

COUNCIL MEETING - 13 OCTOBER 2020

MEDIUM TERM FINANCIAL PLAN - 2020/21 TO 2023/24

1.0 Purpose of Report

1.1 To update Members on the Council's Medium Term Financial Plan (MTFP) for the four financial years between 1 April 2020 and 31 March 2024 (2020/21 to 2023/24).

2.0 Background Information

2.1 The MTFP aims to provide members and officers with a clear financial framework for delivering the Council's Community Plan objectives over the next four financial years.

2.2 Updating the council's MTFP is an essential pre-requisite to the annual budget setting process for future years.

2.3 The Council approved the MTFP for the period 1 April 2020 to 31 March 2024 on the 9 March 2020. Since that point in time, the COVID-19 pandemic has affected all Councils in relation to additional costs and shortfalls in budgeted income. Due to this, it is appropriate to revise the MTFP for that period and update Members with the anticipated position.

2.4 The current position from the MTFP approved on 9 March 2020 is shown at table 1 below.

TABLE 1	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)
Contribution (to) or from reserves	(1.341)	1.173	0.988	1.403
(Use of MTFP reserve)/contribution to reserves to offset contributions from reserves in future years	1.341	(1.173)	(0.168)	-
Dividends from Arkwood Developments Ltd	-	-	(0.500)	(0.500)
Savings from service reviews	-	-	(0.100)	(0.100)
Savings/efficiencies from making business processes more efficient	-	-	-	(0.100)
Increased income from the council becoming more commercial	-	-	(0.100)	(0.100)
Contribution (to) or from reserves, after proposed mitigations above	0.000	0.000	0.120	0.603

2.5 The position on 9 March 2020, anticipated utilising the MTFP reserve in order to smooth out the impact of shortfalls in budgets in future years. At that time, however, it was anticipated that the reserve would retain a balance of £0.630m in order to contribute to future shortfalls.

2.6 There are a number of additional pressures that have now affected this position:

- **Potential for current year unfavourable variance** – currently the Council is forecasting an unfavourable variance against the General Fund. This is mainly due to shortfalls in income

generation as a direct result of Covid-19. The Council is anticipating being able to claim a proportion of this lost income back from the Government through the Income Compensation Scheme. This scheme however, specifically excludes the recovery of items such as rental income at industrial estates/the Beacon/the Buttermarket or any commercial income such as interest on investments. It is forecast that the outturn position may require a contribution from reserves of circa £0.600m.

- **Erosion of fees and charges base**– As a result of the reduction in fees and charges seen during this financial year consumers’ habits may have permanently changed, for instance shoppers may have moved to an online mode of purchase, removing the requirement to park within the Councils’ car park. This will potentially reduce income budgets for the foreseeable future. It is estimated that this could result in a reduction in income of around £0.500m during the first year (2021/22) and £0.300m in subsequent years.
- **Additional Covid related costs** – As further announcements come from Central Government regarding restrictions due to Covid, it is anticipated that there will be a requirement for additional costs of running services in future years. Certainly there will be requirements for additional cleaning regimes compared with the original budget that was proposed. An additional £0.200m has been added to the MTFP for the 2021/22 to allow for this.
- **Future pay awards** – The previous MTFP assumed a 2% increase year on year for annual pay awards for staff. The pay award for the 20/21 financial year was finalised during August 2020 at 2.75%. By applying this revised increase year on year, adds another £0.140m annually into the MTFP.
- **Arkwood Dividends** – COVID and the delay in obtaining planning approval for development of the company’s first site has resulted in a delay in the timeline for the development. The date of the forecast dividend receipts from the company has therefore been moved back by a year for both 2022/23 and 2023/24. This has the effect of moving £0.500m out of the original MTFP window.

2.7 Compounding the issues identified above there are a number of known unknowns that the Council must consider as these will have an influence on the MTFP, but at this stage the impact is unknown:

- **Impact on the Collection Fund in the current financial year** – The impact of this is difficult to quantify until the end of the Governments furlough scheme. Should job losses occur based on commentators’ predictions, this will affect the collection rate of both Council Tax and Business Rates. Rises in unemployment will bring increases in Local Council Tax Support (LCTS) for which this reduces the overall Council Tax collectible.
- **Impact on both Council Tax and Business Rates baseline** – As above in that, the Council Tax base will be eroded by increases in LCTS. Where business unfortunately have to close, this will erode the base of businesses for which business rates are chargeable.
- **Future level of support for Business Rates** – There are a number of reliefs now that businesses can receive as part of the Business Rates system. With the extended retail relief announced for the current financial year 63.4% of the Councils’ Business Rates baseline is now funded through s31 grant. This leaves £26.9m of collectable debt after all reliefs have

been applied, of which 53.7% is attributable to 5 hereditaments. The length of time that social distancing is needed within communities will impact businesses ability to trade, and therefore support through reliefs for Business Rates will play an important role in the survival of businesses over the medium term.

- **Overall level of support within the Local Government Finance Settlement (LGFS)** – It is anticipated that the LGFS will be a one year only settlement for the coming year due to the current uncertainty around public spending. With local government bearing a large brunt of the front facing services dealing with the pandemic through additional expenditure and the indirect consequence of the pandemic in lost income, Government support through the next financial year will be imperative for the sector through the LGFS.
- **Trigger level for Council Tax referendum** – Each year through the LGFS Government publish a set of principles regarding the level of Council Tax increase prior to a referendum. Increasing this beyond the average levels seen previously could be a mechanism that the Government utilise in order for local decisions to be made to mitigate any shortfall in budget.
- **Size and shape of the economic recovery** – The way in which the economy recovers from this will impact on the funding of public services through a variety of means. Taxation through Business Rates yield will be affected should the base erode, but also should consumer habits change, the infrastructure around the economy may also need to change.

3.0 Proposals

3.1 Taking all of the above issues into account, the MTFP has been revised, to include all quantifiable amounts, in order to assess the potential impact on the Council's budget over the medium term:

	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)
Identified (contribution)/shortfall	(1.341)	1.173	0.287	0.603
Usage of other reserves	(0.343)	(0.142)	(0.110)	(0.095)
Anticipated 2020/21 budget shortfall	0.600			
Additional COVID related costs		0.200		
Pay award	0.100	0.140	0.140	0.140
Reduction in Fees and Charges		0.500	0.300	0.300
Additional investment in ICT		0.050	0.050	0.050
Use of Council Tax Collection fund surplus		(0.475)		
Profile Arkwood Dividend into 2024/25			0.500	
Contribution (to)/from MTFP Reserve	(0.984)	1.446	1.167	0.998
Balance on MTFP Reserve	(2.343)	(0.898)	0.270	1.268

- 3.2 As can be seen from the table above, there are potential shortfalls in each of the financial years that must be funded by the MTFP Reserve. By the end of the 2022/23 year, currently the reserve will be exhausted and funding will need to be sourced via other means.
- 3.3 It needs to be emphasised that this revised position for 2020/21 does assume an overall unfavourable variance of £0.600m with a zero return from the Nottinghamshire Business Rates Pool for the 2020/21 financial year. Should this variance reduce, then this will have a positive impact on the MTFP.
- 3.4 The Council does have further reserves, but these have been earmarked for other strategic purposes. A schedule of these reserves and the commitments against them are attached at appendix A.

4.0 Equalities Implications

- 4.1 Equalities implications will be identified within specific schemes and projects included in the revenue budget and Capital Programme.

5.0 Financial Implications (FIN20-21/3862)

- 5.1 The MTFP sets out a framework to support budget and policy decisions. The impact of individual schemes will be detailed in supporting business cases.

6.0 Community Plan – Alignment to Objectives

- 6.1 One of the main aims of the MTFP is to deliver the Council's Community Plan objectives through the allocation appropriate allocation of resources and to ensure that funding is aligned in order to deliver this.

7.0 RECOMMENDATION

That the revised Medium Term Financial Plan for 2020/21 to 2023/24 be approved.

Background Papers

Revenue Budget and Council Tax Setting for 2020/21
Capital Programme 2020/21 to 2023/24
Statement of Accounts 2019/20

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