

**Copy report to the ETAP meeting on the 23 November 2022**

**Medium Term Financial Strategy (MTFS)**

**Current MTFS Update**

Report of the Staffordshire Commissioner

**Introduction**

The purpose of this report is to update the Police, Fire and Crime Panel on the Current Medium Term Financial Strategy (MTFS). This supports delivery of one of the Commissioner's key responsibilities under the Police Reform and Social Responsibility Act 2011.

The report sets out the following:

- Update to current year's budget
- Update to future years' MTFS assumptions
- Sensitivity analysis around key financial items
- Update on capital programme

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## Executive Summary

- 1.1 This report provides an update to the Police, Fire and Crime Panel on the current MTFS covering the years 2022/23 to 2025/26 including an update on the fiscal landscape facing policing since the MTFS was approved.
- 1.2 Since the Police, Fire and Crime Panel considered the 2022/23 MTFS on the 31<sup>st</sup> January 2022, both Staffordshire and the United Kingdom have seen the full lifting of Covid-19 restrictions. Whilst this is welcome, the longer-term impact on the organisation is only now starting to crystallise whether this be through permanent funding changes, through commissioned services or through demand placed on policing. There is also a significant impact on wider public partners including the NHS, councils and the wider criminal justice system all of which will set the scene for the upcoming 2023/24 refresh.
- 1.3 Since the MTFS was set Staffordshire Police has been placed into an 'engaged' phase of monitoring by His Majesty's Inspectorate of Constabulary, Fire and Rescue Services (HMICFRS) based on their inspection that commenced in 2021. This will necessitate investment into the policing model and panel will be updated in full on these investments in the full budget report in due course.
- 1.4 Police officer recruitment is forecast to over deliver against the Uplift target of reaching 1940.5fte officers by March 2023. Staffordshire Police is only one of three Forces nationally rated as Green by the Home Office Uplift programme for delivery by year end. Whilst there are operational challenges from bringing in a significant number of new officers around training, development and experience it should not be lost that this provides the core building block for transforming the Force over the coming years and the service delivered to local communities.
- 1.5 A new Local Policing operating model went live in June 2022. As part of this, Policing in Staffordshire has been moved closer to local communities with improvements seen in response times being on average 25% quicker than before. The full financial impact of the change in operating model will be reflected in the updated MTFS.
- 1.6 The external financial environment has changed significantly since the panel considered the budget in January 2022. Inflation is higher than forecast, in particular around energy costs, pay awards have been above budgeted assumptions, and borrowing rates are significantly higher than forecast.
- 1.7 Whilst inflation and pay awards have tracked higher than forecast, the government has committed, at the time of writing, to continuing with the current three-year spending review of which 2023/24 will be year 2. Whilst this is welcome from a planning perspective it does mean there will be no additional funding for local services to cover the impact of higher inflation unless government chooses to reallocate departmental spending priorities within their overall funding envelope.
- 1.8 Despite the overall inflationary pressures, the in-year budget has been managed robustly and offsetting savings and income have been found to manage within the in-year budget without relying on reserves. This prudent in year management by the Commissioner provides the strongest position possible to meet the upcoming financial challenges.

1.9 The table below shows the forecast movement in the MTFS position since the MTFS was set in January 2022:

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Underlying position	(1.3)	0.3	1.5	2.1
<i>Reserve movements</i>	1.3	(0.3)	(1.5)	(2.1)
<b>Reported budget gap January 2022</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>Reverse assumed use of reserves</i>	0	0.3	1.5	2.1
<i>Remove council tax deficit spreading estimate</i>	0	(0.2)	0	0
<i>Pay award pressures (all)</i>	1.0	3.1	3.1	3.1
<i>Pay award grant (officers)</i>	(1.0)	(2.1)	(2.1)	(2.1)
<i>LGPS triennial revaluation pressure</i>	0	1.6	1.6	1.6
<i>Gas, electric &amp; fuel pressures</i>	1.7	1.7	1.7	1.7
<i>General non-pay inflation</i>	0.6	0.6	0.8	0.9
<i>Operating model investment</i>	0.1	0.1	0.1	0.1
<i>New savings identified *see para 1.19</i>	(0.6)	(0.7)	(0.7)	(0.7)
<i>One-off savings/additional income</i>	(2.4)	0	0	0
<i>Additional Investment Income</i>	(0.3)	(0.4)	(0.4)	(0.4)
<b>Revised Position Gap/(Underspend)</b>	<b>(0.9)</b>	<b>4.0</b>	<b>5.6</b>	<b>6.3</b>

1.10 The table below shows the changes in assumptions based on the MTFS set in January 2022, compared to the changes assumed in the table above:

Category		2022/23 %	2023/24 %	2024/25 %	2025/26 %
<b>Pay award</b>	MTFS	4.00	2.50	2.00	2.00
	Revised	5.00	4.00	2.00	2.00
<b>LGPS triennial revaluation</b> *average	MTFS	0.00	0.00	0.00	0.00
	Revised	0.00	2.30*	0.00	0.00
<b>Gas, electric &amp; fuel</b> *average	MTFS	10.00	2.50	2.00	2.00
	Revised	62.00*	62.00*	2.00	2.00
<b>General non-pay inflation</b>	MTFS	4.00	2.50	2.00	2.00
	Revised	9.00	4.00	2.00	2.00

- 1.11 The majority of the increase in gap has been driven by factors outside of the Commissioner's control, namely around a higher inflationary environment. The panel will be aware the inflation assumptions used in the MTFS were those contained within the budget set by the previous Chancellor of the Exchequer in October 2021.
- 1.12 Whilst the pay award was higher than budgeted, due to the Commissioner's prudent budget assumptions for 2022/23 this pressure has been offset in-year by the pay award grant. This is in stark contrast to the majority of other local areas which have seen significant in-year pressure from this pay award.
- 1.13 Projecting forward, inflation assumptions will be more challenging over the coming MTFS period than historically has been the case. This heightened risk underpins the Commissioners approach to maintaining a general fund reserve with a minimum balance of 3% of the net revenue budget.
- 1.14 As part of the budget process for 2023/24 the MTFS will be updated as further information becomes available and assumptions become more certain, up until the confirmation of the budget proposal by the Commissioner (and endorsement of the precept for Fire by the Police, Fire and Crime Panel), on 06 February 2023. For indicative purposes, pay and non-pay inflation have been revised upwards to 4%; this is reflected in the figures above.
- 1.15 Police staff received a pay award of 2.1% from April 2022. Since this, the officer pay award was announced at £1,900 at all ranks. The working assumption in the figures modelled above are that this will also be agreed for police staff.
- 1.16 The level of employer contributions into the LGPS is reassessed every three years as part of the actuarial valuation of the fund. The updated position includes an additional pressure arising from this valuation totalling circa £1.6m. This represents an increase in the primary employer contribution from 15.5% to 21.5% and a removal of the secondary contribution.
- 1.17 The Commissioner had indicated, for planning purposes, increases in precept of 2.99% for the years 2023/24 onwards. This is assumed in the position shown above; without this, the gap would increase by c.£897k for each 1% not levied. The spending review has awarded the flexibility on the precept of £10 per annum, which is an increase of approximately 4.02% for Staffordshire. The Commissioner will balance the needs of policing for additional funding against the ability of Staffordshire residents to afford the policing precept.
- 1.18 The 2022/23 MTFS assumed a use of reserves in years 2023/24 to 2025/26. For planning purposes, these have been reversed in presenting the position outlined above. The funding remains available to be used and is earmarked in the budget support reserve.
- 1.19 Additional new permanent savings identified to date and reflected in the table above are a renegotiation of the facilities management contract (£170k), insurance (£320k), business rates reviews (£120k). Work continues to in relation to identifying further savings opportunities to close the budget gap.
- 1.20 To aid the planning process the following strategic guidelines have been set out within which planning will be undertaken:

- That the current police officer baseline is as a minimum maintained at 1,940.5fte
- Precept increases over the life of the MTFS (measured from the Commissioner's first precepting decision in January 2022) will be below the rate of inflation delivering a real terms reduction in the policing precept
- Back office support services will reduce as a share of the overall budget over the life of the MTFS ensuring more funding is directed to front line service delivery
- The capital programme will be funded from internal borrowing only over the MTFS, in light of the current increased PWLB rates, except to manage short term cashflow
- Reserves will be maintained, where possible, to support the ability to internally borrow and provide stability
- Savings will first be sought from increased efficiency, income generation or non-pay spend across both the Commissioner's Office and Staffordshire Police
- A commitment to avoid 'cost shunting' between local partners

1.21 A high-level timetable is included in this report, to lay out the necessary steps and key meetings to communicate the 2023/24 budgeting process and updated the MTFS.

## National and Local Update

- 2.1 The Group (Commissioner and Staffordshire Police) outturn forecast for the current year at the end of Period 5 is £232.038m. This is a positive variance of £0.912m (0.39%) against the annual net revenue budget of £233.074m.
- 2.2 A three-year spending review was set out alongside the Chancellor's budget announcements on the 27<sup>th</sup> October 2021. The 2023/24 MTFS will be the second year of this period. The new Chancellor has confirmed that overall departmental spending envelopes will remain, with no additional offset for inflation or higher pay awards. This will see a return to real terms reductions in public expenditure.
- 2.3 In his fiscal event on the 23<sup>rd</sup> October 2022, the Chancellor committed to reverse the previous increase in employee and employer National Insurance contributions from November 2022. The removal of this will result in a saving of c.£1.2m per annum it is assumed at this stage that this will not be removed from core grant for 2023/24. If this reduction is reflected in the core grant, this will result in an increase to the gap presented.
- 2.4 Precept flexibility of an increase of £10 per annum is approximately a 4.02% increase for Staffordshire. The current MTFS assumes 2.99% increases each year and a growth in the tax base of 1.25% in 2023/24 and 1.5% thereafter. At this stage there are no indications from billing authorities to change these assumptions.
- 2.5 The Home Office has committed to reviewing the funding formula for the allocation of core policing grant. A previous review was abandoned in 2017 following consultation with the sector. It is unknown how Staffordshire could be impacted; however, this review will be undertaken against the backdrop of the 'levelling up' agenda as well as some marked performance deviations between Forces over the last decade with Staffordshire's performance being relatively strong over that period.

2.6 Both the Commissioner and Staffordshire Police are currently reviewing current planned savings, revenue budget pressures, proposed priority investments and capital spend. This work has been undertaken over the months of September and October and has identified the following high-level revenue budget changes:

- Higher inflation than budgeted for. Currently the MTFS assumes a 2.5% inflation rate in 23/24 and 2% thereafter in line with expectation in the October 2021 budget. With the Consumer Prices Index (CPI) running at 9.9% in the 12 months to the end of August. This, combined with a number of contracts tied to the higher Retail Prices Index (RPI) mean inflation is likely to be considerably above the amount budgeted for in the existing MTFS. Inflation predictions in future years are increasingly difficult to rely upon due to market volatility,
- The higher rates of inflation will also necessitate a review of the capital programme given well publicised increases in construction costs and government borrowing costs. Therefore, it is proposed to limit capital spend over the MTFS period, for planning purposes, to the available internal cash to fund these to avoid external borrowing,
- There remains some uncertainty regarding the level of pay award in future years. The current MTFS assumes 2.5% in 2023/24 then 2% thereafter in line with the October 2021 budget inflation assumption. Given the high inflationary environment, a higher pay award for 2023/24 of 4% has been incorporated into the position presented in this MTFS update.
- The ongoing impact of Covid on calls for service has necessitated an investment in resource within the contact centre. To support the public and to meet this increased demand in relation to contacting Staffordshire Police headcount was increased in the Force control room by 15. Unfortunately pressures on other public sector partners is resulting in increasing non-police demand being placed on policing as the service of last resort in areas such as mental health crisis, lost and missing and highways.
- The Force continues to make significant investment in IT provision both to fix a number of legacy issues but also to technologically enable the Force given the changing nature of crime. The Commissioner has delivered a position of having 53 major outages in the year before his tenure started, to having none since November 2021 underpinning the success of this investment.
- Additional new permanent savings identified to date are a renegotiation of the facilities management contract (£170k), insurance (£320k), business rates reviews (£120k). these will be incorporated into the 2023/24 MTFS and are reflected in the table above.
- The commitment to a new firearms facility following the commissioners review, reducing the capital budget estimate at this point in time by c.£3m.

2.7 In addition to the above, panel should note that whilst the uplift in police officer numbers mandated by central government is welcome, in essence this 'ring fences' well over half the budget from efficiency savings and redesigns. This means that in relation to savings on employment costs these can only come from police staff and PCSO roles.

- 2.8 Whilst the government has stated that the increase in grant funding is intended to support additional costs in relation to this, there may still be a requirement to fund some of this increase locally through precept flexibility and/or savings. There is currently no additional funding for pay awards and incremental growth for these new officers from central government.

## **The Budget Setting Process and Savings/Pressure Review**

- 3.1 Financial and budget planning work is undertaken jointly with the Chief Constable to detail pressures, potential savings as well as identifying areas for potential new investment in the policing model, should funding be available to do so.
- 3.2 The table below outlines the proposed budget timetable for the 2023/24 MTFS:

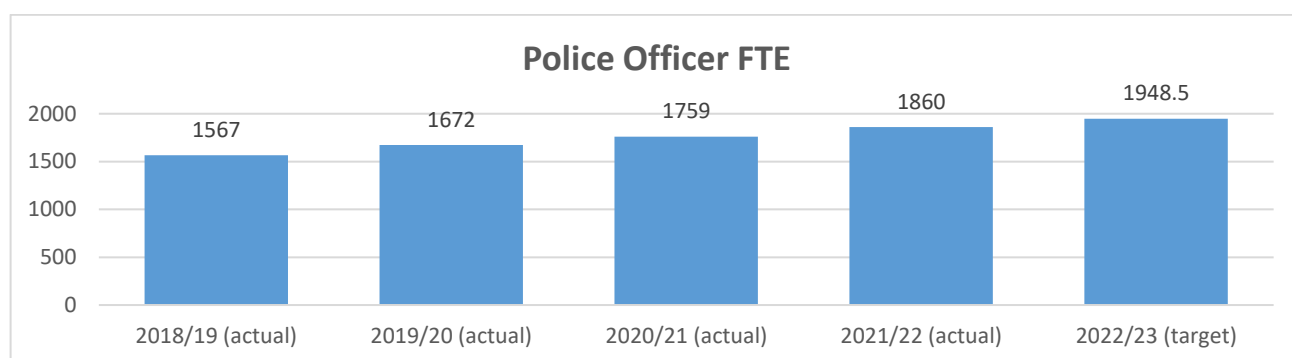
<b>Date</b>	<b>Activity</b>
August 2022	Review capital programme commences
September 2022	Directorate review of current MTFS
September 2022	TOM v budget reconciliation and recalculation of pay budgets
September 2022	Review inflation assumptions
September 2022	Review reserves position
14 <sup>th</sup> October 2022	Deadline for submission of new pressures/savings/investments
24 <sup>th</sup> October 2022	Police Fire & Crime Panel – MTFS Update
w/c 31 <sup>st</sup> October 2022	Resource Allocation Challenge panels (to present the pressures and flag any risks – this should be linked to FMS)
November 2022	Presentation of draft budget requirement
w/c 5 <sup>th</sup> December 2022	Resource Allocation Challenge panels (purpose being to determine areas of priority for review for next year)
December 2022	Refine detailed budgets
December 2022	Finalise capital programme
December 2022	Funding settlement
January 2023	Public Consultation regarding precept
January 2023	Draft Panel report
6 <sup>th</sup> February 2023	Police Fire & Crime Panel – Recommendation of the budget and precept decision

- 3.3 The review of the current MTFS highlighted that 94% of current year savings have been delivered or will be delivered by year end. Savings totalling £65k are currently thought to be unachievable and this will be accounted for in the MTFS refresh.
- 3.4 A review of the capital programme is currently underway, with this currently showing a reduction in forecast capital spend over the life of the MTFS period. This is welcome in light of higher inflation and higher borrowing costs.
- 3.5 As part of the above process, Staffordshire Police will hold budget holder 'Resource Allocation and Challenge panels. These sessions, led by the Chief Constable, will challenge command leads around areas for new savings derived from the use of HMICFRS and CIPFA benchmarking where levels of funding and outcomes do not align. It is proposed to roll out the same process to spend within the Commissioners Office for the 2023/24 MTFS process.
- 3.6 The draft funding settlement from the Home Office is anticipated in December. Panel will note that the forecast increase in cash funding from the Home Office is currently 3% between 2022/23 and 2023/24. The government has committed that it will not reopen the spending review to either reduce funding or to increase funding for higher than anticipated inflation.

- 3.7 However, this additional 3% of central funding has to support both the baseline increase of 120 Police Officers and any inflationary pressures. As such this represents a real terms cut in core funding with inflation running at c.10% and pay awards at 5%.

## Police Officer Numbers

- 4.1 Staffordshire Police has continued to see an increase in officer numbers in 2022/23 as a result of the Government's investment in police numbers. This is in addition to the investments made by the Commissioner in previous years.
- 4.2 The current MTFS sets out plans to recruit 120 of these additional Officers in 2022/23 and this is on track for delivery.
- 4.3 The uplift in officer numbers will continue to be maintained over the life of the MTFS. Further detail is awaited from central government as to how this will be monitored, funded and the subsequent performance measures on which local areas will be held accountable.
- 4.4 The graph below shows the cumulative increase of Officer numbers since 2018/19 (including investment by the Commissioner and the Home Office Uplift programme).



- 4.5 Panel will note that the 2022/23 target is 8 above that previously reported at 1,948.5fte (instead of 1,940.5fte). This is due to additional funding being allocated in year for Forces in a position to over recruit against the 20,000 national target. Staffordshire have secured one off funding for the additional 8fte totalling £160k. No ongoing funding will be allocated to maintain this ergo any continuation of this will be a local decision.
- 4.6 Police officer recruitment is forecast to over deliver against the Uplift target of reaching 1940.5fte officers by March 2023. Staffordshire Police is only one of three Force nationally rated as Green by the Home Office Uplift programme for delivery by year end. Whilst there are operational challenges from bringing in a significant number of new officers around training, development and experience it should not be lost that this provides the core building block for transforming the Force over the coming years and the service delivered to local communities.
- 4.7 An increase in officer numbers has resulted in increased capital spend on items such as vehicles. This has been funded in year from the revenue Uplift grant, however longer term



may present a challenge when the renewal cycle starts in the later years of the MTFS as a higher capital need is required to sufficiently support the welcome higher headcount.

- 4.8 To support this known pressure, and the wider Uplift programme, there is an earmarked reserve which is seen as sufficient over the life of the MTFS.

## **Income Assumptions**

- 5.1 The Commissioner receives funding from a number of sources with the majority of this being through core Home Office funding and the Council Tax precept. Income assumptions are currently being reviewed as part of the MTFS process; the Police funding settlement is usually received in December.
- 5.2 A three-year spending review was set out alongside the Chancellor's budget announcements on the 27th October 2021; the 2023/24 MTFS will be the second year of this period. The new Chancellor has confirmed that overall departmental spending envelopes will remain with no additional offset for inflation or higher pay awards. This will see a return to real terms reductions in public expenditure.
- 5.3 As such inflationary pressures on existing business and investment in service enhancements may need to be funded through increases in precept, savings or additional income being sourced.
- 5.4 The Commissioner had indicated, for planning purposes, increases in precept of 2.99% for the years 2023/24 onwards. The spending review indicated precept flexibility of £10 per annum which is approximately 4.02%, the Commissioner will balance the needs of policing for additional funding against the ability of Staffordshire residents to afford the policing precept, especially in the context of the cost of living crisis.
- 5.5 An unknown is the medium-term impact of the pandemic as well as the cost of living crisis on our council tax base. The rebound in the base forecast by billing authorities was stronger than they indicated when setting the budget for 2022/23 and initial indications were that there may be an increase in council tax base growth above that originally anticipated. The impact of the cost of living crisis is currently unknown.
- 5.6 Other grants such as legacy Council Tax support and Pensions Grant are assumed to continue at the current levels and are not increased by inflation representing a real terms cut.

## **Assumptions**

- 6.1 The MTFS refresh is being undertaken in a more uncertain environment as a result of the cost of living crisis.
- 6.2 Funding assumptions both in relation to local and national funding are likely to cause material changes late on in the planning process. This cannot be avoided but needs to be recognised.

- 6.3 The table below sets out the budget assumptions presented to the panel for the 2022/23 MTFS:

Description	2022/23 Budget	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
<u>Police Officers</u>				
Pay Award	4.0%	2.5%	2.0%	2.0%
Incremental uplift	0.0%	1.0%	1.0%	1.0%
Pension Contribution	31.0%	31.0%	31.0%	31.0%
<u>Police Staff</u>				
Pay Award	4.0%	2.5%	2.0%	2.0%
Incremental uplift	0.0%	1.0%	1.0%	1.0%
Pension Contribution	15.5%	15.5%	15.5%	15.5%
<u>Non-Staff Inflation</u>				
General (Including Rates)	4.0%	2.5%	2.0%	2.0%
Utilities - Gas/Electric	10.0%	2.5%	2.0%	2.0%
Fuel	10.0%	2.5%	2.0%	2.0%
Insurances	30.0%	2.5%	2.0%	2.0%
<u>Funding</u>				
Government Funding	5.5%	3.0%	1.5%	2.2%
Council Tax Base Increase	1.83%	1.25%	1.50%	1.50%
Variable Income Charges	2.0%	2.0%	2.0%	2.0%
Council Tax Precept Increase	4.19%	2.99%	2.99%	2.99%

- 6.4 Non-pay inflation is currently running at 10%, which is significantly higher than the 4% assumed in the MTFS for 2022/23. The war in Ukraine has exacerbated global inflation trends and continues to have an impact on gas and food prices, largely due to the disruption to supplies. Electricity and gas are the largest contributors to the higher CPI inflation rates, followed by petrol and diesel, then food and non-alcoholic drinks.
- 6.5 The non-pay inflation assumption for 2023/24 is 2.5%; current estimates indicate that inflation will remain at high levels, not falling back to the 2% target until Q4 2023. For planning purposes, the assumption reflected in this MTFS update is an increase to 4%.
- 6.6 The current MTFS assumes pay awards at 2.5% per annum for 2023/24. For planning purposes, the assumption reflected in this MTFS update is an increase to 4% in line with non-pay inflation.
- 6.7 For indicative purposes, the table below from the 2022/23 MTFS highlights the impact of changes to the MTFS position:

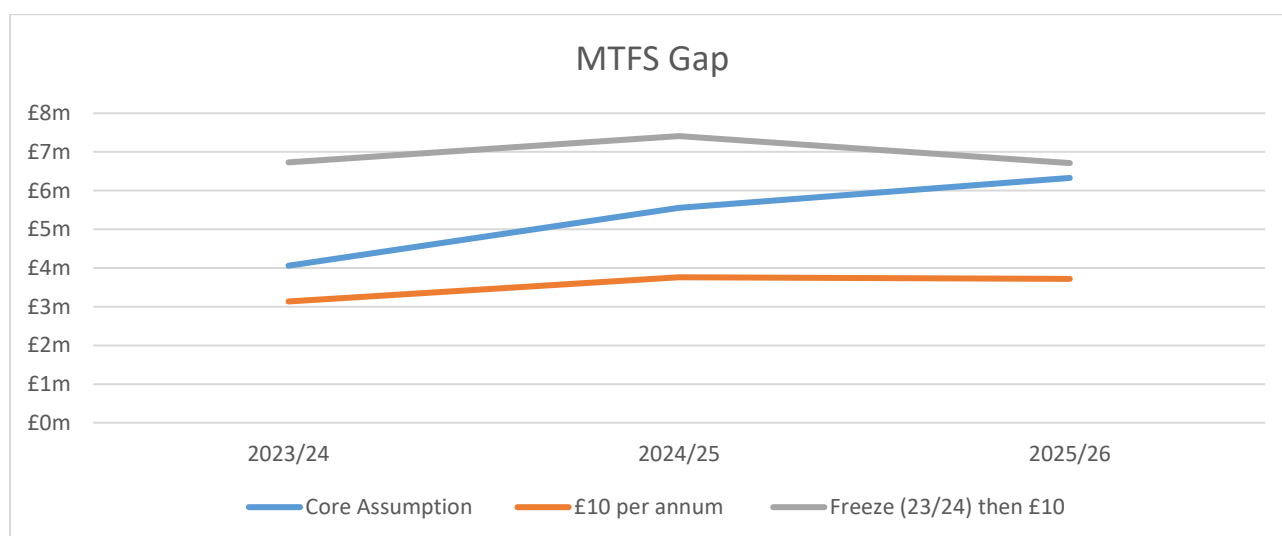
Cost Area	Change	£'000
Police Pay	1%	1,119
PCSO/Police Staff	1%	683
Utilities	1%	47
Vehicle costs	1%	36
Supplies & Services	1%	99
Police Pension Contribution	1%	1,119
Police Core Grant Funding	1%	1,294
Precept	£1	88
Council Tax Base	1%	883

## Sensitivity Analysis

- 7.1 As part of the current MTFS refresh, sensitivity analysis has been produced around the level of precept.
- 7.2 Currently there is no indication from the government that the current precept referendum limit, of £10 per annum for the life of the spending review, will be changed.
- 7.3 The MTFS currently assumes a 2.99% inflation increase per annum. Over the life of the current MTFS this resulted in a real terms reduction in the precept compared to both inflation and wages. The table below is extracted from the January 2022 MTFS report:

	2022/23	2023/24	2024/25	2025/26	Cumulative
RPI Inflation	5.0%	3.4%	2.8%	2.8%	<b>14.0%</b>
Wage Growth	4.6%	3.7%	2.2%	3.0%	<b>13.5%</b>
Precept Estimates	4.19%	2.99%	2.99%	2.99%	<b>13.16%</b>

- 7.4 Clearly within the current higher inflation environment the gap between precept increases and wage/RPI inflation will be larger than shown above.
- 7.5 The graph below shows three precept scenarios. All assume that government funding is as per the 2022/23 MTFS estimates and inflation as per the assumption in section 6 of this report.



- 7.6 The scenarios are as follows:

**Core Assumption** – 2.99% per annum as per current MTFS (Blue Line)

**£10 Per Annum** – maximum allowed before referendum (Orange Line)

**Freeze in 2023/24 and then £10 Per Annum** – (Grey Line)

- 7.7 With the above scenarios these are the gap per annum and not cumulative gap. Ergo, any closure of the gap at this stage requires ongoing savings or in extremis the use of reserves as a one off.

## Capital

- 8.1 As part of the current MTFS refresh, capital plans across both Staffordshire Police and the Commissioner's Office are being refreshed.
- 8.2 The Commissioner has set a desire to see greater economy and efficiency being obtained from infrastructure investment. This includes the benefits arising from such investment both in terms of productivity gain but also cashable savings. This will be a key theme for the Commissioner in agreeing the 2023/24 capital programme.
- 8.3 The Commissioner will repay £2.5m of loans funded by the Public Works Loans Board (PWLB) in the 2022/23 year. No new loans will be taken out in year with the capital programme funded from a mix of revenue contributions, capital receipts and internal borrowing. By not replacing these loans the Commissioner will continue to make savings on interest payments.
- 8.4 External debt, held in the form of Public Works Loans Board (PWLB) debt has decreased for three years in a row. With the above £2.5m repayment this is forecast to fall for a fourth year in a row this year.
- 8.5 The planning assumption is that the capital programme will be funded from internal borrowing only over the MTFS, in light of the current increased PWLB rates, except to manage short term cashflow.
- 8.6 In contrast to recent years, the external environment in relation to investment income now represents an opportunity for additional investment income. At its September meeting, the Bank of England base rate was increased to 2.25% with investment returns now at or above this benchmark.
- 8.7 Two significant programmes included in the MTFS are for the Emergency Services Network (ESN) and Staffordshire Police's preferred option on Firearms provision.
- Within the current MTFS, provision had already been made for the ESN programme based on the ESN model generated by the Home Office last year. Since then Commissioners and Forces have been notified of an anticipated slippage in the programme. The MTFS will be updated as further information is received as to the new timeframe but this will, in the short term, reduce capital expenditure.
  - The preferred option for Firearms Range provision has been approved by the commissioner. Compared to the current MTFS this will reduce capital expenditure subject to detailed costings.
- 8.8 The in-year capital programme has been reviewed in light of high inflation and issues around supply chains. This has resulted in both reprofiling and also some targeted removals from the programme.
- 8.9 Within the MTFS there are anticipated borrowing costs built in. By utilising internal borrowing over the life of the MTFS it is proposed that a new saving, compared to the current plan, can be achieved.

- 8.10 The current interest rate environment does not support locking in long term borrowing, given PWLB rates are running at over 5%. Whilst there is no immediate need to borrow in the current year by adopting a stance of only borrowing internally, the Commissioner will be strongly placed to either avoid these high borrowing costs, or to seek to borrow when market conditions allow over the life of the MTFS.
- 8.11 In addition to the above, the current internal cash balances are earning a significantly higher rate of return than budgeted. In the immediate coming year this will, based on current rates, earn c.£400k of new investment income to offset some of the inflationary pressures the group is facing.

## **Reserves**

- 9.1 The General Fund reserve remains at £8.509m, which is 3.65% of the net revenue budget in line with the Commissioner's Reserves Strategy, with no forecast draw on this reserve in year anticipated.
- 9.2 Earmarked reserves are held for specific purposes. As part of the MTFS refresh process both Section 151 Officers will review the adequacy and intended use of these reserves with a view to providing support to the MTFS.
- 9.3 A budget support reserve has been established with funding of £3.064m. In the current MTFS this is drawn on to support the budget over the medium term so is unavailable to further close the budget gap but may be reprofiled accordingly.
- 9.4 Reserves overall, when benchmarked against the wider sector, remain in line.
- 9.5 Reserves, whilst set aside for a particular purpose, currently are utilised in cash terms to support capital spend in lieu of external borrowing. This internal borrowing, if replaced by PWLB through not being available, would result in a cost of £1.500m per annum.