APPENDIX 2

UPDATED 2020/21 BUDGET FORECAST AND MEDIUM TERM FINANCIAL PLAN

1.0 INTRODUCTION

1.1 The Council is facing a significant and challenging outlook following the global pandemic. This report presents an updated overview of the Council's financial position in 2020/21 and outlines the economic environment and Medium Term Financial Outlook.

1.2 Given we have only had three months experience of the increased cost pressures and reduced income arising from COVID-19 and there is considerable uncertainty about the future course of the economy and hence public spending plans and funding, it is extremely difficult to forecast the financial position over the next three years. This is exasperated by the fact that we don't know how long it will take for the local economy to recover which will impact on income from car parking, commercial properties and commercial waste; and the impact of ending the furlough scheme on unemployment in the borough, and consequently CTRS claimant numbers and hence council tax income. Any significant increase in CTRS numbers will reduce our council tax income. In view of these uncertainties, we will be producing a further iteration of the Plan in September / October.

1.3 This report presents an indicative forecast of the 2021-22 budget, modelling medium, best and worse case scenarios and an outline of the position in the following two years. Under these scenarios, the forecast budget gap in 2021-22 ranges from £33.5m (Medium Case) to £11m (Best Case) to £52m (Worst Case). The forecast gap before COVID-19 was £13m. This report should be read in conjunction with the May Overall Financial Position (also on the Agenda) which sets out the impact of COVID-19 on the 2020-21 Budget.

1.4 We have received some funding from the Government which partially mitigates the spending pressures and income losses noted above which is detailed below It must be noted though that the Government funding listed is intended to cover the epidemic only and funding is of a one-off nature. It follows that to protect the Council's financial position going forward, we must ensure that no significant new expenditure commitments of an ongoing nature are given without full political oversight and scrutiny..

1.5 In meeting this financial challenge, we are:

- Reviewing the Council's reserves to develop options for re-appropriating reserve funds to help support the Council's response to COVID-19. This may mean delaying some projects or activities initially expected to be funded from reserves.

- Refining and developing a governance process to ensure expenditure is signed off by appropriate officers to keep expenditure focused on the COVID-19 response.

- Closely monitoring the Council's income streams and debt levels to see what effect the COVID-19 crisis is having on the Council's income.

1.6 We will also be continuing to review and refine our work on the robustness of the calculation processes and data used to calculate the COVID-19 estimates over the summer.

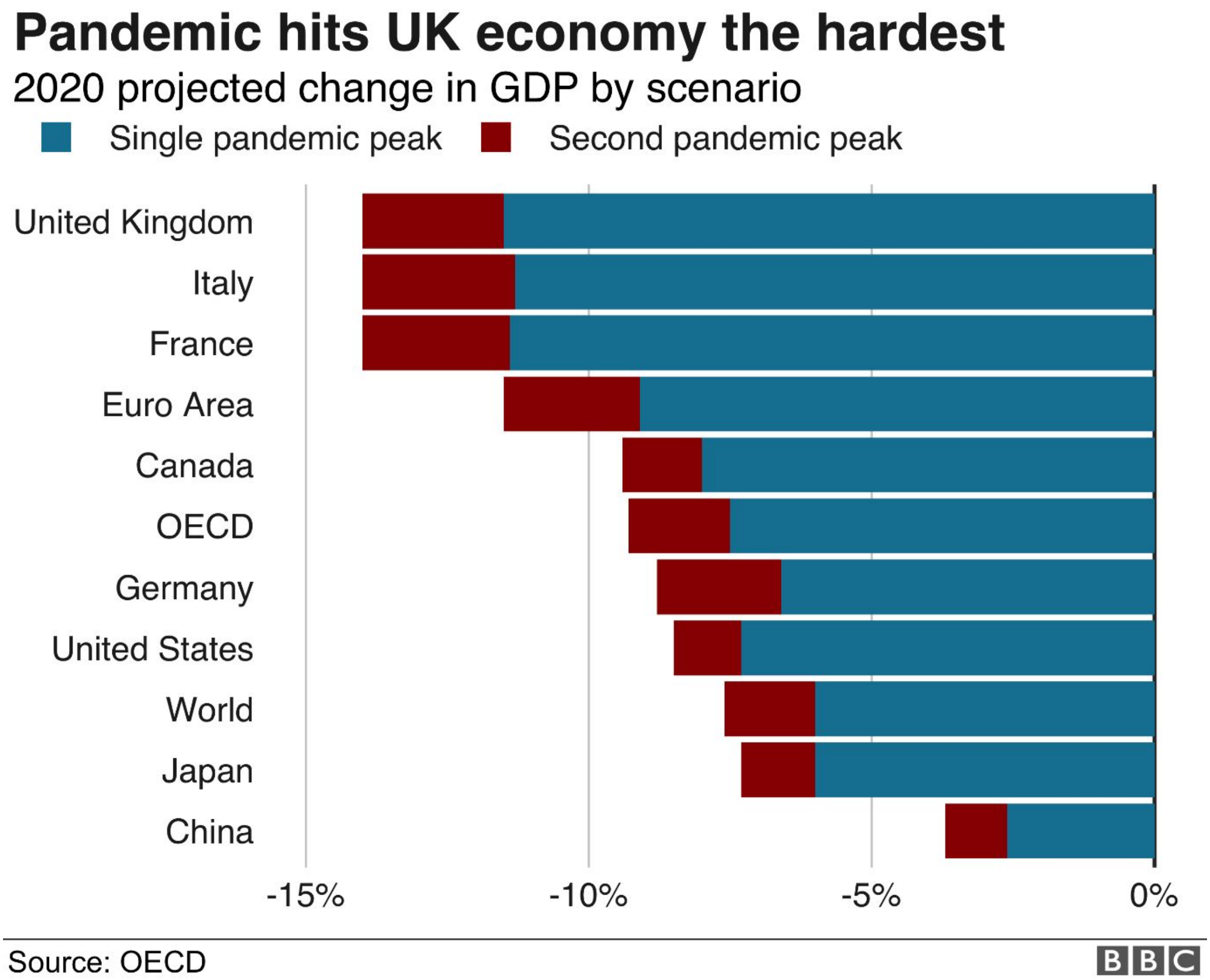
2.0 ECONOMIC ENVIRONMENT AND OUTLOOK

2.1 As reported in previous reports to Cabinet, It is by no means clear what the longer term financial impact on local government will be as a result of COVID-19 but it looks likely that the UK faces a significant recession, possibly its sharpest recession on record. It is also worth noting that the UK's debt is now worth more than its economy after the government borrowed a record amount in May. The £55.2bn figure was nine times higher than in May last year and the highest since records began in 1993 and it sent total government debt surging to £1.95trn. Income from tax, National Insurance and VAT all dived in May amid the coronavirus lockdown as spending on support measures soared.

2.2 Britain's economy is likely to suffer the worst damage from the COVID-19 crisis of any country in the developed world, according to a report by the Organisation for Economic Cooperation and Development (OECD). It stated that a slump in the UK's national income of 11.5% during 2020 will outstrip the falls in France, Italy, Spain, Germany and the US.

2.3 Also according to the OECD, Britain, which is forecast to post an increase in unemployment to around 9%, could make its situation more difficult if it failed to secure a lasting agreement with the EU on trade and access to the single market;. "The failure to conclude a trade deal with the European Union by the end of 2020 or put in place alternative arrangements would have a strongly negative effect on trade and jobs".

2.4 The OECD also ruled out a V-shaped recovery for the global economy, saying the path back to previous levels of GDP would be hampered by long-lasting effects of the pandemic.



2.5 The International Monetary Fund (IMF) has reported that global economic fall-out from the coronavirus pandemic is likely to be even worse than first thought. It forecasts that developed economies will suffer deeper recessions than developing countries, with European nations including the UK that suffered high COVID-19 death tolls among those set for the sharpest contractions. The IMF forecasts that the UK economy will shrink by 10.2% this year which is similar to the OECD estimate. It does though expect France, Spain and Italy to be worse affected (all c. 12% reduction). The IMF also forecast that the UK will have to borrow more than £400bn over two years as the recession caused by the coronavirus pandemic takes its toll on the public finances. Clearly any outturn approaching the OECD and IMF fall out and borrowing forecasts will have a significant impact on future public sector and local authority budgets. It seems that at this time there is much less of an appetite for austerity than that following the financial crisis in 2008 but it seems very unlikely that sufficient resources will be available to put local government on a sound and sustainable financial footing going forward.

3.0 SUPPORT FOR BUSINESS

3.1 On 27th April the Government responded to criticisms of its business grants system by introducing a new fast-track finance scheme which will provide loans with a 100% government-backed guarantee for lenders. Small businesses are able to borrow for a loan of up to 25% of turnover subject to a maximum of £50,000. Loans will be interest free for the first 12 months, and businesses can apply for the grants online by completing a form. No repayments will be due during the first 12 months.

3.2 On the business grants system, we are administering on behalf of central government, we received £64.6m in grant funding to allocate to qualifying local businesses as one-off grants. As at 10 July 20 grant payments totalling £63.2m have been made to 4,299 ratepayers:

Scheme 1 (Small Business Rate Relief Cases, rateable value up to £15k), 2,680 businesses paid with a total payment of £26.8m

Scheme 2a (Retail Relief Cases, rateable value up to £15k), 269 businesses paid with a total payment of £2.69m

Scheme 2b (Retail Relief Cases, rateable value over £15k up to £51k), 1,350 businesses paid with a total payment of £33.75m.

3.3 On business rates relief, the government has implemented a range of additional business rates reliefs over and above those already granted and included in our 2020/21 NNDR 1 return, for various groups of businesses. An additional £49.3m of retail relief has been granted to 2,545 retail, hospitality and leisure ratepayers in Hackney. The Government has confirmed that the EU has agreed to suspend State Aid rules in relation to these reliefs. A further £745k relief is to be awarded under the new Nursery relief scheme. We will be compensated for these business initiatives through S31 grant.

4.0 HARDSHIP FUND

4.1 The Government announced a £500m hardship fund to deliver relief to council taxpayers in local areas. The funding is for the 2020-21 financial year and Hackney's allocation is £4.6m. The expectation is that the majority of the hardship fund will be used to provide council tax relief, alongside existing local council tax support schemes. Under the hardship fund arrangements, relief is provided to all working age CTRS claimants in 2020/21, who automatically qualify for a reduction of up to £150.00 in their Council Tax. (Pensioners on a low income and young people leaving care already have their bill paid in full.) We have also amended the qualifying criteria of the Council Tax Discretionary Hardship Scheme to enable us to provide greater assistance to those households in receipt of CTRS still struggling to pay their bills after the £150 discount is applied.

More widely, we have invested an additional £500,000 in the Council's Discretionary Crisis Support Scheme under which residents can apply for urgent financial support with emergency needs and a further £120,000 has been invested to support Discretionary Housing Payments for those needing support with rent.

5.0 FUNDING FROM CENTRAL GOVERNMENT TOWARDS THE COSTS OF COVID-19

5.1 As Cabinet is aware, we were awarded £17.835m of grant in the first two tranches of the Government's Emergency Fund. Earlier in the month the Government announced a further £500m but didn't publish the individual authority allocations until 16th July. Our allocation is £3.516m. In addition, the Government also announced a scheme that would partially compensate Councils for losses in some sales, fees and charges income streams arising from COVID-19. The definition obviously excludes council tax and business rates but also commercial income such as property rents and leisure centres run by third parties on behalf of the Council (thereby excluding the contributions we will be making to GLL). Under this scheme, councils bear the first 5% of losses compared to their budgeted income but the Government will then cover 75p in every pound of losses beyond this. We estimate that we will get a maximum of £9.5m from this. And so, even after the various funding streams we will still have a significant funding shortfall. It is hoped therefore that we receive significant additional cash funding from the Government to set against this requirement. It is also worth noting that we have received other much smaller grants for specific services such as safe opening of high streets fund (£252k) and a share of the £63m Local Authority Emergency Assistance Fund Grant for Food and Essential Supplies which we can use to support people who are struggling to afford food and other essentials due to COVID-19. The allocations have yet to be announced.

5.2 Funding to date is one-off in nature and will not be payable in future years. With the impact of COVID-19 likely to extend beyond the current financial year, this leaves considerable uncertainty around local government finances.

5.3 The Government is proposing to partially compensate councils for loss of Council Tax and Business Rates income, and to enable them to spread the remaining loss over a number of years. Currently, the governing regulations require that any difference between the budgeted income and outturn income for these two income streams in 2020-21 (we are currently forecasting a combined deficit of £20.5m) is not charged to the General Fund in 2020/21 but instead is charged in the following year. And so without changes to the regulations, if we do make a shortfall of £20.5m on Council Tax and Business Rates income in 2020/21, it would all be charged to the General Fund in 2021/22 thereby increasing the budget gap by an equivalent amount in this year.

5.4 However, the Government is intending to partially alleviate the burden in 2021/22. It is proposing to fund part of the shortfall on Council Tax and Business Rates losses (but we will not know how much until it produces the next Spending Review in the Autumn which will likely be a one year only review) and it will then direct that the remaining losses after the funding will be a charge against the General Fund in 2021/22 and in the following 2 years in equal amounts. So if the Government funds 33% for example (this is just a number for illustrative purposes) and we have a shortfall of £20.5m then we will have to charge £13.7m to the General Fund over the next 3 years at a rate of £4.6m per annum beginning in 2021/22. Obviously, we will be able to offset against this any payments we receive in respect of 2020/21 debts in 2021-22 and beyond from local taxpayers and businesses.

6.0 2021/22 BUDGET FORECAST - MEDIUM CASE SCENARIO

6.1 The original forecast gap before COVID-19 for the next financial year (2021/22) was £13m and the Medium Case post COVID-19 position is a gap of £33.5m. A comparison is shown below but it should be noted that the external income reduction shown for the post-COVID-19 forecast compared to the original is understated because the latter assumes a potential funding loss of £12m in respect of Fair Funding but as this now isn't going to happen in 2021/22 we have not replicated this in the post COVID-19 forecast. The Fair Funding losses can still be expected to come through in later years.

6.2 In previous reports to Cabinet and particularly in the May OFP (also on this agenda) we have demonstrated that we are facing significant additional costs through our direct interventions to support the borough such as expenditure on supporting the social care market, providing additional care and support to vulnerable people, providing food parcels and additional frontline staff. Some of these costs, particularly in Childrens, Adults and Community Health (CACH) are expected to continue, albeit at a lower rate into 2021/22.

6.3 The ‘lockdown’ and social distancing measures put in place during April and May this year have meant that a number of council projects have had to be put on hold, meaning planned budgetary savings are delayed this year which may extend into 2021/22. Capital projects have also been delayed, increasing the cost of projects as sites need to be secured and project timelines increased.

6.4 We are closely monitoring the impact on the Council’s income streams as a result of the COVID-19 crisis. Much of the loss of income is due to a reduction in economic activity or reductions in payment levels for council tax and business rates. These are pressures that are not caused by Council decisions but as a direct consequence of the lockdown measures put in place to help control the COVID-19 crisis and the economic consequences of those measures. Loss of income is likely to extend into 2021/22 but at an anticipated reduced rate.

2021/22 Budget Forecast Before and After COVID-19

ESTIMATED RESOURCES	2021/22 pre COVID-19 Forecast	2021/22 Medium Case post COVID-19
	£m	£m
Top-up & RSG (1)	71.221	107.887
Business Rates Budgeted for NDR1	75.550	41.862
Cost of Collection Allowance	0.556	0.556
Collection Fund Deficit	0.000	-4.600
S31 Reliefs	3.874	3.874
Council Tax Income	**92.923**	**86.270**
Public Health	32.440	33.240
BCF	19.300	20.453
Other	2.225	2.225
Total	**298.089**	**291.767**
ESTIMATED EXPENDITURE		
Directorate Cash Limits after savings	275.851	289.864
GENERAL Finance Account (Capital, Superannuation, RCCO etc)	35.381	35.381
Total	**311.232**	**325.245**
GAP	**-13.143**	**-33.478**

Note: *(1) Top & RSG has gone up in the Medium Case because we will only keep a 30% share of business rates rather than 48% assumed in the original forecast and we expect to be compensated by increased RSG & Top Up as we were in 2020-21*

A summary of the movement from the original to the Medium Forecast is as follows: -

	Original £m	Revised £m	Change £m
BUDGET GAP	**-13.143**	**33.478**	**20.335**
The £19.735m increase is made up of:			
Reduction in Corporate Resources which includes the deficit charge in respect of the forecast 2020/21 business rates and council tax deficit but note the caveat re Fair Funding above			**6.322**
Increase in Net Expenditure including reduced income in directorates			**11.498**
Foregone Savings			**2.515**

6.5 As can be seen, the impact of COVID-19 is to increase the budget gap for 2021/22 by £20m to £33.5m.

6.6 In deriving the Medium Case post-COVID-19 scenario, we have made the following assumptions on resources:

(a) We have assumed a 30% local share of business rates and rolled forward the 2020-21 top up and revenue support into 2021/22

(b) Business rates income has been assumed to fall by 11% in line with the GLA planning assumption

(c) The net Council Tax & Business Rates deficit (i.e. deficit after assumed 33% Government support) of £13.66m funded in equal instalments over 3 years

(d) S31 grants are unchanged from the 2020-21 values

(e) Council Tax is reduced to reflect the application of a lower collection rate (91% compared to 95.5%) and 1,000 more CTRS claimants than assumed in the original, and 750 less property growth. The rate increase is retained at 4% for estimation purposes

(f) Public Health grant is set equal to the 2020-21 value

(g) New Homes Bonus Grant is assumed at the value in the original forecast - £2m

(h) There is a £14m increase in cash limits (the maximum amount of expenditure less income that services can spend) - after netting off savings. The main increases are discussed in 6.7 below

6.7 On expenditure increases, we have made a distinction between those requiring a cash limit adjustment (i.e. increases that we expect to continue into the long term) and those that will last for one or two years. It is assumed that these will be funded by one-off funding in the year in question and will not impact on cash limits. The expenditure definition used is net expenditure, so we also reflect income losses such as parking here.

Children, Adult Social Care and Community Health (CACH)

CACH have estimated that they will need a cash limit adjustment (i.e. a budget increase) of £4.6m. The main components are:

Adult Social Care (Supporting the Market). A £2m increase is estimated based on the assumption that providers will continue to need support post COVID-19 and this has been assumed at an additional 5% per annum. Note the three-month temporary agreement with care providers in 2020-21 was 10% (inclusive of uplifts already agreed).

Adult Social Care (Additional Demand). The estimated cost of £1.75m has been estimated by comparing new clients in April and May 2020 to previous years. Some of this is offset by CCG contributions in the current year but no offset is assumed in future years.

There is not a requirement for any one-off funding.

Neighbourhoods and Housing (N&H)

N&H is estimating a spending pressure/income reduction of £6.965m in 2021/22. This pressure will reduce to £3.940m in 2022/23 and then to £1.135m in 2023/24 and in future years. So, there will need to be a cash limit adjustment of £1.135m in 2021/22 plus a one-off funding requirement of £5.650m, and a further one-off funding requirement of £2.625m in 2022/23. No further one-off funding will be required.

The main components of the £6.965m cost/reduced income are as follows:

Commercial Waste Income – a loss of £2.370m in 2021/22, reducing to £1,370m in 2022/23 and then to £0.37m thereafter.

Car Parking Income – a loss of £3.250m in 2021/22 reducing to £1.625m in 2022/23 and to nil in 2023/24.

GLL Support (leisure centres) – assumed to be £0.5m in 2021/22 and in each year thereafter.

Finance and Corporate Resources (F&CR)

F&CR is estimating a spending pressure/income reduction of £7.294m in 2021/22. This pressure will reduce to £5.929m in 2022/23 and future years. So, there will need to be a cash limit adjustment of £5.929m in 2021/22 plus a one-off funding requirement of £1.365m in 2021/22 only.

The main components of the £7.294m cost/reduced income are as follows:

Commercial Property Income – a loss of £2.444m income from write-offs and part payment of deferrals taken from the rent profiling register. The shortfall is expected to reduce to £1.329m in 2022/23.

Housing Needs – increase in costs of supported accommodation of £3.1m. This is an emerging picture using figures from the current London Councils survey on Rough Sleeping Strategies plus a continuing reduction in rent income collected within temporary accommodation.

Revenues and Benefits – an increased cost/reduced income of £2.0m. The expected increase in the cost of employing additional staff to deal with Council Tax Reduction Scheme (CTRS), the Hackney Discretionary Crisis Support Scheme (HDCSS), Discretionary Housing Payments (DHP) plus costs of HDCSS; together with a reduction in HB Overpayment recovery & Court Costs. This will then reduce by an estimated £0.25m in 2022/23. The eventual pressure will depend largely on the extent of economic activity post COVID-19.

7.0 2021/22 BUDGET FORECAST – BEST AND WORSE CASE

7.1 In order to provide a range of possible outcomes for the 2021/22 budget, we have modelled a best and worse case scenario. These are compared to the original 2021/22 forecast below

2021/22 Best and Worse Case Scenarios

ESTIMATED RESOURCES	2021/22 pre COVID-19 Forecast	2021/22 Best Case post Coved-19	2021/22 Worse Case post COVID-19
	£m	£m	£m
Top-up & RSG (1)	71.221	110.045	105.729
Business Rates Budgeted for NDR1	75.550	46.011	38.211
Cost of Collection Allowance	0.556	0.556	0.556
Collection Fund Deficit	0.000	-2.000	-5.333
S31 Reliefs	3.874	3.874	3.874
Council Tax Income	**92.923**	**88.917**	**81.833**
Public Health	32.440	33.905	32.575
BCF	19.300	20.862	19.146
Other	2.225	4.725	1.225
Total	**298.089**	**306.895**	**277.817**
ESTIMATED EXPENDITURE			
Directorate Cash Limits after savings	275.851	282.470	294.862
GENERAL Finance Account (Capital, Superannuation, RCCO etc)	35.381	35.381	35.381
Total	**311.232**	**317.851**	**330.243**
GAP	**-13.143**	**-10.956**	**-52.427**

7.2 As stated previously, the pre-COVID-19 forecast assumed a £12m loss of income from Fair Funding which neither the best nor worse case do. This explains why the best case pre-COVID-19 forecast looks more favourable than the pre-COVID-19 position.

7.3 The main differences between the Medium, and the Best and Worse-case scenarios are as follows: -

(a) Loss of Business rates income is forecast to be lower under the Best-Case scenario and higher under the Worse-Case, reflecting differing assumed collection rates and empty property reliefs awarded

(b) Core Funding is assumed by be slightly higher in the Best-Case scenario and slightly less in the Worse-Case

(c) The Council Tax/Business Rates deficit carried forward from 2020/21 is assumed lower in the Best-Case and higher in the Worse-Case

(d) Council Tax income is assumed to be higher in the Best-Case reflecting a higher assumed collection rate, a smaller increase in the number of CTRS claimants and a greater growth in property additions (resulting in additional Council Tax accounts/payees). The reverse is true for the Worse-Case – lower collection rates are assumed and a higher increase in the number of CTRS claimants and smaller growth in property additions.

(e) The cash limit additions for COVID-19 are assumed to be 50% lower in the Best-Case scenario and 50% higher in the Worse-Case.

8.0 THREE YEAR FORECAST

8.1 The COVID-19 crisis will almost certainly have a long term impact on the Council's financial position and require the Council to review and update its medium term financial strategy to ensure that the Council is still able to deliver the outcomes of the Corporate Plan and maintain its financial resilience. However, the precise impact remains extremely difficult to predict at this early stage.

8.2 Prior to the COVID-19 crisis the Council was already operating in a challenging financial environment. Over the past decade, Hackney's core funding has shrunk by £140 million ─ a cut of 45% - whilst costs in areas such as adult social care, children's services, supporting an ageing population, homelessness and inflationary impacts have increased significantly. Despite the scale of these cuts, additional reductions in central Government funding were forecast. Subject to the ongoing refinement of these forecasts as well as any potential further funding from government or additional costs from COVID-19, we will need to review the MTFP on a regular basis to ensure that it continues to provide a sustainable and resilient financial position.

8.3 As a starting point, we have made a first attempt at modelling a three-year forecast on the basis of the 2021/22 Medium case scenario but with so much uncertainty concerning the key elements, it must be regarded as an illustrative forecast only.

8.4 Great uncertainty surrounds external funding levels in 2022/23 and 2023/24 consequent upon the likely advent of Fair Funding during this period, the possible delay to the rating review and the introduction of the new Government's spending plans. We believe that the external funding position is clearer for 2021/22, as we expect a rollover of funding from 2020/21.

8.5 There is also great uncertainty about the Government's plans for funding social care post 2021/22 - the Green paper continues to be delayed. In particular, we don't know whether the Government will continue its approach of one-off or short-term funding solutions or develop a more sustainable solution. For 2021/22, we are again, assuming a rollover of existing grants.

8.6 The long term position on SEND and its funding remain unclear and the financial impact of the likely increasing numbers of unaccompanied asylum seeking children (UASC) is also not clear.

8.7 The implications of Brexit on the public purse and the economy in future years are unknown and there is also considerable uncertainty about the future path of public sector pay.

8.8 Significant uncertainty regarding the economic consequences for both the national and local economy means that it is very difficult to predict the full financial impact on the Council over the medium term as much will depend on the timing of any COVID-19 related restrictions being fully lifted and speed and strength with which the local and national economy recovers, and how the economy is altered by the COVID-19 crisis. Any prolonged downturn will negatively impact various of our income streams such as Council Tax and Business Rates (through its impact on the taxbase growth and collection rates), additional Business Rates income from pooling, commercial waste income, parking and commercial property rents.

8.8 With these significant caveats in mind, an illustrative budget gap forecast from 2021/22 to 2023/24 is as follows:

Post COVID-19 Illustrative Budget Gaps 2021/22 to 2023/24

ESTIMATED RESOURCES	Medium Case Post COVID-19 2021/22 £m	Medium Case Post COVID-19 2022/23 £m	Medium Case Post COVID-19 2023/24 £m
GAP	-33.478	-45.717	-51.761

This will be refined as more information on external funding, local income streams and ongoing COVID-19 costs becomes available and a further iteration will be presented to Cabinet in September/October.

9.0 HRA

9.1 The main source of funding for housing is rental income. Previous Business Plans were based on a Government rent policy of CPI+1%, but in 2016, the Government legislated for further changes in the Welfare Reform and Work Act, by way of a 1% rent reduction each year between 2016-2019 for all social rented properties. The impact of the 1% reduction based on actual CPI figures, was a 'loss' of £41m in rental income over the four years of the rent reduction, which - because of the lower rent base - will, over the longer term equate to a loss of £142m over 10 years; and £644m over 30 years.

9.2 Additional savings in the last HRA Business Plan were required to mitigate this loss. The Government has consulted and confirmed the social rent policy will return to CPI+1% for 5 year when the 1% rent reduction ends in 2020.

9.3 The HRA Business Plan financial model requires savings of £2.5m over the period 2021/22 to 2023/24. However due to additional cost pressures the savings requirement has increased to £4.5m. The development of savings proposals is being undertaken in the context of the strategic objectives for housing services and the housing improvement plan and to balance the competing priorities of:

(a) Maintaining and improving the service we deliver to our tenants and leaseholders;

(b) Maintaining the investment in our housing stock;

(c) The delivery of our housing regeneration programmes; and

(d) Sustainable borrowing for the HRA now that the Government has removed the HRA debt cap.

9.4 During 2020/21, COVID-19 has brought about additional unforeseen service pressures and the pandemic has significantly impacted on tenants with a 35% increase in Universal Credit claimants and 30% increase in arrears in 3 months. The Council is in contact with tenants to help them pay their rent or make the appropriate claims for financial support.