

## Review of Assumptions in the 2022/23 – 2025/26 Medium Term Financial Strategy (MTFS)

### *Previously Agreed Directorate Budget Changes*

1. The existing MTFS includes funding for demographic and other agreed directorate pressures and savings which were approved by Council in February 2021. Details are set out in Annex 1a<sup>1</sup>.

Directorate	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
<b>Previously Agreed Pressures &amp; Investments</b>					
Children's Services	2.7	-1.4	-0.9		<b>0.4</b>
Adult Services	9.8				<b>9.8</b>
Public Health					<b>0.0</b>
Environment & Place	-0.2	-0.8			<b>-1.0</b>
Customers, Organisational Development & Resources	-0.6				<b>-0.6</b>
Commercial Development, Assets & Investments	-1.3	-0.5			<b>-1.8</b>
<b>Total Previously Agreed Pressures &amp; Investments</b>	<b>10.4</b>	<b>-2.7</b>	<b>-0.9</b>	<b>0</b>	<b>6.8</b>

<b>Previously Agreed Savings</b>					
Children's Services	-0.4				<b>-0.4</b>
Adult Services	-0.1				<b>-0.1</b>
Public Health	0.4				<b>0.4</b>
Environment & Place	-2.7	-0.6	-0.7	-0.2	<b>-4.2</b>
Customers, Organisational Development & Resources	-0.1				<b>-0.1</b>
Commercial Development, Assets & Investments	-1.8	-0.2			<b>-2.0</b>
<b>Total Previously Agreed Savings</b>	<b>-4.7</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-0.2</b>	<b>-6.4</b>

<b>Total Directorate Changes</b>	<b>5.7</b>	<b>-3.5</b>	<b>-1.6</b>	<b>-0.2</b>	<b>0.4</b>
----------------------------------	------------	-------------	-------------	-------------	------------

<b>Corporate Variations</b>	<b>3.8</b>	<b>23.1</b>	<b>19.9</b>	<b>19.0</b>	<b>65.8</b>
-----------------------------	------------	-------------	-------------	-------------	-------------

<b>Change to Net Operating Budget</b>	<b>9.5</b>	<b>19.6</b>	<b>18.3</b>	<b>18.8</b>	<b>66.2</b>
---------------------------------------	------------	-------------	-------------	-------------	-------------

### *Balances and Reserves*

2. The existing MTFS assumed general balances would be £30.5m at the start of 2021/22. The actual position taking into account the 2021/22 year end position was £34.6m. The Business Management & Monitoring report elsewhere on the agenda currently forecasts that general balances will be £33.2m at the end of 2021/22, assuming the corporate contingency. This is £4.4m higher than the risk assessed level of £28.8m.
3. When the budget and MTFS was agreed in February 2021, earmarked reserves were estimated to be £100.3m at 31 March 2021. Based on the 2020/21 outturn position, the actual position at 31 March 2021 was £157.0m. The 2020/21 year

<sup>1</sup> A negative pressure/investment relates to the fall out of a one-off investment/pressure. A positive saving represents the fall out of a one-off saving.

end position included the transfer of £14.2m of un-ringfenced grant to the COVID-19 reserve, £9.9m of the Contain Outbreak Management Fund grant to the grants and contributions reserve and £10.3m in the Budget Prioritisation Reserve to support Adult Social Care and Mental Health service pressures in future years. The latest forecast (included in the Business Management & Monitoring Report elsewhere on the agenda) indicates that earmarked reserves will be £169.1m by the end of the 2021/22 financial year.

	Forecast Balance at 31 March 2021 £m	Actual Balance at 31 March 2021 £m	Forecast Balance at 31 March 2022 £m
Schools' Reserves	14.3	17.3	17.3
Vehicle and Equipment Reserve	2.0	2.1	1.2
Grants and Contributions Reserve	7.9	20.8	19.4
Government Initiatives	0.4	2.1	1.8
Trading Accounts	0.3	0.5	0.2
Council Elections	0.8	0.8	1.0
Partnership Reserves	2.0	3.0	3.0
On Street Car Parking	1.5	3.2	3.2
Transformation Reserve	2.2	1.1	4.1
Demographic Risk Reserve	6.0	6.0	9.00
Youth Provision Reserve	0.7	0.7	0.0
Budget Prioritisation Reserve	5.2	14.6	11.3
Insurance Reserve	11.4	12.5	12.5
Business Rates Reserve	1.0	1.0	2.5
Capital Reserves	35.0	47.4	48.5
Covid-19 Reserve	0.0	14.2	23.4
Redundancy Reserve	1.6	1.7	2.7
Investment Pump Priming Reserve	2.0	2.0	2.0
Council Tax Collection Fund	6.0	6.0	6.0
<b>Total Reserves</b>	<b>100.3</b>	<b>157.0</b>	<b>169.1</b>

4. The School and Early Years Finance (England) Regulations 2020 came into force on 21 February 2020 and are applicable to the 2020/21 accounts. The regulations stipulate that a deficit on the DSG must be carried forward to be funded from future DSG income unless permission is sought from the Secretary of State for Education to fund the deficit from general resources.
5. Further clarification of the accounting treatment for deficit DSG balances was provided by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 which came into force on 29 November 2020. These stipulated that where a local authority has a deficit in respect of its school budget for a financial year beginning on 1st April 2020, 2021 or 2022, the authority—
  - (a) must not charge to a revenue account an amount in respect of that deficit; and
  - (b) must charge the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its school budget

6. As a result of this, an unusable reserve has been created on the balance sheet to hold the negative balance. This is different to the previous accounting treatment where the negative balance is held within the Council's total Earmarked Reserves. The Council has existing unusable reserves such as the Pension Reserve.
7. The Earmarked Reserves balances relating to March 2021 previously reported to Council in February 2021 set out in the table above have been adjusted for this change. The net negative DSG balance of £16.9m has been transferred to the DSG unusable reserve.

### *Inflation*

8. Pay inflation has been assumed at 2.5%, Contract inflation up to 3% and Income inflation at 2% for each of the remaining years of the existing MTFS. Funding of £6m has been included for each year from 2022/23 to 2025/26.
9. Consumer Price Inflation (CPI) was 3.2% in August 2021, an increase from 0.2% in August 2020. The Bank of England forecast CPI<sup>2</sup> inflation to increase up to 4% from the second half of 2021 finally returning to the 2% target in the second half of 2023. The increase mainly relates to the cost of energy and goods being high and being forecast to increase. The energy cost increases have been consistent since 1997 but the rise in the cost of goods relates to impact of the Covid-19 pandemic and Brexit. Retail Price Inflation (RPI) was 4.8% in August 2021 an increase from 0.5% in August 2020.

### *General Funding*

10. The Council's general funding, other than from Council Tax (see below), comprises Revenue Support Grant and the Local Share of Business Rates which is collectively known as the Settlement Funding Assessment (SFA). In addition, local authorities have been able to retain the growth in business rates from the baseline established in 2013/14 up to the Business Rate Growth Reset originally planned for April 2021. The reset was delayed in the 2022/23 planning round and the current assumption in the MTFS is that this will take place in April 2022. It is also assumed that the planned Fairer Funding Review would be effective from 2022/23 resulting in a decrease to the SFA.
11. The MTFS assumes that the council's local share of Business Rates increases with inflation (Consumer Price Index) which is linked to the expected change in the small business multiplier. However, no assumptions about future growth in the overall collection of business rates above the reset baseline have been built in.
12. The following table shows the estimates for general funding (excluding Council Tax) included in the existing MTFS.

<b>MTFS Estimates</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Settlement Funding Assessment (£m)	67.1	68.4	69.8	71.2
Business Rate Future Growth (£m)	0.0	0.0	0.0	0.0
S31 Business Rates Relief Grants (£m)	3.6	3.6	3.6	3.6
<b>Total General Funding (£m)</b>	<b>70.7</b>	<b>72.0</b>	<b>73.4</b>	<b>74.8</b>
<b>Percentage change from previous year</b>	<b>-11.1%</b>	<b>+1.8%</b>	<b>+1.9%</b>	<b>+1.4%</b>

<sup>2</sup> Bank of England Inflation Report August 2021

*Council Tax*

13. The existing MTFS is based on Council Tax increases of 1.99% across all years. With an additional 2.00% increase in 2022/23 is assumed for the Adult Social Care precept. A 1% change in Council Tax equates to £4.1m, with a small residual effect in subsequent years.
14. The existing MTFS also assumes growth of 1.5% in the tax base in 2022/23 and 1.75% in subsequent years. A variation of +/-0.25% results in a gain/loss of £1.1m.
15. Surpluses on Council Tax collection are estimated to be £2.0m in 2022/23 and £4.0m in each remaining year of the MTFS. This is based on previous years' surpluses that have been above that level in the last five years. In 2021/22 the Council Tax collection surpluses were £6.3m.
16. The table below sets out the estimates for Council Tax included in the existing MTFS.

<b>MTFS Estimates</b>	<b>2022/23</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Council Tax Requirement (£m)	430.6	446.8	463.7	481.2
Council Tax Base	263,220	267,826	272,513	277,282
Council Tax (Band D equivalent) (£)	1,635.88	1,668.43	1,701.63	1,735.49
<b>Increase in Council Tax (Band D)</b>	<b>3.99%</b>	<b>1.99%</b>	<b>1.99%</b>	<b>1.99%</b>
Council Tax collection surpluses (£m)	2.0	4.0	4.0	4.0
<b>Total Council Tax Income (£m)</b>	<b>432.6</b>	<b>450.8</b>	<b>467.7</b>	<b>485.2</b>
Percentage change from previous year	4.9%	4.2%	3.8%	3.7%