

DRAFT 2021/22 GENERAL FUND AND CAPITAL BUDGETS

Cabinet Member Cllr Andrew Moore
Responsible Officer Andrew Jarrett, Deputy Chief Executive (S151)

Reason for the report: To consider the initial draft 2021/22 Budget and options available in order for the Council to set a balanced budget and agree a future strategy for further budget reductions for 2022/23 onwards.

RECOMMENDATION: To consider the draft budget proposals for 2021/22 and start to plan for additional savings.

Reason for the recommendation: The Local Government Finance Act 1992 places a legal requirement on the Council to approve a balanced budget. These draft budget proposals assist the Council in understanding the extent of the budgetary imbalance and offers options to how this may be addressed.

Relationship to the Corporate Plan: To deliver our Corporate Plan's priorities within existing financial resources.

Financial Implications: The current budget for the General Fund shows a deficit of £3.012M. This highlights the need to take steps to plan for reductions to our expenditure levels, although any remedial measures will need to take account of the unprecedented situation that is currently being faced.

Legal Implications: None directly arising from this report. However, there is a legal obligation to balance the budget. There are legal implications arising from any future consequential decisions to change service provision, but these would be assessed at the time.

Risk Assessment: In order to comply with the requirement to set a balanced budget, management must ensure that the proposed savings are robust and achievable. We must also ensure that the assumptions we have used are realistic and prudent. Failure to set a robust deliverable budget puts the Council at risk of not being able to meet its commitments and casts doubt on its "going concern" and VFM status.

Equality Impact Assessment: There are no Equalities Impact implications relating to the content of this report.

Climate Change Assessment: The allocation of resources will impact upon the Council's ability to implement/fund new activities linked to climate change.

1.0 Introduction

- 1.1 2019/20 was the fourth and final year of a four year fixed funding settlement. The Fair Funding Review together with the business rates baseline reset, originally set for publication in September 2019, were

delayed a year due to Brexit pressures. That intention to publish in 2020/21 for implementation in 2021/22 is now further delayed due to the Covid 19 pandemic.

1.2 As a result, we are awaiting details of the funding that will be received for 2021/22. This also has a significant impact on our ability to forecast for future years. We expect the Review to alter our funding but we have little indication of what this might involve. The areas we are particularly concerned with are:

- Business Rates baseline reset – how much of our growth are we likely to lose?
- When, or even whether, will we move to 100% Business Rates growth retention? In the Budget 2016, this was to be in place “before the end of Parliament”.
- What will 100% Retention mean in terms of losing other funding streams such as RSDG and what additional responsibilities will we have?
- New Homes Bonus – the mechanics of this will change and we may lose additional years’ (we lost 2 years payments in 2018/19). We expect more of the Bonus to be redirected to the Better Care Fund to help Upper Tier authorities cope with the pressures of Social Care.
- Will we lose funding in relation to our rurality (RSDG)?
- Will we be tasked with administering additional reliefs/services?

1.3 It is worth reflecting that our budgets are affected in a number of ways:

- The funding received from Central Government.
- Devon County Council (DCC) and other public bodies’ budgets are being reduced centrally and hence this pressure is passed on to us in areas we work collaboratively.
- The increasing pressure on social care budgets has a “knock-on” effect to the level of funding that is available to lower-tier authorities.
- Government departments such as Ministry of Housing, Communities and Local Government, Department of Work and Pensions also have lower budgets and reduced grants.
- Changes in customer demand/expectations in the context of the local/national economy.

1.4 No financial report in these times, would be complete without reference to the implications of Covid 19. The pandemic and the effects of the measures to combat it, have structurally altered the services that we offer, the delivery channels that we employ and our funding mechanisms. In the context of budget setting for 2021/22 and beyond in respect of the MTFP, the question becomes an issue of what assumptions should our expectations be based upon:

- The country was placed into lock down largely for the first quarter of 2020/21. This significantly impacted service delivery and those income streams that depend on this activity. Since that time, services have been able to resume but often with new ways of working especially in our leisure centres.
- Further both the ongoing health and economic implications of the virus have impacted residents’ habits and expectations. This can be seen in planning for example where economic uncertainty has

seen a slowdown in the larger development applications, whilst the smaller home improvement type of application have seen an increase in activity.

- A great deal of uncertainty remains regarding the reoccurrence of the virus in the coming months, if not years, and the measures that may be taken to contain it.
- Since the end of lockdown, we now have 3 months of data which give some indication as to how our income streams may behave going forward. This report is based on those trends continuing. It is quite possible, however, that another infection peak over the winter months, say, could result in measures which further limit service activity and significantly disrupt these trends. In this case our assumptions would prove to be over optimistic and income expectations would need to be downgraded accordingly.
- It is noted that the 2020/21 budget was set before Covid 19 was a consideration. Hence when we look at the major budget variances in section 2 below, we are comparing a pre Covid view of 2020/21 with a post Covid recovery scenario in 2021/22. Even without possible further disruption, income is not expected to recover to pre pandemic levels before the start of 2021/22, resulting in losses from budget year to budget year.
- The Collection Fund is another area of deep uncertainty. Collection rates have been impacted with some residents and businesses struggling to make payments on council tax and NNDR respectively. Whilst we have extrapolated the emerging trends, the robustness of this approach will be tested in the face of the risks mentioned above regarding rising infection rates; along with the ending of the original furlough scheme and a generally declining economy.
- In the face of these threats, Council funding has been supported by grants from government. So far £994k has been received in 3 tranches in Covid 19 emergency funding. A fourth tranche of £1 billion has just been announced and we are waiting to hear what the Mid Devon share of this will be. The Council has also benefited from the Job Protection Scheme and a first application of £608k has recently been made under the government's Income Compensation Scheme. There have also been hints at support in relation to collection fund losses although nothing more substantive as yet. There is however no indication from government that any of this support will continue into 2021/22. As stated above, significant income losses are expected to run into next year but there is no certainty as to how these will be funded.

1.5 Although the priority is to balance next year's budget, strategic decisions will need to be made to accommodate reduced or changes to funding going forward.

1.6 Based on years of public sector austerity many services can no longer continue to reduce cost and still be expected to deliver "business as usual". It is important to remember that some services are statutory and in some cases must breakeven, i.e. we cannot generate a profit. This restricts where savings/cuts can be imposed and section 8 below provides more details.

- 1.7 The proposed savings embodied in the draft budget will need to be agreed by Members, as every proposed saving that is rejected will need to be matched by a suggestion of where a similar saving could be made. Members will be aware that the budget is an evolving process. We have already made a range of assumptions relating to: pay awards, inflation, fees/charges, demand for services, property increases, etc. More information may well change/alter our assumptions in the months leading up to February, when the budget has to be finalised. So the current budget gap of £3.012M will be revised over the next few months, but it is based on the most current information, in conjunction with professional guidance that is available.
- 1.8 The Council continues to look at opportunities to reduce operational costs without immediately reducing service levels. However it remains a real possibility moving forward that some difficult decisions will have to be made relating to what the Council can and can't afford to deliver/support in the future.

2.0 The Draft 2021/22 Budget

- 2.1 The initial aggregation of all service budgets (which also includes assumptions surrounding predictions of interest receipts, contributions to our capital programme, transfers from/to reserves and Council Tax levels) currently indicates a General Fund budget gap of £3.012m (Appendix 1).
- 2.2 At this point it is worth summarising how we have arrived at this deficit. The table shown below shows the main budget variances affecting the 2021/22 draft budget.

Table 1 – Reconciliation of Major 2021/22 Budget Variances

Variances	Pressure £k	Saving £k
<i>Covid 19 Losses</i>		
Income - Leisure	644	
Income – Waste	66	
Income - Parking	58	
Income – Environmental Services (Licencing)	40	
Income - Planning	201	
Income – Council Tax Collection	46	
Income - Other	28	
	1,083	
Collection Fund – Council Tax	138	
Collection Fund - NNDR	405	
	543	
<i>Subtotal</i>	1,626	
<i>Operational</i>		
Income – Waste - SSA		-30
Income - Waste - Garden		-25
Inflationary increases (excl HRA shown below)	46	
Pay award and pension increases	266	

Pension lump sum increase	26	
Pay – CMT increment	39	
Pay – remove DOO (50%)		-46
Pay – CS – Pay movements	25	
Pay – CS – Pay movements - EMR utilisation (vulnerability grant re Customer Welfare Officer)		-15
Pay - FP – revert GM role to full time	13	
Pay – HG - Rough Sleeper Navigator Post & Rough Sleeper Housing Options Accommodation Officer	72	
Pay – HG – Housing Options Officer	38	
Pay – HG – EMR utilisation		-110
Pay – HR – JE’s & officer joining the pension scheme	21	
Pay – PS – Climate Change Co-ordinator	23	
Pay – R&B - Restructure		-29
Pay – RS – Covid pressures	42	
Pay - Other	11	
Premises - Blue Frog cleaning contract additional cost	25	
Property Maintenance - 30 year programme	323	
Transport costs		-61
Software upgrade - Efin	52	
Cullompton HAZ – Costs net of grants	169	
Cullompton HAZ – EMR utilisation		-169
Local plan costs	78	
Local plan costs – EMR utilisation		-78
Crediton Masterplan	60	
Crediton Masterplan – EMR utilisation		-60
Garden Village Project	283	
Garden Village Project – EMR utilisation		-283
Other planning projects	64	
Other planning projects – EMR utilisation		-94
Net recharge to HRA (after inflationary increases etc.)		-44
	1,676	-1,044
Other		
Interest Receivable (3RDL + CCLA + Temp investments)		-133
Interest Payable		-123
Finance Lease Interest	111	
3 Rivers Impairment		-131
Capital MRP		-185
NHB - decrease	641	
NHB – EMR transfer		-641
Other EMR utilisation	1,162	
Other small variances	53	
	1,967	-1,213
	5,269	2,257

Deficit	3,012
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2.3 In compiling the 2021/22 draft budget we have also examined budget performance during 2020/21 and then made any relevant budget corrections for staffing changes, levels of income, changes in legislation, increases in inflation, etc.

2.4 Due to the need to get budget information to all of the PDG and Cabinet meetings during October and November there are key issues that have not been resolved or are still to be fully evaluated. These issues may either improve or worsen the summary budget position currently reported and can be summarised as follows.

- Ongoing impact of Covid 19 on service activity and income streams
- Ongoing impact of Covid 19 and the economic consequences on collection fund receipts
- Further government announcements regarding financial support for the impacts of the pandemic.
- Provisional Finance Settlement in December
- Ongoing service reviews (including changes to fees/charges)

3.0 The Past

3.1 Just to remind Members of the financial journey the Council has been on since the austerity programme in 2010/11, here is a list of some of the challenges that have been presented to MDDC in balancing budgets during recent years.

- Net loss of £4.2m in Formula Grant
- Loss of funding for Housing Benefit admin and Regional Housing Pot removed circa £0.6m
- Council Tax freezes accepted for a number of years
- Costs associated with Local Plan
- Tax and pension related pressures including:
 - Pay award
 - Increased pension back-funding costs
 - Government mandated auto-enrolment to the Pension Scheme
 - National Insurance change
- Apprentice Levy introduced (currently c£49k)
- Covid 19 impacts across all budgets, significantly with regard to income and the collection fund.

3.2 The following lists just some of the actions taken by MDDC to mitigate these funding reductions.

- Significant efficiency agenda has led to service reductions amounting to over £2.5m
- Increased income has been generated by a number of services
 - Waste shared savings agreement with DCC
 - Garden Waste Scheme
 - Improved recycling scheme
- Increased commercialisation

- £200k profit from Market Walk and Fore Street properties
- Business Rates Devon Pool participation
- Set up a Special Purpose Vehicle to return profits to the General Fund, along with a margin on interest received
- Increasing CCLA holding to £5m
- Colocation with Department for Work & Pensions (DWP)
- Revised Car Parking Strategy in 2019/20
- Rationalising MDDC property estate, including depots, parks, toilets and car parks (which has involved significant work with third parties – especially Town and Parish Councils)
- Significant renewable energy investment across the corporate estate to reduce utility expenditure
- Joint working with North Devon DC as part of the Building Control Partnership and providing recent waste management support
- DCC Transfer Station located at Carlu Close

4.0 The Future

4.1 Already a lot of work has been undertaken to understand the current position, which indicates a draft budget gap of £3.012m. The task now is to develop our spending plans together with an associated funding plan so that we may deliver a balanced General Fund budget by February 2021 in order to formally set the Council Tax. The work with town and parish councils will continue.

5.0 Capital Programme

5.1 In addition to this revenue funding pressure, is our ongoing commitment to future capital programmes, not helped by the current low levels of capital receipts and the assumed future phasing out of New Homes Bonus funding stream. Even greater pressure may be placed on future programmes if additional borrowing is made to fund new Council Houses, Depots, Sport Centre and Town Centre enhancement works, etc.

5.2 The draft Capital Programme for 2021/22 is attached at Appendix 3. Excluding the HIF infrastructure schemes and further housing development projects, the size of our current and future capital programmes remains very small, due to the reductions in funding and level of sale receipts and now only includes material projects that are essential maintenance, or asset replacement or income generating/cost reducing.

6.0 The Autumn PDGs and Cabinet meetings

6.1 The first round of draft budget meetings will allow discussions with Members, Senior Management, Group Managers and Finance Officers in order to review the proposed draft 2021/22 budget. This will include scrutinising and challenging the initial position (and confirming acceptance of all proposed savings put forward) and discussing any other budget areas that Members would like to see additional savings from.

6.2 Before the next round of PDGs and Cabinet in January the Council will receive formal confirmation regarding its Formula Grant, other emerging legislative changes, more information regarding the 2020/21 budget performance etc. At

this point if any of the initial assumptions/estimates significantly worsen, then we will need to bring further savings options forward for consideration.

7.0 Public Consultation

7.1 Last year's consultation highlighted the most valued statutory services were:

1. Refuse Collection & Recycling - 93%
2. Street Cleaning - 59%
3. Planning & Building Control - 58%

And those least appreciated were:

1. Licencing - 11%
2. Electoral Services - 15%
3. Benefit Claim Processing - 20%

Similarly for discretionary services, the most valued were:

1. Parks, Playgrounds and Open Spaces - 69%
2. Town Centre Regeneration - 56%
3. Public Toilets - 48%

And least appreciated:

1. Tourism - 19%
2. CCTV - 28%
3. Outdoor Leisure eg tennis courts and football pitches - 34%

8.0 Statutory, Discretionary Services and the Level of Service Provision

8.1 Whilst the Council has a legal obligation to perform some activities, others are at the discretion of the elected members, subject to funding. Although some undertakings are clearly statutory and others clearly discretionary, there are some service areas that have elements of both.

8.2 The main *discretionary* services of the Council comprise:

- Business development (although a corporate priority)
- Community development (includes community group grants)
- Leisure facilities
- Parks and open spaces (identified as important to the public at 7.1)
- Shops and industrial units

What can we do to balance the budget?

8.3 An activity's net cost could be changed by one or more of these factors:

- a) Changing the frequency of service provision, for example 3 weekly waste collection
- b) Changing the quality, instead of a "Platinum service" we may be forced to offer a "Silver service"

- c) Rescheduling activities to less difficult years. This could apply to some aspects of property maintenance. However, with so many funding challenges ahead, it is not clear when the “less difficult years” might be. In the meantime, our capital assets would be declining and costs would likely escalate as a result.
- d) Reducing the overheads and maximising a lean approach to operations. Whilst this is already the case, we are always exploring new ways of working to improve service delivery and drive savings. One option would be to include a vacancy management policy although in many cases this already happens informally.
- e) Stopping the activity entirely
- f) Different models of service delivery (including partnership)

When considering options which contribute to balancing the budget, operational changes require careful planning, possible trials and implementation periods which add up to a lead time which, along with the costs of implementation, will likely reduce the benefit arising in 2021/22.

- 8.4 Over recent years, this Council has prudently built up its general fund reserve and associated ear marked reserves. These reserves have been built up to prudently provide for the maintenance of services to our residents. They also provide a financial buffer to weather any kind of temporary storm associated with changes to the FF review, business rate review and changes to NHB. Whilst nobody predicted the pandemic, its financial effects could justify utilising this contingency in order to maintain the delivery of critical services when our residents need them the most. If we do this, we must be mindful, that all the other challenges remain and must be met with reduced financial resilience.
- 8.5 Over the last five or six years the Authority has concentrated its efforts in maintaining frontline service levels across all sectors by reducing overheads and raising income. It is now clear that following those budgetary cuts some service areas are struggling to deliver their service plans, within their existing budgets. Indeed in a few cases external reviews have necessitated increasing the resources in a particular service area to meet our legal obligations.
- 8.6 **What options are available if something is *statutory*?** Although we cannot stop the function, we may be able to approach it differently in terms of frequency or quality.
- 8.7 Increasing fees (or start charging for a service). Some of our income streams are influenced by external market forces and in setting prices we have to be mindful of the going market rate. This option becomes further limited in the current environment of reduced demand and economic uncertainty. There is an opportunity to revisit legacy dual use agreements for leisure centres to ensure they represent good value for money. Aside from Council tax, the main income streams are:
 - Building control fees
 - Burial fees
 - Car park charges
 - Industrial unit rent
 - Leisure centre fees
 - Licence fees

- Market tolls
- Shop rents
- Planning fees
- Trade waste fees
- Garden waste

8.8 Any multi million pound business employing staff and utilising assets needs teams to support them and our frontline services are no different.

8.9 The key components, some statutory, others essential, include:

- Audit
- Accountancy
- Customer First
- Procurement (Buying goods and services)
- Human resources (Includes health and safety)
- IT
- Legal services
- Property services

8.10 For example our waste service has to have vehicles and depots to operate from, both of which need to be maintained. The staff need to be managed, to be paid, and legislation provides for health and safety considerations. Depots and buildings such as Phoenix House are fixed costs, although even here we have created savings by renting out some space. The “back office” activities are therefore intrinsically linked to the “frontline” and savings from both areas continue to be made.

8.11 In section 2 we see that even under the assumption of ongoing recovery from the Covid 19 measures, this draft budget predicts losses arising from the pandemic in the region of £1.6m. Government has shown a willingness to assist local authorities through the worst effects of these difficult times, not least in the form of emergency grants and the Income Compensation Scheme. No announcement has yet been made relating to schemes which would alleviate pressures in 2021/22. However, with many local authorities unable to rely on their reserve base to get through the crisis, it is conceivable that further support will be forthcoming.

9.0 Conclusion

9.1 The feedback from all of the PDGs and Scrutiny will be reported to the January Cabinet for consideration in order to set a balanced 2021/22 budget. Faced with such a daunting budget gap this is likely to require difficult choices. The Medium Term Financial Plan is in process for presentation to Cabinet in December so that the savings programme for the next 4 years can be achieved based on the priorities identified in the Corporate Plan. Having identified possible savings, there will need to be careful consideration of their potential impact, probable lead times for delivery of that saving and any associated disengagement costs or possible ‘spend to save’ implications that would arise.

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