



REPORT TO:	Audit and Governance Committee
DATE:	1st February 2023
SUBJECT:	Annual Budget Report, Medium Term Financial Strategy, Financial Strategies & Council Tax
PURPOSE:	To consider the Draft Budget for 2023/24 and Treasury Management Policy and Strategy
KEY DECISION:	No
PORTFOLIO HOLDER:	Councillor Richard Fry
REPORT OF:	Christine Marshall, Deputy Chief Executive Corporate Development
REPORT AUTHOR:	Steven Houchin, Chief Finance Officer- Public Sector Partnership Services Ltd Samantha Knowles – Assistant Director – Finance
WARD(S) AFFECTED:	All
EXEMPT REPORT?	No

SUMMARY

This report sets out the draft budget at Appendix A including the areas of pressure that will be considered as part of this year's budget setting process, the details of the Councils Provisional Funding Settlement and the proposed level of Council Tax for 2023/24.

The Treasury Management Policy and Draft Strategy Statement for the 2023/24 financial year is also included as Appendix B to the report.

Both are required to be submitted to Audit and Governance Committee for scrutiny prior to submission to Executive Board and Council.

Audit and Governance Committee is asked to consider the attached report.

RECOMMENDATIONS

That the Audit and Governance Committee scrutinise the Budget Report (**Appendix A**) and Treasury Management Policy (**Appendix B1**) and the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2023/24 (**Appendix B2**) and

make any comments and suggestions for consideration by Executive Board on 15 February 2023 and Council on 1 March 2023 when they consider these documents as part of the budget report.

REASONS FOR RECOMMENDATIONS

To comply with the budgetary and policy framework.

OTHER OPTIONS CONSIDERED

It is best practice to consult with scrutiny as part of the budget setting process. No other options were considered.

1. BACKGROUND

- 1.1. This year's budget is being set within a background of unprecedented inflationary pressures and significant changes in resident, customer and business needs. Despite these challenges the Councils financial position means that it is well placed and able to take a considered approach to mitigating these exceptional challenges. In addition, the Council has been and continues to be successful in drawing in significant capital and revenue investment for the area.
- 1.2. Due to the complex financial environment specific elements of the budget at Appendix A are still being finalised as certain budgets are reviewed with the latest information available including a complete review of the Capital programme and its profiling.
- 1.3. The report also includes as Appendix B Treasury Management Statements, Strategy and Policies for the Committees consideration.

2. KEY BUDGET PRESSURES

- 2.1 Identified below are major changes and key pressures that are being included within the proposed budget:
 - 2.1.1 A pay award for 2022/23 was agreed in November 2022 averaging 5% across the pay spine. For 2023/24 a 5% award has been assumed, this allowance will be held corporately and adjusted to any savings target should it be settled at a lower level. This is one of the most significant impacts in the budget.
 - 2.1.2 Pension contributions will be 23.8% in 2023/24 with an additional lump sum amount payable towards the deficit on the pension scheme. This rate is applied only to those staff in the local government pension scheme. The pension contribution rate is assumed to stay at 23.8% throughout the life of the MTFs. The lump sum towards the deficit is confirmed for 2023/24.
 - 2.1.3 The return on cash investment reflects recent increases to Bank of England base rates which has increased significantly from the recent historic low levels. A further meeting of the MPC is on Thursday 2nd February.

- 2.1.4 Electricity and gas costs have been inflated for 2023/24, as a result of increased wholesale prices.
- 2.1.5 Vehicle fuel costs have also experienced inflationary pressures.
- 2.1.6 Increased contract and service costs are similarly a feature of the budget, albeit officers and members are working closely to seek to manage these implications and impacts, these include:
 - Increased demand for homelessness support;
 - External audit fees;
 - External contracts pay and inflation pressures.

3 COUNCIL TAX AND BUSINESS RATES

- 3.1 The previous Medium Terms Financial Strategy (MTFS) committed to a Council Tax increase in line with the maximum allowed under the recent Local Government Settlement for ELDC in 2023/24 this is a £4.95 (3.16%) per annum increase (for band D properties). This will generate additional income of £321k and the increase is reflected through the life of the MTFS.
- 3.2 The tax base projections for 2023/24 indicate growth of 584 band D equivalent properties (1.28%). Future growth has been projected at 1.5%.
- 3.3 Business Rates information for 2023/24 has only just been made available and is now being reviewed. This was more complex this year due to a number of changes, including the inflation measure used to increase the local government funding amount within the Settlement Funding Amount using the CPI September indicator 10.2% instead of the RPI September Indicator (12.6%).
- 3.4 The National Non-Domestic Rates Form (NNDR1) production is now particularly important in terms of changes to the business rate yield which heavily influences not just our own budgets, but also the Pool we are part of within Lincolnshire and significantly the County Council. This is an area of focus as we seek to understand the changes within the yield, particularly as a result of Covid and changes as a result of the Business Rate Revaluation 2023.
- 3.5 In order to manage and review this important income stream and the changes within it regular review meetings are taking place internally.

4 LOCAL GOVERNMENT SETTLEMENT

4.1 The provisional local government settlement delivered on 19th December 2022 provided the following support:

Local Government Provisional Settlement Information	East Lindsey District Council		
	2022/23 Budget	2023/24 Provisional Settlement	Difference 22/23-23/24
	£'000	£'000	£'000
Revenue Support Grant	964	1,310	346
Rural Services Delivery grant	697	697	0
Lower Tier Services Grant	281	0	-281
Service Grant	424	239	-185
Sub Total	2,366	2,246	-120
Funding Guarantee (3%)	0	980	980
Sub Total	2366	3226	860
New Home Bonus	1,244	378	-866
Total Funding	3,610	3,604	-6

4.2 The 2023/24 local government finance settlement is for one year only and is based on the Spending Review 2021 (SR21) funding levels, updated for the 2022 Autumn Statement announcements. The main points are set out below:

- 4.2.1 The Funding Guarantee replaces the Lower Tier Services Grant. This grant is intended to provide a funding floor for all local authorities, so that no local authority would see an increase in Core Spending Power that is lower than 3% before any decisions about organisational efficiencies, use of reserves or council tax levels are taken.
- 4.2.2 Revenue Support Grant has been increased in line with what would have been the increase to the multiplier; there have also been existing grants worth rolled into the RSG amounts.
- 4.2.3 Local Government Funding Reform – as per the published Policy Statement, the Review of Relative Needs and Resources ('Fair Funding Review') and a reset of Business Rates growth will not be implemented in the next two years.

5 INTERNAL DRAINAGE BOARDS

5.1 Internal Drainage Board (IDB) levy figures are in the process of being finalised and are expected to be very substantial increases on previous years due to the extensive use of power and fuel for the activities that these organisations undertake, along with other pressures. The 2022/23 cost is £3.9m and a number of increases have been indicated, ranging from 8% to 30% for next year.

5.2 The Council is liaising with the local Internal Drainage Boards who have been trying to limit future increases, where possible, but proving impossible with the pressures from power costs being experienced, particularly standing charges, in addition to pay, pension and contract inflation. Representations have been and continue to be made to government due to the substantial loss of income to the Council, as this was previously funded through Revenue Support Grant (RSG). This embedded levy can no longer be afforded having a significant impact, every year that passes, on the ability of the Council to finance the services it is providing and putting it at a disadvantage to the majority of Councils in England, with only a handful of councils impacted upon in this way.

5.3 The table below illustrates this point clearly. IDB levy will not only consume all of the Council's proposed increase for 23/24 which should be used to finance and support services but also require additional finance of £815k (estimate) to be identified.

Council	Total Council Tax Received per year 22/23	Total IDB levy per year 22/23	Proposed increase 23/24 (Estimate)	Council Tax 22/23 Increase 3%/£5 raises
East Lindsey District Council	£7.2m	£3.9m	£1,136k	£321k

5.4 The Council has been in detailed discussion and government officers regards this position over the past year. We are also aware that the IDBs have made extensive representations to DEFRA and via ADA of this significant issue. A meeting with the Minister has now taken place and we await a response on this key issue.

6 BALANCING THE BUDGET

6.1 In terms of balancing the budget the following areas have been considered as part of the budget setting process:

Short Term

- The potential use of reserves to support one off pressure and for invest to save initiatives.
- Use of the New Homes Bonus to support service efficiencies whilst medium term activity is actioned.
- Continued work to engage on the Internal Drainage Board financing challenge.
- Review of all new pressures and service budgets to consider efficiency opportunities and alternative options.

Medium Term

- Work with PSPS in terms of its transformation plans for the future and to help finance contract cost pressures.
- Driving transformational change using the SELCP sub-regional partnership as a driver for innovation and efficiency.
- Reviewing all assets to maximise income and efficiency of use.

- Delivering and supporting economic growth
- Reviews of fees and charges in light of inflationary increases in costs, where appropriate.

6.2 Detailed efficiency and transformation plans are being put together for members consideration.

7. **TREASURY MANAGEMENT**

7.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

7.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

7.3 CIPFA defines treasury management as:

“The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

7.4 There are no proposed changes to the Treasury Management Policy Statement in **Appendix B1**, and it is attached for completeness.

7.5 Council is required to set out its Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy for the forthcoming year. These outline the Council's strategy for borrowing and its policies for managing its investments and for giving priority to the security and liquidity of those investments. Our strategy statements for 2022/23 are attached at **Appendix B2**. The strategy statements cover:

- reporting requirements
- capital prudential indicators 2022/23 to 2027/28
- the borrowing requirement
- the MRP policy
- the use of the Council's resources and the investment position
- prudential and treasury indicators
- treasury limits in force which will limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling

- the investment policy
- creditworthiness policy
- country limits
- investment strategy

7.6 The strategy document presented to Audit and Governance for scrutiny is currently at draft stage. This is because the future Capital Programme has yet to be finalised and approved by Council. Once this is known the tables within the strategy document shown at **Appendix B2** will be amended and considered by Executive Board prior to submission to Council for approval before the commencement of the 2023/24 financial year.

7.7 The Council's strategy statement has been prepared in accordance with the revised CIPFA Treasury Management Code and will require approval by Full Council. In addition, there will be Quarterly and Mid-Year Treasury Reports and an Annual Report submitted to Governance and Audit Committee. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

8 CONCLUSION

8.1 Work is still underway on the budget working with our key Partner in the provision of this service, PSPS Ltd, as figures are still being finalised and reviewed.

EXPECTED BENEFITS TO THE PARTNERSHIP

This report enables East Lindsey District Council to consult on its budget the level of Council Tax for 2023/24 and key strategies.

IMPLICATIONS

SOUTH AND EAST LINCOLNSHIRE COUNCIL'S PARTNERSHIP

None

CORPORATE PRIORITIES

None

STAFFING

The Equality Act requires ELDC to consider any equality impacts in relation to staff from these plans. As projects within the programme are developed a draft impact assessment will be discussed with Trades Unions and staff, and especially as individual projects are delivered.

CONSTITUTIONAL AND LEGAL IMPLICATIONS

This report is required by virtue of the Local Government Finance Act 1992, as amended by the Localism Act 2011.

DATA PROTECTION

None

FINANCIAL

None

RISK MANAGEMENT

Done

STAKEHOLDER / CONSULTATION / TIMESCALES

The Council has a legal duty to consult residents on its draft budget proposals. Views expressed during the consultation period will be included within the financial budget setting report.

REPUTATION

None

CONTRACTS

None

CRIME AND DISORDER

None

EQUALITY AND DIVERSITY/ HUMAN RIGHTS/ SAFEGUARDING

New Equality Impact Assessments will be developed and published wherever these are required and will be made available during the management and decision-making of the Programme.

HEALTH AND WELL BEING

None

CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

None

ACRONYMS

ADA – Association of Drainage Authorities

IDB – Internal Drainage Board

APPENDICES

Appendix A – Draft Budget

Appendix B1 – Treasury Management Policy

Appendix B2 – Treasury Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2022/23

BACKGROUND PAPERS

None

CHRONOLOGICAL HISTORY OF THIS REPORT

Executive Board – 11 th January 2023

REPORT APPROVAL

Report author:	Samantha Knowles, Assistant Director Finance sknowles@sholland.gov.uk Steven Houchin, Chief Finance Officer, Public Sector Partnership Services Ltd Steven.Houchin@PSPSL.co.uk
Signed off by:	Christine Marshall, Deputy Chief Executive Corporate Development Christine.Marshall@sholland.gov.uk
Approved for publication:	Councillor Richard Fry, Portfolio Holder for Finance