

Committee Name and Date of Committee Meeting

Cabinet – 20 December 2021

Report Title

Medium Term Financial Strategy

Is this a Key Decision and has it been included on the Forward Plan?

Yes

Strategic Director Approving Submission of the Report

Judith Badger, Strategic Director of Finance and Customer Services

Report Author(s)

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Ward(s) Affected

Borough-Wide

Report Summary

The report sets out a review and update of the Council's Medium Term Financial Strategy to 2025/26.

Following the release of the Government's Spending Review 2021, this is an update of the Council's Medium Term Financial Strategy, extended to 2025/26. The MTFs will be revised further in advance of the Council Budget setting meeting in March 2022, to take account of the Local Government Finance Settlement for 2022/23, when issued, along with budget policy proposals on levels of council tax and fees and charges and any budget investment.

The MTFs review, alongside the latest Financial Monitoring 2021/22 report to Cabinet in November, envisages a balanced financial outturn position being achieved for 2021/22 and makes recommendations on reserving funds and savings from 2021/22 in order to support the budget over the medium term.

The MTFs forecasts identify that a balanced budget for 2022/23 can be set, with a small funding gap for the following two years. This position is subject to review when the Finance Settlement for 2022/23 is received.

Recommendations

1. That the MTFS update is noted.
2. That the proposals to reserve funding and savings from 2021/22 to support the budget across the medium term are supported.
3. That finalisation of the Budget for 2022/23 and MTFS to 2025/26 maintains the approved Budget Strategy.
4. That Cabinet agree to the carry forward of any remaining budget for 2021/22 revenue budget investments into 2022/23 to allow for those investment to be completed.
5. That Cabinet note the delegated officer decision on use of CCG funds as set out in paragraphs 2.37 – 2.39.
6. That the authority to complete an agreement with the DfE within the DSG Safety Valve Intervention Programme is delegated to the Strategic Director – Children & Young People’s Services, in consultation with the Cabinet Member, the Chief Executive and the Strategic Director – Finance & Customer Services

List of Appendices Included

Appendix 1 Initial Equality Screening Assessment
Appendix 2 Carbon Impact Assessment

Background Papers

Budget and Council Tax 2021/22 report to Council 3rd March 2021

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

No

Exempt from the Press and Public

No

Review and Update of the Medium Term Financial Strategy

1. Background

- 1.1 The Council's Medium Term Financial Strategy (MTFS) to 2022/23 was approved at Council in March 2021, noting that the MTFS would be further reviewed and extended when the Government's Spending Review 2021 was published.
- 1.2 The Spending Review was published on 27th October 2021 and provided headline information for local government funding from 2022/23 to 2024/25
- 1.3 This update of the MTFS includes resource forecasts based on the headline information from the Spending Review and will be reviewed again when the Provisional Local Finance Settlement 2022/23 is released in December, which will set out the specific amounts of Government funding to be provided to the Council.
- 1.4 This update of the MTFS also includes the Council's latest financial assumptions, taking into account estimated income from Business Rates and Council Tax, impact of inflation, service cost and demand pressures and the Council's timeline for the delivery of agreed savings across the MTFS. This update will support and inform the detailed budget setting process for 2022/23, alongside taking into account the outcomes of the Finance Settlement and Members' policy choices on budget investment and council tax.

2. Key Issues

Spending Review 2021

- 2.1 The Spending Review set out spending totals for local government across England for the period 2022/23 to 2024/25. These are shown in the table below:

Funding	2021/22 Baseline £bn	2022/23 £bn	2023/24 £bn	2024/25 £bn
Resource Total	9.1	10.8	12.1	12.7
This includes:				
Adult Social Care Reform	0	0.2	1.4	2.0
Other Funding	0	1.6	1.6	1.6

- 2.2 These are the headline figures behind the statements in the Spending Review of :
- £3.6bn for Adult Social Care Reform over the next three years
 - £1.6bn per year (£4.8bn over 3 years) extra funding for local government
- 2.3 For the £3.6bn funding for Adult Social Care Reform the Spending Review quotes “£3.6bn of funding will be routed through local authorities in order to implement the charging reforms and support local authorities to better sustain their local care market by moving towards a fairer cost for care. Further details will be set out by the Government in due course.”
- 2.4 A public consultation on proposals is planned by Government in the new year, with the intention of regulations and final guidance on the implementation of Adult Social Care reforms being published in Spring 2022. The reforms in relation to charges for Adult Social Care are planned to commence from October 2023.
- 2.5 Pending these further details to be set out by Government and the Council’s follow-on assessment of cost impact compared with the funding to be provided, the planning assumption in this MTFS update is neutral impact.
- 2.6 The Balance of Resources (£1.6bn extra funding in each year) is the total amount of other additional funding for Local Government which is intended to cover:
- Funding for a range of specific grants and new burdens e.g. the Supporting Families extra funding will be top-sliced from the £1.6bn. It is also anticipated that the funding will need to cover general ongoing cost impact of Covid.
 - Inflation impact, including National Living Wage increases. i.e. existing Core Government Grants won’t be increased for inflation on top of the £1.6bn.
 - Compensation to Local Government for the cost of the 1.25% increase in Employers’ National Insurance contributions from April 2022.
- 2.7 Specific council allocations from this funding won’t be issued until the Local Government Finance Settlement for 2022/23, expected to be announced around mid December. Funding allocations will depend on the grant distribution methodology to be adopted and the extent of top-slicing, but based on a general distribution methodology which the Government uses to distribute Covid funding, a prudent expectation of the Council’s share of the funding is in the order of £7m per year, plus a share of any specific grant funding allocated from top-slicing of the £1.6bn. This estimate has been factored into the MTFS update. The MTFS will then be revised as part of finalising budget proposals for 2022/23 when the actual figure is known in the Settlement.

- 2.8 The Spending Review announced a freeze on business rates for the second successive year and a range of further business rates reliefs. Government has confirmed that councils will be fully compensated for the loss of business rates income associated with the freeze and the reliefs.
- 2.9 The Spending Review also sets out the proposed council tax referendum principles for the next three years which are :
- A maximum 2% annual increase on basic council tax
 - A maximum 1% annual social care precept in addition to the 2% basic i.e. a 3% maximum total increase in council tax in each year
- 2.10 Government has indicated that any unused allowance from the 3% Adult Social Care Precept, which was announced in the 2021/22 Finance Settlement as being able to be used flexibly across 2021/22 and 2022/23, can still be used in 2022/23 and added to the figures above. The Council levied a 1% ASC Precept in 2021/22 and therefore has 2% remaining, which when added to the new 1% allowance for 2022/23 means that the maximum council tax increase that the Council could approve for 2022/23, without a referendum is, 5% (2% basic and 3% ASC precept).

MTFS Update – Planning Assumption

- 2.11 The MTFS update has been done across the four years 2022/23 to 2025/26 and models the following :
- Government Grant forecasts based on the Spending Review.
 - The Council's anticipated resources from Council Tax and Business Rates.
 - The planning assumption for Council tax annual increases remains at 3%.
 - Pay, Contractual, Price and Income inflation estimates including capital projects, National Living Wage and the National Insurance 1.25% increase. This includes maintaining the planning assumption of a 2% increase on fees and charges.
 - Latest estimates of the profile of delivery of agreed budget savings.
 - Service cost and demand pressures.
 - The ongoing costs of decisions made in previous budget rounds including financing costs of capital investment.
- 2.12 The Council's collection rates for council tax and business rates are holding up well during the impact of Covid. In 2021/22 the Council's in-year collection rate of council tax remained above 96% and was the 5th highest in-year rate of all 36 Metropolitan Councils. The in-year rate for business rates was 97%, the 2nd highest of all Metropolitan Councils. Similar collection rates are being maintained in 2022/23 which informs prudent forecasts of future years' income included within the MTFS.
- 2.13 Escalating cost and service demand pressures are being experienced in a

number of service areas, in particular adult care services, home to school transport and waste services. Allowance has been made in the MTFS for additional costs in these services, together with a provision for ongoing Covid costs.

Delivery of Agreed Budget Savings

- 2.14 Delivery of the remaining agreed budget savings are included in the MTFS update based on the current profile of when it is anticipated that remaining savings can be achieved. The Budget and Council Tax Report 2021/22 agreed at Council in March noted that £16m of the total £34m of agreed budget savings and cost reductions had been delivered at that point and that the remaining savings were profiled across the medium term.
- 2.15 A further £2m savings is being delivered in 2021/22 and £11.5m is profiled for delivery from 2022/23 in the updated MTFS. This shows a total of £29.5m savings from the original £34m package will have been delivered by 2024/25. The shortfall is mostly mitigated by additional Corporate savings from Treasury Management.
- 2.16 Financial Monitoring reports to Cabinet have indicated the impact of Covid on progressing delivery of budget savings, in particular savings on social care services. Service demand and cost of social care services also continues to increase which has limited to some extent the amount of social care savings that can be delivered and the timescale across which savings that can be achieved are made. This position is expanded upon below.
- 2.17 Savings have been delivered within Adult Care services in previous years with further savings generated by enhancements to the reablement service reflected in the MTFS update. However, Adult Care is now experiencing significant pressures and the service will not be able to deliver the agreed savings in full due to a range of issues which the Council is not in control of. The service has experienced a rise in complexity of people's needs which has been demonstrated by a reduction in the baseline community numbers of people who receive services, but a significant rise for the need to provide two carers to provide care and support due to a deterioration of need. The service now has 79 more people who have a need for two carers, an increase from 257 to 336 and the total amount of double handling hours has increased by one third.
- 2.18 The adult care market has become volatile due the need to meet complexity but also the availability of staff to provide services which is accelerating costs per hour to meet peoples' eligible needs, which is something that the Council is legally required to undertake. This is reflected across all service areas, including mental health where the sector has seen an incremental rise of acute admissions and people experiencing significant high levels of need, requiring mental health support. Due to the challenges in secondary health and community mental health social care, the service is experiencing further demands on the general adult care pathways which again is diverting stretched resources to respond.

- 2.19 There is therefore a need to recognise these escalating demand and market costs within the MTFS, relating in particular to transitions and the upward trend in the costs of adult care.
- 2.20 Within the revised profile of delivery of the remaining agreed budget savings for CYPs, as set out in the Budget and Council 2021/22 Report, £8.9m of agreed savings remaining were profiled across 2021/22 and 2022/23.
- 2.21 Whilst the amount of savings to be delivered from management and other cost savings are being achieved according to this profile, those savings which are to be achieved from placement costs have not as yet been materialised.
- 2.22 However, the reductions in activity and changes to service provision which will ultimately drive the delivery of the savings are progressing. The position as at October 2021 shows that the total number of looked after children has reduced from 597 to 569 this financial year and compares favourably with 578 in budget plans for this period. However, escalating costs within the market charged by providers of children's services, together with the current mix of placement types, has meant that savings as yet have not been driven out of the cost base.
- 2.23 Continuing and future actions linked to CYPs transformation plans will reduce demand and costs over the next three years, with a planned reduction of 18 LAC placements year on year over the next three years from a planned number of 568 on 1 April 2022 to 511 by 31 March 2025.
- 2.24 The plans are based on reducing demand for high cost external residential and fostering placements through overall reductions as outlined above and growth of in-house residential and fostering capacity.
- 2.25 In-house residential homes are opening as agreed by Cabinet with capacity projected to increase to 16 places over the 5 new homes by the end of the 23/24 financial year. In-house fostering capacity (places) is planned to grow over the next three financial years from 185 to 245.
- 2.26 The change in placement mix is a key factor in delivery of the budget savings from placements. Confidence remains that the remaining savings can be delivered.
- 2.27 The updated position on delivery of savings as included within the MTFS is summarised below with details of delivery across the MTFS set out in Table 1
- Total savings agreed for delivery £34m
 - Savings delivered to 2021/22 (£18m)
 - Value of savings remaining £16m

2.28 **Table 1 – Delivery of Agreed Budget Savings across MTFs**

Directorate	2022/23 £000	2023/24 £000	2024/25 & Total FYE £000
Adult Care, Housing & Public Health	3,300	2,800	2,800
Children & Young People	971	4,739	7,411
Regeneration & Environment	374	762	784
R&E Customer & Digital	200	500	500
Total Directorate Savings	4,845	8,801	11,495

2.29 The information in Table 1 shows delivery of £11.5m of the remaining total of £16m savings, taking the total delivery to £29.5m against the original amount of £34m. The balance of £4.5m is mostly covered by savings from treasury management activity, which is forecast to save £3.8m in 2024/25.

Revenue Budget Position 2021/22

2.30 The Financial Monitoring report to Cabinet in November 2021 sets out the Council's expectation that the Financial Outturn for 2021/22 will be delivered within budget, when the Government's provision of emergency Covid support grants is taken into account.

2.31 This position does not include any use of two amounts of grant funding received in 2021/22 which were described in the Budget and Council Tax 2021/22 report approved at Council in March 2021 :

- Local Council Tax Support Grant (£2.774m) provided to support councils to meet additional costs associated with local council tax support.
- Local Tax Income Guarantee (£668k) provided as compensation based on 75% of irrecoverable losses in council tax and business rates income in 2020/21. The Council's grant relates to council tax only, no grant was due for business rates.

2.32 It is recommended that the Local Council Tax Support Grant of £2.774m is reserved, pending Cabinet decisions on use of the grant. It is also recommended that the Local Tax Income Guarantee of £668k is reserved for

the specific purposes that it was provided, to mitigate the impact on the budget of losses of council tax income in 2020/21 due to the Covid pandemic.

- 2.33 In addition, savings from treasury management activities over and above the £5m saving included in the 2021/22 budget are being achieved. It is recommended that these savings are also placed into reserve to support the budget over the medium term.

Budget Investment 2021/22

- 2.34 Within the 2021/22 budget, Council agreed £1.864m of revenue budget investment, initially for one year only.
- 2.35 The £1.864m funding won't be spent in full in 2021/22 due to the timing associated with recruitment of staff to implement some of the investments.
- 2.36 It is therefore recommended that the amount of unspent funds is carried forward to 2022/23 to allow for the full 12 months delivery of those investments as agreed by Council. Proposals for any of the investments to continue beyond the initial one-year approval will then be put forward within the Budget and Council Tax 2022/23 report.

Payment Uplift to Providers of Adult Care

- 2.37 The Council is receiving some one-off funding from Rotherham CCG in order for the Council to give a market uplift to adult care providers for the period 1st December 2021 to 31st March 2022. Provision for the funding transfer will be documented within the existing Section 75 agreement between the Council and the CCG.
- 2.38 Cabinet and Council will then consider recommendations within the Budget and Council Tax 2022/23 report and determine the uplifts to adult social care provider contracts to apply for 2022/23, taking effect from 1st April 2022.
- 2.39 In order to affect the increased payments to providers from 1st December 2021, the Strategic Director – Adult Care, Housing and Public Health made a delegated decision with regard to the use of the funding provided by the CCG, covering the period 1st December 2021 to 31st March 2022. Cabinet are asked to note the delegated decision.

DfE Safety Valve Intervention Programme

- 2.40 The Council is working with the DfE as part of the Safety Valve Intervention Programme which is provided to support local authorities which have large DSG deficits. The work with DfE on the Programme aims to achieve a mutually agreeable solution to eliminating the Council's DSG deficit and to secure a sustainable DSG position going forward.
- 2.41 The Council has to submit its proposal within the framework of the Programme to DfE by 7th December 2022, which DfE will put to Ministers. It is

anticipated that if there is DfE agreement to support the Council, then the Council and DfE will need to sign that agreement in early 2022 so that any additional grant payments can be made by Government in March 2022.

- 2.42 The Strategic Director – Finance & Customer Services will advise on the financial proposals from DfE within an agreement and the acceptability of proposals within the Council’s overall financial strategies.
- 2.43 In order to enable the Council to meet the deadline for signing an agreement, Cabinet are recommended to delegate the authority for the Council to enter into an agreement with DfE to the Strategic Director – Children & Young People’s Services, in consultation with the Cabinet Member for Children & Young People’s Services, the Chief Executive and the Strategic Director – Finance & Customer Services.

Summary MTFS 2022/23 to 2025/26

- 2.44 The MTFS in summary, taking into account the issues described in this report is summarised in Table 2 below :

Table 2 – Summary MTFS 2022/23 to 2025/26

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
<u>Resources</u>				
Council Tax and Business Rates	166,785	174,502	180,258	186,820
Government Grant	87,656	88,975	89,996	91,639
Total Resources	254,441	263,477	270,254	278,459
<u>Expenditure</u>				
Base Budget Requirement	247,586	251,262	252,666	252,421
Inflation Provision	8,500	16,250	23,100	29,700
Service Costs and Demand	6,700	9,300	10,300	11,300
Directorate	(4,845)	(8,801)	(11,495)	(11,495)

Savings				
Use of CYPS reserve	(2,000)	0	0	0
Use of Treasury Management Savings	(1,500)	(4,000)	(3,800)	0
Total Expenditure	254,441	264,011	270,711	281,926
Funding Gap (Pre-Settlement)	0	534	517	3,467

2.45 Following this initial update of the MTFs, the summary position shows a balanced budget position for 2022/23 with relatively small estimated funding gaps thereafter.

2.46 It is important to note that this position is before the exact amount of Government grant funding for councils is provided within the Finance Settlement. This is also a technical update of the MTFs before Members' policy proposals on budget investment and levels of council tax.

2.47 Updated MTFs information will therefore form part of the Budget and Council Tax 2022/23 report to Cabinet in February 2022 and Council in March 2022 which will set out the full details of budget and council tax proposals for 2022/23 alongside the final MTFs estimates for the medium term.

3. Options considered and recommended proposal

3.1 As detailed in the report.

4. Consultation on proposal

4.1 The Council consulted on budget proposals for 2021/22 ahead of the approval of the Budget and Council Tax 2021/22 report at Council in March 2021. Consultation on the 2022/23 budget is planned to be undertaken across December 2021 and January 2022

5. Timetable and Accountability for Implementing this Decision

5.1 The information, proposals and recommendations will feed into the development of specific budget proposals for 2022/23 within the Budget and Council Tax 2022/23 report to Cabinet in February 2022 and Council in March 2022

6. Financial and Procurement Advice and Implications

- 6.1 The financial implications are set out in the report.
- 6.2 There are no direct procurement implications arising from the recommendations detailed in this report.

7. Legal Advice and Implications

- 7.1 There are no direct legal implications arising from the recommendations within this report.

8. Human Resources Advice and Implications

- 8.1 There are no direct HR implications arising from the recommendations in this report.

9. Implications for Children and Young People and Vulnerable Adults

- 9.1 The implications are as set out in the report.

10. Equalities and Human Rights Advice and Implications

- 10.1 There are no implications arising from the recommendation in the report.

11. Implications for CO2 Emissions and Climate Change

- 11.1 There are no direct implications arising from the recommendation in the report.

12. Implications for Partners

- 12.1. There are no direct implications arising from the recommendation in the report.

13. Risks and Mitigation

- 13.1 Risks and mitigation are described in the report

14. Accountable Officers

Graham Saxton, Assistant Director – Financial Services

Approvals obtained on behalf of Statutory Officers: -

	Named Officer	Date
Chief Executive	Sharon Kemp	Click here to enter a date.
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	03/12/21
Assistant Director, Legal Services (Monitoring Officer)	Phil Horsfield	03/12/21

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