

TITLE OF REPORT: Medium Term Financial Strategy 2024/25 – 2028/29

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

Purpose of the Report

1. To request Cabinet to recommend to Council the approval of the Medium Term Financial Strategy (MTFS) 2024/25 to 2028/29 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. 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. 2024/25 is the final year of this three-year approach and this report proposes an extension to the planned use of reserves for a further two years to 2026/27.
4. On 6 February 2023 a one-year financial settlement was received for 2023/24. The settlement for 2023/24 included some high level figures in relation to 2024/25 social care grants, but there is still a great deal of uncertainty for funding beyond the current years settlement. Medium term financial planning continues to be challenging given the current financial climate. There is continued uncertainty in relation to the level of future funding, stubbornly high inflation amidst uncertainty around international issues, the national economy and cost of living crisis, notably around food, fuel and utility prices across the country. As such, the assumptions in the refreshed MTFS have been completely reviewed.
5. Funding of local authorities and demand pressures is a national issue with a growing number of local authorities reporting significant financial issues and failures. The challenges that the Council is facing should not be underestimated but the starting point for the refresh of the MTFS is built on the solid foundation of:

- A strong track record of delivering Revenue Outturn within budget. The 2022/23 Revenue Outturn was positive but there were a number of one-off issues that masked overspending in some areas. The positive outturn remains a significant achievement given the financial pressure faced by services and enables the Council's sound financial position to be maintained with an extremely challenging economic and financial context;
 - The 2023/24 Finance Settlement was considered to be more positive than anticipated. However, the impact of inflation has eroded the spending power which has a cumulative impact over the MTFS;
 - Despite the funding challenge, the Council agreed £13.5m of budget cuts for 2023/24 to achieve a legally balanced budget, recognising active management of the funding position and that use of reserves cannot be the solution to the funding gap;
 - The active management of reserves has enabled some flexibility on the current 3-year approach to enable a 5-year position to be proposed;
 - The funding assumptions in the refreshed MTFS are considered to be a more realistic estimate. Nonetheless, the caveat of significant uncertainty remains; and
 - The 2023/24 base budget includes capacity to deliver on the transformation challenge. In addition, this is strengthened by a proposal to add a further £2m in 2024/25.
6. Despite the 2023/24 Finance Settlement awarding some areas of funding for 2024/25 in relation to social care, and confirmation of council tax referendum principles, it remains the case that there is significant uncertainty about funding beyond the current year. Many government funding sources are short term or come with additional burdens. Economic conditions remain turbulent impacting on cost pressures and funding sources such as business rates.
7. The Council has a strong track record of delivering a balanced budget and managing within resources, however it is important to remember that the 2022/23 and 2023/24 budgets were balanced using £5.8m and £10m of Budget Sustainability reserve. The use of reserves is a one-off solution and only postpones the need to make permanent cuts rather than preventing them being needed. The scale of the challenge to agree a sustainable financial position over the medium-term without reliance on reserves remains significant.
8. There are many assumptions that will need clarification between now and February, in particular:
- The Local Government Finance Settlement expected late December;
 - Confirmation of retained business rates and associated relief grants at the end of January;
 - The impact of the pay award in 2023/24 and assumptions for 2024/25;
 - Confirmation of Council Tax Support Scheme;
 - Confirmation of the Collection Fund surplus or deficit in mid-January;
 - Council tax base to be reported to Cabinet in January;
 - Agreed Capital Programme;
 - Devolution budget implications;
 - Agreed increase in Council Tax in line with referendum principles; and
 - Delivery of the 2023/24 budget.

9. The process is iterative as these areas become known and ultimately impact on the level and timing of interventions and budget cuts required, as well as the level and profiling of reserves usage. Notwithstanding this uncertainty, the Council still needs to develop an approach to the 2024/25 legally balanced budget based on the latest set of assumptions set out in the proposed MTFS. A proactive budget approach to financial resilience will be to develop a pipeline of interventions and potential budget cuts to help mitigate the uncertainty, reported elsewhere on this agenda.

Proposal

10. The refresh of the MTFS estimates that a funding gap of £49.7m by year 4 will need to be closed by delivering demand management interventions in social care totalling £11.5m. Alongside proposed corporate interventions totalling £6m, there remains a requirement to identify a pipeline of savings totalling £32.2m by year 4 of the MTFS to achieve sustainability. This can be summarised below:

2023/24 £m	Indicative Budget Forecasts	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
281.885	Estimated Base Budget	308.070	323.426	342.445	352.570	359.413
(264.998)	Estimated Funding Resources	(281.012)	(287.447)	(295.062)	(302.890)	(309.885)
16.887	Funding Gap (before Reserves)	27.058	35.979	47.383	49.680	49.528
(4.524)	Pandemic Reserves	(2.000)	(2.000)	(2.000)	0.000	0.000
(10.000)	Budget Sustainability Reserve	(9.175)	(5.000)	(2.000)	0.000	0.000
(2.363)	Reserves - Other	0.000	0.000	0.000	0.000	0.000
(16.887)	Total Reserves	(11.175)	(7.000)	(4.000)	0.000	0.000
0.00	Minimum Cumulative Funding Gap	15.883	28.979	43.383	49.680	49.528
0.00	Minimum Annual Funding Gap	15.883	13.096	14.404	6.297	(0.152)
	Options to close gap:					
	Adults Social Care Interventions	(2.189)	(1.728)	(2.201)	(2.224)	(2.227)
	Children's Social Care Interventions	(0.394)	(1.105)	(1.244)	(0.392)	(0.392)
	Corporate Interventions	(5.666)	(0.292)	0.000	0.000	0.000
	Unidentified to Balance Budget	(7.634)	(9.971)	(10.959)	(3.681)	0.000
	Provisional Balanced Budget	0.000	0.000	0.000	0.000	(2.771)

(32.245)

11. The Council continues to operate in the context of an unprecedented period of financial and economic uncertainty. Set against the backdrop of over a decade of austerity, cuts to funding, increasing demand, spiralling inflation, and delays to reforms and continuing uncertainty over sustainable funding. Notwithstanding this context, the Council must be proactive in its approach to financial planning that allows for services that support residents in the borough. The need for an organisational plan to achieve a sustainable financial position without the reliance on reserves is vital and has led to a review in the approach to the presentation of the MTFS.
12. Preventative interventions and demand management will be key components of a sustainable budget strategy. However, these will often have a long lead in time and possibly require pump-priming support. The MTFS now sets out the financial context of the levels of demand management and cuts that will possibly be required to balance the budget over the medium term. This will provide a planning framework for an approach to budget setting.
13. The Council's new Corporate Plan and Group Plans should be the conduit for allocating resources to priority areas in a collaborative approach. Given the current

financial context, this will require an assessment of relative priorities, with some difficult decisions to be made.

14. The positive 2022/23 outturn has informed the review of reserves and it is proposed that the planned use of reserves is extended to a 5-year approach to 2026/27. Crucially this should only be supported where there is confidence the organisation can deliver against reduced demand and budgets through active interventions and transformation to preventative strategies for service delivery. This approach extends the significant use of reserves to continue to smooth the timing of interventions and transformation necessary to deliver a sustainable budget over the MTFS period. The risk of continuing to use reserves of this magnitude is significant and it is therefore critical that the outcome of this approach enables the Council to deliver, secure, and maintain a sustainable position in the medium-term without further reliance on reserves.
15. The MTFS reflects a balance between long-term and short-term planning; the longer-term transformational and demand management interventions alongside the short-term immediacy of a legally balanced budget for 2024/25.
16. In summary, the MTFS strategy is built upon on the following approach:
 - **Intervention of demand / cost pressures** - The MTFS outlines significant demand and cost pressures, particularly in social care. A fundamental approach to a sustainable budget is to propose positive interventions and transformation to manage down the demand. The approach must be underpinned by credible delivery plans with clear timescales.
 - **Planned Use of Reserves** - Recognising the timing required to achieve this approach, it is proposed to actively manage the volatile financial position and continue to use reserves to allow time for these interventions to be delivered. 2024/25 is the final year of the 3-year approach agreed by Cabinet in December 2021. Following the 2022/23 Revenue Outturn, and review of reserves, it is proposed that the use of reserves is extended for a further two years into 2026/27. The proposed timing of the application of Budget Sustainability Reserve in the MTFS is aligned to options to close the gap to minimise cuts while permanent solutions to the funding gap are found. The extension is predicated on the following:
 - The impact that high inflation is having on the MTFS since the original strategy was agreed in December 2021;
 - The active management of reserves that allows this flexibility;
 - The current Capacity Fund and a further £2m in 2024/25 to drive through to sustainability;
 - A budget approach to identify a pipeline of unidentified budget cuts estimated at £32m over the next 4 years;
 - The identification and delivery of £21.2m in budget cuts over the previous 3 years; and
 - Replenishment of reserves – the MTFS forecast includes budget growth of £5m in 2026/27 to replenish reserves as part of the strategic approach to achieve a sustainable budget.

- **Fundamental Review of Base** – this was agreed as part of the 3-year approach to budget in December 2021. This approach has commenced in social care, aligned to transformation. The framework will commence in other Service areas. Even with interventions and use of reserves, there is still an estimated funding gap of £32.245m over the four years 2024/25 to 2027/28, including £7.634m in 2024/25 after use of reserves, which will need to be closed to achieve a legally balanced budget. It is proposed that all Council Service areas are subject to fundamental review over the four years to 2027/28.

17. The proposed MTFS for 2024/25 to 2028/29 is attached at Appendix 2. This presents a continuing challenging financial position over the medium term due to continued uncertainty on funding and increasing demand.

18. 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, demand management interventions, 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, accountability 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.

19. 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 2023 can be found in appendix 1. Full breakdown of reserves can be found in the full MTFS document at appendix 2.
20. 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 pipeline of budget cuts 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

21. Cabinet is requested to recommend to Council:

the approval of the Medium-Term Financial Strategy for 2024/25 to 2028/29 and the medium-term financial context as set out in this report and appendix including:

- (i) the MTFS principles;
- (ii) the approach to demand / cost interventions in social care;
- (iii) extending the planned use of reserves from 3 to 5 years; and
- (iv) a plan to replenish reserves to a sustainable level.

for the following reason(s)

- 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.

CONTACT: Darren Collins extension: 3582

APPENDIX 1

Policy Context

1. The Medium-Term Financial Strategy (MTFS) includes financial projections analysis and context that supports the Council's 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. A Budget Approach is reported elsewhere on this agenda.
3. Medium term financial planning continues to be challenging given the current climate. There is continued uncertainty in relation to the level of future funding, stubbornly high 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. 2024/25 is the final year of this three-year approach and this report proposes an extension to the planned use of reserves for a further two years to 2026/27.
5. Other than some national allocations of some areas of social care funding for 2024/25, as with previous years there continues to be 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.
6. 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.
7. 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.

8. The Council will ensure that 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. However, without an increase in the quantum of funding for local authorities alongside a fairer distribution, it is evident the estimated funding gap 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 through the Budget Approach reported elsewhere on this agenda.
9. 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

10. A breakdown of each reserve available to support the budget, and balances as at 31 March 2023 are outlined below;
 - **Council General Reserve £11.9m**- 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 £19.2m**- This reserve is held in respect of key financial risks identified through risk management process. Balances include; Insurance £4m, grant clawback £3m, workforce development costs £3.5m, commercial risk £2.6m, Schools PFI £3.7m, ASC Direct Payments £0.8m, Highways maintenance £0.6m, Volunteering and Community Capacity £0.5m. and budget flexibility £0.5m.
 - **Thrive £7.5m** -This reserve is held to support the Council Thrive priorities of Economic, Housing and Environmental Investment (£3.3m), Poverty, Health and Equality Investment (£3.7m), and Discretionary Social Fund £0.5m.
 - **Budget Sustainability £36.7m** – 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. £14.5m is committed in 2023/24 with the remaining £22.2m proposed to be used in this MTFS. A plan to replenish this reserve forms part of the MTFS.

11. The proposed use of reserves relies upon a planned pipeline of budget cuts and efficiencies over the period to achieve a balanced budget that is sustainable in future years.

Consultation

12. The MTFS sets a financial context for the approach to budget. 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.
13. 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.
14. The Leader of the Council has been consulted on this report.

Alternative Options

15. There are no alternative options.

Implications of Recommended Option

16. 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.

The Council is legally required to set a balanced budget annually and should plan to achieve this using a prudent set of assumptions. As such, the Government's decisions about 2024/25 funding will be hugely significant and could have a material impact on the level of budget cuts to be identified, and the wider budget process.

- 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.

17. **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.
18. **Equality and Diversity Implications** - An equality impact framework has been developed to assess budget proposals.
19. **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.
20. **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.
21. **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.
22. **Human Rights Implications** - No direct human rights implications.
23. **Ward Implications** - All areas of the Borough are covered by the principles set out in this strategy.

Background Information

- Provisional Revenue Outturn 2022/23 - 20 June 2023
- Revenue Monitoring 2023/24 Q1 – 18 July 2023