



Report sponsor: Alison Parkin, Director of
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Medium Term Financial Strategy Summary

Purpose

- 1.1 To update Council Cabinet on the Medium Term Financial Strategy – MTFs.

Recommendations

- 2.1 To note the context for the development of the MTFs for 2023/24 to 2025/26 as detailed in the body of the report.

Reasons

- 3.1 To develop MTFs for the financial period 2023/24 to 2025/26, which reflects the need to be sustainable. This will require a review of services in the short and medium term.

Supporting information

4.1 Introduction

- 4.1.2 The purpose of the Medium Term Financial Strategy is to provide information to all of the Council's stakeholders on the planned revenue and capital expenditure and its financing over the next three years. It supports affordable, sustainable service delivery through the planned use of revenue budgets, capital budgets, reserves and balances.
- 4.1.3 The financial model for Local Government has shifted over recent years with a greater proportion of overall funding coming from Local taxes: Council Tax and Business Rates and less from direct Government support through the Revenue Support Grant. The Council has and continues to face significant financial pressures as central government funding reduces at the same time as demand for Council services increases. The current use by Central Government of ringfenced and competitive grants leads to higher level of uncertainty in medium term financial planning.
- 4.1.4 Local authorities, nationally and in Derby, have experienced a dramatic rise in costs. CPI increased by 11.1% over the course of the previous 12 months to October 2022, up from 10.1% in September, but within that, food inflation has risen to 16.4%, electricity 66% and gas 129%. Collection rates for council tax, business rates and income are under increasing pressure linked to the current cost of living crisis. The Government has previously covered the majority of additional Covid costs and lost income through grants during Covid, however

there is no further funding available to mitigate remaining issues we are facing globally and the unprecedented rising cost of inflation has not been fully addressed in the recent Autumn Statement.

4.1.5 **Autumn Statement – Key Headlines for Local Government:**

4.1.6 The Autumn Statement on the 17 November, which introduced additional funding for social care and a delay to charging reforms, has been described by local government finance leaders as “better than expected”. The key headlines include:

- 4.1.7
- **Spending Review -SR, 2021.** There will be no cuts to the funding allocations announced in SR21. Growth in spending from 2025-26 will increase at a lower rate – However, with high inflation this equates to a real term reduction in funding.
 - **Adult social care funding (new money).** An additional £1bn of new grant funding has been announced in 2023/24 and then £1.7bn in 2024/25. Of this additional new money, £600m in 2023/24 and £1bn in 2024/25 will be allocated through the Better Care Fund to “get people out of hospital on time”. The remainder will be allocated through a ringfenced grant at the settlement. There has been no announcement yet of any further burdens associated with this funding
 - **Delaying adult social care charging reforms.** Funding set aside for these reforms in 2023/24 and 2024/25 will be paid to local authorities (£1.3bn in 2023-24 and £1.9bn in 2024-25). However, it is anticipated that reforms will be delayed from October 2023 to October 2025, at the earliest.
 - **Council tax thresholds.** The core threshold will increase from 1.99% to 2.99%, and the ASC precept will be 2% in 2023/24. Thresholds will increase for both district councils and for authorities with social care responsibilities.
 - **Business rates multiplier.** The multiplier will be frozen in 2023/24. Local authorities will be fully compensated for the loss of income as a result of these business rates measures. There has been no confirmation yet whether cap compensation will be payable based on RPI or CPI.
 - **Business rates reliefs.** There has been an extension of Retail, Hospitality and Leisure (RHL) reliefs into 2023/24, plus a Supporting Small Business Scheme (SSBS).
 - **New Homes Bonus -NHB.** No announcement was made on the future of NHB or the other grants within the settlement.

4.1.8 Whilst the Autumn Statement provided a mix of grant and council tax flexibility relating to Social Care, there was no new funding for the myriad of other pressures facing the Council from increased demand and inflation. There is a change in the Council Tax referendum principles that would allow a further 1% Council tax to be levied, over and above the MTFS in February. Councils are also able to levy a 2% Social Care precept (1% included in the MTFS in February).

The Council awaits the Local Government Finance Settlement at the end of December but have incorporated indicative figures from the Autumn Statement into this report

4.1.9 The Council's Capital Programme is under significant financial strain because of soaring inflation costs in the construction industry which have reached 15% in this year. This has necessitated a review of forward capital commitments and could impact on the affordability of schemes funded by external grant.

4.1.1 In February 2022 the Council set a balanced budget for 2022/23 with an identified budget gap for the following two years of £15.144m. The current economic climate with the ongoing impact on the UK from the war in Ukraine, together with the impact of Covid meaning higher inflation, higher interest rates, demand for services and a deteriorating economic outlook increased this forecast gap materially to an estimated £48m by 2025/26

This major shift in macro and local financial conditions has inevitably led to a major impact on financial sustainability for local government nationally and locally for the Council's financial resilience as we need to react to this financial shock. This means that for the period of the MTFS there needs to be a significant focus on sustainability, including reducing, redesigning services.

4.1.1 Alongside this the Council continues to experience high levels of demand for its statutory services, especially in Social Care.

4.1.1 **Adult Social Care**

2 Rising demand and costs for care and support, have combined to increase demand for adult social care services at the same time that the Adult Social Care market is under stress. Over the past decade, adult social care costs increased by £8.5 billion while total funding (including the Better Care Fund) only increased by £2.4 billion. This left councils with a funding gap of £6.1 billion.

4.1.1 Nationally over 400,000 people rely on care homes in England and more than 800,000 receive care at home. But care services are struggling with 160,000 staff vacancies, rising demand and already tight funding for social care that is being squeezed by soaring food and energy inflation.

4.1.1 Care providers are reporting that inability to recruit staff has negatively affected their service and many have stopped admitting new residents as a result. In October the Care Quality Commission warned of a "tsunami of unmet care" and said England's health and social care system was "gridlocked". Problems in social care make it harder to free up beds in hospitals, slowing down the delivery of elective care.

4.1.1 **Children's Social Care Demand**

5 The cost-of-living crisis is pushing more families into poverty, and children's services are facing unprecedented demand amid the national funding crisis. There continues to be significant demand for children's social care and the complexity of needs is escalating in response to the multi-faceted challenges children face in their day to day lives.

4.1.1 The sector is still seeing the impact of Covid 19 and the changes that it has brought about play out, and it will be some time before the full impact is known.

4.1.1 7 The main pressures experienced by the council and nationally by authorities including Derby are higher costs for independent fostering and private home placements, paying more agency workers, increased service demand and SEND transport.

4.1.1 **Other Services**

8 The City is experiencing increases in demand for many services, including homelessness, regulatory services, court delays, cost of living etc. Whilst the Council has implemented action plans, demand management and work in partnership across the City, there remains uncertainty over demand for services, and especially statutory services. The combination of these factors means planning for services against an uncertain national and local context is a challenge.

4.1.1 9 To balance a budget is a complex and continuous activity. The Council has good financial planning in place supported by monitoring and review including adherence to the CIPFA Financial Management Code (FM Code). The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management, which is an essential part of ensuring that public sector finances are sustainable. The Council reported compliance with the code at Audit and Accounts Committee on 27 July 2022.

4.1.2 0 Engagement, briefings, presentations and updates to these teams and individuals have been ongoing throughout the budgeting process including council wide engagement through Directors Forums, Senior Leadership Networks and Employee conferences. The Council is acutely aware of the challenge facing them and is responding accordingly.

4.2 The MTFs encompasses:

- I. Reserves Strategy
- II. Capital Strategy
- III. Savings Strategy
- IV. Council Tax Strategy
- V. Treasury Management Strategy

4.2.1 **The Reserves Strategy**

Reserves are a vital part of prudential financial management in local authorities, including their ongoing ability to meet the balanced budget requirement. Reserves should not be used on an on-going basis to cover shortfall in day-to-day expenditure.

4.2.2 The strategy has been to focus on a reserves review focussed on a reduction and reprioritisation of any legacy commitments and reduce, refocus emerging commitments and use flexibility, to ensure sufficiency of reserves in the short term. The projected overspend of £12.858m reported in Qtr.2 Financial Monitoring to cabinet requires a further draw down of reserves. This has a material impact on the Council's financial resilience

4.2.3 The reserves strategy in the current MTFs (approved February 2022) included a strategy to replenish the reserves of £8.278m over the next two financial years. This planned contribution will be reviewed following the local government finance settlement balancing short term financial sustainability and the aspiration to

maintain or improve the Council's financial sustainability. Based on the current interpretation of the Autumn Statement and the Council's budget pressures it is likely that the Council will not be able to make these planned transfers in 2023/24 and 2024/25 to improve the Council's financial resilience

4.3 The Capital Strategy

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year.

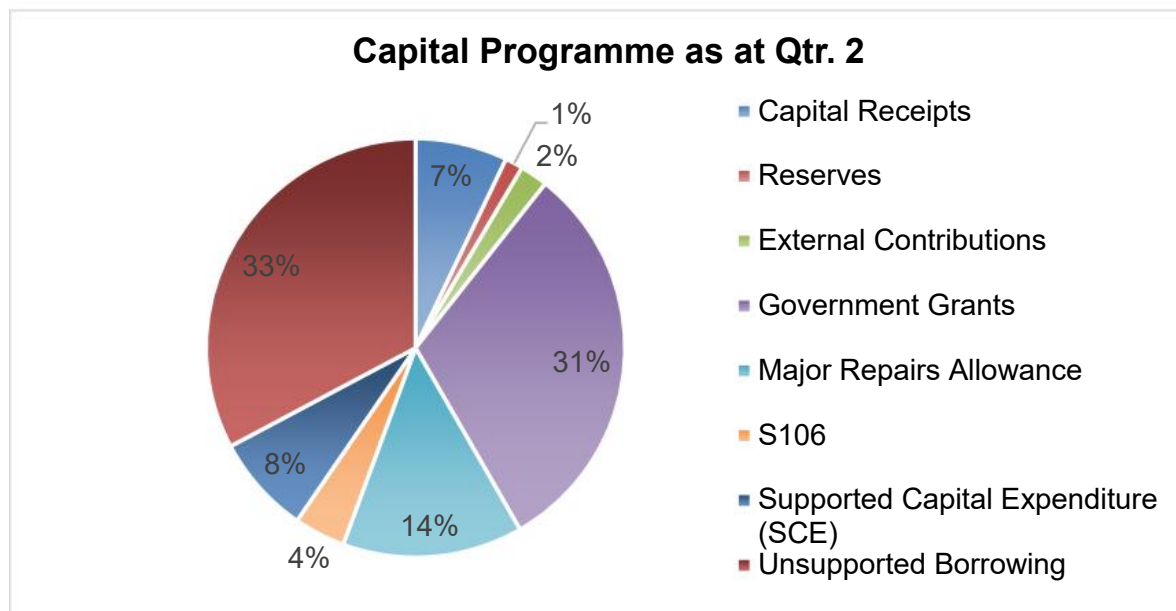
4.3.1 The Council has an ambitious Council Plan which incorporates the Capital ambition of the City:

Council Plan

The capital ambitions and programmes have been recently reviewed in the context of the current financial challenges of the Council. The programme has been realigned to more affordable sustainable levels in the short and medium term in light of the funding pressures emerging in the medium term facing the Council. This is to minimise the exposure of the Council to the increasing costs of borrowing.

4.3.2 Slippage due to Covid, for example the availability of contractors and rising inflation costs has resulted in the Council being able to consider reprofiling the allocations in some areas in order to address backlogs and plan a way forward within the resource envelope.

4.3.3 The original approved Capital Programme including 2021/22 outturn slippage was £213.419m. The capital expenditure forecast as at Qtr.2 is £171.489m. The Qtr.2 funding profile of the 2022/23 capital programme is illustrated below:



4.3.4 The future programme in the short term will focus on reducing the borrowing requirement of the council to maintain an affordable capital programme and avoid the cost of increasing borrowing and associated borrowing rate increases which impact on the revenue budget and earmarked reserves.

- 4.3.5 Strategic teams are working together more collaboratively to provide a programme that effectively delivers for the Council and enables longer term planning – build 5 + year programmes.
- 4.3.6 Pipeline schemes and ambitions of the Council are also being considered to either reduce, reprofile or discontinue in the short and medium term in order to resize the programme to fit the anticipated funding available.

4.4 Medium Term Financial Strategy – Budget Approach

The Council summary financial position before the indicative funding announcement in the Autumn Statement and budget proposals to be issued for consultation at the end of December is summarised below:

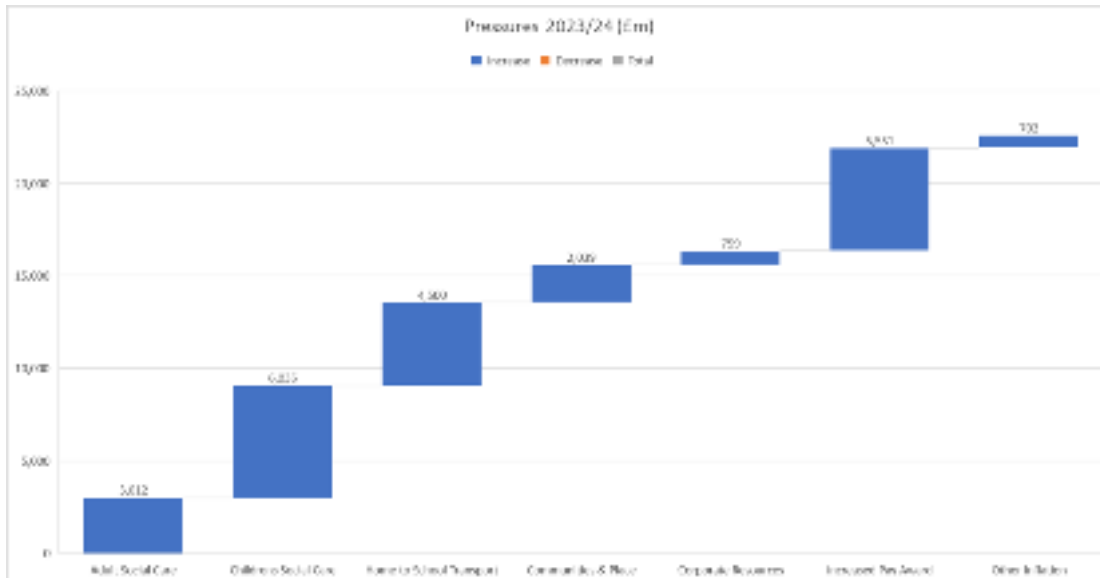
Summary MTFS	2023/24 £m	2024/25 £m	2025/26 £m
New MTFS Year budget gap	10.801	15.144	15.144
Additional MTFS budget gap	-	22.761	29.156
Revised opening budget gap	10.801	37.905	44.300
New Pressures	16.345	4.772	- 0.120
Additional Pay and Price Inflation	6.253	0.594	0.615
Capital Financing Costs		1.000	3.000
Assumed Council Tax Increase 2025/26			- 4.428
Base inflation estimate for 2025/26			4.529
Transfer to/from reserves	0.163	0.029	
Estimated Budget Gap	33.562	44.300	47.896

Movements in 2023/24 and 2024/25 are movements from the published MTFS approved by Council, February 2022. The 2025/26 forecast is a roll-forward of the MTFS for a further year (and is based on an assumption that the volatility impacting next year on the MTFS will have reset to more normal levels)

Preparing saving proposals of this magnitude is extremely challenging. The Council, while still ambitious for the City needs to propose significant reductions to its expenditure in order to be sustainable in these challenging times.

- 4.4.1 The current macro-economic climate, inflation, demand increases, vulnerability to cost of living etc has led to unprecedented volatility and impact on the Council's MTFS detailed in paragraph 4.4

The combined inflation and demand pressures are illustrated in the graph below



Continued work is underway to reduce or mitigate the indicative pressures detailed in the report

- 4.4.2 The Autumn Statement headlines detailed in paragraph 4.1.7 indicates an increase in social care funding and additional Council tax flexibilities. These will be confirmed in the provisional local government finance settlement at the end of December.

Initial estimates of the impact on the MTFS Budget Gap detailed in paragraph 4.4 are detailed below

Changes to MTFS Assumptions	2023/24 £m	2024/25 £m	2025/26 £m
Estimated Budget Gap	31.345	21.092	16.710
Further In Year Budget Gap	-	6.553	3.596
Indicative Government Funding Increase	(8.007)	(6.222)	14.229
Council Tax flexibility to set Council Tax at 2.99%	(1.123)	(2.357)	(2.444)
Council Tax Flexibility to set Social Care precept at 2%	(1.123)	(2.357)	(2.444)
Revised Budget Gap	21.092	16.710	29.647

These figures will be refreshed upon receipt of the local government finance settlement and specific grant announcements expected at the end of December

- 4.4.3 The budget approach for this MTFS has been quite specific, with directorates set the challenge over the summer of:

'How can we plan for services with only 90% of the budget we have now?'

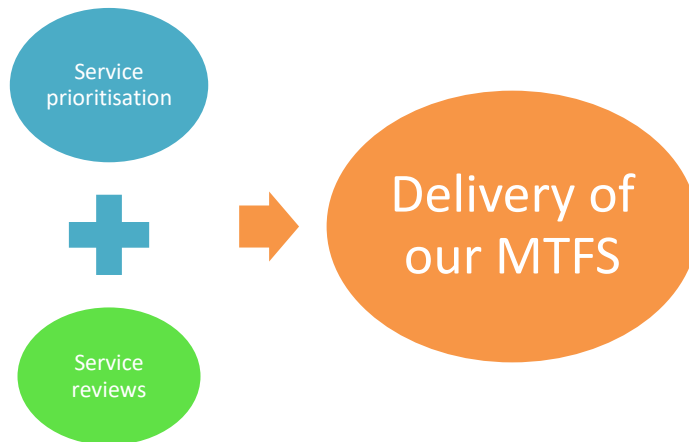
4.4.4 When looking at savings of this magnitude the budget needs to be reframed and directorates were asked to consider:

- Financial Resilience and Sustainability of the council must remain front and centre
- Financial Management and Mitigations of Pressures need to be a key focus
- This is not about incremental scaling of budget
- Focus needs to change to new Affordability Envelopes and what outcomes can we deliver with and for the City within this envelope
- We must all be accountable in respect of Resource Management – both planned and reactive

4.4.5 The approach was built upon established Foundations:

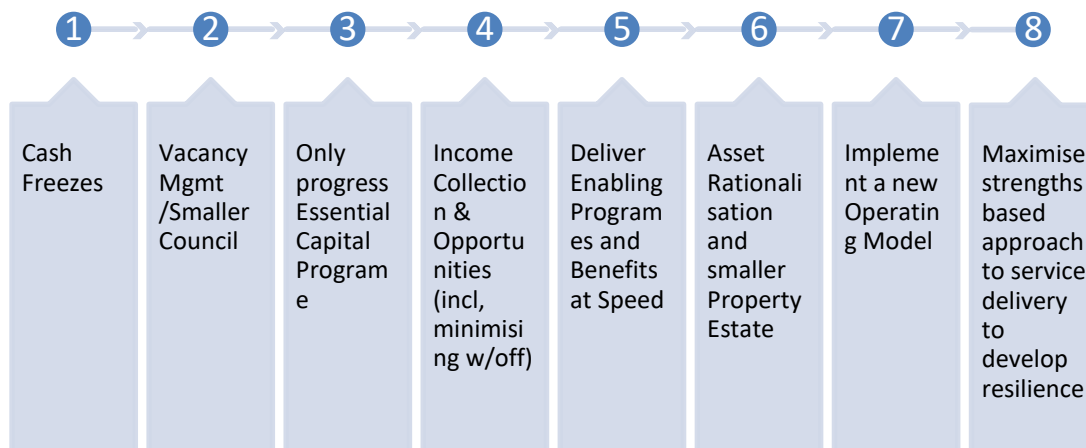
- Strengthened collaborative working with a focus on strength-based approaches embedded in assets and relationships
- Moving to outcomes-based approach as a Council rather than in silos
- Established transformation activities aligned to our priorities
- Established risk appetite statements

4.4.6 The budget challenge was set with a holistic risk-based approach.



All decisions need to be evidenced based where possible, outlining all impacts to avoid unintended consequences.

4.4.7 Service Prioritisation has been a key theme within the budget process:



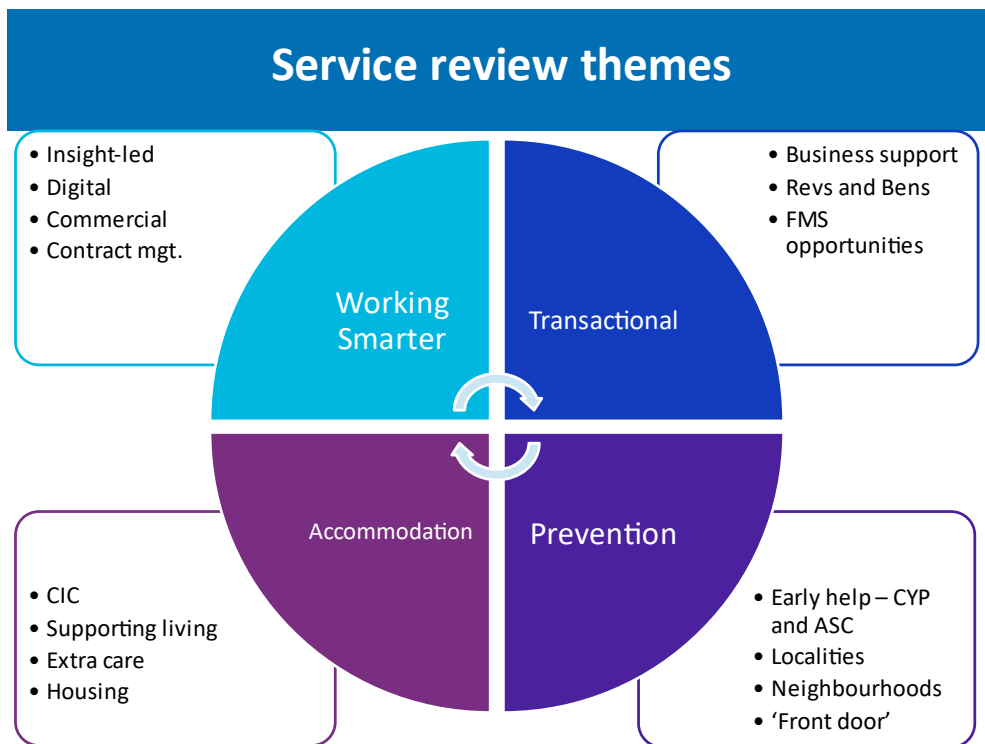
Over the summer and the autumn all directorates have been reviewing their existing budgets to identify savings, efficiencies and income to reduce the net expenditure using the above areas as a guide. This has been a difficult and challenging exercise for a Council delivering a myriad of services, working with and for the City and who have a history of strong financial management despite increasing cost and demand pressures.

Later this month Cabinet will be issuing a set of budget proposals for consultation with the ambition of being able to set a balanced budget for 2023/24 (this is still subject to the provisional local government finance settlement expected just before Christmas)

The focus in 2024/25 and 2025/26 for bridging the identified and any future MTFS Gap will be through a rolling programme of service reviews detailed in the next paragraph.

- 4.4.8 Over the next three years it is planned to undertake detailed service reviews across all Council Services focusing on outcomes, impact and costs of enabling and providing services for and with the City. These will be insight led providing a strong evidence base of any changes required and the subsequent impact of their delivery. These will identify the resources targeted at each area and hopefully deliver significant cost savings and efficiencies

Initial service review themes include:



4.4.9 The service prioritisation process and Council-wide challenge, collaboration and collective engagement has led to some significant savings proposals (that will be issued for consultation later in December). Inevitably the size of the budget gap that needed to be bridged has a material impact on the services that are affordable.

4.5 Council Tax Strategy

Council Tax continues to be subject to significant central control, much of which is outlined in primary legislation.

4.5.1 The Localism Act 2011 makes provision for the Council and our council tax payers to have the power to instigate a local referendum on local issues and to veto excessive council tax increases.

4.5.2 The MTFs approved in February 2022 proposed a Council Tax increase of 2.99% in the medium term (this includes a Council Tax increase of 1% and future years in the medium term for a Social Care Precept). The recent Autumn Statement signposted that the referendum criteria for 2023/24 would allow a Council Tax increase of up to 2.99% without a referendum and also the ability to levy up to 2% as a specific social care levy

4.6 The Treasury Management Strategy

4.6.1 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Councils treasury management strategy for 2023/24.

- 4.6.2 The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021.
- 4.6.3 The Treasury Management position is influenced by the Council's capital plans and their funding. These capital plans provide a guide to the borrowing need of the Council. Over the Summer and Autumn, the capital programme has been reviewed and reduced where possible to lessen the revenue impact on the borrowing requirement of the Council from increased PWLB interest rates
- 4.6.4 Planning for Treasury management requires longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. On occasion debt previously drawn may be restructured to meet the Council's refinancing risk or cost objectives.
- 4.6.5 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below the CFR is known as internal borrowing.

Public/Stakeholder engagement

- 5.1 A full public consultation period will commence later in December following the consideration of the full budget proposals by Council Cabinet on the 21st December. Statutory consultations for individual budget proposals will be carried out where it is appropriate to do so.

Other Options

- 6.1 The Council's budget framework requires an MTFS.

Financial and value for money issues

- 7.1 As contained within the report.

Legal implications

- 8.1 An MTFS is an integral part of the Council's Budget framework.
- 8.2 The plans will be subject to a period of consultation (including with statutory stakeholders) and are scheduled to be approved by Council at the end of February 2023. The Council is required to set a balanced budget no later than the 11th March 2023.

Climate Implications

- 9.1 None directly arising from this strategy – however all expenditure and schemes will need to consider the Climate Change Action plan approved at Council on the 15 June 2022. Individual climate assessments will be undertaken on specific proposals as required.

Equalities Implications

10.1 Equality Impact Assessments will be completed as required.

Socio Economic Implications

11.2 Contained within the body of the report.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal	Olu Idowu	28/11/2022
	Toni Nash – Head of Finance	27/11/2022
Service Director(s)	Alison Parkin – Director of Financial Services	27/11/2022
Report sponsor	Simon Riley – Strategic Director of Corporate Resources	27/11/2022
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Background papers:	None.	
List of Appendices:		