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| Subject: | Medium Term Financial Strategy Update | Status: | For Publication |
| Report to: | Cabinet | Date: | 6 th December 2023 |
| Report of: | Chief Finance Officer | Lead Member: | Resources |
| Key Decision: | <input checked="" type="checkbox"/> Forward Plan <input checked="" type="checkbox"/> | General Exception | <input type="checkbox"/> Special Urgency <input type="checkbox"/> |
| Equality Impact Assessment: | Required: <input type="checkbox"/> | Yes/No | Attached: <input type="checkbox"/> Yes/No |
| Biodiversity Impact Assessment: | Required: <input type="checkbox"/> | Yes/No | Attached: <input type="checkbox"/> Yes/No |
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1. RECOMMENDATION

1.1 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 2023 as part of its budget setting process. The MTFS at that time indicated a funding gap for 2023/24 of £756k, to be funded from earmarked reserves.

3.2 The Council, along with the rest of the local government sector, is suffering from continued financial pressure driven by the increased levels of inflation. In addition to the inflationary pressures, this council is also subject to the ongoing financial impact of the empty homes scheme.

3.3 The current economic situation is continuing to have an adverse impact on the Council’s overall financial position. Major issues are:-

- Based on the 2023/24 pay award the Council’s average pay inflation was 6.21%, this is against an original budget of 5%. This equates to an additional budget requirement of £86k. 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 has found 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.
- Whilst inflation is slowing down the price of many goods and services continues to increase. 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 increased annually by the higher of CPI (October rate 4.7%) or Average Wage Earnings growth (current rate 8.1%).
- Vehicle fuel prices have dropped since the budget was set, however they are started to increase over recent weeks.
- The Council has entered in to a new gas contract which will run for 12 months from 1st December. The new prices are 47% less than last years prices however this is still 64% more than the 2021 contract prices. Electricity contracts are not due for renewal until October 2024.

- Inflation and high interest rates are impacting on the capital programme. On average vehicle replacement costs are running c20% over and above the estimates included in the capital programme. 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 an effort to control inflation the Bank of England has increased the base rate several times over recent months (current rate 5.25%), however this has still not been reflected in the interest rates on offer from most banking institutions. The Council has been able to increase its investment returns by depositing funds with the Debt Management Office (DMO) and Lancashire County Council (LCC), however the Council's cash balances continue to reduce as Covid monies are repaid to Government and levels of internal borrowing increase.

3.5 Historically, the draft Local Government Finance Settlement figures are published just before the Christmas break. The 2023/24 settlement indicated that the figures would stay the same for 2024/25, therefore these figures are included in the following tables. The lateness of the settlement announcement 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

| | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|---|---------------|---------------|----------------|----------------|
| | £000 | £000 | £000 | £000 |
| Original Budget - February 2023 | 10,256 | 10,550 | 10,772 | 11,004 |
| Additional in year pressures | 52 | 206 | 369 | 310 |
| Savings/Income growth required* | | (300) | (800) | (1,200) |
| Revised Budget Estimates | 10,308 | 10,456 | 10,341 | 10,114 |
| Estimated Funding: | | | | |
| Council Tax (+2.99%) | 6,238 | 6,425 | 6,617 | 6,815 |
| Council Tax - growth in base | | 47 | 95 | 145 |
| Collection Fund Surplus - CTax | 40 | | | |
| Retained Business Rates | 2,261 | 2,261 | 2,261 | 2,261 |
| Revenue Support Grant** | 85 | 85 | 85 | 85 |
| Funding Guarantee*** | 290 | 290 | - | - |
| Services Grant | 85 | 85 | - | - |
| New Homes Bonus | 1 | - | - | - |
| NDR Retained / Pooling | 500 | 500 | 200 | 200 |
| Resources | 9,500 | 9,693 | 9,258 | 9,506 |
| Call on Reserves | (808) | (763) | (1,083) | (608) |
| Available Reserves | | | | |
| <i>Balance of Reserves b/f</i> | 4,332 | 3,524 | 2,761 | 1,678 |
| <i>Less to/(-)from reserves in year</i> | (808) | (763) | (1,083) | (608) |
| Year End Reserves Balance | 3,524 | 2,761 | 1,678 | 1,070 |

* This is the amount of savings/income growth required to maintain the minimum reserves balance

**Rollovered in Local Council Tax Support Admin and Family Annex Grants

***Re-purposed Lower Tier Services Grant

- 4.2 Based on mid-year actuals, the 2023/24 current estimate is indicating a call on reserves of £808k, an increase of £52k on the February 2023 MTFS. This is due to several budget variances which are detailed in the Q2 Financial Monitoring Report.
- 4.3 The key movements between the 2023/24 approved budget and the 2024/25 base budget estimate are shown in the table below:

Table 2

| 2024/25 Major Forecast Changes | £000 |
|--|-------------|
| Employment Costs (Pay Award & Increments) | 555 |
| Inflation (Utilities) | (66) |
| Vehicle Fuel | (70) |
| NET Revenues & Benefits Contract Inflation | 67 |
| Insurance Inflation | 80 |
| General Inflation | 60 |
| Bank Charges | (20) |
| Previous Years Budget Proposals | (91) |
| Total | 515 |

- 4.4 The assumptions set out in the forecast are the latest best estimates however, work is ongoing in regard to preparing the detailed budget for 2024/25. Key assumptions to date are:
- Average pay award in 2023/24 now 6.21% (in line with the final pay award), 5% in 2024/25 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 – 14.6% for the period 2023/24 to 2025/26
 - Employer National Insurance Contributions – 13.8%. The average rate for the Council is 9.9% in 2024/25 (9.7% in 2023/24)
 - Council Tax increase – assumes 2.99% pa, this is the maximum the Council Tax Principles will allow for 2023/24. The Principles for 2024/25 are announced as part of the finance settlement in late December
 - NNDR baseline – the current assumption is for the baseline to remain static throughout the life of the forecast
 - 2024/25 assumes a £500k pa pooling gain, based on current 2023/24 forecasts.
- 4.5 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.
- 4.6 In respect of 2024/25, early forecasts show that the gap between resources and pressures will be in the region of c£763k (includes £300k savings/income growth requirement) 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.
- 4.7 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 2.99% pa, this is currently the maximum allowed by Government.

5.2 Business Rates - It is unknown how the Business Rates scheme will operate from 2025/26 onwards, Government announced there is to be no major government finance change prior to the next general election. Future detailed allocations and splits between two-tier authorities are still unknown. The outcome of the fair funding consultation carried out early in 2018 is the suggested basis of the baseline calculation. Until further information is known this as a significant financial risk for the Council.

5.3 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 2022/23 year end process is finalised. An ongoing reliance on reserves to manage the medium-term budget is unsustainable.

5.4 Resources – The 2023/24 Government funding settlement gave an indication that the 2024/25 settlement would remain the same as 2023/24. However the 2024/25 provisional finance settlement will not be announced until late December 2023.

5.5 Inflation – The expenditure figures include estimated inflation based on current known rates, should the inflation rate vary significantly they may require re-assessing.

5.6 Pay – 2024/25 includes an estimated pay award of 5% and 2% pa for 2025/26 onwards. The average pay award in 2023/24 was 6.21% and in 2022/23 was 6.64%.

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 Increase in the demand on services - due to the impact of the cost of living increases on residents, such as delivering energy rebate and grants schemes, along with financial risk that could impact future years such as the increase in demand for temporary accommodation.
- 5.9 Empty Homes Scheme - The project continues to have an adverse impact on the council's financial position. The project team continue to closely monitor the scheme, manage the project risks and manage expenditure as tightly as possible. The scheme is due to end in December 2024.
- 5.10 Rossendale Leisure Trust - Whilst the Leisure Trust is now trading normally, the increase in the minimum wage, high energy costs and the current economic climate are impacting adversely on the Trust. The Trust and the council need to continue to work closely together. This is a risk for the council in that it provides the payroll cashflow for the Trust, and also in respect of the ongoing delivery of leisure services across the borough. It is critical that the Trust becomes financially sustainable and financially independent of the Council. The Council commissioned an external assessment on the financial sustainability of Council owned leisure assets which was carried out by Grant Thornton. The assessment made a number of recommendations, that were agreed by Full Council in May 2023. This is now a focus of action. An established cross party working group monitors the delivery of the recommendations and associated action.

6. FINANCE

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

7. LEGAL

- 7.1 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 impact of the current economic crisis on demand for council services and the uncertainty of Government funding levels. Whilst Government gave an indication of the level of potential settlement funding for 2024/25, the provisional settlement will not be announced until late December. 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 continues to pursue an ambitious regeneration and growth agenda for Rossendale. The Council has been successful in achieving a significant level of grant funding and is the Accountable Body for £17m Capital Regeneration Project funding. Additional

governance arrangements have been put in place as recognition of additional risk the scheme brings to the Council.

- 9.4 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.
- 9.5 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 |
| 2023/24 Council Budget | 28th February 2023: Council Rossendale Borough Council |