

TITLE OF REPORT: **Medium Term Financial Strategy 2021/22 – 2025/26**

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

Purpose of the Report

- 1 To request Cabinet to recommend to Council the approval of the Medium-Term Financial Strategy (MTFS) 2021/22 to 2025/26 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) sets the financial context for the Council's resource allocation as such is fundamental to effective financial planning.
3. The current MTFS 2020/21 to 2024/25 containing budget estimates and assumptions was agreed at Cabinet 20 October 2019. The MTFS showed an estimated funding gap of £50m for the period to 2024/25 and £16m in 2021/22.
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. This was the basis of estimates prepared previously for 2021/22 and the MTFS.
5. A one-year settlement was received for 2020/21. A comprehensive spending review (CSR) is expected this Autumn setting out Government revenue spending plans for 2021/22 until 2023/24 and capital budgets to 2024/25. As part of their preparations for the CSR, Government departments have been asked to identify opportunities to reprioritise and deliver savings.
6. HM Treasury have announced that the next Budget will not take place this autumn due to the continued impact of COVID-19. This means that there is a possibility that the current plan for a 3-year Spending Review might be replaced by a 1-year rollover exercise similar to last year's settlement.
7. During 2020 the council and its residents have been impacted by the COVID-19 Public Health crisis. The lives and livelihoods of all residents have been severely affected by the impact of the Coronavirus pandemic and the measures that have been put in place to control the infection. From a financial perspective some of the cost pressures and loss of income will have both an immediate and longer-term impact on the council finances. As a result, it is likely that the Council will accelerate current work on a priority driven approach to the Budget that will deliver outcomes consistent with Thrive principles.

Proposal

8. The MTFS is based on a 5-year planning horizon taking projections to 2025/26 and these estimates will be kept under review.
9. Due to a total lack of clarity on future funding levels from Government there remains fundamental uncertainty, which is hindering the ability to plan the Council's finances over the next five years. Added to this are the impacts of Brexit and the on-going Covid-19 pandemic. The Council will continue to lobby Government on this important issue.
10. Due to the ongoing delays to local government funding reforms it is extremely difficult to forecast finances over the medium term. With that in mind the MTFS funding estimated will now be prepared on the current funding model of revenue support grant (RSG) and top up grant rather than estimating a rates retention model until such time that proposed reforms are clearer.
11. The MTFS and plan have been reviewed and estimates updated wherever possible. The outcome gives an estimated revised funding gap over the MTFS period (2021/22 to 2025/26) of £58.4m with £18.6m in the first year of 2021/22. Key assumptions and changes in estimates are contained in the appendix to the report and will be kept under review.
12. The proposed revised MTFS estimates for 2021/22 to 2025/26 are attached at Appendix 2. This presents a very challenging financial position over the medium term.
13. 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.
14. 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 5% 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

15. The 2019/20 Revenue Outturn position was reported to Cabinet on 23 June 2020. A full review of strategic reserves was conducted to ensure balances are fit for purpose, contributing to long term financial sustainability and the purpose for being held is fully transparent. A number of changes were made to strategic reserves. The outcome on the Council element of the general fund reserve was a remaining balance of £11.059m. This equates to 5% of 2020/21 net revenue budget. At outturn total useable reserves are £59.9m (£19m ring fenced) An explanation of each reserve and balances as at 31 March 2020 can be found in the council's audited statement of accounts for 2019/20.
16. Local authorities must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Strategic Director, Corporate Resources is required, as part of the budget setting process each year, to provide a statement on the adequacy of reserves that is subject to an external audit review to assess value for money and a going concern opinion. This will be reported into Cabinet in February as part of the budget and council tax setting report.

Recommendations

17. Cabinet is requested to recommend to Council the approval of the Medium-Term Financial Strategy for 2020/21 to 2024/25 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 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 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. 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, long term pandemic impacts and the UK leaving the European union 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.
3. 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.
4. 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.
5. 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

6. 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.
7. 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.
8. The Leader of the Council has been consulted on this report.

Alternative Options

9. There are no alternative options.

Implications of Recommended Option

10. Resources:

- a) **Financial Implications** – the Strategic Director, Resources and Digital confirms that financial implications are as contained within the MTFS document.
 - b) **Human Resources 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.
11. **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.
 12. **Equality and Diversity Implications** - An equality impact framework has been developed to assess budget proposals.
 13. **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.
 14. **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.

15. **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.
16. **Human Rights Implications** - No direct human rights implications.
17. **Ward Implications** - All areas of the Borough are covered by the principles set out in this strategy

Background Information

18. Provisional Revenue Outturn 2019/20 - 23 June 2020