

08 DECEMBER 2020

KEY DECISION? YES/NO

**MEDIUM-TERM FINANCIAL STRATEGY (MTFS) 2021/22 to 2024/25
(UPDATE)**

SUMMARY:

This report sets out and update on the key factors influencing 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 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 informs members of the current financial position and provides an update on the prospects for 2021/22 and the medium-term following the Spending Review announcement on 25 November 2020.

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. SPENDING REVIEW 2021/22

3.1. The Chancellor announced the outcome of the 2021/22 Spending Review on 25 November 2020. Due to the financial pressures from Covid-19, the spending review only covers a single-year rather than the usual multi-year period of a spending review.

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 in 2021/22. The main points of the spending review are set out below.

- Core Spending Power (CSP) will increase by 4.5%, although most of this increase is due to anticipated Council Tax increases
- Council Tax increases – 2% ‘core’ plus a further 3% increases in the Adult Social Care Precept
- £300m additional grant for adult and children’s social care
- New Homes Bonus (NHB) will continue for a “further year with no new legacy payments”. This suggests there will only be two years of payments (i.e. no new payments in 2021-22)
- Local government will receive around £3bn additional funding for COVID in 2021-22, of which: £1.55bn is for additional expenditure pressures, £670m for fund council tax support; and £762m to fund 75% of “irrecoverable loss of council tax and business rates revenues in 2020-21”. Sales, fees and charges (SFC) compensation scheme will be extended into the first 3 months of 2021-22.
- Further £254m funding to tackle homelessness and rough sleeping
- There will not be a reset of the business rates baseline in 2021-22
- Small business rates multiplier will be frozen in 2021-22 (instead of increasing by 0.55%) – but local authorities will be fully compensated
- The Government is undertaking a fundamental review of the business rates system and is currently considering responses to the call for evidence. A final report setting out the full conclusions of the review will be published in spring 2021
- The Tax Income Guarantee Scheme will fund 75% of unrecoverable losses in business rates and council tax, with authorities able to spread deficits in their Collection Fund(s) over a 3-year period.
- Revised Public Works Loan Board (PWLB) lending terms which prevent local authorities from accessing PWLB loans to purchase investment properties.
- Alongside the revised lending terms, the rates offered by PWLB were reduced by 100bps (1.00%) for all new loans arranged from 26 November 2020
- £4bn “Levelling Up Fund” to drive growth and regeneration in places in need.

3.3 Changes to the PWLB lending terms will have a significant impact on the Council’s capital programme and revenue budget. At the time of writing, this report, further clarification was required to enable the Council to understand the financial implications.

4. COVID-19 IMPACT AND ECONOMIC OUTLOOK

- 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 November 2020), and will, of course, be subject to change.
- 4.2. 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.
- 4.3. The Q2 Budget Monitoring report to Cabinet at this meeting (December 2020) provides 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: Q2 Budget Monitoring position (Cabinet, December 2020)

	2020/21 Original Budget (£'000)	2020/21 Latest Budget (£'000)	2020/21 Outturn Forecast (£'000)	2020/21 Variation (£'000)
General Fund Revenue Budget				
Corporate Services	5,289	5,399	5,361	(38)
Customer Experience & Improvement	19	(12)	38	50
Major Projects & Property	(4,928)	(4,302)	(3,887)	415
Operational Services	7,847	8,057	9,722	1,665
Planning & Economy	2,548	2,738	3,252	513
ICE Programme	496	862	862	0
SUBTOTAL	11,272	12,743	15,347	2,605
Less: Reversal of Accounting entries	(2,519)	(2,519)	(2,519)	0
Net Service Revenue Expenditure	8,753	10,224	12,828	2,605
Corporate Income & Expenditure	3,227	2,318	2,516	198
C19 Risk	0	0	500	500
Movement in Reserves	746	546	(494)	(1,040)
Savings Plan	(1,436)	(1,436)	(858)	578
Net General Fund Revenue Budget	11,290	11,652	14,492	2,841
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	1,478	1,478
Covid-19 Income Loss	0	0	684	684
Other Funding	(3)	(3)	(3)	0
TOTAL Funding	11,637	11,637	13,799	2,162
Core (Surplus) or Deficit	(347)	15	693	678

- 4.4. 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.

- 4.5. It is likely that the revenue budget will remain under pressure for the remainder of the financial year. There may be further National or Local 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 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.

Commercial Property

- 4.7. 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 are 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.
- 4.8. Performance of the portfolio will need to be monitored closely to ensure risks are mitigated through active asset management and early engagement with tenants.
- 4.9. 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.
- 4.10. 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 an ongoing funding stream to manage the portfolio. The Q2 Budget Monitoring Report proposes to utilise £0.250m of the reserve in the current financial year to mitigate reduced rental income expectations. The adequacy of the Commercial Property Reserve will need to be considered in light of the financial risk associated with the portfolio.
- 4.11. The Government announced changes to the PWLB rules following a period of consultation and this seeks to reduce the opportunity for Councils to borrow to fund commercial property for yield. The Council's regeneration aspirations may very well be reliant on PWLB funding going forward. Therefore, it is necessary for the Council to review its Commercial Property Strategy over the coming weeks. The impact of this review could be a requirement to identify more savings than originally planned.

Economic Outlook commentary

- 4.12. The Budget Strategy report to Cabinet in October 2020 provided a detailed overview of the Economic Outlook. Whilst this outlook is broadly similar, it is worth highlighting recent decisions and economic data.
 - MPC held the Bank Rate held at 0.1% at their November meeting

- October inflation rates: CPI 0.7% (up from 0.5% in September), RPI 1.3% (up from 1.1% in September)
 - UK GDP increased by 15.5% between July and September 2020, although the rate of increase was slowing before national lockdown measures were introduced in November 2020.
- 4.13. It is worth noting that despite the current low interest rate, the MPC have given serious consideration to negative interest rates.
- 4.14. Economic commentary from Arlingclose (the Council's Treasury Management advisors) is summarised below.
- 4.15. The medium-term global economic outlook remains weak. Second waves of Covid cases have prompted more restrictive measures and further lockdowns in Europe and the UK. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.
- 4.16. The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise.
- 4.17. Although these measures supported a sizeable economic recovery in Q3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Q4.
- 4.18. Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal support measures, unemployment is expected to rise when these eventually come to an end in mid-2021.
- 4.19. This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets continue to price in a chance of negative Bank Rate.
- 4.20. 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.
- 4.21. The Council will also need to consider the impact of changes in the housing market as a result of any economic downturn and the impacts of Brexit on its regeneration aspirations and developments by Rushmoor Homes. Uncertainty around the economy and Brexit has led to a varied and challenging housing market, although this may not be representative of any longer-term trend.

5. LOCAL GOVERNMENT FUNDING – PROSEPECTS FOR 2021/22

- 5.1. 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.
- 5.2. 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.
- 5.3. Whilst it is not a foregone conclusion, it is likely the single year focus of the spending review increases the prospects of a 'roll-over' local government finance settlement.
- 5.4. The Secretary of State has confirmed that the existing New Homes Bonus scheme will be continued in 2021/22 with no new legacy payments. He also confirmed that the Government will not proceed with the implementation of the Review of Relative Needs and Resources (formerly the Fair Funding Review) and 75% Business Rates Retention in 2021/22 or reset accumulated business rates growth in 2021/22.
- 5.5. Members will be kept informed of any local government funding announcements over the coming weeks, although it is unlikely there will be any substantial update until late December once the finance settlement is known.

Government Funding & Council Tax

- 5.6. As discussed, there is very little certainty around the level of Government Funding that the Council will receive in future years.
- 5.7. 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 once the local government finance settlement is known.

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

	2020/21 Forecast (£'000)	2021/22 Forecast (£'000)	2022/23 Forecast (£'000)	2023/24 Forecast (£'000)
Government Funding				
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

- 5.8. However, it is likely that with 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.
- 5.9. 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 beyond 2021/22.
- 5.10. 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).
- 5.11. 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.

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

- 6.1. This report does not update the MTFs or the Savings Plan. These will be considered by Cabinet in February 2021 when we are clear about the local government settlement and further funding associated with Covid-19 and have had time to work through the impact of changes to the PWLB funding rate on our regeneration plans and commercial property strategy.
- 6.2. As outlined to members in the Budget Strategy report to Cabinet (October 2021), the Council is facing a significant financial challenge from Covid-19 and this will shape the budget setting process over the coming weeks.
- 6.3. However, the Council was likely to face a difficult budget decision as the indicative position outlined for 2021/22 (as reported to Council in February 2020) showed a deficit of £1.4m and increasing over the MTFs period. It

was noted at the time that the Savings Plan did not resolve the deficit position forecast over the MTFS period.

- 6.4. Whilst the Council is likely to benefit from an improved Government Funding position for 2021/22, it is expected that the downward trend in Government funding (as a result of the Fair Funding Review) will frame the Council's revenue budget in future years.
- 6.5. 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. The Council's Savings Plan will be reviewed and updated over the coming weeks and will form an integral part of the MTFS.
- 6.6. Given the impact from Covid-19 on the Council's finances in 2020/21, 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:
 - Investment Property Strategy (following revised PWLB Lending Terms)
 - Savings arising from changes to major contracts
 - 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. It should be noted that the Council will be facing further difficult financial decisions during the next 12 months and it is highly likely that there will be a requirement to reduce service levels in some areas.

Balances & Reserves

- 6.8. 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

Transfers To (From) Reserves	Balance 31/03/2020 (£'000)	Transfers To (£'000)	Transfers From (£'000)	Balance 31/03/2021 (£'000)
General Fund Balance	(2,000)	0	0	(2,000)
<u>Earmarked Reserves</u>				
Stability & Resilience	(6,675)	0	1,273	(5,402)
Service Improvement Fund	(129)	0	25	(104)
Commercial Property Reserve	(2,000)	0	250	(1,750)
Regeneration Reserve	(450)	0	170	(280)
ICE Reserve	(297)	0	297	0
Climate Emergency Reserve	0	(250)	23	(228)
Deprivation Reserve	0	(100)	0	(100)
Pension Reserve	0	(669)	0	(669)
Regeneration Due Diligence Reserve	(250)	0	150	(100)
Workforce Reserve	(200)	0	0	(200)
Treasury Reserve	0	(580)	290	(290)
CPE Rolling Fund	(345)	0	68	(277)
Budget Carry Forwards	(301)	0	301	0
Elections Reserve	0	(87)	0	(87)
SANG/s106	(4,442)	0	0	(4,442)
Other Earmarked Reserves/Prior yr grants	(2,611)	0	0	(2,611)
TOTAL Reserves and Balances	(19,700)	(1,686)	2,847	(18,539)

6.9. 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

6.10. 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.

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. Nation Restrictions were in place until 02 December 2020 with Hampshire moving into Tier 2 thereafter.
- 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 were set out in the Budget Strategy report and are largely unchanged, with the impact from a No-Deal Brexit being a particular risk to the economy in 2021:

- 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.
- 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 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 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. Whilst this report does not provide members with an update on the Medium-Term Financial Strategy or Savings Plan, the announcements from the Spending Review on 25 November provide some clarity on the level of Government Funding and support for 2021/22.
- 8.2. The MTFS and Savings Plan 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 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.
- 8.4. 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.
- 8.5. 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