CABINET **COUNCILLOR PAUL TAYLOR**
CORPORATE SERVICES
PORTFOLIO HOLDER

13 OCTOBER 2020 **REPORT NO. FIN2029**

KEY DECISION? ~~YES~~/NO

BUDGET STRATEGY 2021/22

SUMMARY:
This report sets out the budgetary framework to support the preparation of the 2021/22 budget.

The report also provides an update on the financial position of the Council and sets out how members will be kept informed of changes in the forecast over the medium-term for financial planning purposes. Final decisions on the overall budget and Council Tax level will be made by Council in February 2021.

RECOMMENDATIONS:
That Cabinet
- (i) Approves the Budget Strategy 2021/22 as set out in section 5 of the report
- (ii) Notes the impact from Covid-19 on the financial planning process and associated risks and uncertainties as outlined in section 7 of the report.

1. INTRODUCTION/BACKGROUND

1.1. This report will inform members of the current financial position and proposes a strategy for addressing the projected core budget deficit highlighted in the MTFS published in February 2020. The strategy will also consider options to mitigate the impact from Covid-19.

1.2. Section 5 of the report outlines the approach that will be taken when setting the detailed revenue and capital budgets for 2021/22.

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.

2.3. Given the level of uncertainty around the national economic and political environment, this report will only provide members with a brief overview the key economic factors that are likely to have an impact on the Budget Strategy for 2021/22. A more detailed review of these factors will be undertaken in the coming weeks, with further reports likely in November and December. These reports will focus on specific issues including the Local Government Funding context and reviewing the key assumptions that inform the MTFS 2021/22 to 2024/25.

2.4. However, with the recent announcement that the Autumn Budget will not take place this year, there is likely to be an impact on the scale and scope of local government funding announcements.

3. COVID-19 IMPACT AND ECONOMIC OUTLOOK

3.1. There is considerable uncertainty in the national and global economic outlook. The commentary below reflects the position at the time of writing (late September 2020), and will, of course, be subject to change.

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

3.3. The Q1 Budget Monitoring report (link) to Cabinet in August 2020 provided a forecast of the financial impact from Covid-19 on the Council's 2020/21 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: Q1 Budget Monitoring position (Cabinet, August 2020)

General Fund Revenue Budget	2020/21 Original Budget (£'000)	2020/21 Latest Budget (£'000)	2020/21 Outturn Forecast (£'000)	2020/21 Variation (£'000)
Corporate & Democratic Services	5,289	5,399	5,432	33
Customer Experience and Improvement	19	(12)	(55)	(43)
Major Projects and Property	(4,928)	(4,302)	(3,987)	315
Operational Services	7,847	8,057	8,885	827
Planning & Economy	2,548	2,738	3,304	565
ICE Programme	496	862	862	0
SUB TOTAL	**11,272**	**12,743**	**14,440**	**1,697**
Less: Reversal of Accounting entries	**(2,519)**	**(2,519)**	**(2,519)**	**0**
Net Service Revenue Expenditure	**8,753**	**10,224**	**11,921**	**1,697**
Corporate Income & Expenditure [Note 1]	3,227	2,318	2,656	338
C19 Expenditure pressures	0	0	232	232
Movement in Reserves	746	546	(284)	(831)
Savings Plan	(1,436)	(1,436)	(951)	485
Net General Fund Revenue Budget	**11,290**	**11,652**	**13,574**	**1,921**
Funded by:				
Council Tax	6,705	6,705	6,705	0
Business Rates	3,767	3,767	3,767	0
New Homes Bonus	1,169	1,169	1,169	0
Covid-19 Emergency Funding	0	0	1,133	1,133
Other	(3)	(3)	(3)	0
TOTAL Funding	**11,637**	**11,637**	**12,770**	**1,133**
Core Surplus / (Deficit)	**347**	**(15)**	**(804)**	**(789)**

3.4. The main variations on the revenue budget in the current year is due to a shortfall in income from Sales, Fees & Charges. Covid-19 has had a significant impact with material variations on both on-street and off-street car parking income, planning fees, and income from events and performances at Princes Hall.

3.5. It is likely that the revenue budget will remain under pressure and further adverse variations are expected, particularly around the cost of providing Leisure facilities, and income pressures around Car Parks and Princes Hall.

3.6. It is anticipated that the Council will receive financial support from the Government through the Sales, Fees & Charges Compensation Scheme.

3.7. Given the scale of the financial impact on the revenue budget in the current financial year and the nature of 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

3.8. At its meeting ending on 17 September 2020, the Monetary Policy Committee (MPC) voted unanimously to maintain Bank Rate at 0.10%. The Committee voted unanimously to maintain the current level of Quantitative Easing (QE) at £745bn.

3.9. It is worth noting that despite the current low interest rate, the MPC have given consideration to negative interest rates. According to the published minutes from the September meeting (italics added for this report):

"The Committee had discussed its policy toolkit, and the effectiveness of negative policy rates in particular, in the August Monetary Policy Report, in light of the decline in global equilibrium interest rates over a number of years. *Subsequently, the MPC had been briefed on the Bank of England's plans to explore how a negative Bank Rate could be implemented effectively, should the outlook for inflation and output warrant it at some point during this period of low equilibrium rates. The Bank of England and the Prudential Regulation Authority will begin structured engagement on the operational considerations in 2020 Q4*."

3.10. The committee noted that the outlook for the economy remained unusually uncertain. The central projection set out by the MPC relies on the assumptions that the economic impacts of the Covid-19 pandemic would reduce gradually and that there would be an immediate move to a free trade agreement with the EU post December 2020. Under these assumptions, GDP was projected to continue to recover, supported by substantial fiscal and monetary policy actions. Unemployment was expected to rise significantly, before declining gradually while CPI inflation was expected to rise slowly and reach roughly the 2% target in two years' time.

3.11. At the time of the August MPC meeting, indicators were generally in line with the expectations set out in the bank's central case. UK GDP in July had reached 18.5% higher than the lows reached in April and high-frequency payments data since then suggest that consumption has continued to recover and has reached roughly the same level as the start of the year on aggregate. Although the number of furloughed workers has continued to fall there is still uncertainty surrounding the labour market as this scheme begins to unwind. 12-month CPI inflation declined from 1.0% in July to 0.2% in August, which the MPC notes is consistent with the temporary impact of the Government's Eat Out to Help Out scheme as well as the VAT cuts in the hospitality sector.

3.12. Global economic activity had also made improvements throughout May and June as restrictions put in place to slow the spread of Covid-19 have eased. Data suggests that recovery in the USA has progressed faster than expected at the time of the August Monetary Policy Report as retail sales continue to recover and manufacturing PMIs rose. The Eurozone GDP also continued to recover throughout July and August, albeit slower than in the UK and USA.

3.13. Although these indicators generally support the MPC's central case, the path of growth and inflation are heavily dependent on the progression of the pandemic and the outcome of negotiations between the European Union and the United Kingdom. The response of households, businesses and financial markets to these developments will also be a deciding factor in the progress of economic recovery. The MPC notes that although recent economic data have been slightly stronger than expectations, it is unclear how much this tells us about how the economy will recover into the future due to the uncertainties mentioned out above

3.14. The committee also discussed the current policy toolkit and the potential effectiveness of negative policy rates in response to the decline of interest rates over recent years. The Bank of England plans to explore how a negative Bank Rate could be implemented effectively if there is a continued economic downturn.

3.15. CPI inflation fell to 0.2% in August, from 1.0% in July, and is forecast to remain slightly below the 2% target in the near term. There is a degree of volatility in the inflation rate due to the variable impact from Covid-19 across different sectors of the economy. The lower August figure was in part due to the Government's "Eat out to help out" scheme pushing down restaurant and café prices.

3.16. 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.

3.17. The Council will also need to consider the impact of changes in 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. Uncertainty around Brexit has led to a softening in the housing market, although this may not be representative of any longer-term trend.

4. LOCAL GOVERNMENT FUNDING

4.1. As part of the Government's response to the financial impact of Covid-19 on local authorities, it was announced in April 2020 that the Fair Funding Review and changes to the Business Rates Retention scheme would be postponed for a further 12 months. It is expected that changes will not be implemented until April 2022.

4.2. Given the announcement and the focus from Government in supporting local authorities with the public health and financial impact of Covid-19, there has been little additional work on other local government finance issues such as New Homes Bonus and Council Tax referendum limits.

4.3. Members will be kept informed of any local government funding announcements in the reports to Cabinet over the coming weeks, although it is unlikely there will be any substantial update until late November or early December following the cancellation of the Autumn Budget.

5. 2021/22 BUDGET STRATEGY - ASSUMPTIONS

5.1. The 2021/22 Budget Strategy is informed by the financial impact from Covid-19 in the current year. The strategy below sets out the key assumptions that will be made when reviewing the Council's revenue budgets for 2021/22.

5.2. The level of uncertainty around the Council's financial position is unprecedented and makes the forecasting of income and expenditure budgets for 2021/22 very difficult. As such, a number of broad assumptions are set out below that will allow budgets to be updated.

- Starting point for reviewing budgets for 2021/22 is the assumption that most budgets return to near/close to pre-Covid levels.
- High risk income and expenditure areas that are unlikely to recover quickly will be reviewed in detail and will require a flexible approach as further decisions a likely to be required (e.g. Leisure, Princes Hall, Car Parks)
- Budget challenge process following an analysis of the outturn position from 2018/19 and 2019/20
- Review of salary budgets to ensure only posts from the agreed structures are included within the revenue budget
- Savings Plan will be reviewed in detail to ensure the Council can set a balanced budget for 2021/22 and address and deficit over the medium-term
- Council Tax/Business Rates income assumptions will be reviewed
- Capital Programme will be reviewed with evaluation of any new or revised schemes
- Adequacy of reserves will need to be considered

Government Funding & Council Tax

5.3. As discussed earlier in the report, there is very little certainty around the level of Government Funding that the Council will receive in future years.

5.4. The announcement in April 2020 of a delay in the introduction of 75% Business Rates Retention and the Review of Relative Needs and Resources has been postponed until April 2022 is welcome. However, the detailed position for the Council will not be known until December 2021 and is unclear at this stage what period this will cover.

5.5. The table below sets out the assumptions made on Government funding for 2021/22 that were included in the February 2020 MTFS. These assumptions will be updated in subsequent reports to members.

Table 2: Government Funding assumptions (Council, Feb 2020)

Government Funding	2020/21 Forecast (£'000)	2021/22 Forecast (£'000)	2022/23 Forecast (£'000)	2023/24 Forecast (£'000)
Business Rates Retention	3,767	2,561	2,610	2,662
Revenue Support Grant	0	0	0	0
Subtotal	**3,767**	**2,561**	**2,610**	**2,662**
New Homes Bonus	1,169	550	211	0
Other Grants	267	0	0	0
TOTAL Government Funding	**5,202**	**3,111**	**2,821**	**2,662**

5.6. The forecast for 2021/22 shows a reduction of £1.2m in Business Rates income and a reduction of £0.6m in New Homes Bonus. Given the delay in the Fair Funding Review, it is likely that business rates income for 2021/22 will revert back towards the level forecast for the current financial year. However, the impact from Covid-19 on the business rates base will need to be taken into account.

5.7. The MTFS also assumed a phasing-out of New Homes Bonus income. At the time of writing there is no indication of what scheme will be in place for 2021/22.

5.8. In terms of Council Tax assumptions, these will be reviewed given 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).

5.9. Therefore, whilst there may be some improvement in the funding position when compared to the February 2020 forecast, there are a number of other factors that will have an adverse impact on these funding streams.

Pay and Price Inflation

5.10. The budget will be prepared on a ‘standstill’ basis in that no price inflation will be added other than to contractual commitments to pay an annual inflationary increase such as contracts and software licence agreements.

5.11. Salary budgets for 2021/22 will be increased by 2.50% and is an increase on the assumption made in previous years. This reflects the longer-term impact of Government comments in early 2020 around public sector pay. Members will be aware that the 2020/21 Pay Award was settled at 2.75%.

5.12. The ONS published the August CPI and RPI figures on 16 September 2020, with the September inflation figures due to be available on 14 October 2020. These figures are generally used as the basis for uprating of some welfare benefits. An allowance is made in the MTFS each year for the impact of inflation pressure within the General Fund and this will be reviewed over the Autumn.

Fees & Charges

5.13. Cabinet approved the methodology for the annual review of fees and charges made for Council services (Report No. FIN1624). Budget holders are required to review the fees and charges as part of the budget setting process to ensure they are set at an appropriate level and that charges are transparent and show a clear methodology for their increase.

5.14. Whilst the focus is on the level of charge made for services, budget holders are encouraged to review and understand the cost drivers within their service as cost control is an integral part of the annual review of fees and charges process.

Commercial Property

5.15. The Council is increasingly reliant on income from Commercial Property to provide funding for other Council services. Given the risk in holding commercial property (e.g. occupancy rates and fluctuations in the property market), income and expenditure budgets associated with the portfolio will be reviewed in light of Covid-19. This will help ensure the Council is budgeting at the appropriate level and that risks to income and expenditure changes across the medium term can be incorporate into the MTFS and Capital Programme.

5.16. Performance of the portfolio will need to be monitored closely to ensure risks are mitigated through active asset management and early engagement with tenants. The property portfolio will need to remain balanced, and the impact from Covid-19 on different sectors of the economy is likely to become a key consideration when assessing performance and risk.

5.17. The budget setting process is likely to maintain the recommendation that a proportion of commercial income is set aside in the Commercial Reserve each year to provide and ongoing funding stream to manage the portfolio. The Commercial Property Reserve was established to provide funding to mitigate some of the financial risk associated with the portfolio.

Local Government Pension Scheme (LGPS)

5.18. An actuarial review of the Local Government Pension Scheme was undertaken in 2019 with a revised funding schedule included in the current MTFS. The assumptions around employer contributions will not be updated until the conclusion of the next actuarial review which will commence in March 2022.

Interest Rates

5.19. The Bank of England base rate was decreased from 0.75% to 0.10% in March 2020 and was held at this level at the Monetary Policy Committee meeting in September 2020.

5.20. Given the uncertainties around Covid-19 and Brexit, it is difficult to predict what impact there will be on interest rates in the near future. The latest forecasts from our Treasury advisors (August 2020) suggest that the bank base rate will remain at 0.10% for the foreseeable future (up to Q3 2023). Further cuts to zero, or perhaps even into negative interest rates, cannot be ruled out.

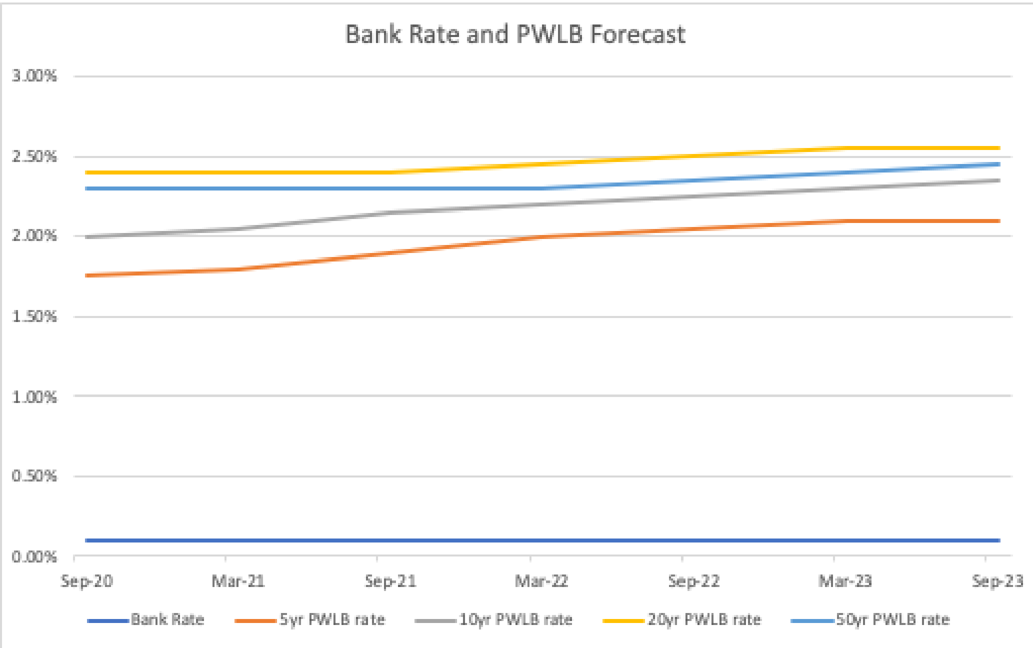
5.21. The medium-term global economic outlook is exceedingly weak. While containment measures taken by national governments in response to Covid-19 have eased over recent weeks, it is likely to be some time before demand recovers to pre-crisis levels due to increased unemployment, the on-going need for virus control measures and the impact on consumer and business confidence. The risk around a second spike in Covid-19 cases and infections will also impact on economic and monetary policy.

5.22. The table below indicates and expectation that the bank base rate will remain unchanged for the foreseeable future, with PWLB rates increasing slightly over the same period as they mirror projected Gilt rates with a margin on PWLB lending of 1.80%

5.23. It is worth noting that the forecast on PWLB rates makes no assumption of the Government's likely response to the PWLB future lending terms consultation that closed in July 2020. The outcome from this consultation is likely to have a significant impact on the Council's borrowing strategy over the medium-term.

5.24. Bank base rate and PWLB forecasts are due to be updated in November 2020 following the Bank of England's monetary policy committee meeting in November.

Table 3: Bank Base rate and PWLB Rates



	Sep-20	Mar-21	Sep-21	Mar-22	Sep-22	Mar-23	Sep-23
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr Gilt	-0.05%	0.00%	0.10%	0.20%	0.25%	0.30%	0.30%
10yr Gilt	0.20%	0.25%	0.35%	0.40%	0.45%	0.50%	0.55%
20yr Gilt	0.60%	0.60%	0.60%	0.65%	0.70%	0.75%	0.75%
50yr Gilt	0.50%	0.50%	0.50%	0.50%	0.55%	0.60%	0.65%
Note: PWLB rates mirror Gilt rates +1.80% Margin							
5yr PWLB rate	1.75%	1.80%	1.90%	2.00%	2.05%	2.10%	2.10%
10yr PWLB rate	2.00%	2.05%	2.15%	2.20%	2.25%	2.30%	2.35%
20yr PWLB rate	2.40%	2.40%	2.40%	2.45%	2.50%	2.55%	2.55%
50yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.35%	2.40%	2.45%

Treasury Management - Investment Returns

5.25. As reported to members in the Q1 Revenue Budget Monitoring report, Treasury management income likely to be reduced in 2020/21 reflecting the uncertainty in global financial markets. As outlined in the Treasury Management Strategy, the Council invests its surplus balances generating an income return of over £1m per annum. The Strategy sets out that the Council aims to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.26. The Council has two broad classes of investments – Money Markey Funds (where balances are held for short periods until required) and Pooled Funds.

5.27. The Bank of England cut the base rate in March 2020 from 0.75% to 0.10%. Whilst the base rate cut will reduce investment income from Money Market Funds, it is not considered to have a material impact on the Council's investment income.

5.28. The Council holds a more significant element of its surplus balances in Pooled Funds. Over the 6 months since the onset of the COVID-19 pandemic, the global economic fallout has been sharp and large. Market reaction has been extreme with the large falls in equities, corporate bond markets and, to some extent, property markets reflecting the lockdown restrictions.

5.29. Against a very uncertain economic outlook, the Council should be prepared for lower income from bond, equity income, multi-asset and property funds. Initial forecasts from the Council's Treasury Management advisors in April 2020 suggested a prudent forecast position was to recognise downward adjustments of:

- Bond funds and property funds: 20% lower income
- Multi-asset funds: 25% lower
- Equity income funds: 50% lower

5.30. At the time of writing, it is unclear when the performance from Pooled Funds will return to pre-crisis levels. The MTFS assumes Treasury Management income of £1.6m per annum and this will need to be considered carefully when preparing the 2021/22 budget and MTFS.

Treasury Management - Borrowing costs and MRP

5.31. The Council has undertaken significant external borrowing to finance its capital programme and currently has external debt of £82m. The Council's Treasury Management Strategy, as approved by Council in February 2020, sets out the approach taken to borrowing.

5.32. The Council's main objective when borrowing money is to maintain an appropriate low-risk balance between securing low interest rate costs and achieving cost certainty over the period for which funding is required. Given the low interest rate environment, there is a financial benefit to the Council of taking advantage of short-term borrowing (typically 3-6 month duration), but at the same time there is a risk around refinancing those short-term loans.

5.33. Over the last 12-month period, the Council has sought to mitigate the refinancing risk by borrowing over longer period (between 1 and 2 years). As the Council works through its asset management plans and revises the Capital Programme, there may be opportunities to refinance its borrowing over a longer period without incurring significant additional cost due to the current position on long-term PWLB borrowing.

5.34. The impact on interest rates outlined earlier in the report has allowed the Council to refinance a proportion of the debt portfolio over the short-term at very low interest rates, based on the advice from the Council's Treasury Management advisors concerning PWLB lending. However, there is an ongoing risk around ensuring the Council's external debt is managed in a balanced and sustainable manner over the longer-term.

5.35. Estimates for 2021/22 and medium-term will be undertaken once the Capital Programme has been reviewed and will be included in the budget papers for Cabinet and Council in February 2021.

5.36. The Council will consider the capital financing implications of the Regeneration Programme over the coming weeks and months. Whilst the Capital Programme and MTFS does take into account elements of the programme, these will need to be updated to ensure they reflect the nature and scale of each scheme.

Balances & Reserves

5.37. The Council holds balances and reserves to provide financing for future expenditure plans. Members will be aware from the 2019/20 Revenue Budget Outturn report that the Council has increased the level of Reserves and Balances it holds, in part to mitigate the financial impact from Covid-19. The Council held £19.7m in balances and reserves at the end of the last financial year, as set out in the table below.

Table 4: Balances and Reserves forecast (Cabinet, Sept 2020)

Reserves and Balances	Balance 31/03/2020 (£'000)	2020/21 Transfers To (£'000)	2020/21 Transfers From (£'000)	Balance 31/03/2021 (£'000)
General Fund Balance	(2,000)			(2,000)
Earmarked Reserves				
Stability & Resilience Reserve	(6,675)	0	1,384	(5,291)
Service Improvement Fund	(129)	0	0	(129)
ICE Reserve`	(297)	0	297	0
Commercial Reserve	(2,000)	(350)	750	(1,600)
Climate Emergency *	0	(250)	250	0
Deprivation Strategy Support *	0	(100)	100	0
Regeneration Reserve	(450)	0	170	(280)
Regeneration/Commercial Due Dilligence	(250)	0	150	(100)
Workforce Strategy	(200)	0	0	(200)
Treasury Reserve	0	(580)	290	(290)
Pension Fund Equilisation	0	(669)	0	(669)
s106/SANG/Commuted Sums	(4,442)	0	109	(4,333)
All Other Earmarked Reserves	(3,257)	(169)	1,101	(2,324)
Subtotal Earmarked Reserves	**(17,700)**	**(2,118)**	**4,602**	**(15,216)**
TOTAL Reserves and Balances	**(19,700)**	**(2,118)**	**4,602**	**(17,216)**

5.38. 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

5.39. 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 2021/22. This will need to assess the adequacy of the reserves in ensuring the Council remains financially sustainable over the short to medium-term.

6. MEDIUM TERM FINANCIAL STRATEGY 2021/22 TO 2024/25

6.1. This report will not update the MTFS or the Savings Plan. These will be considered in report to Cabinet in November/December. The table below is an extract from the MTFS as approved by Council in February 2020.

Table 5: Summary MTFS (Council, Feb 2020)

Item	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Portfolio Net Expenditure	8,753	8,429	8,313	8,313
Corporate Items	2,688	5,113	7,144	7,786
Adjusted Budget	**11,441**	**13,542**	**15,458**	**16,099**
Additional Items	909	692	692	692
Budget Proposals	376	26	26	26
Risk items	0	750	1,350	1,600
Savings Plan	(1,436)	(3,567)	(5,196)	(6,201)
Draft Net Revenue Budget	**11,290**	**11,444**	**12,330**	**12,216**
Funded by:				
Council Tax	6,705	6,933	7,166	7,403
Business Rates	3,767	2,561	2,610	2,662
New Homes Bonus	1,169	550	211	0
Other Funding	(3)	0	0	0
TOTAL Funding	**11,637**	**10,044**	**9,987**	**10,065**
Core Surplus / (Deficit)	**347**	**(1,400)**	**(2,343)**	**(2,152)**

6.2. As the table shows, the indicative position outlined for 2021/22 is a deficit of £1.4m, as reported to Council in February 2020. It was noted at the time that the Savings Plan did not resolve the deficit position forecast over the MTFS period.

6.3. Whilst the Council may benefit from further Government Funding (e.g. transitional arrangements from 2021/22, NHB replacement), the downward trend in Government funding will frame he Council's revenue budget in future years.

6.4. It was recommended that the Council continued to review not only the costs of services but considered the nature and scope of services being delivered.

6.5. Table 6 below outlines the different elements of the Savings Plan included within the MTFS. The Council will need to ensure there is a balanced and proportionate approach to address the core deficit.

Table 6: Savings Plan (Council, Feb 2020)

Estimated Savings	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
2019/20 Savings	(81)	(81)	(81)	(81)
Reversal of 2019/20 Additional Items	(130)	(160)	(160)	(160)
ICE Programme (Workstreams 1-3)	(150)	(425)	(750)	(810)
ICE Programme (Workstream 4)	(50)	(225)	(500)	(750)
Commercial Property - Rental income expectations *	(887)	(1,698)	(2,377)	(2,922)
Pipeline Savings - Enhanced Commercial Property		(300)	(300)	(300)
Pipeline Savings - Major contracts		(300)	(450)	(600)
Pipeline Savings - Service Loans to Housing Company *	(88)	(328)	(528)	(528)
Salaries monitoring	(50)	(50)	(50)	(50)
TOTAL Savings Plan	**(1,436)**	**(3,567)**	**(5,196)**	**(6,201)**

6.6. There is an increased risk that elements of the savings plan will be difficult to achieve or delayed. An update to the Savings Plan will address the timing and achievement of the following elements:

- Additional income associated with the acquisition of Commercial Property
- Savings arising from changes to major contracts
- Income from service loans to the Housing Company
- ICE Programme savings

6.7. 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.

6.8. Therefore, at this stage of the budget setting process, the expectation is that the level of the core deficit will reduce as detailed revenue budgets are prepared, the savings plan is updated, and the revenue impact of the capital programme is updated.

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 for 2021/22 and beyond due to the economic outlook, limited information around likely levels of Government funding and support, and the longer-term changes from the review of Relative Needs and Resources and Business Rates Retention.

7.2. Covid-19 risks

- Lockdown/Restrictions remained largely in place until the end of July with slight easing thereafter. Impact of new Government guidance issued in September 2020 and the potential impact over the remaining 6-months of the financial year.

- Council Tax & Business Rates collection shortfalls contained within the collection fund but will need to be incorporated into the 2021/22 budget
- Cost of additional council tax support cases in 2020/21 and impact of scheme going forward.
- Recovery of income for the remainder of the year are in line with budget (with exception of Car Parking income and Planning fees where the forecast is for a slower recovery)

7.3. Other risks to the Council include (but are not limited to) the following specific areas:

- Housing market – whilst there has been a pick-up in the housing market following the lifting of restrictions in May 2020, there remains uncertainty around the longer-term impact from Covid-19. It is highly 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 assessment the financial viability of schemes to ensure they are able to deliver the required outcomes.
- Brexit –the impact of the UK leaving the European Union is difficult to quantify. It is not clear whether the deal agreed under the terms of the withdrawal agreement will apply, or whether the UK will leave without a deal in place on 31 December 2020. There will be an impact on a wide range of Council Services, funding streams and Treasury Management activity and this will need to be factored into budget planning over the coming weeks.
- 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 significant downturn in the economy 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 – as outlined in section 5, there is considerable uncertainty around 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.

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 2021 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. However, it is worth noting the indicative MTFS position shows a widening funding gap based on the assumptions made within this report. It is anticipated that significant work on the expenditure and savings plans will enable the funding gap to be reduced. An updated position will be included in the reports to Cabinet and Council in February 2021.

Equalities Impact Implications

7.6. None

8. CONCLUSIONS

8.1. The Medium-Term Financial Strategy, as summarised in Table 5, provides an overview of the Council's financial position over the next four years. This will be updated over the coming weeks and months 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.

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

8.3. The Council does face a significant financial challenge over the medium term, particularly given the uncertainty set out in this report with regard to Covid-19 and the Government's proposed changes to local government funding from April 2022.

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:

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