2023/2024 revenue budget:
- A sustainable medium term financial plan that allows the achievement of the Council's key objectives;
  - Realistic levels of year on year spending which are supportable via annual income streams and do not require the use of general reserves to support recurring expenditure;
  - General reserves should be maintained at all times at or above the agreed minimum level;
  - Constraining annual Council Tax increases to an acceptable level;

- The pursuance of “invest to save” opportunities with a financial return on the investment in transforming activities over an acceptable payback period;
- A commitment to explore income generation opportunities and to maximise income from fees and charges;
- A commitment to maximise efficiency savings;
- The continued review and control of the Capital Programme given the impact on borrowing (see separate report on the agenda).

### ***Legal***

58. The Council is required by law to set a balanced revenue budget each year. There are two specific dates in relation to budget and Council Tax setting that are required by statute to be achieved. Firstly, it is a requirement that each local authority approves its Revenue Budget by 28 February each year for the forthcoming financial year. Secondly, a billing authority (i.e. this Council) is required to set the Council Tax for its area by 11 March each year for the forthcoming financial year.
59. It is a legal requirement (under Section 25 of the Local Government Act 2003) that before approving the ensuing year’s Capital and Revenue Budget, the Council are required to receive and take into account a report of the Chief Finance Officer (Head of Finance) on the robustness of the estimates leading to the Council’s Council Tax requirement and the adequacy of financial reserves. This needs to cover issues of affordability (having regard to Council Tax implications), prudence (having regard to Council policies/strategies) and sustainability (having regard to forecast annual expenditure and income). This report is at **Appendix F**

### ***Financial***

#### **Budget Overview**

60. The proposed 2023/2024 revenue budget is set out in the table at **Appendix A**.

#### **Government Funding Settlement**

61. This report is based on the Provisional Government settlement relating to the revenue support grant and business rates redistribution. The consultation on the proposed settlement ended on 16 January 2023 but the final settlement has not yet been formally confirmed. It is, therefore, recommended that:
- if the Government grant were increased it is recommended that the balance would be transferred to the General Fund Reserve.
  - if it is reduced that this be the first call on the general contingency.

#### **Parish Council Precepts**

62. Parish Councils had until 31 January to notify the Council of their precepts for the forthcoming year and, as such, the total of the precepts will be reported directly to Full Council on 21 February 2023 as part of Council Tax Resolution.



## ***Risk***

### General

63. The Revenue Budget for 2023/2024 has been prepared on a prudent basis but there are risks which may affect the budget. These risks include the following:
- The extent of service pressure being higher or lower than anticipated.
  - The delivery of planned efficiency savings.
  - Unforeseen costs during the year which may exceed the provision in the general contingency of £250,000.
  - The economic situation is either better or worse than anticipated with fluctuations in income sources (NB: This affects capital financing costs and fees and charges).
  - Increases in inflation above those known or expected at this time.
  - Member aspirations regarding service levels.
  - The impact of changes in legislation.

It is also critical that the budget setting timescale is followed to ensure that statutory deadlines are complied with.

### Specific

64. When the Council considers each revenue service and function budget endeavours are made to identify potential risks. Inevitably, during the year, some of these risks will occur and impact on the budget by either requiring further expenditure or by reducing the Council's budgeted income. The budget process has identified a number of service specific risks relating to the range of District Council Services and related budgets. An overall assessment of risk and an assessment of the robustness of estimates are set out in **Appendix F**.

### ***Environmental***

65. There are no environmental implications arising from this report.

## **Background Papers**

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Budget Report – Report to Cabinet: 2 February 2022/Council: 22 February 2022
- Medium Term Financial Strategy – Report to Cabinet: 12 December 2022

- Capital Programme Update and New Bids – Report to Cabinet: 12 December 2022
- 2021/22 Revenue & Capital Budget Monitoring – Report to Cabinet: 12 December 2022

## **Appendices**

- A Revenue Budget 2023/2024: Summary
- B1-7 Revenue Budget 2023/2024: Detailed Budgets
- C Service Pressures Taken into Account
- D Service Efficiencies/Income Generation Opportunities
- E Business Rate Yield Estimate 2023/2024
- F Revenue Budget – Risks and Robustness

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## Appendix A

## GENERAL FUND ESTIMATE SUMMARY

2022/23				2023/24 Budget			
Original Estimate	Probable Outturn			Note	Gross Expenditure	Gross Income	Net Expenditure
£ 000's	£ 000's				£ 000's	£ 000's	£ 000's
2,899	2,271	Chief Executive & Chief Operating Officer		B(1)	3,722	(1,265)	2,457
9,703	9,975	Head of Climate, Environment & Waste		B(2)	19,728	(9,144)	10,584
3,970	3,786	Head of Finance		B(3)	26,837	(18,230)	8,607
2,585	2,542	Head of Housing		B(4)	6,496	(3,473)	3,023
0	0	Monitoring Officer		B(5)	0	0	0
7,041	6,553	Director of Greater Cambridge Shared Planning		B(6)	12,407	(6,318)	6,088
3,546	2,563	Head of Transformation, HR & Corporate Services		B(7)	5,792	(1,040)	4,752
<b>29,744</b>	<b>27,690</b>	<b>Net Corporate Expenditure</b>			<b>74,982</b>	<b>(39,471)</b>	<b>35,512</b>
250	70	Contingency and unallocated			250		250
<b>29,994</b>	<b>27,760</b>	<b>Net Cost of Services</b>			<b>75,232</b>	<b>(39,471)</b>	<b>35,762</b>
(5,456)	(5,603)	Income from Investments		(a)		(7,003)	(7,003)
1,887	1,858	Other Levies and Contributions		(b)	2,106		2,106
1,319	1,727	Interest Payable (Inc. HRA)		(c)	3,032		3,032
(6,174)	(6,748)	Depreciation Reversals & Other Adj.				(8,148)	(8,148)
1,090	1,090	Minimum Revenue Provision			1,329		1,329
3,420	2,646	Revenue Contributions to Capital			3,054		3,054
<b>26,079</b>	<b>22,731</b>	<b>Net Operating Expenditure</b>			<b>84,753</b>	<b>(54,622)</b>	<b>30,132</b>
1,938	2,159	Contribution to/(from) General Fund			3,290		3,290
(2,849)	(574)	Contribution to/(from) Other Reserves				(722)	(722)
<b>25,169</b>	<b>24,316</b>	<b>To be met from Government Grants and Local Taxpayers</b>			<b>88,043</b>	<b>(55,344)</b>	<b>32,700</b>
<b>Taxation and Grants</b>							
(11,641)	(10,709)	Business Rates inc Section 31				(18,621)	(18,621)
(10,720)	(10,685)	Council Tax				(11,240)	(11,240)
(2,808)	(2,922)	Other Government Grants				(2,839)	(2,839)
<b>(25,169)</b>	<b>(24,316)</b>	<b>Total Taxation and Grants</b>					<b>(32,700)</b>

## Notes:-

(a) This includes Rental income from the Councils Commercial Portfolio and Interest Receivable from Ermine Street Housing and Other Counterparties.

(b) This includes the Drainage Levy and Contributions to the Combined Authority and Greater Cambridge Partnership.

(c) This Includes all Interest payable by the General Fund for both external borrowing and Investment Income passed to the Housing Revenue Account (HRA).

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Business Rates Yield		Appendix E				
	Total	Central govt.	SCDC	CCC	Fire	
	1	0.5	0.4	0.09	0.01	
	£	£	£	£	£	
<b>NNDR YIELD ESTIMATE 2023/24</b>						
Share of Collection fund						
Net yield (after reliefs and provisions)	96,749,406					
Less						
Transitional Payment Protection	11,024,263					
Cost of collection	- 252,489					
Yield from renewable energy	- 1,018,644					
Enterprises	- 1,310,635					
Yield for distribution	<u>105,191,901</u>	52,595,951	42,076,760	9,467,271	1,051,919	
Add						
Cost of collection			252,489			
Yield from renewable energy			1,018,644			
Enterprises			1,310,635			
Designated area relief		- 203,288	203,288			
Total Income from rates yield	<u>107,773,669</u>	<u>52,392,663</u>	<u>44,861,816</u>	<u>9,467,271</u>	<u>1,051,919</u>	
Estimated Surplus / (deficit) from 2022/23	<u>1,737,369</u>	<u>868,685</u>	<u>694,948</u>	<u>156,363</u>	<u>17,374</u>	
	<u>109,511,038.00</u>	<u>53,261,347</u>	<u>45,556,764</u>	<u>9,623,634</u>	<u>1,069,293</u>	

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## **REVENUE BUDGET RISKS AND ROBUSTNESS**

In pursuance of Section 25 of the Local Government Act 2003, the Council's designated Head of Finance (Chief Finance Officer) is required to make a statement on the robustness of estimates and the adequacy of Reserves in relation to the Council's budget calculations.

The economic landscape has continued with uncertainty in the last 12 months, with the ongoing financial challenges associated with recovery from the Coronavirus pandemic and high inflation levels acting as a dampener on growth and impacting on Council services. UK inflation remains a concern with prices continuing to rise at nearly their fastest rate in 40 years. Consumer Price Index (CPI) inflation, as a measure of price rises, increased by 11.1% in October 2022 from 10.1% in September 2022 (based upon the Office for National Statistics (ONS) information). The prospects for economic growth appear limited and a cautious approach is, therefore, being maintained given the level of uncertainty.

The relevant issues in relation to the 2023/2024 budget are as follows:

### **Budget Process**

1. The formulation of the annual budget has allowed for best estimates of the commitments necessary to maintain service levels and these have been reviewed and refined throughout the process. Service Areas have engaged in a robust challenge of, and determination of, the 2023/2024 budgets rather than adopting an entirely incremental approach to budgeting. In this process key cost drivers have been identified such that activity can be assessed as to its impact on future costs. This has enabled a good understanding of budget issues faced, thus improving the prospects of budget compliance.
2. The determination of the 2023/2024 revenue budget has been informed by established and effective budget monitoring arrangements that have created a sound foundation for the overall management of the Council's financial resources. The Council continues to improve its budget monitoring processes such that it focuses greater attention on those budget areas that represent the greatest risk as determined by a number of risk factors. Budget monitoring is supplemented by service data that relates to the cost drivers thereby enabling a non-financial analysis and early identification of emerging trends. This risk-based approach is supplemented by a quarterly review of all budget areas.
3. The budget monitoring process provides the basis for the monitoring of compliance with the savings proposals and efficiency assumptions built into the revenue budget and it has also enabled budget pressures to be identified, managed, and appraised as part of the 2023/2024 budget setting process. There are a number of budget reductions proposed within the budget as part of the transformation programme; every attempt is being made to prioritise services, and to streamline processes to avoid an adverse impact on service delivery, but there is a risk that there will be unpredicted impacts on services.

4. Each savings proposal is the responsibility of a named Officer and all proposals, including previously agreed savings, have been assessed on an ongoing basis to ensure continued deliverability. It is possible that some of the proposed reductions may not be achievable or may not be achievable in the time frame anticipated, potentially leading to the need for other reductions, budget overspends, or the use of contingency funding. These areas will be kept under review as part of the established budget monitoring arrangements.
5. In determining financial forecasts, and specifically in preparing the 2023/2024 revenue budget, due regard has been given to (i) the actual experience of the Council in the year to date and (ii) the impact of the economic climate including the high levels of inflation and the cost of living challenges impacting on households and Council services. Specifically, the forecasting and budgeting seeks to provide best estimates for Council Tax and Business Rates Yield, service-related income and expenditure.
6. The Council regular reviews the Medium-Term Financial Strategy (MTFS) and, in doing so, forecast resources and spending plans are updated in light of more up to date information. The MTFS sets out the funding gap facing the Council over the medium term. The budget has been prepared in accordance with the approved MTFS and the following financial objectives, as part of the Revenue Budget Strategy, have helped guide the budget proposals:
  - (a) A sustainable medium term financial plan that allows the achievement of the Council's key objectives.
  - (b) Realistic levels of year-on-year spending which are supportable via annual income streams and do not require the use of general reserves to support recurring expenditure.
  - (c) General reserves should be maintained at all times at or above the agreed minimum level.
  - (d) Constraining annual Council Tax increases to an acceptable level.
  - (e) The pursuance of "invest to save" opportunities with a financial return on the investment over an acceptable payback period.
  - (f) A commitment to explore income generation opportunities and to maximise income from fees and charges.
  - (g) A commitment to maximising efficiency savings.
7. As part of the overall budget strategy, the Council has sought to protect front line service budgets. This has included a review of service delivery options and emphasis on the optimisation of corporate budgets and the continuation of a service transformation programme developed in 2019/2020 as part of a 4-year plan to transform service quality, improve organisational productivity and improve customer services. The programme is aimed at delivering Council services more efficiently and in a more convenient way for the public.



8. The formulation of the budget has allowed for best estimates of inflation and applied at a level to reflect efficiency requirements. In this regard, general inflation has been provided on certain budgets (such as contract costs) and, in relation to staff costs, an allowance has been made for incremental shift. An inflationary allowance of 12% has been made for energy costs.
9. It is important to acknowledge that there are risks inherent in the budget estimates and these include specific areas set out below, with an attempt to quantify them where possible:
  - (a) Pay inflation for local government employees in 2023/2024 has been assumed at 5%.
  - (b) Inflation on specific contracts has been based on information related to those contracts and, in some cases, this will require robust contract negotiations. The timely review of business requirements in relation to contracted services should, however, reduce the risk of an increase in some contract values in excess of the budgetary allocation made.
  - (c) Interest is allowed for as both an income item (on daily balances for example) and as an expense (on borrowing for capital for example). In response to the prevailing economic conditions the Bank of England Base Rate has been increasing during the financial year 2022/2023, with the base rate now at 3.5% (compared to 0.75% at the start of the financial year, effective from 17 March 2022). Rates available to investors have marginally improved but, from a borrowing perspective, the Council's General Fund borrowing is predominately short term and, based on the current information, there will be a peak in interest costs during 2023/2024.
  - (d) Given the current economic outlook there is a risk that the forecast level of income budgeted in 2023/2024 in some areas (e.g. planning income, land charge fees) may not be achieved. The determined budget has, however, been prepared having regard to income trends which should reduce the risk involved. With the continued uncertain economic conditions there is a possibility that benefit caseload will increase and, though an increase in numbers receiving Universal Credit would see cases transfer to the Department of Work and Pensions, Council income could still be impacted, and debts would become more difficult to collect.
  - (e) In terms of benefits, the increased stringency of the subsidy claim audit increases the risk of subsidy being withheld and this may require additional resources to be deployed on quality assurance.
  - (f) It is proposed to maintain the Contingency at £250,000 as part of its risk mitigation strategy reflecting (i) the challenges faced by local government at this time and (ii) general appreciation of budget risks.

10. In determining the 2023/2024 revenue estimates, regard has been given to its ongoing sustainability and the observance of a number of overarching principles. This has involved:
  - (a) An overall commitment to endeavour to increase annual income sources and reduce annual expenditure without materially reducing front line services provided by the Council.
  - (b) A preparedness to consult service users and providers to ensure that services can be remodelled and tailored within acceptable tolerances.
  - (c) A comprehensive review of the base budget to provide greater assurance for the future. The review has been based upon regular established monitoring processes and has incorporated a review of the alignment between the original budget and service activity.
  - (d) The identification, as a result of (c) above, of service pressures and endeavours to make adequate provision in the 2023/2024 base budget.
  - (e) The provision of funding to support Business Plan priorities.
  - (f) Continued review and tight control of the capital programme given the impact of borrowing costs on the revenue budget.
11. In terms of the capital programme, regular assessments need to be made to ensure that schemes and costs meet the test as to what can be classified as Capital Expenditure. In addition, the long-term affordability of the capital programme has been reviewed and this has resulted in proposals for a revised and reprofiled programme, including priority for invest to save proposals and prudent allocation of grant and other income to reduce borrowing costs.
12. In submitting the 2023/2024 revenue budget for approval, regard has also been given to issues of affordability (having regard to Council Tax implications), prudence (having regard to Council policies/strategies) and overall sustainability (having regard to forecast annual expenditure and income).
13. It has been the Government's intention for some time to introduce new funding arrangements, including the proposed increase in local business rate share to 75% (from 50%), a business rate baseline reset, a Fair Funding Review, and further other changes to key funding streams, such as social care and New Homes Bonus. There has, however, been no confirmation on the timescale for implementation of the wider funding reforms, but an emerging view is that the reforms may not now impact until the financial year 2025/2026. The risks relating to these changes has, therefore, been considered as part of the review of the MTFs and the future financial forecasts.

## **Reserves**

1. The Council's Revenue Reserves and Provisions are held to fund specific initiatives or held to cover unforeseen events within the Council's prudent financial management arrangements.
2. The Council, as at 1 April 2022, held a Bad Debt Provision to a value of £2.9 million and Revenue Reserves of around £51.5 million of which £38.5 million was earmarked. The balance of £13 million represents the General Reserve and working balance. An annual review of Reserves has been carried out as part of the budget process and a number have been re-aligned or combined. The overall level is significant and accords with the optimum level required calculated on a risk basis. A process exists to regularly refresh the risk assessed level of General Fund Reserve having regard to the needs and risks of the Council on an ongoing basis.
3. In reviewing Reserves, due regard has been given to professional guidance. Since 1992 the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Authority Accounting Panel (LAAP) has issued LAAP Bulletins to local authority practitioners. These Bulletins provide guidance on topical issues and accounting developments and when appropriate provide clarification on the detailed accounting requirements.
4. Based on an assessment of the risks facing the Council, including transformation, demographic and transition factors and past experience of budget pressures, the Reserves that are proposed to be retained is considered appropriate, but should be subject to review to ensure that excessive balances are not maintained. Some of these reserves can only be used for specific purposes, but others could be called upon if necessary and so provide additional flexibility.
5. In view of the unsettled economic background, and significant changes that will impact upon medium term finances (such as the localisation of business rates), it is recognised that there is an ongoing need to review and establish a level of reserves which allows the Council to withstand the financial impacts of future developments, unanticipated or otherwise, at a local or national level.

## **Conclusions**

1. The process for the formulation of budgets provides a reasonable assurance of their robustness.
2. The level of the Reserves is sufficient to provide a working balance to cushion the impact of unexpected events or uneven cash flows (general reserves) and funds to meet known or anticipated liabilities (earmarked reserves).
3. It is recognised that the financial pressures facing the Council are not going to ease over the medium term. The economic situation, coupled with a downward funding trajectory outlined in the spending review, will require the Council to put in place sustainable budget proposals in order to set a balanced budget.

4. In addition, there are still expected to be a number of changes in how local government is funded over the medium term, in particular the Business Rates Retention Scheme and the Fair Funding Review. This reshaped funding landscape has the effect of increasing financial uncertainty and risk and the Council's financial resilience will depend upon appropriate mitigating actions ranging from effective financial control, a clear financial strategy and strong financial governance. The ongoing assessment of the Council's financial resilience, including the sufficiency of Reserves, will form a major element of the response to this new financial landscape.