

**TITLE OF REPORT:**           **Medium Term Financial Strategy 2023/24 – 2027/28**

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

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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) 2023/24 to 2027/28 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 7 February 2022 a one-year financial settlement was received for 2022/23. The settlement for 2023/24 is expected in mid to late December 2022. It was announced (prior to changes in Central Government Leadership and Cabinet) a possible 2-Year settlement. No further details are known at this time.
4. A three-year Budget approach was agreed in December 2021 for planned use of reserves of £20m to allow time to identify cuts and efficiencies required over the three-year planning.
5. Medium term financial planning has never been more challenging given the current financial climate. There is continued uncertainty in relation to the level of future funding, spiralling inflation amidst uncertainty around international issues, the national economy and cost of living crisis, notably around food, fuel and utility prices across the country.
6. Inflationary pressures identified in 2022/23 will have a cumulative effect across the MTFS period. It is anticipated that levels of inflation will not reduce significantly by the end of 2022/23 and therefore likely to be ongoing pressures during 2023/24.
7. It has been an unprecedented year in relation to energy costs with significant increases in both Gas and Electricity costs with expectation to rise further in 2023/24.

8. Fuel cost have risen significantly in 2022, although recently started to reduce but still high cost compared to 2021 with uncertainty if it will continue into future years.
9. Current pay award 2022/23 (offer status) made by the National Employers is significantly higher than previously estimated at 5.7%. Any pay award or national Living Wage increases is unfunded from Government and must be met from settlement funding which put additional pressure on the Council's budget.
10. In September 2022 the Government made several announcements to respond to the cost-of-living crisis with the main being the Growth Plan 2022, Energy Bill Relief Scheme and the reversal of the Health and Social Care Levy. More recent Government announcements have since reversed some of the initial actions. Further details are awaited to understand if there is any impact for the Council.
11. Increasing demand across Social Care both in Adult Social care and Children's Services. This is due to the increase in population of older people fee increases in the commissioned sector in order to meet the cost of care. In addition, demand pressure on Looked after Children and Care packages for children with multiple complex needs.
12. In December 2021 the Government published the people at the Heart of Care Adult Social Care Reform White Paper. The paper set out a 10-year vision that puts personalised care and support at the heart of social care. It included plans to fundamentally reform the amount someone might pay for their care over their lifetime and significantly raises the threshold at which people start to pay for care. The charging reforms together with the requirement to undertake a market sustainability and fair cost of care exercise will come with significant cost pressures and the adequacy of the government funding to meet these costs is unclear.
13. 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 changing landscape to accessing funding has recently seen Local Authorities having to bid for additional funding. In 2016 Central Government announced the Fair Funding review which has yet to be delivered and unlikely during this Parliament.
14. The current context is exceptional, and it will require continual monitoring, financial discipline and new and flexible approaches to financial planning and management.

## **Proposal**

15. The MTFs is based on a 5-year planning horizon within a ten-year investment framework, taking projections to 2027/28 and these estimates will be kept under regular review.
16. The proposed MTFs for 2023/24 to 2027/28 is attached at Appendix 2. This presents an extremely challenging financial position over the medium term due to continued uncertainty on funding and worsening position due to impact of spiralling inflation.

17. The MTFFS budget forecasts show an estimated revised funding gap of £55m for five years to 2027/28, a worsening position from £45m last year, with £10m in the first year 2023/24. Crucially, this estimated gap is after £5.8m use of Budget Sustainability reserves in the current year, which is year one of the three-year approach, £10m in 2023/24 and £4m in 2024/25. In addition, the gap assumes use of pandemic reserves of £8.9m in the current year, £13.5m in 2023/24 and £3m in 2024/25.
18. The gap has increased significantly from last year due to inflationary increases and demand pressure across social care.
19. Energy costs have seen significant increases in both Gas and Electricity costs in 2022 with expectation to rise further in 2023/24. Current forecast includes £4.3m relating to 2023/24 which is significantly higher than in previous years.
20. Adults' social care experience pressures year on year in relation to increasing demand for services due to the increase in population of older people and pressures due to fee increases in the commissioned sector. These pressures are expected to continue and be exacerbated for the short, medium and long term. In addition, increases in demand pressure on Looked after children and Care packages for children with multiple complex needs.
21. To assist in meeting the financial challenges ahead the principles which underpin the MTFFS 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 MTFFS 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 MTFFS 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.

22. A detailed review of the reserves will be undertaken as part of the budget and council tax setting. General Reserves and Strategic Earmarked Reserve balances as at 31 March 2022 can be found in appendix 1. Full breakdown of reserves can be found in the full MTFS document at appendix 2.

23. 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**

24. Cabinet is requested to recommend to Council approval of the Medium-Term Financial Strategy for 2023/24 to 2027/28 including the proposed MTFS principles and the medium-term financial context as set out in this report and appendix.

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 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 has never been more challenging given the current climate. There is continued uncertainty in relation to the level of future funding, spiralling inflation amidst uncertainty around international issues, the national economy and cost of living crisis, notably around food, fuel and utility prices across the country.
4. A three-year Budget approach was agreed in December 2021 for planned use of reserves of £20m to allow time to identify cuts and efficiencies required over the three-year planning.
5. Inflationary pressures identified in 2022/23 will have a cumulative effect across the MTFS period. It is anticipated that levels of inflation will not reduce significantly by the end of 2022/23 and therefore likely to be ongoing pressures during 2023/24.
6. 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 changing landscape to accessing funding has recently seen Local Authorities having to bid for additional funding.
7. The current context is exceptional and 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.

8. 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.
9. 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.
10. 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 Summary**

11. Breakdown of each reserve and balances as at 31 March 2022 are outlined below;
  - **Council General Reserve £8.5m**- This is a statutory fund that acts as a contingency and allows the Council to meet any unforeseen costs. If the council overspend in a year this fund will meet that liability. The minimum balance on the reserve is 3% of the net revenue budget which meets the MTFS principles.
  - **Financial Risk and Resilience £9.4m**- This reserve is held in respect of key financial risks identified through risk management process. Balances include; (Insurance (£2m), grant clawback (£3m), workforce development costs (£2.6m), commercial risk (£1.5m) and budget flexibility (£0.3m))
  - **Thrive £8.4m** -This reserve is held to support the Council Thrive priorities of Economic, Housing and Environmental Investment (£3.9m) and Poverty, Health and Equality Investment (£4.5m)
  - **Budget Sustainability £20.0m** – Agreed in December 2021 an agreed approach to help support the timings of achieving significant budget savings and Thrive outcomes whilst still dealing with pandemic impacts over three-year period. £5.8m of this is committed within the 2022 budget.

- **COVID Reserves** - Pandemic Services Impact £25.6m. This reserve is held to support the approach to budget and impacts of the pandemic across council services and is committed to be utilised over the MTFS period. The Pandemic Collection Fund Impact £12.9m for specific grants provided by Government to replace lost funding to council tax and business rates is fully committed within the 2022 budget.

12. 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**

13. 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.

14. 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.

15. The Leader of the Council has been consulted on this report.

### **Alternative Options**

16. There are no alternative options.

### **Implications of Recommended Option**

#### **17. 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.

18. **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.
19. **Equality and Diversity Implications** - An equality impact framework has been developed to assess budget proposals.
20. **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.
21. **Health Implications** - No direct health implications. Direct implications arising from the impacts of the Health and Wellbeing Strategy this will form part of the Council's approach to the budget planning framework and consultation process.
22. **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.
23. **Human Rights Implications** - No direct human rights implications.
24. **Ward Implications** - All areas of the Borough are covered by the principles set out in this strategy

### **Background Information**

25. Provisional Revenue Outturn 2021/22 - 21 June 2022