

# FAREHAM

## BOROUGH COUNCIL

### Report to the Executive for Decision 01 November 2021

<b>Portfolio:</b>	Policy and Resources
<b>Subject:</b>	<b>Medium Term Finance Strategy</b>
<b>Report of:</b>	Deputy Chief Executive Officer
<b>Corporate Priorities:</b>	A dynamic, prudent and progressive Council

#### **Purpose:**

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

#### **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 budget 2021/22 at the January Executive.

The impacts of COVID-19 have affected many areas of the Council's finances during 2020/21 and these have continued through to the current financial year. In light of the changes a new table of figures highlighting the effects of the pandemic and other operational changes has been compiled and the effects of this going forward over the strategy period is shown in the table below:

£s	2021/22 Revised	2022/23	2023/24	2024/25	2025/26
Approved MTFS Deficit Position	0	706,000	594,000	452,000	n/a
General Draw Down from reserves	1,966,000	0	0	0	0
Revised MTFS Forecast Deficit Position	0	1,046,000	306,000	500,000	337,000

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 2021/22 to 2025/26 is predicting a funding shortfall for all years with reserves being used to ensure a balanced budget in 2021/22. 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/Recommended Option:**

It is recommended that the Executive approves the Medium-Term Finance Strategy for the period 2021/22 to 2025/26, as set out at Appendix A to the report.

**Reason:**

The Medium-Term Finance Strategy forecasts a funding shortfall in all years through to 2025/26. 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

<b>Date:</b>	01 November 2021
<b>Subject:</b>	Medium Term Finance Strategy
<b>Briefing by:</b>	Director of Finance and Resources
<b>Portfolio:</b>	Policy and Resources

#### INTRODUCTION

1. Full Council agreed the Medium-Term Finance Strategy in February. As part of the recovery plan 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 that financial year, and this was considered by the Executive at its meeting on 7<sup>th</sup> September 2020.
3. In October 2020 the Executive received an update to the Medium-Term Finance Strategy to determine the financial impact beyond the year as the pandemic was likely to last more than one financial year.
4. This report provides an update to that report with the impact on the council's finances continuing into the current financial year.

#### MEDIUM TERM FINANCE STRATEGY

5. 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.
6. However, this is the second year where council finances have been affected due to the COVID-19 pandemic and the effects will be felt financially throughout the whole of the strategy period through to 2024/25.
7. The review of the MTFS in September 2020 determined that the impact of the pandemic on the Council's finances would result in an increase in the overall General Fund budget of £3.6million, when compared to the base budget for 2020/21. During the financial year the council received £3.8million in COVID

grants and support payments that meant that an anticipated draw down from reserves was not required by the end of the year.

8. During the 2021/22 financial year further government funding has been secured and this is detailed in the table below:

SUPPORT TYPE	£
General COVID Grant – Tranche 5	£451,093
Loss of Income Reimbursed (Estimate)	£300,000
Homelessness/Rough Sleeper Funding	£374,591
Specific COVID Grants in Services	£170,672
<b>Total Government Support</b>	<b>£1,296,356</b>

9. The receipt of this funding means that the overall impact on council budgets show that £1.966million would need to be taken from reserves in order to keep the budget balanced during 2021/22.

### **MEDIUM TERM SPENDING PRESSURES**

10. There are some services that have been affected by COVID and they will continue to be affected during this financial year and possibly into the future as areas struggle to recover. The five-year financial forecast also recognises that there continues to be a number of 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. In the current financial year, the revenue from the parking service remains around £135,000 below the budget for the year to date which is partly due to the length of time that restrictions were in place. 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 for a long time.
12. **Leisure Centres** – At the August 2020 meeting of the Executive, a package was approved to support the reopening of the two Leisure Centres in the borough. The package of measures to support the continued availability of the leisure centres could amount to £712,000 in the current financial year but there have been successful grant bids that could see the amount paid to the leisure centre operator fall below £500,000. It is anticipated that as a result of the agreement with operators that income will return to the pre-pandemic levels in 2022/23 with a view

to these levels increasing year on year through the term of the agreement.

13. **Commercial and Investment Properties** – Income from the Council's commercial property portfolio was suppressed, largely due to a loss of income from the shopping centre and Market Quay sites. There continues to be alternative payment arrangements agreed for some other commercial property tenants to assist with cash-flow and it is anticipated that full rental income will ultimately be received. It does, however, remain that some businesses will not return to their pre-pandemic levels of operation and therefore the position will continue to be closely monitored.
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 and a reduction in landing fees when flying was suspended. This position is being monitored as services have resumed at the site during 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 £450,000 built into the strategy over a 2-year period from 2021/22.
16. This additional provision 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 continuing COVID situation.

#### Other Spending Pressures

17. **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 and more recently to reflect the announcement of the increase in National Insurance contributions. The MTFS allows £390,000 per year to meet these obligations.
18. **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. The last 3 financial years have seen total costs of almost £750,000 and in the current year the costs have already exceeded £150,000.
19. **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 2023 onwards.
20. **Fareham Live Operational Arrangements** – On 30<sup>th</sup> September 2021, the Executive received a report proposing that the project to remodel the Ferneham Hall is restarted, after a period of pause due to the impact of COVID. The MTFS takes account of the operational costs associated with the new venue when it is expected to open in 2023/24.
21. **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.

22. **ICT** – The pandemic has seen changes in the way that people have been working with less of a call on office space as more people have been working from home and this is likely to continue going forward with a mixture of home and office working. All of this reflects on the resilience of the ICT systems and additional expenditure will be needed to protect council systems and information contained in those systems. All of these changes will see an increase in costs and support.
23. **External Audit Fees** – Every year, the Council’s financial accounts are reviewed by the appointed External Auditor, EY. Due to the scope and nature of the work involved to carry out the audit, there has been a steady increase in amount of work undertaken. The managing body for local authority external audits have indicated the audit fees will increase when appointments are renewed in 2022. This has been allowed for in the MTFS forecast.
24. **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

25. 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.
26. **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.
27. **Garden Waste Income** – In October 2020 the Executive received 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 net additional income of approximately £340,000 being received.
28. **Solent Airport and Daedalus** – At the September 2020 meeting of the Executive a report was approved to continue with the development of commercial units at Faraday Business Park. Once complete, the units will generate additional rental income from the site, and this has been built into the strategy along with the revenue costs of financing the capital works.

## SUMMARY FINANCIAL POSITION

29. 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	2021/22 Revised	2022/23	2023/24	2024/25	2025/26
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30. This forecast takes account of an allowance for 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.
31. While the forecast takes account of significant known variables, there are a number of other services areas, and corporate priorities, that will have further implications for the forecast position. For example, the MTFS does not currently make provision for the implications of the Climate Change Action Plan, or the requirement to transition to an electric vehicle fleet. Other examples where the financial implications cannot be quantified include planning appeal costs, unforeseen repair and maintenance costs to community buildings, coastal defences, trees and open spaces, and the continued economic impact of COVID on areas such as the high street and commercial property. 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.
32. Finally, the Council has clear corporate priority actions to improve the borough and its own operations, and where no budget has been provided in the MTFS to meet these ambitions, each project will be considered on a case by case basis in the future, in the context of the overall financial position.

## CONCLUSIONS

33. This report sets out the Council's Medium-Term Finance Strategy in light of the continuing effects of 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.
34. With no indication that further government funding will be available beyond 2021/22, the forecast indicates that approximately £2m will be drawn from reserves this year, and a further £1m in 2022/23, to stabilise the budget while further measures to reduce costs or generate additional income are explored over the course of the next financial year.

### Enquiries:

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

## Forecasts for the next 5 Years

	2021/22 Revised	2022/23	2023/24	2024/25	2025/26
	000s	000s	000s	000s	000s
<b>SERVICE EXPENDITURE</b>					
<b>Gross Expenditure on Services</b>					
Base Budget	£45,270	£45,270	£45,550	£45,830	£46,110
Changes for Pay and Pensions	£175	£280	£280	£280	£280
Changes for Spend Pressures and Opportunities	£175	£360	£758	£1,087	£932
Changes for COVID Spend Pressures	£0	-£712	£0	£0	£0
<b>Revised Budget</b>	<b>£45,620</b>	<b>£45,198</b>	<b>£46,588</b>	<b>£47,197</b>	<b>£47,322</b>
<b>Gross Income for Services</b>					
Base Budget	-£27,138	-£27,198	-£28,680	-£28,730	-£28,780
Changes for Income Pressures and Opportunities	-£17	-£1,609	-£2,422	-£2,569	-£2,595
<b>Revised Budget</b>	<b>-£27,155</b>	<b>-£28,807</b>	<b>-£31,102</b>	<b>-£31,299</b>	<b>-£31,375</b>
<b>Net Cost of Services</b>					
	£18,465	£16,391	£15,486	£15,898	£15,947
<b>NON-SERVICE SPECIFIC BUDGETS</b>					
Contribution to capital spend - RCCO	£1,475	£1,475	£1,475	£1,475	£1,475
Provision to repay borrowing (MRP)	£1,132	£1,399	£1,853	£1,907	£1,976
Increase in Bad Debt Provision	£300	£150	£0	£0	£0
Accounting Adjustments	-£3,466	-£3,466	-£3,466	-£3,466	-£3,466
<b>Total Non-Service Budgets</b>	<b>-£559</b>	<b>-£442</b>	<b>-£138</b>	<b>-£84</b>	<b>-£15</b>
<b>NET BUDGET REQUIREMENT</b>					
	£17,906	£15,949	£15,348	£15,814	£15,932
<b>SOURCES OF FUNDING</b>					
<b>Core Funding</b>					
Revenue Support Grant	-£154	£0	£0	£0	£0
Retained Business Rates	-£2,661	-£2,577	-£2,577	-£2,577	-£2,577
New Homes Bonus	-£240	-£91	£0	£0	£0
<b>Total Core Funding</b>	<b>-£3,055</b>	<b>-£2,668</b>	<b>-£2,577</b>	<b>-£2,577</b>	<b>-£2,577</b>
<b>Other Funding Sources</b>					
Income from Financial Investments	-£696	-£535	-£490	-£485	-£485
Income from Property Investments	-£3,439	-£3,439	-£3,439	-£3,439	-£3,439
Contributions from Partnerships	-£165	-£165	-£165	-£165	-£165
Contributions from Govt For COVID	-£751	£0	£0	£0	£0
<b>Total Other Funding</b>	<b>-£5,051</b>	<b>-£4,139</b>	<b>-£4,094</b>	<b>-£4,089</b>	<b>-£4,089</b>



<b>Use of Reserves</b>
Ear marked for specific use
General Draw Down for COVID use

-£378	-£378	-£378	-£378	-£378
-£1,966	£0	£0	£0	£0

<b>COUNCIL TAX REQUIREMENT</b>
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<b>£7,456</b>	<b>£8,764</b>	<b>£8,299</b>	<b>£8,770</b>	<b>£8,888</b>
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<b>Council Tax</b>
Projection of Retained Council Tax at current level
Additional Council Tax for new properties
<b>Council Tax available at no increase</b>

£7,456	£0	£43	£94	£145
£0	£43	£51	£51	£51
<b>£7,456</b>	<b>£43</b>	<b>£94</b>	<b>£145</b>	<b>£196</b>

<b>Projected shortfall with no increase</b>
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<b>£0</b>	<b>-£8,721</b>	<b>-£8,205</b>	<b>-£8,625</b>	<b>-£8,692</b>
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<b>Council Tax available with £5 increase per year</b>
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£7,456	£7,718	£7,993	£8,270	£8,550
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<b>Projected shortfall with £5 increase per year</b>
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<b>£0</b>	<b>-£1,046</b>	<b>-£306</b>	<b>-£500</b>	<b>-£337</b>
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