

## **CABINET**

**17 NOVEMBER 2020**

### **MEDIUM TERM FINANCIAL STRATEGY 2020 – 2023**

Portfolio Holder: Councillor Alan Jarrett, Leader

Report from/Author: Phil Watts, Chief Finance Officer

#### **Summary**

This presents the Council's Medium Term Financial Strategy, which makes forward projections concerning the Council's budget requirement for the next two years and the resources available to deliver its corporate priorities and objectives. Most importantly it attempts to articulate the Council's strategy for delivering a balanced budget.

#### **1. Budget and policy framework**

1.1 The Council's annual budget and council tax setting establishes the Council's budget framework and sets out the funding of services. The Medium Term Financial Strategy (MTFS) identifies the key issues that need to be addressed as part of that budget preparation. The MTFS needs to be viewed in conjunction with the Council Plan for 2017-2022 and the Council Strategy to integrate budget setting with service planning and ensure that priorities and funding are matched. Approval of the MTFS is a matter for Cabinet.

#### **2. Background**

2.1 The Medium Term Financial Strategy 2019 - 2024 was considered by Cabinet on 24 September 2019 and identified a potential revenue shortfall of £5.956million in 2020/21 rising to £17.327million by 2023/24.

2.2 Despite the disruption caused by Covid-19 late in the financial year, the Council continued work to manage expenditure, allied to the review of the Minimum Revenue Provision (MRP) and our share of the Government surplus on the business rates levy meant that the final outturn represented a net underspend on services of £2.8million which was transferred to the Council's usable general fund reserves.

2.3 The challenges facing the Council's finances are made clear by the forecast position reported for the second quarter of 2020/21 elsewhere on this agenda,

which reflects continued pressure across all Council services and in spite of significant management action and £16.441million of non-ringfenced Covid-19 grant funding, represents a forecast overspend of £2.486million.

### 3. Advice and analysis

- 3.1 The Medium Term Financial Strategy has in previous years been presented to the Cabinet at its September meeting. In previous years the Government has published a technical consultation paper in September in advance of the Provisional Local Government Finance Settlement. The impact of the changes proposed in the consultation modelled for Medway were then reflected, alongside the ongoing work to deliver a balanced budget, in the Draft Budget presented to the Cabinet at its November meeting.
- 3.2 Due to the disruption caused by the ongoing Covid-19 pandemic the Government has not issued any consultation on the Settlement, and as such the Council's MTFS was delayed in anticipation of some announcement around funding for local authorities for 2021/22. Since then, the Chancellor has decided to conduct a one-year Spending Review on 25 November "in order to prioritise the response to Covid-19, and [the Government's] focus on supporting jobs."
- 3.3 The document accompanying this covering report represents the result of a significant amount of work with colleagues to understand the population of Medway and the demand for Council Services over the next two years. The demographic forecasts for Medway inform projections around the need for housing, for school places, social care, health services, leisure facilities, the cultural offer and the transport infrastructure required to support people to live and work in Medway.
- 3.4 The Council Plan clearly lays out three corporate priorities:
  - Medway: A Place to be Proud Of;
  - Maximising Regeneration and Economic Growth;
  - Supporting Medway's People to Realise Their Potential.
- 3.5 These will be achieved through the adoption of three key ways of working:
  - Giving value for money;
  - Finding the best digital innovation and using it to meet residents' needs;
  - Working in partnership where this benefits our residents.
- 3.6 The Medium Term Financial Strategy should be viewed in conjunction with the Council Strategy and Council Plan and is fundamental to their delivery.
- 3.7 The table showing our Medium Term Financial Projections on page 33 of the MTFS summarises the financial challenge facing the Council over the next four years, identifying a gap of £11.710million in 2021/22 and of £20.403million in 2022/23. Even more importantly, the MTFS seeks to explain the Council's strategy to balance expenditure plans with the available resources over the same period.

## 4. Timetable

- 4.1 The timetable for the Medium Term Financial Strategy and budget setting is as detailed below:

Initial budget proposals to Cabinet (this report)	17 November 2020
Reports to Overview and Scrutiny	December 2020 /January 2021
Draft budget to Cabinet	2 February 2021
Budget proposals to Council	18 February 2021

- 4.2 Business and service planning will run in tandem with the budget setting process.

## 5. Risk Management

- 5.1 The MTFFS has been built on the fundamental assumption that the Government will honour its pledge to support local authorities to meet the financial impacts of Covid-19. Should this not be the case, the additional pressure of set out in the Risk section of the Strategy would also need to be addressed. That position, with a gap of more than £20.0million in total, would very likely be beyond this organisation's ability to mitigate, but would be a situation replicated in town halls up and down the country as the local government sector would be substantially under-funded.
- 5.2 The risk of failing to produce a balanced and sustainable budget, whilst at the same time achieving priorities and maintaining effective service delivery is significant. Whilst part of the solution lies in exploiting the opportunities afforded through digitalisation, new operating models and over the longer term devolution of power to local authorities and local autonomy over taxation, the pressure resulting from rapid growth in demand for services and the unit costs of care are too significant. There will need to be a concerted push back to manage demand, even for statutory services, and improving our commissioning to resist cost pressures and identify more cost effective operating models.

## 6. Conclusion

- 6.1 The Medium Term Financial Strategy identifies our spending needs for 2021 to 2023 in the context of a reducing resource base.
- 6.2 Whilst the Council has forecast a deficit of £11.710million in 2021/22, it will seek to address this through the accompanying Medium Term Financial Strategy and the budget setting process. Notwithstanding the ongoing impact of Covid-19, the service pressures impacting on the Council's budget requirement and the significant financial constraints imposed through Government grant reductions, it must remain the Council's main strategic aim to achieve a sustainable budget without recourse to reserves.

6.3 That aim will only be achieved through a combination of seeking to maximise all revenues including local taxation and fees and charges, focussing resources on services that deliver the Council's corporate priorities, and delivering these services more efficiently, including through the commitment to the continuation of our transformation programme as 'business as usual'.

## 7. Financial and legal implications

7.1 These are contained within the body of the report and accompanying Medium Term Financial Strategy.

## 8. Diversity Impact Assessment

8.1 The Council has legal duties to give due regard to race, gender and disability equality in carrying out its functions. This includes the need to assess whether any proposed changes have a disproportionately negative effect on people from different ethnic groups, disabled people and men and women, which as a result may be contrary to these statutory obligations. The Medium Term Financial Strategy identifies the resources available, which will influence the service priorities within the Council Plan. Diversity Impact Assessments will be undertaken and reported to Members as part of the budget and service planning process, as more detailed proposals unfold.

## 9. Recommendations

The Cabinet is asked to:

9.1 Agree the underlying aims of the Medium Term Financial Strategy (MTFS);

9.2 Note the forecast level of overall funding over the medium term; and the projected budget deficit identified in the MTFS;

9.3 Agree to bring forward proposals, through the financial planning process, to address this deficit.

## 10. Suggested reasons for decisions

10.1 The Medium Term Financial Strategy is important in providing the framework underpinning the budget setting process and is presented to Cabinet in accordance with the timetable set out within the Constitution.

## Lead officer contact

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## Appendices

Appendix 1: A Sustainable and Resilient Medway – Our Financial Strategy 2021 to 2023

### Background papers

Medium Term Financial Strategy 2019-2024 – Report to Cabinet 24 September 2019: <https://democracy.medway.gov.uk/ielssueDetails.aspx?IId=25865&Opt=3>

Revenue and Capital Budgets 2020/21 – Report to Council 20 February 2020: <https://democracy.medway.gov.uk/ielssueDetails.aspx?IId=24329&Opt=3>