

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 12 October 2020

Portfolio:	Policy and Resources
Subject:	Financial Forecast for Medium Term Finance Strategy
Report of:	The Deputy Chief Executive Officer
Corporate Priorities:	A dynamic, prudent and progressive Council

Purpose:

This report provides an update on the Council's 5-year financial forecasts following the emergency budget.

Executive summary:

This report gives the Executive the opportunity to consider the Council's 5-year financial forecasts as set out in the Medium-Term Finance Strategy (MTFS) following the setting of the emergency revised budget for 2020/21 at the September Executive.

The impacts of COVID-19 have affected many areas of the Council's finances including a contribution from reserves to set a balanced revised budget for 2020/21. In light of the changes a new table of figures highlighting the effects of the pandemic and other operation changes has been compiled and the effects of this going forward over the strategy period is shown in the table below:

£s	2020/21	2021/22	2022/23	2023/24	2024/25
Approved MTFS Deficit Position	0	489,000	512,000	440,000	n/a
Revised MTFS Forecast Deficit Position	1,145,000	2,282,000	706,000	594,000	452,000

The detailed report highlights the main spending pressures affecting the budgets and also opportunities taken to close the budget gap.

5-Year Financial Forecasts

The 5-Year financial forecasts for 2020/21 to 2024/25 is predicting a funding shortfall for all years. The Opportunities Plan approved last year is still predicted to address some of the shortfall and build in some capacity for future pressures and uncertainties.

Recommendation:

It is recommended that the Executive approves the Medium-Term Finance Strategy for the period 2020/21 to 2024/25, as set out at Appendix A to the report;

Reason:

The Medium-Term Finance Strategy forecasts a funding shortfall in all years through to 2024/25. The Opportunities Plan has been developed to address some of this and build in capacity for future pressures and uncertainties.

Cost of proposals:

As detailed in the report.

Appendices: **A: Detailed Breakdown of 5 year forecast**

Background papers:

Reference papers:

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BOROUGH COUNCIL

Executive Briefing Paper

Date:	12 October 2020
Subject:	Financial Forecast for Medium Term Finance Strategy
Briefing by:	The Deputy Chief Executive Officer
Portfolio:	Policy and Resources

INTRODUCTION

1. Full Council agreed the Medium-Term Finance Strategy in February, but with the emergence of the COVID-19 pandemic, it became evident that the Council's financial position would be affected as measures were put in place to control the spread of the virus.
2. In September 2020, the Executive agreed a Financial Recovery Plan which out the approach to assessing the financial impact of the pandemic, together with the steps that the Council would take to mitigate the risk and the actions necessary to recover over the medium term. The first key action was to prepare an "Emergency" budget for the current financial year and this was considered by the Executive at its meeting on 7th September 2020.
3. Another key action was to undertake a review of the Medium-Term Finance Strategy, to determine the financial impact beyond the current year. This report provides the outcome of this work.

MEDIUM TERM FINANCE STRATEGY

4. The Medium-Term Finance Strategy (MTFS) is usually presented to the Executive as part of the budget setting process in January, prior to the Council Tax being set in the following February.
5. However, this has been an unprecedented year due to the Coronavirus pandemic and the effects will be felt financially throughout the whole of the strategy period through to 2024/25.
6. In September 2020 the Executive considered the first emergency budget, detailing the effects that the pandemic is expected to have on the Council's finances in the first year of the MTFS strategy period. The report also recognised that the impact was extremely unlikely to last for just one year.
7. The report showed that the estimated impact on the Council's finances was showing an

increase in the overall General Fund budget of £3.6million over the base budget for 2020/21.

8. During the financial year government funding has been made available and this is detailed in the table below:

SUPPORT TYPE	£
General COVID Grant – Tranche 1	£33,966
General COVID Grant – Tranche 2	£1,156,628
General COVID Grant – Tranche 3	£143,768
Specific COVID Grants	£130,000
Loss of Income Reimbursed	£1,058,038
Total Government Support	£2,522,400

9. The receipt of this funding means that the overall impact on council budgets show that £1.143million would need to be taken from reserves in order to keep the budget balanced during 2020/21.

MEDIUM TERM SPENDING PRESSURES

10. There are some services that have been affected by COVID and will continue to be affected after this financial year. The five-year financial forecast also recognises that there continues to be number of areas that will result in spending pressures and new opportunities over the strategy period, which will have implications for the council's spending plans. Details of the main areas are covered in the following paragraphs.

COVID-related Spending Pressures

11. **Town Centre Parking** – During the lockdown period, the multi-storey car parks were closed and other car parks were not collecting income which resulted in £950,000 being taken from the emergency budget. Since reopening, income levels have partly recovered, but they remain significantly below the normal levels. It is anticipated that with the continued restrictions on trading and the subsequent detrimental impact on the vibrancy and vitality of high streets generally, town centre parking revenue will not return to pre-COVID levels and a pressure of £600,000 per year has been built into the strategy.
12. **Leisure Centres** – At the August Executive a package was approved to support the reopening of the 2 Leisure Centres in the borough. However, in order to ensure that the facilities were “COVID-secure”, the volume, range and take-up of activities has been limited, resulting in lower revenue. The package of measures to support the continued availability of the leisure centres could amount to £1.2million in the current financial year and the following year. This “reasonable worse case” position has been reflected in the financial forecast but it is hoped that the required support will be below those sums.

13. **Commercial and Investment Properties** – Income from the Council’s commercial property portfolio is suppressed, largely due to a loss of income from the shopping centre and market quay sites. Alternative payment arrangements have been agreed for some other commercial property tenants to assist with cash-flow and while it is anticipated that full rental income will ultimately be received, the position is being closely monitored and there is a reasonable prospect that the commercial property income budget will not be fully met in the current year and that this will be extended into 2021/22.
14. **Solent Airport and Daedalus** – As with the commercial and investment properties alternative arrangements have been made to secure the rental income being paid to the council, yet also support local businesses located at Daedalus. There have been other income reductions including lower fuel sales, reduction in licence fees and reduced fee income when flying was suspended. This position is likely to be observed through 2021/22.
15. **Bad Debt Provision** – In light of the reasons given in the above two paragraphs there has been an additional bad debt provision of £950,000 built into the strategy over a 3-year period from 2020/21. This is also expected to provide cover for some loss of business rate and council tax payments as businesses and households struggle to pay bills in light of the COVID situation.

Other Spending Pressures

16. **Pay-related cost and Supplier cost inflation** – The MTFS recognises that certain costs will increase over the strategy period, for example due to contract inflation, pay increases, etc. The MTFS allows £330,000 per year to meet these obligations.
17. **Planning Appeals** – In recent years, there has been a notable increase in the number and cost of planning appeals which impacts on the financial forecast. Due to the unpredictable nature of the appeals, the MTFS does not make a specific provision for these, but it is an area of concern and will be kept under review for the future, as the cost of defending an appeal can be very significant.
18. **Hampshire County Council Waste Management Changes** – The County Council has written to district councils, setting out changes to the waste disposal arrangements. The changes regarding the recovery of costs for material recycling are projected to cost the Borough Council approximately £400,000 a year and will be effective from April 2021 onwards.
19. **Ferneham Hall Operational Arrangements** – The concept design and budget cost for the remodelling of Ferneham Hall and the preferred operator for the new community arts and entertainment venue were agreed by the Executive on 26 September 2019. At this time, the venue was expected to require an operating subsidy in the first three years projected to break even in the fourth year of operation, following which an annual management fee will be paid to the Council. The MTFS takes account of the subsidy profile for the new venue, and dialogue is underway with the operator to understand how this may be affected by the pandemic.
20. **Osborn Road Multi-Storey Car Park Works** – At the September 2020 meeting of the Executive, the principle of modernising the Osborn Road multi-storey car park was agreed. The MTFS takes account of the financing costs of the works and a further report will be presented to the Executive once final costs are known.

21. **New Homes Bonus payments** – The New Homes Bonus was introduced in April 2011, as a way of incentivising local authorities to increased housing development in their area. The scheme was scaled back in 2017 and is projected to reduce to nil over the strategy period.

OPPORTUNITIES

22. Although there are a number of spending pressures built into the strategy there are also some opportunities that will offset some of the costs that will be incurred. The following paragraphs cover some of the main areas.
23. **Coastal Car Parking Income** – at the meeting in September 2020 the Executive agreed the implementation of parking charges in coastal car parks. Taking account of the charging schedule and the potential need for some concessionary arrangements, it is estimated that this will generate income of approximately £440,000 per year.
24. **Garden Waste Income** – Elsewhere on this agenda is a report detailing changes to the garden waste service which will see a move from the current system of bag collection to a chargeable bin collection. The new system will see additional income of approximately £340,000 being received.
25. **Leisure Centres** – As part of the new contract terms with the Leisure Centre Operator there has been a revision to the contract which will see a higher management fee paid to the council from the 2022/23 financial year which will be over and above the current contract value.
26. **Solent Airport and Daedalus** – At the September meeting of the Executive a report was approved to continue with the development of this site including new commercial premises. Once complete this will generate additional income form the site and this has been built into the strategy along with the revenue costs of the capital works.

SUMMARY FINANCIAL POSITION

27. Taking account of the known spending pressures, the opportunities already being pursued, and the other regular movements such as contract inflation, the following table shows how the financial forecast is expected to change, in comparison to the approved Strategy.

£s	2020/21	2021/22	2022/23	2023/24	2024/25
Approved MTFS Deficit Position	0	489,000	512,000	440,000	n/a
Revised MTFS Forecast Deficit Position	1,145,000	2,282,000	706,000	594,000	452,000

28. This forecast takes account of projected housing growth in the borough over the next five years, and also takes account of council tax increase at £5 per year. A detailed breakdown of the forecast is set out in Appendix A.
29. While the forecast takes account of significant known variables, there are a number of

other services areas, and corporate priorities, that will have implications for the forecast position. Examples of areas where budgets remain under pressure include open space and tree maintenance, waste collection and treasury investments. There are also wider activities, such as the Government's Fair Funding Review, that could affect the funding available to deliver local services. At this stage, the MTFS does not include a provision for these, but they will be kept under review and steps will be taken to minimise the financial implications where possible.

30. Finally, the Council has clear priorities to improve the borough and its own operations (such as carbon mitigation measures), and while no budget is provided in the LTFS to meet this ambitions, the financial consequences of each project will be considered on a case by case basis in the future, in the context of the overall financial position.

CONCLUSIONS

31. This report sets out the Council's Medium-Term Finance Strategy in response to the Covid-19 pandemic and shows the estimated position for the current year and the next four years. The report and tables at appendix A show that there is a major impact on council finances, particularly in lost income but also in the costs of changes to services.
32. With no indication that further government funding will be available beyond 2020/21, the Council to either use reserves to stabilise the budget next year or look at alternative measures to the budget through further cost savings or revenue generation.

Enquiries:

For further information on this report please contact Neil Wood. (Ext 4506)

APPENDIX A

Five Year Forecasts for 2020/21 to 2024/25

2020/21	2021/22	2022/23	2023/24	2024/25
000s	000s	000s	000s	000s

SERVICE EXPENDITURE

Gross Expenditure on Services

Base Budget
Changes for Pay and Pensions
Changes for Spend Pressures and Opportunities
Changes for COVID Spend Pressures
Revised Budget

£44,181	£44,181	£44,461	£44,741	£45,021
£0	£280	£280	£280	£280
£0	£180	£1,360	£1,582	£1,535
£0	£2,122	£150	£0	£0
£44,181	£46,763	£46,251	£46,603	£46,836

Gross Income for Services

Base Budget
Changes for Income Pressures and Opportunities
Revised Budget

£-28,630	£-28,630	£-28,680	£-28,730	£-28,780
£0	£-524	£-1,609	£-1,883	£-1,985
£-28,630	£-29,154	£-30,289	£-30,613	£-30,765

Net Cost of Services

£15,551	£17,609	£15,962	£15,990	£16,071
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NON SERVICE SPECIFIC BUDGETS

Contribution to capital spend - RCCO
Provision to repay borrowing (MRP)
Accounting Adjustments
Total Non Service Budgets

£1,510	£1,510	£1,510	£1,510	£1,510
£1,134	£1,315	£1,512	£1,555	£1,610
£-2,928	£-2,928	£-2,928	£-2,928	£-2,928
£-284	£-103	£94	£137	£192

NET BUDGET REQUIREMENT

£15,267	£17,506	£16,056	£16,127	£16,263
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SOURCES OF FUNDING

Core Funding

Revenue Support Grant
Retained Business Rates
New Homes Bonus
Total Core Funding

£0	£0	£0	£0	£0
£-2,410	£-2,457	£-2,457	£-2,457	£-2,457
£-460	£-237	£-91	£0	£0
£-2,870	£-2,694	£-2,548	£-2,457	£-2,457

Other Funding Sources

Income from Financial Investments
Income from Property Investments
Contributions from Partnerships
Total Other Funding

£-696	£-560	£-560	£-560	£-560
£-3,961	£-3,961	£-3,961	£-3,961	£-3,961
£-165	£-165	£-165	£-165	£-165
£-4,822	£-4,686	£-4,686	£-4,686	£-4,686

Use of Reserves

Ear marked for specific use

£-378	£-378	£-378	£-378	£-378
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COUNCIL TAX REQUIREMENT

£7,197	£9,748	£8,444	£8,606	£8,742
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Council Tax
Projection of Retained Council Tax at current level
Additional Council Tax for new properties
Council Tax available at no increase

£7,197	£7,197	£7,247	£7,296	£7,346
£0	£50	£50	£50	£50
£7,197	£7,247	£7,296	£7,346	£7,395

Projected shortfall with no increase

	-£2,501	-£1,148	-£1,260	-£1,347
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Council Tax available with £5 increase per year

	£7,466	£7,738	£8,012	£8,290
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Projected shortfall with £5 increase per year

	-£2,282	-£706	-£594	-£452
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Council Tax Increase Required over the £5 increase to clear shortfall*

	31%	10%	7%	5%
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*These increases would require a referendum before implementation

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