

# MTFS Planning

<b>Committee considering report:</b>	Executive
<b>Date of Committee:</b>	3 November 2022
<b>Portfolio Member:</b>	Councillor Ross Mackinnon
<b>Report Author:</b>	Joseph Holmes/Melanie Ellis
<b>Forward Plan Ref:</b>	EX4257

## 1 Purpose of the Report

- 1.1 To provide an update to the Medium Term Financial Strategy (MTFS) and outline the revised assumptions. Given the significant volatility within existing financial planning assumptions due to very high levels of inflation, the anticipated pausing of further work on the fair funding review by Government and upcoming reforms that have significant financial implications, e.g. Adult Social Care Reform, this report is presented to provide an update on the financial planning assumptions.
- 1.2 Members are required to set a budget by 11<sup>th</sup> March. This papers forms some of the background to the budget setting process in the run up to the Budget being approved by Full Council in early March.

## 2 Recommendation

- 2.1 For Executive to request further proposals from officers to close the gap in the 2023/24 budget.

## 3 Implications and Impact Assessment

Implication	Commentary
<b>Financial:</b>	Additional savings requirement of £9.2m bringing the total savings requirement to £15.8m. This is on the basis of all inflation, modelled growth and priority 1 and 2 investments being approved.
<b>Human Resource:</b>	n/a
<b>Legal:</b>	n/a

<b>Risk Management:</b>	Risk of further inflation			
<b>Property:</b>	n/a			
<b>Policy:</b>	n/a			
	<b>Positive</b>	<b>Neutral</b>	<b>Negative</b>	<b>Commentary</b>
<b>Equalities Impact:</b>				
<b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		x		
<b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		x		
<b>Environmental Impact:</b>		x		
<b>Health Impact:</b>		x		
<b>ICT Impact:</b>		x		
<b>Digital Services Impact:</b>		x		
<b>Council Strategy Priorities:</b>		x		

<b>Core Business:</b>		x		
<b>Data Impact:</b>		x		
<b>Consultation and Engagement:</b>				

## 4 Executive Summary

- 4.1 There have been some substantial changes to the macro-economic picture for the country and for local authorities since the MTFS and Budget was approved by Full Council in March 2022.
- 4.2 The MTFS has been updated to reflect increasing inflation and demand. If all the increases to inflation, modelled growth and investment were put into the budget, the savings requirement would increase from £6.6m to £15.8m.
- 4.3 The significant increase in the savings requirement is being driven by three main areas:
  - (a) Inflation - £4m (expenditure, pay and inflation in the social care model)
  - (b) Increased demand – £9.2m (increased investment, and social care model)
  - (c) Residual impact of Covid-19 - £0.8m (Car parking, leisure)
- 4.4 The increases are offset by £2.3m gain from no business rates reset, £1.2m proposed use of reserves to support the pay award, £0.6 improved Taxbase and £0.7m additional grant funding.
- 4.5 To date, savings proposals total £6.2m, which would leave a further £9.6m to find.

## 5 Supporting Information

### Introduction

There have been some substantial changes to the macro-economic picture for the country and for local authorities since the MTFS and Budget was approved by Full Council in March 2022. Increasing inflation due to a range of events, for example increasing energy costs, the war in Ukraine, a consequential increase in interest rates from the Bank of England and a range of rate setters internationally, and an increase in cost of living for residents will stimulate a range of further economic measures that will impact on the economy. The new Chancellor of Exchequer announced a range of measures at a fiscal event on the 22<sup>nd</sup> September. Following this announcement, Government departments have been requested to find efficiencies in the lead up to the next Budget. It has also been confirmed that the fair funding review is to be postponed, potentially until 2025/26 at the earliest.

## Background

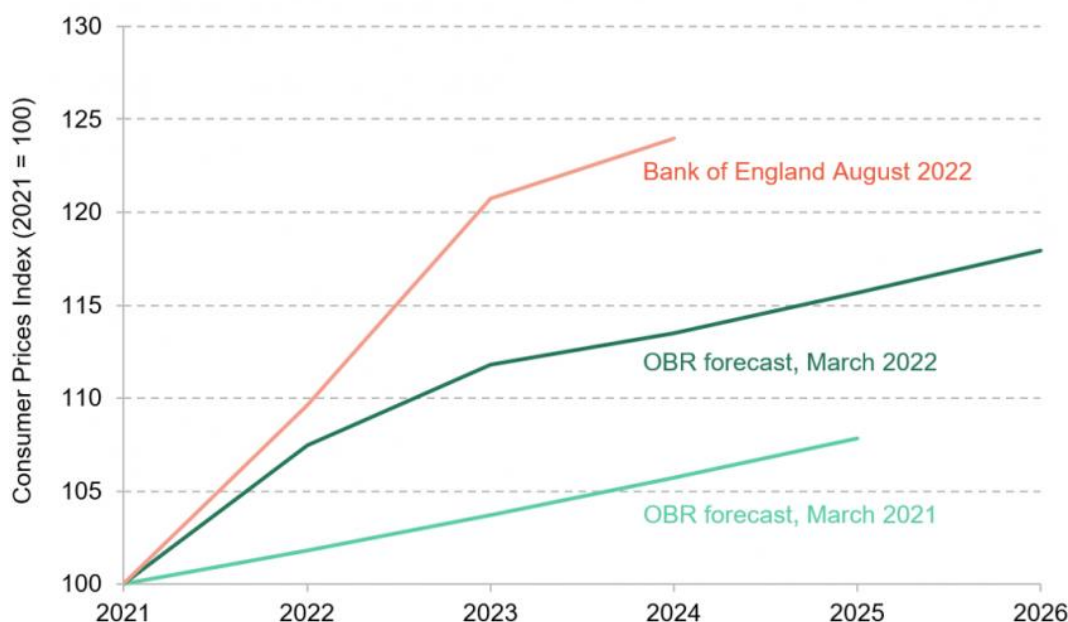
5.1 The MTFS was approved by Council on 3<sup>rd</sup> March 2022 when:

- (a) Inflation was 5.5% (Jan CPI announced 16.2.22)
- (b) Adult Social Care (ASC) client numbers were 1704 and forecast to increase to 1763 during 2022/23.
- (c) ASC inflation estimates were 2.7% with up to a 7% inflation provision in risk reserves.

5.2 In the six months since the budget was set:

- (a) The Consumer Prices Index (CPI) has increased each month and rose by 10.1% in the 12 months to July 2022.
- (b) ASC client numbers have reached 1788 and are forecast to increase to 1824 by 31.3.2023.
- (c) ASC inflation has been awarded to providers at 5.6%.

5.3 The Bank of England forecasts, published in August 2022, have inflation reaching a 40-year high of 13% in coming months and remaining elevated over the following year.



Source: Office for Budget Responsibility, *Economic and Fiscal Outlook March 2021 and 2022*; Bank of England, *Monetary Policy Report August 2022*

5.4 Funding assumptions and cost estimates have been revised and are shown in the table below.

## MTFS Planning

Line ref	Medium Term Financial Plan (MTFP)	2023/24		Changes since previous MTFP
		Mar-22 £m	Sep-22 £m	
	Council Tax income	1.99%	1.99%	
	Adult Social Care Precept	1.00%	1.00%	
1	Council Tax (incl. ASC)	114.1	114.5	Increased taxbase estimate
2	Retained Business Rates/rates funding	23.0	25.4	increased Business Rates estimate due to no reset
3a	2022/23 Services Grant	1.3	1.3	
3b	Other non-ringfenced grants	0.0	0.1	
4	New Homes Bonus	1.2	1.2	
5	Lower tier services grant	0.2	0.2	
6	Adult Social Care BCF and iBCF ringfenced funding	6.8	6.8	
7a	Social Care Grant	4.0	4.6	Increased grant forecast
7b	Market Sustainability & Fair Cost of Care Fund	1.8	1.8	
8	Collection Fund deficit (-)/ surplus	-0.8	-0.7	Improved position
<b>9</b>	<b>Funds Available</b>	<b>151.6</b>	<b>155.2</b>	
10	Base Budget	141.3	141.3	
11	Pay inflation	2.7	5.2	Extra 2% 22/23 and 23/24
12	Contract inflation and non pay inflation	1.4	2.8	£0.7m waste, £0.3m energy, £0.4m other increases
13a	Modelled growth	3.1	9.6	
13b	Cost of ASC reforms	1.8	1.8	
14	Investment	1.3	1.3	
15	Additional investment	0.0	3.5	Additional investment bids
16	Increase in capital financing cost	0.6	0.6	
17	Savings and income requirement	-6.6	-15.8	£9.1m additional savings requirement
<b>18</b>	<b>Annual Budget Requirement</b>	<b>145.5</b>	<b>150.3</b>	
19	One off investments	0.7	1.0	
20	Adult Social Care BCF and iBCF ringfenced funding	6.8	6.8	
<b>21</b>	<b>Budget Requirement</b>	<b>153.0</b>	<b>158.1</b>	
22a	Use of reserves to support one off investment	-0.7	-0.9	
22b	Use of reserves to support 23/24 budget gap	0.0	-1.2	To support one year pay award increase
23	Use of Collection Fund and Business Rates reserves	-0.8	-0.7	Improved position
<b>24</b>	<b>Budget Requirement after use of reserves</b>	<b>151.6</b>	<b>155.2</b>	
	<i>£10k roundings may apply</i>			

### (a) Council Tax and ASC Precept

Assumptions remain as originally set with a Council Tax increase of 1.99% and a 1% increase for the ASC Precept, which are assumed to be the maximum limits before requiring a referendum. Rates will be confirmed by Government as part of the Autumn Statement.

The taxbase assumption has been increased from 0.6% to 1% due to the number of new homes forecast to be completed in the district.

### (b) Retained Business Rates

The fair funding review was originally due to impact on the 2020/21 budget, and in March 2022 there was no confirmation on when the review would happen. The MTFS was built assuming a 2023/24 hard reset of business rates to a new baseline (so growth above the existing baseline not being retained by WBC) with a cost of £4m p.a. but with transitional funding.

The reset will not now happen for 2023/24, which has led to an improved position in the MTFS.

### (c) Social Care Grant

The original assumption has been increased by £600k due to latest revised forecasts by sector experts.

### (d) Pay inflation

Pay increases in the 22/23 budget were built at 2%. Negotiations are still ongoing but 4% seems a more realistic estimate. The impact of this is £1.2m, which can be mitigated by releasing the OBB reserve.

The original assumption for 23/24 was also a 2% pay increase. Increasing this to 5.5%, which is the proposal from the Local Government employers will cost £1.2m plus a further £1.2m to build in the ongoing impact of a 5.5% increase in 22/23.

### (e) Contract and other inflation

The largest contract is for waste and the annual increase is based on January RPIX. The 2022/23 budget was built based on the January RPIX at 8% equating to £1.4m. This will be the rate for 2022/23.

2023/24 was estimated at an increase of 4.5%. However, based on inflation estimates, a rate of 9% may be more realistic. This would equate to an additional requirement of £717k.

There has been an unprecedented increase in global prices caused by a number of issues including low inventories and Russian supply. The UK has been hit particularly hard due to its heavy reliance on gas as an energy source. Overall levels remain extremely high with volatile market conditions. The estimated impact is a £300k increase to previous estimates.

In Home to School Transport (HTST), although operators use different models to calculate their costs, for our in-house transport, fuel makes up just under 10% of total cost. With 10% of HTST budgets totalling £320k, annual inflation could amount to £106k. There are no inflationary clauses in the contracts, but a few requests have been received from operators as a result of current fuel pressures.

### (f) Modelled growth

When the 22/23 budget was built, the ASC model was showing 2.7% inflation based on December 2021 figures, with a worst case scenario of 7%. An offer of 5.6% inflation was made to providers, costing £1.2m above 2022/23 budget provision. £1.7m was provided for in reserves for this possibility.

There will be a cumulative impact on 2023/24 budgets, with the £1.2m shortfall from 2022/23 needing to be built into budgets.

The 2023/24 model was also built into the MTFS at 2.7% and the current estimate of 3.5% (using long term forecast CPI) would lead to a further shortfall of £550k.

Demand has also increased, with client numbers which were initially forecast to increase to 1803 for 23/24, now being forecast at 1889

## MTFS Planning

In Children & Family Services (CFS), there are also inflationary and demand increases.

The original modelled growth estimate was £3.1m which has now risen to £9.6m, an increase of £6.5m.

### (g) Additional investment

Investment proposals have been categorised into three levels of priority. The MTFS originally planned for £1.3m of ongoing investment, but the total of Priority 1 and 2 now total £4.8m, leaving a shortfall of £3.5m. Priority 3 would be a further £250k.

### (h) Savings requirement

If all the increases to inflation, modelled growth and investment in Priority 1 and 2 were put into the budget, the savings requirement would increase to £15.8m.

To date, savings proposals total £6.6m, which would leave a further £9.1m to find.

5.5 The significant increase in the savings requirement is being driven by three main areas:

- (a) Inflation - £4m (expenditure, pay and inflation in the social care model)
- (b) Increased demand – £9.2m (increased investment, and social care model)
- (c) Residual impact of Covid-19 - £0.8m (Car parking, leisure)

The increases are offset by £2.3m gain from no business rates reset, £1.2m proposed use of reserves to support the pay award, £0.6 improved Taxbase and £0.7m additional grant funding.

5.6 In addition to the pressures being seen in the revenue budget setting, the Dedicated Schools Grant (DSG) had a deficit of £3m at 31.3.2022, which is forecast to increase to £4.6m by 31.3.2023. In 2020, DLUHC introduced a statutory override that separated local authorities' DSG deficits from their wider finances, meaning provision does not need to be made from general reserves. This statutory override is due to end at the end of 2022/23, and if this is not extended, would lead to a significant reduction in general reserves.

## Proposal

5.7 For Executive to request further proposals from officers to close the gap in the 2023/24 budget.

## 6 Other options considered

N/A

## 7 Conclusion

Investment bids, modelled growth and savings proposals were presented to Budget Board on 29<sup>th</sup> September for consideration, and will return in December. The financial position will continue to be monitored and regular updates provided to Budget Board. Decisions will be made over the coming months regarding the level of affordable investment and savings that can be made to produce a balanced budget in March 2023.

## 8 Appendices

N/A

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### Subject to Call-In:

Yes:  No:

- The item is due to be referred to Council for final approval
- Delays in implementation could have serious financial implications for the Council
- Delays in implementation could compromise the Council's position
- Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months
- Item is Urgent Key Decision
- Report is to note only

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