

REPORT OF Section 151 Officer  
To: Full Council  
Subject: Update of the Council's Medium Term Financial Strategy (MTFS)  
Date: 12th December 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 and background

1.1. A report to Full Council on the 5<sup>th</sup> September 2022 provided members with an update of the Medium Term Financial Strategy (MTFS). The report of the 5<sup>th</sup> September outlined the cost pressures faced by the Council since the budget 2022/23 and MTFS was approved by Full Council on the 21<sup>st</sup> February 2022:

The following costs pressures were highlighted within the report

- Temporary Accommodation costs arising from the Council's statutory obligations to its residents at risk of homelessness.
- Pay inflation – the 2022/23 pay award @ circa 6-7% exceeding the 2% budgetary provision set aside.
- Fuel inflation
- Utilities inflation
- Construction price inflation

The following assumptions were included within the MTFS most notably

- Council Tax to rise by the referendum limit; £5 per band D property (circa 2.8%) over the life of the MTFS
- No changes to Central Government grant funding
- Pay award 4% for 2023/24, 2% thereafter

The table overleaf shows the projected financial position reported to members on the 5<sup>th</sup> September 2022. The headline figures to note are

- The projected utilisation of the Transition in Government Funding Reserve (TGFR) for the year 2022/23 was £1,080k, after re-purposing reserves to the value of £554k, leaving a balance on the TGFR of £933k at the end of the financial year 2022/23.
- The TGFR was projected to go into deficit to the tune of £341k at the close of 2023/24, meaning the Council would be unable to set a balanced budget for 2023/24.
- The financial projections as at 5<sup>th</sup> September included the recommendations to Full Council of the Member Budget Working Group (MBWG), which were subsequently approved by Full Council.

The revised MTFS as reported to Full Council on the 5<sup>th</sup> September projected a cumulative deficit of £2.3m for the period 2023/24 – 2026/27, with the TGFR being overdrawn by £1.2m by 2026/27 \*\*\*\*\*. The MTFS reported at the 5<sup>th</sup> September 2022 projected that the Council expenditure would still require £162k to balance in 2026/27, consequently the

MBWG was tasked with reporting back to Full Council on the 12<sup>th</sup> December 2022, and charged with finding recurrent saving of £250k and cash relishing saving of £350k (in order that a balanced budget could be set for 2023/24).

	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)
<b>Balance of TGFR @ 1st April</b>	<b>2013</b>	<b>933</b>	<b>(341)</b>	<b>(947)</b>	<b>(1,201)</b>
<b>Balance of TGFR @ 31st March</b>	<b>933</b>	<b>(341)</b>	<b>(947)</b>	<b>(1,201)</b>	<b>(1,363)</b>

\*\*\*\*\* The table above presented to Full Council on the 5<sup>th</sup> September contained an error with regards to the balance on the Transition in Government Funding Reserve. The balance as at 1<sup>st</sup> April 2022 should have been £2,387. The table below shows the revised balance on the TGFR as at 5th September.

<b>Balance of TGFR @ 1st April</b>	<b>2387</b>	<b>1,307</b>	<b>33</b>	<b>(573)</b>	<b>(827)</b>
<b>Balance of TGFR @ 31st March</b>	<b>1,307</b>	<b>33</b>	<b>(573)</b>	<b>(827)</b>	<b>(989)</b>

## 2. Financial Update

### 2.1 Projected Deficit for 2022/23

The Quarterly Budget Report 2 reported to Internal Overview & Scrutiny on the 2<sup>nd</sup> November 2022 reported a projected deficit for the year of £1,211k (£657k after the re-purposing reserves totalling £554k).

The issue facing the Council remain largely unchanged from those identified in the Quarterly Budget Report 1 and the MTFs update of the 5th September 2022, namely:

- **Housing crisis and associated temporary accommodation costs**
- **Inflation**
  - **2022/23 pay award**
  - **Agency back filling of vacant posts**

- **Fuel**
- **Utilities (Gas and Electricity)**
- **Construction price inflation**

## 2.2 Updates to the Medium Term Financial Strategy (MTFS)

The table below details the revised MTFS **excluding** the financial impact of the proposed Environmental Centre which is included within a separate report to Full Council. It shows an improvement on the MTFS reported to members on the 5<sup>th</sup> September 2022. However the following caveats and observations should be noted.

	2023/24 - Deficit	2024/25 - Deficit	2025/26 - Deficit	2026/27 - Deficit
Deficit as at 5th Sept	1274	606	254	162
Latest projected Deficit	494	317	137	292

The projected balance on the TGFR is shown below, the figures shown **exclude** the financial impact of the proposed Environmental Centre.

Balance as at 31/03/2023	£1,354k
Balance as at 31/03/2024	£ 748k
Balance as at 31/03/2025	£ 361k
Balance as at 31/03/2026	£ 187k
Balance as at 31/03/2027	(£ 84k)

- At the time of writing this report Central Government's Local Authority grant settlement for 2023/24 and beyond had not been confirmed. Consequently current grant levels have been projected forward over the life of the MTFS.
- The Fair Funding review which reassesses the relative needs of local authorities has been delayed for several years. As district councils like Torridge have been the main recipients of additional income arising from retained business rates, it has been widely predicted that district councils would be losers when a fair funding review is undertaken. The MTFS makes no assessment of the potential loss of grant income for Torridge arising from any Fair Funding review or what transitional arrangements may be in place over the life of the MTFS.
- The MTFS contains estimated income from the Council's short term treasury deposits. Such estimates are dependent upon future interest rates and future cash flows, largely governed by the delivery timetable for the Council Capital program.
- The MTFS contains assumptions regarding future retained Business Rates in particular with regards to renewable energy schemes where Torridge retains 100% of the business rate income (where it was the planning authority). The timing of the delivery of future renewable energy schemes is uncertain and can only partially be estimated from planning applications received or expected.
- In recognition of the housing crisis currently being faced within Torridge, the Council is taking steps to attempt to alleviate the current financial pressures. To this end it is seeking to secure additional hostel accommodation and modular accommodation. The MTFS makes assumptions about timeframes for the delivery of these schemes.
- The MTFS makes assumptions regarding future pay awards – 4% for 2023/24, and 2% thereafter, if inflation remains at current levels for extended periods this will clearly further undermine the long term viability of the Council.

- At the time of writing this report the projected support for the Council's leisure services is as detailed below:
  - 2023/24 £702,635
  - 2024/25 £555,094
  - 2025/26 onwards £450,000

## 2.3 So what has changed?

### 2.3.1 Income from Treasury Deposits

Recent interest rate rises have markedly increased the income the Council is achieving on its short term treasury deposits. Additional income from treasury deposits have been projected in the revised MTFS.

Additional income 2023/24	£80k
Additional income 2024/25	£45k

As mentioned earlier in the report income from short term treasury deposits is difficult to predict being subject to changes in interest rates and being linked to the delivery of the Council's capital program.

### 2.3.2 Council Tax Surplus 2022/23

The Council Tax Collection fund which is administrated by Torridge Council on behalf of its preceptors (Devon County Council, Devon & Cornwall Police, Devon & Somerset Fire Authority and 56 Town and Parish Councils) is projected to be in surplus for 2022/23. However Collection Fund rules dictate that any such surplus can only be released in the following financial year. Torridge share of the projected council tax surplus is **£100k**.

Additionally the Autumn statement allowed District Councils to raise Council tax by 3% or £5 per band D which ever is the higher. Previously Council Tax for Torridge was capped at £5 per band D which equated to 2.8%. The MTFS assumes Council Tax will rise by 3% for each year, the additional income compared to the MTFS of the 5<sup>th</sup> September is shown below.

2023/24	£ 9k
2024/25	£ 22k
2025/26	£ 40k
2026/27	£ 63k

### 2.3.3 Business Rate Income

Torridge Council retains 40% of the business rates collected within Torridge, the balance being allocated to

- Central Government 50%
- Devon County 9%
- Devon & Somerset Fire 1%

Increases in the rate in the pound charged on business rates are usually linked to inflation. With inflation at the time of writing this report in excess of 10% it is anticipated that the Government will cap increases to the rate in the pound and compensate Councils via Section 31 new burdens grant funding.

As the billing authority for business rates, Torridge is responsible for determining the level of appeals provision which needs to be set aside for successful appeals by businesses against their business rate liability. There is no “one size fits all” for calculating the correct level of business rate appeals provision. Currently the Council has applied a blanket percentage 4.7% reflecting an overall reduction in the business rate valuation list from the last Business Rate Revaluation exercise undertaken in 2017.

The approach taken by the Council to calculating its appeals provision has been reassessed, taking into account a variety of factors:

- In conjunction with the last revaluation exercise undertaken in 2017, Central Government introduced a new system for appeals against business rate liability. The check, challenge, appeal system introduced a greater onus on the party wishing to reduce their business rate liability to provide supporting evidence in support of their appeal.
- Previously businesses (or more generally their agents) would lodge speculative appeals with no supporting evidence, only providing detailed evidence at a later date. The introduction of the check, challenge, appeal system has seen a decline in the number of appeals lodged.
- Separately as a response to the Covid-19 pandemic Central Government have announced various business rates reliefs for period 2020- 2022. The consequence being that there has been less incentive for businesses to lodge appeals as they have either had a significantly reduced business rate liability or no business rate liability.

Officers of the Council have reassessed the Council's business rate appeal provision based on the past award of successful business rate appeals by business sectors, e.g. assessing the likely success of outstanding appeals within the retail sector with previous retail appeals. A judgement has been made about business rate appeals not yet lodged with the valuation office. *The revised approach to calculation of the business rate appeal provision was reported to the Member Budget Working Group.*

The reassessment of the business rate appeals provision has resulted in increased retained business rate income for Torridge of circa **£347k** which because of Business Rate Collection Fund rules can only be realised in 2023/24.

A further assessment of additional business rate income arising from new renewable schemes has been undertaken since the MTFs was reported on the 5<sup>th</sup> September 2022. The changes to the projected business income are summarised below:

2023/24 additional income	<b>£494k</b>	includes the £347k above
2024/25 additional income	<b>£242k</b>	
2025/26 additional income	<b>£144k</b>	
2026/27 additional income	<b>£162k</b>	

### **2.3.4 Environmental Centre**

The previous MTFs contained financial projections relating to the financial impact of delivering a new Environmental Centre for the Council's operations fleet.

With construction price inflation, increased interest rates, revised income projections from recycling streams and updated assumptions regarding build timetables; the financial appraisal of the Environmental Centre has been remodelled and is detailed within a separate report.

In order that members can fully comprehend the impact of the options relating to the Environmental Centre, estimated costs previously associated with the delivery of an Environmental Centre have been **removed from this MTFs**, these previously estimated costs amounted to **£170k per annum**.

### 2.3.5 External Audit Fees

Full Council on 31<sup>st</sup> January 2022 gave approval for Torridge Council to join the Public Sector Audit Appointment (PSAA) procurement of external audit services for the financial years 2023/4 – 2027/8. Torridge along with 99% of all eligible bodies opted into the procurement process.

Torridge has now been informed of its External Audit provider for the 5 years from 2023/24. PSAA have not provided at the time of writing this report the definitive contract value for Torridge's external audit costs, but have informed Torridge and other local authorities that they should budget for increased costs of 150%.

Whilst PSAA have made representations to Central Government on behalf of the local authority sector; no assumptions have been made with regards to any additional support from Central Government on this matter.

The additional external audit costs built into the updated MTFs are detailed below:

2023/24	<b>(£20k)</b>	reflects contract variations to current external audit contract.
2024/25	<b>(£125k)</b>	2023/24 audit costs incurred in financial year 2024/25

### 2.3.6 Pay awards 2022/23 & 2023/24 (projected)

Further refinement to the impact of the agreed 2022/23 pay award and the impact of the projected 2023/24 pay award (allied to additional 1 days' additional annual leave effective from 1<sup>st</sup> April 2023) has resulted in the following update to the MTFs.

2023/24 reduced estimated costs	£42k
2024/25 reduced estimated costs	£29k
2025/26 additional estimated costs	(£17k)
2026/27 additional estimated costs	(£34k)

### 2.3.7 Insurance

The Council's insurance premiums are uplifted annually by inflation (September RPI), with inflation currently at circa 10% this has resulted in a cost pressure to the Council. Additionally an element of the Council's insurance premium is linked to the rebuild of properties; with construction price inflation the projected costs of rebuilding the Council portfolio of properties has risen; and the premiums associated with the insurance of buildings. The additional cost to the Council being **(£56k)**.

### 2.3.8 Cost Share – Devon County Council

In order to encourage increased recycling rates from Collection Authorities such as Torridge District Council, Devon County Council in its capacity as a Disposal Authority entered into cost share agreements whereby Councils such as Torridge were financially rewarded for increased levels of recycling.

Torridge Council entered into a cost share agreement with Devon County Council in April 2016 for 10 years. The current value to Torridge of this agreement is **(£270k) per annum**, it is not anticipated that Devon County Council will renew the cost share agreement at its conclusion. There is no legal requirement for them to do so and given the scale of the financial challenges faced by Devon County, savings on costs share agreements with the

collection authorities would represent a significant contribution towards their deficit. Consequently there is a cost pressure to the Council of (£270k) per annum **from 2026/27**.

### 2.3.9 Adjustment to Hostel income

Increased construction costs and revised estimates of the number of hostel units (bedrooms) which can be delivered, has resulted in a re-evaluation of the financial benefits which will accrue. The delivery of hostel accommodation is still financially desirable for the council. The re-evaluation of hostel and modular accommodation has led to a reduction in the financial benefits accruing of (£56k) per annum.

### 2.3.10 Proposal(s) from Member Budget Working Group (MBWG)

The MBWG has met regularly since the MTFs was last reported to Full Council on the 5<sup>th</sup> September 2022. Assuming the recommendation of the MBWG are approved by Full Council the following additional income could accrue to the Council from 2023/24 onwards.

- Reduce resident discount for cemetery charges to 25%      **£28k**
- Revised charges for Pre Planning Advice                      **£45k**

The table below summarises the changes to the MTFs since it was last reported to members on the 5<sup>th</sup> September.

	23/24	24/25	25/26	26/27
	£'000	£'000	£'000	£'000
Projected Deficit @ 5th Sept	1274	606	254	162
current projected deficit	494	317	137	292
<b>Favourable / (adverse) movement</b>	<b>780</b>	<b>289</b>	<b>117</b>	<b>(130)</b>
Income from Treasury Deposits	80	45	0	0
Removal of Environmental Centre	170	170	170	170
Pay Related adjustments	42	29	(17)	(34)
External Audit Fees	(20)	(125)	(125)	(125)
Insurance	(56)	(56)	(56)	(56)
Council Income	109	22	40	63
Business Rate Income	494	242	144	162
End of Cost Share agreement with DCC	0	0	0	(270)
MBWG - Cemetery Charges	28	28	28	28
MBWG - Pre Planning Advice Charges	45	45	45	45
Adjustment to Hostel Income	(54)	(54)	(54)	(54)
Reversal of one-off ICT saving from 22/23	(30)	(30)	(30)	(30)
Other adjustments	(28)	(28)	(29)	(29)
<b>subtotal</b>	<b>780</b>	<b>288</b>	<b>116</b>	<b>(130)</b>

### 3. Updating the MTFs – Risks and Assumptions

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 as detailed in a separate reported 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 are assumed to stay at their current levels for the duration of the MTFS, whilst increased interest rates will provide increased income to the Council for its cash balances; the cost of borrowing for Capital projects such as the Environment Centre and the Maritime Innovation centre will also increase.
- 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 of 3.% per annum for the duration of the MTFS.
- The Council will secure 11 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
  - 2023/24                      £703k
  - 2024/25                      £505k
  - 2025/26 onwards        £450k

\*\*\* Officers will continue to work proactively 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.

#### **4. 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.

#### **5. 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 – 30th November 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 first reported to members in February 2022, and further reported in September 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.

**6. Recommendations:**

That members note the revised Medium Term Financial Strategy.