

Subject:	Medium Term Financial Strategy Update	Status:	For publication
Report to:	Council	Date:	16 th November 2022
Report of:	Chief Finance Officer	Lead member:	Resources
Key Decision:	<input type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	General Exception <input type="checkbox"/>	Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required:	Yes/No	Attached: Yes/No
Biodiversity Impact Assessment:	Required:	Yes/No	Attached: Yes/No
Contact Officer:	Karen Spencer	Telephone:	01706 252409
Email:	Karen.Spencer@rossendalebc.gov.uk		

1. RECOMMENDATION(S)

Members note and consider the contents of this report.

2. EXECUTIVE SUMMARY

2.1 The report seeks 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 2022 as part of its budget setting process. That MTFS at that time indicated a future annual funding gap of c£600k pa and the use of £56k from earmarked reserves to ensure a balanced budget for 2022/23.

3.2 The Council, along with the rest of the local government sector, is seeing an increasing financial pressure driven by the rapidly rising levels of inflation. This is a global phenomenon with a mix of causes which disproportionately impacts on those local authority areas with a relatively low wage economy. In addition to the inflationary pressures the Council is also subject to the ongoing financial impact of the empty homes scheme and associated legal claims.

3.3 The current economic situation is having a significant adverse impact on the council's overall financial position. Major issues are:-

- Based on the final pay award for 2022/23, pay inflation for council employees is expected to average 6.63%. This is against a budget of 2.5%. This equates to an additional budget requirement of c£260k pa. In addition, these pressures are compounded by the national recruitment challenges facing the local government sector. Like many authorities, a reducing pool of suitable candidates at all levels is being experienced. The Council is currently finding it difficult to recruit to a variety of roles, which in most cases results in the addition of a market supplement in order to attract suitable candidates. The balance between pay restraint, inflation, and maintaining vital services to our residents will continue to present a significant challenge.
- Goods and services are becoming more expensive to buy. General inflationary increases are being experienced across all contracts that are linked directly to RPI and CPI. The largest of which is the Revenues and Benefits contract with Capita, which is linked to CPI.
- Vehicle fuel and utility costs have increased significantly since the budget was set in February 2022.
- Following the Public Sector Audit Appointments (PSAA) procurement exercise to appoint the Council's external auditor for the period 2023/24 to 2027/28. The PSAA advice is to estimate an increase of 150% on the total 2022/23 fees charged for 2023/24.

- Additional costs arising from the empty homes scheme and the ongoing legal claim.
- Rising inflation and interest rates is impacting on the capital programme. On average vehicle replacement costs are running c20% over and above the estimates included in the capital programme. Rising inflation is also having an impact on the construction industry - pushing up costs, increasing tender prices. In addition, as interest rates rise, so does the cost of borrowing which presents a longer-term risk. Affordability must remain the underpinning factor whilst balancing the need for investment in the borough. The capital programme must remain under review, with the need to assess each project in terms of priority and the potential reduction or deferment based on overall affordability.

3.4 In addition to the above pressures the impact of the council's capital contribution to the Levelling Up and UK Shared Prosperity fund projects will increase the council's requirement to borrow and thus increase interest costs.

3.5 Rising inflation has led to an increase in the Bank of England base rate, however this has not been reflected in the interest rates on offer from the banking institutions. The Council has been able to slightly increase its investment returns by depositing funds with the Debt Management Office (DMO) and Lancashire County Council (LCC) although available rates remain very volatile.

3.6 Historically, the draft Local Government Finance Settlement figures are published just before the christmas break. The lateness of the settlement announcement, combined with the uncertainty arising from the current political events, brings with it significant risk for the financial forecast. Members will be updated following announcement of the draft finance settlement later this year.

4. DETAILS

4.1 The current base revenue budget/cost forecast for the Council, together with anticipated funding is as follows:

Table 1

	2021-22 Outturn £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
Budget Approved Feb 2022	8,903	8,991	9,148	9,362	9,435
Additional in year pressures	210	1,515	1,157	1,348	1,528
Revised Budget Estimates	9,113	10,506	10,305	10,710	10,963
Estimated Funding:					
Council Tax (+1.99%)	5,867	5,985	6,104	6,225	6,349
Council Tax - growth in base	-	-	45	91	138
NNDR (Business rate: Base Line Funding)	2,180	2,180	2,180	2,180	2,180
Lower Tier Services Grant	93	98	-	-	-
Services Grant	-	150	-	-	-
New Homes Bonus	213	132	-	-	-
NNDR Retained / Pooling	493	500	500	200	200
Overspend funded from reserves	267	-	-	-	-
Resources	9,113	9,045	8,829	8,696	8,867
Surplus / (further savings required)	0	(1,461)	(1,476)	(2,014)	(2,096)

The key changes to the base budget estimate of £8,991 (2022/23) and £9,148 (2023/24) are shown in the tables below:

Table 2

2022/23 Additional In-Year Cost Pressures	
Service Area	£000
Additional Employee Related costs	260
Utility Costs	133
Vehicle Fuel	150
Empty Homes	600
Reduced Rental Income	70
Additional cost of submitting Levelling Up Bid	84
Audit Fee	55
Various (other inflationary increases/unachievable savings proposals)	239
Increased Investment Interest	(76)
Total	1,515

Table 3

2023/24 Major Forecast Changes	
Service Area	£000
Employee Related Costs	348
Utility Costs	130
Revenues & Benefits Contract Inflation	120
Insurance Inflation	40
Audit Fees Increase	118
Employer Pension Reduction	(156)
Total	600

- 4.2 The assumptions set out in the forecast are the latest best estimates however, work is ongoing in regard to preparing the detailed budget for 2023/24. Key assumptions to date are:
- Average pay award in 2022/23 now 6.64% (in line with the final pay award), 3% in 2023/24 and 2% pa thereafter
 - Assumes an annual staff vacancy saving of £200k pa
 - General price inflation – a freeze on all general revenue expenditure with the exception of pay, utility budgets and contractual increases
 - Employers Pension Contribution – 17.6% (2022/23), the results of the triennial pension review for the period 2023/24 to 2025/26 have reduced the pension contribution to 14.6%.
 - Employer National Insurance Contributions –The increase of 1.25% to the Employers standard rate announced by Government for 2022/23 is reversed from November 2022, therefore the rate is reducing back to 13.8%. The average rate for the Council is 8.2% in 2022/23 and 7.7% in 2023/24
 - Council Tax increase – assumes 1.99% pa, this is the maximum the Council Tax Principles will allow for 2022/23. The Principles for 2023/24 are announced as part of the finance settlement in late December.
 - NNDR baseline – in previous years the baseline has increased by inflation (CPI) however in 2021/22 and 2022/23 the baseline was not increased. Therefore the assumption is for the baseline to remain static throughout the life of the forecast
 - Assumes a £500k pa pooling gain, based on current 2022/23 forecasts.
- 4.3 The statutory date for calculating the Council Tax base is 30th November – once calculated the estimated Council Tax income will be updated to reflect the revised base.

- 4.4 Following the appointment of the new Chancellor of the Exchequer and the subsequent announcement of potential cuts to public funding, table 1 above does not include any Government funding other than the NNDR base line.
- 4.5 In respect of 2023/24, early forecasts show that the gap between resources and pressures will be in the region of c£1,476k and will rise in subsequent years. This is caveated on the basis of an extremely uncertain financial environment and subject to resources from government which are yet to be advised.
- 4.6 Following the sign off of the 2017/18 accounts and the significant changes arising from that process early indications of the impact this will have on the council's level of available reserves are shown below.

Table 4

Reserves	31/03/2021 To/(from) 31/03/2022 Commitments				Balance available
	£	£	£	£	£
General Fund Reserve	1,000	-	1,000	-	1,000
Employment & Transport	388	(118)	270	(270)	-
Leisure Reserve	55	(9)	46	(20)	26
Director Invest Reserve	74	-	74	-	74
Directorate Reserves	974	521	1,495	(900)	595
Vehicle Repairs & Replacement	189	-	189	(189)	-
Transitional Reserve	1,553	587	2,104	(133)	1,971
Business Rates Retention	4,614	(2,298)	2,316	298	2,614
Planning Strategy	113	(48)	65	(65)	-
Rawtenstall Bus Station	517	-	517	(517)	-
Response & Recovery	1,389	(580)	809	(461)	348
	10,866	(1,945)	8,885	(2,257)	6,628

Please note the figures above are still draft as the 2022/23 year end procedures are still ongoing.

- 4.7 The Council has a duty to identify, mitigate and budget for emerging risks which pose a risk to its financial resilience and stability, this is a principle of the Financial Management Code. Financial resilience describes the ability of local authorities to remain viable, stable and effective in the medium to long term.
- 4.8 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
- 4.9 Corporate Management Team (CMT) is working with services areas and Cabinet to identify areas where efficiency savings can be achieved and seeking opportunities to generate additional income. However, due to the current economic climate the size of the funding gap

will soon exhaust the Council's reserves, and in the longer term will be difficult to bridge without significantly reducing the level of services provided to residents or some level of Government funding, therefore it is recommended that the Council continues to make representation to government outlining the pressures being faced in Rossendale and across the sector.

5. RISK

- 5.1 Council Tax – If the level of Council Tax support claims increase as a result of the current economic climate or the level of Council Tax bad debt increases, this will have an adverse impact on the income the Council receives. The figures assume the Council increases Council Tax by 1.99% pa, this is currently the maximum allowed by Government.
- 5.2 Reserves – The level of reserves is still an estimate until the external auditors sign off the proposed amendments to the previous years accounts and the 2021/22 year end process is finalised. An ongoing reliance on reserves to manage the medium term budget is unsustainable.
- 5.3 Resources – The level of Government funding beyond 2022/23 is unknown. The Government Finance Settlement for 2023/24 is expected in December 2022.
- 5.4 Inflation – The expenditure figures include estimated inflation based on current known rates, should the inflation rate increase significantly they may require re-assessing.
- 5.6 Pay – 2023/24 includes an estimated pay award of 3% and 2% pa for 2024/25 onwards.
- 5.7 Capital - Members need to be aware of the impact the increased number of capital schemes and expenditure will have on the MTFS in future years. Capital expenditure has to be paid for through the revenue budget spread across the life of the asset, this is called the Minimum Revenue Provision (MRP). The Councils £1.8m contribution to the LUF project will impact the MTFS by an MRP cost to revenue of c£45k pa for 40 years (estimated life). This does not include the cost of borrowing.
- 5.8 Empty Homes Scheme - The project continues to have a significant adverse impact on the council's financial position with several legal claims ongoing. 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.
- 5.9 Rossendale Leisure Trust - Whilst the Leisure Trust is now trading normally the membership and income levels have not yet fully recovered to pre-pandemic levels. In addition the increase in the minimum wage, the increasing energy costs and the current economic climate are impacting adversely on the Trust. The Trust is estimating an income shortfall of c£650k in 2022/23. The Trust and the council need to continue to work together to control 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.

6. FINANCE

The financial implications are contained within the main body of the report.

7. LEGAL

Section 151 of the Local Government Act 1972 requires the Council to make arrangements for the proper administration of its financial affairs. The Council's section 151 officer has established financial procedures to ensure the council's proper financial administration including procedures for budgetary control.

8. POLICY AND EQUALITIES IMPLICATIONS

N/A

9. CONCLUSION

- 9.1 This forecast update is subject to a high-level of risk regarding the current economic position. There are a number of significant risks outside the council's control which remain a major concern including the current economic crisis and the uncertainty of Government funding levels. This update reflects changes such as the current offer of the pay award for 2022/23 and anticipated changes in the next financial year. The level of Government funding from 2023/24 is unknown as is the outcome of the next triennial pension review. The uncertainty means these figures could be subject to substantial change. Members will be kept updated on latest financial projections and local Government Finance announcements and risks as they transpire.
- 9.2 The Council carefully considers and monitors the MTFs and the risks as set out in this report and in the Corporate Risk Register. The Council has a risk management strategy in place to identify and evaluate risks. Risks are identified, potential impacts are highlighted and controls and mitigations are set in place. The Council monitors and reports to Cabinet Members and Audit and Accounts Committee during the year.
- 9.3 The Council currently holds a number of earmarked reserves, these are funds set aside for funding future liabilities, however they are being used to fund the shortfall between how much the Council spends and how much funding the Council receives. Based on the estimates detailed in section 4 above, if no further savings/efficiencies or additional income is generated these reserves will be exhausted over the life of the current forecast.
- 9.4 The Council must identify and deliver further efficiencies/savings and generate additional income in order to achieve balanced budgets over the short to medium term in order to ensure long-term sustainability for the Council.

Background Papers	
Document	Place of Inspection
2022/23 Council Budget	2022/23 Council Budget and Medium Term Financial Strategy