

<b>Subject:</b>		<b>General Fund Budget Planning &amp; Resources Update</b>	
<b>Date of Meeting:</b>		<b>9 July 2020</b>	
<b>Report of:</b>		<b>Acting Chief Finance Officer</b>	
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<b>Ward(s) affected:</b>		<b>All</b>	

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT:**

- 1.1 This report provides a budget planning and resource update in the context of the pandemic and in preparation for the 2021/22 annual budget setting process. This includes an updated Medium Term Financial Strategy (MTFS) covering the period 2021/22 to 2023/24, based on latest information and resource projections.
- 1.2 As reported to the committee over recent months, the pandemic has had and continues to have a severe impact on the council's finances through additional costs, losses of fees & charges, and reductions in tax revenues. The report therefore also considers the potential resource impact in the current year, 2020/21, and the implications of managing any deficit over the longer term.
- 1.3 Estimating costs and losses for the remainder of this financial year and beyond is clearly very difficult and subject to a wide range of factors discussed later in the report. In summary, the deficit for 2020/21 is estimated to be in the range £17m to £39m. This deficit will need to be met by one-off resources likely to require some use of balances and reserves that will subsequently need to be repaid over future years. Similarly, the budget gap for 2021/22 is estimated to be in the range £11m to £27m. Repayment of any reserves and balances is not assumed to start until 2022/23. The breadth of these ranges (worst case to optimistic view), gives a clear indication of the financial planning challenges facing the local authority, including the need for further funding clarity from central government.
- 1.4 The report goes on to explore potential scenarios and eventualities that the council may need to consider in its planning approach for the current year and 2021/22.

**2. RECOMMENDATIONS:**

That the Policy & Resources Committee:

- 2.1 Note the range of funding and net expenditure scenarios for 2020/21 and the potential call on one-off resources these entail.

- 2.2 Note the Medium Term Financial Strategy (MTFS) scenarios and projections for 2021/22 to 2023/24 set out in the body of the report.
- 2.3 Agree to use the 'Moderate View' scenario for planning purposes for both 2020/21 and for the predicted budget gap in 2021/22 based on a 10-year reserve repayment period in respect of the 2020/21 deficit.
- 2.4 In lieu of government funding announcements, alongside a Financial Smoothing Option, instruct the Executive Leadership Team (ELT) to develop options for a possible Emergency Budget Plan for 2020/21 to be considered at the October Policy & Resources Committee if required.
- 2.5 Agree to the continued pausing or un-pausing of new capital schemes as set out in Appendix 3 and that paused schemes will be subject to further review at the October Policy & Resources Committee meeting.

### **3. CONTEXT/ BACKGROUND INFORMATION**

#### ***Financial Impact of the Covid-19 Pandemic***

- 3.1 The pandemic not only increased social care, homelessness, public health, PPE, coroner and other related emergency response costs but also resulted in a lockdown that has severely impacted the local economy, which has many sectors that are heavily reliant on visitors to the city. This has in turn resulted in an impact on the council's finances due to significant impacts on museum and event venue incomes, and substantial losses across other fees & charges, particularly parking charges and penalty notices. Similarly, taxation revenues are affected due to the impact on businesses and more people needing financial support such as Council Tax Reduction. There has also been a slow-down in housing developments and it is expected that Council Tax collection rates will be impacted, particularly in relation to older debts. There are similar impacts in relation to Business Rate growth assumptions and collection rates.
- 3.2 Unlike many organisations, the council is not able to offset these impacts by reducing costs because it is expected to continue to support its suppliers and service providers (Supplier Relief) and it is not expected to make significant use of the government's furlough scheme. The majority of its statutory services must also continue to be provided. While government have provided some Emergency Response grant funding, currently £16.2m, this will meet less than half of the council's estimated costs and losses due to the pandemic. The latest estimated impacts are detailed in the Targeted Management Budget (TBM) month 2 (May) report also on this committee agenda.
- 3.3 It is anticipated that the impacts will extend beyond the current financial year, but the extent of the impact will be subject to the success, both locally and nationally, in eradicating the virus and the depth of longer term economic shockwaves caused by the pandemic. Certain sectors, for example retail, were already vulnerable prior to the pandemic and this sector may be further impacted with a correlated impact on business rate revenues and commercial rent income from the council's commercial property portfolio.

#### ***Current Year Financial Position 2020/21***

- 3.4 Estimating costs and losses for the whole of 2020/21 and beyond is very difficult. There are a wide range of factors that need to be considered including:
  - Potential further government funding support for local authorities;

- Potential further funding for Adult Social Care hospital discharges via the Clinical Commissioning Group (i.e. further NHS funding);
- The time lines for easing distancing and the continuing impact of any measures on businesses, visitor attractions, events and other activities;
- The general economic impact and how this translates into the impact on individuals and businesses over time and the resulting impact on taxation revenues; and
- The extent of potential cost savings for the council through furlough and across other budget headings such as contracts and supplies & services.

3.5 For planning purposes, both in the current year and for longer term planning, a number of scenarios can be considered. These are explored in more detail later with the same principles applying to the remainder of 2020/21 as for 2021/22 planning. The TBM month 2 (May) report on this committee agenda indicates a potential outturn overspend of £36.003m, the majority of which is a direct consequence of the pandemic. However, this is based on current trends with no further assumption of government funding and with limited corrective measures in place at present due to the focus on responding to the crisis. The Executive Leadership Team is currently reviewing all options available to it to manage the in-year position including:

- Use of Furlough as far as practicably possible for income-funded services;
- Use of normal vacancy management processes (with exceptions for essential and statutory service areas) across services;
- Curtailment of non-essential spend and continuing to look for economies and contract savings;
- Ensuring that Supplier Relief payments only provide for financial sustainability where services are not being delivered in full or at all;
- Continuing to look for opportunities to manage demands and pressures in partnership with other agencies, particularly the Clinical Commissioning Group;
- Pausing new Capital Schemes funded by borrowing (see Section 5 for more information).

3.6 These measures will be reflected in future TBM monitoring reports and while they may provide some mitigation, anticipated to be between £2.0m to £4.5m, they cannot address the scale of the projected overspend.

3.7 The key ingredient that is missing is government funding. To date, £16.2m has been received to meet Emergency Response costs. However, government has not yet recognised the severe impact on fees & charges incomes and taxation revenues. Over the last 10 years, as government funding has reduced, councils have been encouraged to become more 'self-financing' through exploring income generating opportunities and maximising their tax base growth. As described in paragraph 4.2 below, this means that the council is now substantially funded by these sources and therefore any significant impact on these will affect the council's financial sustainability. This point is being stressed by all concerned through continued lobbying and it must be hoped that government will recognise this reality and provide further funding.

## 2020/21 Scenario Planning

- 3.8 As for medium term planning discussed later, a number of scenarios are possible in 2020/21. For illustration and to indicate the range of potential impacts, a worst case, moderate view and optimistic view of both costs and losses, and government funding have been considered as follows:

**Table: Outturn Scenarios 2020/21**

Funding Scenarios	Worst Case	Moderate View	Optimistic View
	£m	£m	£m
TBM Outturn Forecast (as at month 2)	36.003	36.003	36.003
Improvement due to speed of recovery	-3.000	-5.000	-8.000
Further Mitigations (see paragraph 3.5)	-2.000	-3.000	-4.500
Continued Capital Programme pause <sup>1</sup>	-0.000	-0.500	-0.500
Further government COVID-19 funding	-5.000	-10.000	-14.000
<b>Revised Outturn Overspend 2020/21</b>	<b>26.003</b>	<b>17.503</b>	<b>9.003</b>
Forecast Collection Fund Deficit 2020/21	13.070	10.000	8.000
<b>Total One-off Resources Required</b>	<b>39.073</b>	<b>27.503</b>	<b>17.003</b>

- 3.9 The 'improvements due to speed of recovery' in the table relate primarily to fees & charges income which could recover more quickly than current trends indicate if distancing measures continue to be eased week-by-week and businesses are allowed to open more quickly than first thought. In particular, it is possible that parking revenues will recover more quickly than first thought, especially if a 'staycation' trend becomes evident and summer holiday visitor numbers recover well.
- 3.10 Other elements concern the mitigations discussed in paragraph 3.5, the potential to continue pausing some elements of the capital programme (see Section 5), and assumptions about further government funding. Further funding of £10m in 2020/21 is considered to be a moderate view and would equate to an allocation of £2bn nationally.
- 3.11 The Collection Fund deficit relates to the net effect of reduced Council Tax and retained Business Rate revenues caused by increased Council Tax Reduction (CTR) claims, reduced collection rates, and lower than anticipated business and housing growth. The current estimate of £13.070m could improve if the current increase in CTR claims proves to be a short-term spike and collection rates recover later in the year.
- 3.12 In the context of the scenarios set out above, the council's available reserves and balances are currently as follows:
- Working Balance £9m – any use must be replenished;
  - Earmarked Reserves £41m – many are held against contractual commitments (e.g. PFI's) or are risk provisions (e.g. Self-Insurance Fund) and must be replenished. Some are held against regeneration projects (e.g. New England House, Brighton Centre/Waterfront development, etc) and are linked to match-funding from the Coast to Capital Local Enterprise

<sup>1</sup> Note, the 'Worst Case' scenario for Continued Capital Programme pause' assumes that the schemes recommended for a continued pause are not approved by this committee.

Partnership or other investors. Many are held against future risks or commitments (e.g. the i360 reserve). Most, if not all, would therefore need to be replenished.

A more detailed analysis of reserves and balances and the potential to be able to utilise them is given in Appendix 4.

- 3.13 Clearly, all of the scenarios above are very challenging and would substantially impact on the council's reserves and working balance, severely hampering its ability to support recovery in the city due to the need to reduce future spending and replenish the majority of these over time. In the worst case scenario, the council would severely deplete its reserves leaving it in a precarious financial state where consideration of a Section 114 report to members may be needed if adequate measures to address the situation cannot be identified through the 2021/22 budget planning process.
- 3.14 It is very evident, however, that the majority of authorities are in a similar situation and a significant number have few, if any reserves to call on. It is clear that government will therefore need to provide solutions to avoid a further breakdown in the economic fabric of the country, particularly as local authorities are currently regarded as high credit rated institutions. Allowing local authorities to become insolvent is not a tenable scenario.
- 3.15 Without very substantial additional funding, the council is left with few choices to manage the position in 2020/21. The choices essentially come down to:
- (i) **Emergency Budget Option:** Take a prudential view and set an Emergency Budget including emergency reductions in non-statutory expenditure and services alongside all other available mitigation measures (as above). This could include some use of reserves or the working balance with a plan for their replenishment over future years; or
  - (ii) **Financial Smoothing Option:** Take a more optimistic view (for example, that substantial further government funding will be provided) and utilise the available mitigations above as far as possible to manage the position. Use reserves and the working balance to manage any remaining shortfall, which could be up to a maximum of £39.073m if only limited additional government funding is forthcoming. This would also need a plan for replenishment of reserves and balances over future years.
- 3.16 As the financial magnitude of this event is enormous, similar for example to the council's £38m equal pay settlement in 2009, the period of replenishment for any reserves and balances utilised could be similarly spread over a longer time span. In the case of the equal pay settlement, a 10 year time horizon was used for both schools and the council. For both options, the specific reserves and balances to be utilised, if any, would need to be agreed by Policy & Resources Committee either at the October meeting, or at any time when a decision to utilise reserves & balances is deemed necessary. As indicated in Appendix 4, Members could choose to release some reserves (i.e. not require repayment) but the consequences in each case would need to be considered and accepted.
- 3.17 The primary risks inherent in each option are clear. An Emergency Budget is likely to impact on service delivery in many areas and could result in potential staffing and partnership impacts as well as causing the restriction of spending at a time when the economy is heavily reliant on the circulation of public sector money. The Financial Smoothing option avoids some of the service impact risks in the short term and allows a longer time frame for the impact to be managed.

However, it is still likely to impact on the local economy because many of the reserves could otherwise have been used to support recovery, including, for example, regeneration schemes. The key risk with this option is the substantial depletion of reserves and balances, including a number of risk provisions. This inevitably leaves the council in a more precarious position in terms of managing any future financial shocks such as large self-insurance claims, the cost of legal challenges, appeals or contractual disputes that cannot be successfully defended, non-delivery or under-achievement of savings plans, unfunded legislative changes, and so on. If this were compounded by an inability to address the projected budget gap in 2021/22, this would place the authority in a very high risk position.

- 3.18 In conclusion, at this stage of proceedings the combined impact of the forecast in-year overspend and estimated Collection Fund deficit for 2020/21 ranges from £39m to £17m. This is therefore the range of one-off funding that may need to be provided through one of two options set out in paragraph 3.15 above. As this range can be covered by reserves and balances, the suggested course of action is to develop budget plans for both the Emergency Budget Option (i.e. spending reductions) and the Financial Smoothing Option over the summer months during which it is to be hoped that further clarity (and funding) will be provided by government. One or both options can be presented to members for consideration at the 8 October Policy & Resources Committee depending on information received over the period.

#### **4. MEDIUM TERM BUDGET PLANNING**

##### ***Local Financial Planning Context***

- 4.1 Prior to the pandemic, the government issued a one-year financial settlement for local authorities which was a different approach for 2020/21. This was expected to be followed up with a longer term Comprehensive Spending Review in Autumn 2020 incorporating the outcome of the Fair Funding Review and changes to the Business Rates Retention mechanism. However, the pandemic has seen the Fair Funding Review and Business Rate Retention changes postponed and the impact of the pandemic on public sector finances means that a longer term settlement appears unlikely this financial year.
- 4.2 Aside from the pandemic, the context of the council's General Fund budget setting process is now very different to the past. Government grant support to local authorities has reduced considerably since 2009/10 and is now approximately £110m lower. The council's General Fund is now primarily funded by fees & charges and local taxation with only £6.630m from government Revenue Support Grant as follows:
- Council Tax: £151m
  - Fees & Charges for services: £112m
  - Business Rates (locally retained share): £58m
  - Government Revenue Grant Support: £6.6m

The only other significant funding relates to the Section 31 and unringfenced grants of £29m from government which includes compensating local authorities for business rate losses related to government-set rate reliefs.

- 4.3 Predicting local government funding for the next 3 years is difficult in the absence of any firm information about the spending review. Although not confirmed, it now appears unlikely that the government will be able to do more than provide a further one-year settlement in the Autumn. Local authorities will clearly be looking for further support within this settlement, both toward the increasing cost of Adult Social Care and the ongoing financial impact of the pandemic.
- 4.4 The detailed Local Government Finance Settlement (LGFS) is not normally made available until late November or December each year, which provides little time to alter financial planning assumptions. As a result, the council's budget setting process for 2021/22 should aim to provide flexibility to manage any adverse fluctuation in the level of announced resources, particularly in the current situation where there are many unknowns regarding potential government support for the impact of the pandemic. This necessarily requires a prudent approach in order to:
- (i) keep risks at an acceptable level and maintain financial resilience and sustainability;
  - (ii) minimise arbitrary cuts to services to balance the budget; and
  - (iii) avoid exhausting the authority's reserves and balances (one-off resources) without any plan to replenish them.
- 4.5 This report includes an early assessment of the pressures facing priority services in terms of increases in costs and growth in demands, particularly in relation to services for vulnerable people such as social care. These have been reviewed to consider the ongoing impact of the pandemic. Alongside government grant reductions, limitations on the level of council tax increases and normal inflationary pressures, investing funds to meet these priority cost and demand pressures explains the cause of predicted 'budget gaps' that the council has been experiencing over the last 10 years. The impact of the pandemic will add another layer of pressures that will exacerbate pressures in 2021/22 and beyond.
- 4.6 Effective financial planning has become increasingly important over recent years due to the increasing financial challenges facing the council. Losing grip of the council's finances and the consequent impact on services has serious reputational implications and in cases where this has happened, the members of the authority have generally had to cede control of the situation because the level of external scrutiny, challenge and/or government intervention has escalated accordingly. Recent examples include:
- A Statutory Section 114 report being issued by a Chief Finance Officer (CFO) to restrict all spending, bringing with it associated media and reputational impact;
  - Objections to the statement of accounts which must be investigated by the external auditor;
  - Various legal challenges from residents in respect of council decisions, particularly where urgent cuts have had to be approved to balance the books;
  - Intervention by government in respect of failing services where they have appointed commissioners to take over whole services;

- In the severest case, Northamptonshire, direct intervention by government will result in dissolution of the authority and creation of two new unitary authorities from April 2021.

In their annual reviews, external auditors are therefore increasingly concerned with local authorities' arrangements for securing value for money which includes demonstrating financial resilience and sustainability by providing evidence of effective medium term planning. In the current context, External Auditors will be looking closely at authorities' plans and approaches for managing the impacts of the pandemic.

4.7 The advantages of effective medium term planning are that:

- it promotes a culture of looking forward and developing a strong understanding of future costs, including those driven by local demographic changes or priorities;
- it encourages longer term service planning to meet identified changes in demand and to deliver cost reductions and efficiencies through service redesign or technological investment, etc.;
- it enables early identification of any anticipated funding shortfalls (i.e. Budget Gaps) and therefore provides for advance planning for the delivery of savings, efficiencies and/or for the re-prioritisation of spending;
- it therefore helps the authority to minimise financial risks and volatility, maintain essential services and demonstrate financial resilience to key partners and to independent reviewers including inspectors or external auditors;
- it enables alignment of planning with a range of internal and external plans and timelines including the government's Comprehensive Spending Reviews or the NHS 5-year Plan for example.

### **2021/22 Budget Planning Scenarios**

4.8 Taking account of the impact of the pandemic in the budget planning process is fraught with difficulty due to the uncertainties outlined in paragraph 3.4 above. As for the current year, three potential cost and funding scenarios have also been considered for 2021/22 to illustrate the potential range of impacts. The scenarios considered are as follows:

**Table: Planning Scenarios 2021/22**

<b>Cost &amp; Loss Scenarios</b>	<b>Assumptions</b>
Worst Case	Slow economic recovery. Council Tax Reduction caseload remains high. Council Tax base and collection rate suppressed. Higher rate of business failures. Visitor numbers recover slowly. Cost pressures across demand-led services such as Adult Social Care and Homelessness remain at higher levels.
Moderate View	Economic recovery starts slow but steadily gathers pace. Council Tax Reduction caseload spikes but steadily reduces. Moderate impact on Council Tax base and collection rate. Business failures are



	apparent, but business start-ups also begin. Quicker exit from lockdown and steady recovery of visitor numbers. In-roads begin to be made into cost pressures across demand-led services such as Adult Social Care and Homelessness but they remain at elevated levels.
Optimistic view	Economy 'bounces' back relatively quickly once lockdown measures are significantly relaxed. Council Tax Reduction caseload spikes but then falls quickly. Limited, short term impact on Council Tax base and collection rate. Business failures are significantly offset by start-ups or others moving into the city. Visitor numbers also recover quickly. Significant stabilisation and mitigation of demand-led cost pressures is achievable.
<b>Funding Scenarios</b>	<b>Assumptions</b>
Lowest level	COVID-19 impact funding of £4m Adult Social Care grant or precept of c£3m Troubled Families funding withdrawn
Medium level	COVID-19 impact funding of £6m Adult Social Care grant or precept of c£4m Troubled Families funding of £1m
Optimistic level	COVID-19 impact funding of £8m Adult Social Care grant or precept of c£5m Troubled Families funding of £1m

- 4.9 There are obviously variants of these scenarios in between but these serve to demonstrate the expected range of possible ongoing impacts from the worst case cost/loss and funding scenarios through to an optimistic cost/loss and funding view. Actual costs and losses could be outside of these limits, but this is considered to be improbable. In terms of economic recovery, the city has proven, time and again, that it is relatively resistant to economic shocks and has previously proved resilient compared to many other economies. Its digital and service sectors will hopefully recover quickly and therefore the key risks will be across its retail and visitor economy, however, there is already evidence of visitors' willingness to return to the city and there is a possibility of a 'staycation' factor if international travel remains restricted. The economic shocks are deeper and more far reaching on this occasion and therefore a gradual but steady recovery that gathers pace may be a safer assumption than a fast recovery.
- 4.10 In terms of additional funding support, the level of support and the form it may take are unknown. However, the government is already well aware of the long term funding problems inherent across Adult Social Care and there has been widespread and consistent lobbying to resolve this from all sides. It seems unlikely that there would be no recognition of this from government, particularly given that the situation has been exacerbated by the pandemic. A grant or allowable precept of at least £4m to support Adult Social Care is considered a reasonable planning assumption.
- 4.11 Similarly, MHCLG have been collecting local authority data regarding the impact of the pandemic and therefore government will be well aware that the COVID-19

funding provided to local authorities to date is significantly below the estimated financial impact. There is ongoing and constant lobbying in this respect from all quarters and it seems unlikely that further funding support will not be provided in 2020/21. Two tranches of funding of approximately £8m each have been received to date, and it is reasonable to expect that a further substantial tranche will be forthcoming to compensate local authorities in the current year. However, it is also likely that government will compensate local authorities for some of the ongoing impact of COVID-19, in particular the likely impact on council tax and business rate revenues. This could take different forms of support, but the net effect would be to reduce the burden on local authorities in future years. A range of £4m to £8m for 2021/22 is included here for planning purposes, the latter equating to about £1.6bn nationally.

- 4.12 The only other funding stream currently known to be at risk concerns the Troubled Families grant which has been expected to discontinue for some time but was 'rolled-forward' in the previous one-year settlement. This will hopefully be rolled-forward again and is worth £1m locally.
- 4.13 For planning purposes, it is reasonable to work on the 'Moderate View' cost and loss scenario but with options being developed to enable the financial response to be flexed up or down to a reasonable degree. On the funding side, the level of government funding support is unknown and therefore any assumptions are speculative at this time, which clearly makes financial planning very challenging. However, recent COVID-19 funding tranches and Adult Social Care funding provision over the last few years give a sense of the likely levels of national funding that may be provided. A medium level scenario therefore strikes a reasonable balance for planning purposes, with a less favourable outcome being managed through increased reserve use in the short term.

### ***Budget Gaps and Re-investment***

- 4.14 As set out in Appendix 2, any shortfall between the estimated costs, demands and funding pressures that the council plans to prioritise and fund, and the estimated change in income from taxation and government grant funding, is termed the Budget Gap. The budget gap can be closed by identifying budget savings, which then enables investment in priority services or provides funding to protect services from funding reductions. For 2021/22 and beyond, prior to the pandemic the Medium Term Financial Strategy (MTFS) indicated that budget gaps were expected to be between £7m to £9m per annum, driven largely by continued investment to meet Adult and Children's Social Care demands. These budget gaps are now expected to be significantly greater due to the impact of the pandemic and the factors outlined above.
- 4.15 In summary, the broad options or possibilities for closing any projected budget gaps are as follows:
  - (i) Government may provide increased funding (compared to the level assumed) through the Local Government Financial Settlement. Potential grant funding for Adult Social Care and COVID-19 is discussed above;
  - (ii) Government may allow council's to levy additional Council Tax increases through precepting to provide additional funding for a specific area, e.g. Adult Social Care. Similarly, government may relax the current 'excessive Council Tax increase threshold', thereby allowing higher increases. Both would be optional and subject to full Council approval.

- (iii) The council could elect to increase Council Tax above the current 'excessive council tax increase threshold' (i.e. currently 1.99%). This would require a local referendum to be held with a successful outcome. Holding a referendum would cost approximately £0.370m and doing so also requires identification of one-off resources to mitigate the delay in implementing proposals while the outcome is awaited. It is also a legal requirement to have a substitute budget should a referendum not be successful;
  - (iv) Partners could provide increased funding for joint operations e.g. CCG funding toward social care costs. However, the CCG has reduced funding support in previous years because it is also under increasing financial pressure. Other partners are small by comparison;
  - (v) There may be improvements in the projected level of cost, income and/or demand pressures to be prioritised in the current estimates;
  - (vi) The council can identify a programme of savings measures to either reduce costs in non-priority areas, manage down demand pressures (e.g. through prevention and commissioning strategies), generate greater incomes or attract alternative funding.
- 4.16 Options (i) to (v) above carry a high level of uncertainty and therefore the authority will normally need to develop savings proposals and options as described in (vi) above.

#### ***Budget Strategies to support the Corporate Plan***

- 4.17 The 2020/21 General Fund budget was set in the context of a new council Corporate Plan 'A fairer city, a sustainable future'. The budget, approved in February 2020, included approximately £13m investments in support of the Corporate Plan priority areas, including demand-led services. The impact of the pandemic means that many of the resources that the council relied on to underpin its investment plans are now less certain over the longer term.
- 4.18 Budget planning also needs to consider whether or not current budget strategies deployed across the council are fully aligned with the implications of the Corporate Plan. Some income sources may, for example, be impacted by carbon reduction initiatives, while traditional procurement economies may be impacted by Community Wealth Building initiatives. Conversely, Corporate Plan objectives could bring new revenues, for example, through investment in infrastructure for electric vehicles and/or bikes. The impact of the pandemic makes it more important to test out these strategies given the higher level of financial risks that the pandemic has exposed.

#### ***2021/22 Scenarios and Projections***

- 4.19 As discussed above, a key component of the projections is to identify the levels of investment needed for priority services or demand-led services. The Executive Leadership Team and Finance have examined current demand and expenditure trends for these priority areas to inform the investment requirements in order to meet projected demands, safeguard the provision of services and enable the council to meet its statutory duties. Under the scenarios outlined earlier, it is possible that these projections could improve under favourable conditions but trends in demand-led areas such as social care can often take considerably more than a year to turnaround.

- 4.20 The table below sets out the costs, losses and investment requirements under the 3 scenarios outlined in paragraph 4.8 above. This includes the impact on Council Tax and Business Rate revenues.

**Table: Investments, Cost Pressures & Tax Base Scenarios 2021/22**

Budget Area	Worst Case	Moderate View	Optimistic View
	£m	£m	£m
<b>Investments &amp; Other Cost Pressures:</b>			
Original Budget Gap	9.300	9.300	9.300
Deploy 2020/21 Risk provision	-0.750	-0.750	-0.750
2020/21 excess pay award cost	0.500	0.500	0.500
Remove inflation on income	2.060	1.000	0.500
Cash limit non-pay budgets	0.000	-0.600	-0.600
Actuarial reduction in Pension costs reversed	0.490	0.000	0.000
Revised Investments & Pressures including COVID-19 impacts:			
Health & Adult Social Care	13.700	12.700	11.700
Families, Children & Learning	6.500	6.000	5.500
Land Charges	0.500	0.500	0.500
All other services	0.500	0.500	0.500
Corporate priorities	1.000	1.000	1.000
Financing Costs pressures	0.500	0.500	0.500
Allowance for ongoing PPE costs	0.500	0.500	0.500
Less previous pressure assumptions	-7.500	-7.500	-7.500
<b>Total Investments &amp; Cost Pressures</b>	<b>27.300</b>	<b>23.650</b>	<b>21.650</b>
<b>Taxation Impacts:</b>			
Council Tax (CT) base impacts:			
Increase in CT Reduction claimants	2.500	1.500	1.000
Reduction in CT Collection rate	1.500	1.000	0.500
Delay in development completions	0.600	0.600	0.600
Business Rate (BRR) tax base impacts:			
Remove previous growth assumption	0.150	0.150	0.150
Reduce inflation increase	0.600	0.600	0.600
Additional allowance for business failures/reduction in collection rate	1.200	0.800	0.400
<b>Total Taxation Impacts</b>	<b>6.550</b>	<b>4.650</b>	<b>3.250</b>
<b>Total Investment, Costs &amp; Taxation Impacts</b>	<b>33.850</b>	<b>28.300</b>	<b>24.900</b>

- 4.21 The scenarios above indicate an Investment & Cost Pressure range of £27.300m to £21.650m and a net Tax Base reduction in the range £6.550m to £3.250m. These give rise to initial budget gaps of £33.850m to £24.900m. These are clearly very substantially higher than previous Medium Term Financial Strategy projections for 2021/22 to 2023/24. However, these projections are before any assumptions about government funding for Adult Social Care, COVID-19 or Troubled Families. Potential funding scenarios are given below on

a similar basis to those for 2020/21 and as described in paragraph 4.8 to 4.12 above.

**Table: Funding Scenarios 2021/22**

<b>Funding Scenarios</b>	<b>Lowest Level</b>	<b>Medium Level</b>	<b>Optimistic Level</b>
	£m	£m	£m
ASC funding or precept	-3.000	-4.000	-5.000
Covid-19 ongoing impact funding	-4.000	-6.000	-8.000
Troubled Families funding	0.000	-1.000	-1.000
<b>Total Funding Assumptions</b>	<b>-7.000</b>	<b>-11.000</b>	<b>-14.000</b>

- 4.22 Combining the projected Investments, Costs and Taxation impacts with the funding scenarios gives a range of potential budget gaps as set out below which can be considered for financial planning purposes:

**Table: Range of Potential Budget Gaps 2021/22**

<b>Cost &amp; Taxation Scenario:</b>	<b>Worst Case</b>	<b>Moderate View</b>	<b>Optimistic View</b>
Aligned with funding scenarios below:	£m	£m	£m
<b>Lowest Level Funding</b>	26.850	21.300	17.900
<b>Medium Level Funding</b>	22.850	17.300	13.900
<b>Optimistic Level Funding</b>	19.850	14.300	10.900

- 4.23 The table above shows a range of potential budget gaps in 2021/22 from £26.850m to £10.900m. However, this is before considering the impact of the pandemic on the current year's budget, 2020/21, and in particular any repayment of reserves and balances that may need to be provided for over the medium to long term starting in 2022/23.
- 4.24 If the 'moderate view' is taken for 2020/21 for planning purposes, as set out in paragraph 3.8, this indicates that if the Financial Smoothing Option' is utilised, up to £27.503m reserves and balances will be deployed to manage the 2020/21 budget deficit. If the council requires all reserves and balances to be re-instated over, for example, a 10-year time frame, this will require repayment at a rate of £2.750m per annum for 10 years, adding to the above budget gaps. Due to the scale of the budget gap in 2021/22, repayment is assumed to start in 2022/23. This assumption is used to illustrate the Medium Term Financial Strategy projections below.

**Medium Term Financial Strategy Update 2021/22 to 2023/24**

- 4.25 The table below summarises the MTFs estimates and predicted budget gaps for the next 3 years based on the following key assumptions:
- 1.99% Council Tax increases;
  - 'Moderate view' scenario for net reductions in tax bases;
  - 'Medium view' scenario for government funding assumptions;
  - 2.20% pay awards;
  - 1.00% income budget uplifts;
  - 1.00% non-pay budget cash limits;

- 1.00% assumed inflation rate for Business Rate uplifts;
- Continued investment in priority demand-led services and Corporate Plan priorities;
- Repayment of reserves & balances used for COVID-19 over a 10 year period.

**Table: Indicative Medium Term Financial Strategy**

<b>Summary MTFS and Budget Gaps</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Commitments	0.991	0.623	0.311
Net Inflation (on Pay, Prices, Income, Pensions)	5.624	6.781	6.251
Investment in priority services and Corporate Plan priorities	21.700	6.250	6.250
Provisions for Grant / Funding reductions to ongoing services	0.767	0.152	0.397
Net Tax Base Changes	-0.782	-4.889	-5.015
<b>Predicted Budget Gaps (before funding)</b>	<b>28.300</b>	<b>8.917</b>	<b>8.194</b>
Medium View Funding Assumptions	-11.000	3.000	3.000
Moderate View Reserve Repayments (10 Years)	-	2.750	-
<b>Predicted Budget Gaps (savings target)</b>	<b>17.300</b>	<b>14.667</b>	<b>11.194</b>

4.26 Note that the above table presents a cumulative position as changes in each year are treated as permanent (i.e. recurrent). For example, the reserve repayments of £2.750m per annum appear once in 2022/23, when they are assumed to start, as it will become a recurrent repayment budget for the next 10 years. Similarly, for the funding assumption line, the £6m COVID-19 grant assumed in 2021/22 is then assumed to drop out over a period of two years, hence the £3m reductions in 2022/23 and 2023/24.

4.27 The MTFS projections could be affected by a wide range of factors as follows:

- Higher or lower demands and costs than projected;
- Higher or lower tax base movements;
- Movements in pay or general inflation;
- More or less favourable government grant settlements;
- Potential impact of changes to the 'excessive council tax' capping rules or precepts;
- Changes in interest rates (impacts on financing budgets);
- Actuarial changes to pension fund contributions;
- Government regulations allowing capitalisation/amortisation of COVID-19 deficits; and
- Government regulations to reduce or remove local authority debt (e.g. similar to the recent removal of Public Debt Capital in the NHS);

Many of these can have significant impacts on MTFS projections in either direction.

4.28 Based on the analysis above, which includes many unknowns, it is recommended to instruct the Executive Leadership Team (ELT) to develop budget proposals and savings options to address a 'Moderate View' budget gap

in 2021/22. Work to develop options should run in tandem with options for a potential 2020/21 Emergency Budget as many of the options are likely to overlap. In practice, if an Emergency Budget is deemed necessary in 2020/21, many of the options are likely to involve the bringing forward of options that would have been considered for the 2021/22 budget setting process. For later years, 2022/23 and beyond, if reserves are used in 2020/21 budget proposals will need to include provision for the 10-year repayment of reserves.

## **5. CAPITAL STRATEGY AND CAPITAL INVESTMENT PROGRAMME**

### ***General Fund***

#### ***5 Year Capital Investment Programme***

- 5.1 The Capital Strategy was approved at Budget Council in February 2020 along with the capital programme estimates that were incorporated into the council's Budget Book. The aim of the strategy is to ensure that all members on the full Council can understand and determine the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite of the council. The capital expenditure estimates incorporate planned rolling investment programmes alongside major infrastructure projects.

#### ***Rolling programmes***

- 5.2 The majority of the council's capital investment is within rolling programmes. The key programmes, including those re-focused to support Corporate Plan commitments, are as follows:
- Investment in Housing Stock through the Housing Revenue Account;
  - The Education Capital programme provides investment from central government which includes New Pupil Places, Education Capital Maintenance and Devolved Formula Capital for schools;
  - Disabled Facilities Grants;
  - The Local Transport Plan (LTP);
  - The Information, Technology & Digital Investment Fund;
  - The Asset Management Fund (AMF);
  - Corporate Planned Maintenance (PMB);
  - The Strategic Investment Fund (SIF);
  - Vehicle and plant replacement annual programme.
- 5.3 The current strategy identifies longer term capital investment plans as well as a funding strategy and the potential outcomes for each investment plan. This strategy includes major investment requirements such as investment in the seafront infrastructure and partnership investment through major projects such as Brighton Waterfront, the Housing Joint Venture, Heritage Lottery Fund bids such as the Stanmer Park Master Plan and the Royal Pavilion Estates Regeneration, and plans for investment into the seafront infrastructure at Madeira Terrace.
- 5.4 Government funding through the City Deal has been received to support the development of Longley Industrial Estate including the refurbishment and expansion of New England House. Local Growth Fund (LGF) grants have been

approved from the Coast to Capital Local Enterprise Partnership (C2C LEP) to support the Brighton Waterfront and Valley Gardens Phase 3 projects. Other schemes which are underway include Preston Barracks Central Research Laboratory, Circus Street Redevelopment and Valley Gardens Phases 1 & 2. Much needed investment from the Highways Infrastructure Fund has been invested into the development of the Shelter Hall and has also been incorporated into the strategy. Longer term investment for coast protection is also incorporated into the 5 year strategy which includes potential government match-funding.

- 5.5 Capital receipts from the sale of surplus land and buildings support the capital programme and the projections are regularly reviewed. The council will continue with its strategy of re-balancing the property portfolio by disposing of low or non-performing commercial properties and reinvesting in more viable property investments. This ensures costs can be minimised and rental growth optimised to ensure best value is achieved.

### ***Modernisation & Enabling Investment***

- 5.6 In February 2020, Budget Council approved a Modernisation Fund of £15m over the 4 years 2020/21 to 2023/24 to provide continued investment in the council's IT and Customer Digital infrastructure and developments, as well as providing support for the delivery of savings programmes through either invest-to-save schemes or through the provision of enabling programmes such as 'Workstyles', the People Promise staff development and support programme, and project and programme management support.
- 5.7 The Modernisation Fund is kept under review as budget plans develop and spend-to-save opportunities and investment requirements emerge during each budget round.

<b>Modernisation Fund</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000
Customer Digital	1,000	1,000	750	750	<b>3,500</b>
Modernisation enablers	1,507	921	932	940	<b>4,300</b>
Invest to Save (4-Year Plans)	650	550	450	350	<b>2,000</b>
Managing staffing changes	700	500	400	400	<b>2,000</b>
IT Modernisation Investment	800	800	800	800	<b>3,200</b>
<b>Total</b>	<b>4,657</b>	<b>3,771</b>	<b>3,332</b>	<b>3,240</b>	<b>15,000</b>

The current elements of the Modernisation Fund are as follows:

- 5.8 Customer Digital: Over the past four years the Digital First programme has concentrated on developing the digital infrastructure, web design and content management applications and tools necessary to provide digital services. There has also been development of a small number of digital services and 'apps' but the infrastructure is now in place to increase the pace of development. Digital forms, apps and services enable enhanced data management and a better customer experience, as evidenced through the MyAccount portal development.
- 5.9 Modernisation Enablers: This investment covers project teams and staff necessary to support service directorates in the delivery of large savings programmes. This includes Project & Programme Managers (PMO), Business



Improvement analysts and 'Workstyles' project staff, as well as investment in the People Promise, internal communications and change management.

- 5.10 Invest-to-Save (4-Year Plans): These investments cover direct investment by services to enable them to achieve planned savings. This can include commissioning expert advice or professional services, providing temporary additional capacity, or investing in equipment, training & development and systems developments to support service changes. Investments must be supported by Business Cases which are considered and scrutinised by the Corporate Modernisation Delivery Board chaired by the Chief Executive. The use of the resources also needs to be reviewed in the light of the pandemic and where possible used to help services modernise and achieve cost reductions as a further aid to achieving financial sustainability.
- 5.11 Managing Staffing Changes: Many savings measures will involve service redesign or modernisation (e.g. becoming more digital) that may have an impact on staffing requirements. This is normal within local authorities as they strive to improve value for money as part of their Best Value duty under the Local Government Act 1999 and as part of their budget strategies. Managing change often requires seeking voluntary redundancy or supporting redeployment as a way of managing the process and this requires funding to meet redundancy costs and potential pension strain costs.
- 5.12 IT Modernisation Investment: Investment in IT equipment, software, systems and services (e.g. voice and data) is important to enable the organisation to remain secure, resilient and efficient. Historically, the organisation has suffered from long periods of under-investment which has had to be addressed over the last 4 years through approval of large IT Capital Schemes including Windows 10 roll-out, replacement of the Housing and Social Care systems, General Data Protection Regulation upgrades, etc. The IT Modernisation Investment included here is an attempt to avoid a similar build-up of IT 'investment backlog' by supplementing existing budgets and enabling the council to keep up with necessary infrastructure changes.
- 5.13 The Modernisation Fund is currently overseen by the Member Oversight Group (MOG) and is also managed by the Corporate Modernisation Delivery Board (CMDDB) chaired by the Chief Executive and including Executive Directors and the CFO. Decisions regarding the detailed use of the Modernisation Fund are governed according to Financial Regulations and Committee and Officer delegations. Larger investment decisions, above £0.500m, are reported to Policy & Resources Committee as these are outside of officer delegations. Decisions leading to investment in capital assets are also be reported to Policy & Resources Committee either as a separate report or through the capital appendices of Targeted Budget Management (TBM) reports.

### ***HRA Capital Programme***

- 5.14 The capital investment plan for the HRA is mainly funded from direct revenue funding from tenants' rents (and associated rent rebates) as well as the use of retained capital receipts from Right to Buy sales and borrowing for investment in new affordable homes. The programme will require further updating for 2021/22.

### ***Pausing of Capital Programmes***

- 5.15 At the 30 April 2020 Policy & Resources Committee, the committee agreed to pause a number of new capital schemes backed by capital receipts and/or borrowing, including schemes where the borrowing is to be funded from future

income generation. Capital Schemes with a total value of £26.216m were put on pause pending a review of the council's financial situation resulting from the pandemic. The schemes were paused until July when they were due to be reviewed.

- 5.16 The pandemic has had a far worse financial impact than the majority of analysts had predicted. Nationally, the country now owes more in debt than its entire GDP for the first time since 1963. Locally, the financial impact is plain to see through this report and the Targeted Budget Management Month 2 report. A continued pause of new schemes funded from borrowing is therefore recommended due to the additional revenue burden these would place on an already extreme situation, in particular, for those schemes where loan repayments are funded by income generation that is now uncertain. Appendix 3 sets out the schemes recommended for continued pausing until the 8 October 2020 Policy & Resources Committee where the situation can be reviewed again in the light of any further information from government and consideration of other options developed by the Executive Leadership Team over the summer period.
- 5.17 With regard to new schemes backed by Capital Receipts, it is recommended to un-pause these (value £1.033m) as the risk of not being able to finance them from capital receipts is considered acceptable in the context of the overall capital programme, which experiences sufficient re-profiling and/or slippage to manage this level of risk. It is also recommended to un-pause the Solar Panels for Corporate Buildings scheme as this scheme will only proceed if there is a viable business case for investing in the scheme.

## 6. TIMETABLE

- 6.1 The suggested timetable for considering the 2020/21 position and subsequent development and approval of the 2021/22 budget is given below. However, the timetable may need to flex depending on government announcements, or the absence of, or in response to a changing in-year situation. The timetable is in outline only and does not include all aspects of consultation that may need to be undertaken including with staff, unions, partners, service users and residents.

**Table: Outline Planning Timetable**

Date	Who	What
9 July 2020	P&R Committee	2019/20 TBM Provisional Outturn 2020/21 TBM Month 2 (May) General Fund Budget Planning & Resource Update
July – Sept	Executive Leadership Team (ELT)	Develop potential Emergency Budget and Financial Smoothing options for 2020/21 and begin 2021/22 budget planning process
8 Oct 2020	P&R Committee	TBM month 5 (August) General Fund Revenue Budget Update 2020/21 (including a possible Emergency Budget)
Sept – Nov	ELT	Continue planning process for 2021/22 including development of options to address a 'Moderate View' budget gap scenario
Sept – Nov	Government	Further one-year (?) Spending Review expected
December	Government	Provisional Local Government Finance Settlement

December	ELT	Consultation process begins on draft 2021/22 budget proposals including staff, unions, partners and residents
3 Dec 2020	P&R	General Fund Revenue Budget Update 2020/21 & 2021/22 including draft 2021/22 budget proposals and Equality Impact Assessments TBM month 7 (October) Council Tax Reduction Scheme 2021/22
17 Dec 2020	Council	Council Tax Reduction Scheme 2021/22
21 Jan 2021	P&R	Council Tax Base Business Rates tax base
11 Feb 2021	P&R	2021/22 General Fund and HRA Revenue & Capital Budget reports including the Capital and Treasury Management strategies TBM month 9 (December)
25 Feb 2021	Budget Council	2021/22 General Fund and HRA Revenue & Capital Budget reports

## **7. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 7.1 The budget process allows all parties to engage in the examination of budget proposals and put forward viable alternative budget and council tax proposals, including through amendments, to Budget Council on 25 February 2021. Budget Council has the opportunity to debate the proposals put forward by the Policy & Resources Committee at the same time as any viable alternative proposals.
- 7.2 Two primary options for addressing the 2020/21 financial situation are considered in paragraph 3.15 above. Both are viable but the preference for one over the other is highly dependent on further government funding announcements over the summer. Both options will therefore be developed by the Executive Leadership Team over the summer period, taking into account any further funding announcements from government. Options will be brought back to the October Policy & Resources Committee meeting. No options, or any variant of them, can be ruled out at this time.

## **8. COMMUNITY ENGAGEMENT AND CONSULTATION**

- 8.1 No specific consultation has been undertaken in relation to this report.

## **9. CONCLUSION**

- 9.1 The council is under a statutory duty to set its budget and council tax before 11 March each year. This report sets out the latest budget position and suggested options for managing the 2020/21 financial situation together with information on projected costs, investments and resources for 2021/22 to 2023/24. It also provides an outline timetable for considering options to manage the 2020/21 position and develop 2021/22 budget proposals.
- 9.2 In conclusion, at this stage of proceedings, the combined impact of the forecast in-year overspend and estimated 2020/21 Collection Fund deficit ranges from £39m to £17m. This is therefore the range of one-off funding that may need to

be provided through one of two options set out in paragraph 3.15 above. As this range could potentially be covered by reserves and balances, the suggested course of action is to develop budget plans for both an Emergency Budget Option (i.e. spending reductions) and a Financial Smoothing Option (i.e. use and repay reserves over time) over the summer months during which it is to be hoped that further clarity (and funding) will be provided by government. One or both options, or a variant of them, can be presented to members for consideration at the October Policy & Resources Committee depending on information received over the period.

- 9.3 It should be noted that both options above, while potentially providing a short-term financial solution, have far-reaching implications for council services and the council's ability to support recovery across the city through both its services and, importantly, through its public sector spending and employment in the city. The council's ability to support regeneration schemes, invest in Corporate Plan priorities such as carbon reduction, and continue support and services for vulnerable people and communities, including Community & Voluntary Sector support, will be severely impacted in all scenarios except where the government fully underwrites the deficit caused by the pandemic.

## **10. FINANCIAL & OTHER IMPLICATIONS:**

### ***Financial Implications:***

- 10.1 These are contained in the body and appendices of the report.

*Finance Officer Consulted: James Hengeveld*

*Date: 26/06/20*

### ***Legal Implications:***

- 10.2 The process of formulating a plan or strategy for the council's revenue and capital budgets is part of the remit of the Policy & Resources Committee. The recommendations at paragraph 2 above are therefore proper to be considered and, if appropriate, approved by it.
- 10.3 This report complies with the council's process for developing the budget framework, in accordance with Part 7.2 of the Constitution. Changes to the Council's policy and budgetary framework which have not been anticipated are reserved to full Council and therefore Policy & Resources Committee may need to make recommendations to full Council following receipt of the proposed October 2020 report.

*Lawyer Consulted: Elizabeth Culbert Date: 29/06/20*

### ***Equalities Implications:***

- 10.4 For any significant budget changes, either in 2020/21 or for 2021/22, it is proposed to continue the screening process undertaken in previous years and continue to improve the quality and consistency of Equality Impact Assessments (EIAs). Wherever possible, key stakeholders and groups will be engaged in developing EIAs but we will also need to consider how Members and Partners can be kept informed of EIA development and the screening process. In addition, where possible and proportionate to the decision being taken, there may be a need to assess the cumulative impact of the council's decision-making on individuals and groups affected in the light of funding pressures across the

public and/or third sectors. The process will ensure that consideration is given to the economic impact of proposals.

### ***Sustainability Implications***

- 10.5 The council's revenue and capital budgets will be developed with sustainability as a key consideration to ensure that, wherever possible, proposals can contribute to reducing environmental impacts and a low carbon economy.

### ***Risk and Opportunity Management Implications:***

- 10.6 There are a range of risks relating to the council's short and medium term budget strategy including the impact of the pandemic, ongoing economic conditions, changes in the national budget, pressures on existing budgets, further reductions in grants, legislative changes or demands for new spending. The budget process will normally include recognition of these risks and consider options for their mitigation. In the current unprecedented situation, the level of risk that the council may be prepared to carry and accept is likely to be higher than in normal circumstances.
- 10.7 Key factors (risks) for projecting the savings requirements for 2021/22 and future years will be taken into consideration including:
- An assessment of how robust and deliverable the savings that come forward are in the context of current demands, economic conditions, changing needs and the ongoing impact of the pandemic;
  - The accuracy with which tax base estimates and other assumptions, particularly the level of business rate appeals, can be made;
  - The continuing impact of Welfare Reform changes such as Universal Credit e.g. on Temporary Accommodation (homelessness), in particular, the ongoing impact of the reduction to the Benefit Cap and the pandemic;
  - The impact of economic conditions on fees & charges and other revenues. The buoyancy of many income streams can be affected by economic conditions e.g. commercial rents. This is now potentially more volatile both as a result of the pandemic and as 'Brexit' progresses, although the full impact of these may not be known for some time;
  - The impact of demographic and other changes e.g. immigration, public health issues (e.g. obesity), drug improvements (e.g. treating dementia), increasing longevity with health conditions, etc.

## ***SUPPORTING DOCUMENTATION***

### **Appendices:**

1. Resources Update
2. Medium Term Financial Strategy Assumptions and Projections
3. Pausing and Un-Pausing of New Capital Schemes
4. Information on General Fund Reserves & Balances

### **Documents in Members' Rooms**

1. None

### **Background Documents**

1. None

