

**Committee Name and Date of Committee Meeting**

Cabinet – 21 November 2022

**Report Title**

Review and Update of the 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.

This is an update of the Council's Budget and Medium Term Financial Strategy (MTFS) to 2025/26, including the technical updates and following the volatility in the UK and international markets caused by the war in Ukraine, high inflation and high energy prices. The MTFS will be revised further in advance of the Council Budget setting meeting in March 2023, to take account of the Local Government Finance Settlement for 2023/24, when issued, along with budget policy proposals on levels of council tax and fees and charges and any budget savings or investments.

This position may change should Government announce changes to the funding of local authorities or if inflation assumptions change significantly from current assumptions. There is due to be a budget announcement on the 17 November, so after the publication of this report but prior to Cabinet, as such any impact of this Government announcement has not been factored into this MTFS update.

The MTFS review, alongside the latest Financial Monitoring 2022/23 report to Cabinet in November, envisages a significant financial overspend that will require the use of the Council's reserves to achieve a balanced financial outturn position for 2022/23. Of the current forecast £18.2m 2022/23 overspend position, £10.1m relates to additional

cost items outside of the control of the Council, that being inflation, energy prices and national pay award.

The MTFS forecasts identify that the Council faces a significant financial challenge in setting a balanced budget for 2023/24 through to 2025/26 due to these pressures outside of the Council's control. Therefore, it is expected that additional use of reserves will be required for 2022/23 and likely for 2023/24. This position is subject to review when the Finance Settlement for 2023/24 is received though there remains substantial uncertainty with the UK economy and the levels of public sector financing that are expected within the Finance Settlement for 2023/24.

It is therefore possible that announcements made by Government on the 17 November 2022 or within the subsequent Finance Settlement for 2023/24 add further financial pressures to the Council's MTFS position, either through Government not inflating public sector resources as assumed or through other cuts to public sector funding.

### **Recommendations**

1. That the MTFS update be noted.
2. That Cabinet note the requirement to use reserves in order to balance the Council's outturn position for 2022/23.

### **List of Appendices Included**

Appendix 1 Initial Equality Screening Assessment

Appendix 2 Carbon Impact Assessment

### **Background Papers**

Budget and Council Tax 2022/23 and Medium Term Financial Strategy, Council March 2022.

Financial Outturn 2021/22, Cabinet July, 2022.

September Financial Monitoring Report, Cabinet October 2022.

### **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) 2022/23 through to 2025/26 was approved at Council in March 2022. Since approval of the MTFS there have been significant financial challenges that could not have been anticipated at the time of setting the MTFS, that are largely outside of the Council's control and influence. Pressures such as the impact of the war in Ukraine and its impact on the rise in energy prices and inflation are anticipated to create £4m cost pressure for 2022/23 onwards, as the Council's base costs will have increased.
- 1.2 The Local Government Pay Claim 2022/23 has now been considered by national employers and has been accepted by Trade Unions. The offer includes an increase of £1,925 on all NJC pay points from 1st April 2022 and 4.04% on allowances. At the lowest spinal column point that the Council uses, this will be a 10.4% pay rise, reducing down to 1.1% for the most senior role. The financial impact of this pay award is £6.1m greater than the budget assumed within the Council's Budget and MTFS which was based on a 2% pay award.
- 1.3 Taken together these pressures potentially increase the Council's base costs by £10.1m per year.
- 1.4 This update of the MTFS includes resource forecasts based on estimated increases to core funding streams that are inflated annually by CPI. These resource assumptions will be reviewed again when the Provisional Local Finance Settlement 2023/24 is released in December, which will set out the specific amounts of Government funding to be provided to the Council or should Government make any clear announcements before then. Government may clarify their expectations for inflating core funding streams in their announcement on the 17<sup>th</sup> November 2022.
- 1.5 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 on 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 2023/24, alongside taking into account the outcomes of the Finance Settlement and Members' policy choices and decisions on Council Tax levels.

### **2. Key Issues**

#### **MTFS Update – Planning Assumption**

- 2.1 The MTFS has been updated across the four years 2022/23 to 2025/26 and models the following:
  - Government Grant forecasts based on the Spending Review 2021, that set a 3 year spending review period 2022/23 to 2024/25.
  - 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 and National Living Wage. This includes maintaining the planning assumption of a 2% increase on fees and charges.
- Assumption that the agreed budget savings remain deliverable, within agreed profile. Work is underway to review this position.
- The ongoing costs of decisions made in previous budget rounds including financing costs of capital investment.
- Service demand and cost pressures are not factored into this update beyond 2022/23 but will be considered as part of the final MTFS within Budget and Council Tax Report 2023/24.

2.2 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 4th highest in-year rate of all 36 Metropolitan Councils. The in-year rate for business rates was 97%, the 3<sup>rd</sup> 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.

2.3 The estimated impact of rising inflation and energy prices has been factored into the MTFS update, having the impact of increasing the Councils base costs. In addition, there are some areas of escalating cost with service demand pressures being experienced in a number of areas, in particular adult care services, home to school transport and waste services. These service demand pressures are being reviewed and as yet have not been factored into the MTFS update.

2.4 A significant assumption the Council has made within the current MTFS update is that Government will continue to honour the inflationary uplift in a number of core resources that have historically been inflated by September CPI (inflation on business rates is set in regulation). The impact of every 1% of inflation on these core funding streams is the equivalent of £1m extra resource for the Council. As such the Council will need to continue to closely monitor announcements from Government between now and the provisional financial settlement.

### **New pressures**

2.5 Since the Council's Budget for 2022/23 was approved at Council on the 2<sup>nd</sup> March 2022, there have been significant changes that could not have been anticipated at the time of setting the Council's budget. Unbudgeted cost resulting from the wider financial impact of the war in Ukraine, inflation, energy price increases and impact of the 2022/23 pay award present a significant financial challenge to the Council's Budget for 2022/23 and planning assumptions for 2023/24.

2.6 Following review of inflationary impacts, energy price markets and the 2022/23 pay award, the following cost pressures (above budget assumed in the approved MTFS) in these areas have been projected and factored into the MTFS update.

- Pay Award £6.1m
- Inflation £1m
- Energy £3m
- **Total £10.1m**

- 2.7 The Council's Budget and Council Tax Report 2022/23 outlined that cost pressures within Adult Social Care would present the most significant future financial challenge to the Council, this still remains the case. Currently Councils are working through Government's market sustainability and fair cost of care review, which focuses on the cost of Home Care and Care Homes provision. It is an exercise carried out alongside care providers in order to establish a "fair cost of care" provision.
- 2.8 This exercise has not yet concluded, and the Council is not currently required to pay based on the outcome of the exercise but is expected to phase in the Fair Cost of Care, moving towards the Fair Cost of Care between 2022 to 2025. Additionally, the funding from Government to allow the Council to carry out and implement the exercise is an estimate and the Government have indicated that they may apply a new funding allocation methodology, though not indicated what basis this may be.
- 2.9 The Council can only increase its rates for Home Care and Care Home provision with additional resources from Government. As such the Council's approach to the Fair Cost of Care and the provision for inflation on care provider contracts will be tailored to the availability of additional Fair Cost of Care funding and inflation from Government.
- 2.10 **Delivery of Agreed Budget Savings**  
Delivery of the remaining agreed budget savings are included within the MTFS update based on the current approved profile of when it was anticipated that remaining savings could be achieved.
- 2.11 Financial Monitoring reports to Cabinet track progress in delivery. These reports have indicated the impact of Covid on progressing delivery of budget savings, in particular savings on social care services. Whilst good progress is being made, 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.
- 2.12 However, the Council is able to report further secured delivery of planned savings for 2022/23. The table below provides an update on the £11.5m of planned savings to be delivered over the medium term. £4.2m, over a third of planned savings have been delivered already within 2022/23. This includes £971k for Early Help & Social Care Pathway (reductions in social care teams linked to reducing caseloads), £2.4m savings from reablement services. For R&E there has been £119k delivery of increased income at Waleswood and £97k in respect of planned cost reductions on operational buildings. Several assets are being made ready for disposal which will help progress toward delivering the property savings although the actual amount secured will be confirmed at the point of disposal.

## 2.13 Table 1 – Delivery of Agreed Budget Savings across MTFS

Saving	2022/23	2023/24	2024/25 & Total FYE	Still to be delivered 2022/23	Total Secured as at 30th September 2022
	£000	£000	£000	£000	£000
ACHPH	2,800	2,800	2,800	400	2,400
ACHPH – One off saving	500	0	0	0	500
CYPS	971	4,739	7,411	0	1026
R&E	374	762	784	158	216
R&E Customer & Digital	200	500	500	155	45
<b>Total Savings</b>	<b>4,845</b>	<b>8,801</b>	<b>11,495</b>	<b>713</b>	<b>4,187</b>

2.14 The Council's financial monitoring report to November Cabinet is projecting a forecast overspend of £18.2m. This includes Directorate overspends (excluding Central Services) of £8.1m, the main pressures being;

- CYPS placements, £3.9m (mix of placement types remains the key issue as demand continues to reduce)
- Home to School Transport, £1.6m
- Waste Management, £0.3m (increased tonnages to dispose and increased disposal cost)
- Asset Management, £0.6m (income under recovery and property cost pressures)
- Increased demand and cost of service provision for Homelessness, £0.9m

2.15 At present these pressures are not built into the MTFS on a re-occurring basis. Whilst the Council will aim to mitigate these in year pressures, it is anticipated that a significant level of the Council's reserves will be required to fund the 2022/23 revenue outturn position.

## 2.16 Summary MTFS 2022/23 to 2025/26

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

	<b>2022/23 £000</b>	<b>2023/24 £000</b>	<b>2024/25 £000</b>	<b>2025/26 £000</b>
<b><u>Resources</u></b>				
Council Tax and Business Rates	168,544	179,015	186,064	192,333
Government Grant	91,158	96,939	98,582	100,311
<b>Total Resources</b>	<b>259,702</b>	<b>275,954</b>	<b>284,647</b>	<b>292,644</b>
<b><u>Expenditure</u></b>				
Base Budget Requirement	247,030	249,968	250,213	249,968
Inflation Provision	20,450	31,888	39,958	46,081
Service Costs and Demand	18,740	16,620	19,129	21,005
Directorate Savings	-4,845	-8,801	-11,495	-11,495
Use of CYPS reserve	-2,000	0	0	0
Use of Treasury Management Savings	-1,500	-4,000	-3,800	0
<b>Total Expenditure</b>	<b>277,875</b>	<b>285,675</b>	<b>294,005</b>	<b>305,559</b>
<b>Funding Gap (Pre-Settlement)</b>	<b>18,173</b>	<b>9,721</b>	<b>9,358</b>	<b>12,914</b>

#### 2.17 Revenue Budget Position 2022/23

The latest Financial Monitoring 2022/23 report to Cabinet in November, envisages a significant financial overspend that will require the use of the Council's reserves to achieve a balanced financial outturn position for 2022/23. Of the current forecast £18.2m 2022/23 overspend position, £10.1m relates to items outside of the control of the Council, that being inflation, energy prices and Local Government Pay Award. Without those issues the plan would still be in balance as set in March 2022.

2.18 Following this initial update of the MTFs, the summary position reflects a highly challenging position for the Council, as it is for all councils, with the bulk of the cost pressures stemming from inflation, energy costs and the impact of the 2022/23 pay award.

2.19 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 any Members' policy choices and decisions on levels of Council Tax.

2.20 Updated MTFS information will therefore form part of the Budget and Council Tax 2023/24 report to Cabinet in February 2023 and Council in March 2023 which will set out the full details of Budget and Council Tax proposals for 2023/24 alongside the final MTFS estimates for the medium term.

2.21 Given the significant and unexpected financial challenge faced by the Council, work has commenced with Strategic Directors to consider opportunities for scaling back some operations, reducing or delaying non-essential expenditure, assessment of need for recruitment with a view to temporarily generating some cost savings for 2022/23 to reduce down the £8.1m directorate overspending forecast in the current year and hence the required use of reserves to balance the 2022/23 year end.

### **3. Options considered and recommended proposal**

3.1 In refreshing the MTFS the Council has made several financial assumptions as detailed within the main body of this report. Whilst various scenarios for how Government funding could be changed and the Council's costs could vary linked to in year and potential future cost pressures, the update presented is the Council's current MTFS.

3.2 Given the level of uncertainty within financial markets, the length of the war in the Ukraine and its impact on inflation, energy and the level of Government funding, elements of the MTFS remain complex to project. As such it is expected that when Government release the Provisional Financial Settlement for 2023/24, there may be substantial changes to the availability of public sector funding.

### **4. Consultation on proposal**

4.1 The Council consulted on budget proposals for 2022/23 ahead of the approval of the Budget and Council Tax 2022/23 report at Council in March 2022. Consultation on the 2023/24 budget is planned to be undertaken across December 2022 and January 2023.

### **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 2023/24 within the Budget and Council Tax 2023/234 report to Cabinet in February 2023 and Council in March 2023.

### **6. Financial and Procurement Advice and Implications**

6.1 The financial implications are set out in the report. The significant forecast overspend for 2022/23 is £18.2, of this £10.1m relates to financial pressures outside of the control of the Council due to inflation, energy prices and pay award. £8.1m of the forecast overspend relates to the Council's directorates and therefore these elements of expenditure are where the Council has some level of control. In order to mitigate the financial overspend position, the Council is implementing a housekeeping review of budgets, this is looking to ensure that where possible non-



essential spend is held. In addition, the Council is looking to identify across all directorates opportunities to reduce the forecast outturn, in order to further mitigate the £8.1m directorate pressures and reduce the call on reserves for 2022/23.

6.2 It should be noted that whilst the directorate overspend is £8.1m, the Council will be able to work to mitigate these pressures and reduce them before the financial year end, with a low level of use of reserves. However, due to the £10.1m of cost pressures outside of control of the Council there will be a significant call on reserves to balance the 2022/23 outturn position. These cost pressures raise the Council's base costs and it is these pressures that create the budget gaps for 2023/24 onwards. The Council did build into the MTFs prudent levels of inflation and has over recent years increased its levels of reserves, in particular the Budget and Financial Strategy Reserve, £17.8m at the end of 2021/22. Had these cost pressures outside of control of the Council not appeared, then the Council's MTFs position would not have been presenting a significant funding gap.

6.3 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**

Rob Mahon, Assistant Director – Financial Services

Approvals obtained on behalf of Statutory Officers: -

	<b>Named Officer</b>	<b>Date</b>
Chief Executive	Sharon Kemp	07/11/22
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	03/11/22
Assistant Director Legal Services (Monitoring Officer)	Phillip Horsfield	03/11/22

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