7E. REFERRAL FROM FAR 7 SEPTEMBER 2022: MEDIUM TERM FINANCIAL STRATEGY

RECOMMENDED TO CABINET:

(1) That the Committee note and comment on the Medium Term Financial Strategy, including the recommendations that will be made to Cabinet.

(2) That Cabinet recommends to Full Council the adoption of the Medium Term Financial Strategy 2023-28

REASON FOR DECISIONS: Adoption of a MTFS and communication of its contents will assist in the process of forward planning the use of Council resources and in budget setting for 2023/24 to 2027/28. This will support the Council in setting a budget that is affordable and aligned to Council priorities.

Audio recording – 1:27:32

Ian Couper, Service Director – Resources, presented the report entitled Medium Term Financial Strategy.

- This report will go to Cabinet next week and will be recommended to full Council.
- The purpose of this report is to set out the Service Director – Resources view of where the budget is meant to be in future years. This is used to set a strategy of how we will manage that.
- We now have the double impact of covid-19, which we still haven't recovered from, and now inflation as well.
- A positive in the report is that we start out with a high general fund balance. We also have some other reserves which are safe to release into the general fund. This gives some mobility to smooth some bumps that may come along the way
- Page 176 of the report covers the covid-19 impacts and we're still going to set an amount aside in 23/24 to help with the continued recovery of covid-19. This will be roughly half the amount of the 22/23 amount.
- Some areas are recovering well. Short stay car parks have recovered, but season tickets and long stay car parks have taken a hit in ongoing income. Leisure has increase but may decrease with the cost of living crisis. Recycled materials has been doing well as mentioned in the last report and there has been some provisions made for future years as it is highly varied
- There is a section looking at the impacts of inflation. We have costs of providing our contractor services, pay inflation for staff, policies around fees and charges, eligibility for Council Tax Reduction Scheme (CTRS), and the interest rate increases.
- We are looking at just under 10% increase in waste contracts moving into this current year – May 2022. There has been a forecast of a similar increase for next year. The increase this year has been driven primarily by fuel inflation. We are expecting this to go back to normal levels from May 2024 and settling around 2%.
- Pay inflation is the offer from employers to the unions. There is a forecast of another 4% increase in 23/24. This could be a fixed rate for all rates or it could be more evened out. By 24/25 we may get back to more normal rates at around 2% inflation.
- With the inflation, our old policies around fees and charges no longer work. We are looking at what to model here. This is linked to staff costs in terms of the cost of providing those services. We are looking at increases of around 4%. It is fair to

continue with a cost recovery basis for our fees and charges and therefore modelling a 4% increase on those.

- In some areas we have previously made decisions to keep those fees and charges at a different rate, this is for parking and the garden waste charges which is currently paid at a 2% increase per year so the modelling assumes this will continue
- We think that the market can bear a 10% increase in line with the increase in our contract costs on trade waste. We are proposing in the modelling that's what will happen moving into the next year
- We have talked about the new CTRS scheme coming into place. There is a risk of increase due to the amount of people eligible rising due to the recession.
- In terms of waste cost, there are some government changes to the way waste is collected in terms of what bins districts are required to put out and collect. Additionally the possible positive returns scheme where people would take things like glass bottles and cans back to shops rather than putting them in waste bins. These are uncertain changes as of now. We are looking at our waste contract retendering and making sure it is fit for purpose in terms of what may come out of the government. There is risks here at what the costs may be for this.
- Page 180 looks at our various projects in the Council Delivery Plan. This sets out where these stand, which ones will continue in future years, where we stand resources wise, and some risks highlighted in terms of budgeting being set aside for things to continue.
- There is future funding from the government which is direct funding and rules around how we do funding. We are expecting constraint from government around council tax to be around 1.99%. Council tax makes around 70% of our funding, this adds to our pressures as it's not changing with inflation
- There is uncertainty around the amount of money we will get from governments medium term. There is a prospect of a new funding formula, possibly around 25/26. The impact of a new funding formula could be a cut of around £1M we have to use the assumption and model on that basis.
- In terms of future funding and future plans, we have healthy levels of general reserves and the plan should be to use that to mitigate the early impacts
- If we get to the stage where we have to cut services, they must be discretionary services and ones that are more likely to benefit residents.
- If we want to balance our budget in the next five years we have to budget the balance in the medium term. There will be a need in the current forecasts of substantial savings in the order or £2.6M currently. Over the last ten years we have probably saved around £11M against our services in that time. We are looking at redesigning how we do this, income generation and potentially some service cuts to deliver that level of savings. We are trying to use what we can before we get to that stage – more funding certainty, hopefully our residents to be in a better place to deal with any changes to our services and also time to plan what those will look like and do some public consultations on this.
- The scope for cost increases and investments in new service areas is limited.
- This mainly focuses on the revenue budget, capital budgets are a key component of our budgets and do have revenue impact. At the moment we managed to fund all our capital programme from capital receipts, but there is a cost of this and it is less money sitting in our investments so we will lost the interest on that money as we spend. Additionally when we run out of capital receipts, we will have to charge a minimum revenue provision which is a minimum amount we will have to charge the revenue account each year to reflect we're in a borrowing position. In the long term we have to start funding money from external borrowing and this comes at an interest cost. Last year it was around 2.5% but now it is around 4% and is continuing to go upwards.

The following Members and Independent Persons asked questions:

- Councillor Terry Hone
- John Cannon

In response to questions, Ian Couper advised:

- There isn't anything currently on the mention of refugees and the impact on the budget. This will be considered in the budget process in the end of February at what these costs will be. There is an emerging impact on the housing team around where we are in placement breakdowns under the refugee schemes. This is another risk that should be flagged in the report.
- The amount given to Parish Councils is a historic arrangement and was first introduced to offset the impact they had. It isn't directly subsidising a service they're required to provide, its providing funding that was taken away from them. If there is a new funding formula and it does lead to significant reductions in our funding we will look to withdraw the support to Parishes.
- Yes we are allowing enough time in the saving scale. The place we will be is that at some point next financial year, we will get notified by the government about what our future funding will look like. This will allow us to start the process of significant work with service managers and service directors around looking at the spend of the Council and where we could make savings if we had to. This will lead to public consultation around areas residents value and how they think we can make savings and then bring that together into a plan of what it looks like. This will allow us time to deliver those savings. We do still have our enterprise team which look at commercial opportunities. Our transformation work still continues looking at our processes, particularly AI and automation and how this can manage levels of staffing and take away admin work
- Current forecasts of Churchgate are that we would expect income surplus. We've funded the capital from capital receipts and will now get the income from the shopping centre rather than just from the head lease income so this will go up slightly. The current centre as it is has some costs associated with it, such as minor works, but these aren't forecasted to be significant or excessive. This may change and it will be necessary that we redo the centre because it will come with significant costs. The longer term is that we will borrow money, as a Council we can borrow from the government. We have capital receipts to do that and when we have a project plan we will use some of that surplus money to help seed the investment into the area. There isn't a detailed plan yet but we can cover a plan that will work for the area and the finances. It's worth highlighting in the report that there is a risk there, but it is a risk we will have control of.

RESOLVED: That the Committee note and comment on the Medium Term Financial Strategy, including the recommendations that will be made to Cabinet.

RECOMMENDED TO CABINET: That Cabinet recommends to Full Council the adoption of the Medium Term Financial Strategy 2023-28

REASON FOR DECISIONS: Adoption of a MTFS and communication of its contents will assist in the process of forward planning the use of Council resources and in budget setting for 2023/24 to 2027/28. This will support the Council in setting a budget that is affordable and aligned to Council priorities.

The reports and papers associated with this item can be found here.