ST HELENS BOROUGH COUNCIL	**Cabinet** **5 October 2022**
Report Title	**Interim Budget Update**
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
Report of	Executive Director of Corporate Services Cath Fogarty cathfogarty@sthelens.gov.uk
Contact Officer	Asad Mushtaq Director of Finance asadmushtaq@sthelens.gov.uk

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 Previous Cabinet reports identified inflation as the key risk to the financial sustainability and resilience of the authority, with the impact on budgets in the current and future financial years forecast to be exceptional.

1.2 Fully recognising the ongoing volatility of the current economic environment and the significant degree of associated uncertainty presented, this report provides further update on the projected inflationary impact for 2022/23 and subsequent years.

1.3 The report serves to demonstrate the extraordinary challenge that the Council faces in forecasting the inflationary impact on its budgets with reasonable levels of certainty. Latest sensitivity modelling suggests that the Council's exposure to inflationary pressures could exceed £12m in 2022/23 alone, compounded in future years.

1.4 Additionally, demand for essential Council support in a number of service areas will continue to rise as the pressure on residents intensifies.

1.5 With the anticipated exception of sums available through eligibility to the Energy Bill Relief Scheme, no additional government funding has been provided for 2022/23 and there is no indication of any funding in future periods. Moreover, the Government's current spending plans for public services also allow for no further increases in general settlement funding being made available in 2023/24 or 2024/25.

1.6 The ability for the Council to absorb inflationary driven pressures of this magnitude is extremely limited and a series of actions to address the unavoidable forecast pressures will need to be implemented in order for the Council to contain spend within its available resource levels.

1.7 The upcoming Financial Monitoring Report and Medium-Term Financial Strategy Update Report will provide further update and detail in relation to revised financial planning assumptions and associated forecast budget gaps, alongside actions necessary to ensure sustainability of the Council's financial position in the short and medium term.

1.8 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.

2. Recommendations for Decision

Cabinet is recommended to:

i) Note 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.

ii) **Note 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.**

3. Purpose of this report

3.1 The purpose of the report is to provide Members with an update on forecast financial pressures arising from increases in inflation above those assumed within the *Medium-Term Financial Strategy 2022-2025 and Revenue & Capital Budget 2022-23*.

4. Background / Reason for the recommendations

4.1 The Council approved its budget for 2022/23 on 2 March 2022. The budget model that was used within the *Medium-Term Financial Strategy 2022-2025 and Revenue & Capital Budget 2022-23* (MTFS) included a number of inflationary assumptions that were used to inform the budget requirement.

4.2 As has previously been reported in the *Financial Monitoring Report – Period 1 2022/23*, considered by Cabinet on 13 July 2022, these assumptions were determined with regard to, and commensurate with, inflation levels that were forecast in the Chancellor of the Exchequer's Budget and Spending Review 2021 forecasts, and any additional intelligence and forecasts available at the time of setting the Council's budget.

4.3 In addition to allowing for a general inflationary provision, the budget also factored in higher anticipated levels of inflation across specific areas of Council spending, including fuel, energy, and care services.

4.4 The MTFS also identified general inflation levels as a high-risk area, and for potential inflationary cost increases experienced within some specific goods or services to be significantly above general inflation levels.

4.5 The overall Consumer Price Index (CPI) calculation is based on a basket of goods that is not necessarily reflective of the actual spending profile of the Council. For example, prices for chemicals used in grounds maintenance have increased by over 200% in recent periods.

4.6 Since setting the budget, inflation has risen significantly, with CPI reaching 10.1% in July 2022, a 40-year high. In its quarterly Monetary Policy Report published in August 2022 the Bank of England estimated that inflation will be pushed even higher over the next few months, to around 13%.

4.7 The forecasts provided by the Bank of England and a number of different respected economic commentators vary widely in many respects in terms of the forecast levels and duration of the elevated levels of inflation, and individual forecasts have been subject to material revisions over recent months. To illustrate, at the time of drafting, forecasts from Citigroup are for inflation to reach 18.6% in January. Elsewhere, the Resolution Foundation, Goldman Sachs and Ernst Young are forecasting rises to closer to 15%. This serves to demonstrate the challenge that the Council faces in forecasting the inflationary impact on its budgets with reasonable levels of uncertainty.

4.8 The scale and magnitude of the current rate of inflation is unprecedented compared to recent years and is now at its highest level since 1982. The impact of inflation being significantly higher than the budget provision will inevitably have an impact on Council revenue budgets. Increased costs are being experienced and/or expected across all areas, and considerably so (both directly and indirectly) in relation to fuel, energy, food, materials, care provision and increased wage demands.

4.9 The previously approved *Financial Monitoring Report – Period 1 2022/23* highlighted the potential issues that the local government sector faces from the underlying economic conditions, and highlighted specific areas of inflation risk.

4.10 The Local Government Association (LGA) have forecast that inflation, energy costs and projected increases to National Living Wage will add £2.4 billion extra cost pressures onto Council budgets in 2022/23, rising to £3.6 billion in 2024/25.

4.11 The previous report advised that the Council and its partners in the Liverpool City Region (LCR) had collectively expressed their concerns to the Secretary of State in relation to the magnitude and impact of inflation on Council budgets and the consequential risks to the ability to continue to deliver key services. The response recognised the vital role that Councils play in providing many of the services people rely on and included the following:

"inflation forecasts are higher now than when the Spending Review 2021 was announced. How that interacts with the finances of local government, however, is not straightforward.

Some income streams will rise in line with inflation with some areas of expenditure sensitive to increases. We continue to work closely with the sector to understand the impact of emerging financial pressures, including inflationary increases, on service delivery and budgets and my officials stand ready to talk to any council with concerns."

4.12 Work is ongoing via the LCR Directors of Finance to pursue this and the Council also continues to contribute to lobbying activity being progressed via SIGOMA (Special Interest Group of Municipal Authorities) and supporting the LGA's campaign in pressing the government to ensure Councils have the resources they need to meet these unpredicted costs and protect the services that are helping communities recover from the pandemic and residents cope through the cost-of-living crisis.

4.13 No direct additional government funding has been provided to the Council for 2022/23 and there is no indication that there will be allocations to address inflationary pressures in future local government finance settlements. Confirmation is awaited that discounts on Council energy usage for the period between 1 October 2022 and 31 March 2023 will be made available through the Energy Bill Relief Scheme.

4.14 The readily apparent, and enormous challenge that this brings is compounded given that the Spending Review 2021, which set out high level details of the government's spending plans for public services, also allowed for no further increases in general settlement funding being made available in 2023/24 or 2024/25 – thus providing no opportunity to absorb inflationary driven pressures through additional settlement resource.

4.15 Events in Westminster have delayed the government's consultation on a two-year Local Government Finance Settlement that had been promised and expected before the Parliamentary recess. Settlements have significant effects on individual authorities and the delays introduce yet more uncertainty and risk for local authorities.

4.16 Faced with such an extreme inflationary environment, the Council fully recognises that residents are facing the biggest cost of living squeeze for decades, and that 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.

4.17 The following sections of the report provide further update on the currently projected inflationary impact on the Council's position for 2022/23 and subsequent years. Forecast impacts will be monitored, refined and further reported within subsequent Financial Monitoring Reports and the Medium-Term Financial Strategy Update Report, with a series of possible actions and mitigations fully explored and put in place where possible.

4.18 It must be noted that the report relates to the Council's revenue and capital budget and does not include the impact on schools. Pay and energy related inflation, in particular, will result in material pressures for individual schools.

4.19 <u>Employee pay</u>

4.19.1 On 25 July 2022, the National Employers for local government services agreed to make a one-year, final offer for 2022/23 to the unions representing the local government workforce that included an increase of £1,925 on all pay points / salaries and 4.04% on all allowances.

4.19.2 If accepted, this pay offer is estimated to cost the Council £6.394m.

4.19.3 The Council's MTFS included provision for a 2.5% pay award for 2022/23, and the resultant budget pressure for the financial year would therefore be in the region of £3.7m.

4.19.4 An equivalent offer for 2023/24 would result in additional pressures of around £4.1m in that year (i.e. £7.8m in total) when compared to the current MTFS modelling.

Sensitivity Analysis	Financial Impact 2022/23* (£m)	Cumulative Impact 2022/23* (£m)
Current Forecast	3.7	3.7
+1%	0.9	4.6
+2%	1.8	5.5
+3%	2.7	6.4

* Excluding the impact of the National Insurance reversal from 6 November 2022.

4.20 National Living Wage

4.20.1 The National Living Wage (NLW) increased to £9.50 per hour from 1 April 2022. The budgetary impact of this is allowed for in the Council's 2022/23 budget.

4.20.2 The Low Pay Commission has recently sought evidence to shape the recommendations that they will make in the autumn on the 2023 rates and have consulted on the affordability and effects of an increase in April 2023 to a NLW rate equivalent to 8.6%.

4.20.3 The MTFS model allows for a 5% uplift for 2023/24 and the resultant pressure would equate to approximately £1.3m. The impact on the Council is most significant through payments made to care providers and this will be inherently linked to matters relating to the fair cost of care (see section 4.23).

4.21 Energy

4.21.1 Rising energy costs are the single most significant contributory factor in the current inflationary environment. Energy prices are at volatile record highs and are extremely sensitive to a number of complex global / geopolitical influences, including the conflict in Ukraine.

4.21.2 Whilst provision was made for inflationary increases (38% on electricity and 55% on gas) in setting the 2022/23 budget, the latest advice on pricing from YPO equates to a combined pressure of approximately £1.2m for 2022/23, with a downside risk to that forecast – with regulator Ofgem having warned in August that "wholesale prices are moving so quickly that future forecasts are not reliable."

4.21.3 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.

Sensitivity Analysis	Financial Impact 2022/23 (£m)*	Cumulative Impact 2022/23 (£m)
Current Forecast	1.2	1.2
+10%	0.1	1.3
+20%	0.2	1.4
+30%	0.3	1.5

* Prior to any reduction in cost made available via the Energy Bill Relief Scheme (see below).

4.21.4 On 21 September the government announced an Energy Bill Relief Scheme for businesses and other non-domestic customers, providing discounts on energy usage for the period between 1 October 2022 and 31 March 2023. Urgent legislation to enable the implementation of the scheme will be introduced in October and further detail in relation to eligibility to the scheme is currently awaited.

4.21.5 In announcing the scheme, the government stated that it "will be available to everyone on a non-domestic contract including… public sector organisations such as schools, hospitals and care homes.". It is anticipated that the relief scheme will cover all the Council's operational buildings, but formal clarification is necessary.

4.21.6 It should be noted that the scheme only runs through to 31 March 2023 and that unfunded pressures will continue into future periods in the absence of any downward movement in unit costs or reduction in consumption.

4.22 <u>Care costs</u>

4.22.1 In approving the Council Budget for 2022/23 for commissioned care services and direct payments across adult and children's social care, provision was made for an average inflationary increase of 6%, including the impact of an increase in NLW for care providers.

4.23 <u>Adult Social Care</u>

4.23.1 The assessment of inflationary pressures arising in Adult Social Care are far from straightforward. As outlined in the *Medium-Term Financial Strategy 2022-2025 and Revenue & Capital Budget 2022/23*, the government made a number of announcements that will impact on the funding of Adult Social Care over the period of the MTFS.

4.23.2 In March, the Department of Health and Social Care (DHSC) published guidance about the Market Sustainability and Fair Cost of Care Fund 2022 to 2023. The fund is intended to support Councils to prepare their (Residential and Nursing Care for 65+ and Domiciliary Care 18+) markets for social care reform and move towards paying providers in their area a 'Fair Cost of Care'. This fair cost will be significantly impacted by the inflated costs that the sector is experiencing.

4.23.3 The current MTFS assumes receipt of government funding allocations and no additional cost pressures on the Council arising from these reforms. However, the MTFS also identifies this as a significant risk, whilst the LGA believe that the funding allocated falls far short of needs and will not fully resource Councils and providers in delivering the Government's objectives.

4.23.4 A sub-regional approach is being taken to the Fair Cost of Care exercise, the results of which will be known at the half year point. The guidance states that Councils are required to be 'working towards' meeting the Fair Cost of Care and a report setting out the options following the results of the Fair Cost of Care exercise will be presented to Cabinet in October ahead of the final submission of mandated reports to DHSC.

4.23.5 The potential financial pressure will be determined by the gap between the current care fees paid by the Council and the assessed fair cost of care resulting from the data analysis. The current inflationary environment is serving to make this gap wider and the risks to the Council's position therefore even greater. Illustrative figures are shown in the following table.

4.23.6 Wider community services within Adult Social Care are excluded from the mandated Fair Cost of Care requirements and are exposed to additional inflationary pressures over the period.

4.24 Children's Social Care

Fee gap	**Cost 2022/23 (Half year) (£m)**	**Estimated Financial risk 2022/23 (£m)**	**Cost 2023/24 (Full year) (£m)**	**Estimated Financial risk 2023/24 (£m)**
1%	0.170	-	0.340	-
3%	0.510	0.022	1.020	-
5%	0.850	0.362	1.700	-
10%	1.700	1.212	3.400	1.000

4.24.1 Review and approval of the level of in-house foster care allowances will determine the inflationary impact of looking after children in those settings.

4.24.2 Residential care placement costs for children looked after have increased significantly in recent years due to high levels of demand from local authorities, combined with relatively limited availability.

4.24.3 The market conditions are such that the impact on the Children Looked After Budget is subject to volatility and at risk of additional inflationary pressure, with further downside risk to the position possible in the event that revisions to individual placements are necessary as a consequence of the cost of securing alternative placements being in excess of the cost of the original.

4.25 Fuel

4.25.1 Fuel prices have risen considerably in the period to July 2022, such that there is a forecast inflationary pressure on the Council's transport fleet budget of £275k in 2022/23 and future years based on current unit costs. An additional £50k pressure is forecast in 2022/23 for those budgets, such as the home to school transport service, where emerging service contract prices are driven by the elevated prices of fuel. This forecast pressure could rise to £100k in 2023/24 if prices do not fall.

Sensitivity Analysis	**Financial Impact 2022/23 (£m)**	**Cumulative Impact 2022/23 (£m)**
Current Forecast	0.275	0.275
+10%	0.075	0.350
+20%	0.150	0.425
+30%	0.225	0.500

4.26 Food

4.26.1 Upon contract renewal, the school meals service is frequently encountering significant levels of price increases from suppliers. There are a number of contracts that currently remain protected whilst still in fixed price arrangements.

4.26.2 All price lists and menu sizes are currently being reviewed, with some high-cost items being restricted. Service provision is bound by standards and reduction in quality or origin cannot be considered.

4.26.3 Based on the latest pricing information it is forecast this will cause a budget pressure of circa £100k in 2022/23, rising to £200k in 2023/24. The annual review of school meal prices for the new academic year provides an opportunity to offset the inflationary driven cost increases.

4.27 Street Lighting / Traffic Signalling

4.27.1 Pressures in relation to street lighting and traffic signalling are driven by those rising energy costs detailed in section 4.21. Subject to clarification as to whether the government's Energy Bill Relief Scheme will cover this consumption type, increased costs in 2022/23 are forecast in the region of £700k. Expiry of the existing contract in March 2023 could result in further inflationary market driven increases in 2023/24. Implementation of carbon reduction and other initiatives to reduce consumption (e.g. dimming) are key to minimising costs.

4.28 Highways

4.28.1 Inflationary pressures on highway maintenance costs will mean that less work is able to be delivered within the available revenue budget. However, this may be mitigated by ensuring any relative priority works that may be properly capitalised are funded by available capital funding, as the highways capital allocation for 2022/23 is higher than in previous years.

4.29 Other General inflation

4.29.1 Current MTFS allows for 2.5% per annum for other general inflation. For some services, immediate inflationary pressures are inevitable. For others, existing contract arrangements may mean that the impact is deferred. Management action will be required to alleviate the pressures on the wider Council budget. This may result in decisions to reduce expenditure on certain activities; reduce inputs to reflect the lower real term value of available budget provision; and/or reluctantly cease some activity.

4.30 Capital

4.30.1 The revised capital programme was approved by Cabinet on 13 July 2022 and covers a three-year period through to 2024/25. The latest forecasts anticipate capital expenditure schemes scheduled for completion in 2022/23 to be delivered on budget, however, this masks an underlying pressure due to inflation.

4.30.2 A number of the high value schemes in the current capital programme are nearing completion and are subject to fixed price contracts. In these cases, the contractor will bear the risk of inflation. The highest value contract in the current capital programme is for the construction of the Parkside Link Road. The target cost includes provision for inflation, though unfavourable movements in contracted cost indices present a risk throughout the project life that will need to be constantly assessed and managed, with mitigations considered and implemented where possible and regular updates provided.

4.30.3 The capital programme includes an element of Council funding to underwrite the scheme whilst alternative funding sources were secured and any increase in costs introduces a risk that some of the external funding received may be required to cover any funding gap.

4.30.4 In relation to schemes which are currently being developed for consideration and approval for inclusion in the capital programme in the coming or future years, the impact of inflation is difficult to quantify until schemes are developed further and the success of the Bank of England's measures to tackle inflation is clearer. Officers are working to design schemes within the indicative target funding and ensure sufficient inflation and contingencies are built into costings before these are presented for approval to proceed.

4.30.5 Many of the schemes in the capital programme, particularly in schools and highways, receive grant funding which is then allocated to schemes. For these areas, schemes are required to be delivered within the grant funding awarded, and inflation will result in lower priority schemes needing to be deferred.

4.30.6 Aside from pressures on costs, many areas are also experiencing issues with availability of contractors, materials, and long lead in times. This may result in market driven price increases in a period of limited availability. It may also result in the slippage of schemes to future financial years. Whilst this would reduce the immediate capital funding requirement, it will have a knock-on impact on service delivery and may impact on the revenue budget if any savings associated with the schemes are delayed.

4.30.7 In periods of such profound economic turbulence, there will inevitably be volatility in borrowing rates – driven by ever changing developments in the financial markets and the release/forecast of economic data. Whilst movements will not impact on the Council's current borrowing portfolio, which is wholly comprised of fixed rate agreements, inflated rates will mean that servicing of future debt requirements becomes more expensive and will therefore inevitably impact on the affordability of future capital investment.

4.31 <u>Income</u>

4.31.1 Given the current economic conditions and outlook, there is significantly increased risk to the Council's taxbase and other income streams. The cost-of-living squeeze will lead to a reduced ability to pay, increases in the number of residents claiming Local Council Tax Support, and anticipated reductions in fees and charges (e.g. leisure services) as customers attempt to manage reductions in their disposable income.

4.31.2 It is further likely that the current inflationary environment sees an increase in business failure, which would present further risk to the Council's financial position in terms of reductions in business rate yield and other income receivable via rents, service charges, service contracts and wider fees and charges.

Sensitivity Analysis	Financial Impact 2022/23 +/- 1% (£m)
Council Tax	0.86
Business Rates	0.60
Fees and Charges	0.40

4.32 Other forecast Budget Pressures 2022/23

4.32.1 In addition to the inflationary pressures highlighted above, it is vitally important to continue to recognise the requirement to address the non-inflationary forecast financial position as detailed in the *Financial Monitoring Report – Period 1 2022/23*, considered and approved by Cabinet on 13 July 2022.

4.32.2 In that report, a portfolio overspend against budget of £2.823m was forecast for 2022/23, including £1.44m savings that may not be fully delivered in the year. It is ever more critical that action plans continue to be addressed and implemented to bring that position back into balance on a permanent basis.

4.33 Summary of forecast inflationary pressures

4.33.1 The inflationary pressures facing the Council are immense, and although some individual current contracts may offer the Council some immediate protection this position will inevitably change as contracts expire and translate into the Council experiencing further inflationary pressures in 2023/24 and beyond. As noted, the Financial Monitoring Report for quarter 2 and MTFS Update Report will provide further update and detail in relation to revised financial planning assumptions and associated forecast budget gaps.

4.33.2 The table below summarises the current forecast inflationary driven pressures for 2022/23 and beyond based on the latest information available and/or what are currently considered to be a reasonable set of assumptions. It also provides an indicative upper exposure position for 2022/23, should the final pay agreement exceed the current pay offer and even higher levels of inflation be experienced. The current forecast cumulative inflationary pressures over the period 2022-2024 is circa £14.3m – with risk of further exposure. It should be noted this position excludes other budgetary pressures, including those from demand and delays in implementation of budget savings as detailed in section 4.32.

	Current Forecast exposure 2022/23 (£m)	Current Forecast upper exposure 2022/23 (£m)	Current Forecast Additional exposure 2023/2024+ (£m)
Pay	3.7	6.0	4.1
National Living Wage	-	-	1.3
Energy [*1]	1.2	1.2	0.2
Street Lighting	0.7	0.7	0.2

Other *(incl. Care[*2], Provisions General Supplies & Services)*	1.9	3.7	1.0
Total	**7.5**	**11.6**	**6.8**

[*1] Prior to any reduction in cost in 2022/23 made available via the Energy Bill Relief Scheme (see paras 4.21.4 to 4.21.6)

[*2] Excluding any impact from the Fair Cost of Care assessment (see para 4.23)

4.34 Actions to address pressures for 2022/23 and beyond

4.34.1 Prior to the current inflationary turmoil, it was recognised that the financial environment within which the Council operates presented significant financial challenges and uncertainty, with an economy looking to recover from the impact of the coronavirus pandemic and a lack of clarity in relation to the mechanisms and timetable of how funding for local government will change through the long-awaited government reforms.

4.34.2 Given the enormous inflationary financial challenges noted above, the current forecast portfolio budget overspend position for 2022/23, the potential for increasing demand for Council services, in addition to the already forecast budget gap for the period 2023-2025 there is more than ever a requirement for strong robust financial management across the whole of the Council, and for management to minimise the financial risk to the Council, not only this year but for future years.

4.34.3 In the absence of the requisite level of government funding, options will inevitably need to include further reductions in service provision and undesired impacts on the residents of the Borough, alongside other actions including freezes on recruitment and spend on non-statutory services; the potential acceleration of savings identified for future periods; revisions to fees and charges; contract management review / renegotiation; review of commissioning activity; and the potential to capitalise where accounting practices allow and available funding provides the opportunity.

4.34.4 The upcoming Financial Monitoring Report will outline those further actions taken to manage costs, including the potential for service reduction. However, 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 render it unlikely that these measures and actions alone will meet the pressures, and will result in an inevitable requirement for in-year utilisation of the Council's reserves.

4.34.5 The Council's reserves are not set at excessive levels when considered against the strategic, operational and financial risks it faces and given the degree of uncertainty of the current financial climate and both short and longer-term risks associated with the local government funding arrangements, it is prudent and important to protect and, wherever possible, enhance reserves to ensure future financial resilience and the sustainability of the Council's operational position and service priorities.

4.34.6 The consequence of not having a prudent level of reserves can be significant, as reflected in the Council's MTFS and Reserves Strategy.

4.34.7 Use of reserves to address recurrent pressures is not sustainable. CIPFA (Chartered Institute of Public Finance & Accountancy) have provided commentary with regard to reserves being essential to a local authority's financial resilience and, with continuing funding pressures, and in times of increased uncertainty, the role of reserves becomes more important and the need for adequate levels of reserves increases.

4.34.8 In approving the *Council's Revenue and Capital Budget 2022/23*, savings of £6.044m were agreed for 2022/23. The *Medium-Term Financial Strategy 2022-2025* forecast the budget gap for 2023/24 as £11.736m, with a total of £5.300m savings approved, and a forecast residual gap of £6.436m.

4.34.9 The upcoming Medium Term Financial Strategy Update Report will provide further update and detail in relation to revised financial planning assumptions (some of which are potentially subject to significant revision) and associated forecast budget gaps, alongside actions necessary to ensure sustainability of the Council's financial position in the short and medium term.

4.34.10 Government announcements in relation to local authority funding form a critical element of the financial planning process and the ongoing absence of such presents a significant risk for the Council. The key financial planning assumptions to be updated include:

- Local Government funding / reform
- Inflation and demand pressures
- Council Tax (taxbase, levels, care precept)
- Business Rates (including revaluation, reform, reset, taxbase, pilot & multiplier impacts)
- Levies
- Pensions (triennial revaluation, prepayment options)
- Reserves Strategy
- Impact of the government's Adult Social Care reform agenda

4.34.11 The process to identify and develop additional budget savings options as part of the financial planning process is ongoing and is largely informed by ongoing service and business planning reviews. Options continue to be assessed, prioritised and developed in greater detail, and in accordance with the financial planning timescales will be presented for consideration by Cabinet in January 2023.

4.34.12 The process to identify and develop additional budget savings options as part of the financial planning process is ongoing and is largely informed by ongoing service and business planning reviews. Options continue to be assessed, prioritised and developed in greater detail, and in accordance with the financial planning timescales will be presented for consideration by Cabinet in January 2023.

5. Consideration of Alternatives

5.1 The upcoming Financial Monitoring Report and Medium Term Financial Strategy Update Report will provide further update and detail in relation to revised financial planning assumptions and associated forecast budget gaps, alongside actions necessary to ensure sustainability of the Council's financial position in the short and medium term.

6. Conclusions

6.1 The ability for the Council to absorb inflationary driven pressures of the magnitude outlined is extremely limited and a series of actions to address the unavoidable forecast pressures will need to be implemented in order for the Council to contain spend within its available resource levels, deliver key strategic priorities and to support transformation and growth. Options to reduce pressure on the Council's financial position will inevitably need to include further reductions in service provision and undesired impacts on the residents of the Borough.

6.2 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 render it unlikely that measures and actions available will fully meet the pressures and will result in an inevitable requirement for in-year utilisation of the Council's reserves.

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 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.

9. Social Value

9.1 Whilst there are none 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 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.

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.

12. Equality and Human Rights

12.1 None directly arising from this report.

13. Customer and Resident

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. 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.

14. Asset and Property

14.1 The report identifies that rising energy costs are the single most significant contributory factor in the current inflationary environment and that 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 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. In the absence of the requisite level of government funding, there is a high potential for those actions to impact on staffing within the authority.

16. Risks

16.1 The report sets out the scale of challenge for 2022/23 and beyond. Individual risks that may arise from options to address the position will need to be fully considered and set out clearly as part of the decision-making process.

17. Finance

17.1 As detailed in the report.

18. Policy Framework Implications

18.1 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".

18.2 In the absence of additional government funding, the current inflationary 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 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.

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).

21. Appendices

21.1 None.