

TITLE OF REPORT: **Medium Term Financial Strategy 2017/18 – 2021/22**

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

Purpose of the Report

1. To request Cabinet to recommend to Council the approval of the Medium Term Financial Strategy (MTFS) 2017/18 to 2021/22. The MTFS is fundamental to effective financial planning within the Council as it sets the financial context for the Council's resource allocation and budget setting and ensures that resources are assigned to priority outcomes within the Council Plan.

Background

2. The current MTFS was agreed by Council on 16 July 2015. The MTFS was prepared with no indicative funding forecasts from central government and showed an estimated funding gap of £77.7m for the period 2016/17 to 2020/21. A refresh of the funding gap, following the Local Government Finance Settlement 2016/17, was reported to Cabinet on 19 January 2016.
3. Within the 2016/17 settlement the Government provided some details of indicative funding up to 2019/20 which gave a high level indication of revenue support grant funding. However uncertainty still exists in respect of likely Government funding levels in relation to other grants over the period as well as instability that arises from the volatility of business rates funding and the implications of the move towards a proposed new funding regime of 100% rate retention.
4. The prospect of continuing reductions in Government funding, presents an increasing challenge to the Council's medium to long term financial sustainability. The current context is that over £130 million of budget savings have been identified and taken from Council budgets since 2010 and demand pressures in key services continue to grow. By the end of 2017/18 the Council's grant funding will have reduced by approximately 46% from 2010. This equates to over a £380 per head reduction and over an £800 per dwelling reduction in Government funding over the period.
5. 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 2016/17, assumptions on funding for 2017/18 to 2021/22 based on estimates and assumptions around service and corporate pressures. The MTFS also includes a review of the reserves policy of the Council.
6. The Council MTFS will inform the approach to the budget framework for 2017/18 and for subsequent years.
7. The Council will continue to keep the MTFS under review as a consequence of the high degree of uncertainty surrounding the potential impact on Government policies and Government funding decisions arising from the European referendum result.

Proposal

8. The proposed MTFS for 2017/18 to 2021/22 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 around £92.3m for the period 2017/18 to 2021/22 with an estimated gap of £57.9m for the first two years. This position assumes that all 2016/17 in year savings are fully achieved within the financial year.
9. 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 achieving Vision 2030 and the outcomes set out in the Council Plan. The Council's MTFS will be reviewed on at least an annual basis.
 2. 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.
 3. 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.
 4. 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.
 5. The Council will continue to improve its approach to efficiency, commissioning and procurement to ensure value for money and minimise the impact of budget savings on priority services as well as effectively managing the programme of change.
 6. Opportunities for working in collaboration and partnership and different ways of working will be identified and developed where this will support the delivery of the Council's outcomes and improve service efficiency and delivery. This will include the use of well-being powers, development of trading opportunities and different business models and the sourcing and securing of external funding.
 7. The Council will consider the use of prudential borrowing to support capital investment to deliver Vision 2030 and will ensure that the full costs of borrowing are taken into account when investment decisions are taken.
 8. 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.
 9. 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 Vision 2030 and demand for services.

Reserves Review

10. Following the 2015/16 Revenue Outturn, at 31 March 2016, the Council's usable revenue reserves are £60.043m. Of this sum, £25.232m is held in strategic earmarked reserves and £16.341m Council General Reserve. The remaining balance of £18.470m is ring-fenced and cannot be used to support the revenue budget and Council Tax requirement. A full review of reserves was carried out as part of the preparation of the MTFS.

Recommendations

11. Cabinet is requested to recommend to Council:
 - (i) the approval of the Medium Term Financial Strategy for 2017/18 to 2021/22
 - (ii) to note the review of both general fund and strategic earmarked Council reserves
 - (iii) 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
 - (iv) 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.

APPENDIX 1

Policy Context

1. The MTFS is the mechanism for supporting the redirection of resources to deliver Vision 2030 and the Council Plan. It also ensures a sustainable Gateshead through best use of resources to deliver value for money services and long term financial stability in a challenging financial environment.

Background

2. The Council's current MTFS for the period 2016/17 to 2020/21 was approved by Council in July 2015 and was refreshed in January 2016 following the provisional Local Government Finance settlement. The MTFS covers a five year period and is reviewed at least annually.
3. The MTFS is a key part of the Council's Policy, Service Planning and Performance Management framework, which aims to ensure that all revenue resources are directed towards corporate priorities and the delivery of Vision 2030 and the Council Plan. It is based on a financial forecast over a rolling five-year timeframe to 2021/22 which will help ensure resources are aligned to priorities in the refreshed Council Plan. The Strategy describes the financial direction of the Council and outlines the estimated financial pressures over this five year period.
4. Medium term financial planning is taking place against the background of significant funding cuts for local government. In addition, the Council, in common with most local authorities, continues to be at risk from financial pressures, including workforce management, waste management, demand for social care and welfare reform. This environment will challenge the ability of the Council to respond to the needs of Gateshead Residents and the wider community.
5. The current MTFS has been reviewed in line with the above issues and updated accordingly. The MTFS 2017/18 to 2021/22 is attached at Appendix 2 and outlines a strategy to deal with a funding gap of around £57.9m for the two year period 2017/18 and 2018/19. The overall five-year funding gap over the life of the MTFS is estimated at around £92.3m. In order to set a balanced budget each year all funding options will need to be considered, including:
 - Budget savings
 - Retained business rates from economic growth
 - Realignment of spending priorities with the Council Plan 2015-20
 - Capacity building within communities
 - Additional external funding
 - Additional income including a review of current and potential areas of trading
 - Council tax increases
 - Use of reserves

6. The Council response to the challenging financial context is contained within the change programme and this is built upon an approach which aligns to the Council Plan with a focus on four inter-related areas: economic growth, managing demand, collective responsibility and efficiency by:
- Doing all we can to support economic growth and revenue generation – given reductions in central government funding, success in this area will enable the Council to redirect resource to activities which protect the most vulnerable.
 - Focusing on managing demand (particularly in social care) with a targeted approach, emphasising early intervention and prevention.
 - Increasing collective responsibility – encouraging and supporting local people, partner organisations, businesses and local communities to play a more active role in achieving the outcomes for Gateshead.
 - Continuing to drive efficiencies through changes to the way the Council works, for example, through exploiting new technology, consolidation of buildings and services, reducing complex processes and increased trading.

Consultation and Equalities Impact

7. The MTFS sets a financial context for budget consultation. Council has agreed a budget consultation process which takes account of the Equality Act 2010 and the Government's code of practice regarding consultation.
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, Corporate Resources confirms that the financial implications are as contained within the MTFS.
 - 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.
 - c. Property Implications** – No direct property implications.
11. **Risk Management Implication** – The risk implications are contained within Section 16 of the MTFS.
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.
14. **Health Implications** – No direct health implications.
15. **Sustainability Implications** – The MTFS provides a framework for ensuring a sustainable financial position over the medium term.
16. **Human Rights Implications** – No direct human rights implications.
17. **Area and Ward Implications** – All areas of the Borough are covered by the principles set out in this strategy