

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, 23 FEBRUARY 2022

Subject: **Medium term financial strategy 2022/23 - 2024/5**

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 2022/23, reflecting a one-year local government settlement, a fair funding review and business rates reform and reset all affecting the resources available to the council after 2022/23. These risks 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: Iolanda Puzio - City Solicitor

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 and partner organisations to deliver improved outcomes, ensuring that financial savings linked to procurement activity are delivered, 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 to support the redesign of services in response to new ways of working, place based delivery, and new and emerging technologies. Ensuring appropriate workforce development plans are in place to ensure we have people in the right place with the right skills maximising the opportunities that the apprenticeship levy provides.

5. CLIMATE CHANGE IMPLICATIONS

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 2022 to March 2025 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 Whilst a 3-year spending review was announced in October 2021, the local government settlement was for one year only. Significant changes to local government funding are anticipated in 2023/24 with the government committing to consulting with the local government sector during 2022/23 on issues such as fair funding, business rates retention and individual funding streams such as the new homes bonus. Consequently, forecasting for 2023/24 and beyond is particularly difficult.
- 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 2022/23, CSP will increase by 7.4% in cash terms in 2022-23 (approximately 4% in real terms, although inflation rates are currently much higher with CPI to December 2021 being 5.4% and RPI being 6.3%). No further indications have been given for 2023-24 and 2024-25.

1.4 Health service reform

- 1.4.1 The Health and Care bill sets out plans for the future of health and care including the statutory creation of Integrated Care Systems. The bill also sets out government plans to improve collaborative working, empower local leaders and address health inequalities. Subject to parliamentary consideration and progress, changes were due to be introduced in April 2022 however implementation was recently deferred until July 2022.
- 1.4.2 For Salford, the Integrated Care System will exist at a Greater Manchester level. Reforms will mean changes to governance and decision making – both at GM and Salford: to locality leadership; to finance and risk sharing arrangements and to mechanisms to support enhanced provider collaboration. Various workstreams have been established to model the changes required in response to the bill including the value of a future locality fund and risk share options. The financial impact of this work will be reflected in future budget estimates.

1.5 Council tax projections

- 1.5.1 The council's current projections now provide for the following:
- All years assume 1.99% increase to core council tax charge.
 - 22/23 assumes use of the remaining 1% flexibility from 21/22 for the adult social care (ASC) precept increase to the council tax charge alongside a new 1% ASC precept increase for 2022/23.
 - 23/24 and 24/25 assume no increase in the ASC precept however it is expected that any future increases in ASC precept are used to manage price and demand pressures within the social care system, managed through the integrated fund for health and social care.
 - Growth in the council's council tax base for 23/24 to 24/25 will be continually updated, using the latest projections from the council's regeneration team Council tax resource projections.

Table 1 Council tax resource projections

	2022/23	2023/24	2024/25
Council tax (band D) base level	£1,705.71	£1,773.76	£1,809.06
Estimated increase (incl. ASC precept)	3.99%	1.99%	1.99%
Revised council tax (band D) level	£1,773.76	£1,809.06	£1,845.06
Council tax property base (number)	68,109	71,905	73,372
Add property base increases	3,796	1,467	500
Revised council tax property base	71,905	73,372	73,872
Estimated council tax resources (£m)	127.542	132.734	136.298

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 2022/23 to 2024/25 assume the following:

- Compensation by section 31 grant for the loss of income due to the freezing of business rate multipliers for 22/23 in the spending review
- Business rate multipliers will increase by 2% in 23/24 and 24/25
- Projections for growth in the council's business rate yield for 22/23 to 24/25 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.
- Following comments from the secretary of state, it is assumed that the council will move out of the 100% business rates pilot to 49% retention in 23/24. However, these assumptions will be reviewed following government consultation.
- Business rates reset in 2023/24.

Table 2 Business rate resource projections in £m

	2022/23	2023/24	2024/25
at 49% retention		38.529	45.812
at 99% retention	77.843		
Baseline reset assumed in 23/24	0.000	6.385	0.000
Estimated increase to the multiplier	0.00%	2.00%	2.00%
Business rate resources, govt assumption	77.843	45.812	46.728
Existing cumulative growth	5.936	2.587	0.000
Baseline reset assumed	0.000	-2.587	0.000
Estimated increase to the multiplier	0.00%	2.00%	2.00%
New growth	-3.349	0.000	0.000
Council share, excess over govt assumption	2.587	0.000	0.000

1.7 Local resource summary

1.7.1 Table 3 identifies the estimated resources available to the council over the period to 2024/25.

- 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 2021/22 are built into the council's budget projections for 2022/23.
- 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

	2022/23	2023/24	2024/25
Council tax	127.542	132.734	136.298
Retained business rates:			
> Council share, govt assumption	77.843	45.812	46.728
> Council share, excess over govt assumption	2.587	0.000	0.000
Government funding:			
> Business rates top up	38.961	28.274	28.839
> Settlement funding changes	0.000	-6.825	-7.748
Collection fund estimated balances 31/03/2022:			
> Council tax estimated surplus	3.129	0.000	0.000
> Business rates estimated deficit	-12.122	0.000	0.000
Collection fund 2 nd and 3 rd year allocations of exceptional 20/21 balances:			
> Council tax	-2.414	-2.414	0.000
> Business rates	-6.360	-6.360	0.000
Notional RSG / RSG equivalent funding	0.000	21.570	21.570
Total resources	229.166	212.791	225.687
Public Health grant funded from BRRS	-22.601	0.000	0.000
Total available resources	206.565	212.791	225.687

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

	2022/23	2023/24	2024/25	
Total available resources	206.565	212.791	225.687	
Prior year budget requirement	175.635	206.565	212.791	
Add forecast changes				
Capital financing requirement	1.000	0.000	0.000	1
Treasury management debt costs	-1.300	0.000	0.000	2
Pay inflation	3.403	3.505	3.610	3
Price inflation	1.313	1.459	1.613	4
National Insurance contribution rate	1.085	0.000	0.000	5
Pension contribution rate	0.425	1.193	0.000	6
Increments	0.220	0.220	0.220	7
Other funding issues	0.737	0.100	0.100	8
New Homes Bonus	1.945	0.645	0.000	9
Adult and Children's social care provision	8.330	10.447	6.945	10
Government specific grant changes	-9.142	8.940	-3.295	11
Business Rates reserve changes	0.000	-6.900	0.000	12
Business Rates S31 grant reserve	17.147	13.680	0.000	13
Reserve changes	6.805	0.000	0.000	14
Smoothing strategy reserve	0.665	-3.916	0.000	15
Collection Fund reserve	0.000	-12.460	11.411	16
Investments and savings	-1.703	0.608	3.409	17
Total spending requirement	206.565	224.086	236.804	
Funding gap	0.000	11.295	11.117	

Table 5 Budget Assumptions

Note ref	Budget assumption
1	Revenue consequences of capital spend being reprofiled
2	Final payment of Tameside debt in 2021/22 following reorganisation of GMC, reduces the 2022/23 spending requirement
3	Pay award budgeted for the next 3 years
4	Prices - 0% for general items, specific % for levies and other items
5	The new NI levy, expected to be covered by non-recurrent Services grant in 2022/23
6	Pension contribution rate to cover ill health retirements and any variation on the early payment discount offered by GMPF on the employer's contribution. Pension contribution rate to cover the impact of a new triennial pension valuation in 2023/24
7	Increments – potential cost of increments with budget set aside for specific requirements.
8	Other funding issues including school and capital maintenance.
9	New Homes Bonus – Year 12 will attract a NHB reward for one year in 2022/23. Legacy payment in 22/23 and from 23/24 onwards assumes redistribution of NHB cash as estimated by the council's advisors.
10	Increased contribution to the integrated health and care fund for adults and children's services. From 2022/23 assumes that any additional social care grant is passed through to the integrated fund.
11	Changes to government specific grants including services grant, social care funding, local council tax support grant and lower tier services grant.
12	Delay in the business rates reset to 23/24, using a reserve to smooth the transition
13	Business rates section 31 grant for extended retail relief and nursery discount to cover that part of the business rates deficit.
14	Reserve changes reflecting revised assumptions relating to the application of reserves in 2021/22.
15	Smoothing strategy in order to achieve a balanced budget and mitigate the risks associated with changes in core funding and business rates over the life of the strategy.
16	Reserve to offset the impact of collection fund pressures – deficit and depressed growth
17	Net impact of service investments and savings for 2022/23

1.9 Capital expenditure proposals 2023-2025

- 1.9.1 Capital expenditure for 2023/24 and 2024/25 has provisionally been identified by services, but no commitment 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

	2023/24 Internal	2023/24 External	2024/25 Internal	2024/25 External	Total
Total Requirement	81.260	21.164	56.033	12.065	170.522

1.10 Innovate

- 1.10.1 Given the forecast future funding gaps in 2023/24 and 2024/25 and the risks inherent with the level of anticipated change in funding streams the council is developing Innovate Salford – 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 areas of high spend which will be data and insight driven and aimed at 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, so as 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 a number of 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
 - in light of 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, taking into account: 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 2022/23 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 as a result 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 take into account 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 continued impact of Covid19 on service demand and the wider economy. These revisions will further inform work on the 2023/24 annual budget which will commence early in 2022/23.

3 **Recommendation**

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