EXECUTIVE **22 NOVEMBER 2021**

SUBJECT:	**SETTING THE 2021/22 BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY 2022/23 – 2026/27**
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1. Purpose of Report

1.1 This report updates the Executive on the latest Medium Term Financial Strategy (MTFS) position for the Council, including; the challenges in preparing for the 2022/23 and future years budget, setting out the parameters within which the Council will prepare these budgets, and confirms the Council's approach to development of the budget and MTFS.

1.2 Included in the report is an update on the current economic position and developments in national policy, specifically the high level of uncertainty surrounding local government financing and reforms. This, along with the ongoing implications of the Covid19 pandemic on demand for Council's services, escalating cost pressures and reductions in income, will inform the development of the MTFS.

2. Executive Summary

2.1 The Council's Vision 2025 and five strategic priorities drive the medium-term financial planning process, with changes in resource allocation determined in accordance with policies and priorities. The MTFS provides the framework for the development of annual budgets in line with the aims of the Council's strategy and priorities.

2.2 In March 2021, Council agreed the budget for 2021/22 and MTFS 2021-2026, which recognised that there was a funding gap forecast in 2021/22 and across the remaining years of the MTFS. The MTFS is refreshed annually and rolled forward one year.

2.3 The refreshed MTFS will include financial projections for the five-year financial planning period through to 2026/27. It will set out the financial parameters within which the Council is required to work and the recommended approach to addressing the financial challenges the Council faces to develop a balanced, sustainable budget and set a Council Tax for 2022/23.

2.4 The refresh of MTFS needs to be seen in the context of significant inherent uncertainty for the Council, with the ongoing impact of the Covid19 pandemic on income and expenditure assumptions, and a lack of any form of clarity on future funding settlements from government. It is a long time since the Council had any certainty during budget setting and 2022/23 looks set to continue this tradition, which makes financial planning in this climate extremely challenging.

2.5 The Covid-19 pandemic continues to cast a shadow on the Council's finances with budget pressures arising from demand for services, the availability of goods and services, escalating costs and ongoing, permanent, reductions in income.

2.6 Alongside these service pressures, the Council continues to face a lack of clear direction over whether and when each of the planned local government finance reforms will be implemented. These reforms, together, have the ability to fundamentally alter the course of the MTFS. Providing certainty on these issues would make a significant difference to the Council's financial planning and therefore the services it delivers.

2.7 Against this backdrop of significant uncertainty this report sets out the financial planning assumptions that will form the basis of the MTFS refresh. This medium-term financial planning is critical to ensuring that the Council has an understanding of the likely level of available resources and the potential costs of delivering services, identifying budget shortfalls at the earliest opportunity.

2.8 The current MTFS 2021-2026 set out need to continue to make reductions in the net cost base of the General Fund. Based on what is currently known, or can be reasonably assumed, at this stage in the development of the MTFS there is no current need to alter the trajectory of the savings target. This report does however highlight a short-term one-off gain in resources as a direct result of delays in implementation of funding reforms. This does not though alter the underlying financial position of the Council, there remains a requirement to deliver the significant level of reductions in the net cost base if the Council is to remain sustainable in the medium term. The Council's overriding financial strategy should continue to be, to drive down its net cost base to ensure it maintains a sustainable financial position.

2.9 Now more than ever, careful financial management is required to ensure that the Council is able to carefully balance the reductions required in the net cost base, ensuring it remains in a sustainable financial position, whilst driving forward it's Vision 2025.

3. Background

Economic Climate

3.1 The UK's economic recovery from the Covid19 pandemic has so far proven to be rapid, but as yet; un-sustained; imbalanced; incomplete; and dampened by the fallout of Brexit. The UK economy contracted by a record 9.7% in 2020, the largest recession on record. This contraction continued into 2021 with a decline in the economy of 1.4% in quarter one. The easing of Covid restrictions during quarter two triggered an economic bounce-back, with the UK economy growing by 5.5%, which was higher than the previous estimate of 4.8% - although still 3.3% smaller than in the final quarter of 2019, before the pandemic hit. However, while spending soared during quarter two, more recent figures indicate that there is a loss of momentum with the recovery appearing to have stagnated. In July, growth was dented by the "pingdemic" which saw many employees self-isolating. Growth was just 0.1% in July, down from 1.4% in June, rising to 0.4% in August

3.2 The recovery is now being hampered by supply chain and staffing problems affecting sectors from fuel supply to supermarkets. The supply chain issues have arisen both, globally as the world's economy sluggishly wakes up from lockdown, and in the UK due to fewer European workers and the imposition of non-tariff barriers on trade with the rest of Europe. Coupled with a sharp rebound in consumer demand, these supply distributions and depleted stores of goods have pushed up prices and shipping costs around the world. In addition, the high number of job vacancies in the UK, compounded by Brexit, is putting an upward pressure on wages.

3.3 These factors are pushing up general prices and resulting in the higher than target inflation levels. CPI inflation in August 2021 rose by the largest ever increase recorded to 3.2%. Current forecasts anticipate CPI to temporarily hitting a 10-year high of 4% by the beginning of 2022. At the same time as rising prices, the Government is ending support through the furlough scheme, as well as removing the temporary increase in Universal Credit support. The consequent impact of these factors will in turn result in consumers reining in spending and hence future growth in the economy will be hampered.

3.4 In response to rising inflation in the economy, in an effort to bring inflation back down to the target rate of 2%, the Bank of England is expected to raise interest rates, with forecasters predicting an increase to 0.4% by early 2022. To date the Bank has stopped short of taking action, with it's last Monetary Policy Committee (MPC) voting 7:2 to maintain interest rates at 0.1%. It has however ramped up it's warnings on rising prices and a weaker level of growth than previously estimated. The next MPC vote is on 16th December 2021.

Public Sector and Local Government

3.5 There has been great uncertainty in local government finance for a number of years due to the delay in funding reforms, as a result of Brexit and Covid19, and after a long period of funding reductions. It had been hoped that 2021/22 would bring some much-needed clarity in terms of the future of local government funding. Whilst the Spending Review has delivered some certainty, it still leaves many unanswered questions. Local authorities need certainty over their financial planning and clarity over whether and when each of the planned local government finance reforms will be implemented. Providing certainty on these issues would make a significant difference to the Council's financial planning and therefore the services it delivers.

3.6 In terms of key funding reforms that are pending for local government finance these include:

- Multi Year Spending Review – originally intended in 2019
- The Fair Funding Review – originally intended to be applied from 2020/21
- The Business Rates System Reset and introduction of 75% Rates Retention - originally intended to be applied from 2020/21

3.7 Spending Review

For two years, the government has only held single-year Spending Reviews, with 2019 being a single year due to the political turbulence around Brexit, and 2020 being a single year, given the pandemic. However, on 27th October 2021, the Chancellor, set out the Spending Review and Autumn Budget 2021, representing the first return to multi-year statements since 2015.

3.8 As a result of short-term forecasts for the economy, provided by OBR, which revised up its 2021 growth forecast and reduced its estimate of the long-term "scarring" to the economy from the pandemic, coupled with the money raised from last month's announcement of higher national insurance to pay for health and social care, the Chancellor was able to announce a major spending boost in the Budget. Together these two 'windfalls' provided additional resources of c£50bn, which on the whole has been used to; mainly increase spending with increases in spending for all government departments for the next three years; some small tax cuts; and some reduction in borrowing in order to adhere to the new fiscal rules. The published Autumn Budget and SR21 is laid out across the following key themes:

- Investing in growth
- Supporting people and businesses
- Building back greener
- Levelling up
- Advancing global Britain
- Seizing opportunities of Brexit

The government announced its top priorities in the SR21, to where much of the additional funding has been allocated, and this includes:

- Health and social care
- Education
- Housing
- Criminal justice
- Local government

3.9 The main points from the Chancellor's Budget Statement that are relevant to local government are as follows:

- Total departmental spending set to grow in real terms at 3.8% a year on average– a cash increase of over £150 billion a year by 2024-25 (£90 billion in real terms).

- Core spending power for local authorities is estimated to increase by an average of 3% in real terms each year over the SR21 period. This includes £3.6bn to fund social care reforms, the increase for councils' existing responsibilities will be 1.8% a year on average.

- New grant funding for local government has been announced over the next three years, worth £4.8bn. This is front loaded providing £1.6bn in 2022/23 followed by two cash flat settlements for 2023/24 and 2024/25. The details of how this funding will be distributed and which services it will be allocated to were not included in the speech, although this will include a £200m commitment to increase Supporting Families funding, funding for cyber security and funding to improve local delivery and transparency. In addition, it has been subsequently been confirmed that the additional funding, will also have to meet the additional costs from higher wage bills in relation to the increase in National Insurance Contributions.

- In addition to the new grant funding of £4.8bn, £3.6 billion of the previously announced £5.4bn for the adult social care sector, funded through the new National Insurance levy, will be routed through local authorities.

- There was also no announcement on funding reform, and no confirmation that the business rates reset would be delayed beyond 1st April 2022.

- The Spending Review document confirms that the Council Tax referendum limit is expected to remain at 2% per annum for the Spending Review Period, with an additional 1% per annum flexibility for social care authorities to increase the Social Care Precept.

- The Business Rates multiplier will, again, be frozen, rather than rising by inflation, as in 2021/22. It is expected that this will be funded by government through a further increase to the multiplier cap compensation grant. The conclusion of the review of business rates was published alongside the SR21, which included 3-yearly revaluations from 2023, and a new business rates improvement relief, which, from 2023, will allow businesses to make improvements and pay no extra business rates for 12 months (it is expected that this relief would be funded for local government).

- Retail, Hospitality and Leisure relief will be extended at 50% for 2022/23, subject to a £110,000 cash cap. This is £5,000 higher than the cap currently applicable to the 66% relief to businesses, which were not (or would not have been) required to close on 5th January 2021. The government estimates the relief will be worth £1.7bn to business. Again, it is expected that this will continue to be fully funded for local government.

- £560m will be provided for youth services as part of the levelling up agenda. There will also be new funding for community football pitches (£200m+), to support museums and libraries (£800m), and for 100 new ‘pocket parks’ on small areas of derelict land.

- A nearly £24bn multi-year settlement for housing, including up to 180,000 affordable homes through investment of £11.5 billion in the Affordable Homes Programme. Funding for locally-led grant funding to unlock smaller brownfield sites for housing. An additional £65 million investment to improve the planning regime, through a new digital system. £9 million in 2022-23 to fund more than 100 green spaces across the UK on unused, undeveloped, or derelict land. £639 million resource funding by 2024/25 as part of the government’s commitment to end rough sleeping.

- Funding of more than £300 million to implement free, separate food waste collections in every local authority in England from 2025. There was however no mention of DEFRA's proposed policy of free garden waste collections.

- The public sector pay freeze will not continue, and the intention is to return to the usual system of independent pay commission recommendations for 'fair and affordable' pay rises over the whole Spending Review period. The minimum wage will be increased to £9.50 per hour, accepting the Low Pay Commission's recommendation.

- Other announcements include a reduction to the Universal Credit taper from 63% to 55% (which is the amount that Universal Credit falls as income rises from work).

3.10 The announcement of an additional investment of £4.8bn in local government is hugely welcome. It will go some way to meet some of the pressures of inflation, higher wages and ongoing covid costs/income losses that Councils are facing. But, although it was better than expected it is not enough to address the funding gap created by previous cuts and demand pressures. The specific distribution and implications for the Council will not be known for certain until the announcement of the Local Government Finance Settlement. To provide further certainty this Finance Settlement must also be on a multi-year basis to allow for better financial planning and ultimately better use of resources.

3.11 Fair Funding Review

The Fairer Funding Review was intended to create a new formula for the distribution of resources across local authorities by establishing new baselines at the start of the 75% Business Rates Retention scheme. The Review was expected to be completed last year alongside a multi-year Spending Review, to revise the formula for calculating how government funding is split between local authorities.

3.12 Although previous technical consultations had been published, prior to the pandemic, which indicated a shift in resources from district councils towards statutory social services a county and unitary level, there had been no new consultation on the proposed new formula. However, in releasing funding to support local authorities with Covid19 expenditure pressures in 2020/21 the MHCLG decided to use a new formula based on elements of the Fair Funding Review, perhaps indicating the possible outcomes of the review.

3.13 With no further announcements made in the SR21 as to the future of the Review, local authorities continue to await confirmation as to whether and when it will be implemented.

3.14 Business Rates Reform

Business Rate Reform, including the business rates reset and future plans for busines rates retention was also planned to be introduced alongside the Fair Funding Review and as part of a multi-year settlement. The reset in particular has significant financial implications for the majority of local authorities, for those below their baselines this would be a positive move, but it presents a serious threat to those with high growth above baselines, with a punitive, cliff-edge reset.

3.15 No announcement was made in the SR21 about the plans for these reforms, both of which were originally expected to be implemented in 2020/21, but which have been delayed a number of times. However, the government has announced that it is expecting the business rates pilots to continue throughout the SR21 period, applications for 2022/23 have already been submitted. It was expected that the pilots would end when there was a reset, so the continuation represents a strong signal that a reset might not be expected during this SR period. In addition, the OBR tables for local government finance show that income from business rates retention is expected to increase through the SR21 period. There is only a fall in income expected for local government from BRR in 2025/26, and this fall is fully offset by an unusually large increase in grant funding. This looks like a reset, though the OBR do not specify how these figures were calculated. Until clarity is received these reforms leave local authorities facing significant uncertainty in medium term financial planning.

3.16 <u>Local Government Financial Resilience</u>

The last decade has seen significant changes to local government finances, with many local authorities in a precarious financial position and with a heavy reliance on reserves. There have been a number of high profile 'failures' and calls for a change in the Section 114 notice regime (issued when a council concludes it cannot balance it's in year budget). After a decade of reductions in funding and rising demands, local authorities were subsequently hit with the immediate financial impact of Covid19 (the impact in 2020/21 was an estimated £9.5bn) and now face a legacy of structural changes in income levels and demands for services bought about by new habits and preferences, new ways of businesses operating and new customer needs.

3.17 Recent Local Government Association (LGA) analysis estimates that the average increase in annual cost pressures facing councils is £2.6 billion per year to maintain services at their current level of access and quality, meaning that the same services will cost around £7.8 billion more to provide in three years' time. This does not include any continued impact of Covid19, for example the health impacts of 'long Covid', or the longer-term effects on sales, fees and charges or commercial income. For all these pressures to be met through council tax alone, income from council tax would have to increase by 8 per cent each year, which is not sustainable. However, if no funding is found, councils would have to make savings worth the entirety of their spending on museums, sports facilities, swimming pools, libraries and parks – each year.

3.18 Ahead of the Spending Review the Institute for Fiscal Studies (IFS) independently reviewed the future funding outlook for public finances including local government, concluding that local authorities will need billions more from Government and large council tax rises to maintain services and pay for social care reforms. Their review estimates that under current government spending plans, council tax increases of 3.6% per year will be needed for the next three years just to ensure councils can provide the same range and quality of services in 2024/25 as was provided pre-pandemic. In fact, this is likely to be a minimum requirement. Bigger increases in underlying demand and cost pressures, or top-ups to other budgets (such as schools) which eat into the amount available for grants to councils, could easily push up the necessary council tax rises to 5% per year by 2024/25. It goes on to state that, although the government stepped up with billions in additional funding for councils to support them through the last 18 months, it is likely to have to find billions more for councils over the next couple of years if they are to avoid cutting back on services, even if they increase council tax by 4% a year or more. The coming financial year is likely to be especially tough, with the likelihood of at least some ongoing Covid19 related pressures, and a particularly tight overall spending envelope. At the same time, government needs urgently to deal with a local government funding system which is becoming hopelessly out of date, being based on population levels and characteristics in 2013. This results in unfairness in the distribution of resources between councils.

3.19 Although the analysis by the LGA and IFS differs in the assessment of the scale of financial pressures local government is facing, and the subsequent increase required in council tax to resource this, what is clear is that council tax increases alone are not the solution and that ultimately without further, substantial, financial support the financial resilience of councils will continue to be undermined with the likelihood of an onset of further section 114 notices being issued. The announcement in the Spending Review that new grant funding of £1.6bn per year, along with the previous announcement on social care funding, will help meet some, but not all, of the extra cost and demand pressures local authorities face just to provide services at today's levels.

3.20 In October 2020 the Housing, Communities and Local Government Committee launched a new inquiry into The Spending Review and Local Government Finance. This was subsequently expanded in December 2020, following the issuing of a further section 114 notice by a local authority, to inquire into local authority financial sustainability and the section 114 regime. The inquiry reported in July 2021 and concluded that reforms are needed to ensure the sustainability of local government finances, including an urgent solution to the funding of social care. The report recognised that councils have faced a variety of budget pressures in recent years, including increased demand for services and that these financial challenges have been exacerbated by Covid19. The report makes a range of recommendations, including that the Government should:

- urgently reform the funding of social care in England;
- implement the Fair Funding Review and business rates reset as soon as possible.
- implement changes to council tax and consider wider options for reform; and
- widen the funding base of local government to make it less vulnerable to shocks such as the covid-19 pandemic, including by giving councils more flexibility over local taxes and other revenue-raising powers.

The report also makes recommendations on local government financial audit and the section 114 regime. Northamptonshire in 2018, Croydon in late 2020, and Slough in July 2021 issued Section 114 notices – essentially declaring they had run out of money – and approached the DLUCH for financial assistance. The report expresses concern that the Section 114 regime may be hindering good financial management and recommends the Government introduce an intermediary "yellow card" measure that a Chief Financial Officer could apply to force a council to confront much sooner the seriousness of its financial position.

3.21 The Government responded to the report in October 2021, stating that moving forward they will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline services and support other government priorities. They also planned to take stock, including the impact of the pandemic on local authority resources and service pressures, to determine future reforms, stating that decisions on the way forward will be taken at the ongoing Spending Review.

3.22 The response also stated that there were no plans to replace or fundamentally reform Council Tax and that an important step in the funding of social care had been taken with the announcement of the new levy. The government were also not in favour by a committee recommendation to change the section 114 regime to provide chief finance officers with an opportunity to flag up financial difficulties at an earlier stage. The government response said, Section 114 notices exist within a wider system of checks and balances, such as the statutory requirement for section 151 officers to report on the robustness of budget estimates and adequacy of reserves as part of the annual budget setting process; or the additional powers and duties afforded to external auditors under the Local Audit and Accountability Act 2014, for example to issue statutory recommendations or reports in the public interest, to highlight concerns about an authority's finances. Meaning that they would expect councils to take a number of steps to address financial challenges before reaching a point where issuing a notice was necessary.

3.23 The Council therefore finds itself, once again, refreshing the MTFS in unprecedented times against the backdrop of the legacy of the Covid19 pandemic and a lack of any form of clarity on the funding reforms for local government.

4. Integrating Strategic, Service and Financial Planning

4.1 The Council's Vision 2025 and five strategic priorities drive the medium-term financial planning process, with changes in resource allocation determined in accordance with policies and priorities. The MTFS provides the framework for the development of annual budgets in line with the aims of the Council's Vision and priorities.

4.2 In developing the MTFS the Council has to ensure that the correct balance is struck between ensuring that it directs resources towards its strategic priorities and ensuring that it maintains a sustainable financial position in the medium to longer term, this is ever more difficult when facing unprecedented financial pressures. During the development of the MTFS striking this balance manifests itself in two main ways; it guides decision making in terms of proposals presented in order to achieve any savings targets; and it determines the allocation of resources towards strategic priority areas both in operational service delivery and project implementation.

4.3 The development of Vision 2025, prior to the Covid pandemic, included a mix of exciting, high profile projects that will shape the future of the city, with a range of other projects in keeping with the financial and officer capacity available at that time. The detail of what will be delivered each year, to work towards the end goal, is delivered through a specific Annual Delivery Plan (ADP) for each year, in which individual projects are agreed in priority order. These ADP's are currently in the process of being refreshed to reflect the impact the pandemic has had on the Council, the City and it's residents and business, to ensure that the correct priority areas are focussed upon. Reflecting on the disproportionate impact Covid19 has had on the economically disadvantaged in the City, new schemes focusing on health inequalities and 'greening our space' will be a key feature of the ADP's. A further key element of the ADP's will be the officer resource to support the delivery of the savings programme, whilst also ensuring that resource is available to maximise external funding opportunities to bring forward new development to support the City and its economy.

4.4 The majority of new investment in the ADP's is primarily of a capital nature, aimed at supporting the economic prosperity of the City and is largely funded through external grant funding. There are however a number of revenue schemes to be delivered, which will be funded from the existing Vision 2025 earmarked reserve.

5. Development of the Budget and MTFS

5.1 The Covid19 pandemic fundamentally affected the way in which the Council works and will have long term and societal impacts. Elements of this change which related directly to the emergency response have largely reverted back to normal. However, an event of this magnitude has undoubtedly meant that the Council has to consider how its business and services should operate in the future and the impact of the changing needs and demands of, residents, businesses and customers, on those services.

5.2 The measures introduced nationally to combat the virus had direct and indirect negative impacts on the Council's finances which fundamentally altered the direction of the current MTFS. Despite the relaxation of national restrictions and in some instances a return to normal, there still remains potential longstanding impacts on the Council's income sources due to changes in behaviour, working practices and spending patterns in the city.

5.3 These impacts affect the Council both in terms of demand for and cost of services, and through reductions in income. In terms of service demands, the Council plays a vital role in supporting the most vulnerable in the City. The impact of Covid19 has been felt hardest by those who are the most economically disadvantaged due to the interlinkages with existing health inequalities and social conditions. These impacts manifest themselves directly in the short term through increased demand for social housing, welfare advice, housing benefits, housing solutions, homelessness support etc. The longer term affects and the impacts on health and wellbeing will continue to shape the MTFS for many years.

5.4 It is though the threat to the Council's income streams, through local sources (Council Tax, Business Rates, Fees & Charges) that poses the most significant risk to the MTFS. The Council's reliance on local income streams has increased significantly in recent years as Government funding has reduced through austerity measures and new funding mechanisms have been introduced resulting in the Council having to be more self-sufficient and secure its own funding sources. Prior to the implement of new funding mechanisms in 2013 less than 20% of the Council’s funding sources were subject to any level of volatility, for 2021/22 90% is now subject to volatility and emphasises the financial risk that the Council faces from its income streams.

5.5 The financial assumptions on which to base the MTFS continue to be challenging to estimate with certainty. There continues to be a number of unknowns in terms of how long the pandemic will continue to affect communities and the economy; will further restrictions be imposed; will the bounce back recovery dampen or rebounce, and by how much; and how will customers/residents/businesses behave over time and how will their needs change. Coupled with the state of flux in the economy with; rising inflation; labour shortages; and supply chains issues; and with a lack of uncertainty on future funding reforms, the tradition of budget setting amidst uncertainty looks set to continue.

5.6 Whilst assumptions were made in the development of the current MTFS there is a requirement to refresh the MTFS in light of developments over the last 12 months and to address the impact the new and emerging challenges on the overall level of resources available to support the Council’s budget, and to roll the strategy on for a further year so that it now incorporates the five years to 2026/27.

5.7 Against this backdrop of uncertainty, the development of the budget and MTFS, will include the preparation of indicative net base service budgets by the Directorates and Financial Services Team. When reviewing budgets officers will;

- prepare these on an incremental basis and will update in accordance with the assumptions detailed in Appendix A;
- adjust for the ongoing impacts of Covid19 and subsequent levels of recovery on e.g. sales, fees and charges income levels against the existing budget assumptions, both positive and negative impacts,
- highlight cost and demand pressures and potential mitigating actions; including where possible managing pressures arising in service areas through corresponding reductions in base budgets.

Alongside this the overall level of resources from Council Tax, Business Rates, Housing Rents, Government Grants etc will be estimated in line with the assumptions detailed in Appendix A.

5.8 General Fund

As referred to above the preparation of the base budgets and resource levels are based on a range of assumptions for key variables, e.g., inflation, interest rates, council tax base, business rates base etc. These assumptions are reviewed on a continual basis and will be subject to change as the development of the budget progresses. The main changes to the assumptions (further detail is set out in Appendix A) for the General Fund, at this point in time, which will have a financial impact are set out below:

	2021/22 £'000	2022/23 £'000	2023/23 £'000	2024/25 £'000
Budget Gap as per MTFS 2020-25				
Business Rate Yield	(1,416)	362	(10)	(75)
Council Tax Yield	(88)	(121)	(110)	(113)
Business Rates Surplus/Deficit	(598)	0	0	0
Revenue Support Grant	(23)	0	0	0
Lower Tier Services Grant	(133)	0	0	0
Pay Inflation	268	273	278	285
Inflation	88	90	92	95
Treasury Management (net borrowing/investment)	(59)	(59)	(87)	(76)
Total Changes in Assumptions	**(1,961)**	**545**	**163**	**116**

Although the above table highlights the potential for additional resources over the period of the MTFS of £1.137m, this does yet take into account any service budget pressures that may arise from the preparation of the base budgets. <u>It is also important to note that these additional resources are not ongoing and arise primarily due to the one-year delay in local government finance funding reforms. The underlying financial position of the Council has not, at this stage, changed and there remains a requirement to deliver a significant level of reductions in the net cost base if it is to remain sustainable in the medium term.</u>

5.9 The allocation of the estimated additional resources, set out in the above table, will be considered further as part of the development of the MTFS. It will be essential that some of these additional resources are used to replenish a number of earmarked reserves, that were reduced as part of the current MTFS in order to provide further financial resilience, as well as giving consideration to existing liabilities in relation to corporate assets.

5.10 It must also be stressed though that the forecasted additional resources shown above is based on a number of assumptions which are subject to constant change. The most fundamental of these uncertainties is in relation to the timing and extent of local government funding reforms. Any further delay beyond 2022/23, for the period of the SR, could result in additional resources of c£0.500m p.a. for 2023/24 and 2024/25 and would be alter the direction of the MTFS.

5.11 This uncertainty runs alongside service demand and service income pressures which may emerge during the budget development process. At this stage the revised budget is based on the most appropriate assumptions, but these will be closely monitored and updated as necessary to ensure that the draft budget and MTFS presented in January reflects the most accurate and up to date assumptions.

5.12 On the basis of the change in assumptions as set out above, there is no current need to alter the trajectory of savings as set out in the current MTFS. The planning assumption for the MTFS will therefore remain on the basis of the following targets:

2021/22 £’000	2022/23 £’000	2023/24 £’000	2024/25 £’000	2025/26 £’000
850	1,350	1,750	1,750	1,750

In terms of progress to date, despite the impact of Covid19 on staffing resources the Council has still made good progress towards the 2021/22 target, however, there remains a significant target still to achieve for 2022/23 onwards, as follows:

	2021/22 £’000	2022/23 £’000	2023/24 £’000	2024/25 £’000	2025/26 £’000
Savings Target	850	1,350	1,750	1,750	1,750
Savings Secured	(514)	(588)	(596)	(605)	(615)
Balance to be achieved	**336**	**762**	**1,154**	**1,145**	**1,135**

5.13 The key mechanism for delivering the required budget savings is through the Towards Financial Sustainability (TFS) Programme, which seeks to bring net service costs in line with available funding. Over the last decade, through it’s TFS Programme and precursor programmes, the Council has delivered annual savings in excess of £9.5m, a significant amount in comparison to it’s overall net budget. This level of savings has been achieved by re-investing in more efficient ways of working; adopting a more commercial approach; and prioritising resources for economic development measures, whilst making careful use of reserves to meet funding gaps.

5.14 However, it has become much more difficult to find additional efficiency savings and some being considered need to be delivered as part of longer-term transformational changes to the organisation, the Council is taking a more prudent approach to commercial ventures; and it cannot deliver the benefits from economic development measures in the short term. The Council is left with little option but to revert to a more traditional cost cutting measures approach in order to deliver the scale of reductions required within the short lead in time. Work to deliver the current programme is progressing well and every possible effort is being made to find the least painful solutions and minimise the impact on jobs and services, but it simply isn’t possible to achieve the level of savings required through the more forward thinking of ambitious approaches previously adopted. Individual, specific proposals have been presented to the Executive over the course of the last 12 months and will continue to be presented as the full programme is delivered.

5.15 Housing Revenue Account

A key element of the HRA self-financing regime is the Council’s 30-year Business Plan. The Council’s latest Housing Revenue Account Business Plan, 2016-2046, was approved in February 2016 following a fundamental review of resources, investment requirements and priorities. The current Business Plan was scheduled for review during 2020/21, following completion of refreshed stock condition surveys, agreement of a Lincoln housing specification, refresh of the Lincoln standard to reflect low carbon/climate change, to include the implications arising from the Social Housing White Paper and to ensure the priority schemes emerging from Vision 2025 were fully reflected. Whilst a high-level review is being undertaken during 2021, which will shape the 5-year MTFS, the full review of the 30-year Plan will now take place during 2022.

5.16 The revised MTFS will continue to be based on the approved Business Plan, updated for revised financial assumptions (as outlined in Appendix A) and high-level review of the Plan, any government policy changes, updated development and investment profiles and other emerging service factors. The main changes to the assumptions for HRA, at this point in time, which will have a financial impact are set out below, with further details provided in Appendix A:

Figures in ( ) equate to a surplus	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Pay Awards	122	124	126	129
Inflation	59	60	61	63
Housing Rents – Rent Increase	(321)	(329)	(349)	(357)
Treasury Management income	(16)	(21)	(28)	(34)
Total changes in assumptions	**(156)**	**(166)**	**(190)**	**(199)**

5.17 Whilst the above table identifies additional resources for the HRA, this does not yet take account of any service budget pressures. As set out in a separate report on this agenda, the quarter two financial monitoring report sets out a number of emerging financial pressures for the HRA, which are likely to have ongoing financial implications. Not least of which is the financial pressures that are faced in the Housing Repairs Service and as a result of labour and contractor shortages.

5.18 In addition, the critical element of the HRA budget, and primary source of funding is the rental income from dwellings. Whilst the assumptions in Appendix A highlight additional rental income due to inflation, the level of income is also heavily influenced by collection rates, void level, Right-to-Buy sales and the delivery of new homes. As is shown in the financial monitoring report elsewhere on this agenda, the level of voids in the system is currently higher than estimated and along with other factors, such as increased RTB sales, has led to a significant reduction of rental income. Although mitigating actions are being taken to address these issues, it may be necessary to amend the budget assumptions in the short term.

5.19 Management of these in-year pressures will be closely monitored and any required changes to the underlying assumptions will be taken into account as per of the development of the budget and MTFS.

5.20 <u>Investment Programmes and Capital Strategy</u>

The development of the General Investment Programme (GIP) for 2022-27 will focus on delivery of schemes in Vision 2025 and investment in existing assets to either maintain service delivery or existing income streams. Due to a lack of available capital receipts and the lack of revenue resources to fund prudential borrowing it is essential that other sources of funding such as grant allocations and partner contributions continue to be sought. The Council is currently delivering a £1.6m contact with English Heritage for the High Street Heritage Action Zone, a

£0.175m development phase for Re-imaging Greyfriars, funded from National Lottery Heritage Fund, a Green Homes Local Authority Delivery Grant of £0.480m and is utilising £2.1m of Homes England funding to bring forward the Western Growth Corridor development. However, the most significant scheme is the Lincoln Towns Deal Programme. The Towns Deal Board were successful in securing £19m of funding to support a number of projects to deliver long-term economic growth in the City. Of this £19m, £6.24m is being utilised on projects delivered directly by the Council, those being the redevelopment of the Central Market and the Tentercroft Street redevelopment feasibility works. External grant funding will continue to be sought as the main funding source to enable the delivery of the Council's Vision 2025 and strategic priorities. The use of prudential borrowing will only be considered for schemes that generate a revenue return sufficient to cover the cost of borrowing and in exceptional cases to maintain existing operational assets.

5.21 There are currently a significant number of maintenance liabilities arising on the Council's corporate property portfolio. These are mainly in relation to operational assets, which will require investment in order to remain in service delivery, but the liabilities also extend to some of the Council's natural assets. Work is currently in progress to assess the scale of these liabilities, the allocation of any surplus capital resources and/or consideration for the use of prudential borrowing will be assessed as part of the development of the MTFS, interlinked with the General Fund revenue budget development.

5.22 The development of the Housing Investment Programme (HIP) for 2022-27 will be in line with the current HRA Business Plan as per paragraph 5.15 above. In terms of housing strategy, the focus continues to be on maximising the use of 1-4-1 retained right to buy receipts, assessing the use of prudential borrowing and seeking government grant funding for new build schemes or purchase & repair schemes that generate a rental stream, as well as considering partnering options to bring forward larger new build developments. During 2021/22 the Council have been successful in securing Homes England funding to deliver a new build scheme at Rookery Lane, as well as MHCLG funding to deliver further rough sleeping accommodation. In relation to housing investment the HIP will continue to focus on the allocation of resources to the key elements of decent homes and supporting the Lincoln Standard as well as managing the impacts of the insourcing of the housing planned maintenance works.

5.23 Across both the GIP and HIP capital projects have been impacted result of the current challenges in the construction sector particularly around supply of skilled labour, availability of materials and costs of materials. The Council has adopted a collaborative approach with contractors to ensure that the impacts are minimised using a range of mechanisms including; rescheduling the programme to absorb delays, changing materials, accepting time delay but without imposing a time penalty to counter cost increase, use of contingencies and sharing cost increase. Inevitably some projects have or will be delayed in terms of completion dates and we are expecting some cost impacts on projects that are currently being developed. The MTFS will though be revised to reflect any delivery timescale revisions with any cost implications being approved in accordance with Financial Procedure Rules.

5.24 The Capital Strategy, which summarises the Investment Programmes as well as outlining how the Council deploys and subsequently manages its capital resources, will be updated to reflect planned changes in the Prudential and Treasury Management codes as well as the PWLB reforms designed to prevent debt-for-yield investments.

5.25 The culmination of the above processes will result in a set of budget proposals, including a revised savings target that will deliver a balanced budget in line with the Council's strategic priority areas. This will then be subject to public consultation and Member engagement.

Consultation and Engagement

5.26 The Council is under a duty to annually consult externally as part of its council tax setting process. Therefore, consultation will be undertaken in December – February, this will be based on an online survey and through the Citizens Panel, the key purpose of which will be to;

1. Highlight the proposed budget and Council Tax for 2022/23, seeking views on the proposed increase.

2. Outline the scale of significant financial challenges facing the Council.

5.27 In addition to the public consultation the Council will also consult directly with the business community, specific plans will be developed prior to January.

5.28 Following the success in recent years of the all Member workshops and Budget Scrutiny process a similar process will be followed in early 2022 to ensure that all Members have the opportunity to consider and fully understand the proposed budget, MTFS and council tax recommendations and that a robust scrutiny of the proposals is undertaken.

5.29 A financial planning timetable to deliver a balanced and affordable five-year revenue budget strategy and capital programme, in line with Vision 2025, is attached at Appendix B.

6. Strategic Priorities

6.1 The Medium-Term Financial Strategy seeks to deliver the key priorities of the Council within the available level of resource, both revenue and capital.

7. Organisational Impacts

7.1 Finance

The financial implications are as set out in the report.

7.2 Legal Implications including Procurement Rules

Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed requirements of that section. This requires consideration of the authority’s estimated revenue expenditure for the year in order to perform it’s functions, allowances for contingencies in accordance with proper practices, financial reserves and amounts required to be transferred from the General Fund to the Collection Fund.

These proposals will eventually be referred to Council so that it can approve the budget and set the Council Tax, which it is required under statute to do so for 2022/23 by 11th March 2022.

7.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

This report provides a summary of the financial planning activities across the Council. As a consequence of the development of the MTFS and budget for 2022/23 there may be an impact on certain council services which will be subject to review through the Towards Financial Sustainability Programme. Where individual projects or reviews are being developed, specific equalities implications will be assessed and relevant impact assessments and/or statutory consultation with service users will be carried out accordingly. As the overarching strategic document, a separate equality impact assessment will not be undertaken for the MTFS 2022-2027.

7.4 Human Resources

There are staffing implications associated with the report, especially in relation to the Financial Services Team, where staff will be significantly involved in the preparation of the budgets and MTFS. This resource has been provided for within the Service Plan of the team.

Specific staffing implications may arise where certain Council services are subject to review through the Towards Financial Sustainability Programme. In such cases the Council’s Management of Change Policy will be adhered to.

8. Risk Implications

8.1 There are significant, unprecedented risks to the Council’s budget strategy, particularly in the short-term as a result of;

- The Covid19 pandemic and the ongoing impact on local income streams, whilst an estimate of future levels can be made based on a number of assumptions these are difficult to predict with certainity, along with increases in service demands.

- While the Spending Review has been announced, as yet there is no specific information regarding funding for the 2022/23 financial year. The uncertainty as to when the Fair Funding Review, Business Rates Reset/75% Retention and multi-year Finance Settlement will be does not give any certainty of the level of future funding.

- The impact of national government policies on the local authorities. These include impacts on; employment; businesses, household incomes etc affecting the overall prosperity of the city and ultimately levels of Business Rates and Council Tax.

- The effect of the current economic climate on the Council's escalating costs and ability to secure services and supplies; and the financial sustainability of key contractors.

- Pension Fund risks include changing economic conditions and investment returns less than assumptions in the Pension Fund's investment strategy increases the risk of a deterioration in the Pension Fund's funding position and as a consequence there is a risk of an increase in the employer's contribution from 2023/24 onwards.

- Changes in legislation or imposition of new responsibilities imposed upon the Council without adequate funding allocated to the Council.

- Impact of variations to forecast interest rates, both in terms of investment returns and also on assumptions made on borrowing costs.

- The capacity to continue to deliver a significant level of savings. Although regular monitoring and reporting takes place the size of the budget reductions increases the level of the risk.

The budget process includes the recognition of these risks in determining the 2022/23 budget and MTFS, but it will be imperative that the Council continues to build upon its record of delivering significant savings and maintains the strong focus on its Towards Financial Sustainability Programme in order to maintain a sustainable financial position.

9. Recommendation

9.1 Executive is asked to:

a) note the significant financial challenges and risks that the Council faces, particularly the lack of clarity surrounding future funding reforms;

b) note the projected budget parameters for 2022/23 and future years and note the planning assumptions, as set out in Appendix A; and

c) note the budget, strategic and service planning preparation programme, set out in Appendix B.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	Two
List of Background Papers:	None
Lead Officer:	Jaclyn Gibson, Chief Finance Officer Telephone (01522) 873258

KEY BUDGET ASSUMPTIONS MTFS 2022 – 2027

1. The base budget estimates will be prepared on the basis of a number of key assumptions as follows;-

2. Business Rate Tax Base

2.1 The current Business Rates Retention (BRR) scheme was introduced by the government in April 2013 and replaced an element of grant funding. The calculation of income to be received through the BRR scheme is critical in determining the amount of resources that the Council will have available to fund local services.

2.2 Deficit position 2020/21

When forecasting the position on the Council's share of the Business Rates Collection Fund balance for 2020/21, a deficit of £12.002m was declared, on the basis of the in-year monitoring position and estimated appeals provisions at that point in time. By the time of closing the 2020/21 accounts the situation had reduced the deficit by £0.598m, this reduction in the deficit will be released to the General Fund in 2022/23.

2.3 In year position 2021/22

In relation to the business rate base for 2021/22 this was estimated to be £42.910m. Movements in this base are usually monitored on a monthly basis so that the Council has an early indication of any significant changes, however as a result of the current uncertainty and volatility the position is being closely monitored. There has been a significant reduction in the level of business rates payable in year primarily due to the Government extending the rate reliefs that were given to ratepayers to provide financial support during Covid19. Councils will be compensated through s.31 grant payments for this loss of income, but due to the nature of accounting for business rates the s.31 payments will be received in 2021/22 whereas the 'deficit' arising from the reduced rates will be declared in 2022/23. As Councils will receive grant for this loss of income it is not a 'real' deficit and will have no overall budgetary impact other than a 'timing' impact.

2.4 It should be noted that the collection rate in year is currently lower than the equivalent for 2020/21 by 6.19%. However, due to the nature of Government rate reliefs awarded in 2020/21 and in the current year, it is extremely difficult to make any meaningful comparisons between the two years. It is though evident that are a greater number of businesses currently in arrears than at the same point in 2020.

2.5 During 2020/21 there was a significant number of businesses submitting business rates appeals on the basis of a material change in circumstances (MMC) arising from Covid19. However, the Government announced in March 2021 new measures to limit the use of MMC provisions during the covid period. This left a significant number of business in the position of having no rate relief awarded and no ability to seek a reduction in rates. Instead, the Government announced a new £1.5bn of support for businesses who had not already benefited from business rate reliefs. This new funding is be to allocated and awarded through local authorities. To date though there has been no further announcements of what individual authorities allocations will be or what award criteria may be in place. Once the Council receive it's allocation it may have a positive impact on the arrears position if such businesses are able to benefit from it.

2.6 In addition to a loss of business rates payable through reliefs there has also been a reduction in rates payable to date in 2021/22 due to a significant increase in properties claiming empty property rate relief. In 2020/21 empty property relief of £2.435m was awarded for the full year, year to date in 2021/22 £2.659m has been awarded.

2.7 Despite the pressures on business rates income in year, as a result of prudent assumptions made when setting the 2021/22 budget the levels of income currently forecasted from business rates remains largely in line with budget expectations. A deficit for 2021/22 will however be declared due to the timing differences on the funding of in year rate reliefs as set out in para 2.3 above.

2.8 The Council maintains a Business Rates Volatility Reserve to cushion the impact of fluctuations in retained income and collection fund deficits. The estimated available balance on the reserve is £0.598m. This reserve was significantly reduced as part of the development of the current MTFS in order to absorb the deficit incurred in 2020/21, limiting the impact on the General Fund. This was done so on the basis that it would leave the reserve depleted with limited ability to cushion future fluctuations in business rates until the Council is in a position to rebuild the reserve. It is essential that the Council seeks to replenish this reserve to provide for future fluctuations as soon as possible. It will be proposed, as part of the budget process, that £0.152m from the reduction in deficit of £0.598m, as set out in para 2.2, is contributed to the reserve to replenish it to £0.750m.

2.9 <u>2022/23 – 2026/27</u>

The level of outstanding appeals continues to create a high level of uncertainty both in respect of the outstanding appeals from the 2010 and 2015 ratings lists already lodged with Valuation Office, but also in relation to appeal to the 2017 list that are submitted under the new Check, Challenge Appeal process. The Collection Fund is required to fully provide for the expected result of all appeals and using external assessments as to the likely level and value of these appeals. The current provision of outstanding appeals stands at £6.119m, of which the Council's share is £2.448m. In addition to the backdated element of these appeals there is also an ongoing impact due to the reduction in the business rates base, which ultimately reduces the level of income to be retained in the future by the Council. The current MTFS assumes a £2m p.a. reduction in retained rates due to outstanding appeals, this was increased in 2020/21 due to the significant number of MMC appeals received. In light of the Government's announcement to limit the use of MMC's this assumption will now be decreased to £1.5m p.a.

2.10 The current MTFS assumed a decline in the business rates base due to increased empty properties and lack of growth in 2021/22, but that for 2022/23 growth of 1%, rising to 2% from 2023/24 onwards would be assumed. This growth over the MTFS planning period was to reflect some of the major developments scheduled to be undertaken in the City which should result in business rate growth in the medium term. At this stage in budget planning the assumption will remain unchanged.

2.10 The Council is currently part of a Business Rates Pool for 2021/22 along with the County Council and five other Lincolnshire District Councils. The benefit of pooling is that the authorities in the pool can be better off collectively through a reduction in the amount of levy paid to the Government. The arrangements for the current pool are that this retained levy is allocated 40% to the County Council and 60% allocated to the District Council that has generated the business rates growth. The current MTFS had assumed that as a result of the introduction of 75% retained business rates that pooling would cease from 2021/22. However, the Government has now announced it will welcome proposals for business rate pools in 2022/23. The Council will therefore express an interest in continuing the current pool arrangements. This is estimated to generate the Council an additional £0.534k in 2022/23. The MTFS already assumes that there will be no further pooling gains from 2023/24 onwards.

2.11 Again, as set out in the main body of this report the move to a 75% retention scheme and the consequent full reset of business rate baselines to better reflect how much local authorities are actually collecting in business rates looks likely to be now to be delayed until at least 2023/24. These changes, when implemented, will wipe out gains the Council has built up since the launch of the current system in 2013/14. Clarity over the timing of the reset is essential for the Council to be able to undertake financial planning with a greater degree of certainty. The financial implications of a reset are critical to the Council and have the ability to alter the course of the MTFS. Based on the SR21 there is reason to believe that the reset might be pushed back until 2025/26, this would allow the Council to retain a significant amount of business rates resources.

2.12 The current MTFS was prepared on the basis of this full reset and subsequent loss of gains made from 2022/23. The delay in implementation by one further year will result in additional one-off resources in 2022/23, in addition to the gains arising from an extension to pooling arrangements. However, as a result of the delay in the reset, forecast resources in 2023/24 are set to reduce slightly due to the no gains above baseline being retained in the year of reset.

2.13 The overall impact of changes in the assumptions to the level of retained business rates is as follows:

	2022/23 £'000	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
Current MTFS 2021-26	4,141	4,539	4,966	5,396
Latest forecast	5,557	4,177	4,976	5,471
Change in resources	**(1,416)**	**362**	**(10)**	**(75)**

2.14 Any further delay in the reset beyond 2022/23 could result in additional resources of c£0.500m in 2023/24 and 2024/15, which has the ability to alter the course of the MTFS.

3. Revenue Support Grant

3.1 The Council's Revenue Support Grant (RSG) was set to cease in 2019/20 at the end of the previous four-year funding settlement period. In 2020/21 and again in 2021/22, due to delays in the implementation of the 75% BRR scheme the level of 2019/20 RSG, adjusted for inflation, was rolled over into 2020/21 and 2021/22, a total of £0.023m p.a. Beyond this the MTFS assumed that there will be no further RSG payable by the Government. On the basis of, at least, a further one-year delay in the implementation of the new funding mechanisms a further roll forward of RSG at £0.023m in 2022/23 only will be assumed.

3.2 Should the implementation of the proposed finance reforms be delayed to 2025/26, as per the business rates reforms set out above, then it could be assumed at RSG of c£0.024m would be payable in 2023/24 and 2024/25.

4. Council Tax

4.1 This increased importance of Council Tax, alongside Business Rates, as the principle means of raising revenue makes decisions taken in relation to the levels of Council Tax critical to the delivery of a sustainable MTFS.

4.2 Council Tax collection rates have suffered during 2021/22 as a result of Covid19 and residents ability to make payments. Whilst support through the LCTS, Govt funded Hardship Fund and the Council's own Hardship Fund is available collection rates are still below normal levels. As at the end of October 2021 the collection rate was 57.91% which is 1.18% below the same point last year and 3.66% below October 2019. The in-year collection rate has been impacted by a lack of court dates for arrears cases, these have now restarted and it is anticipated that the collection rate will start to improve from November onwards.

4.3 The current collection rates assumed in the MTFS were set at 97.75% in 2021/22, increasing to 98.75% p.a. from 2022/23 onwards. This temporary reduction in 2021/22 was to reflect the lower collection rates arising due to Covid. Based on the performance of the collection rates during the current year and the likely ongoing impact on household incomes it is considered prudent to reduce the collection rate by 0.5% in 2022/23 to 98.25% returning to the current assumption of 98.75% from 2023/24 onwards. These will however be kept under review.

4.4 In calculating the Council Tax base the overall yield is reduced by the estimated numbers of claimants entitled to support under the Council's Local Council Tax Support (LCTS) scheme and the eligibility criteria of the scheme. The more Council Tax support that is awarded the more the taxbase is reduced, limiting the ability to raise Council Tax.

4.5 Since the introduction of the scheme in 2013/14 the number of claimants had as at April 2020 decreased by over 20%. However, during 2020/21, as a result of Covid19 and the impact on household incomes, the caseload significantly increased, peaking at 5.9% in September 2020. The caseload then plateaued until the spring of 2021 with month-on-month reductions now being seen. The current caseload is now at 3% of pre-covid levels. Although impossible to predict with certainty, there is the potential for the caseload to rise again slightly in the latter half of 2021/22 due to certain national 'protections' ending e.g, furlough scheme. Whether or not an increased CTS caseload continues into 2022/23 very much depends on the economic climate and impact on jobs and businesses from the Covid-19 pandemic.

4.6 The current MTFS assumed a further increase in caseload in 2021/22, above the position as at October 2020, with a gradual reduction of 1% p.a. over the period of the MTFS. Based on the latest caseload numbers and allowing for a further increase in 2021/22 due to the end of national restrictions, the cost of the LCTS is still below that assumed in the current MTFS. The revised MTFS will therefore be based on a reduction in caseload of 0.5% in 2022/23, then reducing by 1% p.a. over the period of the MTFS back to pre-covid levels.

4.7 At this stage in the development of the MTFS current entitlements under the LCTS Scheme are being reviewed with public consultation taking place during November. Any adjustments to the scheme or indeed to the Council Tax discretions that are applied will be reflected in the final MTFS following consultation and subsequent Executive approval. These are not yet included in the Council Tax modelling below.

4.8 The current MTFS assumes an annual increase in the council tax base of 1.25% as a result of new property development. Although the Council aims to bring forward significant housing development on the Western Growth Corridor site, until a planning determination has been made no further increases in the council tax base will be assumed. The revised MTFS will therefore continue to be based on the assumption of growth of 1.25% p.a.

4.8 As is customary the Government will consult on the Council Tax Referendum Principles later in the year as part of the Local Government Finance Settlement, at this stage it is assumed, as per announcements in the SR21, that the existing levels for district councils of a increases of less than 2% will remain in place. The current MTFS assumes Council Tax increases from 2022/23 onwards of 1.9% p.a. Until further details are released in the Finance Settlement the MTFS will continue to be prepared on this basis.

4.9 Based on the assumptions as set out above and using the latest Council Tax base position, estimated Council Tax yields are as follows:

	2022/23 £'000	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
Current MTFS 2021-26	7,307	7,583	7,868	8,149
Latest forecast	7,395	7,704	7,978	8,262
Increase in resources	**(88)**	**(121)**	**(110)**	**(113)**

4.10 In recognition of the reduction in Council Tax income as a result of increased LCTS claimant numbers during 2021/22, the Finance Settlement announced

£670m of grant funding to broadly meet the additional costs in 2021/22. This funding was un-ringfenced and could be used to provide other support to vulnerable households as well as offsetting the loss in Council Tax income. The Council's allocation for 2021/22 was £0.200m and was used to offset the loss in Council Tax income. No further funding from this grant is assumed in the MTFS.

5. Other Government Grants

5.1 New Homes Bonus

Previously Government announced that a Spring 2020 consultation on the future of the New Homes Bonus scheme would be undertaken, stating that 'it is not clear that the NHB in its current form is focused on incentivising homes where they are needed most' and the consultation will 'include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance'. Due to Covid19 this consultation was delayed until February 2021.

5.2 The consultation, when launched, focused on a continuation of the scheme but with reform of some of the key elements of the existing scheme, including:

- raising the baseline percentage
- rewarding improvement on average past housing growth
- rewarding improvement or high housing growth
- support infrastructure investment in areas with low land values
- introducing a premium for modern methods of construction (MMC)
- introducing an MMC condition on receipt of funding
- requiring an up-to-date local plan

Due to the number of variables being considered it is not possible to assess what future funding might be attributable to the Council. The Government is currently analysing the responses to the consultation and is likely to announce the outcome and new scheme as part of the Finance Settlement 2022/23. There was no reference to the future of NHB scheme in the SR21.

5.3 The current MTFS is based on the allocations announced in the Finance Settlement 2021/22, with a legacy allocation from the existing scheme of £0.050m in 2022/23, and with no further funding beyond this. Whilst the consultation does not specifically address whether there will be a final legacy payment in 2022/23, it does seem, by omission, to suggest that this payment might not be made. Until further announcements on the future of the scheme are made no further NHB will be assumed beyond the £0.050m in 2022/23.

Housing Benefit/Council Tax Support Admin Grant

5.4 It continues to be difficult to forecast the likely level of future funding in respect of Housing Benefit Admin Grant due to the gradual and delayed roll out of Universal Credit (UC). The Council began roll out of the full service for UC in March 2018, in respect of new UC claims previously eligible for the six separate benefits. All new UC claimants have their housing cost element included in their monthly UC payment which is administered by the DWP, and as a result, they will not make a Housing Benefit claim but can still make a claim for Local Council Tax Support. The next stage requires the migration of all remaining existing claimants to full UC by 2023, this process commenced in 2019 and was due to finish in July 2020. Due to Covid19, the pilot was suspended and no announcement has been made about re-commencing it. There is still much debate and decisions to be made by the Government as to what role local authorities will play in the longer term, but there is a commitment from the DWP to work with authorities until all working age claimants are transferred, 2023 at the earliest.

5.5 Although this commitment has been made the DWP have yet to announce a permanent funding model going forward and the Council continues to face the issue of one-year funding announcements, supplemented by New Burdens arrangements. In addition, the Council also receives a grant from the DLUCH in respect of the Council Tax Support element of administration funding, again this is only announced on a one-year funding basis.

5.6 As there is no clear position on what future grant levels are likely to be the Council continues to face an annual wait for funding announcements to be made. At this stage the MTFS will be prepared on the basis of the current level of overall core grant funding, which may ultimately be received through a combination of Administration Grant and any New Burdens funding. Once the grant allocations are announced due regard will need to be taken of this in terms of the service planning for the revenues and benefits service.

5.7 <u>Lower Tier Services Grant</u>

Included in the Finance Settlement 2021/22 was the announcement of a new, one off, Lower Tier Services grant of £111m for 2021/22, of which the Council's allocation was £0.266m. The current MTFS assumes no further allocations under this grant.

5.8 Although no further announcements on the grant were made in the SR21, on the basis that this grant was announced in order to ensure authorities received at least the same core spending power in 2021/22, then it is likely this grant could continue, at least until the future reforms were implemented. The amount is unlikely to be as high as the current year's allocation due other changes in core spending power, based on estimates additional resources of c£0.133m p.a. could in be received in 2022/23 – 2024/25. Until further clarity is received as part of the Finance Settlement, the MTFS will assume £0.133m in 2022/23, as result of the delays in implementing the reforms, but then no further funding through this grant stream.

5.8 <u>Covid 19 Support</u>

Recognising that local authorities would continue to face additional costs, arising from Covid19, in 2021/22 the Finance Settlement announced a further £1.55bn of unringfenced grant for 2021/22. The Council's allocation was £0.640m. The current MTFS assumes no further allocations under this grant.

6. Inflation

6.1 CPI significantly increased by 1.2% to 3.2% in August 2021, this was the largest month on month increase since records began. The rate as at September 2021 had dipped slightly to 3.1%. Latest forecasts are that it is likely remain high during 2021 and early 2022, potentially peaking at 4.4% but that this increase will be short lived will fade towards the end of 2022 and will eventually settle back in line with the Government's target rate of 2% in the medium term.

6.2 Annual price increases in a number of the Council's contracts are linked to CPI at a defined date in the year, primarily September and March. In addition, the general inflationary increase applied within the MTFS is normally maintained in line with CPI projections. The current MTFS assumes a 2% p.a. Based on the likelihood of a temporary increase above the target rate of 2%, the revised MTFS will assume CPI at 3% in 2022/23, reducing to 2% p.a. from 2023/24 onwards. This will result in additional costs of:

	2022/23 £'000	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
General Fund	76	77	79	81
Housing Revenue Account	59	60	61	63

6.3 Whilst the majority of the Council's main contracts are linked to annual price increases in line with CPI, there are also a small number that are linked to RPI or RPIX. The latest forecasts are that RPI will temporarily rise from 4.9% in September 2021 in line with CPI, falling back to around 3% in late 2022. The current MTFS assumes a 3% p.a. RPI increase. In light of the temporary increase in RPI the revised MTFS will be based on a rate of 4% in 2022/23, reducing back to 3% p.a. from 2023/24 onwards. This will result in additional costs of:

	2022/23 £'000	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
General Fund	12	13	13	14

7. Pay

7.1 The current pay award for 2021/22 is still the subject of negotiation between the National Employers and NJC Trade Unions. The final offer from the National Employers is an increase of 1.75%, with 2.75% for the lowest paid. During September, all three unions consulted their memberships with a recommendation to reject the final offer, this was approved. The unions are all now preparing to conduct industrial action ballots. In response the National Employers agreed by a majority to reaffirm that the pay offer they made is full and final and informed the unions that they could not accede to their request to reopen negotiations on the basis that the final offer represents the limit of affordability and there is no prospect of this offer being increased.

7.2 On the basis of the Spending Review 2020 announcement that public sector pay increases would be paused for one year in 2020/21 (whilst still recognising local government pay was subject to collective bargaining) the MTFS assumed no pay award in 2020/21, except for those earning below £24,000 p.a. A pay award of 1.75% in 2021/22 will therefore create an additional cost pressure for the Council.

7.3 Beyond 2021/22 any future pay awards will be subject to a further negotiation between the National Employers and NJC Trade Unions. The current MTFS assumes an increase of 1.5% in 2022/23, increasing to 2% p.a. from 2023/24 onwards. Given the current negotiations on the 2021/22 pay award, the assumption of an increase of 1.5% in 2022/23 will now be increased to 2% p.a. from 2023/23 onwards. This change in assumption for 2022/23 along with allowing for a 1.75% award in 2021/22 has the following effect on current pay budgets:

	2022/23 £'000	**2023/23 £'000**	**2024/25 £'000**	**2025/26 £'000**
General Fund	268	273	278	285
HRA	122	124	126	129

7.4 In addition, the Council remains committed to paying its lowest paid workers at the level of the Living Wage, as recommended by the Living Wage Foundation as opposed to the Government's National Living Wage. An assumption of annual increases of 3%, in line with RPI projections, are currently built into the MTFS to reflect this commitment to maintain the Living Wage. It light of the current forecasts for RPI, this assumption will be increased to 4% for 2022/23 returning to 3% p.a. from 2023/23 onwards. The costs of this are included in the table above.

7.5 In September 2021 the Government announced a new social care package, called "the biggest catch-up programme" in the NHS's history, which is to be funded through a new, UK-wide 1.25% health and social care levy' from April 2022, based on National Insurance contributions. The Levy will be effectively introduced from April 2022, when NICs for working age employees, self-employed and employers will increase by 1.25%. From April 2023, once HMRC's systems are updated, the 1.25% Levy will be formally separated out and will also apply to individuals working above State Pension age, and NICs rates will return to their 2021/22 levels. Revenues will be ring-fenced for health and social care. It was also announced that the government intends to compensate departments and other public sector employers at SR21 for the increased cost of the Levy.

7.6 The estimated cost to the Council of the increase in Employers NIC's is as follows:

	2022/23 £'000	**2023/23 £'000**	**2024/25 £'000**	**2025/26 £'000**
General Fund	101	103	107	109
HRA (incl HRS)	45	47	48	49

Although there was no specific reference to the funding from Government in the SR21 it has been subsequently confirmed that the additional £1.6bn p.a. funding for local authorities includes funding for the levy. Until specific allocations are received the Council is unable to establish whether this will fully meet the cost of the levy.

8. Local Government Pension Scheme

8.1 The last triennial review of the Council's Pension Fund took place as at 31st March 2019 and the results identified that there had been a significant increase in the funding position since the last actuarial review from a 69% funding level to 84%. Although the overall funding position had improved the employer contribution rates were increased to improve the funding position further. For employers such as local authorities the actuary, because of the guaranteed nature of the funding, was able to recommend a stabilisation approach whereby the employer contribution is capped at an affordable level. This has allowed the contribution rate to be capped at 1% p.a. for the three years covering the valuation period 2020/21 – 2022/23.

8.2 A further actuarial review will take place in April 2022, which will inform the employer contributions from 2023/24 onwards. No further increase is currently assumed above the 1% p.a. from 2020/21 – 2022/23.

9. Fees and Charges

9.1 As part of the normal, annual, budget cycle fees and charges income budgets are increased by 3% per annum for their total yield. This increase of 3% does not preclude individual fees and charges being increased by more or less than 3%. However, as a result of Covid19 many sources of fees and charges income were severely affected in 2020/21 with the impact continuing into 2021/22. Each source of fees and charges income was therefore assessed for 2021/22 to model the impact of Covid on overall yield levels and the level of increase that could be sustained for each individual fee and charge.

9.2 This assessment resulted in a reduction in fees and charges income of £2.420m in 2021/22. Whilst some of this income was expected to bounce back to pre-covid levels by 2022/23, other areas such as car parking were forecast to have an impact over the life of the current MTFS.

9.3 Whilst the position in 2021/22 is showing positive signs against in year budgets, there are still some stepped changed in income levels assumed for 2022/23 onwards. At this stage the planning assumption of an overall yield increase of 3% p.a., in addition to the stepped changes assumed in the current MTFS, will continue but an assessment of the ongoing impacts of Covid on overall yields will be undertaken as part of the budget development process.

9.4 During 2020/21 and for the first quarter of 2021/22 the Government provided financial support to local authorities for the loss of sales, fees and charges income through the SFC compensation scheme. The Council received compensation of £3.013m in 2020/21 and is forecasting income of £0.427m in 2021/22. The MTFS will not assume any further compensation will be payable for ongoing losses of sales, fees and charges income.

10. Commercial Income

10.1 Covid19 had a significant impact on many of the businesses in premises owned by the Council. Despite the financial support provided by the Government, and through the assistance of the Council it was inevitable that there would be some impact on the Council's commercial income. These impacts were factored into the current MTFS with a reduction of resources in 2021/22, returning to existing levels of yield from 2022/23 onwards. This assumption will remain for the revised MTFS.

11. Investment Interest and Borrowing Costs

11.1 The Council continues to experience significantly low level of investment rates due to the low Bank of England Base Rate, as set out in the main body of the report. However, with rising inflation and a warning from the Bank of England that it "will have to act" there is a strong indication that interest rates will soon rise from their current record low of 0.1%.

11.2 Based on revised assumptions for the level of interest rates over the period of the MTFS and assumed levels of available cash balances split between fixed and variable rate investments, the latest forecasts in comparison to those assumed in the current MTFS, are as follows:

	2022/23	**2023/24**	**2024/25**	**2025/26**
Revised Average Investment Rate	0.20%	0.28%	0.40%	0.50%
Current MTFS	0.18%	0.25%	0.25%	0.25%
General Fund	**£'000**	**£'000**	**£'000**	**£'000**
Current MTFS	18	19	28	28
Revised interest	22	33	40	40
Increase in resources	**(4)**	**(14)**	**(12)**	**(16)**
HRA	**£'000**	**£'000**	**£'000**	**£'000**
Current MTFS	9	9	5	5
Revised interest	26	31	33	39
Increase in resources	**(16)**	**(21)**	**(28)**	**(34)**

11.3 The Council's sensitivity to changes in interest rates is linked more markedly to investments rather than to the portfolio of borrowing as all borrowing is at fixed interest rates. Based on the current forecasts for interest payable on new borrowing, averaging 2.2% in 2022/2023 and any short term temp borrowing undertaken, averaging 0.5%, the latest forecasts for borrowing costs in comparison to those in the MTFS are as follows:

General Fund

	2022/23	**2023/24**	**2024/25**	**2025/26**

	£'000	£'000	£'000	£'000
Current MTFS 2021-26	1,555	1,555	1,550	1,535
Latest forecast	1,500	1,510	1,475	1,475
Increase in resources	**(55)**	**(45)**	**(75)**	**(60)**

A light touch review of the current HRA business plan is underway currently and will inform future borrowing requirements in the HRA.

12. Housing Rents

12.1 The current MTFS is in line with the Government's announcement in October 2017 that from April 2020 social rents will increase by CPI+1% for 5 years. The approach beyond 2025 remains uncertain but there is an expectation that social rent increases will remain. Budgeted increases for supported accommodation will continue to be assumed on the same basis. The MTFS will continue to be prepared on this basis.

12.2 Including in the Council's housing stock are a number of properties that were partly funded by HE grants on the condition that they are to be let on the basis of an affordable rent rather than on social rents. In addition, there are a number of other dwellings that are let on the basis of an affordable rather than social rent. Affordable rents are not subject to Government Rent Restructuring Policies and are let at 80% of market rent levels in the local area. The current MTFS assumes rental increases in line with social rents for its affordable rents and will continue to be developed on this basis.

12.3 The current MTFS assumes CPI at 2% p.a., therefore rent increases are assumed at 3% p.a. Based on the rate of CPI as at the end of September 2021 at 3.1% (the prevailing date for social rent increases), rent increases above those assumed in the MTFS are estimated to be, as follows:

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Current MTFS 2021-26	30,077	30,840	31,564	32,302
Latest forecast	30,398	31,169	31,913	32,659
Increase in resources	**(321)**	**(329)**	**(349)**	**(357)**

This forecast is based on rent uplift only and does not model any changes in the assumptions on stock numbers due to RTB sales or acquisitions/new builds.

12.3 As a result of Covid19 and the impact on household income the level of housing rent arrears has been affected, to the detriment. Whilst Tenancy Services has continued to support tenants through the Hardship Fund, DHP and general advice and guidance, Government's restrictions on enforcement action for rent arrears in response to the Covid-19 pandemic has not permitted robust action to be taken when tenants have the means to pay but fail to do so. As a result the level of rent arrears has gradually increased and currently stands at 4.89% of the net debit compared to 3.85% at the same point in 2019, which equates to an increase of £0.321m. The in-year collection rate at the end of October was 97.86% compared to 97.79% at October 2019. Whilst this is likely to require an increase in bad debts provision in 2021/22, an ongoing increase in contributions/reduction in collection rate will be considered as part of the development of the MTFS. This will be considered particularly in light of the level of CPI and higher annual rent increase. An 0.5% increase in the level of non-collection equates to an income loss of c£0.145m p.a.

13. **Level of Revenue Reserves** - The prudent minimum level of reserves for the General Fund has been increased in recent years, in light of the increased level of volatility in funding and the level of the increased risk to which the Council is now exposed, to between £1.5m-£2m. This increase has allowed the Council to cushion the impact that Covid19 has had on it’s finances and will continue to do so in future years. Whilst the overall level of balances are budgeted to be maintained over the period of the MTFS there are planned use of balances in the 3-years from 2022/23, with a positive contribution forecasted in 2025/26. In light of the changes in assumptions set out in this report the use of/contribution to balances will be assessed as part of the budget development. However, the overriding principle of maintaining a balance between £1.5m-£2m and seeking to make positive contribution in the medium term will remain. In terms of the HRA it is currently assumed that the optimum level of reserve holdings will be maintained at c£1m.

APPENDIX B

BUDGET AND FINANCIAL PLANNING TIMETABLE 2022/23

No.	Target Date	Group	Deliverable	Responsible Officer
1.	**Member Briefing Sessions**			
1.1	19th Jan 22	All Members	All member workshop presenting the draft budget proposal for 2021/22 and Medium Term Financial Strategy 2022-2027.	CFO
2.	**Base Budget Preparation**			
2.1	7th Oct 21	AD's/ Service Managers	Budget guidance and working papers circulated to Assistant Directors and Service Managers for preparation of base budgets, including notification of Directorate Cash Limits.	Finance Team
2.2	29th Oct 21	AD's/ Service Managers	Completion of service cash limit budgets by budget managers.	Finance Team
2.3	12th Nov 21	DMT's	Review of summary cash limit budgets and appropriate revisions made with AD's and DMT's.	Finance Team
2.4	30th Nov 21	CMT	Review of summary cash limit budgets and consideration of unfunded budget items. Review of funding assumptions of existing capital programme and consideration of allocation of resources to strategic schemes/contingencies.	FSM
2.5	30th Nov 21	CMT	Review of Fees & Charges Schedules for 2022/23	FSM
2.5	17th Dec 21	Financial Services	Completion of consolidated base budgets and capital programmes.	Finance Team
2.6	21st Dec 21	CMT	Review of draft budget proposal for 2022/23 and Medium Term Financial Strategy 2022-2027.	CFO
3.	**Service Planning Preparation**			
3.1	Oct 2021	Working with all CMT and Directorates	Service planning under way, through the development of the TFS and ADP plans. This year there is to be a key focus on: • Year 2/3 Vision 2025 Annual Deliver Plans • Completing TFS Phase 7 projects • Key One Council projects	Corporate Policy
3.2	Mid Nov 21	CLT and SM Group	Service Planning priorities launched at CLT and SM Group	Corporate Policy

No.	Target Date	Group	Deliverable	Responsible Officer
3.3	End Nov 21	CMT	Y3 Annual Delivery Plan for Vision 2025 to be agreed.	CMT
3.4	End Nov 21	CMT	One Council projects for 2022/23 to be identified	Change Manager
3.5	December 2021	Exec	Y3 Annual Delivery Plan for Vision 2025 to be agreed at Executive	CX/DCE
3.6	Dec 21 /Early Jan 22	Directorates	Directorates to identify local projects that need to be included without impacting the key corporate ones. These might be: • Legacy projects not in Vision 2025 • Service projects needed to keep services functioning	AD's
3.7	Mid Jan 22	CMT	Agree list of ALL projects – TFS, ADP, One Council and local projects for each directorate, and identify 'Top 10 key priorities'	Directors
3.8	End Jan 22	Portfolio Holder mtgs	Ensure that all PH's have signed up to their own sections in each service plan.	Directors and AD's
3.9	By 28th Feb 22	EDMT's	Draft service plans for the year ahead reflecting the projects identified from the sources agreed in section 3.1.	AD's
3.10	16th Mar 22	CLT	Progress on service plans	Corporate Policy
3.11	17th Mar 22	SM Forum	Update on progress with Service Plans for information.	Corporate Policy
3.12	28th Mar 22	DMT's	Final service plans completed and signed off by Director.	AD's
3.13	31st Mar 22	A/Wide or HUB	Service plans published.	Corporate Policy
3.14	Oct 22	AD's/ Service Managers	Service planning for 2023/24 launched with a focus on delivering progress against year 4 strategic priorities.	Corporate Policy
4.	**Consultation and Scrutiny**			
4.1	Dec-Feb 22 *– dates to be confirmed*	General Public Stakeholders	Online budget consultation Specific stakeholder events	CFO CMT
4.2	1st Feb 22	Audit Committee	Consider and review: • Prudential Indicators 2022/23-2024/25 • Treasury Management Strategy 2022/23 with responses to the Executive	FSM

No.	Target Date	Group	Deliverable	Responsible Officer
4.3	2nd Feb 22	Budget Scrutiny Review Group	Consider and review the draft budget proposal for 2022/23 and Medium Term Financial Strategy 2022-2027, making any recommendations to the Executive.	CFO
4.4	17th Feb 22	Performance Scrutiny Committee	Performance Scrutiny Committee – Consider response from Budget Review Group and refer to the Executive.	CFO
5.	**Committee Approval Process**			
5.1	22nd Nov 21	Executive	Consideration of the budget strategy to be adopted for the 2022/23 process, including; • Update on economy and financial environment, • A revision of MTFS assumptions • Consultation proposals (both public and with Members)	CFO
5.2	13th Dec 21	Portfolio Holders	Assessment of Fees & Charges Schedules for 2022/23	FSM
5.3	4th Jan 22	Executive	Approval of Council Tax Base for 2022/23, Council Tax Support Scheme 2022/23 and Estimated Collection Fund Balance for 2022/23 for Council Tax.	FSM/HSRB
5.4	4th Jan 22	Portfolio Holders	Assessment of overall capital and revenue budgets	CFO
5.5	17th Jan 22	Executive	Approval of a draft budget proposal for 2022/23 and Medium Term Financial Strategy 2022-2027 for formal consultation.	CFO
5.6	17th Jan 22	Executive	Approval of Estimated Collection Fund Balance for 2021/22 for Business Rates.	FSM/HSRB
5.7	17th Jan 22	Executive	Consideration and recommendation to Council for approval of the Housing Rent Levels for 2022/23.	AD-H
5.8	18th Jan 22	Council	Approval of Council Tax Base for 2022/23 and Council Tax Support Scheme 2022/23.	FSM/HSRB
5.9	21st Feb 22	Executive	Approval for referral to Council of: • Final budget proposals for 2022/23 • Medium Term Financial Strategy 2022-2027 • Treasury Management Strategy 2022/23 & Prudential Indicators • Council Tax levels for 2022/23	CFO

No.	Target Date	Group	Deliverable	Responsible Officer
			• Fees and Charges levels for 2022/23	
5.10	22nd Feb 22	Council	Approval of the Housing Rent Levels for 2022/23.	AD-H
5.11	1st Mar 22	Council	Approval of; • Final budget proposals for 2022/23 • Medium Term Financial Strategy 2022-2027 • Treasury Management Strategy 2022/23 & Prudential Indicators • Council Tax levels for 2022/23 • Fees and Charges levels for 2022/23	CFO