

**TITLE OF REPORT:** Medium Term Financial Strategy 2020/21 – 2024/25

**REPORT OF:** Darren Collins, Strategic Director, Corporate Resources

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### Purpose of the Report

1. To request Cabinet to recommend to Council the approval of the Medium Term Financial Strategy (MTFS) 2020/21 to 2024/25 and the outcome of a review of Council Reserves as set out in this report and appendix.

### Background

2. The MTFS sets the financial context for the Council's resource allocation as such is fundamental to effective financial planning.
3. The current MTFS was agreed by Council on 17 July 2018 and 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 £77m for the period to 2024 and £13.6m in 2020/21.
4. The government intended to implement the Fair Funding Review as of 1 April 2020, for the 2020/21 financial year along with a move towards 75% business rate retention and a four year spending review.
5. Following national political events a one year settlement is now expected in early December with the multi-year spending review and finance reforms being pushed back to 2021. The UK's date to leave the EU is expected to be 31 October 2019. All assumptions will need to be revisited regularly and the financial impacts to the Council's MTFS will be reconsidered in light of the revised funding position and external context.
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 2020/21, assumptions on future funding as well as service and corporate pressures. The MTFS also includes a review of reserves policy and reserves adequacy, 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 announcements on funding decisions and this will allow for a budget to be set that ensures the financial sustainability of the Council.

### Proposal

8. The proposed MTFS for 2020/21 to 2024/25 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 MTFS show an estimated funding gap of £49.9m for the next five years to 2025 with an estimated gap of £8m in the first year.
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.

Action is required now to enable the council to legally balance the budget for both next year and in future years.

10. To assist in meeting the challenges ahead the principles which underpin the MTFS have been reviewed and these are proposed as follows:
  1. The overall financial strategy will be to ensure that the council's resources are directed to the thrive agenda framework. Financial sustainability will be achieved and maintained through targeted investment, reducing costs and more efficient ways of working. The council's MTFS will be reviewed on at least an annual basis.
  2. The council will consider a range of delivery mechanisms and funding sources to support capital investment to deliver thrive priorities, including the use of prudential borrowing, and will ensure that the full costs associated with financing the investment are taken into account when investment decisions are taken.
  3. The council will aim to promote and stimulate strong and sustainable economic growth leading to wellbeing and prosperity for residents and communities and this will be supported by a planned approach to strategic investment managed through the council's capital programme.
  4. The council will maintain its general reserve at a minimum of 3% of the net revenue budget to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.
  5. The council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed at least annually.
  6. Overall council spending should be contained within original estimates. If, following monthly revenue monitoring, service budgets are projected to exceed original estimates, plans should be prepared setting out the actions required to ensure spending at the end of the year does not exceed original estimates.
  7. The council recognises the impact of increases in council tax levels and fees and charges in an area of relatively low income and low wealth and will therefore balance the need for increases against the delivery of the thrive framework and demand for services.

## **Reserves Review**

11. The 2018/19 Revenue Outturn position was reported to Cabinet on 25 June 2019, showing the balance of usable reserves of £52.9m (including ring fenced reserves of £12m) An explanation of each reserve and balances as at 31 March 2019 can be found in the council's audited statement of accounts for 2018/19.
12. Following a review of the MTFS position and of key priorities, the following changes to the Council's strategic reserves are proposed for approval;

It is proposed that £3.986m is transferred from the general reserve to earmarked reserves, leaving a balance of £10.821m which is 5% of the net revenue budget. It is further proposed that the Council's strategic reserves are realigned as follows:

- **Financial Risk and Resilience £11.290m-** It is proposed that the insurance, grant clawback, business rates and budget flexibility reserves are merged to create a new Financial Risk and Resilience Reserve.
- **Budget Sustainability £10.215m-** It is proposed that the strategic revenue investment and the workforce development reserves are merged to create a new Budget Sustainability Reserve.
- **Economic, Housing and Environmental Investment £5.000m-** It is proposed that the economic growth, culture and place shaping reserve is renamed to create a new Economic, Housing and Environmental Investment Reserve.
- **Poverty, Health and Equality Investment £3.500m-** It is proposed that the discretionary social fund, voluntary sector and anti-poverty reserves are merged to create a new Poverty, Health and Equality Investment Reserve.

## **Recommendations**

13. Cabinet is requested to recommend to Council:

- (i) the approval of the Medium Term Financial Strategy for 2020/21 to 2024/25 including the proposed MTFS principles;
- (ii) to note the outcome of the reserves review of both general fund and strategic earmarked Council reserves and approve the creation of four strategic reserves at the financial levels outlined in the report;
  - a. Financial Risk and Resilience
  - b. Budget Sustainability
  - c. Economic, Housing and Environmental Investment
  - d. Poverty, Health and Equality Investment
- (i) to 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
- (ii) to note that the Strategic Director, Corporate Resources, following consultation with the Chief Executive will continue to keep under review and update the MTFS 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.

**Background**

2. The current MTFS agreed by Cabinet 17 July 2018 has been reviewed and updated. The MTFS 2020/21 to 2024/25 document is attached at Appendix 2 and outlines a strategy to deal with an estimated financial gap of £49.9m over the period.
3. The likely continuing requirement and scale of budget savings, over and above the £170m already taken from budgets since 2010, represents an increasing challenge for the council.
4. 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.
5. 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
6. 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.

7. The council will continue to have significant revenue and capital budgets to invest and deliver services consistent with the delivery of key 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**

8. The MTFS sets a financial context for budget consultation. The Council's budget planning framework is supported by the development of integrated impact assessments for draft budget proposals. These assessments include identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010 and identify potential mitigation where applicable.
9. 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.
10. The Leader of the Council has been consulted on this report.

## **Alternative Options**

11. There are no alternative options.

### **Implications of Recommended Option**

12. **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.
13. **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.
14. **Equality and Diversity Implications** – An equality impact framework has been developed to assess budget proposals.
15. **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.
16. **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.

17. **Sustainability Implications** – The MTFS provides a framework with the express objective of achieving a sustainable financial position over the medium term.
18. **Human Rights Implications** – No direct human rights implications.
19. **Area and Ward Implications** – All areas of the Borough are covered by the principles set out in this strategy