Agenda Item 7

Financial Strategy

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Falkirk Council

Title:	**Financial Strategy**
Meeting:	**Falkirk Council**
Date:	**28 September 2022**
Submitted By:	**Director of Transformation, Communities and Corporate Services**

1. Purpose of Report

1.1. The purpose of this report is to present the Council with an updated Financial Strategy which incorporates the Council's approach to tackling the financial challenges.

2. Recommendations

2.1 It is recommended that Council:

(1) Approve the Financial Strategy, recognising that the figures therein are indicative and will be updated as required.

(2) Agree in principle the Council Tax Strategy and note that formal Council Tax approval will be required as part of the Revenue Budget setting process.

(3) Agree the approach set out to work towards bridging the financial gap, as outlined in the Financial Strategy and section 5.2 of this report.

(4) Agree the establishment of a Financial Strategy Group.

3. Impact on Climate Emergency Targets

3.1 The recommendations in this report will not have any impact on the Council's climate change targets directly. However, ultimately virtually all financial activity will impact on emissions in some way.

3.2 The Financial Strategy aligns to the Council Plan which clearly states a priority to support a green transition. Decisions that will be taken to help tackle the financial challenges facing the Council could impact positively or negatively on that priority. For example, the reduction of buildings should impact positively on emissions. However, some low carbon alternatives for construction contracts for example, may be more expensive and financially unaffordable.

3.3 Moving forward, the Council will have to try and balance these competing priorities. For future spend, investment and budget proposals, it will be for Officers to clearly set out the options available, the costs, and the climate impact, for Members to consider.

4. Background

4.1. The March 2022 budget report included a projection of the financial gap for 2022/23 and the following four years. The projected gap for the next four years was estimated at £52m at that time.

4.2. Subsequent reports to Executive have highlighted that the financial gap is likely to increase significantly as financial pressures increase. The Best Value Audit Report highlighted financial sustainability as one of the most critical issues facing the Council. The Financial Strategy aims to begin to address this.

4.3. The intention has been to present the Financial Strategy alongside the Council Plan, ensuring clear linkages between the two documents.

4.4. For some months, Services have been asked to identify options to increase income/reduce expenditure through either transformation of service delivery or a reduction of services on offer. It has been made clear to both Officers and Members that achieving financial balance will require very difficult decisions. At this stage it is inconceivable that service reductions will not be necessary.

4.5. The Financial Strategy is clearly linked to the revision of the Council of the Future programme and the Council's wave 3 projects are shown in the Strategy document.

4.6. Finance reports to Members have highlighted the extreme volatility in the economy and the impact that this has on projections and estimates. All figures in this paper must therefore be caveated and will be updated as more definitive information is available.

5. Considerations

5.1 Current Position

5.1.1 The Financial Strategy appended to this report sets out a projected funding gap for the next four years of £69m. This is heavily front loaded with year one (2023/24) requiring £33.5m to balance the budget. The estimate of gaps is set out in the table below:

	2023/24 £'m	2024/25 £'m	2025/26 £'m	2026/27 £'m	Total £'m
Gap	33.5	18.3	9.1	8.1	69

5.1.2 A broad range of assumptions have been made to calculate the £69m and there remains many unknown factors at this time. The assumptions which have been included to reach this gap are shown in Appendix 1 of the Strategy document. There is therefore the potential for the gap to shift significantly as more definitive information becomes available.

5.1.3 Work is scheduled to update the loan charge projections for the next four years. This in part is dependent on forecast of interest rates, but more importantly, on the decisions taken on other reports presented on this agenda.

5.2 Options to Balance the Budget

5.2.1 The Strategy sets out two main themes to work towards balancing the budget, each with associated workstreams:

Corporate Accounting Proposals	Service Proposals
Service Concessions	Transformation
Council Tax Strategy	Improvement
Borrowing Requirements	Service Reductions

5.2.2 The Strategy suggests that £9m may come from Corporate Accounting Proposals. The Strategy provides updated information on service concessions. This work is at a very early stage and external support will be required to undertake the necessary complex and detailed calculations. Updates will be provided to Members as appropriate.

5.2.3 A Council Tax Strategy has been included in the paper which sets out a plan to increase Council Tax to the Scottish average over a five-year period. Members are asked to agree this in principle but note that formal Council Tax setting will take place as part of the revenue setting budget.

5.2.4 The Council has the option to reduce borrowing for capital investment which in turn will reduce costs to the revenue budget. This option links to other reports on the agenda for this Council meeting.

5.2.5 The Council has recognised that it needs an ambitious change programme to support delivery of its vision and priorities. The Council is committed to taking a transformation approach where possible, streamlining and generating efficiencies across all Services. However, given the scale of the challenge it is unlikely that this will be enough to balance the budget.

5.2.6 The Strategy sets out three routes to financial savings by Services:

- Council of the Future - Transformation projects
- Council of the Future Improvement activity which will include transformation enabler projects, efficiency and continuous improvement initiatives which will be reported through Service Plans
- Service reductions

5.2.7 To date Services have identified £10m of Council of the Future – Transformation projects. A further £12m of improvement activity and service reduction options has been identified, albeit very much in draft form.

5.2.8 The Strategy identifies that a gap of £43.1m remains and Officers are continuing to develop solutions for bridging the gap.

5.2.9 It is proposed that Services will present options for consideration throughout the course of the financial year, rather than wait for the Council's formal budget setting meeting. This means that decisions already taken by Members will be factored into the budget presented for approval and Services will have sufficient lead in time to begin the work to implement any changes before the start of the financial year. Some of the options under consideration will require formal consultation exercises.

5.3 Governance

5.3.1 The development of the Council budget is a complex process which requires a significant input of resources from both Officers and Members. The Corporate Management Team, Senior Leadership Group and Service Management Teams work closely to identify:

- Emerging pressures
- New funding opportunities
- Options for cost savings/income generation

5.3.2 Regular meetings of the Senior Leadership Group, which includes all Chief Officers, ensure that there is a clear understanding across the organisation, of the financial challenges and an agreed approach to tackling those challenges.

5.3.3 Previously a cross party Budget Working Group met regularly to consider reports from Officers on budget assumptions, the financial challenges and proposals to balance the budget. However, there has been recognition that the Group was not as effective as hoped.

5.3.4 Moving the Council to a financially sustainable position will be difficult and will require a strong collaborative approach from both Members and Officers. Members and Officers need to have an open forum for discussion on the challenges, opportunities and actions that can be taken to reach a more financially sustainable position.

5.3.5 It is proposed at a Financial Strategy Group is established, chaired by the Chief Executive. The FS Group will consist of the Group Leaders and Finance spokespersons from each Group.

5.3.6 The Finance Strategy Group will have a focus on the financial strategy, rather than detailed operational savings. It is anticipated that if this proposal is approved, a meeting with the Group members will be held quickly to discuss and sign off of a Terms of Reference.

5.4 Next Steps

5.4.1 Officers will continue to develop proposals for consideration by Members.

5.4.2 Work will continue to review areas that remain in draft, for example the loan charge assumptions and service concession arrangements.

5.4.3 As information becomes more definitive, for example the pay award, figures will be updated and reported back to Members as appropriate.

5.4.4 The Strategy notes that Officers are exploring the use of a target operating model (TOM). Progress on this approach will be reported to Members.

5.4.5 A meeting of the Financial Strategy Group will be convened as early as possible.

6. Consultation

6.1 The information in this report has been developed through consultation with the Services. The report has been presented to the Corporate Management Team and the Senior Leadership Group.

6.2 The Strategy sets out some initial proposals for a budget consultation exercise. In addition, there will be consultation exercises required for individual projects and proposals.

7. Implications

Financial

7.1 The financial implications are set out in the Strategy document itself.

Resources

7.2 There are no further resource implications. The Finance team and Project Management Officers have contributed a significant amount of time to the development of this Strategy. Services have also invested resources in identifying and scoping projects, as well as reviewing the information contained in the paper. As this Strategy evolves and develops, it is expected that further significant employee time will be required.

Legal

7.3 There are no legal implications arising from the recommendations in this report.

Risk

7.4 Financial sustainability remains the biggest risk facing the Council with the pressures not likely to abate in the foreseeable future. Fundamentally the Council is spending more than it can afford. This may lead to unplanned service interruptions, disruption for service users, reputational damage and ultimately to the Government bringing in external support to reduce Council spend.

Equalities

7.5 The Financial Strategy includes a Council Tax Strategy which would see the Council increase council tax by c4% each year (based on a national average increase of 3%). The purpose of this is to bring Falkirk’s council tax charge in line with the Scottish average, over a five-year period. There is automatic protection for any household in receipt of Council tax Reduction due to low income. However, the increase would impact on other households. As such an Equality and Poverty Impact Assessment will be prepared to consider the full impact of this proposal and identify any mitigation that can be applied.

7.6 Officers will have to present a series of options to Members to help balance the budget. Each of these options should be subject to an Equality and Poverty Impact Assessment to help inform Members decision making.

Sustainability/Environmental Impact

7.7 There are no environmental impacts arising from the recommendations in this report.

8. Conclusions

8.1 The Financial Strategy summarises the key financial risks facing the Council and the huge challenge that lies ahead. Officers are working hard to identify proposals that will reduce the gap. Further updates will be presented to Members as required.

Director of Transformation, Communities and Corporate Services

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Appendices

Appendix 1 – Draft Financial Strategy

List of Background Papers:

FINANCIAL STRATEGY **Appendix 1**

2023-2027

EXECUTIVE SUMMARY

The Financial Strategy is an important part of the Council's planning framework. It sets out the financial context that the Council is operating in and explains the pressures and challenges that the Council faces. Falkirk, in common with most Scottish Local Authorities, is facing unprecedented pressures. The increasing volatility in the economy, inflation consistently recorded at rates higher than assumed for example, means that forecasting financial information is becoming increasingly difficult.

Key messages from the Financial Strategy are:

- Financial sustainability is crucial. It will allow the Council to deliver on Council priorities, keep delivering services and invest where necessary. The key to financial sustainability is having a clear plan on how to meet the challenges ahead.

- The current estimate of the Council's funding gap for the next four years is £69m.

- As part of the Council's Best Value Action Plan, the Council has reviewed its approach to transformation.

- The Strategy sets out two main themes to work towards balancing the budget, each with associated workstreams:

Corporate Accounting Proposals	Service Proposals
Service Concessions	Transformation
Council Tax Strategy	Improvement
Borrowing Requirements	Service Reductions

- Through the workstreams in the table above, Officers have identified approximately £30.9m of savings to date, leaving a gap of £38.5m to be resolved. Approximately £23m of this occurs in year 1, i.e. 2023/24.

- The scale of the challenge is huge. It is inconceivable that service reductions will not be required.

- Difficult decisions will be required to ensure that the Council can continue to provide statutory services and deliver its priorities.

INTRODUCTION

The Council's Finance Strategy is a crucial part of the Council's planning framework. Read alongside the Council Plan, it sets out the financial context that the Council is operating in, the pressures and challenges that it faces, and that may therefore impact on delivery of the Council Plan, and the extent to which the Council has identified ways to address the challenges.

The economic outlook section of this Strategy emphasises the volatility in the economy. Just as households are struggling with the cost of living crisis, those same costs pressures are impacting on the services that the Council delivers. It is important that the Strategy is set in this context and is seen as a flexible document which will be updated throughout the year as required.

The Council Plan focusses on the vision and the priorities of the Council:

VISION: Strong communities where inequalities are reduced and lives are improved.

PRIORITIES:

- Supporting stronger and healthier communities
- Promoting opportunities and educational attainment and reducing inequalities
- Supporting a thriving economy and green transition

The Council values - Responsible, Innovative, Trusted and Ambitious (RITA) - are an integral part of the Council Plan. These values will underpin how the Council will approach the delivery of the Council Plan and do things differently.

Financial sustainability is the biggest challenge facing Falkirk Council. The Council needs to have enough funds to deliver on the Council priorities, keep delivering services and invest where necessary. The Council's Best Value Assurance Report in January 2022, emphasised that Falkirk Council is not in a financially sustainable position, meaning that the Council did not have a clear plan on how it would meet the financial challenges ahead.

The aim of this strategy is to start to map out how the Council will address these challenges in a planned and sustainable way. Fundamentally that means shifting service delivery models to make sure that spending is within resources available.

The following pages set out the economic context that the Council is facing, the main cost pressures and drivers of spend, and the main sources of income. The strategy shows current estimates of spend and resources and the projected budget gaps, i.e. where spend exceeds resources. It also plots out the work that has been identified to date to start to address future budget gaps. The scale of the challenge is huge, and the position is not balanced. Therefore, the strategy puts down markers on areas of work being developed by services for future discussion.

The work to balance the budget is ongoing but fundamentally the Council needs to make a significant step change in designing, approving and achieving changes to service delivery models to ensure financial sustainability.

The Council is required to prepare a separate Capital Strategy and this should align to both the Council Plan and Financial Strategy. The Capital Strategy should outline how planned capital investment will help to deliver the Council's priorities but is affordable in the context of the revenue budget. The Capital Strategy was approved in March 2022 by Council and is updated on an annual basis.

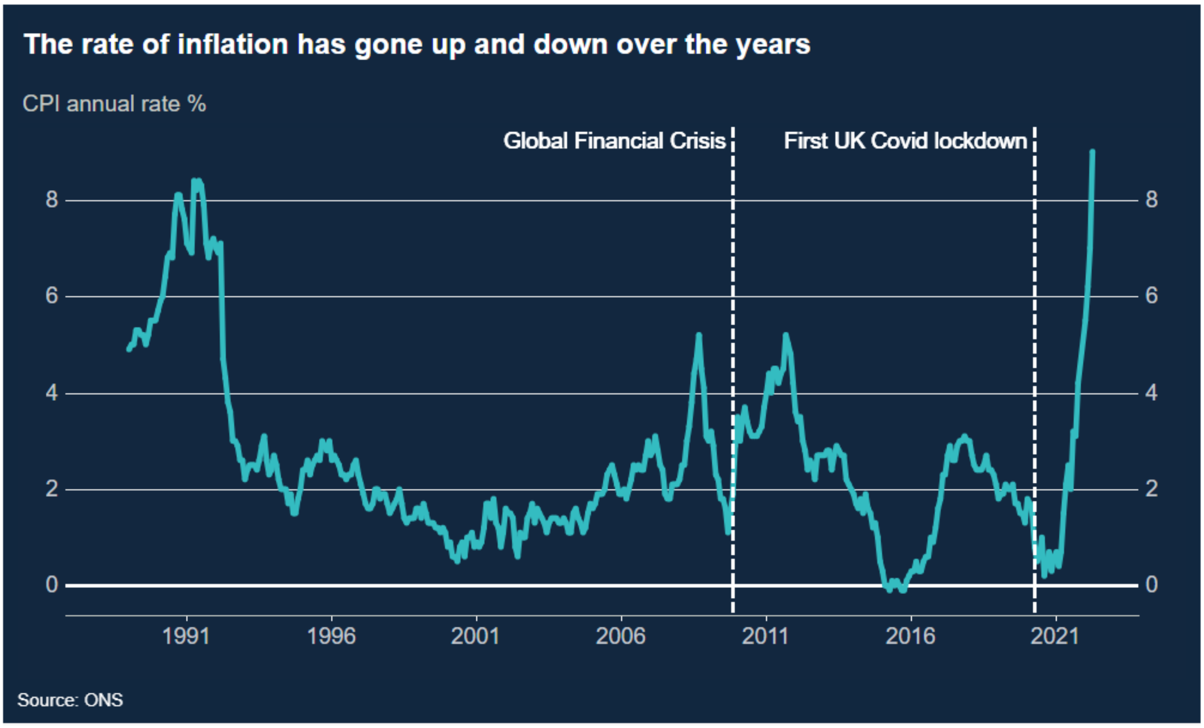
THE ECONOMIC CONTEXT

The economic environment is volatile and that means that people, businesses and governments are under serious financial pressure.

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world, and the impact is still being felt. In their Local Government in Scotland Overview 2022, the Accounts Commission highlighted the evolving and long-term impact of Covid-19 and the need to focus on recovery to address the harms done by the pandemic.

However, that recovery work is seriously under threat through the rising inflationary pressures in the economy. This could result in the need to reduce services on a scale not previously experienced. It is hard to imagine that the economic outlook for the Council, for the near future could be much worse.

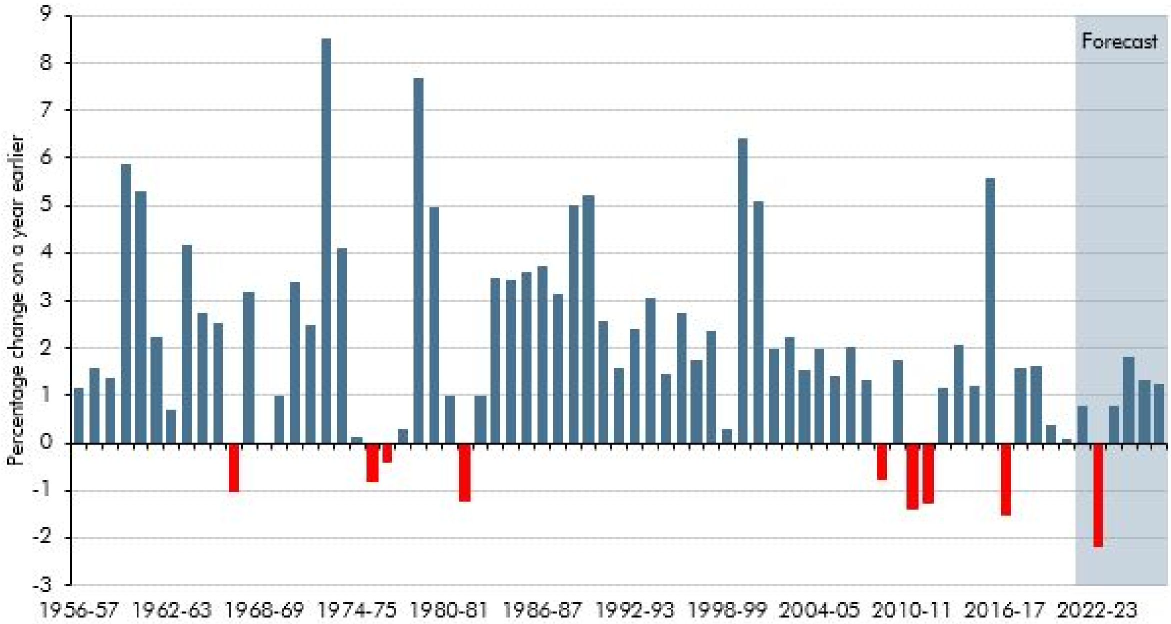
In August 2022 the Bank of England raised bank rates to 1.75%, the biggest increase in 27 years. The purpose of this rise was to tackle the rising inflationary costs that all households are experiencing – the current estimate is that inflation will reach 13% during 2022 (this would be the highest in 42 years). The traditional driver for inflationary increases is too much demand in the system. The Bank of England traditionally tries to reduce the demand by making money more expensive, i.e. by increasing interest rates and therefore borrowing costs. However, much of the inflationary pressure has been driven by energy prices, due to the conflict in Ukraine. From May to August 2022, the price of gas doubled. Other factors such as Brexit and the ongoing impact of Covid-19 are also having an impact.



Source: Bank of England

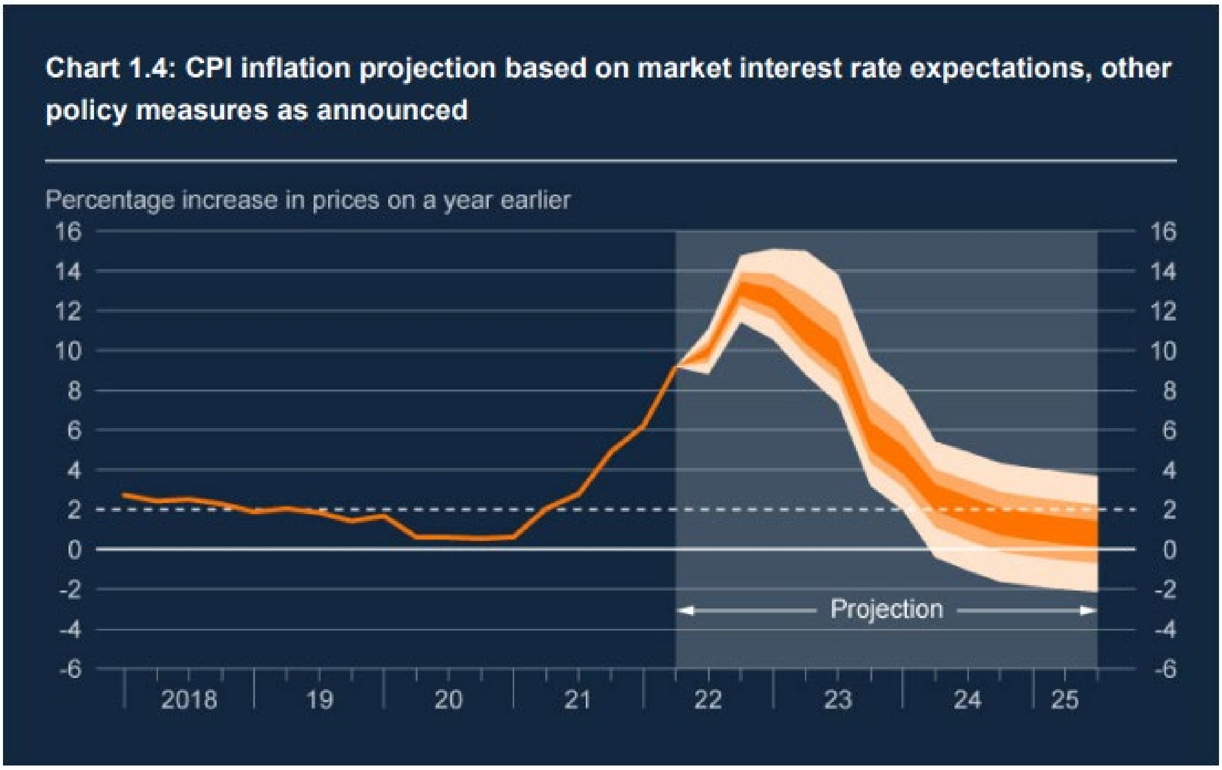
The main challenge posed by inflation is the anticipated sharp fall in household incomes. As prices rise faster than wages, households will spend more to buy the same items. This is also the case for the Council. In common with households, the Council will not be able to afford to do everything it currently does. It will be crucial therefore that what the Council does spend, is targeted effectively at those who need it most.

The following chart shows the change in real household disposable income per person since 1956/57 (real means adjusted for inflation). The chart was produced by the Office of Budget Responsibility in March 2022 and projected the largest fall in living standards since 1956/57.



Source: ONS, OBR

These issues are being grappled with nationally. It is expected that inflation will begin to fall during 2023 and that energy prices may not continue to rise so rapidly. That said, energy prices are hugely volatile. The Bank of England expect that inflation will be at the target 2% in around 2 years time as set out in the chart below.



Source: Bank of England

The Bank of England expects the size of the UK economy to fall in the next 12 months – meaning that the UK will enter recession which is expected to last for more than a year. As the economy contracts, this can mean less jobs and less company profits, therefore less taxes going to the government. In turn this can mean poorer funding settlements for local government. It is also clear that recessions don't tend to impact on everyone equally and can lead to an increase in inequality. The Council needs to be in a position where support can be provided to those most in need.

The Bank of England highlights that uncertainties in the economy are exceptionally high, making forecasts particularly vulnerable to change. It is important that this Financial Strategy is considered in the context of this economic uncertainty. Undoubtedly the figures contained within this Strategy will be subject to change and will need to be kept under continual review. However, fundamentally the fiscal outlook is worrying and the Council will have to adapt to this environment.

THE COUNCIL'S FINANCES

Council spending and income is split into different areas for accounting and reporting purposes. The four main areas are described below.

General Fund Revenue

- Day to Day spend on all Council services except council housing. The General Fund covers education, social work, waste services, roads and planning and support services such as finance, IT and HR. All spend relating to these areas such as staffing, property costs and payments to contractors, for example care homes, are included in these costs.

General Fund Capital

- This is investment in buildings such as schools and offices, roads, street lighting, IT, vehicles etc. The money for capital is held separately. The capital grant from Government can only be spent on this investment and the Council can borrow money but only for capital investment.

Housing Revenue Account

- Legislation requires the income from council houses to be kept separate from the General Fund and ring-fenced for use on council housing. The Housing Revenue Account records all income and expenditure associated with the day to day provision of council housing. This will include for example staff related costs, property maintenance works and borrowing costs associated with investments.

Housing Capital

- Capital money – capital grants, borrowing and capital receipts – can only be used for investment purposes. It cannot be used to meet day to day spend.
- For housing, capital investment will either be on existing council houses or on new build houses/buy back of houses.

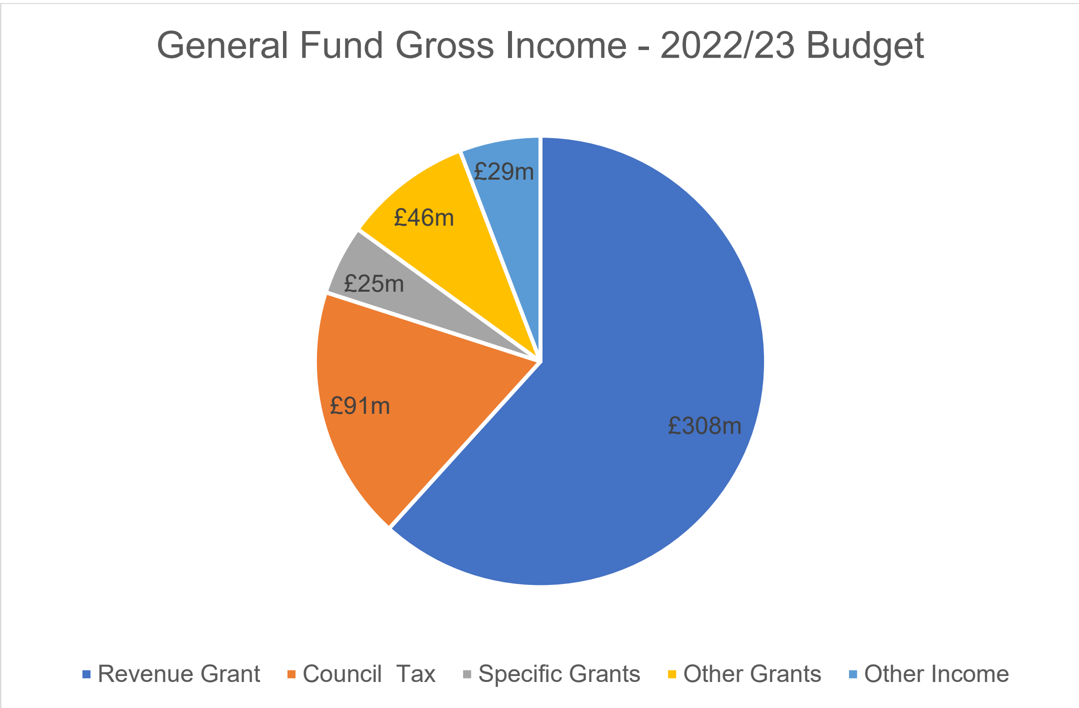
GENERAL FUND REVENUE

The General Fund is the area under the most pressure financially. The nature of the General Fund services limits the flexibility to adjust services to some extent. For example, the Council can't decide to close a school for a week, or not provide social work services to save money. Much of the spend for general fund services is relatively fixed, for example teacher costs. This makes balancing the budget more challenging.

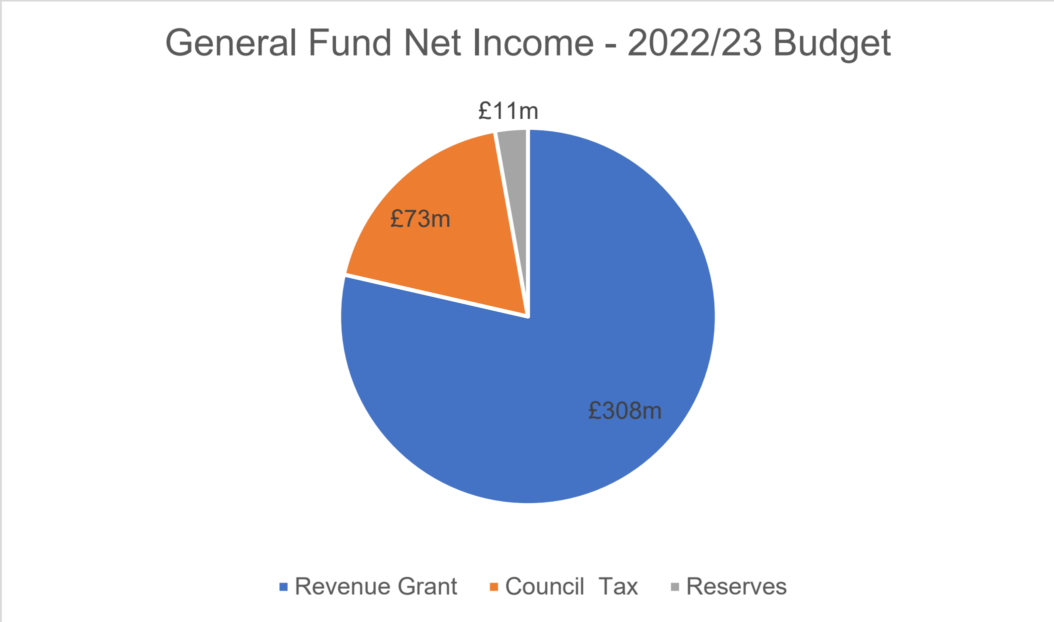
The next section sets out the main sources of general fund income and the main areas of general fund spend.

General Fund Income

The General Fund receives income from a variety of sources. The graphic below shows the main income streams for the General Fund. This is the gross budgeted income for the Council for 2022/23 which totals £499m. Gross income covers everything, including income from fees and charges and specific grants.



Net income is the most common way that Council finances and budgets are presented. The net income budget for the Council in March 2022 was £392m.



It is important to note that the Council has limited influence over its income streams and that there can be restrictions on how the funding can be spend.

Government Grant

Government Grant accounts for approximately 80% of the Council's funding and the Council is therefore very reliant on this funding. The Council will work with the Convention of Scottish Local Authorities (CoSLA) to influence the amount of funding allocated to Local Government, the way that funding is allocated across the Local Authorities and how that the grant can be applied.

However, these decisions rest with the Scottish Government and are often driven by central government policy.

Grants can be general or ring-fenced (sometimes called specific grants). General Grants can be applied as the Local Authority sees fit (albeit they may be linked to Scottish Government policy). Ring-fenced Grants are for a specific purpose determined by Scottish Government and the Local Authority has no ability to redirect the funds.

Non-Domestic Rates

We collect rates from all non-domestic businesses that have been included in Valuation Roll, which is maintained by Assessor for Central Scotland.

The amount due is based on the 'rateable value' of each subject.

The income from non-domestic rates goes to the Scottish Government into an 'all Scotland' fund. The income is then redistributed to Councils as part of the total allocation of funding from the Scottish Government. The Council has no control over this aspect of its funding.

Council Tax

Council tax is set, billed, and collected by the Council.

Every dwelling is valued and placed in one of eight valuation bands, by the Assessor for Central Scotland. The amount of Council Tax due is based on the valuation band.

Council Tax is a locally set tax. However, Scottish Government placed restrictions on increases for a number of years. 2022/23 was the first year that these restrictions were lifted.

Reserves

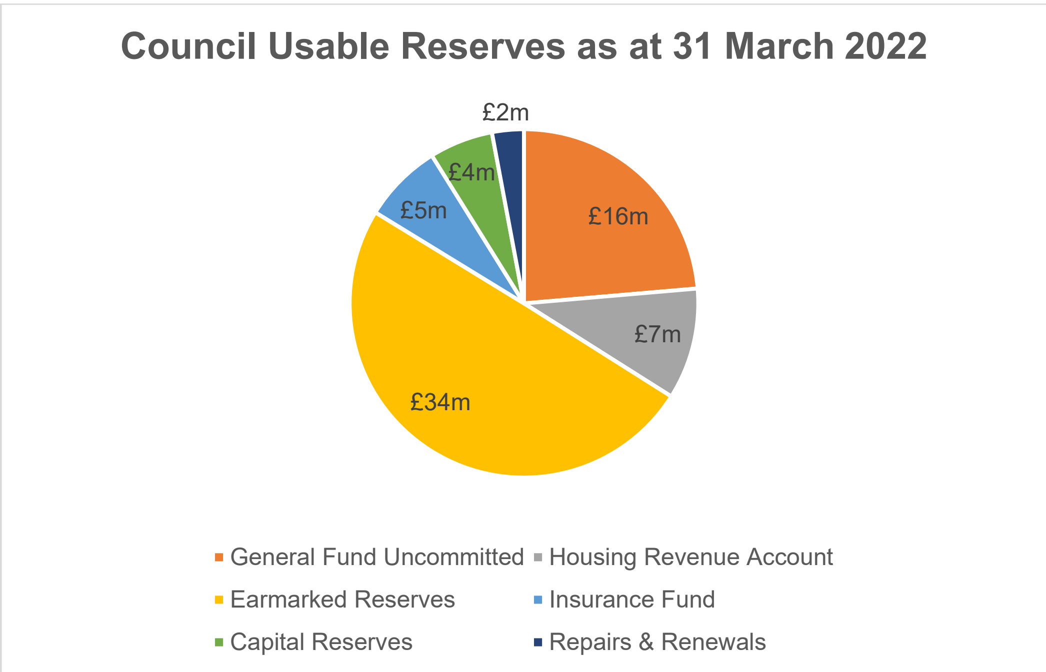
Councils have two types of reserves – useable and unusable. The unusable reserves have a technical accounting role and do not represent cash that the Council can spend.

Councils are allowed to hold usable reserves for three main purposes:

- As a cushion to help with cashflow
- As a contingency to deal with the impact of unexpected events or emergencies
- To build up funds to meet known or future requirements

In effect, reserves are the Council's savings. A significant proportion of the Council's reserves at any one time will be earmarked for specific purposes. The remainder is the uncommitted General Fund.

As at 31 March 2022, the Council had a total of £613m in reserves - £545m in unusable reserves and £68m in usable reserves.



The Council has a reserves policy which sets a range within which the General Fund uncommitted reserve should sit – currently £7.5m to £11.5m. Of the £16m noted above, the budget for 2022/23 originally planned to apply £5m of this reserve.

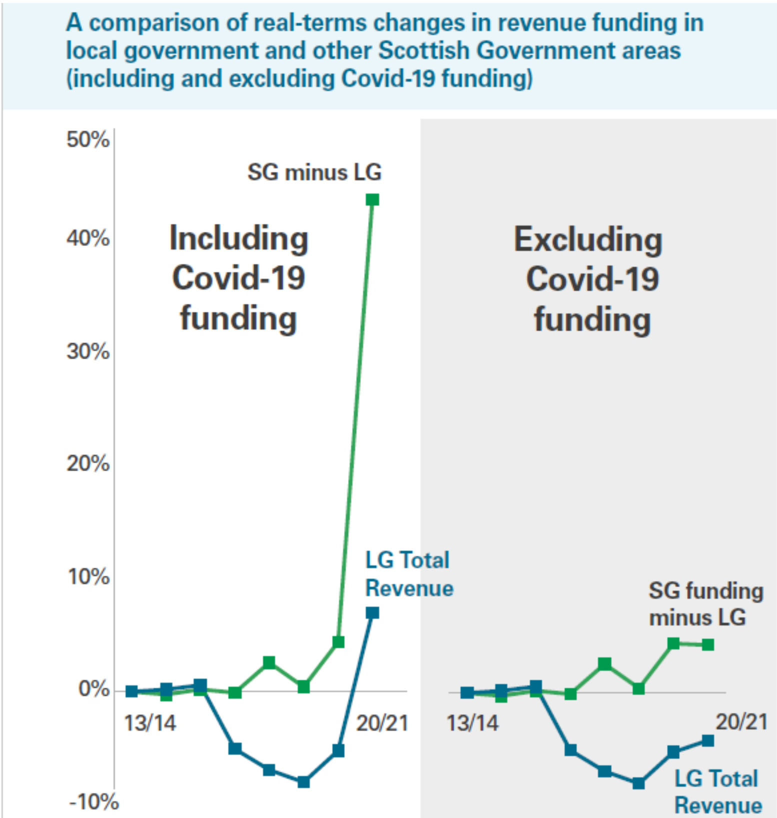
Application of reserves to balance the budget is problematic as it means that the underlying difference between expenditure and income is not addressed. Reserves, like savings, can only be used once.

Based on current 2022/23 financial projections, it is likely that more than £5m of reserves will be required to balance the budget. This means that in 2023/24, the Council will have to try and address even more of a budget gap than originally anticipated.

General Fund Income Projections

As set out above, the Council is hugely reliant on Government Grant. The ratio of Government Grant funding to Council Tax is 80:20. This means that a 1% reduction in Government Grant (equal to £3m) would require an increase of over 4.3% in Council Tax to make up the difference. However, it is important to note that for budgeting purposes, the Council already assumes an increase of 3% annually.

Nationally funding to Local Government reduced by 4.2% in real terms between 2013/14 and 2020/21 (excluding Covid-19 funding) as shown in the chart below:

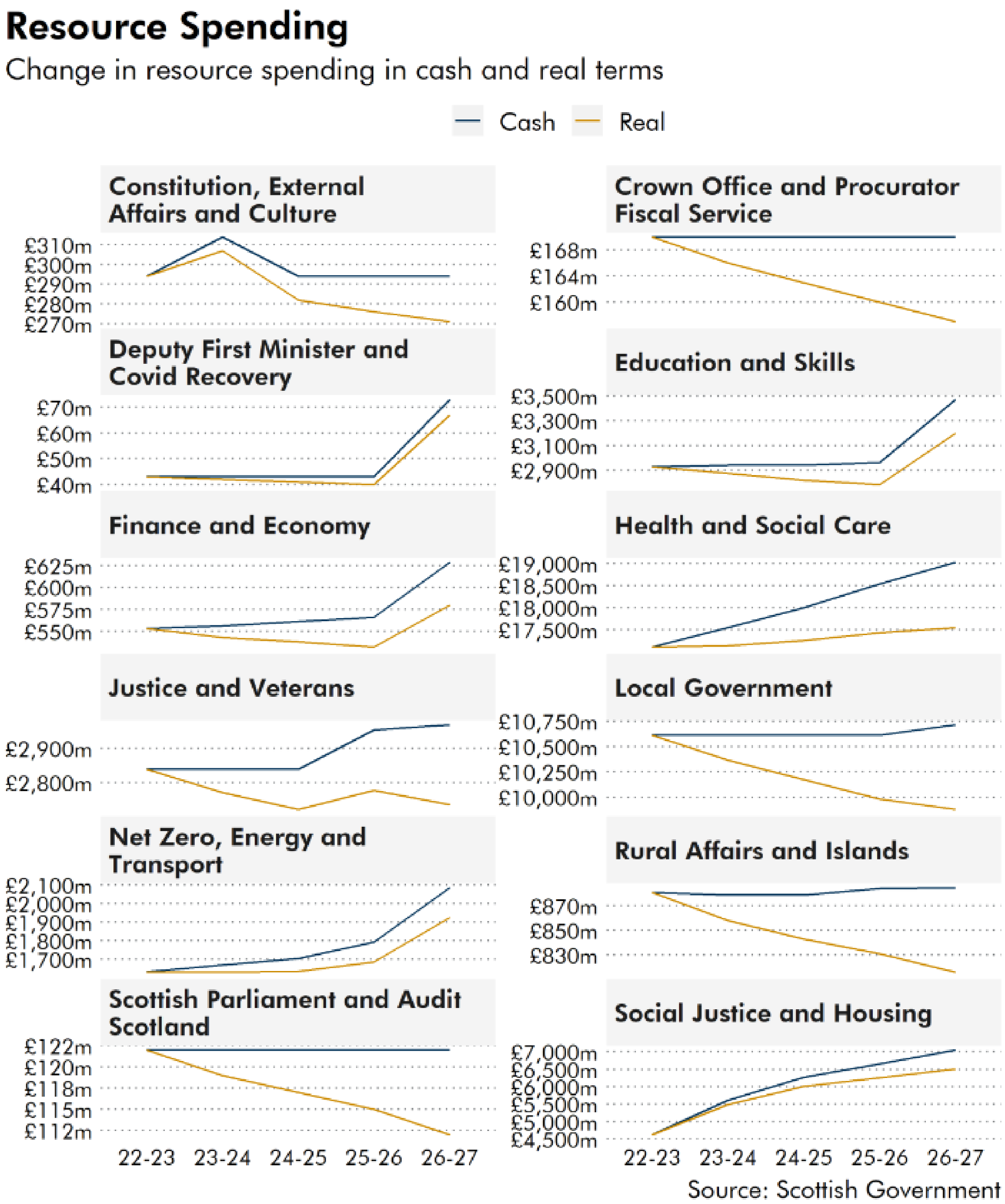


Source: Accounts Commission: Local Government in Scotland Overview 2022

In addition to this pressure, there has been an increase in the amount of grant which has been ring-fenced for specific policy delivery in Local Government. For example, spending on early years provision has increased nationally due in Scottish Government ring-fenced funding. However, due to the overall reduction in funding, this means that other areas of the Council's budget are subject to spending cuts.

In May 2022 the Scottish Government published the Resource Spending Review setting out high level parameters for resource spend up to 2026/27. The spending plans showed the settlement for Local Government remaining at the 2022/23 level until 2025/26 with an increase of £100m nationally in 2026/27 (0.9% increase to £10.616m).

The Scottish Parliament Information Centre (SPICe) produced a briefing paper in June 2022 which considered the impact of the Review. This demonstrated that local government would be faced with a reduction in funding of 7% in real terms, over the period of the RSR (based on information available at that time).



Source: Scottish Parliament Information Centre Briefing Paper – The 2022 Resource Spending Review: Budget priorities identified

General Fund Expenditure

Most of the Council's services are set out in legislation, i.e. the Council must provide schools, social work, waste collection etc. However, the Council has some discretion in the way that the services are delivered.

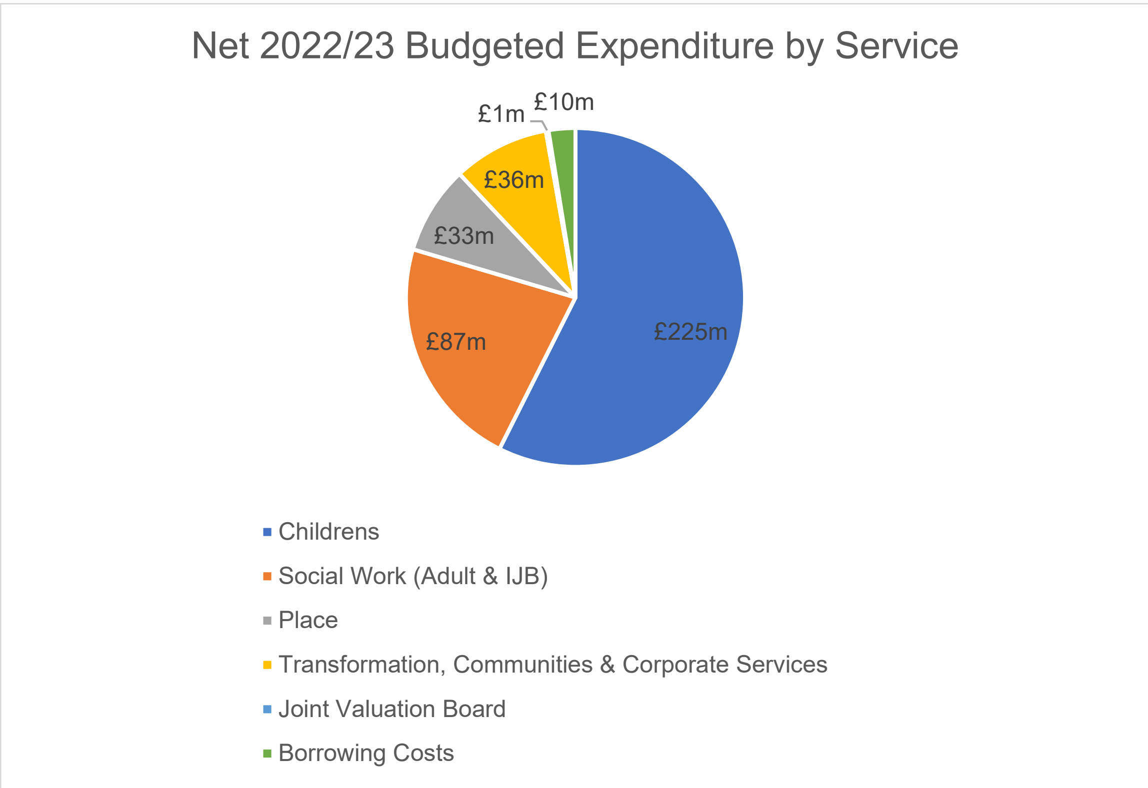
For reporting purposes, expenditure is usually presented in two main ways:

- Objective – this shows spend by service area, for example how much is spent on Education, Social Work and Housing.

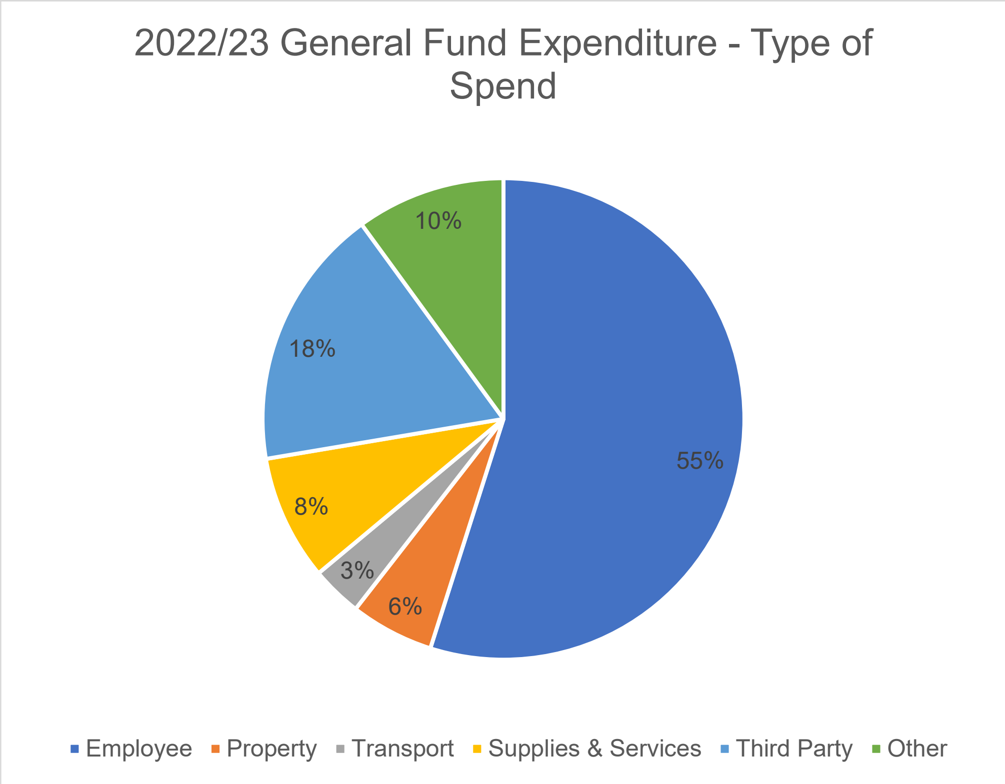
- Subjective – this shows expenditure by type of cost, for example employee costs, property costs, payments to providers etc.

Looking at the Council's expenditure in these two ways allows the Council to understand how much it's services cost, for example how much it costs to run a school, but also where the money in that school is spent – teachers, energy costs etc. The chart below shows the projected spend of the Council for 2022/23 split out in an objective and subjective way.

The 2022/23 budget approved net spend of £392m. The chart below shows this spend by service area and demonstrates that the majority of spend goes to Childrens' Services (57%). 79% of the total spend goes to Education and Social Work.



The majority of the Council's expenditure goes to employee costs (approximately 55%). The next largest area of spend is third party payments (18%) – this is payments to contractors and service providers, for example foster carers, residential childrens' homes and payments for the Council's PFI/PPP contracts.



Biggest Areas of Cost Pressure

The Council is under increasing pressure to deliver its priorities and support its communities, particularly through this cost of living crisis. The financial pressures facing the Council are making this increasingly complex and difficult. The main pressure areas for the Council are set out below:

- Inflationary pressures – inflation impacts on virtually everything the Council does. As the costs of supplies and services increases for everyone, providers and contractors are requesting additional funds to deliver the same services. Fuel, energy and food prices are increasing and this impacts on the Council's services and employees. Employees are requesting pay awards to help them meet the cost of living.

- Energy costs – clearly this links to the inflationary pressures above but it has been highlighted separately due to the value. In 2022/23, the current forecast for energy spend is approximately £11.9m. The equivalent figure in 2021/22 was approximately £7m, which means that these costs have risen by 70% in total.

- Rising cost due to demand – increases in demand for services will lead to an increase in costs. Increases in demand are expected across a range of services, including welfare and debt advice, household support and looked after children. For example, reports to Members have highlighted that there are new and emerging pressures for unaccompanied asylum-seeking children.

- Pressures for Partners – our partners, for example the Health and Social Care Partnership, NHS Forth Valley and the third sector, are all facing rising demand and cost pressures. This may lead to requests for additional funding support from the Council.

- Policy and Legislative changes – a wide variety of major national policy and legislative changes may result in higher costs for the Council. The impact for a number of areas, for example Early Years funding changes, The Promise (linked to the Independent Care Review and encompassing all the relationships that support a child) and the National Care Service, is not known at this point.

GENERAL FUND REVENUE BUDGET PROJECTIONS

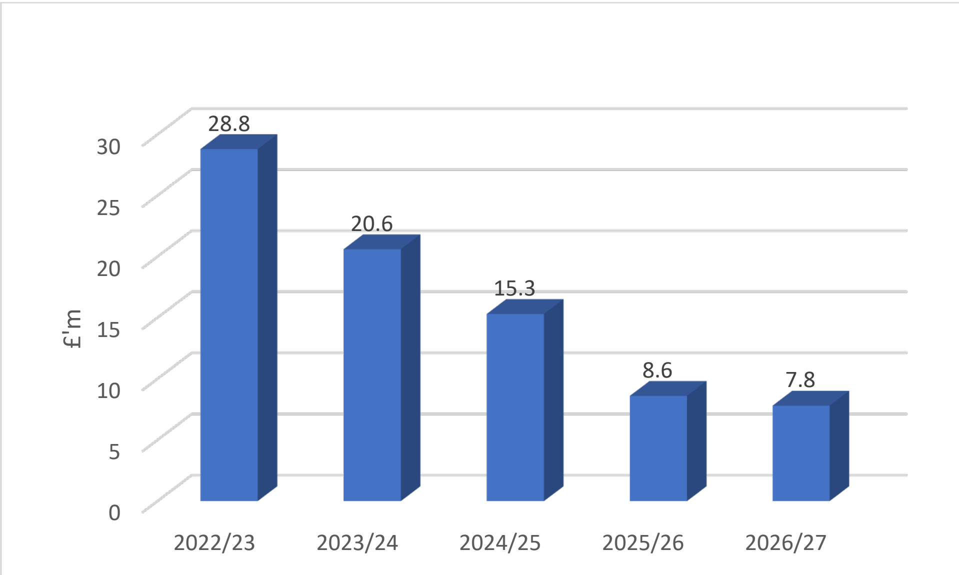
The previous pages have explained where the Council's funding comes from and how much influence that Council has to increase that funding. An explanation of where the Council's money is spent and what it is spent on has also been set out.

The fundamental issue for Falkirk Council is that there is no longer enough money on an annual basis to pay for the services as they are currently delivered. This means that there is a structural deficit in the budget that must be addressed. The only options for addressing that deficit are:

- Increasing income (restrictions to doing this)
- Decrease expenditure (but statutory requirement to deliver services)

In earlier sections, this report has set out the complexity in trying to project the financial position for the current year, let alone future years. Nonetheless, we need to set out where the Council could be financially using the best information available at any given time. As such, the estimates in this report are not definitive but will need to be continually amended and updated as more information becomes available.

In the budget approved by Council in March 2022, a total financial gap of £81.1m was presented for the period from 2022/23 – 2026/27. A breakdown of this by year is shown below:



These financial gaps were based on several assumptions about the income and expenditure outlined in earlier sections of this report. At that time, the significant increase in the cost of living and the knock-on impact of that on pay awards and contract costs for example, was not foreseen.

The following table takes the gaps presented in March and tracks the amendments flowing from changes in key assumptions.

Updated Forecast of Financial Gaps

	2022/23 £'m	2023/24 £'m	2024/25 £'m	2025/26 £'m	2026/27 £'m
Gap Presented in March 2022	**28.8**	**20.6**	**15.3**	**8.6**	**7.8**
Pay Award	4.0	0.6	0.1	0.1	0.1
FSP/NPDO		3.0	1.1	0.5	0.5
Energy		4.2	1.8	-	-
Miscellaneous Movements	1.9	(0.8)	-	(0.1)	(0.3)
22/23 Spending Pressures		5.9*			
Revised Gap – August 2022	**34.7**	**33.5**	**18.3**	**9.1**	**8.1**

* £5.9m reflects the August 2022 financial report to Executive setting out additional application of reserves of £4m for pay award and the £1.9m. Recurring funding for this will need to be identified in 2023/24.

In March 2022 the total funding gap for 2023/24 to 2026/27 was £52.3m. This figure has increased to £69m. A summary of the main assumptions included in this figure is included in Appendix 1 of this report.

The projection figures will need to be continually monitored and updated as revised figures become available and as some costs move from assumptions to final figures. For example, the pay award for all Council staff is not confirmed. This has the potential to significantly shift the position.

There are, some figures that will be subject to fluctuation throughout the period of the Strategy.

Loan Charges

In March 2022 the Council approved a Five-Year General Fund Capital Programme for 2022/23-2026/27 and the MTFP currently reflects the costs of borrowing required to finance this programme at that time. Factors that can influence these costs include

- Changes to that programme, in terms of new or re-profiled projects
- Interest Rates

Challenges in Balancing the Budget

The scale of the gap is huge – by 2027/28, the expenditure of the Council is expected to reduce by £69m.

As already noted in this paper, there are really only two options to bridge the funding gap:

- Increase income (this paper has already set out some of the limitations around this)

- Reduce expenditure – ideally through transforming and streamlining services but reductions in services are increasingly likely.

The Council has faced many years of financial deficits and many of the easier options to reduce expenditure have already been taken. Councillors are faced with increasingly difficult choices to make.

The following pages present some of the options Officers have identified to address the financial gaps. This covers two main areas:

- Corporate accounting proposals (service concessions and council tax)

- Change and transformation

This work is ongoing as each area of service delivery is being reviewed and assessed to identify service delivery improvements and changes that will result in financial benefits.

The Council Plan sets out the priorities for the Council. The challenge for Services is ensuring that the needs of the communities are met, whilst reducing spend wherever possible.

CORPORATE ACCOUNTING PROPOSALS

Service Concessions

The Scottish Government set out a series of “fiscal flexibilities” which could be used by local authorities to tackle budget pressures. It has taken longer than anticipated to finalise how one of these flexibilities, service concessions, would operate in practice.

The service concession flexibility is connected to PFI/PPP contracts. Under existing regulations, local authorities, account for these assets and the associated debt repayments over the life of the contracts – typically 25 years. The flexibility on offer allows local authorities to stretch out the repayments going through the accounts to reflect the life of the assets – typically 40 to 50 years. The impact of this is:

- The annual charge to the Council is reduced as the same charge is effectively spread over a longer period of time.

- The Council will already have paid more than it should have under the new arrangements, and therefore some of that benefit can be spread over future years.

- In terms of cashflow, the Council will have to keep making payments as set out in the contracts, so the ‘new funding’ available will have to be met from borrowing.

- There will be borrowing costs associated with this so the benefit to the Council will be reduced by this sum. Interest rates and the cost of borrowing are increasing.

- The benefits associated with these calculations will be dependent on the asset life used and the interest rate proposed.

The option to use service concessions is welcome but a cautious approach is required. The benefits must be applied prudently otherwise there is a danger of a financial cliff edge in future years.

Service concessions should be seen as an opportunity to buy some time for the Council during which time the Council needs to refocus and redesign services. The services delivered must be affordable on an annual basis through available funding, not through technical accounting adjustments such as service concessions.

At the time of writing, final guidance on service concessions has not been received and the accounting treatment has not been finalised.

Some of the key data relating to Falkirk Council's PFI/PPP deals is set out below:

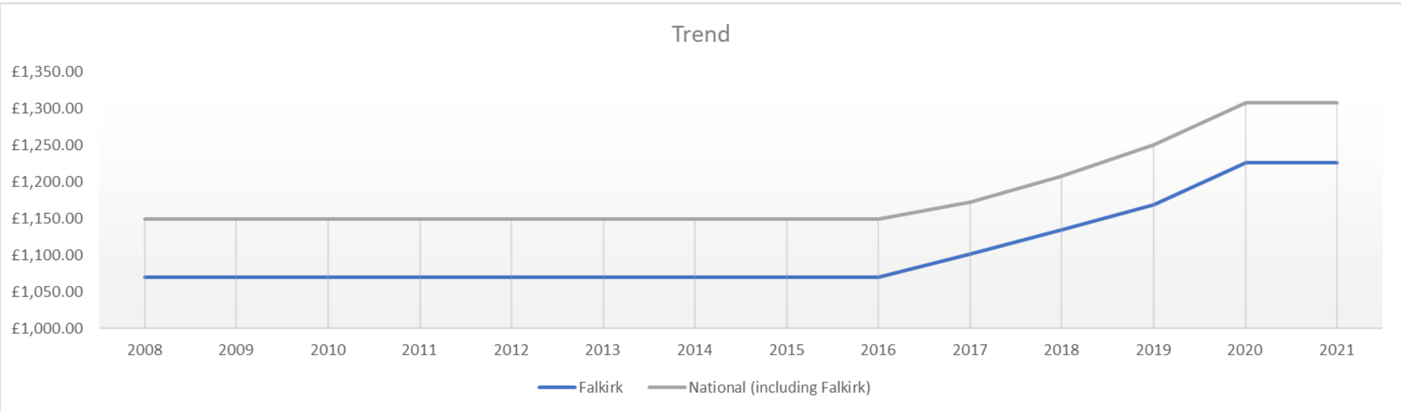
	Class 98	NPDO
Capital Value	66.098m	113.320m
Life of Contract	25 yrs	30 yrs
Unitary Charge	13.720m	15.470m
Termination Date	August 2025	March 2040

The decision to take the benefits of service concessions will have to be approved by Council, once full details are known and associated calculations prepared.

Council Tax Strategy

Council Tax is the balancing component in the setting of General Fund Budget (i.e. it fills the gap between forecast expenditure and forecast income, from other sources). However, in reality over the period 2008 to 2021 the restrictions in place removed, or greatly reduced, that fiscal flexibility. For 10 of those years a freeze was in place and for other years the maximum increase was capped at 3%, or 3% plus inflation.

These restrictions resulted in Falkirk being effectively tied into a Council Tax charge well below the national average (see chart below)



In 2021/22 the difference between Falkirk's Band D charge (£1,225.58) and the national average (£1,308.00) was £82.42. If Falkirk had increased the Band D charge to the national average in 2021/22, it would have resulted in an additional £4.7m of income.

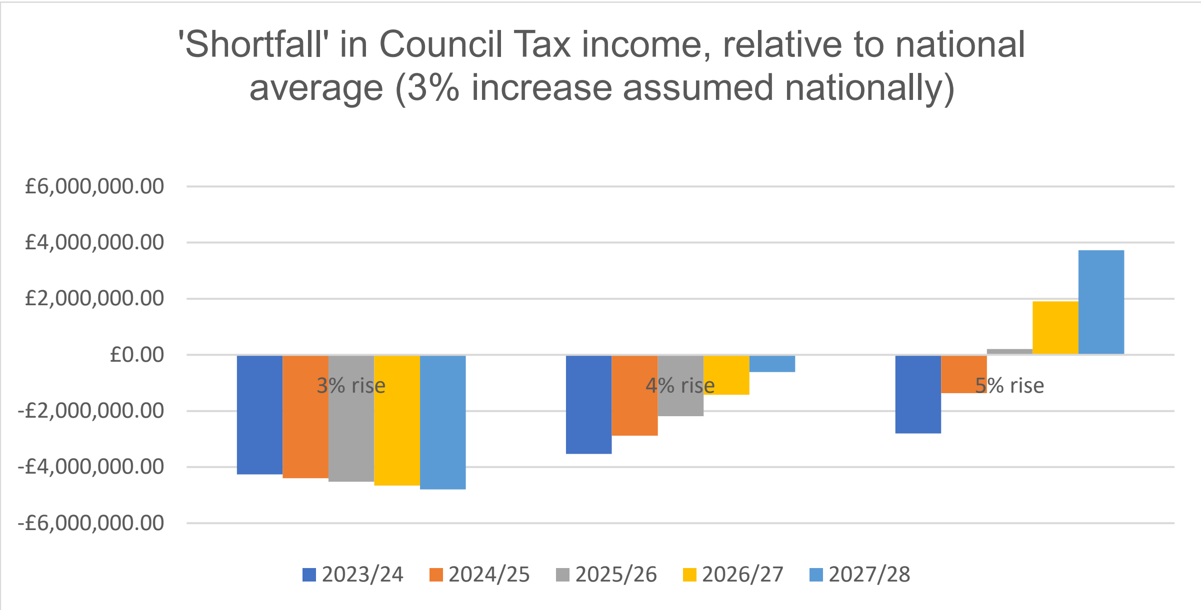
In 2022/23, Members recognised the need to narrow the Council Tax gap and approved a 4% increase, compared to an average nationally of just under 3%. This increase narrowed the gap between Falkirk's Band D charge and the national average to £72.40 (£1,274.60 compared to £1,347.00) which equates to just over £4.1m of annual income.

The funding gaps of £52m presented to Council in March 2022, assumed an annual increase of 3% per annum over next 5 years. However, to close the gap between the Falkirk Band D charges and the estimated national average charge, the Council would need to apply a higher increase, similar to the position in 2022/23.

The table below shows the impact, over the next 5 years of Falkirk applying an increase of 1% and 2% above the national average each year (based on the assumption that average increase across Scotland is 3%). Figures in red show that a 5% increase in each of the next five years would likely take the Council beyond the Scottish average figure.

Band D Charge

Year	Assumed Scottish Average	Falkirk		
		3%	4%	5%
2023/24	£1,387.41	£1,312.84	**£1,325.58**	£1,338.33
2024/25	£1,429.03	£1,352.22	**£1,378.61**	£1,405.25
2025/26	£1,471.90	£1,392.79	**£1,433.75**	£1,475.51
2026/27	£1,516.06	£1,434.57	**£1,491.10**	£1,549.28
2027/28	£1,561.54	£1,477.61	**£1,550.75**	£1,626.75



Based on an increase of 1% above national average (assumed to be 3% for example above) we remain just short of national average by 2027/28 but see an additional £800k income per annum, beyond current MFTP, in each of next 5 years.

The cost of any increase in Council Tax income is met by local residents, with those in higher bands seeing highest increases. There is automatic protection for any household already in receipt of Council Tax Reduction, due to low income, who would see no increase at all in amount they had to pay. An Equality Poverty Impact Assessment is being prepared to consider the full impact of this proposal and identify any mitigation that can be applied.

Review of Council Tax Bad Debt Provision

An initial review of Bad Debt provision nationally indicates that our provision is in top quartile (as at 31 March 2022, Falkirk Council held a provision of 93.3% against outstanding Council Tax debt). This does not itself indicate it is excessive, but it is prudent to review this to ensure that funds are not set aside for a provision unnecessarily.

With the cost of living crisis, there is a risk that households and businesses will struggle to repay debt and therefore that arrears will increase. A pragmatic approach is required to allow for a gradual reduction in bad debt provision while continuing to monitor the arrears situation.

Subject to this review, and ongoing monitoring, an annual reduction of £0.2m over next 4 years, cumulative total of £2m, is proposed.

Total Potential Benefits from Council Tax Strategy

The table below summarises the impact of the two options above:

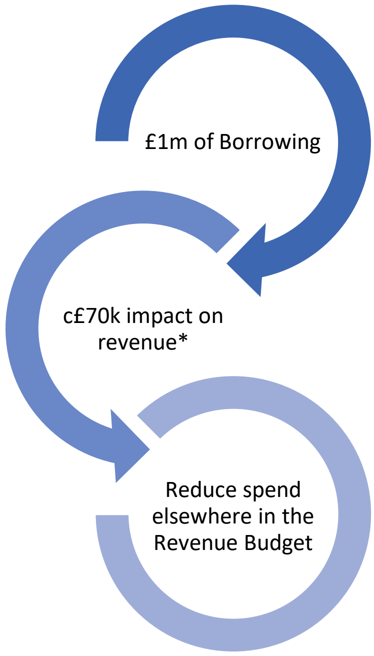
- Increase council tax by 1% above presumed average of 3% (total 4% annual increase)

- Gradually reduce the bad debt provision to reflect the current recovery trend, and the potential impact of the cost of living crisis

	2023/24 £'m	2024/25 £'m	2025/26 £'m	2026/27 £'m
1% increase	0.8	0.8	0.8	0.8
Bad Debt Provision Amendments	0.2	0.2	0.2	0.2
Total	**1.0**	**1.0**	**1.0**	**1.0**

Reduction of Borrowing

The Council is permitted to borrow for capital investment purposes. The largest source of funding in the General Fund Capital Programme is prudential borrowing – currently estimated at c£118m. This is the way that the Council self-finances investments. Borrowing is a particularly precious resource and must be used carefully because it has a direct impact on the revenue budget. Any borrowing undertaken will result in loan charges to the revenue budget – this is an interest payment and some repayment of the debt itself.



*This figure changes depending on interest rates

Borrowing of c£118m could result in an annual cost of approximately £8.3m to the revenue budget. The cost of any borrowing must be built into future revenue budgets.

Ideally, borrowing should be used to support delivery of the Council's vision and priorities or result in a spend to save benefit for the Council. However, Members could decide to reduce investment funded by borrowing, in order to reduce the costs to the revenue budget.

It must be emphasised that only those projects which are not legally committed to at this time, could be considered as part of a review.

CHANGE & TRANSFORMATION

The Council has recognised that it needs an ambitious change programme to support delivery of its vision and priorities. The Council is committed to taking a transformation approach where possible, streamlining and generating efficiencies across all Services.

The Council aims to identify service redesign opportunities that will improve the services on offer while reducing cost. This can be done through improved use of technology, working with partners in the community to review what is needed to make a difference and reducing inefficiencies.

However, given the scale of the financial challenge, it is unlikely that transformation alone will deliver the kind of savings required. The Council has a statutory duty to deliver many universal services – waste collection, schools, roads maintenance and social care. However, to be able to target support to the most vulnerable in the community, delivery of all universal services will have to be reviewed. This could include for example a reduction of buildings, recognising that this type of approach not only generates financial benefits but also helps the Council work towards its carbon reduction targets.

There are effectively three routes to financial savings by Services:

- Council of the Future - Transformation projects
- Council of the Future Improvement activities which will include transformation enabler projects, efficiency and continuous improvement initiatives which will be reported through Service Plans
- Service reductions

The Council must consider what services it can reduce, stop or transfer. The Council has an Equality Poverty Impact Assessment process which applies to any change in policy or service delivery. That process seeks to assess the extent to which particular groups are impacted by the change, and to identify mitigation wherever possible.

Best Value Strategic Action Plan

In recent years the Best Value Assurance Report identified concerns with the pace of change at the Council, the delivery of transformation and the reporting of performance. These three areas have a clear link.

As part of the Council's response to the Best Value Assurance Report, an action plan was developed. That action plan included a commitment to revise the Council's approach to transformation. The review of the Council's approach to transformation is now complete and this work was reported to the Executive in August 2022.

The focus of the Council of the Future Change Programme is to drive forward savings proposals. The revised change in the approach seeks to improve governance, accountability, and performance.

Council of the Future Project Criterion

All transformation projects in the Council of the Future Change Programme should comply with the following criterion:

Criteria	Definition
Strategic fit with the Council Plan	Transformation project supports one of the three key priorities of the Council Plan or the enabling projects.
Provides a significant opportunity for Transformation	The project will deliver existing/improved/redesigned services at a lower cost. The project will generate savings of more than £0.250m in the next 12 months, or £0.500m within 24 months. The only exception would be the projects that are enablers for wider savings.
Positive probability of success	The project has the support of the Corporate Management Team and the lead Director. Ideally there is benchmarking with other Councils that shows it is deliverable. Capacity exists or can be allocated to deliver the project in the next 12-24 months. The project has in principle support from the Administration pending formal Council approval.

As part of the review of the approach to transformation and development of the Council Plan and Financial Strategy, a new Council of the Future Change Programme has been developed.

There is recognition that transformation won't be quick or easy. However, the aim of the revised Programme is to demonstrate that the Council has a clear direction of travel with reviews taking place that aim to improve services or change the way they are delivered, and in turn to generate efficiencies.

Council of the Future Programme

Council of the Future (COTF) is the Council's framework for Transformation and Improvement and is a core enabler in the Council Plan to support the delivery of the Council Plan vision and priorities and ensure that projects move at pace.

This is the third wave of Council of the Future Projects and aims to accelerate the pace of change and continue to embrace new ways of working and new models of service delivery.

COTF will help the Council to deliver on our financial sustainability commitments and support the development of a valued and sustainable workforce. The following transformation projects have been identified and will be monitored as part of the Council Plan and Financial Strategy.

PROJECT	2023/24 £'m	2024/25 £'m	2025/26 £'m	2026/27 £'m	TOTAL £'m
Children's Services:					
Connected Learning: Curricular Charges	0.1	0.1	0.2	0.1	**0.5**
Review/Redesign the School Estate	0.1	0.1	-	-	**0.2**
Review/Redesign Sports & Leisure Provision	0.1	0.2	0.2	0.2	**0.7**
Class 98	-	-	0.5	0.3	**0.8**
Closer to Home	1.2	1.0	1.0	-	**3.2**
Sub Total	**1.5**	**1.4**	**1.9**	**0.6**	**5.4**
Place Services:					
Strategic Property Review	0.1	0.4	0.8	0.8	**2.1**
Roads, Grounds Maintenance & Street Cleansing	-	0.6	-	-	**0.6**
Transport Review	0.1	-	-	-	**0.1**
Waste Strategy	0.6	0.7	-	-	**1.3**
Sub Total	**0.8**	**1.7**	**0.8**	**0.8**	**4.1**
Transformation, Communities & Corporate Services:					
Digital Communities	Enabler Project				
Libraries Plan	-	0.4	-	-	**0.4**
Working for You	tbc	tbc	tbc	tbc	**tbc**
Sub Total	**-**	**0.4**	**-**	**-**	**0.4**
TOTAL	**2.3**	**3.5**	**2.7**	**1.4**	**9.9**

Improvement Projects

A programme of improvement, efficiency and enabler projects will support our journey of continuous improvement, cost-reduction, the delivery of the Council's transformation projects. Improvement Projects will be tracked through Service Plans, with the cumulative financial benefits of the Improvement Programme reported as part of The Council Plan and Financial Strategy updates.

Service Reductions

Transformation and Improvement projects focus on how services are delivered. However, the Council must consider what it delivers. The scale of the challenge means that it is increasingly likely that service reductions will be required. The Council carries out some functions which aren't required by legislation or can be delivered at a level lower than that currently provided. These areas will have to be reviewed. Members have previously agreed that there will be no compulsory redundancies. It is likely that Members will be asked to review this decision.

Change Fund

The COTF Change Fund aims to support transformation projects that need a level of investment to support the project and accelerate the pace of change. The budget is set for this on an annual basis by Council, with project funding requirements considered within the agreed financial envelope. These are evaluated as part of the COTF governance arrangements.

Target Operating Model (TOM)

A Target Operating Model (TOM) sets out how an organisation will deliver its services effectively and efficiently. A TOM looks at how the structure and employees of an organisation can help it deliver its strategic priorities. Such a model will typically look at where an organisation is, where it needs to be, and will include a plan setting out the changes required. Officers of the Council are reviewing the potential for the use of a TOM in Falkirk, drawing on the experience of other local authorities who have taken a similar approach.

BRIDGING THE GAP

The following table summarises the existing gap and the proposals to bridge that gap. The Council is not yet at a balanced position and work is ongoing to address this.

	2023/24 £'m	2024/25 £'m	2025/26 £'m	2026/27 £'m	Total £'m
Financial Gap	**33.5**	**18.3**	**9.1**	**8.1**	**69**
Corporate Accounting Proposals:					
Council Tax Strategy	(1.0)	(1.0)	(1.0)	(1.0)	**(4.0)**
Council of the Future Transformation Projects:					
Children's Services	(1.5)	(1.4)	(1.9)	(0.6)	**(5.4)**
Place Services	(0.8)	(1.7)	(0.8)	(0.8)	**(4.1)**
Transformation, Communities & Corporate Services	-	(0.4)	-	-	**(0.4)**
Total COTF Transformation Projects	**(2.3)**	**(3.5)**	**(2.7)**	**(1.4)**	**(9.9)**
Total Improvement & Budget Reduction Options	(2.6)	(5.6)	(3.3)	(0.5)	**(12.0)**
To be Identified	**27.6**	**8.2**	**2.1**	**5.2**	**43.1**

Services are working on proposals for improvement and budget reduction options and proposals will be submitted to Members for approval. To date Services have identified a further potential c£12m of options, albeit a number of these proposals are in draft form. Some of these options are operational and can be implemented by the Service without Member approval. Other options will need to come back to Members for approval.

Importantly, going forward, Services will present options for consideration throughout the course of the financial year, rather than wait for the Council's formal budget setting meeting. This means that decisions already taken by Members will be factored into the budget presented for approval and Services will have sufficient lead in time to begin the work to implement any changes before the start of the financial year. Some of the options under consideration will require formal consultation exercises.

Officers are continuing to develop solutions for bridging the financial gap.

CONSULTATION

Officers are in the process of developing the consultation activity for the 2023/24 Falkirk Council budget (it should be noted that Housing carry out a separate rent consultation exercise for tenants).

The draft objectives of the Consultation are:

- To improve public understanding of how Falkirk Council finances work
- To inform the public of the scale of the budget gap in Falkirk
- To increase a focus on prioritising support for inequality in the Budget
- To offer a space for public discussion and debate over the budget and service priorities.

The Consultation programme aims to involve the public earlier in the budget development process. It will increase public understanding of Falkirk Council's budget and create more space for dialogue with the public on how the pressures might be addressed and help residents work with the Council to prioritise spend.

The programme will include:

- Easy to read and understand public budget information being available in advance of any discussion.

- A voiced over version of the budget information presentation available online for anyone to watch and learn about how the Falkirk Council area budget works.

- An Equalities workshop on how budgets affect those with protected characteristics and financial inequalities. Outcomes will be shared with budget holders to take into consideration when formulating options and undertaking EPIAs on these options.

- 9 community conversations in person in each ward- facilitated by Communities staff and hosted by Finance services and Senior Officers. Invitations will be extended to all elected members to participate.

- Equalities focus groups /conversations on options facilitated by specialist Council colleague and/or third sector organisations.

- Online comments option via Citizen Space Survey

HOUSING – REVENUE AND CAPITAL

The Council has a statutory duty to account separately for council housing income and expenditure. The Council is landlord to c16,700 tenants across the area.

There are two key financial documents approved by Council each year in respect of housing:

- Housing Revenue Account and Council House Rents
- Housing Investment Programme

Falkirk Council approved these documents on 19 January 2022, with both documents covering the period 2022/23 to 2026/27.

The Housing budget faces many of the same pressures and challenges as the General Fund budgets. However, Housing can adjust the amount of works carried out in housing properties to meet available resources. What this effectively means is that less work could be carried out, which whilst not ideal, would allow Housing to operate within its budget.

For 2022/23, Council approved a rent increase of 2%. Council also noted indicative rent levels for future years of:

	2023/24	2024/25	2025/26	2026/27
Rent increase	2%	2%	3%	3%

As with the General Fund budgets, Housing revenue and capital budgets are closely linked. The Housing Investment Programme sets out an ambitious investment programme totalling £347m over the five-year period. This included £298m of borrowing which will incur annual costs charged directly to the Housing Revenue Account.

Crucially such investment is predicated on the rental income that the Council will receive. Any amendments to the rental income will have a knock-on impact on how much the Housing Revenue Account can afford to borrow, and therefore how much it can invest. The Council therefore has to balance, for example, the urgent need for affordable housing with the cost of living crisis currently being experienced.

In determining the affordability of housing investment, a 50-year model is regularly updated. If this work was to indicate affordability issues with the housing investment programme, Members could be asked to revise and reduce proposed investment.

CAPITAL FUNDING & EXPENDITURE

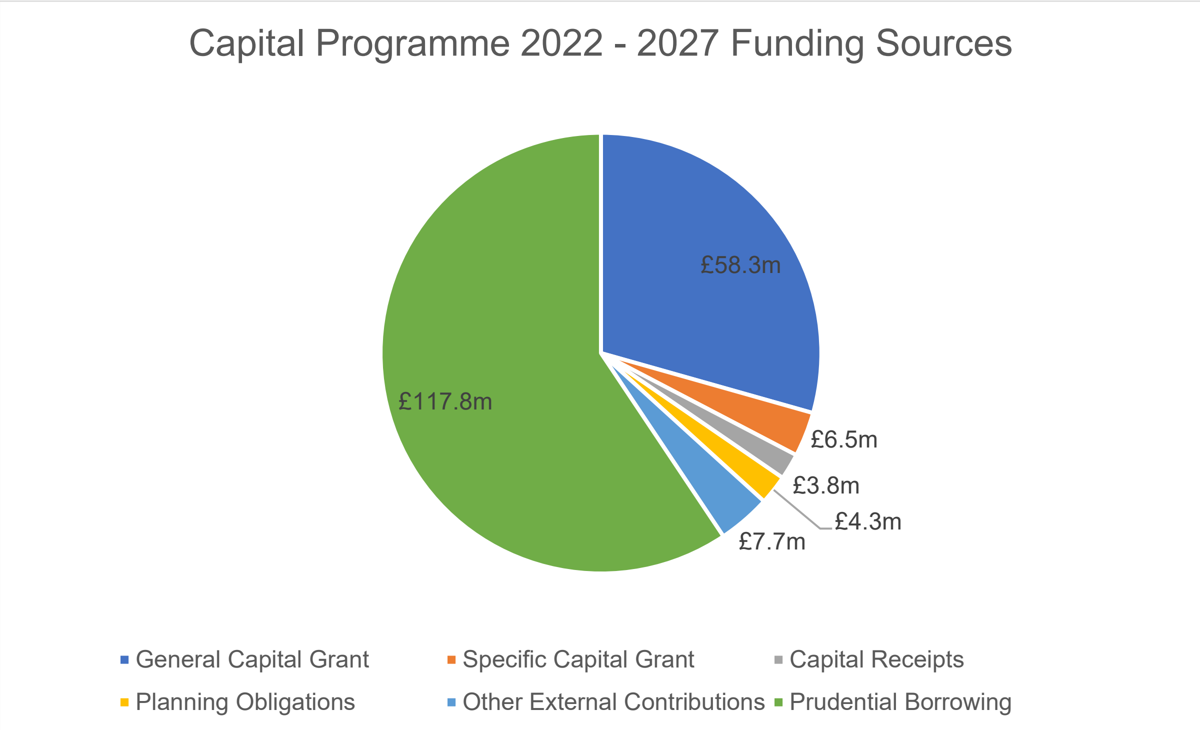
Targeted capital investment is one of the most effective ways that the Council can enable delivery of priorities. Capital investment can improve the assets available for community use, can attract business activity into the area and can improve how communities feel about the areas they live in.

The Council approves a Capital Strategy each year, alongside the Capital Programme, for all General Fund Services. The Capital Strategy is designed to give a clear view of how a local authority prioritises its investment, determines affordability and understands risk.

The Capital Strategy for 2022- 2027 highlighted a significant affordability gap between the ambitions of the Council and the resources available.

Funding Capital Expenditure

Capital expenditure can be funded in different ways. The funding sources for the Capital Programme for 2022 – 2027 is shown below:



The Scottish Government have indicated that general capital grant funding (i.e. funding for capital but not for specific projects), will remain at current levels throughout the five year period. In the current Programme, the capital grant funding is effectively used to fund what are commonly referred to as rolling programmes. These are regular investment programmes aimed at ensuring that the Council can continue to deliver universal services – street lighting, roads, schools etc.

For new investment, that means that the main source of capital funding for the Council is borrowing. However, when the Council borrows money, it has to repay an element of the debt alongside interest costs on an annual basis (often referred to as capital charges). These charges are a direct charge to the revenue budget. There can also be new costs associated with capital investment, for example maintaining a building or a park, and these costs are also a direct charge to the revenue budget.

So, it is crucial that any new investment is considered in terms of affordability in the revenue budget.

Given the current pressure in the revenue budget, it could be argued that the levels of borrowing already built into the budget are unsustainable. Members have the option to reduce planned borrowing on projects which are not yet committed.

Capital Risks and Challenges

Capital investment is inherently risky, in part due to the large sums of money involved and the long-term commitment to borrowing.

The volatility in the economy impacts significantly on the affordability of investment. In June 2022 inflation was sitting at around 10.1%, a level unseen since February 1982 and inflation pressures have led to the Bank of England Base Lending Rate increases. This will affect the cost of borrowing and means that there will be less spending power as it will cost more to deliver construction projects.

The shortage of certain materials has given rise to the price of goods and services but the availability of resources, such as labour could mean that less construction work can be supplied.

The risks outlined in this section will impact on both the General Fund Services and the Housing Investment Programmes.

Assumptions Used in Financial Projections

Pay	1% Value
The base pay award for all staff (SJC and Teachers) has been set at 2.5% for years 2023/24 to 2026/27. There is no agreed pay award for 2022/23, with the latest offer of 5% potentially adding a further £4m to the budget gap if it is not matched by additional Scottish Government funding. Given the current high levels of inflation in the economy it is unrealistic to expect the pay award to be 2.5% or less in 2023/24. However, it is assumed that any increases over 2.5% will be funded by the Scottish Government on the basis that they provide over 80% of the funding required by Scottish Councils. A 0.5% pay increase currently equates to £1.5m. The living wage was consolidated into the Council's pay structure from April 2021/22. It is assumed that the living wage will continue to be slightly higher than the base pay award – i.e. in addition to the 5% offer for 2022/23, It has been proposed that the minimum living wage is increased to £10.50 per hour. An additional provision of £0.5m per annum has been provided.	**TBC**
Pensions	
The 2020 actuarial pension valuation for Falkirk Council resulted in employer pension contribution rates for non-teaching staff of 22.5% for 2021/22, 22.5% for 2022/23 and 23% for 2023/24. Incremental increases of 0.5% have been applied from 2024/25. In 2019/20 the employer contribution rate for teachers increased from 17.2% to 23%. The rate of 23% will remain up until March 2023. Incremental increases of 0.5% have been applied from 2023/24.	
Inflation	
The Bank of England's Quarterly Monetary Policy Report for August 2022 estimated that CPI inflation would peak at 13.1% by December 2022, with average annual inflation estimated at 7.5% during 2023/24 before returning to 1.8% during 2024/25. RPI inflation is broadly 2% higher than CPI. However, investment bank CITI recently estimated (22 August 2022) that CPI inflation will rise to 18.6% in January 2023, while RPI inflation will rise to 21%. The Bank of England's next Quarterly Monetary Report is due on the 3rd November 2022. These current inflation rates are clearly volatile but will directly impact on all costs incurred by the Council but in particular the significant contractual costs noted below **NPDO/FSP Inflation** Both the NPDO and FSP contracts for schools are increased by RPI for February. Based on the Bank of England's inflation predications the following increases are projected for both contracts - 15% for 2023/24, 6.5% for 2024/25, 3.5% for 2025/25, and 2.5% for 2026/27. A 1% increase currently equates to £240k. **Energy Inflation** Energy price increases are currently the most volatile and extreme inflationary pressures currently in the economy, with the Council's utility	

costs increasing by 30% for electricity and 153% for gas during 2022/23. Significant increases are predicted for the next 2 years with initial estimates suggesting that utility costs will increase by £3.1m in 2023/24 and further £1.8m in 2024/25.

School Transport

School Transport Contracts have recently been renegotiated from August 2022 for the next 3 years. The contacts include an annual increase based on CPI for August. Based on the Bank of England's inflation predictions the following increases are projected - 9.5% for 2023/24, 2% for 2024/25, 1% for 2025/25, and 1% for 2026/27.

Waste Management

Members agreed to approve the procurement of a residual waste treatment solution at the Executive meeting on 22 February 2022. It is anticipated that the new contract will be in place from the 1 April 2023, with the tenders due to be evaluated by December 2022.