

PART 1 (OPEN TO THE PUBLIC)	ITEM NO.
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**REPORT OF THE LEAD MEMBER FOR FINANCE AND SUPPORT SERVICES
TO COUNCIL**

WEDNESDAY, 22 FEBRUARY 2023

Subject: **Medium term financial strategy 2023/24 - 2025/26**

Recommendations:

Council is asked to endorse the Medium-Term Financial Strategy.

EXECUTIVE SUMMARY:

This report outlines the proposed three-year Medium Term Financial Strategy which will inform the Council's future financial planning and budget decisions to support delivery of the Council's priorities. If agreed, the Strategy will form part of the Council's policy and financial framework.

BACKGROUND DOCUMENTS:

Local government finance settlement.

Working papers held in the finance division.

KEY DECISION: NO

KEY COUNCIL POLICIES:

Budget Strategy, Mayoral team priorities, Business Plans

EQUALITIES IMPACT ASSESSMENT AND IMPLICATIONS:

As part of this decision-making process, the Public Sector Equality Duty requires council staff and elected members to consider what will be the impact on people with protected characteristics, whether in the wider city or in our own organisation. The Council needs to understand who will be affected, how will they be affected and where possible how to minimise unintended negative consequences by planning in mitigations from the start.

This report sets out the three-year Medium Term Financial Strategy and reserves strategy which will inform the annual budget setting and service and investment decisions. Some proposals will need further development for Cabinet to make a specific decision. For these proposals a relevance check is required and, where it is indicated as needed by the relevance check, a full Equalities Impact

Assessment will be undertaken to inform the City Mayor when making that decision.

ASSESSMENT OF RISK:

There are risks to the council's medium term financial position due to uncertainty in funding levels beyond 2023/24. In December 2022 the government published a local government finance policy statement setting out the government's intentions for the local government finance settlement for the years 2023/24 and 2024/25, however, funding allocations within the settlement covered only 2023/24. Whilst the government has provided some indications of its approach to the implementation of funding changes, the impact of these will only be clear once a full settlement is published at local authority level for 2024/5 and 2025/26. It should be noted that the government has committed to a wide ranging review of local authority finance in 2025/26.

The council is managing its finances against a backdrop of a number of economic pressures such as rising interest rates and inflation. These factors continue to present a risk to the council's budget assumptions over the medium term.

The council has attempted to mitigate the risks around the uncertainty of resource levels and continuing economic pressures within its budget assumptions however the impacts will be monitored and managed as far as possible through the three-year plan and the council's reserves strategy.

The council's capital programme is important in generating growth in the city. Elements funded by unsupported borrowing have a financial consequence on the revenue budget.

LEGAL IMPLICATIONS:

The Local Government Finance Act 1992 requires the Council to set a balanced budget for the following year by 11 March each year. The Council's Medium term financial strategy and reserves policy supports the budget setting process and is consistent with the Council's obligations to ensure sound financial management.

FINANCIAL IMPLICATIONS:

Report produced by the finance team working with budget managers in service groups.

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3. PROCUREMENT IMPLICATIONS: Anthony Hilton – Strategic Head of Procurement

The procurement team will continue to work collaboratively with stakeholders, service areas, suppliers and partner organisations to deliver improved outcomes, ensuring that revenue budget savings delivered as part of the Innovate program are captured and reported to enable ongoing efficiencies to be maximised.

4. HUMAN RESOURCES: Sam Betts – Assistant Director (Human Resources and Organisational Development)

The HR & OD team will continue to work alongside service directorates and the Innovate programme team to support the redesign of services in response to new ways of working, place based / integrated neighbourhoods' delivery, and new and emerging technologies. Ensuring appropriate workforce development plans are in place to ensure we have the right people in the right place with the right skills maximising the opportunities that the apprenticeship levy provides.

5. CLIMATE CHANGE IMPLICATIONS Michael Hemmingway Principal officer climate change

The Salford Great Eight identified 'Tackling the climate emergency' as a key priority for the city, this followed the City Council declaring a Climate Emergency in July 2019 and agreeing to Set a challenging target date of 2038 for carbon neutrality in Salford and to consider the climate change impact of each area of the Council's activities. Consequently the medium term financial strategy should facilitate the mitigation of carbon emissions and support climate adaptation across the council and the city.

WARD(S) TO WHICH REPORT RELATES:

All wards

1 Medium term financial strategy

1.1 The medium term strategy

1.1.1 The medium-term financial strategy (MTFS) takes a three-year view from April 2023 to March 2026 and links together the revenue budget, capital strategy, annual capital programme, reserves strategy and treasury management strategy.

1.1.2 The MTFS brings together current operating costs, the council's ambitions and priorities and future funding streams, highlighting future pressures and opportunities which will feed into the annual budget setting cycle. The MTFS:-

- Is the central document for future financial planning.
- Plays a key role in the annual budget setting process – outlining the financial context in which the council's annual resource allocation and budget setting is considered.
- Aligns the budget with Salford priorities.
- Covers a three-year period but is updated and reviewed regularly and will be subject to approval by Council on an annual basis as part of the budget setting process.
- Reflects a range of financial principles and objectives as set out in section 1.2 below.

1.2 Financial Principles and Objectives

1.2.1 The constitution sets out the framework for financial decision making but underlying decision making are the following objectives and principles.

Financial objectives

- Align resources with priorities.
- Continue to seek increased efficiency from service delivery models.
- Use innovation and transformation to improve or at least maintain quality at lower cost.
- Minimise the impact of any cuts in service to those that are unavoidable.
- Seek to deliver services which improve outcomes and represent value for money.
- Manage risk, including holding reserves as appropriate.
- Maintain the financial health of the council.

Financial principles

- The council will set and achieve a balanced annual budget.
- Budget monitoring will be undertaken and reported to lead members, Cabinet and Overview and Scrutiny Board.
- Where costs are not contained within existing budgets, managers will develop a recovery plan identifying options to bring budgets back in line with the budget.

1.3 Current financial context and funding outlook

1.3.1 In December 2022 the government published a local government finance policy statement setting out the government's intentions for the local government finance settlement for the years 2023/24 and 2024/25, however, funding allocations within the settlement covered only 2023/24. Whilst the government has provided some indications of its approach to the implementation of funding changes, the impact of these will only be clear once a full settlement is published at local authority level for 2024/5 and 2025/26. It should be noted that the government has committed to a wide ranging review of local authority finance in 2025/26.

1.3.2 Core Spending Power (CSP) is the government's preferred measure of resources available to local government. In the local government finance settlement 2023/24, CSP will increase by 9.4% nationally in cash terms in 2023-24 (a 1.1% cut in real terms, with inflation rates are currently much higher with CPI to December 2022 being 10.5%). No further indications have been given for 2024-25 and 2025-26.

1.4 Integrated Fund

1.4.1 Following health service reform and the creation of an integrated care system at a Greater Manchester level, the locality integrated fund budget will be confirmed on an annual basis with health partners. This annual confirmation will include the value of contributions to the fund and approaches to sharing risks associated with budget pressures. Contributions to the fund will depend upon future funding flows from government in the form of social care grants and the government's approach to adult social care precepts as part of the council tax regime.

1.5 Council tax projections

1.5.1 The government has confirmed its approach to council tax referendum limits for the period to 2024/25. The maximum council tax increase for both 2023/24 and 2024/25 is 3% core council tax and 2% adult social care precept. The funding settlement confirms allocations for 2023/24 and published 2023/24 core spending values reflect the assumption that the maximum increase will be applied to council tax charges. On that basis the full increase is reflected in 2023/24 budget assumptions.

1.5.2 The council's current projections now provide for the following:

- 23/24 assumes a 2.99% core and 2% increase in the ASC precept, reflecting government assumptions within the core spending power calculations.
- 24/25 assumes a 1.99% core and 2% increase in the ASC precept. Whilst the government has indicated that core council tax can increase by up to 3%, the council will await confirmation of core spending power assumptions for 2024/25 and will consider in the context of the overall budget position.
- 25/26 assumes a 1.99% core increase. The government has not yet indicated the referendum limits for council tax increases in 2025/26 so current estimates represent a baseline position that will be reviewed once further guidance is made available.

1.5.3 Council tax resources, as included within the MTFs, are summarised below. Projections include an assumed growth in the council tax base, expressed on a Band D basis, after an allowance for increased reliefs. Growth in the council's council tax base for 24/25 to 25/26 will be continually updated, using the latest projections from the council's regeneration team.

Table 1 Council tax resource projections

	2023/24	2024/25	2025/26
Council tax (band D) base level	£1,773.76	£1,862.28	£1,936.58
Estimated increase (incl. ASC precept)	4.99%	3.99%	1.99%
Revised council tax (band D) level	£1,862.28	£1,936.58	£1,975.12
Council tax property base (number)	71,905	73,859	74,936
Add property base increases	1,954	1,077	500
Revised council tax property base	73,859	74,936	75,436
Estimated council tax resources (£m)	137.546	145.120	148.995

1.6 Business rate projections

1.6.1 The council's projections are designed to protect the council's resources from any significant fluctuations whilst being positive about the level of growth and therefore giving a realistic estimate of the overall level of our retained business rates.

1.6.2 The council's projections for 2023/24 to 2025/26 assume the following:

- Compensation by section 31 grant for the loss of income due to the freezing of business rate multipliers for 23/24 in the spending review.
- Business rate multipliers will increase by 7.4% in 24/25 and 2% in 25/26.
- Projections for growth in the council's business rate yield for 23/24 to 25/26 will be continually updated, using the latest projections from the council's regeneration team.
- The cost of appeals will continue based on our updated historical trends.
- That the council will move from the 100% business rates pilot to 49% retention in 24/25 following the government's commitment to a review of business rate retention levels prior to the 2024/25 settlement.
- Business rates reset in 2025/26 based upon indications from the government that the reset will not be implemented prior to 2025/26.

Table 2 Business rate resource projections in £m

	2023/24	2024/25	2025/26
at 49% retention		45.237	48.585
at 99% retention	91.396		
Baseline reset assumed in 23/24	0.000	0.000	5.225
Estimated increase to the multiplier	0.00%	7.40%	2.00%
Business rate resources, govt assumption	91.396	48.585	54.886
Existing cumulative growth	5.227	9.671	5.225
Baseline reset assumed	0.000	0.000	-5.225
Return to 49% retention from 99%	0.000	-4.806	0.000
Estimated increase to the multiplier	0.00%	7.40%	2.00%
New growth	4.444	0.000	0.000
Council share, excess over govt assumption	9.671	5.225	0.000

1.7 Local resource summary

1.7.1 Table 3 identifies the estimated resources available to the council over the period to 2025/26.

- These estimates will be updated as projections of council tax and business rate income are revised.
- The notional RSG, business rate top ups and settlement funding changes are estimates taking into account advice from the council's financial advisors and membership of external groups such as SIGOMA.
- The impact of collection fund estimated balances for 2022/23 are built into the council's budget projections for 2023/24.
- Exceptional collection fund balances were estimated for 2020/21 with the impact of these being required to be spread equally over the following 3 financial years (2021/22 to 2023/24).
- Under the 100% pilot, public health grant is funded from within business rates income. If the council moves to 49% retention the grant will be received and accounted for by the service. An adjustment is made at the foot of the table to give a true comparator in the line "total available resources".

Table 3 Forecast resources in £m

	2023/24	2024/25	2025/26
Council tax	137.546	145.120	148.995
Retained business rates:			
• > Council share, govt assumption	91.396	48.585	54.886
• > Council share, excess over govt assumption	9.671	5.225	0.000
Government funding:			
• Business rates top up	30.788	32.342	27.660
• Settlement funding changes	0.000	0.000	-1.189
Collection fund estimated balances 31/03/2023:			
• Council tax estimated surplus	4.651	0.000	0.000
• Business rates estimated surplus	2.015	0.000	0.000
Collection fund 3 rd (and final) year allocations of exceptional 20/21 balances:			
• Council tax	-2.414	0.000	0.000
• Business rates	-6.360	0.000	0.000
Notional RSG / RSG equivalent funding	0.000	26.025	21.728
Total resources	267.293	257.297	252.080
Public Health grant funded from BRRS	-22.601	0.000	0.000
Total available resources	244.692	257.297	252.080

1.8 Financial projections

1.8.1 The following projection is based on the council's estimate of its local resources and changes to the council budget for example inflationary and demand pressures within services.

Table 4 Budget projection in £m

	2023/24	2024/25	2025/26	
Total available resources	244.692	257.297	252.080	
Prior year budget requirement	206.565	244.692	257.297	
Add forecast changes				
Capital financing requirement	1.500	0.000	0.000	1
Pay inflation	11.105	8.010	7.218	2
Price inflation	8.623	2.772	2.710	3
National Insurance contribution rate	-1.085	0.000	0.000	4
Increments	0.220	0.220	0.220	5
Other funding issues	2.918	0.100	0.100	6
New Homes Bonus	-0.949	2.960	0.000	7
Adult and Children's social care provision	30.772	21.319	-0.876	8
Government specific grant changes	-26.896	-3.391	21.885	9
Business Rates reserve changes	0.000	0.000	-6.900	10
Business Rates S31 grant reserve	13.680	0.000	0.000	11
Reserve changes	3.598	-13.815	-5.668	12
2022/23 investments and savings step ups and reversals	0.608	3.409	0.000	13
2023/24 savings proposals	-5.967	3.462	0.000	14
Total spending requirement	244.692	269.738	275.986	
Funding gap	0.000	12.441	23.906	

Table 5 Budget Assumptions

Note ref	Budget assumption
1	Revenue consequences of capital spend estimates included within the capital programme, reflecting profiling over a three year period.
2	Estimated impact of future pay awards and pay review.
3	Prices – general provision for the impact of inflationary increases on the council with specific provision for a small number of items including energy costs and levies.
4	Reflecting a change in government policy, the council will no longer need to meet the costs of an additional 1.25% employers national insurance levy to fund social care. This adjustment therefore reflects the removal of this cost from previous budget assumptions.
5	Increments – potential cost of increments with budget set aside for specific requirements.
6	Other funding issues addressing existing service pressures and capital maintenance.
7	New Homes Bonus – Year 13 will attract a NHB reward for one year in 2023/24. Legacy payments have now stopped, The government has committed to reviewing the NHB scheme prior to the 2024/25 settlement announcement therefore a reduced level of funding is assumed for 2024/25.
8	Increased contribution to the integrated health and care fund for adults and children’s services reflecting additional grant support and adult social care precept. For 2024/25 and 2025/26 this reflects existing grant receipts and changes in distribution formula.
9	Changes to government specific grants including social care funding and reductions in section 31 grants as the 100% pilot ceasing and a change to relative needs formula for distributing adult social care grants.
10	Delay in the business rates reset to 25/26, using a reserve to smooth the transition
11	Reversal of the use of the business rates section 31 grant for extended retail relief and nursery discount.
12	Application of the reserves strategy over the life of the MTFS.
13	Impact of step ups and reversals for investments and savings approved for the 2022/23 budget.
14	Impact of 2023/24 savings proposals.

1.9 Capital expenditure proposals 2024-2026

- 1.9.1 Capital expenditure for 2024/25 and 2025/26 has provisionally been identified by services, but no approval, at this stage, has been given to these schemes or level of funding.

Table 6 Capital expenditure by internal and external sources of finance £m

	2024/25	2024/25	2025/26	2025/26	Total
	Internal	External	Internal	External	
Total Requirement	72.624	36.249	60.634	21.787	191.294

1.10 Innovate

- 1.10.1 Given the forecast future funding gaps in 2024/25 and 2025/26 and the risks inherent with the level of anticipated change in funding streams the council is continuing the Innovate Salford project – a programme aimed at identifying opportunities to develop long term, sustainable solutions to balancing the budget. Building upon our strengths of people, technology, and innovation there will be a focus on key workstreams including areas of high spend, housing and neighbourhoods. This work will be data and insight driven and support the council's priorities of prevention and early intervention.

1.11 Governance

- 1.11.1 The council has a strong system of financial controls and procedures. Finance Regulations are embedded in the council's constitution and apply to all elected members and officers of the council. As part of our commitment to being a transparent and effective organisation, we are committed to bringing together our financial performance, with our performance against each of our strategic priorities. This will give us a rounded and comprehensive view of how we are using our resources to deliver outcomes for our residents.
- 1.11.2 Financial reporting will be integrated with performance reporting, to ensure alignment with the council's core existing decision making and scrutiny arrangements. Governance will be exercised primarily through Lead Members, with monthly financial monitoring.
- 1.11.3 Lead Members will be accountable to the City Mayor for financial performance through our already established performance meetings. This will align management of the budget with progress on key priorities and financial risk will be considered alongside service risks.
- 1.11.4 Cabinet will be updated on corporate financial performance, as part of the council's performance and risk reporting arrangements.
- 1.11.5 By mainstreaming financial accountability in this way, the council is committed to strengthening our commitment to the City Mayor's priority to create an effective and transparent organisation.

1.12 Links to other strategies

- 1.12.1 The MTFS sets out how medium-term financial planning will help the Council to continue to invest in priority services and to deliver its objectives through the effective management of the resources available. The Strategy also sets out the critical planning assumptions that ensure the council can continue to be sustainable. There is a degree of uncertainty and risk underpinning these assumptions, and this increases as we plan into the future. The strategy allows for flexibility to ensure the council is able to continue to manage the risks of uncertain funding, growing costs and increasing demands for its services.
- 1.12.2 The MTFS forms a core part of the council's Financial and Policy Framework and is supported by several related plans and financial strategies.

1.13 Annual Budget Report

- 1.13.1 The council is legally required by the Local Government Finance Act 1992 to deliver a balanced budget each year. The Annual Budget Report sets out how the Council will manage its available income to deliver against its priorities and sets out any significant changes to services as a result. The report sets out specific proposals for each year's revenue budget and council tax, Housing Revenue Account (HRA) budget, capital programme and prudential borrowing limits.

1.14 Treasury Management Strategy

- 1.14.1 The Treasury Management Strategy (TMS) sets out the expected treasury operations on an annual basis and is reported to Full Council in February of each year, together with the Annual Budget Report and MTFS. The TMS sets out how the council will meet the key legislative requirements that govern good financial management in terms of:-
- How the council will manage its borrowing and investment plans considering forecast interest rates and identifies the limits on any activity through treasury prudential indicators.
 - The reporting of prudential indicators for capital, external debt and any treasury management prudential indicators required under the Local Government Act 2003, CIPFA Treasury Management Code of Practice and CIPFA Prudential Code for Capital Finance.
 - The Council's cash investment strategy, relating to the investment of short-term cash surpluses. Longer term capital investments are set out in the Council's Capital Programme. Criteria set out are in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Government Investments.
 - The Council's Minimum Revenue Position (MRP) policy setting out the principles to be adopted for setting aside resources for the repayment of debt as required by the Local Authorities (Capital Finance and Accounting) Regulations.

1.15 Capital Strategy and Capital Programme

- 1.15.1 The Capital Strategy is set out in section 3 of the Annual Budget Report and is considered by Full Council in February each year. The Strategy sets out the framework for the management of capital finance, considering: capital expenditure and investment plans; debt and borrowing, and treasury management; commercial activity; other long-term liabilities; and knowledge and skills. The Strategy follows the framework established by the Prudential Code for Capital Finance in Local Authorities issued by CIPFA and updated in 2017.
- 1.15.2 The strategy sets out the size of the council's Capital Programme, the way in which it will be funded, and identifies priorities for investment that will be funded through the programme.

1.16 Asset Management Plan

- 1.16.1 The Asset Management Plan sets out the use and management of the Council's assets now and into the future. The Plan plays a critical role in supporting delivery of the city's and council's priorities. Good management of our physical assets supports and shapes the quality of life, health and wellbeing of local people and businesses in the city.

1.17 Reserves Strategy

- 1.17.1 Reserves are a vital tool in financial management and are one of the mechanisms for managing financial risk, economic uncertainty and supporting longer term budget strategies and investment. The National Audit Office has identified the level of reserves as a key measure of financial sustainability – where authorities have insufficient reserves to meet financial pressures, they are at risk of failing to balance their budgets.
- 1.17.2 General Reserves are currently £13.2m, therefore within the risk assessed range of an acceptable level of reserves identified within the 2023/24 budget report. On an annual basis this assessment will be reviewed, and any changes reflected in a revised recommendation from the Section 151 officer to increase or decrease the level of general reserves.
- 1.17.3 The council holds a number of earmarked reserves. There is a need to have a strategic approach to the creation and maintenance of earmarked reserves to ensure long term financial sustainability. These, reserves should be aligned to the council's strategic objectives and key risks through an annual assessment.

In undertaking this assessment, the following should be considered:-

- The council's ability to withstand and mitigate the impact of unknown costs because of local and national changes across the medium-term period.
- The purpose of the reserve and any associated restrictions on use.
- Existing assumptions on the application of reserves over the life of the medium-term financial strategy, for example to provide a smoothing facility for anticipated changes in funding.
- Any changes to the risk profile associated with the reserve and whether the level of the reserve remains appropriate to provide resilience against the financial risks and challenges facing the council.

- Whether the nature of the risks facing the council have changed significantly with the need for existing reserves to be reclassified to meet the council's corporate and strategic objectives over the medium-term period or new reserves established.
- Changes in the wider economic environment which might have a material impact upon the council's finances. For example, funding changes and scarring from Covid19.
- Reserves are non-recurrent funds. Their use to cover recurring budget pressures only delays the requirement to make a recurrent saving. If therefore, reserves can be released from their planned purpose, consideration should be given to investment in innovation and transformational programmes designed to facilitate ongoing financial benefits.

1.17.4 In undertaking this risk-based assessment the Section 151 Officer will consider the view of the external auditor.

2 **Conclusion**

2.1.1 As indicated within the report, the scale of the financial challenge facing the council over the medium-term period remains significant. The forecasts and assumptions included within the strategy will continue to be reviewed in the light of further clarity of funding changes, the impact of the cost-of-living crisis on service demand and the wider economy. These revisions will further inform work on the 2024/25 annual budget which will commence early in 2023/24.

3 **Recommendation**

3.1.1 Members are asked to endorse the medium-Term Financial Strategy.