CALDERDALE MBC
WARDS AFFECTED: ALL

CABINET

10th OCTOBER 2022

MEDIUM TERM FINANCIAL STRATEGY 2023/24 to 2025/26

REPORT OF THE CHIEF FINANCE OFFICER

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 inflationary 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 2023/24

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 effects of the cost of living crisis 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 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 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.

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, demand for its services and Covid-19. The inflationary pressures now being felt have 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. Councils are more and more being reported in the media to be considering issuing Section 114 notices, formally and publicly 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 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 comprehensive spending review released on 27th October 2021 set new three-year national spending totals for government departments. The latest Local Government Finance Settlement issued on the 7th February 2022 covered only 2022/23 but there was a promise by the previous Secretary of State for DLUHC of a two-year settlement for local government this year.

4.5 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 of:-

	2023/24 £m	2024/25 £m	2025/26 £m
Potential Deficit	10.2	12.9	18.4

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

- Council Tax Increases of 3% per annum (including Social Care Precept)
- Contract inflation of 8% for 2022/23 and 2023/24 with 2% thereafter

- Step change increase in energy budgets being felt in 2022/23 continues into the future
- Higher Pay awards than in recent years (6.6% in 2022/24 and 5% in 2023/24
- Fees and Charges prices increasing by 4% for the next two years and 2% in 2025/26 (still materially below inflation)
- No further financial support from Government beyond the higher level of inflation of 8% in 2023/24 used throughout the forecast
- Underlying pressures in Adults and Childrens Social Care, SEND Transport and parking income levels cannot be managed by the directorates themselves and need the extra (£5.8m) budget proposed for next year onwards

4.7 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 the Council's finances but are not currently factored in, in particular:-

- The level of Government financial support to councils in light of the Cost of Living and energy prices crises
- Government's Fair Funding Review of Local Government
- Social Care Change including how it is funded, the Fair Cost of Care and the effect of the Care Cap
- The climate change and de-carbonisation agenda

4.8 Normally, best and worst-case scenarios are also prepared (a sensitivity analysis) to 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. The base forecast in the MTFS is felt to be a realistic outcome based on what we know now. The overriding uncertainty we have is Government's ultimate response to the Cost of Living crisis on councils. There is little point at this stage trying to model alternative scenarios as these would be based on pure conjecture. Some indication though has been given of how percentage changes in some of the key variables used in the forecast would affect the MTFS position should they change.

4.9 There is no wholesale plan in this MTFS to use further reserves to support the budget beyond those already approved in last year's MTFS. This will need to be considered as part of the budget process but in the context of scrutiny of local authority financial resilience and the external auditor's assessment of the Council's going concern status.

4.10 The Capital Programme currently shows a relatively small surplus after taking account of expectations for future capital receipts. Should these expected receipts not be realised, or high levels of inflation cause existing schemes overspend then this surplus may reverse very quickly into a deficit. A significant number of very large new schemes are also under development. Given the risk, uncertainty and already very large deficits signposted in this report it is recommended that a process be introduced to manage these competing priorities.

4.11 All the forecasts included within the MTFS will be updated following the Provisional Local Government Finance Settlement (expected in December 2022).

Update on Recent Government Announcements

4.12 The new Prime Minister set out on the 8th September 2022 action to help both consumers and businesses through the energy crisis. This included a new six-month scheme for businesses and other non-domestic energy users (including charities and public sector organisations like schools) that will offer equivalent support as is being provided for consumers, i.e. an energy price cap.

4.13 After this initial six-month scheme, the Government will provide on-going, focused support for vulnerable industries. There will be a review in 3 months' time to consider where this should be targeted to make sure those most in need get support.

4.14 At the time of writing this report it was not known whether councils will be included in this scheme or what it means in practice. For example, it may only affect 2022/23 and not have much of an impact on the MTFS period. However, if it does apply to councils it may have the indirect benefit of "freeing up" reserves that may have to be used during the current year to offset rapidly rising energy costs.

4.15 Another indirect impact of the new policy highlighted by Government is that it may also offer substantial benefits to the economy - boosting growth and curbing inflation by 4%-5%. Again, the potential wider benefits of this scheme have not been taken account of yet in the Council's MTFS.

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 likely required.

6. Financial Implications

6.1 Although this report does not have any direct financial implications at this stage, the forecast in the MTFS shows that further significant 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 It is recommended that the Council continues the budget process for 2023/24 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 2023.

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 the cost of living crisis, 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 also already put plans in place to make savings of £120m by 2023/24 compared to its 2010 budget. Should nothing else change, the appended MTFS forecast currently shows further savings being required of £10.2m, £12.9m and £18.4m over the next 3 years mainly due to the effects of cost inflation on the Council's budgets and certain underlying budget pressures. This scale of budget gap is certainly not unique to Calderdale with similar if not bigger deficits (relatively) being reported in neighbouring councils and anecdotally across the whole local government sector.

12.2 There are a number of assumptions and estimates that have necessarily been used in the MTFS to arrive at this position. In particular, the forecast assumes that the major underlying budget pressures in the Council cannot be managed down by Directors. In addition, there are other issues and opportunities on the horizon that have not been taken account of, but which could potentially be very material. The MTFS includes a sensitivity analysis showing how the forecast might vary if the assumptions made change.

12.3 It should be further remembered that the MTFS is a forecast based on what we know at this point in time and not the budget that will finally be set at Budget Council in February. However, deficits of this scale have not been seen by the Council since 2011 when austerity began in earnest. This year, there is also almost unprecedented uncertainty about the timing and extent of Government help towards the cost of living crisis affecting individuals, the private and public sectors (although some indication was recently given by the Prime Minister in relation to energy prices). The risk to the Council's financial position is incredibly serious, and, realistically, Government support for the crisis that is unfolding is necessary and the key to how Calderdale and other councils will weather the storm.

12.4 Although significant additional announcements are not due from Government until later this year it is strongly advised that Cabinet Members and officers start preparing budget options for next year immediately based on the forecast position, assuming that no further Government help is forthcoming. Clearly the position can change as and when any announcements are made and the budget options can be flexed accordingly. The next major milestones are the Chancellor's Budget and Local Government Finance Settlement in December which translates Government funding levels into specific grants for each local authority.

FOR FURTHER INFORMATION ON THIS REPORT, CONTACT:

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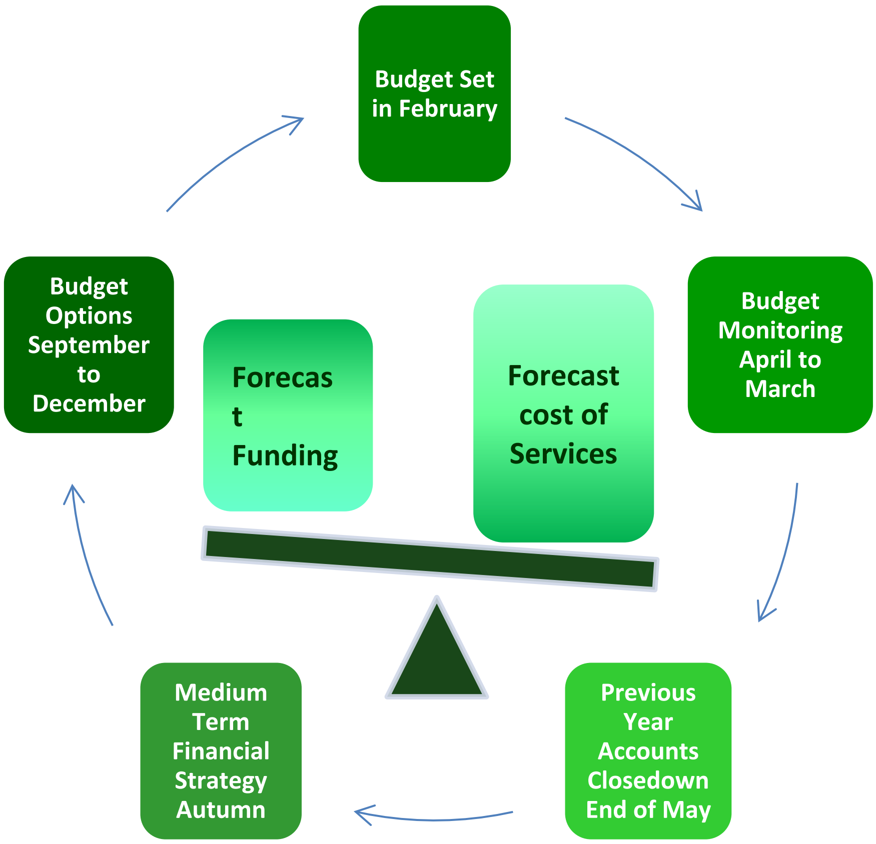
DOCUMENTS USED IN THE PREPARATION OF THIS REPORT ARE:
2022/23 Local Government Finance Settlement
Government Spending Review 27th October 2021
1st Quarter 2022/23 Revenue Monitoring Report to Cabinet
Capital and Investment Strategy Report to Cabinet
1st Quarter Capital Monitor 2022/23

DOCUMENTS ARE AVAILABLE FOR INSPECTION AT: On-line

Medium Term Financial Strategy



2023/24-2025/26

CALDERDALE MBC

MEDIUM TERM FINANCIAL STRATEGY TO 2025/26

CONTENTS

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 on-going impact of Covid-19, inflation and the cost of living crisis, 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 on-going 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 and demand.

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 2022 provided the level of grant that the Council could expect to receive in 2022/23 but no indicative allocations for the following years. By necessity, 2022/23 has therefore 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 on-going 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 increasing cost of school transport costs for SEND pupils
- 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 2022)
2) Resource Prioritisation/Savings Options (October to December 2022)
3) Cabinet's Draft Budget proposals for consultation (January - February 2023)
4) Presentation of the Final Budget to Budget Council (February 2023)

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. 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 had also been consulting on a new system of 75% Business Rates Retention. Although this is now unlikely to be progressed, 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 and 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, the Business Rates System Reset and the Fair Funding Review of Local Government. 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 originally by Covid-19 but which is now characterised by inflation and the cost of living crisis. 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 already 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 Council's new Corporate Plan was approved by Cabinet on 12th September 2022. This states that we will continue to place careful and responsible financial management at the heart of our financial planning. We will review and update our MTFS to maintain the Council's financial resilience and will monitor and realign our budgets where needed to ensure we are directing our limited resources to where they make the most difference.

The Corporate Plan though also recognises that our revenue budget is becoming increasingly challenged, so we are also investing in a prosperous future for Calderdale through our Capital Programme (this is covered in the next chapter).

We will also be making the most of our people, partnerships, assets and strong financial position. For example, we own assets worth £546 million and have only c£130 million of debt left owing on them.

So far, we have managed our budget successfully by reducing our spending through being more efficient, concentrating on our priorities and limiting the impact on frontline services valued by our communities. However, we will need to continue to make savings and have measures in place to manage our finances carefully to ensure our plans remain affordable and sustainable by:-

- Having a three-year financial planning and budget setting period
- Monitoring expenditure and income regularly
- Revising strategies to bring us back on track

The financial effects of the Council's Investment, Treasury Management and Capital Strategies are fully taken account of in 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 Government's response will be to inflation/the cost of living crisis during 2022/23. Should this be insufficient compared to our predicted overspends then the Council may have to use reserves to support its budget in 2022/23, directly affecting the level we will carry forward into 2023/24.

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 built up from Government grant (especially for local authority additional costs and loss of income from Covid) which we have previously earmarked to 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 2023/24 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
10th October 2022	Cabinet considers the MTFS
30th November 2022	Approval of the MTFS is sought from Council
Oct - Dec 2022	Development of Budget Proposals
December 2022	Provisional Local Government Finance Settlement announced
16th January 2023	Cabinet releases its consultation budget
13th February 2023	End of consultation/political groups finalise their proposals
27th February 2023	Budget Council to agree budget and Council Tax for 2023/24

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 and again in 2021 with the main amendment concerning investment in commercial property with CIPFA setting out that Local Authorities must not borrow to invest primarily for financial gain. 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.

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 £34.1m of forecast expenditure to be funded by prudential borrowing, with half of this being spent on the new Halifax Leisure Scheme by itself. The annual cost of servicing this borrowing is approximately £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 Garden Suburbs, Clifton Enterprise Zone and a new CIS/CASS system. 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 2022.

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.

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 replacement of Halifax Pool, Future High Streets & Town Investment Plans 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 2024/25 the Council will be spending around £223m 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 schemes such as the Garden Suburbs and the Clifton Enterprise Zone.

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
- Corporate Estate/Asset Management
- ICT Infrastructure
- Future High Street Funding
- Other regeneration schemes

In addition to the expected spend on the major schemes in 2022/23 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 2022 to 31st March 2025 is therefore based on the information we currently have and estimates of future resources as follows:-

- Grant Funding £187.5m (83%)
- Revenue and Reserves £0.3m (0%)
- Prudential Borrowing £34.1m (15%)
- Pooled Resources £1.4m (2%)

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 it 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 83% 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.

Although the total cost of schemes currently in the Capital Programme is £223m it is worth noting 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.

Although the Council expects to generate around £3.2m more pooled resources (capital receipts from asset sales) than is required for the Capital Programme this is a relatively small margin of safety on a £223m programme that is experiencing significant inflationary pressures. A balanced budget therefore will only be achieved if schemes remain within their current approved budgets.

Also, the majority of these capital receipts are still to be generated by the Council. 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.

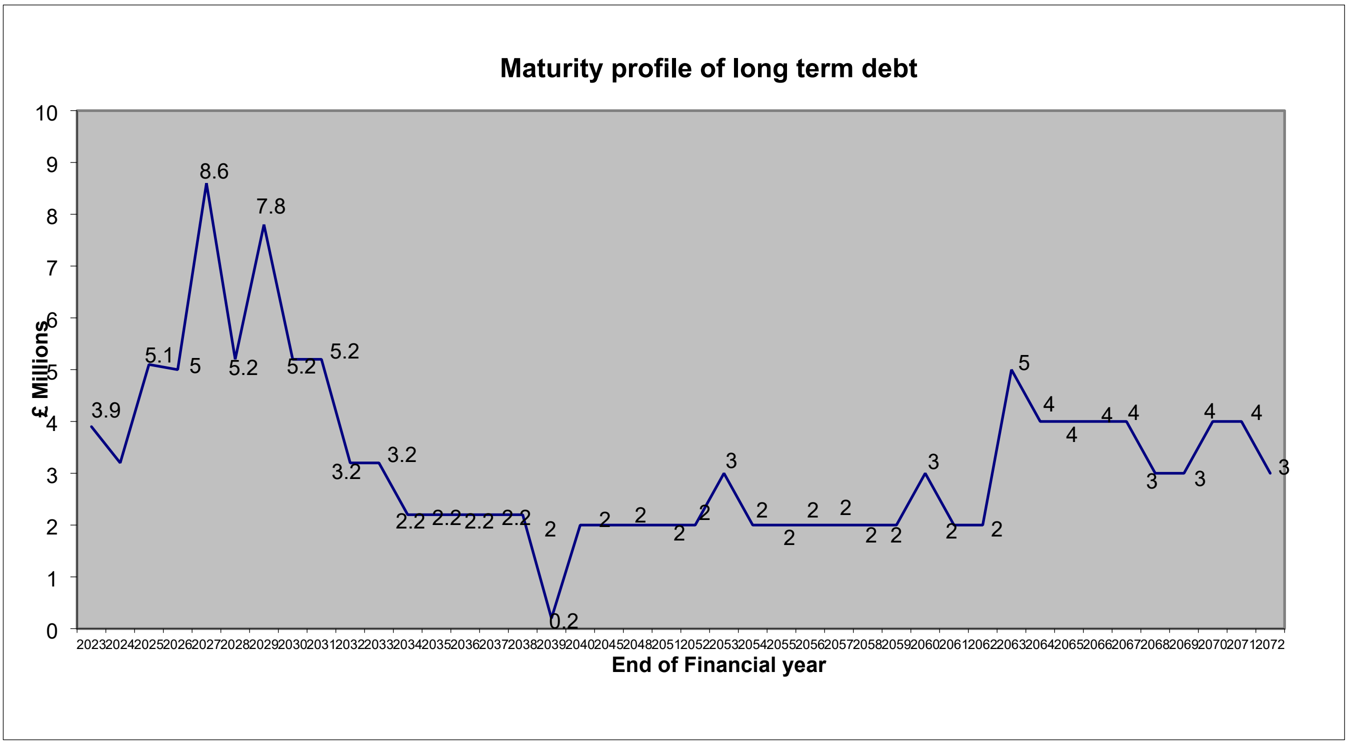
In summary, the overall Capital Programme looks as below in terms of expenditure and resources available.

Overall Capital Financial Forecast

	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Directorate Spend: -				
Adults and Wellbeing	6.7	3.3	3.3	13.3
Children and Young People	6.7	10.0	15.7	32.4
Regeneration and Strategy	98.0	59.3	18.8	176.1
Public Services	1.4	0.1	0.0	1.5
Total Expenditure	**112.8**	**72.7**	**37.8**	**223.3**
Financed by: -				
Grants and Contributions	99.0	51.2	37.3	187.5
Revenue Funding & Reserves	0.2	0.1	0.0	0.3
Ring fenced/Prudential Borrowing	12.2	21.4	0.5	34.1
Use of Pooled Resources	1.4	0.0	0.0	1.4
Total Potential Capital Resources	**112.8**	**72.7**	**37.8**	**223.3**

The Borrowing Position

After excluding debt maturing during this financial year, the Council has outstanding borrowings of £133m at an average interest rate of just below 3.4% and with an average maturity (i.e. when the principal part of the debt has to be repaid) of 21 years. The debt is at fixed rates of interest, and, coupled with a relatively long average life to maturity, affords the Council a good degree of certainty in its budgeting (see maturity profile below). All of the Council's debts are with the Public Works Loan Board (part of the Government's Debt Management Office) and current interest rates available for new loans are between 4.5% and 5.5% (depending on the period to maturity chosen). This upward movement on interest rates being felt in the economy is likely to impact the Council's future borrowing needs. Some allowance has been made for this in terms of the current Capital Programme in the main MTFS forecast in the next section. Any further schemes that are agreed by Members in future though have currently not been provided for in the revenue budget.



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, 2021/22 and 2022/23 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 this year's Spending Review and 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 2022 as adjusted for subsequent approvals by Members.

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

- pay inflation – 3% for 2022/23 and 2% for future years
- 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 a 5% p.a. (£3m) increase in contract prices relating to the National Living Wage and general inflation

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

Assumption	2023/24	2024/25	2025/26
Income Assumptions			
Inflation – top-up grant/Business Rates	+8.0%	+2.0%	+2.0%
Council Tax Increases	+2.0%	+2.0%	+2.0%
Council Tax Social Care Precept	+1.0%	+1.0%	+1.0%
Increase in Fees and Charges budgets/targets	+4.0%	+4.0%	+2.0%
Expenditure Assumptions			
Budgeted Pay Rises*	+5.0%	+2.0%	+2.0%
Contract Price Inflation*	+8.0%	+2.0%	+2.0%
Adults Social Care Contracts Inflation*	+8.0%	+5.0%	+5.0%
Energy Price Inflation*	+8.0%	+5.0%	+5.0%
Price Increases for other budgets	0%	0%	0%
Pension Fund Contribution Rate	17.1%	17.1%	17.1%

*This MTFS also builds in additional inflation in these budgets in 2022/23 to bring the base to today's prices

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 had been consulting on a new system of 75% Business Rates Retention. The additional income for Calderdale would have amounted 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). The forecast in this MTFS assumes that 75% retention does not now happen.

The forecast below shows that our latest estimate for 2023/24 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£10-18m 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. The savings requirement could also vary if inflation and the widely expected recession are different to those expected. 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, other public sector bodies and following consultation with our neighbouring councils. 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 political agenda and economic circumstances, however, mean that the funding position is particularly volatile.

3 YEAR BUDGET FORECAST 2023/24 TO 2025/26

	2023/24 £m	2024/25 £m	2025/26 £m	
Expenditure Forecast				
Total Gross Expenditure (net of DSG and Benefits)	**279.9**	**280.2**	**280.2**	
Pay and Prices				
Pay Rise - base assumption of 2% p.a.	2.2	4.6	7.0	**1a**
Pay Rise - increase from 3% to 6.6% in 2022/23	3.8	3.8	3.8	**1b**
Pay Rise - increase from 2% to 5% in 2023/24	3.3	3.3	3.3	**1c**
Large Contracts @ 2%	0.3	0.5	0.9	**2**
Increased inflation on major contracts to 8% in 2022/23 and 2023/24	1.8	1.8	1.8	**2**
Exceptional increase in Energy Prices 2022/23	1.9	1.9	1.9	**3**
Increase Underlying Budgets for Energy	0.4	0.6	0.8	**3**
	13.7	**16.5**	**19.5**	
Adults Social Care Changes				
Social Services Demographics	2.0	4.0	6.0	**4a**
Impact of 'New Living Wage' on Adult Care Contracts @ 2.5%	1.5	3.1	4.7	**4b**
Increase in Social Care Contracts @ 2.5%	1.5	3.0	4.6	**4b**
Further inflation on Adults Contracts to 8% in 2022/23 and 2023/24	3.6	3.6	3.6	**4b**
Children & Young People Social Care Changes				**5**
Pupil Special Educational Needs Transport Cost Budget Re-alignment	1.5	1.5	1.5	
Underlying Pressure - Childrens Social Care Demand	1.0	1.0	1.0	
Extra budget for Inclusion Funding/DCATCH	0.3	0.3	0.3	
	11.4	**16.5**	**21.7**	
Other Issues				
Capital Inflation/Interest Rates Impact	0.3	0.9	0.9	**6a**
Release of previously agreed Budget Pressures Provision	-1.8	-1.8	-1.8	**6b**
	-1.5	**-0.9**	**-0.9**	
Forecast Total Expenditure	**303.5**	**312.3**	**320.5**	
Funding Forecast				
Core Funding				
Revenue Support Grant	7.7	7.9	7.9	
Top-up Grant	13.9	13.9	13.9	
New Homes Bonus	0.6	0.6	0.6	**7**
PFI Interest Grant	2.0	1.7	1.5	
Social Care Funding	9.0	9.0	9.0	
Local Share Retained Rates	24.8	25.5	26.0	**8**
Assume 8% Inflationary uplift on Core Funding from Government	4.0	4.0	4.0	**9**
Council Tax	97.1	100.4	102.7	**10**
Social Care Precept	13.7	15.0	16.2	**10**
	172.8	**178.0**	**181.8**	
Other Grants				
Section 31 Grants related to Business Rates reliefs	11.1	11.5	11.7	
Housing Benefit & Council Tax Support Admin Subsidy Grant	0.8	0.8	0.8	
Local Services Support Grant	2.9	2.9	2.9	
Market Sustainability and True Cost of Care	0.6	0.6	0.6	
Lower Tier Grant	0.3	0.3	0.3	
Assume 8% Inflationary uplift on above non-specific Grants	1.0	1.1	1.1	**11**
Public Health & Under 5s Grant	13.2	13.2	13.2	
Other Specific Grants	26.9	27.1	27.3	
Contributions (including Better Care Funding from NHS)	23.6	23.6	23.6	
	80.4	**81.1**	**81.5**	
Other Income				
Contributions from Earmarked Reserves	0.2	0.1	0.1	
Fees and Charges	37.7	38.1	38.2	
On-going Reduced income from Car Parking	-1.0	-1.0	-1.0	**12**
Increase Fees and Charges by 4% rather than 2% in 23/24 & 24/25	0.8	1.5	1.5	**13**
Agreed use of reserves	2.4	1.2	0.0	**14**
Agreed Use of Balances	0.0	0.4	0.0	
	40.1	**40.3**	**38.8**	
Forecast Total Income	**293.3**	**299.4**	**302.1**	
Forecast Total Expenditure	303.5	312.3	320.5	
Forecast Total Income	-293.3	-299.4	-302.1	
Net Surplus (-) / (+) Deficit	**10.2**	**12.9**	**18.4**	

Expenditure Forecast Notes

The starting point of the expenditure forecast is the budget that was agreed at Budget Council in February 2022 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

1a Pay – Base Assumption

Provision for future pay rises has already been made at 2% p.a and the Council pays 17.1% of its current payroll to the West Yorkshire Pension Fund (WYPF). These are the base assumptions. The latest projections show that the WYPF's funding position has recovered well from the pandemic enjoying higher valuations of its assets. What is currently unclear though is whether the increase in CPI inflation to around10% will affect its liabilities. Our MTFS at the moment assumes no increase in our contribution rates over the next 3 years in keeping the other West Yorkshire Councils.

1b 2022/23 Pay Award

The latest offer by the employer's side for the current year is for a £1,925 flat rate increase for all scale points to 43 but with a minimum pay rise of 4.04%. This equates to a rise of 6.6% on average.

As the Council has only budgeted for 3% in 2022/23, the MTFS therefore needs to "catch up" to bring the base salary budget in 2023/24 up by 3.6% to 2022/23's expected level. Although negotiations have not yet concluded the cost to the Council of the additional pay on this basis has been estimated at £3.8m more than budgeted for.

1c 2023/24 and Future Years' Pay Award

Given the level of inflation and the proposed pay award in 2022/23 it is now felt prudent to increase provision in 2023/24 from 2% to 5% at a cost of £3.3m across the line. For the time being, 2024/25 and 2025/26's pay rise assumptions will remain at 2% as mentioned in 1a above until the future direction of inflation becomes clearer.

2 Inflation - Other Large Contract Areas

An allowance has also already 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 around the target of 2%. Inflation is clearly well above that level, and, as most of the Council's large contracts (e.g. the waste collection and disposal ones) include an annual CPI-linked inflationary uplift, it is prudent to assume an increase of the same 8% consistently used throughout the MTFS.

3 Inflation - Energy

Likewise, we are still budgeting for increases in energy costs in future years although at a much lower level than those seen in 2022/23. Time will tell whether the currently high level of inflation proves to be transitory or not. In the meantime, the MTFS now assumes that the steep rise in gas and electricity prices being witnessed in 2022/23 will form a new base for future years. Again, to be consistent with the rest of the MTFS a further 8% is built into 2023/24 before the increase in prices returns to our underlying budget provision of 5% thereafter. We will continue to monitor this and adjust our forecasts 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.

4 Adults Social Care

4a Social Services Demographics

The Council has historically allowed an additional £0.5m p.a. monetary increase for adults social care to cope with demographic demand growth especially within All Age Disabilities and older people. Although a well-established policy, it is now seen to be somewhat outdated given the pressures being felt in social care and the demographic changes that have been taking place. Further evidence-based work has now been carried out by the Director for Adults & Wellbeing to determine the true extent of demand growth in this area. For example, between 1991 and 2021, the number of people aged 65 and over in Calderdale has gone from 31,500 to 39,300 an increase of nearly 25%. The recommendation from this work has resulted in £2m p.a. being added to this MTFS for Adults over and above the inflationary increase in care contracts.

4b Social Care Contracts

The Council has already allowed for a 5% increase in adults social care contracts notionally split between an inflationary element and a top-up associated with the additional cost of the new National Living Wage (NLW) (which is set to continue to rise under Government policy). Again, for consistency, this 5% has been increased to 8% for 2023/24 with a further catch-up for 2022/23 to bring the base budget up to a current cost level.

5 Children & Young People Social Care Changes

The latest revenue monitoring identifies issues with mis-aligned budgets in Childrens & Young Peoples Services. Some extra budget provision has therefore been included in the MTFS to recognise the on-going pressures in Early Intervention and Safeguarding (£1m), Special Needs Transport (£1.5m) and £0.3m for Inclusion Funding (formerly Disabled Children’s Access to Childcare DCATCH funding).

These figures are somewhat below the overspendings currently being experienced reflecting the fact that there is some scope in these areas for management action and service transformation to mitigate some of the underlying issues, e.g. through the acquisition of new properties to use as residential children’s homes and bringing more foster care cases back in-house.

6 Other Issues

6a Impact of Inflation on the Capital Programme

It is clear that rising inflation is affecting the Capital Programme as well as the revenue budget. The MTFS attempts to model for potential material increases in the cost of the Council’s prudentially borrowed/funded capital schemes at the same time as anticipating rising interest rates. Cost price inflation of 25% on the Council’s prudentially borrowed element of the Programme has therefore been factored into the forecast along with an increase in interest rates from our normal assumption of 3% to 5%.

6b Release of Previously Agreed Funding
In a previous MTFS, £1.8m was added into the budget to manage underlying pressures. Given the scale of the potential deficits shown in this year's MTFS it has been assumed that this provision is now released to offset some of the impact. No further budgetary provision beyond this has been assumed or is available for pressures in the new MTFS. 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.

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

The current forecast reflects the assumptions included in the budget agreed at Budget Council 2022 plus any changes forecast as a result of revised expectations, 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 following our 8% assumption rather than Government's official 2% CPI inflation target in 2023/24
- Council Tax – 2% increase year on year plus 1% Social Care Precept
- Fees and Charges – 4% increase year on year for 2023/24 and 2024/25 then 2% thereafter.

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

The 75% retained rates scheme which was first anticipated to be introduced for 2021/22 now appears to have been shelved by the Government. Apart from the greater risk of non-payment, any change was always assumed to be fiscally neutral (i.e. it would just involve a re-balancing between Business Rates and related grants) so no impact should be felt on the MTFS from this policy shift.

Likewise, implementation of the Fair Funding Review has also been deferred (possibly until 2024/25) as a result of Covid-19 and more recent issues. This though is likely to have an impact on each council as it involves changing the relative share of the overall funding package for Local Government. Again, 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>

7 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 was £0.6m in that 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. It is hoped that this is a relatively prudent assumption to make.

8 Business Rates
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 continuing impact the COVID 19 pandemic would have on the economy and the more recent cost of living crisis. The Business Rates Base is due to be re-assessed again formally in December as usual 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. This update of the MTFS again uses our core assumption of an 8% inflationary uplift in Business Rates compared to 2% previously.

9 Inflationary Increase in Core Funding (RSG, Top-up Grant, Business Rates etc)
The overall level of settlement funding assessment is normally increased annually by CPI and our previous forecast assumed a 2% uplift. The Office of Budget Responsibility (OBR) is forecasting inflation of around 8% in the first quarter of 2023 so this has now been used as a baseline to inflate our core funding figures. Although it is now clear that inflation could run much higher than this using a lower inflation rate affords us a margin of safety and is consistent with the increase in expenditure assumed within the MTFS.

10 Council Tax
Council Tax increases of 2% in each year of the MTFS plus an additional 1% Social Care Precept underpin the budget. Although the Government has introduced a health and social care levy on employees and employers (through National Insurance contributions) to fund pressures in these sectors there is some doubt now politically whether this policy will continue. No change has been assumed at this time but should the move be reversed then there may be a beneficial effect to the Council's finances.

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 2023/24 will rise back up to 98% and remain at this level thereafter.

The forecast is 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. Similar to Business Rates, this 2023/24 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 2024/25 and 2025/26.

11 Other Grants
In a similar way to Core Funding, a further inflationary uplift in non-specific grant funding is being anticipated in the MTFS, i.e. an 8% increase rather than 2%.

Other Income

12 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 latest revenue monitor for 2022/23 still highlights Car Parking income remaining around £1m below pre-pandemic levels as working from home and the migration to on-line shopping are likely to prove less transitory in nature.

13 Increase in the Fees & Charges Level
The MTFS allows for an increase in our charges to residents for services for the next two years of 4% (2% thereafter) to help mitigate some of the cost pressures highlighted. Although higher than the original base assumption of 2%, this new increase is still significantly lower than wider levels of inflation and this will help our communities during the Cost of Living Crisis.

14 Agreed Use of Reserves
As agreed in the last MTFS a phased use of the remaining general Covid Reserve is included in the budget for 2023/24 (£2.4m) and 2024/25 (£1.2m) to help manage some of the impact of inflation which has been partly caused by the pandemic. Budget Council 2022 also allowed for a modest (£0.4m) one-off use of balances to balance the budget in 2024/25.

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, other contracts linked to inflation measures, energy and pay)
- Assumed Council Tax increases and forecast additions to Calderdale's housing stock
- Recognition of pressures and extra budget provision for pressures in four areas with materially mis-aligned budgets
- 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.

- Central Government's response to the cost of living crisis on Local Government (including a possible change to Council Tax Referendum limits)
- The cost of a large number of new capital schemes being proposed/developed (e.g. CASS/CIS System replacement)
- Continually shifting inflation expectations (especially in energy)
- Budget pressures in social care increasing again
- 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: -

- Fair Funding Review/Business Rates Reset/National Spending Review
- General political considerations/Shifts in policy
- Fair Cost of Care
- Further 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, the Cost of Living Crisis and any resulting recession are still unquantifiable uncertainties 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.

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.

Normally, best and worst-case scenarios are also prepared (a sensitivity analysis) to 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.

The base forecast in the MTFS is felt to be a realistic outcome based on what we know now. It is also considered that, given we don't know what Government's ultimate response to the Cost of Living crisis on councils is subject to pure conjecture, there is little point at this stage trying to model alternative scenarios. Some indication though is given below of how percentage changes in some of the key variables used in the forecast would affect the MTFS position should they change.

Beyond the risks set out in this MTFS, for context, the approximate impact of changes to some of the key variables can be seen in the table as follows:-

Assumption	Impact on Deficit
Energy Prices +/- 10%	+/- £0.5m
Pay Awards +/- 1%	+/- £1m
Council Tax Referendum Limit +/- 1%	+/- £1m
Inflation +/- 1%	+/- £0.8m
1% Increase in Fees & Charges	+- £0.4m
Government Funding +/1%	+/- £0.7m

It is clear that there is scope for changes to vary by several percentage points. It should also be remembered that if these variables change over multiple years then the effect will be compounded in the later years of the MTFS resulting in higher or lower deficits than those forecast now.

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 2022/23 (in addition to general unallocated balances of £5.8m). In previous years a projection of reserves from the this point until the start of the MTFS period has normally been included, but due to the extreme uncertainty and volatility in 2022/23, this has not been attempted this year.

Reserves as at 1st April 2022

Reserve	Purpose of Reserve	Balance @ 01/04/22 £'000
Public Health grant	Upfront and one-off project grant funding for public health services	2,826
Budget support	To help support future year budgets and manage council tax levels	7,537
Covid-19 grant support	Funding to help mitigate the financial effects of Covid-19 on the Council	7,964
IT reserves	Replace IT equipment such as servers and other hardware	1,292
s106 Planning Agreements	Developer contributions for specific schemes or purposes	215
Contingent Liabilities	Cover for insurance and other potential liability claims	6,789
Investment reserve	Funding for capital schemes and for invest to save initiatives	3,089
Early retirement	Pension increases due to fund revaluations & workforce development costs	2,444
Business rates support	Grant funding to offset the loss of business rates due to rate reliefs	7,559
Policy reserves - c/f	Service underspends carried forward into 2022/23	534
MRP	Towards reprofiling debt repayments	2,914
Covid-19 service grants	Upfront funding of service specific costs/losses due to the pandemic	3,221
Better care fund	Funding for health related schemes in conjunction with the NHS	3,229
Other Earmarked Reserves	Miscellaneous service reserves	8,374
Hospital Discharges	Funding for post-discharge support from hospitals for social care clients	1,000
Workforce Recruitment	Provided by Government to help us improve social care workforce capacity	1,000
Green Homes	Grant for low carbon/energy saving works in low income households	567
Social Care Reserve	For resilience and help in managing social care demand and cost pressures	1,137
Collection Fund	For losses in Council Tax and Business Rates due to external pressures	2,236
Debt Charges	To mitigate cost inflation/rising interest rates on the Capital Programme	1,614
	Total	**65,541**

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, £2.8m is ring-fenced for Public Health activities and it can also be assumed that the Council's £6.8m Insurance Fund is restricted as this is clearly subject to claims activity over the period of the MTFS.

There has been a 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 £8m that is being used in the budget for 2022/23, 2023/24 and 2025/26 to offset in part 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, managed from new savings or met from reserves. 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 apart from £0.4m in 2024/25.

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 £120m by 2023/24 (compared to our 2010 budget) at the same time as delivering a Capital Programme which will result in the investment of £223m over the next 3 years in Calderdale.

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 (including any put forward on the same Cabinet agenda as this MTFS).

The revenue forecast suggests that new savings now required in 2023/24 could be around £10m. This savings gap increases significantly on a cumulative basis in 2024/25 and 2025/26 with contract costs, pay and other inflation. 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, grant levels and energy costs.

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 new Prime Minister 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. A significant amount of reserves is likely to be required to balance the Council's budget in 2022/23. Reserves and balances are therefore near to their minimum level and it is strongly recommended that the Council tries to avoid the further use of balances or reserves during the budget process to manage the MTFS deficit.

The potential deficit forecast in the MTFS is lower than some the Council has faced in the past at the beginning of austerity, but, on the other hand, it will potentially be more challenging now 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 there is hope that additional support might be available from Government 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 Government support for Local Government is understood in more detail and/or the risks outlined in the MTFS become clearer.