

MEDIUM TERM FINANCIAL STRATEGY 2021/22 – 2023/24

Foreword

The past 12 months have been unlike any other in recent memory. The COVID19 pandemic has had a profound and lasting impact on everyone in our community. It is a public health, economic and social crisis that has required everyone in our city, and all of our city's organisations – whether in the public, private or voluntary, community and social enterprise sector – to come together in our response.

The city council is no different. We are incredibly proud of the way all our staff, partners and volunteers have come together to support residents and businesses across the city. And we know they will continue to do so as we plan for better days ahead.

However the pandemic has also had a significant impact on the City Council's financial planning. We are responding to increasing demand for services, to reductions in income, and to continued uncertainty in our longer term funding base.

Only 12 months ago we published our first Medium Term Financial Strategy, in which we were able to set out the factors influencing our planning decisions, and a three year financial plan which would guide our decision making. It provided a degree of certainty for our staff, for our partners and for our services.

However, 2020 has forced us to rethink those assumptions made only 12 months ago. This revised MTFS sets out the changing financial assumptions which will now shape our budget decisions over the next three years. There still does though remain great financial uncertainty – we are yet to emerge from national restrictions, and there are still crucial national Government decisions on local government funding that are yet to be confirmed. We will continue to lobby for a fair settlement for Salford.

This MTFS for 2021-2024 sets out our revised assumptions as far as they are known, and ensures the Council's financial framework is as robust as it can be. We will continue to review and update it in future years. We fully expect to publish a further review of our MTFS for 2022-25 as part of our budget strategy in early 2022.

PAUL DENNETT
CITY MAYOR

CLLR BILL HINDS
EXECUTIVE LEAD MEMBER
FINANCE & SUPPORT
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CHIEF EXECUTIVE

1. PURPOSE, PRINCIPLES AND OBJECTIVES

- 1.1 Salford City Council published a Medium Term Financial Strategy (MTFS) for 2020/21 through to 2022/23 in February 2020. It was the first time in many years, the Council through prudent management, had been able to set out its medium term financial framework. In the 12 months since then the world has changed – the COVID19 global pandemic has fundamentally changed people’s lives and livelihoods. It has for many people in our city been a time of personal tragedy and loss – and they are foremost in our thoughts. It has also been a public health, economic and social crisis on a scale unparalleled in recent times.
- 1.2 The City Council, and our partners in the NHS, wider public sector, in the voluntary, community and social enterprise sector (VCSE), in the private sector, and our community themselves, have come together to support people and businesses across the city. It has been a herculean effort.
- 1.3 However, the pandemic has also fundamentally challenged the financial assumptions the City Council made in February 2020. As we responded to the call to support our communities, to support the NHS, and as our businesses and families struggled to deal with the economic shock the pandemic brought, the Council’s finances and financial planning assumptions have also had to be completely rethought. Few of the assumptions made in February 2020 remain valid just 12 months later.
- 1.4 This revised MTFS takes a three year view from April 2021 to March 2024. This MTFS is a revision to the financial assumptions set out in February 2020. There is still a great deal of uncertainty surrounding the full financial impact of the pandemic on local government finance, and on longer term policy changes that will underpin local government funding in future years.
- 1.5 This revised MTFS sets out our planning assumption as far as they are known in February 2021. There remains great uncertainty about the ongoing impact of the pandemic on local government finances and therefore the level of financial challenge we will face in future years. It is therefore likely our MTFS will undergo a further review in future years.
- 1.6 Consistent with previous years, the MTFS sets how the council will fund Salford’s ambitions and priorities. As a reminder, the MTFS:

- Is the central document for our future financial planning
- Plays a key role in our annual budget setting process – outlining the financial context in which the council’s annual resource allocation and budget setting is considered
- Ensures the budget and our future financial plans are in line with Salford priorities
- Covers a three year period but is updated and reviewed regularly and will be approved annually by Council
- Identifies sustainable, alternative and increased sources of income

1.7 The MTFS is based on an organisation wide set of financial principles and objectives that remain in place from previous years, and provides the financial foundation for delivery of the Council’s policy priorities and to meet the identified performance and resource issues.

2. DELIVERING OUR PRIORITIES

2.1 Salford’s vision remains largely unchanged. The pandemic has renewed the city’s focus on tackling inequalities and climate change, and to ensuring our residents and communities are involved wherever possible in the decisions we take and the design of the services we deliver. Reflecting this renewed commitment our strengthened vision is to “Build a fairer, healthier, greener Salford’ and our eight strategic priorities – the Great Eight – have been refreshed.

Figure 1: Great Eight 2021



2.2 The role of our financial planning process remains unchanged – to support delivery of these priorities. Actions to deliver on each are being strengthened to reflect the impact of the past 12 months – with a renewed focus on health, economic and social inequalities. The Locality Plan will set out actions to achieve the City’s ambition to be a Marmot City, and a planned Inclusive Economy strategy, together with the launch of the city’s second Tackling Poverty Strategy will focus on our commitment to building local economic and

social solutions, whilst continuing to lobby for fair national policy and financial changes that support our communities.

- 2.3 The Council's contribution to these priorities will be set out in Directorate Business Plans for 2021/22, and are monitored through the Corporate Performance Framework, and directorate performance reports. Assurance is provided through the Strategic Risk Register, which is linked to the use of resources and delivery of performance outcomes. All are being updated for 2021/22.

3. OUR CURRENT FINANCIAL CONTEXT

- 3.1 The council's budget is most often expressed in net revenue terms. The net revenue budget in 2020/21 was £217.015m. The approved gross budget of the council in 2020/21 was £679.131m. Figure 2 illustrates the way in which income is used to support delivery of services across the council

Figure 2: 2020/21 approved budget distribution

	Approved budget 2020/21		
Services	Gross expenditure	Less income	Net expenditure
	£m	£m	£m
People (Children's)	295.624	202.923	92.701
People (Adults)	84.662	20.548	64.114
Place	70.911	24.816	46.095
Service Reform	19.263	6.464	12.799
Public Health (funded from 100% BRRS)	18.375	0.000	18.375
Precepts and Charges	38.800	0.037	38.763
Capital Financing	40.253	3.172	37.081
Housing Benefits	124.688	123.482	1.206
Sub total	692.576	381.442	311.134
Funds, provisions, contingencies and non service specific grants.	15.486	60.463	-44.977
Reversal of depreciation charges	-37.428	0.000	-37.428
Three year smoothing strategy	8.497	0.000	8.497
Retained business rates - element funding Public Health grant	0.000	20.211	-20.211
Budget requirement	679.131	462.116	217.015

- 3.2 By the end of 2020/21, the council will have made almost £211m of savings since 2010. This has been driven by a 53% reduction in the council's core funding from central Government. At the core of this are reductions to the Revenue Support Grant, the primary source of funding for local government services, and other central grants.
- 3.3 As set out in the previous MTFS 2020-23, SCC continues to face significant pressures in its financial planning – including acute pressures in funding both adult and children's social care, whilst at the same time maintaining other essential services. This year those pressures have been accentuated by the need to respond to the pandemic, and the loss of significant income which supports those services. These pressures are set out in detail in the Council's 2021/22 budget strategy report. The financial assumptions which will frame our medium term financial planning are set in section 4.

4. RESOURCES AND FINANCIAL ASSUMPTIONS

Spending Review 2020

- 4.1 Government announced a one year Spending Review on 25 November 2020. Before the pandemic, it had been expected Government would announce a multi-year Spending Review providing greater long term certainty to councils in their financial planning. Given the ongoing pandemic and need for a national response, it is not yet clear if a multi-year Review will be announced in 2021, or delayed to future years.
- 4.2 The Spending Review included a number of funding announcements, the majority of which have now been confirmed in the Government's final Financial Settlement for local government. The immediate implications of the settlement for Salford's MTFS are set out below. The Spending Review also included:
- Extension of the COVID19 support scheme for lost sales, fees and charges income to June 2021 – to be claimed in arrears based upon actual levels of irrecoverable charges.
 - Freezing of the business rates multiplier with compensation for councils' loss of income, this increased for 2021/22 by £0.873 to 3.784m for 2021/22
 - Deferral of the business rates baseline reset to 2022/23 and continuation of the business rates 100% Greater Manchester pilot into 2021/22. The Spending Review did though have no information on any extension of the current COVID19 business rate relief schemes, and it remains unclear if these will continue, and the level of relief that might be provided.
 - 2021/22 will be the last year of current NHB scheme, currently worth £6.956m for Salford. A full review will take place for implementation in 2022/23.
 - The increase in the Public Works Loan Board lending rate by 1% was reversed.

- Helping Families funding will continue – and Salford currently receives £1.066m from this funding.

Local Government Finance Settlement 2021/22

4.3 The Government's final Local Government Finance Settlement was confirmed on 4 February 2021. There was no material change to the preliminary settlement first announced in December 2020. Further information is still awaited on the Local Council Tax Support Grant and the Local Tax Income Guarantee Scheme. The second of these covers the irrecoverable council tax and business rates losses in 2020/21 and which are expected to be spread over the three year period of this MTFs. The main impacts of the Settlement for Salford are:

- **COVID19 Funding**

Salford will receive £9.1m from the Government's funding to support additional COVID19 costs. This builds on the £26m received by the Council in 2020/21. This funding must support a wide range of council functions, including: adult social care, children's services, public health, homelessness, support for residents who are shielding, waste management, managing excess deaths, reopening town centres, and the additional costs of local elections. Our underlying budget assumption is that any covid19-related costs will be offset by additional Government funding. This additional grant, and the equivalent associated costs, are now built into the three year forecasts set out in this MTFs.

- **Council Tax and Social Care Precept**

The finance settlement confirms the Council Tax referendum limit of 2% and an increase in the adult social care precept of 3% over two years 2021/22 and 2022/23.

Given the extent of pressures on council services, and the need to continue to support our vulnerable residents, the Council has regrettably taken the decision to apply the full 1.99% council tax increase in 2021/22 and to apply the adult social care precept in two staggered increases, 2% and 1% in each of 2021/22 and 2022/23 respectively. This will mean an additional £4.5m in 2021/22 to fund essential services.

- **SCC Spending Power**

The finance settlement pointed to an increase in the core spending power of local government nationally of £2.3 billion, or 4.6%. This increase is based on assumptions that council's will apply the full increase in Council Tax and the Adult Social Care precept. This means that 87% of this increase is funded by local council tax payers. Only 13% of the increase in spending power is funded from core Government funding for local government.

For Salford, this would see a 4.3% increase in our spending power with 3.6% of this increase from council tax alone, and only 7% from changes to our core funding from Government. This increase is only achievable if the Council adopt the full 2% increase in council tax and the full 3% increase in the adult social care precept in 2021/22. Being mindful of the pressures facing the community the council has chosen not to impose the maximum increase to council tax in 2021/22 and will instead defer an element of the adult social care precept to 2022/23. The Council is committed to doing it all it reasonably can to mitigate the impact on those who are most vulnerable and will continue to lobby nationally for reforms to local government funding.

Fair Funding Review

- 4.4 The Government has deferred the implementation of longer-term reforms for local government funding, including its fairer funding review of relative needs and resources until 2022/23. Any changes to current funding arrangements will inevitably impact on the council's budget. The continued lack of certainty for local government funding going forward creates greater uncertainty in the Council's medium term financial planning.

Integrated fund and social care grant

- 4.5 Established in April 2019, the Integrated Fund between the city council and Salford NHS Clinical Commissioning Group is designed to ensure that responsibility for planning and funding health and social care services for adults and children in the city is not just the responsibility of the council. It is a responsibility the council shares with its partners. Nevertheless, continued government underfunding, coupled with rising demand, and increasing costs for care, together with an increased spotlight on health inequalities, continue to create significant pressures within the social care system, and consequences for the public's health.
- 4.6 The Spending Review in December 2020 and final finance settlement have confirmed the Adult Social Care Grant will continue for another year – and can be used to support both adults and children's social care. Salford will receive additional funding of £2.2m for 2021/22 and this will be invested in the Integrated Fund. This funding is welcome but falls well short of the long term sustainable funding needed for social care. The Government's longer term review of social care is not yet forthcoming. The past year has shown just how urgent and important the need for a longer term sustainable solution for social care is – for all of us.
- 4.7 The Integrated Fund for 2021/22 is over £600m, funded by SCC from SCCG. The Fund also incorporates Better Care Funding – which will continue in 2021/22. The Integrated Fund continues to carry significant pressures which will need to be managed in 2021/22.
- 4.8 The Integrated Fund, brings together Council and Salford CCG funding for services for children, adults and public health. In addition to existing pressures within the Integrated Fund outlined in section 3 of this MTFs, the value of the notional Public Health grant for 2021/22 is not yet known. The Local

Government Settlement indicates this will likely remain at the same level as for 2020/21. Confirmation of the actual value is expected in March 2021.

- 4.9 An ongoing programme of investment and innovation is in place to ensure we can mitigate these pressures as far as possible. Even with this programme of innovation the Fund is anticipated to be under real pressure in the next few years. Whilst these pressures are reflected in our MTFs they will continue to significantly affect the council's future financial planning.

Health and Social Care Reform

- 4.10 Salford has a long history of collaboration on health, wellbeing and social care, most recently with creation of the Integrated Fund, and which enabled formal collaboration and pooled budgets across much of services for children, adults, and public health between the council and Salford NHS CCG. This collaboration has enabled joint planning and decision making, protected services within the city that might otherwise have been lost, and ensured better experience and outcomes for residents in the city.
- 4.11 In November 2020, NHS England and Improvement (NHSEI) published proposals to create Integrated Care Systems (ICS) across England. This set out plans to accelerate collaborative ways of working, From April 2021 this will require all parts of the health and care system to work together as Integrated Care Systems, involving:
- Stronger partnerships in local places between local government, the NHS and others with a more central role for primary care in providing joined-up care;
 - Provider organisations being asked to step forward in formal collaborative arrangements that allow them to operate at scale; and
 - Developing strategic commissioning through systems with a focus on population health outcomes;
 - The use of digital and data to drive system working, connect health and care providers, improve outcomes and put the citizen at the heart of their own care.
- 4.12 The ICS as outlined in these reforms will cover all of Greater Manchester. There are significant implications from the reforms proposed, not least on local integrated arrangements such as those that exist in Salford, and in financial devolution. Partners across Greater Manchester – through the GM Health and Social Care Partnership – are continuing to develop local proposals for implementation of the Government's reforms. In Salford it will be important that our strong local arrangements can continue.
- 4.13 Further legislation and guidance is expected. This MTFs has made assumptions about the continued level of investment in health and care services in the city. As details of the new ICS in Greater Manchester are finalised it is important that the current level of investment in health, wellbeing and care services and functions in Salford is as a minimum maintained. Continuing uncertainty about NHS reforms, and the financial arrangements

within these reforms, creates uncertainty in the assumptions within Salford's Integrated Fund, and as a result the assumptions underpinning this MTFS.

GMCA

- 4.14 Collaboration with the Greater Manchester Combined Authority is an increasingly important partnership for Salford. This partnership has delivered a number of financial benefits for Salford, and which help to deliver the approach set out in this MTFS.
- 4.15 The pandemic – and its impact on businesses across the region – have meant we have had to revisit our planning assumptions in terms of our collective investment in Manchester Airport, and have also been discussing the return of funding to local authorities to assist with financial pressures. Collaboration with GMCA will continue to be central to achieving Salford's ambitions. Where relevant the financial implications of these partnerships are reflected in the assumptions that underpin this MTFS.

5. RESERVES STRATEGY

- 5.1 Reserves are a vital tool in financial management and are one of the mechanisms for managing financial risk and supporting longer term budget strategies and investment. A healthy level of reserves is a key component of the council's financial sustainability and resilience. A reduction in the level of reserves can be seen as a potential indication of future financial instability.
- 5.2 Reserves – both our general and earmarked reserves - are reviewed as part of our annual budget strategy to ensure balances are being held at an appropriate level. As part of the annual budget process a risk rated approach has been applied to the level of reserves – and wherever possible funding has been released to alleviate pressures within the city council's revenue budget.
- 5.3 As at 1 April 2020 the level of general fund reserves was £13.2m with an acceptable range being between £12.6m (minimum) and £23.5m (desirable). A full risk assessment of both general and earmarked reserves has been undertaken for the three years covered by this MTFS, and it is anticipated that the level of general reserves will remain no lower than the April 2020 level, and will be held at £13.2m The Reserves Strategy up to and including 2023/24 is to maintain current levels of general fund reserves (ie to hold this at £13.2m).
- 5.4 As set out elsewhere in this MTFS, there remains a significant degree of uncertainty about the longer term future for local government finance. It is important that we take a prudent approach to management of reserve levels, over the three years covered by the strategy, so as to mitigate any risks or unexpected shocks to the assumptions we have made. As a general rule, and as we have set out in previous years, there will be no depletion of overall reserve levels without first identifying how they would be restored within the three year MTFS. In addition, the level of reserves will fluctuate to reflect the risks that the council faces.

5.5 This means that levels of reserves could be volatile over the three year period covered by the MTFS as priority is given to smoothing the council's financial position. The Council will develop a full Reserves Strategy as part of its financial planning in 2022/23.

6. CAPITAL PROGRAMME

6.1 Sustainable and inclusive economic growth continues to be a key priority for the city, creating economic, social and cultural opportunities for our residents. The ability to influence and achieve economic growth in the city defines the council's priorities for capital investment.

6.2 The objectives, principles and priorities for capital investment are set out in the Council's Capital Strategy. The Strategy also sets out the type of expenditure that can qualify as capital. The annual capital programme is funded from a range of sources, including: prudential borrowing; external grants; external contributions such as from section 106 grants; revenue funding; and capital receipts from the sale of surplus assets such as land and buildings.

6.3 There are a number of additional risks and issues which have influenced the Council's overall Capital Strategy, and the capital programme for 2021/22.

- Reductions in the Council's core revenue funding has significantly reduced options to use revenue to support capital investment. If revenue is proposed to be used to support capital schemes, invest to save options are preferred wherever possible.
- The management of individual service capital allocations allows for the tendency of capital programmes to under spend. Services are permitted to set over-programming levels to reflect this in the expectation that the outturn expenditure will be managed within the resource made available. This approach runs the risk of expenditure over-shooting the resources available, but limits are applied to the over-programming that reflects the level of contractually committed expenditure and provision for new starts.
- The Prudential Code (2004) allows the council to undertake unsupported borrowing but must ensure that all unsupported borrowing is affordable, prudent and cost effective. This form of borrowing has revenue implications for the council in the form of financing costs. It will be necessary to continue to use unsupported borrowing to provide the necessary resource in 2020/21 to deliver a fully funded capital programme that delivers the desired priority outcomes. Unsupported borrowing continues to be the primary source of the council generating its own resources towards funding capital investment, with capital receipts being used to repay debt as and when asset disposals can be realised and give fair value. Parameters have been established within which the use of unsupported borrowing as replacement for capital receipts will be managed so as to be affordable to the revenue budgets of both the General Fund and Housing Revenue Account. This should ensure unsupported borrowing does not become unaffordable.

- The Spending Review 2020 reversed the planned 1% increase in Public Works Lending Board rates. However, future uncertainty about access to PWLB borrowing, is a risk to the affordability of unsupported borrowing and to any proposed increase to the council's capital programme.
- Government grants remain the largest single source of capital funding. Capital projects which are reliant on grant support will not be commissioned unless a grant approval has been received or is confidently expected. All proposed capital expenditure will be subject to the approval of the Council's Procurement Board, who must be satisfied with the certainty of grant support.
- Expenditure on capital schemes is monitored regularly with reports provided to lead members and Cabinet so as to minimise the risk of cost overruns. Services are expected to manage any cost overruns within overall resource allocations with permission for any virement of funds being requested in accordance with the council's constitution.

6.4 In 2021/22, a capital programme of £48.874m will support investment across the city in key facilities and infrastructure. The capital programme is supported by a mix of funding sources. Collaboration across Greater Manchester, also brings new opportunities for investment, which the city will maximise – such as the GM Investment Fund, Northern Powerhouse Investment Fund, and GM Housing Investment Fund.

6.5 As set out in our previous MTFS and in our annual budget strategy, the Capital Programme will be agreed annually as part of the budget setting process. A maximum of £20m will be from unsupported borrowing to fund non-invest to save schemes and that capital receipts will be used to reduce the level of debt incurred in previous years. This principle has been applied in the assumptions set in in this MTFS.

7 FINANCIAL PROJECTIONS – SUMMARY

7.1 The assumptions and adjustments set out in previous sections of this MTFS provide the bases of our revised three year budget strategy, set out in the table below.

Figure 3: Financial Projections 2021/22 to 2022/23

Figure 3: Financial projection 2021/22 to 2023/24			
	2021/22	2022/23	2023/24
	£m	£m	£m
Total available resources*	175.635	204.622	210.292
Total spending requirement	175.635	215.171	221.571
Funding gap	0.000	10.549	11.279

***assumes council's share of business rates changes to 74% after a reset in 2022/23**

- 7.2 Whilst the strategy indicates a balanced position for 2021/22 it is important to recognise that the forecast is sensitive to assumptions made and to some significant risks and uncertainties, not least the ongoing impact of our response to the pandemic, the extent of any ongoing loss of income and the need to deliver on service changes agreed in previous years and which were set out in detail in our previous MTFS 2020-2023.
- 7.3 The strategy also makes clear the stark and significant challenges facing the City Council in the final two years of this planning period – with savings of £10.5m and £11.3m required in years two and three of the planning period. This level of saving and reduction in funding will dictate the need for very difficult decisions about priorities and the delivery of services.
- 7.4 The forecast and assumptions on which it is based, will be regularly reviewed. It is likely that the working forecast will change, possibly quite dramatically, over time.