

# Report of the Director of Finance to the meeting of Executive to be held on 6th July 2021

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**Subject: Medium Term Financial Strategy update.**

## **Summary statement:**

This Medium Term Financial Strategy (MTFS) sets out the financial envelope for the Council to deliver its key priorities as set out in the revised Corporate Plan.

The MTFS is set in a context of substantial uncertainty with long term impact of Covid on the wider socio-economic impacts across the District and uncertainties of the Local Government Finance settlements and planned reforms.

The Council has prudently and carefully managed its finance position over the medium term, which led to no new cuts being proposed in the past two financial years.

This report sets out the initial planned budget strategy for 2022/23, which will evolve as the year progresses.

## **EQUALITY & DIVERSITY:**

The report sets out clearly the need for equality to be considered as part of the Budget Strategy. As in previous years a full Equality Impact Assessment will be produced for all budget proposals and full consultation with relevant groups will be undertaken. The outcome of consultation will be considered and reported upon.

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**Portfolio:**

**Corporate**

**Overview & Scrutiny Area:**

**Corporate**

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## **1. SUMMARY**

- 1.1 This Medium Term Financial Strategy (MTFS) sets out the financial envelope for the Council to deliver its key priorities as set out in the revised Corporate Plan based on assumptions made from the relevant data available.
- 1.2 The key outcomes that underpin the financial planning of the Council are:
  - A Great start and good schools for all our children
  - Better skills, more good jobs and a growing economy
  - Better Health, better lives
  - Safe, strong and active communities
  - A Sustainable District
  - Decent homes
  - An Enabling Council
- 1.3 The unknown ongoing impact of Covid 19 coupled with increasing demands on Council services, and several fundamental reforms being proposed to Council funding where little detail is currently known, makes financial planning extremely difficult. As a result of the above there are many uncertainties within the forecast.
- 1.4 The MTFS forecast shows a continuing pressure on the Council's financial envelope and identifies a 2022/23 funding gap for planning purposes of c£8m, that will need to be bridged through additional savings, additional income or the use of one off reserves to set a balanced Budget in February 2022.
- 1.5 There is however much uncertainty in Local Government Finances, and the long term implications of Covid-19 upon the District are currently unknown and unknowable. Estimates have been provided, but these (along with many other of the assumptions) will need to be revised as the picture becomes clearer prior to setting the 2022/23 budget in February 2022.
- 1.6 This report provides an update on the factors impacting the MTFS and proposes the Budget Strategy for 2022/23. It is proposed a further report be brought to Executive in early autumn, as has been done in prior years, to provide an update on the MTFS and provide further clarity as the position becomes clearer.

## **2. Background**

- 2.1 The MTFS forms part of the Council's planning and performance framework, and provides the context for the more detailed budgeting process.
- 2.2 The MTFS is refreshed each year to give a rolling three-year assessment of the fiscal environment, after the close of the previous year, and before the budgeting round commences. Given the uncertainty on any reforms to local government financing, this forecast will need to be refreshed as further information becomes available.
- 2.3 This report proposes a high level Budget Strategy which will inform the MTFS to be reported to the September Executive.

### 3. OTHER CONSIDERATIONS

- 3.1 The MTFS is typically affected by key decisions made by Executive and Council which have material financial implications. In addition, national policy changes can also have a significant impact on the MTFS.

#### 3.2 National Context

The Budget Strategy is informed by the national context and our expectations of the national local government finance settlement, key factors include:

- At present it is unclear if there will be a one-year or multi-year local government finance settlement. It is expected the settlement will not be announced until December 2021, which will make budget planning difficult, this however, has been the case in recent years.
- National reforms are unlikely to have concluded. It is expected a number of these reforms would have a proportionately positive impact on the Council as funds are redistributed on needs. These reforms include the fair funding review, business rates baseline reset, move to 75% business rates retention and the Social Care Green paper.
- The uncertainty of continuation of Covid funding. To date the direct financial implications have been offset by Covid grant, however, it is expected funding will cease as lockdown ends, whilst the Council may still face financial impacts, eg until confidence returns, potentially impacting areas such as parking and theatre income.
- Cuts to national funding are expected based on the national debt position, to date the extent is not known.
- It is expected there will be a continued reliance on local taxation, and ASC precept to fund local government. Where additional funding is provided it is expected this will continue to be issued as specific grants, which although helpful in meeting cost pressures does limit local flexibility in allocating resources to meet local priorities.

#### 3.3 Local Context

In recent years, budgets have been re-aligned to meet a number of underlying budget pressures, such as within Waste Services and Children Services. Effective financial management resulted in no additional new budget cuts being proposed in the past 2-years, with resources identified to support new investments and defer/delete some cuts proposed in prior years.

In considering the budget strategy for 2022/23 the following factors are relevant.

- No new additional funding has been earmarked within the MTFs currently for services other than provision for inflation, and for demographics in Adults and Children's.
- It is assumed prior years' savings continue, as approved in previous budgets. This predominantly impacts Adult Social Care where savings targets amount to a full year effect of £13.8m by 2022-23.
- It assumes the Council delivers against the 2021/22 approved budget with no overspend. Any overspend will reduce reserves and lead to the requirement for future budget cuts.
- The Council has invested in critical areas in recent years. This has been through approved one-off investments and through the utilisation of Covid grants in critical areas. In many cases this investment has been well received and may have set expectations of future service delivery, for example the investment in neighbourhoods and communities.
- The socio-economic impact of Covid across the District has in some areas been disproportionately larger than nationally. The impact on demand, and consequently upon budgets, may be felt for a number of years. Supporting recovery of the District is already a priority.

## **4 PROPOSED BUDGET STRATEGY**

4.1 In view of the national and local context it is proposed the 2022/23 budget strategy includes the following aspects:

- The proposed budget will match Government funding announcements; therefore, if a one-year settlement is announced the Council will set a one-year budget; if a three-year settlement is announced the Council will set a three-year budget.
- The requirement for new Budget Cuts to be avoided (if possible), as has been achieved in the past two financial years.
- Investment in services will be achieved through budget re-alignment or through Grip..Reset..Transform programme efficiencies
- Council tax increases including the use of any ASC precept be considered prudently. Prudent financial management would suggest that as we have no future certainty of the local government financial outlook, we should apply Council Tax increases to their maximum to avoid the need for service cuts and to avoid losing this spending power in future years. However, Council Tax increases have received the highest amount of adverse feedback in consultation exercises for a number of years. It is proposed therefore to

continue to lobby the Government for sustainable core funding and to assess whether the Council's financial position could enable the deferral of some Council Tax increase.

- Public Health Grant proposals will be fully integrated with core budget timelines and considerations.
- Reserves will be used as per Reserve Strategy, as set out below.

#### 4.2 Revenue Budget Priorities

Should resources be available, the budget strategy would be to invest in the following existing priorities:

- Supporting City of Culture 2025 bid
- Providing sustainable funding for Breaking the Cycle
- Building capacity in core areas of Economic Development; Client Services and Built Environment; and Central Services to deliver ambitious programmes of works, including supporting recovery
- Investing in cleaner streets; parks/green spaces
- Continuing early help / prevention and locality working
- Addressing historic non-achievable income targets (Reset)
- Consideration of prior approved cuts to assess whether these can be deferred or deleted.
- Supporting the District recovery post Covid

#### 4.3 Capital Budget Priorities

Should resources be available, and subject to any capital budget and associated revenue costs including debt repayments being affordable; being within prudential indicators and not giving rise to VAT partial exemption limits, the following capital priorities will inform the detailed budget analysis:

- Resourcing to support decisions; eg Squire Lane
- Stronger Towns/ Master planning for towns
- Providing match funding to leverage major investment and regeneration; for example, NPR; Levelling Up Funding and other major initiatives
- Strategic Growth Board priority proposals
- Continuing investment in Parks / Open Spaces

#### 4.4 Reserves Strategy

It is proposed in support of the Reserve Strategy, specific reserves be held / utilised as follows:

- The General Reserve; Unallocated Reserve and Transition & Risk Reserve will be retained, if possible, to mitigate against:
  - uncertainty of National position
  - potential for future 'cuts'
  - potential shortfall of Covid funding to meet future direct financial impacts
  - both known and potential future pressures

- Earmarked Reserves: all earmarked reserves will be kept under strict review, where retention is no longer required the reserve will be closed and funds added to the Transition & Risk Reserve
- MRP Reserve: this reserve could be drawn upon IF it is replenished in future. It is therefore proposed specific business cases will need to be developed for the use of this reserve on an 'invest to save' basis.

#### 4.5 Timeline

The MTFS / Budget timetable is outlined below:

July 2021: Further clarity on continuation of any Covid funding  
Confirmation of reserves position and 'Better Use of Budgets' as part of year-end finance report

Summer 2021: Financial exit planning for major grant schemes to be concluded  
'Grant finder' proposal to be evaluated to assess options of securing additional funding

September 2021: MTFS to be updated

December 2021: Provisional Local Govt settlement expected  
Initial Budget Proposals issued

January 2022: Final Local Govt settlement expected

February 2022: Budget set

## 5. **FINANCIAL & RESOURCE APPRAISAL**

5.1 The MTFS is a financial and resource appraisal.

## 6. **RISK MANAGEMENT AND GOVERNANCE ISSUES**

6.1 The principal risks arising from the strategic assessment emerge from:

- the sensitivity of financial estimates to actions beyond the immediate control of the Council, in particular Government decisions on local authority financial regimes and spending levels, which may include cuts as mentioned by the Chancellor. This is particularly significant for this forecast given the National reforms currently being considered;
- the capability of the Council to influence Council Tax and Business Rates;
- the impact on the economy and any resulting adjustment to the local government financial envelope resulting from Covid-19.
- the impact of Covid-19 on Council Services and upon the District.

6.2 Specific risks will be identified in the Budget Strategy reported to the September

Executive.

## **7. LEGAL APPRAISAL**

- 7.1 This report is submitted to the Executive in accordance with the Budget and Policy Framework Procedure rules.
- 7.2 The Council is legally obliged to set a balanced budget.

## **8. OTHER IMPLICATIONS**

### **8.1 EQUALITY & DIVERSITY**

The specific detailed budget proposals will be subject to full equality impact assessments and consultation.

### **8.2 SUSTAINABILITY IMPLICATIONS**

Non specific

### **8.3 GREENHOUSE GAS EMISSIONS IMPACTS**

Non specific

### **8.4 COMMUNITY SAFETY IMPLICATIONS**

Non specific

### **8.5 HUMAN RIGHTS ACT**

Non specific

### **8.6 TRADE UNION**

Non specific

### **8.7 WARD IMPLICATIONS**

Non specific

### **8.8 IMPLICATIONS FOR CORPORATE PARENTING**

Non specific

### **8.9 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT**

Non specific

## **9. NOT FOR PUBLICATION DOCUMENTS**

None

## **10. OPTIONS**

This report sets out the assumptions for budget planning purposes and therefore does not include any options.

## **11. RECOMMENDATIONS**

It is recommended Executive

- Note the level of uncertainty in forecasting the resource position for 2022/23
- Note the national and local context which will impact the 2022/23 Budget.
- Agree the high level budget strategy components (paragraph 4.1)
- Agree, should resources be available, these be directed to the revenue priorities identified at paragraph 4.2 and capital priorities at 4.3
- Note the proposed MTFS / Budget timeline leading to Full Council in February 2022
- Receive a MTFS Update in September 2021 which will specifically detail the MTFS strategy and resource position in order to commence formal budget consultation in December

## **12. APPENDICES**

None.

## **13. BACKGROUND DOCUMENTS**

13.1 Council Budget Report, Executive February 2021

13.2 Executive Report July 2021 – Quarter 1 Financial Position Statement for 2021/22

13.3 Executive Report July 2021 – Financial Position 2020/21