CABINET

URN 23-174

Subject **Medium Term Financial Strategy 2024/25 to 2026/27**

Report to **Cabinet and Council**

Date of meeting: 13 November 2023, 14 December 2023

Responsible Cabinet Member: Cllr Carl Smith, Portfolio Holder for Governance, Finance and Major Projects

Responsible Director / Officer: Executive Director, Resources

Is this a key decision? Yes

SUBJECT MATTER/RECOMMENDATIONS

This report presents an update to the Council's Medium Term Financial Strategy (MTFS) and covers the period 2024/25 to 2026/27.

Recommendations:

That Cabinet recommend to Council the following:

1) The updated Medium Term Financial Strategy (MTFS) and the key themes of the business strategy as outlined at Section 8;
2) Continue with the business rates pool for 2024/25 subject to the finalisation of the forecasts for 2024/25 and the outcome local government finance settlement, to delegate authority to the Section 151 Officer in consultation with the Leader to approve.

1. Introduction and Background

1.1. The Council receives a refesh of the Medium Term Financial Strategy annually which is revised in light of known spending pressures taking into account the wider economic context. There is a legal requirement to set an annual budget and set the Council tax each year and part of this includes a number of preparatory reports and pieces of work that are prepared in support of setting the budget one being the update of the Council's Medium Term Financial Strategy (MTFS).

1.2. The MTFS sets out the context within which the financial planning for the Council is undertaken and the priorities (the business strategy) that will mitigate future funding gaps. The MTFS also includes the latest financial projections for the three years that are covered by the strategy and have been informed by known pressures in the current year and levels of inflation and interest rates. This is ahead of the provisional settlement announcement and the detailed work on the service budgets for 2024/25.

1.3. There continues to be significant uncertainties around funding for Local Government as the sector faces continued inflationary pressures for both day to day revenue spend and capital projects. The challenges that the Borough Council are facing are not unique, with reports of all tiers of authorities facing continued financial pressures being made public on a regular basis, it flags the pressures facing the sector and the need for timely decisions on local government funding reviews.

2. Financial Forecasts

2.1. The financial forecasts have been updated within the MTFS to reflect the known in-year pressures and assumptions around what future funding may look like. Due to the size of the forecast gap in the current financial year and the medium-term forecasts there will be a requirement to use reserves to partly fund the deficit and the target of £2m saving for the 2024/25 budget has been set. Meetings have already been held with Members to discuss savings and additional income proposals for the 2024/25 and future budgets, further meetings will be held in the coming months as the detail of the 2024/25 budget is pulled together and the savings proposals finalized.

2.2. Use of reserves is an option to mitigate some of the impact, however significant savings will be required over the medium term.

2.3. The current forecasts are projecting a budget gap of £2.5m in 2024/25, increasing to £3.3m in 2025/26 and to £4.1m in 2026/27. This is before the detail on the budget is finalized for the coming year and these forecasts will be updated as part of this work and once the provisional settlement is published in December.

3. Financial and Business Strategy

3.1. The MTFS outlines the following key themes for the business strategy:

3.1.1. Strategic Asset Management

3.1.2. Economic and Housing Growth

3.1.3. Property Investment and Commercialisation

3.1.4. Technological Investment

3.1.5. Partnerships

3.1.6. GYBC Operating model

3.1.7. Savings and additional Income

3.1.8. Sustainability Strategy.

3.2. The above themes are presented in more detail within the MTFS and savings and additional income proposals will be brought forward for consideration as part of the budget that are aligned to these key priorities.

4. Housing Revenue Account

4.1. The priorities for the HRA investment plans are to continue to maintain and improve the housing stock and also the provision of new affordable council housing including replacing sales under the right to buy scheme. During 2024/25 the Council will change the delivery model for the provision of the repairs and maintenance service for the housing stock as the current arrangement with Great Yarmouth Norse ends in September 2024. A project is currently underway for the future delivery of the service and the costs of the new service delivery will be reflected in the 2024/25 budget. The HRA is faced with similar financial challenges in terms of increasing costs and the impact of rent capping that was put in place in

2023/24, no announcements have yet been made for 2024/25, although the impact of this on the HRA business plan continues to be monitored. The detail of the HRA business plan for 2024/25 is currently being worked upon and will be reported to Members in the new year.

5. Financial Implications

5.1. The commentary within the MTFS has highlighted the financial challenges that continue to face the Council for both capital and revenue spend.

5.2. The Council continues to hold earmarked and general reserves and the MTFS recommends re-allocations of some of the earmarked reserves to the general reserve to strenegthen the general reserve.

6. Risks

6.1. The risk and sensitivity section within the MTFS includes the more significant risks.

7. Conclusion

7.1. The economic climate of high inflation and interest rates and demand for services for example temporary housing has impacted on the financial position of the Council in a significant way. It is a legal requirement to set a balanced budget each year and there will be a need to identify and deliver significant savings and additional income in the short term to medium term in addition to using reserves to manage the risks.

7.2. The assumptions included in the MTFS will be subject to review as the detail of the 2024/25 budget is finalised.

8. Background Papers

8.1. 2023/24 Budget monitoring reports

8.2. 2022/23 outturn report and statement of accounts

8.3. Funding announcements and financial modelling

Area for consideration Comment	Comment
Monitoring Officer Consultation	Consultation via ELT
Section 151 Officer Consultation	Report Author
Existing Council Policies See background papers	
Financial Implications eg within existing budgets or funding identified	Within report
Legal Implications (including human rights)	
Risk Implications	
Equality Issues/EQIA assessment (if EQIA not required explain why)	None as a direct consequence of the report, as the budget is finalised, full EQIA's will be completed as applicable
Details contained in strategy	
Crime & Disorder	
Every Child Matters	

Medium Term Financial Strategy 2024/25

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Contents

1. Introduction and background

1.1. The Medium-Term Financial Strategy (MTFS) is updated annually in response to changing pressures and opportunities and supports the preparation of the coming years budget.

1.2. The MTFS supports the delivery of the Council's priorities by setting out the framework within which resources are available to the Council over the medium term. It provides high level financial projections taking into account known local and national factors, spending pressures and commitments, forecast of future funding reductions and the economic outlook.

1.3. The MTFS is a strategic document that supports the delivery of the Corporate Plan The Plan 2020-2025 . Great Yarmouth Borough Council's sets out the Council's commitment to drive and facilitate in the following four strategic areas:

- a strong and growing economy
- improved housing and strong communities
- high-quality and sustainable environment
- an efficient and effective council

1.4. The MTFS along with the updated financial forecast outlines the demands on the capital programme of both ambition and resources, the impact on the revenue account (for both housing and non-housing) and on the level of reserves held by the Council. Furthermore, the longer-term ambitions of the Town Deal, Future High Streets and Levelling Up funding are significant investments that will support the delivery of the Corporate Plan and are also linked to the priorities of the MTFS.

1.5. Finally, the strategy addresses both the sustainability of the Councils financial position and examines the more significant risks inherent in the proposals.

2. National Context

2.1. There continues to be significant uncertainty around Local Government Funding and Policy, namely delays to fundamental reviews i.e., the fair funding review and the business rates retention review that will inform the future funding for local services. In addition, like all local authorities Great Yarmouth Borough Council (GYBC) face significant financial challenges due to inflationary rises to both capital and revenue costs.

2.2. The continued economic uncertainty further exacerbates these challenges. There have been significant shifts in the economy whilst September saw CPI rates remain unchanged at the August level of 6.7% month on month increases had been 0.5%. Over the past 12 months there has been continued increases to the Bank of England base rate to 5.25% which remained unchanged at the September 2023 meeting of the Monetary Policy Committee. These factors coupled with the increases to fuel and utility prices are having and will continue to have a financial impact to Local Authorities in the short to medium term.

2.3. The Autumn statement will be made by the Chancellor later in November which will set out the plans for the UK economy for the next 12 months. Until the detail behind the announcements is made the impact for Local Government funding will not be known until later in the year, in the meantime the council is still required to make preparations for the budget for the coming financial year. Announcements on the provisional Local Government Finance Settlement are not expected until later December (before Christmas), although the 2023/24 plus inflation is the basis for the funding assumptions for 2024/25.

2.4. It remains important that the Council continues to adopt a prudent approach for its medium-term financial strategy to set priorities that will support and deliver savings, additional income and efficiencies for the Council. The continued uncertainty further curtails the ability to provide accurate financial projections and forecasts over the medium term, the forecasts are therefore reliant assumptions.

2.5. The key themes of the MTFS as outlined in the business strategy section of the document remain critical to delivery of a balanced budget for 2024/25 and future budget setting. Despite the national uncertainty, the refresh of the MTFS is required to inform the detailed budget setting process for the 2024/25 budget ahead of approval of the budget in February 2024.

3. Key Budget Pressures and Resources

3.1. This section provides an update on the financial resources available to and spending pressures facing the Council along with the assumptions to inform the updated projections. Internal resources are influenced by local decision making, for example council tax, sales, fees and charges, rentals, capital receipts from asset disposals and use of available reserves. External resources include government grants, business rates although whilst the Borough Council collects the rates, it does not set them and has very little discretion over reliefs that can be granted, however local decisions that support future growth in business rates will see a direct benefit returned to the council through the business rates retention scheme.

3.2. **Government Grants** – The allocation in 2023/24 of revenue support grant (RSG) is £2.6m. It is expected that this will roll over to 2024/25 with an inflationary increase. Future allocations of RSG will dependant on the reviews of local government funding namely the fair funding review and business rates reset which are now not expected to be delivered until 2025/26 or possibly 2026/27 depending on the timing of a General Election. The Council continues to be one of the largest receivers of RSG compared to similar tiers of authorities, this is primarily due to the previous method of funding allocation for local government reflecting local characteristics of deprivation and spending. This remains a risk for future funding reforms.

3.3. Allocations of Services Grant (£155k) and Funding Guarantee Grant (£263k) were made in 2023/24, the forecasts assume that these continue in 2024/25.

3.4. **Long-Term Plan for Towns** – On 1 October funding and support totalling £20m was announced for Great Yarmouth as part of the new "Long Term Plan for Towns". Detailed guidance on the fund is still to be announced on the £1.1 billion funding that is being invested into 55 towns. From the information that has been published to date, the following in known:

- towns will be required to develop a Long-Term Plan to invest in and regenerate their town
- funding is to be allocated over 10 years to support the plan to be spent on issues that matter to local people including regenerating high streets and securing public safety
- funding and support of £20 million (25% resource and 75% capital).

3.5. The conditions of the funding and what the funding can be used for is not known and as further guidance is received, this will be taken into account as part of the setting of the capital and revenue budgets.

3.6. **New Homes Bonus (NHB)** – New homes bonus has been part local government funding for over ten years and reforms are long awaited. The aim of the scheme was originally to incentivise and reward Councils for building new homes in their areas. The grant is calculated by multiplying the national average council tax by the net additional homes growth (net of movements in long-term empty properties and demolitions), in addition to additional supplement of £350 per affordable dwelling. The system splits the grant between local authority tiers; 80% to the lower tier (GYBC) and 20% to the upper tier (NCC) with annual allocations of NHB Grant being announced as part of the finance settlement based on annual returns.

3.7. There are fundamental flaws in the current system in that those authorities with fewer sites and low land values are disadvantaged even when meeting their local plan housing targets. There is a clear inequity in the current system due to the factors that drive the delivery of new homes, for example land value, number of housing developers operating in an area and local demographics that influence the number of homes that are delivered. The current system makes no allowances for those areas that have a higher-than-average proportion of lower council tax banded properties, such as Great Yarmouth, for example 68% of the properties in the borough are in bands A and B, compared to a national average of 41% and county average of 55%. There is a potential for a further year of NHB funding allocation, at this time, no additional funding has been factored into the forecasts.

3.8. **Business rates retention** – The current system of business rates retention sees 50% of the rates collected locally retained for the provision of services and has been in place since April 2013. Under the scheme business rates are shared between central and local government. The current splits are 50% local (40% Borough and 10% County) and 50% central government.

3.9. The localised scheme is not without risk and complications. Businesses have the right to appeal the valuation of their premises which if successful can be backdated. Local Authorities can mitigate some of the risks of the payment of successful appeals through the making of provisions against which payment of appeals are made. The risk is whether the provision raised is sufficient to cover refunds as they materialise.

3.10. The current business rates system allows pooling whereby growth that would be paid to central government can be retained in the pool. Norfolk Local Authorities have operated a business rates pool since the introduction of business rates retention, albeit with varying membership over the years and due to the uncertainty of the impact of covid on business rates in 2021/22 the Norfolk pool (of all Norfolk authorities) was disbanded. It is recommended that the Council continue to be in the business rates pool for 2024/25.

3.11. **Council Tax** – The current band D equivalent for the boroughs Council tax is £181.48. The maximum annual council tax increase for a district council is set by government at 3% or £5 (band D) above which would trigger a referendum. The current strategy assumes annual increases of £5 per annum. 2023/24 was the first year that the annual increase to the cap would have been slightly above the £5 at to £181.76, an increase of £5.28. The current capping for Council tax for borough and district councils is the same irrespective of the current D, for example the lowest Band D of £110.46 to the highest of £395.64 for 2023/24 meant that the maximum increases for band D ranged from £5 to £11.86 for a band D property.

3.12. It is recommended that the MTFS reflect increases to band D to maximum Band D for the borough element, this would mean a band D of £186.91, an increase of £5.43.

3.13. Second Home Premium – Originally anticipated to be in place for 2024/25 from the Levelling up Bill, this is likely to be implemented from 2025/26 now, it will require approval for the charging and would deliver in the region of £180,000 of additional Council Tax Income per annum and would be prudent to factor into future financial forecasts.

3.14. The Council tax base is an assessment of the number of dwellings expressed in Band D equivalents after allowing for non-collection, discounts, and new property growth. The tax base for 2023/24 is 29,851, the annual forecasts assume an annual increase of 500. The level of council tax discounts has a direct impact on the net collectable council tax and therefore income that is received in the general fund. The Local Council Tax Support Scheme (LCTS) is essentially a discount that supports those households and individuals that are on low income. The scheme for 2024/25 is currently out for consultation and any changes will impact on the tax base for 2024/25.

3.15. **Sales, fees and charges** – Income from sales, fees and charges from the provision of services continue to be an essential source of funding for local authorities. These include income from demand led services for example, car parking, planning and building control and waste services. The general principles of the policy allow for annual increases of RPI plus up to 2% to cover the cost of service delivery. With the current level of RPI for 2024/25 the policy would allow for increases upto 10.9%. All fees and charges will be reviewed for the budget setting process and brought forward for recommendation.

3.16. In addition, within the levelling up bill the Government agrees that it is important for local planning authorities to have the resources they need to deliver an effective planning service. The bill if approved by Parliament, will increase planning fees by 35% for major applications and 25% for all other applications, with an indexation mechanism that will maintain the real value of the fees income. This is a national fee increase that will benefit all local planning authorities in England. No additionality of income has been factored into the financial projections at this stage due to the current pressures on the income budget and also investment required in the service to deliver planning performance.

3.17. **Interest rates** – The continued increase in the official Bank rate has put pressure on both the general fund and housing revenue account in terms of increased borrowing costs for capital projects. Whilst there has been some mitigation from increased interest receivable from investments the overall impact on capital projects need to be taken into account as part of the longer term capital programme delivery.

3.18. The borrowing requirements for the Council continue to be undertaken in line with the treasury management strategy. Due to slippage in the capital programme some of the planned borrowing will be re-profiled to 2024/25 this is therefore expected to mitigate the impact of the increased costs of borrowing costs in the year.

3.19. **Minimum revenue provision** – The MRP is set annually based on prior and forecast capital spend to be financed by borrowing, it reflects the allowance in the revenue account for the repayment of debt incurred for capital expenditure. New capital receipts identified and generated serve to reduce the need for external borrowing for capital purposes to smooth the future MRP charges. This approach continues to be proactively explored for significant capital receipts in the medium term to reduce the call on the revenue account of the impact of financing capital spend from borrowing.

3.20. **Employee costs** – The 2023/24 budget assumed an annual increase in the employee pay award of 5% per annum, this was following the final offer of £1,925 for the 2022/23 pay settlement. The final offer for 2023/24 of £1,925 upto spinal column point 43 then 3.88% above this is still to be agreed by all unions (at the time of production of the document).

3.21. **Council Tax** – Annual tax base growth has averaged 455 over the past 10 including 2021 which saw a reduction due to covid. An increase of 455 would add in the region of £235,000 per annum of additional Council Tax revenue (after allowing for a £5 increase in band D).

3.22. **Simpler Recycling Consultation** – The Government has recently published its response to the Simpler Recycling Consultation which includes the following:

- Councils won't have to put the reforms in place for households until April 2026
- Councils will have a lot of flexibility over the number of bins they have to provide, reducing the need for changes; and
- Charges for garden waste collection will continue as at present.

3.23. The reforms will place the following obligations on local authorities in respect of households:

- Collecting food waste on a weekly basis separately from all non-organic waste
- Collecting garden waste where requested
- Collecting dry recycling (card and paper, glass, plastics and metal) separately from residual and organic waste – but with no requirement to collect these dry recycling streams separately from each other.
- Councils will, therefore, have to provide no more than three bins (with an optional addition for garden waste).

3.24. There is anticipated to be funding for the above new burdens. Some of the funding will come from central government and some from (Extended Producer Responsibility) EPR, but all EPR funding for new burdens will be in addition to EPR to fund the existing commitments of local authorities in collecting and disposing of packaging waste. The exact amount of the funding and whether it will cover all the costs is not yet known and as further guidance is published plans will need to be made to implement the changes.

3.25. As further guidance and implications of the new requirements are issued, the financial projections will be updated accordingly, at this time no allowance has been made for any impact.

3.26. **Net cost of services (NCS)** – The detailed budget monitoring reports have highlighted pressures on the revenue account in the current year. The more significant areas experiencing pressure are property services income levels for which some pro-active review work is underway within the service to mitigate where possible shortfalls in income in the current year. Further work aligned to the asset management plan including a review of assets and liabilities need to be completed over a realistic timescale to inform future budget savings and additional income opportunities. The other significant pressure on the revenue account currently is in relation to temporary accommodation due to increased demand for housing. Alternative options are currently being considered and proposals will be brought forward for recommendation.

3.27. As the work on the detailed budget for 2024/25 is pulled together the service budgets will be updated to reflect the latest position in respect of inflation and demand. It is prudent to assume that the inflation on expenditure will be greater than the increase in the corresponding income, resulting in anticipated net growth in the net cost of services.

4. Updated Forecasts

4.1. The Council like all Local Authorities continues to face significant financial challenges. The continued inflationary rises and demand for services such as temporary housing places significant pressure on budgets that is not matched by funding. The increased reliance on reserves to fund in-year pressures as well as funding budget shortfalls is reducing the longer-term financial sustainability of Local Authorities across the sector and creating an even greater need to identify and deliver savings and additional income that can be sustained in the long term.

4.2. The production of the updated financial forecast from 2024/25 onwards is challenging due to the uncertainties around funding for local government exacerbated by the economic impact on inflationary pressures. However, the council must continue to plan and prepare for the setting of the annual budget. Taking into account the above factors and known pressures and making assumptions on the level of government funding for 2024/25 the three-year position is summarised in the table below.

£000	2024/25	2025/26	2026/27
Forecast Gap	2,514	3,282	4,100

4.3. The above position has been informed by the assumptions around future funding and reflects the known spending pressures and assumptions on these over the next three years. The above summary shows an increasing budget gap for the next three years estimated to be approaching £4.1 million by 2026/27, this is before the detail of the budget for 2024/25 has been produced.

4.4. Detailed work on the 2024/25 budget has already commenced between officers and Members with draft savings and additional income proposals being collated with the Management Team to critically review budgets and look at options to reduce the forecast gap for 2024/25. In addition, the key themes for the MTFS are included at section 8 and these will be the priorities to be taken forward for reducing the future budget gap.

5. Housing Revenue Account

5.1. Since the introduction of self-financing in 2012, the Housing Revenue Account (HRA) business plan has continued to be challenged by several changes. Right to buy (RTB) discounts have increased, rent-setting policy has changed and the current inflationary pressures places further challenges on the HRA.

5.2. The recent strategy for the HRA has been to keep the HRA reserves levels sufficient to mitigate any loss of revenue. The Council continues to be prepared for further reductions in resources available to manage, maintain, improve and add to its housing stock.

5.3. The contract for the provision of the maintenance and repairs service to the housing stock is currently provided by Great Yarmouth Norse (GYN) and comes to an end in September 2024, a project is currently underway for the future provision of the service which will see the Council taking full control. The GYN service has been undergoing transformation and it is anticipated that this will deliver efficiencies to the service. The full size of these savings will not be identified until the new model of delivery is confirmed and the budget setting process for 2024/25 and 2025/26 is underway as the implications of the overheads are yet to be quantified.

5.4. Additional borrowing currently maintains the affordable housing programme to comply with the RTB agreement. The current RTB regulations allow RTB receipts to be used to support up to 40% of the scheme cost of replacement homes, the time restrictions require that sale receipts must be utilised within five years from the sale of the dwelling.

5.5. Most fees and charges relating to the Housing Revenue Account have been increased in recent years in line with the corporate formula adopted by the Council, RPI + 2%, aiming to close the gap in terms of recovery of costs.

5.6. **Rent setting policy** – The Government set a cap for housing rents of 7% for 2023/24. Prior to this social landlords had been permitted to increase rents by CPI +1% (this had been in place since 2020/21). Without the cap, rents would have been allowed to increase by a maximum of 11.1%. No guidance has been issued on rent capping for 2024/25, currently if there is no capping rent increases could be to a maximum of 7.7%. Currently the HRA Business Plan assumes that cap was in place for one year and from 2024/25 the increases revert to the CPI +1%.

5.7. **Right To Buy discounts and retained receipts** - Right to buy discounts have increased since the introduction of Self Financing, the maximum discount increases each year based on the consumer price index (CPI). The business model has been amended to incorporate this change.

5.8. The HRA is still part of a retention agreement, where the HRA can retain receipts, to support up to 40% of the cost of replacement homes if incurred in a five-year period. If retained receipts are not used, the Council is liable for repayment of the receipt plus interest, sales and receipts are therefore closely monitored to mitigate any repayment liabilities.

5.9. The Council has set out a plan and ambition to use retained receipts to develop affordable council housing and to further increase the supply of affordable housing using a combination of four options:

- Grant contribution to Housing Association development
- Development of new build homes
- Purchasing empty homes on the open market
- Purchase of suitable properties on the open market.

5.10. **HRA Borrowing** - Following the removal of the HRA borrowing cap in 2018 the Council is able borrow against its housing assets as long as it can demonstrate affordability. The Council continues to actively review the best way to utilise the additional borrowing capacity within the HRA, to deliver further affordable homes within the Borough. The council plans to utilise revenue savings to finance additional borrowing within the HRA, along with the use of accrued 1-4-1 receipts, which may have otherwise been repaid to government along with the relevant interest.

5.11. Overall, the aim is to increase the levels of new housing within the existing housing stock and to increase net rental income received. The HRA continues to model the implications to the housing business plan, as well as identifying potential sites for the delivery of additional housing. Increased borrowing for the HRA will need to be able to demonstrate affordability and informed decisions taken to understand the longer-term impact to the HRA funding.

5.12. There are two key strands to the Council's HRA investment plans:

- maintaining and improving the housing stock
- new affordable council housing, including new housing to replace sales under RTB in line with Government guidance.

5.13. The plans are prepared over the medium term and are reviewed and updated annually. Future investment decisions will be based on local decision making and local knowledge of the condition of the stock and the components.

6. Reserves

6.1. This section provides an overview of reserves held by the Council. The Policy Framework for Reserves is reviewed annually alongside the setting of the annual budget. The reserves held by the Council fall within one of the following categories.

- General Reserve
- Earmarked Reserves (General Fund and Housing Revenue Account)
- Capital Receipts Reserve
- Housing Revenue Account Reserve

6.2. The General Reserve is held for two main purposes - to provide a working balance to help cushion the impact of uneven cash flows to avoid temporary borrowing, and as a contingency to help cushion the impact of unexpected events or emergencies.

6.3. As part of setting the budget each year the adequacy of all reserves is assessed along with the optimum level of general reserve that an authority should hold. The optimum level of the general reserve takes into account a risk assessment of the budget and the context within which it has been prepared, including the following factors:

- sensitivity to pay and price inflation and fluctuations in interest rates
- the level of savings that have been factored into the budget and the risk they will not be delivered as anticipated, both level and timing
- potential legal claims where earmarked funds have not been allocated
- emergencies and other unknowns
- impact of demand led pressures which impact on both income and expenditure
- future funding fluctuations
- level of earmarked reserves held
- a level of general reserve that is within 10% to 15% of net expenditure

6.4. A financial assessment is made of all the factors to arrive at a recommended level for the general reserve, which for the current year was assessed to be £3.5 million. The general reserve balance as at 1 April 2023 was £4.6 million, after allowing for the latest financial monitoring position in the year (before any preventative action) this could be reduced to £3.2 million.

6.5. **Earmarked reserves** provide a means of building up funds to meet known or predicted liabilities and can be used to set aside sums for major schemes, such as capital developments or asset purchases, or to fund restructurings as part of invest to save proposals. These reserves are earmarked until the amounts are budgeted to be taken from the reserves. Earmarked reserves can also be held for service projects and business units, which have been established from surpluses to cover potential losses in future years, or to finance capital expenditure. Earmarked reserves also provide a mechanism to carry forward underspends at the year-end for use in the following financial year.

6.6. For each earmarked reserve several principles should be established:

- the reasons for, or the purpose of the reserve
- how and when the reserve can be used – short to long term
- procedures for the reserve's management and control

6.7. The planned use of earmarked reserves are reviewed during the year as part of the budget setting and year end process.

6.8. The following provides a commentary on some of the more significant reserves that the Council currently holds and maintains:

6.9. **Invest to save** – This earmarked reserve provides resources to fund one-off/upfront costs for projects that will deliver future savings. Examples include:

- officer restructures, where one-off redundancy or pension strain costs might be payable subject to a business case that delivers on-going revenue savings
- for an investment in IT hardware, software or equipment which will deliver savings through more efficient ways of working
- The balance at the beginning of the year was £1.525m and the forecast balance at 31 March 2024 is £1.475 million.

6.10. **Asset management reserve** – This reserve was established to earmark funds that will support the provision of current and future assets, of the reserve £1.26m has been committed to smooth the impact to the revenue account of the new leisure facility.

6.11. **Capital receipts reserve** - The Council also holds a reserve which includes the balance of receipts generated from asset disposals - capital receipts. Capital receipts can only be used to fund capital expenditure (not for on-going revenue expenditure). The balance as at 31 March 2023 was £6.11million, although this includes an element for the HRA and some set aside for existing capital project spend, the forecast balance at 31 March 2024 is £10million allowing for anticipated receipts in the year and assumed financing in the year.

6.12. An initial review of all reserves has been carried out with the view to re-allocating unused balances to the general reserve to strengthen the balance in the general reserve as there will be an increased requirement to use reserves to balance the budget in the medium term. From this review it is recommended that the following transfers from earmarked reserves be made in the current year:

- £100k allocated from the Empty Business Property Incentive Fund
- £625k from the Collection Fund Compensation earmarked reserve
- £100k from the Benefits earmarked reserve.

6.13. There are a number of other reserves which are holding balances from previous roll forward requests that have not been drawn down yet. It is anticipated that there are some balances in here that are no longer required for their original plans and these can be re-allocated to the general reserves. A target of £500k for re-allocation from these reserves has been set to be allocated to the general reserve.

6.14. Using reserves to finance one-off spend for example in relation to projects, and where the funds can be used to lever in external funding enables flexibility and releases in-year revenue budget allocations. Due to the increased pressure on the general fund revenue account there is a need to have a financial strategy that is reliant on both delivery of savings and income in year, but also some reliance on use of reserves. This is in response to the significant shift in spending pressures increasing at a greater rate than the funding and income received. This does not provide a sustainable solution in the medium to long term and financial planning options need to take into account the need to cover the future financial gap without relying on the use of reserves each year.

7. Capital

7.1. This section provides an overview of the capital programme and resources available for financing current and new schemes. A copy of the current capital programme was reported as part of the period 6 budget monitoring report.

7.2. The following sources of funding are available to finance the capital programme:

- capital receipts – generated from asset disposals (both new and existing within the capital receipts reserve). As part of the ongoing work and review of the asset management plan, there will be opportunities to generate capital receipts that can be used to reduce the need to rely on external borrowing to finance the capital programme. The decisions for asset disposals will also inform revenue savings for example to deliver efficiency savings and remains a priority within the business strategy
- grants and contributions received from external sources including third parties and government, these include the allocations of Future High Street, Towns Fund and Levelling up
- revenue – by making a revenue contribution to capital
- prudential borrowing – financing by external loans eg PWLB.

7.3. Prudential borrowing to fund capital expenditure can only be undertaken when an authority can demonstrate the need to borrow through its Capital Financing Requirement, which is driven by the balance sheet of the authority and takes into account reserves (including general and earmarked). Financing costs of the borrowing are charged to the revenue account and therefore any decision to undertake external borrowing would need to take account of the debt costs including interest and the Minimum Revenue Provision (MRP) and should be able to demonstrate affordability.

7.4. As an example, if a £5m capital project is approved the revenue impact from an MRP charge to the revenue account will be made in line with the current MRP Policy – probably over the useful life of the asset – which would amount to £200,000 per annum (assuming a 25 year life).

7.5. If a decision is to be taken to use revenue reserves or capital receipts to finance the expenditure, no MRP charge would be necessary, as the expenditure would be financed immediately by a revenue contribution to capital or the receipt. When considering the financing of the capital programme, the most financial beneficial approach to the financing of the spend will be taken. Furthermore, as future capital receipts are generated, this provides an opportunity to reduce the revenue costs of borrowing.

7.6. Each year the most financial beneficial approach is taken when financing the capital programme. For example, it is more financially beneficial to the revenue account to finance shorter life assets, ie equipment and vehicles from capital receipts and reserves as the MRP over a shorter life increases the impact to the revenue account.

7.7. The 2023/24 approved capital programme totals £61.2 million for the general fund, although there is expected to be a significant amount of slippage to 2024/25. The programme includes schemes within the future high street and town deal programmes which will deliver wider investment in the borough, that will support longer term economic growth.

7.8. The housing revenue account capital programme continues to invest in the stock and provision of new affordable homes, financed by right to buy receipts, borrowing and grants.

7.9. The capital programme currently includes borrowing of £3.4 million against Future high Street Fund (FHSF) and Town Deal projects in 2022/23 and 2023/24. However, it is anticipated that this borrowing would be predicated on business cases being produced to show that this be offset by either the generation of capital receipts or revenue from future income generation as part of the development of the FHSF projects.

7.10. Capital growth bids for 2024/25 and future years will be considered as part of the annual budget setting process, priority will take into account the following criteria:

- Bids accompanied by funding
- Linked to priorities of the business strategy
- Linked to the asset management plan
- Service delivery requirement
- Invest to save proposal.

8. Financial and business strategy

8.1. The following outlines in more detail the **key themes of the financial and business strategy** that should be prioritised over the short to medium term to reduce the forecast deficit. Each of the themes should not be seen in isolation and where applicable should support other themes in the overall delivery:

8.2. **Strategic asset management** – The Council owns a significant portfolio of assets across the borough and it must ensure that it is utilising its significant asset base in the most efficient way and managed via the asset management plan. Taking into account the return that the Council generates from its assets and recognising which assets should be disposed of to generate either capital receipts or reduce inefficiencies.

8.3. Regular review of all the Council's asset holdings in line with the asset management plan and the councils priorities with a view to adding value to strategic assets. **The key aim is to identify the most efficient way to utilise the Council's assets and maximise the benefit that the Council receives from them.** For example the work on the building rationalisation project will see changes to the use of the buildings and disposal of the Greyfriars. Delivery of this theme is informed by the Asset Management Strategy and will also cover opportunities to grow the asset base and demonstrate linkages with external funding opportunities and grants. Further work on this will be prioritised to address in year reductions against the budgeted income from some of the property assets.

8.4. **Economic and housing growth** – Income from homes and businesses within the borough continues to provide an essential source of income to fund the provision of local services. This will be even more essential from future reforms of local government funding. **A key aim must be to maximise income from housing and business rates through enabling growth and retaining existing baselines.** The Council already has mechanisms in place to support the priority to maximise housing growth, both within its own stock through the Housing Revenue Account and the wider delivery of homes through its companies, Equinox Enterprises Ltd and Equinox Property Holdings. Optimising the Council tax base will maximise Council Tax income. This could be through growth in property numbers, increased collection, and regular review of discounts as well as through proactive work to ensure that all eligible council tax properties are identified.

8.5. **Property investment and commercialisation** – This theme is closely linked to the strategic Asset management priority, but also seeks to identify other external opportunities for investment in properties to achieve either an income stream or improved returns on investment. These would not necessarily be for investment purposes alone but seeks to regenerate areas which may require up front regeneration funding interventions, with a wider opportunity and growth potential. Opportunities could be indirect through treasury management property investments or direct delivery by the Council or through an appropriate vehicle. These could support, for example, regeneration within the Borough to deliver growth and linkages to the economic growth theme as detailed above. Any direct investment would be subject to a business case, considering all risks and the full revenue implications (including borrowing costs). Currently these opportunities are identified as part of the current asset management plan or proposals taken forward by the appropriate decision making process.

8.6. **Technological investment** – Improvements to the delivery of services through the use of technology. The digital strategy contains three strategic aims - **Digital Services, Digital Communities and Digital Workforce** which are supported by the objectives:

A. To make our service provision more efficient via automation, reducing duplication of effort and reducing manual intervention.
B. To increase the quality of our service, by increasing speed, reliability, and consistency.
C. Increase data sharing across services
D. Create a single view of residents, land, and property
E. To promote Great Yarmouth as a great place to live, work, do business and visit.
F. To improve the accessibility and availability of our services.
G. To provide up to date always available information online for our customers
H. To have a workforce that has the right information, equipment, systems, training, and confidence to do their job in a digital workplace.

8.7. This is an area that needs to be accelerated to deliver efficiencies and tangible savings from investments in technology. Since the pandemic there has been a change in the some of the ways of working for example, working in an agile way will facilitate the rationalisation of office accommodation to deliver savings, possible through the use of on line meetings use of teams. This is a very small element of digital improvement and there are greater opportunities available from investment in technology that will maintain and improve service provision to customers at the same time as delivering savings, this is therefore an area of focus for the MTFS in terms mitigating future funding gaps.

8.8. **Partnerships** - Creating efficiencies through collaborative working with others. Identifying opportunities must continue at a local level with partners and other organisations, ensuring that realistic and deliverable benefits are achieved including opportunities for shared services with others. In addition, strengthening approaches to working with communities and partners in the voluntary sector to:

- drive better outcomes for local residents
- reduce avoidable demand on council services
- secure investment to drive new partnerships with partners and communities to deliver corporate ambitions
- make better use of council assets and resources to offer greater social value to local communities and to develop a partnership approach with public sector partners to working with communities across the borough.

8.9. **GYBC operating model** – Ensuring the Council provides services in the most effective and efficient way, ensuring value for money and the ability to challenge where necessary. The following along with the MTFS are key to this:

- **Organisational Development Strategy**
- **Digital Strategy**
- **Procurement and contract management**.

8.10. Savings and additional income – Each year savings and income proposals are considered as part of the budget process, these are presented for approval alongside the budget. Outside of the budget process these opportunities should continue to be identified. The full detailed proposals for 2024/25 are currently under consideration by a cross party Member working group with a view to these being brought forward ahead of the budget report to allow implementation ahead of April 2024. This work will be finalised in the coming months ahead of consideration by Cabinet and Scrutiny as part of the budget reports.

8.11. Sustainability strategy – As part of the council's sustainability agenda, this should be seen as a priority to support the delivery of a balanced budget. For example, through more efficient use of assets and resources that is aligned to the longer-term sustainability ambitions.

8.12. Use of reserves and invest to save - Use of reserves to balance the budget only provides a short-term solution as the funds can only be used once. Reserves can however be used to smooth the impact of reductions and fluctuations in funding over the short to medium term and to allow for planning and implementing projects and work streams that will deliver a longer-term financial benefit through reduced costs or additional income. As part of the reserves section of the document it has been flagged that there will be a requirement to use reserves to mitigate the impact to the general fund in the short term to produce a balanced budget due to the increased inflationary pressures and uncertainties around local government funding.

8.13. Proposals for the use of reserves to fund upfront costs can also be considered for business cases that will seek to deliver savings and /or additional income in the longer term.

8.14. There are a number of workstreams and priorities that are currently underway that are at different stages which could have a positive impact on the overall financial position. In the medium to longer term these have the potential to generate revenue streams to the Council, through increased business rates growth and rental opportunities, in addition to asset disposals that through the generation of capital receipts would enable a revised approach to the financing of the capital programme to minimise future increases to MRP for the financing of the capital programme. These include the Operations and Maintenance facility and the potential for rental streams through future site occupancy, land asset disposals for future housing provision in addition to taking the opportunity review council tax discounts that have been identified nationally for review including second homes. The timescales of these to deliver a financial benefit to the council will not be until 2024/25 at the earliest, with some not due until 2025/26 or later.

8.15. Whilst these provide longer term opportunities, there needs to be further proposals for savings and additional income in the short term to mitigate the forecast funding gaps.

8.16. The continued unknowns on the future local government funding and the current economic uncertainty present a significant challenge to the sector as a whole when faced with financial planning for the medium to long term. There is still work to be completed over the coming months as the detail for the 2024/25 budgets are pulled together, this includes the following:

- Budget challenge – to include review of current spend commitments and vacant posts
- Collation of savings and income proposals
- Fees and charges 2024/25
- Capital bids 2024/25
- Critical reserves review to identify available reserve for one off use and re-allocation above those identified already at section 6.

8.17. The following provides a high level summary of the forecast funding gap allowing for target savings/additional income and potential future opportunities:

£000	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Forecast Gap	1,445	2,514	3,282	4,100
Savings/Income to be identified 24/25	n/a	(2,000)	(2,000)	(2,000)
Savings/Income to be identified 25/26	n/a	n/a	(1,000)	(1,000)
Savings/Income to be identified 26/27	n/a	n/a	n/a	(1,000)
Cumulative Gap before use of reserves		**514**	**282**	**100**
Use of earmarked/general reserves		514	796	896

8.18. **Summary** - The updated position above is prior to the detailed work on the budget for 2024/25 being completed, which is currently in progress to be presented to Members in January/February. Work is continuing with services to identify further options to reduce the forecast gap in the short to medium term.

9. Risk and sensitivity

9.1. There continues to be a number of factors that impact on the financial forecast and overall financial position, and these have been highlighted in the respective sections.

9.2. Despite the risks, the Council must continue to respond to the challenges and take a proactive approach to setting a balanced budget annually and continuing to deliver against the medium term financial strategy. This includes the continuous review of services to ensure they are delivering value for money in the most efficient way, identifying and delivering a programme of annual savings and additional income that will mitigate future funding gaps and continuing to support and facilitate the economic growth and regeneration of the Borough to deliver growth to tax bases for domestic and business properties to deliver direct income that can be retained in the general fund. The significant investment that continues in the borough from the external funding from future high streets, towns fund and levelling up along with partner and external investment through the County Council should continue to be a medium to long term priority to support the financial position for the authority and to meets its priorities and provide the best possible services to the borough residents and businesses. However, the short-term capacity funding to support these projects as well as the core services remains a risk and this is something that needs to be taken into account when managing the project budgets.

9.3. There is a legal requirement to set a balanced budget annually which must be set in an informed manner and may propose changes to service levels, which may require upfront investment. Alongside approval of the budget, the level of reserves and robustness of the estimates are factors that are considered in full ahead of approving the budget and the council tax for the coming year. Whilst reserves can be used to mitigate one-off funding gaps, the use of the reserves cannot be seen as a longer-term sustainable option to delivering robust budget and financial management. The recent reliance on reserves as part of the approval of the budget is not sustainable in the long term.

9.4. The updated financial forecasts are dependent upon a number of key assumptions at a point in time. In addition to these there are a number of significant financial risks and uncertainties facing the council which could have an impact on the medium term financial strategy, these include the following:

9.5. **Future funding** – The timing and impact of reviews of local authority funding remains uncertain. With timing of a general election unknown, this puts timescales for future funding reforms under greater uncertainty also, as flagged earlier slipping these back. This in turn does not support longer term financial planning for local services. Continuation of grants, for example New Homes Bonus and whether this will continue is unknown. Currently the forecasts assume a rollover of the 2023/24 funding, with elements of this being subject to CPI inflation increases, this creates uncertainty in the system, as a significant receiver of RSG of £2 million per annum, until the outcome of the fair funding review is known this remains a risk for future funding.

9.6. **Inflation** – The Council has a significant investment programme to be delivered by 2026 including the projects to be funded through the Town Deal and Future High Streets funds along with the Wintergardens from Heritage Lottery Fund. Whilst all project budgets will include an element of contingency the increases to construction costs and the demand for materials provides further risks to the programme of delivery. A central capital contingency budget of £2.5m was previously approved of which £1.9m remains uncommitted which is available to mitigate this risk further. Furthermore, inflation on contracts has been allowed for within the financial plan, although these will all be subject to regular review.

9.7. **Business rates** – The current system is inherent with volatility and uncertainty for example appeals, vacant properties and non-collection. A 1% movement each year would result in approximately £50,000 additional income per annum being retained. The timescale and outcomes for the business rates reset will be linked to the wider funding reforms.

9.8. **Council Tax** – Increases in the tax base generate increases in the locally collected element of the council tax, however this is also dependent upon levels of discount and also the level of collection which with the increased cost of living pressures makes this inherently challenging. As a guide a 1% increase in council tax (band D) equates to approximately £53,000.

9.9. **Interest rate changes** – Increases in the rates can make capital projects unaffordable, requiring to scale back and reduce the call on financing by borrowing.

9.10. **Employee costs** – Pay awards being in excess of the level budgeted for, the impact being ongoing. 1% equates to approximately £180,000 annually including oncosts.

9.11. **Ability to deliver savings and additional income** – Non achievement of planned savings.

9.12. **Service demand and income** – Demand led services continue to provide significant income to the Council, eg car parking, planning and building control, crematorium. It is essential that the annual budgets are informed by current and prior year performance. These are monitored on a regular basis to ensure that where applicable pro-active actions can be taken to mitigate the impact to the budget. The importance of maintaining general and earmarked reserves remains essential to mitigate short term impacts of reduced income.

9.13. **Interest and MRP -** The revenue budget reflects the planned borrowing and financing of the current approved capital programmes. Slippage of capital schemes will impact on the level of borrowing required along with the associated financing costs. As new schemes and projects are approved the revenue implications will need to be considered as part of the options appraisal and business case. The increased borrowing rates will continue to have an impact on the delivery of the capital programme which will need to be continually reviewed in terms of affordability.

9.14. **HRA** – The impact of inflationary increases to the delivery of the HRA services for the day to day maintenance and longer term stock investment will also impact on the affordability of provision of new build programmes for replacement stock through the right to buy programme. The project for the changes to the delivery of the GYN services will be underway for the new service to be delivered from October 2024, once the service is under the full operation of the Council this will enable a thorough review of the financial cost of the delivery of the service.

9.15. The extent to which the above factors will have an impact on the ongoing financial projections and funding gap will vary. Some will have an ongoing impact and some may be more short term. The above risks will be considered as part of the annual budget setting process.