

Committee Name and Date of Committee Meeting

Cabinet – 20 November 2023

Report Title

Medium Term Financial Strategy Update

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)

Rob Mahon, Assistant Director of Financial Services
01709 254518 or Rob.Mahon@rotherham.gov.uk

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 global factors, high inflation and fluctuating energy prices. The MTFS will be revised further in advance of the Council Budget setting meeting in February 2024, to take account of the Local Government Finance Settlement for 2024/25, 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 as part of the Autumn Statement on the 22 November, so after the publication of this report, as such any impact of this Government announcement has not been factored into this MTFS update.

The MTFS review, alongside the latest Financial Monitoring 2023/24 report to Cabinet in November, envisages a financial overspend that will require the use of the Council's reserves to achieve a balanced financial outturn position for 2023/24. However, Directorates are working on recovery plans to mitigate the financial overspend for

2023/24 as much as possible to minimise the use of reserves. Within the current forecast overspend of £4.2m for 2023/24, the Directorates have a forecast overspend of £9.2m. This is largely due to the following overall issues:

- Placement pressures within Children and Young People's Services and Adult Social Care.
- Home to School Transport pressures within Regeneration and Environment and Children and Young People's Services.
- Pressures relating to the longer term recovery from Covid-19 on income generation within Regeneration and Environment.
- Inflationary costs impacting the cost of food in Schools Catering and contractual and provider inflation impacting Children and Young People's Services.
- Increased costs of homelessness due to increased demand.
- Increased property costs within Regeneration and Environment

Whilst the core directorates services have a forecast year end overspend of £9.2m on the General Fund this is offset by the £5m corporate budget risk contingency within Central Services approved within the Council's Budget and Council Tax Report 2023/24.

The current MTFs forecasts identify that the Council is able to provide a balanced budget for 2024/25 but faces a significant financial challenge in setting a balanced budget for 2025/26. Therefore, it is expected that additional use of reserves will be required for 2023/24 and likely for 2025/26. This position is subject to review when the Finance Settlement for 2024/25 is received. The key challenge for 2025/26 is that there is significant uncertainty as to how Government's Financial Settlement for 2025/26 will look, as Government are only releasing single year Financial Settlements and where there are multiple year grants they only run up until 2025/26. In addition, there is due to be national Government elections prior to the 2025/26 financial year.

Nationally, the Local Authority financial environment presents a very challenging position with a number of LA's declaring S114 notices, stating that they cannot create a balanced budget. In addition, there are a growing number of LA's that have publicly stated they are on the brink of declaring a S114 notice. This reflects the challenges Council's across the UK are facing but also that whilst this Council's position is a challenge it is much more robust than many Council's across the UK.

It is therefore possible that announcements made by Government on the 22 November 2023 or within the subsequent Finance Settlement for 2024/25 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 potential requirement to use reserves in order to balance the Council's outturn position for 2023/24.

List of Appendices Included

Appendix 1 Initial Equality Screening Assessment

Appendix 2 Carbon Impact Assessment

Background Papers

Budget and Council Tax 2023/24 and Medium Term Financial Strategy, Council March 2023.

Financial Outturn 2022/23, Cabinet July, 2023.

September Financial Monitoring Report, Cabinet November 2023.

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) 2023/24 through to 2025/26 was approved at Council in March 2023. Since approval of the MTFS there have been continuing financial challenges as a result of global factors, with inflation remaining high and impacting costs, in particular impacting food prices and the costs of materials/goods and so impacting repairs, maintenance and transport costs. Although inflation has been reducing during the year it has not been at the pace projected in the Council's MTFS that mirrored Governments and the Bank of England assumptions. In addition, the Local Government Association (LGA) Pay Award for 2023/24 was agreed on 1st November 2023. The impact of this pay offer is estimated to be £4m above the position built into the Council's Budget for 2023/24 and will be funded during 2023/24 through temporary savings from Treasury Management factored into Central Services. The ongoing impact will be factored into the Council's Medium Term Financial Strategy.
- 1.2 The Local Government Pay Claim 2023/24 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 2 to 43 inclusive and an increase of 3.88 per cent on all pay points above the maximum of the pay spine but graded below deputy chief officer from 1st April 2023. In addition, there will be a 3.88% increase on allowances. At the lowest spinal column point that the Council uses, this will be a 9.42% pay rise, reducing down to 1.09% for the most senior role. The financial impact of this pay award is £4m greater than the budget assumed within the Council's Budget and MTFS which was based on a 2% pay award.
- 1.3 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 2024/25 is released in December 2023, 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 22 November 2023.
- 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 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 2024/25, 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 three years 2023/24 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 5% increase on fees and charges for 2024/25, reducing to 2% for 2025/26.
- Assumption that the agreed budget savings remain deliverable, within the agreed profile. Work is underway to review this position and has been tracked monthly through the Council's financial monitoring procedures.
- 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 2023/24 (excluding some capacity to cover these risks whilst detailed work is underway to assess the longer term position especially in relation to Home to School Transport & School Meals) but will be considered as part of the final MTFS within the Budget and Council Tax Report 2024/25.

2.2 The Council's collection rates for Council Tax and business rates are holding up well during the impact of Covid. In 2022/23 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 18th highest of all Metropolitan Councils. Similar collection rates are being maintained in 2023/24 which informs prudent forecasts of future years' income included within the MTFS.

2.3 The estimated impact of inflation and the current reducing energy prices has been factored into the MTFS update. Whilst food prices and costs of goods and materials is increasing the Council's base costs and contracts, reducing energy prices is helping to mitigate this position. 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, except for the known pressures in relation to home to school transport. School Meals provision is also being hit by significant additional costs in relation to food prices, as such this pressure has been factored into the MTFS update. Work is underway to try to better understand the financial and service impacts of home to school transport and school meals.

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 2023/24 was approved at Council on the 1st March 2023, there are significant financial challenges facing the Council's position for 2023/24 that will continue to impact the Council's MTFs beyond 2023/24.
- 2.6 Following review of the 2023/24 position the following financial challenges have been identified and will need to be considered as part of the Council's Budget and MTFs setting process for 2024/25.
- Placement pressures within Children and Young People's Services and Adults Social Care.
 - Home to School Transport pressures within Regeneration and Environment and Children and Young People's Services.
 - Inflationary costs impacting the cost of food in Schools Catering and contractual and provider inflation impacting Children and Young People's Services.
- 2.7 The Council's Budget and Council Tax Report 2023/24 outlined that cost pressures outside of the Council's control such as inflation, energy prices and Local Government Association Pay Awards presented the most significant risk to the Council's Budget. This still remains the case with inflation at the heart of most of the cost pressures identified above, either increasing the costs of current provision or through exacerbating the impact of rising demand. For example, CYPS placements are actually reducing in terms of placement numbers, however, inflation and market pressures is causing the base cost of all types of placements to rise significantly.

Delivery of Agreed Budget Savings

- 2.8 The MTFs update assumes delivery of the remaining agreed budget savings, these are effectively split across two categories. Those that were approved prior to the 2023/24 Budget setting process and those new savings agreed as part of the 2023/24 Budget setting process. Against the previously agreed budget savings, the Council is able to report secured delivery of £1.618m against the planned savings for 2023/24.
- 2.9 Of these £11.5m of planned savings that had been re-profiled for delivery over the medium term, £4.4m of which were delivered during 2022/23. During 2022/23 the Council successfully delivered £4.9m savings, £4.4m on a permanent basis. As such £7.1m remains to be delivered across 2023/24 and 2024/25, with £4.4m to be delivered by the end of 2023/24 and the full £7.1m by the end of 2024/25. To date £1.618m has been secured at the end of September from savings in CYPS placements and management costs and R&E operational property budgets, as shown in table 1 below.

Table 1: Previously agreed savings

Saving	To be delivered by end of 2023/24	Total to be delivered end of 2024/25	Secured as at 30 th September 2023
	£000	£000	£000
CYPS	3,713	6,385	1,594
R&E	388	410	24
R&E Customer & Digital	300	300	0
Total Savings	4,401	7,095	1,618

2.10 As part of the Budget and Council Tax Report 2023/24 a series of new temporary and permanent savings were approved. These were £4.3m for 2023/24, of which the Council has already secured £3.4m of savings, as set out in table 2 below, with the bulk of the remaining savings rag rated green for delivery in the current financial year. Then for 2024/25 £4.7m of savings were agreed and will be monitored and tracked through the Council’s financial monitoring reports to Cabinet. On a permanent basis the longer term savings total is £3.3m and is factored into the MTFs from 2025/26 onwards.

Table 2 – New Savings agreed as part of the Budget and Council Tax 2023/24 report

Directorate	2023/24	2024/25	Secured as at 30 th September 2023
Finance and Customer Services	308	238	362
Assistant Chief Executive	303	407	153
Children’s and Young Peoples Services	1,348	1,059	1,348
Adult Care, Housing and Public Health	1,224	1,998	718
Regeneration and Environment	1,161	1,001	800
Total	4,344	4,703	3,381

2.11 The Council’s financial monitoring report to November Cabinet is projecting a forecast overspend of £4.2m. This includes Directorate overspends (excluding Central Services) of £9.2m, whilst the core directorates services have a forecast year end overspend of £9.2m on the General Fund this is offset by the £5m corporate budget risk contingency within Central Services approved within the Council’s Budget and Council Tax Report 2023/24. The main pressures being;

- Placement pressures within Children and Young People’s Services and Adults Social Care.
- Home to School Transport pressures within Regeneration and Environment and Children and Young People’s Services.
- Pressures relating to the longer term recovery from Covid-19 on income generation within Regeneration and Environment.
- Inflationary costs impacting the cost of food in Schools Catering and contractual and provider inflation impacting Children and Young People’s Services.
- Increased costs of homelessness due to increased demand.
- Increased property costs within Regeneration and Environment.

2.12 At present these pressures are not built into the MTFs on a re-occurring basis. However, the MTFs does include some capacity to cover these risks whilst detailed work is underway to assess the longer term position. Whilst the Council will aim to mitigate these in year pressures, it is anticipated that a level of the Council’s reserves will be required to fund the 2023/24 revenue outturn position.

Summary MTFs 2023/24 to 2025/26

2.13 The MTFs in summary, taking into account the issues described in this report is summarised in Table 2 below. As can be seen it is currently projected that the Council through use of Treasury Management Savings, energy savings and Directorate saving recovery plans the 2023/24 outturn position can be balanced and 2024/25 has a small funding surplus. However, for 2025/26 due to the following main reasons there is a projected £6m funding gap.

- Home to School Transport - **£3m**
- School Meals Service - **£1.5m**
- Funding gap that existed in 2025/26 at the time the Budget was set for 2023/24 - **£1.7m**

	2023/24	2024/25	2025/26
	£000	£000	£000
<u>Resources</u>			
Council Tax and Business Rates	184,748	193,029	199,437
Government Grant	118,736	124,521	126,623
Total Resources	303,484	317,550	326,060
<u>Expenditure</u>			
Base Budget Requirement at 2023/24 pay and prices	283,433	287,828	291,226
Inflation Provision	31,304	42,756	48,283
Service Costs and Demand	6,000	4,000	4,000
Directorate Savings	-8,300	-11,353	-9,938

Use of energy savings	-1,500	-2,500	-1,500
Use of Treasury Management Savings	-7,453	-3,800	0
Total Expenditure	303,484	316,931	332,071
Funding Gap (Pre-Settlement)	0	-619	6,011

Revenue Budget Position 2023/24

- 2.14 The latest Financial Monitoring 2023/24 report to Cabinet in November, envisages a financial overspend that will require the use of the Council’s reserves to achieve a balanced financial outturn position for 2023/24. However, the Children and Young Peoples Services and Regeneration and Environment Directorates have been tasked with developing budget recovery plans to reduce as far as possible the overspend in those two Directorates. In addition, the Council’s Treasury Management function continues to generate significant short term savings and the price of energy is reducing below budget following the significant increases required during 2022/23. Through these approaches it is estimated that the Council will be able to reduce the need to use reserves.
- 2.15 Following this initial update of the MTFS, the summary position reflects a challenging position for the Council, for 2025/26 in particular, as it is for all councils, with the bulk of the cost pressures stemming from inflation, demand, and market pressures along with the impact of the 2023/24 pay award.
- 2.16 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.
- 2.17 Updated MTFS information will therefore form part of the Budget and Council Tax 2024/25 report to Cabinet and Council in February 2024 which will set out the full details of Budget and Council Tax proposals for 2024/25 alongside the final MTFS estimates for the medium term.
- 2.18 Given the financial position outlined for the Council, work has commenced with Strategic Directors to consider both possible investments as well as opportunities for scaling back some operations, reducing or delaying non-essential expenditure. The focus of savings and cost reductions at present is on the current financial year position and in particular on the CYPS and R&E Directorates.

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, global factors and their 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 2024/25, 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 2023/24 ahead of the approval of the Budget and Council Tax 2023/24 report at Council in March 2023. Consultation on the 2024/25 budget is planned to be undertaken across December 2023 and January 2024.

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 2024/25 within the Budget and Council Tax 2024/25 report to Cabinet and Council in February 2024.

6. Financial and Procurement Advice and Implications

- 6.1 The financial implications are set out in the report. The Council's MTFS position is effectively broadly a balanced position for the period 2023/24 to 2024/25, on the basis that the Council will deliver savings plans and make use of savings in treasury and energy budgets to balances 2023/24. The 2025/26 position is however a challenge with a funding gap of £6m, as a result of a budget gap of £1.7m that already existed at the time of setting the 2023/24 Budget, home to school transport projected £3m and School Meals service pressures £1.5m.

- 6.2 It should be noted that whilst the directorate overspend is £9.2m, before factoring in the budget contingency, the Council will be able to work to mitigate these pressures and reduce them before the financial year end, to require a lower level of use of reserves. Treasury management savings and reduced energy prices will be vital to this approach and it should be noted that the treasury management savings are temporary, largely generated from the Council having cash balances to investment and minimise the need to borrow in a high interest market. This position cannot be sustained in the current economic climate. The Council did build into the MTFS prudent levels of inflation and has over recent years increased its levels of reserves. However the significant Local Government Association Pay Awards across 2022/23 and 2023/24 have presented a significant, permanent increase in the Council's base costs.

- 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: -

	Named Officer	Date
Chief Executive	Sharon Kemp	06/11/23
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

Report Author: Rob Mahon, Assistant Director Financial Services
01709 254518
Rob.Mahon@rotherham.gov.uk

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