

**17 July 2018****TITLE OF REPORT: Medium Term Financial Strategy 2019/20 – 2023/24****REPORT OF: Darren Collins, Strategic Director, Corporate Resources****Purpose of the Report**

1. To request Cabinet to recommend to Council the approval of the Medium Term Financial Strategy (MTFS) 2019/20 to 2023/24 and the outcome of a review of Council Reserves as set out in this report and appendix.

**Background**

2. The MTFS is fundamental to effective financial planning within the Council as it sets the financial context for the Council's resource allocation and budget setting ensures that resources are assigned to the Council's priority outcomes.
3. The current MTFS was agreed by Council on 18 July 2017 and was based on government intent to introduce funding reforms of 100% business rate retention taking place in 2020, however, in December 2017 the Government announced its aim to introduce 75% business rates retention in 2020 under existing legislation.
4. Within the 2018/19 settlement the Government provided some details of indicative funding up to 2019/20 which gave a high level indication of revenue support grant funding. However, uncertainty still exists in respect of likely Government funding levels in relation to other grants over that period as well as the instability arising from unknown future funding levels from 2020/21 and the outcome of any future finance reforms.
5. The government intends to implement its Fair Funding Review as of 1 April 2020, for the 2020/21 financial year. This will be done via the local government finance settlement process. The government's intention is to publish a series of technical consultations during mid-2018, followed by broad outlines of the new system in autumn or winter 2018. It is expected that indicative allocations to individual authorities following implementation will then be made available in spring to early summer 2019, followed by final numbers in autumn 2019.
6. This report reviews the principles of the MTFS for Cabinet to consider and make a recommendation to Council. It also updates budget forecast models taking into consideration Government funding for 2018/19, assumptions on funding for 2019/20 to 2023/24 based on estimates and assumptions around service and corporate pressures. The MTFS also includes a review of the reserves policy of the Council, the outcome of which is set out in the following sections of this report.
7. The Council will continue to keep the MTFS under review as a consequence of the high degree of uncertainty surrounding the potential impact of Government policies and funding decisions.

## Proposal

8. The proposed MTFFS for 2019/20 to 2023/24 is attached at Appendix 2. This presents a very challenging financial position over the medium term as a result of assumptions concerning future Government funding. The indicative budget forecasts within the MTFFS show an estimated funding gap of £76.689m for the next five years to 2023/24 with an estimated gap of £55.060 for the first three years.
9. To satisfy its legal requirement to balance the budget the Council must make spending plans affordable by matching them to the estimated funding available over that time. The gap between the two amounts is referred to as the “financial gap”. Thus, the financial gap is a combination of the Council’s best estimate of the future budget needed to cover rising cost pressures and demands for services alongside a reduced amount of income. Action is required now to enable the council to legally balance the budget for both next year and in future years.
10. The MTFFS also requires a full review of the Council’s reserves position. The outcome of this exercise forms part of the formal MTFFS document. The review has concluded that no further changes are required at this time.

## Recommendations

11. Cabinet is requested to recommend the Council to:
  - (i) approve of the Medium Term Financial Strategy for 2019/20 to 2023/24;
  - (ii) note the review of both general fund and strategic earmarked Council reserves;
  - (i) note that the Strategic Director, Corporate Resources, following consultation with the Chief Executive, will continue to produce and monitor on an annual basis, a rolling programme of five-year budget forecasts taking account of the key issues facing the Council; and
  - (ii) note that the Strategic Director, Corporate Resources, following consultation with the Chief Executive will continue to keep under review and update the MTFFS as appropriate to respond to Government policy and funding announcements.

For the following reasons:-

- i) To contribute to the good financial management practice of the Council;
- ii) To assist the financial sustainability of the Council over the medium to long term.

### Policy Context

1. The Medium Term Financial Strategy (MTFS) includes financial projections analysis and context that supports the Council's new policy approach 'Making Gateshead a Place Where Everyone Thrives'. The Council recognises there are huge financial pressures on not just Council resources, but those of partners, local businesses and residents. To deliver on the new policy approach over the next five years, the Council will need to be resolute in its determination to make Gateshead a place where everyone thrives. This means the Council's decision-making including resource allocation through the budget will be policy and priority led and driven.
2. In order to strengthen the Council's financial position to deliver on the new policy approach, there needs to be consideration of other ways to generate income to achieve self-sufficiency including changes in local taxation, fees and charges and trading activities as well as prioritising and supporting economic growth within the borough. The Council will also seek to address and manage the huge pressures created by increasing demand for Council services along with the identification of efficiencies and savings.
3. The MTFS provides the financial planning framework for supporting the allocation of available resources to deliver strategic plans. It also supports a sustainable Gateshead through the best use of available resources to deliver services and long term financial sustainability for the Council. This strategic financial approach is built around the four MTFS themes of economic growth, income generation, management of demand and efficiencies / savings.

### Background

4. The MTFS 2018/19 to 2022/23 containing budget estimates and assumptions was agreed at cabinet 18 July 2017. The MTFS was prepared with some indicative funding forecasts from central government via the multi-year settlement up to 2019/20 and showed an estimated funding gap of £88m for the period 2018 to 2023.
5. The principle of a multi-year settlement was welcome however many of the future year's figures included in the Government's original settlement have still been subject to change. Furthermore, while the Local Government Finance Settlement is the primary source of grant income to local authorities, there are other, significant sources of grant funding dependent on government decisions such as existing Better Care Funding, Education Services Grant and Public Health. These other grants represent material amounts of funding to the Council and there is no mention of these in the government's future analysis and without these the council has had an incomplete set of information with which to plan its future finances effectively.
6. A refresh of assumptions alongside more recent Government announcements has been undertaken to inform future financial planning.
7. The current MTFS has been reviewed and updated. The MTFS 2019/20 to 2023/24 document is attached at Appendix 2 and outlines a strategy to deal with a funding gap of £55.060m for the three year period. The overall five-year funding gap over the life of the MTFS is estimated at £76.689m.

8. The likely continuing requirement and scale of budget savings, over and above the £157m already taken from budgets since 2010, represents an increasing challenge for the council.
9. Medium term financial planning remains extremely difficult due to external economic factors the financial impacts of which are impossible to predict accurately, coupled with the timing of a new finance system that is still in the design process. There is great uncertainty in relation to the level of funding beyond 2020 due to the changes in the Local Government finance system resulting in greater risks in relation to the localisation of business rates and the local council tax scheme. The unknown impacts alongside the level of risk to finances mean that these forecasts will need to be closely monitored and potentially refreshed more frequently than usual as consequences become clear. Staying the same is not an option. The council is required to change to deliver its priority outcomes within the limited funding available.
10. The funding estimated to be received from government and from council tax and business rate payers over the next five years is not sufficient to cover current level of spend plus new budget pressures. Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore, to legally balance the budget the council must make spending plans affordable by matching it to the estimated funding available over that time
11. The Council response to the challenging financial context is to achieve a sustainable funding position with a focus on four inter-related areas: economic growth, income generation, managing demand, and finding cost savings and efficiency by:
  - Maximising Economic Growth** - Doing all we can to support economic growth and revenue generation through increased council tax and business rates. Success in this area will enable the council to support the most vulnerable and those at risk of becoming vulnerable both directly and through reinvestment of resources into activities which provide protection and support.
  - Driving **Income Generation** such as increasing the rate or scope of fees and charges or increased trading activities to provide employment and generate resources for council priorities.
  - Focusing on **Managing Demand** (particularly in social care) with a targeted approach, emphasising early intervention and prevention.
  - Continuing to **Drive efficiencies & Savings** through changes to the way the council works, for example, through exploiting new technology, consolidation of buildings and services and reducing complex processes.
12. The council will ensure that reducing resources are used to maximum effect, and allow the council to continue to deliver new and better ways of working and invest to improve the efficiency of services provided. It is evident however the continuing reductions in funding and increases in demand will have an inevitable impact on both the nature and scope of services that the council is able to deliver. The council will aim to manage the process of change to its services effectively.
13. The council will continue to have significant revenue and capital budgets to deliver services consistent with the delivery of priority outcomes of "Making Gateshead a Place where Everyone Thrives". The council will retain its vision for the future of the Borough through promoting development and economic growth and this will assist in maintaining the medium term financial sustainability of the council.

## Consultation and Equalities Impact

14. The MTFs sets a financial context for budget consultation. The Council's budget planning framework is supported by the development of Equality Impact Assessments (EIAs) for any budget proposals, identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010. The EIAs will also identify potential mitigation where applicable.
15. The Council maintains its strong commitment to equality, believing that all groups and individuals within the community and its workforce have equal opportunity to benefit from the services and employment it provides. EIAs help the Council to arrive at informed decisions and to make the best judgements about how to target resources.
16. The Leader of the Council has been consulted on this report.

## Alternative Options

17. There are no alternative options.

### Implications of Recommended Option

#### 18. Resources

- a. **Financial Implications** - the Strategic Director, Corporate Resources confirms that financial implications are as contained within the MTFs document.
- b. **Human Resource Implications** – The need to support Council employees as much as possible through changes arising from the MTFs principles set out in this report is recognised. Any direct implications will form part of the budget planning framework and identification of budget proposals.
- c. **Property Implications** – No direct property implications. Any direct implications will form part of the budget planning framework and identification of budget proposals.

19. **Risk Management Implication** – The MTFs risk implications are contained within the MTFs document. Risks arising from the direct impacts of this strategy will form part of the Council's approach to the budget planning framework.
20. **Equality and Diversity Implications** – An equality impact framework has been developed to assess budget proposals.
21. **Crime and Disorder Implications** – No direct crime and disorder implications. Direct implications arising from the impacts of this strategy will form part of the Council's approach to the budget planning framework and consultation process.
22. **Health Implications** – No direct health implications. Direct implications arising from the impacts of this strategy will form part of the Council's approach to the budget planning framework and consultation process.
23. **Sustainability Implications** – The MTFs provides a framework with the express objective of achieving a sustainable financial position over the medium term.
24. **Human Rights Implications** – No direct human rights implications.
25. **Area and Ward Implications** – All areas of the Borough are covered by the principles set out in this strategy