

REPORT OF Finance Manager (s.151 Officer)  
 To: Full Council  
 Subject: Budget 2024/25, Medium Term Financial Strategy 2024/25 – 2028/29  
 Date: 19<sup>th</sup> February 2024

**PURPOSE OF REPORT:** For Members to consider the recommendations from Community & Resources Committee on the 29<sup>th</sup> January 2024 as scrutinised by Internal Overview & Scrutiny on the 6<sup>th</sup> February in relation to the draft budget 2024/25 and to approve a budget and Council Tax level for 2024/25.

The Medium-Term Financial Strategy (MTFS) indicates the possible extent of the budget and funding shortfall that the Council will face in the future. It is an aid in identifying the extent of service changes that the Council will need to make to achieve a balanced budget in each financial year up to 2028/29.

## 1. Introduction

- 1.1. The Medium-Term Financial Strategy (MTFS) provides an annual update of the Council's financial situation for the current and forthcoming five years. It illustrates through the application of forecasts and assumptions where and how spending pressures could materialise; how different funding sources may change, and the savings plans required to manage any identified revenue budget gap.
- 1.2. The MTFS provides the basis for the members to consider the 2024/25 budget and also whether an increase in Council Tax should be recommended to Full Council for 2024/25.
- 1.3. Whilst considering the 2024/25 Budget and the MTFS it is prudent to review and assess the levels and types of financial reserves the Council holds. This review is conducted in light of the levels of risk the Council faces and the potential financial impact if a major risk comes to fruition.

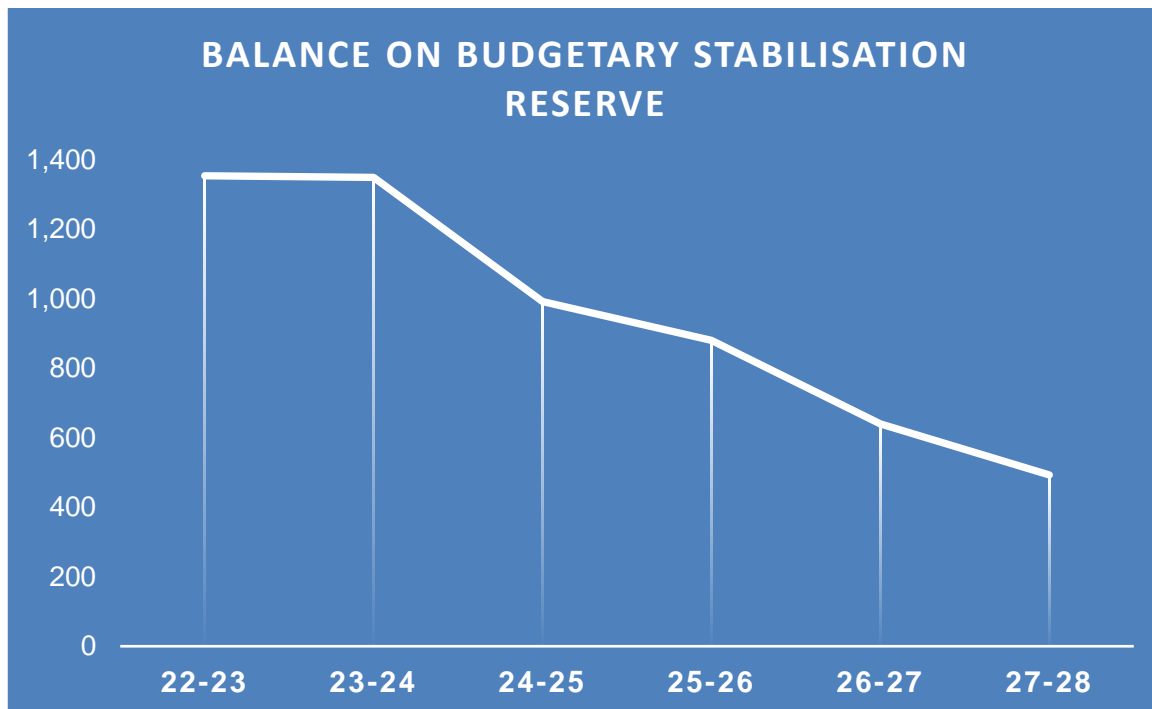
## 2. Recap – Approved budget 2023/24 and Medium-Term Financial Strategy (MTFS)

- 2.1 Full Council on the 20<sup>th</sup> February 2023 approved the Council Tax and Budget for the financial year 2023/24 and the MTFS for the period ending 31<sup>st</sup> March 2028, as detailed in the table below.

<b>Expenditure</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>
Cost of Service	10,889	10,904	11,154	11,762	12,043
Reserve Movement	958	1,003	1,039	1,077	1,117
Other - Financing, Vacancy Factor etc	(687)	(557)	(574)	(583)	(593)
<b>subtotal</b>	<b>11,160</b>	<b>11,350</b>	<b>11,619</b>	<b>12,256</b>	<b>12,567</b>
<b>Funding</b>					
Grants	(1,279)	(1,157)	(1,166)	(1,176)	(1,187)
Council Tax	(4,643)	(4,946)	(5,143)	(5,347)	(5,559)
Business Rates	(5,233)	(4,890)	(5,198)	(5,493)	(5,674)
<b>subtotal income</b>	<b>(11,155)</b>	<b>(10,993)</b>	<b>(11,507)</b>	<b>(12,016)</b>	<b>(12,420)</b>
<b>Use of Reserves to balance</b>	<b>(5)</b>	<b>(357)</b>	<b>(112)</b>	<b>(240)</b>	<b>(147)</b>
<b>Cumulative use of reserves</b>					<b>(861)</b>

As the table above shows the Council was in February 2023 predicting funding shortfalls in each of the financial years of the MTF5 period.

- 2.2 The use of the Budgetary Stabilisation Reserve to balance the Councils budgets over the life of the MTF5 was as shown below. Essentially the reserve was projected to be significantly reduced by the end of the MTF5 period.



- 2.3 The Financial reports presented to Full Council on the 20<sup>th</sup> February 2023 also included the approval of the Council's capital programme and its funding. Full Council on the 20<sup>th</sup> February 2023 approved a capital programme of £22.6m, with identified sources of funding of £23.0m. This was a large programme relatively speaking with significant ambitions contained within it.
- 2.4 When setting the budget for 2023/24 additional funds had to be found for Temporary Accommodation and general inflationary pressure. Additional income was budgeted from Car Parking, Planning and Council Tax Premiums. The structural deficit (average deficit divided by average funding) was 1.5%.

### 3. Financial Years 2022-23 and 2023-24

#### 3.1. Closing the 2022-23 Financial Year

The financial year 2022-23 was characterised by increasing costs to the council in the key areas of staff pay, utilities, fuel and insurance. There was therefore in year fears of large overspends that did not in fact transpire. In fact, increasing returns from cash balances and government grants that were unbudgeted but received, meant that the Council underspent. Consequently, the Budgetary Stabilisation reserve starts the 2023/24 financial year £600k higher than assumed.

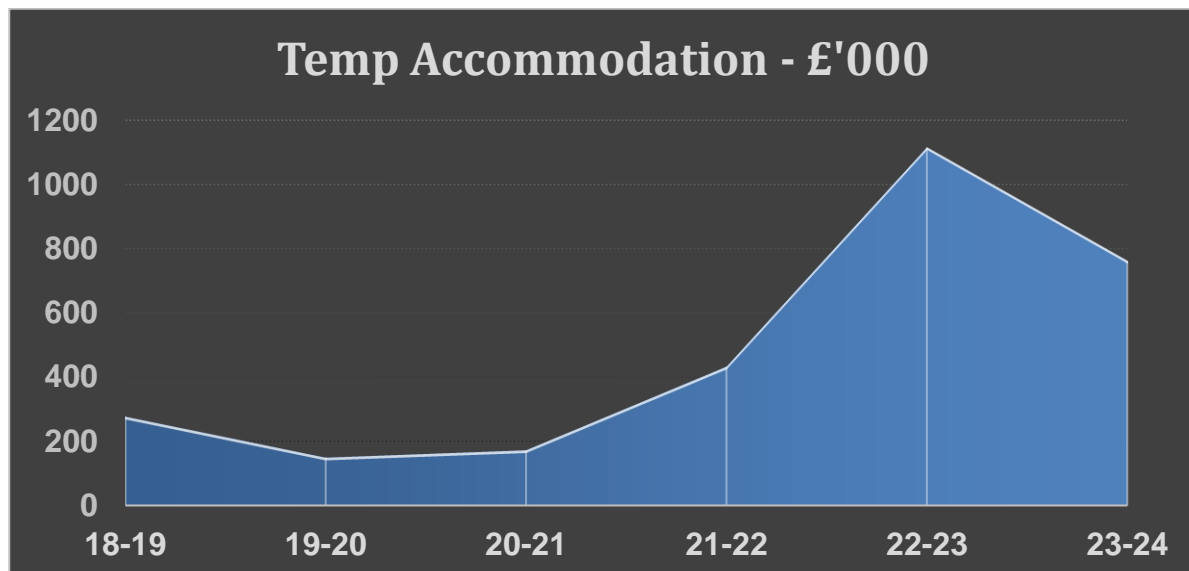
#### 3.2. The 2023-24 Financial Year

In line with many other Councils, Torridge set aside 5% for the 2023-24 pay award. The Local Government pay award for 2023-24 has now been agreed and equates to an average increase of 6.7%. This equals an additional £200k cost ongoing.

There is also pressure within the staffing budgets due to the number of vacancies that have arisen recently. Agency costs are £500k higher than budgeted. This will be partly offset by

vacant posts. The 2023-24 budget also contained ambitious new income targets for car parking and planning. Income in these areas is not in line with the ambitious targets.

The greatest positive impact on the Council's revenue budget in the current year is due to high interest on cash balances. In addition, the flip side of high agency costs is large staffing underspends, and there are capital financing savings to the revenue budget as some of the large capital schemes are not being delivered as quickly as assumed. The costs of temporary accommodation rose hugely in 2021-22 and especially in 2022-23. The graph below shows that the investment in capacity looks to be having a positive impact on the revenue costs related to this.



In summary and as at month 6, inflation is falling though not as quickly as anticipated a year ago. We do not currently anticipate a take from reserves for 2023-24 in excess of that originally budgeted.

#### 4 Sources of Council's Funding and Expenditure breakdown

##### 4.1 Source of Council Funding

The Council has four main streams of funding:

- **Council Tax**  
Increases in Council Tax are constrained by Referendum Levels, for a District Council like Torrridge the limit is £5 for Band D equivalent or up to 3% whichever is the greater; for Torrridge this is 2.99%.
- **Business Rates**  
Torrridge is the billing authority for Business Rates. It retains 40% of the business rates collected (after paying the tariff to Central Government). Where Torrridge in its capacity as the planning authority gave consent for a renewable energy scheme, it retains 100% of the business rates payable.

The rateable value of businesses is set by the Valuation office, with the rate in the pound charged being determined by Central Government. Central Government also determines various reliefs and discounts for business rates which Torrridge in its capacity as billing authority is obliged to implement.

- **Central Government Grant**

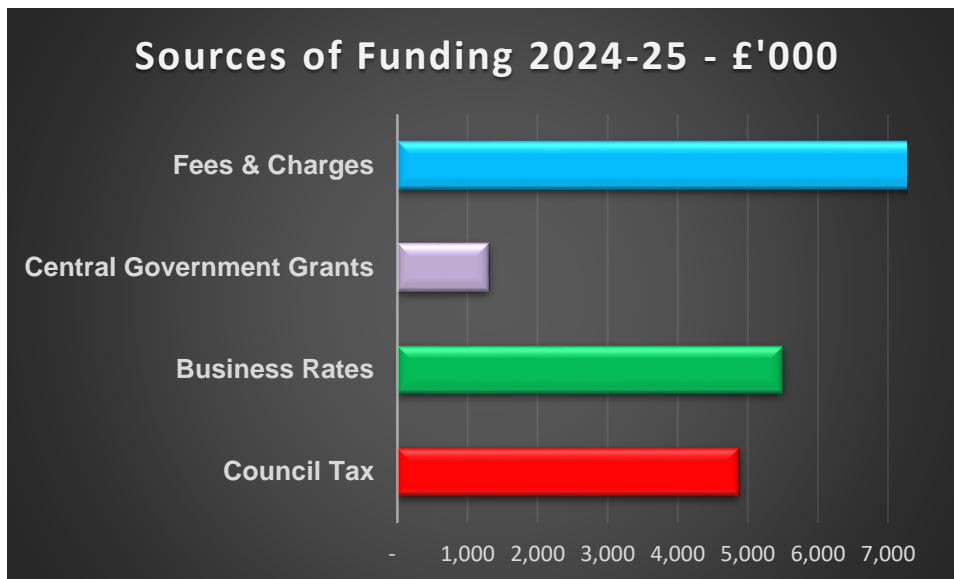
Torrige along with all other local authorities receives central government grant funding. For district authorities like Torrige central government grant funding has since 2013 (with the introduction of retained business rates) become a less significant source of funding when compared to unitary and upper tier authorities.

- **Fees and Charges**

Fees and Charges are the Council's biggest single source of revenue. Fees and Charges can be broken down in three main categories:

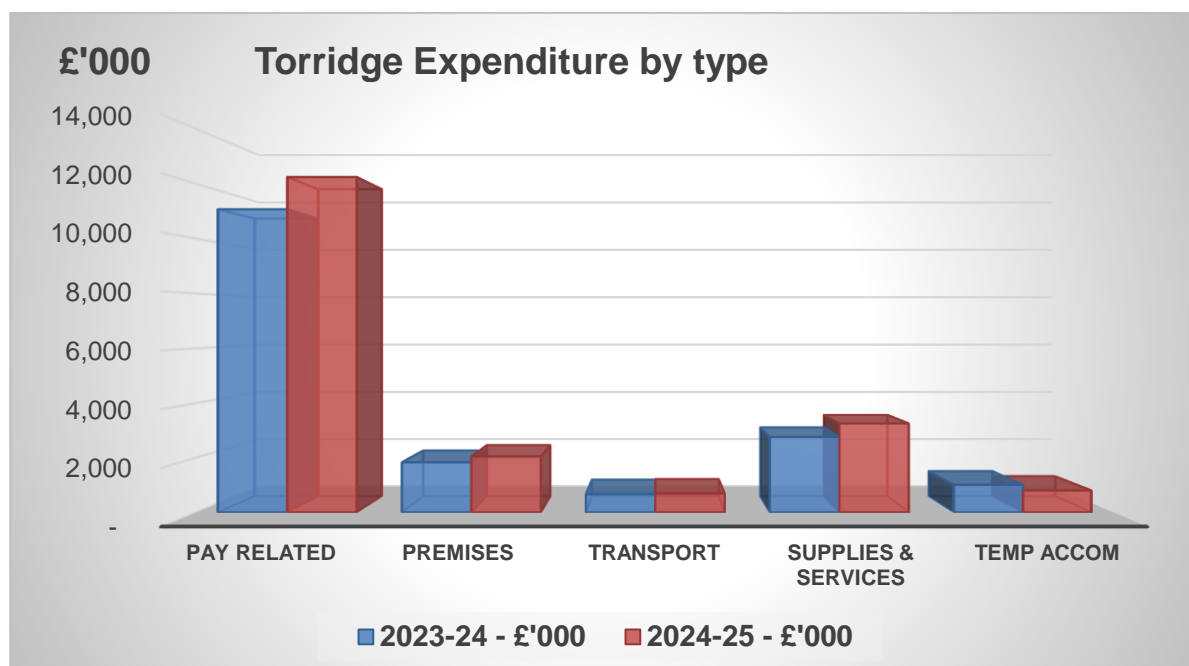
- Charges set by statute, such as planning fees, licensing fees etc
- Charges set to recover the Council's costs, e.g., land charges
- Discretionary charges such as car parking

The chart below shows the relationship between the four main funding streams.



#### 4.2 Council Expenditure

The chart below shows the gross expenditure of the Council (excluding Housing Benefit payments of circa £12m). As with most public sector organisations pay represents the biggest single item of expenditure.



As the chart above shows, Torridge is experiencing incremental upwards pressure in Supplies and Services, Transport and Premises related costs. The costs of Temporary Accommodation have fallen as the investment in increased capacity feeds through but Pay Related costs have increased by £1.2m. This is because of the recent pay awards and the indirect impact of inflation.

## 5. 2024-25 Provisional Local Government Financial Settlement

5.1 The provisional settlement was published on the 19<sup>th</sup> December 2023; the key points to note for the national position are:

- The settlement was confirmed for one year only.
- Core Spending Power (CSP) has increased by 6.5%. This covers the aggregate assumed increase in funding across all English Local Authorities who raise Council Tax to the maximum. CSP being the income Local Authorities derives from Council Tax, Business Rates and Central Government Grants.
- The maximum increase to CSP (as defined by Central Government) for district councils is 4.9%.
- The Revenue Support Grant was uplifted by CPI.
- New Homes Bonus funding only confirmed for 2024-25.
- Services grant reduced by £400m nationally.
- Central Government support to Torridge District Council is increasing by 2.1% in its budgeted and non-ringfenced grants between 2023/24 and 2024/25.

The Settlement for Torridge is summarised in the table below.

	2023-24	2024-25
Revenue Support Grant	310	331
<b>Subtotal</b>	<b>310</b>	<b>331</b>
Rural Sparsity Funding	556	556
Lower Services Support Grant	176	48
Services Grant	96	15
New Homes Bonus	141	356
<b>Total</b>	<b>1,279</b>	<b>1,306</b>

## 6. Council Tax

6.1 Central Government assessment of **Core Spending Power** (the resources available to local authorities) is built on the expectation that Council Tax will increase year on year in line with the approved referendum limits; currently up to 3% or £5 per Band D Equivalent, whichever is the greater. For Torridge an increase of 2.99% is greater than a £5 increase to a Band D property.

If a local authority chooses not to increase its Council Tax, no compensating increase to its CSP would be forthcoming from Central Government. Furthermore due to the restrictions

imposed by referendum constraints it will not be possible to make up this shortfall in subsequent years.

Local Authorities are obliged by statute to declare their tax base in Band D equivalents. The tax base is the mechanism by which Torridge and its preceptors calculate the income they will derive from the Council Tax levied. Torridge's calculation is shown below.

	Disabled	A	B	C	D	E	F	G	H	Total
Number of properties		8,299	7,334	7,162	6,000	3,417	1,171	379	30	33,792
after discounts, reliefs etc	33	6,984	6,563	6,514	5,576	3,197	1,116	357	18	30,358
less LCTS	(8)	(1,180)	(588)	(330)	(168)	(43)	(7)	(2)	0	(2,326)
Revised total	25	5,804	5,975	6,184	5,408	3,154	1,109	355	18	28,032
Convert to Band D	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D equivalents	14	3,870	4,647	5,497	5,408	3,854	1,601	592	37	25,520
add new properties										273
less non collection										(516)
Tax base in Band Ds										<b>25,277</b>

Essentially in calculating the Tax base the first step is identify the total number of properties liable for Council Tax as the end of November. Then the impact of various discounts such as disabled relief, single person discount etc are calculated to give a revised figure.

The impact (reduced Council Tax liability) arising from the awarding of Local Council Tax Support (LCTS) is also calculated.

As per statute the figure is then converted in Band D equivalents; the same adjustments before finalising the tax base is to estimate:

- How many new properties will become eligible for Council Tax
- And the allowance for the non collection of Council Tax

6.2 In 2023-24 the average Band D equivalent Council Tax within Torridge is £2,255.29 of which the amount levied by Torridge Council was £184.00, with an estimated collectable tax base of 24,749.62 Band D Equivalent properties. With the previous year's surplus included this equates to a Council Tax income for Torridge of £4.64m for the financial year 2023/24.

6.3 On the 11<sup>th</sup> December 2023 Full Council approved the tax base for 2024-25 at 25,277.34 Should Torridge increase its Council tax in line with its referendum levels 2.99% then a Band D charge would be £189.50; Torridge's Council Tax income for 2024/25 would be £4.88m when prior surplus is included.

6.4 Whilst by statute councils are obliged to report their tax base in Band D equivalents and increases to Council Tax are referenced to the Band D equivalent, the majority of properties within Torridge fall within Bands A-C.

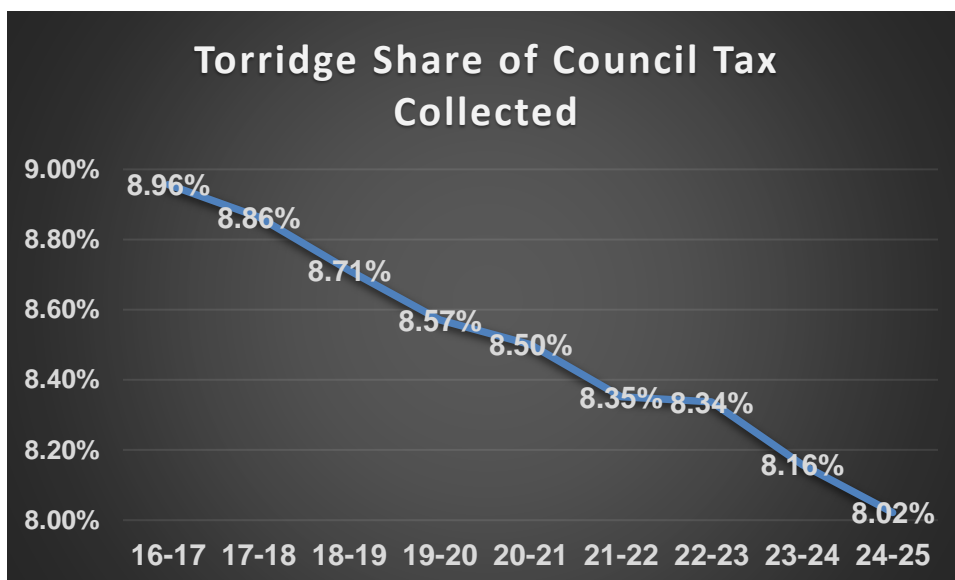
The table below shows the number of properties liable for Council Tax by band, the Torridge element of the Council Tax levied and how much a 2.99% increase on a Band D Equivalent would be by Band for 2024-25.

Council Tax Band	Number of Properties	Torrige 24-25 Charge	Impact of 2.99% increase	Weekly increase
A	8,299	126.33	£3.78	£0.07
B	7,334	147.39	£4.41	£0.08
C	7,162	168.44	£5.04	£0.10
D	6,000	189.50	£5.67	£0.11
E	3,417	231.61	£6.93	£0.13
F	1,171	273.72	£8.18	£0.16
G	379	315.83	£9.44	£0.18
H	30	379.00	£11.33	£0.22
	<b>33,792</b>			

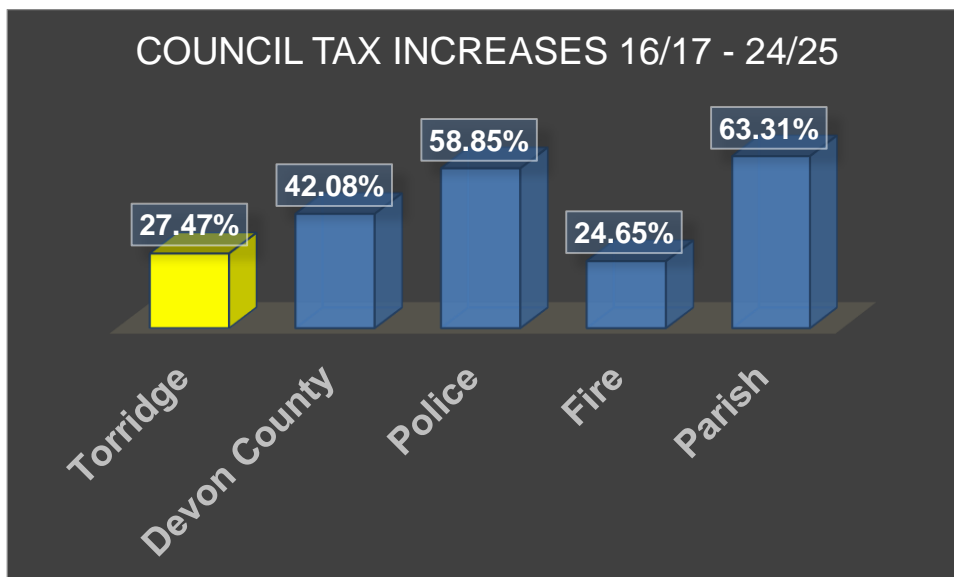
As the table above shows 67% of properties within Torrige fall within Bands A – C and so would pay less than 10p extra a week extra if Torrige’s Council Tax was to increase by the referendum limit of 2.99%.

The Council Tax levied by Torrige is only one component of the Council Tax bill levied on its residents. Over recent years the proportion of Council Tax levied by Torrige Council has been in decline. This is due to a combination of factors such as Devon County Council being able to raise an additional social care precept, above inflation rate increases for Devon and Cornwall Police Commissioner and the absence of referendum limits for Town and Parish Councils.

The table below shows the percentage of the council tax retained by Torrige Council. The 2024/25 figure assumes increases by preceptors to their maximum (and Parish and Town Council precept increase of 5%). As the chart below shows Torrige’s share of Council Tax is likely to be circa 8.02% for the financial year 2024-25.



As a result of referendum restrictions for shire districts such as Torrige, its percentage increase has fallen behind that enjoyed by Devon County, Devon & Cornwall Police and the Town and Parish Councils. Torrige and the Fire Authority have had the lowest increases in their council tax for several years. Cumulative Council Tax increases for the period 2016-17 to 2024-25 are shown below.



## 6.5 Council Tax Support Fund

On the 11<sup>th</sup> December the Full Council approved the latest locally approved and delivered Council Tax Support Scheme. This increased thresholds and so increased support to local tax payers. The anticipated cost of this new scheme is £54k to all preceptors or £6k to Torridge District Council.

Preceptor	23/24 Council Tax	Projected Increase	24/25 Council Tax	Increase - £
Devon County Council	£1,634.13	5.00%	£1,715.84	£81.71
Devon & Cornwall Police	£261.56	4.97%	£274.56	£13.00
Devon & Somerset Fire	£96.79	3.00%	£99.69	£2.90
Torridge District	£184.00	2.99%	£189.50	£5.50
Parish (average)	£78.81	5.00%	£82.75	£3.94
	<b>£2,255.29</b>		<b>£2,362.34</b>	<b>£107.05</b>
			-	-
Council Tax Liability (75% LCTS support)	£563.82		<b>£590.59</b>	£26.76

The example above is based on a Band D property, however 68% of all properties within Torridge are in Bands A – C so will be paying less Council Tax than that shown.

The example above also assumes that the recipient of LCTS receives the maximum support of 75%. Over 80% of working age recipients of LCTS receive the maximum support.

Pensioners can receive 100% support from the LCTS scheme. Some will receive a lesser award if they have savings or receive another source of income such as a private pension.

## 7. Business Rates Retention

For locally retained Business Rates, Torridge in 2024/25 is compensated as if multipliers had increased by the Consumer Price Index (CPI). The key points in the 2024/25 settlement are shown below:



- Gross ratable value for businesses within Torridge has risen to £45.9m from £45.4m an increase of 1.1%.
- There are 4,081 properties liable for Businesses Rates
- Business Rate Pools to continue for 2024-25 (Torridge is a member of the Devon Business Rate Pool).
- A package of support measures was announced to support business to accompany the revaluation
  - The multiplier which determines the rate in the pound has been frozen at 49.9p for small businesses. Torridge is compensated for its lost income via S31 grants.
  - The multiplier which determines the rate in the pound for larger business has been increased by CPI to 54.6p.
  - There is 75% relief for all premises in the Retail, Leisure & Hospitality sector for one year effective from 1<sup>st</sup> April 2024. The relief is capped at £110,000 per business. There are circa 400 premises within Torridge who will benefit from this relief.
  - The business rate income receivable from renewable energy scheme has recently risen to £711k. The amount for 2024/25 is still to be determined. Torridge retains all business rates from renewable energy schemes where it gave planning consent.

## 8. Budget 2024-25

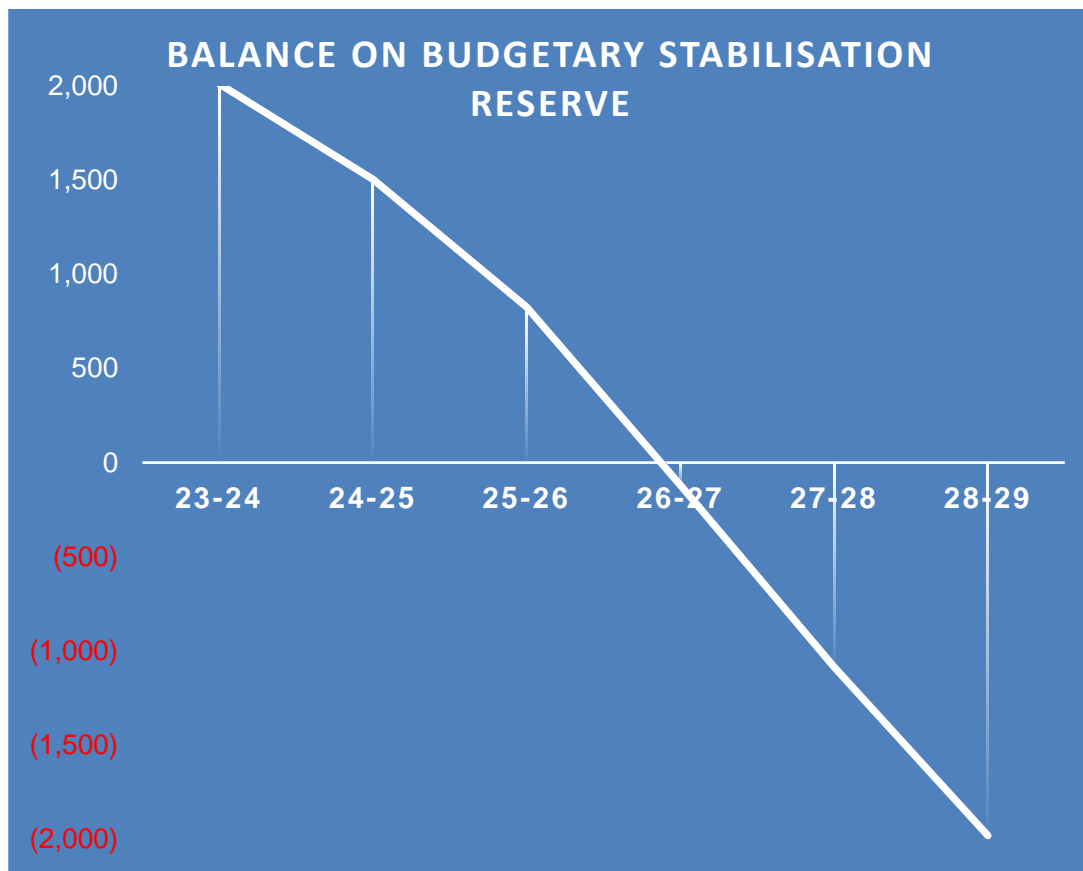
The table below shows the proposed budget for 2024-25 and the remaining years of the Medium-Term Financial Strategy (MTFS). As the table below shows the Council's budgets are in deficit for each year of the MTFS. The structural deficit (average deficit divided by average funding) for this new MTFS is 6%. By way of comparison the equivalent figure twelve months ago was 1.5%.

The increased deficit in 2024-25 compared to 2023-24 is largely explained by the high-inflation that has been experienced in recent years and the consequent impact on staff pay.

The increased deficit in 2026-27 is mostly due to the scheduled cessation of the cost share agreement with Devon County regarding recycling collection. Torridge is currently rewarded by Devon County Council for the recycling tonnage it collects. This agreement ends in March 2026.

<b>Expenditure</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2026-27</b>	<b>2027-28</b>
Cost of Service	12,261,723	12,407,644	12,957,829	13,364,229	13,718,131
Reserve Movement	1,093,549	1,129,549	1,167,549	1,207,549	1,207,549
Other - Financing, Vacancy Factor etc	(1,160,960)	(982,958)	(797,138)	(816,646)	(826,345)
<b>subtotal</b>	<b>12,194,312</b>	<b>12,554,235</b>	<b>13,328,240</b>	<b>13,755,132</b>	<b>14,099,335</b>
<b>Funding</b>					
Grants	(1,306,298)	(1,306,298)	(1,306,298)	(1,306,298)	(1,306,298)
Council Tax	(4,876,294)	(5,190,866)	(5,396,679)	(5,610,350)	(5,831,675)
Business Rates	(5,503,597)	(5,377,837)	(5,680,462)	(5,869,772)	(6,066,726)
<b>subtotal</b>	<b>(11,686,189)</b>	<b>(11,875,001)</b>	<b>(12,383,439)</b>	<b>(12,786,420)</b>	<b>(13,204,698)</b>
<b>Use of Budgetary Stabilisation to balance</b>	<b>(508,123)</b>	<b>(679,234)</b>	<b>(944,801)</b>	<b>(968,711)</b>	<b>(894,637)</b>
					<b>(3,995,506)</b>

Over the course of the MTFs the current cumulative projected deficit is £4.0m. The graph below the table shows the usage of the Budgetary Stabilisation Reserve to balance the budgets based upon the current financial assumptions within the MTFs. As the graph clearly shows without further action to bring the budgets back into balance the Budget Stabilisation reserve will be used up by the end of 2026-27.



The significant budget movements since the 2023-24 budget and MTFS was approved by Full Council in February 2023 are as detailed below:

	2024-25	2025-26	2026-27	2027-28
2024-25 - MTFS	(508)	(679)	(945)	(969)
2023-24 - MTFS	(348)	(103)	(231)	(138)
<b>Movement</b>	<b>(160)</b>	<b>(576)</b>	<b>(714)</b>	<b>(830)</b>

**(adverse) / favourable Movement**

Pay Award	(758)	(1,069)	(1,268)	(1,459)
Support for Active Torridge	(103)	(103)	(103)	(103)
Income from Planning Applications	(132)	(132)	(132)	(132)
Vehicle Parts & Services by Private contractors	(140)	(140)	(140)	(140)
Inflation	(212)	(108)	(103)	(97)
External Audit Fees	(95)	(95)	(95)	(95)
Transfer to Reserve	(95)	(95)	(95)	(95)
Insurance	(88)	(88)	(88)	(88)
Council Tax Income	(70)	48	49	51
Contract Cleaning Services	(48)	(48)	(48)	(48)
Net Interest	567	409	251	261
Business Rate Income	613	180	187	195
Net Settlement funding	146	137	127	117
Homelessness/Temporary Accommodation	399	399	499	549
Waste Recycling Platform		145	290	290
Net Agency costs	(96)	75	80	89
Balance	(48)	(91)	(125)	(125)
	<b>(160)</b>	<b>(576)</b>	<b>(714)</b>	<b>(830)</b>

## 9. Assumptions

The budget 2023-24 and MTFS makes use of various assumptions, the key ones of which are discussed below.

- **Central Government Grant Funding**

The 2024-25 settlement was only a one year settlement. The details of which are shown within 5.1. For the period of the MTFS the 2024-25 settlement levels have been assumed to continue. In practice we will hope for a small increase.

- **Council Tax Income**

In setting the Council Tax base and estimating the total income to be derived from Council Tax, an assessment of the expected non collection of Council is required. For 2024-25 and the other financial years of the MTFS a collection rate of 98% has been assumed.

The MTFS assumes that Council Tax will rise up to the referendum levels for each financial year of the MTFS and the increase in the tax base continues along current trends. From 2025/26 onwards, receipts from Council Tax include an amount for the second homeowners premium. This £200k will make a useful contribution to the costs of delivering Temporary Accommodation but is still much less than half of what the council spends.

- **Business Rates**

The MTFS only assumes modest growth in the business rate base of the Council of 1.5% and a 2.5% increase in the multiplier. Where planning applications have been made for renewable energy schemes (100% of business rates income retained by Torridge Council), an estimate of future income has been included with the MTFS.

- **Income from short term treasury deposits**

In response to rising inflation the Monetary Policy Committee has increased the Bank of England's base rate over the last couple of years. Consequently there has been a marked rise in the income the Council has obtained from its short term treasury deposits and interest earned on its current account. Income from short term treasury deposits and interest accruing on the Council current bank account over the last few years has shot up from low tens of thousands up to 2022/23 to over a million in 2023/24.

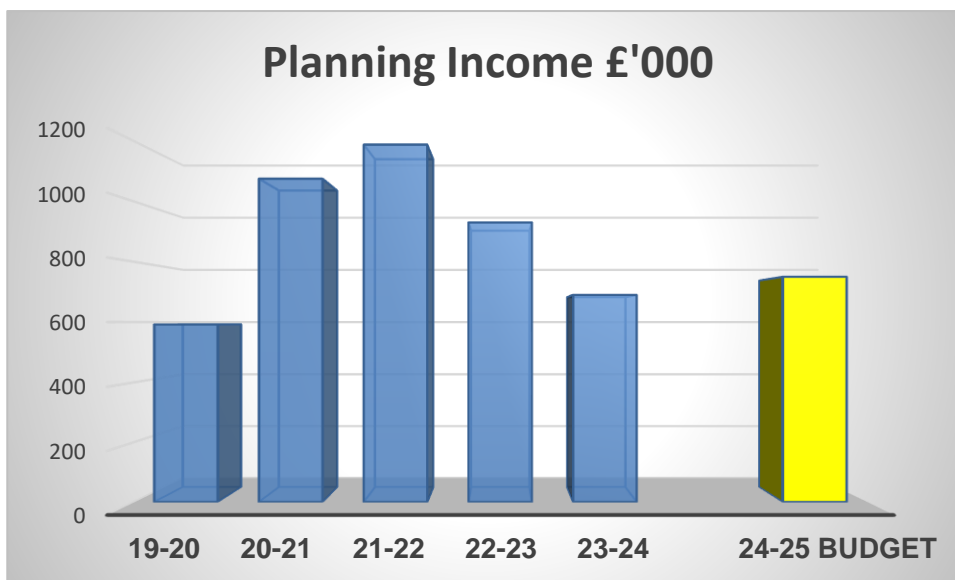
Projecting future income from short term treasury deposits and interest earned on the current bank account is difficult as it is dependant upon both future interest rates and the timing of future capital expenditure (e.g. Operational Centre, Maritime Innovation Centre etc.). The MTFS assumes an average deposit of £20m earning 4% in 2024/25, but then incremental reductions in future years as reserves are drawn down.

Whilst the Council benefits from high interest rates with respect to its short term treasury deposits, high interest rates also increase the borrowing costs associated with those large capital projects.

- **Income from Fees and charges**

For the majority of the Council's fees and charges the annual income fluctuates within relatively narrow boundaries. However this is not the case for all fees and charges. Predicting income from planning applications is challenging since a few major planning applications can cause significant swings in income.

Income from Planning Applications over the last few financial years is shown below.



The budget for planning income in 2024-25 and for the remaining years of the MTFS has been set as £750k. Clearly the last few years have been volatile with regards to Planning Income. As prices for planning applications are set by statute and the Council can only process applications as they are submitted, it is not in the position to forecast income with any substantial degree of certainty. It remains to be seen how any economic downturn will impact upon planning income. The recent increase in statutory planning fees should offset some of the impact of the downturn.

- **Pay awards**

Government has made a commitment to increase the National Living Wage (NLW) in line with inflation.

The 2023-24 pay award at a flat rate of £1,925 per annum resulted in an increase to the Council's pay bill of 7% (against a budgeted allocation of 5%). The MTFS assumes a pay award of 4.5% for 2024-25. Pay awards of 3% are assumed for the remainder of the MTFS period. For information every 1% increase to pay awards results in an increase to the Council's pay bill of circa £120k.

Torridge is a member of the Local Government Association pay bargaining group and therefore does not set its own pay award.

- **Homelessness**

Having recently experienced large increases in expenditure on Temporary Accommodation, the 2024/25 budget now anticipates reductions in cost on the back of increases to capacity. Further reductions are budgeted across the MTFS as further investments and remodeling are undertaken.

If the Council agrees to establish the second homeowners premium then alternative funds will be available to meet the costs of this service.

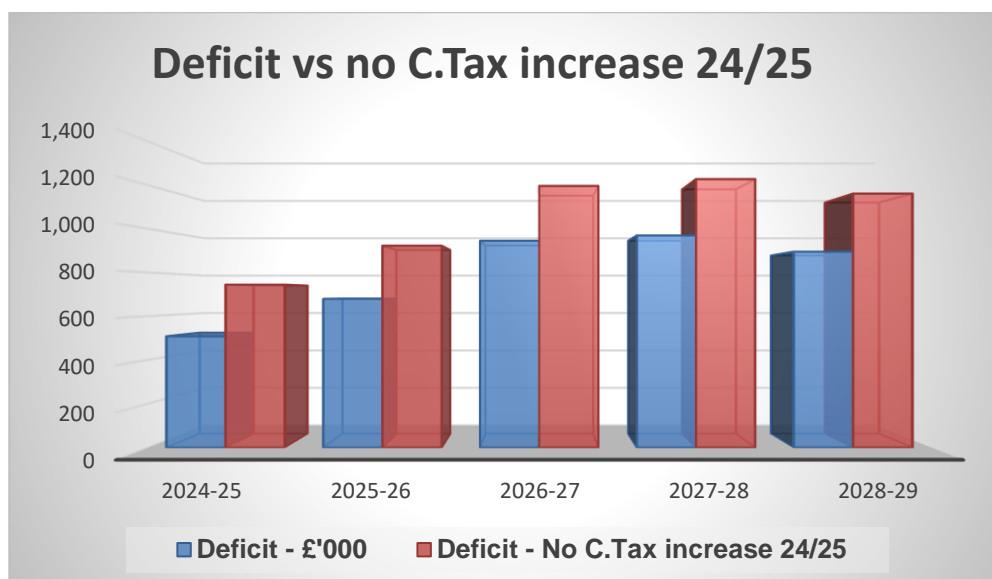
## 10 Risk and sensitivity

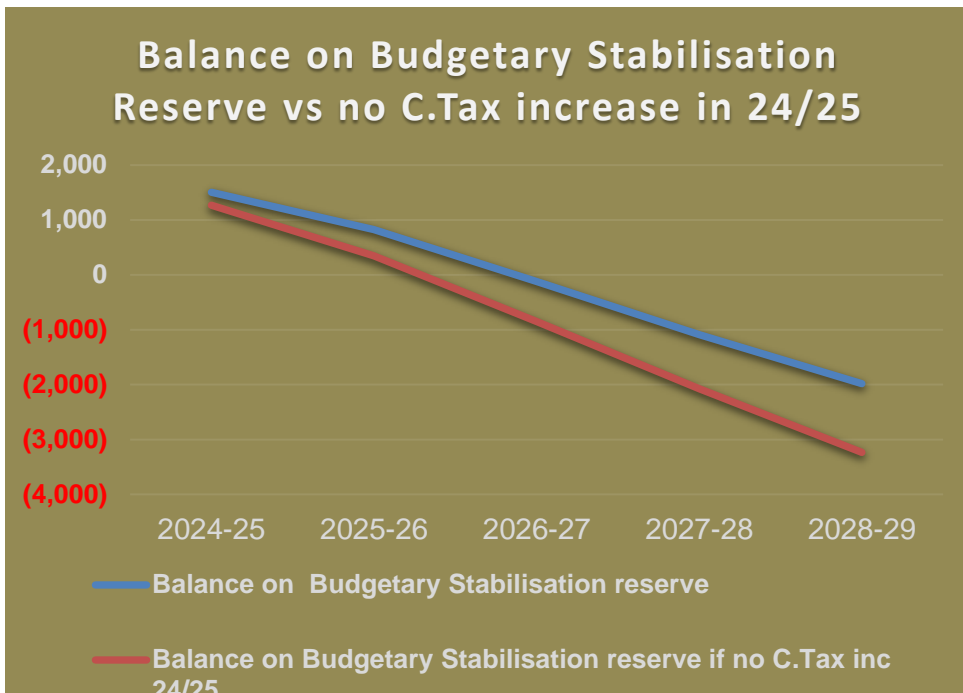
10.1 The MTFS is based upon projections and assumptions. There are risks to the Council's finances if the assumptions upon which the MTFS is based are erroneous. The impact of changes to some of the key assumptions within the MTFS are shown below to demonstrate the potential impact of movement in the key assumptions.

- **Council Tax Increase**

The MTFS assumes the Council Tax will rise by the referendum level (2.99%) for the duration of the MTFS. If the decision was made to not increase Torridge's Council Tax for **2024-25**, then the impact upon the MTFS is as shown in the charts below (figures in £'000).

As the charts show the increased deficit arising from not increasing Council Tax for just one year would result in the Budget Stabilisation reserve going into deficit during 26/27; with a deficit of circa £0.5m. The cumulative costs of not increasing the Council Tax being over £1m over the period of the MTFS.





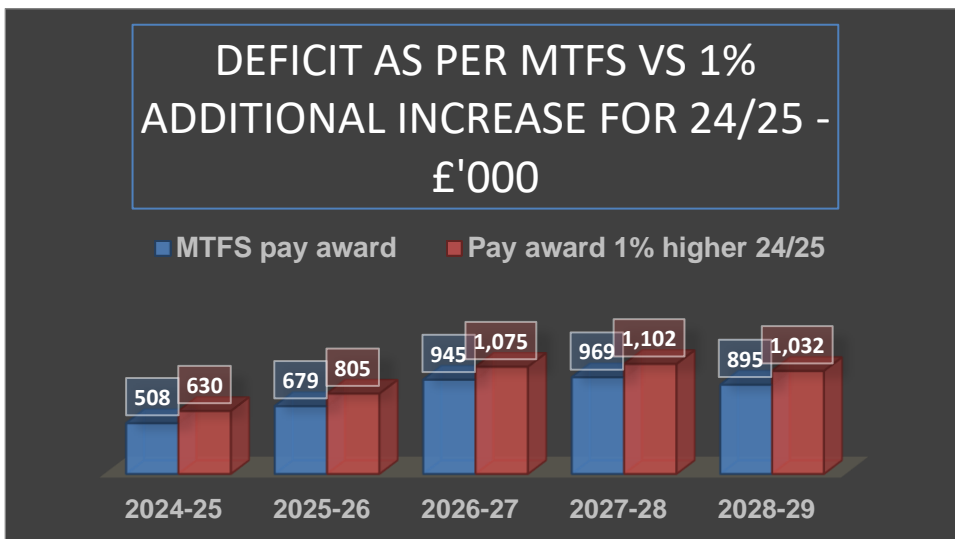
- **Pay awards**

As the single biggest item of expenditure increases to pay above those projected within the MTFS represent a significant area of risk to the financial health of the Council.

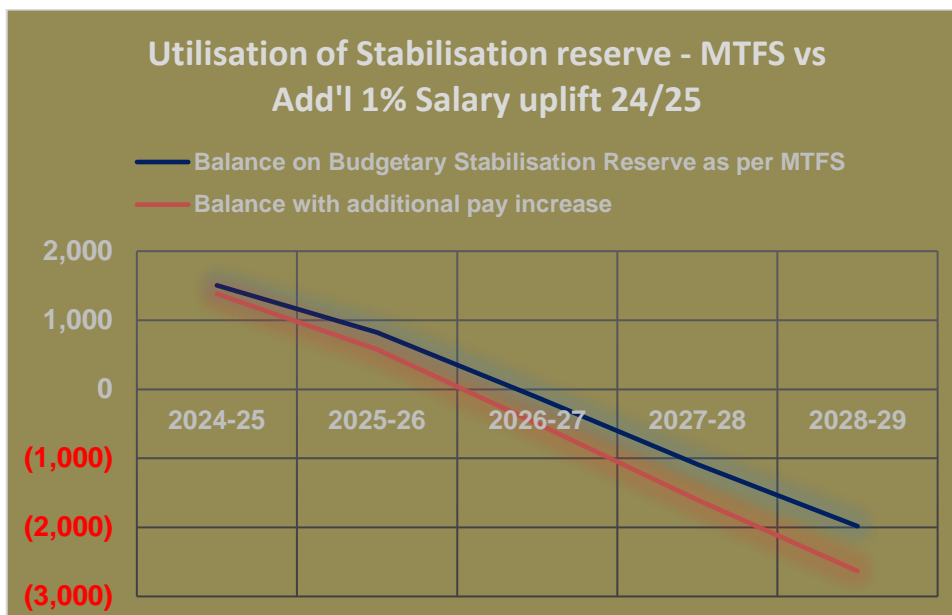
The current projected pay awards over the life of the MTFS are:

- 2024-25 4.5%
- 2025-26 – 2028-29 3%

If actual salary uplifts for 2024-25 were to be 1% more than those forecast within the MTFS then the impact would be as detailed in the chart below.



The chart below shows the impact of increased pay award on the utilisation of the Budgetary Stabilisation Reserve. As pay represents the biggest item of expenditure for the Council, the cumulative impact of the additional 1% increases in salary in 2024-25 has a significant impact on the Budget Stabilisation reserve.



- **Interest Rates impact on income from short term treasury deposits**

The Council has seen a dramatic increase in its income from short term treasury deposits because of increases to the Bank of England Base Rate and due to slippage in the capital programme.

Whilst the Council cash balances going forward are difficult to predict as they are dependant upon the timing of capital expenditure; based on current projections a 1% **rise or fall** in interest rates would impact on the Council's income from short term treasury deposits by £200k.

- **Central Government Grant Settlement**

As previously stated, 2024-25 was a one year settlement. Government has signalled that the Fair Funding review will not take place during the current parliament. It is widely expected that shire districts like Torridge will fare poorly under a fair funding review as they have benefited to a larger extent from the Business Rate Retention scheme than unitary authorities and county councils.

Given the pressures Unitary Authorities and County Councils face in dealing with their statutory obligations for adult social care, it would be prudent to anticipate some relative realignment of funding between upper tier and lower tier authorities.

## 11. Council Reserves

11.1 In addition to the Budgetary Stabilisation reserve, the Council holds other reserves, the majority of which have been assigned for Capital purposes. The projected make-up of the Council's reserves as at 31<sup>st</sup> March 2024 is as below:

	<b>£'000</b>
Capital Reserves	6,301
Transition in Government Funding Reserve	2,008
Other Earmarked Reserves	4,682
<b>Total</b>	<b>12,991</b>

11.2 In addition to the specific reserves held above, a sum of £1.103m is also set aside as the General Fund Balance. This balance is there to deal with unforeseen events that cannot be

foreseen or budgeted. The balance on the General Fund being 9% of the Council's Annual net budget.

- 11.3 The current level of monies held is considered appropriate in light of the existing and increased levels of risks associated with Torridge's current operational activities and responsibilities and the sum held is periodically risk assessed taking account of any new and emerging risks.
- 11.4 The Council utilises transfers to reserve to set aside funds for future commitments. The table below outlines the funds to be set aside over the MTFS, based upon the assumptions made regarding the Council's income post 2023/24.

<b>Budgeted contributions to / (from) Reserves</b>	<b>2024-25 - £'000</b>	<b>2025-26 - £'000</b>	<b>2026-27 - £'000</b>	<b>2027-28 - £'000</b>	<b>2028-29 - £'000</b>
Vehicle Replacement Reserve	721	757	795	835	877
ICT Replacement	80	80	80	80	80
General Capital Contribution	180	180	180	180	180
Property Maintenance	75	75	75	75	75
Planning Appeals	20	20	20	20	20
Funding of Apprentices	(40)	(40)	(40)	(40)	(40)
Other	57	57	57	57	57
<b>Subtotal</b>	<b>1,093</b>	<b>1,129</b>	<b>1,167</b>	<b>1,207</b>	<b>1,249</b>

## 12 Looking forward

- 12.1 Though the current year budget has only modest uses of reserves to meet expenditure, the MTFS presented requires the full application of the Budgetary Stabilisation reserve to achieve balance. However, this reserve is due to run out after three years with the planned draw down and so the financial position shown here is clearly unsustainable. It is also the case that the Budgetary Stabilisation Reserve is only intended to be a temporary support while the transition to an alternative operating model is developed.
- 12.2 It is also the case that, as the sensitivity analysis in section 10 shows, the Council's finances can come under further pressure if some key assumptions prove to be erroneous. This includes the staff pay award, Council Tax increases, Central Government funding or service pressure.
- 12.3 In supporting the production of the 2024/25 budget the Member Budget Working Group (MBWG) has in 2023/24 looked at Car Parking and Green Waste charges, support to Council Tax payers and external groups, and the Capital Programme. For the following financial year it seems likely that the group will have a broader scope of work and will have clear targets to meet.
- 12.4 The deficit figures contained within this MTFS may appear daunting but the Council has a proven record in identifying and delivering savings and there are future options available that will assist in bringing income and expenditure back in to balance.

The table shown below provides an illustration of options that are available that could bring down costs or increase income.



	2024- 25 - £'000	2025- 26 - £'000	2026- 27 - £'000	2027- 28 - £'000	2028- 29 - £'000	
<b>Funding Gap (use of Budgetary Stabilisation reserve)</b>	<b>508</b>	<b>679</b>	<b>945</b>	<b>969</b>	<b>895</b>	<b>3,996</b>
Cumulative Use of Budgetary Stabilization Reserve	(508)	(1,187)	(2,132)	(3,101)	(3,996)	
Potential Proposals						
Support to Active Torridge		(35)	(70)	(70)	(70)	
Transition to a Single Operational Centre			(50)	(70)	(90)	
Increases to Car Parking Capacity	(30)	(60)	(60)	(60)	(60)	
Increased Planning Income	(200)	(200)	(200)	(200)	(200)	
Higher interest on Cash Balances	(200)	(200)	(200)	(200)	(200)	
<b>Subtotal - revised funding Gap</b>	<b>78</b>	<b>184</b>	<b>365</b>	<b>369</b>	<b>275</b>	<b>1,271</b>
Subtotal - revised balance on Budgetary Stabilization Reserve	(78)	(262)	(627)	(996)	(1,271)	

- Certain reduction to the Management Agreement to Active Torridge are included within the MTFS but if further improvements to the trading position are experienced and/ or investments in energy efficiency are undertaken then the necessary support could fall further.
- Waste Services move to a single site is not predicated on financial efficiencies, but it is entirely feasible that synergies are achieved as the move occurs.
- The MTFS includes within it certain uplifts for inflation for fees and charge, but increases in capacity from within existing facilities could also provide an opportunity to increase income and provide a better service.
- Income targets in the budget related to Planning and Treasury Management are based upon amounts that we are confident will be achieved. However, they are large and volatile areas where there is a significant upside.

The items shown in the above table are not enough to return the council to a balanced budget but provide an illustration of the opportunities available to the council over the next few years.

### 13. Robustness of the Budget

Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (s151 Officer) of a billing or major precepting authority to report to Members on the following matters.

- The robustness of the estimates made for the purposes of the budget calculations.
- The adequacy of the proposed financial reserves contained within the budgets.

#### Robustness of Estimates

The estimates have been calculated based upon the information contained within the work and associated papers and guidance used to forecast the Medium Term Financial Strategy 2024/25 to 2028/29 within this report.

The following represent the areas of greatest uncertainty over the period of the MTFS

- Costs associated with meeting the Council's obligations to residents at risk of homelessness.
- Central Government review of local authorities needs and resources
- Future planning income
- Inflationary pressures, construction price inflation, utilities and staff pay awards

The final consideration is that this Council has a robust performance management framework in place with regular reports being presented to the Senior Management Team, Overview & Scrutiny (Internal) and Community & Resources Committees. This framework provides additional reassurance that budgets are proactively monitored and controlled throughout the financial year.

Taking all of the above into consideration, the budget which has been recommended for approval by Council is sufficiently robust for members to use it as a basis for approving the proposed Council Tax for 2024/25 and the use of financial reserves.

## **14. Risk Assessment**

The major risks associated with the achievement of both the Budget 2024/25 and the MTFS is that the major assumptions and forecasts highlighted in section 8 and 10 are significantly different. They are mere forecasts so we do expect them to change in both positive and negative ways and the Finance Team regularly monitor and update our forecast position when new information comes to light.

### **Implications**

#### Legal Implications

The Council is required to set a balanced annual budget.

#### Financial Implications

These are contained in the report.

#### Human Resources Implications

These will form part of the detailed budget consideration.

#### Sustainability Implications

These will form part of the detailed budget consideration.

#### Equality/Diversity

These will form part of the detailed budget consideration.

#### Risk Management

The Council will be required to reduce net expenditure over the medium term. The MTFS (section 8) indicates the level of reduction required and reduces the risk of not achieving a balanced budget or identifying savings that are not achievable.

#### Compliance with Policies and Strategies

Forms part of the strategy process.

#### Lead Member Views

Councillor Bushby:

Date of Consultation – 18th January 2024

"I am happy to present a budget which in historically financially challenging times still manages to maintain service provision and support for communities. Unfortunately to achieve this, it is necessary to raise Council tax by the maximum permitted. The savings targets for future years also emphasise the importance of seeking to maintain funding from Council Tax.

I support the recommendations in the report.”

## **Conclusion**

Local Authorities across England are under increasing financial strain. This is due to a combination of factors, the most immediately relevant being the impact of inflation, the poor settlement from Central Government and increased responsibilities. This report highlights the uncertain financial challenges faced by Torridge Council and our financial plan for the next five years.

Though there are large and unsustainable budget gaps, there is confidence that the council can overcome the challenge and restore a financial balance.

## **15. Recommendations:**

### **Recommend to Full Council**

That Members consider the recommendations of Community & Resources on the 29<sup>th</sup> January 2024 and Internal Overview & Scrutiny on the 6<sup>th</sup> February 2024 to Full Council that

- a) Torridge’s Band D Council Tax for 2024/25 be increased by (2.99%) from £184.00 to £189.50 per year
- b) Torridge’s Net Revenue Budget 2024/25 is £12.194m
- c) The contributions to the Council’s reserves as outlined in paragraph 11.4 are approved.
- d) That in light of the risks to the Council’s finances identified within the report that the Member Working Group continue its work to bring the Council’s budgets back into balance.

That members note:

The Chief Finance Officer (s151 Officer) assurance of the robustness of the budget 2024/25 set out in section 13 of the report.

Note the assumptions and forecast applied to develop the MTFs outlined in section 9.

Note the risks associated with the Budget 2024/25 and MTFs outlined in section 10.

## **SUPPORTING INFORMATION**

Consultations:	Date of Consultation – 18 January 2024
	Leader - Councillor Ken James
	Lead Member for Finance – Councillor Doug Bushby
	Officers Consulted –
	Steve Hearse Chief Executive
	Sean Kearney Head of Communities and Place
	Staci Dorey Head of Legal & Governance
Contact Officer:	Gordon Bryant – Section 151 Officer