

CABINET

16 July 2019

Title: Medium Term Financial Strategy and Reserves Policy 2019/20 to 2023/24	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Director: Helen Seechurn, Finance Director	
Accountable Strategic Director: Claire Symonds - Chief Operating Officer	
Summary <p>This report sets out a draft Medium-Term Financial Strategy (MTFS) and Reserves policy for the period 2019/20 to 2023/24 for key council (general fund) services. It shows how the delivery of a strategy for better outcomes goes hand in hand with organisational financial health. It has been prepared recognising the financial uncertainty facing the sector in the light of plans to introduce fair funding and 75% business rates retention from 2020/21, although anticipated demands and pressures have been recognised. The MTFS offers a framework to close the budget gap ensuring resources are aligned to the borough manifesto and corporate plan. The MTFS identifies a cumulative gap of £6m (c 4% of net revenue budget) following the completion of the current transformation programme which expected to deliver some £13m of future savings in 2020/21. This gap is to be closed through targets for both short term and longer-term interventions, ensuring a medium term financially balanced position.</p> <p>The report also sets out principles for a robust reserve policy and suggests a set of commercial indicators to supplement the prudential framework.</p>	
Recommendations <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Approve the Medium-Term Financial Strategy and Reserves Policy 2019/20 to 2023/24 as set out in Appendix A to the report and the approach proposed to ensure the financial health of the Council over the medium term.	
Reason(s) <p>As a matter of good financial practice, the Cabinet should approve a Medium-Term Financial Strategy and Reserves Policy to maintain financial health and form a basis for developing the annual budget, ensuring resources are aligned to strategic intent and Council ambition remains affordable.</p>	

1 Introduction and Background

- 1.1 The Council approved the annual budget together with indicative forward forecast at Budget Assembly February 2019. Since then work has been undertaken to reappraise the medium-term financial projections, ensuring the financial framework of the Council is aligned to strategy as defined within the Borough Manifesto and Corporate Plan.
- 1.2 Local government has faced growing concerns over its financial resilience and its commercial activity arising in response to funding need over recent months. This Strategy attached at Appendix A provides a summary of the Councils' financial journey to date and the Council's intended approach to ensure a balanced budget over the medium term. It also sets out the Council's arrangements for maintaining adequate levels of reserves and provides an overview of the risks that may impact on financial health.
- 1.3 The MTFS has been prepared within the national context of a changing financial framework anticipated from 2020/21 the impact on the Council is by no means clear. However, the MTFS brings together anticipated demands and pressures and sets out how the Council will ensure a balanced medium-term position.
- 1.4 The MTFS provides assurance on the intended use and the overall level of reserves and the extent of underpinning commercial and financial planning risks.

2 Overall Position

- 2.1 The table below provides a summary position of the gap for each year of the MTFS period and proposed arrangements to ensure a balanced MTFS.

£m	2020/21	2021/22	2022/23	2023/24
Gap in year (- headroom)	4.8	-3.7	2.3	2.2
Getting to the tipping point	-1.6			
Turning the curve			-2.0	-2.0
Cumulative Gap	3.2	-0.5	-0.2	0
To (+) From (-) Reserves	-3.2	0.5	0.2	0

- 2.2 The CFO has assessed the minimum level of general fund balances at £12m and the Council is forecasting reserves to continue to remain above this level throughout the MTFS even using pessimistic financial planning assumptions. In addition, the CFO is recommending the creation of an investment risk reserve in the event the Council undertakes commercial activity.

3 Medium-Term Financial Strategy

- 3.1 The key messages around delivery of a sustainable change model supported with transitional saving plans is emphasised within the document, with a recognition of the Council's intention to deliver a sustainable solution by improving outcomes.

- 3.2 There is an assumption of full achievement of previously approved transformation savings of £12.7m in 2020/21.
- 3.3 In addition, the national concerns affecting the sector around financial resilience and commercial risks are specifically addressed within the document to provide transparency and also assurance in the Council approach. At this stage in view of the fluidity of commercial activity, the financial basis of the commercial activity should be considered indicative.
- 3.4 The refreshed Reserves Policy with the intention to create an investment risk reserve proportionate to commercial risk is a key aspect of also providing assurance around organisational resilience.
- 3.5 The uncertainty of the local government landscape including the Spending Review 2019 (SR19), Fair Funding Review, 75% business rates retention, unknown position on the pension fund actuarial review may all impact on the financial position. In this regard, sensitivity assessments have been provided to inform the reader where relevant.
- 3.6 The MTFS includes proposals around changes to the Minimum Revenue Provision (MRP) policy which will be factored into the mid-year Treasury Management Strategy.
- 3.7 In terms of the headline approach to closing the gap, the approach is set out as:
- Sustainable change will start to impact the MTFS from 2022/23 with £4m cumulative benefit by 2023/24;
 - The transitional savings will be needed of £1.6m in 2020/21. These are yet unidentified and are in addition to the agreed £13m transformation savings already approved and planned;
 - Reserves will be used to bridge the funding gap to the extent the budget is balanced over the medium-term planning period. In other words, there is upfront drawdown of reserves on the expectation that future savings will enable future contributions to be made.

4 Reserves

- 4.1 General fund balances are set aside to provide an emergency fund for exceptional circumstances. This fund has recently been reviewed and assessed as a minimum of £12m. Currently, the Council has some £17m in this reserve.
- 4.2 The forward forecast of reserves is maintained by the CFO using assumptions on certain investment decisions and no continuing budget pressures emerging during the course of 2019/20. On this basis the Council anticipates the general fund balance being maintained at £17m over the MTFS period.
- 4.3 A more adverse budget position in 2019/20 could see the Budget Support Reserve being exhausted by the end of 2020/21 and requiring top ups from the General Fund in 2021/22. This adverse position however will not result in the minimum level of general fund balance being breached during the MTFS.
- 4.4 As part of the Council's review of risk and recognising the increasing commercial environment the Council is embarking on, an additional investment risk reserve is

proposed to be created once the Council has entered into commercial investment arrangements, this would be of a size that would ensure that the cost to the Council of a failure to an investment could be mitigated.

5 Risks

- 5.1 Key risks are documented within the strategy in section 11. Some of these risks such as the general uncertainty within the national funding framework are outside the direct control of the Council. However, many risks can be mitigated through council action such as ensuring effective governance of the transformation programme and delivery against corporate plan objectives to turn the curve. In addition, it is proposed to create a new reserve to mitigate against commercial risk exposure.

6 Financial Implications

- 6.1 This report sets out the financial position of the Council at the end of 2018/19.

7 Legal Implications

Implications completed by Dr Paul Feild, Corporate Governance Lawyer

- 7.1 A local authority is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. The current budget setting takes place in the context of significant and widely known reductions in public funding to local authorities. Where there are reductions or changes in service provision as a result of changes in the financial position the local authority is free to vary its policy and consequent service provision but at the same time must have regard to public law considerations in making any decision lawfully as any decision eventually taken is also subject to judicial review. Members would also wish in any event to ensure adherence as part of good governance. Specific legal advice may be required on the detailed implementation of any agreed savings options. Relevant legal considerations are identified below.
- 7.2 Whenever there are proposals for the closure or discontinuance of a service or services, there will be a need for appropriate consultation, so for example, if savings proposals will affect staffing then it will require consultation with Unions and staff. In addition to that Members will need to be satisfied that Equality Impact Assessments have been carried out before the proposals are decided by Cabinet. If at any point resort to constricting expenditure is required, it is important that due regard is given to statutory duties and responsibilities. The Council must have regard to:
- any existing contractual obligations covering current service provision. Such contractual obligations where they exist must be fulfilled or varied with agreement of current providers;
 - any legitimate expectations that persons already receiving a service (due to be cut) may have to either continue to receive the service or to be consulted directly before the service is withdrawn;
 - any rights which statute may have conferred on individuals and as a result of which the Council may be bound to continue its provision. This could be where

an assessment has been carried out for example for special educational needs statement of special educational needs in the education context);

- the impact on different groups affected by any changes to service provision as informed by relevant equality impact assessments;
- to any responses from stakeholders to consultation undertaken.

7.3 In relation to the impact on different groups, it should be noted that the Equality Act 2010 provides that a public authority must, in the exercise of its functions, have due regard to the need to eliminate discrimination and to advance equality of opportunity between persons who do and those who do not share a relevant 'protected characteristic'. This means an assessment needs to be carried out of the impact and a decision taken in the light of such information.

Public Background Papers Used in the Preparation of the Report:

None.

List of Appendices:

Appendix A – MTFS and Reserves Policy 2019/20 to 2023/24