

 ST HELENS BOROUGH COUNCIL	Cabinet 9 November 2022
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Report Title:	Mid-year Medium Term Financial Strategy update 2022-2025
Cabinet Portfolio	Finance and Governance
Cabinet Member	Councillor Martin Bond
Exempt Report	No
Reason for Exemption	N/A
Key Decision	No
Public Notice issued	N/A
Wards Affected	All
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Borough priorities	Ensure children and young people have a positive start in life	
	Promote good health, independence, and care across our communities	
	Create safe and strong communities and neighbourhoods for all	
	Support a strong, thriving, inclusive and well-connected local economy	
	Create green and vibrant places that reflect our heritage and culture	
	Be a responsible Council	X

1. Summary

1.1 At its meeting on 2 March 2022 Council considered and approved a report that set out:

- the proposed Revenue Budget for the financial year 2022/23
- the three-year capital programme and Capital Strategy for the period 2022-2025
- the Treasury Management Strategy Statement for the financial year 2022/23
- the Medium Term Financial Strategy (MTFS) for the period 2022-2025

1.2 This report provides Cabinet with an update on the Council's MTFS and highlights a series of key risks, uncertainties and pressures that have heightened in the intervening period.

1.3 The report highlights the ongoing cumulative funding gap during the MTFS period and the magnitude of budget savings requiring to be delivered to ensure a sustainable, medium term financially balanced position.

1.4 Current modelling indicates a £9.2m increase in the projected budget gap through to 2024/25, with a £7.6m increase during 2023/24 resulting in a total budget gap of £19.3m in the upcoming financial year alone, and a further gap of £8.0m in 2024/25.

1.5 The current modelling indicates a level of budget shortfall, driven by factors outside the control of the Council, that is significantly in excess of any ability to address solely through efficiencies and the Council will need to plan for service level reductions and undesired impacts on residents of the borough to ensure sustainability of the Council's position in the short to medium term. Options are being developed over the autumn and will be presented to Cabinet as part of the ongoing budget setting process, which will provide further update on modelling as necessary.

1.6 The significantly elevated rates of borrowing, alongside surging costs of delivering capital projects in the current inflationary environment and the distinct possibility of cuts to government capital funding allocations will also have a considerable negative impact on the affordability of the Council's capital investment aspirations.

2. Recommendations for Decision

Cabinet is recommended to:

- i) **Note the projected cumulative funding gap during the MTFS period and the requirement to progress service reviews and budget savings options over the period to deliver a balanced budget position that is sustainable and avoids an ongoing reliance on the use of reserves.**

3. Purpose of this Report

- 3.1 This report provides Cabinet with an update on the Council's Medium Term Financial Strategy 2022-2025 and highlights a series of key risks, uncertainties and pressures that the Council is presented with.
- 3.2 It should be noted that whilst this report has been prepared based on information that is currently available, it has been necessary to make a significant number of projections based on what are considered to be best or reasonable assessments at the current time. It will be necessary to continually review the Council's overall financial position further in the light of this.

4. Background / Reasons for the recommendations

Current MTFS 2022-2025

- 4.1 The Council's 2022-2025 MTFS was approved at the Council meeting on 3 March 2022 to provide an overarching framework setting out the context in which future decisions on resource allocation and budgeting would be taken.
- 4.2 The primary purpose of the MTFS is to provide an indication of the future financial position of the Council and, in turn, inform the annual budget setting process, quantifying the likely level of resources that are available to deliver the Council's services and achievement of its core strategic objectives. The MTFS is key to the successful delivery of the Council's vision and priorities and in achieving its commitment to provide services that meet the needs of its residents and communities and represent value for money within the overall resources available to it.
- 4.3 It is considered that the Council has never faced a more challenging funding position, after more than a decade of austerity and continual cuts in government support, with the ongoing legacy of the Covid-19 global pandemic, the current extreme and volatile inflationary and wider economic environment, a funding crisis engulfing the social care system amid continually increasing demand, and the continuing uncertainty surrounding the Local Government funding position.
- 4.4 It remains imperative that resources are allocated following an assessment of statutory responsibilities and strategic priorities and that resource allocation decisions are aligned accordingly. The requirement to identify, agree and deliver significant cash savings and cost reductions must be considered in that regard.
- 4.5 Approval of the 2022-2025 MTFS was provided against a background that included a number of key issues and a high level of risk to the deliverability of services within the baseline level of available resources:
 - The Government's Spending Review 2021 did provide for the availability of additional funding for local government in 2022/23, but critically allowed for no further increases in general settlement funding being made available in 2023/24 or 2024/25.

- Consequently, local authorities would become increasingly reliant on other revenue sources (including those from local taxes) to meet spending pressures in 2023/24 and 2024/25 and inevitably face the requirement for further cuts to services over the period, with the more deprived local authorities having significantly less ability to raise additional sums from local taxes.

With current levels of inflation at around 10% and forecast by many, including the Bank of England (BoE), to be pushed even higher in the coming months, this is an enormous real-terms reduction in the local authority funding position.

- A fourth consecutive one-year local government finance settlement was announced for 2022/23.
- The Government's Fair Funding Review to determine how much funding each authority receives, based on an assessment of relative needs and resources, had been further delayed.
- The Government's intention to introduce reforms to the Business Rates Retention system being similarly further delayed.
- The 2022/23 settlement acknowledged that the funding allocations for councils should be based on an up-to-date assessment of their needs and resources and that the data used in allocations had not been updated for a number of years. At that time the Government stated that over the following months they would work closely with the sector to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes. No consultation has been undertaken to date.
- A one-year only guaranteed extension of the Liverpool City Region Business Rates Retention Pilot into 2022/23, whereby authorities within the City Region retain 99% of business rates.
- An anticipation that the Government would provide compensatory funding for any reductions in the Council's yield arising from the Business Rates revaluation planned for 1 April 2023.
- The introduction of a new, UK-wide 1.25% Health and Social Care Levy from April 2022, based on National Insurance Contributions.
- A one-off 2022/23 Services Grant which included funding for local government costs for the increase in employer National Insurance Contributions effective from April 2022. The settlement explicitly referenced the application of this grant to fund the inflationary and demographic pressures facing children's and adult social care.
- A series of one-year only guaranteed grant funding allocations, including those for Social Care Grant, Better Care Fund, improved Better Care Fund and an assumption that the levels would continue into 2023/24 and 2024/25 at the same levels as in 2022/23.
- The introduction of a Market Sustainability and Fair Cost of Care Fund during 2022/23, which the Government announced is designed to ensure local authorities can prepare their markets for reform and move towards paying providers a fair cost of care.
- Further Government announcements in relation to adult social care reforms (e.g. cap on care costs and extended means tests) and uncertainty around both the cost and how

funding will be determined and distributed introducing a very significant financial risk to local authorities with social care responsibilities.

- A further year allocation of New Homes Bonus (NHB) for 2022/23, whilst the Government's commitment to reforming the NHB was still awaited.
- No increase in Public Health Grant over the Spending Review 2021 period, with funding being maintained at the same real-terms levels.
- One-year notification of permissible levels of Council Tax increase beyond which a referendum would be required and the maximum level of increase for the social care precept.
- No specific ongoing Government funding for Covid-19 driven / associated pressures and high levels of risk in predicting the extent to which the pandemic would continue to impact the borough's residents, businesses, employers, and the Council's financial position.
- Utilisation of the balance of forecast uncommitted Covid-19 funding sums previously set aside to support the ongoing additional costs and income losses resulting from the pandemic.
- Significant risk and uncertainty in relation to the Merseyside Pension Fund position given the economic downturn and the impact on asset investment performance, alongside the 'McCloud Judgement' impact to public service pensions schemes.
- The extent to which levels of Council Tax Support claimants would increase as a result of the current economic climate and the rate of recovery.
- The extent to which Council Tax and Business Rate yields would be impacted as a result of economic downturn and the speed of recovery as a consequence of the pandemic.
- Allowing for appropriate revenue resources to provide for the ambitious strategic future capital investment as approved within the Capital Strategy.
- High levels of risk associated with future levels of pay and price inflation and increases to the National Living Wage.
- High levels of risk arising from increases in customer service demand levels (most significantly, but not exclusively, in care services) and the ability to manage levels and associated cost.

Recent fiscal and economic developments

- 4.6 On 23 September 2022 the then Chancellor gave a fiscal statement to Parliament, announcing significant tax cuts and other policies, including a reversal of the 1.25 percentage point rise in National Insurance from 6 November 2022.
- 4.7 The Institute for Fiscal Studies reported that the tax announcements represented the biggest tax cut of any budget since 1972.
- 4.8 The Treasury published *The Growth Plan 2022* following the statement, which was delivered in the context of high inflation and weak economic growth.

- 4.9 The Growth Plan included the estimated costs in 2022/23 of the schemes the Government had announced to support households and businesses with the cost of energy. In doing so, it acknowledged that the costs of this policy as being highly uncertain as they were sensitive to volatile future energy prices and that more detailed costings and an assessment of their impact on the economy would be included in the next Office for Budget Responsibility (OBR) forecast.
- 4.10 The fiscal statement was not accompanied by an OBR forecast. However, on 26 September 2022 the then Chancellor made a further announcement that he would set out a Medium-Term Fiscal Plan on 23 November 2022 which would set out plans for the public finances more fully and be accompanied by an OBR forecast. The announcement also advised that there would be a Budget in the spring, not this autumn as previously expected.
- 4.11 On 10 October 2022 it was announced that publication of the Medium-Term Fiscal Plan was to be brought forward to 31 October 2022 to help reduce the upward pressure on interest rates – this date being in advance of the next meeting of the Monetary Policy Committee on 3 November 2022 - and expected to include a very tight squeeze on public spending in order to put Government debt on a downward path.
- 4.12 The Government had previously stated that it would not reopen funding settlements announced in the Spending Review 2021 to address rising cost pressures on the public sector, and respective Government departments had been instructed to find efficiency savings.
- 4.13 Following the appointment of the new Chancellor, on 17 October 2022 a number of measures were brought forward from the scheduled Medium Term Fiscal Plan, with those changes “designed to ensure the UK’s economic stability and provide confidence in the government’s commitment to fiscal discipline.”
- 4.14 In his statement the Chancellor made clear that public finances must be on a sustainable path into the medium term and, alongside previous statements, announced a reversal of a number of tax measures set out in the Growth Plan. The government’s reversal of the National Insurance increase and the cuts to Stamp Duty Land Tax, will remain. The previously announced Energy support schemes will also continue to 31 March 2023 but will now be reviewed from April 2023 and likely to result in a much less generous support package from then.
- 4.15 The Chancellor signalled in his 17 October 2022 statement that more savings will be required in announcing “In the light of this, government departments will be asked to find efficiencies within their budgets”.
- 4.16 On 25 October 2022 it was announced that the new Prime Minister had pushed the planned fiscal statement back until 17 November 2022, when a full Autumn Statement will be delivered by the Chancellor, accompanied by separate forecasts from the OBR.
- 4.17 In the short term, it still remains unclear as to whether the Spending Review 2021 funding allocations will be observed. The previous Chancellor had confirmed that they would be – but at this stage the new Chancellor has not made a similar commitment. The implications for the Council will not be clear until some time after the Autumn Statement.
- 4.18 The rate of inflation has been relentlessly moving upward over the past 18 months, with a combination of demand for consumer goods, rising energy and petrol prices, and the events in Ukraine leading to the inflation rate hitting a 40-year high of 10.1% in September 2022 - with the BoE predicting further increases in October 2022.

- 4.19 The Interim Budget Update report considered by Cabinet on 5 October 2022 provided detail in relation to the projected implications of the current inflationary environment, the levels of ongoing uncertainty, the limited 2022/23 government funding assistance, the absence of further government funding assistance, and the associated risks to the Council's financial position.
- 4.20 The report provided commentary in relation to the ongoing identification and development of service reviews and budget savings options as part of the financial planning process and the requirement for actions to ensure the ongoing financial sustainability and resilience of the Council.
- 4.21 On 22 September 2022, the day prior to the then Chancellor's statement, the BoE raised the Bank Rate by 0.5 percentage points to 2.25%, having raised the rate at each of its previous six meetings as it tries to lower inflation back to the 2% target.
- 4.22 Interest rates rose sharply in the period immediately after the package of tax cuts announced in the fiscal statement, with the BoE setting aside £65billion to ease pressure in the markets.
- 4.23 The Bank's chief economist warned that further significant increases in rates are highly likely in an attempt to bring down soaring inflation, and financial markets priced in an expectation of rates in excess of 5% by the spring of 2023.
- 4.24 The significantly elevated rates of borrowing, alongside surging costs of delivering capital projects in the current inflationary environment will have a considerable negative impact on the affordability of the Council's capital investment aspirations. The Levelling Up Secretary has stated that capital funding allocations would not be increased and suggested bids need to be resized.

Mid-year updated assumptions of MTFS

- 4.25 Section 4.5 provides detail that underpins the resource position as included in the MTFS approved by Council on 3 March 2022, covering the financial period through to 2024/25.
- 4.26 With regard to the range of variables, uncertainties, risks and assumptions applied, and in considering the Reserves, Treasury Management and Capital Strategies the following modelled position was determined, as included in the approved MTFS:

MTFS position as at March 2022	2022/23	2023/24	2024/25	CUMULATIVE
	£'000	£'000	£'000	£'000
BUDGET GAP	6,044	11,736	6,357	24,137

- 4.27 To address this position Cabinet approved the requirement for budget options and further actions necessary in relation to closing the budget gap from 2022/23 and delivering a sustainable, balanced budget.
- 4.28 Collectively, all Portfolio holders worked with Officers to identify acceptable savings options that were agreed by Cabinet and Council.

4.29 In doing so, full regard was had to matters such as:

- Impact on statutory duties and other agreed priorities
- Impact on current policy matters
- Impact on staff / structures
- Impact on performance and/or service delivery (including members of the public, service users, carers) - immediately and/or in the future
- Impact on other Council services - immediately and/or in the future
- Impact on partner organisations - immediately and/or in the future
- Potential / actual risks and actions to mitigate them
- Benchmarking of costs

4.30 In approving the MTFS, Council agreed to a series of savings proposals covering the period as detailed in Appendix 1, resulting in the position provided below.

	2022/23 £'000	2023/24 £'000	2024/25 £'000
Integrated Health & Social Care Directorate			
Integrated Care & Health	733	2,072	-
Public Health	752	-	-
Children & Young People Department			
Children & Young People	2,739	2,090	-
Education, Skills & Business	420	50	-
Place Services Department			
Environment & Transport	602	-	-
Regeneration & Planning	100	949	-
Wellbeing, Culture & Heritage	144	-	-
Safer, Stronger Communities	345	-	-
Corporate Services Department			
Finance & Governance	209	139	-
Reset & Recovery	-	-	-
TOTAL PROPOSED SAVINGS	6,044	5,300	-
BUDGET GAP	6,044	11,736	6,357
RESIDUAL GAP	-	6,436	12,793

MTFS
position as
at March
2022

4.31 Previous sections of this report illustrate the continuing absence of certainty around ongoing funding that serve to make accurate and detailed planning incredibly difficult, including:

- In advance of the Medium-Term Fiscal Plan, (then) scheduled for 31 October 2022, an announcement from the Chancellor that there will be more difficult decisions to take on spending and that government departments will be asked to find efficiencies within their budgets.
- The number of significant information gaps that exist and that will not be resolved until (at the earliest) the Provisional Local Government Finance Settlement later in the year.

- A series of one-year only guaranteed grant funding allocations for 2022/23 and a continued absence of multi-year Local Government Finance Settlement.
- Detail of the Government's reforms to NHB still being awaited.
- A funding crisis engulfing the social care system amid continually increasing demand and the sufficiency of funding made available to compensate local authorities for costs arising from the implementation of caps on personal care costs and changes to means testing and of further sums to improve the wider social care system, including the quality and integration of care.
- The absence of ongoing Government funding assistance in relation to the pay and price inflationary pressures that local authorities are experiencing.
- Continued delays to Local Government finance reforms (Fair Funding Review and the Business Rates Retention system).
- The outcome of the fundamental review of Business Rates and the Business Rates revaluation due to take place on 1 April 2023.

4.32 Notwithstanding the ongoing uncertainties outlined, revised modelling has been undertaken to forecast indicative budget gaps for 2023/24 and future years. In doing so, a breadth of planning assumptions and budget risks have been revisited to ensure that a revised mid-term forecast financial position is established.

4.33 Revisions to forecasts have been made in relation to a number of aspects of the budget, based on most recent data or information. These include:

- Pay inflation – pay award increases informed by the current pay negotiations position and previous policy announcement that public sector workers will see “fair and affordable pay rises” over the whole Spending Review period.
- Price inflation – significant increases in relation to energy, fuel, food and other service provision inflation as detailed in the report approved by Cabinet on 5 October 2022, for which there is no anticipation of Government support in 2023/24 and beyond.
- Pensions costs – informed by latest projections provided by the Merseyside Pension Fund and their appointed actuaries.
- National Living Wage – informed by announcements made by the Low Pay Commission in seeking evidence to inform their recommendations on the 2023 rates.
- Levies – provision to allow for increased costs arising from inflation for levying bodies (Merseyside Waste & Recycling Authority and Merseytravel).
- NHB allocations – in the absence of anticipated reform NHB will continue to be allocated until the Fair Funding Review is implemented and is provided on a single year basis, with no legacy payments in future years.
- Collection Fund (Council Tax & Business Rates) – informed by threshold levels included in the 2022/23 Local Government Finance Settlement and more recent & revised forecast positions in relation to the base position and estimated levels of growth/decline, collection rates and successful Business Rates valuation appeals.

The withdrawal of Government support in the form of reliefs to businesses in the Retail, Hospitality and Leisure sectors is projected to negatively impact the net Business Rates yield, whilst Local Council Tax Support will be impacted by loss of employment arising

from subsequent business failure and Council Tax income is forecast to reduce further as residents experience massively increasing costs from the rising cost of mortgages and other general costs of living.

- **Business Rates Compensation** - In previous years the Government has distributed an under-indexation grant to local authorities to ensure that they are compensated for any Government policy decisions to limit the increase in the annual business rates multiplier below the change in the Retail Price Index (RPI). Given the level of RPI and the subsequent cost (to Government) of continuing to operate this arrangement there is concern as to whether changes may be implemented in 2023/24 whereby full compensation is not provided, and the revised modelling provides for a lower level. In doing so, risk to the Council's financial position still remains.
- **National Insurance Contributions** - reversal of the 1.25 percentage point rise in National Insurance from 6 November 2022, as announced in the fiscal statement of 23 September 2022.
- **Flexible use of capital receipts** - Given the level of savings required over the medium-term, modelling for the use of capital receipt flexibilities of £1.0m during 2032/24 and 2024/25 in support of the council's Medium Term Financial Strategy.
- **Investment returns** – after a prolonged period of low interest rates, increased levels of returns have been modelled based on the anticipated cash balances and the current and projected interest rate environment.

4.34 The revised modelling is an essential factor in ensuring that the Council is able to manage the current financial challenge, whilst being used to inform decisions around the extent and profile of cash savings, cost reductions and the allocation of resources to meet the Council's priorities ahead. The following table summarises the latest modelled position.

	2023-2024 £'000	2024-2025 £'000	Cumulative £'000
Original MTFS Budget Gap	11,736	6,357	18,093
Savings agreed via MTFS 2022-2025	(5,300)	-	(5,300)
Residual original modelled Budget Gap	6,436	6,357	12,793
Movement in updated modelling	7,567	1,631	9,198
Residual revised modelled Budget Gap*	14,003	7,988	21,991
* Assumes all agreed previous year savings are delivered and further years' savings remain as per MTFS2022-2025			

MTFS
remodelled
position

4.35 At this stage, the revised modelling shows a position where the forecast in-year budget gap for 2023/24 has increased by some £7.6m (when compared to the original MTFS 2022-2025), with a further additional gap of £1.6m modelled for 2024/25.

4.36 Savings of £5.3m for 2023/24 have previously been agreed in setting previous years' budgets, as detailed in Appendix 1, leaving a residual budget gap of £14.0m for 2023/24 and an aggregate gap of £22.0m for the two-year period.

4.37 Prior to the already agreed £5.3m savings, the resultant forecast budget gaps are £19.3m for 2023/24 and an additional £8.0m for 2024/25 - an aggregated gap of £27.3m for the two-year period. It is essential to note that the full-year impact of savings options will need

to be in excess of these sums where implementation of savings options are such that they will not take effect from 1 April in the respective years.

- 4.38 Analysis shows that whilst the level of the forecast residual budget gap for 2023/24 is impacted by other variables it can be assessed as being principally driven by inflationary factors wholly outside the control of the Council as detailed in the following table.

	2023-2024 £'000
Additional provision for pay awards (as a direct consequence of the current inflationary environment)	*6,300
Forecast increase to the National Living Wage	1,300
Forecast impact of price inflation	6,200
TOTAL	13,800

* Incorporates the aggregated forecast impact of both 2022/23 and 2023/24 pay awards

- 4.39 It should be highlighted that the revised modelled position:

- is dependent on the full delivery of the agreed savings for, and in, the respective years, as included in section 4.30 and Appendix 1.
- excludes the impact of any other 'base budget' pressures carried forward from 2022/23, which, if not resolved, would add to the Budget Gap position.
- is conditional on the successful delivery of approved demand strategies to address further cost pressures arising.
- excludes any additional provision for debt servicing costs arising from capital investment beyond that within the current MTFS.
- is modelled on the receipt of sufficient funding allocations and no additional cost pressures arising from the Government's mandated Market Sustainability and Fair Cost of Care requirements as detailed in the Interim Budget Report approved by Cabinet at its meeting on 5 October 2022.

That report highlighted the real risk that the funding falls short of needs and will not fully resource Council's and providers in delivering the Government's objectives, with a report to be presented to Cabinet on the outcomes of a Fair Cost of Care exercise ahead of the final submission of mandated reports to DHSC.

- is considered to be significantly in excess of any ability to address solely through efficiencies and budget savings options will need to incorporate a series of unpalatable service level reductions to be agreed and implemented. Budget savings options are to be developed over the autumn and presented for consideration and approval to future meetings of Cabinet as part of the ongoing budget setting process.

- 4.40 The Financial Monitoring Report, included as a separate report on the Cabinet agenda of 9 November 2022, reports the latest position in relation to current base budgets and approved savings through to 2022/23. Existing budget pressures, including the non-achievement of savings will require management actions to identify and implement compensating cost reductions where they are assessed as no longer possible.

- 4.41 The Provisional Local Government Finance Settlement should provide confirmation of revisions to the Council's general settlement funding but is only expected to be received in December 2022. Given the absence of any further specific detail that it may include, no associated revisions have been incorporated into the model at this point in time. This presents a significant risk given the Chancellor's announcements that government departments have been asked to find efficiencies within their budgets.
- 4.42 The remodelled position is also based on, and is sensitive to, a series of other highly critical assumptions and matters, including:
- continued deferral of the Fair Funding Review and Business Rates reforms during the period.
 - the continued participation in the (99%) Liverpool City Region Business Rates Retention Pilot throughout the period.
 - expected allowable Council Tax increases of 3%, inclusive of an adult social care precept.
 - the adequate level of funding being made available to compensate local authorities for costs arising from the Fair Cost of Care requirements and the implementation of caps on personal care costs and changes to means testing.
 - the successful delivery of Children's and Adult Social Care Demand Strategies.
 - the levels of future interest rates, both in terms of investment returns and borrowing costs to support the programme of strategic capital investment.
 - the impact of changing economic conditions on the Merseyside Pension Fund funding position and investment strategy, as will be recognised in the 2022 Actuarial Revaluation, effective from 2023/24.
 - legislative changes and/or the imposition of new responsibilities on the Council being funded by Government.
 - the level of increases approved by the Levying bodies (especially Merseytravel & Merseyside Recycling and Waste Authority).

Reserves Strategy

- 4.43 As is evident, the Council continues to face significant financial challenges and uncertainty in funding and must allocate resources for statutory responsibilities and key priorities, whilst at the same time delivering services within budget constraints. Ensuring financial sustainability over the medium term is an absolute priority for the Council.
- 4.44 It is imperative that the Council continues to have a strong and robust Reserves Strategy that adequately reflects the challenges and needs of the organisation and that reserves are set at a level that mitigate against future risks and uncertainties, whilst providing support in delivering priorities and opportunity for investment within the confines of overall affordability and availability of resource.
- 4.45 Through the MTFs, the Council has sought to build its reserves over the short to medium term as part of its MTFs to provide resilience to the Council from uncertainties, principally those arising from future changes in Government funding and finance reform.
- 4.46 The current target level of the Council's general reserves is set at £12m, with this sum judged to be a prudent level of balance to be set aside to ensure the Council remains

financially liquid as a going concern. This fund is held to provide an emergency fund for exceptional circumstances and unknown risks.

- 4.47 As was reported in the Interim Budget Report approved by Cabinet on 5 October 2022, given the scale of the inflationary pressures and the challenging timescales and financial environment, it is considered that the complete absence of government support will result in an inevitable requirement for utilisation of the Council's reserves.
- 4.48 The Financial Monitoring Report, included as a separate report on the Cabinet agenda of 9 November 2022 reports the latest reserve position alongside the pressures in relation to the 2022/23 financial year.

Capital Investment

- 4.49 In approving the current MTFFS, the Council set out and made provision for its ambitious capital plans over the medium term through identification of a number of strategic capital schemes for 2022/23, alongside pipeline schemes for future years. These include investment in highway and property assets, regeneration of the borough and its localities, and invest to save schemes.
- 4.50 Both the significantly elevated rates of borrowing and costs of delivering capital projects in the current inflationary environment will have a considerable negative impact on the affordability of the Council's capital investment aspirations. In addition, there is high possibility of cuts to government capital funding allocations arising from the need for government departments to identify efficiencies.
- 4.51 Prioritisation and scaling of strategic capital investment to support or deliver Council priorities will be necessary to ensure that decisions are made within the limited resource availability to ensure the sustainability of the Council's financial position.

Budget Consultation

- 4.52 A budget consultation exercise providing information in relation to the budget challenge that the Council faces and containing a survey to capture views and service priorities from all residents will run for a four-week period in November/December. The outcome of the consultation exercise will be included within future budget reports.

5 Consideration of Alternatives

- 5.1 Consultation feedback and alternative budget proposals / savings options will be fully considered as part of the ongoing Budget setting process.

6 Conclusions

- 6.1 Faced with extraordinary inflationary driven pressures and in the absence of targeted Government support for the local government sector, the report highlights the ongoing cumulative funding gap during the MTFFS period and the magnitude of budget savings requiring to be delivered to ensure a sustainable, medium term financially balanced position.
- 6.2 The ability for the Council to absorb or implement efficiency measures to address pressures of the enormity outlined is extremely limited and a series of actions will need to be implemented in order for the Council to contain spend within its available resource levels, deliver statutory responsibilities and key strategic priorities and to support residents, transformation and growth.

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- 6.3 Options to reduce pressure on the Council's financial position will inevitably need to include further substantial reductions in service provision and undesired impacts on the residents of the Borough.

7 **Legal Implications**

- 7.1 By law the Council has to set a balanced budget for each financial year and maintain a sound system of internal control, including arrangements for the management of financial and other risks.
- 7.2 Members must exercise their fiduciary responsibilities when making decisions on the budget.
- 7.3 The Council's Section 151 officer is responsible for financial administration and has a number of duties related to financial resilience, including a duty to report on the robustness of the Council's budget estimates and the adequacy of its reserves.

8 **Community Impact Assessment (CIA) implications**

- 8.1 Whilst there are none directly arising from this report, the financial challenge is such that potential adverse impacts will need to be considered and understood when determining actions necessary to ensure sustainability of the Council's financial position.
- 8.2 CIPFA have recently stated that with public services already stretched to breaking point the funding position will push them to the brink and will significantly impact the most vulnerable in society.
- 8.3 A budget consultation exercise providing information in relation to the budget challenge that the Council faces and containing a survey to capture views and service priorities from all residents will run for a four-week period in November/December.
- 8.4 The MTFs provides an indication of the future financial position of the Council that will, in turn, inform the annual budget setting process, quantifying the likely level of resources that are available to deliver the Council's services and achievement of its core strategic objectives.
- 8.5 The budget process is key to the successful delivery of the Council's vision and priorities and in achieving its commitment to provide services that meet the needs of its residents and communities and represent value for money within the overall resources available to it.

9 **Social Value**

- 9.1 Whilst there are no implications directly arising from this report, the financial challenge is such that potential adverse impacts on local economy spend / procurement will need to be considered and understood when determining actions necessary to ensure sustainability of the Council's financial position.

10 **Sustainability and Environment**

- 10.1 Whilst there are no implications directly arising from this report, the financial challenge is such that potential adverse impacts on local economy spend / procurement will need to be considered and understood when determining actions necessary to ensure sustainability of the Council's financial position.

11 Health and Wellbeing

- 11.1 In the current environment, it is anticipated that demand for essential Council support in a number of service areas aligned to health and wellbeing (e.g. social care, homelessness, public health, welfare and Local Council Tax Support) will continue to rise. The challenge is such that potential adverse impacts will need to be considered and understood when determining actions necessary to ensure sustainability of the Council's financial position.
- 11.2 The demand and other cost pressures relating to social care are significant, as are the uncertainties associated with existing and future funding streams.

12 Equality and Human Rights

- 12.1 Whilst there are no implications directly arising from this report. As part of the budget process, an initial analysis will be undertaken of equalities and other legal implications of various options/proposals. Detailed equalities impact assessments will be undertaken for individual decisions required to implement saving plans.

13 Customers and Residents

- 13.1 Faced with such an extreme inflationary environment, residents are facing the biggest cost of living squeeze for decades, and demand for essential Council support in a number of service areas (e.g. social care, homelessness, welfare and Local Council Tax Support) will continue to rise.
- 13.2 The Council's financial challenge is such that potential adverse impacts will need to be considered and understood when determining actions necessary to ensure sustainability of the Council's financial position. In the absence of the requisite level of government funding, those actions will almost inevitably need to include further reductions in service provision and undesired impacts on the residents of the Borough.
- 13.3 CIPFA have recently stated that with public services already stretched to breaking point the funding position will push them to the brink and will significantly impact the most vulnerable in society.
- 13.4 A budget consultation exercise providing information in relation to the budget challenge that the Council faces and containing a survey to capture views and service priorities from all residents will run for a four-week period in November/December.
- 13.5 Specific consultation will be undertaken for any savings proposals where there are wider impacts on customers and residents.

14 Assets and Property

- 14.1 Prioritisation and scaling of strategic capital investment to support or deliver Council priorities will be necessary to ensure that decisions are made within the limited resource availability to ensure the sustainability of the Council's financial position.
- 14.2 Rising energy costs are a significant contributory factor in the current inflationary environment and measures to bring about reductions in energy costs/usage are key to minimising the additional pressure, including review and rationalisation of the Council's operational buildings and consideration of invest to save renewable energy options.

15 Staffing and Human Resources

- 15.1 Whilst there are no implications directly arising from this report, the financial challenge is such that potential adverse impacts will need to be considered and understood when

determining actions necessary to ensure sustainability of the Council's financial position. In the absence of the requisite level of government funding, and given the extent of the budget gap, there is a high potential for those actions to impact on staffing within the authority.

16 **Risks**

- 16.1 This report sets out the scale of budget challenges and highlights many of the risks that exist in relation to the Council's ongoing financial position and sustainability.
- 16.2 The comprehensive assessment of risks forms a vital part of the MTFS, budget setting and Reserves Strategy process.
- 16.3 Individual risks that may arise from savings options / proposals will be set out clearly as part of the decision-making process in relation to each individual saving.

17 **Finance**

- 17.1 As detailed in the report.

18 **Policy Framework Implications**

- 18.1 The MTFS is key to the successful delivery of the Council's vision and priorities and in achieving its commitment to provide services that meet the needs of its residents and communities and represent value for money within the overall resources available to it.
- 18.2 The Council's approved Budget is to provide, within the overarching constraints that exist, the most appropriate balance of resources to deliver the Council's statutory responsibilities and to set a foundation for, and facilitate, the delivery of the Council's key ambitions and its existing and emerging corporate priorities and borough level strategic objectives, as set out within the Council's "Our Borough Strategy 2021-2030".
- 18.3 In the absence of additional Government funding (and with the possibility of yet more reductions), the current extraordinary environment significantly disturbs the balance of resources and introduces significant risk to the sustainability of the Council's financial position, service provision and the delivery of its priorities and objectives.

19 **Impact and Opportunities on Localities**

- 19.1 Whilst there are no implications directly arising from this report, the financial challenge is such that potential adverse impacts will need to be considered and understood when determining actions necessary to ensure sustainability of the Council's financial position.

20 **Background Documents**

- 20.1 Medium Term Financial Strategy 2022-2025 and Revenue & Capital Budget 2022- 23 (Cabinet 23 February 2022, Council 2 March 2022).
- 20.2 Financial Monitoring Report – Period 1 2022/23 (Cabinet 13 July 2022).
- 20.3 Interim Budget Report (Cabinet 5 October 2022).

21 **Appendices**

- 21.1 Appendix 1 – Savings agreed as part of Medium Term Financial Strategy 2022-2025

Appendix 1 – Savings agreed as part of Medium Term Financial Strategy 2022-2025

Nature of Saving Proposal	2022/23 £'000	2023/24 £'000
Adult Social Care Service Reviews		
• Learning Disabilities Service Review	417	1,763
• Commissioned Services	191	309
• Care Packages	125	0
Children's Social Care Service Reviews		
• Residential and Foster Care Placements	1,346	1,804
• Young People Leaving Care	214	286
• Children's Centres and Early Help Services	700	0
• Family Support Services	479	0
• Other Services	50	50
Children's Services Service Reviews		
• Education Services	95	0
• Young People's Services	150	0
• Department Wide	125	0
Public Health Service Reviews		
• Review of Public Health Funded Programmes	752	0
Place Services Service Reviews		
• Councillor Improvement Fund	75	0
• Department Wide Service Review	871	949
• Supported Living Grant	245	0
Corporate Services Service Reviews	209	139
TOTAL	6,044	5,300

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