

Report to the Cabinet

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2020



Portfolio: Finance & Economic Development – Cllr J Philip

Subject: Financial Planning 2021/22 to 2025/26

Responsible Officer: Andrew Small (01992 564278).

Democratic Services: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

- (1) To note the backdrop to the Financial Planning process for 2021/22 to 2025/26, including the impact of Covid-19 and emerging changes in local authority finance; and**
- (2) To agree the proposed approach to Financial Planning, including the reporting and governance timetable summarised in Appendix A.**

Executive Summary:

The Council's financial position has been fundamentally altered by the Covid-19 pandemic.

The Council's General Fund has incurred substantial additional costs in combatting the pandemic and all the main sources of income have been adversely affected.

In recognition of the financial pressures that local authorities are under, the Government has provided significant financial support, although so far, it falls significantly short of the true local cost.

The Housing Revenue Account (HRA) has so far fared better, although there have still been some negative impacts, with tenant rent arrears rising and void periods increasing.

The Council approved a two-year Capital Programme of £26.549 million (GF and HRA) in February 2020. In the light of Covid-19 and the continued development of Qualis, there is a heightened need for longer term planning, and the development of an updated and extended Capital Programme through to 2025/26 will require careful consideration and difficult choices will have to be made.

The Council maintains reserves on its Balance Sheet as a safety net to allow for unforeseen circumstances. A Council strength in recent years has been a healthy level of unallocated balances, available for contingencies. The value of this is vividly illustrated by unprecedented financial pressure triggered by Covid-19. However, contingency reserves can only be used once, and Members will have to carefully consider the Council's future reserve strategy in developing the updated MTFS.

Looking to the future, although the key elements of the current (originally four-year) Local Government Finance Settlement are set to be rolled forward again into 2021/22, there are a number of important variables to be determined within the local government funding regime to be introduced in 2022/23, including:

- Council Tax Referendum Limit
- Review of Relative Needs and Resources (previously referred to as the “Fair Funding Review”)
- Proportion of Business Rates retained by Local Government (currently 50%)
- The Business Rates Baseline (which dictates the amount of Business Rates that individual local authorities may retain locally); and
- Future of specific grants (e.g. New Homes Bonus).

A tailored Financial Planning approach, which develops the 2021/22 Budget and updated MTFS through to 2015/2016 is therefore proposed, within a governance framework spanning five months; beginning with this report and culminating in full Council setting a balanced budget in February 2021.

Reasons for Proposed Decision:

To set a framework within which the Council can develop and set its Budget for 2021/22 and update its Medium-Term Financial Strategy through to 2025/26, ensuring that financial sustainability is maintained in the light of the shock caused by Covid-19.

1) INTRODUCTION AND BACKGROUND

- 1.1 The Council's financial position has been fundamentally altered by the Covid-19 pandemic. A balanced budget for 2020/21 was set by the Council at its meeting on 25th February 2020 based on information available at the time and the assumptions set out in the Budget Report. Since then, the position for 2020/21 and future years has changed.
- 1.2 As reported to Cabinet on 20th July 2020, the Council has incurred substantial additional costs in combatting the pandemic and all the Council's main sources of income have been adversely affected. Broad estimates in that report put the potential financial pressure for 2020/21 in a range of between £4.6 million and £7.6 million.
- 1.3 This report sets out a proposed approach to Financial Planning for the next five years (2021/22 to 2025/26) in the light of the pandemic. The report also considers other changes in local government financing that either will or could impact on the medium-term financial position. The focus for Financial Planning is now as follows:

Corporate Strategy

- *Supporting the Covid-19 Recovery Strategy* – as the emphasis shifts from tackling the immediate impacts of the pandemic, towards returning services to normal and dealing with the long-term impacts (e.g. increased unemployment); essentially ensuring that short, medium and long-term financial strategy is able to support financial recovery and future capital needs, including investing in the practical and financial support required to rebuild the local economy; and

- *Supporting the delivery of the Corporate Plan* – maintaining a clear focus on the core principles in the adopted Plan, despite the unprecedented challenge of the pandemic.

Financial Strategy

- *Re-establishing Financial Sustainability* – ensuring that the Council’s financial strategy adjusts to the financial shock caused by the pandemic, and that financial sustainability is restored; this entails maintaining a Balance Sheet as strong as it can be with significant risks identified and mitigated wherever possible; and
- *Improving Financial Control* – implementing improved and streamlined financial planning, management and reporting processes; an integral part of addressing the recent difficulties experienced within the Council’s Finance function. This will ultimately deliver step-change improvements in financial control, which is essential to successfully navigating the more challenging financial environment ahead. It is also an important step towards achieving compliance with CIPFA’s Financial Management Code (effective from 1st April 2021).

2) GENERAL FUND FINANCIAL POSITION

2.1 The Council’s General Fund revenue position prior to the onset of Covid-19 was sound. Unallocated reserves as at 31st March 2019 were £7.4 million, comfortably in excess of the agreed minimum contingency levels.

2.2 Local authorities have been required to report to MHCLG each month on the impact of additional expenditure pressures and reductions in income due to Covid-19. The latest return was submitted by Epping Forest District Council on 31st July 2020, showing an overall 2020/21 projected financial pressure of £7.461 million. The three largest pressures listed were as follows:

- Leisure Centres (income and expenditure) - £2.857 million
- Business Rates (income) - £1.427 million; and
- Car Parking (income) - £0.538 million.

2.3 In recognition of the financial pressures that local authorities are under, the Government has provided significant financial support, although so far, it falls significantly short of the true local cost. Epping Forest District Council has so far received:

- Covid Response Funding – £1,577,032 – general funding made available by MHCLG in three tranches for the Council to apply as it chooses to support its response to Covid-19; and
- New Burdens Funding – £170,000 – an un-ringfenced allocation to the Council for meeting the additional costs associated with administering the Government’s non-discretionary Business Support Grants scheme. The Department for Business, Energy and Industrial Strategy (BEIS) has indicated that a further allocation will be made to reflect the costs incurred in administering the subsequent discretionary scheme.

2.4 In addition, the Government has provided further support to local taxpayers:

- Business Rates – extended reliefs have been granted to qualifying businesses, predominantly in the retail, hospitality and leisure sectors. The estimated value of additional reliefs awarded in the Epping Forest District area was £14.081 million in 2020/21; as well as providing support to local businesses, it is a guaranteed source of income to preceptors, including this Council (via ‘Section 31’ direct payments from central Government), with no risk of default; and
- Council Tax – the Council has been granted £658,000 in Council Tax Hardship funding, which is to help Council Taxpayers meet their Council Tax bills (this has the effect of ‘de-risking’ this income source to preceptors and improving the collectability of residual bills payable).

2.5 Other support announced by the Government includes:

- A commitment to cover 75% of lost income from sales, fees and charges (excluding commercial income) above an adverse variance threshold of 5%; and
- The phasing over three-years of Collection Fund deficit repayments.

2.6 At the time of preparing this report, the precise details of how the lost income scheme will work have not been released by the Government, although it is understood that Epping Forest – with an outsourced Leisure service – will be eligible for compensation; welcome news given that it is the single most significant pressure.

2.7 The phasing of Collection Fund deficit repayments is also welcomed and will help smooth the 2020/21 impact, but the Council’s General Fund ultimately will still have to meet the Epping Forest District Council share of the cost (although Government has announced that it will consider the apportionment of losses between central and local government in the next Spending Review).

2.8 No date has yet been set for the Budget and Spending Review, but they are expected to take place in Autumn 2020, amid speculation that spending plans may reflect the aspirations of the Government’s forthcoming Devolution White Paper. Indications are that the White Paper will encourage the formation of further unitary authorities with elected mayors. It is therefore possible that there may be financial incentives for local government to reorganise along these lines.

3) HOUSING REVENUE ACCOUNT FINANCIAL POSITION

3.1 The Council’s (unaudited) Housing Revenue Account (HRA) Reserve as at 31st March 2020 had a balance of £2.030 million. This just exceeds the minimum £2 million balance assumed within Council’s 30-Year HRA Plan.

3.2 Whilst the HRA is generally in reasonably good financial health and has not been impacted by the pandemic as much as the General Fund, there have still been some negative impacts, with tenant rent arrears rising and, initially at least, a rise in void periods. The full extent of default on Rent Arrears remains to be seen and there are competing pressures between indirect Government support to tenants (e.g. through the Council Tax Hardship Fund) and an expected rise in unemployment in Autumn 2020.

4) CAPITAL PROGRAMME (GENERAL FUND & HRA)

- 4.1 The Capital Programme plays a vital part in delivering the Corporate Plan, since long-term investment plays an essential role in realising the Council's ambitions for the district. The cost of the Capital Programme is spread over the lifetime of investments, so does not have such an immediate impact on the revenue budget position. However, there are revenue consequences to the Capital Programme.
- 4.2 The Council approved an overall Capital Programme of £26.549 million (including £14.207 million HRA) for 2020/21 on 25th February 2020; the routine mid-year review and re-profiling exercise will be a greater undertaking this year, in the light of operational disruption and shifting priorities caused by the pandemic.
- 4.3 The Council borrowed to fund the General Fund element of the Capital Programme for the first time in 2019/20, with further borrowing required in order to meet capital commitments in respect of Qualis.
- 4.4 The Government is currently concluding its consultation on revising PWLB lending terms. The aim is to ensure that local authorities continue to invest in Housing, Infrastructure, and Public Services. The Capital Programme review will therefore assume that the Council will be unlikely to secure funding for purely commercial investments in future.

5) BALANCE SHEET/RESERVES

- 5.1 The Council maintains reserves as a safety net to allow for unforeseen circumstances. There is no statutory definition of the minimum level of reserves: the amount required is a matter of judgement. On 25th February 2020, the Council resolved to carry a minimum balance of the greater of 25% of Net Expenditure or £4.0 million.
- 5.2 The General Fund (unallocated) balance currently stands at £7.759 million on the (unaudited) Balance Sheet as at 31st March 2020.
- 5.3 In developing the Medium-Term Financial Strategy, Members will wish to consider the appropriate future level of reserves. It could be argued that the increased level of risk highlighted by the Covid-19 pandemic justifies increasing the minimum.

6) FUTURE FINANCIAL CONTEXT

- 6.1 For the past five years, local authority funding has been subject to a national settlement originally announced in 2016; 2019/20 was due to be the final year of a four-year settlement. However – due to Brexit – the key elements of the four-year settlement were rolled forward into 2020/21. They are now set to be rolled forward for a further year into 2021/22, due to Covid19.

- 6.2 Key variables to be determined in the future local government funding regime to be introduced in 2022/23, include the following:
- Council Tax Referendum Limit
 - Review of Relative Needs and Resources (previously referred to as the “Fair Funding Review”)
 - Proportion of Business Rates retained by Local Government (currently 50%)
 - The Business Rates Baseline (which dictates the amount of Business Rates that individual local authorities may retain locally); and
 - Future of specific grants (e.g. New Homes Bonus).
- 6.3 The Council will have to continue to exercise caution in reviewing and updating its Medium-Term Financial Strategy (MTFS). Within the overall local government landscape, the pressures on upper-tier authorities – responsible for delivering social care services – has had a higher profile than those faced by lower tier authorities like Epping Forest. This is likely to affect the outcomes of the Review of Relative Needs and Resources.
- 6.4 Epping Forest DC has benefited significantly from Business Rates growth (including a profitable pooling arrangement with the other Essex authorities) since the introduction of the current funding regime. Much of this benefit risks disappearing if the Business Rates Baseline is reset, and the impact of Covid-19 raises an immediate threat to the viability of the Essex Pool from 2021/22. In any equalisation of Business Rates income between local authorities, Epping Forest District risks losing out because of its relative prosperity.
- 6.5 Covid-19 may even lead to Government reconsidering its plans for future local authority funding. For example, the emergency measures introduced to provide additional Business Rates Relief may be retained. Whilst this in itself has no direct financial impact for local authorities, as these measures are fully funded by Central Government, it would challenge the underlying direction of Government policy towards greater devolution of Business Rates income to local authorities; if there is significantly less Business Rates income available, there would be less merit in allocating a notionally higher percentage of the income to local authorities.
- 6.6 At this stage it is not known when clarity will emerge regarding the funding position for 2021/22 or about the way that the new funding regime due to be introduced in 2022/23 will impact the Council. Given the usual pattern whereby the Local Government Finance Settlement is announced just before Christmas, definitive figures for 2021/22 may not be available until late December 2020.

7) PREPARING THE MTFS

7.1 The MTFS must balance the financial pressure due to Covid-19 with the requirement to deliver the Corporate Plan. The Council's Corporate Plan 2018 – 2023 was adopted in December 2017 and links the key external drivers influencing Council services, with a set of corporate aims and objectives, grouped under three corporate ambitions:

- Stronger Communities
- Stronger Place; and
- Stronger Council.

7.2 It is essential to retain a focus on the strategic priorities, as the local community recovers from the pandemic. Even if revenue resources are constrained, the Council still has the potential to use the Capital Programme, which impacts the revenue budget over a longer time period, to deliver many of the priorities. This could for example mean a stronger focus on regeneration projects, which create local employment, and this will be reflected in a review of the Capital Programme.

8) SUPPORTING STRATEGIES

8.1 There are two other mandatory strategies that require updating as part of the 2021/22 Financial Planning cycle as follows:

- Capital Strategy – a mandatory requirement introduced by CIPFA's updated Prudential Code in 2017. It is a 3-year strategy that gives a high-level overview of how Capital Expenditure, Capital Financing and Treasury Management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. Epping Forest District Council adopted its inaugural Capital Strategy for 2019/20; it now needs to be updated to reflect subsequent developments (most notably Qualis); and
- Treasury Management Strategy (TMS) – an annual requirement in accordance with CIPFA's Treasury Management Code (2017 Edition). The Council is increasing its borrowing levels and is therefore exposed to financial risks such as changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to prudent financial management; the TMS is a key document, which helps to achieve that.

Legal and Governance Implications:

The proposals contained within the report will ensure compliance with the statutory Budget Setting process. This includes the required Governance elements (summarised below in **Appendix A**).

Safer, Cleaner and Greener Implications:

There are no direct SCG implications contained within the report, although the implications will be considered in the detailed development of Budget proposals.

Consultation Undertaken:

None. The proposals in the report require further development. Consultation at a later stage is an in-built feature of the proposed Financial Planning approach and timetable.

Background Papers:

None.

Risk Management:

The consideration of risk will form an integral part of the development of the proposals in the report. In particular, the MTFS is based on a series of estimates and assumptions that are informed by varying forms of intelligence (some certain, some uncertain); that process, including any residual risk in the decision-making process will be clearly indicated.

Appendix A

Proposed Financial Planning Timetable

The timetable below proposes a tailored approach to Financial Planning in challenging circumstances, including the required legal and governance arrangements, spanning a five-month period; beginning in mid-September 2020 with this report and culminating in late February 2021 with full Council adopting a balanced budget for 2021/22.

Date	Committee	Report	Purpose
17th September 2020	Cabinet	Financial Planning 2021/22 to 2025/26	Allowing Members to consider proposals for an updated Financial Planning framework, in the light of Covid-19.
19th October 2020	Cabinet	Updated MTFS 2021/22 to 2025/26 (including Budget Strategy 2021/22)	Members to consider first iteration of updated MTFS for 2021/22 to 2025/26, allowing more informed guidance in developing the Budget for 2021/22.
		Capital Programme (General Fund & HRA) update 2020/21 to 2021/22.	Members to consider currently adopted two-year Capital Programme in the light of Covid-19 and provide guidance on developing a revised Programme for 2021/22 to 2025/26.
3rd December 2020	Cabinet	Draft Budget 2021/22, and updated MTFS (2021/22 to 2015/16)	Members to consider detailed draft proposals for 2021/22 to 2025/26.
		Draft Capital Programme (GF & HRA) 2021/22 to 2025/26	
12th January 2021	Stronger Place Select Committee	Draft HRA Capital Programme 2021/22 to 2025/26	Members to scrutinise draft proposals, providing feedback for Cabinet.
19th January 2021	Stronger Council Select Committee	Draft Budget 2021/22, and updated MTFS (2021/22 to 2015/16)	Members to scrutinise draft proposals, providing feedback for Cabinet.
		Draft General Fund Capital Programme 2021/22 to 2025/26	

Appendix A (cont.)

Date	Committee	Report	Purpose
25th January 2021	Audit & Governance Committee	Draft Capital Strategy 2021/22 to 2023/24	Members to consider strategies, making comments and recommendations to full Council
		Draft Treasury Management Strategy 2021/22	
11th February 2021	Cabinet	Draft Budget 2021/22, and updated MTFS (2021/22 to 2015/16)	Members to review latest Budget & MTFS proposals, making recommendation to full Council. Decisions to take account of scrutiny feedback and public consultation.
		Draft Capital Programme (GF & HRA) 2021/22 to 2025/26	
25th February 2021	Full Council	Budget Report 2021/22, including updated MTFS 2021/22 to 2025/26	Full Council to consider and decide upon the Budget for 2021/22, including relevant linked and supporting strategies. Includes setting the Council Tax on behalf of all preceptors.
		Capital Programme (GF and HRA) 2021/22 to 2025/26	
		Capital Strategy 2021/22 to 2023/24	
		Treasury Management Strategy 2021/22	