

MEDIUM TERM FINANCIAL PLAN - SUMMARY

2021/22 to 2025/26

November 2020

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Introduction

This Medium-Term Financial Plan (MTFP) is a summary of the Council's key financial information, including the budget challenges faced, over the period 2021/22 to 2025/26 and our approach to addressing them.

It sets out the approach to establishing a sustainable financial base to support delivery of Council policies and priorities. It also highlights the financial risks and issues which have to be tackled, including ongoing reductions in Government funding.

1. Medium Term Financial Plan Objectives

The objectives of this MTFP are to help us:

- Provide a robust financial framework to assist decision-making processes
- Manage council finances within the context of a forward-looking service & financial planning framework
- Prioritise resources to align spending plans with our vision and strategic objectives and resident priorities
- Recognise the ongoing funding challenges that will need to be addressed through changes to how services are delivered, realising new sources of income and delivery of cashable budget savings, or a combination of all three
- Maintain council tax resource levels
- Maintain a balanced budget and continue to strengthen that position
- Maintain the General Fund reserve at a minimum of 15% of the annual net Revenue Budget to cover significant unforeseen expenditure
- Maintain Earmarked Revenue Reserves for specific purposes, consistent with achieving our priorities and managing risks. The use of Earmarked Revenue Reserves will be in line with the Reserves Policy and will be reviewed annually
- Help confirm the affordable level of capital investment required to support our strategic and financial priorities while remaining within prudential borrowing limits
- Ensure that fees and charges are set at an appropriate level and that they take into account comparative levels of charge and ability to pay, in line with the Policy
- Demonstrate probity, prudence and strong financial control
- Manage financial risks
- Continually review budgets to ensure resources are targeted on key objectives
- Continue to improve our approach to commissioning and procurement to ensure value for money for local taxpayers
- Support new ways to ensure financial sustainability and maximise income to deliver our priorities. This includes the development of commercial projects to capture both revenue income and capital growth opportunities.
- Pursue opportunities for securing external funding

- Support opportunities for working in collaboration with partners where this will support our priorities and improve service value for money.

2. Medium Term Financial Plan Priorities

In considering future budget projections, it is recognised that there are unknowns which could impact upon forecasts. The MTFP is not a static document but rather one that is constantly evolving as the environment around it changes. Some of the key risks and sensitivities which need to be monitored are set out below.

- **Economic conditions.** The impact of the economic cycle will need to be considered particularly in relation to business growth, inflationary pressures and interest rate movements. The impact of changes and any impact on public finances will need to be fully evaluated on the financial model.
- Impact of **Brexit.** While the Government has underwritten EU funding agreed prior to the 2016 Autumn Statement, the impact of the UK's departure from the EU is one that remains unclear and may impact both politically and economically.
- Impact of the **COVID-19 Pandemic.** The latest assessment of the potential financial impacts for this Council is set out at Appendix 4.
- Government **Finance Legislation.** There are key pieces of Government legislation which will impact upon the future financial position of the Council. In particular the impact of the localisation of business rates and any additional responsibilities will need to be fully evaluated as well as the Governments current Fair Funding Review of local Government finance which is due to be introduced in 2021.
- Other **Government Legislation.** There are a significant number of political initiatives particularly in relation to localisation and the role of local Government. These will need to be assessed for their relevance to Reigate and Banstead and the impact on future finances.
- Buoyancy of **Income Streams.** These will be sensitive to changes in consumer confidence and the economy so will need to be closely monitored.
- **Strategic Investments:** The Council is looking to continue to pursue developments that produce financial returns while at the same time supporting the delivery of housing and regeneration priorities.
- **Commercial Ventures:** The Council will seek to take advantage of commercial opportunities wherever possible to cover costs and to review our fees and charges in order to maximise income in line with corporate objectives.
- A **Financial Review** of the historic budget outturn position and of our base budget to ensure maximum value is obtained from those resources already

allocated – effectively to ensure financial discipline and good housekeeping are maintained.

- Using **Reserves** in a sustainable and prudent manner to support the Council's strategies and priorities. This will be supported by the Reserves Policy. It is recognised that reserves can only be used on a 'one off' basis. However, they can play an important part in supporting initiatives or investments which can deliver future benefits.
- To maintain the Council's financial standing it is important that it continues its proactive approach to **Service & Financial Planning** and ensures that budget plans are deliverable and that investments are focussed on securing our financial health.

3. Medium Term Financial Plan Context

Service & financial planning takes place within the context of the national economic and public expenditure plans; this MTFP has been formulated within the context of the current UK economic position, continued reductions on local government funding and political uncertainty surrounding the shape of Brexit and the impacts of COVID-19 on council finances and the wider economy .

In response to this financial challenge, local government has innovated, streamlined services and increased productivity. The Government's plans to devolve more responsibilities through the localisation of business rates has been delayed to April 2021, however the detail as to whether councils will be required to take on additional responsibilities remains unclear. The devolution of business rates is intended to be fiscally neutral but how this will work in practice is currently being developed alongside the Fair Funding Review. These changes will bring both risks and opportunities and are now intended to be implemented for the 2022/23 financial year

The Economy and Public Spending

There remains considerable uncertainty in financial and economic forecasts. In October 2020, HM Treasury reported to Parliament:

- *UK GDP grew by 2.1% in August 2020 compared to June, the fourth consecutive monthly increase following April's 19.5% decline. Despite this, August GDP was 9.2% below the pre-pandemic levels seen in February 2020.*
- *GDP grew by 8.0% in June-August compared to the previous three month period (March-May).*
- *All the headline sectors provided a positive contribution to three – month growth in June - August. The services sector grew by 7.1%, production by 9.3% and construction by 18.5%. However, output in all of these sectors remain lower than in February, by 9.6% in services, 6.0% in production and 10.8% in construction.*
- *The economy declined by 19.8% in the latest calendar quarter (April-June 2020). This was revised down from the initial estimate of a 20.4% fall, but still represents the biggest fall in quarterly GDP on record.*
- *In cash terms, GDP was £2,214 billion in 2019.*

- *In their July Fiscal sustainability report, the Office for Budget Responsibility (OBR) forecast a fall in growth in 2020 of between 10.6% and 14.3%.*
- *The Treasury's October 2020 survey of independent forecasts for GDP growth showed an average forecast of -10.2% for 2020 and 6.3% for 2021.*

The base rate remains at 0.1% (October 2020). Uncertainty over Brexit caused the Monetary Policy Committee (MPC) to leave Bank Rate unchanged during 2019 and at its January 2020 meeting. However, since then the coronavirus outbreak has transformed the economic landscape: in March, the MPC took emergency action twice to cut Bank Rate first to 0.25%, and then to 0.10%. It is now unlikely to rise for the next two years pending a protracted recovery of the economy from this huge set back.

Table 1: FORECAST INTEREST RATES	Dec 2020	June 2021	Dec 2021	June 2022	Dec 2022	June 2023
	%	%	%	%	%	%
Forecast Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10

Source: *Link Asset Management November 2020*

Inflation

The rate of inflation (as measured by the Consumer Price Index - CPI) currently falls well within the Bank of England target of 2%. The COVID-19 lockdown has prevented the Office for National Statistics from collecting the prices of many items, but it is clear that inflation has fallen. CPI inflation dropped to a four-year low of 0.5% in May and will probably stay close to 0.5% for the next year. Even when the economy recovers low wage growth will mean inflation is unlikely to climb much above 1.0%.

Table 2: FORECAST INFLATION (CPI)	2020 (Q4)	2021 (Q3)	2022 (Q3)	2023 (Q3)
	%	%	%	%
Forecast CPI	0.3	1.8	2.0	2.2

Source: *Link Asset Management October 2020*

Economic Growth

Economic growth – as measured by Gross Domestic Product (GDP)

- *In August's Monetary Policy Report, the Bank of England predicted that GDP would not return to its 2019 level until 2022 after a recovery in 2021, with GDP peaking at 3% in 2022.*
- *Meanwhile the unemployment rate was expected to rise through the year peaking at 7.5%.*

Source: *Link Asset Management October 2020*

Context: Potential implications of the COVID-19 economic situation for local government

- It may be harder to collect sums due, for example for council tax and business rates. Despite these increasing pressures, to date our performance on income collection remains consistently strong.
- Increased demand for services to assist residents falling into hardship.
- Suppliers and contractors being at risk of liquidation, potentially affecting delivery of services.
- Cost inflation pressures may be greater than assumed.
- Impacts on our supply chain eg. price increases, impacts on operational delivery of capital schemes, supplier workforce impacts.

Local Government Funding

The local government sector has been one of the areas hardest hit by the Government's deficit reduction plan. For Reigate and Banstead Government Revenue Support Grant reduced from £1.6 million in 2014/15 to nil by 2017/18.

Over recent years the framework for local government funding has been subject to a sustained period of change and uncertainty:

- April 2011 – New Homes Bonus introduced
- April 2013 - Business Rates Retention introduced
- October 2015 – 100% BRR and Funding Review announced
- April 2016 – Government and LGA working groups set up and start meeting
- Early 2017 - Call for evidence on Fair Funding and Business Rates Retention consultation
- April 2017 – New Homes Bonus scheme changes
- May 2017 election – Business Rates Retention primary legislation falls; Fair Funding Review to continue
- Summer 2017 – announcement of move to 75% Business Rates Retention; confirmation of new Business Rates Baseline and continuation of Fair Funding Review – all for 2021/22
- July 2018 – new simplified Business Rates Reset first suggested
- December 2018 – no figures beyond 2020/21 available; indications that 'Negative Revenue Support Grant' will result in significant funding reductions for councils like Reigate & Banstead
- December 2018 – new consultations on Fair Funding Review, Business Rates Retention and confirmation of a full Reset of Business Rates growth
- December 2019 - Spending Round¹⁹ – one-year settlement for 2020/21 only
- July 2020 - Spending Review²⁰ – delayed to autumn 2020 due to Government's COVID-19 pandemic response.
- October 2020 - Spending Review²⁰ – the Government confirmed that this would be another one year review to be published on 25 November 2020

Consultations and announcements over recent months have covered the following aspects of local government funding:

Fair Funding Review

- Intended to be introduced in 2021/22, but now delayed to 2022/23 as a consequence of the COVID-19 pandemic, the Review will set new funding baselines and confirm any transitional arrangements.

Business Rates Growth: Reset and 'Alternative' System

- The Government's stated aim is to balance risk and reward through a system of *Resets, Safety Nets, Levies, Tier Splits* and *Pooling*. Also to simplify the system by looking again at appeals, while addressing income volatility and introducing more simplification. This too has been put back to 2022/23.

Business Rates Revaluation

- Delayed to 2022 as a consequence of the COVID-19 pandemic.

New Homes Bonus:

- Alongside the single-year allocation in 2020/21 the Government stated that there will be further changes to the system, for example further changes to the methodology based on a reduced funding allocation and/or the allocation of higher amounts to fewer authorities (or lower amounts to many). Further information on the future of New Homes Bonus may be announced as part of Spending Review20.

Specific Grants:

- There is still an expectation that these will be rolled into the funding system when 75% business rates retention is introduced. It remains to be confirmed whether this will be deferred to 2022/23.

Negative RSG Grant:

- Expected to also be deferred to 2022/23. Further information may be announced as part of Spending Review20.

Council Tax:

- There is a possibility of increased freedoms (primarily for social care precepting authorities). Further information may be announced as part of Spending Review20.

Local Government Funding – Current Position

The last three-year Spending Review was in 2015, covering the financial years 2016/17, 2017/18 and 2018/9. The anticipated 2018 Spending Review never took place and departmental budgets were instead 'rolled over' into 2019/20, while the Spending Review in 2019 was also cancelled and replaced by an interim Spending Round that set out current spending by departments for one financial year (2020/21) and capital investment plans for two financial years (2020/21 and 2021/22).

The Chancellor announced on 24 March 2020 that the planned Spending Review 2020

would be delayed beyond July to enable the Government to remain focused on responding to the COVID-19 pandemic.

This was followed by the Chancellor's 'Summer Economic Update' on 9 July in response to the coronavirus pandemic, which he called a 'Plan for Jobs'. The Chancellor highlighted:

- The Office for National Statistics (ONS) estimates that Gross Domestic Product (GDP) in April was around 25% below the level recorded in February;
- Over 9m jobs have been furloughed through the Coronavirus Job Retention Scheme – more than a quarter of the UK workforce;
- Universal Credit claims have also been elevated, with 3.4m individual declarations made from 1 March to 23 June; and
- Real time data shows the number of paid employees falling by 612,000 over April and May.

The Chancellor also confirmed that he would introduce a Budget and Spending Review²⁰ in the autumn.

At that stage the Office of Budget Responsibility did not provide an 'economic and fiscal outlook', as is customary at the Budget and Spring Statement. This followed on 14 July.

In September it was announced that there would be no Autumn Budget from the Chancellor due to the pandemic and it would be replaced with a Winter Economy Plan (which was presented to Parliament on 25 September).

There were three policy announcements in the Plan:

- Support for employment: Job Support Scheme and extension to self-employed income support scheme grants.
- Easing burdens on business: extension of the temporary VAT reduction, VAT deferrals, and various other financing measures.
- Support for public services: outlining the £24.3bn support approved since the Plan for Jobs in July.

Issues most relevance to local government from the Plan included:

- Extension to VAT reduction (to 5%) for certain supplies of hospitality, holiday accommodation and admission to attractions from 13 January to 31 March 2021; which could benefit authorities providing these services.
- £500m increase to the infection control (Track & Trace) fund, which was previously announced by the Health Secretary.
- £60m funding for police and local government for enforcement measures such as marshals.

Key economic updates in the Plan:

- GDP in April was 25% lower than in February, and whilst it has slowly grown since May, it is estimated that July's GDP was still 12% lower than February.
- Consumer spending fell by 80% at its lowest point, but retail sales were now 2.8% higher than in the same month in 2019 (though it should be noted that this may simply be deferred activity which would otherwise have taken place earlier in the year).

- Employment had fallen by 695,000 between March and August, and the number of vacancies being advertised was 40% lower than in the same month in 2019.
- The Government had spent around £190bn supporting people, businesses and public services since the start of the pandemic.

In October 2020 the Government confirmed that Spending Review²⁰ would also be for one year (2021/22) only due to the require to focus on the national response to the COVID-19 pandemic. At the time of preparing this report the date of publication had been confirmed to be 25 November in order to then allow time for publication of the local government funding settlement (usually received at the end of December).

The Government has indicated that Spending Review²⁰ will focus on three areas:

- Providing departments with the certainty they need to tackle COVID-19 and deliver the Government's plan for jobs to support employment
- Giving public services enhanced support to fight COVID-19 alongside delivering frontline services
- Investing in infrastructure to deliver the Government's "*ambitious plans to unite and level up the country, drive our economic recovery and build back better*".

It is currently expected to be a 'roll over' settlement with no significant changes to funding allocations.

Given the ongoing political focus and uncertainty due to the COVID-19 pandemic, it remains unclear when the next longer-term spending review will take place. Some provisional spending totals were set out in the 2018 Autumn Budget for the years up to 2024/25. These provisional totals continue to underpin the official fiscal forecasts and therefore provide an indication of what might be expected.

In October 2020 the Local Government Association (LGA) published a report which highlighted that English councils received at least 448 individual government grants between 2015/16 to 2018/19 in an increasingly "fragmented and reactive" use of public funding. The LGA is calling on the Government to use the Spending Review to end this fragmented funding of council services and the meeting demand pressures through individual and often one-off grants.

In late October 2020 it was announced that the Housing, Communities and Local Government Committee will consider what approach the Government should take to funding local government as part of the 2020 spending review. It will investigate the current financial health of local authorities and their ability to deliver services, including the additional pressures caused by the COVID-19 pandemic. In light of continued delays to the multi-year spending review, the Committee Inquiry will also examine the impact of single year settlements on the ability of councils to plan and deliver services in the long-term.

Service & Financial Planning: Government Funding Assumptions

For the purposes of preparing this MTFP and the draft 2021/22 budget the following has been assumed:

- No further changes to total local government funding as a result of Spending Review²⁰.

- The most far-reaching funding changes will be delayed to 2022/23 onwards
When implemented, we anticipate that the funding changes will reduce this Council's Government funding by £0.200 million in year one followed by a further £1.3 million and £0.4 million in each of the two subsequent years (£2.3 million in total). This is as a consequence of the removal of 'Negative RSG' grant and the Business Rates reset.
- No other transitional funding arrangements for these changes
- Council taxbase growth of 1.0% per annum and council tax increases continue to be capped at a maximum of 1.99% or £5.
For 2021/22 the ongoing impacts of the COVID-19 pandemic on collection performance and take up of the Local Council Tax Support Scheme will have to be taken into account when forecasting the taxbase.
- Funding from New Homes Bonus to cease in 2021/22 (no new allocations).

4. Corporate Plan Priorities

The Council's Corporate Plan 2025 sets out our priorities for the next five years, and explains how the Council will focus its resources and deliver services to those living, working and spending time in Reigate & Banstead.

This MTFP has been developed to align with the Plan vision and priorities.

The Corporate Plan includes objectives in relation to Housing, Vulnerable People, Communities & Community Safety, Leisure & Wellbeing, Towns & Villages, Economic Prosperity, Shaping our Places, Clean & Green Spaces, Environmental Sustainability, Financial Sustainability, Commercial Activities, Operational Assets and Skills & Great People.

The Plan includes:

- A new set of 'cross-cutting commitments' describing how the Council will deliver services, covering aspects such as communications, customer contact, partnership working and environmental sustainability
- A new 'housing' objective to do more to secure the delivery of homes that are more affordable for local people.
- Expanded objectives about communities and vulnerable people, reflecting the Council's proactive housing, family support and community development activities
- A new objective that recognises the need for the Council to support towns and villages in the borough to thrive and an updated objective on Shaping our Places recognising the future focus of our work in this area

To achieve our financial sustainability objective, our Corporate Plan 2025 explains that the Council will:

- Ensure that our budget setting process is transparent and well-managed to deliver a balanced budget outcome each year
- Run an effective collection team to recover money owed to us
- Operate in an efficient and rigorous way across all our day-to-day financial Operations
- Publish and keep up-to-date our Capital Investment Strategy; and
- Need to increase Council Tax every year to reflect increasing costs, but the Council will review this position annually.

5. Budget-Setting Priorities 2021/22

The Priorities that will be taken into account when preparing the draft Budget for 2022/23 are set out below:

- To ensure resources are aligned with the emerging **Corporate Plan priorities**
- To maintain a **balanced budget** such that expenditure matches income from council tax, fees and charges, and government and other grants and to maintain that position
- To set a rate for **council tax** which maximises income necessary to deliver our strategic objectives while ensuring that Government referendum limits are not exceeded. The percentage increase will be reviewed annually and be approved by Full Council
- To **maximise other income** by setting fees and charges, where we have the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write offs
- To ensure a long-term sustainable view is taken of our **investments** and that appropriate risk analyses are used when considering new investments
- To consider and take advantage of **commercial opportunities** as they arise to deliver new income streams
- To maintain an adequate and prudent level of **reserves** and regularly review their planned use and allocation to support delivery of our priorities.
- To address the legacy financial challenges forecast as a consequence of the **COVID-19 pandemic**.

6. Revenue Reserves

The Council holds Reserves to provide protection against financial risks. Our current level of reserves provides a relatively secure financial base compared to many authorities; it is important to ensure an appropriate balance between securing the financial position of the Council and investing in delivery of services.

Reserves can be held for four reasons:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds to meet known or predicted liabilities.
- A means of setting aside sums for future identified uses and / or investments

There is an opportunity cost of holding reserves in terms of restricting capacity to invest in current service delivery but this is offset by the additional flexibility that reserves provide when manage budget risks and adverse variations.

The level of Reserves is being reviewed throughout service & financial planning with the aim of presenting the final recommended use of reserves in 2021/22 onwards as part of the January budget report. This will include an assessment of the adequacy and allocation of current reserves and the associated risks and opportunities.

General Fund Balance

The General Fund Balance Reserve is held to manage the impact of any unexpected events/emergencies. The Section 151 Officer is required to review the level of the General Fund Balance annually in relation to the overall financial position of the Council. CIPFA guidance on Local Authority Reserves and Balances (2003) and the Local Government Act of 2003 do not recommend a specific value or budget %.

The Council's Section 151 Officer advised in the January 2020 budget report that a working balance of £3.0 million is considered the minimum level required. This represents just over 15% of the net budget for 2020/21. This minimum level is being reviewed again as part of 2021/22 service & financial planning.

Earmarked Revenue Reserves

Earmarked Revenue Reserves may be used as part of a planned process to balance the budget in order to avoid short term actions which may not be in the best interests of the Council. They also allow funds to be set aside for specific purposes, often spanning more than one financial year.

Useable Revenue Reserves

Revenue Reserves have increased steadily over recent years.

Table 3: USEABLE REVENUE RESERVES	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
General Fund Balance	6.075	6.717	8.737	5.912	12.547	12.547	3.246
Earmarked Reserves	9.526	10.963	13.485	19.075	21.703	25.042	32.145

Table 3: USEABLE REVENUE RESERVES	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Total Reserves	15.601	17.680	22.222	24.987	34.250	37.589	35.391¹
Reserves as a % of the Net Revenue Budget	119.14%	135.01%	169.70%	190.81%	261.55%	287.05%	193.81%

Note: balance excludes £6.204m advance pension contribution

Opportunity Cost of Holding Reserves

The opportunity cost of holding reserves has to be considered. Unused balances are used to either reduce temporary borrowing or are invested to generate income. In measuring the opportunity cost of holding reserves, consideration needs to be taken of the interest earned. The opportunity cost of holding reserves is therefore a judgment whether the 'worth' of expenditure foregone is more than the income generated. Given the current economic climate it is a balanced judgement as to whether to invest / spend reserves or to retain them.

Assessing the Adequacy of Reserves

The Chartered Institute of Public Finance and Accountancy (CIPFA) state that the Institute 'does not accept a case for introducing a statutory minimum level of reserves, even in exceptional circumstances'. It does however confirm that authorities should make their own judgment on such matters, taking into account all relevant local circumstances on the advice of their Chief Finance Officer.

The Local Government Act 2003 requires the Chief Finance Officer to formally report on the adequacy of the proposed financial reserves. To arrive at assessing the adequacy of reserves a number of issues need to be addressed:

- What are the strategic, operational and financial risks facing the Council?
- Does the Council comply with the requirements to ensure that there is an adequate system of internal control?
- Are the key financial assumptions in formulating the Council's budget robust and reasonable?
- Does the Council have adequate financial management and cash flow arrangements?

In addition there are a number of questions an authority can ask to demonstrate that it is managing its affairs satisfactorily:

- What is the track record of the Council in its budgetary and financial management?
- What is the Council's record regarding council tax collection?
- What is the Council's capacity to manage in-year budgetary pressures?
- What is the strength of the Council's financial reporting?
- What are the procedures to deal with under and over spends during and at the year end?
- In the case of Earmarked Revenue Reserves, will there be expected calls on the reserves that prompted the setting up of the reserves in the first place?

Finally, there is a need to look at the assumptions made in setting the budget, not just for the coming year but also under the MTFP. The budgetary assumptions cover:

- Inflation and interest rate projections.
- Estimate and timings of capital receipts.
- Treatment of planned efficiency savings.
- Financial risks involved in major funding arrangements.

It is likely that the current allocation of funds to Reserves will have to be reviewed as part of the Council's response to any ongoing financial impacts of the COVID-19 pandemic.

Capital Reserves

In addition the Council holds Capital Reserves to help fund delivery of the Capital Programme. At 31 March they comprised:

- Section 106 contributions £12.772 million
- Community Infrastructure Levy £8.721 million
- Other Capital Grants & Contributions £3.263 million

7. Medium Term Financial Plan Forecast 2021/22 onwards

The latest review of Medium-Term Financial Plan budget forecasts has identified a number of new budget pressures that will need to be addressed through service & financial planning in 2021/22 onwards.

They include:

- Making budget provision for future pay and pensions increases
- Budgeting for the costs of approved borrowing to fund planned Capital Programme commitments
- The impacts on available resources of Government funding reductions in 2022/23, including the loss of Negative RSHG Grant, the Fair Funding Review and Business Rates Reset
- Revenue and capital budget growth to deliver priorities in the new Corporate Plan – details to be confirmed during service & financial planning
- The ongoing financial impacts of the COVID-19 pandemic; for example continued reductions in income forecasts.

The service & financial planning process over the summer will focus on quantifying the impacts of these potential pressures as the details are confirmed; also identifying the new sources of income that are to be delivered to help address them. The outcome will be reported in November.

The key factors that will influence the forecast gap include:

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| Service Expenditure | <ul style="list-style-type: none"> • New budget pressures have been identified through the service & financial process and the approach to funding them |
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	will be confirmed when the final budget proposals are reported in January.
	<ul style="list-style-type: none"> • Legacy impacts of the COVID-19 pandemic on service income budgets
Central Budgets	<ul style="list-style-type: none"> • Treasury Management costs will rise significantly over the MTFP period as a consequence of the borrowing requirement to fund the approved Capital programme • Opportunities to delete redundant Central budgets and contingency sums.
Council Tax	<ul style="list-style-type: none"> • Council tax setting assumptions • Legacy impacts on recovery performance of the COVID-19 pandemic
NNDR	<ul style="list-style-type: none"> • Removal of Negative RSG Grant and the Business Rates reset • Legacy impacts on recovery performance of the COVID-19 pandemic
Use of Reserves	<ul style="list-style-type: none"> • Funding for the 2019/20 budget includes drawing £1.256 million from the General Fund Reserve. If equivalent savings, efficiencies or new sources of income are not identified for 2021/22 this requirement to call on Reserves will continue to increase and further reduce available balances. • In previous years the budget outturn position has been a revenue budget underspend of at least £1.0 million. If this were to continue the net impact on reserves would not be significant, however the COVID-19 pandemic means that there is a reduced likelihood of an underspend on this scale in 2020/21.

The latest forecast is set out at Appendix 2.

8. Capital Investment Strategy

The latest Capital Investment Strategy was reported to Executive in July 2020 and sets out a framework for funding and investment decisions in respect of capital assets, in the context of our vision and priorities and available financial resources.

The Capital Investment Strategy demonstrates that we take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long-term context in which capital expenditure and investment decisions are made, and takes into account to both risk and reward and impact on the achievement of priority outcomes.

When setting its capital programme, each authority must have regard to:

- Service objectives – the capital spending plans should be consistent with the Corporate Plan
- Stewardship of assets – as demonstrated by our asset management planning approach
- The value for money offered by investment plans – as demonstrated by the appraisal of the options
- The prudence and sustainability of investment plans – their implications for external borrowing
- The affordability of capital investment plans – the implications for the council tax; and
- The practicality of capital expenditure plans – whether the forward plan is achievable.

Decisions on the Capital Programme have an impact on the Revenue Budget, in relation to:

- The revenue costs of financing capital, including prudential borrowing; and
- The ongoing running costs and/or income generated by new capital assets such as buildings.

Capital investment decisions therefore have implications for the Revenue Budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within our financial plans and to demonstrate that the capital investment is affordable.

Our revenue and capital budgets are integrated with the financial impact of the proposed Capital Programme, being reflected in the Revenue Budget estimates.

The Council will only invest where capital spending plans are affordable, prudent and sustainable. The key constraint on capital investment is the scope to afford the financial implications in terms of acceptable council tax levels.

As supported by the Capital Investment Strategy, the Council's capital investment plans over the next 5 years are set out in the Capital Programme. The efficient and effective use of capital resources, including sound asset management, is fundamental to achieving our long- and medium-term aims and objectives. It is also critical to achieving the delivery of the required savings and income across the Council to secure a balanced budget.

Medium Term Capital Programme

While Revenue Budget expenditure is concerned with the day-to-day running of services our Capital Programme is concerned with investment in the assets required to deliver services or delivery new income streams. The Medium-Term Capital Programme sets out how capital resources will be used to achieve our vision and corporate priorities.

The Council must have an affordable Capital Programme; affordability is assessed against business cases taking into account the level of future resources required to support project delivery and ongoing asset maintenance.

The strategic objectives of our Capital Programme can be summarised as follows:

- To maintain a five-year rolling Capital Programme which remains within the approved affordable, sustainable and prudential limits.
- To ensure capital resources are aligned with our strategic vision and corporate priorities by ensuring all schemes are prioritised according to the Council's prioritisation methodology
- To identify opportunities for investment in new schemes that result in capital growth and/or new revenue income streams
- To maximise available resources by actively seeking external funding to support Council priorities and disposing of surplus assets.
- To use internal resources alongside external resources where appropriate to support the Capital Programme and minimise any borrowing costs.

Capital Programme – Revenue Budget Implications

As explained above, with the exception of earmarked s106 funds, the Council no longer has significant capital reserves, therefore, while a small number of schemes will be continued to be funded from capital grants and other contributions, the majority of the approved Capital Programme must be funded through prudential borrowing. The costs of repaying this borrowing fall on the revenue budget as treasury management costs in Central budgets.

Treasury management budgets have been updated to reflect the costs of borrowing for the approved Capital Programme for 2020/21 onwards net of interest on forecast balances. Details are set out in the Treasury Management Strategy for 2020/21 that was approved in April 2020.

The cost of managing and maintaining new capital assets will also have to be taken into account in the revenue budget as new assets come into use.

9. Treasury Management & The Prudential Code

CIPFA defines treasury management as:

“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management function is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested with low risk counterparties in line with our risk appetite, ensuring adequate security and liquidity before considering investment return.

The second main function of treasury management is funding our Capital Programme. Our capital investment plans provide a guide to borrowing need, essentially for longer-term cash flow planning purposes, to ensure that the Council can meet our capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. We anticipate taking on long-term borrowing for the first time during 2020/21.

The contribution that the treasury management function makes is important, as the balance of debt and investment operations ensure liquidity and/or ability to meet budget commitments as they fall due, both on day-to-day revenue-funded activity and for larger capital projects. The treasury function balances interest costs of debt and investment income arising from cash deposits which in turn affect available resources. Cash balances generally result from our reserves and balances, therefore it is important to ensure adequate security of the sums invested, as a loss of principal will in effect result in a call on the General Fund Balance.

Our company investments are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

The Prudential Code

CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the 'Prudential Code') provides the framework for councils' capital investments. The key feature of the prudential system is that councils should determine the level of their capital investment – and how much they borrow to finance that investment – based on their own assessment of what they can afford, not just for the current year but also for future years.

The statutory basis for the prudential system is set out in the Local Government Act 2003, which:

- Confirms councils' power to borrow – which in the medium term must only be for capital purposes, while short-term borrowing can be for cash flow purposes
- Makes it clear that, as previously, councils may not mortgage assets
- Places a duty on councils not to exceed their prudential borrowing limits, or any national limits imposed by central government
- Places a duty on councils to determine – and review – their own borrowing limits in accordance with the Prudential Code
- Gives the Government a reserve power to impose borrowing limits that would override councils' own borrowing limits for national economic reasons
- Makes it clear that credit arrangements should be treated as borrowing under the prudential system
- Confirms that councils may invest both for the prudential management of their financial affairs and for purposes relevant to their functions.

Following two consultations intended to take into account the changing landscape for local government following the sustained period of reduced public spending and the developing localism agenda, the Prudential Code was updated in December 2017. One of the main changes was to introduce the requirement to publish a Capital Investment Strategy.

10. Medium Term Financial Plan Risks & Sensitivities

The Council's Strategic Risk Register contains the following risk:

SR2: Financial sustainability

The Council is now operating in a uniquely challenging and uncertain financial context.

- *In the wake of the COVID-19 pandemic and likely recession which will follow, the Council faces a period of unprecedented financial uncertainty.*
- *The ongoing financial settlement with the Government also remains unclear with the Fair Funding Review and Business Rate Reset and Revaluation being delayed.*
- *The most significant risks relate to the extent to which the Government will fund the unplanned expenditure that is being incurred to deliver the Council's COVID-19 responsibilities at the same time as experiencing material reductions in income from fees and charges and local taxes. If this substantial financial burden is not mitigated through direct Government support these unplanned financial pressures will have an adverse impact on the Council's capacity to deliver against its Corporate Plan ambitions in future years.*

Details of the mitigating actions are set out at Appendix 3.

Operational Risk Register – Budget-Setting

The principles and assumptions contained within this MPFP are aimed at ensuring that the Council is financially sustainable and continues to deliver high quality services.

Individual revenue and capital budget proposals will be subject to risk assessment as part of the service & financial planning process.

The Council, in common with most local authorities, continues to be at risk from a range of financial risks. They include:

Perceived Risk	Impact	Likelihood	Preventative Action
Failure to remain up to date with changes in relevant legislation, regulations and guidance	High	Low	Ensure that all relevant information is taken into account when producing MTFP and budget forecasts.
Changes in legislation affecting the scope of services and the cost of carrying them out	Medium	Medium	Maintain regular contact with Heads of Service regarding developments that have potential financial implications.

Perceived Risk	Impact	Likelihood	Preventative Action
Local Government Financial Settlement worse than forecast	High	Medium	Model a range of MTFP and budget scenarios and strategies.
Outdated MTFP assumptions and/or significant variations due to economic factors	High	Low	Regularly review and update assumptions.
Inaccurate budget assumptions	High	Medium	Regularly review and update assumptions.
Unexpected financial events	High	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Deliverability of new income streams against forecast timescales	High	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Demographic and demand-led pressures	Medium	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Reduction in existing fees & charges income	Medium	Low	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Contract risks e.g. contractor viability, non-delivery	Medium	Low	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks. Maintain regular contact with Heads of Service regarding developments that have potential financial implications.
COVID-19 financial risks	High	High	Legacy impacts of the pandemic include ongoing cost pressures and income reductions. These are discussed in more detail at Appendix 4.

Sensitivity Analysis

A small change in key underlying assumptions can produce a significant change in the budget.

Table 4: SENSITIVITY	Change	Estimated Annual Impact £000
Business Rates Income	+/- 1%	£8
Staff Costs		£285
Non-Pay Costs		£140
Fees & Charges		(£160)
Council Tax/Taxbase		£141

Budget Uncertainties & Risks

While the approved budget for 2020/21 is robust, there remain, a number of uncertainties and risks to be addressed over the medium-term which are set out below.

The Economy:

- There is still uncertainty and a lack of confidence about the future of the economy as consequence of the planned exit from the European Union.
- Preparations for exit continue and may affect investor confidence, whilst the lower value of the Pound may increase inflationary pressures.
- Any future economic slowdown nationally or globally - could result in lower income (through - for example - reduced discretionary spending or lower than anticipated recycle prices) and increases in demand (benefits and statutory duties such as homelessness).
- Any reduction in the number of employers in the Borough could also have an impact on our retained Business Rates income.

Future Government Funding:

- The outcome of the Fair Funding Review and Business Rates reset along with the end of Negative RSG Grant
- The end of New Homes Bonus payments over the coming years will have an impact on reserves, but no direct budget impact.
- The Homelessness Reduction Act requires Councils to provide more support to homeless people and people at risk of becoming homeless. The Government has committed ring-fenced funding towards this duty but there remains a question mark over the longer term.
- Funding reductions to County Councils are having an impact on boroughs and districts. Significant income streams received from upper-tier councils are being reviewed, with potential ongoing impacts on local residents.

Revenue Budget Savings:

- following the significant budget reductions in recent years, it has become increasingly difficult to generate additional ongoing savings. If the Council is

to deliver financial sustainability then we will need to continue our efforts to become a more commercial organisation and fully explore income generating opportunities involving, for example, property investment, partnership working and providing services for other organisations. Government and CIPFA guidance on 'borrowing in advance of need' is likely to limit some of the options that may otherwise have been considered to deliver new commercial income streams.

Corporate Plan 2025:

- The Corporate Plan sets out the Council's vision and objectives over the medium term and will enable it to target its resources in the most efficient and effective way.
- The main challenge, as ever, will be balancing our ambitions as a high performing council with our ability to resource those ambitions. The prioritisation of services like Housing Delivery and Environmental Sustainability will place new demands on existing resources. A combination of careful stewardship and an innovative approach to service delivery will be required to ensure that we achieve our goals.

Budget Risks:

- Given the uncertainty over future economic conditions and the business rates regime, it is prudent to maintain our capacity to protect services from unforeseen financial pressures. Once used, however, it may prove difficult to replenish reserves.
- Despite significant improvements in recent years the Pension Fund remains a risk over the longer term as the future economic downturns may impact on the value of Fund investments and liabilities.

COVID-19 Pandemic

- The potential financial risks and uncertainties arising from the COVID-19 pandemic are set out at Appendix 4. It is likely to be some time before the full impacts are confirmed.

MTFP and Budget Monitoring and Review

The updated MTFP position has been reported as part of the draft Budget report in November.

The processes and procedures relating to the monitoring of the Revenue Budget and Capital Programme are set out in the Council's Financial Procedure Rules.

11. Service & Financial Planning Process and Timetable 2021/22

As explained above, this MTFP represents an overarching view of our finances and looks to anticipate future demands and pressures so that we can take timely decisions to secure financial sustainability.

The MTFP is supported by a number of key documents which contribute to management of the overall financial position. These are:

Revenue Budget Report	<p>Produced on an annual basis – draft in November and final in the following January. It sets out the plan for setting and managing a balanced budget for the following financial year.</p> <p>It is here the detailed decisions on revenue and capital expenditure are presented, including proposed budget savings and growth. The recommended Budget is supported by operational budget detail that forms the basis for in-year budget monitoring and management.</p>
Capital Programme	<p>Sets out capital expenditure plans over the medium term. This is aligned with the Revenue Budget where it results in costs of borrowing and income streams.</p>
Capital Investment Strategy	<p>Updated on an annual basis and sets out the framework for investing in capital assets over the medium term. Objectives:</p> <ul style="list-style-type: none">• Ensure capital expenditure contributes to the achievement of the Council's organisational strategy• Set a Capital Programme which is affordable and sustainable• Maximise the use of assets• Provide a clear framework for decision making and prioritisation relating to capital expenditure• Establish a corporate approach to the review of asset utilisation
Treasury Management Investment Strategy.	<p>Sets out the approach to managing the cash available to the Council and how to maximise its value. Also sets out the Council's investment and borrowing arrangements and controls.</p>
Reserves Policy	<p>Sets out the reasons for holding reserves and how they will be used, including financial limits where appropriate.</p>

Fees & Charges Policy.	Sets out a corporate view of the fees and charges levied by the Council for consideration each year.
Annual Council Tax Report	Approved by Full Council in February each year

Service & Financial Planning Objectives

The objectives for service & financial planning each year are to:

- Help Members determine budget priorities and their timing
- Forecast the changes in demand for services and match demand with likely resources
- Assess the likely implications of changes in legislation on resources
- Model the future costs of alternative policies; and
- Provide a framework for programming activities by individual services.

Service & Financial Planning Timetable

The timetable for Service & Financial Planning 2021/22 is set out in the covering report.

12. CIPFA Financial Management (FM) Code

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code.

The CIPFA FM Code was therefore introduced in October 2019 and will be applicable from 1 April 2020. Work will be undertaken as part of 2020/21 budget-setting to review compliance with the Principles and Standards in the Code and to identify any actions required to address any gaps identified.

CIPFA explain that reasons for introducing the Code include: ‘... *the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders’ confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely....*’.

The Code has several components, comprising:

- An introduction explaining how the FM Code applies, a principles-based approach and how it relates to other statutory and good practice guidance on the subject.
- The CIPFA Statement of Principles of Good Financial Management, the benchmarks against which financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.
- The FM Code then translates these principles into financial management standards which will have different practical applications according to the circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within the code, reflecting the non-prescriptive approach adopted by CIPFA.

The Principles focus determining whether, in applying standards of financial management, a local authority is financially sustainable. They cover:

- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional standards is promoted by the leadership team and is evidenced.
- Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The supporting financial management Standards are summarised in the table below:

Table 5: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
Section 1: The responsibilities of the chief finance officer and leadership team	
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> .
Section 2: Governance and financial management style	
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

Table 5: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).
E	The financial management style of the authority supports financial sustainability.
Section 3: Long to medium-term financial management	
F	The authority has carried out a credible and transparent financial resilience assessment.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.
Section 4: The annual budget	
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
Section 5: Stakeholder engagement and business plans	
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
Section 6: Monitoring financial performance	
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
Section 7: External financial reporting	
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

13. CIPFA Resilience Index

As part of the service and financial planning process officers undertake a financial resilience assessment by that considers principally whether the authority has in place a credible plan and planning process that gives confidence that it can deliver a sustainable budget over the medium term. The scope of this assessment includes:

- the authority's current financial position
- an assessment of its future financial prospects
- the extent to which the authority has embraced the financial resilience factors set out below
- the key financial risks facing the authority, drawing on potential future scenarios including 'best' and 'worst' case scenarios – for the environment in which the authority operates and for the services that it provides
- the use of independent, objective measures wherever possible to assess the risks to the authority's financial resilience and sustainability
- the authority's understanding of the risks associated with all resources used for service delivery, including its workforce, its physical assets, its strategic business partners (including 'group' entities such as its companies), its information technology infrastructure, etc
- the robustness of the plans that the authority has put in place to address these risks
- the capacity and capability of the authority, its leadership team and its officers to manage the authority's finances in a sustainable manner.

The assessment makes reference to the following:

- Medium-Term Financial Plan
- Capital Investment Strategy
- Treasury Management Strategy
- Planned medium-term use of Reserves
- the most recent Budget Report
- approach to the service & financial planning process
- Budget monitoring reports and out-turn reports and Accounts
- Asset Management Plan
- key governance documents, eg annual governance statement, risk register, etc

The Council's position at November 2020 against a range of financial measures compared to similar councils is available online through the CIPFA Financial Resilience Index at <https://www.cipfa.org/services/financial-resilience-index/financial-resilience>.

Table 6: CIPFA RESILIENCE INDEX INDICATORS	This Council's Relative Risk Compared to Similar Councils (November 2020)	This Council's Prospects over the Medium Term
Reserves Sustainability – increase in reserves over recent years	Medium	Planned use of previously un-allocated reserves (for example for investment in Housing) means that this position will be harder to maintain
Level of Reserves – compared to the annual revenue budget	Low	
Changes in reserves over recent years	Low	
Interest payable compared to recent budget	Low	Planned growth in the Capital Programme and associated borrowing means that this position will not be maintained.
Gross external debt	Low	
Fees & Charges - as % of service budgets	Higher than Average	Implementation of the new Fees & Charges Policy and planned review should improve the Council's position against this indicator if it results in new and/or increased sources of income.
Ratio of Council tax contribution to revenue budget	Low	Risk may increase if budget increases without the ability to levy a proportionate increase in council tax.
Funding growth - compared to Government baseline	Increasing	This risk is expected to increase as Government funding reduces and the ingoing impacts of the COVID-19 pandemic on income budgets are confirmed.

14. Conclusion

This MTFP presents a summary of the key financial processes and policies that help us forecast the likely financial position that Council will be facing over coming years.

It is the Council's primary financial planning tool and will form the basis for ongoing discussions throughout service & financial planning for 2021/22.

APPENDICES

1. Revenue Budget 2020/21
2. Medium Term Revenue Budget Forecast 2021/22 to 2025/26
3. Strategic Financial Risks
4. COVID-19 Pandemic – Financial Implications

REVENUE BUDGET 2020/21

REVENUE BUDGET 2020/21	Approved Budget 2020/21 £m
ORGANISATION	
Organisational Development	0.852
Finance	1.123
Projects & Performance	1.859
Legal & Governance (including Assets)	0.232
IT	1.784
PLACE	
Planning	0.755
Economic Prosperity	0.398
Place Delivery	0.275
Neighbourhood Operations	3.110
PEOPLE	
Community Partnerships	1.583
Communications & Customer Contact	0.851
Wellbeing & Intervention	0.443
Housing, Revenues, Benefits & Fraud	1.012
TOTAL NET SERVICE EXPENDITURE	14.276
Central Budgets	3.980
Advance Payment of Employer's Pension Contribution	6.204
NET EXPENDITURE 2020/21 including ADVANCE PENSION CONTRIBUTION	24.460
Council Tax	(14.100)
National Non-Domestic Rates	(2.900)
New Homes Bonus – 2020/21 allocation from Central Government	(1.789)
1. Net Contribution (to)/from Reserves: <ul style="list-style-type: none"> • New Homes Bonus – 2020/21 allocation paid into Reserves – (£1.789m) • Use of funds from the General Fund Balance and Pension Reserve to fund the advance Employer's Pension Contribution of £6.204m • Use of funds from the General Fund Balance to support the 2020/21 Revenue Budget £1.256m¹ 	(5.671)
NET SOURCES OF INCOME 2020/21	(24.460)
BUDGET GAP	Nil

NOTE

- The actual sum to be drawn from Reserves to support the budget will depend on the budget outturn position for 2020/21. Over recent years the budget outturn has been an underspend position with no requirement to call on Reserves.

MEDIUM TERM REVENUE BUDGET FORECAST 2021/22 to 2025/26

MEDIUM TERM REVENUE BUDGET FORECAST		Approved Budget 2020/21	Cumulative Impact 2021/22	Cumulative Impact 2022/23	Cumulative Impact 2023/24	Cumulative Impact 2024/25	Cumulative Impact 2025/26
		£m	£m	£m	£m	£m	£m
20/21 Adjusted Budget Requirement		18.256					
Bfwd Budget Pressure One-off use of Reserves in 2020/21			1.256	1.256	1.256	1.256	1.256
Budget Pressures / Savings at November 2020							
Pay cost inflation/contractual increases			0.600	1.200	1.800	2.400	3.000
Additional borrowing costs for previously-approved Capital Programme			0.500	0.500	1.000	1.000	1.000
Budget Report Annex							
3.1	Services - Pay		(0.189)	(0.189)	(0.189)	(0.189)	(0.189)
3.2	New Strategies - Pay		0.143	0.143	0.143	0.143	0.143
3.3	Services – Non-Pay		0.269	0.269	0.269	0.269	0.269
3.4	Central Budgets		(1.623)	(1.623)	(1.623)	(1.623)	(1.623)
3.5	New Strategies – Non-Pay		0.023	0.023	0.023	0.023	0.023
3.6	Government Funding Reductions		0.095	0.095	0.095	0.095	0.095
Council Tax							
Assumed 1.99% pa. increase plus 1.0% taxbase growth			(0.400)	(0.820)	(1.260)	(1.710)	(2.170)
Business Rates							
Loss of 'Negative RSG' grant and impact of Business Rates Reset			-	1.700	1.900	2.300	2.300
One-Off Funding in 2021/22							
Govt Funding Risks Reserve <i>HB subsidy reduction</i>			(0.095)	-	-	-	-
Commercial Risks Reserve <i>Redhill hotel income reduction</i>			(0.040)	-	-	-	-
General Fund Contribution <i>Subject to final budget proposals</i>			(0.539)	-	-	-	-

MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2020/21	Cumulative Impact 2021/22	Cumulative Impact 2022/23	Cumulative Impact 2023/24	Cumulative Impact 2024/25	Cumulative Impact 2025/26
	£m	£m	£m	£m	£m	£m
Forecast Gap at November 2020 Compared to 2020/21 Budget – before ongoing COVID Impacts	0.000	Balanced	2.554	3.414	3.964	4.104
Annual Increase in Gap		n/a	2.554	0.860	0.550	0.140
Gap as % of 2020/21 budget requirement		n/a	13.99%	18.76%	21.77%	22.54%

Plus Potential Impacts on 2021/22 Income Budgets of the COVID-19 Pandemic

Estimated Income Losses			
COVID-19 – estimated 2021/22 income impacts <ul style="list-style-type: none"> • Community Centres - £0.200m • Harlequin - £0.050m • Parking - £1.200m • Commercial Waste - £0.160m 		1.610	TBC
Additional One-Off Funding Drawdown in 2021/22			
Income Losses to be funded by calling on the Government Funding Risks Reserve		(1.610)	TBC
Forecast Gap at November 2020 Compared to 2020/21 Budget – including estimate for ongoing COVID-19 impacts	0.000	Balanced	TBC

There is no indication at the time of preparing this report whether Government support for COVID-19-related income losses will continue into 2021/22 therefore the above forecasts are based on the assumption that they will have to be funded through drawing on the Council's own Reserves.

Work is continuing on forecasts for income impacts beyond 2021/22 and an update will be provided in the January budget report.

Over the medium term the Council's strategy is to invest to realise new sustainable sources of income. This is dependent on successful delivery of schemes identified through the new Commercial Strategy.

EXTRACT: STRATEGIC RISK REGISTER STRATEGIC FINANCIAL RISKS

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
SR2	<p>Financial sustainability</p> <p>The Council is now operating in a uniquely challenging and uncertain financial context.</p> <p>In the wake of the COVID-19 pandemic and likely recession which will follow, the Council faces a period of unprecedented financial uncertainty.</p> <p>The ongoing financial settlement with the Government also remains unclear with the Fair Funding Review and Business Rate Reset and Revaluation being delayed.</p> <p>There most significant risks relate to the extent to which the Government will fund the unplanned expenditure that is being incurred to deliver the Council's COVID-19 responsibilities at the same time as experiencing material reductions in income from fees and charges and local taxes. If this substantial financial burden is not mitigated through direct</p>	<p>PM</p> <p>Portfolio Holder: Cllr Schofield</p>	<p>We prepared updated Medium-Term Financial Plan (MTFP) revenue budget forecasts and a five-year capital programme during service and financial planning for 2020/21 onwards.</p> <p>These are being used to confirm the extent of the financial challenges faced and support strategic service and financial planning decisions.</p> <p>We will continue to implement the actions detailed in the Capital Investment Strategy that was approved by Executive in January 2020.</p> <p>This will help ensure that capital investment decisions support delivery of the Council's strategic and financial objectives.</p>	<p>We will continue to ensure that strong financial management arrangements are in place and continue to invest in skills and expertise to support delivery of the council's financial and commercial objectives while managing associated risks.</p> <p>The Council's Medium-Term Financial Plan was reported to the Executive in July 2020. This sets out the forecast budget challenges over the coming five years. It will form the basis for service & financial planning for 2021/22 onwards.</p> <p>The specific outcomes of the Fair Funding Review and Business Rates Reset remain unknown; however it is expected to result in significantly reduced funding.</p> <p>COVID-19 has resulted in material new financial risks,</p>	R	Treat	14.10.20	-

ANNEX 2

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
	<p>Government support these unplanned financial pressures will have an adverse impact on the Council's capacity to deliver against its Corporate Plan ambitions in future years.</p>		<p>We prepared the Treasury Management Strategy 2020/21 for approval (under COVID-19 delegation powers) in April 2020.</p> <p>This will ensure that treasury investments achieve target returns within approved security and liquidity limits.</p>	<p>both in 2020/21 and potentially over the medium term. Additional unbudgeted expenditure has been incurred to deliver the authority's response and budgeted sources of income have been impacted by reduced demand during lockdown.</p> <p>Government funding received to date is likely to address a significant proportion of the one-off cost pressures but there remains uncertainty about funding support for lost income from fees & charges and local taxes in 2020/21 as well as about whether income levels will return to pre-COVID levels in the remainder of the year and beyond.</p> <p>In Q2 the Council has submitted the first claim to Central Government for lost income as a result of the COVID-19 pandemic.</p> <p>The importance of: (i) adopting and implementing strategies that support sustainable income generation and (ii) taking forward income generating</p>				

ANNEX 2

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
				projects such as Horley Business Park, remains a high priority.				
SR4	<p>Partner public sector funding decisions</p> <p>The public sector is experiencing significant funding pressures. Budgetary decisions made by other public service providers will impact this borough's residents and businesses as well as the Council itself.</p> <p>The COVID-19 pandemic has increased pressure on public services. These pressures will result in reduced partner capacity which may require the Council to increase services and support provided. This could have negative funding and resource implications.</p>	<p>PM</p> <p>Portfolio Holder: Cllr Schofield</p>	<p>We will continue to maintain relationships with key partners across the public sector. This supports good information sharing, including future service and financial information</p>	<p>We expect to continue to hold meetings to discuss priorities and funding between the Leader, Executive and key partners such as SCC, Police and Raven Housing Trust.</p> <p>We will seek to align Council and partner priorities around the new Corporate Plan wherever possible, to ensure that all services are meeting the needs of our residents and businesses.</p> <p>We will seek to understand the funding decisions taken by partners at the earliest opportunity, and engage with them to consider the implications and avoid/minimise any negative impact on the borough.</p> <p>As noted in SR3 above, the financial distress or failure of a partner or neighbouring authority could result in changes to the structure of local government in Surrey.</p>	A	Treat	14.10.20	-

COVID-19 Pandemic – Financial Implications

at November 2020

The Revenue Budget for 2020/21 that was approved in February 2020, was agreed before the impacts of the COVID-19 pandemic on the UK became apparent. It does not therefore consider the significant additional financial impacts that are now faced during 2020/21 on service income and expenditure budgets and on Collection Fund income forecasts for council tax and business rates.

Government Funding

The Government originally indicated an intention to fully-compensate councils for the financial impacts of COVID-19, however it remains unclear whether this commitment is just in relation to the additional costs incurred or whether it will also cover loss of income.

To date, relative to the scale of forecast financial impacts, the Council has received a the financial support as summarised the table below from Government and other agencies to offset the impacts on its budget.

Table 4.1: EMERGENCY GRANT (not ring-fenced)	£m
Emergency Grant allocation 1 • Equates to 64p per household.	0.042
Emergency Grant allocation 2 • Equates to £22.70 per household.	1.481
Emergency Grant allocation 3 • Equates to 3.09p per household.	0.203
Emergency Grant allocation 4 • Equates to £2.25 per household.	0.148
	1.874

Table 4.2: OTHER SPECIFIC GRANTS AND FUNDING ALLOCATIONS	£m
Rough Sleepers accommodation funding. • In addition, £39.7k has been received from Surrey County Council from their Emergency Grant allocation to contribute to the cost of temporary accommodation for rough sleepers.	0.002 0.040
Next Steps Accommodation Funding - £180.3k • Contribution towards B&B costs	0.180
Reopening High Streets Safely Fund • Allocated to prepare for the reopening of non-essential retail	0.132
Emergency Assistance Grant for Food & Essential Supplies • Allocated via Surrey County Council	0.089
Compliance & Enforcement Grant • For enforcement of measures to support public health including social distancing	0.058
Test & Trace Scheme - for payments to individuals who have to self-isolate and are unable to claim benefits	

<ul style="list-style-type: none"> • general claims • discretionary claims • admin funding 	0.048 0.029 0.027
Clinically Extremely Vulnerable Funding <ul style="list-style-type: none"> • share of Surrey County Council grant allocation 	0.067

Income Compensation Scheme

In addition the Council is able to claim for reimbursement of a proportion of some COVID-19-related income losses. The terms of this reimbursement are quite specific:

- The scheme involves a 5% deductible rate, whereby authorities will absorb losses up to 5% of their planned (budgeted) 2020/21 sales, fees and charges income, with the Government compensating them for 75p in every pound of relevant loss thereafter. By introducing a 5% deductible Government argued that it is accounting for an acceptable level of volatility, whilst shielding authorities from the worst losses.
- Income from commercial activities is not eligible of reimbursement under the scheme
- Claims have to be certified by the Council's Chief Financial Officer and may be subject to audit.

This Council's share of income funding had not been confirmed at the time of preparing this report; the first claim for £1.086m (for eligible income losses in April to July) has been submitted.

The total COVID-19 Emergency funding allocated so far to this Council to cover expenditure incurred and lost income is therefore in the region of £2.5 million and a further £1.0 million has been claimed for income losses so far. However, as set out below, the forecast costs and loss of income forecast will potentially exceed the grants awarded.

Through the Local Government Association, Surrey Leaders, the Society of District Council Treasurers and the Surrey Treasurers' Association we have continued to make clear to the MHCLG and HM Treasury the scale of the financial impact and the case for additional funding.

While the Government published 'Our Plan to Rebuild' in May 2020 it remains uncertain as to how long the lockdown restrictions are likely to last and when the Recovery phase will end.

This means that accurate forecasting of the full financial impacts for this Council is remains challenging at this time and other updates will be provided through in-year financial monitoring and budget reports.

At the time of preparing this report, while the pandemic continues, there is also not yet confidence that that these financial impacts will not continue into 2021/22; or whether Government funding support will continue.

Other COVID-19 Funding

The Council has also received the following funding from Government:

- Council Tax Hardship funding - £0.755m
- Business Grants funding - £23.8m
- Business Grants funding – Discretionary Scheme - £1.13m
- Business rates – extended retail relief funding - £18.69m
- Business rates – nursery/local newspapers relief funding - £0.700m
- November 2020:
 - Local Restrictions Support Grants - £2.975 million (grants to businesses on the rating list)
 - Additional Restrictions Support Grants - £22.095 million (grants to other businesses)

How they are being utilised is explained in the sections on the Collection Fund and Business Grants below.

Expenditure Pressures

Since the outset of the pandemic the Finance Team has been tracking the financial impacts of the Council's COVID-19 response. New cost codes have been established to identify expenditure and an income and expenditure impacts model has been set up.

These detailed records are being maintained so that the impacts are readily identifiable to facilitate reimbursement wherever possible either from the Government or from Surrey County Council. For example, the costs incurred when providing support to residents in Category A (shielded) which is the responsibility of the County Council.

The financial impacts have been modelled based on lockdown restrictions lasting throughout 2020/21 in line with the parameters specified in the MHCLG's monthly COVID-19 financial impacts monitoring return. These assumptions are subject to regular review. The most return to MHCLG covers the period to 30 September. The figures quoted in this report for cost and income pressures are based on actual figures and full-year forecasts at 30 September.

The forecast additional expenditure for 2020/21 is summarised in the table below which follows the categories specified by MHCLG for the monthly financial data return:

Table 4.3: MHCLG EXPENDITURE CATEGORY	Full Year Forecast at 30.9.20 £M	Type of Expenditure Incurred
Housing Rough Sleepers	0.288	Temporary accommodation for Rough Sleepers and additional demand for B&B accommodation

Table 4.3: MHCLG EXPENDITURE CATEGORY	Full Year Forecast at 30.9.20 £M	Type of Expenditure Incurred
Environment & regulatory – waste Management	0.099	Garden Waste – admin costs and vehicle hire
Finance & Corporate	0.076	Stationery, marketing materials and licensing for outdoor seating
Finance & Corporate	0.001	Vehicle Hire – cemetery
Other - PPE (non-Adult Social Care) April 2020	0.055	Staff remote working – IT systems and support
Other	0.441	Staff and volunteer Training and Professional Support
Other	0.002	Revs and Bens Compliance and Checks for Business Grants
Other - shielding	0.288	Voluntary Action Reigate & Banstead - VARB and YMCA Welfare Calls over a 10-week period Shielded Food Parcels and Communication
Other - PPE (non-Adult Social Care) April 2020	0.097	Purchase of PPE for staff and volunteers
Other - excluding service areas listed	0.152	Publicity materials – e.g. social distancing banners Funding support - Voluntary Sector contributions Provisional Cost of support for Leisure Services Provider Support for Shielded Residents – including welfare calls, visits, foodbank and meals
Total Forecast Impact 2020/21	1.498	

Income Reduction Pressures

In addition to incurring additional expenditure, the Council is also impacted by a significant reduction in budgeted income streams.

Overall, COVID-19 financial impacts are forecast to be more significant for the Council's income budgets compared to the additional expenditure incurred. This is in line with other district and borough councils, which tend to rely on fees and charges income as a greater portion of their budget.

Table 4.4: MHCLG INCOME CATEGORY	Full Year Forecast at 30.9.20 £M	Type of Income Loss
Recreation & Sport	0.263	Leisure Services Provider - reduced Management Fee
	0.254	Community Centres – room hire, activities, catering
Cultural & Heritage	0.889	Harlequin – ticket sales, room bookings, event catering and concessions
Planning & Development	0.360	Planning Fees
Commercial Income losses	0.319	Commercial Rents – (including Redhill Market)
Other Sales, Fees & Charges income losses	2.213	Car Parking charges
Waste Management	0.477	Garden Waste charges
	0.251	Trade Waste charges
Other Sales, Fees, & Charges income losses	0.171	Reduction in Revenues & Benefits income from external Clients
	0.034	Private Hire licence fees
Total Forecast Impact 2020/21	4.713	

The main areas impacted include:

- Car parks usage and income from season tickets fell significantly following closure of council car parks on 30 March and the announcement that councils were required to make parking free for key workers.

Income from Pay and Display is forecast to reduce by £1.3 million compared to budget. whilst the bulk of expenditure associated with car parks, such as business rates and insurance, will still be incurred. The Council's policy with regard to residents who have paid for annual parking permits was reviewed and an extension was agreed, reducing forecast income by £200k. In addition many local businesses have applied for refunds on prepaid permits for staff.

A further impact is the reduction on forecast parking ticket revenue: the predicted loss of income until the end of March is £60k

- It is anticipated that across a range of other services including Planning, Building Control, Local Land Charges and Redhill Market income will fall significantly below budget in 2020/21 and there has been a temporary waiver of the monthly management fee received from the Leisure services provider - £263k.
- The increased risk to recovery of commercial rental income is estimated to be £200k. The most significant risk relates to Travelodge which applied for a Company Voluntary Arrangement (CVA), a legally binding agreement with the company's creditors to allow a proportion of the debts to be paid back over time,

and some to be written off, typically lasting between two and five years. The Council is in negotiations with another hotel chain to take on the lease.

- The Revenues, Benefits and Fraud team experienced a reduction in recovery costs of £127k while magistrates courts were closed. Their income from contracted work for other councils has also reduced due to decisions by client authorities to pause recovery action.
- Pausing the garden waste collection service from March to June 2020 has resulted in a £477k reduction in income.

It is important to note that the Council's income budgets are not all based on an assumption of a 100% collection rate. Where appropriate, a level of arrears is assumed and a provision is made for bad debts. It is currently too soon to forecast whether the existing bad debt provisions will be sufficient to address all non-recovery as a consequence of COVID-19. An increase in the provision would require a call on revenue Reserves. This will be assessed as part of the year-end financial closedown.

Capital Programme Impacts

The Capital Programme 2020/21 to 2024/25 was approved in February 2020. No material changes to forecast expenditure or capital receipts have been identified to date. The main impacts are likely to be in terms of the timing of expenditure and income as some delays (slippage) may arise. The latest forecasts will be reported as part of quarterly capital programme monitoring and where necessary reports will be presented on specific schemes if any significant impacts are identified.

COVID-19 Pandemic: Summary Financial Implications

Overall the pandemic represents a material financial risk to the Council's budget and financial position. The information presented in this report represents the forecast at November 2020 based on the impacts during the first six months of 2020/21 and is likely to increase as more information becomes available. The financial impacts of a deficit on the Collection Fund (further details below) will add to these pressures.

The current estimate of the net adverse financial impact in 2020/21 is up to £1.0m after taking account of COVID-19 grant funding.

Table 4.5: FORECAST COVID-19 FINANCIAL IMPACTS 2020/21	Full Year Forecast at 30.9.20 £M
Additional Expenditure	1.498
Income Losses	4.747
Government Grants	(2.546)
Government COVID-19 Income Reimbursement:	
<ul style="list-style-type: none"> • April – July Claim • August – November claim (est.) • December to March claim (est.) 	(1.086) (1.000) (1.000)

Table 4.5: FORECAST COVID-19 FINANCIAL IMPACTS 2020/21	Full Year Forecast at 30.9.20 £M
Net Unfunded Estimated Cost of COVID19 in 2020/21	£0.613m

In principle this can be funded through the Headroom Contingency sum that is included in the 2020/21 budget and other forecast budget underspends during the year, however that would leave no remaining capacity to address other in-year budget risks without having to call on the Council's Reserves.

The Net Revenue Budget requirement for 2020/21 is £18.26m. As a percentage of the net budget requirement therefore, the potential combined net loss of income and additional costs could be more than 5.4%.

An alternative measure (to allow comparison with other councils) is to calculate the impacts in relation to the Council's 'Core Spending Power', the Government's standard measure which takes into account the authority's annual local government settlement funding assessment, forecast council tax income and its new homes bonus allocation. This Council's core spending power for 2020/21 is £18.43m therefore the impact of the COVID-19 pandemic remains in the region of 5.4% of its Core Spending Power.

Options for Mitigation of the Financial Impacts

The main options for mitigating the financial impacts of COVID-19 include:

- Continue to lobby Central Government for additional funding in recognition of the impacts on district Councils and their ability to deliver services. The Council is actively working with other councils and networks on this.
- Look to make offsetting savings and efficiencies where possible before calling on the unallocated balance of the Headroom Contingency Budget of £1.0m that is built into the 2020/21 Revenue Budget. This in turn would require a call on the General Fund Balance to release the resources to do so.
- Make use of Earmarked Revenue Reserves to close the gap. This has implications for the projects and services and other potential risks that were intended to be funded from these resources.
- Potentially apply capitalisation to some of the costs and financial impacts to enable the Council to borrow and fund them on a long-term basis. Local authorities are lobbying for greater flexibility from Government in this area. This may include using capitalisation flexibilities to cover costs from forecast future capital receipts and this may include making targeted asset sales to support this.

Further updates on the forecast costs and income and how they might be funded will be included in the quarterly budget monitoring reports and the final 2020/21 budget report in January.

Longer-Term Outlook

The preceding sections have focused on the short-term financial impacts for the Council in 2020/21. Of potentially greater concern is the impact of the projected economic downturn on public expenditure and local government finances and what that means for public sector funding over the longer term.

UK public sector net is estimated to have been £36.1 billion in September 2020, £28.4 billion more than in September 2019 and the third-highest borrowing in any month since records began in 1993.

Once the immediate crisis is over and lockdowns have ended, the IMF have indicated that governments will have to raise taxes and put the brakes on public spending to bring their books closer to balance.

This need to bring down public debt is going to come into play alongside an economic contraction unprecedented in modern times. This will not only place additional pressure on Government funding but is also likely to have considerable impact on the Council's ability to raise additional income.

In recent years, local government has been increasingly relying on business rates as a source of income, which will in future years be less buoyant. In addition to the medium-term impact of the economic effects of COVID-19, in January 2021 the UK's transition period with the EU comes to an end, and it is still not clear what the nature of the final exit agreement will be and what impact that will have on the economy.

In the labour market it is reported that 9.6m people were furloughed and classed as economically inactive at a cost of £41.4 billion. It is uncertain how the long-term effects on unemployment rates will work through the economy. At August 2020 The UK unemployment rate was estimated at 4.5%, 0.6 percentage points higher than a year earlier and 0.4 percentage points higher than the previous quarter.

The number unemployed was expected to increase as furlough payments from Government reduced from 80% to 70% in September and to 60% in October. The scheme closed to all new entrants from 10 June. Any increase in unemployment and / or furloughing of employees will also affect the sums the Council has to pay in Council Tax support, the amount collected in Council Tax and may have further knock-on effects to the business rates base and income from all sources – including car parking, planning and commercial rents.

Collection Fund Impacts

The in-year cash flow impact of business rate and council tax income shortfalls will be accounted for through the Collection Fund and eventually impact on the budgets of all precepting authorities (the County Council, the Police & Crime Commissioner and the Government), as well as this Council.

The latest forecast for Collection Fund impacts were set out in the September financial return to MHCLG

Table 4.6: FORECAST COLLECTION FUND IMPACTS	Forecast Total Impact 2020/21
MHCLG Category:	£m
Business Rates losses (after reliefs)	3.450
Council Tax receipt losses	4.200
Total Collection Fund losses	7.650

The precepting authorities have a legal right to expect the billing authority to pay over their full precept when it becomes due, regardless of actual collection rate performance or take-up of Council tax support.

In response to COVID-19 the Government has rescheduled the dates when its 2020/21 share of business rates income from the Collection Fund is payable to help ease the initial cashflow impacts on billing authorities. This means that we can defer the payments which were due to have been paid over in April, May and June by six months.

Council Tax Collection

The two main risks to council tax income are:

- An increase in households claiming council tax support

At the time of preparing this report the number of working age support claimants has increased by 400 claims (11.22%) to 3,964. Pensioner claimants are broadly the same

- If the collection rate falls below 99% due to non-payment.

At 31 October the impacts on recovery were as follows:

- 2020/21 debt: at end of October 2020 was 65.45%, down by 1.37% or £1.7m.

The full picture will take some time to confirm however it is forecast that. Despite current strong performance, the council tax Collection Fund will be in a deficit position by year-end 2020/21 as households and businesses find it increasingly difficult to pay as the recession deepens and Government support reduces. This deficit will have to be recovered from the precepting authorities. On 2 July the Government announced that 2020/21 Collection Fund losses may be recovered over three years rather than one; the details of how this will be implemented have recently been confirmed and are being considered.

A further risk to this Council, as the billing authority, is the Collection Fund cash flow risk; if council tax support takes up increases and collection rates fall, then the sums due to be paid to the Government and precepting authorities would be higher than the cash collected. The Government has provided some support by rescheduling the dates when its 2020/21 share of business rates income from the Collection Fund is

payable to help ease the initial cashflow impacts on billing authorities however the precepting authorities have confirmed that they expect sums due (based on the original forecasts) to be paid on time and in full.

Local Council Tax Support Scheme (LCTS)

The Government has allocated a hardship fund for those households that are struggling financially as a result of COVID-19 and this Council has been allocated additional funding of £0.754m. Those households that are already on LCTS but still pay a contribution towards their Council Tax are being credited with an additional £150 of support. These LCTS credits were processed in April and revised bills were sent to individual households reflecting the lower amounts due.

In addition, Government Hardship Funding of £754,507 has also been provided to make short term discretionary payments to those that are affected by the LCTS and are struggling financially. This funding is being distributed on a case by case basis as people contact the Council to discuss their situation. At 31 October £415,252 had been allocated to 3,177 households.

Business Rates

Business rates are collected by this council with the majority of income received being paid over to the Government along with a share to the County Council.

In May 2020 the Government extended 100% rate relief to all businesses in the leisure and hospitality sector, regardless of size. This has reduced the sums to be collected during 2020/21 from £54m to £35m.

- The majority of businesses have now received the 100% Expanded Retail, for retail, hospitality and leisure, which totals £18,693,015 (1,010 businesses) .
- Nurseries have now received relief which totals £700,624 (25 nurseries).

The details on how local authorities are to be compensated for this income reduction are still to be confirmed by Government, but at this stage it is expected that the Government will reimburse the 19.4 million reduction in full.

It is currently unclear how businesses will clear any arrears of business rates due, but it is assumed that cash collected will fall and arrears will increase. An assessment will therefore need to be made about the provision for bad debt which may arise in 2020/21 and beyond and any changes to the appeals provision going back to 2010 in some cases. This will influence the level of income to the General Fund in 2020/21 to 2022/23.

To help mitigate this type of risk the council has already established a 'Government Funding Reduction Risks' reserve which currently has a balance of £3.28m. In principle this Reserve is available to help offset fluctuations to income paid from the Collection Fund to the General Fund as well as the impacts of other funding changes including 'Negative RSG', the Business Rates reset and the planned Fair Funding Review. However, the scale of COVID-19 risks was not taken into account when the Reserve was created and it will be necessary to review its adequacy as part of the next Medium-Term Financial Plan review.

Unlike Council Tax where all income losses relating to the borough's income share fall on this council, as part of the local government funding system, the Government sets a 'floor' below which an authority's business rates income will not drop as a result of a national 'safety net' mechanism.

Business Rates Recovery

At 30 October the impacts on recovery were as follows:

- 2020/21 debt: at the end of October 2020 collection performance was 68.7%, up by 0.85% compared to October 2019.

It is difficult to assess the underlying position due to the value of COVID-19 reliefs that have been awarded.

Cash Management

Unlike some authorities which are facing a severe cashflow crisis, this Council remains in a good position to fund service provision without resorting to short-term borrowing.

Business Support Grants

In April 2020 the Government paid £23.8 million to the Council to administer the business support grant scheme. When the scheme ended in September 2020 £22.54 million had been paid to 1,714 local businesses. This first round of grants was only available to companies on the rating list at mid-March 2020.

The Government subsequently announced an extension to the scheme for those businesses who may pay rent to a landlord, which includes rent and a contribution to rates. For that reason, they would not appear on the rating list. These businesses include:

- Businesses in shared office premises
- Permanent market traders with fixed asset costs
- Charities in small properties
- Bed and breakfast businesses that pay council tax

Funding of £1.156 million was made available for these grants. When the scheme ended in September 2020 £1.130 million had been paid to 161 businesses.

In November 2020 further funding was provided for grants to be distributed to businesses affected by the November lockdown:

- Local Restrictions Support Grants - £2.975 million (grants to businesses on the rating list); and
- Additional Restrictions Support Grants - £22.095 million (grants to other businesses).

Other COVID-19 Financial Implications

On 28 April the Government announced that implementation of the Fair Funding Review and the move to 75% Business Rates Retention planned for 2021/22 was deferred for at least a year. Both changes had been identified in the Council's MTFP as potentially adding to the authority's budget pressures in future years.

The current assumption is that this means the loss of Negative Revenue Support Grant (is also being pushed back a year; this will probably only be confirmed when the outcome of the Spending Review²⁰ is announced in the late Autumn.