14 October 2020	ITEM: 12
Cabinet	
Medium Term Financial Strategy Update & General Fund Budget Implications	
Wards and communities affected: All	**Key Decision:** Non-Key
Report of: Councillor Shane Hebb, Deputy Leader and Cabinet Member for Finance and Transformation	
Accountable Assistant Director: Jonathan Wilson, Assistant Director of Finance, Corporate Finance	
Accountable Director: Sean Clark, Corporate Director of Finance, Governance & Property	
This report is public	

Executive Summary

Cabinet received an update on 16 September 2020 that showed that the Medium Term Financial Strategy (MTFS) forecasts had deteriorated to a £33.673m deficit over the next three years, including a projected deficit in 2021/22 of £19.3m, since February 2020. This represents a combination of projected reductions in locally raised taxes, increased costs – especially around social care resilience - expected reductions in fees and charges and a pause on elements of the Capital Strategy. This position continues to be assessed and remains subject to significant uncertainty.

This report sets out the current approach to achieving a balanced budget for 2021/22 and the council's reserves that could support the budget in the short term.

1. Recommendations:

1.1 That Cabinet support the approach to meeting the budget pressures in 2021/22 through short term measures; and

1.2 That officers bring reports to Cabinet, and the relevant Overview and Scrutiny Committees, as the proposals for next year (2021/22) are further developed.

2. Medium Term Financial Strategy

2.1. The MTFS is included at Appendix 1. The overall financial position over the next four years has deteriorated by £27.485m since February 2020. This reduction has arisen from the projected direct impact of COVID-19 and the pause to elements of the Capital Strategy, most notably further capital investments and Thurrock Regeneration Ltd (TRL).

2.2. The ongoing impact of COVID-19 has resulted in the following key impacts on the council's budget position:

- Local Funding – the projected decrease in the financial funding from Council Tax and Business Rates equates to lower income estimated at £3.293m. This includes assumptions on the collection fund deficits and increases in the use of the Local Council Tax Scheme from the current year which remain subject to the wider continuing economic impacts of the pandemic;

- Budget surpluses are no longer projected across the life of the MTFS as the costs of the pandemic absorb these to fund essential services. This equates to a deterioration in resources of £5.531m; and

- Additional ongoing costs and loss of income – additional pressures and further income losses total £3.320m.

2.3. As reported in the September 2020 Cabinet report, elements of the capital strategy has been paused for new activity. This lends to a projected impact of £11.973m over the life of the MTFS. This includes both cash investments and capital investments in TRL and hence the associated targets have been removed pending further consideration.

2.4. As reported previously, the reform of the council's services and approach will continue as planned despite COVID-19, but now at a faster pace than anticipated pre-pandemic. There remains no impacts on existing investments from the pandemic in regards to performance, seven months after lockdown commenced. Should the market return to a more favourable position, new; significant investment opportunities could be undertaken once the commitment to further enhancing the democratic oversight is completed, in alignment to the Capital Strategy that Members agreed in February 2020. However, the council's financial planning is on the basis that the pause is a longstanding position. In addition, savings targets for subsequent years have been removed totalling £2m and revisions to wider projections total £3.368m.

2.5. There remains uncertainty over the wider, longer-term economic impacts of the pandemic and the level of any further financial support available to local authorities from central government. This continues to be monitored and updates to the MTFS will be made to reflect updated assessments of this position.

2.6. The movements between the 2021/22 forecast reported to Council in February 2020 and that forecast now can be summarised as follows:

	Feb	**Current**	**Var**	
Surplus b/f	(£4.1m)	0	£4.1m	Based on 2020/21 being within budget – no longer the case
Council Tax & Business Rates	(£2.6m)	£1.0m	£3.6m	One third of collection fund deficit + higher LCTS
Government Grant Reduction	£0.8m	£0.8m	0	Phased reduction in New Homes Bonus etc
Inflation – Pay, contracts, fuel, etc	£3.5m	£5.7m	£2.2m	Increases in contracts and a higher than previously reported pay award.
Treasury	(£0.3m)	£6.2m	£6.5m	Pause to elements of Capital Strategy - TRL and New Investment Targets
Unavoidable Growth	£2.3m	£4.3m	£2.0m	Mainly social care when considering current market and resilience
Fees and Charges	0	£1.3m	£1.3m	Assumption that fees and charges will not fully recover in 2021/22
CSR Savings	(£1.0m)	0	£1.0m	Target now absorbed into overall forecast
Balance	(£1.4m)	£19.3m	£20.7m	(Surplus) or Deficit

2.7. The Collection Fund is a key variable in the above. The Collection Fund is the accounting term that pulls together billing and collections of both council tax and business rates and manages the movements between what actually happens against original estimates.

2.8. A large impact on council tax this year comes from increases in those receiving Local Council Tax Scheme (LCTS) support – up to a reduction of 75% of the annual bill that is funded by the wider council tax collection, not by government grant – and a lower collection rate. Whilst this latter element should be seen as a deferment in receipt and not a loss, the longer that arrears are in place the more likely there will be a permanent default in collection. That said, the council will still pursue all avenues of collection in a considered way.

2.9. For business rates, losses have been somewhat mitigated by the increased relief that was granted and funded by the Treasury at the beginning of this financial year. That said, we are seeing greater levels of arrears build up. The furlough scheme has also supported businesses during recent months and so the longer-term impact is not yet known once this scheme ceases.

2.10. Collection Fund rules require all surpluses or deficits against estimated figures that build up during a year to be recognised in the following financial year. With the reduction in amounts collectable and a likely higher requirement for provisions for debt, officers are currently estimating a combined loss of £5m. However, recognising the impact on councils across the UK, the government has agreed to allow for these deficits to be collected over three years to soften the impact. The MTFS figures in this report assume that the £5m will be spread equally over three years.

2.11. There are then further impacts on local taxation for next year with assumptions on higher levels of LCTS claimants, assumptions on the COVID-19 impact on businesses and less growth in housing and businesses that would have increased the base.

3. 2021/22 Balanced Budget Approach

3.1. It has been well publicised in national media that all local councils across the UK are facing the same challenge - Thurrock Council is no different. Indeed, a number have had to convene council meetings to agree emergency budgets for 2020/21 as their financial position is so severe.

3.2. Thurrock Council is not in that position, but action is essential to avoid such a position. The increase in reserves in recent years has allowed the council some breathing space to prepare for the significant budget challenges that the council does face over the next three to five years. Action has to begin this council year, to reform the council and operate on a lower-cost base, in time for later in the MTFS, where pressures are currently more severe.

3.3. There are three immediate actions that the council can take that will have a significant impact to begin to address the financial pressures:

3.3.1. The use of reserves. Reserves as at 31 March 2020 that can be used to support the general budget are as follows:

- General Fund Balance £11m;
- Financial Resilience Reserve £6m;
- Social Care Reserve £1.5m; and
- Other £5.5m.

Whilst all of the Reserves could be used, it is only recommended at this stage to commit to use of the non-specific reserves totalling £5.5m. This would still provide resilience against unplanned budget pressures in the future whilst addressing the immediate situation.

Cabinet should note that there are already commitments against these £5.5m reserves with £1m being allocated to supporting the Local Plan development as part of the council's economic recovery effort and an overspend forecast for this financial year. This is currently estimated at £2m, largely due to COVID-19 pressures and the pause in elements of the capital strategy activity as noted earlier in the report.

3.3.2. The use of capital receipts. Whilst capital receipts cannot generally be used for revenue expenditure, an exception is the annual Minimum Revenue Provision (MRP). This budget relates to the amounts that must be set aside for the repayment of debt incurred for capital project borrowing. This is currently included in the revenue budget and is in excess of £8m; and

3.3.3. Post vacancies. Officers have already put in place a recruitment freeze and currently have in excess of 200 vacant posts in the organisation. Through restricting recruitment into vacant posts – though it is recognised that there will be some posts considered essential where recruitment will be permitted – considerable savings can be achieved. Members should note that this approach will impact on the ability to provide services, support capital projects and performance targets within affected areas whilst adding further pressure on remaining officers in all services.

3.4. There are considerable other unknown factors which still require further guidance from the government. Considerations that would impact on the budget pressures include:

- The level of Revenue Support or other grants for next year. The published aim of the Chancellor is to complete a full Comprehensive Spending Review (CSR) that would provide councils with indications of government support for the next three to four years. Although not yet confirmed, it is more than likely that this will now be just a one-year settlement given the pandemic has led to a fluctuation of the economic environment; and

- Council Tax referendum limits. The current limit is 2% and, in line with the normal approach, this is the level increase modelled into the MTFS for the next three years. Any 1% increase equates to approximately £750k and remains a permanent increase to the council’s base.

3.5. A date for the local government settlement is yet to be announced though, in recent years, these announcements have tended to be the week before Christmas, leaving less time to react and plan.

3.6. Without a significant increase in government grant, the areas in 3.3 above will not be sufficient to meet the budget gap as currently forecast and officers continue to work on options to achieve this.

3.7. Cabinet should also be clear that any short-term measure, such as the use of reserves and capital receipts, is not sustainable. Whilst such measures push the pressures into the following years, it does allow some time to reform services, reduce the size of the authority, ahead of years where pressures are most severe. However, only permanent impacts on the budget have an ongoing impact and reduce the deficit over the life of the MTFS and this suggested approach affords Members and officers time to bring forward sustainable options, but with pace to meet the upcoming pressures over the life of the MTFS.

4. 2021/22 to 2023/24

4.1. Whilst the approach set out above will go some way to meet the requirement to set a balanced budget in 2021/22, it is clear that more sustainable changes will be required over the medium term.

4.2. A review of the council's assets had been taking place before the pandemic, with two objectives:

- The Retain, Re-use, Release programme – identify those assets that are not required to realise capital receipts to support the budget; and
- The Cabinet objective of fewer buildings, better services.

4.3. Both of these objectives reduce revenue expenditure in the operation, maintenance and any future capital needs of buildings.

4.4. The transformation programme will continue to identify ways of reducing expenditure through, for example, greater use of digital channels and supporting social care in early intervention.

4.5. The council's largest single budget relates to staff, half of which are in the Adults' and Children's Directorates. All permanent changes that impact on staff and services require considered approaches, formal consultation, impact assessment, mitigation where needed/possible and lead in time to implement.

5. Capital Programme

5.1. The capital programme impacts the revenue budget where prudential borrowing is required in order to fund the proposed schemes. This comes in the form of both interest and capital repayments (MRP) on the borrowing incurred.

5.2. A comprehensive review is underway of the current capital programme with the aim of re-prioritising this demand to focus on the essential and committed schemes only at this time.

6. Reasons for Recommendation

6.1. The Council has a statutory requirement to set a balanced budget annually. This report sets out the budget pressures over the next three years and sets out the approach being taken to meet that requirement.

7. Consultation (including Overview and Scrutiny, if applicable)

7.1. This report is based on consultation with the services and portfolio holders. Reports will be submitted to relevant Overview and Scrutiny Committees over the coming months.

8. Impact on corporate policies, priorities, performance and community impact

8.1. The implementation of previous savings proposals has already reduced service delivery levels and the council's ability to meet statutory requirements, impacting on the community and staff. There is a risk that some agreed savings and mitigation may result in increased demand for more costly interventions if needs escalate particularly in social care. The potential impact on the council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.

9. Implications

9.1. Financial

Implications verified by: **Jonathan Wilson**

Assistant Director Corporate Finance

The financial implications are set out in the body of this report.

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports continue to come to Cabinet and be considered by the Directors' Board and management teams in order to maintain effective controls on expenditure during this period of enhanced risk. Measures in place are continually reinforced across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.

9.2. Legal

Implications verified by: **Ian Hunt**

Head of Legal & Governance - Monitoring Officer

There are no specific legal implications set out in the report.

There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

9.3. **Diversity and Equality**

Implications verified by: **Natalie Smith**

Community Development and Equalities Manager

The Equality Act 2010 places a public duty on authorities to consider the impact of proposals on people with protected characteristics so that positive or negative impacts can be understood and enhanced or mitigated as appropriate. Services will be required to consider the impact on any proposals to reduce service levels through a community equality impact assessment which should seek to involve those directly affected.

9.4. **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

The impacts of the approach set out in this report will impact on staff and all services that the council provides.

10. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

There are various working papers retained within the finance and service sections.

11. Appendices to the report

- Medium Term Financial Strategy

Appendix 1 – Medium Term Financial Strategy

Narrative	2021/22		2022/23		2023/24	
	£000's		£000's		£000's	
1. Local Funding						
Council Tax Base / Charge	(1,740)		(1,500)		(1,500)	
Adjustment for Increase in LCTS	1,541		(250)		(250)	
Council Tax - Collection Fund Deficit b/f	1,403		0		0	
		1,204		**(1,750)**		**(1,750)**
Business Rates Precept	(500)		(665)		(665)	
Business Rates - collection fund deficit	275		0		0	
		(225)		**(665)**		**(665)**
2. Total Government Resources						
New Homes Bonus	527		491		289	
HB Admin	283		0		0	
		810		**491**		**289**
Net (Additional) / Reduction in resources		**1,789**		**(1,924)**		**(2,126)**
3. Inflation and other increases		**5,714**		**4,515**		**4,665**
4. Treasury						
Existing Treasury Inflation Costs	5,223		2,500		2,065	
MRP	308		32			
2020/21 ongoing borrowing rate change	650					
Treasury and Capital Financing		**6,181**		**2,532**		**2,065**
6. Corporate Growth						
Adults	2,500		1,000		1,000	
Children's	1,814		1,314		1,314	
		4,314		**2,314**		**2,314**
8. Commercial - Reduction in Fees and charges @ 20%		**1,320**		**0**		**0**
C/f Position		**0**		**0**		**0**
Working Total		**19,318**		**7,437**		**6,918**