

If you are reading this electronically, the Council has saved **£0.85** on printing.
For more information on the Modern.gov paperless app, contact Democratic
Services

Merton Council

Cabinet

11 October 2021

Supplementary Agenda 2

4 Business Plan

1 - 30

This page is intentionally left blank

Cabinet

Date: 11 October 2021

Subject: Draft Business Plan 2022-26

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Councillor Tobin Byers - Cabinet Member for Finance

Contact Officer: Roger Kershaw

Urgent report:

Reason for urgency: The chairman has approved the submission of this report as a matter of urgency as it provides the latest available information on the Business Plan and Budget 2022/23 and requires consideration of issues relating to the Budget process and Medium Term Financial Strategy 2022-2026. It is important that this consideration is not delayed in order that the Council can work towards a balanced budget at its meeting on 2 March 2022 and set a Council Tax as appropriate for 2022/23.

Recommendations:

1. That Cabinet notes the approach to rolling forward the MTFS for 2022-26.
- 2 That Cabinet confirm the latest position with regards to savings already in the MTFS
- 3 That Cabinet agrees the approach to setting a balanced budget using the unmet balance of last year's savings targets as the basis for the setting of targets for 2022-26.
- 4 That Cabinet agrees the proposed savings targets.
- 5 That Cabinet agrees the timetable for the Business Plan 2022-26 including the revenue budget 2022/23, the MTFS 2022-26 and the Capital Programme for 2022-26.
- 6 That Cabinet note the process for the Service Plan 2022-26 and the progress made so far.

1. Purpose of report and executive summary

- 1.1 This report presents an initial review of the Medium Term Financial Strategy and updates it for development as part of the business planning process for 2022/23.
- 1.2 The report sets out the approach towards setting a balanced budget for 2022-2026 and a draft timetable for the business planning process for 2022/23. It also proposes initial targets to be met from savings and income over the four year period of the MTFS.

- 1.3 There is an update on the current information relating to the timetable for the Government's Spending Review 2021, and the Government's proposed changes to Business Rates and the Fair Funding Review which have been deferred from previous years.
- 1.4 Given the current high level of uncertainty over a range of factors that have the potential to impact significantly on the MTFS there is a sensitivity analysis of a number of issues including the potential impact across the MTFS period of factors affected by the coronavirus pandemic, and the increasing level of DSG deficit .
- 1.5 Finally, there is an assessment of the potential impact in 2022/23 and possibly beyond, of the coronavirus pandemic which first impacted at the end of the 2019/20 financial year and is still impacting throughout the current financial year.

Details

2. Medium Term Financial Strategy 2022-26

2.1 Background

Council on 3 March 2021 agreed the Budget 2021/22 and MTFS 2021-25. Whilst a balanced budget was set for 2021/22 there was a gap remaining in future years which needs to be addressed, as shown in the following table:-

| | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m |
|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| MTFS gap (cumulative) | 3,892 | 11,476 | 14,344 | 17,664 |

- 2.2 The initial phase of the business planning process is to re-price the MTFS and roll it forward for an additional year. Development of the MTFS in recent budget processes allowed for various scenarios on a range of key variables to be modelled and it is intended to do the same this year and where feasible, to improve the approach to modelling.

Given the scale of the COVID-19 effect, the potential knock-on impact over the MTFS period 2022-26 has been modelled and is included in this analysis.

2.3 Review of Assumptions

The pay and price calculations have been reviewed using the approved budget for 2021/22 as the starting point.

2.3.1 Pay

For 2021/22 the final pay award has not been agreed but provision of 1.5% was included in the MTFS in light of the Chancellor of the Exchequer's announcement in the Spending Review 2020 that as part of the response to the economic impacts of the COVID-19 pandemic, public sector pay will be

“paused” for 2021/22. For the remaining years of the MTFS (2022/23 onwards), pay provision of 1.5% was also included.

In February 2021, unions submitted a pay claim of 10% plus other requirements but on 14 May 2021 the National Employers made a pay offer of 1.5% to the NJC unions. Unions formally rejected the 1.5% offer and requested urgent talks with the employer’s negotiators.

On 27 July 2021, the National Employers made a “final offer” as follows:

- With effect from 1 April 2021, an increase of 2.75 per cent on NJC pay point 1
- With effect from 1 April 2021, an increase of 1.75 per cent on all NJC pay points 2 and above
- Completion of the outstanding work of the joint Term-Time Only review group

The employers also considered non-pay elements of union proposals and hope joint discussions can begin on the basis of the following:-

- A national minimum agreement on homeworking policies for all councils

In response the unions UNISON, GMB and Unite are urging local government employers to rethink their revised pay offer of a 1.75% pay rise (with 2.75% for those on the bottom pay point) for 2021/22 by “awarding an increase that will properly and fairly reward council and school support staff”.

With 1.5% provided for a pay award in 2021/22, if unions accept the 1.75% offer it will require additional budget of c.£0.225m in 2021/22 and future years. (a 1% increase costs c.£0.9m per year).

The impact of a 1.75% pay award in 2021/22 on the MTFS 2022-26 (assuming pay awards of 2% p.a.) are estimated to be:-

| (Cumulative) | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|-----------------------------|----------------|----------------|----------------|----------------|
| Pay inflation (£000) | 230 | 234 | 239 | 244 |

Pending final agreement of the final pay award for 2021/22, the estimated inflation provision has been revised using the 2021/22 employees budgets. The provision for the pay award is held corporately until the award is finalised and allocations to service departments will then be made. Given the pay pause for 2021/22 and increasing level of inflation it may be difficult to sustain pay inflation of only 1.5% in 2022/23 and 2% may be more realistic albeit still challenging

Provision for Pay Inflation:

| | | | | |
|---------------------------------|----------------|----------------|----------------|----------------|
| (Cumulative £000) | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Pay inflation (%) | 1.5% | 1.5% | 1.5% | 1.5% |
| MTFS 2021-25 (Council 3/3/21) | 1,360 | 2,720 | 4,080 | 5,440 |
| Pay inflation (%) | 2.0% | 2.0% | 2.0% | 2.0% |
| MTFS 2022-26 (Latest) | 1,920 | 3,840 | 5,760 | 7,680 |
| Change (cumulative £000) | 560 | 1,120 | 1,680 | 2,240 |

Further details on any progress towards agreeing a pay award for 2021/22, and the impact on the MTFS, will be reported during the Business Planning process as more information becomes available.

2.3.2 Prices

The current assumptions regarding price inflation incorporated into the MTFS are

- 1.5% in each year of the MTFS

The MTFS agreed by Council on 3 March 2021 includes the following provision for price inflation

Provision for Prices Inflation:

| | | | | |
|---|---------|---------|---------|---------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Price inflation in MTFS (%) | 1.5% | 1.5% | 1.5% | 1.5% |
| Original MTFS 2021-25 (cumulative £000) | 2,109 | 4,217 | 6,326 | 8,434 |

This has been reviewed using the approved budget for 2021/22 and the latest estimate based on 1.5% price inflation is:-

| | | | | |
|------------------------------------|---------|---------|---------|---------|
| (Cumulative) | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Price inflation (%) | 1.5% | 1.5% | 1.5% | 1.5% |
| Revised Estimate (cumulative £000) | 2,139 | 4,278 | 6,417 | 8,556 |

Net change in Pay and Price inflation provision:

The overall change in inflation provision since Council in March 2021 is

| | | | | |
|--|---------|---------|---------|---------|
| (Cumulative) (£000) | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Latest Inflation estimate | 4,259 | 8,352 | 12,416 | 16,480 |
| Original MTFS 2021-25 (Council March 2021) | 3,469 | 6,937 | 10,406 | 13,874 |
| Change | 790 | 1,415 | 2,010 | 2,606 |

Current inflation

The Consumer Prices Index (CPI) rose by 3.2% in the 12 months to August 2021, up from 2.0% in July: the increase of 1.2 percentage points is the largest ever recorded increase in the CPI National Statistic 12-month inflation rate series, which began in January 1997; this is likely to be a temporary change. On a monthly basis, CPI increased 0.7% in August 2021, compared with a fall of 0.4% in August 2020.

The largest upward contribution to change is a base effect, because, in part, of discounted restaurant and café prices in August 2020 resulting from the government's Eat Out to Help Out scheme and, to a lesser extent, reductions in Value Added Tax (VAT) across the same sector

The largest upward contribution to the August 2021 CPIH 12-month inflation rate came from transport with further large upward contributions from restaurants and hotels, housing and household services, and recreation and culture. Restaurants and hotels, recreation and culture, and food and non-alcoholic beverages made the largest upward contributions to the change in the CPIH 12-month inflation rate between July and August 2021.

The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 3.0% in the 12 months to August 2021, up from 2.1% in the 12 months to July. The RPI rate for August 2021 was 4.8%, which is up from 3.8% in July 2021.

Inflation has been increasing in recent months and is expected to rise to around 4% in the near term, although the Bank of England expect this to drop back to the Government's 2% target after that. It is not proposed to change the provision of 1.5% in the MTFs for price inflation but this will be kept under review going forward during the Business Planning process.

Outlook for inflation:

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target and in a way that helps to sustain growth and employment. Previously at a special meeting on 19 March 2020, the Monetary Policy Committee (MPC) unanimously voted to cut interest rates from 0.25% to 0.1% and to increase holdings of UK government and corporate bonds by £200bn in response to the COVID-19 crisis.

At its meeting ending on 22 September 2021, the Committee judged that the existing stance of monetary policy remained appropriate. The MPC voted unanimously to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £20 billion. The Committee voted by a majority of 7-2 for the Bank of England to continue with its existing programme of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the stock of these government bond purchases at £875 billion and so the total target stock of asset purchases at £895 billion. The next MPC decision on the Bank Base Rate will be published on 4 November 2021.

The MPC state that “since the August MPC meeting, the pace of recovery of global activity has showed signs of slowing. Against a backdrop of robust goods demand and continuing supply constraints, global inflationary pressures have remained strong and there are some signs that cost pressures may prove more persistent. Some financial market indicators of inflation expectations have risen somewhat, including in the United Kingdom....Uncertainty around the outlook for the labour market has therefore increased. Key questions include how the economy will adjust to the closure of the furlough scheme at the end of September; the extent, impact and duration of any change in unemployment; as well as the degree and persistence of any difficulties in matching available jobs with workers. The Committee will review these, along with other, developments as part of its forthcoming forecast round ahead of the November Monetary Policy Report, which will also include its periodic assessment of the supply side of the economy.”

In terms of the outlook for inflation the MPC say that CPI inflation is expected to rise further temporarily, to slightly above 4% in 2021 Q4, slightly higher than the projection in the August Report. Around half of the near-term projected above-target inflation is expected to be accounted for by elevated energy price inflation. The projected contribution of energy prices from October 2021 reflects a base effect as well as Ofgem’s most recent announced increases in the standard variable tariff caps on retail gas and electricity prices. Spot and forward wholesale gas prices have risen materially since the publication of the August Report, against a backdrop of strong demand and some supply disruption. The MPC say that this “could represent a significant upside risk to the MPC’s inflation projection from April 2022, when Ofgem next updated its retail energy price caps based on the relevant forward contracts, and meant that CPI inflation would remain slightly above 4% into 2022 Q2, all else equal. Core goods inflation was expected to remain above pre-pandemic averages, accounting for most of the remainder of the projected above-target inflation. In contrast to much of the pandemic period, services inflation was expected to rise slightly, to rates close to pre-Covid averages, which in part reflected a continued recovery of activity in consumer-facing services, as well as the tapered rise in VAT on hospitality, holiday accommodation and attractions from October. Most indicators of cost pressures had remained elevated.”

The latest inflation and unemployment forecasts for the UK economy, based on a summary of independent forecasts are set out in the following table:-

Table: Forecasts for the UK Economy

| Source: HM Treasury - Forecasts for the UK Economy (September 2021) | | | |
|---|----------|-----------|-----------|
| | Lowest % | Highest % | Average % |
| 2021 (Quarter 4) | | | |
| CPI | 2.1 | 4.3 | 3.2 |
| RPI | 3.0 | 5.9 | 4.6 |
| LFS Unemployment Rate | 4.5 | 5.8 | 5.3 |
| | | | |
| 2022 (Quarter 4) | Lowest % | Highest % | Average % |
| CPI | 1.3 | 5.1 | 2.2 |
| RPI | 1.8 | 6.0 | 3.2 |
| LFS Unemployment Rate | 4.2 | 6.0 | 4.8 |
| | | | |

Note the wide range between highest and lowest forecasts which reflects the volatility and uncertainty arising from COVID-19 and the difficulty of forecasting how the situation will evolve. Clearly where the level of inflation during the year exceeds the amount provided for in the budget, this will put pressure on services to stay within budget and will require effective monitoring and control.

Independent medium-term projections for the calendar years 2021 to 2025 are summarised in the following table:-

| Source: HM Treasury - Forecasts for the UK Economy (August 2021) | | | | | |
|--|------|------|------|------|------|
| | 2021 | 2022 | 2023 | 2024 | 2025 |
| | % | % | % | % | % |
| CPI | 2.2 | 2.8 | 2.2 | 2.1 | 2.0 |
| RPI | 3.2 | 4.1 | 3.5 | 3.2 | 3.0 |
| LFS Unemployment Rate | 5.0 | 5.0 | 4.5 | 4.3 | 4.2 |

2.3.3 Provision for Excess Inflation:

There is also a corporate provision of £0.250m per year which is held to assist services that may experience price increases greatly in excess of the 1.5% inflation allowance provided when setting the budget. This will only be released for specific demonstrable demand.

Utilities – Extreme volatility in supply and price

The future supply of gas and electricity with consequential significant increase in wholesale prices is a major concern due to our current contract end dates and it is considered that the provision should be increased by £0.250m to reduce pressure over the MTFS period. This will increase provision in the MTFS to the following:-

| | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
|------------------------|-----------------|-----------------|-----------------|-----------------|
| Budget in MTFS 2021-25 | 500 | 500 | 500 | 500 |

The cash limiting strategy is not without risks but if the Government's 2% target levels of inflation were applied un-damped across the period then the budget gap would increase by c. £2.8m by 2025/26.

2.4 Income

2.4.1 The MTFS does not include any specific provision for inflation on income from fees and charges, as these have now been subsumed into the overall gap and therefore approach to targets. However, in the business planning process for recent years, service departments have been able to identify increased income as part of their savings proposals and increased income currently makes up c.25% of future savings.

2.4.2 It is also the case that the Council's income streams were decimated by COVID-19 in 2020/21 and there is uncertainty about how long it will take to return to pre-COVID19 budgeted levels.

2.5 Forecast of Resources and Local Government Finance Settlement

2.5.1 Background

The ongoing COVID19 pandemic has had a major impact on the Government's financial planning processes and inevitably this will also have implications for local authorities. The main elements of financial planning that impact on local government are summarised as follows:-

a) Spending Review 2021

Due to the pandemic, the Spending Review 2020 was for one year only. This lack of certainty over medium to long term funding makes it extremely difficult to plan going forward and the medium term financial strategy is limited by this constraint.

The Government has announced that it will present an Autumn 2021 budget alongside a Spending Review on 27 October 2021. The Spending Review will set departmental Resource and Capital Departmental Expenditure Limits for 2022/23 to 2024/25, and will reveal much about the future of public services after Covid and how resources will be allocated. It is expected that major decisions will be required that need to address the resilience of public services and how they respond to unforeseen problems such as pandemics, as well as reflecting the government's approach to implementing its policy priorities including the levelling-up agenda, post Brexit impacts on the economy, and funding social care reform.

Details from the Spending Review will form the basis of allocations to local authorities for 2022-25 and beyond as announced in the Local Government Finance Settlement 2022-23. Each year in December, the Ministry of Housing, Communities and Local Government (MHCLG) notifies local authorities of their Provisional Local Government Finance Settlement. The final Settlement figures are published the following January/February but are generally unchanged or very similar to the provisional figures. The total amount of funding available for local authorities is essentially determined by the amount of resources that Central Government has allocated as part of its annual Departmental Expenditure Limit.

Fair Funding Review

Central government funding for local authorities is based on an assessment of its relative needs and resources. The overarching methodology that determines how much funding each authority receives each year was introduced over ten years ago and has not been updated since funding baselines were set at the start of the 50 per cent business rates retention scheme in 2013/14. As advised previously, the government is therefore undertaking the Fair Funding Review to update the needs formula and set new funding baselines for the start of the new 75 per cent business rates retention scheme. This was delayed from 2019 to 2020 due to Brexit and delayed until 2022 due to Covid-19.

The MTFS included an adjustment of £3m from 2022/23 on the prudent assumption that the Fair Funding Review and potential Brexit effect including the implementation of the levelling up agenda, would result in a net loss of funding.

There is still a great deal of uncertainty surrounding the timing of several key revisions which impact on local government funding:-

- Fair Funding Review
- 75% Business Rates Retention
- Business Rates Revaluation – currently planned for 2023.

Progress will be reported as part of the Business Planning process. At this stage it is not anticipated that there will be news on funding until the Autumn with no specific funding allocations announced until the Provisional Local Government Settlement 2022/23, probably around mid December 2021 at the earliest.

2.6.2 The current level of resources included in the draft MTFS 2022-26 as agreed by Council in March 2021 is as follows:-

| DRAFT MTFS 2022-26: | | | | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| | £000 | £000 | £000 | £000 |
| Revenue Support Grant | 0 | 0 | 0 | 0 |
| *Business Rates (inc. Section 31 grant) | *(39,573) | *(40,424) | *(41,292) | *(42,178) |
| Adult Social Care Grants inc. BCF | (4,862) | (4,862) | (4,862) | (4,862) |
| Social Care Grant | (3,160) | (3,550) | (3,550) | (3,550) |
| PFI Grant | (4,797) | (4,797) | (4,797) | (4,797) |
| New Homes Bonus | (500) | (500) | (500) | (500) |
| Corporate Funding in the MTFS | (52,892) | (54,133) | (55,001) | (55,887) |

* Net of £3m adjustment for Fair Funding Review and Spending Review 2021 potential effect.

These figures currently assume the London Business Rates pool is not reintroduced in 2022/23 as this has now been agreed by London leaders and that Merton's funding is at the "No Worse Off " safety net level. It assumes that there is an annual 2% uplift for CPI inflation to the Business Rate multiplier. Funding levels have been netted down by £3m p.a. from 2022/23 to reflect the potential loss of funding (government grant and business rates) arising from the potential ongoing economic impact of COVID-19 and Brexit, and the potential redistribution of resources away from London which could result from the Government's Fair Funding Review and Spending Review 2021 and the levelling up agenda.

The Government's latest proposal is to allow local authorities to retain 75% of their Business Rates income but this has been deferred until 2022/23 and it is uncertain whether implementation of this proposal will be further deferred, particularly as there is uncertainty as to whether business rates should be a source of funding going forward.

Updates will be provided in future reports as part of the Business Planning process.

2.6.4 Social Care Funding

a) Children's Social Care

The CSF department received £3.847m growth for 2020/21. £1.756m was allocated across Children's Social Care and £2.091m across Education. Despite an increasing population and the pressures that Covid-19 has presented to many parts of the Children's Social Care system, Merton has managed to hold steady the number of children in care. The impact of the lockdown on children and families is emerging in increased safeguarding referrals and hold ups in the family courts meaning that some children's plans cannot be progressed. This has significantly increased the number of children with child protection plans open to the service, which is putting pressure on social worker's caseloads. Additional agency social workers have been brought in to assist with this pressure.

There was a favourable variance of £0.908m in Child Social Care and Youth Inclusion in 2020/21

| | Budget 2020/21 £000 | Outturn 2020/21 £000 | Variance 2020/21 £000 |
|---------------------------------------|---------------------------|----------------------------|-----------------------------|
| Child social Care and Youth Inclusion | 21,658 | 20,750 | -908 |
| <u>Main reasons for Variance</u> | | | |
| Asylum Seeker Costs (ART) | | | -738 |
| Children Central Social Work Service | | | -296 |
| Mash and Child Protection Service | | | 144 |

In the current year, Child social Care and Youth Inclusion is forecasting an unfavourable variance of £0.373m (including Covid-19 impact of £0.440m) in 2021/22 as at August 2021.

SEN Transport

In 2020/21 the SEN & Disability Integrated Service had a favourable variance of £1.306m. The principle reason for the favourable variance in this area relates to SEN transport and is a direct consequence of schools and colleges being closed or partially closed due to Covid during the year meaning that children and young people did not need to be transported during these periods.

b) Adult Social Care

There was a favourable variance of £2.947m in Adult Social Care and Youth Inclusion in 2020/21

| | 2020/21 Current Budget £'000 | 2020/21 Outturn March 2021 £'000 | 2020/21 Outturn Variance March 2021 £'000 |
|-------------------|---------------------------------------|--|--|
| Adult Social Care | 59,056 | 56,109 | (2,947) |

In the current year, Adult Social Care is forecasting a favourable variance of £1.533m (including Covid-19 impact of £0.899m) in 2021/22 as at August 2021.

On 7 September 2021, the Prime Minister announced plans to reform how people pay for adult social care in England, which will be funded through a new Health and Social Care Levy. The Levy is to be based on National Insurance contributions (NICs). From 2023 the Levy will be legislatively separate, and will also apply to individuals working above State Pension age, who are not liable to pay NICs on their earnings at present. The Government

also plans to increase the rates of income tax that apply to income from dividends, to help to fund these plans. The funds from the levy will be ringfenced to fund investment in health and social care set out in the policy paper, “Build Back Better: Our plan for health and social care”.

The proposed reforms will be supported by an investment of £5.4 billion over the next three years.

The proposed reforms

From October 2023, the Government plans to introduce a new £86,000 cap on the amount anyone in England will have to spend on their personal care over their lifetime. The cap will apply irrespective of a person’s age or income. It is expected that the cap will be based on the framework provided for by the Care Act 2014. Under this framework, only money spent on meeting a person’s personal care needs count towards the cap. Spending on daily living costs (or what are commonly referred to as “hotel costs” in a care home) do not count towards the cap. In addition, from October 2023, the Government proposes to make the means test for accessing local authority funding support more generous. This includes increasing the upper capital limit (the threshold above which somebody is not eligible for local authority support towards their social care costs) from £23,250 to £100,000. The policy paper also sets out a number of other proposed changes to how people pay for social care, and says that that the Government will publish a white paper on adult social care later in 2021, focusing on wider system reform. The Government will also invest at least £500 million in measures over three years to provide support in professionalising and developing the social care workforce; fund mental health wellbeing resources; and improve recruitment and support.

The 2021/22 Local Government Finance Settlement was for one year only. However, based on indications from the Government that sufficient funding for social care would be provided in future years, the following social care funding was included in the MTFs:-

| | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
|---|-----------------|-----------------|-----------------|-----------------|
| Adult Social Care Grants inc. BCF | (4,862) | (4,862) | (4,862) | (4,862) |
| Social Care Grant | (3,160) | (3,550) | (3,550) | (3,550) |
| <u>Adult Social Care Council Tax Flexibility:</u> | | | | |
| 3% in 2017/18 | (2,454) | (2,454) | (2,454) | (2,454) |
| 1% in 2018/19 | (842) | (842) | (842) | (842) |
| 2% in 2019/20 | (1,739) | (1,739) | (1,739) | (1,739) |
| 2% in 2020/21 | (1,823) | (1,823) | (1,823) | (1,823) |
| 3% in 2021/22 | (2,843) | (2,843) | (2,843) | (2,843) |
| TOTAL | (17,723) | (18,113) | (18,113) | (18,113) |

Following the Government's recent announcements on health and social care, and the impending Autumn budget 2021 and Spending Review 2022-25 due on 27 October 2021, the implications for local government funding will be presented in future Business Plan reports as and when more details are available.

In addition to the funding set out in the table above, there is also an Adult Social Care Grants Reserve which has been formed to enable the service to plan more strategically over the longer term. As at 31 March 2021 the balance on the reserve was £3.825m.

2.6.5 Business Rates - Update

As previously reported, due to uncertainty arising from COVID-19, the London Business Rates pool was discontinued for 2021/22 and now agreed for 2022/23. There is still lack of clarification about whether there will be changes to Business Rates and the revaluation has been delayed until 2023.

Clearly, business rates have been severely impacted by COVID-19 and there is uncertainty about how long it will take business rates as a source of local government finance to return to pre-COVID levels. Updates will be provided as the Business Plan process develops.

2.7 **Council Tax and Collection Fund**

2.7.1 Council Tax

The Council Tax income forecast in the current MTFS agreed by Council in March 2020 assumes that the Council Tax Base will increase by 0.5% per year with a collection rate 98.0% in 2022/23 and 98.75% thereafter. It also assumes the following changes in Council Tax over the MTFS period:-

| | 2022/23 % | 2023/24 % | 2024/25 % | 2025/26 % |
|--------------------------------|--------------|--------------|--------------|--------------|
| Council Tax increase - General | 2.0% | 2.0% | 2.0% | 2.0% |
| Council Tax increase – ASC* | 0% | 0% | 0% | 0% |

* Currently no provision to be able to levy an ASC charge but if allowed has no impact on the MTFS gap

On the basis of these assumptions the Council Tax income included over the period of the MTFS is:-

| (Cumulative figures exc. WPCC) | 2022/23 £'000 | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 |
|---------------------------------|------------------|------------------|------------------|------------------|
| Council Tax - No change in rate | 100,942 | 102,131 | 102,553 | 102,980 |
| Council Tax – General (2%) | 2,019 | 4,085 | 6,153 | 8,238 |
| Council Tax income | 102,961 | 106,216 | 108,706 | 111,218 |

The Council Tax Referendum Principles for 2022/23 will not be known until the Provisional Local Government Finance Settlement for 2022/23 is

announced, usually around mid-December although the Spending Review 2021 in the Autumn may signpost the Government's intentions.

Clearly, COVID-19 has had a major impact on council tax collection rates in 2020/21 and some impact has continued into 2021/22. There are several main issues that need to be considered when formulating a council tax strategy for the MTFS period 2022-26:-

- i) To what extent will COVID-19 continue to have an impact on collection rates?
- ii) Will the Government revise the referendum principles to enable Councils to set higher council tax levels as part as a move towards balancing budgets from local taxation?
- iii) What impact has COVID-19 had on the level on collection rates in 2021/22 and therefore what level of budget deficit relating to council tax will it be necessary to fund in 2022/23 ? (This will be reflected in a Collection Fund deficit as at 31 March 2022)

The Council Tax Base will be updated later in the year following the return of the Government's CTB statistical return, usually in October, which is based on properties on the valuation list in September. The collection rate will impact on the council tax base.

2.7.2 Collection Fund

In the MTFS approved by Council on 3 March 2021, the shares to preceptors of the collection surplus/deficit for Council Tax and NNDR based on the estimated Collection Fund balance at 31 March 2021 are summarised in the following table:-

| | Estimated surplus/ (deficit) as at 31/03/21 | Estimated surplus/ (deficit) as at 31/03/21 | Total surplus/ (deficit) as at 31/03/21 |
|--------------------|---|---|---|
| | Council Tax | NNDR | |
| | £000 | £000 | £000 |
| Central Government | N/A | (14,791) | (14,791) |
| GLA | (711) | (16,587) | (17,298) |
| Merton | (2,743) | (13,389) | (16,132) |
| Total | (3,454) | (44,767) | (48,221) |

2.7.3 Merton's share of the surplus for council tax and NNDR were built into the MTFS agreed by Council in March 2020.

2.7.4 Since then, the Council has produced its draft 2020/21 accounts as at 31 March 2021 which are currently being audited. The draft accounts for 2020/21 include the following surplus/deficit for Council Tax and NNDR as at 31 March 2021

| | Surplus/ (deficit) as at 31/03/21 Outturn | Surplus/ (deficit) as at 31/03/21 Outturn | Total surplus/ (deficit) as at 31/03/21 |
|--------------------|--|--|---|
| | Council Tax £000 | NNDR £000 | £000 |
| Central Government | N/A | (16,385) | (16,385) |
| GLA | (380) | (18,376) | (18,756) |
| Merton | (1,595) | (14,842) | (16,437) |
| Total | (1,975) | (49,603) | (51,578) |

2.7.5 The overall change in shares of surpluses/deficits is:-

| | Surplus/ (deficit) as at 31/03/21 | Surplus/ (deficit) as at 31/03/21 | Total surplus/ (deficit) as at 31/03/21 |
|--------------------|---|---|--|
| | Council Tax £000 | NNDR £000 | £000 |
| Central Government | N/A | (1,594) | (1,594) |
| GLA | 331 | (1,789) | (1,458) |
| Merton | 1,148 | (1,453) | (305) |
| Total | 1,479 | (4,836) | (3,357) |

2.7.6 The net change in Merton's share of the surplus/deficit is therefore:-

| | Estimated Surplus/ (deficit) as at 31/03/21 | Outturn Surplus/ (deficit) as at 31/03/21 | Surplus/ (deficit) as at 31/03/21 Change |
|-------------|--|--|---|
| | £000 | £000 | £000 |
| Council Tax | (2,743) | (1,595) | 1,148 |
| NNDR | (13,389) | (14,842) | (1,453) |
| Total | (16,132) | (16,437) | (305) |

2.7.7 There is no change to the surplus/deficit figures agreed for 2021/22 as all variations are managed via the Collection Fund. However, the net deficit of £0.305m will need to be taken into account when calculating the Merton General Fund's share of any surplus/deficit due to/from the Collection Fund in 2022/23.

2.7.8 The calculation of the estimated surplus/deficit on the Collection Fund as at 31 March 2022 will be made later in the budget process when key variables are firmed up and council tax base and NNDR returns have been completed. Until this time, the increase in the net surplus carried forward from 2020/21 of £0.305m will be included in the draft MTFS for 2022/23.

2.7.9 COVID-19: Implications for the Collection Fund

On 2 July 2020 the Minister for Regional Growth and Local Government wrote to Councils setting out a range of further proposals to support local authorities. This included phased repayment of Collection Fund deficits over the next 3 years. The net impact on the MTFs is estimated to be as follows:-

| Change in Collection Fund (Deficit)/Surplus | 2022/23 Estimate £'000 | 2023/24 Estimate £'000 | 2024/25 Estimate £'000 | 2025/26 Estimate £'000 | Total £'000 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|----------------|
| Council Tax Surplus | 574 | 574 | 0 | 0 | 1,148 |
| NNDR (Deficit) | (727) | (726) | 0 | 0 | (1,453) |
| Change | (153) | (152) | 0 | 0 | (305) |

2.8 Capital Programme 2022-26 and implications for Treasury Management: Capital Financing Costs and Investment income

2.8.1 Council in March 2021 approved the following Capital Programme for 2020-25:-

| Capital Expenditure | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|--|----------|---------------|--------------|--------------|---------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Capital Expenditure | 21,346 | 40,795 | 17,719 | 15,413 | 21,238 |
| Slippage and Underspends | (4,229) | (4,215) | 1,450 | (475) | 602 |
| Total Capital Expenditure * | 17,117 | 36,580 | 19,169 | 14,938 | 21,840 |
| Financed by: | | | | | |
| Capital Receipts | 3,623 | 900 | 900 | 900 | 900 |
| Capital Grants & Contributions | 12,600 | 21,887 | 10,489 | 4,565 | 3,624 |
| Revenue Provisions | 894 | 3,729 | 37 | 57 | 55 |
| Net financing need for the year | 0 | 10,064 | 7,743 | 9,416 | 17,261 |

*Includes Multi-Function Devices finance lease.

2.8.2 Since the capital programme was approved by Council in March 2021 and the revenue implications built into the MTFs, there have been a number of amendments arising from outturn 2020/21, monthly monitoring and a review by project managers. There has been a great deal of effort made to ensure that the capital programme set is realistic, affordable and achievable within the capacity available. This has been accompanied by improved financial monitoring and modelling of the programme's costs over the period of the MTFs which has enabled the budgets for capital financing costs to be reduced and therefore scarce resources to be utilised more effectively.

2.8.3 It is important to ensure that the revenue and capital budgets are integrated and not considered in isolation. The revenue implications of capital expenditure can quickly grow if the capital programme is not contained within

the Council's capacity to fund it over the longer term. For example, assuming external borrowing, the capital financing costs of funding £1m (on longer-life assets and short-life assets financed in 2021/22) for the next four years of the MTFS would be approximately:-

| Capital financing costs of £1m over the MTFS period | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
|---|-----------------|-----------------|-----------------|-----------------|
| Longer life Assets | 10 | 60 | 60 | 60 |
| Short-life assets | 10 | 220 | 220 | 220 |

2.8.4 Following the closing and preparation of final accounts for 2020/21, the level of slippage required from 2020/21 and the re-profiling of schemes over the programming period has been undertaken to ensure that the level of capital budget is aligned with the Council's capacity to deliver it. The Table below shows estimated outturn position as at August 2021:

Capital Programme based on outturn 2020/21, August monitoring and No Bids

| Capital Expenditure | 2021/22 Estimate £000 | 2022/23 Estimate £000 | 2023/24 Estimate £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's |
|--|-----------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|
| Capital Expenditure | 37,576 | 23,864 | 15,815 | 22,905 | 15,978 |
| Slippage and Underspends | (11,294) | 2,353 | 1,598 | (1,893) | 1,801 |
| Total Capital Expenditure * | 26,282 | 26,218 | 17,413 | 21,012 | 17,779 |
| Financed by: | | | | | |
| Capital Receipts * | 1,351 | 900 | 900 | 900 | 0 |
| Capital Grants & Contributions | 18,155 | 15,324 | 6,417 | 3,454 | 3,439 |
| Revenue Provisions | 3,615 | 141 | 60 | 55 | 30 |
| | | | | | |
| Net financing need for the year | 3,161 | 9,853 | 10,036 | 16,603 | 14,310 |

*Includes Multi-Function Devices finance lease.

2.8.5 During the Summer/early Autumn 2021 key capital schemes were identified and progressed as part of the annual bidding process in the Business Planning Process. The draft overall summary of the capital programme including all draft new bids is set out in the following table:-

Capital Programme based on outturn 2020/21, August monitoring and All Bids

| Capital Expenditure | 2021/22 Estimate £000 | 2022/23 Estimate £000 | 2023/24 Estimate £000's | 2024/25 Estimate £000's | 2025/26 Estimate £000's |
|--|-----------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|
| Capital Expenditure | 38,614 | 28,870 | 19,640 | 26,765 | 29,138 |
| Slippage and Underspends | (11,605) | 1,466 | 1,608 | (2,115) | 1,554 |
| Total Capital Expenditure * | 27,009 | 30,336 | 21,248 | 24,650 | 30,692 |
| Financed by: | | | | | |
| Capital Receipts * | 1,351 | 900 | 900 | 900 | 0 |
| Capital Grants & Contributions | 18,571 | 19,437 | 9,460 | 5,701 | 4,212 |
| Revenue Provisions | 3,615 | 141 | 60 | 55 | 30 |
| | | | | | |
| Net financing need for the year | 3,472 | 9,858 | 13,828 | 17,994 | 26,450 |

*Includes Multi-Function Devices finance lease.

2.8.6 The capital financing costs of the Capital Programme 2022-26 excluding new bids and including new bids compared to the current provision included in the MTFS is summarised in the table below:-

| CAPITAL FINANCING COSTS: KEY OUTPUTS | 2022/23 £000s | 2023/24 £000s | 2024/25 £000s | 2025/26 £000s |
|---|------------------|------------------|------------------|------------------|
| MTFS Approved by Council in March 2021 | 11,946 | 12,358 | 13,382 | 14,333 |
| Revised Programme including slippage excluding new bids | 11,228 | 12,115 | 13,118 | 13,770 |
| Change in capital financing costs due to outturn & slippage | (718) | (243) | (264) | (563) |

| CAPITAL FINANCING COSTS: KEY OUTPUTS | 2022/23 £000s | 2023/24 £000s | 2024/25 £000s | 2025/26 £000s |
|---|------------------|------------------|------------------|------------------|
| Revised Programme including slippage excluding new bids | 11,228 | 12,115 | 13,118 | 13,770 |
| Revised Programme including slippage including new bids | 11,245 | 12,101 | 13,215 | 14,140 |
| Change in capital financing costs due to new bids | 17 | (14) | 97 | 370 |

| CAPITAL FINANCING COSTS: KEY OUTPUTS | 2022/23 £000s | 2023/24 £000s | 2024/25 £000s | 2025/26 £000s |
|---|------------------|------------------|------------------|------------------|
| Change in capital financing costs due to outturn & slippage | (718) | (243) | (264) | (563) |
| Change in capital financing costs due to new bids | 17 | (14) | 97 | 370 |
| Total Change due to outturn, slippage & new bids | (701) | (257) | (167) | (193) |

2.8.7 The capital programme will be continually reviewed throughout the financial year and further details including options around financing will be included in future reports as appropriate.

2.8.8 The level, profiling and funding strategy used for the capital programme will have a significant revenue impact that needs to be incorporated into the MTFS.

2.8.9 Investment Income

There are two key factors that impact on the level of investment income that the Council can generate:-

- The amount invested
- The interest rate that is achieved

COVID-19 has inevitably impacted on both of these factors. The level of resources available for investment may diminish more quickly as the need to draw on reserves to meet financial pressures created by the pandemic increases. At the same time, although interest rates are at historic low levels as the Bank of England alongside international banking institutions have cut interest base rates as part of their economic measures to protect their economies indications are that inflationary pressures may lead to an increase in rates later in this financial year and next.

Based on latest information, the projected levels of investment income, have been revised. The following table show the latest projections compared with the amounts included in the MTFS approved by Council in March 2021:-

| Investment Income | 2022/23 Estimate £'000 | 2023/24 Estimate £'000 | 2024/25 Estimate £'000 | 2025/26 Estimate £'000 |
|---------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| MTFS (Council March 2021) | (347) | (327) | (323) | (323) |
| Latest projections | (385) | (343) | (323) | (323) |
| Change | (38) | (17) | 0 | 0 |

Currently in the monthly monitoring report for August 2021 it is forecast that investment income will be £0.430m which is a favourable variance of £0.043m against the budgeted level of £0.387m.

2.9 Reserves – Review of Earmarked Reserves

2.9.1 Reserve for Use in Future Year's Budgets

The Business Plan and MTFS for 2021-25 approved by Council on 3 March 2021 forecast that a contribution of £5.472m would be required in 2021/22 with the balance of £7.255m applied in 2022/23.

Following the final accounts process for 2020/21 (subject to audit), it was possible to increase the Reserve for use in Future Year's Budgets, mainly because of the underspend in 2020/21, and as a result the balance (subject to audit) on the Reserve as at 31 March 2021, excluding the contribution set

aside for 2021/22 of £5.472m is £8.378m. This means that there is c. £1.1m more available to balance the budget over the MTFS period.

The reserve will be applied over the period of the MTFS to reduce the budget gap and enable longer term, strategic management of the budget.

It should be recognised that the use of reserves is a one-off form of funding and alternative ongoing savings would need to be identified to address the budget gap over the long-term.

2.9.2 Review of Earmarked Reserves

The use and availability of Reserves is monitored throughout the year as part of the monthly monitoring process. This will receive even greater attention over 2021/22 as the implications of COVID-19 are unwound.

It should be recognised that reserves are a one-off source of funding and should not be used to fund ongoing expenditure commitments.

2.10 **Review of Outturn 2020/21 and Current Budget and Spending 2021/22**

2.10.1 There may be issues identified during the final accounts process and from monthly monitoring, elsewhere on this agenda, that have on-going financial implications which need to be addressed in setting the budget for 2022-26.

2.10.2 Monitoring 2021/22

At period 5 to 31 August 2021 the year end forecast is a net £6.461m unfavourable variance compared to the current budget. This consists of a net favourable variance of £2.773m excluding COVID-19 and unfavourable variance of £9.234m from COVID-19:-

| | Non COVID-19 £000 | COVID-19 £000 | Total £000 |
|------------------|----------------------|------------------|---------------|
| CS | 391 | 1,017 | 1,408 |
| CSF | (394) | 714 | 320 |
| E&R | (1,316) | 5,495 | 4,179 |
| C&H | (2,152) | 1,070 | (1,082) |
| Sub-total | (3,471) | 8,296 | 4,825 |
| Corporate | 698 | 938 | 1,636 |
| Total | (2,773) | 9,234 | 6,461 |

The main reasons for the non-Covid variance based on August 2021 monitoring are:-

- a) Corporate Services: Infrastructure and Technology, Human Resources, Resources, Other Corporate budgets (Housing Benefits Rent Allowances)

- b) Children's, Schools and Families: Child Social Care and Youth /inclusion, cross department and PFI Unitary Costs. Although a DSG deficit has to be charged to the Schools balance reflecting that a cumulative overspend has been borrowed against future year school allocations, based on August 2021 monitoring, DSG funded services are forecasting an overspend of £12.357m. The DSG Adjustment Account (an unusable reserve) had a cumulative overspend of £24.981m at the end of 2020/21 and this will increase it to c.£37.3m.
- c) Environment and Regeneration: Public Protection (Regularity Services, Parking), Public Space (Waste, Leisure and Culture), Sustainable Communities (Building and development Control, Future Merton)
- d) Community and Housing: Adult Social Care, Library and Heritage, housing General Fund

2.10.3 COVID-19

Hopefully the pandemic is being overcome as the level of vaccinations is increasing and the costs and impact on society in general and council services in particular will be largely reaching a conclusion in 2021/22. However, this is not certain at the present time and there will be some impact carried over to the MTFS 2022-26 period. At the same time there will inevitably need to be some changes to how the Council delivers some services and some of the most affected services, particularly those to vulnerable groups will need to be reviewed.

2.10.4 Savings not achieved

As shown in the following tables, the budget monitoring report for July indicates that some savings assumed in the MTFS will not be achieved in 2021/22 and there is an ongoing shortfall in 2022/23.

| Department | Target Savings 2021/22 | Projected Savings 2021/22 | Period 5 Forecast Shortfall | Period Forecast Shortfall (P5) | 2022/23 Expected Shortfall |
|-------------------------------|------------------------|---------------------------|-----------------------------|--------------------------------|----------------------------|
| | £000 | £000 | £000 | % | £000 |
| Corporate Services | 1,322 | 1,090 | 232 | 17.5% | 95 |
| Children Schools and Families | 1,460 | 410 | 1,050 | 71.9% | 400 |
| Community and Housing | 2,541 | 1,557 | 984 | 38.7% | 860 |
| Environment and Regeneration | 1,580 | 205 | 1,375 | 87.0% | 750 |
| Total | 6,903 | 3,262 | 3,641 | 52.7% | 2,105 |

| Department | Target Savings 2020/21 | Shortfall 2020/21 | Projected Shortfall 2021/22 (July) | Projected Shortfall 2022/23 (July) |
|-------------------------------|------------------------|-------------------|------------------------------------|------------------------------------|
| | £000 | £000 | £000 | £000 |
| Corporate Services | 2,718 | 883 | 213 | 658 |
| Children Schools and Families | 2,969 | 664 | 500 | 0 |
| Community and Housing | 2,460 | 128 | 128 | 128 |
| Environment and Regeneration | 3,927 | 3,373 | 2,837 | 0 |
| Total | 12,074 | 5,048 | 3,678 | 786 |

Monitoring of the delivery of savings is important and it is essential to recognise as quickly as possible where circumstances change and savings previously agreed are either not achievable in full or in part or are delayed. If this is the case, departments will need to identify replacement savings from elsewhere within their overall budgets. If it is not possible to find replacements, if any of the savings included in the MTFs approved by Council in March 2021 are not achieved this will result in an increase in the budget gap and increase pressure on services. The projected shortfall in savings of c. £2.8m in 2022/23 will add to the budget gap and make it more difficult to achieve the balanced budget that is a statutory requirement.

2.10.5 Growth

The MTFs included some growth for services and also as provision for the ongoing and growing DSG deficit.

General growth:

| Cumulative growth MTFs (Council March 2021) | 2022/23 £'000 | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 |
|---|------------------|------------------|------------------|------------------|
| Children's General Fund pressures | 384 | 774 | 774 | 774 |
| Replenish Reserves | 1,478 | 1,478 | 1,478 | 1,478 |
| System Support Costs (Office 365) | 900 | 900 | 900 | 900 |
| Internal Review | 1,100 | 1,100 | 1,100 | 1,100 |
| Cumulative growth | 3,862 | 4,252 | 4,252 | 4,252 |

New General Growth

| Cumulative growth | 2022/23 £'000 | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Pensions provision - Croydon | 130 | 130 | 130 | 130 |
| Disaster recovery | 80 | 80 | 80 | 80 |
| Pension Fund – Triennial Revaluation | 0 | TBA | TBA | TBA |
| Your Merton + | TBA | TBA | TBA | TBA |
| E&R Pressures | 909 | 909 | 909 | 909 |
| Climate Change (top-up of reserve) | 0 | 0 | 450 | 0 |
| Employer’s NI for Social Care * | 988 | 1,008 | 1,028 | 1,049 |
| Total | 2,107 | 2,127 | 2,597 | 2,168 |

* Pending clarification of how Merton would be reimbursed

+ will be presented to a future Cabinet meeting

Schools Funding - Dedicated School Grant

This is a national issue and one that it will be difficult for the Government to ignore. Further updates will be provided throughout the Business Planning process to ensure that if no additional funding is forthcoming from Government, then the impact of this important issue is properly reflected in the Medium Term Financial Strategy and budget setting process, with the resulting impact on General Fund services and Council Tax payers.

In 2020/21 DSG funded services overspent by £12.231m. This has been appropriated to the DSG Adjustment Account, which is an unusable reserve, subject to the statutory override, and, including the deficit brought forward from 2019/20 of £12.750m, the deficit on the reserve carried forward as at 31 March 2021 has increased to £24.981m. Whilst the DSG deficit has been treated in accordance with regulations there has been no clarity from Government as to how this will be funded in the longer term. The size of the deficit is increasing year on year and without further Government support will continue to grow. Merton has been selected as one of the LAs to take part in the ‘safety valve’ intervention programme with the DfE as it has one of the highest percentage deficits in the country as at the end of 2020/21. The programme aims to agree a package of reform to our high needs system that will bring the DSG deficit under control. Merton has confirmed participation in this programme and are providing a draft updated plan to the DfE.

In order to adopt a prudent approach to managing the deficit, provision has been Included within the MTFs 2021-25 on the assumption that the Council will provide for 100% of the deficit up to 2020/21 and 50% thereafter.

| Cumulative growth MTFS (Council March 2021) | 2022/23 £'000 | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Proposed Growth to contribute to DSG Deficit | 10,543 | 11,628 | 12,714 | 13,799 |

3. Re-priced MTFS 2022-26

3.1 As indicated in the report, there have been a number of changes to information and data to factors which impact on the Council's MTFS and budget gap.

3.2 The net result of making these adjustments is to amend the forecast budget gap to the following:-

| (cumulative) | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| MTFS Gap (Council March 2021) | 3,892 | 11,476 | 14,344 | 17,664 |
| - Inflation reprice - Pay | 80 | 159 | 240 | 320 |
| - Inflation reprice - Prices | 30 | 62 | 91 | 122 |
| - Increase pay provision 1.5% to 2.0% | 480 | 960 | 1,440 | 1,920 |
| - Pay award of 1.75% in 2021/22 | 230 | 234 | 239 | 244 |
| - Capital financing charges August monitoring No Bids | (757) | (260) | (264) | (563) |
| - Capital financing charges August monitoring including Bids | 18 | (13) | 97 | 370 |
| - Collection fund deficit revised for 20/21 outturn | 153 | 152 | 0 | 0 |
| Adjustment to loss of income estimate | (995) | (470) | 0 | 0 |
| Savings not achieved | 3,641 | 900 | 325 | 325 |
| Employers NI for social Care (worst case scenario) | 988 | 1,008 | 1,028 | 1,049 |
| E&R pressures | 909 | 909 | 909 | 909 |
| Provision for Excess Inflation - Increase for utilities | 250 | 250 | 250 | 250 |
| Price inflation 2.5% in 2022/23, 1.5% thereafter | 1,427 | 1,427 | 1,426 | 1,426 |
| Croydon - Pensions addition | 130 | 130 | 130 | 130 |
| Disaster recovery | 80 | 80 | 80 | 80 |
| Pension Fund triennial Revaluation (due 2023/24) | 0 | TBA | TBA | TBA |
| Your Merton (to be advised to a later Cabinet) | TBA | TBA | TBA | TBA |
| Climate Change (Top-up of reserve) | 0 | 0 | 450 | 0 |
| Change in Balancing the Budget Reserve | (9,381) | 0 | 0 | 0 |
| Revised MTFS Gap 2022-26 | 1,175 | 17,004 | 20,785 | 24,246 |

3.3 There has been a substantial improvement in the council's strategic approach to business planning in recent years and it is important that this is maintained. Planning should be targeted towards the achievement of a balanced budget over the four year MTFS period.

- 3.4 Progress made in recent years in identifying savings over the whole period of the MTFs has reduced pressure on services to make short-term, non-strategic cuts. However, because of the COVID-19 pandemic and DSG Deficit issue there is still likely to be a sizeable gap over the four year period.
- 3.5 However, whilst recognising the great level of uncertainty about future costs and funding, it is still necessary to forward plan and set savings targets aimed at eliminating this gap on an ongoing basis.

4. Approach to Setting a Balanced Budget

4.1 This is the initial report on the business planning process for 2022/23 and there is a great deal of work to be done.

4.2 Savings Targets for 2022-26

4.2.1 In previous years the approach to setting savings targets for departments for the Business Planning process has been based on using controllable budgets and aimed to protect front-line services and services to the vulnerable in line with the 'July principles'. Weightings for each department; Corporate Services, Environment and Regeneration, Community and Housing, and Children, Schools and Families in the ratio (100%) : (100%) : (67%) : (50%), were applied to reduce the impact on Adult Social Care, Children's Social Care and vulnerable groups. The targets set also took into account the level to which departments had achieved savings against targets set for previous years. The balance of unachieved savings targets from last year's business planning process are summarised below:-

| | Targets £'000 | Proposals £'000 | Balance £'000 |
|------------------------------|------------------|--------------------|------------------|
| Corporate Services | 3,558 | 973 | 2,585 |
| Children, Schools & Families | 2,518 | 850 | 1,668 |
| Environment & Regeneration | 5,885 | 1,084 | 4,801 |
| Community & Housing | 7,707 | 1,530 | 6,177 |
| Total | 19,668 | 4,437 | 15,231 |

4.2.2 It is proposed that the savings targets for 2022-2025 are based entirely on each service department's controllable budgets for 2021/22 which are as follows:-

| DEPARTMENTAL SAVINGS TARGETS USING 2021/22 CONTROLLABLE BUDGETS | Controllable Expenditure 2021/22 £000 | Weighting by dept. No. | Weighted Controllable £000 | Weighted Controllable % |
|--|--|---------------------------------------|---|--|
| Corporate Services | 25,612 | 1.50 | 38,418 | 21.7% |
| Children, Schools and Families | 34,652 | 0.75 | 25,989 | 14.7% |
| Environment and Regeneration | 35,591 | 1.50 | 53,387 | 30.2% |
| Community and Housing | 59,098 | 1.00 | 59,098 | 33.4% |
| Total | 154,953 | | 176,891 | 100% |

4.2.3 Savings targets to address the revised gap on the MTFs are then calculated using the latest controllable budgets:-

| SAVINGS TARGETS BY DEPARTMENT | Allocation using controllable budgets £000 |
|--|---|
| Corporate Services | 5,266 |
| Children, Schools and Families | 3,562 |
| Environment and Regeneration | 7,318 |
| Community and Housing | 8,100 |
| Total | 24,246 |

| SAVINGS TARGETS BY DEPARTMENT | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 | Total £000 |
|--------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| Corporate Services | 255 | 3,438 | 821 | 752 | 5,266 |
| Children, Schools and Families | 173 | 2,326 | 556 | 508 | 3,562 |
| Environment and Regeneration | 355 | 4,777 | 1,141 | 1,045 | 7,318 |
| Community and Housing | 393 | 5,288 | 1,263 | 1,156 | 8,100 |
| Total | 1,175 | 15,829 | 3,781 | 3,461 | 24,246 |
| Total (cumulative) | 1,175 | 17,004 | 20,785 | 24,246 | |

5. Service Planning for 2022-26

5.1 The pilot Service planning process for 2022-26 will be launched in August 2021. A plan has been created for each council service. These plans describe

what the service does, its plans for the future linked to the Modernising Merton Programme, its key performance indicators and how its plans will take place within the budget.

5.2 These will be reported to Cabinet and scrutiny.

6. Alternative Options

6.1 The range of options available to the Council relating to the Business Plan 2022-26 and for setting a balanced revenue budget and fully financed capital programme will be presented in reports to Cabinet and Council in accordance with the agreed timetable which is set out in Appendix 1.

7. Consultation Undertaken or Proposed

7.1 All relevant bodies have been consulted.

8. Timetable

8.1 In accordance with current financial reporting timetables.

8.2 A chart setting out the proposed timetable for developing the business plan and service plans is provided as Appendix 1.

9. Financial, resource and property implications

9.1 As contained in the body of the report.

10. Legal and statutory implications

10.1 As outlined in the report.

11. Human rights, equalities and community cohesion implications

11.1 None for the purposes of this report, these will be dealt with as the budget is developed for 2022 – 2026.

12. Crime and Disorder Implications

12.1 Not applicable.

13. Risk Management and health and safety implications

13.1 There is a specific key strategic risk for the Business Plan, which is monitored in line with the corporate risk monitoring timetable.

14. Appendices – The following documents are to be published with this Report and form part of the Report.

Appendix 1 – Business Plan and Service Planning Timetable 2022-26
Appendix 2 – Revised MTFS Gap

15. Background Papers

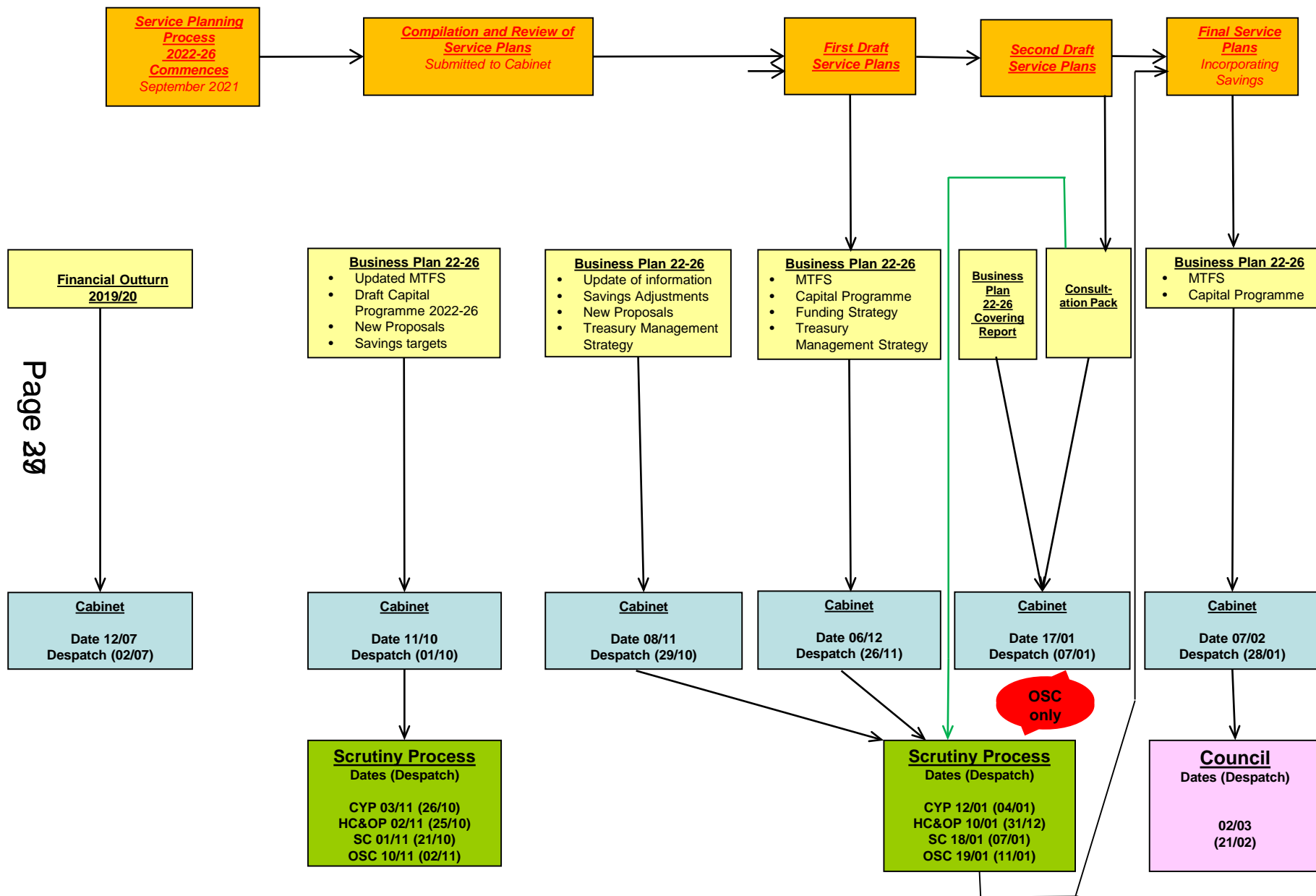
15.1 The following documents have been relied on in drawing up this report but do not form part of the report:

2020/21 Budgetary Control and Final Accounts Working Papers in the Corporate Services Department.
2021/22 Budget Monitoring working papers
MTFS working papers

16. REPORT AUTHOR

- Name: Roger Kershaw
- Tel: 020 8545 3458
email: roger.kershaw@merton.gov.uk

BUSINESS PLANNING TIMETABLE - BUSINESS PLAN 2022-26



Page 29

| DRAFT MTFS 2022-26: | | | | |
|---|------------------|------------------|------------------|------------------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| | £000 | £000 | £000 | £000 |
| Departmental Base Budget 2021/22 | 161,837 | 161,837 | 161,837 | 161,837 |
| Inflation (Pay, Prices) | 6,506 | 10,755 | 16,485 | 20,544 |
| NI increase | 989 | 1,008 | 1,029 | 1,049 |
| Salary oncost increase (15.2% to 17.06%) | 24 | 48 | 72 | 96 |
| FYE – Previous Years Savings | (3,305) | (3,176) | (2,651) | (2,651) |
| FYE – Previous Years Growth | 384 | 774 | 774 | 774 |
| Amendments to previously agreed savings/growth | 3,641 | 900 | 325 | 325 |
| Change in Net Appropriations to/(from) Reserves | (452) | (1,483) | (1,482) | (1,482) |
| Taxi card/Concessionary Fares | (478) | 704 | 1,707 | 2,709 |
| Social Care - Additional Spend offset by grant/precept | 40 | 76 | 91 | 106 |
| Growth | 909 | 909 | 1,359 | 909 |
| Provision - DSG Deficit | 10,543 | 11,628 | 12,714 | 13,799 |
| Other | 445 | 661 | 740 | 918 |
| Re-Priced Departmental Budget | 181,082 | 184,641 | 192,999 | 198,933 |
| Treasury/Capital financing | 10,869 | 11,776 | 12,910 | 13,835 |
| Pensions | 0 | 0 | 0 | 0 |
| Other Corporate items | (19,548) | (20,716) | (20,946) | (20,946) |
| Levies | 606 | 606 | 606 | 606 |
| Sub-total: Corporate provisions | (8,073) | (8,334) | (7,430) | (6,505) |
| Sub-total: Repriced Departmental Budget + Corporate Provisions | 173,010 | 176,308 | 185,570 | 192,428 |
| Savings/Income Proposals 2022/23 | 0 | 0 | 0 | 0 |
| Sub-total | 173,010 | 176,308 | 185,570 | 192,428 |
| Appropriation to/from departmental reserves | (1,754) | (723) | (724) | (724) |
| Appropriation to/from Balancing the Budget Reserve | (16,636) | 0 | 0 | 0 |
| ONGOING IMPACT OF COVID-19 (NET) | 1,143 | 505 | 0 | 0 |
| BUDGET REQUIREMENT | 155,763 | 176,090 | 184,846 | 191,704 |
| Funded by: | | | | |
| Revenue Support Grant/Covid RNF & LCTS grant | 0 | 0 | 0 | 0 |
| Business Rates (inc. Section 31 grant) | (39,573) | (40,424) | (41,292) | (42,178) |
| Adult Social Care Grants inc. BCF | (4,862) | (4,862) | (4,862) | (4,862) |
| Social Care Grant | (3,160) | (3,550) | (3,550) | (3,550) |
| PFI Grant | (4,797) | (4,797) | (4,797) | (4,797) |
| New Homes Bonus | (500) | (500) | (500) | (500) |
| Council Tax inc. WPC | (103,314) | (106,569) | (109,059) | (111,571) |
| Collection Fund – (Surplus)/Deficit | 1,617 | 1,616 | 0 | 0 |
| COVID-19: SFC - Compensation Qtr. 1 2021/22 | 0 | 0 | 0 | 0 |
| TOTAL FUNDING | (154,589) | (159,086) | (164,060) | (167,458) |
| GAP including Use of Reserves (Cumulative) | 1,175 | 17,004 | 20,785 | 24,246 |