

COUNCIL
04 MARCH 2021

Report of Director of Resources

MEDIUM TERM FINANCIAL STRATEGY 2021/22 to 2025/26

PURPOSE OF REPORT

This report seeks the Council's approval for the Medium Term Financial Strategy for 2021/22 to 2025/26. The strategy is intended to set out the Council's strategic approach to the management of its finances and provide a framework within which decisions can be made regarding future service provision and council tax levels.

RECOMMENDATION

1. That approval is given to the Medium Term Financial Strategy (MTFS) for 2021/22 to 2025/26, attached as Appendix 1 to this report;
2. That Council agrees that, when setting budgets for 2021/22 and beyond, spending should be focused on the Council's corporate priorities, wherever possible;
3. That approval is given to the approach set out in the Medium Term Financial Strategy for achieving the savings required to set balanced budgets i.e. that there will be a hold on any significant service reductions until the outcome of the funding / business rates reviews is known.

WARDS AFFECTED

All wards

STRATEGIC LINK

Financial planning is all about allocating finite resources over time, to reach the broad goals set out in an organisation's corporate or business plan. The medium term financial strategy aims to match predicted spending levels within projected resources and maintain an adequate level of reserves, and to allow for the reallocation of resources in line with the authority's objectives and priorities.

1 SUMMARY

- 1.1 The Council has a statutory duty to set a balanced budget. The Medium Term Financial Strategy (MTFS) shown in Appendix 1 provides a forecast of the Council's financial position over the five years for 2021/22 to 2025/26. The MTFS shows the pressures that the Council faces and the impact of reductions in government funding, at a time when public expectations and pressures on service costs are increasing. This year there are the added financial pressures arising from the impact of the coronavirus pandemic.
- 1.2 The MTFS explains that beyond 2021/22 there is great uncertainty relating to government funding and retained business rates income, as the government has not

yet completed its reviews of local authority funding for 2022/23 onwards. This makes financial planning very difficult at the current time.

- 1.3 The Medium Term Financial Plan (MTFP) contained within the MTFs indicates that, with the proposed increase in council tax, there is a balanced budget for 2021/22. However, the MTFP also shows that further grant losses are expected from 2022/23 onwards (see below) and that, as a result, there is a need to identify additional ongoing savings or income of around £318,000 a year by 2022/23, rising to almost £600,000 in 2024/25.
- 1.4 The MTFs sets out the Council's approach to meeting the corporate savings target and closing the budget gap over the medium term. While there is uncertainty over the Council's future funding position, it is proposed that (while the Council will continue to look for efficiency savings) there will be a hold on any significant service reductions until the outcome of the funding / business rates reviews is known. It is considered that the Council has sufficient reserves and balances that would be available to address any immediate funding reduction, giving a period of time to consider the required action in the event of significant funding cuts. There are risks associated with this approach and these are explained in the MTFs.
- 1.5 The MTFs will assist in managing the Council's financial resilience in the medium term. It indicates that significant savings are required over the medium term and the Council will have to become much more self-reliant in future, depending much less on government grants as a source of funding and more on income from council tax and business rates, or from its own fees and charges.

2 REPORT

- 2.1 The current Medium Term Financial Strategy was approved in March 2020. Since that time the Council has faced further reductions in government funding but has experienced low levels of inflation. It has also faced the coronavirus pandemic, which has had a significant impact on the Council's financial position and increased financial instability during 2020/21.

Influences on the Council's finances over the next five years include:

- A potential for further significant reductions in government funding resulting from the current review of needs and resources;
- The impact of the proposed changes to business rates including changes to the local share, resetting the business rates baseline, funding of reliefs (especially Small Business Rate Relief), provision for appeals and the impact of revaluation exercises;
- Rising inflation rates (which increase the cost of services);
- The impact of the coronavirus pandemic, especially on collection rates for council tax, business rates and income from fees and charges;
- The value of the pound, which could affect the cost of goods and services;
- Increases in employer pension contributions;
- Nationally agreed pay awards, increases in the National Minimum Wage and changes in the Apprentices Levy;
- The impact of future welfare reforms, which could increase the cost of the Council Tax Support Scheme and Housing Benefit Overpayments;
- Increases in demand for services;
- Achievement of the savings required (see below);

- Potential for a reduction in the cost of leisure services, as the Council's cost is expected to reduce over the life of the contract;
- Potential costs to improve or replace assets, such as waste collection vehicles;
- The impact of volatility in the markets for recycling materials;
- The level of income following the introduction of charges for garden waste collection from 1st April 2021.

2.2 The purpose of the MTFS is set out in section 2 of that document. The aims include setting overall parameters and objectives for future spending to align them with Council priorities and ensuring the sustainability of the Council's budget. The MTFS should be reviewed annually; this year's review was delayed so that the Local Government Finance Settlement for 2021/22 could be reflected.

2.3 The updated MTFS, shown in Appendix 1, includes:

- A statement of principles, including recommendations for the amount that should be retained in working balances and policies for under- or over-spends on the revenue account;
- Details of the Council's current financial position and Outlook;
- An updated Medium Term Financial Plan (MTFP), which shows the corporate savings or additional income that are required to close the budget gap;
- An explanation of the approach to achieving savings;
- A risk assessment.

2.4 The updated MTFP includes forecasts of the Council's income and expenditure over the next five years. Key assumptions are shown, which include:

- The Settlement Funding Assessment from the Government for future years will be as in the 2021/22 Final Local Government Finance Settlement (plus inflation) but with the retention of an adjustment similar to the negative revenue support grant that had been planned for recent years (though not implemented), and a reduction in Rural Services Delivery Grant;
- Council Tax income will increase by around £50,000 p.a. to reflect new homes;
- From 2022/23, Council Tax will increase by 1.94% each year. Officers recommend that this is the minimum necessary to achieve a sustainable financial plan;
- Business Rates Income retained by Derbyshire Dales District Council will increase by 2% p.a.;
- New Homes Bonus that has been awarded for 2021/22 will be for one year only; legacy payments from previous years will be honoured.

2.5 The Medium Term Financial Plan demonstrates that, with the proposed increase in council tax, there is a balanced budget for 2021/22. However, the Medium Term Financial Plan shows that further grant losses are expected from 2022/23 onwards (see below) and that, as a result, there is a need to identify additional ongoing savings or income of around £318,000 a year by 2022/23, rising to almost £600,000 in 2024/25. This is a very challenging target on top of savings that have already been made, and might not be required if the Council's funding position for years after 2021/22 turns out to be better than forecasted.

2.6 Given the value of the savings required, the amount set aside in the general reserve and strategic reserves, the timing of the required savings, and the uncertainty

surrounding council funding (arising mainly from the outcome of the anticipated level of the government's Fair Funding Review and its review of the Business Rates Retention scheme), **the recommended approach to making savings to close the budget gap is to refrain from significant service reductions at the present time, until the outcome of the government reviews is known.** The Council will continue to explore opportunities for efficiency savings or new revenue income streams to help it to achieve a sustainable financial future. The overall aim of this approach is that the Council will be far less reliant on government funding and will become more self-sufficient. The approach will focus on income generation and investment in economic development that will lead to growth. In the longer term, this approach will provide the Council with more financial resilience than depending on government grants.

- 2.7 There are risks with this approach, that are set out in part 5 of the MTFs, which explains that these risks will be mitigated by robust budget monitoring, together with the use of reserves in the short term if the financial position is worse than expected.
- 2.8 As well as having to make savings (or generate additional income) in order to balance its revenue budget over the coming years, the Council's sources of finance for capital funding are becoming depleted. The Council's Capital Strategy (elsewhere on the agenda for this Council meeting) sets the framework for all aspects of the Council's capital expenditure; including planning, prioritisation, management and funding. The Strategy has direct links to the Council's Asset Management Plan and this Medium Term Financial Strategy (MTFS).
- 2.8 The MTFs includes a section on reserves and balances. It is necessary to retain sufficient reserves and balances to meet the Council's needs, which are consistent with the Council's priorities, but also to ensure that they are not excessive taking into account the opportunity costs of maintaining them. The principles for reserves and balances are set out in section 2 of the MTFs; the individual reserves are described and balances reviewed for adequacy in section 3 of the MTFs. It is clear that the Council's financial resilience has been weakened by the use of reserves to offset cost pressures and lost income due to the coronavirus pandemic, as well as to fund the capital programme. To address this, it is recommended that for any underspending on the revenue account, the first call should be to top up the general reserve. Any residual balance should be transferred to strategic reserves to finance the Capital Programme or "Invest To Save" Initiatives, or to mitigate against future funding pressures.
- 2.9 Section 3 of the MTFs includes a description of the Council's processes for setting and managing budgets. The Head of Resources, assisted by the Corporate Leadership Team, will monitor performance against the Medium Term Financial Strategy, the Medium Term Financial Plan, Revenue Budget and Capital Programme.

3 RISK ASSESSMENT

3.1 Legal

The adoption of a Financial Strategy is one of the mechanisms available to the Council to fulfil its responsibilities to properly manage its financial resources and meet its statutory obligations. To maintain that equilibrium, the District Council needs to adopt a risk based approach to decision making which balances the needs of the community and the ability of the District Council to deliver both key and discretionary services. The report also includes savings targets which are currently speculative and

will be the subject of more detailed findings and reports in due course. The overall legal risk is therefore assessed as low to medium

3.2 Financial

The uncertainties associated with medium term financial planning are set out in section 3 of the MTFS. They include changes to the rates of inflation, the impact of the coronavirus pandemic, changes to the Business Rates Retention Scheme and reductions in Government Grants.

The key risks and the mitigating actions and controls relating to the MTFS are set out in Section 5 of the MTFS.

The MTFS indicates that there is a forecast budget gap of £318,000 in 2022/23. The recommended approach to this budget gap is to refrain from significant service reductions at the present time, until the outcome of the government reviews is known, using reserves if necessary.

The financial risk is assessed as high.

3.3 Corporate Risk

The Medium Term Financial Strategy sets out the intention to focus spending on the District Council's corporate priorities, as defined in the Corporate Plan. The Corporate Plan is the District Council's primary policy document and business plan. It sets out the District Council's priorities and identifies key targets to be achieved.

The Corporate Plan for 2021/22 is included elsewhere on the agenda for this Council meeting.

Budgets are currently rated High Risk in the District Council's strategic risk register.

4 OTHER CONSIDERATIONS

In preparing this report, the relevance of the following factors has also been considered: prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.

5 CONTACT INFORMATION

Karen Henriksen - Director of Resources
Telephone: 01629 761284
Email: karen.henriksen@derbyshiredales.gov.uk

6 BACKGROUND PAPERS

None

7 ATTACHMENTS

Appendix 1: Medium Term Financial Strategy for 2021/22 to 2025/26 – **To follow**