



Email: committeeservices@horsham.gov.uk
Direct line: 01403 215465

Overview and Scrutiny Committee

Monday, 20th July, 2020 at 5.30 pm
via Remote Video Link

Agenda Supplement

	Page No.
6. Medium Term Financial Strategy	3 - 12
To receive an update on the Medium Term Financial Strategy.	

This page is intentionally left blank

Report to Cabinet

23 July 2020

By the Leader and Cabinet Member for Finance and Assets



DECISION REQUIRED

Not Exempt

Update on the Council's financial position

Executive Summary

The 2020/21 Budget was approved in February 2020 and near balanced budgets were projected through to 2023/24 on the assumption that business transformation continued and the Council generated further income to mitigate against the cost pressures that continue to rise.

The World Health Organisation declared a global pandemic of the COVID-19 virus on 11 March 2020. The subsequent lockdown and associated recession is having a severe impact on the lives of our residents, businesses and the Council itself. The immediate effect of reducing levels of income and increasing expenditure at the Council will result in a significant overspend in 2020/21, and much lower levels of income are anticipated in the future. The Council will have to fundamentally review, change or even close its services to ensure it has a balanced budget in the years to come.

This report sets out the projected scale of the impact in 2020/21 and how the medium term financial planning scenarios and assumptions have drastically changed. Without action, this will result in a likely budget gap of up to £3m in 2021/22 and significant budget gaps through to 2023/24.

This report is written in the context of unprecedented levels of uncertainty. The length and depth of the current recession is unknown. Factors of particular concern are the increase in unemployment as furlough ends in the hospitality and leisure sectors that dominate our local economy, the risk of another local or national lockdown, the nature and implications of the Brexit agreement due at the end of the calendar year and the Government's plans for the reform of business rates. In these circumstances it is essential the Council keeps as much of its reserves as it can this year to give it time to make considered decisions about its future service.

This report gives a snapshot of where we think our finances are today. As the situation becomes clearer there will be further updates, detailing the latest information on the scale of the deficit, setting out a more developed response and containing plans to tackle the budget gaps, working towards setting a balanced 2021/22 budget in February 2021. To do achieve a balanced budget in 2021/22 substantial action is required.

Recommendations

The Cabinet is asked to

- i) Note the changes in the Council's financial position in 2020/21 and the Medium Term.
- ii) To recommend Council approve a reduced 2020/21 capital programme.
- iii) To recommend Council delegates authority to the Director of Community Services in consultation with the Leader of the Council, the Deputy Leader and Cabinet Member for Leisure & Culture and the Cabinet Member for Local Economy and Parking to agree any waiving of the monthly management fee from Places Leisure for the required period of financial support until usage recovers towards pre-Covid-19 levels, or ending 31 March 2021.
- iv) To recommend Council delegates authority to the Director of Community Services in consultation with the Leader of the Council, the Deputy Leader and Cabinet Member for Leisure & Culture and the Cabinet Member for Local Economy and Parking to agree any financial support payments to Places leisure for the period of closure and for re-opening until usage recovers towards pre-Covid-19 levels, or ending 31 March 2021.
- v) To recommend Council delegates authority to the Director of Community Services in consultation with the Leader of the Council, the Deputy Leader and Cabinet Member for Leisure & Culture and the Cabinet Member for Local Economy and Parking to enter into any contract variations in respect of any financial support during the period of closure and for re-opening on the terms recommended.

Reasons for Recommendations

The Council needs to acknowledge the severe financial realities it is experiencing and their medium-term implications to prepare for the future

To prioritise capital projects that produce a financial return to the Council and postpone non-essential capital works to preserve reserves in 2020/21 allowing more scope for considering options for rebuilding the Council and our District next year.

Appendices:

Appendix A: Table 1 summary budget and MTFS set in February 2020

Appendix B: 2020/21 revised capital programme

Background papers: Budget and MTFS report Cabinet 23 January 2020 (approved by Council on 12 February 2020)

Wards affected: All

Contact: Jane Eaton, Director of Corporate Resources, 01403 215300

Background Information

1 Introduction and background

- 1.1 The Medium Term Financial Strategy was last fully reviewed by Council on 12 February 2020 as part of the annual budget setting cycle. At that meeting near balanced budgets were predicted across the period until 2023/24, provided that business transformation continued and the Council generated further income to mitigate against the cost pressures that continue to rise.
- 1.2 The World Health Organisation declared a global pandemic of the COVID-19 virus on 11 March 2020. The subsequent lockdown and associated recession is having a severe impact by sharply falling levels of income and increasing expenditure at the Council which will result in a significant overspend in 2020/21. The minimum level of overspend is estimated at the end of June at £5m. Depending on the extent of pandemic and depth of the associated recession, that figure could be as high as £9m especially if significant action is not quickly taken.
- 1.3 Longer term, a severe recession and changing customer habits mean that lower levels of income are anticipated in the future. Significant gaps in the medium term financial strategy as high as £3m a year are predicted unless urgent action is taken.
- 1.4 Central government grant to mitigate income appears has been promised but the amount is not yet known and the promises do not cover all losses. If insufficient money is received from the Government to cover the costs of the lockdown and recession the Council will need to use its general fund reserve to fund its losses. At the moment the Council has enough to cover the predicted losses but its finances could fall below the required £6m in this reserve and its financial position going forward will be considerably more precarious than it was at 12 February 2020 when the s151 officer gave her view the Council's reserves were adequate for its needs.
- 1.5 To rebalance its position, the Council will need to reconsider carefully its service offer and capital programme in both 2020/21 and the longer period. Reliance on reserves is unsustainable in the medium term.

2 Relevant Council policy

- 2.1 The Council continues to provide the quality, value for money services that people need throughout the 2020s is a key objective of the Council's Corporate Plan. To achieve this the Council needs to take action now to ensure money is available for our key services.

3 Details

- 3.1 The 2020/21 budget was set in February 2020 and a reminder of this budget and medium term financial strategy is set out in Appendix A. A net expenditure of £11.2m was set in 2020/21 to produce a surplus after other funding in 2020/21 and near balanced budgets over the period to 2023/24, providing further income was generated and efficiencies were delivered through transformation.
- 3.2 To achieve a £11.2m net expenditure in 2020/21, the Council budgeted generating £24.3m income. In stable economic times, the Council has historically been successful at generating high level of incomes. However, in a recession, it is a significant risk. Furthermore, income from parking, property and investment returns, and leisure services has been decimated in the first quarter under lockdown, and other income from planning and building control also affected. Income is expected

to slowly recover as the lockdown from Covid-19 lifts, but due to the induced recession and changing customer habits, it may never recover to former levels.

- 3.3 In addition to costs, fees and charges, the Council generates income through Council tax and receives income from central government. Council tax collection rates have fallen as customers adjust to their economic situation in the pandemic and lower recovery rates are anticipated, partly also due to the fact that more people are likely to be supported by the local council tax support scheme.
- 3.4 The Council has received an additional £1.47m from government in response to the pandemic. On 2 July 2020, Government announced a new £500m funding package for local authorities to help cover lost income from car parks, museums and other cultural assets. The new income loss scheme will involve a 5% deductible rate, whereby councils will pay the first 5% of all lost planned sales, fees and charges income, with the government compensating them for 75p in every pound of loss thereafter. Further details on the allocations of the funding will be made in due course, providing more certainty on how much this Council will receive and what period of time this funding covers. The Chancellor's summer statement on 8 July 2020 also announced a variety of measures designed to help a wider economic recovery.
- 3.5 At the same time, expenditure too has increased, with demand for Revenues and Benefits and Housing services likely to cause an overspend, putting extreme pressure on the Council's ability to keep expenditure at the budgeted £35.5m unless cost savings are found elsewhere.
- 3.6 The leisure centres have been closed since March 2020. Places Leisure, the current leisure centres provider, have requested significant financial assistance from the Council of around £1m during the period of closure and a sum in excess of this for the period of re-opening until numbers return towards expected pre-Covid-19 contract levels. This is in line with the market approach from leisure providers to other local authorities throughout the UK. If the Council does not provide financial assistance it is unlikely that the leisure centres will re-open and if the Council makes the decision that leisure centres remain closed, the Council could be in breach of contract and liable for substantial costs.
- 3.7 The current contractual agreement means we usually receive a payment from Places Leisure each month. At the meeting on 22 April 2020, Council agreed to delegate decision making to the Director of Community Services in consultation with the Deputy Leader and Cabinet Member for Leisure and Culture any decision in relation to a payment holiday. This report recommends that this delegation is amended to provide for the waiving of the management fee for a required period of financial support until usage recovers towards pre-Covid-19 levels, or ending 31 March 2021.
- 3.8 The Council has employed a specialist leisure consultant to help the Council negotiate with Places Leisure. This report recommends authority is delegated to the Director of Community Services in consultation with the Leader, Deputy Leader and Cabinet Member for Local Economy and Parking, to agree any financial support payments to Places leisure for the period of closure and the period of re-opening until usage recovers towards pre-Covid-19 levels, or ending 31 March 2021 and to enter into any necessary contract variations.
- 3.9 Depending on the length and depth of the recession and assumptions around continued social distancing, the forecast overspend is a minimum of £5m and could be as high as £9m.

- 3.10 The updated budget including the forecast overspend and revised interim medium term financial strategy is set out in table 1. This assumes an overspend of £5m in 2020/21 and assumes an ongoing reduction in income and increase in expenditure of approximately £3m in 2021/22 onwards if no action is taken. It also assumes anticipated transformation which largely generated income will not now be easily achieved and will need to be revisited.

Table 1: interim MTFS July 2020	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Current net expenditure	11,201	15,050	15,300	15,600
<i>Overspend / transformation savings</i>	5,000	<i>To be developed by November 2020</i>		
Net expenditure after savings	16,201	15,050	15,300	15,600
Funding: Council Tax	(9,922)	(10,100)	(10,300)	(10,500)
Baseline Business Rates	(2,052)	(2,050)	(1,500)	(1,000)
Collection Fund (surplus)/deficit	(53)	-	-	-
Total Funding	(12,027)	(12,150)	(11,800)	(11,500)
One-off Covid-19 funding to date	(1,471)			
Net (Surplus) / Deficit	2,703	2,900	3,500	4,100

- 3.11 Table 2 sets out the assumptions used in February 2020 and how these have now changed. Changes to assumptions are explained in subsequent paragraphs.

Table 2: key budget assumptions used

Assumption	From February 2020	Updated July 2020
Inflation cost non-salaries	2% increase per annum	0.5% increase per annum
Increase in salaries budget	2% per annum	Offer of 2.75% in 2020/21 but not yet nationally agreed. 2% p.a. thereafter.
Contribution to pension fund	0.5% reduction in 2020/21 and further 1% reduction in 2021/22 and 2022/23. Currently in surplus.	No change from February 2020. [31 March 2020 confirmed surplus]
Increase in Council Tax	Inflationary 2% (£2.99) in 2020/21 and 2% thereafter	Inflationary 0.5% thereafter.
Local Business Rates	75% localisation of business rates triggering a significant re-baselining in 2021/22.	75% localisation and significant re-baselining but delayed until 2022/23
Increase in dwellings	Around 1,000 per year	Still 1,000 per year although risk that number falls in recession
New Homes Bonus (NHB) – revenue	New Homes Bonus ends in 2020/21. Previous legacy payments end in 2022/23.	No change from February 2020. Note: NHB does not feed into revenue as tapered down to zero in 2018/19.
Minimum level of reserves	£6m	£6m

- 3.12 CPI annual inflation was 0.5% in May 2020, a level not seen since June 2016. It has averaged 2.1% over that period and the February MTFS had assumed a level of 2%. The impact of the recession is likely to lower the inflation rate. Whilst a lower inflationary rate usually means costs increase at a slower rate, it also means that fees and charges also increase at a slower rate and the return on investments will also reduce. Over recent years, Council tax increases have also set largely be set in line with the prevalent rate of inflation and Council tax increases at an inflationary level of 0.5% would reduce the revenue raised from Council tax.
- 3.13 The national pay award for 2020/21 has not yet been finalised as Unions push for salary increases well above 2%. It seems more likely than not that a one-off agreement in 2020/21 will be negotiated, with 2.75% currently on offer although not yet agreed. Every additional 0.5% rise equates to approximately £80k. However, in the economic circumstances, and especially lower levels of inflation, continued salary increases at this level are unaffordable and so the medium term assumption of salary increases at around 2% remains unchanged.
- 3.14 The future of the Fair Funding review and the future of the localisation of business rates remains uncertain. The central review has been postponed due the pandemic resulting in an assumption that funding for 2021/22 will be on the same level as 2020/21, thereby delaying the reduction of government funding to a later period. This will help offset some of the reduction in fee income in that year. A slightly softer taper to the reduction of government grant is also envisaged if the economic backdrop in a national recession is harsher than before. On 2 July 2020, Government announced that in the next Spending Review, it will agree an apportionment of irrecoverable council tax and business rates losses between central and local government for 2020 to 2021.
- 3.15 At this stage, a similar assumption of a further year at the same level cannot be made of another year of payment for New Homes Bonus. Government did not commit to replacing the scheme and have already signalled the end of legacy payments in 2022/23. We currently anticipate that 2020/21 will be the last year of new payments.
- 3.16 The 2020/21 capital programme has been reviewed. Several lower priority projects have been removed. Removing non-essential capital projects will protect the levels of cash and useable reserves giving the Council more scope for making decisions about its services in 2021/22. The revised programme has reduced to £8.5m, focusing on projects that produce a positive financial revenue return as well as those where there are health and safety requirements or were already in progress and could not be postponed without incurring significant costs. A new capital programme will also be set in 2021/22 under these criteria. The revised capital programme is detailed in Appendix B.

4 Next steps

- 4.1 Detailed actions will be worked up over the summer and an updated medium term financial plan will be brought back in the autumn taking into account any further economic and financial developments.

- 4.2 On 28 January 2021, the 2021/22 Budget will be taken to Cabinet to recommend approval at the 10 February 2021 full Council meeting where the Council Tax for 2021/22 will be set. The MTFs will also be again updated at this time to take account of our settlement, if known at that date.

5 Views of the Policy Development Advisory Group and outcome of consultations

- 5.1 The Finance and Assets Policy Development Advisory Group discussed the immediate and longer term impact of reduced income on the medium term financial strategy on 6 July 2020 and the need for a reduced 2020/21 capital programme to give the Council greater flexibility in making its affordability decisions for 2022/23 onwards.
- 5.2 The Chief Executive, the Chief Financial Officer, the Directors, the Head of Finance and other Heads of Services have been extensively involved in preparing the immediate budget forecast and have already commenced plans, taking action to address the medium term financial gap. They are fully supportive of its contents. The Monitoring Officer has also been consulted during the preparation of the document and is supportive of its contents.

6 Other courses of action considered but rejected

- 6.1 Not taking actions would put at risk the ability of the Council to deliver balanced budgets through to 2023/24. This would quickly erode the level of reserves and is unsustainable in the medium term. Therefore, not taking any action has been rejected.
- 6.2 Cutting services significantly now, is an approach taken by some Councils. However this risks closing valued services unnecessarily if the recession is not as long and deep as we fear.

7 Resource consequences

- 7.1 Specific actions to address the financial gaps are not detailed in this report. Over the next few weeks, detailed plans will be worked up and brought back in a later medium term financial strategy that feeds into the Autumn annual budget setting process.
- 7.2 Some work on the digital transformation may be brought forward to release earlier savings, and increase headcount slightly over the next two years to enable the capacity to implement new systems at the same time as running the old ones. The headcount would fall back again once this has ended.
- 7.3 When reducing expenditure through efficiencies and reducing services, staffing numbers generally reduce. The precise figure of any future reductions over the medium term will be firmed up as detailed plans for the individual elements are finalised. In accordance with the Organisational Change Policy the Council will take steps to avoid compulsory redundancies as far as possible through a combination of vacancy control, redeployment and, in appropriate cases, voluntary redundancy.

8 Legal consequences

- 8.1 The Council is required under the Local Government Finance Act 1992 to produce a 'balanced budget'.
- 8.2 This report sets out the Council's current and expected financial position. The Director of Corporate Resources has a statutory duty, under Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985, to ensure that there are proper arrangements in place to administer the Council's financial affairs.
- 8.3 The Local Government Act 1999 places a duty on the Council as a 'Best Value' authority to secure continuous improvement in the way its functions are exercised so as to secure economy, efficiency and effectiveness.

9 Risk assessment

- 9.1 The Council's reliance on central government funding and balancing the medium term financial plan is captured on the corporate risk register at CRR01. This is regularly reviewed and updated and is monitored at Audit Committee on a quarterly basis. Although the Government has put decisions on changes to business rates on hold until April 2022.
- 9.2 Many figures provided in this report are estimated at this stage. There is a risk that a second COVID-19 wave or longer or deeper recession could mean losses are nearer the upper end of the range of losses suggested or even higher.
- 9.3 There is a moderate risk when paid services such as parking, planning, building control, and the cultural and leisure offer resume customer habits will have changed and income will not return to previous levels, meaning the original financial position will not be recoverable. Services such as the Capitol and leisure centres are staying in touch with customers to try to prevent this.

10 Other considerations

- 10.1 There are no consequences of any action proposed in respect of Crime & Disorder or Human Rights. Some of the new income proposals intended to help fill the gap may have positive or negative equalities or sustainability impacts. Individual impact assessments of these will be completed alongside the business case of each proposal.

2020/21 Budget approved in February 2020/21

	2020/21	2021/22	2022/23	2023/24
Table 1: original MTFS from Feb 2020	£000	£000	£000	£000
Current net expenditure	11,201	12,020	11,660	11,770
<i>Income / savings to deliver through transformation</i>	<i>In budget</i>	(565)	(330)	(280)
Net expenditure after transformation	11,201	11,455	11,330	11,490
Funding: Council Tax	(9,922)	(10,265)	(10,620)	(10,980)
Baseline Business Rates	(2,052)	(1,100)	(500)	(250)
Additional Business Rates	0	0	(50)	(50)
Collection Fund (surplus)/deficit	(53)	-	-	-
Total Funding	(12,027)	(11,365)	(11,170)	(11,280)
Net (Surplus) / Deficit	(826)	90	160	210

This page is intentionally left blank