

HIGH PEAK BOROUGH COUNCIL

The Executive

6 August 2020

TITLE:	Financial Planning Process
EXECUTIVE COUNCILLOR:	Councillor Alan Barrow - Executive Councillor for Corporate Services and Finance
CONTACT OFFICER:	Keith Pointon – Interim Head of Finance
WARDS INVOLVED:	ALL

1. Reason for the Report

- 1.1 The purpose of the report is to present the proposed financial planning process in order to review the longer term impact the Coronavirus pandemic has had on the financial position of the Authority.

2. Recommendation

- 2.1 That the Executive note the proposed process.

3. Executive Summary

- 3.1 The budget setting and medium term financial planning process provides the Council with the opportunity to plan its delivery of public services in accordance with local priorities.
- 3.2 The Medium Term Financial Plan (MTFP) which set out the Council's finances over a four-year period, namely 2020/21 to 2023/24 was formally approved in February 2020.
- 3.3 This resulted in a small surplus position of £127,080 on the General Fund by the end of 2023/24, with an overall contribution of £17,910 into reserves over the 4 year life of the plan. There was also a forecast surplus position of £2,061,950 by the end of 2023/24 for the HRA. The financial forecasts for the 30-year business plan continued to show a significant surplus.
- 3.4 However, since the MTFP was approved, the Coronavirus pandemic has had, and is likely to continue having an adverse impact on the Council's financial position. The financial impact is arising from additional expenditure in dealing with the crisis both externally and organisationally, lost income and savings targets that may not be met within the same timeframe due to resources being diverted elsewhere.

- 3.5 Current estimations show the financial impact could be up to approximately £2.8m in 2020/21. Government funding of £0.96million has been awarded to date and a further package of funding was announced on 2nd July – with further details of this to be released shortly. In addition, the Council’s reserves position allows for some drawdown during 2020/21.
- 3.6 Whilst the Council appears to be in a position to offset the majority of the impact of COVID-19 on the 2020/21 budget via Government funding and use of reserves, there is concern about the longer-term financial impact this will have on the delivery of corporate plan objectives.
- 3.7 Traditionally the Council would commence the process for the review of the MTFP in November each year, in preparation for the development of budget proposals in time for approval in February the following year. However given the significant change in circumstances, it is proposed to bring forward the consideration of the MTFP to commence in July 2020.
- 3.8 A summary version of the updated MTFP – focusing on specific significant areas of change, will then be presented to Members once the exercise has been completed.

4. How this report links to Corporate Priorities

- 4.1 The successful delivery of all corporate priorities is dependent upon the effective management of financial resources, which is the subject of this report.

5. Alternative Options

- 5.1 There are no options to consider at this stage.

6. Implications

- 6.1 Community Safety - (Crime and Disorder Act 1998)
None

- 6.2 Workforce
None

- 6.3 Equality and Diversity/Equality Impact Assessment
This report has been prepared in accordance with the Council's Equality and Diversity policies.

An Equalities Impact Assessment (EIA) has been undertaken on the Corporate Plan, which feeds into budget plans.

- 6.4 Financial Considerations
There are substantial financial considerations contained throughout the report.

- 6.5 Legal
None
- 6.6 Climate Change
None
- 6.7 Consultation
The Council's annual budget plans are the subject of an annual public consultation exercise
- 6.8 Risk Assessment
A full risk analysis has been undertaken which is contained within the plan

Claire Hazeldene
Acting Executive Director (Finance and Customer Services)

**Web Links and
Background Papers**

Medium Term Financial Plan 2020/21 – 2023/24 –
approved February 2020

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7. Introduction

- 7.1 The Medium Term Financial Plan (MTFP) is a key element of the Council's budget and policy frameworks. It aims to ensure that resources are directed effectively and efficiently towards delivery of the Council's Corporate Plan. It describes the financial direction of the Council for planning purposes and outlines the financial pressures the Council is likely to experience over the next 4 years.
- 7.2 The current MTFP was approved by Full Council in February 2020, and the next scheduled update is due for presentation in November/December 2020.
- 7.3 However, in light of the coronavirus pandemic, there is concern about the longer-term financial impact this will have on the delivery of corporate plan objectives. Therefore to attempt to understand and forecast this and to allow more time to effectively plan the longer term response, it is proposed that an early review of the MTFP will commence in July.

8. Approved Medium Term Financial Plan

- 8.2 The Medium Term Financial Plan (MTFP) which set out the Council's finances over a four-year period, namely 2020/21 to 2023/24 was formally approved in February 2020. A balanced budget for 2020/21 was presented, providing for a net general fund budget of £10,807,470 and a net HRA budget of £15,000,350.
- 8.2 A new financial year (2023/24) was added to the MTFP and the overall financial assumptions were updated for the four years. This resulted in a small surplus position of £127,080 on the General Fund by the end of 2023/24. An overall contribution of £17,910 into reserves was forecast during the 4 year life of the plan.
- 8.3 There was also a forecast surplus position of £2,061,950 by the end of 2023/24 for the HRA. The financial forecasts for the 30-year business plan continued to show a significant surplus.
- 8.4 The MTFP also included an updated General Fund Capital Programme of £19,401,020 and HRA Capital Programme of £20,295,620 over the period 2019/20 – 2023/24.
- 8.5 The report did flag the risks around the outcomes of national funding reviews (i.e. fair funding; business rates retention; and new homes bonus) which may have a detrimental impact on the future financial position.
- 8.6 The forecast general fund reserves position over the life of the MTFP is shown below:-

Contingency Reserves	2019/20 (£)	2020/21 (£)	2021/22 (£)	2022/23 (£)	2023/24 (£)
Balance at Year End	2,837,990	2,976,280	2,798,700	2,728,820	2,855,900
Minimum Requirement	1,203,000	1,332,000	1,332,000	1,332,000	1,332,000
Headroom	1,634,990	1,644,280	1,466,700	1,396,820	1,523,900

8.7 HRA balances were forecast to total 16.3million at the end of 2019/20.

9. Coronavirus Pandemic – 2020/21 Impact

9.1 The Coronavirus pandemic has had, and is likely to continue having an adverse impact on the Council's financial position. The financial impact is arising from additional expenditure in dealing with the crisis both externally and organisationally, lost income and savings targets that may not be met within the same timeframe due to resources being diverted elsewhere.

9.2 A 'Finance and Performance Impact of COVID-19' Report was presented to Members on 4th June 2020. The report attempted to forecast the impact that COVID-19 will have on the financial position and performance of the Council(s) in 2020/21.

9.3 In terms of the estimated impact on the 2020/21 financial position, a risk matrix has been completed which lists those potential financial risks – which have been rated dependent on current status:-

Rating	Description
IMPACT EMERGING	Costs already being incurred
IMPACT LIKELY	Costs likely to occur – as yet unidentified
POTENTIAL RISK	Remains a risk – not emerged to date

9.4 Each risk has then been reviewed and an attempt made at forecasting the financial impact (where possible) - an 'impact range' of **LOW – MEDIUM - HIGH** has been applied taking into account length of lockdown and recovery period

9.5 A summary of the estimated financial impact of COVID-19 on the 2020/21 budget position is shown below:-

HPBC - GF	IMPACT RANGE		
	LOW	MEDIUM	HIGH
IMPACT EMERGING	646,405	964,463	1,516,740
IMPACT LIKELY	332,870	566,465	851,173
POTENTIAL RISK	72,765	191,062	472,648
TOTAL	1,052,040	1,721,990	2,840,561

HPBC - HRA	IMPACT RANGE		
	LOW	MEDIUM	HIGH
IMPACT EMERGING	4,320	6,320	8,320
IMPACT LIKELY	(33,400)	13,200	84,800
POTENTIAL RISK	82,500	132,000	198,000
TOTAL	53,420	151,520	291,120

- 9.6 In terms of funding the financial impact of COVID-19, the Council has so far received two allocations of funding from Government totalling £953,883. In addition, the reserves position allows for some drawdown during 2020/21. Based on the 'high' impact forecast, this would still leave an overspend position:-

	HPBC (GF) (£)
'High' Impact	2,840,561
Government Funding	(959,883)
Reserves drawdown (to 'minimum contingency')*	(1,600,000)
Remaining shortfall	280,678

**includes 2019/20 provisional outturn surplus*

- 9.7 On 2nd July 2020, the Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) announced a further package of financial support for local government, providing three central pillars of support:

COVID-19 related expenditure

- A further £500 million non ring-fenced allocation - taking the total support provided by government to £4.3 billion
- The formula to calculate the individual calculations will reflect the factors from which the MHCLG data returns correlate most closely with expenditure. The allocations will also take account of population, deprivation and the way that service costs vary across the country. Details on allocations will be announced in due course. On the latest MHCLG return, HPBC flagged potential additional costs of £1.68m in 2020/21 – of which we currently have grant funding of £0.96m.

Irrecoverable income loss

- Recognises that Councils have lost a great deal of income from sales, fees and charges (SFC) since the start of the pandemic.
- Reimbursements of lost income where these losses are more than 5% of planned income - Government will fund 75p in every pound. The income scheme will cover transactional income from the delivery of services which is unavoidably irrecoverable – this will be the net loss. The 5% deductible will be based on total SFC's budgets - it is not a line by line analysis. No forms of commercial income will be covered by this scheme. On the latest MHCLG return, HPBC flagged potential SFC income losses of £1.03m (exc. commercial).

Losses in tax revenue

- Tax deficits can be repaid over three years rather than the usual one
- There is uncertainty at this point how much tax loss will materialise, so the government will agree a fair apportionment of irrecoverable council tax and business rates losses, between central and local government, for 2020 to 2021.

- 9.8 The latest funding package will hopefully assist the Council's financial position further, covering the deficit and reducing the requirement on reserves to fund the shortfall.

- 9.9 The 2020/21 position will be monitored regularly and formally reported to Members as part of the usual quarterly financial reporting process. Finance Business Partners (FBP) will be working with Services on a monthly basis to assess the 2020/21 position.
- 9.10 In terms of any significant changes to the forecast 2020/21 position, we are currently reviewing:-
- Parkwood's recovery plan for the Leisure Centres and Pavilion Gardens and potential associated increased costs as part of the monthly 'cost-plus' arrangement
 - The monthly collection rates for Council Tax, Business Rates and Rent to assess our forecasts on reduced in year collection as well as the potential impact on the Business Rate tax base
 - As high streets and tourist attractions start to reopen, we'll review our assumptions on car parking income forecasts
 - Additional costs around the Council's recovery plan – particularly in terms of reinstating services / reopening buildings
 - Recovery rate of other sources of income post lockdown – Trade Waste, Planning, Land Charges etc.
 - Impact of an economic downturn - increased benefit claims, reduced collection rates, additional spending pressures

10. Financial Planning Process

- 10.1 Whilst the Council appears to be in a position to offset the majority of the impact of COVID-19 on the 2020/21 budget via Government funding and use of reserves, there is concern about the longer-term financial impact this will have on the delivery of corporate plan objectives.
- 10.2 Traditionally the Council would commence the process for the review of the MTFP in November each year in preparation for the development of budget proposals in time for approval in February the following year. However given the significant change in circumstances it is proposed to bring forward the consideration of the MTFP to commence in July 2020.
- 10.3 The Finance team will be updating forecasts relating to inflation, interest rates, pay awards, pensions impact and treasury management implications. As well as considering the future impact a potential economic recession will have on Council Tax, Business Rates and Housing Rents collection rates.
- 10.4 In addition, there are a number of actions that will require liaison with wider service areas:
- Consider longer term impact on fees and charges income
 - Potential reprofiling of Capital Programme forecasts
 - Update land disposal forecasts – time line and estimated values
 - Understand any additional medium term costs of COVID recovery – working with recovery plan stream leads:-
 - Reinstating Services
 - Economic recovery
 - Community recovery

- Incorporate any potential financial savings developing from new ways of working in accordance with recovery plan stream:-
 - Taking advantage of the positive legacy
- Review Efficiency plan – remaining savings profile and any potential reversal of savings already achieved
- Impact on major contracts (including AES, Parkwood, DCC etc)
- Understand the medium term impact on the HRA Business Plan
- Any other significant financial impact on the current MTFP

- 10.5 The forecast reserves position will also need to be reassessed. When setting the Budget and Medium Term Financial Plan in February 2020, the general fund contingency reserves balance as at 31st March 2020 was estimated to total £2,837,990.
- 10.6 The 2019/20 provisional outturn position shows a £295,000 surplus. The proposal within the Provision Outturn Report is to set £200,000 of this aside specifically to fund COVID-19 recovery activities and leave £2.841m in general fund contingency (just slightly higher than forecast in the MTFP presented in February).
- 10.7 The Council carries reserves as a contingency for situations where risks cannot be fully mitigated. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (CFO) to report on the robustness of the estimates included in the budget and the adequacy of the reserves that the budget provides.
- 10.8 While there is no detailed guidance on calculating the level of general reserves, the Council is encouraged to take into account the strategic, operational and financial risks facing the Council. These amounts are then moderated to acknowledge the likelihood of all risk events occurring together. When setting the Budget in February, the minimum level of general fund contingency reserves required was set at £1,332,000
- 10.9 In addition to utilising the £0.2m COVID-19 earmarked reserve in offsetting the impact in the current financial year, the Council could utilise contingency reserves of approximately £1.4 million, which would leave the contingency balance just above the minimum required amount of £1.3 million over the life of the current MTFP.
- 10.10 However, the current MTFP does not take account of the impact of COVID-19, which is likely to have implications not just in the current year, but over the medium-term. Therefore, the MTFP will need to be updated to reflect the financial risks in order to understand the implications on the reserves position.
- 10.11 In terms of the HRA, the financial impact of COVID-19 is expected to be less severe, and the HRA has sufficient reserves to cover this (estimated at £16.3 million as at 31st March 2020), certainly in the medium term. There may be a longer term impact on the HRA business plan which will be considered as part of the MTFP update.

10.12 A summary version of the updated MTFP – focusing on those specific significant areas of change, will then be presented to Members once the exercise has been completed.