

Subject:	Medium Term Financial Strategy Update	Status:	For Publication
Report to:	Cabinet	Date:	26 th November 2025
Report of:	Chief Finance Officer	Lead Member:	Resources
Key Decision:	☒ Forward Plan ☒	General Exception ☐	Special Urgency ☐
Equality Impact Assessment:	Required:	Yes/No	Attached: Yes/No
Biodiversity Impact Assessment:	Required:	Yes/No	Attached: 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 (i.e. annual financial resources compared to annual expenditure).

3. BACKGROUND

- 3.1 The Council last updated its MTFS in March 2025 as part of its budget setting process. The MTFS at that time indicated a funding gap for 2025/26 of £574k, to be funded from reserves.
- 3.2 Given the likelihood, as part of the ongoing local government reorganisation activity that the Council will not remain in its current legal form having been amalgamated with and assuming service delivery alongside an as yet undefined group of other neighbouring councils across Lancashire, the MTFS is now forecast up to the end of the last financial year before the transition i.e. to 31st March 2028. Forecasting beyond this date is not practical at this point.
- 3.3 The Council, along with the rest of the local government sector, is suffering from continued financial pressure driven by wage and price inflation coupled with demand led pressures.
- 3.4 The current economic situation and arising demands are continuing to leave the Council's overall financial position under pressure.

Major issues are: -

- Based on the 2025/26 pay award the Council's average pay inflation was 3.2%, this is against an original budget of 5%. This equates to a budget saving of £140k. However, the national recruitment challenges facing the local government sector continue to affect the Council. 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 (currently 6 for the Council) 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 has declined since 2023 it still remains above target but fairly stable at 3.8%. 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 (September rate 3.8%) or Average Wage Earnings growth (current rate 5.85%). This reflects an increase to council costs of £65k on a contract that represents 10% of council revenue expenditure per annum.
- The Council has entered into new utility contracts and is using technology such as HIVE to moderate usage and as a result to mitigate utility price increases.
- Inflation is impacting on the capital programme. On average vehicle replacement costs are running over and above the estimates included in the capital programme and the Council is managing its programme within the confines of this pressure by addressing specifications and extending useful lives of assets where appropriate. Inflation is also having an impact on the construction industry. 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. The original budget for the capital programme showed that over 75% of the programme would be externally funded from external grants. Capital expenditure can be volatile and at the time of writing it is expected that the Council will be able to fund 95% of its projected expenditure from external sources, capital reserves or capital receipts leaving c 5% to be funded from borrowing. The Council continues to seek to deliver its capital programme with limited recourse to borrowing and subject to the time frames for delivery
- While addressing the backlog of statutory accounts the Council has been able to deploy resource to carry out a balance sheet review. As a result of this the general reserve balances have been updated to reflect the position detailed in the statutory accounts at March 25. As part of the review there has been some reallocation between usable and unusable reserves and an analysis and update of contributions to or from reserves in the prior years.
- Colleagues have also been working with the two main experts in local government funding and have used their most prudent view of the likely outcome of Fair Funding 2.0 as the basis for Council income for the coming financial years up until local government reorganisation. This has shown an annual growth in resources available to the council of £1.2m pa over prior projections. Should this growth not be confirmed as part of the settlement there is a risk that the council will not have sufficient resources to meet its liabilities.
- The Council is in the process of working through planning to deliver a new waste transfer station. Until this is approved the working assumption is that as a result of increased waste transfer cost there will be an additional £2m pressure annually. The Council will continue to assess options to mitigate this pressure. Any options considered will need to ensure that all forms of waste are considered and managed into the future.
- Following a review of some the operational risks of the Council the inspection and maintenance regime of the Parks and Green Spaces team has been expedited. As a result, an additional pressure has been built into the MTFs to provide budget for the resource required to mitigate these risks.

- The Council is also seeing increased risk of damage as the continuing prevalence of Ash Dieback and is forecasting additional resources for deployment into the mitigation of this risk.
- As the wider implications of local government reorganisation become clear and the need to deploy resources to the transformation between the Council's current and new legal structure, it is likely that there will be a need to deploy resources to the cost of transformation. The timing and value of such a contribution is as yet unclear.
- There is an ongoing review of the leisure assets of the Council, the outcome of which is unclear at this time. There is a probability that the Council will need to make a contribution either revenue, capital or both. The nature timing and extent of such contributions is unknown at this time. The plan is for some outputs from this review to be available to form the basis of assumptions for contributions to leisure as part of the budget setting round for 2026/27.
- Early indications of the triennial Local Government Pension valuation are that the pension scheme is going to be valued with a significant surplus. This is likely to lead to a reduction in the employers pension contributions required of the Council and a consequent reduction in the pressure on resources from this cost area. At the time of writing the size of this change is unquantified. The updated contribution requirements will be available for the update to the MTFs that the Council will provide to all members as part of the annual budget setting exercise.

3.5 The Council has been able once again to increase its investment returns by depositing funds with the Debt Management Office (DMO) and Lancashire County Council (LCC) Lloyds Banking Group, however the Council's cash balances continue to reduce and significant levels of capital expenditure are forecast during the remainder of 2025/26 as major project works reach their main delivery phases.

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 significant changes to the wider local government funding arrangements including a reset of the baseline value for business rates 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

	As Q2 Forecast		
	2025-26 £000	2026-27 £000	2027-28 £000
Original Budget - February 2025	11,714	12,241	12,707
Additional in year pressures WTS		2,009	2,085
Food Waste			500
Additional in year pressures Operations		513	313
Savings Proposals	(179)	(441)	(441)
Savings/Income growth required*			
Revised Budget Estimates	11,535	14,322	15,164
Estimated Funding:			
Council Tax (+2.99%)	6,637	6,985	7,262
Council Tax - growth in base	82		
Collection Fund Surplus - CTax	126		
Settlement Funding Assessment		4,628	4,867
Retained Business Rates	2,436		
Revenue Support Grant**	93		
New Homes Bonus	141		
EPR	649	325	200
Recovery Grant	297		
NNDR Growth/Pooling	500		
Resources	10,961	11,938	12,329
Call on Reserves	(574)	(2,384)	(2,835)
Available Reserves			
Brought Forward	6,910	6,948	4,564
Less to/(-)from reserves in year	38	(2,384)	(2,835)
Carried Forward	6,948	4,564	1,729

4.2 Based on mid-year actuals, the 2025/26 current estimate is indicating a contribution to reserves of £38k (As opposed to a call on reserves of £574k), from the March 2025 MTFS. This is due to several budget variances which are detailed in the Q2 Financial Monitoring Report.

- 4.3 The assumptions set out in the forecast are the latest best estimates however, work is ongoing in regard to preparing the detailed budget for 2026/27. Key assumptions to date are:
- Average pay award in 2025/26 now 3.2%, 3% in 2026/27 and 2% pa thereafter
 - An annual staff vacancy saving of £125k pa
 - General price inflation – a freeze on all general revenue expenditure with the exception of pay, utility budgets and contractual increases e.g. Capita
 - Employers Pension Contribution – will be confirmed when the valuation exercise and consultation has been agreed, but given that there is no forecast deficit a reduction in budget for the provision against a deficit of £157k.
 - Employer National Insurance Contributions – are currently 13.8% the 2025/26 average rate for the Council is 12.8% (9.9% in 2024/25)
 - Council Tax increase – assumes 2.99% pa, this is the maximum the Council Tax Principles will allow for 2025/26. The principles for 2026/27 are announced as part of the finance settlement in late December

g) NNDR baseline – will be updated as part of FFR 2 and will form part of the provisional settlement in December of this year. The Council has used the forecast revenue from a model from a leading consultant in the local government funding sector. This funding is also consistent with the funding assumed in the modelling for local government reorganisation across Lancashire.

h) Any pooling gains are rolled into the settlement funding assessment resources 2026/27 forwards as per the previous point. As the baseline will have been reset there are unlikely to be any further pooling gains available for the duration of this MTFS unless government changes its approach to funding this area.

4.4 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.

4.5 In respect of 2025/26, early forecasts show that the gap between resources and pressures will be in the region of c£38k (includes £179k savings/income growth requirement) and will rise in subsequent years particularly in the light of emerging pressures. This is caveated on the basis of an extremely uncertain financial and planning environment and subject to resources from government which are yet to be fully advised.

4.6 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.

4.7 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

4.8 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, whichever larger unitary council that the borough will become part of and across the sector. While it is expected that reorganisation will assist with funding pressures the ever-increasing demands on adult and children's social care special educational needs and disabilities and home to school transport all of which the council are not currently exposed to and homelessness which it is will all be a feature of the Council's new legal form.

5. RISK

- 5.1 Council Tax – If the level of Council Tax support claims increases 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 2026/27 onwards, While the Council has adopted a forecast based on analysis of experts in the local government funding arena, should the settlement diverge significantly from this assessment this will impact resources available to the Council.
- 5.3 Reserves – The level of reserves is based on the statutory accounts which have been produced. until the external auditors sign off a set of statutory accounts following building back assurance work as widely discussed there is a risk that reserves available to support budget pressures could vary significantly. An ongoing reliance on reserves to manage the medium-term budget is unsustainable.
- 5.4 Resources – As noted elsewhere in this report the Council is placing reliance on expert modelling of the likely funding arrangements for the Council as part of the new local government funding arrangements. However, the 2026/27 provisional finance settlement will not be announced until late December 2025.
- 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 – 2026/27 includes an estimated pay award of 3% and 2% p.a. for 2027/28 onwards. Any material variance from this will lead to an effect on resources available in the year
- 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). Any Council contribution to the capital programme will impact the MTFS by the MRP and any borrowing costs, should the Council find it necessary to borrow funds to support the contribution.
- 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 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 and putting pressure on its budget. The Trust and the council need to continue to work closely together and build on the findings of the ongoing leisure review of council assets. 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 recommendations of the review should become the focus of action for the Trust board and members. Consideration should be given to any recommendations in the area of governance and appropriate arrangements put in place to ensure a clear and coherent approach to the delivery of Leisure outcomes for the Council.

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

- 8.1 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 the sector has an indication of the level of potential settlement funding for 2026/7, and the Council has adopted the likely resources available as modelled by experts in the field, 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 with an overall capital budget approved by Council in March 2025 of £36.2m over the coming years up until 2028/29. Inflationary pressures as noted earlier in this report, combined with the multi-disciplinary and multi-organisational teams required to deliver these works present a challenge and come with some risk. The Council continues to monitor and refine its programme to fit within its funding envelope.
- 9.4 The Council currently holds a number of useable 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 the Council fails to deliver the savings/efficiencies in this MTFS or additional income is not generated these reserves will be exhausted shortly beyond the end of the current forecast leaving a financial challenge for the successor authority following local government reorganisation.
- 9.5 The Council must continue to identify and deliver further efficiencies/savings and generate additional income in order to achieve best value and to be able to set balanced budgets over the short to medium term in order to ensure long-term sustainability for the Council.

Background Papers	
Document	Place of Inspection
2025/26 Council Budget	2025/26 Council Budget and Medium Term Financial Strategy