

**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

**EXECUTIVE MANAGEMENT TEAM'S  
REPORT TO**

**Cabinet**  
**04 November 2020**

**Report Title:** Medium Term Financial Strategy 2021/22 to 2025/26

**Submitted by:** Executive Director Resources and Support Services

**Portfolios:** Finance and Efficiency

**Ward(s) affected:** All

**Purpose of the Report**

To present updated financial forecasts for the period 2021/22 to 2025/26 and set out how the Council will allocate its resources over the medium term to deliver its objectives.

**Recommendations**

**Cabinet are asked to:**

1. **Endorse the draft Medium Term Financial Strategy.**
2. **Note the funding gap of £1.790m in 2021/22 and £5.911m over the 5 year period covered by the MTFS.**
3. **Agree the approach to develop savings and income generation proposals in the medium term.**
4. **Note the current uncertainty regarding the medium term impact of Covid and local government funding and the need for scenario planning and identification of savings options for best, worst and medium case scenarios.**
5. **Refer the draft MTFS to Finance, Assets and Performance Scrutiny Committee for their views.**

**Reasons**

To ensure the Council meets its statutory duty to set a balanced budget in February 2021.

1. **Background**

- 1.1 Cabinet agreed a Medium Term Financial Strategy (MTFS) for the period 2020/21 to 2024/25 in October 2019. This report updates the assumptions from that time and sets out the strategy for development of the 2021/22 budget and MTFS for 2021/22 to 2025/26.

2. **Issues**

- 2.1 The strategy is set out in twelve sections and the key elements of each section are summarised below.
- 2.2 The MTFS provides an overarching framework for the allocation of resources to the Council's key priorities as set out in the Council Plan. A mid-term review of the Council Plan has been carried out and has confirmed that the priorities remain unchanged.

- 2.3 After a ten year period of austerity the financial strategy focuses on the need for the Council to become self-sustaining through developing a strong and growing tax base, making best use of its resources, promoting a One Council culture in which there is widespread ownership of the Council's financial position, a robust financial position and a fair funding settlement for Newcastle-under-Lyme.
- 2.4 It is currently unclear whether the Government will press ahead with plans for a business rates reset in 2021/22 which would see the accumulated growth built up since 2013/14 being redistributed across the system. As a member of the Staffordshire business rates pool the Council currently saves £1.5m per annum on the levy that would otherwise be payable to the Treasury. A 50% reset would reduce this saving to £0.766m. In the event that a reset goes ahead strong lobbying will be required to ensure that appropriate transitional arrangements are in place to cushion the impact locally and that continuing Government support is made available for collection fund losses due to COVID-19.
- 2.5 Whatever funding system is in place, it will require relevant up to date information to ensure its effectiveness. The Census in 2021 will be key. Locally there was a 94% response in 2011 – whilst this matched the national average it was the lowest rate in Staffordshire; it is therefore important for the Council to promote the importance of the Census and ensure the maximum possible engagement across the Borough.
- 2.6 Finally the Council will need to continue to lobby to ensure that the resources required to regenerate the borough are secured via Town Deals and Future High Street Fund and continue to work closely with the county and LEP to secure inward investment in the borough to drive growth and employment opportunities for local people.
- 2.7 The third and fourth sections of the MTFs cover the context in which the Council operates – the global and UK economy and the specific characteristics and challenges of the borough.
- 2.8 The coronavirus pandemic has precipitated a worldwide recession which is the most severe in generations. This, together with demographic trends, will have a significant impact on employment and demand for Council services over the next five years.
- 2.9 The current MTFs approved by Cabinet in October 2019 forecast a budget gap of £4.446m over the period 2021/22 to 2024/25. The MTFs is being rolled forward by a year and assumptions revisited. The COVID-19 pandemic has changed the position significantly creating financial challenge and uncertainty in equal measure. Most challenging is the forecast of the tax base for both Council Tax and Business Rates. The current central forecast is for a gap in 2021/22 of £1.790m and over the 5 year period of the MTFs of £5.911m.
- 2.10 In the current financial year the Council has received significant additional Government support in the form of emergency Covid grants of just under £2m plus a compensation scheme for lost income from fees and charges. However, at this time it is unclear what the medium to long term impact of Covid will be on the Council's tax base and the level of Government support for any continuing losses and additional expenditure requirements. In addition the shape and timing of changes to the local government funding regime including business rates retention and a potential reset have not been confirmed. The level of uncertainty is unprecedented and consequently there is a need to develop alternative scenarios which will enable the Council to plan on the basis of a range of potential outcomes reflecting a deeper and longer lasting impact of the crisis.
- 2.11 Over the summer and early autumn the groundwork for the MTFs has been undertaken including review of the Borough Profile and assessment of the longer term impact of COVID-19, a full benefit opportunity assessment and extensive benchmarking to give a clear context in which to identify areas for investment and redirection of resources, opportunities for efficiency and income generation and service reconfiguration.

- 2.12 Based on this work, key themes have been identified for further exploration including digital transformation, organisational structure, commercial opportunities and asset management.
- 2.13 In view of the uncertainty around the longer term impact of COVID-19 and local government funding, work is taking place to develop and refine alternative scenarios for planning purposes. Under the medium and worst case scenarios there would be a need to draw down from reserves to fund further income losses and additional expenditure and consequently a requirement to replenish reserves in later years which would add between £0.75m and £1.5m to the forecast gap over the life of the strategy. A best case scenario in which collection fund losses are shared on a 50/50 basis with Government and other income recovers to pre-COVID-19 levels by the end of this financial year would result in a reduction of £0.54m over the five year period and £0.31m in 2021/22.
- 2.14 A full risk assessment is being carried out of the Council's reserves. A preliminary assessment suggests that a minimum contribution to the General Fund reserve of £0.8m will be required to provide sufficient cover for potential risks. Government proposals for apportionment of collection fund losses which are expected to be announced in November may provide scope for some of the accumulated business rates surpluses currently held in the Business Rates reserve to be released to the General Fund in a phased manner over the first 3 years of the MTFS.
- 2.15 The Council agreed a 10 year capital strategy in February 2020. The capital strategy sets out how the Council will invest capital resources to support service delivery and facilitate the achievement of key objectives. The strategy has been reviewed and updated in light of the impact of COVID-19, expected capital receipts from asset disposals and the decision to press ahead with the refurbishment of the Kidsgrove Sports Centre. The capital financing requirement is set to increase by £22.629m by 2029/30 and the revenue implications have been reflected in the revised MTFS.
- 2.16 Work on the detail of the 2021/22 budget including investment and savings proposals is at an advanced stage and is being overseen by a Financial Recovery Board chaired by the Leader of the Council. Draft budget proposals will be presented to Cabinet and Finance, Assets and Performance Scrutiny Committee in December and finalised in January following public consultation and receipt of the Council's final funding settlement.

### 3. **Proposal**

- 3.1 That Cabinet endorse the draft MTFS, note the funding gap of £1.790m in 2021/22 and £5.911mm over the life of the MTFS and agree the approach to develop savings and income generation proposals in order to achieve a balanced and sustainable financial position, including planning for best, medium and worst case scenarios.

### 4. **Reasons for Proposed Solution**

- 4.1 The Council has a statutory duty to set a balanced budget by February 2021. Best practice is for financial planning to take place over a 5 year period in the form of a Medium Term Financial Strategy that sets out how the Council plans to allocate resources to meet its objectives.

### 5. **Options Considered**

- 5.1 None.

### 6. **Legal and Statutory Implications**

6.1 The Medium Term Financial Strategy is not a statutory document but it is considered best practice.

## 7. **Equality Impact Assessment**

7.1 Local authorities have a responsibility to meet the Public Sector Duty of the Equality Act 2010. The Act gives people the right not to be treated less favourably due to protected characteristics. It is important to consider the potential impact on such groups and individuals when designing or delivering services and budgets. Budget proposals requiring changes or new services and policies will be subject to Equality Impact Assessments including consultation with affected people and organisations.

## 8. **Financial and Resource Implications**

8.1 These are addressed in the body of the report.

## 9. **Major Risks**

9.1 Section 25 of the Local Government Acts 2003 places a duty on the section 151 officer to report on the robustness of the budget. The main risks to the budget include spending in excess of budget; income falling short of the budget (including capital receipts from disposal of assets); and unforeseen elements such as changes to Government funding. In the context of the COVID-19 pandemic and uncertainty regarding Government funding reforms there are significant budget risks that will need to be managed. It will be essential the Council has sufficient reserves to call on if required. The draft MTFS assumes a minimum General Fund reserve of £3.2m. This will need to be kept under review as risk assessments are updated.

## 10. **Sustainability and Climate Change Implications**

10.1 In shaping detailed budget proposals consideration will be given to the need for investment in order to deliver the Council's Sustainable Environment Action Plan.

## 11. **Key Decision Information**

11.1 Final approval of the MTFS will be a key decision.

## 12. **Earlier Cabinet/Committee Resolutions**

12.1 None

## 13. **List of Appendices**

13.1 Appendix 1 – Draft Medium Term Financial Strategy 2021/22 to 2025/26.

## 14. **Background Papers**

14.1 None.