Agenda Item 7.3

Chelmsford City Council Cabinet

6th July 2023

Budget Framework Medium-Term Financial Strategy 2024/25

Report by:

Cabinet Member for Fairer Chelmsford

Officer Contact:

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Purpose

The purpose of this report is to provide a framework to manage the Council's 2024/25 budget and update the financial strategy.

Options

1. Agree to the Budget Framework Medium-Term Financial Strategy, or
2. Propose other amendments to the Framework

Preferred option and reasons

Approve the framework as it enables a flexible response to the risks the Council faces

Recommendations

1) That Cabinet approves
   - I) The carry forward of budgets of £146k from 2022/23 for audit costs and initiatives which were delayed, as detailed in Appendix 4.
   - II) That a financial forecast of both revenue and capital is to be reported to Cabinet in the Autumn as part of the process to produce a balanced 2024/25 budget.
2. That Cabinet recommend to Council:
   - I) To approve the Actions in Appendix 3 as the basis of financial management
   - II) Council notes Financial Risks and Potential Upsides (Appendix 1)
   - III) To approve the approach to reserves in Appendix 2 of the report
   - IV) To approve the budget guidelines in Appendix 4

1. Introduction

The budget process is a financial framework to support delivery of the Council's priorities as set out in "Our Chelmsford; Our Plan".

The Cabinet and Council annually receive a Medium-Term Financial Strategy (MTFS). This year the strategy will be split into two documents. This report is the first of those documents which contains recommendations on the framework to manage the Council's finances for the next five years, including the process to set a balanced budget for 2024/25. The second document will be a report made in the autumn to Cabinet which will forecast the revenue and capital budgets. This is expected to identify a significant revenue budget shortfall, however there are items which might improve the previously forecast position (£3.5m shortfall) reported to February Council, which are discussed in this report.

The Audit and Risk *committee* on the 21st June received a provisional revenue outturn report for 2022/23:

- Net expenditure and income for services was higher than the approved budget. Reviews of the outturn by Accountancy suggest many of the variations in 2022/23 outturn have already been allowed for in the 2023/24 budget as they had identified in financial monitoring in 2022/23.
- Income from non-service areas from interest and business rates was significantly above the original budget. The higher than budgeted income in 2022/23 reflects a very cautious approach to estimating for this income in previous years. It is likely the ongoing budget for Business rate retention can be increased significantly. This is discussed further, in Appendix 1 and Appendix 2.
- The outturn variances. The Section 151 statement on the Budget made at February 2022 Council identified that COVID driven circumstances and inflation made estimate setting less certain. This could only be mitigated by an appropriate level of reserves/contingency to cover these risks.
- Higher amounts of unearmarked reserves than planned. This is dependent on final sign off by HMRC of the Council VAT refund claim of £5.3m.
- A carry forward for unspent budgets £146k is sought, as detailed in Appendix 4.

2. Executive Summary

Revenue and Capital Forecasts

In February, the Council approved the budget for 2023/24. The report also included a forecast £3.5m shortfall for 2024/25. Officers are in the process of updating financial forecasts which have not been included in this report but will follow in the Autumn. Based on what is currently known, the deficit for 2024/25 is still expected to be significant.

Uncertain (large) Factors:

There are several key items where uncertainty may be reduced over the coming months but, currently, they represent major threats and opportunities to the financial position. The budget process must manage these risks.

The key unfavourable items are:

- Staff pay award for 2023/24
- Homelessness services where demand and service provision are being reviewed
- Higher costs caused by inflation

Significantly, there could be three large favourable improvements to the budget being:

- Energy cost volatility and uncertainty
- Business rate retention; and
- An expected government levy on packaging producers (extended producer responsibilities) which will be shared amongst councils nationally.

The budget process, as usual, must provide flexibility to deal with the deficit, potential upsides and downsides.

The revenue budget will as always be impacted by the financing needed to fund the capital programme. The largest scheme, Waterside, is being reviewed at July Council. The costs for that need to be fully reflected in the Autumn revenue budget forecast and the revised timing and costs of other schemes will also be updated.

Reserves

The Council's reserves are estimated at higher levels than planned, mostly because of the expected income from the VAT Leisure case refund.

The allocation of reserves to their proposed use will be resolved in the 2024/25 budget. This report contains guidelines/principles to manage that process.

The report identifies principles, reflecting that some significant cost pressures and loss of income may be temporary. The reserves should be reviewed and new reserves established to fund the specific pressures identified. If the reserves are insufficient, budget reductions will need to be found to meet the extra costs.

The Government has collected data on local authorities reserves and recently published it. Though the S151 Officer has recommended an appropriate level in the past, it should be noted that the Council's reserves were below the median average identified by Government for other district Councils. This matter will be considered at part of the budget process.

The best financial strategy to manage large uncertainty and potential budget deficits (shortfalls) is to maintain flexibility of response and robust amounts of reserves.

An additional benefit of holding reserves is that they can be used to fund internal borrowing in the short run, reducing capital financing costs. A robust level of contingency reserves therefore benefits the local taxpayer.

Budget Next Steps (Actions)

The report identifies a list of existing ongoing actions in Appendix 3, but below are the key items:

- To enable production of a draft budget by Services, the report provides guidance in Appendix 4 on the assumptions to be used (budget guidelines).
- The Business Rate retention reserve should, if possible, be increased to hold an ongoing contingency sum (circa £2m). This is to alleviate the risk of building into the budget a higher level of business rate retention income. The S151 Officer will manage the process during 2023/24 budget monitoring, in consultation with the Cabinet Member for Finance.
- The S151 Officer develops a budget forecast for consideration by Cabinet in the Autumn.

Conclusion:

The Council continues to face considerable financial uncertainty due to:

- High inflation
- Government funding
- Homelessness; demand for housing

The budget process will be managed in line with the budget guidelines identified in this report and an updated forecast will be produced for Cabinet in the autumn.

Officers will start the 2024/25 budget using the guidelines set out in Appendix 4.

List of appendices:

Appendix 1: FINANCIAL RISKS AND POTENTIAL UPSIDES
Appendix 2: RESERVES
Appendix 3: ACTIONS MEDIUM-TERM FINANCIAL STRATEGY
Appendix 4: BUDGET GUIDELINES 2024/25

Background papers: None

Corporate Implications

Legal/Constitutional: The Council is required to set a balanced budget. The Medium-Term Financial Strategy sets out the framework for this to be achieved.

Financial: A robust financial strategy is essential in the delivery of the Council's objectives over the medium term, ensuring decisions are taken with due regard to their financial consequences. Medium-term financial planning is a key element in determining the organisation's future resilience.

Potential impact on climate change and the environment: This will be considered as part of the detailed budget setting process.

Contribution toward achieving a net zero carbon position by 2030: As above.

Personnel: The financial strategy, and the development of detailed budget proposals, is supported by the Council's values and behaviour framework, which promotes a culture of responsibility and accountability.

Risk Management: Due regard to the Council's Principal Risk Register should be had when considering its budget plans, financial forecasts and level of reserves. The production of, and adherence to, the Strategy mitigates the risk of financial failure. Challenges to the Council's financial position are reflected in the Principal Risk Register, while the financial impact of other risks are considered within the Principal Risk Register as appropriate.

Equality and Diversity: Equality Impact Assessments will be considered as part of the detailed budget setting process rather than at the strategic level, to enable comprehensive assessments to be undertaken where necessary.

Health and Safety: None

Digital: None

Other: None

Consultees:

Cabinet Members, Chief Executive and Directors, Monitoring Officer

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Relevant Policies and Strategies:

Our Chelmsford: Our Plan

Capital and Investment Strategy 2023/24

APPENDIX 1

FINANCIAL RISKS AND POTENTIAL UPSIDES

Though this report does not contain an updated financial forecast, there are some specific issues which have an impact on how the budget process needs to be managed. The following section provides a briefing on those issues. The budget framework (actions) and guidelines reflect these significant risks.

Adverse Risks yet to be robustly quantified

Staff Pay Awards

Staff costs make up nearly 60% of total (non-benefit) expenditure by the council. As previously reported, over the last 10 years staff pay has increased on average by less than 2% a year. The 22/23 budget allowed for a 2.5% pay award. As a result of the high inflation, the average private sector pay increase was circa 7%. In 2022, the national pay award to local government staff was matched by the City Council and this was £1.5m above the budget (circa 6% increase overall pay cost).

In 2023/24, the budget allowed for the 2022/23 pay award and a further increase of 4%. The national increase being offered to staff for 2023/24 is broadly the same as last year, being the higher of £1,925 or 4%. If the council were to match this, it would add an additional £1m to the council's budget. It should be noted that the unions have rejected the national offer and it will be balloted upon in late summer. At the time of writing, a local, Chelmsford specific, offer has been made to the union and the ongoing part of the offer would be below the national award. Its ongoing cost would be almost £500k less per year than the national offer.

The 23/24 pay award is currently under negotiation with the objective of producing a fair reward to staff which must be balanced against affordability. The pay award must be sufficiently close to the national offer to ensure Chelmsford pay rates remain competitive. When known, the results of that pay offer will be built into the 2024/25 budgets.

A higher than budgeted pay award in 2023/24 will result in a large drawdown of reserves to meet the higher cost and any unconsolidated payment to staff. Given the cost and timing of the agreement, this is likely to be done under urgency powers.

For 2024/25, given recent experience, it is proposed to assume a 4% increase in staff costs. This assumption is arrived at by taking a view on the inflation outlook and Council affordability. For the years after, 3% is assumed to be the annual growth in pay cost, which is approximately double what was awarded per year in the previous decade.

Homelessness services

Coming out of the pandemic, with high levels of inflation and interest rates, has added to the demand for affordable housing. The result is a significant increase in the demand for temporary accommodation. In 2022/23 there was an increase in number of households in temporary accommodation of 81. The projections for 2023/24 and 2024/25 are currently being re-assessed but, indicatively, numbers could increase by between 60 to 160 in 2023/24 and by a further 70 to 130 in 2024/25. These figures need to be updated or confirmed during the budget process as they are still uncertain. The impact of the current projections would be financially significant, potentially adding over £1m to 2024/25 budget. A review of demand and service provision is being undertaken.

The forecasts could materially alter as the budget process progresses.

Inflation (excluding Energy and Pay)

Several spend classifications will need inflating for higher costs. The budget framework and guidelines will identify the initial assumptions (Appendix 4). The Accountancy team will, however, include within the budget proposals to Cabinet in January additional inflationary provision if believed necessary. For income from fees and charges, inflation will be planned for at 4%, but services will not be advised of this rate and will be expected to determine what is appropriate for their individual fees and charges.

Potentially Favourable Items

Energy Costs

The 23/24 budget contains £3.9m for energy costs of which £1.5m was funded from reserves. The budget set in January was based on the latest information from the Council's suppliers procured by Crown Commercial Services (CCS). The procurement contract did not fix prices for 2023/24 until the middle of May. The arrangements for future procurement of energy have changed in that the agreement allows CCS to purchase energy in tranches for the next 3 years to hopefully achieve greater stability and better value for money. The agreement still lacks any effective tools to enable officers to estimate/budget with any reasonable degree of accuracy.

The forecast of energy costs for 2024/25 reported to February Council assumed energy prices would stay at the 2023/24 original budgeted cost. The February report planned that instead of continuing to use £1.5m of reserves to support the budget in 2024/25, the reserve use would be reduced to £750k. The reduced use of reserves and frozen energy costs would effectively increase the budget gap by £750k in 2024/25.

The budget for 2023/24 for energy will be revised down in the Autumn. Current information suggests a saving of at least £700k a year, but further analysis of energy usage is needed. This saving will reduce the use of reserves in 2023/24. The earmarked reserve for energy is likely to be higher than originally forecast.

The budget assumption for 2024/25 will now be based on 2023/24 actual unit costs. The fall in energy prices is currently assumed to reduce our need to use reserves in 2024/25. Instead of using £750k, only £50k of reserves might be used to support the energy budget in 2024/25. This means that £750k (the balance of £1.5m) of energy would still become funded from ongoing sources. This assumption will be kept under continuous review, as one option is to use more reserves to fund energy costs on a temporary basis.

Should forecast prices rise from the 2023/24 levels, the reserve balance could be used to temporarily support the budget. The final decision will of course be made as part of the 2024/25 budget.

Business rate retention

This is a complex scheme designed by Government to allow local authorities to keep a larger share of business rate income. The scheme is difficult to operate from the Government's perspective as:

- interventions made to freeze or restrict business rate increases result in the Government having to compensate councils for their lost potential income,

- businesses have their rateable values reviewed every three years and transitional protections are put in place to protect businesses from large increases that can result.

Over the last few years, the Government has almost regularly stated it will reset the baselines against which the Council's income growth is measured and reform the scheme. This has not happened, and the Government has now made clear it will not review the scheme before the next general election.

For the City Council, budgeting for the appropriate amount of income has been challenging and a very cautious approach to estimating income has previously been taken. This reflects the two chief difficulties,

- the first; building more income into the budget when the Government has stated it wishes to reform the scheme would create a risk of loss of funding.
- the second and now only major difficulty is that the Council must assume in its estimates an allowance for losses as businesses appeal their valuations. These appeals can be across many years and significant in value. The City Council follows the advice of external advisors for setting the appeals provision. Over the last few years this provision has been found to be too high. Money set aside for appeals in previous years has not been needed and this money has been brought back into the revenue account (shared with Government) as gains. The 2023/24 financial year is likely to have significant windfall income from the appeals provision being reduced as it can take several years to be released under scheme rules. Previous windfalls from reducing the appeals provision have been helpful to reserve levels and offset adverse outturns for service expenditure and income.

The ongoing position for business rate retention income looks helpful financially. Additionally, changes made to the scheme at the time of the new valuations seem to have improved the baseline against which gains are measured from, working in the Council's favour.

Currently £0.5m of annual business rate retention is used to support ongoing expenditure, although indications suggest that another £1m a year is available. That may increase as more information regarding appeals is reviewed over this and next year. Given the nature of the scheme and that new valuations may drive appeals up, officers are not totally confident at this time of the extent of the gains. The recommended approach for the budget is to recognise more gain in the ongoing revenue budget in 2024/25. However, any windfall in 2023/24 (should it occur) will be set aside into the Business rate retention reserve to manage the financial risk of fluctuations in this income stream. The revenue monitoring reports for 2023/24 will therefore treat windfall gains from business rate retention as initially being used to create a contingency in the business rate retention reserve with a target of achieving a £2m contingency in the earmarked reserve.

<u>Extended producer responsibilities (EPR)</u>

EPR is the proposed government's levy on packaging producers with the income to be shared amongst councils in 2024/25 to enable increases in recycling. The Government is still developing the method to share the levy and the requirements to be placed on councils in return. Officers believe that currently the Council's recycling approach would be deemed by Government to be of a high standard potentially needing limited adjustment. The City should therefore expect a favourable funding allocation. Civil Servants have implied the funding allocations councils should expect will be large (no specific figures have been shared with councils). Officers would therefore expect to put into the Council budget a net gain from the EPR.

There are difficulties with budgeting for net EPR income, being:

- Timing of the scheme details (including allocations). Initial details are reportedly to be supplied to councils in late August. Further refinement will take place all the way through to January 2024 (after the Council's budget has been agreed).
- DLUHC civil servants have made clear that funding allocated under EPR will impact on reviews of other funding streams, especially New Homes Bonus. The Council's budget allows for utilising all Government funding awarded under the Core Spending Power methodology reported to February Council. Within that, £0.94m comes from New Homes Bonus. The allocations of Core Spending Power will likely not be known until the week of Christmas. There is of course a chance of earlier indications from Government, but no certainty.
- There have been rumours in the press that the EPR scheme will be delayed to avoid any temporary inflationary consequences.

Officers would hope to include a net gain from EPR in the forecast budgets in the Autumn on the assumption Government provides some more detail on EPR over the summer. The Use of Unearmarked reserves will initially be used to manage the risks to the budget if the assumed EPR turns out to be materially incorrect.

VAT Position

The Council VAT refund has been included in the 2022/23 financial outturn as HMRC have confirmed it is payable. However, since HMRC have not confirmed the amount, there is a risk of upward or downward revision.

Capital Expenditure Impact and Risks

1 The impact of the current high levels of inflation on capital projects and replacement equipment costs means projects are at risk of overspending their initial budget. This would result in higher revenue budget financing costs in later years.

2 Waterside scheme. This will be reported to July Council and the recommendations will need to be included in the budgets for future years. There are two points that need to be highlighted arising from the scheme. Firstly, the size of the scheme exposes the Council to significant financial risks on financing and cost, which realistically is an adverse risk. The second but favourable risk is that only costs have been allowed for in previous financial planning as the development of a business case will follow later. The potential income or proceeds when quantified should reduce the projected budget gaps, most likely in the years after 2025/26.

3 Government has announced the potential replacement of CIL with an Infrastructure levy which could also remove Section 106 agreements for affordable housing. The proposals do not provide sufficient clarity to determine the impact of the changes. This could have a significant impact on capital financing and borrowing costs in the revenue budget. It is expected those changes will not happen until 2030.

4 The timing of new capital scheme proposals and capital disposals are always difficult to estimate. The forecast is therefore at risk of revision both in cost and funding.

5 The Council's revenue budget includes, as a statutory annual charge to fund the repayment of capital financing, a Minimum Revenue Provision (MRP). The cost of the MRP has been estimated in the forecast but:

- The programme expenditure could be delayed, so reducing the cost of the MRP

- The forecast of capital expenditure and funding has the risks identified above, so the MRP figures are likely to vary as the programme costs and funding are reviewed.

-The MRP costs will rise over the forecast as greater use of borrowing to fund the capital programme takes place. There is a lag between approval of the scheme and when the MRP becomes chargeable.

Appendix 2

Reserves Update

The provisional outturn for reserves is shown below compared to the assumptions made at February Council for the 2023/24 budget. There is commentary below the table on the significant issues.

Usable Reserves (Provisional Outturn)

		2022/23 Final Forecast				2022/23 Provisional Outturn				
		Provisional Opening Balance	Budgeted net (use of) / contribution to reserves	Transfers	Closing Balance	Actual Opening Balance	Actual net (use of) / contribution to reserves	Budgeted Transfers	Closing Balance	Variation
	Earmarked	£000s	£000s		£000s	£000s	£000s		£000s	
1	Cultural Support Fund	132	-43		89	132	-40		92	3
2	Chelmsford Development	2,156	-2,156		0	2,156	804		2,959	2,959
3	Infrastructure Provision	1,259			1,259	1,259			1,259	0
4	Growth Fund	69			69	69	-50		19	-50
5	Insurance	910	-100		810	910			910	100
6	Local Development Framework	819	-207		612	819	-100	315	1,034	422
7	Pension Deficiency	1,833	867		2,700	1,833	413		2,246	-454
8	Park and Ride	176			176	176	53		229	53
9	Hylands House Reserve	3			3	3			3	0
10	Housing Initiatives	150			150	150			150	0
11	DPO Reserve	79			79	79			79	0
12	Project Evaluation Reserve	348	-6		342	348	-63		285	-57
13	Carry Forwards & Supplementary Estimate Reserve	286	-280		6	286	-443	303	146	140
14	Master Plan Income	65			65	65			65	0
	Total Earmarked Reserves	8,285	-1,925	0	6,360	8,283	575	618	9,476	3,116
	Unearmarked									
18	General Fund	15,137	-1,757		13,380	19,853	199	-618	19,434	6,054
		15,137	-1,757	0	13,380	19,853	199	-618	19,434	6,054
	Total other reserves	23,422	-3,682	0	19,740	28,136	774	0	28,910	9,170
	Not Available to Support Spend, until financial year end when the actual position is determined.									
19	Business Retention reserve	4,635	-4,299		336	4,635	-3,829		806	470

Commentary on the Reserves

- Earmarked Reserves.
  - The level of earmarked reserves is £3.1m higher than expected at the time of the budget, however, the majority £3m relates to delayed use of the Chelmsford development reserve to fund capital expenditure. This funding will be spent in the next 2 years on funding the purchase of short life assets (vehicles etc). This avoids associated MRP payments, somewhat suppressing the increase in MRP payments over the next 5-7 years. The higher balance of unearmarked reserves is therefore a temporary issue.
  - The table above does not show the creation of two new earmarked reserves; the Vehicle Fuel Reserve of £0.6m and Utility cost reserve of £2.3m established in 2023/24. This budget was funded by transferring the £2.9m

from the general fund. The lower energy costs have been discussed previously but this should ensure the unearmarked reserves are not used as heavily as expected. However, these two reserves will be maintained to help manage the continued uncertainty of the underlying inflation for these costs.
  - The creation of additional reserves to manage specific risks or losses of income are likely to be proposed in the budget. This is intended to provide more clarity over the extent of these risks and over the size of general unearmarked reserves. It is expected that a reserve will be established to manage the temporary loss of rental income from a number of properties the Council lets, which tenants may vacate at the end of their leases.
- The General Fund (balance) is to be used to meet unexpected costs, i.e. when there is no earmarked reserve.
  - The S151 Officer set a £9m reserve target which should be seen as the level required to manage the unknown risks.
  - The 2023/24 budget identified that due to (temporary) losses of income and some expenditure, unearmarked reserves were expected to fall to circa £9m by 2025/26.
  - The General fund balance is £6m higher than predicted in the February Budget report. The main reason for this is that £5.3m of VAT refund from the Leisure case has been assumed. The claim is now close to being resolved and HMRC are reviewing the Council's submission. There is a risk the claim could be higher as interest has not been allowed for, or lower if HMRC find issue with the Council's submission. The balance of the increase is due to variances such as interest earnings.
  - Since 31st March 2023 outturn and the 2023/24 budget was set, it has become clear that Pay costs for 2023/24 will be higher than budgeted (how much by depending on what is negotiated) and energy costs for the year lower (potentially by £0.7m). Even allowing for these, it is most likely that the General Fund (unearmarked) reserves will be significantly higher than the £9m target set by the S151 officer in the budget, however the extent will only become clear during the 2024/25 budget process.
  - A higher level of unearmarked reserves provides the opportunity on a one-off basis to:
    - enable greater support to be made to temporarily fund service costs
    - reserves can be used for internal borrowing, avoiding higher cost of external debt
    - investment in spend to save schemes; or
    - support one off Council initiatives for residents.
- Business Rate Retention Reserve
  - This reserve holds money relating to timing differences, when gains and losses are accounted for as opposed to when they are real (available to use to support Council expenditure). An example of this is that the Retention scheme accounting arrangements require the Council to record the income from the scheme at the estimated position at the beginning of the year, but the gains paid to Government are based on actual figures for the year. So, it is possible under the scheme rules to have a significant gain above the budget and pay government its share whilst not being able to recognise the real income in the accounts to fund it.
  - It is now recommended in future that the Business rate Retention reserve is also used to hold a contingency. This would cover the risks of income being lower or higher than budgeted on the retention scheme. The estimate of

retention income is likely to be increased, and having this contingency would provide comfort when increasing our exposure to this difficult scheme. It is proposed that the reserve should be increased to reach a level of £2m over the next few years. The S151 officer will reflect that objective in monitoring reports and budget proposals to Council.

Government Survey of Reserves

The Government has recently collected data on local authority reserves, and though the S151 officer has recommend an appropriate level in the past, it should be noted that the Council's reserves were below the average identified by Government for other district Councils. This matter will be considered at part of the budget process.

APPENDIX 3

ACTIONS MEDIUM-TERM FINANCIAL STRATEGY

The fundamental aims of the Council's Medium-Term Financial Strategy are to:
1) Maintain a sustainable financial position against a backdrop of continuing financial uncertainty and reduced government funding;
2) Support the Council's aims in the delivery of a safer, greener, fairer, and better connected Chelmsford through the appropriate allocation of available resources; and to
3) Maximise opportunities to increase resources, or use resources more effectively, whilst taking appropriate action to mitigate financial risk.

The actions recommended are very similar to those identified last year reflecting that most of the problems have continued from last year:

1 With rising inflation and restrictive Government funding, the Council needs to undertake strict cost control. This will be practised by officers in their day-to-day financial management. Officers' have reviewed 2022/23 expenditure and income and continue to work towards closer alignment of budgets to actual financial activity.

2 Reserves: Ensure a robust level of Reserves is maintained:
   - The level of reserves should be reviewed regularly. The Section 151 officer recommends £9m for Unearmarked Reserves but this will be reconsidered in the budget. Fluctuations around the recommended £9m level should be expected, as the purpose of reserves is to manage financial risk including temporary income falls. If those risks are realised, the level of reserves will need to temporarily fall to meet the realised costs (risks).
   - Specific reserves should be established, maintained and used to manage known or planned financial risks & costs. Appendix 1 identifies some of the factors that are likely to influence reserve levels.
   - The Business Rate Retention windfall gains should be held back in 2023/24 & later years to establish an appropriate contingency to manage the risks of including in the budget retention to support ongoing expenditure. The S151 officer will make recommendations on that as part of financial monitoring and budgeting.

3 Capital programme.
   - The programme should be used to deliver corporate priorities but also financial benefits.
   - The programme should be delivered at the lowest cost to the Council, so external funding should always be sought.
   - Further development of the process of planning the capital programme should take place, strengthening projections to ensure affordability. This is intended to be addressed in the Capital and Investment strategy report for 2024/25 for February Council.
   - A full review of capital scheme proposals and budgets will be undertaken during 2023 and included in the 2024/25 budget proposals.
   - Sites considered for disposal and their alternative use should be delivered in the most cost-effective manner to assist in delivering Council priorities and a balanced budget. The Council will continue to seek to optimise return on existing assets, divest itself of low-performing assets and invest in property to increase income to the Council when there is an economic regeneration outcome.

4 Reviews of Fees and Charges by services should take place annually. The review should reflect corporate priorities and financial sustainability. The budget will make an assumption, but this will not form part of the guidance to service managers when reviewing charges.

5 Officers will review budgets before seeking supplementary funding for cost increases or new initiatives.

6 The Council will follow best financial practice as set out in guidance from CIPFA and regulatory bodies. Identification of a risk or decision to deviate from guidance will be made to members for their consideration.

7 Budget guidelines have been drafted in Appendix 4 and approval is sought. Services will be required to follow the budget guidelines when preparing budgets and that will include a need to identity savings and new income.

Appendix 4

Budget Guidelines 2024/25

1.0 Introduction

1.1 The Statutory Section 151 officer (Accountancy Services Manager) is required by law to ensure the estimates are 'robust' and all the budgetary proposals are adequately reviewed.

1.2 The Accountancy Services Manager will:

- Issue a budget timetable and detailed guidance to Directors after the Cabinet meeting.
- Issue standard forms to enable services to provide key information in a common way. The use of the standard forms is essential to ensure consistency in decision making

1.3 The sS151 will produce, update and circulate budget forecasts for 2024/25 to help manage the 2024/25 budget process.

2.0 Guidelines to Prepare Service Budgets

2.1 It is proposed that in the period September to December that Cabinet Members and Directors meet to resolve budget issues culminating in the production of a draft budget for the January Cabinet meeting.

2.2 The Council will continue to operate a 'control' budget system, where services are restricted to a set level of net budget expenditure on the basis of current year estimates plus adjustments for:

- inflation on employees' costs of 4%
- non-domestic rates inflation of 2%
- additional inflation provisions for items such as software licences, insurance premiums and building maintenance will be included determined by the Section 151 officer based on prevailing circumstances
- a 3% vacancy factor has been applied in past years to all staff budgets and this practice should continue
- funding for increments will be met by services from savings on appointing new staff at the bottom of their grade.

The Section 151 (Accountancy Services Manager) will calculate the 2024/25 control budgets for each service based on the above assumptions starting from the original 2023/24 budget. This includes adjustments to respond to inflationary pressures and costs.

2.3 Savings or increases in the utility costs will initially be kept/funded centrally so no service suffers or benefits from significant price changes. The Council will manage the purchase of utility costs centrally to achieve maximum economies of scale.

2.4 Services are asked to identify proposals that would meet a £3m Council Budget shortfall. This figure will be revised during the budget process depending on the prevailing budget forecasts.

2.5 Additional grant that is not awarded for a ring-fenced purpose should be identified as a saving and not used to fund growth within a service.

2.6 Fees and Charges increases will be reviewed as part of the budget process. Services will set their fees and charges based on evidence of comparators (where possible), corporate objectives, and prevailing inflation, in consultation with Cabinet members.

2.7 The review of the capital programme is part of the budget process and the existing scheme budgets will be reassessed to ensure the scheme remains the method to achieve corporate objectives. Budgets will be refreshed and:

- Capital Budgets for the year will be reduced at Christmas unless there is clear evidence of a commitment to spend, i.e. if a capital budget is significantly different to the level of financial commitments shown in the week prior to Christmas on the financial ledger system. Members will be asked to approve in January a lower budget more in keeping with the financial commitments.
- That all new capital bids are a minimum of £10,000.
- That all new capital bids should be to support delivery of the Council's priorities under Our Chelmsford: Our Plan.
- Annual review of the replacement programme.
- Proposals to Council for new capital schemes will prioritise those schemes that generate revenue income or cost savings.
- The revenue cost of the capital funds used to fund new schemes will be calculated and included within the revenue estimates based on cost of loans repaid over the life of the asset.

2.8 The Accountancy Services Manager will ensure that the statutory requirement to consult with non-domestic ratepayers is met.

2.9 Any amendment to these guidelines will be dealt with by the Accountancy Services Manager in consultation with the Cabinet Member for a Fairer Chelmsford.

3.0 Carry Forward Requests for Cabinet Approval of unspent budgets from 2022/23

Description	Department	Amount
Cyber Security Costs – remaining cost from £100k grant received in 20/21	Digital Services	£51,600
HR Training – to allow purchase of training platform	Human Resources	£12,000
External Audit Costs – to cover costs of 22/23 external audit which has not yet begun	Accountancy & Exchequer	£82,000