
Medium Term Financial Plan – Update Report

Report of the Director of Finance and Transformation (Section 151 Officer)

This item is not exempt
Therefore exempt reasons are not applicable
This is a Non-Key Decision

1. Purpose of the Report and Summary

- 1.1 To update Members on the latest expectations informing the Medium Term Financial Plan (MTFP), in the light of the Chancellor’s Spending Review announced on 27 October (SR21), and to seek Cabinet approval to consult on the specific factors that will feature in the full budget proposals for 2022/23 to be considered and approved by Cabinet in January 2022 and Council in February 2022.
- 1.2 The 2021/22 budget approved at February 2021 Council and was set in the context of the COVID pandemic which dominated Council activity and financial considerations throughout 2020/21. Although the course of the pandemic, remains uncertain, it seems reasonable to assume that 2021/22 will largely be a period of recovery, and that from 2022/23 activity will move towards a post COVID norm. As such the Council now needs to build a financial strategy designed to align costs with anticipated funding levels over the medium term.
- 1.3 The Budget and MTFP approved by Council in February provided for a balanced budget in 2021/22 but highlighted a structural deficit arising from 2022/23 of c£13M. This reflected expected movements in the Council’s cost base assuming increases in Government Funding broadly in line with inflation.
- 1.4 The MTFP update report considered by Cabinet in July set out an outline strategy based upon delivery of a savings programme designed to eliminate the budget deficit over 4 years with the “gaps” in early years addressed through the use of one-off resources. As set out in more detail in the following paragraphs, the latest Council projections revised in the light of SR21, indicate that this strategy remains valid. Whilst the Government have indicated that additional grant funding will be made available from next year this will be offset by increased costs and, therefore, the delivery of the savings programme outlined in this report is critical to the Council’s medium term financial stability.
- 1.5 Although the COVID pandemic has understandably impacted on costs and service delivery, the Council has successfully progressed a number of initiatives which will deliver savings (c£3.2M) in 2022/23. However, it is

necessary to further reduce the cost burden and as we move out of the pandemic and towards the post COVID norm there is a need to seek greater efficiencies and further embed a culture of cost control. As such it is proposed that Directorates identify 1% efficiency savings from net budgets for 2022/23 (c£2.5M). Assuming the totality of savings (c£5.7M) are delivered, next year's budget can then be balanced through the allocation of COVID contingency funding and the additional use of capital receipts flexibility.

- 1.6 Whilst the strategy as set out in the report is viable given latest intelligence, there remains significant uncertainty over the planning period with regards to the direct costs of delivering Council services in the post pandemic environment, Government funding levels and structural changes in the NHS / Care sector. It is therefore essential that the Council continues to protect its General Reserves in order that any movements in the financial forecasts can be absorbed and the strategy adjusted to ensure the Council's long term financial stability can be protected and critical services maintained.
- 1.7 With regard to the Capital Programme the on-going focus within the MTFP is managing the Council's exposure in terms of the cost and number of schemes currently in development /delivery as the current strategic regeneration programme moves towards completion. Therefore, the future capital programme will need to be moderated in order that the level of financial risk can be managed within acceptable parameters in an environment of increasing costs.

2. Recommendations

That Cabinet:

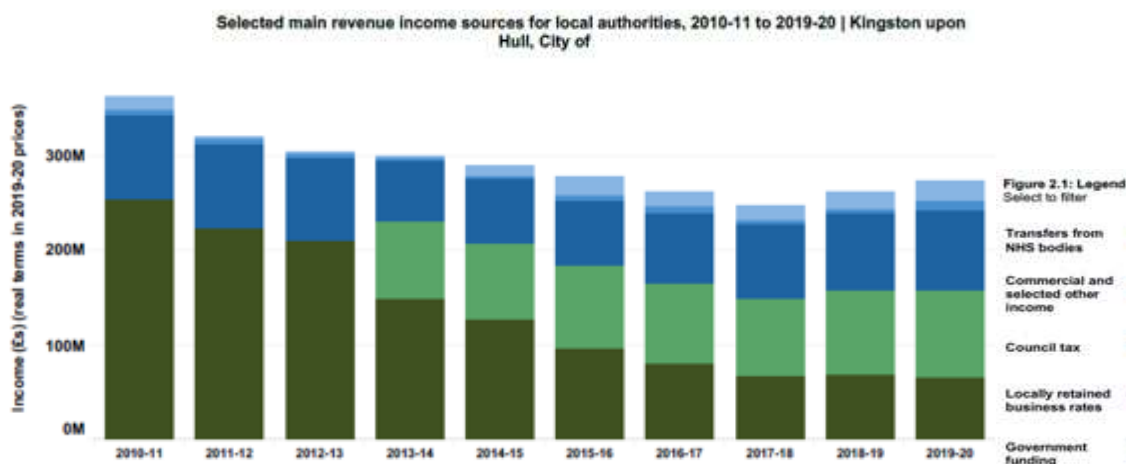
- 2.1 Note the updated MTFP projections at section 6 and the significant financial uncertainty faced by the Council.
- 2.2 Approve, for consultation, the strategy set out in the report.
- 2.3 Note the forecast reserves position and the significant financial risks faced by the Council.
- 2.4 Note that reports regarding the detail of the 2022/23 General Fund Revenue Budget, Capital Programme and Housing Revenue Account, will be presented to Cabinet in January 2022 for consideration and approval.

2.5 Reasons for Recommendation

- 2.6 The Council needs to ensure that it has an up to date and realistic plan for how it is going to manage its finances in the medium term. That plan includes within it the resources that are available to provide or commission services, and also outlines the ongoing or new actions that are needed to ensure that financial viability is maintained.

3. Background

- 3.1 The budget for 2021/22 presented to Council in February 2021 included within it a MTFP position which projected a funding gap of c£13m from 2022/23.
- 3.2 This position was updated in July and in the light of the second monitoring exercise for 2021/22 and SR21, the projections have now been revised such that outline proposals regarding the 2022/23 Budget and the implications for MTFP can be considered.
- 3.3 Details regarding the SR21 are set out below but in considering the Council's forward projections it is important to note the context of in terms of the reduction in Council funding over the last 10 years. The chart below shows both the overall reduction in funding but also the shift in the make-up of that funding with a shift towards locally raised taxation away from government grant. This reduction in funding, and increasing demands for service, have inevitably put increased strain on the Council's finances and service delivery; pressures which have been exacerbated as a result of COVID.



4. Spending Review

- 4.1 The three year Spending Review (SR21) was announced by the Chancellor on 27th October 2021. With regard to core local government financing additional government funding of £1.6bn grant for 2022/23 was welcomed by Councils although the projections indicate that no additional central funding will be provided in 2023/24 or 2024/25.
- 4.2 The headline figures also include £3.6bn additional funding, which is part of the £5.4bn arising from the recently announced Health/ASC levy (1.25% hike in National Insurance) earmarked to support Adult Social Care. This funding will not impact on the Council's current budgetary position as it will be allocated to meet the additional costs linked to the "Care Cap" and changes in the means testing system. The allocation by Government of the balance of funds (£1.8bn) from the Health/ASC levy funding is still to be announced.
- 4.3 The full implications of SR21 for Hull will only become clear in December on the announcement of the Local Government Financial Settlement. However, provisional estimates suggest the Council could receive around £7.5m more

than previously predicted for 2022/23 but until the basis of the allocation is determined the position remains uncertain. However, it is clear that any such increase in funding will be offset by additional costs such as the NI increase of 1.25% re Health/ASC Levy, higher pay awards, increase in energy costs and inflation. The latest projections are shown in the table below.

4.4 SR21 also contained indications that the Council Tax referendum limits will be set at 2% General Fund and 1% Adult Social Care Precept. The projections below therefore reflect an indicative 2.99% increase for 2022/23 and later years.

4.5 In addition, SR21 included reference to a number of initiatives which will impact on the Council but where detail is not available but is expected as part of the December Settlement:

- Specific funding has been promised for Supporting Families and Homelessness details are still to be determined.
- Public Health funding still to be confirmed but planned for inflationary increase.
- Business Rates changes included the 50% reduction for Retail, Hospitality, Leisure in 2022/23 and the Improvement Relief for 12 months.
- The plan to undertake a revaluation 2022/23 but the implication of this is currently unknown.

4.6 SR21 also confirmed that Hull have been awarded funding of £19.5m for Whitefriargate, to support Albion Square and a new Business Grants regime.

5. Information Arising from the Revenue Monitoring Cycle of 2021/22

5.1 The half year revenue monitoring exercise has been undertaken for 2021/22. The most significant factors arising from this are continuing pressures within Children's services around placement costs and agency staffing. The forward financial projections have been amended accordingly and are considered at Section 6.

5.2 Other service area pressures have also been identified that impact on the 2022/23 Budget and beyond and have been included in the updated financial projections.

6. Revised Financial forecast

6.1 The key movements from the MTFP position reported to Council in February 2021, based on latest intelligence, are shown in the table below. Further detail regarding the additional service pressures is provided in Appendix 1.

6.2 The projections continue to identify a budget shortfall from 2023/24 onwards, which is indicative of a projected continued structural deficit in the Council's

budget i.e. costs of current service provision exceeding projected funding levels. However, the deficits are of a magnitude which at this point in the planning timeframe could be realistically addressed ahead of the forecast year of impact through the identification / delivery of additional cost saving /income generation measures.

Updated MTFP Projections November 2021

	Estimate 2022-23	Estimate 2023-24	Estimate 2024-25	Estimate 2025-26
	£m	£m	£m	£m
Estimated Budget Gap per Budget Report Feb. 2021	13.09	12.87	14.51	15.49
Pressures - CYP Social Care	3.00	3.00	3.00	3.00
Pressures - Adult Social Care	3.70	5.70	7.70	9.70
Pressures - Other Service Areas	3.50	3.50	3.50	3.50
Pay Award	3.76	4.23	3.79	3.41
NI levy	1.50	1.50	1.50	1.50
Energy /Other inflation	2.00	2.00	2.00	2.00
Capital Financing	-	1.00	0.50	1.50
Restated Budget Gap	30.55	33.79	36.50	40.10
Mitigations				
Base				
Core Government Funding - estimate from 2021 Spending Review	(7.50)	(7.50)	(7.50)	(10.00)
Council Tax Base	(0.84)	(0.76)	(1.21)	(2.22)
Council Tax ASC Precepts - 1% pa	(0.80)	(1.60)	(2.40)	(3.20)
Business Rates Reset/Revaluation / Fair Funding Potential	-	(1.00)	(2.00)	(2.00)
New Homes Bonus Grant	(0.50)	(1.00)		
One offs				
Collection Fund Surplus	(2.20)	(0.70)	(0.50)	
21/22 Business Rates above expectations	(2.00)	-		-
Allocation of COVID Contingency	(6.00)	(4.00)	-	-
Additional Use of Capitalisation Flexibility	(5.00)	(5.00)	(5.00)	-
Savings				
Current Implications of Planned Activity	(3.22)	(5.88)	(6.13)	(6.13)
Projected Year End Position before Efficiencies	2.50	6.36	11.76	16.54
Efficiencies - 1% of Service Net Budgets	(2.50)	(5.00)	(7.50)	(10.00)
Projected Year End Position after Efficiencies	(0.00)	1.36	4.26	6.54
Cumulative Deficit	(0.00)	1.36	5.61	12.16

6.3 As set out in the table above there are a number of one-off items that will help to alleviate the deficit in 2022/23 these include:-

- 21/22 Collection Fund Surplus projection based on the latest Council Tax estimated closing position for 2021/22
- 21/22 Business Rates above expectations based on latest projections in terms of Gross Rates Payable by Ratepayers, Reliefs, non-collection provision and Appeals
- Allocation of COVID Contingency, Contingency fund built to meet COVID costs beyond 21/22. £8M from 20/21 as per Outturn report and £1M from 21/22 as per latest Revenue Budget Monitoring report
- Additional Use of Capitalisation Flexibility

Savings

- 6.4 There are a number of initiatives and activity which are currently in train which are anticipated will deliver savings as shown in the table below and make a significant contribution to balancing the 2022/23 budget.

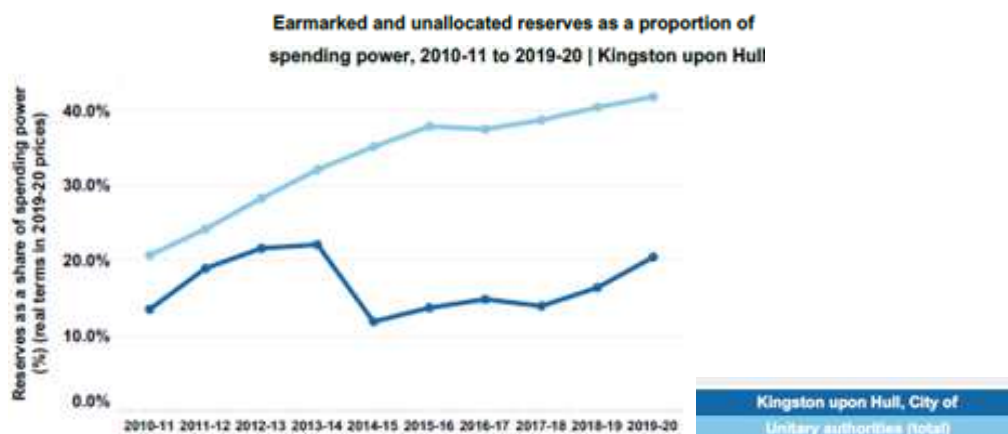
Indicative Savings From Current Activity						
Service Area:	Description	22/23	23/24	24/25	25/26	Total
		£000	£000	£000	£000	£000
Customer Services	Review customer contact arrangements in light of post COVID demands, contract review and technological advances		400			400
Safeguarding	Reduce LAC agency placement numbers	250	250	250		750
Digital & ICT	Systems to be withdrawn following transfer to cloud	459				459
Revenue & Benefits	Savings on conclusion of CIVICA contract	1125	650			1775
Social Care	Post Covid revised shape of services e.g Day Opportunities / Transport	886	110			996
Application of additional grant funding	Reduce call on General Fund through application of additional grant funding and development of partnership working e.g Housing, Rough Sleeping and Domestic Abuse Strategy.	500				500
Benefits	Anticipated reduction in exempt accommodation costs		500			
Property	In line with Carbon Neutral developments		250			250
NPS	Ending Contract		500			500
		3,220	2,660	250	-	6,130
		3,220	5,880	6,130	6,130	

- 6.5 In addition to the savings in train identified above, it is proposed that efficiency savings of 1% of Service Net Budgets are identified and delivered in order to balance the 2022/23 Budget and reduce the gap in future years. It is anticipated that such cost reductions of 1% (c£2.5M) will be delivered in each year of the MTFP reflecting the on-going need to drive efficiency in service delivery. Given the MTFP also seeks to reflect increasing inflationary costs to provide for achievable budgets, planning for the delivery of such savings is realistic. Clearly failure to deliver will impact adversely on the on the deficits faced by the Council and the scale of additional savings required. The detail of the savings will be reflected in the formal budget papers presented to January Cabinet and February Council.

7. Reserves

- 7.1 The projections outlined in this report do not impact on the Council's General Reserves position as reported in February and July. The uncertainty regarding the Council's projected funding position post 2022/23, as highlighted in this report, confirms the need to maintain a robust level of financial reserves to enable shocks to be absorbed without catastrophic impact on service delivery.
- 7.2 A comparison with other Unitary Authorities shows that the Council's unallocated reserves as a proportion of spending power – the Government's preferred measure of Council's financing levels - is much lower than the

average and highlights the need to build a MTFP which maintains the reserves at current levels.



7.3 The Council General Fund Reserves are expected to stand at £21M at 31/03/21 as shown at Appendix 2.

8. HRA

8.1 As set out in suite of Budget reports to February Council, the latest HRA projections reflect a sustainable position in the short term but highlight the need for modernisation and efficiency gains in order to secure the long term position.

8.2 The updated 2022/23 projections and strategic position will be included in the budget reports presented to Cabinet in January ahead of February Council.

9. Capital Programme

9.1 The Council currently has a commitment to deliver a very significant Capital Programme of c£405m over the next 3 years, the latest programme approved by Cabinet on 25 October 2021, as follows:

2021/22 £'M	2022/23 £'M	2023/24 £'M	Total £'M
157.510	182.202	65.713	405.425

9.2 The on-going focus with regard to the MTFP is managing the Council's exposure in terms of the cost and number of schemes currently in development /delivery as the current strategic regeneration programme moves towards completion. Therefore, the future capital development programme will need to be moderated in order that the level of financial risk can be managed within acceptable parameters in an environment of increasing costs.

9.3 A revised Capital Programme for 2022/23 to 2024/25 will be developed in line with the financial constraints and the priorities and requirements of the Capital Strategy which will be presented to Council in February 2022 as part of the suite of budget papers.

10. Risks

As set out in this report the Council faces significant uncertainty in both the short and medium term. The latest forecasts indicate that the Council can deliver a balanced budget in 2021/22 but there remains significant financial risk in later years, and as such it is essential that the Council's reserves position is protected.

11. Comments of the Town Clerk (Monitoring Officer)

- 11.1 The report articulates the existing pressures on the Council's Medium Term Financial Plan and references the existing savings measures and contributions that it is anticipated will assist alleviate those pressures. The proposal to apply a 1% savings target across all budgets as a strategy toward ensuring that a balanced budget can be delivered. The savings target will only be deliverable through the identification of efficiencies given the significant pressures on the Council's finances. Accordingly it will be necessary to seek to develop proposals for delivering those efficiencies to support the development of the budget for 2022/3.

12. Comments of the Section 151 Officer

- 12.1 The Section 151 Officer is the author of this report

13. Comments of the HR City Manager and compliance with the Equality Duty

- 13.1 The Assistant Director HR & OD notes the MTFP and the proposal that efficiency savings of 1% of Service Net Budgets are identified and delivered to balance the 2022/23 Budget and reduce the gap in future years. There is an expectation that these efficiency savings will not be met by staffing reductions. There are no other staffing or equality duty implications arising from these recommendations. (KM).

14. Comments of Overview and Scrutiny

- 14.1 This report will be considered by the Finance and Value for Money Overview and Scrutiny Commission at its meeting of Friday, 19 November, 2021. Any comments or recommendations made by the Commission will be tabled alongside the report at Cabinet. (Ref. Sc6571 (FH))

15. Comments of the Portfolio Holder for Strategic Finance – Councillor Webster

- 15.1 The projections as set out in the report reflect a realistic assessment of the Council's revenue position and confirm that the strategy set out in the summer remains unchanged. However, it is possible that the projections will change in the light of the December Local Government Finance Settlement and it is disappointing to note that current indications are that this may only be a one rather than multi year settlement.

David Bell

Director of Finance and Transformation (Section 151 Officer)

Contact Officer: David Bell Telephone No.: (01482) 613084
Officer Interests: None

Background Documents:

- Council Budget Report – February 2020
- Second Monitoring Report 2020/21 – Cabinet October 26 2020

Implications Matrix

I have informed and sought advice from HR, Legal, Finance, Overview and Scrutiny and the Climate Change Advisor and any other key stakeholders i.e. Portfolio Holder, relevant Ward Members etc prior to submitting this report for official comments	Yes
I have considered whether this report requests a decision that is outside the Budget and Policy Framework approved by Council	Yes
Value for money considerations have been accounted for within the report	Yes
The report is approved by the relevant City Manager	Yes
I have included any procurement/commercial issues/implications within the report	n/a
I have considered the potential media interest in this report and liaised with the Media Team to ensure that they are briefed to respond to media interest.	Yes
I have included any equalities and diversity implications within the report and where necessary I have completed an Equalities Impact Assessment and the outcomes are included within the report	There are no equalities and diversity implications within the report.
Any Health and Safety implications are included within the report	n/a
Any human rights implications are included within the report	There are no human rights implications within the report.
I have included any community safety implications and paid regard to Section 17 of the Crime and Disorder Act within the report	n/a
I have liaised with the Climate Change Advisor and any environmental and climate change issues/sustainability implications are included within the report	n/a
I have included information about how this report contributes to the City Plan/ Area priorities within the report	n/a
I have considered the impact on air quality, carried out an appropriate assessment and included any resulting actions or opportunities necessary to improve air quality in the report.	Yes