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Subject	**Medium Term Financial Strategy 2023/24 to 2025/26**
Report to	**Policy and Resources Committee – 8 November 2022**
	Council – 15 December 2022
Report by:	**Finance Director**

GREAT YARMOUTH BOROUGH COUNCIL

SUBJECT MATTER/RECOMMENDATIONS

This report presents an update to the Council's Medium Term Financial Strategy (MTFS) and covers the period 2023/24 to 2025/26.

Recommendations:

It is recommended that Members consider and 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) The revised reserves statement as included at Appendix A to the MTFS;
3) Continue with the business rates pool for 2023/24 subject to the finalisation of the forecasts for 2023/24 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 and takes into account the wider economic context. There is a legal requirement to set an annual budget and set the Council tax each year. There are several preparatory reports and pieces of work that are prepared in support of setting the annual budget each year one being the update of the Council's Medium Term Financial Strategy (MTFS). This document provides a refresh for the period 2023/24 to 2025/26.

1.2. The MTFS sets out the latest financial projections for the three years that are covered by the strategy, this has 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 2023/24.

1.3. There continues to be significant uncertainties around funding for Local Government as the sector faces continued inflationary pressures to both day to day revenue spend and capital projects. The challenges that the Borough Council are facing are not unique, the significant budget gaps are being seen across the sector, there is no expectation that funding will be made available to mitigate the impact with the announcement that government departments have been asked to seek savings.

2. Financial Forecasts

2.1. The financial forecasts have been updated 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. Use of reserves should not be seen as the only solution, but alongside a review of spend, implementation of savings and additional income opportunities, these will provide the framework for setting a balanced budget for 2023/24.

2.2. The current forecasts are projecting a budget gap of £2.4m in 2023/24, increasing to £2.7m in 2024/25 and to £3m in 2025/26. This is before the detail on the budget is finalized for 2023/24 and these forecasts will be updated as part of this work and once the provisional settlement is expected later in the year.

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.

3.2. 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 2023/24 budget that are aligned to these key priorities.

3.3. There are future opportunities from 2024/25 onwards from investments currently underway in the borough, for example the operations and maintenance development and opportunities for further regeneration which will all deliver benefit to the borough and a financial return, whilst the future forecast can make allowance for these, the returns will not fully cover the forecast deficits and proactive approaches to reduce the net revenue spend need to be taken in addition to these opportunities to reduce the budget gap.

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. There continues to be similar challenges to the HRA for example in response to inflation costs and increased borrowing to fund the capital programme for the stock. The detail of the HRA business plan for 2023/24 is currently being worked upon and will be reported to Members in the new year.

5. Financial Implications

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

5.2. The Council does continue to hold earmarked and general reserves a review of the commitments against earmarked reserves is underway to identify funds to be re-allocated to mitigate the medium term financial challenges.

6. Risks

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

7. Conclusion

7.1. The economic and national situation 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 deliverable savings and additional income in the short 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 2023/24 budget is finalised.

8. Background Papers

8.1. 2022/23 Budget monitoring reports

8.2. 2021/22 outturn report and statement of accounts

8.3. Funding announcements and financial modelling

Area for consideration Comment	Comment
Monitoring Officer Consultation	
Section 151 Officer Consultation	
Existing Council Policies See background papers	
Financial Implications eg within existing budgets or funding identified	
Legal Implications (including human rights)	
Risk Implications	
Equality Issues/EQIA assessment (if EQIA not required explain why)	
Details contained in strategy	
Crime & Disorder	
Every Child Matters	

Medium Term Financial Strategy 2023/24

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- A - Reserves Statement

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 and Future High Streets 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 seeing increases to CPI and increases to the Bank of England base rate to 2.25% (from 0.5% in February 2022). 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. Announcements on 19 October confirmed Consumer Prices Index (CPI) to be 10.1% in the 12 months prior to September 2022.

2.3. The next fiscal statement was due to be made by the government on 31 October 2022 has been delayed and is expected to be accompanied by an economic forecast from the Office for Budget Responsibility (OBR). The new chancellor, Jeremy Hunt MP made a statement on 17 October 2022 outlining a range of fiscal measures in advance of the medium-term fiscal plan. Needless to say, the economic landscape and associated policy is changing at an unprecedented pace. 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.

2.4. The current year (2022/23) is the first year of the three year spending review as announced in September 2021. The announcement included average increases to core spending for Local Government of 3% in real terms each year over the spending review period with an additional funding of £4.8 billion announced as being available for social care and other services over the three years. A one-year finance settlement was then confirmed for 2022/23. It was confirmed in the summer of 2022 that a two-year finance settlement would be made for 2023/24 and 2024/25 although the details are still to be announced. The recent announcements have not confirmed whether the funding announced in the spending review will be honoured, the Chancellors statement suggested that more savings would be required and government departments will be asked to find efficiencies within their budgets.

2.5. It remains important that the Council continues to adopt a prudent approach for any medium-term financial strategy to set priorities that will support and deliver savings, additional income and efficiencies for the Borough Council. The continued uncertainty further curtails the ability to provide accurate financial projections and forecasts over the medium term. For the purpose of the MTFS and the planning for the 2023/24 budget setting, assumptions have been made on the level of government support in 2023/24.

2.6. The key priorities of the MTFS as outlined in the business strategy section of the document remain key to delivery of a balanced budget for 2023/24. Despite the national uncertainty, the refresh of the MTFS is required to inform the detailed budget setting process for the 2023/24 budget ahead of approval of the budget in February 2023.

3. Resources and pressures

3.1. This section provides an overview of 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 2022/23 of revenue support grant (RSG) is £2.136 m. It is expected that this will continue in the short term until the reviews of local government funding namely the fair funding review and business rates reset are completed. There is still no clear timescales for these reviews and implementation dates. 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. It is currently assumed that this grant will continue at existing levels for 2023/24 with some increase pending the wider fair funding review.

3.3. Allocations of Lower Tier Services Grant (£176k) and Service Grant (£265k) were made in 2022/23, there is uncertainty around whether these continue for 2023/24.

3.4. **New Homes Bonus (NHB)** – New homes bonus has been part local government funding for over ten years. 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.

3.5. A review is long awaited due to significant disproportion and 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%.

3.6. **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.

3.7. 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. Business Rateable Values were re-valued from April 2017, resulting in further volatility in the system.

3.8. 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 business rates pool continue for 2023/24.

3.9. **Council Tax** – The current band D equivalent for the boroughs Council tax is £176.48. The maximum annual council tax increase for a district council is set by government at 2% or £5 (band D) above which would trigger a referendum. The current strategy assumes annual increases to the maximum allowed.

3.10. 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 (an increase of 507 from 2022/23) and is assumed to increase annually thereafter by 500.

3.11. 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.

3.12. **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 a number of 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, a thorough review of fees and charges will be carried out to inform the 2023/24 fee setting process to take into account increased cost of service in addition to the charges being proposed. These will come forward as part of the budget reports for 2023/24.

3.13. **Interest receivable and payable** – The Bank of England's Monetary Policy committee voted in September 2022 to increase the official Bank rate by 0.5 percentage points to 2.25%, this is 1.75% above the level when the budget for 2022/23 was approved. Whilst there will be an increase in the investment income rates earned, this will not mitigate the full cost of interest payable.

3.14. 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 2023/24 this is therefore expected to mitigate the impact of the increased costs of borrowing costs in the year.

3.15. **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 should proactively be 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. Following a review of prior and current year MRP, it is reasonable to reduce the forecast MRP by £200,000.

3.16. **Employee costs** – The 2022/23 budget assumed an annual increase in the employee pay award of 2% per annum. The final offer is still to be agreed by all unions (at the time of production of the document), the offer accepted by unison includes an increase of £1,925 on all NJC points 1 and above. This equates to an average increase of 6.8% across all eligible pay bands. In financial terms, this would equate to in the region of £750k additional cost per annum to be factored into the current and future year projections.

3.17. The Local Government Pension Scheme cost for the Council is made up of employer contributions payable on actual employee costs incurred in the year as well as a lumpsum element. The lumpsum element is set for three financial years, in line with the triennial valuation. 2022/23 is the final year of the current three-year period, once the outcome of the next triennial valuation is known the forecasts will be updated accordingly.

3.18. **Council Tax** – Annual tax base growth has averaged 570 over the past 5 years prior to 2021/22 which saw a reduction due to covid. This would have added in the region of £235,000 per annum of additional Council Tax revenue. Based on the latest tax base projections along with current collection and assuming the £5 band D Council increase, this would deliver approximately £220,000 additional resources to the general fund. The forward financial forecasts assume growth in the tax base of 500 per annum.

3.19. **Net cost of services (NCS)** – As part of the detailed budget work, the service budgets for income and expenditure will be informed by inflationary increases for both expenditure and income. Some of these pressures have been flagged in the year that will continue, for example rising energy and fuel prices.

3.20. At this stage the impact of inflation on expenditure is assumed to be greater than the increase in the corresponding income, resulting in anticipated net growth in the net cost of services. Further, other costs within the NCS are also impacted by inflation increases such as the GYBS services fee, additional waste disposal costs and the full year impact of the legal services provision.

4. Updated Forecasts

4.1. The production of the updated financial forecast from 2023/24 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 2023/24 budget.

4.2. Taking into account the above factors and known pressures and making assumptions on the level of government funding for 2023/24 there is a required savings target of £2.435 million. This is summarised in the following table:

Updated financial forecast 2023/24	**Forecast Impact £000**
2022/23 budget gap	209
Spend/Inflationary Pressures:	
Plus Interest (receivable and payable)	400
Plus Minimum Revenue Provision for current capital plans	690
Plus Employee costs (pay award and pensions)	750
Plus Additional inflationary pressures	640
Less Planned use of reserves	(250)
Plus Removal of new Homes Bonus	495
Less Council Tax	(236)
Less Financial settlement – revised forecasts	(267)
Forecast financial gap 2023/24	**2,435**

4.3. The following table provides the high-level funding gap for the three-year period 2023/24 to 2025/26. This position has been informed by the assumptions included above and reflects the known spending pressures and assumptions on funding over the next three years. This includes the forecast impact to the revenue account of regeneration schemes, such as the new Marina facility, forecast capital receipts and growth in business rates and council tax homes above the base budget assumptions.

Updated Financial Gap	**2023/24 £000**	**2024/25 £000**	**2025/26**
Forecast gap	2,435	2,734	3,035
Year-on-year increase		300	301

4.4. The above summary shows an increasing budget gap for the next three years estimated to be approaching £3 million which equates to approximately £1 million per annum required for the next three years.

4.5. Detailed work on the 2023/24 budget has already commenced with the Management Team to critically review budgets and look at options to reduce the forecast gap for 2023/24. 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 other future new proposals affecting the HRA have been announced and developed. The current inflationary increases places further pressure 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, as well as managing the implications from the stock condition survey.

5.3. Additional borrowing currently maintains the affordable housing programme to comply with the RTB agreement. The HRA's previous regulations instructed that receipts received from the sale of a Council dwelling were to be utilised within three years of a dwelling sale, to support up to 30% of the scheme cost of replacement homes. Following consultation, from 1 April 2021 the regulations around the use of Retained RTB receipts have been revised. New regulations allow RTB receipts to be used to support up to 40% of the scheme cost of replacement homes. Time restrictions have also been revised, detailing that sale receipts must now be utilised within five years from the sale of the dwelling.

5.4. Most fees and charges relating to the Housing Revenue Account have been increased in line with the corporate formula adopted by the Council, RPI + 2%, aiming to close the gap in terms of recovery of costs. With the current high levels of RPI a thorough review of the fees and charges will take place for the 2023/24 budget.

5.5. **Rent setting policy** – Since 2020/21 the rent setting assumptions have been in line with increases of CPI plus 1%, prior to this there was four years of rent reductions. Earlier in the year a consultation was launched which proposed a cap on social housing rent increases for 2023/24, the outcomes of the consultation are not yet confirmed, these will be used to inform the rent setting for 2023/24.

5.6. **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.

5.7. 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.

5.8. 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.

5.9. **HRA debt cap summary** - In 2018 it was announced that to help solve the 'housing crisis', the Government would scrap the borrowing cap limitations on how much councils can borrow against their HRA Assets, this came into force on 30 October 2018. The Council's HRA had previously been subject to a borrowing cap limitation of £89 million. Following the removal of the borrowing cap, the Council is now able to borrow above its original borrowing limit but must ensure any borrowing is affordable.

5.10. 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 5% to 10% 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 2022/23 financial year was assessed to be £3.5 million. The general reserve balance as at 1 April 2022 was £4.02 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 are 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 is reviewed during the year and as part of the budget setting and year end process. An updated reserves statement is included at Appendix A and reflects the latest position for the use of reserves in the current and future financial years where known. There is still some uncertainty around the exact timing of the use of some of the reserves, for which some are held as a contingency to mitigate a potential liability although the timing and likelihood of this is dependent upon future events.

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 £1.55m and the forecast balance at 31 March 2023 is £1.219 million.

6.10. **Collection fund national non domestic rates reserve** – This reserve was originally established to be used to offset the fluctuation in the level of retained business receipts received in the year to mitigate the impact to the revenue account. Due to the uncertainty around funding for 2023/24 and the increased inflationary pressures this reserve will be used to smooth the impact of the budget gap to deliver a balanced budget over the short to medium term. The forecast balance at 31 March 2023 is £1.883 million.

6.11. **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.

6.12. **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 (so not for on-going revenue expenditure). The balance of capital receipts is used to fund the current approved capital programme. The balance as at 31 March 2022 was £4.1million, although this includes an element for the HRA and some set aside for existing capital project spend.

6.13. All reserves, general and earmarked, will be reviewed over the coming months as part of setting the detailed budgets for 2023/24. 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 does not tie up in-year budget allocations. However utilising reserves to fund annual budget deficits, only provides a short-term measure to reduce the funding gap, and whilst it can be used to mitigate the impact in the short-term for example in response to changes to funding regimes and in response to unplanned impacts, this does not provide a sustainable solution in the medium to long term and should be used alongside other options, i.e. savings, additional income and growth opportunities.

7. Capital

7.1. This section provides an overview of the current capital programme and resources available to it for the financing of current and new capital 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
- grants and contributions received from external sources including third parties and government, these include the allocations of Future High Street and Towns Fund
- 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 overall 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 2022/23 approved capital programme totals £79.2 million for the general fund, although there is expected to be a significant amount of slippage to 2023/24. 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 £5.3 million against Future high Street Fund (FHSF) 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 2023/24 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 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 continued 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.** 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.

8.4. **Economic and housing growth** – Income from homes and businesses within the borough provides an essential source of income to fund the provision of local services. **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 continues to be how Council Tax income can be maximised. 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. **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

8.8. **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**.

8.9. Savings and additional income – Each year savings and income proposals are considered as part of the budget work, these are presented for approval as part of the budget reports in February each year. For the 2023/24 process a total target of £1.2 million has been allocated across management team. The full detailed proposals will be finalised in the coming months ahead of consideration by Members as part of the budget reports.

8.10. 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.

8.11. Use of reserves and invest to save - Use of reserves to balance a 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 funding 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.

8.12. 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.

8.13. **Parish council support** – Parish councils currently receive grants from the borough council for support for local council tax support and concurrent function grants.

8.14. A total of £25,000 is paid to parish councils annually to mitigate the impact of local council tax support. This system has been in place since the introduction of the local council tax support scheme when the funding was previously allocated to local billing councils. It is no longer allocated separately, however the borough has continued to provide the financial support to the parishes. It is recommended that this is reviewed alongside the support offered to parish councils in the form of concurrent function grants.

8.15. The Council is currently providing concurrent function grants totalling £142,000 to parish councils to in the form of grants annually. The concurrent function grants have remained the same since 2016/17. Concurrent functions are discretionary services that can be carried out by the Borough Council but can also be undertaken by parish councils where these exist. They cover services that are provided in some parts of the borough by the borough council and in other areas by the parish councils and can result in parish taxpayers being charged twice – double taxation. The payment of grants to the parishes seeks to contribute to the costs to mitigate this. The grants cover the maintenance of burial grounds, beach cleaning, parks and open spaces and bus shelters. A review has been undertaken on the level and method of grants offered and this will be brought forward in a separate report to members.

8.16. 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.

8.17. 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.

8.18. The continued unknowns on the future local government funding and the current economic uncertainty a significant challenge to the sector as a whole when faced with financial planning. There is still work to be completed over the coming months as the detail of the 2022/23 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 for
- Fees and charges 2023/24
- Capital bids 2023/24
- Critical reserves review to identify available reserve for one off use

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

£000	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Forecast Gap	1,043	2,435	2,734	3,035
Business Strategy Savings/Income	0	(100)	(780)	(920)
Savings/Income to be identified 22/23	(500)	(500)	(500)	(500)
Savings/Income to be identified 23/24	n/a	(750)	(750)	(750)
Savings/Income to be identified 24/25	n/a	n/a	(500)	(500)
Savings/Income to be identified 25/26	n/a	n/a	n/a	(500)
Cumulative Gap before use of reserves	**543**	**1,085**	**204**	**(135)**
Use of earmarked/general reserves	543	1,628	1,832	1,697

8.20. **Summary** - The updated position above is prior to the detailed work on the budget for 2022/23 being completed, which is currently in progress to be presented to Members in 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. Many factors may 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 the economic growth and regeneration of the Borough to deliver growth to tax bases for domestic and business properties to deliver direct income. The significant investment that is underway in the borough from the Marina centre, future high streets and towns fund coupled 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.

9.3. There is a legal requirement to set a balanced budget annually and 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.

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. Continuation of grants, for example New Homes Bonus and whether this will continue is unknow. Currently the forecasts assume a rollover of the 2022/23 funding, 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 including the projects to be delivered through the Town Deal and Future High Streets funds along with the Wintergardens. 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 further £2.5m central capital contingency budget was approved in 2022/23 to mitigate this risk further.

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.

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 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 £140,000 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. 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 takes account of 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.

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.

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.

General Fund Reserves Schedule - 2022/23	Summary and Purpose of Reserve	Opening Balance 01/04/22 £	Budgeted Movement 2022/23 £	Commited Expenditure 2022/23 £	Actual Movement (inc forecast) 2022/23 £	Updated Closing Balance 31/03/23 £	Budgeted Movement 2023/24 £	Updated Closing Balance 31/03/24 £	Budgeted Movement 2024/25 £	Updated Closing Balance 31/03/25 £
Planning Delivery Grant	The reserve is planned to be used to provide service improvements in Planning, and deliver the Local Development Framework.	136,389	0	0	(25,000)	111,389	0	111,389	0	111,389
Insurance Fund	The Council budgets for a level of excess being charged to the Service Accounts annually. Any under provision is met from the Insurance Fund, and any surplus is transferred to the fund.	382,990	0	0	0	382,990	0	382,990	0	382,990
DFG top-up capital loans and grant fund	The Council will utilise this funding for capital expenditure incurred in the Wellesley Rd, Sandown Rd, Euston Rd & Paget Rd areas.	400,000	0	0	0	400,000		400,000		400,000
Restricted use grant	This reserve holds unspent grants received for specific purposes for which the spend has not yet been incurred.	564,981	(54,000)	(205,965)	(54,000)	305,016	(40,515)	264,501	(20,000)	244,501
Invest to Save	To be used to fund one-off costs associated with projects that will deliver future efficiencies and savings including costs associated with restructures.	1,553,339	0	(284,111)	(50,255)	1,218,973	0	1,218,973	0	1,218,973
Specific budget	This reserve is utilised as expenditure is incurred.	264,722	(59,142)	0	(59,142)	205,580	(47,590)	157,990		157,990
Repairs and Maintenance	This reserve is utilised as expenditure is incurred.	317,638	0	0	0	317,638	0	317,638		317,638
Waste Management	This reserve is utilised as expenditure is incurred in relation to the service.	13,795	(11,375)	0	(11,375)	2,420	(2,250)	170		170
Collection Fund (Business Rates)	Earmarked to mitigate the fluctuations in business rate income between years.	1,976,810	(93,000)	0	(93,000)	1,883,810	0	1,883,810		1,883,810
Community Housing Fund	This represents grants previously received to assist with the delivery of Community Housing.	551,242	(10,000)	0	(10,000)	541,242	(30,000)	511,242	(30,000)	481,242
Enforcement	Earmarked for enforcement related works to address issues and bring properties back into use.	33,302	0	(4,822)	0	28,480	0	28,480		28,480
Special Project Reserve	Earmarked for projects and for use as matched funding as appropriate to access external funding, Includes capital and revenue projects.	429,043	(182,978)	(175,000)	(182,978)	71,065	(25,900)	45,165		45,165
Benefits/Revenues Reserve	This reserve is held to mitigate year on year fluctuations of investment income received.	267,895	0	0	0	267,895	0	267,895		267,895
Homelessness	This reserve is held to mitigate the impact of fluctuations between financial years from income received from Council assets and properties, in addition it includes re-allocation from other reserves to be used for investments in Council assets including current and future asset enhancements.	842,451	(95,000)	0	(95,000)	747,451	0	747,451		747,451

General Fund Reserves Schedule - 2022/23	Summary and Purpose of Reserve	Opening Balance 01/04/22 £	Budgeted Movement 2022/23 £	Commited Expenditure 2022/23 £	Actual Movement (inc forecast) 2022/23 £	Updated Closing Balance 31/03/23 £	Budgeted Movement 2023/24 £	Updated Closing Balance 31/03/24 £	Budgeted Movement 2024/25 £	Updated Closing Balance 31/03/25 £
Treasury Management reserve	Earmarking of grants and underspends to be used for the service and mitigation of subsidy impacts.	200,000	0	0	0	200,000	0	200,000		200,000
Asset Management reserve	To be utilised for service expenditure for the reduction in homelessness.	1,872,198	(230,825)	(1,190,079)	(236,621)	445,499	(204,753)	240,746		240,746
Coast Protection	Established as part of the 2019/20 budget process for match funding and mitigate one-off costs in relation to coast protection.	104,275	0	(34,275)	37,566	107,566	0	107,566		107,566
Empty Business Property Incentive Fund	Earmarking of funds to be used for incentivising bringing properties back into use.	100,000	0	0	0	100,000	0	100,000		100,000
Covid	This reserve is utilised as expenditure is incurred and represents the covid funding received in the final quarter of 2020/21 for which spend has not been incurred but is committed.	543,218	0	(112,164)	(431,054)	0	0	0		0
Collection fund income compensation	To be utilised to fund deficit in collection fund. Significant movement in 2020/21 reflects the collection fund adjustment account in respect of Covid to be utilised in 2021/22.	5,911,969	0	(5,237,311)	(50,000)	624,658	0	624,658		624,658
Other Reserves	These Reserves are budget carry forwards to be used in future years.	2,461,682	(24,742)	(42,094)	(247,288)	2,172,300	(28,917)	2,143,383	(13,912)	2,129,471
Total GF Earmarked Reserves		**18,927,939**	**(761,062)**	**(7,285,820)**	**(1,508,147)**	**10,133,971**	**(379,925)**	**9,754,047**	**(63,912)**	**9,690,135**
General Fund Reserve	Current recommended balance of £3.5 million (as at Feb 2022)	**4,020,411**	**(208,205)**	**0**	**(2,591)**	**3,812,206**	**0**	**3,812,206**	**0**	**3,812,206**
Total GF Reserves		**22,948,350**	**(969,267)**	**(7,285,820)**	**(1,510,738)**	**13,946,177**	**(379,925)**	**13,566,253**	**(63,912)**	**13,502,341**
	Excluding the B Rates Adjustment	**13,015,970**								