

<b>Body:</b>	<b>Cabinet</b>
<b>Date:</b>	<b>16 September 2020</b>
<b>Subject:</b>	<b>Medium Term Financial Strategy</b>
<b>Report Of:</b>	<b>Chief Finance Officer</b>
<b>Cabinet member</b>	<b>Councillor Stephen Holt (Cabinet Member Holder for Financial Services)</b>
<b>Ward(s)</b>	<b>All</b>
<b>Purpose</b>	<b>To provide an update on the process and approach to the Council's Medium Term Financial Strategy for the period 2020/21 to 2024/25.</b>
<b>Decision Type:</b>	<b>Key Decision</b>
<b>Officer Recommendation(s):</b>	<b>To note the background to the Medium Term Financial Strategy for 2021/22 and approve the approach outlined in this report.</b>
<b>Reason for recommendations:</b>	<b>To progress the Medium Term Financial Strategy process and update Cabinet on the background to this.</b>
<b>Contact:</b>	<b>Homira Javadi, Chief Finance Officer E-mail address: Homira.Javadi@lewes-eastbourne.gov.uk</b>

## **1.0 Introduction**

- 1.1 The **Medium Term Financial Strategy** (MTFS) sets the strategic financial direction for the Council and is regularly updated as it evolves and develops throughout the year to form the framework for the Council's financial planning. This report outlines the proposed process for the MTFS for the period 2020/21 to 2024/25, which ultimately leads to the setting of the Council's budget in February 2021.
- 1.2 The Council approved its Medium Term Financial Strategy (MTFS) in July 2019 and the Cabinet recommended a resulting draft 2020/21 budget proposal in February 2020 following the service and financial planning process in the autumn. The Council's updated MTFS is included in Appendix A of this report. This together with the outturn report will form the basis for formulating the Council's revised MTFS and annual budget.
- 1.3 To ensure Members have a sound basis for planning and decision making, the MTFS this year will be reviewed and updated at the following key points in the year:

- Midyear (this report) – as a series of principles and as a framework for initial detailed budget discussions for the forthcoming financial year;
- December/January – an update to include additional information received at a national level and identified corporate issues, and the detailed budget build; and
- February – with the final Budget for the new financial year.

1.4 The purpose of the MTFS is to set out the key financial management principles, budget assumptions and service issues. It is then used as the framework for the detailed budget setting process to ensure that resources are managed effectively and are able to deliver the aspirations of the Council as set out in the Corporate Plan, over the medium term.

1.5 The vision of the Eastbourne Corporate Plan is to *“put value for money and the needs of our residents at the heart of all we do whilst supporting the town and its businesses to thrive.”*

1.6 The key underlying principles of the MTFS are:

- securing a balanced budget and setting modest increases in Council tax when appropriate;
- delivering service efficiencies and generating additional income where there are opportunities to do so;
- ensuring that the council maintains sufficient reserves and contingencies to be resilient to manage the increased level of risks associated with a more commercial agenda..

## **2.0 MTFS Review Areas – Economic Picture, Public Finances, and Core Funding**

2.1 The Council’s MTFS is shaped by the national economic background, affecting the costs the Council incurs, the funding it receives, and demand for services. The following external factors will be analysed in undertaking the mid-year review of the MTFS:

- National and local economic outlook, including the impact of Covid-19 and Brexit
- Inflation
- Interest rates
- Public Sector Pay
- Factors affecting demand-led services

2.2 The national Public Finances position directly affects the Council’s Core Funding – consisting of Government Grants, Business Rates, Council Tax and New Homes Bonus (NHB).

2.3 The four-year period to be covered by the next MTFS represents one of considerable uncertainty in light of the impact of Covid-19 and associated lockdown on the Council’s

financial position, in addition to the overall Local Government financing position.

- 2.4 In April this year the Government announced that it would be suspending implementation of the Review of Relative Needs and Resources and the planned increase to 75% business rates retention in 2021/22. This was to allow councils to focus on meeting the immediate public health challenge posed by the pandemic, but again does not give any certainty over future funding proposals for local government.
- 2.5 Regardless of shorter term uncertainties, the trend is undoubtedly likely to be that the Council will continue to become ever more reliant on internally generated resources and local taxation. This has a positive benefit in that the council is more locally focussed and responds directly to local needs. However, current events have demonstrated how exposed the council can be when it is heavily dependent upon locally generated income. This necessitates the need to have healthy reserves and a strong balance sheet, and to deliver on efficiency savings and income generation. These internal review areas are briefly outlined in the next section.
- 2.6 The draft MTFS at Appendix A provides an initial assessment of the current financial position. It reflects the impact the pandemic is having on the Council's financial position, in terms of lost income from fees and charges, reduced savings, additional direct costs and the new financial support being given by Government. Projecting the continuing impact is extremely difficult and as a starting position the worst case scenario shows that continuing deficits will range from £9.7m in 2021/22 to £4.5m in 2024/25. However, there are new savings being progressed and future ones being developed as part of the Recovery and Reset Programme (see report elsewhere on this agenda). Factoring in these known/potential savings reduces the deficits to £5.4m in 2021/22 to £0.6m by 2024/25. It must be emphasised that this position is continually changing and evolving and the programme of savings to be delivered must not only cover future deficits but also be sufficient to build reserves back up, as they will inevitably be required to cover off the 2020/21 position.

### **3.0 MTFS Review Areas – Internal Process**

- 3.1 The internal MTFS review process is underway, starting with a root and branch review, challenging current budgets directorate by directorate. 2019/20 outturn data will be reviewed against current 2020/21 budgets, with a view to ascertaining what in-year adjustments and savings could be achieved. Consideration of potential budget requirements for 2021/22 will be mindful of the challenging budget position of the Council and the need to find savings.
- 3.2 This review will in particular include consideration of :
- Realistic income projections
  - Fee and charging levels tolerable to the market
  - Service pressures and changes
  - The delivery of existing savings targets
  - Additional achievable savings
- 3.3 In addition, the Capital Programme and its implications and interactions with the budget will be carefully reviewed. Finally, reserve levels will be reviewed and the MTFS and

Budget comprehensively risk assessed.

#### **4.0 Implications**

##### **4.1 Financial**

None arising directly from this report.

##### **4.2 Legal**

None arising directly from this report.

##### **4.3 Risk Management implications**

None arising directly from this report.

A full risk assessment will be provided as part of the mid-year MTFS to be reported to Cabinet later in the year.

##### **4.4 Equality Analysis**

The equality implication of any individual decisions relating to the projects/services reviewed as part of the MTFS will be in other relevant Council reports.

#### **5.0 Conclusion**

The Council faces considerable financial challenges in the medium term, primarily relating to changes and uncertainty in both public finances and the wider economic environment. The MTFS process briefly outlined in this report is intended to support in meeting these challenges and moving to a long-term sustainable position.

#### **6.0 Appendices**

##### **6.1 Appendix A – Medium Term Financial Strategy 2020/21 – 2024/25**