

 ST HELENS BOROUGH COUNCIL	Cabinet 27 September 2023
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Report Title	Update of Medium-Term Financial Strategy 2023-2026
Cabinet Portfolio	Corporate Services
Cabinet Member	Councillor Martin Bond
Exempt Report	No
Reason for Exemption	N/A
Key Decision	No
Public Notice issued	N/A
Wards Affected	All
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Borough Priorities	Ensure children and young people have a positive start in life	
	Promote good health, independence, and care across our communities	
	Create safe and strong communities and neighbourhoods for all	
	Support a strong, thriving, inclusive and well-connected local economy	
	Create green and vibrant places that reflect our heritage and culture	
	Be a responsible Council	x

1. Summary

- 1.1 This report provides Cabinet with the revised forecast financial position in relation to the Council's Medium-Term Financial Strategy 2023-2026.
- 1.2 The report also summarises the identified savings for 2024-2027 that will contribute towards meeting the budget gap.

2. Recommendations for Decision

- i) Accept the budget gap projection for 2024-2027 as £13.3m.
- ii) Note that savings will be required to meet this budget gap and deliver the balanced budget position in line with the Council's policies.
- iii) Agree to the budget timetable
- iv) Agree that savings in excess of this amount will go to public consultation in October and November to inform the final budget proposals and 3 year medium-term financial strategy

3. Purpose of this report

- 3.1 The Council remains committed to the regular monitoring of its medium-term financial outlook and this report is provided to update Cabinet on the position of the Council in respect of the estimate financial position for 2024-2027 and progress in identifying savings required to meet the budget gap.
- 3.2 The report is prepared excluding any financial implications that may arise from other agenda items being considered by Cabinet at its meeting on 27 September 2023.

4. Background / Reason for the recommendations

- 4.1 The Council's Medium Term Financial Strategy 2023-26 and Revenue & Capital Budget 2023/24 ('MTFS') was approved at Cabinet on 22nd February 2023 and by Council on 1st March 2023. It was based upon prevailing assumptions at the time of production and, considering the changes that have occurred since then, it is now prudent to review these assumptions and adjust them where appropriate. This report details the most significant items that have been changed and the effect this has had on the medium-term financial outlook of the Council. The period covered by the MTFS has been also extended to include a first estimate of pressures in 2026/27.
- 4.2 The updated budget position for 2024/25 to 2026/27 is based on the best estimates at this point in time, and these will be reviewed throughout the budget process as more information becomes available. A degree of uncertainty exists on these estimates, due to the instability of the national economy and ambiguity over the expected timeframe for economic recovery.
- 4.3 It must also be noted that there is significant uncertainty as to the level of Government funding beyond the current financial year. The wider reforms to local government funding have been delayed until 2025 at the earliest. No further information on the proposed reforms has been released by the Government at this time. There is also

significant uncertainty over the ongoing effect of the COVID-19 pandemic on the Council's income and expenditure levels for future years.

- 4.4 Overall the MTFS has moved favourably by **(£0.321m)** in 2024/25 and adversely by **£0.512m** in 2025/26.
- 4.5 Table 1, below, shows the movement in MTFS assumptions between 2024/25 and 2025/26:

Table 1 – Movement in MTFS Assumptions – 2024/25 to 2025/26

Category	Movement (£m)	
	2024/25	2025/26
Pay	1.733	2.155
Prices	(0.824)	(0.919)
Treasury	(1.099)	0.214
Capital	(0.409)	0.381
Collection Fund	(0.177)	(1.783)
Levies	0.455	0.464
Total Movement	(0.321)	0.512
Original Budget Gap (Cumulative)	6.470	10.406
Revised Budget Gap (Cumulative)	6.149	10.918
Revised In-Year Budget Gap*	6.149	4.769

*After savings options previously approved for 2024/25 (£2.912m) and 2025/26 (£1.622m)

- 4.6 Table 2, below, shows the first estimated budget gap for 2026/27, which is **£2.413m**. In total, this brings the cumulative revised budget gap over the three-year period 2024/25 to 2026/27 to **£13.331m**:

Table 2 – Initial Budget Gap – 2026/27

Category	2026/27 (£m)
Pay	3.494
Prices	3.504
Treasury	1.108
Capital	1.901
Collection Fund	(8.091)
Levies	0.497
In-Year Budget Gap	2.413
Revised Budget Gap (Carried Forward from 2025/26)	10.918
Revised Budget Gap (Cumulative 24/25 to 26/27)	13.331

Pay

- 4.7 Assumptions around pay increases over the next three years are split between increases to Council pay and cost pressures associated with increases to the National Living Wage and Real Living Wage for care providers. Overall, the changes to the assumptions described below have increased the cost pressures over the next two years by **£2.155m** cumulatively. The assumed new cost pressure in year 3 (2026/27) is estimated to be **£3.494m**

Council Pay

- 4.8 The approved budget for 2023/24 was based upon a pay increase of 5%. The pay award in 2022/23 was a flat increase of £1,925 and if this level of pay increase is replicated in 2023/24 – rather than a 5% increase – the equivalent pay increase, on average, will be at least 6.44%. The potential effect of this has been reflected in future years of the MTFs; the remaining assumptions around pay increases (i.e. 4% in 2024/25 and 2% in subsequent years) have been maintained. These revisions have increased cost pressures over the next two years by **£1.406m** cumulatively, with a further **£2.043m** pressure estimated in 2026/27.

National Living Wage/Real Living Wage

- 4.9 The MTFs recognises the estimated financial implications of increases to the National Living Wage and Real Living Wage on Integrated Care & Health contracts. For 2024/25, this assumption is 7.1% (based on the Low Pay Commission estimate), and 1.6% and 2.1% in 2025/26 and 2026/27 respectively (based on OBR forecasts). These cost pressures are currently funded by the Better Care Fund (BCF), which is not guaranteed beyond April 2024 and subject to a decision by Health service.
- 4.10 These rates correlate closely with the original assumptions feeding into the MTFs, but there is an additional cost pressure of **£0.749m** as a result, cumulative over the next two years. The gross cost pressure in year 3 (2026/27) is estimated to be **£1.451m**.
- 4.11 The MTFs does not account for any costs associated with demographic growth or increased demand in either Integrated Health & Care or Children's Services, on the assumption that both services will successfully manage demand within their existing financial resource.

Prices

- 4.12 Assumptions around general price increases over the next three years focus on two main areas: reductions in energy prices and the increased non-staffing costs associated with the provision of health and social care. Overall, the changes to the assumptions described below have had a cumulative favourable effect of **(£0.919m)** on the MTFs over the next two years. The new cost pressure in year 3 (2026/27) is estimated to be **£3.504m**.

Energy

- 4.13 An allowance was made in the MTFs for anticipated increases in energy prices, but Yorkshire Purchasing Organisation's estimated billing rates for 2024/25 suggest that there is a case for revising this estimate. Price assumptions have been revised accordingly, causing a favourable effect in the MTFs over the next two years, with a cost pressure of **£0.074m** forecast in 2026/27.

Care Providers and Direct Payments

- 4.14 The original MTFS assumed 3% increases in care provider fee rates and direct payments in each of the next two years. Care providers are exposed to inflationary price increases in the same way as the Council; therefore, the assumed increase for 2024/25 has been increased to 5% to account for this. The additional cost pressure in year three (2026/27) is estimated at **£2.829m**.

Other Items

- 4.15 There are multiple smaller areas of expenditure which are expected to increase in line with inflation over the next three years. As a result, the uplift for 2024/25 has been increased from 2.5% to 5.0% to reflect continuing high levels of inflation. The revised cost pressure is **£1.542m**, cumulative over the next two years, and a further cost pressure of **£0.575m** in year three (2026/27).

Treasury

- 4.16 As interest rates continue to remain high, there is an opportunity for the Council to achieve higher rates of return on its investments than was previously forecast. The MTFS has therefore been adjusted accordingly in 2024/25 to show an additional **£1.099m** favourable movement in investment income. Advice received from the Council's Treasury Advisers, Link Asset Services, suggests that interest rates will remain high for the majority of 2025/26 before eventually falling in 2026/27, at which point investment returns are forecast to return in line with previous expectations. Whilst interest rates are high, it is more expensive to borrow from the Public Works Loans Board, so current cashflow forecasts assume that cash resources will be utilised in the short term; therefore, an assumption of a lower amount available for investments has also been made.

Capital

- 4.17 The capital financing estimates have been refreshed to reflect changes to the approved capital programme for schemes funded by borrowing. Interest rates have remained higher than forecast due to Bank of England monetary policy and so interest forecasts have been increased by between 0.4% and 0.8% from those included in the original MTFS.
- 4.18 In 2024/25, increased interest rates on borrowing have been offset by reduced Minimum Revenue Provision (MRP) costs, due to both slippage on schemes and the decision to increase the use of capital receipts to fund the capital programme in 2022/23.
- 4.19 There are several high value capital schemes in the approved programme and provisional pipeline which do not attract MRP charges until 2026/27; this includes the Council's investment in the regeneration of St Helens Town Centre. There is therefore a noticeable increase in capital financing costs for 2026/27.

Collection Fund

- 4.20 Assumptions around the Collection Fund can be split between Council Tax and Business Rates. Overall, the changes to the assumptions described below have had a cumulative favourable effect of **(£1.783m)** on the MTFS over the next two years. The extra income forecast in year 3 (2026/27) is estimated to be **£8.091m**.

Council Tax

- 4.21 For planning purposes, Council Tax has been assumed increase by 4.99% for 2024/25 and further 2.99% increases in 2025/26 and 2026/27. This assumes that the Adult Social Care precept will continue until 2026/27, although this has yet to be confirmed by the Government. This is consistent with the approach taken in the original MTFs. Table 3, overleaf, shows the breakdown of Council Tax increases over the next three years:

Table 3 – Council Tax Increases in MTFs, 2024/25 to 2026/27

Description	2024/25	2025/26	2026/27
Base Council Tax	2.99%	1.99%	1.99%
Social Care Precept	2.00%	1.00%	1.00%
Total	4.99%	2.99%	2.99%

- 4.22 Any future variations in the level of Council Tax as a result of changes in Government policy will affect the forecast budget position. A 1% variation in the assumed Council Tax increase equates to approximately £0.955m.

Business Rates

- 4.23 The MTFs model assumes that the Business Rate multiplier will continue to increase in line with the Consumer Price Index (CPI) each year. Additionally, any under-indexing of the multiplier and the consequential reduction to Business Rates income will be compensated in full through additional Section 31 grant.
- 4.24 The updated budget position for Business Rates includes a revised CPI forecast for 2024/25 of 5.5% (previously 2.5%) and the re-profiling of large development schemes. The effect of these changes is an increase to Business Rates income/Section 31 grant and Council Tax of **£1.783m** cumulative over the next two years, and additional income forecast for 2026/27 of **£8.091m**.
- 4.25 The assumptions on Business Rates income will be kept under review throughout the budget process, including the impact of any changes to the Business Rates Retention Scheme because of a provision in the proposed Non-Domestic Rating Bill. Other factors taken into consideration are the local estimate for growth in total rateable values and the estimated contributions to the bad debt and Business Rates appeals provisions.

Levies

- 4.26 The 2024/25 levies expenditure forecast for MITA, MRWA and the Environment Agency have been revised to be consistent with the model produced by Pixel Financial, who are widely recognised as expert commentators on local government finance. The resultant increase from 4% to 5% in 2024/25 creates an additional cumulative cost pressure of **£0.464m** by 2025/26. Assumptions for future years are maintained at 2%. These increases to levies are agreed at a local level and may, therefore, be subject to change as more information becomes available.

Other Considerations

- 4.27 Savings for this year and future years need to be delivered and sufficient scrutiny needs to be applied to them to ensure they are delivered in full and on time.

- 4.28 A one-year funding settlement was announced for 2023/24; the fifth one-year settlement in a row. Major reforms to the local government funding system are expected to be introduced but the Government has confirmed that this will not happen until at least 2025. The fact that there will be a General Election before this point casts further uncertainty on when the review will actually take place.
- 4.29 At this stage the effect of these reforms on the Council is unknown. The provisional budgets for 2024/25 to 2026/27 currently assume that any effect of the reforms will be neutral. These assumptions will be reviewed as further information on the proposed reforms becomes available.
- 4.30 The timetable for the preparation and approval of the MTFS for 2024-2027 is detailed in Table 4, below:

Table 4 – Timeline for MTFS

Date	Task	Comment
October- November	Consultation	Consultation seeking views on savings proposals.
November	Scrutiny Review of Savings Options	Overview & Scrutiny Commission review of proposed savings options
22/11/2023	Autumn Statement	Indicative funding figures for local authorities announced by Government; no specific details for SHBC
13/12/2023	MTFS Update & Savings Report	MTFS Update report to Cabinet. Includes results of consultation on savings
Late December	Provisional Local Government Finance Settlement	Receipt of Provisional Local Government Finance Settlement
28/02/2024	MTFS & Budget Report	MTFS & Budget Report to Cabinet. Approves final budget
06/03/2024	MTFS & Budget Report	MTFS & Budget Report to Council. Approves final budget

Savings

- 4.31 The revised MTFS assumes that all approved savings for 2023/24 are achieved on time and in full. Any slippage on these savings will cause additional cost pressures in future years and the value of such slippage may be material.
- 4.32 A number of the approved savings for 2023/24 savings increase in value in future years and it is imperative that these savings are progressed and achieved.
- 4.33 Further savings will need to be identified and delivered in 2024/25 and 2025/26 to meet both the revised budget gaps identified in Table 1 and Table 2, and to provide a contingency against any slippage on the delivery of the agreed savings for 2023/24.
- 4.34 Consideration needs to be given to the identification and delivery of savings for the financial year 2026/27 in order to meet budget gap identified in section 4.6.

- 4.35 The process to identify and develop additional budget savings options for the 3-year period 2024-2027 is ongoing and is largely informed by service and business planning reviews.
- 4.36 At time of writing, only £8.25m of the £12.35m savings required in 2023/24 are on track. Whilst some in year mitigations have been identified to lessen the problem, failure to make the agreed saving within the budget create real pressure on the Council's financial position. If they are not made in the year, then balances will need to be raided to meet expenditure and increased savings required in 2024/25. Continued failure to deliver the identified savings means that the Council cannot demonstrate delivery of a balanced budget and could lead to, ultimately, issuing of a statutory notice.
- 4.37 Consultation with the public on proposed savings for 2024/25 to 2026/27 will be undertaken as part of the normal financial planning process, during October to November 2023.
- 4.38 The Medium Term Financial Strategy Update Report will contain the results of the consultation exercise for consideration by Cabinet in December.

5 Consideration of Alternatives

- 5.1 The upcoming Financial Monitoring Report and future Medium Term Financial Strategy Update Reports will provide further update and detail in relation to revised financial planning assumptions and associated forecast gaps, alongside actions necessary to ensure sustainability of the Council's financial position in the short and medium term.
- 5.2 Upcoming reports will provide updates on savings options that have been considered as part of the financial planning process and report upon the results of public consultation and decisions that are made regarding the implementation of the savings necessary to set a balanced budget.

6 Conclusions

- 6.1 The purpose of this report is to highlight the forecast financial position of the Council and to identify those areas where assumptions have changed in a material way from the original MTFS.
- 6.2 Overall the MTFS has moved favourably by **(£0.321m)** in 2024/25 and adversely by **£0.512m** in 2025/26. The first estimated budget gap for 2026/07 is **£2.413m**. This brings the cumulative revised budget gap over the three-year period 2024/25 to 2026/27 to **£13.331m**.
- 6.3 Work is ongoing to identify service review and budget savings options as part of the financial planning process and the requirement for actions to ensure the financial sustainability and resilience of the Council.

7 Legal Implications

- 7.1 The purpose of this report is to highlight the forecast financial position of the Council and has no direct legal or other implications unless noted.

8 Equality Impact Assessment

- 8.1 Whilst there are no implications directly arising from this report, the financial challenge is such that potential adverse impacts will need to be considered and understood when

implementing actions necessary to ensure sustainability of the Council's financial position.

9 Social Value

- 9.1 Whilst there are no implications directly arising from this report, the financial challenge is such that potential adverse impacts on local economy spend/ procurement will need to be considered and understood when implementing actions necessary to ensure sustainability of the Council's financial position.

10 Net Zero and Environment

- 10.1 Whilst there are no implications directly arising from this report, the financial challenge is such that potential adverse impacts on sustainability and the environment will need to be considered and understood when implementing actions necessary to ensure sustainability of the Council's financial position.

11 Health and Wellbeing

- 11.1 Whilst there are no implications directly arising from this report, the financial challenge is such that potential adverse impacts on health and wellbeing will need to be considered and understood when implementing actions necessary to ensure sustainability of the Council's financial position.

12 Equality and Human Rights

- 12.1 Whilst there are no implications directly arising from this report, the financial challenge is such that potential adverse impacts on equality and human rights will need to be considered and understood when implementing actions necessary to ensure sustainability of the Council's financial position.

13 Customer and Resident

- 13.1 There are no direct implications on people accessing Council services or resident in the Borough from this report, but due to the extreme financial challenge, the potential adverse impacts will need to be understood when determining actions necessary to ensure financial sustainability of the Council's financial position.

14 Asset and Property

- 14.1 There are no direct implications on assets and property from this report but due to the extreme financial challenge the potential adverse impacts upon staffing will need to be understood when implementing actions necessary to ensure financial sustainability of the Council's financial position.

15 Staffing and Human Resources

- 15.1 There are no direct implications on staffing from this report but due to the extreme financial challenge the potential adverse impacts upon staffing will need to be understood when implementing actions necessary to ensure financial sustainability of the Council's financial position.

16 Risks

- 16.1 This report outlines the forecast budget position of the Council and highlights a number of the risks that exist in relation to the Council's ongoing financial position and sustainability.

17 Finance

- 17.1 As detailed in Section 4.

18 Policy Framework Implications

- 18.1 None arising directly from this report, but due to the extreme financial challenge, the potential policy framework implications need to be fully understood when determining actions necessary to ensure financial sustainability of the Council's financial position.

19 Impact and Opportunities on Localities

- 19.1 None arising directly from this report, but due to the extreme financial challenge, the potential impacts and opportunities need to be fully understood when determining actions necessary to ensure financial sustainability of the Council's financial position.

20 Background Documents

- 20.1 Medium Term Financial Strategy 2023-2026 and Revenue & Capital Budget 2023/24 (Cabinet 22 February 2023, Council 1 March 2023)

21 Appendices

- 21.1 There are no appendices to this report.