

<b>Subject:</b>	Medium Term Financial Strategy Update	<b>Status:</b>	For Publication
<b>Report to:</b>	Cabinet	<b>Date:</b>	10 November 2021
<b>Report of:</b>	Head of Finance	<b>Portfolio Holder:</b>	Resources
<b>Key Decision:</b>	<input checked="" type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	<b>General Exception</b>	<input type="checkbox"/> <b>Special Urgency</b> <input type="checkbox"/>
<b>Equality Impact Assessment:</b>	Required:	No	Attached: No
<b>Biodiversity Impact Assessment</b>	Required:	No	Attached: No
<b>Contact Officer:</b>	Karen Spencer	<b>Telephone:</b>	01706 252409
<b>Email:</b>	karenspencer@rossendalebc.gov.uk		

## RECOMMENDATION

1.1. Members note and consider the contents of the report.

## 2. PURPOSE OF REPORT

2.1 The purpose of the report is to update Members on any changes to the Council's Medium Term Financial Strategy (MTFS) assumptions and their impact over the medium term to the Council's forecast funding gap (ie annual financial resources compared to annual expenditure).

## 3. BACKGROUND

3.1 The Council last updated its MTFS in February 2021 as part of its budget setting process. That MTFS at that time indicated a future annual funding gap of c £400k pa and the use of £606k from the Local Business Rate Retention reserve to ensure a balanced budget for 2021/22.

3.2 The Covid pandemic has had a significant impact on the financial strategy for 2020/21 and 2021/22.

There have been several changes since February 2021, some of which were reported in the Quarter 1 2021/22 monitoring report to the last Cabinet. They are, amongst others as follows:

- Court Cost fee income budget shortfall
- Deferred loan repayments from Rossendale Leisure Trust (agreed by Council in February 2021)
- Continuing impact of Covid 19 in relation to grants received and service delivery
- Increase in electricity (+32.8%) and gas (+96.8%) costs from 1<sup>st</sup> October 2021
- 1.25% Increase in employers National Insurance contribution from 2022/23 onwards
- Ongoing impact of the Empty Homes Scheme
- Government has further delayed the Fair Funding Review and the Business Rate Reset.
- Unprotected Government Departments have been asked to identify at least 5% savings and efficiencies from their day-to-day budgets
- Government has indicated that it will issue a three year Financial Settlement covering 2022/23, 2023/24 and 2024/25.

3.3 The current base revenue budget/cost forecast for Council, together with anticipated funding

Version Number:	1	Page:	1 of 5
-----------------	---	-------	--------

is as follows:

Table 1

	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
Original Budget Estimates	9,087	9,267	9,322	9,487	9,764
<b>2021/22 agreed savings/Income plan</b>	<b>(184)</b>	<b>(152)</b>	<b>(106)</b>	<b>(7)</b>	-
<b>Budget Estimates</b>	<b>8,903</b>	<b>9,115</b>	<b>9,216</b>	<b>9,480</b>	<b>9,764</b>
Estimated Funding:					
Council Tax (+1.99%)	5,811	5,927	6,046	6,167	6,289
Council Tax - growth in base      0.5%	-	29	59	89	120
Collection Fund Surplus - Council Tax					
Lower Tier Services Grant	93	-	-	-	-
NNDR (Business rate: Base Line Funding)	2,180	2,180	2,224	2,268	2,313
New Homes Bonus	213	42	-	-	-
NNDR Retained / Pooling	606	390	200	200	200
<b>Resources</b>	<b>8,903</b>	<b>8,568</b>	<b>8,528</b>	<b>8,724</b>	<b>8,923</b>
<b>Surplus / (further savings required)</b>	<b>(0)</b>	<b>(547)</b>	<b>(688)</b>	<b>(756)</b>	<b>(841)</b>

The key changes to the base budget estimate of £8,903k (2020/21) to £9,115k (2022/23) are shown below:

Table 2

<b>2021/22 Base Budget</b>	<b>8,903</b>
Employment Costs	<b>278</b>
Inflation	<b>90</b>
Volume & Technical	<b>(4)</b>
Savings/Efficiencies agreed Feb 2021	<b>(152)</b>
<b>2022/23 Budget</b>	<b>9,115</b>

3.4 The Key assumptions (and/or changes) to this October 2021 forecast report are:

1. Budget estimates:

- a. Annual pay award 2.5% in 2022/23 and 2%pa from 2023/24 onwards
- b. Assumes an annual staff vacancy saving of £200k pa
- c. General price inflation – a freeze on all general revenue expenditure with the exception of pay, utility budgets and contractual increases
- d. Employers Pension Contribution – 17.6%
- e. Employer National Insurance Contributions – increased by 1.25% to 15.05%
- f. Council Tax increase – assumes 1.99% pa, this is the maximum the Government have indicated the Council Tax Principles will allow
- g. NNDR baseline – in previous years the baseline has increased by inflation (CPI) however in 2021/22 the baseline was not increased. The assumption is for the baseline to remain static in 2022/23 and increase by 2% from 2023/24 onwards
- h. Assumes a £390k pa pooling gain, based on current 2021/22 forecasts.

2. The statutory date for calculating the Council Tax base is 30<sup>th</sup> November – once calculated the estimated Council Tax income will be updated to reflect the revised base.

3.5 As at March 2022 the Transitional Reserve is forecast to total £2.981m. Whilst this will help support the budget gap in the short term this is not sustainable, efforts must continue to be made to close the gap between income and expenditure in order to ensure long term

sustainability for the Council.

3.6 The council continues to face a funding gap for the future. Therefore the council must continue to give consideration to:

- The future levels of Council Tax
- Maximising the returns from business rates revenue
- The council's ability to support non-statutory activities and partner/community organisations
- The future quality and standard of statutory service provision
- Any future efficiencies within services and ensuring support services are appropriate
- The council's ability to exploit new revenue generating opportunities
- Treasury management initiatives and maximising the strength of the council's balance sheet resources
- Ensuring any contract renewals are to the best advantage of the council

#### 4. RISK

In managing its budget the council is seeking to manage the following risks.

- 4.1 Financial monitoring of the MTFs and General Fund service departments focuses on the key risk areas of: employee costs, income, implementation of agreed budget savings, emerging issues and opportunities and in particular service department net expenditure
- 4.2 Budget setting and the implications for future years is now treated as an integral part of financial monitoring during the current year and the impact of variances being reported will be assessed when officers are considering the detailed 2022/23 budgets in the coming months and any further MTFs updates.
- 4.3 **Council Tax:** when setting the 2022/23 budget members should continue to plan and give due regard to the continued financial challenges over the medium term. In particular, members should be aware of the future implications for the council's financial resources of any council tax freeze or any increase below the Governments' referendum trigger of the higher of £5.00 or 1.99%.
- 4.4 **Reserves:** An ongoing reliance on reserves to manage the medium term budget is unsustainable and requires the council to seek future savings and income generation schemes which members will need to support.
- 4.5 **Funding gap:** This medium term financial forecast indicates an increased underlying deficit of c.£0.60m (subject to the assumptions noted above and before future savings initiatives). Members must continue to give due consideration as to how they are to bridge this annual deficit going forward, in order to produce legally balanced budgets for the future.
- 4.6 **NNDR:** As a result of the ongoing Covid pandemic the Government's planned introduction of a new national 75% retention scheme has been further deferred. It is currently anticipated that the arrangements for 2022/23 will remain the same as 2021/22. The council will remain a member of the Lancashire Business Rates Pool which means the council retains 40% of all business rates income and avoids the direct payment of a 50% levy on any end of year surplus. This is beneficial for the council's budget position and the council should continue to lobby for the retention of this model.

- 4.7 **Fair Funding Review:** Due to the Covid pandemic the Fair Funding Review has been further delayed. The implications for this Council are in the main the impact on our share of Business Rates and in particular the setting of tariffs and our baseline funding.
- 4.8 **Pay:** For 2022/23 and beyond the assumptions are set at 2% pa (plus increments), should the pay award exceed this amount it will place a further strain on the budget gap. The budget also assumes, as in previous years a saving as a result of natural staff turnover and the vacancy saving this creates. In previous years this has been set at £150k pa, this year this target was increased to £200k pa. Whilst this is a challenging target, it is achievable and will be closely monitored.
- 4.9 **Empty Homes Scheme:** The project continues to have a significant adverse impact on the council's financial position. In 2020/21 and 2021/22 the council has faced several legal claims which have led to the increased budget requirement. The project team continue to closely monitor the scheme, manage the project risks and challenge the claims where possible thereby reducing the scale of the liability, but the scale of this is very limited given the overall scale of both current works and the nature of the property leases. The scheme is due to end in December 2024.
- 4.10 **Covid-19:** Covid has placed additional challenges on the council's finances and this is anticipated to continue throughout 2021/22. The scale of these challenges are continuously shifting and therefore difficult to manage. Council Tax collection rates appear to have recovered to pre-pandemic levels, however Business rates remain challenging. The Government provided the council with a further £415k in 2021/22 to support continued delivery of services.
- 4.11 **Rossendale Leisure Trust:** Covid has had a significant impact on the leisure/culture sector, severely impacting the Leisure Trusts' financial position. The Trust received some business grants and financial support from the National Leisure Recovery fund and the Contain Outbreak Management Fund. The council also supported the Trust with a £100k contribution from the local authority support grant. Following the easing of restrictions the Trust has re-opened and whilst not yet at pre-pandemic levels, income streams are steadily increasing. The Trust and the council continue to work together to restrict the losses wherever possible. This is a risk for the council in that it provides the day-to-day cashflow for the Trust, and also in respect of the ongoing delivery of leisure services across the borough. It is critical that the Trust remains financially sustainable and financially independent of the council.
- 4.12 **Corporate Risk register:** The register already includes risks around the MTFs, the County Council Budget, Covid-19 and the Leisure Trust. Following the February 2021 MTFs this risk was updated to 'red'.

## 5. FINANCE

- 5.1 The key financial matters are dealt with throughout this report.
- 5.2 The council continues to face a funding gap challenge despite the savings and income generation work already completed in previous years. The council has a statutory duty to produce annually a balanced budget and it is legally bound to find a solution to the future funding gap. There are also some higher risk assumptions in the forecast. Ultimately the use of reserves to balance the funding gap, although legal, is both finite and financially not a sustainable approach to managing the budget in the long-term.

5.3 Given the continued financial gap council needs to continue to develop plans to reduce its net cost base in order to avoid reliance on limited reserves and to deal with the future resource deficit. The key messages for the medium term continue to be:

- Council must continue to increase Council Tax in line with the Government's maximum thresholds
- Council must give further consideration to either reduce costs or increase revenue
- The Governments 2022/23 financial settlement could materially impact negatively on the council's current share of annual business rates

## 6. LEGAL

6.1 There are no material legal or constitutional matters arising from the report.

## 7. POLICY AND EQUALITIES IMPLICATIONS

7.1 None.

## 8. CONCLUSION

8.1 There are a number of significant risks outside the council's control which remain a major concern: ongoing impact of Covid, the uncertainty of if/when the Fair Funding Review and the revised Business Rates scheme will be introduced, also the ongoing impact of the UK leaving the European Union. The council must remain focused on identifying and delivering further savings and income in order to ensure annual balanced budgets over the immediate and medium term. It must also ensure that all its budget resource allocations are directed to the core functions of the council and that the use of its resources drives the delivery of the council's Corporate Plan priorities. Failure to do this will result in an accelerated use of finite available reserves.

### Background Papers

Document	Place of Inspection
Previous updates to the MTFS	Rossendale Borough Council website