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Item No. 6

EXECUTIVE **23 NOVEMBER 2020**

SUBJECT:	**SETTING THE 2020/21 BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY 2021/22 – 2025/26**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**JACLYN GIBSON, CHIEF FINANCE OFFICER**

1. Purpose of Report

1.1 This report updates the Executive on the latest Medium Term Financial Strategy (MTFS) position for the Council, including; the challenges in preparing for the 2021/22 and future years budget, setting out the parameters within which the Council will prepare these budgets, and confirms the Council's approach to development of the budget and MTFS.

1.2 Included in the report is an update on the current economic position and developments in national policy, specifically the profound impact of the Covid19 pandemic, which gives rise to implications for local government funding. This, along with the implications of the pandemic on demand for the Council's services, increased cost pressures and reductions in income, will inform the development of the MTFS.

2. Executive Summary

2.1 The Council's Vision 2025 and five strategic priorities drive the medium-term financial planning process, with changes in resource allocation determined in accordance with policies and priorities. The MTFS provides the framework for the development of annual budgets in line with the aims of the Council's strategy and priorities.

2.2 In March 2020, Council agreed the budget for 2020/21 and MTFS 2020-2025, which recognised that there was a funding gap forecast in 2020/21 and across the remaining years of the MTFS. The MTFS is refreshed annually and rolled forward one year.

2.3 The refreshed MTFS will include financial projections for the five-year financial planning period through to 2025/26. It will set out the financial parameters within which the Council is required to work and the recommended approach to addressing the financial challenges the Council faces to develop a balanced, sustainable budget and set a Council Tax for 2021/22.

2.4 The refresh of MTFS needs to be seen in the context of significant inherent uncertainty for the Council against the backdrop of the long term, and in many cases unknown impact of the Covid19 pandemic on income and expenditure assumptions, and a lack of any form of clarity on the funding settlement from government.

2.5 The Covid19 pandemic is having immediate effects on the Council's budgets as a result of increases in spending on local services and plummeting income from sales, fees and charges and commercial activities. However, the crisis will cast a longer shadow on the Council's finances. First, reductions in council tax and business rates revenues collected this year will feed through to budgets over the next three years. Second, some Covid19 related spending pressures and reductions in revenues are likely to persist, and indeed could grow in a few cases.

2.6 It is also confirmed that the UK has fallen into recession, the impact of which is likely to be exacerbated as the furlough scheme and eviction protections are unwound by the Government. This creates an on-going uncertainty over the future levels of government funding for local authorities after a long period of cuts and changes to funding. In addition, the lack of clarity about post Brexit arrangements creates further uncertainty. The implications of the Government's future spending plans with regard to local government, and other areas of the public sector from 2021/22 onwards, will be heavily influenced by the Government's response to the significant increase in borrowing that has been undertaken in response to the Covid19 pandemic. Plans to address the increasing Government deficit, and the implications of this for local government, will be outlined in the Spending Review alongside the Chancellor's Autumn Budget speech.

2.7 Against this backdrop of significant uncertainty this report sets out the financial planning assumptions that will form the basis of the MTFS refresh. This medium-term financial planning is critical to ensuring that the Council has an understanding of the likely level of available resources and the potential costs of delivering services, identifying budget shortfalls at the earliest opportunity. Financial planning facilitates strategic choices around service delivery, efficiency and service reductions.

2.8 Based on the current financial planning assumptions it is estimated that the Council will need to make reductions in the net cost base of the General Fund of c£2.75m by 2022/23, an increase to the existing target of £1.250m. This is a significant target for the Council to achieve, particularly in light of the annual revenue reductions of £9m that have been delivered over the past decade. The Council will ultimately have to make some difficult decisions over the next 12 months as it prioritises which services it can afford to continue to deliver.

3. Background

Economic Climate

3.1 Covid19 has had an unprecedented impact on the economy locally, nationally and internationally. In August it was confirmed that the UK economy had entered an official recession for the first time in 11 years. GDP fell by 2.2% in the first quarter of 2020, as the economy began to feel the effects of lockdown and then suffered its biggest slump on record during the second quarter with GDP shrinking 20.4%, as the lockdown brought many areas of the economy to a complete standstill. As lockdown restrictions eased from June onwards, the official technical recession ended with very strong growth in June and July. But, the economy's bounce back from the pandemic shutdowns slowed in August with a lower than expected figure for growth, raising fears about the recovery petering as the factors that supported the pick-up begin to fade, this will now be exacerbated by the latest national lockdown.

3.2 In usual circumstances if the economy is not growing strongly enough, the Bank of England would consider lowering interest rates to encourage firms to invest and savers to spend. However, interest rates are already close to zero after two emergency rate cuts in March, firstly from 0.75% to 0.25%, followed swiftly by a further cut to 0.10%, the lowest rate in the Bank's 325-year history. Discussions have taken place around the use of negative interest rates to further stimulate the economy with the Bank recently writing to all UK banks asking them how ready they are if interest rates were cut to zero or turned negative. If interest rates are negative the Bank of England charges for any deposits it holds on behalf of the banks, encouraging banks to lend the money to business rather than deposit it thus stimulating growth. The Bank has also signalled that it had no intention of raising interest rates until "significant progress" had been made in getting inflation back to the Bank's 2% target. As at August, the rate of CPI is currently at a low of 0.5%, having increased from a 5-year low of 0.2% in July. The Bank said it did not expect inflation to return to target levels for another two years.

3.3 Despite the first bounce in the economy occurring relatively rapidly in quarter 3, it is clear that a full recovery is going to take much longer and will no doubt now be impacted by the latest national lockdown. Latest predictions from analysts are that the coming months were likely to see growth slackening further because of new Covid19 restrictions, more consumer caution, the end of the furlough and concern over a no-deal Brexit. It is inevitable that the growth experienced in the third quarter will go into reverse during the last three months of 2020 with forecasters predicting that it may take to between 2021 and 2024 for the economy to return to pre-crisis levels. Once the recovery has been firmly established, addressing the UK's structural deficit and putting the public debt-to-GDP ratio on a downward path will be critical.

Public Sector and Local Government

3.4 There has been great uncertainty in local government finance for a number of years due to the delay in funding reviews, as a result of Brexit, and after a long period of funding reductions. It had been hoped that 2020/21 would bring some much-needed clarity in terms of Brexit and future local government funding. However, this has not been the case and the financial impacts of Covid19 pandemic, and the resulting UK recession further intensifies and extends this volatile and challenging time for local government finance.

3.5 In terms of key funding reforms that are pending for local government finance these include:

- The Spending Review – originally intended in 2019
- The Fair Funding Review – originally intended to be applied from 2020/21
- The Business Rates System Reset and introduction of 75% Rates Retention - originally intended to be applied from 2020/21

3.6 <u>Spending Review</u>

The government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020/21 to 2022/23. However, principally due to Brexit, the government instead announced a one-year Spending Round covering the financial year 2020/21, and that this would be followed in 2020 by a full Spending Review, reviewing public spending as a whole and setting multi-year budgets.

3.7 In March the Spending Review was announced with an intention to conclude in July 2020, and to cover a 3-year period to 2023-24 for revenue funding and 2024-25 for capital. The Review was intended to set the overall budget for government departments, including how much in total is available for local government. Due to unprecedented uncertainty, the Chancellor did not fix a set spending envelope, but confirmed that departmental spending would rise by an average of 2.8% (including commitments already made for Health and Education). Realistically though, a real-terms freeze was expected for the rest of public expenditure.

3.8 However, in April the Government announced that, due to the pandemic, the Spending Review publication would be delayed until the late summer/autumn. The CSR was formally launched on 21st July, with a deadline for submissions of 24th September. Since then it has now been announced that a one-year Spending Review would now go ahead on 25th November 2020. This review will be narrowed in scope to cover one year only, setting departments' resource and capital budgets for 2021/22. The NHS, schools, and 'priority infrastructure projects' (e.g. HS2 and hospital building) will still be fully funded for multi-year resource settlements. The announcement notes a commitment in July to 'exercise restraint in future public sector pay awards' and identifies three areas of focus for the review:

- Providing departments with the certainty they need to tackle Covid-19 and deliver our Plan for Jobs to support employment;
- Giving our vital public services enhanced support to continue to fight against the virus alongside delivering first class frontline services; and
- Investing in infrastructure to deliver our ambitious plans to unite and level up the country, drive our economic recovery and Build Back Better.

3.9 Although only a one-year spending settlement it is still likely to be heavily influenced, and so too will the Comprehensive Spending Review when it does take place, by both Brexit and the significant impact that Covd19 has had on public finances. Public sector borrowing is at a level not experienced since the 1950's, following the end of WWII, and that the Chancellor faces the unpalatable choice of dealing with the deficit directly through a new round of austerity or through tax rises in order to 'balance the books'. However, neither of these approaches may be adopted in the short term due to the historically low cost of government debt, in a world of low interest rates public debt has a limited fiscal cost. This presents the Chancellor with the opportunity to avoid, for now, the need for any fiscal tightening and to maintain a higher level of public expenditure, supporting the economy, whilst interest rates remain low. Whichever approach is adopted by the Chancellor there will be short term implications for the levels of resources made available to departments and ultimately to local government through the Spending Review, it will be a case of waiting to see if these are budget reductions or whether existing expenditure levels are maintained.

3.10 Fair Funding Review

Whilst the Comprehensive Spending Review will set the overall quantum for local government funding it will be the Fair Funding Review that creates a new formula for the distribution of this across the local authorities by establishing new baselines at the start of the 75% Business Rates Retention scheme. The Review was originally expected to be completed last year alongside the Comprehensive Spending Review, to revise the formula for calculating how government funding is split between local authorities from 2020/21 onwards. It is now expected to be completed next year and be used in calculating 2022/23 baselines.

3.11 Although previous technical consultations had been published, which indicated a shift in resources from district councils towards statutory social services a county and unitary level, there had been no consultation on the proposed new formula pre-Covid19. However, in releasing funding (the 3rd tranche) to support local authorities with Covid19 expenditure pressures the MHCLG decided to use a new formula based on elements of the Fair Funding Review, perhaps indicating the possible outcomes of the review.

3.12 Business Rates Reform

Business Rate Reform was also planned to be introduced alongside both of the above reviews; this was expected to simplify some technical aspects of business rate administration whilst also giving more certainty about the amount of funding local government would receive including an increased level of retention, originally 100% locally retained and more recently 75%. As with the delay in the Fair Funding Review this is now expected to be implemented from 2022/23.

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3.13 Local Government Financial Resilience

The last decade has seen significant changes to local government finances, with many local authorities now in a precarious financial position. After a decade of reductions in funding and rising demand, local authorities now face the impact of the Covid19 pandemic on their residents, staff, services and budgets.

3.14 Prior to Covid19 local authorities had already dealt with a reduction to core funding from the Government of £15 billion over the preceding decade. Meaning that councils lost 60p out of every £1 the Government had provided to spend on local services. In addition, councils were facing a funding gap of £6.5 billion by 2024/25, even under assumptions of sustained council tax increases of 2 per cent each year, fees and charges rising and continuing business rates growth. Now, councils are also dealing with the sharp end of the immediate financial impact caused by the extra costs, loss of income and cash flow pressures arising from COVID-19. Savings plans and transformation efforts have been put on hold, further exacerbating this unprecedented impact.

3.15 The Institute for Fiscal Studies (IFS) has independently reviewed the future funding outlook for councils prior to the Spending Review, including ‘business as usual’ pressures, cost impacts of the pandemic that might be permanent and the potential long-term impact of the economic changes on local income, such as local taxes, sales, fees and charges. The IFS's upper estimates of all the pressures councils were facing as well as challenges of recovering self-raised income suggest that the funding gap could end up being as high as £9.8 billion by 2023/24. These pre-existing pressures and new legacy impacts of the pandemic bring significant risks to councils' financial stability which needs to be addressed through additional national funding. Ultimately without further, substantial, financial support the financial resilience of councils will continue to be undermined with the likelihood of an onset of Section 114 notices being issued, which in the midst of a 'crisis' would be disastrous.

3.16 In October 2020 the Housing, Communities and Local Government Committee launched a new inquiry into The Spending Review and Local Government Finance. This 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 will also examine the impact of single year settlements on the ability of councils to plan and deliver services in the long-term.

3.17 The Council therefore finds itself refreshing the MTFS in unprecedented times against the backdrop of the long term, and in many cases unknown impact of the Covid19 pandemic and a lack of any form of clarity on the funding settlement from government.

4. Integrating Strategic, Service and Financial Planning

4.1 The Council's Vision 2025 and five strategic priorities drive the medium-term financial planning process, with changes in resource allocation determined in accordance with policies and priorities. The MTFS provides the framework for the development of annual budgets in line with the aims of the Council's Vision and priorities.

4.2 In developing the MTFS the Council has to ensure that the correct balance is struck between ensuring that it directs resources towards its strategic priorities and ensuring that it maintains a sustainable financial position in the medium to longer term, this is ever more difficult when facing unprecedented financial pressures. During the development of the MTFS striking this balance manifests itself in two main ways; it guides decision making in terms of proposals presented in order to achieve any savings targets; and it determines the allocation of resources towards strategic priority areas both in operational service delivery and project implementation.

4.3 The development of Vision 2025, prior to the Covid pandemic, included a mix of exciting, high profile projects that will shape the future of the city, with a range of other projects in keeping with the financial and officer capacity available at that time. The annual delivery plans that support the overall Vision are currently in the process of being refreshed to reflect the impact the pandemic has had on the Council, the City and its residents and business, to ensure that the correct priority areas are focussed upon. A key element of this will be officer resource to support the delivery of an increased savings programme, whilst also ensuring that resource is available to maximise external funding opportunities to bring forward new development to support the City and its economy.

5. Development of the Budget and MTFS

5.1 The Covid19 pandemic has fundamentally affected the way in which the Council works. Elements of this change which relate directly to the emergency response will, in time, revert largely back to normal. However, an event of this magnitude undoubtedly means the Council will need to consider closely how its business and services should operate in the future.

5.2 As a result of the pandemic the Council is facing an unprecedented financial detriment. The measures introduced nationally to combat the virus have had direct and indirect negative impacts on the Council's finances which will need to be managed over future years. There remains potential longstanding impacts on the Council's income sources if behaviour, working practices and spending patterns in the city continue to change.

5.3 The financial implications are challenging to estimate with certainty and the Council finds itself refreshing the MTFS in unprecedented times. There continues to be a number of unknowns, from how long, and to what extent restrictions will continue, to what measures will remain to combat the spread of the virus, to what recovery will look like, such as how our customers/residents/businesses will behave over time.

5.4 The impact of Covid19 has had the effect of not just simply increasing the known risks associated with the level of government funding available from 2021/22 onwards but it also effects demand for services, increases business rate appeals, increases cost pressures, detrimentally impacts on Council Tax and Business Rate bases and reduces income receivable from sales, fees and charges. A summary of high-level financial pressures that are set to arise in future years include:

- **Ongoing increased service demand –** it is likely that there will be a number of service demands and cost pressures that will arise as a result of the economic impact that COVID19 has had, based on increased experience following the last recession, there is likely to be:

    - An increase in homelessness cases and demands on the Housing Solutions Team in both the short and long term.
    - An increase in demand for Council Housing
    - A longer term impact on the Council's pension fund contributions.
    - An increase in demands on the Customer Services Team and Welfare Advice Team as more customers rely on the Council's Services in the longer term.
    - An increase in arrears and a requirement to set aside further contributions to bad debt provisions.

- **Ongoing reductions in discretionary income levels** – although many of the discretionary income areas will bounce back in the medium term there are some income areas that are unlikely to ever return to their pre-COVID levels. This will be as a result in a change in people's habits and preferences as well as the way businesses operate. The largest of these reductions will be in carparking income which is set to drop permanently.

- **Impacts on local taxation** - in the current financial year there will be no direct budgetary implications of any reductions in Council Tax or Business Rates bases due to the operation of the Collection Fund with pre-set precepts which must be distributed to the General Fund and major preceptors (LCC, PCC and Government).

  Beyond 2020/21 there will be a budgetary implication for both Council Tax and Business Rates. It is likely that a significant deficit will be declared in January 2021, ordinarily these deficits would be required to be charged to the General Fund in the 2021/22, however MHCLG have proposed these be spread over a three year period. The level of this deficit will depend on; how much the underlying NNDR base reduces during this year due to, businesses ceasing to trade; the level of business rate appeals; and the in-year collection rate; as well as how much the LCTS scheme increases in claimant numbers and the in-year collection rate for Council Tax. In addition to the distribution of the deficit there is also likely to be an ongoing reduction in the bases which will reduce resources from 2021/22 onwards.

- **Future financial settlement and funding mechanisms -** as set out in section 3 above there is a significant amount of uncertainty around future reforms of local government funding as well as the impact of the current economic outlook on future public expenditure levels and ultimately local government finance settlements.

5.5 Consequently there is a requirement to refresh the MTFS to take account of the impact of all of these issues on the overall level of resources available to support the Council's budget, and to roll the strategy on for a further year so that it now incorporates the five years to 2025/26.

5.6 Against this backdrop of uncertainty, the Council continues with the development of the budget and MTFS, including the preparation of indicative base budgets by the Directorates and Financial Services Team. When reviewing budgets officers will;

- prepare these on an incremental basis and will update in accordance with the assumptions detailed in Appendix A;
- adjust for the impacts of the pandemic on e.g. reduced sales, fees and charges income levels, but will also consider income strategies to reduce the estimated loss;
- highlight cost and demand pressures and potential mitigating actions; including where possible managing pressures arising in service areas through corresponding reductions in base budgets.

5.7 General Fund

The intention of the above is to reduce as far as possible the pressures within the MTFS. However, given the scale of pressures the Council is facing it is already clear that the existing level of savings in the MTFS will need to be increased. The table below is based on estimates and assumptions, as set out in Appendix A, and shows the indicative impact of current thinking on the level of required savings in the General Fund.

	2021/22 £'000	2022/23 £'000	2023/23 £'000	2024/25 £'000
Budget Gap as per MTFS 2020-25	**850**	**1,250**	**1,250**	**1,250**
Business Rate Yield	(329)	1,000	1,092	601
Council Tax Yield	133	39	20	6
Council Tax 2020/21 forecast deficit	65	65	65	0
Business Rates 2020/21 forecast deficit	Resourced through volatility reserve			
Pay Awards	38	(39)	(40)	(41)
Sales, Fees & Charges reductions	1,700	830	670	690
Treasury Management (net borrowing/investment)	(22)	86	86	78
Commercial income	250	0	0	0
Total Changes in Assumptions	**1,835**	**1,981**	**1,893**	**1,334**
Estimated Budget Gap	**2,685**	**3,231**	**3,143**	**2,584**
Potential Savings Programme	**(2,000)**	**(2,500)**	**(2,750)**	**(2,750)**
Estimated Remaining Budget Gap	**685**	**731**	**393**	**(166)**

Although the above table highlights a potential budget shortfall of £2.685m in 2021/22 it would be impossible to deliver this all through a savings programme in a short period of time. It will therefore be inevitable that the careful application of earmarked reserves and general balances will be required in the short term in order to maintain a balanced budget position.

5.8 It must be stressed though that the revised budget gap figure shown above is based on a number of assumptions which are subject to constant change. It is incredibly difficult to predict the current second wave of the pandemic, the implications of changes once the furlough scheme ends, how the national and local economies will recover after Covid19 and what will happen following Brexit. This uncertainty runs alongside service demand pressures such as homelessness, for which no additional budget provision as yet been provided for. At this stage the revised budget is based on the most appropriate assumptions but these will be closely monitored and updated as necessary to ensure that the draft budget and MTFS presented in January reflects the most accurate and up to date impact of Covid19 and other pressures.

5.9 Once again, faced with a significant budget gap to address, the Council will need to continue to focus on measures to drive down its net cost base to ensure it maintains a sound and sustainable financial position. Although this report has highlighted all of the uncertainties in terms of financial planning it would be unwise not to commence the development of a programme of budget savings.

5.10 The key mechanism for delivering the required budget savings is through the Towards Financial Sustainability (TFS) Programme, which seeks to bring net service costs in line with available funding. Over the last decade, through its TFS Programme and precursor programmes, the Council has delivered annual savings in excess of £9m, a significant amount in comparison to its overall net budget. This level of savings has been achieved by re-investing in more efficient ways of working; adopting a more commercial approach; and prioritising resources for economic development measures, whilst making careful use of reserves to meet funding gaps. However; it is becoming much more difficult to find additional efficiency savings and some being considered need to be delivered as part of longer-term transformational changes to the organisation, the Council is taking a more prudent approach to commercial ventures; and it cannot deliver the benefits from economic development measures in the short term. It is left with little option but to revert to a more traditional cost cutting measures approach in order to deliver the scale of reductions required within the short lead in time. Work has now commenced on developing a new programme of proposals, every possible effort is being made to find the least painful solutions and minimise the impact on jobs and services, but it will simply not be possible to achieve the level of savings required through the more forward thinking of ambitious approaches previously adopted. Individual, specific proposals will be presented to the Executive in due course for consideration.

5.11 Housing Revenue Account

A key element of the HRA self-financing regime is the Council's 30-year Business Plan. The Council's latest Housing Revenue Account Business Plan, 2016-2046, was approved in February 2016 following a fundamental review of resources, investment requirements and priorities. The current Business Plan was scheduled for review during 2020, following completion of refreshed stock condition surveys, agreement of a Lincoln housing specification, refresh of the Lincoln standard to reflect low carbon/climate change and to ensure the priority schemes emerging from Vision 2025 were fully reflected. However due to the impact of Covid19 on officer resources this refresh has now been delayed until 2021.

5.12 The revised MTFS will continue to be based on the approved Business Plan, updated for revised financial assumptions (as outlined in Appendix A), any government policy changes, updated development and investment profiles and other emerging service factors. The main changes to the assumptions for HRA, at this point in time, which will have a financial impact are set out below, with further details provided in Appendix A:

Figures in ( ) equate to a surplus	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Pay Awards	16	(16)	(17)	(17)
Treasury Management income	19	34	50	60
Total changes in assumptions	**35**	**18**	**23**	**33**

Whilst the table above does not identify, at this stage, significant pressures for the HRA the critical element of the budget will be rental income from dwellings. Work on revising this budget is currently underway, reflecting future voids levels, collection rates and impact of the delivery of new homes.

5.13 Investment Programmes and Capital Strategy

The development of the General Investment Programme (GIP) for 2021-26 will focus on delivery of schemes in Vision 2025 and investment in existing assets to either maintain service delivery or existing income streams. Due to a lack of available capital receipts and the lack of revenue resources to fund prudential borrowing it is essential that other sources of funding such as grant allocations and partner contributions continue to be sought. The Council has been successful in 2020/21 in entering into a £1.6m contact with English Heritage for the High Street Heritage Action Zone, securing £1m though the Accelerated Towns Fund for the Cornhill redevelopment and £0.175m from the National Lottery Heritage Fund for Re-imaging Greyfriars. Lincoln's Town Investment Plan, if approved, will have significant implications for the GIP, with the potential to secure £24.75m of funding to support proposals to deliver long-economic growth in the City, of which £7.22m would be delivered directly by the Council. The use of prudential borrowing will only be considered for schemes that generate a revenue return sufficient to cover the cost of borrowing.

5.14 The development of the Housing Investment Programme (HIP) for 2021-26 will be in line with the current HRA Business Plan as per paragraph 5.11 above. In terms of housing strategy, the focus continues to be on maximising the use of 1-4-1 retained right to buy receipts, assessing the use of prudential borrowing and seeking government grant funding for new build schemes or purchase & repair schemes that generate a rental stream. In relation to housing investment the HIP will continue to focus on the allocation of resources to the key elements of decent homes and supporting the Lincoln Standard.

5.15 In addition, across both the GIP and HIP, the MTFS will also reflect the revised delivery timescales of existing schemes that have been impacted due to Covid19, due to work being halted in early 2020/21 as sites were closed down, as external contractors were unavailable and internal staff resources were redeployed.

5.16 The Capital Strategy, which summarises the Investment Programmes as well as outlining how the Council deploys and subsequently manages its capital resources, will be updated to reflect a change in approach to commercial property investment. This change in approach arises from both the Council's appetite for investment as well as changes in regulation and frameworks surrounding investments and borrowing.

5.17 The culmination of the above processes will result in a set of budget proposals, including a revised savings target that will deliver a balanced budget in line with the Council's strategic priority areas. This will then be subject to public consultation and Member engagement.

Consultation and Engagement

5.18 The Council is under a duty to annually consult externally as part of its council tax setting process. Therefore, consultation will be undertaken in January-February 2021 but will be primarily based on an online survey, the key purpose of which will be to;

1. Highlight the proposed budget and Council Tax for 2021/22, seeking views on the proposed increase.

2. Outline the scale of significant financial challenges facing the Council.

5.19 In addition to the public consultation the Council will also consult directly with the business community, specific plans will be developed prior to January.

5.20 Following the success in recent years of the all Member workshops and Budget Scrutiny process a similar process, albeit a virtual one, will be followed in early 2021 to ensure that all Members have the opportunity to consider and fully understand the proposed budget, MTFS and council tax recommendations and that a robust scrutiny of the proposals is undertaken.

5.21 A financial planning timetable to deliver a balanced and affordable five-year revenue budget strategy and capital programme, in line with Vision 2025, is attached at Appendix B.

6. Strategic Priorities

6.1 The Medium-Term Financial Strategy seeks to deliver the key priorities of the Council within the available level of resource, both revenue and capital.

7. Organisational Impacts

7.1 Finance

The financial implications are as set out in the report.

7.2 Legal Implications including Procurement Rules

Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed requirements of that section. This requires consideration of the authority's estimated revenue expenditure for the year in order to perform it's functions, allowances for contingencies in accordance with proper practices, financial reserves and amounts required to be transferred from the General Fund to the Collection Fund.

These proposals will eventually be referred to Council so that it can approve the budget and set the Council Tax, which it is required under statute to do so for 2021/22 by 11th March 2020.

7.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

This report provides a summary of the financial planning activities across the Council. As a consequence of the development of the MTFS and budget for 2021/22 there may be an impact on certain council services which will be subject to review through the Towards Financial Sustainability Programme. Where individual projects or reviews are being developed, specific equalities implications will be assessed and relevant impact assessments and/or statutory consultation with service users will be carried out accordingly. As the overarching strategic document, a separate equality impact assessment will not be undertaken for the MTFS 2021-2026.

7.4 Human Resources

There are staffing implications associated with the report, especially in relation to the Financial Services Team, where staff will be significantly involved in the preparation of the budgets and MTFS. This resource has been provided for within the Service Plan of the team.

Specific staffing implications may arise where certain Council services are subject to review through the Towards Financial Sustainability Programme. In such cases the Council's Management of Change Policy will be adhered to.

8. Risk Implications

8.1 There are significant, unprecedented risks to the Council's budget strategy, particularly in the short-term as a result of;

- The Covid19 pandemic is the single largest risk at this time particularly in relation to local income streams, whilst an estimate of future levels can be made based on a number of assumptions, these are subject to an unprecedented level of uncertainty and volatility;

- While the one-year Spending Round has been announced, as yet there is no specific information regarding funding for the 2021/22 financial year. The uncertainty as to when the Fair Funding Review, Business Rates Reset/75% Retention and multi-year Spending Review will be does not give any certainty of the level of future funding beyond this.

- The impact of national government policies on local authorities, especially as the economic, social and financial implications of Brexit become clearer as well as the impact of Covid19. These include impacts on interest rates, migration, employment and business.

- Pension Fund risks include changing economic conditions and investment returns less than assumptions in the Pension Fund's investment strategy increases the risk of a deterioration in the Pension Fund's funding position and as a consequence there is a risk of an increase in the employer's contribution from 2023/24 onwards.

- Changes in legislation or imposition of new responsibilities imposed upon the Council without adequate funding allocated to the Council.

- Impact of variations to forecast interest rates, both in terms of investment returns and also on assumptions made on borrowing costs.

- The capacity to continue to deliver a significant level of savings. Although regular monitoring and reporting takes place the size of the budget reductions increases the level of the risk.

The budget process includes the recognition of these risks in determining the 2021/22 budget and MTFS, but it will be imperative that the Council continues to build upon its record of delivering significant savings and maintains the strong focus on its Towards Financial Sustainability Programme in order to maintain a sustainable financial position.

9. Recommendation

9.1 Executive are asked to;

a) note the significant financial challenges and risks that the Council faces, primarily as a result of the Covid19 pandemic,

b) note the projected budget parameters for 2021/22 and future years and note the planning assumptions, as set out in Appendix A,

c) note the level of projected budget shortfalls forecasted for the General Fund from 2021/22.

d) note the budget, strategic and service planning preparation programme, set out in Appendix B.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	Two
List of Background Papers:	None
Lead Officer:	Jaclyn Gibson, Chief Finance Officer Telephone (01522) 873258

KEY BUDGET ASSUMPTIONS MTFS 2021 – 2026

1. The base budget estimates will be prepared on the basis of a number of key assumptions as follows;-

2. Business Rate Tax Base

2.1 The current Business Rates Retention (BRR) scheme was introduced by the government in April 2013 and replaced an element of grant funding. The calculation of income to be received through the BRR scheme is critical in determining the amount of resources that the Council will have available to fund local services.

2.2 <u>In year position 2020/21</u>

Although the Council had forecasted and declared a surplus on its share of business rates in 2019/20 of £0.147m, on the basis of the in-year monitoring position and estimated appeals provisions, by the time of closing the 2019/20 accounts the situation had reduced to a surplus of £0.118m, this reduction in surplus will be charged to the General Fund in 2021/22.

2.3 In relation to the business rate base for 2020/21 this was estimated to be £44.260m. Movements in this base are usually monitored on a monthly basis so that the Council has an early indication of any significant changes, however as a result of the current uncertainty and volatility the position is being closely monitored. There has been a significant reduction in the level of business rates payable in year primarily due to the Government extending the rate reliefs that were given to ratepayers to provide financial support during Covid19. Councils will be compensated through s.31 grant payments for this loss of income, but due to the nature of accounting for business rates the s.31 payments will be received in 2020/21 whereas the 'deficit' arising from the reduced rates will be declared in 2021/22. As Councils will receive grant for this loss of income it is not a 'real' deficit and will have no overall budgetary impact other than a 'timing' impact.

2.4 It should be noted that the collection rate in year is currently higher than the equivalent for 2019/20 by 3.94%. While this is encouraging, it is thought that many of the businesses who normally find it challenging to meet their business rates no longer (for 2020/21) have a liability due to the Government's rate reliefs and that this is artificially inflating the collection rate.

2.5 In addition to a loss of business rates payable through reliefs there has also been a reduction in rates payable to date in 2020/21 due to a significant increase in properties claiming empty property rate relief. Compounding the in year impact further is an increase in businesses submitting business rates appeals on the basis of a material change in circumstances arising from Covid19, this requires additional provisions to be set aside at a cost reducing the level of business rates retained by the Council. Based on monitoring information to end of September it is currently forecasted that the Council's share of the business rates deficit in year, excluding the reliefs set out above, is c£1.1m. In addition to this deficit the reduction in in-year business rate will also reduce the gain the Council retains through the business rate pool, this is estimated to be a further loss of £0.226m, to be accounted for in 2020/21.

2.6 In order to assist Council's with absorbing these 'real' deficits arising in 2020/21 the Government is allowing them to be spread over a 3-year period from 2021/22 to 2023/24. Based on an estimated deficit of £1.1m this would allow £0.367m to be charged to the General Fund in each of the three years.

2.7 The Council maintains a Business Rates Volatility Reserve to cushion the impact of fluctuations in retained income and collection fund deficits. The estimated available balance on the reserve is £1.366m, this would allow the impact of the 2020/21 deficit and loss of retained levy through the pool to be absorbed without impacting on the General Fund. However, this would leave the reserve depleted with no further ability to cushion on future fluctuations until the Council is in a position to rebuild the reserve. It will be essential that the Council seeks to replenish this reserve to provide for future fluctuations as soon as possible.

2.8 <u>2021/22 – 2025/26</u>

The level of outstanding appeals continues to create a high level of uncertainty both in respect of the outstanding appeals from the 2010 and 2015 ratings lists already lodged with Valuation Office, but also in relation to appeal to the 2017 list that are submitted under the new Check, Challenge Appeal process. The Collection Fund is required to fully provide for the expected result of all appeals and using external assessments as to the likely level and value of these appeals. The current provision of outstanding appeals stands at £5.687m, of which the Council's share is £2.275m. In addition to the backdated element of these appeals there is also an ongoing impact due to the reduction in the business rates base, which ultimately reduces the level of income to be retained in the future by the Council. As set out above the number of appeals lodged citing a material change in circumstances as a result of Covid19 has been significant. This will have a further detrimental impact on the business rate base. The current MTFS assumes a £1.5m p.a. reduction in retained rates due to outstanding appeals, this will now be increased to c£2m p.a.

2.9 The current MTFS assumes growth, above CPI, in the annual level of local Business Rates collected of 1% in 2021/22 increasing to 2% pa from 2022/23 onwards. This increase in growth levels over the MTFS planning period was to reflect some of the major developments scheduled to be undertaken in the City which should result in business rate growth in the medium term. However, in light of the current economic position there will be no growth assumed in the 2021/22 forecast, in fact a further decline is now assumed (due to increased empty properties and lack of growth), but from 2022/23 a small level of growth of 1% will be forecasted, increasing back to 2% p.a.

2.10 The Council is currently part of a Business Rates Pool for 2020/21 along with the County Council and six other Lincolnshire District Councils. The benefit of pooling is that the authorities in the pool can be better off collectively through a reduction in the amount of levy paid to the Government. The arrangements for the current pool are that this retained levy is allocated 40% to the County Council and 60% allocated to the District Council that has generated the business rates growth. The current MTFS had assumed that as a result of the introduction of 75% retained business rates that pooling would cease from 2020/21. However, as a result of the delay in the implementation of the new system the Government has announced it will welcome proposals for business rate pools. The Council will therefore express an interest in continuing the current pool arrangements. This is estimated to generate the Council an additional £0.262k in 2021/22. The MTFS already assumes that there will be no further pooling gains from 2022/23 onwards.

2.11 Again, as set out in the main body of this report the move to a 75% retention scheme and the consequent full reset of business rate baselines to better reflect how much local authorities are actually collecting in business rates have now been moved back to 2022/23. These changes, when implemented, will wipe out gains the Council has built up since the launch of the current system in 2013/14. Until the onset of the current pandemic it had been assumed that at a national level the total gains would be redistributed through the system of baseline need so it was likely that the Council would receive an element of this. The impact of Covid19 across the country is now likely to have wiped out many of the gains local authorities had been experiencing and now leave little for redistribution, these further reduces the future level of resource the Council can expect to receive.

2.12 The current MTFS was prepared on the basis of this full reset and subsequent loss of gains made from 2021/22. The delay in implementation by one year will result in additional one-off resources in 2020/21. However, as a result of a number of detrimental reductions in the business rates base, as set out above, the future level of retained business rates forecasted by the Council has been severely reduced in 2020/21, in summary these are:

- An increase in properties eligible for empty properties relief
- A reduction in local growth in the short term
- An increase in the allowance for successful appeals
- An increase in the allowance of bad debts to an expected reduction in collection rates once the current rates reliefs cease
- A reduction in national gains redistributed through the reset

2.13 The overall impact of changes in the assumptions to the level of retained business rates is as follows:

	2021/22 £'000	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Current MTFS 2020-25	4,696	5,156	5,639	5,570
Latest forecast	5,024	4,156	4,548	4,968
Reduction in resources	**(329)**	**1,000**	**1,092**	**601**

3. Revenue Support Grant

3.1 The Council's Revenue Support Grant (RSG) was set to cease in 2019/20 at the end of the previous four-year funding settlement period. In 2020/21, due to a one-year delay in the implementation of the 75% BRR scheme the level of 2019/20 RSG, adjusted for inflation, was rolled over into 2020/21, a total of £0.023m. Beyond this the MTFS assumed that there will be no further RSG payable by the Government. On the basis of, at least, a further one-year delay in the implementation of the new funding mechanisms a further roll forward of RSG at £0.023m in 2021/22 only will be assumed.

4. Council Tax

4.1 This increased importance of Council Tax, alongside Business Rates, as the principle means of raising revenue makes decisions taken in relation to the levels of Council Tax critical to the delivery of a sustainable MTFS.

4.2 Council Tax collection rates have suffered during 2020/21 as a result of Covid19 and residents ability to make payments. Whilst support through the LCTS and Govt funded Hardship Fund is available collection rates are still below normal levels. As at the end of September 2020 the collection rate was 50.53% which is 2.34% below the same point last year.

4.3 The current collection rates assumed in the MTFS were set at 98.75% p.a. Based on the performance of the collection rates during the current year and the likely ongoing impact on household incomes it is considered prudent to reduce the collection rate by 1% in 2021/22, and by 0.5% in 2022/23, returning to the current assumption of 98.75% from 2023/24 onwards. These will however be kept under review.

4.4 In calculating the Council Tax base the overall yield is reduced by the estimated numbers of claimants entitled to support under the Council's Local Council Tax Support (LCTS) scheme and the eligibility criteria of the scheme. The more Council Tax support that is awarded the more the taxbase is reduced, limiting the ability to raise Council Tax.

4.5 Since the introduction of the scheme in 2013/14 the number of claimants had as at April 2020 decreased by over 20%. However, between April 2020 and the end of September 2020 caseload had increased by 5.9%, with working age claimants increasing by 9.5%. This increase is as a direct result of Covid19 and the impact on household incomes. Although it is difficult to assess with any certainty what further increases in claimant numbers may be, due to the number of unknowns around economic recovery, 2nd lockdown, etc, it can be reasonably assumed that there will be a further increase in claimants over the reminder of the year.

4.6 The current MTFS assumes that caseload remains stable over the next 5-year period, this will be revised to reflect a further 2% increase in working age claimants on the September 2020 position for 2021/22 but with a gradual reduction of 1% p.a. over the period of the MTFS.

4.7 At this stage in the development of the MTFS current entitlements under the LCTS Scheme are being reviewed with public consultation taking place during November. Any adjustments to the scheme or indeed to the Council Tax discretions that are applied will be reflected in the final MTFS following consultation and subsequent Executive approval. These are not yet included in the Council Tax modelling below.

4.8 The current MTFS assumes an annual increase in the council tax base of 1.25% as a result of new property development. Although the Council aims to bring forward significant housing development on the Western Growth Corridor site, until a planning determination has been made no further increases in the council tax base will be assumed. The revised MTFS will therefore continue to be based on the assumption of growth of 1.25% p.a.

4.8 As is customary the Government will consult on the Council Tax Referendum Principles later in the year as part of the Local Government Finance Settlement, at this stage it is assumed that the existing levels for district councils of a increases of less than 2% or up to and including £5 will remain in place. The current MTFS assumes Council Tax increases from 2021/22 onwards of 1.9% p.a. Until further details are released in the Finance Settlement the MTFS will continue to be prepared on this basis.

4.9 Based on the assumptions as set out above and using the latest Council Tax base position, estimated Council Tax yields are as follows:

	2021/22 £'000	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Current MTFS 2020-25	7,149	7,391	7,640	7,900
Latest forecast	7,016	7,352	7,620	7,894
Reduction in resources	**133**	**39**	**20**	**6**

5. Other Government Grants

5.1 <u>New Homes Bonus</u>

It was announced in December 2019 that a Spring 2020 consultation on the future of the New Homes Bonus (NHB) scheme would be undertaken. The announcement stated that 'it is not clear that the New Homes Bonus in its current form is focused on incentivising homes where they are needed most' and the consultation will 'include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance'. It was also announced that 2020/21 'in year' allocations will not have future years legacy payments but that legacy payments from previous years allocations would be honoured. The current MTFS is based on the allocations announced in the 2020/21 Settlement and assumes no further funding beyond this.

5.2 In seeking data for the annual Council Tax base returns the MHCLG made reference to the planned Spring consultation, stating that it has been delayed.

However in requesting the required Council Tax data authorities are asked to provide the usual data relating to NHB calculations, which “may be needed in calculating the bonus”, and explains that “the future direction of the incentive will now be considered as part of the Spending Review process”. This could perhaps suggest that the government is considering extending the scheme for a further year. However, at this stage no further allocations beyond those in the existing MTFS will be assumed.

Housing Benefit/Council Tax Support Admin Grant

5.3 It continues to be difficult to forecast the likely level of future funding in respect of Housing Benefit Admin Grant due to the gradual and delayed roll out of Universal Credit (UC). The Council began roll out of the full service for UC in March 2018, in respect of new UC claims previously eligible for the six separate benefits. All new UC claimants have their housing cost element included in their monthly UC payment which is administered by the DWP, and as a result, they will not make a Housing Benefit claim but can still make a claim for Local Council Tax Support. The next stage requires the migration of all remaining existing claimants to full UC by 2023, this process commenced in 2019 with one local authority acting as a pilot. There is still much debate and decisions to be made by the Government as to what role local authorities will play in the longer term, but there is a commitment from the DWP to work with authorities until all working age claimants are transferred, 2023 at the earliest. However, with a key reason being the impacts of Covid-19, over the last 8 months there has been little information from DWP regarding Universal Credit as to future plans and next stages of rollout.

5.4 Although this commitment has been made the DWP have yet to announce a permanent funding model going forward and the Council continues to face the issue of one-year funding announcements, supplemented by New Burdens arrangements. In addition, the Council also receives a grant from the MHCLG in respect of the Council Tax Support element of administration funding, again this is only announced on a one-year funding basis. Both DWP and MHCLG elements are based on caseload numbers, given the increase in caseloads during 2020/21 there should be an expectation of increased levels of grant funding, even if only for 2021/22.

5.5 But, as there is no clear position on what future grant levels are likely to be the Council continues to face an annual wait for funding announcements to be made. At this stage the MTFS will be prepared on the basis of the current level of overall core grant funding, which may ultimately be received through a combination of Administration Grant and any New Burdens funding. Once the grant allocations are announced due regard will need to be taken of this in terms of the service planning for the revenues and benefits service.

6. Inflation

6.1 CPI was at 0.5% in September 2020, an increase on the 0.2% (a 5-year low) in the 12 months to August. Latest forecasts are that it is likely remain low during 2021, gradually increasing to around 2% from 2022, back in line with the Government’s target rate. In respect of the general inflationary increase applied within the MTFS this is normally maintained in line with CPI projections. The current MTFS assumes a 2% p.a., it is not proposed that his assumption be changed at this time. This excludes inflation on general running expenses which historically have had no allowance for inflation; there is no change in this assumption.

6.2 Annual price increases in a number of the Council's contracts are linked to RPI or RPIX at a defined date in the year, primarily December and March. The latest forecasts are that RPI will rise from 1.1% in September, to around 2.1% by the end of the year, with longer-term forecasts increasing to, and remaining at, around 3% from mid-2021. The current MTFS had been based on the assumption of a 3% p.a. RPI increase, it is not proposed to change this assumption.

7. Pay

7.1 In August 2020 agreement was a reached on the local government pay award for 2020/21. The agreed award was for an increase of 2.75% to all pay rates. The current MTFS, including the budget for 2020/21 was based on the assumption of a 2% p.a. pay award. This increase in award above that assumed has given rise to a cost pressure of c£0.110m for the General Fund and £0.046m in the HRA in 2020/21.

7.2 Beyond 2020/21 any future pay awards will be subject to further negotiation between the National Employers and NJC Trade Unions. However, given the current position of national public expenditure it could be anticipated that there may be an element of future pay restraint, perhaps even a public sector pay cap as experienced following the last recession. The MTFS will therefore be prepared on the basis of a pay award of 1.5% p.a. in 2021/22 and 2022/23, increasing to 2% p.a. thereafter. This change in assumptions has the following effect on current pay budgets, after allowing for the increase of 0.75% above budget in 2020/21:

	2021/22 £'000	**2022/23 £'000**	**2023/23 £'000**	**2024/25 £'000**
General Fund	38	(39)	(40)	(41)
HRA	16	(16)	(17)	(17)

7.3 In addition, the Council remains committed to paying its lowest paid workers at the level of the Living Wage, as recommended by the Living Wage Foundation as opposed to the Government's National Living Wage. An assumption of annual increases of 3%, in line with RPI projections, are currently built into the MTFS to reflect this commitment to maintain the Living Wage. It is not proposed to change this assumption at this stage.

8. Local Government Pension Scheme

8.1 The last triennial review of the Council's Pension Fund took place as at 31st March 2019 and the results identified that there had been a significant increase in the funding position since the last actuarial review from a 69% funding level to 84%. Although the overall funding position had improved the employer contribution rates were increased to improve the funding position further. For employers such as local authorities the actuary, because of the guaranteed nature of the funding, was able to recommend a stabilisation approach whereby the employer contribution is capped at an affordable level. This has allowed the contribution rate to be capped at 1% p.a. for the three years covering the valuation period 2020/21 – 2022/23.

8.2 A further actuarial review will take place in April 2022, which will inform the employer contributions from 2023/24 onwards. No further increase is currently assumed above the 1% p.a. from 2020/21 – 2022/23.

9. Fees and Charges

9.1 As part of the normal, annual, budget cycle fees and charges income budgets are increased by 3% per annum for their total yield. This increase of 3% does not preclude individual fees and charges being increased by more or less than 3%. However, as a result of Covid19 many sources of fees and charges income have plummeted, and whilst some have begun to recover, others are still detrimentally impacted and are unlikely to return to their pre-Covid levels in the short term, and in some cases are likely to be permanently eroded. Each area of fees and charges income will therefore be assessed to model the likely impact of Covid on overall yield levels and the level of increase that can be sustained for each individual fee and charge.

9.2 Whilst this detailed modelling is being undertaken as part of the development of the MTFS, early work suggests significant budget shortfalls in the following areas can be expected:

	2021/22 £'000	**2022/23 £'000**	**2023/23 £'000**	**2024/25 £'000**
Carparking	1,550	830	670	690
Development Mgmt	100	0	0	0
Building Control	48	0	0	0

In addition to these key income areas there are a range of smaller sales, fees and charges income budgets which will also forecast reductions in 2021/22.

10. Commercial Income

10.1 Covid19 has had a significant impact on many of the businesses in premises owned by the Council. Despite the financial support provided by the Government, and through the assistance of the Council it is inevitable that some businesses will look to terminate their leases, some may fall into administration and others will look to use options such as Company Voluntary Agreements. Income losses on the Council's commercial portfolio have been experienced in 2020/21 and are likely to be sustained into 2021/22. Early indications are of losses of c£0.250m in 2021/22, beyond this existing yields are forecasted to be achieved.

11. Investment Interest and Borrowing Costs

11.1 The Council continues to experience significantly low level of investment rates due to the low Bank of England Base Rate, as set out in the main body of the report.

11.2 Based on revised assumptions for the level of interest rates over the period of the MTFS and assumed levels of available cash balances split between fixed and variable rate investments, the latest forecasts in comparison to those assumed in the current MTFS, are as follows:

	2021/22	**2022/23**	**2023/24**	**2024/25**
Revised Average Investment Rate	0.23%	0.18%	0.18%	0.25%
Current MTFS	0.95%	0.95%	1%	1.08%
General Fund				
Current MTFS	110,530	106,550	104,360	102,320
Revised interest	43,620	17,961	18,752	28,264
Reduction in resources	**66,910**	**88,589**	**85,608**	**74,056**
HRA				
Revised interest	20,350	9,289	4,997	5,488
Current MTFS	£39,220	£43,200	£54,650	£65,680
Reduction in resources	**18,870**	**33,911**	**49,653**	**60,192**

11.3 The Council's sensitivity to changes in interest rates is linked more markedly to investments rather than to the portfolio of borrowing as all borrowing is at fixed interest rates. Based on the current forecasts for interest payable on new borrowing, averaging 2.75%, and any short term temp borrowing undertaken, averaging 2%, the latest forecasts for borrowing costs in comparison to those in the MTFS are as follows:

General Fund

	2021/22 £'000	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Current MTFS 2020-25	1,609	1,603	1,560	1,554
Latest forecast	1,520	1,600	1,560	1,550
Increase in resources	**(89)**	**(3)**	**0**	**4**

An assessment of the borrowing levels and associated costs for the HRA is currently being undertaken in light of the additional borrowing that has been undertaken linked to the use of the retained 1-4-1 RTB receipts and in light of the current advantageous borrowing rates for housing schemes. This will be used to inform the development of the HRA.

12. Housing Rents

12.1 The current MTFS is in line with the Government's announcement in October 2017 that from April 2020 social rents will increase by CPI+1% for 5 years. The approach beyond 2025 remains uncertain but there is an expectation that social rent increases will remain. Budgeted increases for supported accommodation will continue to be assumed on the same basis. The MTFS will continue to be prepared on this basis.

12.2 Including in the Council's housing stock are a number of properties that were partly funded by HCA grants on the condition that they are to be let on the basis of an affordable rent rather than on social rents. In addition, there are a number of other dwellings that are let on the basis of an affordable rather than social rent. Affordable rents are not subject to Government Rent Restructuring Policies and are let at 80% of market rent levels in the local area. The current MTFS assumes rental increases in line with social rents for its affordable rents and will continue to be developed on this basis.

12.3 At the end of 2019/20 rent collection was above target with arrears at 2.87%, also above target. Covid19 will undoubtedly though affect the level of arrears as household incomes reduce. In order to provide assistance the Council undertook a number of positive actions to help keep rent arrears in a positive position. To date this has had the desired impact with arrears, as at the end of September 2020 £0.65k lower than the same point last year. However, as the impact of these measures has already been applied and as the financial impacts in the economy begin to take effect it is estimated that the level of rent arrears will increase to around £1.2m-£1.5m by the end of March 2021 (from £0.825m at March 2020). Whilst this will require an increase in bad debts provision in 2020/21, an ongoing increase in contributions/reduction in collection rate will be considered as part of the development of the MTFS.

13. **Level of Revenue Reserves -** The prudent minimum level of reserves for the General Fund has been increased in recent years, in light of the increased level of volatility in funding and the level of the increased risk to which the Council is now exposed, to between £1.5m-£2m. At this stage, and based on the current estimate of budget shortfalls forecasted in 2021/22 – 2023/24, it is anticipated that the level of balances in the General Fund will need to reduce below this prudent minimum in order to maintain a balanced budget position. In addition, the use of earmarked reserves will also be required. Whilst the purpose of holding balances is to provide for such situations it will be critical that beyond this short term use the Council seeks to replenish the level of balances back to the prudent minimum. In terms of the HRA it is currently assumed that the optimum level of reserve holdings will be maintained at c£1m.

APPENDIX B

BUDGET AND FINANCIAL PLANNING TIMETABLE 2021/22

No.	Target Date	Group	Deliverable	Responsible Officer
1.	**Member Briefing Sessions**			
1.1	28th Jan 21	All Members	All member workshop presenting the draft budget proposal for 2020/121 and Medium Term Financial Strategy 2021-2022.	CFO
2.	**Base Budget Preparation**			
2.1	16th Oct 20	AD's/ Service Managers	Budget guidance and working papers circulated to Assistant Directors and Service Managers for preparation of base budgets, including notification of Directorate Cash Limits.	Finance Team
2.2	13th Nov 20	AD's/ Service Managers	Completion of service cash limit budgets by budget managers.	Finance Team
2.3	20th Nov 20	DMT's	Review of summary cash limit budgets and appropriate revisions made with AD's and DMT's.	Finance Team
2.4	1st Dec 20	CMT	Review of summary cash limit budgets and consideration of unfunded budget items. Review of funding assumptions of existing capital programme and consideration of allocation of resources to strategic schemes/contingencies.	FSM
2.5	1st Dec 20	CMT	Review of Fees & Charges Schedules for 2021/22	FSM
2.5	16th Dec 20	Financial Services	Completion of consolidated base budgets and capital programmes.	Finance Team
2.6	5th Jan 21	CMT	Review of draft budget proposal for 2021/22 and Medium Term Financial Strategy 2021-2026.	CFO
3.	**Service Planning Preparation**			
3.1	Oct 20	Working with all Directorates	Service planning under way, through the development of the TFS and ADP plans. This year there is to be a key focus on: • Remobilisation of services • Agreed TFS Phase 7 projects • Key legacy projects • Key One Council projects • Necessary new projects in the that do not affect the ability of achieving the first four criteria	Policy

No.	Target Date	Group	Deliverable	Responsible Officer
			(All other projects to be delayed for consideration in Year 3-5 ADP)	
3.2	17th Nov 20	CMT	Phase 7 TFS programme monitoring spreadsheet dates to be agreed.	CFO
3.3	24th Nov 20	CMT	Y2 Annual Delivery Plan for Vision 2025 to be agreed.	Policy
3.4	Early Dec 20	CMT	One Council projects to be included in service planning to be presented.	Change Manager
3.5	Mid Dec 20	CLT and SM Group	Service Planning priorities launched at CLT and SM Group	Policy Unit
3.6	14th Dec 20	Exec	Y2 Annual Delivery Plan for Vision 2025 to be agreed at Executive	CX/DCE
3.7	Dec 20 /Early Jan 21	Directorates	Directorates to identify local projects that need to be included without impacting the key corporate ones. These might be: • Legacy projects not in Vision 2025 • Service projects needed to keep services functioning •	AD's
3.8	Mid Jan 21	CMT	Agree list of ALL project s – TFS, ADP, One Council and local projects for each directorate.	Directors
3.9	End Jan 21	Portfolio Holder mtgs	Ensure that all PH's have signed up to their own sections in each service plan.	Directors
3.10	By 26th Feb 21	EDMT's	Draft service plans for the year ahead reflecting the projects identified from the sources agreed in section 3.1.	AD's
3.11	17th Mar 21	CLT	Progress on service plans	Policy Unit
3.12	18th Mar 21	SM Forum	Update on progress with Service Plans for information.	Policy Unit
3.13	26th Mar 21	DMT's	Draft service plans completed and agreed with Director.	AD's
3.14	31st Mar 21	A/Wide	Service plans published.	Policy Unit
3.15	Oct 21	AD's/ Service Managers	Service planning for 2020/21 launched with a focus on delivering progress against year 3 strategic priorities.	Policy Unit
4.	**Consultation and Scrutiny**			

APPENDIX B

No.	Target Date	Group	Deliverable	Responsible Officer
4.1	Jan/Feb 20– *dates to be confirmed*	General Public Stakeholders	Online budget consultation Specific stakeholder events	CFO CMT
4.2	2nd Feb 21	Audit Committee	Consider and review: • Prudential Indicators 2021/22-2023/24 • Treasury Management Strategy 2021/22 with responses to the Executive	FSM
4.3	3rd Feb 21	Budget Scrutiny Review Group	Consider and review the draft budget proposal for 2021/22 and Medium Term Financial Strategy 2021-2026, making any recommendations to the Executive.	CFO
4.4	18th Feb 21	Performance Scrutiny Committee	Performance Scrutiny Committee – Consider response from Budget Review Group and refer to the Executive.	CFO
5.	**Committee Approval Process**			
5.1	23rd Nov 20	Executive	Consideration of the budget strategy to be adopted for the 2021/22 process, including; • Update on economy and financial environment, • A revision of MTFS assumptions • Consultation proposals (both public and with Members)	CFO
5.2	*TBC Dec 20*	Portfolio Holders	Assessment of Fees & Charges Schedules for 2012021	FSM
5.3	4th Jan 21	Executive	Approval of Council Tax Base for 2021/22, Council Tax Support Scheme 2021/22 and Estimated Collection Fund Balance for 2021/22 for Council Tax.	FSM/HSRB
5.4	*TBC Jan 21*	Portfolio Holders	Assessment of overall capital and revenue budgets	CFO
5.5	18th Jan 21	Executive	Approval of a draft budget proposal for 2021/22 and Medium Term Financial Strategy 2021-2026 for formal consultation.	CFO
5.6	18th Jan 21	Executive	Approval of Estimated Collection Fund Balance for 2020/21 for Business Rates.	FSM/HSRB
5.7	18th Jan 21	Executive	Consideration and recommendation to Council for approval of the Housing Rent Levels for 2020/21.	AD-H

APPENDIX B

No.	Target Date	Group	Deliverable	Responsible Officer
5.8	19th Jan 21	Council	Approval of Council Tax Base for 2021/22 and Council Tax Support Scheme 2021/22.	FSM/HSRB
5.9	22nd Feb 21	Executive	Approval for referral to Council of: • Final budget proposals for 2021/22 • Medium Term Financial Strategy 2021-2026 • Treasury Management Strategy 2021/22 & Prudential Indicators • Council Tax levels for 2021/22 • Fees and Charges levels for 2021/22	CFO
5.10	23rd Feb 21	Council	Approval of the Housing Rent Levels for 2021/22.	AD-H
5.11	23rd Feb 21	Council	Approval of; • Final budget proposals for 2021/22 • Medium Term Financial Strategy 2021-2026 • Treasury Management Strategy 2021/22 & Prudential Indicators • Council Tax levels for 2021/22 • Fees and Charges levels for 2021/22	CFO

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