

REPORT TO:	Cabinet 24 January 2022
SUBJECT:	Medium Term Financial Strategy 2022/23 to 2024/25 Update on Position
LEAD OFFICER:	Richard Ennis, Corporate Director of Resources (S151 Officer)
CABINET MEMBER:	Councillor Hamida Ali, Leader of the Council Councillor Stuart King, Cabinet Member for Croydon Renewal Councillor Callton Young, Cabinet Member for Resources & Financial Governance

SUMMARY OF REPORT:

This report updates Cabinet on progress in delivering a balanced budget for 2022/23 and the Medium Term Financial Strategy [MTFS] over the next three years.

The Council continues to make good progress towards achieving a balanced and robust budget that takes account of delivery risk and the need to improve further the overall reserves position of the Council to give a more solid financial base on which to improve the Council's services to residents and businesses.

The report sets out the changes to the position last reported to Cabinet on 6th December 2021 and takes into account the implications following the announcement of the Provisional Local Government Finance Settlement [LGFS] announced on 16th December 2021 as well as other changes in assumptions occurring after that last Cabinet report.

A 2022/23 remaining gap of £13.151m was reported at the beginning of December, and that gap has reduced to £4.337m now – a reduction in the gap of £8.814m.

However, there are pressures relating to expected contract inflation and future pay awards, as well as emerging uncertainty around achievability of delivering on a number of savings proposals and is likely to further increase this latest gap. The Council will take a robust, constructive and appropriate approach in these respects. Emerging opportunities to reduce overall capital financing costs in part mitigate these emerging pressures, but taken collectively would, if they materialise, see the gap grow back to £11.337m. These budget de-risking items are work in progress and subject to further work and will be reported again to the February Cabinet committee ahead of full Council for budget setting in February.

Given the positive continuing delivery of the 2021/22 budget there will be a review of the Council's general un-earmarked and earmarked reserves position that will be reported and considered through both the Scrutiny and Overview and General Purposes and Audit Committees on route to Cabinet and then full Council in February.

FINANCIAL IMPACT

The remaining budget gap of £11.337m could be contained within the already approved provision for contribution to General Reserves in 2022/23 and thus the 2022/23 Budget can be balanced. Work continues to mitigate growth requests and to identify further savings opportunities / de-risk existing proposals which has the potential to close the gap still further. Any such improvement will allow the rebuilding of earmarked reserves to add further resilience to meet unforeseen future budget pressures.

1. RECOMMENDATIONS

The Leader has delegated authority to Cabinet to make the following decisions:

- 1.1 Note the latest projected MTFS Gap for the 2022/23 General Fund Revenue Budget of £4.3m, but that further pressures are likely to increase that towards £11m, but is pending further review to reduce that gap;
- 1.2 Note the positive grant settlement against the budget set out in paragraphs 3.3 to paragraph 3.23.
- 1.3 Note that the Council is appropriately on route to balancing its budget for 2022/23.

2. EXECUTIVE SUMMARY

- 2.1. The Council set out a three year Medium Term Financial Strategy in March 2021, which delivered a balanced budget for 2021/22, but still had a £38m gap to be bridged in 2022/23. This gap included capitalisation direction approvals of £50m and £25m in 2021/22 and 2022/23 respectively.
- 2.2. The last report to Cabinet on the MTFS set out a latest position at that point in time of £13m. Since that report we have seen a number of further changes to the MTFS position, and in particular takes into account the outcome of the Provisional Local Government Finance Settlement. The MTFS Gap (before any further risks or opportunities) reduces for 2022/23 to £4m.
- 2.3. However, recent movements in expected inflationary pressures, the delivery risk around a number of specific savings or anticipated funding streams and interest earnings forecasts would increase the gap back to £11m.
- 2.4. Whilst this remaining gap could be bridged by re-allocating the £15m in the 2022/23 Budget to build General Reserves, we continue to work on mitigating growth pressures and de-risk the savings delivery contingency. We would wish to attempt to reduce the net remaining gap to around £8m so the remaining contribution to reserves could be used to further build resilience in

earmarked reserves. This will be subject to a risk based reports through various committees.

3 GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY

3.1 Previously Reported Position

3.2 Cabinet considered a report on 6th December that provided an update on progress in identifying savings (and recognising additional growth pressures) in order to bridge the future gaps in the Council’s revenue budget over the period 2022/23 to 2023/24, whilst extending the MTFS planning horizon to include the new third year 2024/25. The position then reported is summarised in the table below:

Table 1 – Previously Reported MTFS Position

	<--- Incremental Changes --->			<--- Cumulative Changes --->		
	2022/23 (£,000's)	2023/24 (£,000's)	2024/25 (£,000's)	2022/23 (£,000's)	2023/24 (£,000's)	2024/25 (£,000's)
Original Gap - Approved Mar 21	38,378	22,133	-	38,378	60,511	60,511
Further Growth Requests	23,284	2,195	11,787	23,284	25,479	37,266
Cessation of Capitalisation Direction	-	-	5,000	-	-	5,000
	61,662	24,328	16,787	61,662	85,990	102,777
New Savings Proposals	(57,332)	(10,840)	(17,926)	(57,332)	(68,172)	(86,098)
Less Savings Delivery Contingency	8,821	2,168	3,585	8,821	10,989	14,574
	(48,511)	(8,672)	(14,341)	(48,511)	(57,183)	(71,524)
Overall Net Remaining Gap	13,151	15,656	2,446	13,151	28,807	31,253

3.3 The Provisional Local Government Finance Settlement [LGFS]

3.4 The Provisional Local Government Finance Settlement was announced on 16th December, and whilst still only provisional, we are not expecting to see any significant change when the Final LGFS is confirmed later in January. A number of the changes had already been anticipated in either the original MTFS Gap (established in March 2021, or in subsequent growth and savings proposals developed over recent months and was incorporated into the previously reported £13.151m gap.

3.5 Our analysis of the outcome of the Provisional LGFS is summarised in the following:

3.6 Nationally, the Settlement set out extra cash funding for local government of £3.5bn – a 6.9% increase. Within that overall increase is included the following:

- Council Tax increases for single tier local authorities was confirmed at 2.99% before being subject to Referendum criteria (being 1.99% general increase plus an additional 1.00% as a Social Care Precept);

- Included in the overall cash increase was £1bn for social care pressures (Improved Better Care [iBCF]; Social Care Grant; and Market Sustainability and Fair Cost of Care Grant);
- Whilst reform of the New Homes Bonus grant was announced as part of the 2021/22 LGFS, delays in implementing changes have seen a further one-year award for 2022/23 – nationally this grant falls by £68m – 10.9%;
- A new, but one-off, 2022/23 Services Grant of £822m. Planned reform to the Settlement Funding Assessment [SFA] basis of allocation has again been delayed and still awaits the outcome of the Fair Funding Review. Whilst some form of transitional damping is promised with any future allocation, this grant is specifically excluded from any such future damping;
- Revenue Support Grant [RSG] rises by £51m – 3.1%;
- With the national Business Rate Multiplier being frozen, councils see no increases to their Baseline Funding levels (locally retained business rates) or Tariff/Top-Up payments, but an additional £375m is made available as compensation to local authorities for this freeze.

Table 2 – Summary of National LGFS Changes

	2021/22	2022/23	Change	
	(£m's)	(£m's)	(£m's)	(%age)
Settlement Funding Assessment [SFA]	14,810	14,882	72	0.49%
Compensation for under-indexing the business rates multiplier	650	1,025	375	57.69%
Council Tax Requirement excluding parish precepts	30,327	31,728	1,402	4.62%
Improved Better Care Fund	2,077	2,140	63	3.02%
New Homes Bonus	622	554	(68)	(10.89%)
Rural Services Delivery Grant	85	85	-	-
Social Care Grant	1,710	2,346	636	37.21%
Market Sustainability and Fair Cost of Care Fund	-	162	162	n/a
Lower Tier Services Grant	111	111	0	0.00%
2022/23 Services Grant	-	822	822	n/a
	50,392	53,856	3,464	6.88%

3.7 Our overall review of the national LGFS announcement included the following observations:

- The Settlement has again been announced later than local government would have liked in order to effectively plan and we would again call on the Department for Levelling Up, Housing and Communities [DLUHC] to make future announcements in a more timely manner;
- The Settlement is again for one year only and as such does not facilitate longer term planning over a multi-year financial horizon as we

are required to do under best practice and the CIPFA Financial Management Code;

- The Chancellor's Autumn Budget Statement (27th October 2021) referred at that point to a "real terms" increase in local government funding for next year of 3%. However with latest inflation rates reported at 5.1%, the cash increase of 6.9% falls below this real terms increase;
- The increases assumed in the LGFS assume that business rate receipts continue unchanged from levels determined and subsequently indexed since the localised business rate regime was introduced in 2013/14. As such the forecasts take no account of changes that may arise to overall yield as a result of business failure brought about by the Covid pandemic; and
- Of the £3.5bn additional cash available to local authorities in 2022/23, over half is raised locally from Council Tax or business rates retention.

3.8 Whilst the above sets out the national picture of the implications of the Provisional LGFS, each individual local authority has its own unique circumstances and will be impacted slightly differently. The following summarises the particular position for Croydon Council.

Settlement Funding Assessment

- 3.9 Settlement Funding Assessment [*SFA*] consists of retained business rates (both the target share to be collected and a Top-Up grant) and Revenue Support Grant [*RSG*]. Whilst we had assumed a 2% increase in our forward planning contained in the March 2021/22 MTFs, the freezing of the business rate multiplier in fact sees no increase to this allocation (although this is compensated for by a separate grant detailed below). Whilst we had assumed a similar increase in RSG, the allocation of 3% is greater than that assumed.
- 3.10 As mentioned in the previous paragraph, whilst there is no change in the NNDR multiplier compensation for previous indexation has been increased to compensate for this.
- 3.11 The delay in updating the Settlement Funding Assessment through the Fair Funding Review is disappointing as it further delays receiving formula funding to match our underlying needs. When last set in 2013/14, the Council had £10m top-sliced from its assessed grant need to support other authorities damping grant where their assessed SFA fell substantially – this damping cost has remained since and all other things being equal will have seen the Council receive £100m less funding over the last ten years than the needs assessment suggested the Council required.

Council Tax Requirement

- 3.12 The LGFS in calculating a local authority's Core Spending Power [*CSP*] assumes every Council increases its Band D charge by the maximum under

the Referendum (Excessive Council Tax Demand) regulations. As a single-tier local authority this is a 1.99% general increase plus 1.00% as a Social Care Premium. This increase had already been assumed in our MTFS position.

Improved Better Care Fund

- 3.13 The Improved Better Care Fund [*iBCF*] grant has increased by £293k (3.02%) but was not assumed in our MTFS planning prior to the LGFS announcement.

New Homes Bonus

- 3.14 The New Homes Bonus [*NHB*] was first introduced as both an incentive for local authorities to promote new homes and to compensate for delays in government formula funding allocations matching growth in underlying pressures. Originally, each year's bonus was to be retained for six years but has gradually been reduced to only retaining the 2021/22 grant into 2022/23.
- 3.15 Whilst a fundamental review of NHB was announced a year ago, we made an assumption during the autumn that the scheme would roll forward by another year. The LGFS announcement vindicated that assumption and we only see an £80k variance to the previously assumed MTFS gap.

Table 3 – New Homes Bonus Allocations

2011/12 (£,000's)	2012/13 (£,000's)	2013/14 (£,000's)	2014/15 (£,000's)	2015/16 (£,000's)	2016/17 (£,000's)	2017/18 (£,000's)	2018/19 (£,000's)	2019/20 (£,000's)	2020/21 (£,000's)	2021/22 (£,000's)	2022/23 (£,000's)
2,202	2,202	2,202	2,202	2,202	2,202	2,023	1,215	2,873	1,338	2,101	991
	2,023	2,023	2,023	2,023	2,023	2,023	1,215	2,873	1,338	2,101	991
		1,215	1,215	1,215	1,215	1,215	1,215	2,873	1,338	2,101	991
			2,873	2,873	2,873	2,873	2,873	2,873	1,338	2,101	991
				1,338	1,338	1,338	1,338	1,338	1,338	2,101	991
					2,101	2,101	2,101	2,101	2,101	2,101	991
						991	991	991	991	991	991
							1,825	1,825	1,825	1,825	1,825
								1,768	1,768	1,768	1,768
									2,745	2,745	2,745
										1,575	1,575
											2,347
2,202	4,225	5,440	8,313	9,651	11,752	8,518	6,255	6,685	7,329	6,145	4,115
						Reduction due to NHB Period being reduced from 6 Years					
						(2,023)	(4,088)	(4,211)	(3,439)	(4,860)	(7,136)

- 3.16 It should be noted that in 2022/23, the Council will receive £7.1m less in NHB funding than if the grant had been retained for the full six years as promised in the original scheme. This is particularly disappointing as our Settlement Funding Assessment has not been updated for underlying spending need caused by housing growth since 2013/14.

Social Care Grant

- 3.17 The Social Care Grant of £7,837k in 2021/22 is to rise by £3,283k (42%) to £11,120k in 2022/23.

Market Sustainability & Fair Cost of Care Fund

- 3.18 New and additional funding has been provided within the Provisional LGFS for a Market Sustainability and Fair Cost of Care Fund and represents £946k for Croydon. This grant is to support local authorities as they prepare their markets for adult social care reform and to help move towards paying a fair cost of care. As a new grant, and not previously forecast in the MTFS Gap, this funding improves the overall Gap.

Lower Tier Services Grant

- 3.19 Although the Lower Tier Services Grant (first introduced in 2021/22) remains unaltered at the national level, changes in the distribution methodology sees a £34k (5.3%) rise in Croydon's allocation.

2022/23 Services Grant

- 3.20 Another new grant was announced in the LGFS as the 2022/23 Services Grant. As a newly announced grant, this was not planned for in the current MTFS Gap assumptions and represents an improvement in that position.
- 3.21 As part of the 2022/23 Provisional LGFS announcement, further proposals are promised to be put forward for consultation on changing the determination of funding – the long-awaited Fair Funding Formula Review. Note is made of any change to future formula funding being subject to transitional damping arrangements to allow time for local authorities to adjust to any revised funding levels (typically net neutral overall costs with funding for councils seeing falls being offset by top-slicing against increases for other authorities). Specific mention is made in the LGFS that the benefits from this grant would be dis-regarded in calculating any damping arrangements. As previously mentioned, the Council received £10m less in funding in 2013/14 against its assessed needs and has remained in that position ever since as the Baseline has remained unaltered

Other Grants

- 3.22 A number of grants awarded for 2021/22 remain to be announced or be confirmed they have ceased. Amongst those which may not be continued in 2022/23 and comprise the Local Council Tax Income Guarantee Grant (£1,512k) and a DLUHC New Burdens Grant (£790k).
- 3.23 Taken collectively, the overall impact of the Provisional LGFS announcement is set out in the table below:

Table 4 – Overall Impact on MTFS Gap of Provisional LGFS

		22/23 Gap (£,000's)	
Budget Gap (Cabinet 6th December)		13,151	
Settlement Funding Assessment	Revenue Support Grant	(157)	
	Retained Business Rates	1,481	
		<u>1,324</u>	
Compensation for Business Rate Under-Indexation		(825)	
			499
Improved Better Care Fund		(293)	
New Homes Bonus		80	
Social Care Grant		(3,283)	
Market Sustainability and Fair Cost of Care Fund		(946)	
Lower Tier Services Grant		(34)	
2022/23 Services Grant		(5,104)	
Other Grants		<u>2,302</u>	
			(6,779)
Revised Budget Gap (Including LFS Changes)			<u>6,372</u>

3.24 Other Changes to the MTFS Gap

3.25 As well as the changes to the previously reported £13,151k gap for 2022/23 resulting from the Provisional Local Government Finance Settlement (set out above), other changes have arisen as services continue to identify savings opportunities to close the gap. Set out below is a summary of other changes that have materialised:

Table 5 – Other Changes to the 2022/23 MTFS Gap

	Savings (£,000's)	Growth (£,000's)	Net (£,000's)
Revised Budget Gap (Including LGFS Changes)			6,372
NHS Funding to Support Joint Care Outcomes	77		77
Children Looked After Placements Demographic Pressures		(85)	(85)
New commissioning for targetted youth provision		(200)	(200)
Reduction in Budget for By-Election Costs	(147)		(147)
Contrib to Borough-Wide Election Cost Reserve		(250)	(250)
TfL Freedom Pass Costs	(4,210)		(4,210)
Staff Resourcing in Committee Services		90	90
Cost of Care Growth above Corporate Inflation		1,043	1,043
Resident Engagement & Tenancy Services	(100)		(100)
Tenancy Services		100	100
Invest to Save in Carers Support		(70)	(70)
Financial Assessment Improvements		250	250
Market Sustainability / Fair Cost of Care		946	946
Savings from Further Asset Disposals	1,000		1,000
Local Council Tax Reduction Scheme Support Review	564		564
Change in Savings Delivery Risk Provision	(1,043)		(1,043)
	(3,859)	1,824	(2,035)
Latest Budget Gap			<u>4,337</u>

- 3.26 The above latest 2022/23 MTFS Gap of £4.3m does not take into account a number of further emerging pressures or opportunities that have the potential to impact on that gap.
- 3.27 Contract inflation allowed for in the MTFS gap allows for only 3% inflationary pressures, but with current levels being experienced (and further likely increases to come) the Council could be facing a further 2% pressure on those levels as well as a further 1% pay award pressure. These additional pressures could add a further £9m to the gap.
- 3.28 A number of specific savings or additional funding assumptions have yet to be finalised and have the potential to add a further £4m to the gap if they are not delivered in full.
- 3.29 A review of the accounting treatment and expected wind down of the Council's Property Development Company has however offered up an opportunity to increase the expected level of interest receipts in 2022/23 which partially offsets the above additional pressures.
- 3.30 Taken collectively, and including the aforementioned additional net pressures, the remaining gap would increase from £4.3m to £11.3m.

Table 6 – Latest Budget Gap Including Risks and Opportunities

	22/23 Gap (£,000's)
Latest Budget Gap	4,337
Further Inflation and Pay Award Pressures	9,000
Other Savings Delivery Risks	4,000
Interest Earnings and Capital Financing Opportunity	(6,000)
Remaining Budget Gap (Including Further Risks and Opportunities)	11,337

- 3.31 The Council has included in its Base Budget Assumptions a £15m contribution to further bolster General Reserves. Whilst general reserves brought forward of £27m had been improved, the need to replenish earmarked reserves remains and ideally that budget should be re-allocated to build earmarked reserves. Our target remains to further bring down the above £11.3m gap by reviewing all savings and growth proposals (including delivery risk assumptions) prior to the final Budget Setting report to Cabinet in February.

4 FINANCIAL CONSIDERATIONS

- 4.1 As contained in the body of this report.

5 LEGAL CONSIDERATIONS

- 5.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that the recommendations within this report do not give rise to any direct legal implications as they are merely to note, however the Local Government Act 1972 (Section 151) requires that every local authority make arrangements for the proper administration of their financial affairs. In addition the Council must have a balanced and robust budget for the forthcoming financial year and also a 'medium term financial strategy (MTFS). This projects forward likely income and expenditure over at least three years. The MTFS ought to be consistent with the council's work plans and strategies.
- 5.2 The procedure to be followed in developing the budget proposals are set out in the Budget and Policy Framework Procedure Rules provided in Part 4.C of the Council's Constitution.
- 5.3 No legal advice has been provided in relation to legal implications of the contents of the appendices to this report as part of the report approval process. Members need to be aware that in order to deliver some of the budget proposals, action may be required to comply with relevant statutory processes which apply to the area in question which may include compliance with legal pre-requisites and requirements for consultation, notification, publication, data protection impact assessments and assessment of equality impacts of proposals. In relation to the latter requirement, Members are directed to the Equalities Impact section of this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance and Deputy Monitoring Officer.

6 HUMAN RESOURCES IMPACT

- 6.1 No direct Human Resources impacts contained in this report

7 EQUALITIES IMPACT

- 7.1 No direct Equalities Impacts contained in this report

8 ENVIRONMENTAL IMPACT

- 8.1 No direct Environmental impacts contained in this report

9 CRIME AND DISORDER REDUCTION IMPACT

- 9.1 No direct Crime and Disorder Reduction impacts contained in this report

10 DATA PROTECTION IMPLICATIONS

10.1 No direct Data Protection implications contained in this report

REPORT AUTHOR: Matthew Davis, Interim Director of Finance
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BACKGROUND DOCUMENTS:

Council Tax and Budget Report – Full Council 8th March 2021

2022/23 Budget and Three-Year Medium Term Financial Strategy – Cabinet 6th
December 2021