CALDERDALE MBC
WARDS AFFECTED: ALL

CABINET

8th NOVEMBER 2021

MEDIUM TERM FINANCIAL STRATEGY 2022/23 to 2024/25

REPORT OF THE HEAD OF FINANCE

1. Purpose of Report

1.1 The reasons for this report are to:

(i) Review and update the Medium Term Financial Strategy (MTFS) in light of the latest information and taking account of the implications of Covid-19 and other major risks

(ii) Inform Members of issues identified relevant to the update of the MTFS and highlight the key risks and challenges

(iii) Agree the proposed approach to the budget process and forecast savings targets for 2022/23

2. Need for a Decision

2.1 The level of uncertainty around the Council's medium term financial planning has been exacerbated this year by the continuing impact of Covid-19 and other risks such as the potential implications of rising prices and Brexit and the lack of longer-term Government funding allocations. This uncertainty makes it even more important that the Council implements its existing financial recovery plan, develop the Future Council approach, and start its budget process to create a sustainable financial position over the next three years. The Medium Term Financial Strategy is a key element of the framework required to allow this to happen.

3. Recommendations

3.1 That the Medium Term Financial Strategy (MTFS) be approved for recommendation to Council.

3.2 That draft budget proposals are brought forward by Cabinet for consultation in accordance with the approach outlined in the report.

3.3 That Members note the risks contained within the forecast as highlighted in the MTFS and this covering report when finalising their budget plans.

4. Background and/or Details

4.1 The Medium Term Financial Strategy (MTFS) is a key element within the Council's overall strategic planning framework and a key component of forecasting the resources which might be available to deliver the Calderdale Vision for 2024. The Strategy takes a three-year perspective and sets a framework to allow Members to make budget decisions within the best estimates of available capital and revenue resources. The MTFS and subsequent budget decisions should help the Council deliver the Vision for 2024 but also a sustainable organisation over that period. Given the constraints and continued funding reductions, alongside cost and demand pressures, and the on-going implications of Covid-19 both on the cost of delivering local services but also the local economy, it is inevitable that this will result in more difficult choices about the prioritisation of resources.

4.2 The MTFS was already set within a period of unprecedented uncertainty nationally, economically and for local government in terms of its future funding, increasing budget pressures and demand for its services. Covid-19 has added another level of uncertainty to the financial position and significant challenge to the financial resilience of local authorities.

4.3 There are also organisational uncertainties around, for example, the introduction of the integrated health and care system and potential future changes to the funding of social care. The combination of these factors and the escalating nature of some costs mean that significant funding gaps already exist for most local authorities. This has led to questions about the financial resilience of a number of councils and an index to help "provide an early warning system for local authorities with deteriorating financial positions and to prompt action where it is needed''. There have already been the unprecedented steps taken by two councils having to issue Section 114 notices within a year, restricting non-essential spend, just as other authorities are making plans to reduce to core statutory services. The number of local authorities reporting reducing levels of reserves available to withstand budget pressures, is also increasing.

4.4 CIPFA is implementing a new financial management code to support good practice in the planning of sustainable finances. This will reinforce the joint responsibilities of leadership and management within the organisation on financial management.

4.5 The MTFS is similar in structure to that used last year but updated to reflect current issues and to tie into the Council's Vision 2024 agenda. The latest Local Government Finance Settlement issued on 4th February 2021 covered only 2021/22. The comprehensive spending review released on 27th October 2021 set new three-year national spending totals for government departments but no commitment for a three-year settlement for local government. Although the review has not provided any firm, specific information for Calderdale in advance of the Provisional Local Government Finance Settlement (normally announced in December each year), further details can be found later in this section.

4.6 Even with this lack of visibility, the MTFS nonetheless uses the latest Local Government Finance Settlement as the basis for Government funding levels, in addition to forecasts of other sources of income and budget pressures. In summary the base forecast is for deficits as follows: -

	2022/23 £m	2023/24 £m	2024/25 £m
Potential Deficit	3.2	3.9	5.3

4.7 In arriving at this forecast some of the key assumptions used are as follows: -

- Council Tax Increases of just below 2% per annum
- Large contract inflation of 2% for 2022/23, 2023/24 and 2024/25
- Pay awards of 2.0% each year
- Fees and Charges prices increasing by 2% for 2022/23, 2023/24 and 2024/25
- No further austerity measures
- 75% rates retention rather than 100% from 2022/23 but with no financial gain or loss
- Assumed increases in the number of dwellings in Calderdale in line with the Local Plan
- Continuation of lost income as a result of the pandemic from some customer-facing Council services

4.8 In addition to these assumptions there are major areas of uncertainty which Members need to be aware of mainly in relation to national reforms that will impact on the forecast, in particular: -

- A future, post Covid-19 world where Government will need to re-build the country's finances
- Government's Fair Funding Review
- National Funding Formula for schools, high needs, and early years
- Political instability and the uncertainty over future austerity measures
- Business Rates System Reset and the introduction of 75% Rates Retention
- The climate change and de-carbonisation agenda

4.9 Given the uncertainty about the extent to which the Council will have recovered financially from Covid-19 in 2022/23, the level of Government support which will be provided in future along with demand and cost pressures, best and worst-case scenarios have also been prepared. It should be remembered though that the purpose of this sensitivity analysis is not to predict or forecast the future, but rather test and understand the financial risk faced by the Council given alternative plausible scenarios for the key drivers of costs, service demands and resources to which the authority will be exposed. This analysis suggests that the best-case scenario would still indicate a deficit next year of around £0.3m but with an increased funding gap of £7.3m in a worst case. The sensitivity analysis can be found in Section 5 of the MTFS.

4.10 This all assumes that the Future Council Programme, existing budget pressures and Covid-19 related costs can be contained within the available resources in the current year (based on the second quarter monitor and using Covid grant to fund the forecast overspends at this stage). If this is not the case, then any shortfall would need to be added to the savings targets referred to above. Although there is no wholesale plan to use further reserves to support the budget beyond on-going covid pressures, their level has reduced significantly in recent years. With the focus on reserves as part of the scrutiny of local authority financial resilience then this position will need to be carefully monitored and reserves restored if possible. The external auditor's assessment of the Council's Value for Money and going concern status will rely upon this information as usual but also cash flow projections and liquidity analysis.

4.11 The MTFS also incorporates a forecast and strategy for the Council's Capital Programme and investment activities. The Capital Programme currently shows a relatively small surplus after taking account of expectations for future capital receipts. Should the expected receipts not be realised, or existing schemes overspend then this surplus may not materialise. For this reason, it is not recommended that the surplus be committed until it is actually realised, and the existing programme delivered. The Capital Programme is however funded primarily through Government grant and prudential borrowing (on an invest to save basis). The extent of the Capital Programme will therefore be predominantly determined by the availability of these resources supplemented by our own capital resources as they become available.

4.12 All the forecasts included within the MTFS will be updated following the Provisional Local Government Finance Settlement (expected in December 2021).

4.13 In his recent budget of the 27th October, the Chancellor painted a picture of improving conditions for the UK economy: -

- Predicted growth of 6.5% this year
- Economy to pre-covid levels by end of the year
- Unemployment to peak at 5.2% in Q4 2021
- Wages rising by 3.5% in real terms
- Debt to peak at 85.7% of GDP in 2023/24

4.14 There were a number of announcements that may have an indirect or more direct impact on the Council's MTFS. Some of the more important ones were as follows: -

Announcements with wider or more indirect implications: -

- Real terms rise in spending for every government department
- Extra funding of £4.7bn for schools by 2024/25
- £5.7bn over five years for integrated transport schemes in eight English city regions as originally announced in 2019.
- No increase in the Business Rates multiplier (the rate in the pound that is increased by September inflation each year). Next year this would have been 3.1%.
- New 50% business rates discount for retail, hospitality, and leisure businesses (it was 100% up to 30 June in the current year and 66% for the remainder of this year).

- Increase in the living wage from £8.91 to £9.50 per hour
- Public sector pay freezes to end and public sector workers to receive pay rises over the next three years.
- There will be new reliefs for 12 months for businesses carrying out improvements to their premises which result in an increase in their rateable value and for businesses purchasing plant and equipment to produce renewal energy or decarbonisation.

Announcements specifically relating to the Council's finances: -

- There was no reference in the statement to the introduction of fair funding, business rate retention changes, reform of New Homes Bonus or commitment to a three-year settlement for local government nor the timing of the settlement.
- Core spending power for local authorities estimated to increase by 3% in real terms (i.e., after inflation) in each year of the Spending Review period. N.B. this increase in spending power assumes that local authorities raise Council Tax by the maximum amount allowable by Government including the Social Care Precept.
- £3.6bn of the £5.4bn social care levy announced in September to be routed through local authorities to cover charging reforms and revised care caps along with £1.7bn to improve the wider system including £500m for improved qualifications, training, and skills in the care sector. We assume all this will be cost neutral to the Council.
- New grant funding over the next 3 years of £4.8bn (£1.6bn p.a.) for social care and other services in Local Government but this will also need to cover new burdens such as the cost of the health and social care levy, the increase in the National Living Wage, and the extension of the Supporting Families programme. It will also cover the additional funding for cyber security and transparency.
- Council Tax referendum limit of 2% confirmed but a new 1% p.a. Social Care Precept announced.
- Levelling-up Fund - £1.7bn has been allocated against first round bids. The Council's bid for £12.2m for the Halifax Leisure scheme has been successful but the Clifton Enterprise Zone submission isn't included in the list of successful schemes for first round funding.
- Overall reduction in Business Rates of £7 billion and councils will be fully compensated for all new Business Rates measures announced in the review.

5. Options Considered

5.1 Although the Council has to make assumptions concerning a number of forecasts in the MTFS, ultimately it only has so much control over them. The main areas it does have control over (at least to some extent) include Council Tax increases, the use of balances & reserves and fees & charges levels. Further details on the rationale of the assumptions chosen can be found within the MTFS and proposals (especially concerning expenditure levels) will be brought forward during the budget process to balance the budget going forwards. The Council does have the option of delaying the budget process until the amount of Government support is clearer. This is however not recommended as it would leave little time to plan and implement the difficult budget decisions which are inevitable.

6. Financial Implications

6.1 Although this report does not have any direct financial implications at this stage, the base forecast in the MTFS shows that further savings are expected to be required. The extent of these savings will to a large part be determined by the amount of future Government support and the ability of the Council to control its spending.

6.2 In terms of the potential impact of the Spending Review on the MTFS, Calderdale's share of the £1.6bn of additional grant announced could be around £5m. However, new burdens such as the cost of the new Social Care (NI) levy both on the Council's pay bill and possibly through contractor spend will need to be funded from it. It is also unclear at this stage what other commitments in terms of increased spending will need to be met from this funding. The key assumptions within the MTFS will also need to be reviewed later in the year such as those for pay awards and inflation (particularly on energy costs). For this reason, the budget deficits/savings targets have been maintained at the levels previously forecast until the Provisional Local Government Finance Settlement is announced or more detailed information becomes available.

6.3 The Chancellor's Budget did however announce that the government would allow local authorities to apply an adult Social Care Precept (SCP) of 1% per annum over the next three years. For every 1% of additional SCP the additional income would be around £1m. The levying of a SCP though is a political decision and proposals for whether the flexibility is used or not will come forward as part of the budget process.

6.4 It is recommended that the Council continues the budget process for 2022/23 based on the savings targets assumed in the MTFS.

7. Legal Implications

7.1 None specifically identified.

8. HR and Organisation Development implications

8.1 There are no direct HR or OD implications from the MTFS, but consideration will be given to them during the upcoming budget process.

9. Consultation

9.1 Consultation to date has been with Cabinet Members and Directors, but, as in previous years, a formal, open, 28-day consultation will be held on budget proposals between January and February 2022.

9.2 The MTFS assumes at the moment that the Council wishes to continue with the normal budget process and that the information to support it will be provided in four phases. This report and the MTFS represent the first of four main stages in setting the Council's final budget.

1) Preparation of the MTFS (August - October)
2) Resource Prioritisation/Savings Options (October – December)

3) Cabinet's Draft Budget proposals for consultation (January)
4) Presentation of the Final Budget to Budget Council (February)

10. Environment, Health and Economic Implications

10.1 Climate change is already affecting the services which the Council delivers, for example, in its response to flooding events. Future budget decisions may need to include resources to enable the Council to respond to the climate change emergency. Similarly, the full implications of Covid-19 and Brexit, once known, may also have financial implications both in terms of the local economy and cost pressures on services provided by the Council well into the future.

11. Equality and Diversity

11.1 The equality and diversity implications of the budget proposals arising from the MTFS will need to be considered. One of the guiding principles of the budget process is, in fact, to identify the impact of our decisions on the economy, environment and equality and fairness for people.

12. Summary and Recommendations

12.1 The Council has developed the MTFS as the cornerstone of the budget process and it has been instrumental in guiding it. The MTFS and the three-year budget plans which sit behind it, along with other financial management arrangements, have helped the Council through a period of sustained austerity in the public sector. The warning signs for the public sector are however becoming increasingly clear as a number of local authorities take measures to restrict or reduce spend to statutory core services. This has been exacerbated by the financial implications of Covid-19. The MTFS highlights how the general Government grant funding to local authorities for Covid related costs and losses in income will be used to support the ongoing costs within the revenue budget. All other specific Covid related funding for businesses or the social care sector has been allocated to the eligible areas in full. The MTFS should be used to guide how the available resources should be used to deliver the Calderdale Vision for 2024.

12.2 The Council has also already put plans in place to make savings of £115m by 2022/23 compared to its 2010 budget. The latest forecasts of further savings required are that the Council will need to identify additional savings of £3.2m in 2022/23 rising to £5.3m by 2024/25. It could be argued that the scale of the reductions in spending required over the period of this plan is more modest than in others over the last 10 years or so, however, the risks to the Council's finances and the Government support available to fund them are more uncertain than ever this time.

12.3 The extent of the savings already achieved, limits the scope for future savings, highlighting the need to prioritise where resources are to be used and reducing the scope for additional investment. The forecasts assume for example no further investment and therefore any investment opportunities which require additional revenue funding (either as an on-going revenue cost or the cost of borrowing for capital investment) will need to be funded as part of the Revenue Budget process. It also assumes that the projected overspends in the current year which relate to the impact of the pandemic (based on the second quarter revenue monitor) will be funded through Government Covid grant and that the continued loss of income on Sports and Parking in future years will also be funded from the remainder of this grant until they recover to more pre-pandemic levels.

12.4 The approach which has been agreed by Cabinet in the economic and financial recovery plans and the Future Council report will help highlight where resources should be prioritised to deliver the core essential services in the first instance and to make use of the lessons learned during the pandemic.

12.5 There are a number of risks in the forecast. These have been identified in Section 5 of the MTFS which also includes a sensitivity analysis showing how the forecast might vary if the assumptions made change.

12.6 The uncertainty means that at this stage we can only forecast that the savings required may be in the range of £0.3m to £7.3m in 2022/23. This assumes that some of the Covid-related risks will be managed through the use of the remaining Covid funding but the extent of the Council's reserves that it can use on a one-off basis will also ultimately be dependent on what happens to the Council's finances dealing with Covid-19 and other budget pressures during 2021/22. Other than the use of the remaining Covid funding it is not recommended that the Revenue Budget be supported by use of one-off reserves unless there are plans to replenish them.

12.7 The recently announced Spending Review has the scope to improve the Council's finances based on the headline information about proposed grant increases to local government, but the position will not become clear until the Provisional Local Government Finance settlement in December. The MTFS also assumes delivery of previously agreed savings and plans. It is therefore recommended that the Council should continue the budget process aiming to identify additional savings to offset the deficits above to provide a margin of safety until further detail is available and there is greater clarity on the risks highlighted elsewhere in the MTFS.

12.8 The MTFS will be updated further as more information becomes available. The first major milestone is how the Government's National Spending Review 2021 translates into specific funding for each local authority.

FOR FURTHER INFORMATION ON THIS REPORT, CONTACT:

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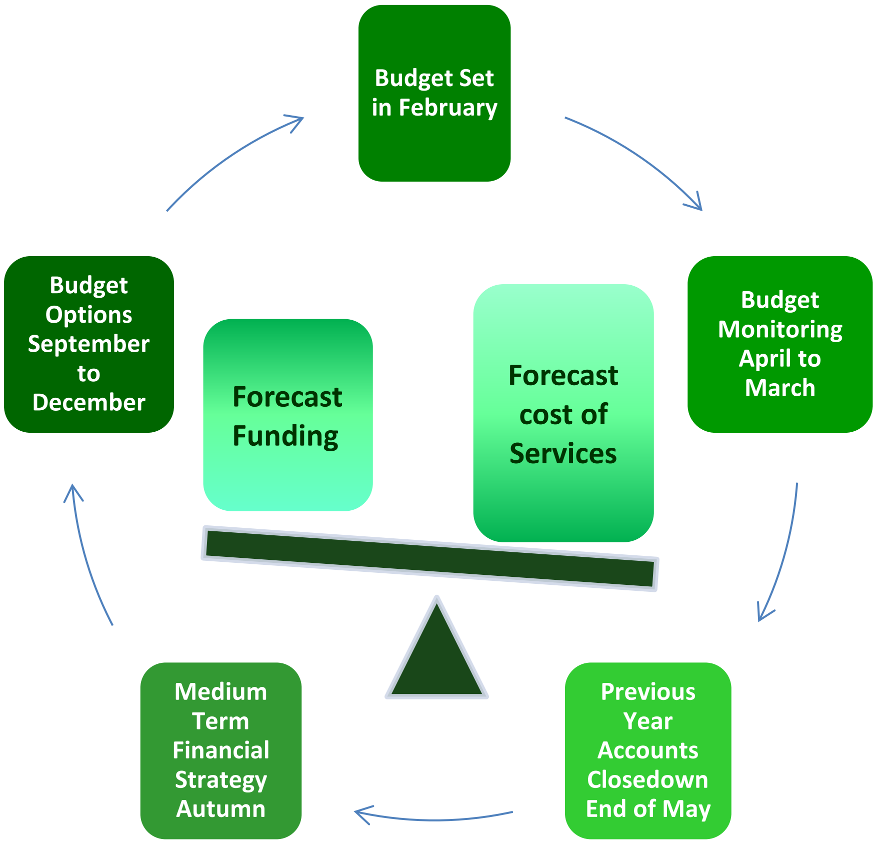
DOCUMENTS USED IN THE PREPARATION OF THIS REPORT ARE:
2021/22 Local Government Finance Settlement
Government Spending Review 27th October 2021
2nd Quarter 2021/22 Revenue Monitoring Report to Cabinet
Capital and Investment Strategy Report to Cabinet
2nd Quarter Capital Monitor 2021/22

DOCUMENTS ARE AVAILABLE FOR INSPECTION AT: On-line

Medium Term Financial Strategy



2022/23-2024/25

CALDERDALE MBC

MEDIUM TERM FINANCIAL STRATEGY TO 2024/25

CONTENTS

	Pages
Section 1 – Introduction	3
Section 2 – The Context and Timescales of the Budget Process	4-6
Section 3 – The Capital Strategy and Budget Forecast	7-13
Section 4 – The Revenue Budget Forecast	14-21
Section 5 – Risk, Sensitivity Analysis, and the Council's Balance Sheet	22-25
Section 6 – Summary and Conclusions	26

Section 1 Introduction

The Medium Term Financial Strategy (MTFS) is a key element within the Council's strategic planning framework. The Strategy takes a three-year perspective and sets an overarching forecast to inform how budgets will be prioritised within the best estimates of available capital and revenue resources in order to deliver Calderdale's Vision for 2024. Given the possibility of further reductions in public spending but more significantly the impact of Covid-19 and other risks such as Brexit, this prioritisation will be particularly important. A continuous review of Value for Money has previously been and continues to be implicit in order to ensure that budgets can be maximised and allocated to meet community needs. This builds upon the in-year approach to financial recovery and the ongoing work around re-shaping services into the Future Council and embracing the principles of Keep it Local.

This document outlines how revenue and capital budgets will be allocated to priorities set out in the Council's corporate strategies and plans. This is prepared in the context of significantly constrained resource availability and clear community and national expectations regarding affordable Council Tax levels but also major risks particularly in relation to rising prices, Covid-19, and Brexit.

The strategy aims to ensure that the Council's resources are aligned with its priorities. This will be demonstrated through the budget process and the budget consultation exercise. An income generation strategy also needs to be developed alongside the existing commercialisation strategy to assist the Council in maximising the other sources of funding available to it, and the decline in income which the Council has experienced during the pandemic.

The latest Local Government Finance Settlement released in February 2021 provided the level of grant that the Council could expect to receive in 2021/22 but no indicative allocations for the following years. The recent Chancellor's Spending Review gave some indication of relatively high-level departmental spending totals and announcements on additional capital investment in transport, schools etc as part of the Levelling Up agenda so, by necessity, 2021/22 has been used as the starting point for our forecast. Along with the need to plan for any further changes in grant funding announced in the latest settlement or after it, this MTFS updates assumptions previously made and considers future pressures that need to be managed such as: -

- the risk of not achieving previous years' savings targets
- the potential ongoing impact of Covid on costs, income & the local economy
- the impact of Brexit upon the Council and the local economy
- the continuing effect of the new national living wage (especially on our care contracts) and other inflationary pressures (e.g., on major contracts, energy and pay)
- the rising cost of social care, in particular for increasing numbers of adults with learning difficulties and Children Looked After
- the Fair Funding Review

The MTFS is the first of four phases this year in the process for setting the Council's budget: -

1) Preparation of the MTFS (August to October 2021)
2) Resource Prioritisation/Savings Options (October to December 2021)
3) Cabinet's Draft Budget proposals for consultation (January - February 2022)
4) Presentation of the Final Budget to Budget Council (February 2022)

Section 2 The Context, Links to other Organisation Plans and Timescales of the Budget Process

The environment in which the budget process stands is continually moving with a significant number of changes in the national agenda for local authorities having been introduced over the last 10 years.

Local authorities have taken on responsibility for Public Health, Health Visitors and Council Tax Support. Councils' Social Care budgets and NHS funding have been integrated into the Better Care Fund with further changes with the introduction of the Integrated Care Boards in 2022/23 and the new health and social care levy. The housing benefit administration is being transferred to the Department for Work and Pensions on a phased basis going forwards.

In addition to these changes there have been three different funding regimes for Local Government since 2010, more recently characterised by a move away from a centralised funding model to one where councils retain half of the Business Rates they collect and set the level of Council Tax Benefit in their areas. Government has also been consulting on a new system of 75% Business Rates Retention. Although this could now be deferred further, Leeds City Region (LCR) was successful in applying for a 100% pilot in 2018/19 and Calderdale has also been part of the North & West Yorkshire 75% pilot in 2019/20, a North & West Yorkshire pool in 2020/21 and a LCR one again in 2021/22. An application has been made for a Leeds City Region business rates pool to continue in 2022/23.

There are also a number of other issues that are not currently allowed for in our forecast, but which may have a major impact when/if they are brought in, the main ones being the Fair Cost of Care, Schools Funding Formula Changes, and the impact of Brexit. These could all have a potential multi-million-pound impact on the Council.

The financial position has to also encompass the new budgetary challenges brought about by Covid-19 and this is now reflected in the latest MTFS. The MTFS makes reference to and integrates other organisational plans into its forecasts to demonstrate an alignment between service and financial planning. Integrated financial and service planning requires costings and other financial analysis to enable the leadership team to identify financial implications, assess and manage risk and promote the effective implementation of the financial strategy.

The Council's overarching mission (Vision 2024) states that our vision for Calderdale in 2024 is for a place where you can realise your potential whoever you are, whether your voice has been heard or unheard in the past. We aspire to be a place where talent and enterprise can thrive. A place defined by our innate kindness and resilience, by how our people care for each other, are able to recover from setbacks and are full of hope. Calderdale will stand out, be known, and be distinctive. A great place to visit, but most importantly, a place to live a larger life.

2024 is an important year for Calderdale. It's the year that marks our 50th anniversary and will be a time to celebrate and reflect on what's been achieved over the last half century. This year's financial strategy continues the approach of being a rolling, multi-year forecast looking forward to 2024 but also reflecting current circumstances and revised aspirations.

Whilst the statutory local authority budget process continues to be an annual process, a longer-term perspective is essential if our Council is to demonstrate its financial sustainability. Short-termism runs counter to both sound financial management and sound governance in that the long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes so that these are sustainable.

Conversations with citizens and other stakeholders have been taking place to discuss where we want to be by 2024 and what the Council should look like. These will inform future MTFS and budget processes and help to address the big issues such as the climate emergency, the Care crisis, economic recovery, Culture and Wellbeing, Active Calderdale, and Cohesion & Integration. The work will be successful if we develop sustainable ways of better engaging with citizens so that we can reshape the way we do things to better meet increased expectations with reducing resources.

The financial effects of the Council's Investment, Treasury Management and Capital Strategies are fully taken account of in the MTFS, e.g., the ICT Infrastructure Improvement plan and migration to Windows 10 and Office 365 were previously approved by Cabinet and have been incorporated into the MTFS. The Council previously agreed a revised Minimum Revenue Provision (MRP) policy which produced time limited savings that are due to drop out in 2023/24. The MTFS already recognises the impact of this as an issue to be dealt with in those years.

Reserves have been built up over previous years and these potentially could help support the Council's budget over the next 3 years. However, these reserves are very low compared to other similar authorities and we still do not know what the impact of Covid-19 will be in 2021/22 and therefore the amount we will carry forward into 2022/23.

What is clear though is that we need to protect them as far as possible to help us retain flexibility in the budget should some of the early years' forecasts prove to be incorrect, e.g., Government funding levels change, or cost/demand pressures increase more than expected. The MTFS assumes therefore that reserves will be maintained other than those which currently hold the remaining Government grant for local authority additional costs and loss of income from Covid which will be used as required. Balances continue to be retained above the £5m limit in line with our agreed policy although there is some limited scope to use surplus balances if this becomes necessary.

The MTFS previously assumed Council Tax receipts will grow in line with additional housebuilding expectations set down in Calderdale's Local Plan. A delay of this due to Covid and other issues was also factored in. The Council Tax Base will be reviewed and set as normal as part of the upcoming budget process with any revised forecasts being built into an MTFS update for Cabinet in January.

Due to the above, it is a challenge to accurately assess the exact impact of recessionary forces on the Council. We are not expecting further reductions in Government funding to continue into 2022/23 but are wary about other pressures building in all our service areas. Our money is being stretched further, but we know how important it is to maintain the things that people value. The Council will therefore have to prioritise all expenditure and demonstrate value for money in everything that it does.

The key expected milestones for this budget process can be seen below: -

Date	Milestone
8th November 2021	Cabinet considers the MTFS
24th November 2021	Approval of the MTFS is sought from Council
Oct - Dec 2021	Development of Budget Proposals
December 2021	Provisional Local Government Finance Settlement announced
17th January 2022	Cabinet releases its consultation budget
14th February 2022	End of consultation/political groups finalise their proposals
28th February 2022	Budget Council to agree budget and Council Tax for 2022/23

Section 3 The Capital Strategy and Capital Budget Forecast

The Capital Strategy

Introduction

The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2017. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.

The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

The Prudential Code requires authorities to look at capital expenditure and investment plans in light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long-term financing implications and potential risks to the authority.

The Prudential Code sets out that, authorities should have a Capital Strategy to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

This Capital Strategy sets out the framework for the self-management of capital finance and involves the following areas: -

- Capital Expenditure and investment plans
- Prudential indicators
- External debt
- Treasury Management

The purpose of the Capital Strategy is: -

- To ensure capital expenditure is aligned with the Council's priorities
- To maximise the use of resources
- To provide a clear framework for decisions relating to capital expenditure
- To establish a corporate approach to generating capital resources

Calderdale's approach to Maximising Capital Funding

Over three quarters of the Council's Capital Programme is currently funded by Government grant or other external funding without calling upon the Council's resources, for example, the West Yorkshire Transport scheme is fully funded by grant. This will be drawn down as the scheme progresses through various approval stages.

The Council is selective in the bids it makes for external funding by ensuring consistency with its corporate priorities and financial strategies, i.e., there is still a risk of cost overruns as grant funding is usually cash limited. The Council has a forward programme of capital receipts covering surplus property, planned release of accommodation and development opportunities. The asset management team manages the disposals process drawing on expertise from the Council's Planning, Legal, Land & Property Services and Finance Services.

The Council's property policy is to rationalise the property portfolio (for example as part of the asset management review) and provide fewer buildings, which are maintained to a better standard, which are fit for purpose and provide better access to services. The Office Accommodation Strategy that went to Cabinet on the 3rd August 2020 built on this ethos and our changing work practices seen since the start of the Covid-19 pandemic. The capital receipts generated from this rationalisation process along with other surplus assets are re-invested according to the Council's priorities.

Most grant funding is un-ringfenced. Council policy is still to passport most of this funding to specific work programmes and therefore virtually all of this is directed towards major priority areas. All other schemes rely principally on external support (e.g., securing grant funding), prudential borrowing or the pool of capital receipts (funding raised by the sale of Council assets).

<u>The use of Capital Resources</u>

The Council's approach to prioritising the use of capital expenditure and resources can be summarised as follows: -

(a) For major annual programmes of work funded by specific Government allocations or where Members have chosen to passport resources in Schools, Highways and Housing to maintain the allocation of grant funding broadly in line with the earmarked Government allocations. Programmes for this work are determined once allocations are finalised and the funding is prioritised according to the overarching strategies and needs in those areas within the resources allocated.

(b) To progress projects which are fully funded, and which therefore will have no effect on the Council's overall capital financing position. This includes schemes which are paid for by grants or which will be financed by prudential borrowing. Capital projects which are fully funded or self-financing can be referred to Cabinet for inclusion in the Capital Programme at any time (subject to them still meeting the objectives of the Council). The appraisal process for schemes which are partly funded or for which there is no funding in place are considered as part of the prioritisation process outlined below.

(c) To prioritise all other schemes within the remaining level of capital resources available to the Council over the planned period.

As part of the November 2015 Spending Review, the Government announced that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of non-housing assets to fund the revenue costs of service reform and transformation. Statutory guidance on the use of this flexibility was issued in March 2016 which applies to the financial years 2016/17 through to

2019/20. In the Provisional Local Government Settlement 2018/19 (announced 19 December 2017) the Government confirmed that the flexibility to use capital receipts to help meet the revenue costs of transformation will be extended for a further 3 years to April 2022.

Previously, the Council reserved the right to use this concession to help with the costs associated with staff leaving the Council through service reconfiguration in various reviews of service that have taken place to reshape the delivery of activities within, for example, Early Intervention/Prevention, Business Support, Transport, Adult Social Care and Children's Services. However, given our modest level of capital receipts and general pressures facing the Capital Programme, this flexibility was not previously utilised although a relatively modest amount has since been incorporated within the revenue budget.

Prioritisation of Surplus Resources

The Capital Strategy demonstrates and sets the framework for how the Council's Capital Programme supports its corporate priorities. In order to prioritise the allocation of the available resources Members will consider the extent to which schemes contribute to the Vision 2024 or the longer-term priorities:

- Growing the economy
- Reducing inequalities
- Building a sustainable future

Specifically, the Future Council initiative will be looking at how we might now deliver the stated priorities and objectives in terms of:

- Developing thriving market towns
- Reducing inequalities and the causes of deprivation
- Acting upon our climate emergency

Cabinet will also need to consider in this prioritisation underlying criteria around value for money, necessity (e.g., fire safety works) and customer impact. It is assumed that any schemes that come forward requesting prudential borrowing approval, on a self-financing basis, will be considered separately on the strength of the business case and risks presented. In strengthening the Council's approach to project management these business cases will be subject to enhanced review and challenge.

Links to Other Strategies

The Capital Programme outside of the externally funded schemes is financed mainly from capital receipts from the disposal of surplus assets held by the Council and any prudential borrowing agreed by Members to be included in the MTFS. The revenue implications of the Capital Programme in terms of the cost of borrowing have been built into the MTFS. The sponsoring directorates accommodate within their revenue budgets the on-going revenue implications in terms of additional costs/income associated with the investment. The MTFS makes assumptions about the level of interest rates that the Council will pay on its borrowings and the period over which it will pay these (the Minimum Revenue Provision or MRP). These assumptions around revenue related capital programme costs are in line with the Prudential Code and Treasury Management strategy both of which form part of the Capital and Investment Strategy.

The three-year Capital Programme includes £24.1m of forecast expenditure to be funded by prudential borrowing, with the majority of this spend being on the Street Lighting LED project (which has now been completed), increasing local residential placements for children, the Northgate House scheme and various corporate estate projects. The annual cost of servicing this borrowing is approximately £1.2m. This has either been specifically budgeted for in the revenue budget or is due to be met from savings expected to be delivered by the schemes.

There are a number of major capital projects that are actively under consideration within the Council that are likely to require some significant level of prudential borrowing. These include, but are not restricted to, the Halifax Leisure Scheme, the Garden Suburbs and Clifton Enterprise Zone. The extent to which borrowing costs for these will be funded by scheme economics will determine whether any earmarked budget needs to be added to the MTFS. The current MTFS projections and savings targets though do not include any additional borrowing costs from these schemes that are under development.

The Capital Strategy is subject to continuous review and has been prepared in collaboration with other directorates to ensure that it is consistent with the MTFS, which has itself been reviewed and updated. The revenue implications of the Capital Strategy have also been built into the MTFS.

The Council's Investment Strategy includes both financial (Treasury Management) and non-financial (Commercial Property and other Investments) elements. The latest version of the strategy was approved by Members in February 2021.

As referred to above, non-financial investments are investments in other types of assets held primarily or partially to generate a profit including property investment. The Council has previously agreed an annual income target of £300k per annum from commercial investment including the acquisition of property and other assets as part of the budget process. It was anticipated, based on expected yields, that an investment of up to £15m may have been required borrowed from the Public Works Loan Board (PWLB).

However, since that strategy was agreed, Government has brought in measures to restrict the use of PWLB funding for such investments but not for service delivery (including for housing and regeneration in their own areas). For this reason, it was recommended that the Council, in last year's investment strategy, no longer pursued this type of investment, reflecting the realities of the new environment.

Monitoring and Review of Capital Investment

Capital investment activities are reported four times a year to Cabinet giving details of its overall shape, the progress being made and the funding flexibility available over the forecast period to promote new schemes. The report focuses on the cost, associated funding of schemes, delivery dates and provides an update on other major issues especially on the more significant schemes within the Programme. Non-financial investments are investments in other types of assets held primarily or partially to generate a profit including property investment.

The Capital Budget Forecast

Background

As highlighted above, the Council's Capital Strategy is to maximise the use of resources, to provide a clear framework for decisions relating to capital expenditure and to establish a corporate approach to generating capital resources.

Capital expenditure relates to spending on assets which are to be used by the Council over the long term. This includes the buying of equipment and the purchase, construction or improvement of land and buildings. The current programme includes provision for the Council's major projects including the initial development cost of replacement of Halifax Pool, Street Lighting LED replacement and the West Yorkshire Transport Fund schemes with the economic and environmental benefits continuing far into the future.

Forecast Expenditure

It is currently expected that over the 3-year period to the end of 2023/24 the Council will be spending around £139m on progressing or completing schemes. This figure does not include expenditure incurred in previous years or any additional expenditure yet to be approved. The capital programme is therefore likely to increase significantly as the Council considers investment in a new Leisure facility, the Garden suburbs, the Clifton Enterprise Zone, emission reduction and ICT and asset maintenance infrastructure amongst other schemes.

The Chancellor announced that £12.2m of Levelling-up Funding has been allocated to Halifax Leisure but the Clifton Enterprise Zone wasn't included in the list of successful first round schemes. The implications of this will need to be considered in due course.

In terms of the current year, it is anticipated that spend on the major programmes of work will be as follows: -

- Schools
- Network/Road Improvements
- Housing Adaptations
- West Yorkshire Transport Fund Schemes
- Public Sector Decarbonisation Scheme
- Street Lighting LED Replacement & Upgrade
- Transforming Cities Fund
- Northgate House Redevelopment
- Corporate Estate/Asset Management

- ICT Infrastructure
- Future High Street Funding
- Other regeneration schemes

In addition to the expected spend on the major schemes in 2021/22 listed above, more details of the anticipated spend on the whole Capital Programme over the next three years can be found in the Capital Monitoring reports to Cabinet.

Capital Resources

The main elements of capital financing are: -

i) Government-funded Grants
ii) Prudential (Unsupported) Borrowing
iii) Revenue and Reserves
iv) Pooled Resources – Capital receipts

This forecast reflects future Capital allocations where these have been announced. Where receipt of grants in future years is expected but allocations have not yet been made, grant figures are estimated. Future year allocations will continue to be revised in light of further information.

The funding of the Capital Programme for the period 1st April 2021 to 31st March 2024 is therefore based on the information we currently have and estimates of future resources as follows:-

- Grant Funding £110.6m (78%)
- Revenue and Reserves £1.2m (1%)
- Prudential Borrowing £24.1m (17%)
- Pooled Resources £5.0m (4%)

The largest proportion of Council capital spend is financed by Central Government grants. Although most of this is now un-ringfenced, Council policy is still to passport this to specific work programmes. Virtually all this funding is therefore directed towards school, road/transport, and housing schemes. It should also be noted that this expenditure (around 78% of the total) would be lost to the local economy if these schemes were not part of the Capital Programme as it is externally funded. All other schemes rely principally on other external support, prudential borrowing, or the pooling of capital receipts (funding raised by the sale of Council assets).

The Government no longer provides supported borrowing (i.e., where loan costs are paid to the Council through Revenue Support Grant) for new schemes. However, the Council has the power to supplement funding through prudential borrowing where it is proved to be sustainable (ideally backed by a valid business case) or funded from compensatory savings. When prudential borrowing is carried out the cost of this is charged to the revenue account as principal and interest.

The total cost of schemes currently in the Capital Programme is £139m and the associated funding is expected to be £141m. It is worth noting though that the Capital Programme will change over the next few years as new schemes are approved by the Council and confirmation is received from Government of the funding available for Highways and other schemes funded by it.

It is forecast at this point that the Council will achieve a surplus in funding of £2m over the 3-year period 2021/22 to 2023/24. However, a balanced budget will only be achieved if schemes remain within their current approved budgets. Also, around half of the £5m of capital receipts assumed in the forecast are still to be generated by the Council during the period. This income from the sale of assets is not guaranteed and may be subject to several factors including planning, consultation and decision making which can delay the process. It is not recommended therefore that any further schemes be added to the capital programme at this stage funded from capital receipts until these receipts are achieved and existing schemes delivered within budget.

In summary, the overall Capital Programme looks as below in terms of expenditure and resources available.

Overall Capital Financial Forecast

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Directorate Spend: -				
Adults and Wellbeing	2.9	7.2	3.3	13.4
Children and Young People	4.8	4.6	6.7	16.1
Regeneration and Strategy	66.3	21.3	19.2	106.8
Public Services	1.8	0.6	0.2	2.6
Total Expenditure	**75.8**	**33.7**	**29.4**	**138.9**
Financed by: -				
Grants and Contributions	56.8	25.1	28.7	110.6
Revenue Funding & Reserves	0.7	0.5	0.0	1.2
Ring fenced/Prudential Borrowing	15.9	7.5	0.7	24.1
Use of Pooled Resources	2.1	2.9	0.0	5.0
Total Potential Capital Resources	**75.5**	**36.0**	**29.4**	**140.9**

Section 4 The Revenue Budget Forecast

Introduction

The main focus of this document is the revenue budget as it involves the majority of the Council's expenditure and provides its main sources of income. Revenue expenditure is the day-to-day spending of the Council which is necessary to provide its services to the public. These running costs include employee salaries, premises costs such as utilities & rates and contracted out services (e.g., waste collection and disposal) and are financed from a number of sources the key ones being: -

1) General Government Revenue Support/Top-up Grant
2) Business Rates
3) Council Tax
4) Specific Government Grants
5) Fees and Charges
6) Partnership funding (e.g., from the NHS)

As can be seen later in this document, some of these funding sources are outside the direct control of the Council and some are inside its control. A number of assumptions have therefore been made which will be reviewed in future updates of the MTFS as and when more information becomes available.

Background

Since the first Spending Review under austerity in the autumn of 2010 a number of budget statements and other Government announcements have combined to determine the funding of councils. The last multi-year Local Government Finance Settlement was released on the 20th February 2017 covering Government Funding for 2017/18 and indicative amounts for the following two years. The settlements for 2020/21 and 2021/22 were "one-off" but in the absence of any better information, the latter forms the basis of Government funding included in the MTFS forecast going forwards. The Spending Review on 27 October 2021 provided high level information about departmental spending limits. Detail about allocations for local government will not be known however until the Provisional Local Government Finance Settlement in December.

General Key Assumptions and Policy Decisions in this MTFS

As in earlier versions of the MTFS, key general assumptions of changes in income and expenditure from the previous year have been built into the forecast.

The starting point of the expenditure forecast is the budget that was agreed at Budget Council in February 2021 as adjusted for subsequent approvals by Members.

This previous forecast reflected the assumptions included in the approved budget agreed, that is:

- pay inflation - 2021/22 and future years 2% increase year on year
- Contract inflation - 2% increase year on year
- Energy Prices – 5% increase year on year
- An Employer's on-going superannuation contribution rate of 17.1%
- Social care demographics £0.5m p.a. and 2.5% increase in contract prices relating to NLW – £1.4m increase in 2022/23 and £1.5m p.a. thereafter.

For this year's MTFS the updated main assumptions are as follows: -

Assumption	2022/23	2023/24	2024/25
Income Assumptions			
Inflation – top-up grant/Business Rates	+2.0%	+2.0%	+2.0%
Council Tax Increases	+2.0%	+2.0%	+2.0%
Increase in Fees and Charges budgets/targets	+2.0%	+2.0%	+2.0%
Expenditure Assumptions			
Budgeted Pay Rises	+2.0%	+2.0%	+2.0%
Contract Price Inflation	+2.0%	+2.0%	+2.0%
Adults Social Care Contracts Inflation	+2.5%	+2.5%	+2.5%
Energy Price Inflation	+5.0%	+5.0%	+5.0%
Price Increases for other budgets	0%	0%	0%
Pension Fund Contribution Rate	18.1%	18.1%	18.1%

The MTFS forecast that follows is made up of two main sections, the top half being the expenditure forecast and the bottom half the income forecast. The assumptions and rationale behind certain figures can be found after the table (where further explanation has been considered necessary).

As mentioned in Section 2, Government has been consulting on a new system of 75% Business Rates Retention from 2022/23. The additional income for Calderdale would amount to around £15m but would also be made fiscally neutral for councils (apart from retaining an element of any growth) by transferring responsibilities to us and/or taking away certain grants (e.g., Public Health, RSG, Section 31 Business Rate relief grants).

In effect the forecast below suggests that our latest estimate for 2022/23 indicates that there are numerous underlying and new budget pressures which will need to be addressed to bring the budget back into balance. Savings of c£3-5m per annum right across the MTFS period could now be required but these could rise if Government decides to re-introduce austerity measures on councils or fall if additional Government funding is provided or our worst fears from a Covid-induced recession do not come to pass. Should Government also relax its Council Tax referendum limits, the deficit could equally also fall assuming that local authorities are prepared to increase local taxation further on residents already facing their own budgetary pressures.

The revenue forecast for the next 3 years below is the base case showing the expected savings that the Council will have to make in order to deliver a balanced budget. The assumptions explained after the table are consistent with what is known at this present time as the most likely course of events taking account of the understanding of professional organisations (e.g., CIPFA, SIGOMA), political commentators, Government, and other public sector bodies.

The sensitivity analysis and risk assessment which can be found in a later chapter of this document shows how the forecast might change under a different set of assumptions. The constantly changing national agenda, the impact of Covid-19 and economic circumstances, however, mean that the funding position is particularly volatile.

3 YEAR BUDGET FORECAST 2022/23 TO 2024/25

	2022/23 £m	2023/24 £m	2024/25 £m	Note
Expenditure Forecast				
Service Controlled Gross Expenditure				
Adult Services and Wellbeing	99.3	99.8	100.5	
Chief Executives	28.4	28.7	29.0	
Children and Young People's Services	34.6	35.1	35.5	
Public Health	13.6	13.6	13.6	
Public Services	42.1	43.1	44.3	
Regeneration and Strategy	17.8	17.5	17.4	
Service Controlled Gross Expenditure	**235.8**	**237.8**	**240.3**	
Service Building Costs Controlled by CAFM	5.6	5.6	5.6	
Service Transport Costs Controlled by Transport Services	0.1	0.1	0.1	
Centrally Controlled Budget	27.3	29.6	29.8	
Total Gross Expenditure (net of DSG and Benefits)	**268.8**	**273.1**	**275.8**	
Pay and Prices				1
Inflation - Future pay rises of 2% p.a. already assumed in the budget	0.0	0.0	0.0	
On-going impact of 2021/22 pay settlement	1.6	1.6	1.6	
Large Contracts	0.3	0.6	0.9	
Exceptional increase in Energy Prices	0.0	0.0	0.2	
	1.9	**2.2**	**2.7**	
Adults Social care Changes				
Social Services Demographics	0.5	1.0	1.5	2a
Estimated Impact of 'New Living Wage' on Adult Care Contracts	1.5	3.0	4.6	2b
Increase in Social Care Contracts	1.4	2.8	4.2	2c
	3.4	**6.8**	**10.3**	
Other Issues				
Budget Pressures	2.4	1.8	1.8	3a
Release of budget set aside to meet increasing pension contributions	-0.8	-0.8	-0.8	3b
Potential impact of Spending Review	0.0	0.0	0.0	3c
	1.6	**1.0**	**1.0**	
Forecast Total Expenditure	**275.7**	**283.1**	**289.8**	
Funding Forecast				
Core Funding				
Revenue Support Grant	0.0	0.0	0.0	4
Top-up Grant	6.4	6.6	6.6	4
New Homes Bonus	0.4	0.4	0.4	5
PFI Interest Grant	2.2	2.0	1.7	
Extended Social Care Funding	5.4	5.4	5.4	
Local Share Retained Rates	40.9	42.1	43.4	6
Council Tax	92.7	97.1	100.3	7
Social Care Precept	11.3	11.6	11.7	
Collection Fund Deficit	-0.9	-0.9	-0.9	
Potential impact of Spending Review				
	158.4	**164.3**	**168.6**	
Other Grants				
Section 31 Grants related to Business Rates reliefs	9.3	9.5	9.8	8
Housing Benefit & Council Tax Support Admin Subsidy Grant	0.8	0.8	0.8	9
Public Health & Under 5s Grant	13.6	13.6	13.6	
Other Specific Grants	27.8	27.9	28.2	
Continuation of additional grants announced in last Settlement	1.4	1.4	1.4	
Contributions (including Better Care Funding from NHS)	23.9	23.7	23.6	
	76.8	**76.9**	**77.4**	
Other Income				
Contributions from Earmarked Reserves	0.1	0.1	0.1	
Fees and Charges	36.3	37.0	37.5	
Reduced Income streams re ongoing impact of COVID	-3.7	-2.4	-1.2	10
Contribution from Earmarked Reserve - (COVID reserve)	3.7	2.4	1.2	10
Monies to meet collection fund deficit due to covid no longer required	0.9	0.9	0.9	11
	37.3	**38.0**	**38.5**	
Forecast Total Income	**272.5**	**279.2**	**284.5**	

Forecast Total Expenditure	275.7	283.1	289.8
Forecast Total Income	-272.5	-279.2	-284.5
Net Surplus (-) / (+) Deficit	**3.2**	**3.9**	**5.3**

Expenditure Forecast Notes

The starting point of the expenditure forecast is the budget that was agreed at Budget Council in February 2021 as adjusted for subsequent approvals by Members. The notes below relate to forecast changes to the assumptions above and any changes not previously included.

1 Inflation (Pay and Other Large Contract areas)
Provision for future pay rises has already been made at 2% p.a.so no further budget has been earmarked within this MTFS although the Chancellor has announced that public sector workers can expect pay rises over the next three years. However, it was previously assumed that there would be a pay freeze in 2021/22. The latest offer by the employer’s side is for a 1.75% increase (with negotiations continuing) so it is reasonable to expect a circa 2% rise to be finally agreed. The MTFS therefore needs to “catch up” to bring the base salary budget up by 2% from 2022/23 onwards when compared to 2021/22.

An allowance has also been made within the budget for large contract inflation for the next 3 years based on our earlier expectations for inflation being in line with Government’s forecast of inflation remaining below the target of 2% (although clearly it is currently well above that level). Likewise, we are still budgeting for a 5% increase in energy costs although energy prices have risen significantly above this at least in the short term. Time will tell whether the currently high level of inflation proves to be transitory or not so we will continue to monitor this and adjusted in future updates of the MTFS. In keeping with previous MTFS, no additional budget will be provided for inflation on other general supplies and services and directorates will be expected to absorb any inflationary increases.

2 Adults Social Care

2a Social Services Demographics
The Council normally allows a £0.5m budget increase in social care to cope with demographic demand growth especially within All Age Disabilities. This MTFS continues the normal practice of increasing Adults’ budget by £500k year on year from 2022/23 through to 2024/25.

2b National Living Wage
On top of the normal inflationary increase, the Council is also expecting to have to continue providing for the additional costs of the new National Living Wage (NLW) in social care contracts which is set to rise again under Government policy.

2c Inflation (Social Care Contracts areas)
Pay inflation at 2% has already been built into the budget reflecting recent announcements of higher pay rises across the public sector. It is expected that inflationary increases on social care contracts that are made up mainly of staffing costs will therefore require this higher level of inflation.

3 Other Issues

3a Base budget issues identified in Revenue Monitoring
The latest revenue monitoring elsewhere on the agenda identifies an underlying directorate overspend of approximately £4.2m across the Council. Work is on-going on a strategy to reduce this down, but it is quite possible that some pressures can

only be dealt with partially and some not at all. Some of the more difficult issues relate to social care (especially All Age Disability, Early Intervention and Safeguarding) and Special Needs Transport. In the last MTFS, £1.4m (reducing to £0.8m across the line) was added into the budget to manage such pressures on top of the £1m p.a. that had previously been agreed. No further budgetary provision beyond this has been assumed for these pressures in the new MTFS and it is assumed that directorates will continue to deliver the additional savings agreed as part of the recovery plan. Likewise, the forecast does not include any allowance for on-going costs relating to Covid-19 beyond the normal cost and demand pressures being felt in service provision.

3b Release of Budget Set Aside for Increasing Employer Pension Contribution Rates
The Council pays 17.1% of its current payroll to the West Yorkshire Pension Fund (WYPF). However, it was previously assumed that that level of contributions would be insufficient going forwards due to Covid-19 and the need to eliminate our pension fund deficit. An additional 2% on the contribution rate was therefore factored into the budget to counteract this. The latest projections though show that the WYPF's funding position has recovered well from the pandemic although there is still some risk going forwards that our contribution rate might need to increase at the next revaluation. By releasing 1% (£0.8m) of the provision back into the MTFS (but retaining the other 1% for the time being) gives some prudence and comfort to our forecast whilst bringing us back into line with the assumptions being made by the other West Yorkshire councils.

3c Potential Impact of the 2021 Spending Review on Local Government Finances
In terms of the potential impact on the MTFS, Calderdale's share of the £1.6bn of additional grant mentioned in the Spending Review could be around £5m. However, new burdens such as the cost of the new Social Care (NI) Levy both on the Council's pay bill and possibly contractors as well will need to be funded from it.

For prudence, the MTFS therefore does not include any funding from this new grant until our allocations and related cost pressures become clearer in the Local Government Finance Settlement. With the ability to levy more Social Care Precept there is scope for the Spending Review to improve the Council's financial position over the next three years beyond the deficits included in the MTFS.

<u>Funding Forecast Notes/Assumptions</u>

The current forecast reflects the assumptions included in the budget agreed at Budget Council 2021 plus any changes forecast as a result of new announcements and subsequent approvals by Members. The main assumptions currently included within the income budgets are:

- Business Rates and associated grants – inflationary increases year on year
- Council Tax – 2% increase year on year
- Fees and Charges – 2% increase year on year.

The notes below relate to forecast changes to the assumptions above and any changes not previously included.

The 75% retained rates scheme which was anticipated to be introduced for 2021/22 has been delayed. This MTFS shows the Council's finances as it would look under the new regime, but, as Government has consistently said that it will be fiscally neutral, the impact is that the overall level of funding remains the same with simply a shift in the funding streams, for example, this forecast now assumes that the Council will not now receive RSG from 2022/23, instead retaining more of its Business Rates.

The Implementation of the Fair Funding Review has also been deferred as a result of Covid-19. This though is likely to have an impact on each council as it involves the relative share of the overall funding package for Local Government. Again though, the forecast assumes that until further details of the new funding formula are released by Central Government the impact will be neutral.

<u>Core Funding</u>

4 Revenue Support Grant (RSG) and Top-up Grant
The overall level of settlement funding assessment is normally increased annually by CPI. As stated above our forecast assumes a 2% uplift. Although this is below the current level of inflation it affords us a margin of safety more is known when the Local Government Finance Settlement is released in December.

5 New Homes Bonus (NHB)
NHB is calculated each year on the number of new homes or long-term empty properties brought back into use each year with rewards paid for 4 years. At the 2020/21 settlement it was announced that the 2020/21 NHB onwards would not generate any future 4-year legacy payments. The final legacy payment is in 2022/23 and Calderdale's NHB grant will be £0.4m in this year. It is not known what will happen to NHB going forwards, but Government has signalled its intention to review the scheme. There is no clear consensus within Local Government what this might mean but opinions range from the scheme continuing as is to the funding envelope returning to councils via the normal funding formula. The problem with the latter is that some of this funding has probably already been used to fund social care grants which are now built into each authority's baselines. A full return to us may therefore be a risky assumption to make as we have no way of knowing how much has already been spoken for/used. The above forecast therefore simply assumes that only the final year level of funding will continue in future.

6 Business Rates Base
The current figures for locally retained rates assume that there is still no business growth going forwards. This is in line with previous assumptions which took account of the impact the COVID 19 pandemic on the economy and the business community. The Business Rates Base is due to be re-assessed again in December as normal as part of the NNDR1 process. Our forecast will be reviewed at that point and fed into the MTFS update report for Cabinet in January.

7 Council Tax
Council Tax increases of 2% in each year of the MTFS underpin the budget. The Council has already maximised the use of existing Social Care Precept, but no new SCP has been added into this MTFS. The Chancellor has subsequently announced that councils with social care responsibilities may apply a 1% adult Social Care Precept per annum from 2022/23 but this has not been assumed in the projections. Although the Government has introduced a health and social care levy on individuals to fund pressures in these sectors it has stated that in the first instance the majority of this additional funding will be directed to the NHS.

The Council enjoys a high collection rate, but this was revised down as a direct result of the impact of the pandemic on our taxpayers. It was always anticipated though that this would only be a temporary situation and the assumption in this MTFS is that the collection rate in 2022/23 will rise to 97.5% followed by a return to 98% in 2023/24.

Previously the forecast was based on a combination of the growth in the Council Tax base indicated by housing growth in the Council's Local Plan offset by reliefs such as Council Tax Reduction and single person discount. As a result of the COVID-19 pandemic these assumptions were revisited. Growth rates were revised down and the level of householders claiming Council Tax Reduction were increased.

The forecast uses previous assumptions for these with a steady and full recovery of the planned increase in housing numbers over the period of this MTFS. In a similar way to with Business Rates, the 2022/23 Council Tax Base is due to be formally reviewed later in the budget process. This will form the basis of Council Tax income forecasts for both 2023/24 and 2024/25.

Other Grants

8 Business Rates
As the Council now retains some of the Business Rates generated, changes in Government policy in this area can have a major financial impact on Calderdale's finances. The strategy continues to assume that additional funding for policy changes such as extending Small Business Rate Relief and capping the increase in the multiplier (which is used to calculate Rates bills), and extending the retail, hospitality and leisure relief along with other measures announced in the Chancellor's Budget will therefore be made available to the Council to offset its loss of income. Similar assumptions have been made on these to Local Share of Retained Rates.

9 Benefits Administration Grants
There was some doubt as to whether Government Funding for the administration of Council Tax Support/Benefits would be available to councils going forwards especially in light of the planned transfer of some of the Housing Benefit work to the Department for Work and Pensions (DWP). As the transfer process is happening much slower than anticipated, only a small adjustment has been made to the forecast for any loss of grant. Any fall in grant will therefore have to be matched by reducing costs as staff either move to the DWP or leave the service.

Other Income

10 The on-going impact of Covid on Income Streams
The two main income generating areas impacted by Covid-19 were sports and parking. These areas continue to suffer from subdued income levels and not just as a direct result of the pandemic but also indirectly from behavioural changes. It is not possible to accurately predict lost income over the next 3 years but the MTFS assumes something similar to what is being reported in the latest revenue monitor for 2022/23, reducing towards the end of the MTFS period. By which time it is hoped that peoples' use of sports facilities will have returned towards pre-Covid levels. Car Parking income though could remain below pre-pandemic levels as working from home and the migration to on-line shopping are likely to prove less transitory in nature.

The use of reserves and balances help us retain flexibility in the budget should some of our forecasts prove to be incorrect. As agreed at Budget Council 2021, the MTFS does not include any contribution from balances or reserves to support the budget generally due to the significant risks inherent in the forecasts and assumptions above. However, due to the on-going (but potentially, transitory) impact of Covid on our income streams, the MTFS earmarks the balance of general Government Covid funding to offset this lost income. More details can be found in the next section but in a similar way to the losses described above it is recommended that use of the reserve is phased in over a period of 3 years.

11 Release of Budget Previously Set Aside for Collection Fund Losses
In a similar way to anticipating increased contributions to the pension fund, the Council set aside budget to cover losses in the Collection Fund (mainly from Business Rates but also Council Tax) brought forward from 2020/21. As Government provided significant Rates reliefs due to Covid, businesses defaulted on their payments less than expected. In addition, Government's income compensation scheme has meant that we can release this provision back into the budget to benefit the MTFS's bottom line.

Section 5 Risk, Sensitivity Analysis and the Council's Balance Sheet

Risk Assessment
The Council works closely with regional Councils, other partners such as the NHS organisations, SIGOMA and the LGA to keep abreast of developments. The MTFS is a living document with intermediate updates for Senior Management as further information becomes available. The Council also has a very strong risk management framework in place as set out in the Corporate Risk Management Strategy and Corporate Risk Register with each directorate having its own operational risk register which integrates with the relevant directorate performance management strategy, improvement plans and budgets.

The key issues with budget implications that have been allowed for in the MTFS are:-

- Rising inflation (especially in social care contracts)
- Assumed Council Tax increases and forecast additions to Calderdale's housing stock
- Budget pressures, recent approvals, and other known budgetary changes in future years
- The impact of Covid-19 and the use of legacy Government support towards it
- The best assessment of future funding levels

Obviously though, as with all forecasts, there is scope for them proving to be inaccurate as time moves on and assumptions are turned into fact. There are also a number of other issues which have not been included within in the MTFS but should at this stage be noted. The main ones are set out below. Where a number can feasibly be placed on these issues, they have been included within the sensitivity analysis.

- Potential for further Covid-related financial pressures and/or associated Government funding
- The current Social Care overspend can't be managed down over the period and remains at the current or increasing levels
- The potential for continued austerity
- Fair Funding Review/Business Rates Reset/National Spending Review
- Pay rises continuing to be higher than anticipated

On top of these there are other potential issues that may have a bearing on the Council's finances going forwards, but which are sufficiently uncertain to not include at all for the time being: -

- Political Considerations, e.g., Devolution, Brexit
- Fair Cost of Care
- National Funding Formula for schools
- Minimum Care Wage
- The well-publicised supply chain, staffing and inflation issues

For many of the reforms listed above the implications on individual local authorities will not be known until sometime in the future. Clearly, Brexit is still an unquantifiable uncertainty for the national economy and any deterioration of the economy could lead to further austerity measures imposed on local government and reductions in local funding sources. In addition to this macro risk there is the specific effect that

Brexit could have on the Council itself in terms of the resources (human and physical goods) it depends on to deliver its services.

Financial Resilience
The National Audit Office report on financial sustainability in local authorities, published following the crisis at Northamptonshire County Council, indicated that there is a heightened risk of more councils falling into special financial measures over the next four years as a result of the unrelenting pressure on budgets.

KPMG has also carried out some further work to diagnose whether the culture at Northamptonshire contributed to their financial problems and concluded that four factors in particular exacerbated the situation: -

- Lack of prudence in financial planning
- Absence of robustness in discharging the accountability & transparency of statutory guidance
- Transformation projects – not sufficiently overseen, monitored & reported by those charged with governance of process
- Strained relations (and trust) between officers and members

In response, as a self-regulation measure, the Chartered Institute of Public Finance and Accountancy (CIPFA) devised an index to indicate the relative level of financial resilience of each local authority and to provide an early warning and prompt action where it is needed.

The index is calculated using published documents such as the Revenue Outturn (RO) forms and each council's statement of accounts. The range of indicators involves: -

- levels and trends in reserves,
- interest payments and levels of external debt
- the proportion of the budget spent on social care
- access to and reliance on other sources of funding, e.g., fees and charges, Council Tax and Business Rates
- external assessments of VFM and service provision, e.g., from the external auditors and Ofsted.

Calderdale's reserves (including general balances but excluding public health and schools) have fallen markedly over recent years. Although the reduction was planned to an extent due to the use of reserves held for major Capital Programme schemes (including flood works), the current level of reserves is significantly below the average for a metropolitan district. Although the latest figures which are due to be released by CIPFA later this year should show a significant improvement in Calderdale's reserves position this is partly masked by the Government Covid funding which is held in reserves until it is utilised to meet additional Covid related costs. This reinforces the advice that the Council should very carefully consider the use of balances or reserves to support the revenue budget over the next three years and take steps to ensure that in-year overspends can be mitigated without the use of them.

Calderdale's financial resilience as measured by the other indicators is not of concern, but the information provides an important focus on action required by the Council to maintain or increase reserves.

Sensitivity Analysis
As mentioned above, the Council's current forecast contains a number of assumptions which impact on the level of its income and expenditure. Changes in these assumptions can have a fundamental effect on the bottom-line savings the Council may need to make over the next 3 years.

Importantly, the purpose of the sensitivity analysis is not to predict or forecast the future, but rather test and understand the authority's sustainability into an uncertain future given alternative plausible scenarios for the key drivers of costs, service demands, resources, and key risks to which the authority will be exposed. Without such stress testing an authority cannot be regarded as financially sustainable.

The sensitivity analysis gives some indication of the likely range of the Council's deficit position bounded by realistic worst- and best-case scenarios. Although it is always possible that there might be scenarios outside of these boundaries (as well as numerous ones within them), this is considered unlikely as the worst case assumes strongly negative estimates for most of the main aspects of the MTFS. Likewise, the best case contains only positive changes.

Some of the key variables that have been modelled are as follows: -

- Energy inflation is triple the 5% p.a. what we have currently budgeted for in the worst case
- Additional £1.4m funding provided in 2021/22 for Social Care (Calderdale £1.1m) and Lower Tier Services Grant (Calderdale £0.3m) does not continue in the worst-case scenario
- The 2021/22 pay award is at 1.75% in the best case and 2.25% in the worst
- The pay award for 2022/23 is similar to current CPI inflation of 3%
- New Homes Bonus (or equivalent) amounts to half of what the Council might receive under formula funding
- Council Tax and Business Rates collection rates deteriorate/improve by 0.5%
- Covid income losses better than expected and eliminated altogether by 2024/25
- Employer National Insurance – all cases assume this will be cost neutral to the Council (i.e., increased staff NI costs are funded by Government and extra funding for social care will cover those of care providers).

Taking account of all of the above and other flexed assumptions, best case scenarios have been modelled as a £0.3m deficit in 2022/23 and balanced budget thereafter. In terms of a worst-case scenario, the equivalent years' figures are £7.3m, £11.8m and £14.1m.

Although it is expected that the actual budget outcome would be around the base case detailed in this MTFS, the central forecast is probably weighted closer to the best-case scenario. It should also be pointed out that in the best-case scenario, the Council would still need to identify additional savings (although it would be in a better position to develop a strategy to build up the level of reserves or investment initiatives which would assist the Council moving closer to its Vision).

Earmarked Reserves and Unallocated General Balances
Earmarked reserves are sums set aside for specific purposes to meet items of future expenditure. The table below shows the Council's reserves as at the end of 2020/21 and a simple projection of reserves at the start of the MTFS period assuming that Covid funding is used to balance the budget in 2021/22.

Reserves 1st April 2021 to 31st March 2022

Reserve	As at 31/03/21 £000s	Assumed Use in-year £000s	Earmarked @31/03/22 £000s
Public Health - upfront grant received	2,352		2,352
Budget Support	4,138		4,138
Covid Grant	12,608	-5,304	7,304
ICT Reserve	1,621		1,621
s106 Planning Agreements	215		215
Contingent Liabilities (incl. Insurance Fund)	7,073		7,073
Investment Reserve for the Capital Programme	3,037		3,037
Early Retirement	1,971		1,971
Government grant to cover cost of new Business Rate Reliefs	11,179	-11,179	0
Underspends brought forward	498		498
Flooding Reserve	577		577
MRP - towards reprofiling debt repayments	2,914		2,914
Covid Grants -Service specific	4,458	-4,458	0
Better Care Fund	1,464		1,464
Other Earmarked Reserves/Planned Expenditure	4,751		4,751
Total Non-schools Reserves	**58,856**		**37,915**
General Balances	5,782		5,782

The figures exclude reserves set aside by schools for their use and it should also be remembered that some of the remaining reserves are not available for general use. For example, £2.3m is ring-fenced for Public Health activities and it can also be assumed that the Council's £7m Insurance Fund is restricted as this is clearly subject to claims activity over the period of the MTFS.

There has been a clear reduction in reserves since 2015/16 when they stood at £71.4m so it is recommended that reserves are not used to support the MTFS apart from the general Covid funding of £7.3m (subject to the outturn budget position in 2021/22) in the above table to offset the on-going effects of Covid on the Council's costs and income levels.

Unlike specific earmarked reserves, general balances are kept to help the Council manage cost, income, and other significant events by providing short term, one-off funding to support the MTFS. As mentioned above it has been assumed that any forecast overspends in this financial year will ultimately be absorbed by directorates or met from Covid reserves. As can be seen, balances are above the minimum requirement of £5m, and, currently, no further use of them has been approved throughout the 3 years of this MTFS.

Section 6 Summary and Conclusions

The Council's financial position needs to be viewed in the wider context of historical public sector austerity and the impact this had upon the financial resilience and sustainability of local authorities (even before the Covid-19 outbreak). The Council has already put plans in place to make savings of £115m in 2022/23 (compared to our 2010 budget) at the same time as delivering a Capital Programme which will result in the investment of £139m over the next 3 years in Calderdale financed from a combination of government grants, the sale of assets and the use of borrowing.

The Council has delivered savings despite a reduction in the number of full-time equivalent staff of over a third and despite no apparent significant reduction in service delivery. The revenue implications of the capital plan set out in Section 3 is fully budgeted for within the MTFS, but no further provision has been made for the potential borrowing costs associated from significant additions to the capital programme over the next three years.

The revenue forecast suggests that new savings now required in 2022/23 could be around £3m. This savings gap doesn't increase significantly on a cumulative basis in 2023/24 and 2024/25 even with rising contract costs, pay and other inflation. This is mainly due to our expectations of income levels returning to normal as the economy recovers. Strategically, the MTFS also makes allowance for budget pressures and rising costs in demand-led priority areas such as social care and anticipates higher employee costs in line with recent experience.

Some developments are within our control such as providing additional budget for inflation and growth. Other factors are only partly under Council control (e.g., Council Tax which is subject to a government approved limit) and others that are not under our control at all such as Government policy and grant levels.

For the above reasons the risk assessment in Section 5 highlights the main uncertainties in the Council's budget. The most significant of these are considered to be the Local Government Finance Settlement (and the impact the Spending Review has on this), the rising cost of care and the future Fair Funding Review. Where possible the sensitivity analysis attempts to model the extent of those risks giving upside and downside variations to the Council's central forecast.

The Council's balance sheet has also been reviewed to assess the scope to use balances or reserves to help reduce the MTFS deficit. Balances are near to their minimum level and it is strongly recommended that there is no further use of balances or reserves during the budget process to manage the MTFS deficit other than for covid-related pressures.

The potential deficit forecast in the MTFS is lower than some the Council has faced in the past, but, on the other hand, it will still be challenging as significant efficiencies have already been taken out of the budget. The outcome of the Local Government Finance Settlement will not be known until December but the headline figures in the Spending Review suggest the scope to improve our finances beyond those indicated in the MTFS. Significant risks remain however in the MTFS around cost pressures, and it assumes the delivery of existing savings targets and plans. It is recommended therefore that the Council should continue planning for the deficits set out in this MTFS until the implications of the Spending Review for local government are understood in more detail and/or the risks outlined in the MTFS become clearer.