

TITLE OF REPORT: **Medium Term Financial Strategy 2022/23 – 2026/27**

REPORT OF: **Darren Collins, Strategic Director, Resources & Digital**

Purpose of the Report

1. To request Cabinet to recommend to Council the approval of the Medium-Term Financial Strategy (MTFS) 2022/23 to 2026/27 including the proposed MTFS principles and the medium-term financial context as set out in this report and appendix.

Background

2. The Medium-Term Financial Strategy (MTFS) is a key part of the Council's Budget and Policy Framework which aims to ensure that all financial resources are directed towards delivery of Council priorities. The Strategy describes the financial direction of the Council for financial planning purposes and outlines the financial pressures over a five-year period but is reviewed annually to reflect the dynamic nature of local government funding.
3. On 4 February 2021 a one-year financial settlement was received for 2021/22.
4. On 7 September 2021, the government published 'Building Back Better: Our Plan for Health and Social Care'. This represents a plan to address the backlog in the NHS resulting from the COVID-19 pandemic and the long standing systemic and funding challenges for delivering adult social care. This plan represents the first stage of information being provided around the reforms; in particular, for adult social care.
5. The 2021 Spending Review will be delivered on 27 October 2021 and it has been confirmed that this will set out funding totals for the three-year period 2022/23 to 2024/25. The Government plans to then consult on proposals for distributing the additional funding for adult social care across local government. In addition, the Government will also publish a white paper on system reform for adult social care.
6. Medium term financial planning has never been more necessary or more challenging. The continuing impact of the pandemic crisis as well as Brexit and associated volatility

on funding and demand requires the Council to establish financial plans over a longer time period. As with previous years there is no guidance from Government on future funding and financial reforms, which is a significant barrier to effective financial planning for the Council. The current context is exceptional and it will require continual monitoring, financial discipline and new and flexible approaches to financial planning and management.

Proposal

7. The MTFS is based on a 5-year planning horizon within a ten-year investment framework, including projections to 2026/27 and these estimates will be kept under regular review.
8. To assist in meeting the financial challenges ahead, the principles which underpin the MTFS have been reviewed and these are proposed as follows:
 - 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.
 - 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 considered when investment decisions are taken.
 - 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.
 - 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.
 - 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 budget estimates.
 - 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 the need for services.
 - The Council will meet its financial obligations and maintain financial sustainability through the setting of a balanced budget and the delivery of outturn within the overall budget each year.

9. The MTFS estimates and plan for 2022/23 to 2026/27 have been reviewed and updated wherever possible. Full details are attached at Appendix 2.
10. The MTFS presents a very challenging financial position over the medium term. The outcome of the review gives an estimated revised financial gap over the five-year period of £63m including COVID impacts. This impact will be mitigated temporarily through the planned application of pandemic reserves of £18m and the plan assumes proposed use of £20m from the budget sustainability reserve over the next three financial years. Efficiencies and savings of £45m will be required over the medium term. It is essential these are delivered to ensure the financial sustainability of the Council.
11. Reserve levels are reviewed twice a year as part of budget and council tax setting and as part of the MTFS review. The outcome of the reserves review is the proposal to realign existing reserves to add funds to the budget sustainability reserve thus creating £20m of temporary funds to support a planned approach to achieve a balanced position over the next three years.
12. Further details on the changes to reserves can be found in appendix 1 and the MTFS document at appendix 2. Following review and realignment of earmarked reserves existing commitments will need to be reviewed and possibly reduced or removed.
13. The Council recognises that usage of reserves is one-off in nature and must be linked with expenditure and income plans to support financial sustainability in the medium term. Therefore, using reserves in this way means that it is essential to have a planned schedule of savings and efficiencies to achieve a balanced budget in future years and reinvest to achieve thrive priorities. The Investment Plan and HRA Business Plan will also be aligned and prioritised to ensure affordability and to manage risks.

Recommendations

14. Cabinet is requested to recommend to Council:
 - (i) the approval of the Medium-Term Financial Strategy for 2022/23 to 2026/27 including the proposed MTFS principles and the medium-term financial context as set out in this report and appendix;
 - (ii) to agree the outcome of the reserves review and approve the reserves balances as outlined in appendix 1 to the report.

For the following reasons:

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

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APPENDIX 1

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 remain 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 MTFS establishes the best estimates of the level of revenue resources available to the Council over the medium term and estimates the financial consequences of the demand for Council services. It assists financial planning and strategic financial management through providing the financial context within which the Council budget will be set.
3. Medium term financial planning remains extremely difficult due to the exceptional circumstances currently being faced by all local authorities. There is great uncertainty in relation to the level of future funding due to the changes in the local government finance system, current and long-term pandemic impacts as well as the UK leaving the European union. The unknown impacts alongside the level of risk to finances mean that forecasts will need to be closely monitored and potentially refreshed more frequently than usual as further consequences become clear.
4. 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. 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 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.
6. 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.

Reserves Review

7. The MTFS review allows for consideration of the Council's reserves policy and a review of the level of reserves to ensure there is adequate protection against unforeseen events. Following the outcome of the review of reserves the following changes are proposed;

Council General Reserve £8.0m- It is proposed that £5.9m is transferred out from the general reserve to earmarked reserves, leaving a balance of £8.0m which meets the 3% minimum principle.

Financial Risk and Resilience £9.9m- It is proposed that this reserve reduces by £4.4m following a review of earmarked risks. Projected balances are; (Insurance (£2m), grant clawback (£3m), workforce development costs (£3m), commercial risk (£1.5m) and budget flexibility (£0.4m))

A new Thrive reserve is proposed of £10.0m -This reserve will replace the two existing reserves to continue to support the delivery of Council Thrive priorities of Economic, Housing and Environmental Investment (£5m) and Poverty, Health and Equality Investment (£5m)

Budget Sustainability £20.0m- It is proposed that this reserve increases by £15.0m to provide temporary budget support over the next three financial years.

8. Using reserves in this way means that it is crucial to have a planned schedule of savings and efficiencies over the period to achieve a balanced budget that is sustainable in future years.

Consultation

9. The MTFS sets a financial context for budget consultation. The Council's budget planning framework is supported by the development of integrated impact assessments (IIAs) 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.
10. 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. IIAs help the Council to arrive at informed decisions and to make the best judgements about how to target resources.
11. The Leader of the Council has been consulted on this report.

Alternative Options

12. There are no alternative options.

Implications of Recommended Option

13. Resources:
 - a) **Financial Implications** – the Strategic Director, Resources and Digital confirms that financial context is contained within the report and appendices. Any direct implications will form part of the budget planning framework and identification of budget proposals.
 - b) **Human Resources Implications** – The need to support Council employees as much as possible through changes 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.
14. **Risk Management Implication** - Risks arising from the direct impacts of this strategy will form part of the Council's approach to the budget planning framework.
15. **Equality and Diversity Implications** - An equality impact framework has been developed to assess budget proposals.
16. **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.
17. **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.
18. **Climate Emergency and Sustainability Implications** - The MTFS provides a framework with the express objective of achieving a sustainable financial position over the medium term. Addressing climate change remains a priority of the Council and the MTFS frames the resources available.
19. **Human Rights Implications** - No direct human rights implications.
20. **Ward Implications** - All areas of the Borough are covered by the principles set out in this strategy

Background Information

21. Provisional Revenue Outturn 2020/21 - 20 July 2021