CABINET

Date: 7 September 2020

Subject: Draft Business Plan 2021-25

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Councillor Mark Allison – Deputy Leader and Cabinet Member for Finance

Contact Officer: Roger Kershaw

Urgent report:
Reason for urgency: The chairman has approved the submission of this report as a matter of urgency as it provides the latest available information on the Business Plan and Budget 2021/22 and requires consideration of issues relating to the Budget process and Medium Term Financial Strategy 2021-2025. It is important that this consideration is not delayed in order that the Council can work towards a balanced budget at its meeting on 3 March 2021 and set a Council Tax as appropriate for 2021/22.

Recommendations:

1. That Cabinet notes the approach to rolling forward the MTFS for 2021-25.
2. That Cabinet confirm the latest position with regards to savings already in the MTFS
3. That Cabinet agrees the approach to setting a balanced budget using the unmet balance of last year's savings targets as the basis for the setting of targets for 2021-25.
4. That Cabinet agrees the proposed savings targets based on current assumptions, but keep them under review
5. That Cabinet agrees the timetable for the Business Plan 2021-25 including the revenue budget 2021/22, the MTFS 2021-25 and the Capital Programme for 2021-25.
6. That Cabinet note the process for the Service Plan 2021-25 and the progress made so far.

1. Purpose of report and executive summary

1.1 This report presents an initial review of the Medium Term Financial Strategy and updates it for development as part of the business planning process for 2021/22.

1.2 The report sets out the approach towards setting a balanced budget for 2021-2025 and a draft timetable for the business planning process for 2021/22. It also proposes initial corporate and departmental targets to be met from savings and income over the four year period of the MTFS.

1.3 There is an update on the current information relating to the timetable for the Government's Spending Review 2020, and the Government's proposed changes to Business Rates and the Fair Funding Review which have been deferred from previous years.

1.4 Given the current high level of uncertainty over a range of factors that have the potential to impact significantly on the MTFS there is a sensitivity analysis of a number of issues including the potential impact across the MTFS period of factors affected by the coronavirus pandemic, and the increasing level of DSG deficit .

1.5 Finally, there is an analysis of the potential impact in 2021/22 and possibly beyond, of the coronavirus pandemic which first impacted at the end of the 2019/20 financial year and is still impacting throughout the current financial year.

Details

2. Medium Term Financial Strategy 2021-25

2.1 Background

Council on 4 March 2020 agreed the Budget 2020/21 and MTFS 2020-24. Whilst a balanced budget was set for 2020/21 there was a gap remaining in future years which needs to be addressed, as shown in the following table:-

	2021/22 £m	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
MTFS gap (cumulative)	3,338	6,919	9,031	11,151

2.2 The initial phase of the business planning process is to re-price the MTFS and roll it forward for an additional year. Development of the MTFS in recent budget processes allowed for various scenarios on a range of key variables to be modelled and it is intended to do the same this year and where feasible, to improve the approach to modelling.

Given the scale of the COVID-19 effect, the potential knock-on impact over the MTFS period 2021-25 has been modelled and is included in this analysis.

2.3 Review of Assumptions

The pay and price calculations have been reviewed using the approved budget for 2020/21 as the starting point.

2.3.1 <u>Pay</u>
For 2020/21 the final pay award has now been agreed at 2.75% but provision of 2% was included in the MTFS agreed in March, and for the remaining years of the MTFS (2021/22 onwards), pay provision of 2% was also included.

On 24 August 2020 it was announced that the following had been agreed for the 2020/21 pay award
:

- With effect from 1 April 2020, an increase of 2.75 per cent on all NJC pay points 1 and above
- With effect from 1 April 2020, an increase of one day to the minimum annual leave entitlement. This increase would apply just to those employees whose leave entitlement at 1 April 2020 is twenty one days (plus extra statutory and public holidays)
- joint work on mental health.

The impact of a 2.75% pay increase on the Council's budget will increase employee costs in 2020/21 by c.£0.650m and these will be ongoing and subject to increase for future pay awards.

The change in the estimated provision for pay - Impact of COVID-19:

Forecasts of the impact of the pandemic on the world and UK economies are pessimistic. In the last recession caused by the banking sector, local government bore the brunt of the Government's austerity measures and local government pay control was used as one method of cutting Government spending.
The Government imposed a pay freeze on local government between 2010/11 and 2012/13 and after that up to 2017/18 average annual increases were around 1.2%. These rises represented real terms cuts in pay to local government workers.

If for example, the Government impose similar sanctions and pay awards at an average 1.5% over the MTFS period the following change in the MTFS would result:-

Provision for Pay Inflation:

(Cumulative)	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Pay inflation (%)	**2.0%**	**2.0%**	**2.0%**	**2.0%**
MTFS 2020-24 (Council 4/3/20) (cumulative £000)	1,709	3,413	5,123	6,832
Pay inflation (%)	**1.5%**	**1.5%**	**1.5%**	**1.5%**
MTFS 2021-25 (Latest) (cumulative £000)	1,360	2,720	4,080	5,440
Change (cumulative £000)	**(349)**	**(693)**	**(1,043)**	**(1,392)**

Further details on any progress towards agreeing a pay award for 2021/22, and the impact on the MTFS, will be reported during the Business Planning process as more information becomes available.

Prices
The current assumptions regarding price inflation incorporated into the MTFS are

- 1.5% in each year of the MTFS

The MTFS agreed by Council on 4 March 2020 includes the following provision for price inflation

Provision for Prices Inflation:

	2021/22	2022/23	2023/24	2024/25
Price inflation in MTFS (%)	1.5%	1.5%	1.5%	1.5%
Original MTFS 2020-24 (cumulative £000)	2,034	4,066	6,102	8,140

This has been reviewed using the approved budget for 2020/21 and the latest estimate based on 1.5% price inflation is:-

(Cumulative)	2021/22	2022/23	2023/24	2024/25
Price inflation (%)	1.5%	1.5%	1.5%	1.5%
Revised Estimate (cumulative £000)	2,109	4,217	6,326	8,434

Net change in Pay and Price inflation provision:

The overall change in inflation provision since Council in March 2019 is

(Cumulative) (£000)	2021/22	2022/23	2023/24	2024/25
Latest Inflation estimate	3,469	6,937	10,406	13,874
Original MTFS 2020-24 (Council March 2020)	3,743	7,479	11,225	14,972
Change	(274)	(542)	(819)	(1,098)

The latest statistics have been affected by COVID-19. As a result of the ongoing coronavirus (COVID-19) pandemic, however, as the restrictions caused by the ongoing coronavirus (COVID-19) pandemic have been eased, the number of CPIH items that were unavailable to UK consumers in July has reduced to 12; these account for 1.3% of the CPIH basket by weight and the Consumer price inflation dataset made no overall contribution to the change in the CPIH 12-month rate. The number of unavailable items is down from 67 unavailable items for June, and 74 and 90 unavailable items for May and April, respectively. For July, the ONS have collected a weighted total of 82.0% of comparable coverage collected previously (excluding unavailable items).

The Consumer Prices Index (CPI) 12-month rate was 1.0% in July 2020, up from 0.6% in June.

The largest contribution to the 12-month inflation rate in July 2020 came from recreation and culture (0.33 percentage points). Clothing, rising petrol prices, and furniture and household goods made large upward contributions to the change in the 12-month inflation rate between June and July 2020. Falling food prices resulted in a partially offsetting small downward contribution to the change.

The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 1.1% in July 2020, up from 0.8% in June.

The RPI rate for July 2020 was 1.6%, which is up from 1.1% in June 2020.

The increase in July was larger than anticipated and one cause is thought to be retailers pushing up prices of some goods in an attempt to recoup some of the earlier losses resulting from the pandemic.

Although inflation is currently low it is not proposed to reduce the provision of 1.5% in the MTFS for price inflation but will be kept under review as we go forward during the Business Planning process.

Outlook for inflation:

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target and in a way that helps to sustain growth and employment. Previously at a special meeting on 19 March 20020, the Monetary Policy Committee (MPC) unanimously voted to cut interest rates from 0.25% to 0.1% and to increase holdings of UK government and corporate bonds by £200bn in response to the COVID-19 crisis.

At its meeting ending on 4 August 2020, the MPC voted unanimously to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to continue with its existing programmes of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, maintaining the target for the total stock of these purchases at £745 billion.

The MPC also published its August Monetary Policy Report which sets out projections for activity and inflation. It summarises the overall context of the situation as one in which "although recent developments suggest a less weak starting point for the Committee's latest projections, it is unclear how informative they are about how the economy will perform further out. The outlook for the UK and global economies remains unusually uncertain. It will depend critically on the evolution of the pandemic, measures taken to protect public health, and how governments, households and businesses respond to these factors."

In the minutes to the meeting the MPC note that "Recent data outturns suggest that the fall in global GDP in 2020 Q2 will be less severe than expected at the time of the May Monetary Policy Report. There are signs of consumer spending and services output picking up, following the easing of Covid-related restrictions on economic activity. Recent additional announcements of easier monetary and fiscal policy will help to support the recovery. Downside risks to the global outlook remain, however, including from the spread of Covid-19 within emerging market economies and from a return to a higher rate of infection in advanced economies. UK GDP contracted by around 20% in April, following a 6% fall in March. Evidence from more timely indicators suggests that GDP started to recover thereafter. Payments data are consistent with a recovery in consumer spending in May and June, and housing activity has started to pick up recently."

In terms of the outlook for inflation the MPC minutes state that "twelve-month CPI inflation increased to 0.6% in June from 0.5% in May. CPI inflation is expected to fall further below the 2% target and average around ¼% in the latter part of the year, largely reflecting the direct and indirect effects of Covid-19. These include the impact of energy prices and the temporary cut in VAT for hospitality, holiday accommodation and attractions. As these effects unwind, inflation rises, supported by a gradual strengthening of domestic price pressures as spare capacity diminishes. In the MPC's central projection, conditioned on prevailing market yields, CPI inflation is expected to be around 2% in two years' time."

In the Monetary Policy Report for August 2020 the MPC conclude that "the reduction in output in recent months has reflected declines in both the demand for goods and services as well as the economy's supply capacity, and the balance between the two is difficult to gauge. Overall, the MPC judges that a material amount of additional spare capacity has emerged, and this will be predominately in the form of increased unemployment towards the end of the year. Although there may also be spare capacity within some firms, others will have a reduced capacity to supply because of new working practices. Spare capacity in the economy is expected to weigh on domestic price pressures. However, the MPC expect the impact of spare capacity on inflation to be a little smaller than usual. In the near term, inflation is expected to remain well below the 2% target, reflecting the continued drag from lower energy prices and the temporary cut in VAT for the hospitality sector. Demand is projected to recover over the forecast period, eroding the degree of spare capacity and causing domestic price pressures to strengthen. Inflation is projected to return to target during 2022."

One of the assumptions made by the MPC in formulating its projections is Key judgement 3. This assumes that inflation is weak in the near term, but it returns to the target (2%) as the drag from temporary Covid-related factors wanes and spare capacity is eroded. The MPC state that "In the near term, there are risks around the extent to which the cut in VAT is passed through to prices. CPI inflation is projected to fall a little further over the second half of the year, in part reflecting the impact of the Government's cut to VAT for some goods and services. The MPC's projections assume that 50% of the cut in VAT is initially passed through to consumer prices, with that effect fading over time. But there are risks around that assumption. The outlook for CPI inflation will be influenced by the sectoral dispersion of the shock to activity. Throughout the forecast period, CPI inflation will be affected by the extent of spare capacity, and the distribution of that spare capacity across sectors. The effects of the pandemic have fallen unevenly across sectors. Those differences may interact with other differences — such as the frequency with which prices are changed, or the mix of inputs used in production — to alter how any spare capacity affects inflation. Bank staff analysis suggests that the hit to output arising from Covid-19 has been concentrated in highly consumer facing services, which tend to exhibit higher price stickiness than the average CPI basket. As a result, any spare capacity might have a smaller downward effect on CPI inflation than is usually assumed, consistent with the judgement underlying the MPC's central projection. Cost pressures are also likely to vary across sectors. " The table shows the MPC's four-quarter CPI inflation rate projections:-

MPC's CPI Inflation Rate Projections "August Monetary Policy Report"			
	Mode	Median	Mean
2021 Q.3	1.8	1.6	1.6
2022 Q.3	2.0	1.9	1.9
2023 Q.3	2.2	2.2	2.1

The latest inflation and unemployment forecasts for the UK economy, based on a summary of independent forecasts are set out in the following table:-

Table 11: Forecasts for the UK Economy

Source: HM Treasury - Forecasts for the UK Economy (August 2020)			
2020 (Quarter 4)	Lowest %	Highest %	Average %
CPI	-0.1	1.8	0.5
RPI	0.3	2.2	1.1
LFS Unemployment Rate	5.0	12.7	8.3
2021 (Quarter 4)	Lowest %	Highest %	Average %
CPI	0.6	3.2	1.9
RPI	1.1	4.6	2.7
LFS Unemployment Rate	5.0	8.8	6.5

Note the wide range between highest and lowest forecasts which reflects the volatility and uncertainty arising from COVID-19 and the difficulty of forecasting how the situation will evolve. Clearly where the level of inflation during the year exceeds the amount provided for in the budget, this will put pressure on services to stay within budget and will require effective monitoring and control.

Independent medium-term projections for the calendar years 2020 to 2024 are summarised in the following table:-

Source: HM Treasury - Forecasts for the UK Economy (August 2020)					
	2020	2021	2022	2023	2024
	%	%	%	%	%
CPI	0.7	1.5	2.1	2.1	2.1
RPI	1.3	2.2	3.3	3.3	3.2
LFS Unemployment Rate	5.6	7.6	6.2	5.3	4.9

The MPC has used the following projections implied by current data trends:-

	Projections			
	2020 Q.4	2021 Q.3	2022 Q.3	2023 Q3.
GDP	-5.4	8.6	3.0	1.9
CPI Inflation	0.3	1.8	2.0	2.2
LFS Unemployment Rate	7.5	6.6	4.7	4.0
Excess Supply/Excess Demand	-2.25	-0.25	+0.5	+0.75
Bank Rate	0.0	-0.1	-0.1	-0.1

The possibility of negative interest rates could have implications for the Council's investment income in future years. Since the financial crisis, nominal interest rates in the UK and elsewhere have reached historically low levels. As that has happened, central banks have had to make judgements about the 'effective lower bound' (ELB) for their respective policy rates — the point at which further cuts in the policy rate no longer provide stimulus or at which adverse effects, such as in the financial sector, can arise. Some central banks have judged their ELB to be below zero. The MPC is "currently considering whether the ELB for Bank Rate could be below zero; that is whether a negative policy rate could provide economic stimulus. The effectiveness of a negative policy rate will depend, in part, on the structure of the financial system and how the policy transmits through banks to the interest rates facing households and companies. It will also depend on the financial and economic conditions at the time. The MPC will continue to keep under review the appropriateness of a negative policy rate alongside all of its policy tools." This issue will be kept under review to ensure that the MTFS reflects the latest interest rate implications over the MTFS period.

2.3.3 Provision for Excess Inflation:

There is also a corporate provision which is held to assist services that may experience price increases greatly in excess of the 1.5% inflation allowance provided when setting the budget. This will only be released for specific demonstrable demand.

Given the pressure on service budgets it is proposed to lower this provision by £0.200m per year to reduce the gap in the MTFS

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Budget in MTFS 2020-24	450	450	450	450
Proposed reduction	(200)	(200)	(200)	(200)
Revised Budget	250	250	250	250

The cash limiting strategy is not without risks but if the Government's 2% target levels of inflation were applied un-damped across the period then the budget gap would increase by c. £2.8m by 2024/25.

2.4 Income

2.4.1 The MTFS does not include any specific provision for inflation on income from fees and charges, as these have now been subsumed into the overall gap and therefore approach to targets. However, in the business planning process for recent years, service departments have been able to identify increased income as part of their savings proposals and increased income currently makes up c.19% of future savings.

2.4.2 It is also the case that the Council's income streams have been decimated by COVID-19 in 2020/21 and there is uncertainty about how long it will take to return to pre-COVID19 budgeted levels.

2.5 Pension Fund

2.5.1 The Pension Fund is revalued every three years and the last valuation based on the position as at 31 March 2019 was implemented last year in the 2020/21 financial year. The next revaluation will be based on the position as at 31 March 2022 and will be implemented in 2023/24.

In terms of the effect of COVID-19, whilst there was an initial negative impact on the value of investments in the Council's Pension Fund, these have generally rebounded back to levels prior to the pandemic. Clearly this is an ongoing issue and although there are no current concerns that the value of the Fund will be impacted upon given that the next revaluation is about two years away, this will be kept under continual review.

2.6 Forecast of Resources and Local Government Finance Settlement

2.6.1 <u>Background</u>
The ongoing COVID19 pandemic has had a major impact on the Government's financial planning processes and inevitably this will also have implications for local authorities. The main elements of financial planning that impact on local government are summarised as follows:-

a) Spending Review 2020

The Chancellor of the Exchequer announced on 24 March 2020 that the Comprehensive Spending Review would be delayed from July 2020 to enable the government to remain focused on responding to the public health and economic emergency. It is likely that the 2020 Spending Review will now be moved to November 2020 to coincide with the Autumn budget, meaning a delay of at least four months to the process. The Spending Review 2020 is expected to set out detailed financial budgets for each government department for a three year period (2021-22 to 2023-24) and four years for capital investment (to 2024-25)

Details from the Spending Review will form the basis of allocations to local authorities for 2021-22 and beyond as announced in the Local Government Finance Settlement 2021-22 which is also likely to be delayed. If the funding announcement is restricted to just one-year, as was the case for 2020-21, this will have a serious impact on the Council's ability to forward plan in a strategic way.

Each year in December, the Ministry of Housing, Communities and Local Government (MHCLG) notifies local authorities of their Provisional Local Government Finance Settlement. The final Settlement figures are published the following January/February but are generally unchanged or very similar to the provisional figures. The total amount of funding available for local authorities is essentially determined by the amount of resources that Central Government has allocated as part of its annual Departmental Expenditure Limit.

Fair Funding Review

Central government funding for local authorities is based on an assessment of its relative needs and resources. The overarching methodology that determines how much funding each authority receives each year was introduced over ten years ago and has not been updated since funding baselines were set at the start of the 50 per cent business rates retention scheme in 2013/14. As advised last year, the government is therefore undertaking the Fair Funding Review to update the needs formula and set new funding baselines for the start of the new 75 per cent business rates retention scheme. This was delayed from 2019 to 2020 due to Brexit and has now been delayed until 2022 due to Covid-19.

The MTFS included an adjustment of £3m from 2020/21 on the prudent assumption that the Fair Funding Review and potential Brexit effect would result in a net loss of funding. Given the delay in the review this adjustment can be deferred until 2022/23.

Business Rates Baselines Reset 2020

The business rates retention system was due to be "re-set" for 2020-21 but was deferred due to Brexit to 2021-22 and has now been deferred until 2022 due to covid-19. Notwithstanding the wider reforms to the local government finance and business rates retention systems, the Government currently envisage that the re-set will establish new baseline funding levels and business rates baselines for each local authority that is party to the rates retention system.

Business Rates Retention
In 2018/19, Merton, along with all other London boroughs participated in the 100% London Pilot Pool. This had some financial advantages to London. However, the Government subsequently decided to reduce the level of local government Business Rates Retention to 75% and London piloted this in 2019/20 ahead of the Government's plan to fully implement 75% Business Rates Retention for all local authorities in 2020/21. However, the Government has now deferred the introduction of Business Rates Retention of 75% for England as a whole until 2022 due to Covid-19. In light of this councils in London agreed to continue to pool in 2020/21. There are risks around estimating the level of Business Rates income that can support the Council's budget. These will emanate from the impact of Covid-19 and the pressures on the high street from online retail and possibly the repercussions from Brexit, leading to an increase in empty properties, rates relief defaults, appeals and late payments.

Progress will be reported as part of the Business Planning process. At this stage it is not anticipated that there will be news on funding until the Autumn with no specific funding allocations announced until the Provisional Local Government Settlement 2021/22, probably around mid December 2020 at the earliest.

2.6.2 The current level of resources included in the draft MTFS 2021-25 is as follows :-

DRAFT MTFS 2021-25:				
	2021/22 £000	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**
Revenue Support Grant	0	0	0	0
*Business Rates (inc. Section 31 grant)	(41,358)	*(39,185)	*(40,029)	*(40,890)
Adult Social Care Grants inc. BCF	(4,862)	(4,862)	(4,862)	(4,862)
Social Care Grant	(2,776)	(3,160)	(3,550)	(3,550)
PFI Grant	(4,797)	(4,797)	(4,797)	(4,797)
New Homes Bonus	(1,008)	(800)	(800)	(800)
Corporate Funding in the MTFS	(54,801)	(52,804)	(54,038)	(54,038)

* Net of £3m adjustment for Fair Funding Review/Potential Brexit effect.

These figures currently assume the London Pilot pool does not continue in 2021/22 and that Merton's funding is at the "No Worse Off " safety net level. It assumes that there is an annual 2% uplift for CPI inflation to the Business Rate multiplier. Funding levels have been netted down by £3m p.a. from 2022/23 to reflect the potential loss of funding (government grant and business rates) arising from the potential economic impact of Brexit and the potential redistribution of resources away from London which could result from the Government's Fair Funding Review.

The Government's latest proposal is to allow local authorities to retain 75% of their Business Rates income but this has been deferred until 2022/23 and it is uncertain whether implementation of this proposal will be further deferred.

Updates will be provided in future reports as part of the Business Planning process.

2.6.4 Social Care Funding

Children's Social Care

There was an overspend of £0.416m in Children's Social Care and Youth Inclusion in 2019/20 which was mainly due to

MASH and First Response Staffing	£0.257m
No recourse to public funds	£0.132m
Community Placements	£0.300m

This pressure is continuing in 2020/21 with an overspend of £0.049m forecast as at July 2020 with the main areas of overspend

MASH and First Response Staffing	£0.215m
CWD Placements	£0.096m

In the budget for 2020/21 approved by Council in March 2020, the following growth was approved for Children, Schools and Families

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
CSF	3,847	404	384	390

Adult Social Care

With the provision of growth, government grant and careful management of its budget, the Adult Social Care budget was underspent in 2019/20 by £0.717m and as at July 2020 is forecasting an underspend of £0.443m, net of COVID-19 spending of £3.227m.

For 2021/22 there is a lack of clarity currently over the future levels of grant funding. There is also lack of clarity as to whether the recent practice of allowing councils to levy an Adult Social Care Council Tax precept will be continued. The 2020/21 Local Government Finance Settlement was for one year only. However, based on indications from the Government that sufficient funding for social care will be provided in future years, the following social care funding has been assumed in the MTFS:-

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Adult Social Care Grants inc. BCF	(4,862)	(4,862)	(4,862)	(4,862)
Social Care Grant - 2019/20	0	0	0	0
Social Care Grant	(2,776)	(3,160)	(3,550)	(3,550)
Adult Social Care Council Tax Flexibility:				
3% in 2017/18	(2,512)	(2,512)	(2,512)	(2,512)
1% in 2018/19	(862)	(862)	(862)	(862)
2% in 2019/20	(1,780)	(1,780)	(1,780)	(1,780)
2% in 2020/21	(1,866)	(1,866)	(1,866)	(1,866)
TOTAL	(14,658)	(15,042)	(15,432)	(15,432)

There is also an Adult Social Care Grants Reserve which has been formed to enable the service to plan more strategically over the longer term. As at 31 March 2020 the balance on the reserve was £4.062m.

In addition, there is the major concern of COVID-19 which is expected to have continuing major financial implications over the MTFS period. The Government has provided some grant funding for COVID-19 expenditure and there is also a COVID-19 Reserve to contribute towards the impact of the pandemic.

Clearly it would be of great concern if the Government decide not to continue to provide funding at a level sufficient to meet current and future needs. The pressure on social care budgets is a nationwide issue and is expected to increase in the future. There have been continuing delays on government proposals to reform the funding of adult social care and these have continued over the course of 2020 as the pandemic has been at the forefront of the Government's attention. This has meant that the social care funding issue has been dragged out over the course of last year with the green paper, which was originally expected in summer 2018, still not published.

SEN Transport

The SEN transport budget was overspent by £1.289m in 2019/20 but as at July 2020 is forecasting a nil variance for 2020/21, due to reduced transport needs in the early part of the year, offset by additional costs in the latter part of the year as more children are transported with social distancing in place.

Schools Funding

Dedicated School Grant

In 2019/20 DSG funded services overspent by £9.8m. This has been appropriated to the DSG Reserve and, including the deficit brought forward from 2018/19 of £2.9m the deficit on the reserve carried forward as at 31 March 2020 has increased to £12.750m

In the 2019/20 Statement of Accounts the negative DSG balance is clearly disclosed as an earmarked reserve with additional explanatory narrative, and has then effectively been ‘charged’ to the schools balance reflecting that the cumulative overspend has been borrowed against future year school allocations. This treatment is consistent with the current guidance in terms of disclosure.

Whilst the DSG deficit has been treated in accordance with regulations there has been no clarity from Government as to how this will be funded in the longer term. The size of the deficit is increasing year on year and without further Government support will continue to grow.

In order to adopt a prudent approach to managing the deficit, provision was included within the MTFS 2020-24 on the assumption that the Council will provide for 100% of the deficit up to 2020/21 and 50% thereafter.

Since then the draft Statement of Accounts for 2019/20 have been prepared and the forecast size of the DSG deficit has been reviewed (Based on June 2020)

The forecast year on year deficit based on the latest June 2020 forecast compared to that used in the MTFS approved in March 2020, is shown in the following table:-

DSG Deficit (updated for June 2020 compared to MTFS 2020-24)		Forecast			
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£'m	£'m	£'m	£'m	£'m
MTFS 2020-24	10.6	10.5	12.7	14.3	16.3
June 2020 Update	9.8	12.1	16.1	17.5	19.3
Change	**(0.8)**	**1.6**	**3.4**	**3.2**	**3.0**

Using the same basis that the Council provides for 100% of costs up to 2020/21 and 50% thereafter results in the following change in provision compared to that in the MTFS 2020-24

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
MTFS 2020-24	6,354	7,158	8,130	8,130
Latest (June 2020)*	9,156	8,750	9,650	10,550
Change	2,802	1,592	1,520	2,420

* Assumes use of £7.735m Spending Review Reserve
* Assumes use of £16.009m budget in 2020/21 used

This is a national issue and one that it will be difficult for the Government to ignore. Further updates will be provided throughout the Business Planning process to ensure that if no additional funding is forthcoming from Government, then the impact of this important issue is properly reflected in the Medium Term Financial Strategy and budget setting process, with the resulting impact on General Fund services and Council Tax payers.

2.6.5 Business Rates - Update

Despite previous indications that 100% Business Rates Retention was to be introduced and the operation of some 100% pilots such as the London pilot in 2018/19, in December 2017 the Government announced the aim of increasing the level of business rates retained by local government from the current 50% to the equivalents of 75% in April 2020. The Government decided to operate pilots for the 75% scheme during 2019/20 and implement 75% Business Rates Retention for all local authorities with effect from 2020/21. As a result, the Government and London authorities agreed to pilot 75% business rates retention in 2019/20 and Merton's budget for 2019/20 was set on this basis. However, due to the Government concentrating its attention on Brexit during 2019/20, the timetable for implementing 75% Business Rates Retention throughout England and Wales has slipped further. Following the Spending Round 2019 in September 2019, the Government announced that it was ending the 75% pilot pools, including the London pilot pool, for 2020/21. London boroughs reverted to the arrangement whereby central government receive 33% of business rates, the GLA receive 37% and London boroughs receive 30%. London boroughs agreed to a pooling arrangement based on these proportions in 2020-21.

On 29 April 2020, the Government announced that the move to 75% business rates retention and changes to how funding is distributed between councils under the fair funding review will not now go ahead in 2021/22, the Ministry of Housing, Communities & Local Government has confirmed.
The Government has also confirmed the planned revaluation of business rates will no longer take place next year due to coronavirus.

Legislation had been introduced to bring the next revaluation forward by one year from 2022 to 2021, but the revaluation has been postponed until April 2022 to give businesses more certainty during the pandemic.

Communities secretary, Robert Jenrick, said: 'We have listened to businesses and their concerns about the timing of the 2021 business rates revaluation and have acted to end that uncertainty by postponing the change."

There is currently a great level of uncertainty involved in estimating the level of Business Rates Retention that Merton can expect from 2021/22 onwards, mainly due to COVID-19. This will be largely dependent on when the pandemic is under control and how long it takes for economic recovery to take place and business levels revert to pre-COVID levels.

2.7 **Council Tax and Collection Fund**

2.7.1 Council Tax

The Council Tax income forecast in the current MTFS agreed by Council in March 2019 assumes that the Council Tax Base will increase by 0.5% per year with a collection rate 98.75%. It also assumes the following changes in Council Tax over the MTFS period:-

	2021/22 %	2022/23 %	2023/24 %	2024/25 %
Council Tax increase - General	2.0%	2.0%	2.0%	2.0%
Council Tax increase – ASC*	0%	0%	0%	0%

* Currently no provision to be able to levy an ASC charge

On the basis of these assumptions the Council Tax income included over the period of the MTFS is:-

(Cumulative figures exc. WPCC)	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Council Tax - No change in rate	97,483	97,970	98,489	99,042
Council Tax – General (2%)	1,949	3,919	5,909	7,918
Council Tax income	99,432	101,889	104,398	106,960

The Council Tax Referendum Principles for 2021/22 will not be known until the Provisional Local Government Finance Settlement for 2021/22 is announced, usually around mid-December.

Clearly, COVID-19 has had a major impact on council tax collection rates in 2020/21. There are several main issues that need to be considered when formulating a council tax strategy for the MTFS period 2021-25:-

i) To what extent will COVID-19 continue to have an impact on collection rates?

ii) Will the Government revise the referendum principles to enable Councils to set higher council tax levels as part as a move towards balancing budgets from local taxation?

iii) What impact has COVID-19 had on the level on collection rates in 2020/21 and therefore what level of budget deficit relating to council tax will it be necessary to fund in 2021/22 ? (This will be reflected in a Collection Fund deficit as at 31 March 2021)

The Council Tax Base will be updated later in the year following the return of the Government's CTB statistical return, usually in October, which is based on properties on the valuation list in September. The collection rate will impact on the council tax base.

2.7.2 <u>Collection Fund</u>
In the MTFS approved by Council on 4 March 2020, the shares to preceptors of the collection surplus/deficit for Council Tax and NNDR based on the estimated Collection Fund balance at 31 March 2020 are summarised in the following table:-

	Estimated surplus/ (deficit) as at 31/03/20	Estimated surplus/ (deficit) as at 31/03/20	Total surplus/ (deficit) as at 31/03/20
	Council Tax £000	NNDR £000	£000
Central Government	N/A	(947)	(947)
GLA	396	(674)	(278)
Merton	1,524	(1,197)	327
Total	1,920	(2,818)	(898)

2.7.3 Merton's share of the surplus for council tax and NNDR were built into the MTFS agreed by Council in March 2020.

2.7.4 Since then, the Council has produced its draft 2019/20 accounts as at 31 March 2020 which are currently being audited. The draft accounts for 2019/20 include the following surplus/deficit for Council Tax and NNDR as at 31 March 2020:-

	Surplus/ (deficit) as at 31/03/20 Outturn	Surplus/ (deficit) as at 31/03/20 Outturn	Total surplus/ (deficit) as at 31/03/20
	Council Tax £000	NNDR £000	£000
Central Government	N/A	(887)	(887)
GLA	378	(612)	(234)
Merton	1,451	(1,089)	362
Total	1,829	(2,588)	(759)

2.7.5 The overall change in shares of surpluses/deficits is:-

	Surplus/ (deficit) as at 31/03/20	Surplus/ (deficit) as at 31/03/20	Total surplus/ (deficit) as at 31/03/20
	Council Tax £000	NNDR £000	£000
Central Government	N/A	60	60
GLA	(18)	62	44
Merton	(73)	108	35
Total	(91)	230	139

2.7.6 The net change in Merton’s share of the surplus/deficit is therefore:-

	Estimated Surplus/ (deficit) as at 31/03/20	Outturn Surplus/ (deficit) as at 31/03/20	Surplus/ (deficit) as at 31/03/20 Change
	£000	£000	£000
Council Tax	1,524	1,451	(73)
NNDR	(1,197)	(1,089)	108
Total	327	362	35

2.7.7 There is no change to the surplus/deficit figures agreed for 2020/21 as all variations are managed via the Collection Fund. However, the net surplus of £0.035m will need to be taken into account when calculating the Merton General Fund’s share of any surplus/deficit due to/from the Collection Fund in 2021/22.

2.7.8 The calculation of the estimated surplus/deficit on the Collection Fund as at 31 March 2021 will be made later in the budget process when key variables are firmed up and council tax base and NNDR returns have been completed. Until this time, the increase in the net surplus carried forward from 2019/20 of £0.035m will be included in the draft MTFS for 2021/22.

2.7.9 <u>COVID-19: Implications for the Collection Fund</u>

On 2 July 2020 the Minister for Regional Growth and Local Government wrote to Councils setting out a range of further proposals to support local authorities This included phased repayment of Collection Fund deficits over the next 3 years.

The letter states:-

“We are also considering how to support you in managing your tax losses. The Secretary of State has committed today to consider the apportionment of irrecoverable Council Tax and Business Rates losses between central and local government. However, as these losses materialise in budgets in 2021-22, details of this measure will be determined at the Spending Review. We have announced today that the repayment of collection fund deficits arising this year will be spread over the next three years rather than the usual one, and I believe that this support will give you considerable additional breathing room in setting budgets for next year before we make a fuller announcement at the Spending Review.
This is part of the “shared financial pain” referred to in the letter. Whilst mitigation over three years of the impact of 2020/21 reductions in council tax and business rates income is a help there are two issues arising that should be considered:-

I. The level of deficit will be much larger than anything experienced before and even if it can be equally spread over three years it will still increase the gap in the MTFS

II. The local taxpayer is paying for the deficit on the Collection Fund due to COVID-19

It is currently estimated that the council's share of the net deficit on the Collection Fund at 31 March 2021 will be c. £11.7m which can be funded over three years.

2.8 **Treasury Management: Capital Financing Costs and Investment income**

2.8.1 Council in March 2020 approved the following Capital Programme for 2020-24:-

Capital Expenditure	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**
Capital Expenditure	**47,199**	**28,966**	**14,020**	**23,014**
Slippage*	(12,415)	2,992	3,287	1,015
Leasing Budgets in Programme after Slippage	(600)	0	0	0
Total Capital Expenditure	34,184	31,958	17,307	24,030
Financed by:				
Capital Receipts	900	640	900	900
Capital Grants & Contributions	12,046	10,411	5,469	4,155
Capital Reserves	0	0	0	0
Revenue Provisions	4,032	51	56	30
Other Financing Sources	0	0	0	0
Net financing need for the year	**17,207**	**20,857**	**10,883**	**18,944**
Debt Redemptions	**(2,000)**	**(2,000)**	**(310)**	**(13,700)**
Financing Need (need for financing plus planned debt redemptions)	**19,207**	**22,857**	**11,193**	**32,644**
Internal Financing	19,207	22,857	1,066	(0)
External Financing	0	0	10,126	32,645

2.8.2 Following the closing and preparation of final accounts for 2019/20, the level of slippage required from 2019/20 and the reprofiling of schemes over the programming period has been undertaken to ensure that the level of capital budget is aligned with the Council's capacity to deliver it. In addition new capital projects commencing in 2024/25 may be identified in accordance with achievement of the Council's forward strategic plan. The capital programme will be continually reviewed throughout the financial year and further details including options around financing will be included in future reports as appropriate.

2.8.3 The level, profiling and funding strategy used for the capital programme will have a significant revenue impact that needs to be incorporated into the MTFS. More details on the latest assumptions regarding the Capital Programme 2021-25 are provided in Section 4 of this report.

2.8.4 <u>Investment Income</u>
There are two key factors that impact on the level of investment income that the Council can generate:-

- The amount invested
- The interest rate that is achieved

COVID-19 will inevitably impact on both of these factors. The level of resources available for investment will diminish more quickly as the need to draw on reserves to meet financial pressures created by the pandemic increases. At the same time, interest rates are at historic low levels as the Bank of England alongside international banking institutions have cut interest base rates as part of their economic measures to protect their economies.

Based on latest information, the projected levels of investment income, have been revised. The following table show the latest projections compared with the amounts included in the MTFS approved by Council in March 2020:-

Investment Income	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
MTFS (Council March 2020)	**(559)**	**(428)**	**(422)**	***(1,405)**
Latest projections	**(682)**	**(639)**	**(450)**	***(1,306)**
Change	**(123)**	**(211)**	**(28)**	**99**

* includes income from Housing Company loan

Currently in the monthly monitoring report for July 2020 it is forecast that investment income will be £0.680m which is £0.027m under the budgeted level of £0.707m.

Work is currently ongoing to produce a cash flow forecast which incorporates a robust estimate of the impact of COVID-19. This will be included in a future report.

2.9 Reserve for Use in Future Year's Budgets

2.9.1 The Business Plan and MTFS for 2020-24 approved by Council on 4 March 2020 forecast that a contribution of £8.385m would be required in 2020/21 with the balance of £0.259m applied in 2021/22.

2.9.2 Following the final accounts process for 2019/20, it was possible to increase the Reserve for use in Future Year's Budgets, mainly because of the receipt of the share of the London Business Rates Pool, and as a result the balance (subject to audit) on the Reserve as at 31 March 2020, excluding the contribution set aside for 2020/21 of £8.385m is £2.817m. This means that there is c. £2.5m more available to balance the budget over the MTFS period.

2.9.3 The reserve will be applied over the period of the MTFS to reduce the budget gap and enable longer term, strategic management of the budget.

2.9.4 It should be recognised that the use of reserves is a one-off form of funding and alternative ongoing savings would need to be identified to address the budget gap over the long-term.

2.9.5 <u>In-year review of Reserves</u>
The use and availability of Reserves is monitored throughout the year as part of the monthly monitoring process. This will receive even greater attention over 2020/21 because of the implications of COVID-19.

2.10 Review of Outturn 2019/20 and Current Budget and Spending 2020/21

2.10.1 There may be issues identified during the final accounts process and from monthly monitoring, elsewhere on this agenda, that have on-going financial implications which need to be addressed in setting the budget for 2021-25.

2.10.2 <u>Monitoring 2020/21</u>
At period 4 to 31 July 2020 the year end forecast is a net £23.742m unfavourable variance compared to the current budget. This consists of a net favourable variance of £3.175m excluding COVID-19 and unfavourable variance of £26.917m from COVID-19:-

	Non COVID-19 £000	COVID-19 £000	Total £000
CS	1,089	3,702	4,791
CSF	(2,113)	734	(1,379)
E&R	(310)	9,829	9,519
C&H	(3,270)	3,583	313
Sub-total	**(4,604)**	**17,848**	**13,244**
Corporate	658	8,974	9,632
Total	**(3,946)**	**26,822**	**22,876**

For the purposes of this report this has been separated into NON_COVID-19 and COVID-19 variances.

<u>Non-COVID-19</u>
Based on July 2020 monitoring, although an overall favourable variance is forecast, the following pressures have been flagged:-

a) Corporate Services: Customers, Policy and Improvement (£585k), Human Resources (£137k), Infrastructure and Technology (£49k), Other Corporate budgets (£258k)

b) Children's, Schools and Families: Although a DSG deficit has to be charged to the Schools balance reflecting that a cumulative overspend has been borrowed against future year school allocations, based on July 2020 monitoring, the size of the deficit continues to rise. DSG funded services are forecasting an adverse £13.237m variance, an increase of £3.396m over outturn. The DSG had a cumulative overspend of £12.750m at the end of 2019/20. The overspend in the current financial year will be adding to this balance, currently estimated at c.£26m

COVID-19

Hopefully the pandemic will be overcome and the costs and impact on society in general and council services in particular will be largely confined to 2020/21. However, this is unknown at the present time and there will be some impact carried over to the MTFS 2021-25 period. At the same time there will inevitably need to be some changes to how the Council delivers some services and some of the most affected services, particularly those to vulnerable groups will need to be reviewed.

2.11 **Re-priced MTFS 2021-25**

2.11.1 As indicated in the report, there have been a number of changes to information and data to factors which impact on the Council's MTFS and budget gap:-

- Updated inflation using 2020/21 budgets
- Reduction in provision for pay inflation from 2% to 1.5%
- Funding adjustment arising from delay in implementing Fair Funding Review and business Rates revaluation
- Update capital financing charges based on July 2020 Capital Programme
- Collection Fund surplus/deficit change following draft outturn for 2019/20
- Change in balance on Reserve for Use in Future Years' Budgets following draft outturn for 2019/20

2.11.2 The net result of making these adjustments is to amend the forecast budget gap to the following:-

(cumulative)	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
MTFS Gap (Council March 2020)	**3,338**	**6,919**	**9,031**	**11,151**
- Inflation reprice - pay provision 2% to 1.5%	(274)	(542)	(819)	(1,098)
- Reduce provision for excess inflation	(200)	(200)	(200)	(191)
- Delay Fair funding adjustment by one-year	(3,000)	0	0	0
- Capital financing charges	(119)	(570)	(493)	(1,107)
- Collection fund deficit over three years	3,897	3,897	3,897	0
- balance on reserve for use in future years	(2,338)	0	0	0
Revised MTFS Gap 2021-25	**1,304**	**9,504**	**11,416**	**8,755**

2.11.3 It should be recognised that the Revised MTFS Gap identified in the table in paragraph 2.11.2 only represents a rolling forward and repricing of last year's MTFS, incorporating the implications arising from the final outturn for 2019/20.

2.11.4 It does not incorporate the impact of some key variables which will inevitably have to be addressed in setting the MTFS 2021-25 and budget for 2021/22:-

- Loss of income
- Savings not achieved
- Growth
- DSG Deficit

2.11.5 Sensitivity Analysis

Given the high degree of uncertainty introduced by COVID-19 and the Government's approach to funding the DSG deficit, a more analytical approach has been introduced for a number of key variables and sensitivity analysis undertaken using the following assumptions based on a low level economic bounce back, even level economic bounce back and high level economic bounce back:-

1. **Loss of income** (ongoing result of COVID-19)
   - **High Level Bounce Recovery** (Income levels revert to pre-COVID levels in 2021/22)
   - **Even Level Recovery** (service income is 20% down on 21/22, 10% in 22/23, 5% in 23/24 and 0% in 24/25, Business Rates and Council Tax collection rates are down until 24/25)
   - **Low Level Bounce Recovery** (service income is 20% down on 21/22, 22/23, 23/24 and 0% in 24/25, Business Rates and Council Tax collection rates are down until 24/25)

2. **Savings not achieved**
   - **High Level Bounce Recovery** (All programmed savings are achieved on time)
   - **Even Level Bounce Recovery** (50% of programmed savings are not achieved)

- **Low Level Bounce Recovery** (None of the programmed savings for 2021-25 are achieved)

3. **Growth**
   - **High Level Bounce Recovery** (£0.9m for system support costs, £1.25m in 22/23 rising to £2.5m in 23/24 for contract re-let pressures, £1.1m for internal review)
   - **Even Level Bounce Recovery** (As for Best with £1.8m added to replenish reserves)
   - **Low Level Bounce Recovery** (As for Middle with contract re-let pressures £2.5m w.e.f. 2021/22)

4. **DSG Deficit**
   - **High Level Bounce Recovery , Even Level Bounce Recovery** (General Fund pays all costs up to 31/3/21 and 50% thereafter)
   - **Low Level Bounce Recovery** (General Fund pays all costs)

2.11.6 Impact on MTFS Gap
If these assumptions are fed into the MTFS 2021-25 it produces a wide variation in the forecast budget gap from ALL HIGH LEVEL **Bounce Recovery** to ALL LOW LEVEL **Bounce Recovery**.

Bounce Recovery	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**
ALL HIGH LEVEL	6,107	14,346	17,436	15,675
ALL EVEN LEVEL	16,737	21,457	22,942	19,667
ALL LOW LEVEL	33,556	37,285	37,246	33,738

2.12 **Summary**

2.12.1 There has been a substantial improvement in the council's strategic approach to business planning in recent years and it is important that this is maintained. Planning should be targeted towards the achievement of a balanced budget over the four year MTFS period.

2.12.2 Progress made in recent years in identifying savings over the whole period of the MTFS has reduced pressure on services to make short-term, non-strategic cuts. However, because of the COVID-19 pandemic and DSG Deficit issue there is still likely to be a sizeable gap over the four year period.

2.12.3 However, whilst recognising the great level of uncertainty about future costs and funding, it is still necessary to forward plan and set savings targets aimed at eliminating this gap on an ongoing basis.

3. Approach to Setting a Balanced Budget

3.1 This is the initial report on the business planning process for 2021/22 and there is a great deal of work to be done.

3.2 Clearly such a wide range of possible budget gaps is extremely difficult to work with going forward in terms of setting savings targets for departments. The major variables relate to COVID-19 and the DSG deficit and for planning purposes the forecast gap has been calculated using the **Even**LEVEL option. This produces a forecast gap as follows:-

(Cumulative)	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**
MTFS GAP	16,737	21,457	22,942	19,667

3.4 Savings Targets for 2021-25

3.4.1 In previous years the approach to setting savings targets for departments for the Business Planning process has been based on using controllable budgets and aimed to protect front-line services and services to the vulnerable in line with the 'July principles'. Weightings for each department; Corporate Services, Environment and Regeneration, Community and Housing, and Children, Schools and Families in the ratio (100%) : (100%) : (67%) : (50%), were applied to reduce the impact on Adult Social Care, Children's Social Care and vulnerable groups. The targets set also took into account the level to which departments had achieved savings against targets set for previous years.

3.4.2 Using the same basis as last year, it should be recognised that in setting the 2020/21 budget, proposals to fully meet the savings targets set were not identified and agreed over the duration of last year's budget setting period, leaving a balance still to be found.

3.4.3 Any outstanding balance on previous year's targets should be the first step in forming future targets. If this is not the case, there is no control in the process to get departments to deliver their fair share of savings. Before setting new targets for 2021/22 onwards (using controllable budgets for 2020/21), departments will be required to identify savings/income proposals to meet the balance of the savings targets set in last year's business planning process.

The balance of savings carried forward by each department is as follows:-

SAVINGS TARGETS BY DEPARTMENT	Targets £000	Savings £000	Balance c/f £000
Corporate Services	663	646	17
Children, Schools and Families	2,627	2779	-
Environment and Regeneration	2,606	1,690	916
Community and Housing	4,385	1,902	2,483
Total	**10,281**	**7,017**	**3,416**

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000
MTFS 2021-25: Year on Year Gap (March 2020)	16,737	4,720	1,485	(3,275)	19,667
Less:					
Funded by Shortfall 2020/21	3,416	-	-	-	3,416
Balance to be funded by new allocations	13,321	4,720	1,485	(3,275)	16,251

3.4.4 <u>Controllable Budgets</u>

However, the budget gap in the MTFS is much larger than the £3.4m balance to be met from last year's unachieved savings against target.

Therefore, it will be necessary to identify additional savings targets to make up the balance, and the mechanism previously used, and recommended this year is to use departmental controllable budgets.

Using 2020/21 budgets and weighting them using the same levels outlined in paragraph 3.4.1, the controllable budgets for each department are as follows:-

DEPARTMENTAL SAVINGS TARGETS USING 2020/21 CONTROLLABLE BUDGETS	Controllable Expenditure 2020/21 £000	Share Controllable %	Weighting by dept. No.	Weighted Controllable £000	Share Weighted Controllable %
Corporate Services	**25,262**	16.6%	1.50	37,894	21.8%
Children, Schools and Families	**35,925**	23.5%	0.75	26,944	15.5%
Environment and Regeneration	**35,451**	23.2%	1.50	53,177	30.6%
Community and Housing	**55,911**	36.7%	1.00	55,911	32.1%
Total	**152,550**	**100.0%**		**173,925**	100%

The savings target for each department will consist of an amount of savings not met brought forward from last year plus a share of the MTFS gap remaining based on the latest controllable budgets

SAVINGS TARGETS BY DEPARTMENT	Shortfall b/f	Allocation using controllable budgets	Total
	£000	£000	£000
Corporate Services	17	3,541	3,558
Children, Schools and Families	-	2,518	2,518
Environment and Regeneration	916	4,969	5,885
Community and Housing	2,483	5,224	7,707
Total	**3,416**	**16,251**	**19,667**

In order to balance the budget across the period of the MTFS, the savings for each department, which will be kept under review if the assumptions change, are as follows:-

SAVINGS TARGETS BY DEPARTMENT	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000
Corporate Services	3,028	854	269	(592)	3,558
Children, Schools and Families	2,142	604	190	(419)	2,518
Environment and Regeneration	5,008	1,412	444	(980)	5,885
Community and Housing	6,559	1,850	582	(1,283)	7,707
Total	16,737	4,720	1,485	(3,275)	19,667
Total (cumulative)	**16,737**	**21,457**	**22,942**	**19,667**	

3.5 **Replacement Savings**

3.5.1 Monitoring of the delivery of savings is important and it is essential to recognise as quickly as possible where circumstances change and savings previously agreed are either not achievable in full or in part or are delayed.

3.5.2 If this is the case, departments will need to identify replacement savings from elsewhere within their overall budgets. As previously mentioned this will be more difficult in light of COVID-19.

4. Capital Programme for 2021-25

4.1 Since the capital programme was approved by Council in March 2020 and the revenue implications built into the MTFS, there have been a number of amendments arising from outturn 2019/20, monthly monitoring and a review by project managers. There has been a great deal of effort made to ensure that the capital programme set is realistic, affordable and achievable within the capacity available. This has been accompanied by improved financial monitoring and modelling of the programme's costs over the period of the MTFS which has enabled the budgets for capital financing costs to be reduced and therefore scarce resources to be utilised more effectively.

4.2 It is important to ensure that the revenue and capital budgets are integrated and not considered in isolation. The revenue implications of capital expenditure can quickly grow if the capital programme is not contained within the Council's capacity to fund it over the longer term. For example, assuming external borrowing, the capital financing costs of funding £1m (on longer-life assets and short-life assets financed in 2021/22) for the next four years of the MTFS would be approximately:-.

Capital financing costs of £1m over the MTFS period	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Longer life Assets	10	60	60	60
Short-life assets	10	220	220	220

4.3 In light of the current financial situation, there is currently no capital bidding process other than those schemes that can be funded by CIL. Budget Managers have been asked to further review current schemes in the programme to either reduce, defer or delete them. Any resulting revisions to the programme will be reported to Cabinet on an ongoing basis. The current capital provision and associated revenue implications in the currently approved capital programme, based on June 2020 monitoring information and maximum use of capital receipts, are as follows:-

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Capital Programme	28,034	18,061	23,107	12,394
Revenue Implications	11,151	11,943	12,745	13,423

4.5 The potential change in the capital programme since Council in March 2020 is summarised in the following table:-

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Capital Programme: - As approved by Council - Revised Position with Slippage revisions	 31,958 28,034	 17,307 18,061	 24,030 23,107	 9,632 12,381
Change	(3,924)	754	(923)	2,749
Revenue impact As approved by Council Revised	 11,491 11,272	 12,733 12,063	 13,464 12,871	 14,718 13,511
Change	(219)	(670)	(593)	(1,207)

4.6 It is considered that these figures represent the worst case subject to there being no in programme bids, with further work currently ongoing to review and challenge the assumptions these figures are based on.

5. Service Planning for 2021-25

5.1 The pilot Service planning process for 2021-25 will be launched in August 2020. A plan has been created for each council service. These plans describe what the service does, its plans for the future linked to the Modernising Merton Programme, its key performance indicators and how its plans will take place within the budget.

5.2 These will be reported to Cabinet and scrutiny.

6. Alternative Options

6.1 The range of options available to the Council relating to the Business Plan 2021-25 and for setting a balanced revenue budget and fully financed capital programme will be presented in reports to Cabinet and Council in accordance with the agreed timetable which is set out in Appendix 1.

7. **Consultation Undertaken or Proposed**

7.1 All relevant bodies have been consulted.

8. Timetable

8.1 In accordance with current financial reporting timetables.

8.2 A chart setting out the proposed timetable for developing the business plan and service plans is provided as Appendix1.

9. Financial, resource and property implications

9.1 As contained in the body of the report.

10. Legal and statutory implications

10.1 As outlined in the report.

11. Human rights, equalities and community cohesion implications

11.1 None for the purposes of this report, these will be dealt with as the budget is developed for 2021 – 2025.

12. Crime and Disorder Implications

12.1 Not applicable.

13. Risk Management and health and safety implications

13.1 There is a specific key strategic risk for the Business Plan, which is monitored in line with the corporate risk monitoring timetable.

14. Appendices – The following documents are to be published with this Report and form part of the Report.

Appendix 1 – Business Plan and Service Planning Timetable 2021-25
Appendix 2 – MTFS 2021-25 Update

15. Background Papers

15.1 The following documents have been relied on in drawing up this report but do not form part of the report:

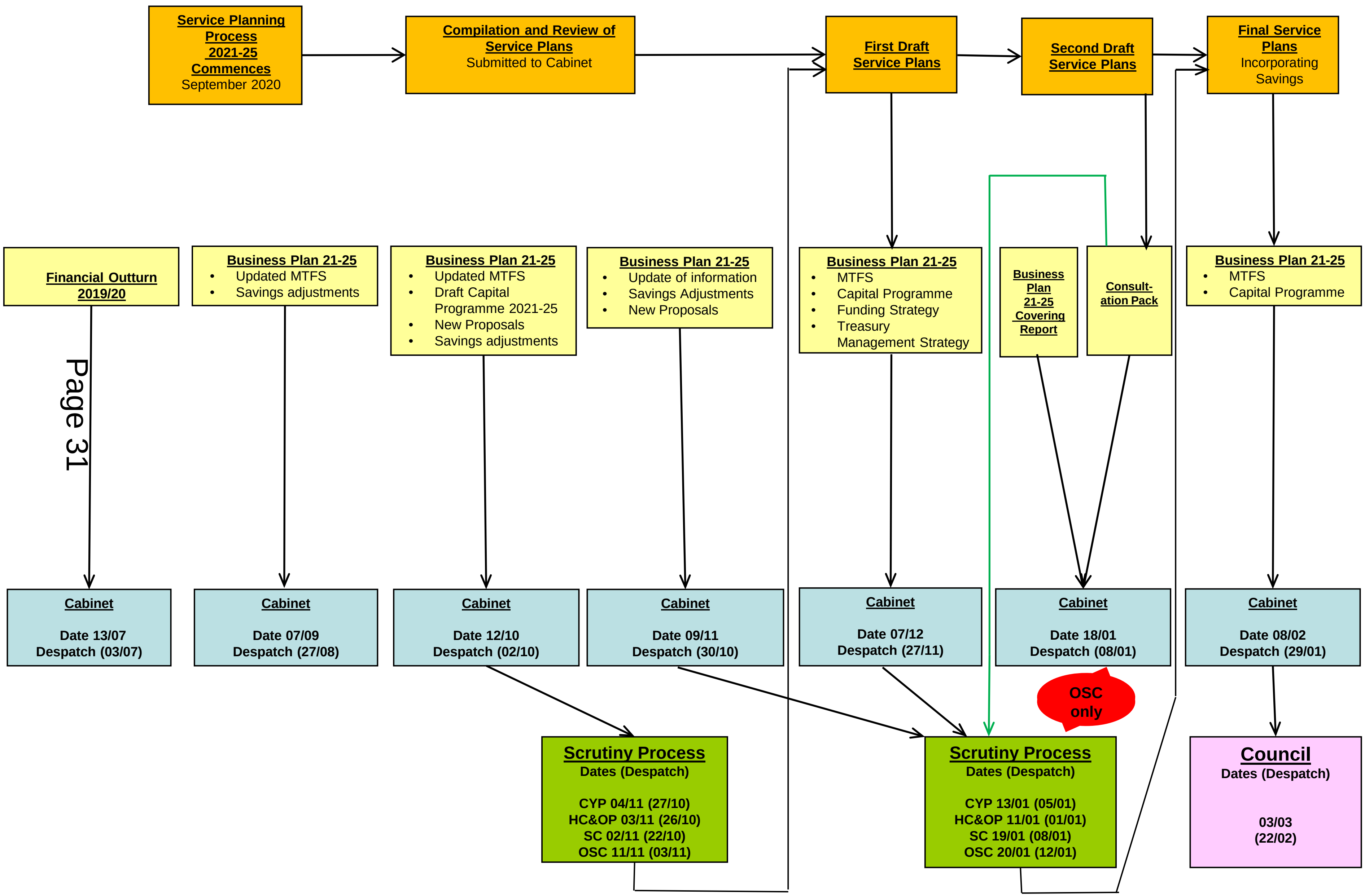
2019/20 Budgetary Control and Final Accounts Working Papers in the Corporate Services Department.
2020/21 Budget Monitoring working papers
MTFS working papers

16. **REPORT AUTHOR**

- Name: Roger Kershaw
- Tel: 020 8545 3458
email: **roger.kershaw@merton.gov.uk**

APPENDIX 1

BUSINESS PLANNING TIMETABLE - BUSINESS PLAN 2021-25



DRAFT MTFS 2021-25:				
	2021/22 £000	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**
Departmental Base Budget 2019/20	**159,038**	**159,038**	**159,038**	**159,038**
Inflation (Pay, Prices)	3,468	6,937	10,405	13,874
Salary oncost increase (15.2% to 17.06%)	23	47	71	95
FYE – Previous Years Savings	(3,887)	(4,252)	(4,448)	(4,448)
FYE – Previous Years Growth	404	788	1,178	1,178
Amendments to previously agreed savings/growth	1,944	2,126	2,224	2,224
Change in Net Appropriations to/(from) Reserves	(392)	(950)	(950)	(950)
Taxi card/Concessionary Fares	450	900	1,350	1,800
Change in depreciation/Impairment (Contra Other Corporate items)	0	0	0	0
Social Care - Additional Spend offset by grant and precept	154	150	150	150
Growth	3,768	5,018	6,268	6,268
Provision - DSG Deficit	9,156	8,750	9,650	10,550
Other	733	813	893	973
Re-Priced Departmental Budget	**174,859**	**179,365**	**185,829**	**190,752**
Treasury/Capital financing	11,282	12,082	12,899	13,539
Other Corporate items	(21,149)	(20,731)	(21,082)	(21,086)
Levies	609	609	609	609
Sub-total: Corporate provisions	**(9,258)**	**(8,040)**	**(7,574)**	**(6,938)**
Sub-total: Repriced Departmental Budget + Corporate Provisions	**165,601**	**171,325**	**178,255**	**183,814**
Savings/Income Proposals 2020/21	0	0	0	0
Sub-total	**165,601**	**171,325**	**178,255**	**183,814**
Appropriation to/from departmental reserves	(2,497)	(1,935)	(1,935)	(1,935)
Appropriation to/from Balancing the Budget Reserve	(2,597)	0	0	0
ONGOING IMPACT OF COVID-19 (NET)	6,919	3,217	1,514	0
BUDGET REQUIREMENT	**167,427**	**172,607**	**177,834**	**181,879**
Funded by:				
Revenue Support Grant	0	0	0	0
Business Rates (inc. Section 31 grant)	(41,358)	(39,185)	(40,029)	(40,890)
Adult Social Care Grants inc. BCF	(4,862)	(4,862)	(4,862)	(4,862)
Social Care Grant	(2,776)	(3,160)	(3,550)	(3,550)
PFI Grant	(4,797)	(4,797)	(4,797)	(4,797)
New Homes Bonus	(1,008)	(800)	(800)	(800)
Council Tax inc. WPCC	(99,785)	(102,242)	(104,751)	(107,313)
Collection Fund – (Surplus)/Deficit	3,896	3,896	3,896	0
TOTAL FUNDING	**(150,690)**	**(151,150)**	**(154,892)**	**(162,212)**
GAP including Use of Reserves (Cumulative)	**16,737**	**21,457**	**22,942**	**19,667**