

REPORT OF Section 151 Officer  
 To: Community and Resources Committee  
 Subject: Update of the Council's Medium Term Financial Strategy (MTFS)  
 Date: 25th April 2022 Reference:

**PURPOSE OF REPORT:** To update members of the Community and Resources on the Council's MTFS, reflecting emerging pressures and exploring the impact of changes to the underlying assumptions within the MTFS reported to C&R on 31<sup>st</sup> January 2022.

## 1. Introduction

1.1. The Medium Term Financial Strategy (MTFS) reported to C&R on the 31<sup>st</sup> January 2022 and subsequently reported to Internal Overview & Scrutiny and Full Council highlighted the following key points:

- Budget deficits for the financial year's 2022-23 – 2025-26, with the budgets only returning to a semblance of balance by 2026-27.
- The use of £1.4m from the Council's Transition in Government Reserve to balance the revenue budgets over the period of the MTFS.
- The impact of supporting the Council's leisure services
- The financial pressures on the Council's capital program

1.2. As the MTFS is a projection of the Council's resources and expenditure commitments over a five year period; by its very nature it makes use of assumptions and estimates. The key assumptions within the Council's MTFS as previously reported were:

- Council Tax to rise up to the referendum limit over the life of the MTFS - £5 per band D equivalent (circa 2.9%)
- Salaries to rise by 2% per annum over the life of the MTFS
- Increased employer pension contributions from 2023-24
- Income from short term treasury deposits to return to pre pandemic levels by 2025-26
- Torridge Council support for leisure to reduce to £450k per annum by 2025-26
- No real terms increase in the Council's income from Fees and Charges.
- Increased planning income reflecting unprecedented income levels in 2020-21 and 2021-22.
- Increased income from vehicular access to Northam Burrows reflecting increased charges and charging period.

1.3. The table below summarises the MTFS strategy as recommended by C&R on the 31<sup>st</sup> January 2022 and subsequently approved by Full Council on the 21<sup>st</sup> February 2022.

### All figures in £'000

	2022-23	2023-24	2024-25	2025-26	2026-27
Expenditure	7,983	10,433	10,769	10,984	11,258
Funding	7,609	9,804	10,459	10,849	11,251
Use of Reserves to balance	374	629	310	135	7
<b>Total Utilisation of Reserves to balance 2022/23 – 2026/27</b>					<b>1,455</b>

\* The 2022-23 expenditure and funding figures for 2022-23 are reduced because of technical adjustments pertaining to the prior year's collection fund deficit for business rates.

## 2. Emerging Issues

- 2.1 Since the MTFS processed through the Council's committee cycle in January/February 2022 of C&R, Internal Overview and Scrutiny and Full Council, further financial issues and points of clarity have emerged.

### Housing Benefit Subsidy:

The Council in undertaking its statutory obligations with respect to homelessness, places individuals and families into its hostels and/or temporary accommodation.

The Council is experiencing increasing number of people presenting themselves at risk of being homeless. This is due to a combination of factors.

- a decline in the number of properties locally available for rents (perhaps due in part to increased numbers of properties becoming holiday lets)
- an increase in commercial rents, reflecting increased house prices which are making it difficult for people to secure affordable rented accommodation.

In assisting people at risk of homelessness the Council, for the reasons outlined above is finding it increasingly difficult to secure substantial long term tenancies. Consequently the numbers (and the length of stay) in temporary accommodation are increasingly markedly.

The Housing benefit system is structured to discourage Councils from utilising temporary accommodation as it is intended for individuals and families to be housed in substantial long term tenancies. Consequently Torridge Council is only reimbursed for temporary accommodation costs incurred at the LHA (Local Housing Allowance) rate, which for the North Devon area are:

• 1 bed	£97.81	per week
• 2 bed	£126.58	per week
• 3 bed	£149.59	per week
• 4 bed	£182.96	per week.

The costs of providing temporary accommodation far exceeds the Housing Benefit subsidy the Council can reclaim.

Another significant contributory factor in the Councils' expenditure pressure pertaining to Housing Benefit arises from supported accommodation providers (which are not designated as Registered Social Landlords). As with homelessness the Council cannot fully reclaim the cost via housing benefit.

For the Financial Year 2021-22 the budgeted costs of housing benefit subsidy shortfall to the Council was £200k per annum, **QBR 3 projected a liability to the Council of £407k.** At the time of writing this report the accounts for the financial year 2021/22 are in the process of being closed down, and the projected cost to the Council of Housing Benefit subsidy shortfall is anticipated to **exceed £500k.**

The chart below shows the Council's expenditure on temporary accommodation for the last 3 financial years.



As the chart clearly shows temporary accommodation costs represent a severe pressure on the Council's finances; there is no reason to assume that the numbers of people presenting themselves at risk of homelessness will diminish in the immediate future.

The Council has plans to procure another hostel and provide modular accommodation, however these will take time to come to fruition and will only partially alleviate this pressure.

### Torrige Support to Leisure

The budgets as approved by Full Council on February 21<sup>st</sup> included assumptions with regards to the Council's support for Leisure. Subsequent to the MTFS report to Full Council and in the lead up to 1<sup>st</sup> April 2022 officers of the Council in conjunction with Active Torrige's Leisure Services Manager has firmed up on the level of support required from Torrige Council.

The budget and MTFS report to Full Council on the 21<sup>st</sup> February 2022, detailed the following additional costs of providing leisure (over and above the Councils existing budgetary provision of £279k) and the total value of the Council's support to leisure.

	Increased Support	total cost of Support to leisure
○ 2022/23	£536k	£ 815k
○ 2023/24	£424k	£ 703k
○ 2024/25	£276k	£ 505k
○ 2025/26	£171k	£ 450k

As result of the work done in conjunction with Active Torrige's Leisure Services manager, the support to be provided by Torrige Council to Active Torrige has been amended and is shown below.

	Increased Support	total cost of support to leisure
● 2022/23	£455k	£734k
● 2023/24	£320k	£599k
● 2024/25	£173k	£452k
● 2025/26	£171k	£450k

Essentially the level of support required from Torridge Council to Active Torridge has decreased and the “target” support level of £450k has been reached a year earlier. There will undoubtedly be further refinement on the costs of providing leisure once Active Torridge is fully operating the Council’s leisure facilities. There will be a separate report back to members in September/October detailing Active Torridge’s 5 year business plan.

### Income from short term treasury deposits

In response to the onset of the Covid-19 Pandemic the Bank of England slashed interest rates, with the result that the income the Council earned from its short term treasury deposits declined markedly. In recent months the Bank of England has raised its interest rates, and there is general market expectation that interest rates will continue to rise.

The MTFS previously reported assumed income from short term treasury deposits would not return to pre pandemic levels until 2025/26. The budgeted income from short term treasury deposits included within the MTFS previously reported and the revised forecast is shown below:

	MTFS	Revised
• 2022-23	£35k	£150k ***
• 2023-24	£60k	£175k
• 2024-25	£95k	£175k
• 2025-26	£140k	£175k

\*\*\* Income from short term treasury deposits will be impacted by the timing of major capital projects in particular the Environmental Centre and whether this is primarily funded from working capital or from new borrowing. There may be an impact on the borrowing costs associated with the new Environmental Centre of rising interest rates.

### 3. Sensitivity and Assumptions

The budget and MTFS reports to C&R, Internal Overview and Scrutiny and Full Council detailed various assumptions within the MTFS. It would be prudent in light of the continued inflationary pressures facing the UK to re-examine these assumptions to determine how movements in these assumptions could potentially impact upon the MTFS.

#### Pay award

The Council’s pay bill represents the single biggest expenditure item, accounting for £9.5m in 2022/23 of the Council Gross expenditure £16.4m (excluding Housing benefit payments), circa 58% of the Council’s total expenditure.

The MTFS previously reported included an assumption of 2% pay award for each year of the MTFS. At the time of writing this report UK inflation is circa 6.1%, and it is anticipated that the Local Government Unions will put in a pay award reflecting the inflationary pressures their members are facing. Whilst the employers’ side in any negotiations will be acutely aware of ensuring that any pay settlement is affordable. It is highly unlikely that the pay settlement for 2022-23 can be held at 2%.

Should the pay settlement for 2022-23 come in at **3.5% rather than the 2%** which is currently in the Council’s MTFS the funding pressure is as detailed below:

	MTFS – 2%	Revised Costs @ 3.5% (2% for year 23/24 onwards)
	£’000	£’000
2022/23 Salary Costs	9,479	9,615
2023/24 Salary Costs	9,907	10,050
2024/25 Salary Costs	10,217	10,363

2025/26 Salary Costs	10,502	10,651
2026/27 Salary Costs	10,744	10,897

The financial position is clearly compounded if subsequent years also incur pay awards in excess of 2%. The example below assumes a pay award of 3% for each year of the MTFS.

	MTFS – 2%	Revised Costs @ 3% (for duration of MTFS)
	£'000	£'000
2022/23 Salary Costs	9,479	9,570
2023/24 Salary Costs	9,907	10,098
2024/25 Salary Costs	10,217	10,512
2025/26 Salary Costs	10,502	10,906
2026/27 Salary Costs	10,744	11,262

There are an infinite number of scenarios that can be modelled, but all realistic/ prudent assumptions result in significantly increased costs over the MTFS previously reported. It will become clearer as the local government unions submit their initial pay claim which is expected in May 2022.

### **Employers Pension Contributions**

The Council's next tri-annual review of its pension contributions is scheduled for 1<sup>st</sup> April 2023. The Council Actuaries have already indicated that the Council should expect to see its employers' pension contribution rise from 17.5% to 18.75%; the impact of inflation on obligations of the Employer's Pension to make inflation index linked retirement benefit payments isn't known. Based upon a revised 2022/23 pay award of 3.5% an increase in the employer's pension contribution of 0.5% adds circa £50k to the Council's pay bill.

### **Council Tax**

As alluded to at the start of this report, the MTFS previously reported to members assumed that Council Tax would rise by the referendum limit £5 per band D equivalent property, circa 2.9%. Should the decision be made not to increase the Council Tax the adverse impact on the Council's MTFS is circa £125k per annum.

### **Central Government Funding**

The MTFS currently assumes circa £1m of direct central government funding per annum for the life of the MTFS. Government has delayed its planned reform of local government financing for several years. There is insufficient information to make an informed judgement on future levels of Central Government grants, so the values within the current MTFS are unaltered.

### **Pulling it all together**

By its nature the MTFS which covers several years into the future is an educated estimate of the Council's future financial position. However the emerging financial issues have made themselves evident and it would be short sighted not to capture them at this juncture.

With regards to future pay awards and pension contributions, whilst it is not possible to predict with any certainty the current MTFS assumptions are clearly at the low end of reasonable estimates.

For the purpose of this report three scenarios have been modelled, Optimistic, Likely & Pessimistic. The assumptions for each option, are detailed below.

## Optimistic

- **Housing benefit subsidy pressures**
  - 2021/22 expenditure is repeated in 2022/23 (additional pressure of £300k per annum) and reduces by £50k per annum as new hostel and modular accommodation come online over the life of the MTFS, these measures may time to take effect.
- **Torrige Council support to Leisure**
  - As agreed with Active Torrige
- **Income from short term treasury deposits**
  - £150k for 2022/23 rising by £25k per annum until 2024/25.
- **Pay award**
  - 3% pay award for 2022/23 and 2.5% thereafter
- **Employers Pension contributions**
  - As per MTFS 18.75% from 2023/24
- **Council Tax**
  - Increase to Referendum level for the duration of the MTFS

## Likely

- **Housing benefit subsidy pressures**
  - Assume £100k uplift to 2021/22 actual and assume this level of pressure continues for the remainder of the MTFS
- **Torrige Council support to Leisure**
  - As agreed with Active Torrige
- **Income from short term treasury deposits**
  - £175k for 2022/23 and £25k increase for 2023/24.
- **Pay award**
  - 3.5% pay award for 2022/23, 2.75% for 2023/24 & 2024/25, 2% thereafter
- **Employers Pension contributions**
  - 19% from 2023/24
- **Council Tax**
  - Increase to Referendum level for the duration of the MTFS.

## Pessimistic

- **Housing benefit subsidy pressures**
  - Assume £100k uplift to 2021/22 actual and assume £50k increase for each year thereafter
- **Torrige Council support to Leisure**
  - £100k increase to support provided by Torrige Council
- **Income from short term treasury deposits**
  - £125k for 2022/23 and £25k increase for 2023/24.
- **Pay award**
  - 3.75% pay award for 2022/23, 3.5% thereafter
- **Employers Pension contributions**
  - 19.5% from 2023/24
- **Council Tax**
  - No increase in 2023/24, Referendum there after.

The tables below summarise the three scenarios modelled

	Optimistic					
	2022-23	2023-24	2024-25	2025-26	2026-27	
Use of reserves to balance @ Feb 22	373	629	310	105	7	<b>1,424</b>
Housing Benefit Subsidy Shortfall	300	250	200	150	50	
Torrige Council support to Leisure - as per revised budget	(81)	(104)	(53)	0	0	
Income form Short Term Treasury Deposits	(115)	(115)	(105)	(60)	(60)	
Pay award 3% 22/23 2% thereafter	92	95	97	99	101	
Employers Pension contribution - <b>unchanged</b>	0	0	0	0	0	
Council Tax increase - <b>unchanged</b>	0	0	0	0	0	
<b>Revised use of reserves to balance</b>	<b>569</b>	<b>755</b>	<b>449</b>	<b>294</b>	<b>98</b>	<b>2,165</b>

	Likely					
	2022-23	2023-24	2024-25	2025-26	2026-27	
Use of reserves to balance @ Feb 22	373	629	310	105	7	<b>1,424</b>
Housing Benefit Subsidy Shortfall	400	400	400	400	400	
Torrige Council support to Leisure - as per revised budget	(81)	(104)	(53)	0	0	
Income form Short Term Treasury Deposits	(140)	(140)	(105)	(60)	(60)	
Pay award 3.5% 22/23 2.75% 23/24, 24/25 then 2%	140	214	294	301	308	
Employers Pension contribution - 19%	0	18	18	19	19	
Council Tax increase - <b>unchanged</b>	0	0	0	0	0	
<b>Revised use of reserves to balance</b>	<b>692</b>	<b>1,017</b>	<b>864</b>	<b>765</b>	<b>674</b>	<b>4,012</b>

	Pessimistic					
	2022-23	2023-24	2024-25	2025-26	2026-27	
Use of reserves to balance @ Feb 22	373	629	310	105	7	<b>1,424</b>
Housing Benefit Subsidy Shortfall	400	450	500	550	600	
Torrige Council support to Leisure - £100k uplift	100	100	100	100	100	
Income form Short Term Treasury Deposits	(90)	(90)	(55)	(10)	(10)	
Pay award 3.75% 22/23 3.5% thereafter	160	292	45	616	792	
Employers Pension contribution - 19.5%	0	72	75	79	81	
Council Tax increase - no increase 23/24	0	124	127	128	129	
<b>Revised use of reserves to balance</b>	<b>943</b>	<b>1,577</b>	<b>1,102</b>	<b>1,568</b>	<b>1,699</b>	<b>6,889</b>

The balance on the Transition in Government Funding reserve (used to balance the Council's revenue budget) at the 1<sup>st</sup> April 2022 is £1,703k, based on the modelling above these funds will be exhausted as detailed below:

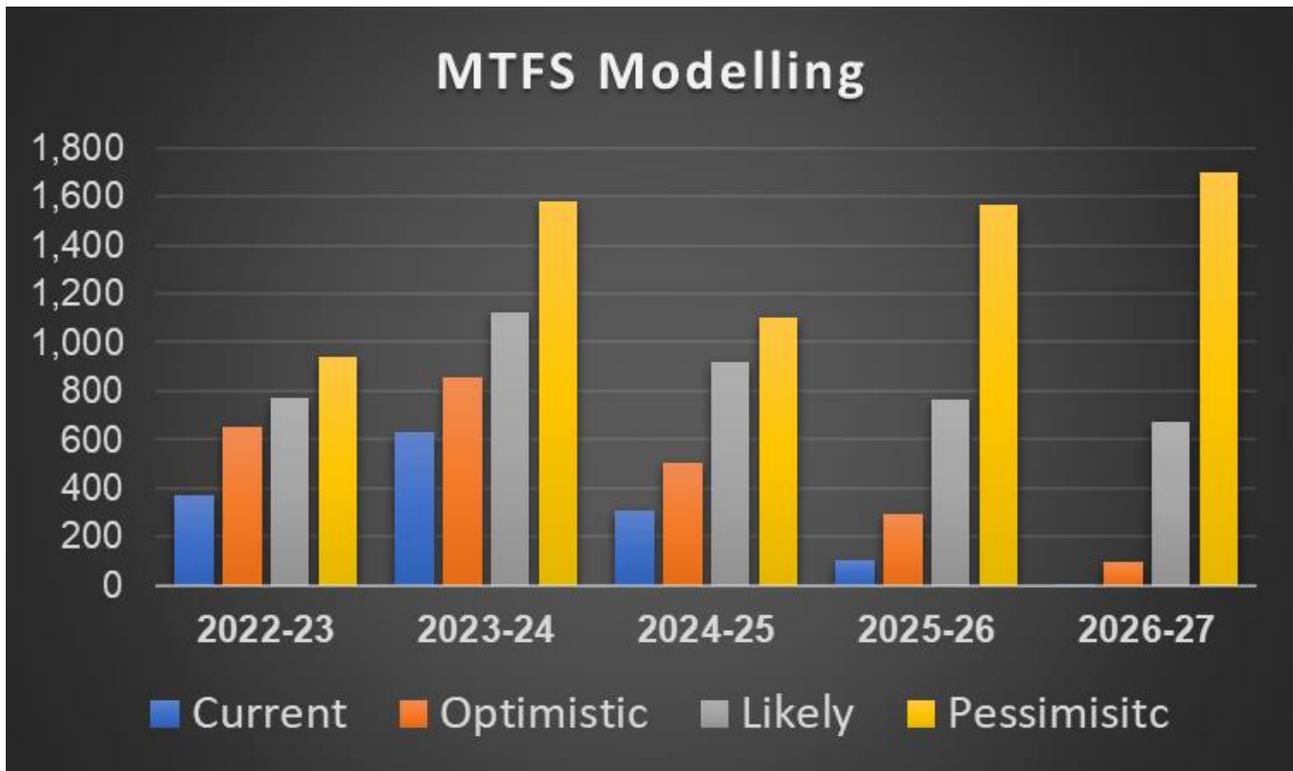
Optimistic 1st Quarter of 2024-25  
Likely 4<sup>th</sup> Quarter of 2023-24  
Pessimistic 2<sup>nd</sup> Quarter of 2023-24.

Clearly even the Optimistic modelling presents a serious financial challenge to the Council. Should either of the Likely or Pessimistic scenarios be realised then the Council's Finances deteriorate quickly, and corrective action will be needed as a matter of some urgency.

#### 4. Member Budget Working Group

Which ever of these/if any of these scenarios are realised then it is clear that action needs to be taken to address the shortfall as a matter of urgency. The Transition in Government Funding reserve exists to support the budgets whilst action is taken to remedy the situation not simply to shore up the budgets.

The chart below summaries the modelling undertaken



## Implications

### Legal Implications

The Council is required to set a balanced annual budget.

### Financial Implications

These are contained in the report.

### Human Resources Implications

n/a

### Sustainability Implications

None directly applicable to this report.

### Equality/Diversity

None directly applicable to this report.

### Risk Management

The Council will be required to reduce net expenditure over the medium term. The modelling undertaken details the risk to the council of not getting its Finances back into a balanced position.

### Compliance with Policies and Strategies

Forms part of the strategy process.

## Lead Member Views

Councillor Hodson:

Date of Consultation – 8th April 2022

“It is entirely prudent of the Section 151 officer to update the MTFS in light of the changing financial environment since the MTFS was reported to members in February 2022. The modelling provided will give a valuable context to the work that the members’ budget working group will have to undertake. Even the optimistic modelling indicates that the status quo can continue over the medium term, and that additional income streams and/or savings need to be found.”

### **Conclusion**

The report highlights the financial challenges faced by Torridge Council in an increasingly uncertain environment, in particular the current high levels of inflation and the costs associated with Torridge meeting its statutory housing obligations.

### **5. Recommendations:**

That Members note the report.

- Information contained in the report forms the basis of the targeted workplan of the members budget working group.