

## Report to Cabinet

23 September 2021

By the Cabinet Member for Finance and Assets



### DECISION REQUIRED

Not Exempt

### Update on the Council's financial position and Medium-Term Financial Strategy update

## Executive Summary

This report updates the Council's financial position under the ongoing impact from COVID-19 in 2021/22 and how the Medium-Term Financial Planning scenarios and assumptions have changed since the budget was set in February 2021.

A high level of uncertainty remains as the economy emerges from a pandemic induced recession. 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 further variants and another local or national lockdown, implications from the Brexit agreement, Government's plans for the reform of business rates and the potential introduction of price limits on garden waste. In these circumstances it is fortunate that the Council has kept high levels of reserves and thus is able in the short term to have time to make considered decisions.

This report gives a snapshot of where we think our finances are today and also projects over the medium-term. Officers have revisited the assumptions based on the latest income data and wider information from Government. It is a better outlook than in February as we have modelled a Council Tax rise in every year and that the Government doesn't take away all business rates or charging for garden waste. However, the estimated £1.3m cost of food waste collection from 2023 is a major factor in the projected £1.2m predicted deficits from 2023/24 onwards that end the period at £1.6m.

As more information becomes available during 2021/22, there will be further updates, with the focus on how quickly our income comes back and also the work needed to set balanced budgets across the medium-term which is likely to require substantial action.

## Recommendations

The Cabinet is asked to

- i) note the changes in the Council's financial position in 2021/22 and the medium-term.

## Reasons for Recommendations

- i) The Council needs to acknowledge the effects of the local situation occasioned by the COVID-19 pandemic and the continued impact this is having on its financial position both in the short and medium-term. This has moved the council from what has been a long-term healthy financial position to one with predicted deficits. However, given the level of uncertainty in the projections, the economy and proposed Government action the report does not recommend direct action to reduce expenditure at this stage.

**Background papers:**

- Budget and Medium-Term Financial Strategy report Cabinet 28 January 2021 (approved by Council on 10 February 2021).
- 2020/21 Financial Outturn report Overview and Scrutiny Committee 2 June 2021
- Report on the Council's Finance and Performance (M4) Overview and Scrutiny Committee 20 September 2021

**Wards affected:** All

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## **Background Information**

### **1 Introduction and background**

- 1.1 The budget was set by Council in February 2021 under national lockdown from COVID-19, in the middle of an associated recession causing a severe impact with lower levels of income and increasing expenditure at the Council.
- 1.2 £0.57m of Government general COVID-19 grant funding during 2021/22 helped set a balanced budget, despite the anticipated reduction in parking income and higher expenditure needed to keep our leisure centres open.
- 1.3 Over the medium-term, it is uncertain how quickly income will return during a recession and changing customer habits mean income is not anticipated to return to the pre-pandemic levels. This, together with expenditure on new services such as food waste collection, contribute to a predicted significant gap of £1.6m in the Medium-Term Financial Strategy in future years if actions are not taken. One assumption that has been included is that the Council increases Council tax by an indicative 2% per year.
- 1.4 To rebalance its position, the Council will need to reconsider carefully its service offers and ways in which it can generate more income. The ongoing unpredictable nature of the effects of the pandemic and Government plans mean that it is essential to maintain reserve levels and they cannot be seen as an alternative to taking decisions to bring the budget back to balance. The good news is that these decisions do not have to be rushed.

### **2 Relevant Council policy**

- 2.1 The Council has a record of providing high quality, value for money services and to continue to achieve this the Council will need to consider what action to ensure money is available for our key services.

### **3 Details**

- 3.1 The forecast outturn at Month 4 for 2021/22 is a £0.8m surplus, of which £0.6m of the forecast underspend is from leisure facilities as the current performance and activities are ahead of Places Leisure's cautious budget estimate. The current perspective is based on no further COVID-19 restrictions. There is a risk that further variants and restrictions later in the year may change this.
- 3.2 Income from parking, property and leisure services has significantly reduced in the first third of the year when compared to 2020/21, but is on track against the lowered levels that were budgeted in 2021/22. The difficulty feeding into the Medium-Term Financial Strategy will be predicting how quickly levels of income come back.
- 3.3 The updated budget position including the current year forecast and revised interim Medium-Term Financial Strategy is set out in table 1. This assumes a forecast operational underspend at M4 of £0.8m in 2021/22, largely from the leisure centres recovering better than Places Leisure anticipated.

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Table 1: interim MTFS Sept 2021	£000	£000	£000	£000	£000	£000
<b>Estimated net expenditure</b>	11,201	13,072	12,620	13,900	14,110	14,710
<i>In year budget adjusts [Ec Dev £45k and £15k Spatial Planning]</i>		55	-	-	-	-
<i>Overspend / (M4 forecast underspend)</i>	4,547	(825)	-	-	-	-
<b>Estimated net expenditure</b>	<b>15,748</b>	<b>12,307</b>	<b>12,620</b>	<b>13,900</b>	<b>14,110</b>	<b>14,710</b>
<b>Funding: Council Tax</b>	(9,922)	(10,251)	(10,605)	(10,985)	(11,385)	(11,810)
Government grant CTS	-	(146)	-	-	-	-
Baseline Business Rates	(2,052)	(2,052)	(2,052)	(1,750)	(1,500)	(1,250)
Collection Fund (surplus)/deficit	(53)	(12)	-	-	-	-
<b>Total Funding</b>	<b>(12,027)</b>	<b>(12,461)</b>	<b>(12,657)</b>	<b>(12,735)</b>	<b>(12,885)</b>	<b>(13,060)</b>
<b>One-off COVID-19 funding</b>	<b>(4,701)</b>	<b>(571)</b>	-	-	-	-
<b>Q1 (only) income loss grant</b>		<b>(410)</b>	-	-	-	-
<b>Estimated £150 CTS spend</b>		<b>78</b>	-	-	-	-
<b>Salary pressure less unused redundancy provision</b>		<b>50</b>	-	-	-	-
<b>Net (Surplus) / Deficit</b>	<b>(980)</b>	<b>(1,007)</b>	<b>(37)</b>	<b>1,165</b>	<b>1,225</b>	<b>1,650</b>

3.4 Government extended the 75p in the pound scheme grant compensation from 'lost income' from sales, fees and charges to the end of June 2021. The grant in 2021/22 is based on income against the 2020/21 budget, but reduced by any savings in those income areas, meaning only net (rather than gross) income losses can be claimed. The scheme does not cover any commercial or investment income losses. A claim will be submitted for £0.41m of income loss grant from the scheme by the end of September 2021, largely from the parking and leisure areas.

- 3.5 £146k of Council Tax Support (CTS) grant was given to the Council to compensate the Council for the likely reduction in Council Tax income, due to an increase in those of working age claiming CTS. In March 2021, Council agreed to work with West Sussex County Council and extend the £150 scheme during 2021/22, to help support our most vulnerable working age families in a year when their income is likely to be adversely affected. The cost of the Council's contribution this year is currently estimated at £78k, although the exact amount will depend on how many working families apply for council tax support before 31 March 2022.

#### **Expenditure pressures:**

- 3.6 Inflation and pay increases are an area of significant concern in our projections. The national pay award for 2021/22 is still being negotiated. The budget was set with no increases, based on the Prime Minister's statements at the time. However, an offer of 1.75% from the National Employers is on the table, although it has been rejected by Unions. This equates to approximately £0.28m of additional budgetary pressures. If the redundancy provision is unused in 2021/22, this would bring down the impact on the financial year to £50k, which is shown in table 1.
- 3.7 The assumption of medium-term salary increases at 1% are also at risk of increase if inflation starts to rise, but currently equate to approximately £160k a year. In addition, we are beginning to see greater pay pressures in our professions where the increase of home working means officers who would work for us to avoid the daily commute to London are now moving into consultancy or London-based jobs because they pay better, often 20% to 30% better, than we do.
- 3.8 During 2021, we have been working with Ricardo (consultants during the successful introduction of alternate weekly rubbish collection), on the options and estimated costs of food waste collection. The indicative cost is £1.3m which is currently built into the Medium-Term Financial Strategy in 2023/24. This could reduce to £1m by adopting a 3:2:1 collection system for refuse (every three weeks), mix-dry recycling (fortnightly) and food waste (weekly). A trial of 100 households is being undertaken to ascertain the impact the different options might have.
- 3.9 Supporting leisure services cost the Council close to £1.8m in 2020/21 taking into account both expenditure and income, net of grant funding. Support in 2021/22 is forecast to cost about £1m. The return to full income from the management fee contract is expected by 2023/24.

#### **Income pressures:**

- 3.10 The Medium-Term Financial Strategy models an indicative 2% Council tax increase per year, adding an increase in income of approximately £225k each year on average over the period. A 2% increase equates to approximately £3.25 each year for a band D equivalent on average over the period. Future referendum threshold levels are unknown, but it may be possible to increase by £5 a year if the current legislation is extended, although Government is currently undertaking one-year settlements.
- 3.11 As the number of people on Council Tax Support (CTS) increases, it reduces the income the Council collects from Council tax. There were an average of 2,765 working age families on CTS during 2019 and current levels are nearly 800 higher. The next few months will inform us whether as furlough ends, the number on CTS goes up, or if the economy grows, those on furlough and those on CTS find employment. The Medium-Term Financial Strategy is currently weighted towards a

gradual reduction of those on CTS over the period, back towards the pre-pandemic levels.

- 3.12 In May 2021, Government consulted local authorities on the future of garden waste charges. Options included completely removing any charges and making it free. Whilst we do not expect this to happen, if it did, it might cost the Council somewhere between £2.2m and £2.5m in income and additional expenditure servicing houses that currently do not subscribe to our service.
- 3.13 The Controlled Waste Regulations 2012 allows us to set a 'reasonable charge' for garden waste collections, to cover the costs of the operation of the service plus administration. We currently charge £42 a year, which is below the £43 average charge set by collection authorities in England. Waste & Resources Action Programme (WRAP) analysis indicates that a 'reasonable charge' is between £18 and £30 per household per year. If Government introduced a cap at £30 it would reduce our income by approximately £0.4m. This is a more likely option and this reduction in income is currently modelled in the Medium-Term Financial Strategy in 2023/24.
- 3.14 £1.2m of car parking income was taken out of the 2021/22 budget compared to 2019/20 as lockdowns struck. Over the course of the Medium-Term Financial Strategy, £1m is being added back into the budgets, weighted towards 2022/23 and 2023/24, as we expect frequency to rise and dwell times to increase as people get used to living with COVID-19. Ticket sales are nearing 90% of previous levels, but with shorter dwell times. However, despite housing numbers continuing to grow, it is anticipated that some customer habits may never recover to former levels, such as in season ticket sales as hybrid home and office working patterns take hold.
- 3.15 Government consulted on the future of business rates retention in 2019, but Brexit and then COVID-19 has meant that the government has not introduced any changes. We currently receive just over £2m of income as part of the annual settlement but expect this will reduce as part of any changes to the current business rates system which is attracting increasing calls for reform. However, with 1 April 2022 fast approaching, and little time for a consultation now the world has changed, it is increasingly likely that any change will be postponed until 1 April 2023. The Medium-Term Financial Strategy models a £1m reduction over four years from 2023/24 in a gradual removal of the grant funding. There is a risk that the change may be more pointed than that, removing more grant in a quicker timescale.
- 3.16 The current Medium-Term Financial Strategy does not take into consideration any predicted costs of addressing the reduction of carbon in the district which are likely to be significant over the remainder of the decade to get close to achieving the 2030 carbon neutral target. Implementing the action plan to achieve it will considerably impact the Council's financial position in the medium and long term. The carbon reduction plan will therefore need to be reviewed alongside the Council's decisions made in the revenue and capital budgets and the need to set a balanced budget, as is required by law, and which maintain sufficient reserve levels.
- 3.17 The overall position of funding for the Council across the later periods of 2023/24 to 2025/26 after Government grants is currently forecast to be in the region of between a £1.2m shortfall and a £1.6m shortfall, excluding the cost of carbon reduction. Given the level of uncertainty about the future of the Council and the Council's funding position, the likely balancing in 2022/23, and the strength of the reserves position it is proposed to not spend time drafting detailed savings proposals this autumn unless Councillors are minded to not increase Council Tax next year.

Once the settlement for 2022/23 is known, and more details are available on the garden waste, food waste, carbon reduction, business rates and income recovery positions, the Council will seek immediate savings should it need to do so. These savings, if needed, may mean the closure or reduction of popular non-statutory public services.

## **4 Next steps**

- 4.1 An updated Medium-Term Financial Plan will be brought back in November 2021 taking into account any further legislative, economic and financial developments.
- 4.2 On 27 January 2022, the 2022/23 Budget will be taken to Cabinet to recommend approval at the 9 February 2022 full Council meeting where the Council Tax for 2022/23 will be set. The Medium-Term Financial Strategy 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 expenditure and income pressures on the Medium-Term Financial Strategy on 13 September 2021 together with the implications and some consideration of possible options in order to balance future budgets.
- 5.2 The Chief Executive, the Chief Financial Officer, the Directors, the Head of Finance and Performance and other Heads of Services have been extensively involved in preparing the immediate budget forecast and are already thinking of ways 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 Making cuts to popular non-statutory services such as parks and countryside, planning enforcement and cultural and leisure services this autumn was considered. This was rejected because the scale of the proposed deficits in the future is very uncertain. While designed to protect services this approach does risk the Council having greater difficulties balancing its financial position in two to three years' time and this could have a damaging impact on reserves.

## **7 Resource consequences**

- 7.1 Specific actions to address the financial gaps are not detailed in this report. Over the next few weeks, detailed budgets will be worked up and brought back in a later Medium-Term Financial Strategy that feeds into the November 2021 and February 2022 annual budget setting process.
- 7.2 As the financial implications of carbon reduction are not included in this financial plan adoption of the 2030 carbon neutral target and action plan to achieve it will considerably worsen the Council's financial position in the medium and long term.

## **8 Legal consequences**

- 8.1 The Council is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. This report indicates the Council is heading towards a balanced budget for 2022/23 but may face difficulties in future years.
- 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.
- 9.2 Many figures provided in this report are estimated at this stage. There is a risk that further COVID-19 variants and waves could increase the income and expenditure pressures the Council faces and increase the range of losses.
- 9.3 There is a moderate risk that customer habits will have changed for paid services such as parking and the cultural and leisure offers and that 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.
- 9.4 There is a moderate risk the Government's proposals for business rates reform will worsen the financial situation earlier or more deeply than current predicted.

## **10 Procurement implications**

- 10.1 There are no procurement implications arising from this report.

## **11. Equalities and Human Rights implications / Public Sector Equality Duty**

- 11.1 There are no equality or human rights implications arising from this report because there are no decisions for cuts in this report at this stage.

## **12 Environmental implications**

- 12.1 There are no environmental implications because there are no decision for cuts or growth at this stage of our budget development.

## **13 Other considerations**

- 13.1 There are no other considerations to take into account at this stage of developing the Medium-Term Financial Strategy.