

REPORT TO: Executive Board

DATE: 19 November 2020

REPORTING OFFICER: Operational Director, Finance

PORTFOLIO: Resources

SUBJECT: Medium Term Financial Strategy 2021/22 – 2023/24

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 To establish the Medium Term Financial Strategy for the period 2021/22 to 2023/24, taking into account the potential impact of Covid-19 on the Council's finances.

2.0 RECOMMENDATION: That;

- (i) the Medium Term Financial Strategy be approved;**
- (ii) the 2021/22 base budget be prepared on the basis of the underlying assumptions set out in the Strategy;**
- (iii) the Reserves and Balances Strategy be approved;**
- (iv) the award of Council Tax Support for 2021/22 remains at the 2020/21 level of 21.55%.**

3.0 SUPPORTING INFORMATION

3.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending. It has been based on information that is currently available. The impact of the Covid-19 pandemic has resulted in delays to planned changes to Local Government finance in 2021/22. There is limited financial information available for 2021/22, with the Public Sector Spending Review being the first indicator of funding resources. The Spending Review will be published at the end of November 2020 covering the one financial year only.

3.2 The delay and uncertainty regarding 2021/22 financial resources means the financial information included within the MTFS is based on a large number of assumptions and best estimates. The financial forecast will be updated as and when further information is known.

- 3.3 There is considerable uncertainty surrounding Local Government Funding in 2021/22 and beyond. The Fair Funding Review, which changes how funding is apportioned between councils, was due to be implemented in 2021/22, alongside a Business Rates Baseline Reset and a move to 75% Business Rates Retention. The Government have confirmed that the Fair Funding Review and the move to 75% Business Rates Retention will no longer be implemented in 2021/22. It is unclear how this will impact on pilot authorities such as Halton and whether they will continue at 100% Business Rates Retention, or revert to 49%. No announcement has yet been made regarding the Business Rates Baseline Reset. Details of the 2021/22 Local Government Grant Settlement are expected to be released in December 2020 on a provisional basis, with a final settlement expected in January 2021.
- 3.4 Covid-19 has had a significant impact on the Council's finances in 2020/21, with additional cost pressures in areas such as Social Care, School Transport and Waste Disposal, alongside significant income losses from services which are closed or running at a reduced capacity. Some of the impacts of Covid-19 are likely to continue into the medium and long term, and these have been considered when preparing the MTFS. There is likely to be a significant impact upon the Collection Fund regarding Council Tax and Business Rates income collection. While there is continued uncertainty around the economic impact of the pandemic, the Council may experience reduced council tax income due to an increase in Council Tax Support claimants, and reduced business rates income as companies cease trading or reduce their number of physical properties. Covid-19 may also be responsible for longer-term changes in the level of Adult Social Care provision required and the cost of payments to providers.
- 3.5 The Council has experienced significant demand led pressures in Children's and Adult Social Care over a number of years. As a result, the overall outturn position for 2019/20 showed that total net spending was £5.3m above budget which has been funded from reserves. Despite the Council providing £5.7m of additional funding within the 2020/21 budget, the indications are that these spending pressures are continuing and are being exacerbated by the impact of Covid-19.
- 3.6 Appendix 1 details the Medium Term Financial Strategy from 2021/22 – 2023/24 which has been produced using a prudent estimate of the financial conditions over the course of the next three years.
- 3.7 Although the projections in the Strategy must be treated with a considerable degree of caution, they show there is continued need to make a significant level of savings over the next three years.
- 3.8 The strategy provides initial guidance to the Council on its financial position into the medium term. Adopting a prudent view, the strategy identifies that revenue savings of approximately £15.2m, £3.8m and £3.0m are required over the next three years. As a result, a total of

£22.0m will need to be removed from the Council's budget, by reducing spending or increasing income. This represents 19.0% of the 2020/21 net budget. The majority of these savings will need to be made in the 2021/22 financial year demonstrating the challenge that Covid-19 poses to the Council's financial stability.

4.0 POLICY IMPLICATIONS

4.1 The MTFS represents the "finance guidelines" that form part of the medium term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and Strategies.

5.0 FINANCIAL IMPLICATIONS

5.1 The MTFS provides a guide to projected receivable funding resources over the three year term. The grant amounts included in the MTFS are based on the latest information provided by Government. As new information comes to light the forecast of future income streams will be updated. Decreases to funding resources will create further budget pressures for the Council in delivering its key objectives.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 The revenue budget and capital programme support the delivery and achievement of all the Council's priorities. Reductions of the magnitude identified within the Strategy are bound to have a negative impact upon the delivery of those priorities.

7.0 RISK ANALYSIS

7.1 The MTFS is a key part of the Council's financial planning process, and as such minimises the risk that the Council fails to achieve a balanced budget.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 There are no direct equality and diversity issues.

9.0 REASON FOR THE DECISION

9.1 To seek approval for the Council's Medium Term Financial Strategy for 2021/22 to 2023/24.

10.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

10.1 The alternative option of not maintaining a Medium Term Financial Strategy has been considered. However, this would not follow good financial management practice, as the Medium Term Financial Strategy

is a key element in informing the Council's financial planning and budget setting processes.

11.0 IMPLEMENTATION DATE

11.1 The Medium Term Financial Strategy 2021/22 will be implemented from 1st April 2021.

12.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact Officer
Local Government Grant Settlement 2020/21	Revenues and Financial Management Division, Halton Stadium, Widnes	Steve Baker

Appendix 1

Medium Term Financial Strategy 2021/22 – 2023/24

1.0 Introduction

- 1.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending covering the period 2021/22 to 2023/24. The projections made within the MTFS must be treated with caution and require continuous updating as the underlying assumptions behind them become clearer.
- 1.2 The MTFS represents the "finance guidelines" that form part of the medium-term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and other Strategies.
- 1.3 Beyond 2020/21 there is great uncertainty regarding the funding of Local Government. The impact of Covid-19 and Brexit negotiations have exacerbated uncertainty to the Council's funding resources, which remain as unclear as at any point in the last ten years. A number of major reviews to local government finance have been delayed as a result.
- 1.4 The following measures will continue to be considered throughout the period covered by the MTFS:
 - Fair Funding Review – A review of how cumulative local government funding should be apportioned between councils. The last review was in April 2013 and since then cuts made to local government have been made on a percentage basis. This has had the impact of protecting those authorities less reliant on Government grant funding whilst those councils more reliance (such as Halton) have had to deal with larger cuts in funding on a per head basis. The Fair Funding Review was due to be implemented in the 2021/22 financial year, although this has now been postponed due to the impact of Covid-19. To date, only one indicative formula, relating to Adult Social Care, which will form part of the Fair Funding Review has been published. The formula suggests that deprivation will have a lower weighting under the new system which would disadvantage authorities such as Halton.
 - 75% Business Rates Retention – Government have confirmed the percentage share of retained rates at a local level will be 75%. This was due to be implemented in the 2021/22 financial year but has now been postponed. It is unclear if pilot authorities such as Halton will continue at 100% retention, or will revert to 49% for 2021/22. For the purposes of this report it is assumed Halton will continue to be part of the Liverpool City Region Business Rate Pilot for 2021/22 with 100% retention.
 - Business Rates Baseline Reset – It is currently proposed that there will be a reset of the business rates baseline in 2021/22. Halton has seen a high level of growth in business rates since the previous reset in 2013 and would be

expected to lose funding from a reset in the baseline. It is currently too early to determine the full impact of Covid-19 on business rates income, although it is anticipated that much of the growth in income since 2013 will disappear. It is not known if there will be a transition process put in place to protect authorities from too high a loss in funding from an increase to the baseline position.

- Comprehensive Spending Review – The Spending Review will be published in late November 2020 covering one financial year only.
- Social Care Green Paper – This was expected to be announced by Government in the summer of 2018 but has been repeatedly delayed. In the wake of Covid-19, there is increasing political pressure to reform social care funding, although it is uncertain what impact this will have on local government.

2.0 Local Government Finance Settlement 2020/21

2.1 Government announced the 2020/21 final Local Government Finance Settlement on 06 February 2020. Details included:

- I. Council Tax – As previously announced at Spending Round 2019, the council tax referendum limit was set at 2% for local authorities with social care authorities allowed a 2% social care precept.
- II. Business Rates Retention – The three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff / Top Up amounts) were all increased by 1.63%, in line with the September 2019 CPI inflation figure
- III. New Homes Bonus - The 2020/21 allocations will be paid with the legacy payments due from previous years (2017/18 to 2019/20). As previously announced, there will be no legacy payments for 2020/21 in future year allocations.
- IV. Social Care Support Grant – Government announced an additional £1bn of funding to cover both Adult and Children Social Care. The value of the grant (including the existing Winter Care Pressures Grant) to Halton in 2020/21 was £4.007m

3.0 Council Tax Support

3.1 Funding to support council tax discounts is received from Government through a grant included in the Settlement Funding Assessment. Every council is responsible for implementing a local scheme to offer council tax discounts to those residents who may have been eligible to this previously through Council Tax Benefit.

3.2 The Halton scheme uses as a basis the previous regulations relating to Council Tax Benefit, which ensures that support for claimants with disabilities, claimants with children, and claimants who are working is maintained. At the end of the existing support calculation, a reduction of 21.55% is made from every non-pensioner award of benefit, to cover the shortfall in the Government grant funding for Halton's Scheme.

3.3 In 2013/14 the level of grant awarded was shown separately within the formula for Settlement Funding Assessment but from 2014/15 the grant is no longer

separately identifiable. It is assumed the level of funding will move in line with the Council's overall Settlement Funding Assessment.

- 3.4 The MTFs assumes that the level of Council Tax Support given to existing claimants will remain at the rate of 21.55% for the period of the MTFs. It also assumes that Council Tax Support funding will not be shared with Parish Councils.
- 3.5 As a result of the Covid-19 pandemic there has been an increase in the level of Council Tax Support the Council has had to provide. To date the 2020/21 cost to the Council has been an increase in support of £0.350m or 3.6%. It is likely there will be a further increase in the number of working age people accessing the scheme. This has been taken into account by way of setting the Council Tax Base for 2021/22.

4.0 Business Rate Retention Scheme

- 4.1 The aim of the business rates retention scheme is to promote economic development and generate future growth in business rates. The Council will only be rewarded if it increases its local share of business rates above a pre-set baseline. Conversely if the local share of business rates collected falls below the baseline position, this would be to the Council's detriment.
- 4.2 In 2020/21 the Council used £2.741m of surplus (one-off) business rates income to help fund the budget position. Covid-19 is likely to have a significant impact on the level of retained business rates due to an increase in businesses ceasing to trade or reducing the number of sites that they operate. There has been a significant expansion in business rates discounts since March 2020, funded by Government, in an effort to keep businesses financially viable. If these reductions and exemptions are only offered in 2020/21 there could be a detrimental impact on the collection rate in 2021/22 when companies become liable for businesses rates once again.
- 4.3 Current economic conditions make it difficult to accurately estimate the reduction due to Covid-19 in business rates income received. This forecast assumes a drop in business rates income of 5% to allow for increased bad debt and appeals provision.
- 4.4 An estimate of the Council's share of retained business rates will be provided to MHCLG in January 2021. It is uncertain to how the deficit in the Collection Fund as at 31st March 2021 will be accounted for. There are currently two possible scenarios, the first being the deficit can be recovered over three years from 2021/22 to 2023/24 or that Government will fund/part-fund the deficit. For the purposes of this report it is assumed Government will fully fund the deficit. In the eventuality of this not happening, any deficit will be funded over the last two years of the forecast.
- 4.5 The business rates baseline is due to be reset in 2021/22. No details of the reset have been released by the Government, and there has been no announcement confirming that this will take place. As the forecast already

assumes a loss of business rates income due to Covid-19, no further reduction has been made with regards to the Business Rates Reset.

100% Business Rates Retention – Pilot Scheme

- 4.6 As part of the Liverpool City Region, the Council has signed up to being a member of a pilot scheme for 100% business rates retention. The pilot scheme has been in operation since April 2017.
- 4.7 The pilot scheme results in Halton no longer being in receipt of Revenue Support Grant (RSG) through the Settlement Funding Assessment. RSG will be replaced by the additional business rates retained. In addition, the Improved and Additional Better Care Fund has been included in the pilot and funded by business rates retained.
- 4.8 MHCLG has confirmed the operation of the pilot scheme should be at no financial detriment to participating councils, therefore for as long as the pilot scheme operates Halton will be no worse off financially than it would have been if it was still operating under 49% rates retention.
- 4.9 Operation of no financial detriment within the pilot scheme means that any LCR authority who report a deficit as a result of the pilot will at first be reimbursed from other member pilot authorities who report a surplus as a result of the pilot. Only when any available surplus has been exhausted will Government step in and provide financial support.
- 4.10 For the first three years of the pilot scheme all LCR authorities reported a betterment position as a result of retaining 100% business rates. Therefore, surplus income from the pilot scheme has previously been used to balance the Council's revenue budget.
- 4.11 All authorities were due to move to 75% business rates retention in 2021/22, but the Government announced in July 2020 that this would be postponed. It is uncertain whether the 100% pilot scheme will continue into 2021/22, or whether Halton will revert to 49% retention. For the purposes of the forecast, it has been assumed that the LCR pilot scheme will continue with 100% retention.

5.0 Settlement Funding Assessment

- 5.1 In 2020/21 MHCLG allocated Halton a Settlement Funding Assessment (SFA) of £52.372m. This was made up of £46.857m business rates baseline funding and £5.515m of top-up grant funding. Top-up grant funding is received as the Council's funding baseline is greater than the business rate baseline i.e. the Council's needs are greater than business rates it is estimated it can generate. The business rates baseline and funding level is set in the system and uplifted each year by the Consumer Price Index (CPI).
- 5.2 Table 1 shows the expected Settlement Funding Assessment for the next three years based on information provided at the time of the 2020/21 settlement announcement. As Government have yet to publish any public sector spending

plans for 2021/22 onwards, the SFA for 2021/22 has been uplifted as per the September CPI figure of 0.6% with the following two years increased by the Government's inflation target of 2%.

- 5.3 Also included at Table 1 are the forecasts for business rate growth retained for the next three years and the difference between each of the years. Note the decrease in rates retained for 2021/22 is the 5% estimated loss as a result of Covid-19.

Table 1 – Business Rate Retention

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Business Rate Baseline	46,857	47,138	48,081	49,043
Top-Up Funding	5,515	5,548	5,659	5,772
Business Rate Surplus	2,741	-	-	-
Total Settlement Funding Assessment	55,113	52,686	53,740	54,815
Business Rates Growth Retained	7,393	4,709	4,803	4,899
Forecast Business Rates Retained (Incl Top-Up Funding)	62,506	57,395	58,543	59,714
Increase (Decrease) in Business Rates Retained		(5,111)	1,148	1,171

6.0 Council Tax Forecast

- 6.1 For 2020/21 the council tax for a Band D property in Halton is £1,475.70 (excluding Police, Fire, LCR and Parish precepts), which is expected to generate income of £52.179m.

- 6.2 When setting council tax levels, higher increases reduce the requirement to make budget savings. However, there are other factors that need to be considered when determining the appropriate increase in council tax. These factors include:

- Halton has the 4th lowest council tax level in the North West for 2020/21,
- Halton's 2020/21 council tax is £58.08 (3.8%) below the average council tax set by unitary councils in England.
- Inflation - the Consumer Price Index (CPI) as at September 2020 (latest available) is currently at 0.6% and the Retail Price Index (RPI) is at 1.1%.

- 6.3 The 2021/22 Council Tax Base shows a decrease of 177 Band D equivalent properties to a total of 35,182 assuming a collection rate of 96%. It is assumed for 2021/22 there will be a drop in the collection rate because of the additional

hardship caused by the Covid-19 pandemic. The decrease in the Tax Base will result in a loss of £0.261m of council tax income.

- 6.4 In 2020/21 the Council utilised £1.084m of council tax surplus income to balance the budget. No surplus is forecast for distribution over the three years of the Strategy.
- 6.5 For the purposes of this strategy it is assumed the Council will apply a council tax increase of 1.99% in 2021/22. It is further assumed there will be a 2% increase for the Adult Social Care precept in 2021/22.
- 6.6 Table 2 below estimates the net amount of council tax income that will be produced for various percentage increases in Halton's Band D Council Tax for the next three years and assumes no change in council tax base beyond 2021/22.

Table 2 – Additional Council Tax Income 2021/22 to 2023/24

Projected Increases in Council Tax Income	2021/22 £'000	2022/23 £'000	2023/24 £'000
0%	-	-	-
1%	519	524	530
2%	1,038	1,059	1,080
3%	1,558	1,604	1,652
4%	2,077	2,160	2,246

7.0 Three-Year Financial Forecast

- 7.1 The Medium Term Financial Strategy (MTFS) provides an estimate of the increase in revenue expenditure that will be required over the next three years in order to maintain existing policies and programmes. In effect this represents an early estimate of the standstill budget requirement using the information that is currently available.
- 7.2 The Council's financial position over the course of 2021/22 – 2023/24 is extremely uncertain due to the developing economic impacts of Covid-19 and the ongoing political uncertainty surrounding the future of local government funding. This forecast uses prudent estimates based on the information that is currently available. Figures should be treated with caution and will need to be continually updated as new information becomes available.
- 7.3 For the purposes of this forecast it has been assumed that the Fair Funding Review will not be implemented within the next three years. It has also been assumed that Halton will continue in the 100% business rates retention pilot scheme.
- 7.4 It has been assumed that council tax will rise by 3.99% in each year of the forecast which is currently the maximum allowed without a local referendum, and includes a precept for Adult Social Care of 2% per annum. Any increase

in council tax below these levels would lead to an increase in the required level of budget savings.

- 7.5 The Retail Price Index (RPI) rate of inflation for September 2020 was recorded as 1.1%. Therefore along with the lower rate of CPI it is deemed sufficient to allow 1% price inflation to the first year of the forecast followed by 2% in years two and three. The same inflation rates will be added to income budgets.
- 7.6 Pay increases for 2021/22 and beyond are unknown. For the purposes of the forecast a rate of 2% has been applied for each of the three years.
- 7.7 The Pension Fund Triennial Review was completed in 2019/20, and set the employer contribution rates as follows:
- 2020/21 – 22.6%
 - 2021/22 – 21.6%
 - 2022/23 – 20.6%

An estimate of 21.6% has been used for 2023/24 to take account of a likely fall in Pension Fund investment values as a result of Covid-19.

- 7.8 The Council has an arrangement in place whereby staff have four days unpaid leave included within their terms and conditions. It is estimated this saves the Council £1.0m per year. This arrangement ends in 2021/22 with the effect of increasing overall staff costs. Growth is therefore included in the second year of the forecast to reflect this.
- 7.9 The operation of the New Homes Bonus grant was altered for 2020/21 to remove legacy payments from any new allocations. It was anticipated that the nature of the grant would change substantially in 2021/22 but no further announcements have been made by Government regarding the future of the New Homes Bonus scheme. It has therefore been assumed that funding will continue on the same basis as in 2020/21. This will lead to a reduction in funding of £1.869m over the course of the three-year forecast as no new legacy payments will be received.
- 7.10 The forecast includes the budgetary consequences of previous budget decisions, including one-off savings used to balance the 2020/21 budget. This adds £0.957m to the forecast for 2021/22.
- 7.11 The net revenue costs associated with the capital programme are included in the forecast. It is estimated that there will be an increase in costs of £0.487m in 2021/22 due to the completion of major works to the Silver Jubilee Bridge. The Financial Forecast and MTFs assumes that any new capital projects which are approved over the medium term will be self-funded through capital grants, capital receipts or will generate revenue savings to fund the cost of borrowing.
- 7.12 A key assumption that has been used in constructing the forecast is that total spending in the current year is kept within the overall budget. In particular it can be difficult to control 'demand led' budgets such as Children's and Adult Social

Care as well as many income streams. In this context it is important to consider the contingency for uncertain and unexpected items. Due to the considerable uncertainty in inflation, Covid, Brexit, interest rates, demand led budgets, the impact of spending cuts and loss of income, the spending forecast includes a contingency of £1.0m in 2021/22, £1.5m in 2022/23 and £2.0m in 2023/24.

- 7.13 The Council has held an Equal Pay reserve for a number of years to provide for the cost of claims being received. The risk of the receipt of claims reduces on an annual basis and therefore £0.5m of the reserve has been used in balancing the budget in recent years. As at March 2021 however, the reserve will be fully utilised. Therefore, from 2021/22 growth of £0.5m is included in the forecast position to reflect the reserve no longer being available to help with balancing the budget.
- 7.14 Estimated additional service demand pressures of £5.055m will need to be added to the budget in 2021/22. The largest additional spend is projected within Children’s Social Care (£1.489m) due to an anticipated increase in demand for high-cost residential placements and direct payments. Work is currently ongoing to determine the effects of Covid-19 on future costs within the Adult Social Care Department. There is the potential for increases in the rates charged by social care providers to compensate for additional infection control measures, as well as a reduction in demand over the medium term. There may be a requirement to support the social care market if there is a drop in demand following the Covid-19 outbreak in order to maintain long-term capacity. The forecast assumes Government will continue to fund the legacy cost of Covid-19, a grant estimate of £2.0m has therefore been included for 2021/22.

Table 3 – General Fund Medium Term Spending Forecast 2021/22 – 2023/24

Increase in spending required to maintain existing policies and services	Year on Year Change £'000		
	2021/22	2022/23	2023/24
Full Year Effect of Previous Year’s Budget	861	0	0
Capital Programme	487	2	0
Pay and Price Inflation	2,680	2,086	3,003
Service Demand Pressures	5,055	576	741
Covid-19 Pressures	1,692	-666	0
Contingency	1,000	1,500	2,000
Four Days Unpaid Leave	0	1,000	0
Reduction in New Homes Bonus Funding	512	687	670
Reduction in Equal Pay Reserve	500	0	0
Covid-19 Grant Funding	-2,000	2,000	0
Total Increase	10,787	7,185	6,414

8.0 The Funding Gap

8.1 At this level of spending there is a funding gap with the forecast level of resources. Table 4 demonstrates the forecast gap between spending and forecast resources at different levels of council tax increase.

Table 4: Funding Gap with a given % increase in Council Tax

	2021/22 £'000	2022/23 £'000	2023/24 £'000
Increase in Net Spend Forecast (Table 3)	10,787	7,185	6,414
Decrease (Increase) in Business Rates Retained (Incl Top-Up) (Table 1)	5,111	-1,148	-1,171
Decrease in Council Tax Base (Para 6.3)	261	0	0
Decrease in Council Tax Surplus (Para 6.4)	1,084	0	0
Funding Gap Before Council Tax	17,243	6,037	5,243
Funding Gap After Council Tax Increase at Various Levels			
0%	17,243	6,037	5,243
1%	16,724	5,513	4,713
2%	16,205	4,978	4,163
3%	15,685	4,433	3,591
4%	15,166	3,877	2,997

8.2 The table shows that total savings of £15.166m are forecast to be needed to balance next year's budget, assuming a 3.99% increase in council tax. This amounts to a 13.1% reduction to the 2020/21 net budget.

8.3 Further savings of £3.877m in 2022/23 and £2.997m in 2023/24 are required, assuming that council tax continues to increase by 3.99% per year. The total funding gap is £22.040m and represents 19.0% of the Council's 2020/21 net budget.

8.4 This represents a significant challenge for the Council to balance its budget. As a result every aspect of the Council's budget needs to be scrutinised to identify potential savings. In addition, all opportunities will continue to be taken to generate additional income from charging for services or attracting additional funding, in order to reduce costs whilst maintaining levels of service delivery.

9.0 Capital Programme

9.1 The Council's capital programme is updated regularly throughout the year. Table 5 summarises the fully funded capital programme for the next two years.

Table 5 – Capital Programme

	2021/22 (£'000)	2022/23 (£'000)
Spending	50,736	12,300
Funding:		
Prudential Borrowing	12,816	7,690
Grants	34,497	1,726
Capital Receipts	3,423	2,884
Total Funding	50,736	12,300

9.2 The current system of capital controls allows councils to support and fund the capital programme by way of prudential borrowing. Such borrowing is required to be:

- prudent
- affordable, and
- sustainable

9.3 The capital programme is underpinned by the Capital Strategy agreed by Council in March 2020.

9.4 The Council has used prudential borrowing provided that the cost of borrowing has been covered by revenue budget savings and the spending forecast continues this assumption.

9.5 In previous years the Council has been extremely successful in attracting capital grants and contributions. In this way the Council has been able to undertake significant capital expenditure without financing costs falling on the revenue budget and this approach will continue.

10.0 Reserves and Balances

10.1 The Council's Reserves and Balances Strategy is attached in Appendix 2. It sets out the Council's strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

10.2 The level of balances and reserves will be reviewed as part of the budget monitoring and final accounts processes.

11.0 Conclusions

- 11.1 This Strategy highlights that considerable budget savings will be required over the next three years, in order for the Council to deliver balanced annual revenue budgets. In particular, the Strategy emphasises that the economic impact of Covid-19, and the level of Government support offered to councils to address this, will be a crucial factor to consider when setting the 2021/22 budget. These circumstances are largely outside of the Council's control, meaning that proactive planning is essential to deal with the emerging financial risks.
- 11.2 The Business Rates Retention Scheme and Fair Funding Review carry further risks to the funding available to the Council over the medium and longer-term. The lack of certainty provided by Government means that it is very difficult to predict both the timing and extent of the impact upon the Council's budget of the planned funding changes.
- 11.3 Future levels of growth and savings required will be directly influenced by the decisions made concerning council tax increases. Council tax increases will reduce the level of savings required, although the legislative requirements regarding council tax referendums will restrict the Council's scope to implement these increases.
- 11.4 The Medium Term Financial Strategy has been based upon information that is currently available. Revisions will need to be made as new developments take place and new information becomes available, from Government in particular.

APPENDIX 2

RESERVES AND BALANCES STRATEGY

1.0 INTRODUCTION

- 1.1 The following sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.
- 1.2 The overall strategy is to provide the Council with an appropriate level of reserves and balances in relation to its day to day activities and to ensure the Council's financial standing is sound and supports the achievement of its long term objectives and corporate priorities.
- 1.3 The Operational Director, Finance will undertake quarterly reviews of the level of reserves and balances and take appropriate action in order to ensure the overall Strategy is achieved. The outcome of the reviews will be reported to the Executive Board and will be used to inform the Medium Term Financial Strategy (MTFS), the annual budget setting process and the final accounts process.
- 1.4 The Strategy concentrates upon the Council's key reserves and balances, being those which may potentially have a significant affect upon the Council's financial standing and its day-to-day operations.

2.0 GENERAL BALANCES

- 2.1 It has been the Council's policy to maintain general balances at a reasonable level, based upon the financial risks and challenges it faces. This is particularly important at the current time, given the increasing demand-led pressures upon Children's Services and Adult Social Care. Close monitoring and control of budgets has meant this policy has been successfully achieved. As at 31 March 2020 the balance of the Council's general reserve was £4.0m.

3.0 PROVISIONS

Sundry Debtors

- 3.1 The Council makes provision for bad and doubtful debts based upon an annual review of outstanding debts profiled by age and the associated risks of non-payment, depending upon the types of debt.
- 3.2 Past experience has shown that after 43 days (the period covering the initial stages of recovery action) the likelihood of sundry debts being paid reduces significantly and therefore the risk of them not being recovered increases greatly. Increased provision will therefore be made for all sundry debts outstanding for more than 43 days.

- 3.3 The bad debt provisions in respect of sundry debtors at 31 March 2020 totals £3.1m.

Council Tax / Business Rates (NNDR)

- 3.4 Bad debt provisions are made in respect of Council Tax and National Non Domestic Rate (NNDR) debts. The bad debt provisions (Council Share) in respect of Council Tax and NNDR debtors at 31 March 2020 totals £11.6m.
- 3.5 The levels of bad debt provisions held are considered prudent in relation to the current level and age profile of outstanding debts. But they will be reviewed annually, particularly in the light of the prevailing economic climate and reductions in Council Tax Support payments and empty property discounts which may affect collection rates. Therefore appropriate provisions will be made to minimise the risk of financial loss to the Council.
- 3.6 The Council is required to hold a provision for NNDR valuation appeal claims. The provision as at 31 March 2020 totals £6.8m. The treatment and funding of appeals is currently being considered nationally as part of the consultation regarding the implementation of 75% business rates retention. Once the outcome of this is known, the implications for future provisions for appeals can be determined.

4.0 CAPITAL RESERVE

- 4.1 The Council holds a Capital Reserve to support the financing of the Council's capital programme which currently totals £2.0m and is based upon current capital funding needs.

5.0 INVEST TO SAVE FUND

- 5.1 The Council has an Invest to Save Fund which at 31 March 2020 stood at £0.4m. This is in order to provide one-off funding for proposals which will generate efficiencies and thereby create significant, permanent, revenue budget savings, whilst also supporting the achievement of the Council's corporate objectives.

6.0 TRANSFORMATION FUND

- 6.1 The Council has a Transformation Fund to fund the costs associated with efficiency reviews and structural changes required in order to deliver a balanced budget. At 31 March 2020 the fund's balance stood at £0.4m.

7.0 COVID-19 RESERVE

- 7.1 At 31 March 2020 the Council established a reserve of £2.0m to fund future Covid-19 costs, outside the general and specific grants made available from Government.