

Medium Term Outlook

This medium term outlook is based around a number of potential scenarios. These include a central case (not necessarily the most likely scenario) together with upside scenarios (based on a rapid recovery) and downside scenarios (based on a slower recovery with lasting impact of Covid-19 pandemic). This is consistent with the approach adopted by the Office for Budget Responsibility (OBR) in its November 2020 Economic and Fiscal Outlook report.

The scenarios encompass both spending growth and funding forecasts and result in wide range for future budget gaps. The gaps make no assumptions about the Council agreeing further savings although do include the full year effect of 2021-22 savings in 2022-23 plus any annual savings/income from continuation of existing policies e.g. fees and charges. Each scenario assumes future 2%+2% council tax increases. All the scenarios are based on high level assumptions to give an indication of the potential scale of the challenge and are not predictions.

The central case is based on a scenario that recovery from the pandemic and recession is partly successful. Under this scenario we have assumed the council tax base would show 1% growth after 2021-22. Growth at this rate would see the net reduction in 2021-22 recovered through a combination of a reduction in the number of households receiving support discounts and growth in the number of households but neither would return to pre pandemic/recession levels. The central case scenario assumes a rollover of existing core grants (but no repeat of Covid-19 emergency grants). Spending growth forecasts assume 6% business as usual growth and ongoing (but diminishing) recurring additional spending associated with the pandemic due to pent-up demand and the need to continue with some form of preventative measures.

The upside scenario is based on a successful eradication of the virus and full and speedy recovery. Under this scenario we have assumed 2% council tax base growth which encompasses a reduction in the number of support discounts and a return to pre-recession anticipated housing growth. The upside scenario also includes 5% increase in core government grants (but no repeat of Covid-19 emergency grants). Spending growth forecasts assume 5% business as usual and no recurring additional Covid-19 costs.

The downside scenario is based on continuing need to take measures to tackle the virus and continued economic consequences. Under this scenario we have assumed a 2% reduction in the council tax base for 2022-23 due to further increase in support discounts, followed by 1% growth in 2023-24 (consistent with the central case). The downside scenario includes a 5% reduction in core grants as the government starts to reduce borrowing through national public spending restraint. Spending growth forecasts assume 7% business as usual and the need for recurring additional spend associated with the pandemic at similar levels to the amount identified in 2021-22 budget.

A summary of these scenarios is shown in table 1. The gaps would need to be closed through further savings/income generation or resisting spending growth.

Table 1 – Summary of Medium Term Scenarios

	Upside Scenario		Central Case		Downside Scenario	
	2022-23 £m	2023-24 £m	2022-23 £m	2023-24 £m	2022-23 £m	2023-24 £m
Spending Growth Forecasts						
Business as usual	57.0	57.0	68.0	68.0	79.0	79.0
Covid-19			14.0	7.0	21.0	21.0
Replace one-offs from unstable sources in 2021-22	13.0		13.0		13.0	
Remove One-off spending in 2021-22	-10.0		-10.0		-10.0	
Existing savings and policy	-27.0	-20.0	-27.0	-20.0	-27.0	-20.0
Total Spending Growth	33.0	37.0	58.0	55.0	76.0	80.0
Funding Change Forecasts						
Council Tax Base	15.6	16.5	7.8	8.2	-15.6	7.9
Assumed 2%+2% Tax Increases	31.8	33.7	31.5	33.0	30.5	30.5
Government Core Grants	12.5	13.1	0.8	0.8	-12.5	-13.1
Covid-19 Grants	-46.7		-46.7		-46.7	
Total Funding Change	13.1	63.3	-6.6	42.0	-44.2	25.4
Gap	19.9	-26.3	64.6	13.0	120.2	54.6