

REPORT TO: CABINET

DATE: 21 JANUARY 2021

TITLE: MEDIUM TERM FINANCIAL STRATEGY 2021/22 – 2023/24

PORTFOLIO HOLDER: COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES

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This is a Key Decision

It is on the Forward Plan as Decision Number I011379

The decision is not subject to Call-in Procedures for the following reason:

The decision stands as a recommendation to Full Council

This decision will affect no ward specifically.

RECOMMENDED that Cabinet recommends to Full Council that:

- A** The Medium Term Financial Strategy for 2021/22 to 2023/24 (attached as appendix B to the report) is adopted.
- B** The planned Council Tax increase of 1.99 per cent for 2021/22 as set out in the Medium Term Financial Plan be approved.
- C** That an initial £155,000 is earmarked from the Governments 2021/22 Covid support funding to provide additional council tax hardship support and that up to £300,000 in total is made available should it be required in 2021/22.
- D** That a new Budget Stabilisation Fund is created as set out in this report totalling £1.363 million by utilising £1 million of the existing Severance Reserve and the balance of the 2021/22 Covid-19 funding provided by the Government.
- E** That the New Homes Bonus for 2021/22 totalling £1.079 million is contributed in full to the Discretionary Services Fund.

REASON FOR DECISION

- A** To enable Cabinet to consider the current factors influencing the three year Medium Term Financial Plan and agree the financial strategy for the period

2021/22 to 2023/24 in support of the overall financial plans of the Council over that period and the delivery of its priorities.

BACKGROUND

1. The Medium Term Financial Strategy (MTFS) provides the parameters for the Council's revenue spending and capital investment plans for the next three years. The revision of the MTFS has incorporated the one year funding announcements made by the Government for 2021/22 and has made assumptions regarding subsequent years in the absence of any longer term funding deal. The MTFS has also had to make assumptions in relation to the medium term impacts of the national Covid-19 crisis, which has been an ongoing issue during 2020/21.
2. As with the previous revision of the MTFS, there are a number of key issues which could impact upon it over the three year planning period including:
 - a) As mentioned above the medium term impacts of the Covid crisis which, as reported so far during 2020/21, has seen reduced income combined with spending pressure. Alongside this we have seen the central Government grants to support local authorities through the crisis coupled with the wider financial support administered largely by the Council but targeted at residents and local businesses;
 - b) The uncertainty regarding the Government's intentions regarding public sector funding, which has again seen just a one year financial settlement, and no longer term indications to provide clarity for planning purposes;
 - c) Any immediate and medium term impacts of the ending of the Brexit transitional process on 31 December 2020, which could be very significantly dependent upon the achievement of a trade deal and the context of that deal;
 - d) Any further Government interventions in rent setting policy in the future; and
 - e) Welfare reform and the roll out of Universal Credit full service by managed migration by 2023. It is still difficult to predict the financial costs, the community and social impacts and the future losses to the council as a result of the migration
3. As has been a consistent theme in the MTFS planning in recent years, there remains significant uncertainty with regard to the funding arrangements for the local government sector beyond 2022/23, with only a one year deal having been announced by the government for 2021/22. This ongoing uncertainty stems from both the proposals regarding the new distribution methodology and the actual level of resources to be distributed through that mechanism. Such uncertainty continues to make meaningful financial planning very difficult to predict and

forecast and even more so at the current time with the ongoing impacts of Covid-19 still unclear. Assuming that any change in funding methodology will continue to follow the proposals linked to a Business Rates Retention scheme, the economic conditions locally and regionally will play an increasingly important role in terms of the predicted business rates forecasts and the baseline funding level set by the Government. Again, medium and long term impacts of Covid-19 could well impact the baseline funding and as a consequence the funding over any period thereafter pending a baseline reset.

4. The MTFS is informed by, and supports the Council's Corporate Plan, which appears elsewhere on the Cabinet agenda. The key corporate priorities as set out in the Corporate Plan, are as follows:
 - a) Resilience and Recovery;
 - b) More and Better Housing;
 - c) Regeneration and Thriving Economy;
 - d) Wellbeing and Social Inclusion;
 - e) A Clean and Green Environment; and
 - f) Successful Children and Young People.

ISSUES/PROPOSALS

Proposed amendments to the previously approved MTFS (February 2019)

5. The key messages contained in Section 1 of the proposed MTFS continue to form the cornerstone of the Council's financial planning. Proposed changes in key assumptions underpinning the financial forecasts are set out in Appendix A to this report, and mainly relate to changes at a national level, or the content of the draft Local Government Finance Settlement announced on 17 December 2020.
6. Proposed key amendments to the Strategy are set out below:
 - a) In light of the significant impacts of the Covid-19 crisis, both short and potentially long term the use of reserves will be planned for in the 2021/22 budget and may be required beyond next financial year dependant on recovery and the local economic impacts;
 - b) In addition, the significant uncertainties surrounding the funding changes proposed for local government (Fair Funding Review and Business Rates Reform), the planning period covered by the MTFS remains restricted to three years; and

c) Changes are made to the reserves as set out in paragraphs 23-32 below.

7. The resulting General Fund Medium Term Financial Plan (MTFP) (attached as Appendix E to the report) shows that, subject to the assumptions that have been made, the Council is able to deliver a balanced General Fund budget for 2021/22 and will have forecast budget gap in 2022/23 and 2023/24 of £185,000 and £335,000 respectively with no ongoing dependency on reserves. It should be noted that the projected budget beyond 2021/22 is subject to the Government's future funding allocations to the Council, the on-going economic environment in which the Council will operate and any investment requirements needed for existing and on-going service delivery.
8. In considering the budget proposals contained within this report it is important to appreciate the savings already delivered by the Council in recent years. Table 1 below summarises the savings achieved since 2007/08.

Table 1 – Savings achieved

	2007/08 to 2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Annual Savings	-	1,286	1,000	605	422
Cumulative Savings	19,177	20,463	21,463	22,068	22,490

9. In light of the scale of the reductions and in the absence of any assurances that local growth in business rates will compensate for the overall reduction in the Council's Settlement Funding Assessment (SFA), the protection of services cannot be guaranteed in future years.

Council Tax Levels

10. The MTFS forms a key planning tool for budget setting purposes. Economic indicators forecast that the level of inflation will be as set out in the table 2 below. It should be noted that many forecasting sources exist and that the Council has relied upon data from the Bank of England Monetary Policy Report (November 2020) provided by its treasury management advisors Arlingclose.
 - a) The Council Tax Band D amount proposed in the 2021/22 Budget represents a 1.99 per cent increase in the district element when compared with 2020/21.
 - b) The Localism Act introduces the need to hold local referendums in relation to Council Tax increases if those increases are above the limits set by the Government. The Secretary of State announced in the draft finance settlement that the limit on Council Tax increases for 2021/22 will be two per cent or £5 (whichever is the greater) before a

requirement to hold a local referendum would be triggered. There will be no requirement to test the 2021/22 budget proposals against this requirement as the MTFS contains proposals which fall below the Government set limits.

Table 2 – Forecasted Levels of Inflation

Index	Apr 20	Sep 20	2021
CPI	0.8	0.5	2.0
RPI	1.5	1.1	2.7

CURRENT ISSUES INFLUENCING THE MTFS

The Comprehensive Spending Review

11. The Government’s Comprehensive Spending Review (CSR) process has made significant reductions to the financial settlement for councils. At a local level the Council has seen reductions in its grant as shown below.

Table 3 – Grant Reduction Levels

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Grant Reduction	14.6%	13.7%	14.2%	15.9%	10.1%	3.5%	(1.6)%

12. The draft settlement released on 17 December 2020 was broadly aligned to previous MTFS assumptions and confirmed that the impact of falling in to a negative Revenue Support Grant scenario (which the Council did) has been met within the settlement and has therefore removed this potential pressure for 2021/22. However, the risk of reduced income from the collection of business rates is still an issue under the current funding arrangements and as such, a medium term priority is to ensure that sustainable budgets can be delivered in future years with Business Rates and Council Tax forming the two key revenue streams for the Council. The release of the draft settlement has also confirmed that the funding available under the Government’s one year deal, will only be applicable to the 2021/22 financial year leaving the later years of the MTFS planning period very uncertain and difficult to predict.
13. The proposals contained within the MTFS and the General Fund Revenue Budget 2021/22 report elsewhere on the Cabinet agenda will be sufficient, if agreed, to deliver a projected balanced budget for 2021/22 financial year.

Business Rate Retention (BRR)

14. The BRR Scheme has operated since 2013 and, as previously reported will increasingly feature as the core source of direct Government funding within SFA if the new government agrees to continue with the plans for local government finance reform. The BRR Scheme was intended to see a simplification of Council funding arrangements and to incentivise Councils to encourage

economic growth in their areas. In return, this would improve the business rates collectable and therefore the funding retained locally through the new funding arrangements.

15. The new funding system still retains the RSG system within the SFA which in itself is extremely complex and assesses a Council's funding need on four key formula driven elements. It is very much a mechanism which can be used by the Government to influence Council funding at a national level. The forward forecast of funding received through the RSG element of SFA has now reduced to a negative sum. As mentioned in paragraph 12 above the Government has given a commitment to all local authorities placed in this position by the funding formula to fund the negative element of RSG through the central share of business rates which will leave no impact locally for Councils.
16. As previously reported, BRR is not only more complex than had been envisaged and includes the transfer of risks to councils, but it also introduced the redistribution of significant proportions (50 per cent) of locally collected business rates directly back to the Government.
17. Whilst progress had been made in relation to the development of the full business rates retention proposals much of the momentum has been lost initially due to the focus on the Brexit and European trade negotiations and now in 2020 by the national Covid-19 crisis. In the absence of primary legislation the Ministry for Housing, Communities and Local Government (MHCLG) are considering ways in which the Government's manifesto commitment to give local Government greater control over their income can be taken forward and have committed to restart the work on Business Rates reform and the Fair Funding Review during 2021.

Business Rates Pooling

18. A business rates pool has operated within Essex during 2020/21. The major benefit of being in a pool is the reduced levy rate applied to the local business rates growth achieved in the year. It is anticipated that pooling and therefore the Essex pool will continue in to 2021/22 subject to any further information which may become available alongside the finance settlement. However the benefits of pooling are not likely to be achieved as planned in 2020/21 and as a result this remains a significant risk area for the budget in 2021/22

Welfare Reform

19. As previously reported, the Localism Act 2011 contained a number of provisions which impact on the Council and its financial position. One of the key changes was the localisation of the previous national Council Tax Benefit Scheme. The Council continues to work hard to ensure that the impact on local residents resulting from the introduction of the Local Council Tax Support Scheme (LCTSS) and the funding cut implemented by the Government is minimised as far as possible. It is also anticipated that there will be some form of additional support for those impacted by the Covid crisis next year in a similar way to the additional £150 contributions made in 2020-21. Details of how the funding can

be used and the actual allocations have not been released within the draft settlement but nationally the funding totals £670 million.

20. The Council has once again worked with the major precepting bodies to ensure that the Hardship Fund, established to support the most vulnerable within the local community, will continue in 2020/21. The Fund has been fully utilised in each of the years since it was established and is likely to be so again in 2020/2021. In light of the Covid-19 situation and subject to approval of the recommendations set out in this report up to a further £300,000 will be made available to deal with hardship cases in 2021/22 To provide as much stability as possible to those households impacted by the introduction of the LCTSS, the Council's scheme will again remain unchanged in 2021/22, as agreed by Full Council at its meeting on 10 December 2020.

The Economic Conditions

21. The current economic situation is more volatile and unpredictable at the time of planning the 2021/22 budget than at any time since the 2008 financial crisis. The impacts of Covid-19 and the ongoing crisis that has materialised following the first national lockdown in March 2020 have had a variety of impacts on the Council's financial position. These impacts which include volatility in income streams, including business rates, Council Tax and housing rents have been reported during 2020/21. There have also been additional expenditure pressures directly linked to Covid-19 in dealing with Personal Protective Equipment (PPE), technology including the equipment required to enable staff to work from home, the installation of new and additional signage, providing Covid-19 updates to residents, providing staffing for the reopening of the high street and managing the enforcement of Covid-19 guidance issued by the Government, and the implementation of platforms to enable virtual meetings to work effectively. With a high degree of uncertainty in relation to the national and local economic performance moving in to 2021/22 it is likely that impacts will continue to be felt for the next twelve months and potentially across the period of the MTFS.
22. The Council's budgets, particularly its income budgets, will be susceptible to variation as we have already seen in the first nine months of 2020/21. Further expenditure pressures are also likely but are currently difficult to predict with any accuracy. These factors combined with the likelihood that there will be significant reductions in the government's support for local government as we move in to 2021/22 all combine to make setting a budget and forecasting the MTFS with any degree of certainty extremely difficult. Despite this the good financial management across the Council's budget continues and has ensured that the overall budget has remained, and is projected to remain under control despite the significant Covid-19 impacts. Updates are and will continue to be reported to Cabinet on a quarterly basis throughout each financial year to ensure that the Cabinet is fully engaged with the financial management of the Council. In view of the economic climate, and to ensure that the Council's budgets are set at realistic levels without unnecessarily making service reductions in a situation where data is still limited and there is high uncertainty regarding the progress of the crisis over the next six to twelve months the MTFS makes assumptions regarding the management of the situation for 2021/22.

Reserves

23. A key aspect to the management of risk and service transformation or transition is to establish appropriate and effective reserves to help the Council work through funding changes in a planned way.
24. Some of the services supported by the Discretionary Services Fund (DSF) have now been returned to core funding including the Playhouse, Pets Corner and the Community Safety Team thus removing their reliance on the DSF for their ongoing financial support. This programme of returning services to core funding will continue in future years subject to the ability to contain the costs within the general fund budget without the need for other service cuts.
25. In terms of responding to Covid-19 and its impacts locally the provisional local government settlement has detailed some ongoing support packages to help local authorities deal with the ongoing crisis;
 - a) For 2021/22 the Government has earmarked a further £1.55 billion of financial support. Based on the initial allocations within the draft settlement the Council is projected to receive £517,920 from this unringfenced Covid-19 support grant, similar to the funding received during 2020/21;
 - b) A new one off funding for lower tier authorities “Lower Tier Services Grant” which will provide one off funding in 2021/22 of £132,794 for Harlow.
 - c) Funding will be provided in respect of assisting to help meet the costs of the increased Local Council Tax Support caseloads. The indicative allocations show that Harlow will receive £191,000 from this unringfenced grant in 2021/22
 - d) The Sales Fees and Charges support is also planned to continue for the first quarter (April – June 2021) only. It is not yet possible to determine how much support this will provide locally but claims for any qualifying lost income will be made at the appropriate time and reported through the in-year budget monitoring process; and
 - e) The Government has also outlined proposals to help meet up to 75 per cent of the costs of unrecoverable Council Tax and Business Rates income. The scheme has been outlined but allocations of funding will not be available until late in 2021/22 due to the nature of the scheme being outlined and the data sources it will rely on to determine those allocation.
26. The schemes and funding flowing from them will be allocated appropriately during 2021/22 to help meet the ongoing pressures facing the council as a result of the crisis. With regard to the unringfenced Covid-19 funding (see 25a) above) it is proposed that, whilst it is not sustainable to freeze council tax over the medium to long term, an initial sum of £155,000 of the grant allocation

(equivalent to the sum generated by the proposed 2021/22 council tax increase) will be earmarked specifically to provide hardship funding to support those local residents most significantly impacted by the crisis and least able to meet their council tax payments. This will be kept under review during 2021/22 with up to a further £145,000 to be allocated from the proposed Budget Stabilisation Fund if necessary to create a total maximum hardship fund of £300,000 in addition to existing hardship support.

27. To supplement the government announce support and in light of the impacts on the Councils finances in 2020/21 £1 million of the Council's Severance Reserve will be reallocated, along with the balance of the government Covid-19 funding detailed at 25a) above in to a new Budget Stabilisation Fund giving an available finance of £1.363 million to support the Council next year should it be required. The creation of the fund will remove the need to make short term decisions related to potential budget reductions especially related to income from both fees and charges and business rates/council tax over the next twelve months while the General Fund balance is restored. It will also provide resilience whilst the council builds its understanding of the medium to long term impacts on the local economy and residents' behaviour moving forward.
28. As a result of the good financial management demonstrated across all services in recent years the Council was able to take advantage of utilising its General Fund balance to help finance the Council's pension fund payments in advance for 2020/21, 2021/22 and 2022/23. This has enable significant savings to be achieved across the three financial years and for the General Fund balance to be restored over the same period to a level in excess of its minimum recommended level. The results of the good financial management in recent years has also enabled one off projects such as the Environmental Project to be funded and for money to be set aside to support future developments such as the investment in the Council's paddling pool facilities and estates parking schemes. Moving forward in to 2021/22 and beyond there remains a high degree of uncertainty as already detailed in this report and for this reason it is intended that the General Fund balance will, by 2022/23 be restored to a balance at or around £4 million to provide sufficient scope to manage any long term impacts of Covid-19 and/or the transitional phase of the proposed new finance system for local government to enable funding reductions to be managed.
29. Further details of the reserve's movements are set out in the General Fund Budget report, which features elsewhere in the Cabinet's agenda.
30. As part of the revision of the MTFP and in light of changes introduced through the Localism Act 2011 this report reaffirms the commitment to:
 - a) The on-going receipt of New Homes Bonus payments from the Government with planned allocations being applied to the DSF in 2020/21 and future years should they continue under the new funding arrangements; and

b) The General Fund Reserve minimum balance being maintained at £2.5 million to enable the Council to manage future short term volatility in resources. Although this is the recommended minimum working balance for the General Fund, it is recommended that the actual balance is maintained above this minimum to enable the Council to operate flexibly and manage its risks without contravening the minimum level, especially during the period of major uncertainty over the next two to three years in light of the governments funding review and the possible ongoing implications of Covid-19.

31. In moving forward, Cabinet should be aware of the considerable potential pressures on the uncommitted level of reserves as follows:

- a) The possible exposure to fluctuations in Council Tax and rent income as a result of the ongoing impacts of the Covid-19 crisis and employment in the local economy;
- b) The need to review the reserve in order to counter the risk of not being able to accurately predict Housing Benefit subsidy due to the complexity of calculations and the impact of small variations in accuracy and collection rates on the subsidy receivable. Variations can also potentially occur each year between the returns the Council must submit and the audit of those returns.
- c) The ongoing risks associated with the new grant mechanisms and the volatility which could be experienced in core funding as a result. Although the potential inclusion within the Essex business rates pool will reduce the levy rate paid there is a risk to all councils in that pool should the economy take time to recover from the downturn caused by the pandemic and the closures of businesses in the various tiers of restrictions. The pool must bear the costs of councils within it falling below their baseline funding level – as is expected to be the case in 2020/21. With the ongoing uncertainties of the Covid-19 and the ending of the European Union transition period on 31 December 2020 there is a potential risk that the economy could have ongoing adverse impacts on the pool.
- d) The need to work above a reasonable buffer between the minimum recommended level and the actual level of reserves so that the Council is able to work ‘comfortably’ above the minimum level. Given the challenges outlined in this report this may prove to be very difficult in future years.
- e) The need to be able to finance one-off expenditure from reserves should the need arise.
- f) The increased risks associated with the Council’s treasury management activities and the changes introduced by the Government that would expose the Council to higher risks that previously experienced.

32. The Cabinet's attention is also drawn to the risks identified in section 10 of the MTFs, as well as the Council's strategic risks which are reported to Cabinet and the Audit and Standards Committee. Such risks and the impact of those risks on the MTFs will need to be closely monitored during the year.

Capital

33. A five year projection of capital expenditure and capital financing is set out at Appendix C. The funding projections reflect a prudent assessment of asset sales which will help support the programme and help meet the repayment of internal borrowing which has been undertaken in anticipation of receipts. Accumulated internal borrowing is forecast to stand at £18.2 million by the end of 2020/21 and whilst asset sales are forecast to continue during 2021/22 they will not be sufficient to support the Non Housing Capital Programme. The Council's MTFP includes a revenue provision sufficient to fund external borrowing of £3 million per annum. The Non Housing Capital Programme continues to be developed within the available funding envelope.
34. The Housing Capital Programme had been developed in light of the increased funding and flexibilities offered as a result of the introduction of the self-financing model in 2013 as well as the more recent lifting of the HRA borrowing cap. The Government's imposition of the annual one percent reduction across the four financial years 2016/17 to 2019/20 has had a major impact on the account and the council's position in relation to the repayment of debt.

Conclusions

35. The proposed MTFs provides a reasoned and prudent basis for financial planning and management, creating the context for the delivery of the Corporate Plan and for the formulation of the annual budgets.
36. The MTFs will continue to be reviewed at least annually during the budget setting process.

IMPLICATIONS

Environment and Planning (Includes Sustainability)

As contained within the report.

Author: Andrew Bramidge, Head of Environment and Planning

Finance and Property (Includes ICT)

The MTFs is a key component in the efficient and effective management of the Council's financial resources. Financial implications are contained within the report.

Author: Simon Freeman, Deputy to the Chief Executive and Head of Finance and Property Services

Housing

None specific. Housing finance changes are covered fully in the report Housing Revenue Account Budget and Housing Revenue Account Business Plan elsewhere on the Cabinet Agenda.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

None specific.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

The General Fund Revenue Budget 2019/20 report elsewhere on the Cabinet agenda details the main human resource implications associated with the proposed Council budget. Subsequent years will be addressed in a similar way at the time.

Author: Simon Hill, Head of Governance

Appendices

Appendix A – Changes to the MTFS assumptions

Appendix B – Harlow Council's Medium Term Financial Strategy 2020/21 to 2022/23

Appendix C – Capital Programme Medium Term Financial Plan (MTFP) 2020/21 – 2022/23

Appendix D – Housing Revenue Account Medium Term Financial Plan (MTFP) 2020/21 – 2022/23

Appendix E – General Fund Medium Term Financial Plan (MTFP) 2020/21 – 2022/23

Background Papers

None.

Glossary of terms/abbreviations used

BRR – Business Rates Retention

CSR – Comprehensive Spending Review carried out by the Government in relation to the local government funding arrangements

DSF – Discretionary Services Fund

HRA – Housing Revenue Account

LDF – Local Development Framework

LCTSS – Local Council Tax Support Scheme.

MTFP – Medium Term Financial Plan is the General Fund budget projections over the 5 year period of the MTFS)

MHCLG – Ministry for Housing, Communities and Local Government

MTFS – Medium Term Financial Strategy is the full financial plan across five years that considers the General Fund, HRA and Capital budgets

MRP – Minimum Revenue Provision

RSG – Revenue Support Grant

SFA – Settlement Funding Assessment