Annexe A

Council 23 February 2021

Presentation by Cllr Mark Merryweather on the General Fund Budget and Medium Term Financial Plan (to be read in conjunction with the attached slides).

Budget & MTFP

[Slide 1] This item is the General Fund Budget for our next financial year 2021/22 and 4-year Medium Term Financial Plan through to 2024/25 as proposed in the report on pages 21-86 of your packs.

[Slide 2] Firstly just a quick orientation…

Our Council balance sheet comprises our Net Assets that are the "embodiment" of our Total Reserves, the definition and uses of which are highly regulated.

The subject of this item is only our General Fund, which sits in our suite of so-called usable reserves and funds everything we do except for our Council housing, which is funded in its own dedicated ringfenced "Housing Revenue Account" which is the next item on our agenda tonight.

Our General Fund reserves also separate revenue from capital funding because generally we are not allowed to fund revenue expenditure from capital reserves, although we are allowed to fund capital expenditure from revenue funds as well as from capital receipts and grants – something that I'll return to later. Balances on these "earmarked" reserves arise where spends are spread over time or delayed, often beyond the year in which the earmark is made.

[Slide 3] To put next year's budget proposals into context we also need to reflect on the discussions we've had throughout this financial year – which isn't over yet - as the Covid pandemic has evolved.

This time last year, pre-Covid, we considered a budget and MTFP that was already under cost and income pressures outside of our control, principally due to planned government cuts to New Homes Bonus and what's left of our share of Business Rates, and all in the face of structural net cost inflationary pressures. Pre-Covid, we already expected these to increase by on average nearly £1.5m each year over the 4 year horizon and we'd identified measures to compensate for that informed not least by the 2019 Budget Consultation and elections.
[Slide 4] Covid struck in March, and in August we estimated our <u>gross</u> financial losses in <u>this</u> year alone to be £6.6m, due more to lost income than the extra costs of the huge demands responding to the pandemic made on our resources.

Still back in August, because "confirmed" Government financial support at that time was less than a quarter of that loss, we had to leverage further emergency savings which covered nearly half of the balance: and for the remainder, we identified earmarked reserves which could be commandeered in the event that further Government support wasn't received. We agreed then that if further Government support was received, it would be applied first to reducing these reserve drawdowns…

[Slide 5] Since then, 2 things: the Government's additional "lost income" grant has emerged, but so also has the sheer scale of the extended impact of Covid on our finances into next year and beyond. So, while we expect the additional Government support for this year to be around £2.2m, given the sustained Covid losses we expect beyond this year, we believe that it is premature to use all of that £2.2m wholly to offset reserve drawdowns this year, and propose instead that £2m of it be repurposed to next year as a Covid Risk Reserve, thereby maintaining the principle that we established for this year's Contingency Budget by rolling it forward into next year.

[Slide 6] So turning then to the detail of next year's budget, I'll start first with Net Service Cost, where Covid still dominates.

Of the gross budgetary pressures for the whole year, £3.8m are Covid related, and almost entirely income losses, against which to date the Government has only committed to compensate us for those impacting the first quarter of the year.

Of course we still face the ongoing structural net cost inflationary pressures for the whole year identified in prior years. While we continue to pursue the MTFP workstreams started in prior years, some of the potential benefits of these are now also being threatened by Covid, most significantly our property investment strategy which will also be severely impaired by Government changes to Public Works Loan Board eligibility: so much so that we've halved our growth target for that accordingly.

[Slide 7] Beyond our Net Service Cost, even after allowing for the suspension of non-essential capital and reserve contributions and the release of £1m from the proposed Covid Risk Reserve, we still have little choice but to increase our share of Council Tax by the £5 Band D equivalent, albeit thankfully being able to maintain our Council Tax Support Scheme.

[Slide 8] Beyond next year, in fact we expect Covid to impact at least until 2024. Assuming that the Government still takes what's left of our Business Rates and New Homes Bonus, and that our underlying structural cost pressures remain, so we'll need to draw down fully on the remaining Covid Risk Reserve and identify and secure further savings or additional income increasing on average by £1m each year over the 4 year MTFP horizon.

[Slide 9] I'd like to briefly comment also on Covid's knock-on effects on our General Fund capital investment programme: that is, for this budget, specific to our own capital investment on our own General Fund assets, but not other infrastructure investment which is funded elsewhere beyond this budget.

As Annexe 5 explains, General Fund revenue contributions are only one of many sources of funding for capital spending, which otherwise include for example capital receipts (from the sale of our own assets) to external sources including grants, and s106 and CIL contributions from developers.

Even before Covid, it was recognised – for example by the BSWG - that structural budgetary pressures could have a knock-on effect on capital contributions, but now in the absence of sufficient Government support, Covid has exhausted all but essential General Fund revenue capacity to contribute to capital projects, at a time when the competition for capital funding is increasing, not least because of our commitment to dealing with the Climate Change emergency.

However, the funding landscape for capital projects was already evolving pre-Covid too, for example with the introduction of CIL to name just one, and the team has already started the huge effort of identifying and securing appropriate alternative funding to replace whatever is lost from General Fund revenue due to Covid.

[Slide 10]	So, while we press ahead with the existing MTFP workstreams, we believe it is important to refresh on the 2019 budget consultation given the experience of Covid and we are looking at how best to do that.

In the meantime, we'll continue to press as hard as ever for a fairer sustainable funding structure from the Government – both for Covid and for the structural flaws we believe exist in the Business Rate system, and I'm pleased to note that we have agreement to a cross-party letter to the Government on that.

We'll review capital projects needing revenue funding to seek suitable alternatives; we're re-assessing our earmarked reserves, and we're identifying other sustainable strategic initiatives including collaboration opportunities with willing partners.

[Slide 11]	Uncertainty pervades the proposed budget and MTFP. As a Council we may still have to deal with economic consequences of Brexit on top of Covid. The same applies to our residents and especially those who now, or soon may need to depend on us or our partners for services and support. And for this we must not only plan on the basis that the dysfunctional funding system in which we are expected operate will continue, but also that the Government will pursue regulatory changes that impair our ability to compensate for it.