APPENDIX B

Medium Term Financial Strategy 2021/22 – 2023/24

Report of the Finance Portfolio Holder

Recommended:

1. **That the Medium Term Financial Strategy (MTFS) for 2021/22 to 2023/24 be approved.**
2. **That the Medium Term Financial Forecast outlined in Annex 3 to the report be noted.**

Recommendation to Council

SUMMARY:

- This MTFS sets out the framework within which the 2021/22 budget will be prepared.
- It also sets out the Medium Term Financial Forecast for the General Fund Revenue Budget, which will form the basis of the 2021/22 budget.
- The strategy also reviews the impact that COVID-19 has had on the Council's finances in 2020/21 and considers the ongoing effects this will have on budget planning in the medium term.

1 Introduction

1.1 The Constitution sets out the processes for preparing the Council's budget. The Cabinet is required to consult with other Committees in formulating the budget proposals to be presented to Council.

1.2 The MTFS sets out the key financial assumptions that have been made in producing the Medium Term Financial Forecast and sets out a proposed framework within which to work over the life of the strategy.

1.3 It should be stressed that all of the options and assumptions in this report, relating to any potential budget changes, are for indicative planning purposes only. Final decisions on the overall Budget and Council Tax level will not be made until February 2021 once the Local Government Finance Settlement has been announced. These decisions can only be made by Full Council.

2 Background

2.1 This MTFS complements the Council's Corporate Plan and sets out a clear framework for financial decision making. The Corporate Plan makes clear what the Council's priorities are, and the MTFS sets out how the financial management process will contribute to delivering these priorities.

2.2 The MTFS has been produced at a challenging time for the Council's finances. Some of the most significant factors include:

- The impacts of coronavirus on budgets have been severe – and the long-term effects will remain unclear for some time;
- There have been further delays to the re-setting of the business rates baseline and continuing uncertainty as to the Council's funding for business rates beyond 2021/22.
- Interest rates have fallen to record-low levels and there is little prospect of them being increased over the life of this strategy.

2.3 <u>Coronavirus</u>

2.3.1 There is continuing turmoil in the global, national and local economies as the battle to control coronavirus continues. The Council has faced significant reductions in income and increased expenditure in 2020/21 which have not been offset by the support offered from central government. This strategy has to consider:

- The direct impact that coronavirus will have on budgets over the medium term; for example, on contractual commitments and likely reduced income levels.
- Estimating how long it will be before budgets return to pre-Covid levels, or indeed, if they ever will.
- The impact that coronavirus will have in terms of changing demand for services in the longer term. It is inevitable that new habits will have been formed during the periods of lockdown that will never fully return to previous levels. For example, this could include how car parks are patronised as a consequence of a shift to home-working.
- Collection rates for both Council Tax and business rates will impact on the amount of money available to deliver local services.

2.3.2 The strategy allows for the one-off impacts of coronavirus to be met by draws from earmarked reserves, where there is insufficient government support to cover budget deficits. Depending on the extent to which there are deficits over the medium term, this could materially deplete the level of reserves held by the Council.

2.4 <u>Business Rates</u>

2.4.1 2013 saw a radical change in the world of local government funding. Localisation of business rates had a profound effect on local authority finances and the level of funding risk that individual authorities face.

2.4.2 Despite being embedded for several years, the implications of these changes continue to be felt and careful monitoring is required to ensure that any adverse financial impacts are addressed as soon as possible. This is particularly the case for business rates, where the Council retains an element of the growth within a re-set period.

2.4.3 The re-set has been delayed repeatedly and no certainty has been given as to what will happen to accumulated growth when it does eventually happen. The Council continues to grow its business rates base, so the longer the delay, the greater the risk to the Council's finances.

2.4.4 This strategy assumes that all accumulated growth will be lost at a re-set that comes into effect in April 2022.

2.5 Interest Rates

2.5.1 In March 2020, the Bank of England lowered the base interest rate from 0.25% to 0.1%.

2.5.2 This has required a change to be made to the assumptions that had previously been based on a slow, but increasing, base rate over the medium term. The prospects for interest rate changes over the medium term are explored later in the strategy.

2.5.3 The Council holds a significant cash investment portfolio. The lower the interest rate that is forecast, the less income the Council will generate from those investments. Initial forecasts indicate that the investment income budget will need to be reduced by £420,000 in 2021/22.

2.6 The Council is building from a position of having a balanced budget and has some usable reserves – but there is little room for manoeuvre and savings will be required in future to maintain financial stability

2.7 The Council has recently approved Masterplans that will underpin the regeneration of both the South of Romsey town centre and Andover town centre. Both of these projects will require considerable Council resources and funding – both revenue and capital – and come at a time when previous retail-led regeneration of town centres is no longer deliverable.

2.8 Early work on the Andover project in particular has identified a viability gap that will present significant financial challenges. The strategy allows for the building of an earmarked reserve to assist with the implementation of these masterplans; however, as the timetable and programme for future developments is still being prepared, detailed costings are not contained within the strategy.

2.9 A one-year Spending Review was due to be conducted by the Chancellor in the period between this strategy being published and the date of this meeting. The reasons for a one-year review – to help prioritise the response to Covid-19 – are understandable; however, this single-year approach will add further uncertainty to the longer-term financial planning capability of the Council.

2.10 The implications of the Spending Review will be built in to the budget updates that will be presented to Cabinet in January and February 2021.

2.11 Another factor that impacts on financial planning is how, if at all, the impacts of Brexit will impact on government policy at a national level and more locally on the Council's stakeholders. Work continues to prepare for the UK's withdrawal from the European Union.

2.12 This MTFS includes a forward look over the next three years, to anticipate additional spending requirements, and the level of savings that will be needed. By anticipating financial pressures now, the Council will be in a better position to meet the challenges ahead in a way that ensures financial resources are targeted to the Council's highest priorities.

2.13 The financial forecasts that follow are based on a credible analysis of the potential options, but the potential outcomes are inherently uncertain without answers to the following key questions:

(a) The re-set of the business rates retention scheme has been further delayed. If / when it does proceed, how will the treatment of accumulated business rates growth since 2013 be treated? How will the government mitigate the effects of a re-set in the Business Rates Retention Scheme as it moves from a 50% to 75% retention basis?

(b) What funding settlement will local government get in 2021/22 and, more importantly, after the expected one-year settlement following the 2020 Spending Review?

(c) Will there be changes to the planned phased withdrawal of the New Homes Bonus?

2.14 The MTFS forecasts will be revised at least annually to reflect the most up to date issues, priorities and pressures faced by the Council. Further information on any aspect of the Council's finances can be obtained from the Council's website.

3 Financial Management Principles

"We are an ambitious, innovative and optimistic Council. Operating within an environment in which there is an ever increasing demand on our services within tough financial conditions, we have sought to develop and embed our "investing philosophy" at the heart of how we do business as an organisation. Investing is about more than just money; it is about devoting our energy, skills and resources to achieving the best results for our residents and communities" – "Growing Our Potential" the Corporate Plan 2019-23.

3.1 The Council has a duty to the public for the responsible use of their money. The Council will at all times conduct its financial affairs in a prudent, responsible manner, but in a way that encourages innovation and achieves improvement.

3.2 The following specific principles underpin the Council's financial management arrangements:

(i) The Council will conduct its financial management with integrity, probity and in accordance with the standards and expectations of a publicly funded body.

(ii) The Council will ensure that budgets are aligned to the Corporate Plan and based on realistic estimates.

(iii) The Council will work with partners in the public, private and voluntary sectors to maximise funding available to deliver strategic priorities.

(iv) The Council will base its decision making upon complete, reliable and timely financial information, and a full evaluation of all the financial and risk implications.

(v) The Council will ensure that ongoing funding is available before recruiting new staff and will make use of temporary appointments where this will meet business needs.

(vi) The Council will secure value for money and have regard to environmental considerations in the procurement of supplies and services. To encourage better procurement practice there will be no inflationary increases in budgets for supplies and services (except for contractual obligations to apply indexation).

(vii) The Council will maximise its income and will increase its fees and charges by the rate of inflation except where strategic aims, legal requirements, contractual obligations or market forces would render this inappropriate.

(viii) The Council will hold its managers accountable for remaining within their budgets, but will empower them to take the business decisions necessary to do so.

(ix) Before committing to additional expenditure, the Council will ensure that additional funding, improved income and/or savings are identified to meet the extra costs or that the budget growth is justified.

(x) The Council will maintain balances and reserves to enable it to respond effectively to unexpected events and opportunities, and sufficient to meet all known future liabilities.

(xi) The Council will identify savings to support budgetary pressures and not use its general balances; however, use of earmarked reserves may be made to fund specific or one-off items where appropriate or to ameliorate the impacts of the current coronavirus pandemic.

(xii) The Council will ensure that its published financial information is reliable and understandable.

4 Budget Strategy

Financial Strategy Aims

4.1 The Council's financial aims for the period covering the next three years are set out below. These aims are described in detail in this report and form the overarching aims for each budget setting year within the financial strategy period.

- To maintain a comparatively low Council Tax whilst delivering high quality frontline services.
- To ensure that the efficiency culture remains embedded within the Council, systematically challenging and securing value for money, particularly through digital transformation and making more services available online.
- To ensure that the Council's resources continue to be focused on meeting the Council's vision for Test Valley and achieving its aims and priorities.

- To ensure that the Council's infrastructure is fit for purpose and that new capital needs are identified and met.

- To ensure that the Council's core ongoing financial position remains stable and continues to support the Council's key aims.

- To continue to seek out new investment opportunities through Project Enterprise, making better use of cash resources to enhance revenue returns.

<u>*Budgetary Assumptions*</u>

4.2 The budget over the duration of this Strategy is based on the following assumptions:

Revenue

(a) The Test Valley element of Council Tax being increased annually by £5 in each of the next three years.

(b) The Andover Levy being pegged to the movements in Council Tax over the medium term.

(c) A general zero inflation allowance for all expenditure budgets except for contractual obligations.

(d) The minimum level of working reserves is maintained at £2.6m over the financial strategy period.

(e) Earmarked reserves to be used for specific purposes or to offset the one-off impacts of coronavirus.

(f) The Council continues to make cashable efficiencies every year to sustainably close forecast budget gaps.

(g) No growth bids to be received until the strategy is reviewed in summer 2021 – i.e. all growth pressures will be managed within the Council's overall revenue budget envelope

(h) No in-year supplementary estimates will be approved by the Cabinet, although a small contingency provision will be available to meet exceptional or extraordinary items of expenditure.

(i) A review of the Council Tax Support Scheme in 2021, with a view to implement changes to the scheme in 2022/23, subject to full public consultation.

(j) All other income will be maximised by thorough fees and charges' reviews. These are expected to be increased by inflation, or such increase as the individual markets can bear except where strategic aims, legal requirements, contractual obligations or market forces would render this inappropriate.

(k) New Homes Bonus to decrease over the next two years and cease in 2022/23. This element of financing to be used for specific purposes as follows:

  - Annual funding of the Councillor Community Grant scheme
  - Annual contribution to the Community Asset Fund

- Capital financing of assets with a community benefit e.g. playground improvements

Capital

4.3 The Council will maximise the utilisation of, and rate of return on, the tangible assets it holds on its balance sheet.

4.4 All capital expenditure will be funded in accordance with the principles contained in the Prudential Code for Local Authority Capital Finance. All decisions on capital expenditure will ensure that investment is prudent, sustainable and affordable, and that the full implications of all capital expenditure decisions are taken into account in the Council's Revenue Budget.

Review of Reserves

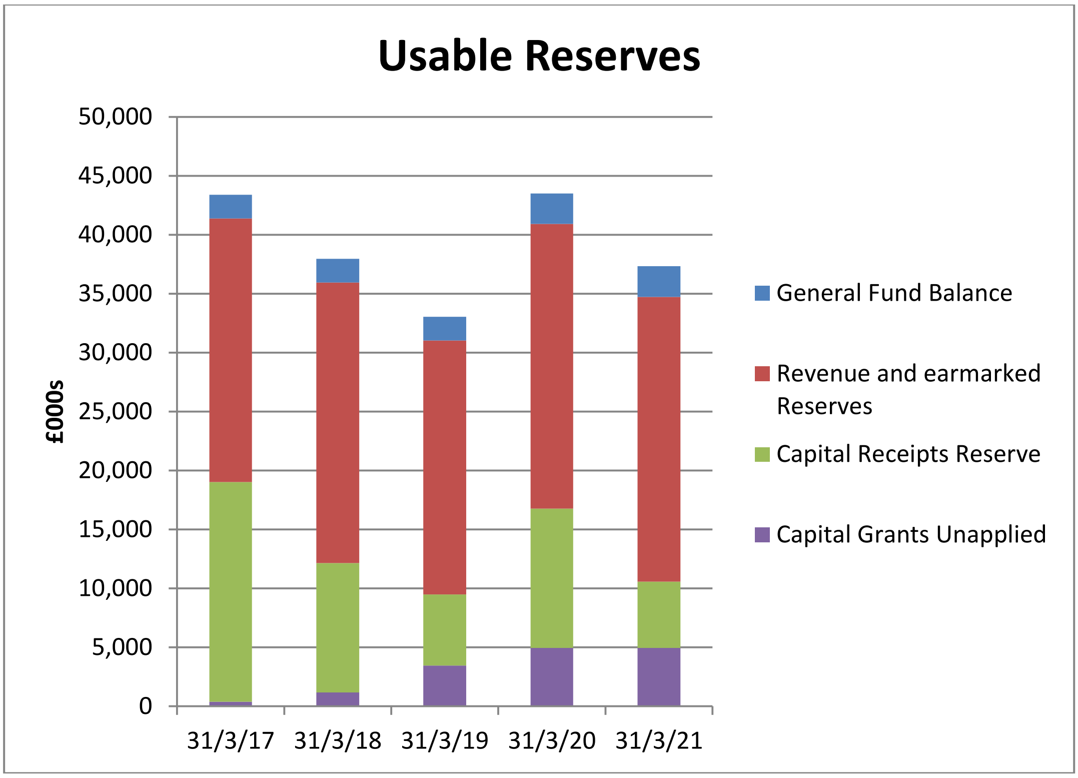
4.5 Reserves are held for a variety of different reasons. Some relate to known and relatively certain future costs such as planned building maintenance, vehicle and IT replacement. Others concern possible, though less certain, liabilities such as unexpected additional costs, or a sudden drop in income from fees and charges. This is where one moves into questions of judgment and prudence.

4.6 Reserves are a hedge against risk. Demand for public services is increasing at the same time that the Government is putting a squeeze on public expenditure. Though predictable in general terms, these trends are difficult to quantify and forecast precisely. Reserves provide a fall-back if there is a gap between the assumptions made in the budget and the trends which actually emerge.

4.7 In previous years, the Council has managed to balance the budget and protect frontline services through a mixture of savings, efficiencies, shared services and additional income.

4.8 Continuing to protect service delivery and meet the ambitions set out in the Corporate Plan has never been more challenging. Working through the medium and long term consequences of these objectives, in the context of their ongoing cost and the level of usable reserves available will require careful planning.

4.9 The nature of most local services is that they require recurring funding to meet staff and running costs year after year. Reserves are a one-off, finite source of funding. They can cover a shortfall in recurring funding for a specific period but, after they have been exhausted, the underlying shortfall will still be there. Solving this problem may require services to be adjusted to a level which is affordable within the envelope of funding available.



Usable Reserves

	31/3/17 £000s	31/3/18 £000s	31/3/19 £000s	31/3/20 £000s	31/3/21 £000s Forecast
Usable Reserves					
General Fund Balance	2,000	2,000	2,000	2,604	2,604
Revenue and Earmarked Reserves	22,352	23,813	21,556	24,146	25,453
Capital Receipts Reserve	18,658	10,974	6,022	11,805	5,628
Capital Grants Unapplied	377	1,163	3,464	4,956	5,102
Total Usable Reserves	43,387	37,950	33,042	43,511	38,787

4.10 Usable reserves include the unallocated General Fund Balance, Earmarked Revenue Reserves, Capital Receipts Reserve and the Capital Grants Unapplied Reserve. These are cash-backed reserves that the Council can apply to future expenditure subject to statutory conditions (e.g. the Capital Receipts and Capital Grants Reserves can only be used to finance capital expenditure).

4.10.1 The ***General Fund Balance*** represents a working balance to help cushion the impact of uneven cash-flows and minimise unnecessary temporary borrowing. It is reviewed annually by the Head of Finance and Revenues and, based on the forecast cash-flows identified in the Council's Medium Term Financial Strategy. Councillors are recommended to retain a prudent minimum balance in the General Fund. Currently, this is £2.604M.

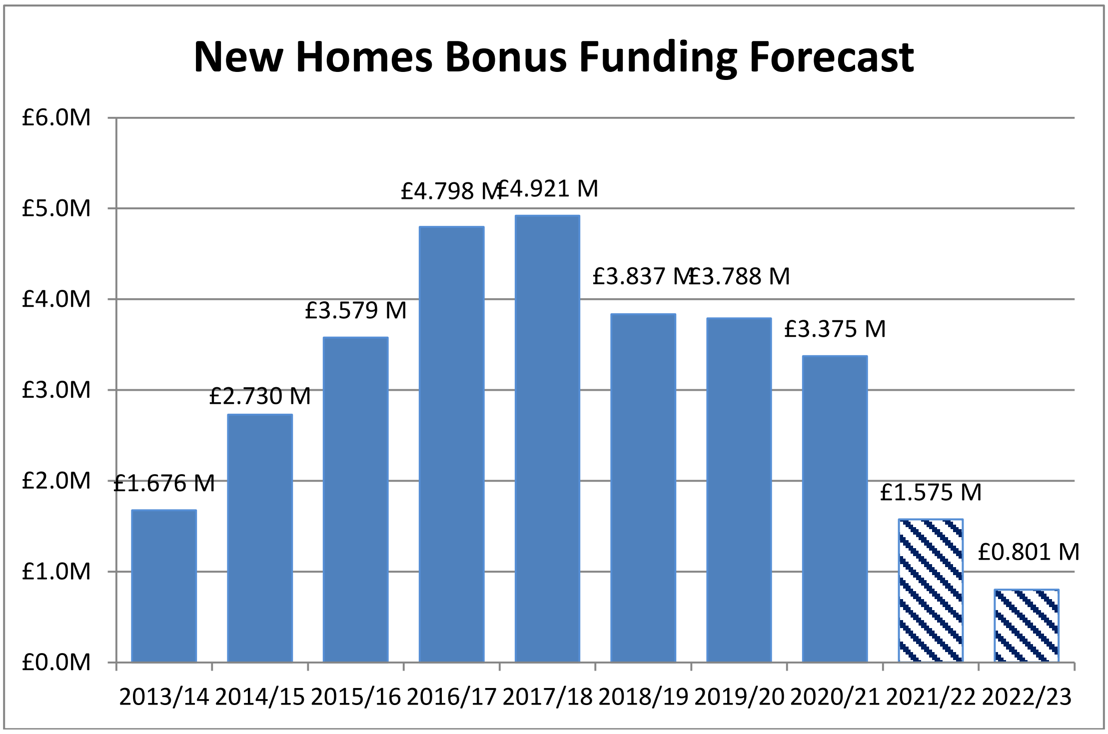
4.10.2 ***Earmarked Reserves*** are a means of building up funds to meet known or predicted liabilities. At 31 March 2020, the Council had twenty-four earmarked reserves totalling £24.1M. These are shown in more detail on page 58 of the Council's Statement of Accounts.

4.10.3 The largest earmarked reserve the Council carries in its balance sheet is the *New Homes Bonus Reserve*. The New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use.

4.10.4 The Council has been very successful in attracting New Homes Bonus. Actual and forecast amounts received and due, amount to over £32M since it was introduced in 2011/12. The forecast balance on this reserve at 31 March 2021 is £8.72M and is included in the total of Revenue and earmarked reserves in the table above (para 4.9).

4.10.5 The Council has not taken this grant into its base budget, but has instead used the reserve to fund projects that have a demonstrable community benefit, such as the Community Asset Fund and funding playground enhancements through the Asset Management Plan. Given the anticipated viability issues around delivering Masterplan objectives in Andover and Romsey, this balance may be required to part-fund delivery of the Council's aspirations in respect of regeneration and service delivery, as required.

4.10.6 Details of actual and forecast receipts are shown below:



4.10.7 Revenue and earmarked reserves contain a mix of reserves that are held for a specific purpose and reserves that are available to mitigate fluctuations in budget setting assumptions. Of the forecast £25.5M identified in the table in 4.9 at 31 March 2021, £15.7M is allocated for future projects and £9.8M comprises the unallocated New Homes Bonus balance and other reserves held to equalise the effects of future budget fluctuations.

4.10.8 ***Capital receipts*** from the disposal of assets are treated in accordance with the provisions of the Local Government Act 2003. The Capital Receipts Reserve can only be used to fund capital expenditure, to repay debt, or to fund credit arrangements subject to the de minimis level set out in the relevant regulations (currently £10,000).

4.10.9 The ***Capital Grants Unapplied Reserve*** holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require payment of the monies, but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied.

4.10.10 The Head of Finance and Revenues has carried out a detailed review of the Council's usable reserves and looking at current levels of balances, he considers that they will remain adequate for meeting the Council's needs over the medium term, provided that the assumptions in paragraph 3.2 (xi) are adhered to insofar as reserves are not used to support an underlying budget gap beyond the very short-term.

5 Financial Context

Government Funding

5.1 Previous Medium Term Financial Strategies have illustrated the dramatic fall that has been felt since the Comprehensive Spending Review (CSR) in 2010. This saw this Council's support through the Settlement Funding Analysis (SFA) fall from £7.11M in 2010/11 to £2.34M in 2019/20.

5.2 Since 2019/20, the SFA allocation has remained consistent, with the government committing to meet the negative Revenue Support Grant position that this Council has found itself in 2020/21.

5.3 The budget forecast in this report has been prepared on the assumption that the Government will continue to fund the RSG adjustment (sometimes called "negative RSG") as it did last year.

Business Rates

5.4 The Business Rates Retention Scheme allows Councils to retain a proportion of any growth in business rates income over the baseline amount. The forecasting of business rates income is especially difficult due to the following factors:

(a) The impact of appeals arising from the national business rate revaluation in 2017/18, and

(b) The potential for further reform of the business rates system with Local Government retaining 75% of business rates income, potentially from 1 April 2022 (subject to, as yet unknown, tariffs).

(c) The collection rates achieved by the Council due to changes in businesses' ability to meet rates liability in light of the coronavirus pandemic.

(d) The effect of measures put in place by the government to help certain sectors through the pandemic. These reliefs, amounting to over £16M in 2020/21, had not been announced when the current year's budget was set and are financed by government grants outside of the Collection Fund. These schemes are due to close on 31 March 2021 and no announcement has yet been made about what reliefs might continue into the next financial year.

(e) Regulations have recently been approved that will spread the losses incurred in the Collection Fund in 2020/21 across three financial years. The overall impact of this is likely to be neutral, but is expected to cause distortions to normal budgeting arrangements over that period.

5.5 As a consequence of the uncertainties identified above, a cautious approach has been taken as to the amount of retained business rates that have been built into the forecast for 2021/22. The retained rates that are included are for 2021/22 only.

5.6 The strategy assumes that there will be a full re-set of the business rates retained income system, effective from April 2022. In the absence of any guidance or information from central government about possible damping or transitional arrangements, all accumulated growth at that point (i.e. £2.5M in 2020/21) is forecast to be lost. An update to these forecasts will be undertaken once the details of the re-set are confirmed.

Council Tax

5.7 With the continuing decline in Government support, Council Tax is now one of the Council's main sources of income.

5.8 The financial strategy aims to keep Council Tax at a comparatively low level taking into account spending priorities and Central Government funding. This should be set in the context of Central Government's expectations of local authorities and already low levels of Council Tax charged in the borough. The current level of Council Tax at £146.41 is still very low - the 27th lowest out of the 188 district councils in England, and the 4th lowest in Hampshire. It is also £41, or 20%, lower than the average Council Tax payable in the rest of England.

5.9 The MTFS forecast assumes that Council Tax will be increased by £5 in 2021/22. The Government has not yet announced its council tax referendum threshold for 2021/22 and there is some doubt as to whether a referendum could even be held in the current pandemic. There may therefore be a need to make an adjustment to the budget forecasts following the Government issuing the referendum principles which are usually published in January each year.

Core Spending Power

5.10 As part of the Local Government Finance Settlement, the Government publishes what it calls "Core Spending Power", i.e. the level of revenue likely to be available to each individual local authority. For this Council it comprises the aggregate of:

(a) The Settlement Funding Assessment amounts;

(b) The council tax requirement (excluding parish precepts);

(c) The New Homes Bonus and

(d) Any Transitional Grants

5.11 As set out in previous paragraphs, the MTFS has been based on assumptions that there will be a full reset of the Business Rates Retention Scheme from 1 April 2022 and a phasing out of the New Homes Bonus Scheme, leading to a severe reduction in the Council's Core Spending Power.

5.12 With only limited accumulated business rates growth included in the forecast for 2021/22, there is an expected reduction in spending power of 16% from 2020/21 levels with a further 15% reduction following a full business rates re-set.

5.13 The table and graph below show the financial impact of expected changes over the medium term:

Test Valley Borough Council Core Spending Power Forecast

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Business Rates	4.890	5.560	5.042	5.199	4.059	2.405	2.405
Revenue Support Grant	0.417	0.056	-	-	-	-	-
New Homes Bonus	4.921	3.837	3.788	3.375	1.575	0.801	0.000
Transitional Grants	0.054	-	-	-	-	-	-
Council Tax	6.747	7.096	7.271	7.643	8.024	8.420	8.678
Total Resources	**17.030**	**16.549**	**16.102**	**16.217**	**13.658**	**11.626**	**11.083**
Annual % change	1%	-3%	-3%	1%	-16%	-15%	-5%
Proportion raised from Council Tax %	40%	43%	45%	47%	59%	72%	78%

6 Key Budget Pressures and Influences

6.1 The largest source of cost pressure comes from inflation. In order to maintain price stability, the Government has set the Bank of England's Monetary Policy Committee (MPC) a target for the annual inflation rate of the Consumer Prices Index (CPI) of 2%.

6.2 Throughout 2020 CPI inflation has ranged between 0.2% and 1.8% and at the time of this report was 0.5%. This low rate is largely attributed to the impact of coronavirus on spending, with the 'eat out to help out' scheme accounting for much of the increase from 0.2% in August.
www.ons.gov.uk/economy/inflationandpriceindices - September 2020.

6.3 In its August inflation report, the Bank of England forecast that inflation is expected to fall further below the 2% target and could reach zero by the end of the year.

6.4 Inflation allowances have been built into the budget forecasts at £600,000 p.a. over the rest of the medium term.

Revenue impact of the Capital Programme

6.5 The capital programme is currently financed through a combination of capital receipts supplemented by specific grants and contributions. The balance on the Capital Receipts Reserve at 31 March 2020 was £11.8M (see table in para 4.9). It is expected that the Capital Receipts Reserve will be fully committed by 2022/23 and the Council will be using a mixture of internal borrowing and borrowing from external sources such as the Public Works Loan Board (PWLB) to finance further capital expenditure. This practice is allowed in accounting regulations and is in line with the limits set in the Council's Treasury Management Strategy Statement (approved by Council, February 2020).

6.6 Further investments are expected through Project Enterprise that may also require the use of prudential borrowing. Each £1M of borrowing is estimated to cost in the region of £79,000 p.a., although the cost is dependent on the prevailing rate of interest, the type of loan and the term of the loan when the asset is acquired. (Estimates based on a 2.21% interest rate annuity loan over 15 years).

Interest Rates

6.7 The Council's Treasury Adviser, Link Asset Services, has provided the following forecasts of interest rates:

	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Bank Rate	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
5yr PWLB	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.1%	2.1%	2.1%
10yr PWLB	2.1%	2.1%	2.1%	2.1%	2.2%	2.2%	2.2%	2.3%	2.3%
25yr PWLB	2.5%	2.5%	2.5%	2.6%	2.6%	2.6%	2.7%	2.7%	2.7%
50yr PWLB	2.3%	2.3%	2.3%	2.4%	2.4%	2.4%	2.5%	2.5%	2.5%

6.8 Given the current level of uncertainty in the financial markets, particularly surrounding Covid-19 and Brexit, these forecasts will continue to be reviewed over the next few months and before any borrowing is undertaken.

6.9 The MTFS forecast is based on base rate levels as shown in the table in paragraph 6.7 above. Further work is currently being carried out to assess the likely cashflows expected in 2021/22 and beyond. A further update will be provided to Cabinet in January and February using the latest market information.

Hampshire County Council's Savings Proposals

6.10 When the 2020/21 budget was set, a revenue pressure of £539,000 was built into the medium term forecast from 2021/22 in respect of Hampshire County Council's (HCC's) plans to transform its budget over the medium term. This pertains to three elements of recycling-related income and expenditure. Only one of the three elements will be introduced from 2021/22 and therefore £404,000 can be removed from the budget gap for next year. It is unclear how the other changes will be delivered, if at all, therefore the pressure remains in place from 2022/23 onwards at this time.

7 Overall Revenue Budget Summary

7.1 The Revenue Forecasts for 2021/22 to 2023/24 have been drawn up at a macro level. They do not constitute detailed budgets, which will continue to be prepared on an annual basis within the normal timescales. However, the costing of specific issues and evaluation of proposed developments has informed the forecast.

7.2 The forecast is based on a middle case scenario using the assumptions shown in annex 2. It should be recognised that there will not be sufficient resources to meet all the service delivery ambitions and priorities of the Council without the generation of significant savings or additional income. This financial strategy for the three year period to 2023/24 should ensure that the financial resources of the Council continue to be aligned to the delivery of the Council's service and organisational priorities.

7.3 Achieving the improvements that the Council has set itself will require difficult policy decisions and resource choices to be made.

7.4 The budget principles and guidelines outlined in this strategy will allow for a phased use of reserves over the medium term to allow time to adjust to a standstill budget and an ever decreasing amount of external support. The proposed use of retained Business Rate growth will help the budgetary position in the short-term. The forecasts shows that a budget gap of £688,000 remains to be closed for 2021/22, with further increases in both 2022/23 and 2023/24.

7.5 Current projections indicate the following financial position:

Revenue Budget Summary Statement 2021/22 - 2023/24

	Para. Ref.	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
Base budget		**11,537.8**	**11,537.8**	**12,891.9**	**12,881.8**
Base changes			964.5	293.7	36.8
Annual Inflation	6.1		600.0	600.0	600.0
Changes to retained business rates income and levy			903.0	(903.0)	0.0
Increased Costs:					
Reduction in New Homes Bonus	4.10.3		1,985.8	774.4	0.0
Borrowing costs			(0.9)	(0.8)	(1.7)
Investment Income pressure	2.5.3		421.7	0.0	0.0
Reduced Costs:					
HCC T21 waste savings			(404.0)	0.0	0.0
Reserves:					
Transfer to/(from) reserves			(3,116.0)	(774.4)	0.0
General Fund Requirements		**11,537.8**	**12,891.9**	**12,881.8**	**13,516.9**
Financed by:					
Revenue Support Grant	5.2	0.0	0.0	0.0	0.0
Locally retained Business Rates Baseline	5.4	(2,381.3)	(2,364.0)	(2,405.0)	(2,405.0)
Locally retained Business Rates Growth	5.5	(2,516.0)	(1,695.5)	0.0	0.0
Share of Collection Fund Balance		1,003.3	(119.8)	0.0	0.0
Council Tax	5.9	(7,299.3)	(7,679.8)	(8,075.8)	(8,333.9)
Special Expenses Levy	4.2 (b)	(344.5)	(344.5)	(344.5)	(344.5)
Total Financing		**(11,537.8)**	**(12,203.6)**	**(10,825.3)**	**(11,083.4)**
Budget Gap		**0.0**	**688.3**	**2,056.5**	**2,433.5**

7.6 Details of further efficiency and other savings are currently being gathered together for Members' consideration in terms of the funding gap identified above and these will be presented to Cabinet in January 2021. The Cabinet will then decide on which options should be taken forward as recommendations to full Council as part of the budget setting process in February 2021.

7.7 The Council has a number of earmarked reserves set aside specifically to support the budget over the medium term. The forecast balances on these reserves as at 31 March 2021 are:

- Budget Equalisation Reserve £682,000
- Income Equalisation Reserve £300,000
- Investment Income Equalisation Reserve £250,000 (assumed this balance will be used to offset reduction in investment income in 2021/22).

7.8 Whilst this leaves an uncommitted balance of almost £1M available to ease the pressure of balancing the budget during the next three years, it should be noted that this is not a sustainable solution to bridging the budget gap, as these reserves can only be used on a one-off basis.

7.9 Use of reserves would, therefore, be more appropriate in cases where there are temporary or one-off pressures rather than to provide a short-term solution to an ongoing budget shortfall. An example of this would be the use of reserves to cover temporary reductions in income caused by the coronavirus pandemic.

7.10 It is estimated that the net effect of coronavirus on Council budgets, after allowing for government support, will be over £1.5M in the current year. Without compensating savings or further support, any deficit in the year will need to be drawn from reserves, depleting the levels shown above.

7.11 The Council also has a Collection Fund Equalisation Reserve of £3.4M which has been funded from enhanced growth in business rates since 2013. Current levels of forecast growth included in the 2020/21 base budget are £2.5M, so a hard reset, without any damping or transitional arrangements, could create a sudden financial shock to the Council. This reserve could be used to soften the impact of such a reduction in spending power over the medium term.

8 Achieving the Medium Term Financial Strategy

8.1 In recent years the Council has been able to set a balanced budget through a combination of the following:

- Corporate Challenge process
- Procurement savings
- Improving value for money
- Service transformation
- Savings from partnership and shared services
- Generating additional income through use of fees and charges
- Generating additional income through external funding sources
- Generating additional income through Project Enterprise

8.2 However, the current forecast budget shortfall, coupled with level of uncertainty that is currently faced by this Council, and others across the country, is so acute that it is unlikely that these factors alone will be able to balance the budget in the medium term.

8.3 Without further government support or the certainty of how a business rates re-set will affect our budgets, it is probable that the controlled use of earmarked reserves will be required to balance the budget over the next two or three years. This is not a sustainable position to maintain as reserves can only be used once. However, using reserves in a controlled manner over a defined period will enable the Council to take the time to deliver sustainable savings that continue to deliver the best outcomes for the citizens of Test Valley.

8.4 Annex 1 outlines the proposed action plan that will be pursued to ensure that any draws from reserves are minimised to the minimum level possible.

9 Capital Strategy

9.1 The Capital Strategy will be reviewed and updated in February 2021, but is unlikely to change significantly. The strategy sets out the following key principles:

(a) Linking together capital requirements related to corporate priorities for new projects and the ongoing capital need to maintain / repair existing assets through the Asset Management Plan

(b) Managing the approved Capital Programme in an affordable, financially prudent and sustainable way

(c) How new bids are introduced to the Capital Programme and understanding the revenue implications associated with new capital expenditure.

(d) Monitoring progress against approved budgets

(e) Financing capital expenditure including borrowing requirements and Minimum Revenue Provision (MRP)

(f) Purchase of commercial properties and the resources required to ensure due diligence

(g) Knowledge and skills

9.2 Full details of the existing strategy can be found in the Cabinet report on 11 March 2020.

10 Corporate Objectives and Priorities

10.1 Using its investing approach, the Council's priorities are focussed on **growing the potential of**:

- **Town Centres -** to adapt and be attractive, vibrant, and prosperous places
- **Communities -** to be empowered, connected and able to build upon their strengths
- **People -** to be able to live well and fulfil their aspirations
- **The Local Environment** - for current and future generations

10.2 The Council will ensure that budgets are directed towards these key priorities. The mechanism for achieving this is the Council's Strategic Planning Framework (corporate clockwork), which includes a timetable for developing budgets and service plans to ensure that budgets are aligned to these priorities.

APPENDIX B

11 Consultations/Communications

11.1 The information contained in this report will form the basis for future discussions about the 2021/22 budget. It will go forward to the Budget Panel of the Overview & Scrutiny Committee for comments on 11 January 2021.

11.2 The budget consultation with business will take place in the next three months. The final form of the consultation is not yet decided, but is expected to be carried out online.

11.3 Once the provisional Local Government Finance Settlement has been received in late December / early 2021 it will be necessary to update the current figures and to take account of the comments made by the Overview and Scrutiny Committee and the views of businesses.

12 Risk Management

12.1 A risk assessment has been completed in accordance with the Council's Risk management process and has identified the significant (Red or Amber) risks shown below:

Risk	Likelihood	Impact	Management of Risk
Future resources less than assumed - **RED**	Significant **C**	Critical **II**	Revenue: Assess impact of Spending Review and Local Government Finance Settlement at the earliest opportunity. Monitor the impact of the localisation of business rates and of support for council tax and revise forecast as necessary. Capital: Schemes and projects kept on reserve list until resources are confirmed. Monitor the amount of future usable capital receipts.
Income targets are not achieved **- RED**	Very High **A**	Significant **III**	Monthly monitoring of budgets and projections. Use of the Income Equalisation Reserve if necessary.
The impacts of coronavirus on budgets are greater than forecast or last longer than expected – **RED**	Very High **A**	Critical II	Continual review of budgets and services affected by coronavirus. Ensuring all claims for government support are submitted, to the fullest extent possible, in a timely manner.
Additional costs arising from contract re-negotiation as a result of coronavirus - **RED**	High **B**	Critical **II**	Ensuring that the Council's contracts are thoroughly reviewed to ensure that budgetary impacts are mitigated where possible.
Savings anticipated from reviews are not delivered - **AMBER**	Significant **C**	Significant **III**	Renew corporate challenge process in 2021 continue digital transformation efficiency focus. Closely monitor progress of budget / efficiency savings through monthly budget monitoring. Use of the Budget Equalisation Reserve if necessary.
Investment Income targets are not achieved - **AMBER**	Low **D**	Significant **III**	Forecast is already set at a very cautious level so risk of falling below this is low. Quarterly meetings with Treasury advisors and Finance Portfolio Holder to look for low risk opportunities for investment. Use of the Investment Equalisation Reserve is recommended to cover forecast shortfall in 2021/22.

Legislative changes not anticipated **- AMBER**	Low **D**	Significant **III**	Keep up to date with Government policy and consultations.
Inflation estimates vary from those assumed **- AMBER**	Significant **C**	Significant **III**	These factors have a large influence on the revenue budgets. Inflationary factors to be reviewed regularly.
Future spending requirements are under-estimated **- AMBER**	Significant **C**	Significant **III**	Review Service Plans and spending projections. Closely monitor progress through budget / performance monitoring.
Revenue implications of capital decisions are not taken into account **- AMBER**	Low **D**	Significant **III**	Capital approval processes to be reviewed to ensure all revenue consequences continue to be identified.
Staffing budgets are not sufficiently controlled **- AMBER**	Low **D**	Significant **III**	Rigorous process is already in place for filling posts and managing vacancy targets.
Investment in priority areas does not lead to desired outcomes being achieved **– AMBER**	Significant **C**	Significant **III**	Robust performance management framework incorporating quarterly monitoring reports. Linking budget approvals to Corporate Action Plan projects.
Standards of service fall, particularly in non-priority areas **- AMBER**	Significant **C**	Significant **III**	Robust performance management framework incorporating quarterly performance monitoring reports.
Increased demand for homelessness assessments and temporary accommodation - **AMBER**	Significant **C**	Significant **III**	Review the impact of Universal Credit rollout and the Homelessness Reduction Act additional responsibilities.
Adverse impact on service provision due to HCC's "Transformation to" savings proposals - **AMBER**	Low **D**	Significant **III**	As further details of the proposals become available, assess the potential impact on service provision and take action to limit any financial implications.

13 Resource Implications

13.1 Resource implications are contained within the Strategy itself.

14 Legal Implications

14.1 The Council is required to set a robust and balanced budget under the Local Government Act 2003. This report is the first step towards achieving this aim for the 2021/22 budget.

15 Equality Issues

15.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination and/or low level or minor negative impact have been identified, therefore a full EQIA has not been carried out.

16 Conclusion and reasons for recommendation

16.1 The Council is facing a set of circumstances that together make forecasting a budget harder than has ever been the case before.

16.2 This MTFS takes account of all known financial implications and makes various assumptions in projecting the budget forward for the next three years. However, the Council faces significant financial uncertainty resulting from the coronavirus and there is a lack of information on which to accurately forecast material income streams, such as business rates. This clearly makes any accurate financial planning difficult to achieve.

16.3 The budget position outlined in the Medium Term Financial Forecast is not inconsistent with the position most other Local Authorities will face. However, significant savings will need to be found over the coming years and there is the possibility that the controlled use of reserves will be required in the short-to-medium term.

16.4 These papers will now go forward to Overview and Scrutiny Committee Budget Panel for consideration. The next budget update will be in January 2021.

16.5 The MTFS is recommended for approval for the following reasons:

- To ensure that the Council has a strategic approach to the management of its finances, and

- To enable available resources to be allocated to services in line with Council priorities over the medium term.

<u>Background Papers (Local Government Act 1972 Section 100D)</u> None			
<u>Confidentiality</u> It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	3	File Ref:	N/A
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Report to:	Cabinet	Date:	2 December 2020