

WAVERLEY BOROUGH COUNCIL

EXECUTIVE

1 DECEMBER 2020

Title:

UPDATE TO GENERAL FUND MEDIUM TERM FINANCIAL PLAN 2021/22 – 2024/25

Portfolio Holder: Cllr Mark Merryweather, Portfolio Holder for Finance, Assets & Commercial Services

Head of Service: Peter Vickers, Head of Finance and Property

Key decision: Yes

Access: Public

1. Purpose and summary

- 1.1 Following on from the Contingency Revised Budget agreed at Full Council in August, a commitment was made to undertake an update to the Medium Term Financial Plan (MTFP) including a review of the longer-term effect of the pandemic on the Council's future financial resilience, taking account of the wider economic conditions. It was agreed that this should be reported to Council no later than its December meeting.
- 1.2 This report contains the outcome of that review which has resulted in an increase to £7.9million in the projected net budget shortfall for the four year medium term which is now estimated to comprise a £17.1million gross shortfall against which currently only £9.1m of compensating measures have been identified. While Covid is one key direct driver in this, other consequential factors still leave an unresolved recurring annual deficit for 2024/25 and beyond projected at £1.2m per annum..
- 1.3 The principal aim of the revised MTFP is to protect core services so a one off repurpose of earmarked reserves in 2021/22 is likely to be necessary if government funding continues to fall short of meeting the full impact of COVID-19 on the Council's finances. Clearly drawing on reserves to fund ongoing costs is not a sustainable position given that Waverley has very limited General Fund reserves. The budget and MTFP projections are being prepared with a range of assumptions made in very uncertain economic conditions therefore the figures are volatile, particularly with regard to the timing and extent of recovery of income streams impacted by the pandemic.
- 1.4 The February 2020 MTFP already included some challenging targets supported by a range of strategies and it is crucial that these continue to be fully supported and remain the central focal point for addressing the budget shortfall.
- 1.5 This report contains the following Annexes:

- Annexe 1 – General Fund MTFP update at October 2020
- Annexe 2 – Contingency budget ongoing impact schedule
- Annexe 3 – Update to projected reserves position

2. Recommendation

- 2.1 It is recommended that the Executive, after considering comments from the Value for Money Overview & Scrutiny Committee, make the following recommendations to Council, to:
1. Approve the updated forecast and assumptions in the latest Medium Term Financial Plan and request that a full review of the Plan is brought to Council in February 2021 alongside the draft 2021/21 Budget report; and
 2. Agree that capital receipts are applied to fund business transformation and efficiency projects as allowed under the statutory provisions.

3. Reason for the recommendations from Executive to Council

- 3.1 The budget is a major decision for the Council and setting a balanced budget is a statutory requirement. As a result of the sudden and unexpected COVID-19 impact, the Council had to act quickly to take steps to address the significant projected net budget shortfall so that the Council can continue to function. A revised budget for 2020/21 was set in August and Council asked that the medium term financial projections are updated in December, ahead of the budget setting process in February 2021. The Medium Term Financial Plan projects future financial pressures and opportunities to enable the Council to take action to ensure sufficient funding is in place to deliver services.

4. Background

- 4.1 The 2020/21 budget and MTFP included a range of estimates based on assumptions which, at the time the budget was set, were deemed to be robust and deliverable overall. However, the sudden, unexpected and material adverse impact of the COVID-19 pandemic necessitated a thorough review of the Council's in-year budget which identified a projected budget deficit of £6.6million as shown in the summary below. The Contingency Revised Budget also highlighted the risk that the Council may not have yet identified all of the impacts and that the pandemic may not be controlled as currently envisaged, these have been addressed in the updated MTFP projections.

Contingency Revised Budget Summary 2020/21	£
Leisure facilities	£2.7m
Car park income	£2.0m
Property income	£0.7m
Planning and land charges income	£0.6m
Other costs and loss of income	£0.6m
Total estimated budget deficit	£6.6m

Agreed actions to address the deficit:	
Cost saving and efficiency measures	£2.3m
Government one-off grant	£1.5m
One-off draw on reserves	£2.8m
Total	£6.6m

The government has so far given the Council £1.527million of COVID-19 support grant towards its £6.6million 2020/21 projected budget deficit, and the Council estimates that it may be eligible to claim £2.3million from the government's compensation scheme for lost income from fees and charges. This year's claim is not certain yet and it is not clear yet if the government will continue the compensation scheme into next year.

Revised Budget Shortfall Summary.

- 4.2 The Council's MTFP has been updated to include the latest General Fund projections, including the reserves earmarked for specific purposes, that may have to be drawn upon to meet the budget shortfall. This report sets out the emerging pressures, risks and the projected budget shortfall over the next four years. The report also develops existing strategies for addressing the shortfall to protect vital services and put the council in a more sustainable financial position.
- 4.3 This report does not present a balanced position and highlights a significant unresolved funding shortfall over the medium term and, due to the current fluidity of the economic conditions within which the MTFP is framed, it will be necessary for a further review to be considered by the Council alongside the budget setting report for 2021/22.

The following table shows the total projected change in the forecast gross budget shortfall (before mitigating measures) since the MTFP was agreed in February.

	2021/22	2022/23	2023/24	2024/25	
	Change from 2020/2021 Base	Change from 2021/2022 Base	Change from 2022/2023 Base	Change from 2023/2024 Base	Total
	£000	£000	£000	£000	£000
Projected Shortfall Feb 2020	1,270	1,280	980*	0*	3,530
Projected Shortfall Oct 2020	3,873	136	540	143	4,692
Total change per year	2,603	-1,144	-440	143	1,162

* February 2020 MTFP extended to 2023/24, the Oct 2020 revision includes 2024/25

- 4.4 The updated MTFP projection is included in **Annexe 1** which details the revised projections and assumptions for the four year period. This is further illustrated with graphs at **Annexe 1**. The changes from the February position are based on a review of the ongoing impact of the items identified in the Contingency Revised Budget, new emerging issues and cost pressures.

Key Assumptions

- 4.5 The detail of the estimated ongoing impact of the pandemic is included on **Annexe 2** which builds on the contingency revised 2020/21 budget. The underlying assumption is that the income streams will fully recover within the time period of the MTFP.
- 4.6 Due to the significant financial pressures resulting from the pandemic, it will take a number of years for some income to recover to normal levels and therefore will require the identification of short or longer term measures to address this. Any change of use of earmarked reserves does not resolve the ongoing budget pressure and will require a resolution in the following year, this is represented by the line "Previous year net deficit" in the table above. Specific detail on the line items in the table is given in the following paragraphs.
- 4.7 Inflation - including pay and contractual increases assumes that inflation will not increase beyond 2% in line with the Bank of England's commitment. The inflation figure now includes all contractual increases resulting from non inflation related increases such as pay grade incremental progression and the refuse and recycling contractual increase resulting from growth in the property base. Inflationary increases on income streams such as fees and charges are included as part of the commercial strategy target.
- 4.8 Waverley currently retains £2million of the £38million business rates collected as its core funding for general fund services. The main element of this amount, approximately £1.8million, is derived from a Government formula which determines each Council's safety net position against its 'baseline need' for funding. The second element, approximately £0.2million, is related to the total Rateable Value (RV) of business premises in the borough which is affected by physical properties and the RV assessed by the Government's Valuation Office. This can also fluctuate according to appeals from rate payers. The Government is committed to reviewing business rate funding for local authorities and its 'relative needs' calculation. Waverley's MTFP forecasts significant reductions in Government funding over the next four years. This review has already been delayed for several years and it has announced recently that the review is delayed again. This delay has been reflected in the reprofiling of the Business Rate Retained Income reduction in the MTFP and relieves cost pressure in 2021/22. Officers have taken a cautious view of the impact of these reviews on Waverley's budget given previous past experience of redistribution formula. District and borough councils across southern England would tell a similar tale, and further lobbying is being undertaken with local Members of Parliament and the Local Government Association on this issue, as the Government prepares its 'Fair Funding Review' and its proposed new policies on devolution.
- 4.9 The government has indicated that the 2021/22 finance settlement will be a one year settlement, again. The assumptions such as the historical correction of the £0.8million negative grant, loss of Retained Business Rates and reduction in New Homes Bonus in the February MTFP are still valid. These will be covered in the 2021/22 budget report in February 2021 when more detail is known from the Government.

- 4.10 Investment property contributed a £0.742million cost pressure to the Contingency Revised Budget before mitigation from the Investment Property Void provision. This pressure has been resolved by the expected resolution of the Wey Court East void, a number of lease regears within the current property portfolio and the anticipated completion of an investment property acquisition. The balance of the investment property £1.2million target over the MTFP period yet to be achieved is included in the ongoing funding identified below.
- 4.11 Treasury management interest has been achieving an average return of 1.1% prior to the pandemic, netting the General Fund £0.577million. Since then the Bank of England reduced the base rate from 0.75% to 0.1% in March and due to the significant economic uncertainty the rates available on fixed term fixed rate money deposits has reduced to 0.2%. The immediate impact of the rate reduction is mitigated by the strategy in recent years to place cash deposits over longer terms where the rates were better. These will unwind over the next 18 months. The long term forecast does not indicate an increase in the base rate in the MTFP period.
- 4.12 In common with many other councils, it is proposed that under these challenging financial circumstances, Waverley should take advantage of the government's time limited Flexible Capital Receipts scheme to utilise capital receipts to fund business transformation projects that deliver efficiencies and savings. A schedule is being compiled of projects from the Corporate Projects list including the cost of the Business Transformation team. This will be submitted to government for approval. As this is a new policy approach, a specific recommendation has been included in this report.

Addressing the Budget Shortfall

- 4.13 The cumulative deficit to be resolved by the end of the MTFP period 2025 is £17.1million (see annexe 1). In Feb 2020 £3.5m in mitigating savings measures had been identified. In order to still achieve a sustainable and balanced budget in the medium term, all projected shortfalls in funding must be resolved with an ongoing resolution. The table below shows a summary of the profiling of the budget deficit and an update to the measures identified in the February plan to address this. The table shows a significant unresolved balance still to identify in the coming weeks ahead of the formal budget setting process.

	2021/22	2022/23	2023/24	2024/25	
	Change from 2020/2021 Base	Change from 2021/2022 Base	Change from 2022/2023 Base	Change from 2023/2024 Base	Total
	£'000	£'000	£'000	£'000	£'000
October 2020 updated February 2020 increase on previous year base	3,873	136	540	143	4,692
Oct 2020 updated on previously identified Feb 2020 savings proposals	-912	-929	-1,053	-595	-3,491
Funding yet to be identified to be met from Government Funding, further savings or	2,961	-793	-513	-452	1,201

one-off use of earmarked reserves					
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The full detail is set out in **Annexe 1** and specific items discussed below.

Council tax

- 4.14 The table on **Annexe 1** shows three aspects to council tax income (1) an inflationary uplift at the maximum permissible under the governments referendum principles (2) a modest forecast of tax base growth that is eroded by any increase in the number of people claiming Council Tax Support and (3) a surplus or deficit on the planned collection rate each year.

The amount of council tax that will be paid to each of the precepting bodies, including Waverley, Surrey County Council and the parish and town councils, is fixed for the financial year. Any variation in actual compared to estimated forecasts used in calculating the council tax base and/or the estimated in-year collection rate will impact in the following and subsequent years. For example, if Council Tax Support caseload and value increase above the estimated amount, or if the collection rate was lower than the assumed amount, the collection fund will fall into deficit which will be apportioned in future years. In its recent announcement, the Government has confirmed that it will allow councils flexibility to spread this impact over more than one year but the details are not yet known. Government COVID-19 support to business in the form of reliefs and grants will be fully reimbursed and not impact on Waverley's finances. The forecast included in **Annexe 1** is based upon the council tax support caseload and the collection rate as at the end of September. It is too early to judge the likely total case load until January.

- 4.15 The detail, strategy and progress behind the Investment Property, Head of Service cost review, Business Transformation and Commercial Strategy are adequately reported and available through the Value for Money Scrutiny and Executive minutes. The commercial strategy highlights the need to review existing income sources to generate additional revenue including a review of possible increments to all fees and charges. This will be covered in more detail as part of budget setting and included in the February MTFP update.
- 4.16 Part of the package of measures within the Contingency Budget was a recruitment freeze to hold back on £0.6million of vacancies following on from the Management Board decision to suspend all non-critical recruitment, review all external staff costs and suspend non-urgent spending where possible. This is proving to be an effective interim measure to help reduce costs although it must be recognised that it does place pressure on services and staff and can affect performance. The ability to and impact of continuing with these staff budget controls beyond 2020/21 is being carefully considered.
- 4.17 The non urgent expenditure review included in the Contingency Budget achieved £0.436million of savings, this will be considered as part of the 2021/22 budget setting exercise with heads of service being asked to identify the extent to which these savings can be repeated without impacting on essential services.
- 4.18 The core funding for the General Fund Capital Programme is from Revenue Contributions from the revenue budget of £1.05million. This was reduced following

a corporate projects review under the Contingency Budget by £0.472million. Within the MTFP the revenue contribution may have to be scaled back again to balance the budget, acknowledging that this may reduce investment in existing and new facilities and assets. Clearly, there will be need to be a proper assessment of the impact of this reduction on health and safety and the potential deterioration of assets and this will be done as part of the budget review and updated in the February MTFP.

Earmarked and non-earmarked reserves and provisions.

- 4.19 A summary of the projected impact of the pandemic on the available reserves is included on **Annexe 3**. In line with the Contingency Budget agreed recommendation, the additional Sales, Fees and Charges compensation grant (£2.3million) claimed in 2020/21 will be used to replenish the reserves. It is not yet certain how much of the claim will be received.
- 4.20 The Property Investment Void provision is an important revenue mitigation supporting the Property Investment Strategy. Going forward this provision is intended to be maintained at a sufficient level to limit the impact in the event of rent loss due to a void period (such as Wey Court East). Until the property portfolio is fully established and self sustaining, it will require a contribution from the New Homes Bonus to replenish the provision.
- 4.21 The future financial resilience of the council is dependant upon the availability of reserves to manage financial shocks such as more lockdowns. Ideally, the use of reserves should be limited as far as possible to mitigating the temporary impact of the pandemic net of any government assistance. It is important to therefore ensure sustainable resolutions are found where ever possible and if necessary or appropriate temporary measures such as a vacancy freeze to limit the need to call upon reserves, which should always be a last resort.

Risk and Impact

- 4.22 There is a risk that, if not monitored adequately, the proposed MTFP prolonged vacancy freeze, reduced capital spend and pared back service costs could put pressure on services, particularly if the Council continues to experience further pressure as a result of local or national lockdowns and the predicted wider economic downturn.
- 4.23 The MTFP 2021/22 projected base has accounted for a £2.6million reduction in income prior to subsequent recovery, this compares to £3.3million impact from the first lockdown (excluding leisure start up costs), which would be a reasonable estimate for an equivalent lockdown period in 2020/21. The equivalent government compensation would be £2.35million resulting in a net deficit of £0.95million. There is no information about the government compensation scheme in respect of subsequent years and the estimated income loss is accounted for in the MTFP.
- 4.24 The biggest single budget impact of the first lockdown has been on leisure income and the MTFP assumes that there will be no income at all during 2021/22 and a steady recovery going forwards. The impact of subsequent lockdowns on the viability of the leisure contract will need to be closely monitored as this will be a significant financial impact. Car parking income was the second biggest budget impact with an annual income of £5.2million equating to £0.1million per week. Post

lockdown monitoring showed parking to be at 70% of pre COVID-19 capacity. Parking income will be zero for the duration of subsequent lockdowns, and the MTFP assumes the capacity usage will recover over the MTFP. Changes in Planning fee income are not considered to be directly related to lockdowns and more aligned to the macro economic climate. The remaining smaller income streams in total contributed an estimated £25,000 per week to the Contingency Budget deficit.

- 4.25 The MTFP projections include costs for additional capacity in Housing Benefit and Revenues team to cover the increased workload and also additional PPE expenditure. This insulates the cost base to a reasonable degree from further lockdowns and a worsening economic climate. It is envisaged that short term spikes in community pandemic response teams will be resourced internally resulting in services levels being temporarily reduced whilst staff are deployed.
- 4.26 The MTFP projections include a moderate recovery. Any delay or adverse change in the income projection profile will result in the need to draw down additional reserves to balance the budget.
- 4.27 The impact in future years of Waverley needing to unexpectedly draw down significant value of reserves is difficult to assess but, given the £5million budget shortfall already projected in the medium term, these risks will put serious pressure on the Council's financial resilience. In the light of the COVID-19 impact, the government need to urgently give clarity to councils on the continuation of the COVID-19 Sales, Fees and Charges compensation scheme, the business rate funding and address the growing risk of business rate appeals and declining rateable values to local council budgets.

Considerations for the 2021/22 and subsequent years budget setting

- 4.28 Options for members to consider as part of next and subsequent years budget settings in the light of the challenging position are:
- car park charges
 - other charges
 - importance of property income
 - further efficiency and business transformation, including collaboration opportunities with willing partners
 - council tax to be increased by the maximum level
 - funding for growth areas will be extremely challenging and require reprioritisation of funds and service reductions in non-critical areas

5. Relationship to the Corporate Strategy and Service Plan

- 5.1 Having a robust, sustainable budget is essential to deliver all aspects of the Corporate Plan.

6. Implications of decision

- 6.1 **Resource (Finance, procurement, staffing, IT) - covered above**

- 6.2 **Risk management – covered above**

6.3 Legal

The Coronavirus Act came into force on 25 March 2020, and since that date the government has introduced a significant amount of secondary legislation (statutory instruments) that has required the Council to change the way in which its services are delivered; required partner organisations and contractors to change their operational pattern, or temporarily cease operations altogether; and placed additional temporary functions within the Council's statutory powers, including additional enforcement powers in relation to businesses and additional homelessness duties.

Throughout this period the Council's Legal Services team has supported the Council's COVID-19 response by providing advice in relation to any and all suspended, additional and revised discretionary and non-discretionary functions, to ensure the Council has continued to operate lawfully in accordance with both existing and COVID-19-related legislation.

Over the coming months as the impacts of the effect of COVID-19 continue to be evaluated, that advice will continue so as to enable the Council to function lawfully in circumstances where the financial resources available to its non-discretionary and discretionary services are under far greater pressure than anticipated when the 2020/21 budget was set. Any and all further legislative changes and statutory guidance will be assessed and the Council's service supported with advice targeted to those changes, including through the Recovery, Change and Transformation programme.

6.4 Equality, diversity and inclusion

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments are carried out when necessary across the council to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

6.5 Climate emergency declaration

There are no direct implications arising from this report but reference is made to the need for the main budget proposals to address the resource requirement for the emerging climate change action plan. The current proposals retain in full the budget allocated to support the delivery of the action plan.

7. Consultation and engagement

- 7.1 As with the contingency budget in July/August, the revised MTFP was considered by the Value for Money Overview & Scrutiny Committee for discussion and scrutiny at their meeting on 16 November. There will also be an all-member briefing on the subject to enable councillors to receive a presentation on the main issues and ask questions ahead of the Council meeting in December. A separate briefing for O&S councillors was held in September specifically on reserves and provisions. Officers have been working with the Staff side/Union in the formation of the Recovery, Change and Transformation programme and this work will continue. In parallel to the council's scrutiny and decision making process, officers will discuss the position and proposals with Grant Thornton, Waverley's external auditors.

7.2 The Value for Money Overview & Scrutiny Committee asked for the presentation of the figures to be changed in order to show the gross baseline position, so that the significance of the year of year changes was more apparent. The Committee asked questions about the assumptions underpinning the estimates for leisure centre and property investment income going forward; and also the impact of changes in staff working arrangements on staffing costs. The Committee also reminded the Executive of the suggestions made in July regarding potential cost-saving measures. The Committee asked for an off-line briefing on the Council's reserves and provisions ahead of consideration of the formal budget-setting in January 2021.

8. Other options considered

8.1 The report is an update to previously agreed projections. A range of assumptions have been made in the financial projections and a number of options are set out in the report and annexe for consideration by the Council in the coming weeks ahead of the budget setting meeting in February 2021.

9. Governance journey

9.1 This report will be considered by the Executive following scrutiny by the VFM O&S Committee. Full Council will receive the Executive's recommendation at its meeting in December.

Background Papers

There are no background papers, as defined by Section 100D(5) of the Local Government Act 1972).

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