

REPORT TO: Executive Board

DATE: 18 November 2021

REPORTING OFFICER: Operational Director, Finance

PORTFOLIO: Corporate Services

SUBJECT: Medium Term Financial Strategy 2022/23 – 2024/25

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 To establish the Medium Term Financial Strategy for the period 2022/23 to 2024/25.

2.0 RECOMMENDATION: That;

- (i) the Medium Term Financial Strategy be approved;**
- (ii) the 2022/23 base budget be prepared on the basis of the underlying assumptions set out in the Strategy;**
- (iii) the Reserves and Balances Strategy be approved;**
- (iv) the award of Council Tax Support for 2022/23 remains at the 2021/22 level of 21.55%.**

3.0 SUPPORTING INFORMATION

3.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending. It has been based on information that is currently available. There is limited financial information available for 2022/23, with the Public Sector Spending Review being the first indicator of funding resources. The Spending Review was published at the end of October 2021 and covers the next three financial years. Details of the 2022/23 Local Government Grant Settlement are expected to be released in December 2021 on a provisional basis, with a final settlement expected in January 2022.

3.2 The delay and uncertainty regarding 2022/23 financial resources means the financial information included within the MTFS is based on a large number of assumptions and best estimates. The financial forecast will be updated as and when further information is known.

- 3.3 There is considerable uncertainty surrounding Local Government Funding in 2022/23 and beyond. The Fair Funding Review, which changes how funding is apportioned between councils, was due to be implemented in 2021/22, alongside a Business Rates Baseline Reset and a move to 75% Business Rates Retention. Delays with the Brexit process and the subsequent disruption from Covid-19 have pushed these reforms back indefinitely.
- 3.4 The Covid-19 pandemic has continued to have a significant impact on Council services during 2021/22. Costs within Adult's and Children's Social Care, and Waste Management remain higher than pre-Covid levels, and Government restrictions caused the temporary closure of many services within the Community & Environment Department, leading to significant income losses. It is likely that some of these costs will continue into the medium and long term.
- 3.5 2020/21 was an exceptional year due to a substantial increase in grant funding to deal with the impact of Covid-19, and the reduction and cessation of many services during national and local lockdowns. As a result, spend was £2.3m under the approved budget at the end of the 2020/21 financial year. The indications are that this underspend position will not continue into the 2021/22 financial year, with increased demand pressures causing a significant rise in costs within Adult's and Children's Social Care.
- 3.6 Appendix 1 details the Medium Term Financial Strategy from 2022/23 – 2024/25 which has been produced using a prudent estimate of the financial conditions over the course of the next three years.
- 3.7 Although the projections in the Strategy must be treated with a considerable degree of caution, they show there is continued need to make a significant level of savings over the next three years.
- 3.8 The Strategy provides initial guidance to the Council on its financial position into the medium term. Adopting a prudent view, the strategy identifies that revenue savings of approximately £12.0m, £4.2m and £2.6m are required over the next three years. As a result, a total of £18.8m will need to be removed from the Council's budget, by reducing spending or increasing income. This represents 16.9% of the 2021/22 net budget. The majority of these savings will need to be made in the 2022/23 financial year.

4.0 POLICY IMPLICATIONS

- 4.1 The MTFS represents the "finance guidelines" that form part of the medium term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and Strategies.

5.0 FINANCIAL IMPLICATIONS

5.1 The MTFFS provides a guide to projected receivable funding resources over the three year term. The grant amounts included in the MTFFS are based on the latest information provided by Government. As new information comes to light the forecast of future income streams will be updated. Decreases to funding resources will create further budget pressures for the Council in delivering its key objectives.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 The revenue budget and capital programme support the delivery and achievement of all the Council's priorities. Reductions of the magnitude identified within the Strategy are bound to have a negative impact upon the delivery of those priorities.

7.0 RISK ANALYSIS

7.1 The MTFFS is a key part of the Council's financial planning process, and as such minimises the risk that the Council fails to achieve a balanced budget.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 There are no direct equality and diversity issues.

9.0 REASON FOR THE DECISION

9.1 To seek approval for the Council's Medium Term Financial Strategy for 2022/23 to 2024/25.

10.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

10.1 The alternative option of not maintaining a Medium Term Financial Strategy has been considered. However, this would not follow good financial management practice, as the Medium Term Financial Strategy is a key element in informing the Council's financial planning and budget setting processes.

11.0 IMPLEMENTATION DATE

11.1 The Medium Term Financial Strategy 2022/23 will be implemented from 1st April 2022.

12.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact Officer
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Local Government
Grant Settlement
2021/22

Revenues and
Financial Management
Division, Halton
Stadium, Widnes

Steve Baker

Appendix 1

Medium Term Financial Strategy 2022/23 – 2024/25

1.0 Introduction

- 1.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending covering the period 2022/23 to 2024/25. The projections made within the MTFS must be treated with caution and require continuous updating as the underlying assumptions behind them become clearer.
- 1.2 The MTFS represents the "finance guidelines" that form part of the medium-term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and other Strategies.
- 1.3 Beyond 2021/22 there is great uncertainty regarding the funding of local government. A number of major reviews to local government finance have been delayed as a result of the focus on Brexit negotiations and the Covid-19 pandemic.
- 1.4 The following measures will continue to be considered throughout the period covered by the MTFS:
 - Fair Funding Review – A review of how cumulative local government funding should be apportioned between councils. The last review was in April 2013 and since then cuts made to local government have been made on a percentage basis. This has had the impact of protecting those authorities less reliant on Government grant funding whilst those councils which are more reliant (such as Halton) have had to deal with larger cuts in funding on a per head basis. The Fair Funding Review was due to be implemented in the 2021/22 financial year, and was postponed due to the impact of Covid-19. To date, only one indicative formula, relating to Adult Social Care, which will form part of the Fair Funding Review has been published. The formula suggests that deprivation will have a lower weighting under the new system which would disadvantage authorities such as Halton. As the Spending Review 2021 covers the following three financial years and no further details of Fair Funding have been published, it has been assumed that the review will not be implemented within the scope of the forecast.
 - 75% Business Rates Retention – Government have confirmed the percentage share of retained rates at a local level will be 75%. This was first due to be implemented in the 2021/22 financial year but has now been postponed. It was confirmed at Spending Review 2021 that Halton will continue to be part of the Liverpool City Region Business Rate Pilot until 2024/25 with 100% retention.
 - Business Rates Baseline Reset – A reset of the business rates baseline was due to take place in 2021/22. Halton has seen a high level of growth in business rates since the previous reset in 2013 and would be expected to lose funding

from a reset in the baseline. It is not known if there will be a transition process put in place to protect authorities from too high a loss in funding from an increase to the baseline position. The reset was postponed due to Covid-19, and it is unclear when this will now take place. As the full impact of Covid-19 on business rates will only become clear over the course of several years, it has been assumed for the purpose of this report that the reset will not take place within the timescale covered by the forecast.

- Comprehensive Spending Review – The Spending Review was published on 27 October 2021, covering the next three financial years. It was announced that Local Government will receive an increase in Core Spending Power of approximately 3% per year between 2022/23 and 2024/25, amounting to an additional £1.6bn of funding per year. No details of how this funding will be distributed, or whether it will be ring-fenced to specific services, was released. Full details are expected to be published as part of the Provisional Local Government Finance Settlement in December 2021.
- Social Care Green Paper – This was expected to be announced by Government in the summer of 2018 but has been repeatedly delayed. The Government published a Plan for Health and Social Care in September 2021, although this fell a considerable way short of being a fundamental review of social care funding. The Plan instead focused on the level of contributions that individuals will need to make towards their care. Whilst it is anticipated that councils will receive funding to cover their loss of income as a consequence of these changes, it was stressed that demographic changes and unit cost pressures must “be met through the council tax, the social care precept, and long-term efficiencies.” No additional funding for social care beyond the additional precept has therefore been included in the forecast.

2.0 Local Government Finance Settlement 2021/22

2.1 Government announced the 2021/22 final Local Government Finance Settlement on 04 February 2021. Details included:

- I. Council Tax – As previously announced at Spending Round 2020, the council tax referendum limit was set at 2% for local authorities, with social care authorities allowed a 3% social care precept.
- II. Business Rates Retention – The three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff / Top Up amounts) were all increased by 3.1%, in line with the September 2020 CPI inflation figure. The Business Rates Multiplier was frozen in 2021/22, with councils receiving additional grant funding to compensate for this.
- III. New Homes Bonus - The 2021/22 allocations will be paid with the legacy payments due from previous years (2018/19 to 2019/20). There will be no legacy payments for 2020/21 or 2021/22 in future year allocations.
- IV. Social Care Support Grant – Government announced an additional £300m of funding to cover both Adult’s and Children’s Social Care. The value of the grant (including the existing Winter Care Pressures Grant) to Halton in 2021/22 was £5.2m.
- V. Lower Tier Services Grant – New funding of £111m for services provided by lower tier authorities was announced, financed through the reduction in New

Homes Bonus payments. The value of the grant to Halton in 2021/22 was £0.2m.

- VI. Covid-19 Support – Several additional one-off measures were announced to help councils address the impact of the ongoing Covid-19 pandemic, including additional un-ringfenced grant funding worth £4.376m to Halton, funding to support the increase in working-age Local Council Tax Support claimants worth £1.5m to Halton, confirmation of the Local Tax Income Guarantee to cover 75% of council tax and business rates losses in 2020/21, and the extension of the Sales, Fees and Charges Compensation Scheme into the first quarter of 2021/22.

3.0 Council Tax Support

- 3.1 Funding to support council tax discounts is received from Government through a grant included in the Settlement Funding Assessment. Every council is responsible for implementing a local scheme to offer council tax discounts to those residents who may have been eligible to this previously through Council Tax Benefit.
- 3.2 The Halton scheme uses as a basis the previous regulations relating to Council Tax Benefit, which ensures that support for claimants with disabilities, claimants with children, and claimants who are working is maintained. At the end of the existing support calculation, a reduction of 21.55% is made from every non-pensioner award of benefit, to cover the shortfall in the Government grant funding for Halton's scheme.
- 3.3 In 2013/14 the level of grant awarded was shown separately within the formula for Settlement Funding Assessment but from 2014/15 the grant is no longer separately identifiable. It is assumed the level of funding will move in line with the Council's overall Settlement Funding Assessment.
- 3.4 The MTFs assumes that the level of Council Tax Support given to existing claimants will remain at the rate of 21.55% for the period of the MTFs. It also assumes that Council Tax Support funding will not be shared with Parish Councils.

4.0 Business Rate Retention Scheme

- 4.1 The aim of the business rates retention scheme is to promote economic development and generate future growth in business rates. The Council will only be rewarded if it increases its local share of business rates above a pre-set baseline. Conversely if the local share of business rates collected falls below the baseline position, this would be to the Council's detriment.
- 4.2 An estimate of the Council's share of retained business rates will be provided to DLUHC in January 2022. In January 2021 it was confirmed that Government would provide grant funding to cover 75% of councils' relevant business rates deficits from the 2020/21 financial year when the economic downturn caused by Covid-19 led to a significant decrease in business rates collected nationally.

The remaining 25% of the deficit is required to be carried forward, with one third charged to the Collection Fund in each of the three subsequent financial years. For Halton, this means that £2.525m of the 2020/21 business rates deficit will need to be accounted for in 2022/23 and 2023/24. This is included within the forecast figures.

- 4.3 The business rates baseline was due to be reset in 2021/22, but this was postponed due to the Covid-19 pandemic. No new date has been given for the implementation of the reset, although as Spending Review 2021 has given a three year indicative settlement, it has been assumed that this will not take place within the timescales covered by the MTFS.

100% Business Rates Retention – Pilot Scheme

- 4.4 As part of the Liverpool City Region, the Council has signed up to being a member of a pilot scheme for 100% business rates retention. The pilot scheme has been in operation since April 2017.
- 4.5 The pilot scheme results in Halton no longer being in receipt of Revenue Support Grant (RSG) through the Settlement Funding Assessment. RSG will be replaced by the additional business rates retained. In addition, the Improved and Additional Better Care Fund has been included in the pilot and funded by business rates retained.
- 4.6 DLUHC has confirmed the operation of the pilot scheme should be at no financial detriment to participating councils, therefore for as long as the pilot scheme operates Halton will be no worse off financially than it would have been if it was still operating under 49% rates retention.
- 4.7 Operation of no financial detriment within the pilot scheme means that any LCR authority who report a deficit as a result of the pilot will at first be reimbursed from other member pilot authorities who report a surplus as a result of the pilot. Only when any available surplus has been exhausted will Government step in and provide financial support.
- 4.8 For the first four years of the pilot scheme all LCR authorities reported a betterment position as a result of retaining 100% business rates, therefore surplus income from the pilot scheme has previously been used to balance the Council's revenue budget.
- 4.9 All authorities were due to move to 75% business rates retention in 2021/22, but the Government announced in July 2020 that this would be postponed. It was subsequently announced in the October 2021 Spending Review that current pilot schemes will remain in place until at least 2024/25.

5.0 Settlement Funding Assessment

- 5.1 In 2021/22 DLUHC allocated Halton a Settlement Funding Assessment (SFA) of £52.424m. This was made up of £46.857m business rates baseline funding

and £5.567m of top-up grant funding. Top-up grant funding is received as the Council's funding baseline is greater than the business rate baseline i.e. the Council's needs are greater than the business rates it is estimated it can generate. The business rates baseline and funding level is set in the system and uplifted each year by the Consumer Price Index (CPI).

5.2 Table 1 shows the expected Settlement Funding Assessment for the next three years based on information provided at the time of the 2021/22 settlement announcement. At the time of writing the report Government have yet to publish any detailed public sector spending plans for 2022/23 onwards, therefore the SFA for 2022/23 has been uplifted as per the September CPI figure of 3.1% with the following two years increased by the Government's inflation target of 2%.

5.3 Also included at Table 1 are the forecasts for business rate growth retained for the next three years and the difference between each of the years.

Table 1 – Business Rate Retention

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Business Rate Baseline	46,857	48,310	49,276	50,261
Top-Up Funding	5,567	5,740	5,854	5,971
Total Settlement Funding Assessment	52,424	54,050	55,130	56,232
Business Rates Growth Retained	4,200	5,702	5,817	5,933
Business Rate Surplus	0	0	0	0
Forecast Business Rates Retained (Incl Top-Up Funding)	56,624	59,752	60,947	62,165
Increase (Decrease) in Business Rates Retained	-	3,128	1,195	1,218

6.0 Council Tax Forecast

6.1 For 2021/22 the council tax for a Band D property in Halton is £1,549.34 (excluding Police, Fire, LCR and Parish precepts), which is expected to generate income of £54.509m.

6.2 When setting council tax levels, higher increases reduce the requirement to make budget savings. However, there are other factors that need to be considered when determining the appropriate increase in council tax. These factors include:

- Halton has the 4th lowest council tax level in the North West for 2021/22.
- Halton's 2021/22 council tax is £57.29 (3.7%) below the average council tax set by unitary councils in England.

- Inflation - the Consumer Price Index (CPI) as at September 2021 (latest available) is currently at 3.1% and the Retail Price Index (RPI) is at 4.9%.

- 6.3 The 2022/23 Council Tax Base shows an increase of 649 Band D equivalent properties to a total of 35,831, assuming a collection rate of 97%. When setting the Council Tax Base in 2021/22, a collection rate of 96% was used as it was anticipated that collecting council tax income would be more difficult during the pandemic. After careful monitoring of the collection rate over the past year, an increase of 1% can be assumed, returning the collection rate to its pre-pandemic level of 97%. The increase in the Tax Base will result in an increase of £1.006m of council tax income.
- 6.4 In 2021/22 the Council utilised £0.333m of council tax surplus income to balance the budget. It is estimated that there will be £1.187m of surplus available to fund the 2022/23 budget.
- 6.5 For the purposes of this strategy it is assumed the Council will apply a council tax increase of 1.99% in 2022/23. It is further assumed there will be a 1% increase for the Adult Social Care precept in 2022/23.
- 6.6 Table 2 below estimates the net amount of council tax income that will be produced for various percentage increases in Halton's Band D council tax for the next three years and assumes no change in council tax base beyond 2022/23.

Table 2 – Additional Council Tax Income 2022/23 to 2024/25

Projected Increases in Council Tax Income	2022/23 £'000	2023/24 £'000	2024/25 £'000
0%	-	-	-
1%	555	561	566
2%	1,110	1,132	1,155
3%	1,665	1,715	1,767

7.0 Three-Year Financial Forecast

- 7.1 The Medium Term Financial Strategy (MTFS) provides an estimate of the increase in revenue expenditure that will be required over the next three years in order to maintain existing policies and programmes. In effect this represents an early estimate of the standstill budget requirement using the information that is currently available.
- 7.2 The Council's financial position over the course of 2022/23 – 2024/25 is extremely uncertain due to the continuing economic impacts of Covid-19 and the ongoing political uncertainty surrounding the future of local government funding. This forecast uses prudent estimates based on the information that is

currently available. Figures should be treated with caution and will need to be continually updated as new information becomes available.

- 7.3 For the purposes of this forecast it has been assumed that the Fair Funding Review will not be implemented within the next three years. It has also been assumed that Halton will continue in the 100% business rates retention pilot scheme.
- 7.4 It has been assumed that council tax will rise by 2.99% in each year of the forecast which is currently the maximum allowed without a local referendum, and includes a precept for Adult Social Care of 1% per annum. Any increase in council tax below these levels would lead to an increase in the required level of budget savings.
- 7.5 The Retail Price Index (RPI) rate of inflation for September 2021 was recorded as 4.9%. 2% has been included for general price inflation in the 2022/23 forecast, with 4% added to domiciliary, residential care and direct payment budgets. It is anticipated that inflation on utilities will significantly exceed that of general inflation. Currently, it is forecast that electricity costs will rise by 25%, gas by 40% and street lighting costs by 40% in March 2022. £2.754m of inflationary costs have been added to the forecast in 2022/23, £0.537m of which is attributable to utilities. Inflation of 2% has been added to prices for 2023/24 and 2024/25, in line with the Bank of England's inflation target. 2% inflation has been applied to income budgets in all three years of the forecast.
- 7.6 Pay increases for 2022/23 and beyond are unknown. For the purposes of the forecast a rate of 2% has been applied for each of the three years.
- 7.7 The Pension Fund Triennial Review was completed in 2019/20, and set the employer contribution rates as follows:
- 2020/21 – 22.6%
 - 2021/22 – 21.6%
 - 2022/23 – 20.6%

An estimate of 20.6% has been used for 2023/24 onwards.

- 7.8 The Council has an arrangement in place whereby staff have four days unpaid leave included within their terms and conditions. It is estimated this saves the Council £1.026m per year. This arrangement ends in 2021/22 with the effect of increasing overall staff costs. Growth is therefore included in the first year of the forecast to reflect this.
- 7.9 The operation of the New Homes Bonus grant was altered for 2020/21 to remove legacy payments from any new allocations. It was anticipated that the nature of the grant would change substantially in 2021/22 but no further announcements have been made by Government regarding the future of the New Homes Bonus scheme. It has therefore been assumed that funding will continue on the same basis as in 2020/21 and 2021/22. This will lead to a reduction in funding of £1.183m over the course of the three-year forecast as

no new legacy payments will be received. A new Lower Tier Services grant was introduced in 2021/22, funded from the reduced New Homes Bonus payments. It has been assumed that this grant will continue to be received in 2022/23.

- 7.10 The Government's Plan for Health and Social Care, published in September 2021, set out changes to the amounts that individuals would be expected to contribute towards social care costs, as well as confirming a 1.25% rise to both employees' and employers' national insurance rates from April 2022. Government have stated their intention to fund the increased cost of employers' national insurance contributions within the public sector. It has therefore been assumed that the increase in pay costs attributable to the increase in national insurance rates will be covered by additional funding from Government. The forecast assumes that the rates that the Council pays for domiciliary care, residential care and direct payments will rise as providers pass on these increased staffing costs. A 4% increase to these budgets is included in the first year of the forecast.
- 7.11 Changes to the contributions that individuals make towards their care costs will come into force in October 2023. These measures consist of a new cap on care costs per person of £0.086m, and changes to the savings limit and income threshold which will entitle more people to help with the cost of their care. It is intended that the increase to national insurance will fund these measures, so no growth is included within the forecast. These changes will, however, increase the administrative burden on the Council as more in-depth financial assessments will need to be carried out. This will be kept under review as more details of how the changes will work in practice are released. Beyond providing funding to implement the new care cap, no additional funding has been provided to address the existing challenges within Adult Social Care services. A response from the Association of Directors of Adult Social Services emphasises that the announcement "will not add a single minute of extra care and support, nor improve the quality of life of older people, disabled people and unpaid carers," and leaves councils "faced with the choice of further council tax rises or dealing with the consequences of older, and disabled people going without vital care and support."
- 7.12 The forecast includes the budgetary consequences of previous budget decisions, including one-off savings and the use of reserves to balance the 2021/22 budget. These add £0.419m and £6.037m respectively to the forecast for 2022/23.
- 7.13 The net revenue costs associated with the capital programme are included in the forecast. It is estimated that there will be an increase in costs of £0.053m in 2022/23. The Financial Forecast and MTFs assumes that any new capital projects which are approved over the medium term will be self-funded through capital grants, capital receipts or will generate revenue savings to fund the cost of borrowing.
- 7.14 A key assumption that has been used in constructing the forecast is that total spending in the current year is kept within the overall budget. In particular it

can be difficult to control 'demand-led' budgets such as Children's and Adult Social Care as well as many income streams. In this context it is important to consider the contingency for uncertain and unexpected items. Due to the considerable uncertainty in inflation, the ongoing Covid-19 pandemic, interest rates, demand-led budgets, the impact of spending cuts and loss of income, the spending forecast includes a contingency of £0.5m in 2022/23, £1.0m in 2023/24 and £2.0m in 2024/25.

- 7.15 The Council received £1.5m of funding in 2021/22 to compensate for the reduction in council tax base due to the increase in numbers of claimants accessing the Local Council Tax Support scheme during the Covid-19 pandemic. The loss of this funding in 2022/23 means that £1.5m of growth has been added to the forecast.
- 7.16 Estimated additional service demand pressures of £2.114m will need to be added to the budget in 2022/23. The largest additional spend is projected within Children's Social Care (£1.0m) due to an anticipated increase in demand for high-cost residential placements. The ongoing demand pressures within Children's Social Care and the need for continuing work to bring about service delivery improvements, are also likely to result in additional one-off costs.
- 7.17 The Council receives grant funding on an annual basis from the Department of Health to fund its Public Health activities. Between 2017/18 and 2021/22, Halton's allocation per capita has reduced from £82.00 to £80.52. It is anticipated that demand for Public Health services will rise over the medium term due to the need to compensate for the reduction in activity during the Covid-19 pandemic. These additional costs and the estimated levels of future grant income will be closely monitored over the course of the forecast period.
- 7.18 The majority of Council services have now reopened due to the easing of Covid restrictions, although there are still many areas where service levels have not returned to normal. Government support for sales, fees and charges income losses ended in June 2021, but income generated by Culture and Leisure services within Halton has not returned to pre-pandemic levels. It is unlikely that public usage of these services will return to normal levels whilst cases of Covid-19 are still relatively high. Income budgets were reduced in 2021/22 to reflect this and will now be phased back in over two years. Additional costs will continue to be incurred in Adult Social Care due to the long term need to maintain infection control measures. This has impacted on capacity within Adult Day Services, a consequence of which is increased costs within Community Care as clients have had to seek alternative care provision.

Table 3 – General Fund Medium Term Spending Forecast 2022/23 – 2023/24

Increase in spending required to maintain existing policies and services	Year on Year Change £'000		
	2022/23	2023/24	2024/25
Full Year Effect of Previous Year's Budget	6,456	0	0
Capital Programme	53	0	0
Pay and Price Inflation	5,027	2,527	2,578
Service Demand Pressures	2,079	1,345	1,600
Covid-19 Pressures	500	0	0
Contingency	500	1,000	2,000
Four Days Unpaid Leave	1,026	0	0
Reduction in New Homes Bonus Funding	513	670	0
Surplus from Business Rates Pool	-946	946	0
Removal of Covid-19 Grant Funding	3,476	0	0
Total Increase	18,684	6,488	6,178

8.0 The Funding Gap

8.1 At this level of spending there is a funding gap with the forecast level of resources. Table 4 demonstrates the forecast gap between spending and forecast resources at different levels of council tax increase.

Table 4: Funding Gap with a given % increase in Council Tax

	2022/23 £'000	2023/24 £'000	2024/25 £'000
Increase in Net Spend Forecast (Table 3)	18,684	6,488	6,178
Decrease (Increase) in Business Rates Retained (Incl Top-Up) (Table 1)	-3,128	-1,195	-1,219
Increase in Council Tax Base (Para 6.3)	-1,006	-555	-561
Decrease (Increase) in Council Tax Surplus (Para 6.4)	-854	1,187	0
Funding Gap Before Council Tax	13,696	5,925	4,398
Funding Gap After Council Tax Increase at Various Levels			
0%	13,696	5,925	4,398
1%	13,141	5,354	3,810
2%	12,586	4,771	3,198
3%	12,037	4,182	2,569

- 8.2 The table shows that total savings of £12.037m are forecast to be needed to balance next year's budget, assuming a 2.99% increase in council tax. This amounts to a 10.8% reduction to the 2021/22 net budget.
- 8.3 Further savings of £4.182m in 2023/24 and £2.569m in 2024/25 are required, assuming that council tax continues to increase by 2.99% per year. The total funding gap is £18.788m and represents 16.9% of the Council's 2021/22 net budget.
- 8.4 This represents a significant challenge for the Council to balance its budget. As a result every aspect of the Council's budget needs to be scrutinised to identify potential savings. In addition, all opportunities will continue to be taken to generate additional income from charging for services or attracting additional funding, in order to reduce costs whilst maintaining levels of service delivery.

9.0 Capital Programme

- 9.1 The Council's capital programme is updated regularly throughout the year. Table 5 summarises the fully funded capital programme for the next two years.

Table 5 – Capital Programme

	2022/23 (£'000)	2023/24 (£'000)
Spending	14,000	4,322
Funding:		
Prudential Borrowing	9,191	807
Grants	1,726	1,446
Capital Receipts	3,083	2,069
Total Funding	14,000	4,322

9.2 The current system of capital controls allows councils to support and fund the capital programme by way of prudential borrowing. Such borrowing is required to be:

- prudent
- affordable, and
- sustainable

9.3 The capital programme is underpinned by the Capital Strategy agreed by Council in March 2021.

9.4 The Council has used prudential borrowing provided that the cost of borrowing has been covered by revenue budget savings and the spending forecast continues this assumption.

9.5 In previous years the Council has been extremely successful in attracting capital grants and contributions. In this way the Council has been able to undertake significant capital expenditure without financing costs falling on the revenue budget and this approach will continue.

10.0 Reserves and Balances

10.1 The Council's Reserves and Balances Strategy is attached in Appendix 2. It sets out the Council's strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

10.2 The level of balances and reserves will be reviewed as part of the budget monitoring and final accounts processes.

11.0 Conclusions

11.1 This Strategy highlights that considerable budget savings will be required over the next three years, in order for the Council to deliver balanced annual revenue budgets. Alongside this, there is considerable uncertainty with regards to future funding.

- 11.2 The Business Rates Retention Scheme and Fair Funding Review carry further risks to the funding available to the Council over the medium and longer-term. The lack of certainty provided by Government means that it is very difficult to predict both the timing and extent of the impact upon the Council's budget of the planned funding changes.
- 11.3 Future levels of growth and savings required will be directly influenced by the decisions made concerning council tax increases. Council tax increases will reduce the level of savings required, although the legislative requirements regarding council tax referendums will restrict the Council's scope to implement these increases.
- 11.4 The Medium Term Financial Strategy has been based upon information that is currently available. Revisions will need to be made as new developments take place and new information becomes available.

APPENDIX 2

RESERVES AND BALANCES STRATEGY

1.0 INTRODUCTION

- 1.1 The following sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.
- 1.2 The overall strategy is to provide the Council with an appropriate level of reserves and balances in relation to its day to day activities and to ensure the Council's financial standing is sound and supports the achievement of its long term objectives and corporate priorities.
- 1.3 The Operational Director, Finance will undertake quarterly reviews of the level of reserves and balances and take appropriate action in order to ensure the overall Strategy is achieved. The outcome of the reviews will be reported to the Executive Board and will be used to inform the Medium Term Financial Strategy (MTFS), the annual budget setting process and the final accounts process.
- 1.4 The Strategy concentrates upon the Council's key reserves and balances, being those which may potentially have a significant affect upon the Council's financial standing and its day-to-day operations.

2.0 RESERVE BALANCES

- 2.1 It has been the Council's policy to maintain general balances at a reasonable level, based upon the financial risks and challenges it faces. This is particularly important at the current time, given the increasing demand-led pressures upon Children's Services and Adult Social Care. Close monitoring and control of budgets has meant this policy has been successfully achieved. As at 31 March 2021 the balance of the Council's general reserve was £6.342m.
- 2.2 In addition to the general reserve the Council holds earmarked reserves set aside for specific purposes. As at 31 March 2021 the balance of earmarked reserves was £123.834m. This is broken down as follows:
 - Contractual - £72.791m
 - Non Covid Grants - £16.850m
 - Future Revenue Commitments - £13.145m
 - Capital Projects - £9.235m
 - Risk (inc Insurance) - £7.441m
 - Other - £4.372m

3.0 PROVISIONS

Sundry Debtors

- 3.1 The Council makes provision for bad and doubtful debts based upon an annual review of outstanding debts profiled by age and the associated risks of non-payment, depending upon the types of debt.
- 3.2 Past experience has shown that after 43 days (the period covering the initial stages of recovery action) the likelihood of sundry debts being paid reduces significantly and therefore the risk of them not being recovered increases greatly. Increased provision will therefore be made for all sundry debts outstanding for more than 43 days.
- 3.3 The bad debt provisions in respect of sundry debtors at 31 March 2021 totals £3.0m.

Council Tax / Business Rates (NNDR)

- 3.4 Bad debt provisions are made in respect of Council Tax and National Non Domestic Rate (NNDR) debts. The bad debt provisions (Council Share) in respect of Council Tax and NNDR debtors at 31 March 2021 totals £12.7m.
- 3.5 The levels of bad debt provisions held are considered prudent in relation to the current level and age profile of outstanding debts. But they will be reviewed annually, particularly in the light of the prevailing economic climate and reductions in Council Tax Support payments and empty property discounts which may affect collection rates. Therefore appropriate provisions will be made to minimise the risk of financial loss to the Council.
- 3.6 The Council is required to hold a provision for NNDR valuation appeal claims. The provision as at 31 March 2021 totals £8.5m. The treatment and funding of appeals is currently being considered nationally as part of the consultation regarding the implementation of 75% business rates retention. Once the outcome of this is known, the implications for future provisions for appeals can be determined.