

REPORT OF Section 151 Officer
 To: Full Council
 Subject: Update of the Council's Medium Term Financial Strategy (MTFS)
 Date: 5th September 2022 Reference:

PURPOSE OF REPORT: To update members of Full Council on the Council's MTFS, reflecting emerging financial pressures and the work of the Member Budget Working Group (MBWG) to address the Council's current financial position.

1. Introduction

1.1. The budget 2022/23 and Medium Term Financial Strategy (MTFS) reported to Full Council on the 21st February 2022 highlighted the following key points:

- The 2022/23 budget only balanced after drawing down £373k from the Council's Transition in Government Funding Reserve (TGFR).
- 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 TGFR 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 reported in February 2022 were:

- Council Tax to increase up to the referendum limit per annum over the life of the MTFS - £5 per band D equivalent (circa 2.8%)
- 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
- 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 as approved by Full Council on the 21st February 2022.

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
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
Cumulative use of reserves to balance over the life of MTFS					1,455

* The 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. The current financial environment facing the Council

2.1 Since the MTFFS progressed through the Council's committee cycle in January/February 2022 of C&R, Internal O&S and Full Council, significant financial pressures have come to the fore; namely:

- **Housing Crisis and associated temporary accommodation costs**
- **Inflation**

2.2 Housing Crisis:

The Council in undertaking its statutory obligations with respect to residents at risk of homelessness, where suitable tenancies are not available, it places individuals and families into its hostels and/or temporary accommodation.

The Council is experiencing increasing numbers 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.

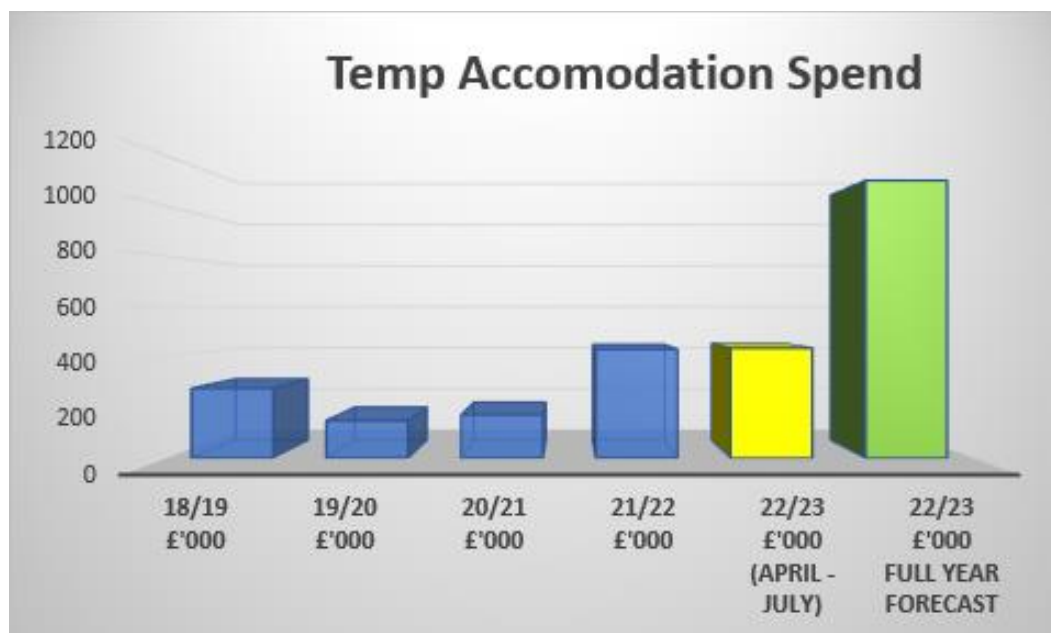
In assisting people at risk of homelessness the Council, for the reasons outlined above, is finding it increasingly difficult to secure sustainable long term tenancies. Consequently the numbers (and the length of stay) in temporary accommodation are increasing markedly.

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.

The chart below demonstrates the unprecedented expenditure pressures the Council is facing with respect to temporary accommodation.



*As at the first quarter of 2022/23 the projected overspend against budget pertaining to homelessness / temporary accommodation was £890k, the Council budgets £200k for the shortfall in housing benefit arising from homelessness. Therefore the projected costs to the Council of meeting its obligations to residents at risk of homelessness in 2022/23 **exceeds £1m.***

2.3 Inflation

As at the time of writing this report inflation in the UK was circa 10%, this has had the most severe impact upon the Council's finances in the following areas.

- Pay inflation
- Fuel
- Gas and Electricity
- Construction price inflation

2.3.1 Pay Inflation

The MTFS approved by Full Council in February 2022 assumed a pay award across the local authority sector of 2%. With the subsequent spike in inflation arising from the Russian invasion of Ukraine, a pay award of circa 2% was no longer viable. At the time of writing this report the key components of the employer's pay offer for 2022/23 are:

- A flat rate £1,925 increase for all salary scale points
- An additional day's leave effective from 1st April 2023

A significant factor influencing the employer's pay offer is that currently the Minimum Living Wage (MLW) is £9.50 per hour which is the same as the lowest local authority pay scale. It is expected that the MLW will increase from 1st April 2023 with inflation, given current inflation levels the MLW on the 1st April 2023 could be in the region of £10.35 - £10.45 per hour; which without an uplift would exceed the bottom 5 local authority scale points.

The employer's pay offer has added an additional £481k to the Council's annual pay bill (*before accounting for vacant posts*). It should be noted that this additional cost will be borne in **all subsequent years of the MTFS**.

The employer's pay offer equates to an overall increase to the Council's pay bill of 5%. As pay is by far the Council's largest single item of expenditure this has a very significant impact upon the Council's costs envelope and will be felt in subsequent financial years.

2.3.2 Fuel

The Council's refuse fleet is by far the biggest consumer of fuel for the Council, the 2022/23 budget for fuel across the Council is £378k, as at quarter 1 2022/23 there is a projected overspend on Fuel of £120k. Whilst fuel prices appeared to have stabilised there is no signs of a marked reduction in prices at the pumps.

2.3.3 Gas and Electricity

The Council is currently in a fixed priced utility deal which expires in September 2022, and so for the first half of the financial year 2022/23 has been spared the worse impact of utility price increases. However for the second half of the financial year 2022/23 prices are projected to lead to an overspend against budget of £96k, current market sentiment is for further price rises across the medium term.

2.3.4 Construction Price inflation

The Council is experiencing significant inflationary pressures from the construction industry which is putting pressure on its capital program. Key objectives of the Council such as the new Environmental Centre are under particular strain. Members should be aware that with exception of Disabled Facilities and the proposed Maritime Innovation Centre the Council's capital program is either funded from revenue contributions or borrowing; the costs of which are met from revenue budgets.

As interest rates have risen the borrowing costs associated with funding capital developments have risen accordingly.

3. Other Financial considerations

The Council's ability to respond to the financial pressures it faces are limited by the regulatory environment it operates within.

The four sources of funding for the Council expressed as a percentage of the Council's Gross income are detailed below:

Council Tax 28%

The Council's ability to raise additional income is limited by Central Government Referendum limits which are set at £5 per band D equivalent currently 2.8% which is clearly significantly below current rates of inflation.

Central Government Grants Funding 8%

As a District Council Central Government Grant funding as a percentage of the Council's gross income is relatively low. Central Government funding to Torridge in 2022/23 is £1.2m, it should therefore be borne in mind that even if Central government were to announce an inflation linked uplift to the Council's grant settlement this would only make a modest contribution towards the financial pressures faced by the Council.

Business Rates 26%

Torridge Council retains 40% of the business rates it collects, however the rate in the pound charged on business rates is determined by Central Government, whilst the rateable value of businesses is determined by the Valuation Office. Torridge Council has no control over the value of business rates to be collected.

When the system for business rates retention was originally established; business rates were to rise annually by inflation. Should Central Government not increase the business rates by inflation then the Council will be compensated by award of Section 31 grant funding.

Fees and Charges 38%

The Council raises circa £6m in fees and charges, the Council's fees and charges can be:

- Discretionary e.g. car parking charges
- Charges associated with the recovery of costs e.g. Land charges
- Statutory – charges are determined by Central Government e.g. Planning Fees, licensing fees etc

Circa 50% of the charges raised by the Council are fully discretionary in nature, so only with respect to **19% of its gross income** does the Council have full discretion to increase its charges to meet the inflationary pressures it is facing.

4. Discretionary expenditure

In addition to fulfilling its statutory duties the Council undertakes several functions for which it is has no statutory obligation. The most significant of which are detailed below, along with their **2022/23 budgetary provision:**

• Support for Leisure	£811k ***
• RNLI	£ 94k +++
• Support to the Burton	£140k
• Local Council tax Support – Working age	£136k
• Public Conveniences	£134k
• CCTV	£ 73k
• Member Grants	£ 72k
• Grants to CAB/TTVS	£ 55k
• Economic Regeneration	£137k (includes support to N Devon +)
• Development of	
• Recreational Services	£69k
Subtotal	£1,721k.

*** includes Torridge Council's maintenance responsibilities for the leisure facilities

+++ Lifeguards at Westward Ho! beach for summer months

The non-statutory budgeted expenditure above is shown for information only; there are other considerations to take into account should members decide to withdraw from non-statutory activities. For example the Council has an obligation to secure the collections held at the Burton Art Gallery.

The Council does not have a statutory responsibility for the provision of parks and open spaces. The 2022/23 grounds maintenance revenue budget is £324k, however in addition to the maintenance of Torridge parks and open spaces the service also maintains its cemeteries which are a statutory function of the Council.

In addition to the Council's revenue expenditure on non-statutory items the Council also incurs capital expenditure in support of its non-statutory activities, most notably in the maintenance of its leisure facilities.

5. Forecast 2022/33 outturn

The projected overspend against budget report at Quarter 1 as reported to Internal O&S was £1.08m, however it should be noted that the 2022/23 budgets only balanced after the release of £373k from the Transition in Government funding reserve. The 'true' difference between income and expenditure being **£1.45m**.

At the time the QBR 1 was reported to Internal O&S the value of the employer's pay award wasn't known and was estimated to be an additional pressure of £299k. Now that the employers' pay award has been published the financial pressure of the 2022/23 pay award is £481k an increase of £182k (before accounting for vacancies).

The projected financial position for the 2022/23 financial year is a projected **overspend against budget of £1.26m or £1.64m** after taking into account that the 2022/23 budget only balanced after releasing £373k from the TGFR.

Given the scale of the projected deficit for 2022/23 it is prudent for a repurposing exercise to be undertaken with regards to the reserves the Council currently holds. After reviewing the reserves held by the Council the following reserves are deemed suitable to be released to contribute towards the projected 2022/23 deficit. The reserves listed below were deemed suitable for repurposing for a variety of reasons:

- Funding has already been released from other sources, e.g. Land Charges Digitization
- Lack of resources to deliver the original intention of the reserves, S215
- Reserves of a Contingency/unspecified nature.

Proposed:

• Planning Appeals	£ 50k	***
• Contingency	£ 98k	
• Economic Regeneration	£130k	++
• Future Services Delivery	£ 89k	
• Land Charges Digitization	£ 28k	
• Localised Support for CTS	£ 34k	
• Section 215 notice	£111k	
• Balance of unspent member Grants	£ 14k	
TOTAL	£554k	

*** Balance of £107k left on this reserve.

++ Balance of £112k left on this reserve

Assuming members agree to the repurposing of the above reserves the projected 2022/23 deficit against budget will reduce to £708k or £1.086m after taking into account the 2022/23 budgets only balanced after utilising £373k from the Transition in Government Funding Reserve.

6. Member Budget Working Group

Full Council on the 21st February 2022 agreed to the establishment of a MBWG, the makeup of which was agreed by Full Council on the 11th April 2022 to include members from all political grouping.

There is a separate report from the member budget working group on the agenda for this Council, the summary of the additional income/reduced expenditure which would accrue if their recommendations were accepted are summarised below:

	23/24	24/25	25/26	26/27
	£'000	£'000	£'000	£'000
Savings/additional income	479	685	699	704

7. 2021/22 Surplus

The additional surplus projected for the financial year 2021/22 arising in Quarter 4 as reported to Internal O&S on the 14th June 2022 was £601k, subsequently with the formal publication of the draft accounts for 2021/22 the increased Quarter 4 surplus was revised down to £549k. In light of the financial challenges facing the Council as detailed within this report it is proposed that these monies are allocated to the TGFR, which is accessible funding towards the 2022-23 overspend.

8. Updating the MTFS

In updating the MTFS it is important to recognise that assumptions need to be made regarding future levels of inflation, central government grant settlement, pay awards etc.

The further into the future assumptions are made the greater the uncertainty. The following assumptions have been made with regards to the update of the MTFS. ***

- The recommendations of the MBWG are adopted in full
- The current level of demand upon the Council's homelessness team will continue for the duration of the MTFS.
- Inflation will be 6% in 2023, before falling to 2% for the duration of the MTFS (in line with Bank of England expectations)
- Interest rates will raise by 1% from current levels for the duration of the MTFS
- The pay award for 2023/24 will be 4%, reverting back to 2% in line with the original MTFS thereafter
- The Council will increase its Council Tax up to the referendum limit £5 per Band D property circa 2.8% per annum for the duration of the MTFS.
- The Council will secure 14 additional beds of hostel accommodation in 2023/24 and 3 modular homelessness accommodation.
- Central Government grant funding will be at the same levels as 2022/23
- The Council's support for leisure will be at the levels previously outlined in the MTFS
 - 2022/23 £815k
 - 2023/24 £703k
 - 2024/25 £505k
 - 2025/26 onwards £450k

*** Officers will continue to work proactively to both to reduce reliance on temporary accommodation and to secure additional accommodation. However in the absence of substantive information it cannot be factored in as a saving.

The table below summarises the revised MTFs, clearly the financial position of the Council is challenging, and further difficult decisions will have to be made to bring the Council back to a semblance of financial stability. Based on the best information to-date the Council's TGFR will be exhausted during 2023/24.

The table below projects deficits for all years of the MTFs, peaking at £1,274k in 2023/24 and declining to £162k by 2026/27. However by the time the budgets begin to return to some semblance of balance the TGFR is overdrawn by £1.36m, clearly additional savings above those already identified need to found in the near future.

As of the time of writing this report the Council cannot set a balance budget for 2023/24 as it is required to so by statute.

Consequently it is recommended that the MBWG is tasked with finding additional recurrent savings of circa £250k per annum from 2023/24, and cash releasing savings for 2022/23 and 2023/24 of £350k.

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Budgeted use of TGFR to balance @ Feb 2022	(373)	(629)	(310)	(105)	(7)
projected 2022/23 deficit	(1,261)				
add Temp Accomodation pressure		(890)	(890)	(890)	(890)
add cost of 2022/23 pay award		(494)	(503)	(513)	(525)
add cost of 2023/24 pay award		(200)	(206)	(211)	(215)
add Fuel		(90)	(75)	(75)	(75)
add utilities		(221)	(180)	(180)	(180)
less proposed new Hostels		223	223	223	223
less Modular Accomodation x 3		46	46	46	46
less re-purposing of Reserves	554				
less recommendations of MBWG		479	685	699	704
less increased S31 grant re Business Rates		181	244	244	244
less staff restructure (no redundancies)		207	218	226	231
less increased renewable Business Rates		14	42	182	182
less increased vacancy target		100	100	100	100
Subtotal usage of TGFR	(1,080)	(1,274)	(606)	(254)	(162)
Balance of TGFR @ 1st April	2013	933	(341)	(947)	(1,201)
Balance of TGFR @ 31st March	933	(341)	(947)	(1,201)	(1,363)

- Balance on TGFR assumes additional surplus generated in Quarter 4 2021/22 is allocated to the TGFR. It should be noted that the TGFR goes into deficit during 2023/24, even after assuming the proposals of the MBWG are accepted in full and the Council can deliver an additional 14 hostel rooms.
- The Council has a built a provision for appeals against business rates, officers are currently reviewing Torridge's appeal provision in light of the new business rate revaluation which comes in effect from the 1st April 2023. Initial analysis points towards a reduction in the

appeals provision, which would be released against the revenue budget. However any favourable movement on the appeals provision would be non-recurrent in nature.

9. Central Government Funding

Various organisations such as the Local Government Association, the District Councils Network etc are actively lobbying for funding for the impact of the local government pay award and general inflationary pressures. There has been no indication that Central Government is minded to provide additional funding to the local authority sector. Consequently all financial forecasts are undertaken based upon current settlement levels.

Implications

Legal Implications

The Council is required to set a balanced annual budget.

Financial Implications

These are contained in the report.

Human Resources Implications

Not explicitly detailed in this report but if the Council cannot bring its finances back to a position of stability there will have to be cuts to services which will impact upon jobs at the Council or partner organisations.

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 – 25th August 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 only emphasises how important the work of the member budget working group is. The financial challenges facing the Council are stark and no immediate solution is in sight.”

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.

10. Recommendations:

That members approve

- The re-purposing of reserves as outlined in section 5 above
- Approve the allocation of the increased surplus of £549k arising from Quarter 4 2021/22 to the Transition in Government Funding Reserve, detailed in Section 7
- The Member Budget Working Group find additional recurrent savings of £250k per annum and find cash realising savings of £350k; and are to report back to Full Council on 12/12/2022 with a update.

That Members note the contents of this report.