

Committee Name and Date of Committee Meeting

Cabinet – 23 November 2020

Report Title

Review and Update of the Medium Term Financial Strategy

Is this a Key Decision and has it been included on the Forward Plan?

Yes

Strategic Director Approving Submission of the Report

Judith Badger, Strategic Director of Finance and Customer Services

Report Author(s)

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Ward(s) Affected

Borough-Wide

Report Summary

The report sets out a review and update of the Council's Medium Term Financial Strategy to 2022/23.

This is an interim review and will be revised further in advance of the Council Budget setting meeting in March 2021, to take account of the Local Government Finance Settlement for 2021/22 when issued, along with budget policy proposals on levels of council tax and fees and charges and any budget investment.

The MTFS review, alongside the latest Financial Monitoring 2020/21 report on this same Cabinet agenda, envisages a balanced financial outturn position being achieved for 2020/21, whilst maintaining the £4.3m top-up to reserves included within the Budget and MTFS Strategy and preserving the £4m budget contingency and savings arising in 2020/21 as support for the 2021/22 budget.

The updated MTFS forecasts identify that a balanced budget for 2021/22 can still be set but that at this stage there is a potential funding gap arising in 2022/23. These positions are subject to the further reviews as described above.

Recommendations

1. That the MTFS review and update is noted.

2. That the plans to reserve funding and savings from 2020/21 to support the 2021/22 budget are noted.
3. That finalisation of the Budget and MTFS for 2021/22 and 2022/23 maintains the approved Budget Strategy and Budget Savings as already agreed.
4. That the assumptions within the MTFS to increase Fees and Charges by 2% for 2021/22 remain unchanged for this update.

List of Appendices Included

Appendix 1 Budget and MTFS 2021/22 to 2022/23

Appendix 2 Initial Equality Screening Assessment

Background Papers

Budget and Council Tax 2020/21 report to Council 26th February 2020

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

No

Exempt from the Press and Public

No

Review and Update of the Medium Term Financial Strategy

1.	Background
1.1	The Council's Medium Term Financial Strategy (MTFS) to 2021/22 was approved at Council in February 2019. The MTFS was reviewed and extended to 2022/23 within the Budget and Council Tax 2020/21 and Medium Term Financial Strategy report to Council in February 2020.
1.2	Within that review of the MTFS, funding and expenditure projections up to the 2022/23 financial year showed an expected balanced budget position based on current service activity (as in place at that time).
1.3	The report also cautioned that future Government funding allocations were unknown beyond 2020/21 and would be dependant on the outcomes of the Government Spending Review to be undertaken in 2020.
1.4	The Government has since announced that the Spending Review will report on 25 th November 2020 but that it will again be for one year only (2021/22).
1.5	This review and update of the MTFS therefore focusses on a review and update of the Council's financial assumptions, including an estimate of the impact of the Covid-19 pandemic on income from Business Rates and Council Tax and on the Council's timeline for the delivery of the agreed savings within the Budget and MTFS. This review will support and inform the detailed budget setting process for 2021/22, alongside taking into account the outcomes of the Local Government Finance Settlement for 2021/22, when issued, which will follow on from the Spending Review announcement, probably around mid-December.
2.	Key Issues
	Current MTFS
2.1	The current MTFS as revised and approved in February 2020 was based on the following key financial planning assumptions: <ul style="list-style-type: none"> • Standstill funding from Government in real terms (pending the outcomes of the Spending Review). • Moderate growth in the Business Rates Baseline and the Council Tax Base, consistent with actual growth levels of recent years. • Completion of the delivery of the agreed budget savings and cost reductions by 1st April 2021.
2.2	The onset of the Covid-19 pandemic in March 2020 results in a number of changes to these financial planning assumptions which need to be taken into account in revising the MTFS.

2.3	The Financial Monitoring 2020/21 reports to Cabinet during 2020 have highlighted and summarised the impact of Covid-19 on the Council's financial position. The monthly financial monitoring returns to the Ministry for Housing, Communities and Local Government (MHCLG) have also been included as appendices to the Financial Monitoring reports to illustrate the detail of the impact of Covid in the current financial year on the Council's costs, income and ability to deliver the agreed savings and cost reductions included in the Budget.
2.4	The latest Financial Monitoring report to Cabinet is on the same agenda as this MTFS review and update report and contains a number of cross-references to this report, outlining the link between the anticipated financial outturn for 2020/21 and the MTFS update.
Review of Financial Planning Assumptions	
2.5	Forecast resources across the MTFS period to 2022/23 have been revised to reflect: <ul style="list-style-type: none"> • September 2020 inflation figures which will be used by Government to uplift funding for 2021/22 (before any adjustment from the Spending Review and Finance Settlement). • In-year collection rates for Business Rates and Council Tax and revised growth and tax base assumptions. • Government proposals to spread any Business Rates and/or Council Tax Collection Fund deficits arising in 2020/21 across the three years 2021/22 to 2023/24. This will be prescribed treatment and not a choice for individual councils.
2.6	The expenditure budgets have been reviewed to take account of the known and potential impact of Covid, variations to service demand from previous assumptions and alignment with the anticipated 2020/21 financial outturn, including ways in which funding can be reserved from the current financial year to support delivery of the 2021/22 budget.
2.7	Clearly the timespan of the ongoing pandemic and the implications into the MTFS period on the cost of services cannot be determined at this stage. The MTFS review has to be on the premise that the Government continues to fund councils for the additional Covid costs and loss of income through further allocations of Covid emergency grant funding into 2021/22 if necessary.
2.8	The review has however taken into account the impact of Covid on the profile of the delivery of the agreed budget savings and cost reductions included within the budget. This impact is significant, particularly on the progression of savings from delivering social care services differently, on which most of the remaining agreed savings depend.
2.9	The two-year budget for 2019/20 and 2020/21 set at Council in February 2019 required £31.5m of budget savings to be delivered to meet estimated funding gaps over the two years, including savings that had been agreed in previous years for delivery across this timescale. Delivery of over £16m of these savings

	will have been completed by the end of the current financial year, leaving around £15m to continue to address across the MTFS.
2.10	However, whilst recognising the Covid impact on savings delivery as noted above, it is still anticipated that the remaining agreed savings can be delivered as planned, but over a longer timescale, with most, but not quite all, of the savings delivered by 2022/23.
2.11	On that basis, there are no recommendations within this review of the MTFS to vary from the agreed package of savings, either to remove any of the savings from the budget or to seek alternative savings. The focus remains on completing the delivery of the savings already agreed.
Review of Budget and MTFS Strategy	
2.12	The Budget and MTFS Strategy as set within the report to February 2020 Council includes the following key elements: <ul style="list-style-type: none"> • Provision to replenish reserves by £4.3m in 2020/21, taking the General Fund Minimum Balance Reserve to £25m. • Delivery of the balance of agreed budget savings and cost reductions by 2021/22. • A £4m budget contingency provision to support delivery of the budget across the MTFS period.
2.13	In addition, the favourable financial outturn for 2019/20, as reported to Cabinet in July and Council in September, preserved £2m of the remaining budget contingency reserve, which remains available to support future years' budgets.
2.14	As identified in the Financial Monitoring report on this same Cabinet agenda, it is currently anticipated that the Council will achieve a balanced budget position for 2020/21, whilst still replenishing reserves by £4.3m and without needing to draw on either the £4m budget contingency or the £2m budget contingency reserve. These contingencies can therefore remain available to support the MTFS and specifically the 2021/22 budget.
2.15	The Financial Monitoring report also highlights that £3.5m of savings are expected within Central Services budgets, mostly from Treasury Management activity and that these savings can also be reserved to support the 2021/22 budget provided that a balanced budget outturn can be achieved in the current financial year without needing to use these savings.
2.16	Achievement of a balanced financial outturn for 2020/21, recognising that there are still 5 months of the financial year remaining, depends on the Council being able to continue to manage the Covid response broadly in line with Government funding support and on maintaining the effective financial management discipline in place across the Council.
Updated MTFS 2021/22 and 2022/23	

2.17	The updated MTFS for the next two financial years is attached at Appendix 1. It is important to note that this is an interim position and will change as the budget proposals are finalised for budget setting at March 2021 Council, which will reflect the Finance Settlement and also Members' policy decisions on Council Tax, budget investment etc.
2.18	In summary, the update shows that a balanced budget can be maintained for 2021/22, but at this stage, a funding gap of £7.6m is anticipated for 2022/23.
2.19	The overall financial outlook across the MTFS therefore remains challenging and robust management arrangements for delivery of the budget will need to continue. Whilst the budget projections for 2021/22 identify how a balanced budget can be set, this overall position leaves little room for manoeuvre if budget plans are not maintained on track.
2.20	The 2022/23 forecast position will be kept under review. There are two Government Spending Reviews and two Local Government Finance Settlements before the level of Government funding to be provided to the Council in 2022/23 is finalised. In context, if a forecast £7.6m funding gap for 2022/23 were to be met from reserves, when taken alongside the planned replenishment of reserves of £4.3m in 2020/21, this would result in a net reduction of reserves of £3.3m from the current level. At this stage it is too early to make any decisions in relation to this potential gap in 2022/23 and this will be reassessed when the 2021/22 budget is set in March 2021.
2.21	<p>These respective positions are predicated on the following:</p> <ul style="list-style-type: none"> • A financial outturn for 2020/21 as anticipated and as reflected in this report and in the financial monitoring report and that the financial benefits arising in 2020/21 are reserved to support the 2021/22 budget. • Utilising both the £4m budget contingency and the £2m budget contingency reserve to support the 2021/22 budget. There is therefore no budget contingency remaining to support the 2022/23 budget. • The updated profile of delivering agreed budget savings and cost reductions across the MTFS can be maintained, without additional slippage. • The achievement of further significant savings from Treasury Management activity to support the budget across the MTFS. In addition to the £3.5m expected to be achieved in 2020/21 and carried forward into 2021/22, a further £5m savings are anticipated in 2021/22 and a further £3m savings in 2022/23. There is a high degree of confidence that savings at this level can be delivered across these two years.
	Next Steps
2.22	If the updates to the Budget and MTFS Strategy as set out in this report and the 2020/21 Financial Monitoring report to November Cabinet are accepted, the next steps are to take into account the impact of the Financial Settlement when known, alongside any changes to assumptions to reflect Members' views on budget policy, across the MTFS but for 2021/22 in particular, with specific

	reference to levels of Fees and Charges, Council Tax and Budget Investment. The current MTFS anticipated annual Fees and Charges increases of 2%. If Members wish to maintain that position, that preserves some flexibility for consideration of other budget policy matters as an alternative to revising the Fees and Charges assumption downwards more towards current inflation rates.
2.23	Finalisation of budget proposals for 2021/22 and a further MTFS update taking into account the above, will take place during November and December, working towards final budget proposals being concluded in January for consideration by Cabinet in February 2021 and Council in March 2021.
3.	Options considered and recommended proposal
3.1	As detailed in the report.
4.	Consultation on proposal
4.1	The Council consulted extensively on budget proposals for 2020/21. Details of the consultation are set out in the Budget and Council Tax 2019/20 report approved by Council on 17th February 2020.
5.	Timetable and Accountability for Implementing this Decision
5.1	The information, proposals and recommendations will feed into the development of specific budget proposals for 2021/22 and the MTFS update for 2022/23 within the Budget and Council Tax 2021/22 report to Cabinet in February 2021 and Council in March 2021.
6.	Financial and Procurement Advice and Implications (to be written by the relevant Head of Finance and the Head of Procurement on behalf of s151 Officer)
6.1	The financial implications are set out in the report.
6.2	There are no direct procurement implications arising from the report.
7.	Legal Advice and Implications (to be written by Legal Officer on behalf of Assistant Director Legal Services)
7.1	There are no direct legal implications arising from the report.

8.	Human Resources Advice and Implications
8.1	There are no direct HR implications arising from the report.
9.	Implications for Children and Young People and Vulnerable Adults
9.1	The report recognises that the timescale for the delivery of the agreed budget savings from these services is severely impacted and proposes to reprofile the timescale accordingly.
9.2	The MTFs review and update takes into account the current and projected demand for these services across the MTFs period.
10.	Equalities and Human Rights Advice and Implications
10.1	No direct implications arising from this report.
11.	Implications for Ward Priorities
11.1	No direct implications arising from this report.
12.	Implications for Partners
12.1	No direct implications arising from this report.
13.	Risks and Mitigation
13.1.	Risks and mitigation are described within the report.
14.	Accountable Officers
	Graham Saxton, Assistant Director – Financial Services

Approvals obtained on behalf of Statutory Officers:-

	Named Officer	Date
Chief Executive	Sharon Kemp	Click here to enter a date.
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	04/11/20
Head of Legal Services (Monitoring Officer)	Named officer	Click here to enter a date.

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