CABINET

18 JANUARY 2021

COUNCILLOR PAUL TAYLOR
CORPORATE SERVICES
PORTFOLIO HOLDER
REPORT NO. FIN2203

KEY DECISION? ~~YES~~/NO

MEDIUM-TERM FINANCIAL STRATEGY (MTFS) 2022/23 to 2025/26 (UPDATE)

SUMMARY:
This report sets out and update on the key factors influencing the preparation of the 2022/23 budget.

The report also provides an update on Provisional Local Government Finance Settlement. Final decisions on the overall budget and Council Tax level will be made by Council in February 2022.

RECOMMENDATIONS:
That Cabinet notes the report, including the Provisional Local Government Finance Settlement, and the financial planning process and associated risks and uncertainties as outlined in section 7 of the report.

1. INTRODUCTION/BACKGROUND

1.1. This report informs members of the current financial position and provides an update on the financial planning process and budget prospects for 2022/23 following the Budget and Spending Review announcement on 27 October 2021, and the Provisional Local Government Finance Settlement announced on 16 December 2021.

2. STRATEGIC CONTEXT

2.1. In common with many local authorities, Rushmoor Borough Council continues to face significant financial challenges over the medium term. The Council will need to continue to take difficult decisions around resource allocation.

2.2. There are a number of key drivers of change that affect the way in which the Council's financial plans are developed – Population, Economy, Policy Decisions, ICE Programme. Whilst these drivers are still relevant and can assist members in decision making, the level of uncertainty around national policy issues (Covid-19 and Brexit in particular) and the global economy makes it more difficult to predict the impact on the Council.

3. BUDGET AND SPENDING REVIEW, CAPITAL FINANCING

3.1. The Chancellor announced the Budget and outcome of the Spending Review on 27 October 2021. The provisional Local Government Finance Settlement was announced on 16 December 2021 and is covered in section 5 of this report.

3.2. Whilst the Spending Review did not give specific details in terms of Council Funding, it did include a number of announcements that will influence the amount of funding and Government support the Council can expect over the next 3 years (2022/23 to 2024/25). The main points of the spending review are set out below.

- Local government will receive an additional £4.8bn in "core" grant funding over the next 3 years (roughly an additional £1.6bn in each year although there is an element of front-loading).
- Separately, local government will receive £3.6bn in grant funding through the settlement for social care reforms. The sector will receive £200m in 2022-23, £1.4bn in 2023-24 and £2.0bn in 2024-25.
- Council Tax increases – 2% 'core' plus a further 1% increase in the Adult Social Care Precept
- Further funding to tackle homelessness and rough sleeping (£639m was made available but may include already announced grant funding)
- Small business rates multiplier will be frozen in 2022-23 (instead of increasing by 3.1%) – but local authorities will be fully compensated
- The Government is consulting on a number of technical aspects of the business rates system following the publication of the final report on the review.

3.3. There are changes to the capital finance landscape that members should be aware of as these are likely to have an impact on the Council's Regeneration Programme and wider Capital Programme in future years.

3.4. CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) following a consultation period. These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions.

The updated Prudential Code includes the following as the focus of the substantive changes:

- The provisions in the code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for yield as the primary purpose of the investment or represent an unnecessary risk to public funds.

- Proportionality has been included as an objective in the Prudential Code. New provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.
- A new requirement has been added so that capital strategies are required to report investments under the following headings: service, treasury management and commercial investments.

The main changes to the updated Treasury Management Code and the accompanying guidance for local authorities are as follows:

- Investment management practices and other recommendations relating to non-treasury investments are included within the Treasury Management Practices (TMPs) alongside existing TMPs.
- The guidance will recommend the introduction of the Liability Benchmark as a treasury management indicator for local government bodies (note that CIPFA has issued a toolkit to assist local authorities with the production of this indicator).
- Environmental, Social and Governance (ESG) risks are incorporated into TMP1 (Risk Management) rather than a separate TMP 13.
- The purpose and objective of each category of investments should be described within the Treasury Management Strategy.

3.5. The Government have issued a consultation on changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision (MRP) each year. Where authorities borrow to finance capital spend, they are required under regulations to set aside money each year from their revenue account. This is referred to as MRP and is to make sure they can afford to repay the principal of their debt.

3.6. The consultation is seeking to address concerns the Government have around compliance by some local authorities with the duty to make prudent provision, resulting in an underpayment of MRP. Specifically, the Government have highlighted two particular concerns:

- Local authorities using sales from assets (capital receipts) in place of a charge to revenue. Authorities may use capital receipts to reduce overall debt and thereby reduce MRP through the calculation. Capital receipts may not, however, be used in lieu of a prudent charge to revenue.
- Local authorities are not charging MRP on debt related to certain assets. The evidence is that while some authorities are making MRP for commercial investments funded by borrowing, some are still not paying MRP in relation to borrowing associated with investment assets or capital loans. The statutory guidance is clear that financing for investment assets and capital loans requires provision to be made.

3.7. Whilst Rushmoor complies with the current guidance and makes prudent provision for the repayment of debt, the proposed changes may require the Council to consider the level of MRP in relation to capital loans made to Rushmoor Homes (the wholly-owned housing company).

3.8. The consultation closes on 08 February 2022 and the Council will be submitting a response given the implications the current proposals would have to the Housing Company and the wider Regeneration programme.

4. ECONOMIC OUTLOOK AND COVID-19 IMPACT

4.1. There is considerable uncertainty in the national and global economic outlook. The commentary below reflects the position at the time of writing (late December 2021), and will, of course, be subject to change.

4.2. It is expected that the continued financial impact from Covid-19 and inflationary pressures will have a significant impact on the Council's budgets over the short to medium-term.

4.3. The P2 Budget Monitoring report to Cabinet at this meeting (January 2021) provides a forecast of the financial impact from Covid-19 on the Council's 2021/22 Revenue budget and provides the context to the budget setting process for the coming financial year. This is shown in Table 1 below.

Table 1: P2 Budget Monitoring position (Cabinet, January 2021)

General Fund Revenue Budget	2021/22 Original Budget (£'000)	2021/22 Latest Budget (£'000)	2021/22 Outturn Forecast (£'000)	2021/22 Variation (£'000)
Corporate Services	5,184	5,315	5,550	235
Customer Experience & Improvement	55	446	561	115
Major Projects & Property	(5,434)	(5,184)	(5,061)	123
Operational Services	9,869	10,309	10,667	358
Planning & Economy	2,303	2,487	2,487	0
ICE Programme	536	546	546	0
SUBTOTAL	**12,513**	**13,919**	**14,750**	**831**
Less: Reversal of Accounting entries	(2,901)	(2,901)	(2,901)	0
Net Service Revenue Expenditure	**9,612**	**11,018**	**11,848**	**831**
Corporate Income & Expenditure	3,616	3,086	2,691	(395)
C19 Expenditure Pressures	0	0	0	0
C19 Risk	0	0	0	0
Movement in Reserves	(103)	(772)	(994)	(223)
Savings Plan	(256)	(256)	(80)	176
Net General Fund Revenue Budget	**12,869**	**13,076**	**13,465**	**389**
Funded by:				
Council Tax	6,928	6,928	6,928	0
Business Rates	3,574	3,574	3,574	0
New Homes Bonus	863	863	863	0
Covid-19 Emergency Funding	589	589	589	0
Covid-19 Income Loss	101	101	137	36
Other Funding	(200)	(200)	(200)	0
TOTAL Funding	**11,855**	**11,855**	**11,891**	**36**
Core (Surplus) or Deficit	**1,014**	**1,221**	**1,574**	**353**

4.4. The main variations on the revenue budget in the current year is due to a shortfall in income from Sales, Fees & Charges with Crematorium income and Car Parking income showing material variations. However, service expenditure variations have been offset by lower capital financing costs in-year.

4.5. It is likely that the revenue budget will remain under pressure for the remainder of the financial year as the impact from the Omicron variant works through the national and local economy. There may be further national restrictions which will impact on a number of services such as Leisure facilities, and income pressures around Car Parks and Princes Hall.

4.6. Given the scale of the financial impact on the revenue budget in the current financial year, near-term inflationary pressures and the continued impact from the pandemic, it can be expected that income and expenditure budgets will remain under pressure over the short to medium-term. Careful consideration will also need to be given to the impact on Council Tax and Business Rates in terms of both collection rates and forecast of growth or decline in the tax bases.

Economic Outlook commentary

4.7. The Budget Strategy report to Cabinet in November 2021 provided a detailed overview of the Economic Outlook. Whilst this outlook is broadly similar, it is worth highlighting recent decisions and economic data.

- MPC increased the Bank Rate to 0.25% at their December meeting
- November inflation rates: CPI 5.1% (up from 4.2% in October), RPI 7.1% (up from 6.0% in September)
- UK GDP increased by 1.1% between July and September 2021, with the rate of increase slowing to 0.1% in October 2021.

4.8. Economic commentary from Arlingclose (the Council's Treasury Management advisors) from December 2021 is summarised below. This commentary was drafted prior to the release of the latest economic data referred to earlier.

4.9. The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.

4.10. Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.

4.11. The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.

4.12. These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated..

4.13. The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.

4.14. The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown

4.15. The impact on the Council is likely to be through the level of Inflation and Interest Rates. This will affect the cost of service delivery and decisions around treasury management and the affordability of the Capital Programme supported by debt financing. In addition, weaker global economic growth may have a direct impact on the local economy.

4.16. The Council will also need to consider the impact on the housing market. The Council's regeneration programme and other significant housing schemes may be at risk if there is a downturn in the housing market given the increase in interest rates and the economic commentary above.

5. LOCAL GOVERNMENT FUNDING – PROVISIONAL SETTLEMENT FOR 2022/23

5.1. The Government published the provisional local government finance settlement for 2022/23 on 16 December 2021.

5.2. This is a one-year settlement for 2022-23. There are no projected or indicative numbers for the remainder of the spending review period (2023/24 and 2024/25). More fundamental changes in local government funding have been clearly signalled for 2023/24. Therefore, this should be viewed as a rollover settlement from 2021/22, with the focus very much on "stability".

5.3. The key elements from the provisional settlement are summarised below (as set out in the briefing note from Pixel).

- Revenue Support Grant (RSG). Inflation has been applied to RSG (£72m, 0.5%). This uplift is not received by authorities with "negative RSG".
- Baseline Funding Level (BFL). BFL will be frozen in 2022-23 because the business rate multiplier will be frozen.
- Compensation for under-indexing the multiplier. Compensation has been calculated based on the Consumer Price Index (CPI), which was

3.1% in September 2021. We understand that the final settlement will use Retail Price Index (RPI) – which in September 2021 was much higher, at 4.9%.

- Negative RSG. There will continue to be no adjustment for "negative RSG" (i.e. "negative RSG" continues to be funded for those authorities whose BFL is higher than their underlying SFA).
- Council tax. DLUHC assumes every authority will increase Band D council tax by the maximum allowed (see limits in a later section). In its CSP figures, DLUHC has assumed that the taxbase will increase in 2022-23 for each authority in line with their average taxbase increase between 2017-18 and 2021-22. This is a reasonable approach because it reflects actual recent changes in taxbase, which has rebounded more quickly from the pandemic than expected.
- Improved Better Care Fund (IBCF). Inflation will be added to existing IBCF (£63m to £2.077bn).
- Social care support grant. £636m will be added to the existing £1.710bn grants.
- New Homes Bonus. A further year has been added, in addition to the legacy payment for Year 8. Overall cost of New Homes Bonus will be £554m, £68m less than in 2021-22. There will be no returned surplus in 2022-23, with the £346m surplus used to fund other grants within CSP.
- Rural Services Deliver Grant. No change in funding.
- Lower Tier Services Grant. This grant was introduced in 2021-22 and is continued into 2022-23. The minimum cash guarantee element has been recalculated (cost reduces from £25m to £20m). Overall grant quantum remains the same (£111m).
- Supporting Families (£40m) and Cyber Security (£12m). These are new grants announced in SR21 but no allocations have been announced in the settlement.

5.4. For Rushmoor, the settlement was broadly in-line with expectations as it was expected that the Fair Funding Review changes would be delayed. Additional funding from New Homes Bonus, Lower Tier Services Grant and Services Grant can be seen as positive although only provide one-off additional support.

5.5. Members will be kept informed of any further local government funding streams over the coming weeks, although it is unlikely there will be any substantial change to the level of funding outlined in the provisional settlement.

Government Funding & Council Tax

5.6. As discussed, there is very little certainty around the level of Government Funding that the Council will receive beyond 2022/23.

5.7. The table below sets out the current assumptions made on Government funding over the medium-term strategy period and are informed by the provisional local government finance settlement. However, these assumptions will be updated over the coming weeks with particular emphasis on the level of Business Rates Retention income.

Table 2: Government Funding assumptions (Draft based on Provisional LGFS December 2021)

Government Funding	2021/22 (£'000)	2022/23 Forecast (£'000)	2023/24 Forecast (£'000)	2024/25 Forecast (£'000)	2025/26 Forecast (£'000)
Business Rates Retention	3,574	3,500	2,550	2,601	2,653
Revenue Support Grant	0	0	0	0	0
Subtotal	**3,574**	**3,500**	**2,550**	**2,601**	**2,653**
New Homes Bonus	863	344	0	0	0
Other Grants/Funding					
Lower Tier Services Grant	101	116	0	0	0
Services Grant	0	164	0	0	0
TOTAL Government Funding	**4,538**	**4,124**	**2,550**	**2,601**	**2,653**

5.8. The MTFS funding forecast above assumes the current New Homes Bonus scheme ends with no projection of any further income. The Government have indicated a new scheme will be designed with consultation with local government but at the time of writing there is no indication of what scheme will be in place beyond 2022/23.

5.9. In terms of Council Tax assumptions, these will be finalised in January to take into account the latest taxbase forecast the impact from Covid-19 on collection rates in the current year. The MTFS assumed that there would be growth in the Council Taxbase of around 1% per annum, and that Council Tax would be increased (subject to Government guidance around referendum limits).

5.10. Therefore, whilst there may be some improvement in the funding position when compared to the February 2021 forecast, there remains significant uncertainty around the longer-term funding position.

6. MEDIUM TERM FINANCIAL STRATEGY 2022/23 TO 2025/26

6.1. This report does not update the MTFS or the Savings Plan. These will be considered by Cabinet in February 2022

6.2. As outlined to members in the Budget Strategy report to Cabinet (November 2021), the Council (in common with most local authorities) is facing a significant financial pressure from Covid-19 and near-term inflationary pressures. The February 2021 MTFS indicated a significant funding gap over the medium-term strategy period.

6.3. Whilst the Council will benefit from an improved Government Funding position for 2022/23, it is expected that fundamental review of local government finance and the levelling-up agenda will frame the Council's revenue budget in future years.

6.4. It was recommended that the Council continues to review not only the costs of services but considers the nature and scope of services being delivered. The Council will need to identify additional savings to mitigate the impact of any savings that cannot be achieved in full or in the timeframe required, as this would put additional financial pressure on the Council.

Balances & Reserves

6.5. The Council holds balances and reserves to provide financing for future expenditure plans. Members will be aware from the 2020/21 Revenue Budget Outturn report that the Council has increased the level of Reserves and Balances it holds, largely due to the timing difference around Business Rates income but also in part to mitigate the financial impact from Covid-19. The Council held £29.156m in balances and reserves at the end of the last financial year.

6.6. The Council holds these sums for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing [Stability and Resilience Reserve, Commercial Reserve];
- a risk-assessed contingency to cushion the impact of unexpected events or emergencies [General Fund Balance];
- a means of building up funds to meet known or predicted requirements

6.7. Consideration will need to be given to the level of the Stability and Resilience reserve over the medium-term strategy period to ensure an adequate balance is available to enable the Council to demonstrate financial resilience.

6.8. A review of the balances and reserves will be completed and presented to Cabinet and Council in February alongside the revenue and capital budgets for 2022/23. This will need to assess the adequacy of the reserves in ensuring the Council remains financially sustainable over the short to medium-term.

7. IMPLICATIONS

Risks

7.1. This report has identified some specific risk around the financial impact from Covid-19 and the Council's funding from Government. There is significant uncertainty beyond 2022/23 around likely levels of Government funding and support, and the longer-term changes from the review of Local Government Finance/Levelling-Up.

7.2. Covid-19 risks

- Impact from the Omicron variant and whether any additional restrictions are announced in the coming weeks
- Council Tax & Business Rates collection shortfalls contained within the collection fund but will need to be incorporated into the 2022/23 budget

- Cost of additional council tax support cases in 2021/22 and impact of scheme going forward.
- Income from fees and charges – particularly around the assumption on Car Park income and the performance if the Crematorium and Princes Hall in 2022/23.

7.3. Other risks to the Council were set out in the Budget Strategy report and are largely unchanged:

- Economy – the Council has a number of income streams that are linked to economic performance including fees and charges, treasury management activities, and commercial investment. A slower economic recover or downturn could reduce the amount of disposable income available to residents, erode investment fund performance, and reduce the value of commercial property and rental income.
- Interest rates – the recent increase in the base rate to tackle inflationary pressures in the economy may require the Council to review treasury management investment income and the longer-term considerations of managing the Council's external debt.
- Commercial property performance – the Council is increasingly reliant on income from commercial investment properties. Any shortfall in income or additional costs associated with managing the property portfolio will have an adverse effect on service delivery. To mitigate future variable income flows, a Commercial Property Reserve was established and will be reviewed as part of the Council Balances and Reserves Strategy.
- Housing market – uncertainty given the interest rate position. It is likely that there will be an impact on the Council's wider regeneration plans and a number of key strategic housing sites across the Borough. For the Council, where regeneration schemes include housing development, there may be a requirement to continually assess the financial viability of schemes to ensure they are able to deliver the required outcomes.

Legal Implications

7.4. The Council through its Members has a legal obligation to set a balanced budget and the MTFS provides the information that will inform the approach to be taken in the budget setting process for early 2022 when reports will be taken to Cabinet and Council for approval.

Financial and Resource Implications

7.5. There are not considered to be any financial implications arising directly from this report. An updated position will be included in the reports to Cabinet and Council in February 2022.

Equalities Impact Implications

7.6. None

8. CONCLUSIONS

8.1. Whilst this report does not provide members with a material update on the Medium-Term Financial Strategy or Cost Reduction and Efficiencies Plan (CREP), the provisional settlement announcement provides some clarity on the level of Government Funding and support for 2022/23.

8.2. The MTFS will be updated over the coming weeks to ensure it provides the framework for managing the Council's financial position and helps to ensure that resources are available to deliver against the Council Plan.

8.3. Whilst the Council has delivered a number of budget and efficiency savings, the Council will need to continually review adequacy and composition of the any savings. It is likely that the Council will need to identify further budget and efficiency savings over and above those already contained within the MTFS.

8.4. The Council will need to ensure the adequate reserves are maintained over the medium term to mitigate the risks identified in this report. However, the use of reserves to deal with changes in the financial standing of the Council on an ongoing basis is not a long-term or sustainable plan. It does, however, enable the Council to mitigate against short-term changes, whilst allowing the Council to plan and implement effectively over the medium-term.

BACKGROUND DOCUMENTS:

CONTACT DETAILS:

Report Author and Head of Service
David Stanley – Executive Head of Finance
david.stanley@rushmoor.gov.uk
01252 398440