



**REPORT of  
DIRECTOR OF RESOURCES**

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**to  
STRATEGY AND RESOURCES COMMITTEE  
10 NOVEMBER 2022**

**MEDIUM-TERM FINANCIAL STRATEGY UPDATE 2023 / 24 TO 2025 / 26**

**1. PURPOSE OF THE REPORT**

- 1.1 To present the revised Medium-Term Financial Strategy Update for 2023 / 24 to 2025 / 26.

**2. RECOMMENDATION**

- (i) That the Medium-Term Financial Strategy Summary Update for 2023 / 24 to 2025 / 26 (as at 10 November 2022) at **Table 1** be noted;
- (ii) That the updated impact on the General Fund Balance at **Table 4** be noted.

**3. SUMMARY OF KEY ISSUES**

- 3.1 The Medium-Term Financial Strategy (MTFS) sets out how the Council will manage its revenue finances up to the 2025 / 26 financial year. The MTFS supports the delivery of the Council's objectives and priorities as set out in the Council's Corporate Plan.
- 3.2 This MTFS builds on the MTFS for 2022 / 23 to 2024 / 25 that was approved by the Council on 24 February 2022. The current MTFS now covers the financial years 2023 / 24 to 2025 / 26.
- 3.3 There remains a great level of uncertainty around the global economy, particularly with the cost of living crisis, and the impact this will have on the Council's finances, especially salaries, the waste contract, Council Tax and Business Rates. Therefore, the MTFS will need to be regularly updated and kept under review.

**4. MEDIUM TERM FINANCIAL STRATEGY 2023 / 24 TO 2025 / 26**

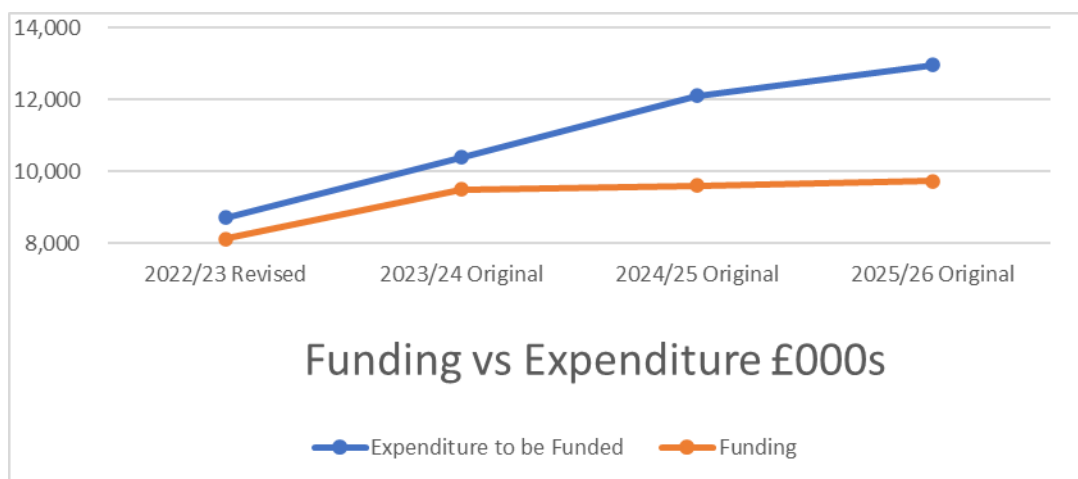
- 4.1 A review of budgets has been undertaken to identify changes required from the 2022 / 23 budget. The updated MTFS is attached at **APPENDIX 1** and a summary of the budget changes are provided in the following table.

**Table 1 – MTFS Summary**

<b>Components</b>	<b>2022/23 Original £000</b>	<b>2022/23 Revised £000</b>	<b>2023/24 Original £000</b>	<b>2024/25 Original £000</b>	<b>2025/26 Original £000</b>
Prior Year Exp to be Funded	11,916	13,736	14,315	15,383	15,943
Inflation	648	0	1,671	903	587
Contractual Pressures	251	0	92	0	0
Lost Income from Events	17	0	0	0	0
Revenue Commitments	0	350	-350	0	0
Repairs & Renewals & Supplementary Estimates	0	229	-124	0	0
Original Growth	354	0	-221	-343	0
Mid-Year Growth	133	0	0	0	0
Increased Pension Service Costs	991	0	0	0	0
Reduced Capital Charges	-121	0	0	0	0
Savings	-218	0	0	0	0
Staffing Vacancy Factor 3%	-235	0	0	0	0
<b>Cost of Services</b>	<b>13,736</b>	<b>14,315</b>	<b>15,383</b>	<b>15,943</b>	<b>16,530</b>
Investment Income	-214	-318	-750	-750	-488
Fwd Funding of Pension Fund Deficit	0	0	351	0	0
Statutory Adjustments	-3,200	-3,200	-3,200	-3,200	-3,200
Contribution to Reserves	520	520	0	120	120
Contribution from Reserves for Commitments & Drawdowns	0	-350	-1,040	0	0
Contribution from Reserves for Growth	-546	-546	-343	0	0
Contribution from Reserves for Collection Fund Deficit	-1,705	-1,705	0	0	0
<b>Expenditure to be Funded</b>	<b>8,591</b>	<b>8,716</b>	<b>10,063</b>	<b>11,875</b>	<b>12,962</b>
Funding	8,139	8,139	9,509	9,619	9,732
<b>Gap / Funded from General Fund</b>	<b>452</b>	<b>577</b>	<b>892</b>	<b>2,494</b>	<b>3,230</b>

- 4.2 The summary shows higher expenditure this year due to approved in-year growths and supplementary estimates. Improved investment income has mitigated this but a greater contribution from earmarked reserves is required to prevent a General Fund gap this financial year.
- 4.3 For future years a favourable provisional local government settlement for 2023 / 24 may have closed the funding gap, likewise new identified savings largely offset growth items, but increased pension service costs create a General Fund gap for the rest of the medium term. Chart 1 below illustrates this below.

**Chart 1 – Funding vs Expenditure**



## 5. GROWTHS

5.1 During the budget review several budget growth items were identified as being required to meet service demand and carry out Council policy. These are currently being reported separately to the Strategy and Resources Committee and will be added to the Budget and MTFs if / when agreed.

## 6. COST OF LIVING

6.1 The cost-of-living crisis is one of the biggest challenges currently facing households and organisations this financial year and beyond. Inflation (Retail Price Index (RPI)) reached 12.3% in August and the average of all major forecasts say this may only come down to 8.5% over the coming year. This particularly impacts the Council in fuel, energy and maintenance / supplies costs. The knock-on effect is rising contract costs and salaries.

6.2 Forecasts have been reviewed with these budget pressures in mind. The below table sets out the current assumptions that have gone into these forecasts.

**Table 2 – Inflationary Assumptions**

Cost Type	2023 / 24 Inflation	Explanation
Fuel	50%	High increases in oil prices since war in Ukraine commenced.
Gas & Electricity	50%	Lifting of energy price cap, although current Council Offices energy contract protects the Council until March 2023.
Maintenance	10%	Ongoing supply chain pressures.
Waste Contract	12.3% & 10.0%	Contract prices are tied to RPI excluding mortgage interest payments (RPIX) and Consumer Price Index (CPI) as at January 2023. This assumes inflation won't fall from August rates before then.
Salary	5.0%	Similar salary increase next year to current proposed national pay award in percentage terms.

- 6.3 The Bank of England has increased the base interest rate from 0.25% to 2.25% over the past year. Most forecasts expect this to rise significantly more over the coming months. As the Council is currently debt-free and has over £30m in Treasury investments, this will result in higher investment income than recent years.

## **7. AREAS OF UNCERTAINTY**

### **7.1 Pension Contributions**

- 7.1.1 The MTFS forecast a £1.6m deficit contribution due in 23/24 as part of the triannual review, with £520k being set aside each year to fund this on an ongoing basis. This was based on the previous review and the pension fund's accuracies have now confirmed the actual contribution will be £351k. However, the employer's contribution rate will also rise from 19.9% to 20.9% which will add c£80k to the annual salary costs. Due to the lower deficit contribution this means the £520k forecast contribution in 2023 / 24 will no longer be required and it proposed to release the remaining reserve balance of £689k in that year. Going forward the annual contribution to the pension fund reserve is proposed to be set at £120k based on the current deficit contribution.

### **7.2 New Homes Bonus**

- 7.2.1 A recent consultation was undertaken by the Government as to the future method of distribution of the New Homes Bonus. However, the future methodology is unlikely to be known now until the Local Government Finance Settlement in December. It was previously announced that legacy payments would not continue and therefore the current grant of £961k is forecast to reduce to £763k with the difference representing the legacy payment. The actual grant could be higher or lower than this and in the unlikely event the grant was removed its funding allocation should be redistributed under another methodology with the settlement.

### **7.3 Waste**

- 7.3.1 The waste contract is due to expire at the end of January 2024, although there is an option to extend subject to negotiations. Market conditions are less favourable than when the original contract was entered into, for example the cost of vehicles, and this will create an additional budget pressure that is not currently included within the MTFS at this stage due to uncertainty around the figure and ongoing negotiations.

### **7.4 Staff Pay**

- 7.4.1 This is the Council's largest area of expenditure and a 1% increase in pay equates to an additional cost of £97k. The 2023 / 24 pay award is currently estimated at 5% taking into consideration the projected inflation rate and the award for 2022 / 23. Evidence to basis this on is limited so there is high uncertainty around this.

### **7.5 Inflation**

- 7.5.1 Current inflationary forecasts have been used to estimate the impact of inflation on budgets. Different contractors and suppliers maybe impacted differently depending on their cost drivers so variations in some areas may arise.

## 7.6 Audit Fees

- 7.6.1 Audit fees in local government in England are expected to rise by 150% for the 2023 / 24 accounts according to the outcome of the procurement programme announced by Public Sector Audit Appointments (PSAA). It is currently unclear if this relates to the scale fees set as part of the last procure round or the actual fees currently paid. The Council's scale fee is £38k, but the budget and actual charges are close to 150% higher than this and therefore it is assumed currently that the increase is on the scale fee. This would mean no significant budget pressure would need to be released.

## 7.7 Business Rates

- 7.7.1 The government's National Non-Domestic Rates (NNDR) 1 return is due in January and informs the budget setting for this area. Currently, there are no significant variations expected year to year but due to the amounts involved this could change when setting the final budget.

## 8. GENERAL FUND

- 8.1 With the assumed cost of living pressures in section 6 there is a significant impact on the general fund balance. However, with the ongoing war in Ukraine and ongoing turmoil surrounding the United Kingdom Government, there is a high level of uncertainty around these figures. Also, Central Government has not been clear about their level of support to Local Government so it is assumed their funding levels will continue as previously announced until such a time as new announcements are made. The next of these will be the Chancellor's Autumn Statement, scheduled for 17 November. The provisional Local Government Settlement is still expected to be delivered in early December 2022. An updated MTFS will be reported to the Strategy and Resources Committee in January 2023.
- 8.2 The MTFS approved by the Council on 24 February 2022, contained a Budget Gap of £452k. The Revised Budget Gap is the gap after the approved amendments since then, less improved Investment returns. The following table shows the effect of these on the Budget Gap:

**Table 3 – Budget Gap Reconciliation 2022 / 23**

<b>Description</b>	<b>Amount £000</b>
Original Budget Gap	452
Approved Supplementary Estimates	229
Investment Income Overachievement	-104
<b>Revised Budget Gap (Table 1)</b>	<b>577</b>

- 8.3 The Budgetary Control report taken to the Strategy and Resources Committee on 10 November is showing a net budget pressure for 2022 / 23 which would also need to be funded from the General Fund.

**Table 4 – Projected General Fund Balance**

	<b>2022/23 £000</b>	<b>2023/24 £000</b>	<b>2024/25 £000</b>	<b>2025/26 £000</b>
Opening General Fund Balance	5,796	4,977	4,085	1,591
Budget Gap (Table 1)	-577	-892	-2,494	-3,230
Current Financial Year Budget Pressure	-242	0	0	0
<b>Closing General Fund Balance</b>	<b>4,977</b>	<b>4,085</b>	<b>1,591</b>	<b>-1,639</b>

8.4 The projections in the above table show that the balances would fall below the recommended minimum of £2.6m by 2024 / 25 and the Council would have no General Fund reserve left early in the 2025 / 26 financial year if no action is taken to mitigate the position. However, these figures could still be heavily impacted the Cost of Living Crisis and areas of uncertainty discussed in section 7 this report.

8.5 It must be emphasised that the current MTFS projections are unsustainable. The figures in Table 4 are based on a 'do nothing' scenario and assumptions. Therefore, actions will be required to address the budget gaps and develop a sustainability plan. Some actions being taken include:

- Commercial activity;
- Affordable housing land acquisition;
- Council Office options.

## **9. CONCLUSION**

9.1 Medium-Term financial planning is an important component of the Council's strategic planning framework. No more so than in the current uncertain economic climate due to the Cost of Living Crisis, and unprecedented financial pressures in the public sector. Key financial decisions need to be set in the context of a plan that looks beyond the next financial year. Forward planning offers the opportunity to link service and financial planning, as decisions taken on an annual basis are limited in what they can achieve.

## **10. IMPACT ON CORPORATE GOALS**

10.1 The MTFS provides the foundation against which the Council will strive to deliver the best possible value for money in the provision of efficient and cost-effective services across the District.

10.2 Through the effective development and delivery of the Council's financial and other resource strategies it seeks to build upon past achievements as well as provide clear direction to the attainment of the Council's longer-term goals.

## **11. IMPLICATIONS**

- (i) **Impact on Customers** – None arising directly from this report.
- (ii) **Impact on Equalities** – None arising directly from this report.

- (iii) **Impact on Risk** – Risks and uncertainty have been discussed in this report. A more in-depth risk assessment will come in the full MTFS report in January 2023.
- (iv) **Impact on Resources (financial)** – The financial implications are set out in this report.
- (v) **Impact on Resources (human)** – None arising directly from this report.
- (vi) **Impact on the Environment** – None arising directly from this report.
- (vii) **Impact on Strengthening Communities** – None arising directly from this report.

**Background Papers:**

Budgetary Control Report to the Strategy and Resources Committee, 10 November 2022.  
MTFS to the Council, 24 February 2022.

**Enquiries to:** Lance Porteous, Lead Specialist Finance.