

This Report will be made public on 15 November 2022



Report Number: **C/22/61**

**To:** Cabinet  
**Date:** 23 November 2022  
**Status:** Key Decision  
**Corporate Director:** Charlotte Spendley, Director of Corporate Services  
**Cabinet Member:** Councillor David Monk, Leader of the Council

**SUBJECT:** MEDIUM TERM FINANCIAL STRATEGY 2023/24 TO 2026/27

**SUMMARY:** The Medium Term Financial Strategy ('MTFS') is the Council's key financial planning document. It puts the financial perspective on the Council's Corporate Plan priorities, expressing the aims and objectives of the various plans and strategies in financial terms over the four year period ending 31<sup>st</sup> March 2027. It covers both revenue and revenue implications for capital spend for the General Fund. Also included are the Council's reserves policies. The MTFS is a key element of sound corporate governance and financial management.

**REASONS FOR RECOMMENDATION:**

Cabinet is asked to recommend the recommendations set out below because:-

- (a) The MTFS is the Council's key financial planning document.
- (b) The strategy defines the financial resources needed to deliver the Council's corporate objectives and priorities and covers the financial implications of other key strategies.
- (c) The Council needs to be able to carry out an early assessment of the financial implications of its approved policies and strategies and also external financial pressures facing the authority to ensure that it has robust budgeting and remains financially viable.

**RECOMMENDATIONS:**

1. To receive and note Report C/22/61.
2. To recommend to Full Council that the Medium Term Financial Strategy, as appended to this report, is adopted by Full Council.
3. To recommend to Full Council that the Reserves Policy outlined in appendix 3 be adopted.

## **1. THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

- 1.1 The MTFS is the Council's key financial planning tool and underpins the strategic approach to managing the Council's finances. It is a live document which needs to be periodically reviewed to reflect changing priorities and objectives. As the MTFS outlines the financial resources necessary to deliver strategic priorities, it should not be viewed in isolation but as part of the wider corporate process.
- 1.2 The Council last reviewed the MTFS at its meeting of 24 November 2021. The attached MTFS has updated the document agreed at that point based on the work completed to date through the budget setting process, and in the preparation of the 2023/24 budget. The detailed budget strategy, which sets out the detailed preparation for the 2023/24 budget, will be presented to Cabinet at its meeting in December. The MTFS provides the medium term view of the financial position of the Council.
- 1.3 The attached document reflects a summarised version of the key financial elements facing the Council. It covers key areas of the Council's finances and in particular updates the financial projections which are of importance at this stage of the process and considers emerging issues including legislative requirements and the new corporate plan. Every effort has been taken to incorporate the impact of the recovery from the pandemic both on the Council's finances and the wider economic impact as well as other key factors such as utilities cost rises and the impact of Otterpool over the medium term. However, the MTFS is a high level planning document and it is accepted that there will be a need to continue to monitor and review our assumptions on these projections and be agile.
- 1.4 As in recent years, local authority financial management is set against a background of uncertainty and the MTFS is subject to influence outside the Council's control. A three-year spending review (SR21) was announced for local government last year and runs from 2022/23 through to 2024/25. This Spending Review provided high level indications for the direction of the Provisional Local Government Finance Settlement which will be announced in December. Cabinet will also be aware that the Government under direction of the new Prime Minister, is due to announce a new Medium Term Fiscal Plan on 17 November 2022. The details contained in this fiscal plan are likely to impact upon Local Government and its funding settlement for 2023/24 onwards. The results of the Fiscal Plan and from the Provisional Local Government settlement will be reported to Cabinet alongside the detailed budget position for 2023/24 in January 2023.
- 1.5 The current strategy has been developed in the context of the current period of uncertainty, with the war in Ukraine on-going, the effects of the current economic climate including energy price rises and cost of living crisis. Also, with inflation running at high levels and interest rates and the cost of borrowing rising rapidly. As such, assumptions have had to be made with regard to future income streams and assessments of future government grant and permissible increases to Council Tax. Although these are very much best estimates, they are taken in the context of the current economic

climate and the uncertainties identified above. As such, a difficult but realistic forecast of income trends has been incorporated into this MTFS model.

- 1.6 There is a long-term pressure upon the finances of the Council as the MTFS shows. The pressures are a combination of continued downward projections of central government support for local authorities, inflationary cost pressures, increased borrowing costs due to interest rate rises and demand for services. Despite a strong recovery, there are also still concerns about COVID-19 and its impact on residents and businesses in the District.
- 1.7 The current MTFS forecasts a cumulative funding gap of £18.5 million over its lifetime to 2026/27. Much of this pressure is faced year on year and therefore needs to be addressed through the base budget in the early part of each year. The Council does have reserves to help mitigate the impact of the deficits in the MTFS, but these reserves will diminish over time and are not sufficient (at this point in time) to absorb the deficit over the four year period. It should also be noted that the Council has a Reserves Policy (Appendix 3) which sets out the required level of reserves. No changes are proposed to the Reserves Policy which is included as previously agreed and for completeness. Future income from initiatives such as Otterpool Park and efficiency savings will be required to help bridge the MTFS funding gap.

1.8

Financial Forecast	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Deficit / (Surplus)	4,286	4,501	4,961	4,751
Cumulative Deficit	4,286	8,787	13,748	18,499

- 1.9 The position set out above is in advance of the budget strategy which will be presented to Cabinet at its meeting in December. That will seek to address the detailed measures to consider the deficit for 2023/24 in terms of identifying savings but also any known cost pressures. In light of the increasing pressures facing the Council, all budget considerations will look at the impact in future years and the sustainability of any options.
- 1.10 The MTFS covers the key aspects of the Council's future plans to address the projected deficit and also to place the Council on a sustainable and secure footing for the future. This is an overarching view and detail will be found in subsequent reports to Cabinet and Council.
- 1.11 The MTFS is included within the appendices to this report and sets out the financial forecast for the Council.

## 2. RISK MANAGEMENT ISSUES

2.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
The Council does not remain up to date up to date with changes in legislation and other developments.	High	Low	<p>Financial Services are keeping abreast of finance changes.</p> <p>Assistant Directors and Chief Officers to keep up to date with / communicate changes to their areas of work.</p> <p>MTFS is prepared in consultation with all directorates to ensure such changes are identified</p>
Assumptions may be inaccurate	High	Medium	<p>Budget monitoring process is up to date and a close eye is being kept on financial developments nationally. Assumptions are constantly reviewed and amended in light of information received.</p> <p>The MTFS was completely refreshed with service input from all areas during Autumn 2022. There are opportunities to review, and amend, assumptions for the 2023/24 budget up to the point of Cabinet</p>

Perceived risk	Seriousness	Likelihood	Preventative action recommendation in February 2023.
Local Government Finance Settlement is worse than anticipated.	High	Medium	Realistic assumptions have already been included and any new information is being assessed as to its likely impact. This is subject to ongoing review especially given the changes in future funding arrangements.
MTFS becomes out of date	High	Low	This is reviewed annually through the budget process.  Should an exceptional event occur then the MTFS could be updated at any time.
Significant financial shocks worsen the current position of the council	High	Medium	There is ongoing monitoring of the overall financial position and climate and by adopting the MTFS a longer term time horizon is maintained to anticipate and respond to uncertain events. A prudent approach to the impact of COVID and the war in Ukraine with associated impact on financial and energy markets on assumptions have been made. An MTFS stress testing exercise is being undertaken

Perceived risk	Seriousness	Likelihood	Preventative action
			alongside a self-assessment against the CIPFA Financial Management standards and review of CIPFA's financial resilience index.

### **3. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

#### **3.1 Legal Officer's Comments (NM)**

There are no specific direct legal implications set out in the report. The legal duty to spend with propriety falls under s151 of the Local Government Act 1972.

#### **3.2 Finance Officer's Comments (CS)**

There are no direct financial consequences arising from this report. However the strategy will influence the management of the council's resources ensuring that the focus is on the objectives and targets outlined in the corporate plan.

#### **3.3 Diversity and Equalities Implications (CS)**

There are no diversity and equality implications arising from this document. When the budget for 2023/24 is prepared, an Equalities Impact Assessment will be completed.

#### **3.4 Climate Change Implications (OF)**

The Medium Term Financial Strategy covers the key aspects of the council's future plans to address the projected financial deficit and also to place the council on a sustainable and secure financial footing. It is an overarching document and detail will be found in subsequent reports to Cabinet and Council.

Climate change implications of the various projects referenced in the Medium Term Financial Strategy (Annex A) will be assessed as part of the development and implementation phases of those projects through the appropriate decision-making processes.

#### **3.5 Communications and Engagement Implications (KA)**

There are no communication implications arising from this report.

#### **4. CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

*Charlotte Spendley, Director of Corporate Services*

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The following background documents have been relied upon in the preparation of this report:

No background documents have been used.

#### **Appendices:**

1. Medium Term Financial Strategy 2023/24 – 2026/27
2. MTFS workings
3. Reserves Policy
4. MTFS summary of variations
5. MTFS assumptions used (indices)