

Medium Term Financial Strategy 2021-26

To: General Purposes Committee

Meeting Date: 24 November 2020

From: Deputy Chief Executive & Chief Finance Officer.

Electoral division(s): All

Forward Plan ref: Not applicable

Key decision: No

Outcome: This report sets out the Council's key elements of the draft Medium Term Financial Strategy. The strategy is updated annually at the commencement of the business planning process but is refined during the process as the financial climate and the Council's approach to its finances gain greater clarity.

The final Strategy is adopted at the Council meeting in February that agrees the Business Plan. Its core purpose is to provide a financial framework within which individual service proposals can be developed before Council approves the budget. Obviously this year the impact of Covid 19 has had a significant impact on the Council's ability to establish a robust view of the short and medium term financial challenges facing the Council.

Recommendation: It is recommended that General Purposes Committee considers the elements of the Draft Medium Term Financial Strategy for 2021-26 attached in the Appendix to this report.

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1. Background

- 1.1 The Council has an integrated approach to service planning and budget setting and it delivers this through the business planning process that culminates annually with the Council agreeing the Business Plan in February.
- 1.2 The Business Plan covers a five year timeline and integrates policy objectives, resource allocations, and performance targets. The General Purposes Committee has a responsibility in owning and overseeing this process (as well as being the Service Committee on behalf of corporate services).
- 1.3 A key component of the Business Plan is the Medium Term Financial Strategy (MTFS) which sets the financial framework that services should adopt in the construction of their budget proposals at the start of the business planning process. The MTFS and the Business Plan are the responsibility of Full Council and cannot be delegated. GPC recommends budget proposals to Council which Council must agree, or not, as part of the budget setting decision making process.
- 1.4 The draft 2020-25 MTFS can be found in Appendix A. The financial estimates underpinning the draft MTFS, including inflation, demand, pressures and funding forecasts, are provisional and will be refined during this year's business planning process prior to consideration by Council in February.

2. Purpose and Key Developments

- 2.1 One of the major functions of the MTFS is to set out the Council's projected resources for the next five financial years. It also sets out the financial picture facing the Council and the Council's strategy for managing its resources effectively in response to the economic climate. The strategy does not set out detailed budgets and individual savings proposals as these are contained elsewhere in the Business Plan. These proposals will be considered by service committees before being approved by Council in February.
- 2.2 The MTFS provides a guide and a context to aid services in developing their budgets and agrees a number of corporate methodologies for this process.
- 2.3 Budget allocations at this point are provisional as there will be a number of factors that affect the final allocations. Such changes will arise from flexing to reflect the proposals brought forward through savings proposals, transformation, as well as changes that could arise from the next Spending Review, changes to legislation, or unforeseen service pressures.
- 2.4 The 2021-26 MTFS has been developed during a period of immense uncertainty surrounding the UK's public finances. The expected fundamental review of council funding due this year has been postponed as a result of Covid 19. As a consequence the three year settlement proposed will now be replaced by a single year settlement. Clearly developing medium term financial plans, with any accuracy, on the back of a world-wide pandemic and short term funding is almost impossible. The spending review is due on the 25th November but the detail of the Council's grant settlement for 21/22 will not be known until later in December.

2.5 The MTFS includes significant narrative around the economic context in which the Strategy has been developed. The purpose of this being to provide the reader with the context in which the strategy has been developed. By its nature this outlook is always more robust for the earlier years of the Strategy compared to the latter years given the plethora of factors that will affect the local, national and world wide economies. This is challenging in a normal year but is understandably exacerbated many times over this year as a result of the world wide pandemic. As a result the Strategy attached as an Appendix to this report currently includes the following elements:

- 1: Executive summary
- 3: Transformation
- 7: Balancing the budget
- 8: Reserves policy and position
- 10: Risks

The remainder of the MTFS will be presented to this Committee in January before it is presented to Council along with the Business Plan in February.

3. Covid 19 Impact

- 3.1 In any normal year developing a medium term view of expected the factors such as demand, inflation, income, interest rates, and government funding etc that affect the Council's financial position is very difficult. In the current environment this is virtually impossible. The MTFS will therefore contain projections for 5 years as normal but the focus will even more than normal be on the first financial year.
- 3.2 As previously highlighted in previous reports to the Committee a number of scenarios were developed using various data sets to project the potential implications of the pandemic on the Council's finances for next year. Since those scenarios were developed both the pandemic and the data available to support the Council's forecasting have evolved. As a consequence rather than using a range of scenarios the Council will be using all the latest information available to construct a single view of the financial position in 21/22. Given the pace of change this projection will be constantly updated using the latest information until the point at which the Council consider the final budget in February.
- 3.3 To date the Government have effectively covered the additional costs arising from C19 that have been incurred by the Council in the current financial year – and this is reflected in the latest reports to the Committee in the Integrated Finance Report. As has been previously reported to the Committee, given this funding, the big challenge for the Council was always going to be 21/22. The latest forecasts have identified that the 'budget gap' for 21/22 has reduced which whilst are dependent on a number of significant assumptions does provide the Council with a greater range of options than was first feared.
- 3.4 Although the projected budget gap for next year has reduced the scale of it is still significant. Whilst officers continue to work on developing proposals that could reduce this

further any new proposals will not bridge this deficit. Whilst the Government's funding for next year may reduce the gap further it is highly unlikely to cover this deficit.

3.5 As a consequence the Council will have to consider how it intends to bridge this deficit in order to comply with its statutory responsibility to set a balanced budget. As the Committee will be aware this will have to be found through one of the following:

- Additional council tax increases (above the 2% already built in to the projection)
- Service reductions
- Use of reserves

Any use of reserves that are not aligned to one off items of expenditure will defer, rather than remove, the need for further savings in future years.

3.6 Given the financial implications arising from the pandemic the one year spending review and the resulting grant settlement for 21/22 have even greater importance this year than in previous years. Whilst the overall strategic departmental expenditure limits are expected to be announced on 25th November the Council will not receive notification of its revenue support grant settlement until December. It is therefore anticipated that a further report will be presented updating the Committee on the latest position at the December meeting.

4. Alignment with corporate priorities

4.1 A good quality of life for everyone

The Services discussed in this report play a significant role in enabling the Council to achieve this priority.

4.2 Thriving places for people to live

The Services discussed in this report play a significant role in enabling the Council to achieve this priority.

4.3 The best start for Cambridgeshire's children

The Services discussed in this report play a significant role in enabling the Council to achieve this priority.

4.4 Net zero carbon emissions for Cambridgeshire by 2050

The Services discussed in this report play a significant role in enabling the Council to achieve this priority.

5. Significant Implications

5.1 Resource Implications

This report sets out the provisional revenue resource and a proposed capital programme for all service areas. The final resource allocation will be approved by Council as part of the Business Plan in February 2021.

5.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no issues directly arising from this report

5.3 Statutory, Legal and Risk Implications

There are no issues directly arising from this report

5.4 Equality and Diversity Implications

There are no issues directly arising from this report

5.5 Engagement and Communications Implications

There are no issues directly arising from this report

5.6 Localism and Local Member Involvement

There are no issues directly arising from this report

5.7 Public Health Implications

There are no issues directly arising from this report

Have the resource implications been cleared by Finance?

Yes

Name of Financial Officer: Chris Malyon

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement? No, not applicable

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law? No, not applicable

Have the equality and diversity implications been cleared by your Service Contact? No, not applicable

Have any engagement and communication implications been cleared by Communications? No, not applicable

Have any localism and Local Member involvement issues been cleared by your Service Contact? No, not applicable

Have any Public Health implications been cleared by Public Health
No, not applicable

6. Source documents

6.1 Source documents

a) Draft Medium Term Financial Strategy 2021-26

b) Council Business Plan 2020-25

6.2 Location

Strategic Finance Business Partners. Email corporate.finance@cambridgeshire.gov.uk

[Business Plan 2020 to 2021](#)