

**CABINET
07 JANUARY 2021**

BUDGET 2021/22 - UPDATE

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

Reason for the report: To review the revised draft budget changes identified and discuss any further changes required in order for the Council to move towards a balanced budget for 2021/22.

RECOMMENDATION: To consider the updated budget proposals for 2021/22 included in Appendix 1 and the Capital Programme included in Appendix 3 and agree to circulate to the Policy Development Groups for further input prior to the formal recommendation back to Cabinet and Council.

Reason for the recommendation: The Local Government Finance Act 1992 places a legal requirement on the Council to approve a balanced budget. The first draft of the General Fund budget for 2021/22 indicated a deficit of £3.012m. This latest version proposes measures to reduce this deficit to £490k and considers other measures to achieve the statutorily required neutrality.

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 £490k. In addition we are predicting a funding deficit of c£2m on our General Fund in 2022/23. This highlights the need to take steps to plan for further reductions to our ongoing expenditure levels.

Legal Implications: None directly arising from this report, although, as above, 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 On 19 October the first draft of the 2021/22 General Fund budget was presented to Cabinet. It indicated a looming deficit of £3.012m; a position arising significantly due to income losses as service activity has reduced due to the pandemic. Other factors were rising operational costs including an estimated inflation factor; cyclical essential maintenance costs relating to our property assets and reduced utilisation of ear marked reserves (EMRs) (NHB, NNDR smoothing reserve and the property maintenance reserve).
- 1.2 Apart from some small gains in Waste Services income relating to garden waste and the Shared Savings Agreement (SSA) with Devon County, the main area offering mitigation of these losses were Treasury ie interest receivable and interest payable. A capital accounting review also enabled us to recognise a reduced MRP provision.
- 1.3 It is worth reiterating that the 2020/21 budget, completed as it was around this time last year, does not imagine any of the impacts of Covid 19. In comparing the 2020/21 budget with the (draft) budget for 2021/22 we are comparing a pre- Covid budget with a Covid recovery budget. That is, this budget draft assumes that income streams will continue their current recovery trajectories into next year. Time will tell, how reasonable this proves to be. Covid 19 is nothing if not persistent. Whilst news of a vaccine is heartening, the discovery of new strains and announcement of tighter controls over Christmas advise caution in our expectations. Serious deterioration from the current situation would impact the achievability of this budget.
- 1.4 The “Provisional local government finance settlement: England, 2021 to 2022” has just been published (17 December) giving further funding information for next year. The government have indicated that core spending power will rise by an average of 4.5% on the assumption that Councils raise their council tax by the maximum permitted without a referendum. This includes social care authorities who may raise council tax by up to 5%, and so the benefit to district councils is demonstrably lower. After accounting for inflation and cost pressures arising from Covid 19 the true uplift to us will be marginal.
- 1.5 The Chancellor has, however, recognised that Council services have been and continue to be undeniably critical in the fight against COVID-19 with further funding to manage the budgetary impacts of the pandemic. The Government’s commitment to work with local government on the lasting impact of this crisis is to be welcomed. It will be vital that the Government guarantees the financial challenge facing councils as a result of COVID-19 will be met in full, including funding for cost pressures and full compensation for lost income and local tax losses.

2.0 2021/22 General Fund Budget – Revised Position

- 2.1 The draft budget gap has been fallen from £3.012m in round 1 to £490k – a reduction of £2.52m. How this has been achieved is explained below. The Funding Settlement details have allowed us to reflect any changes arising and present more robust numbers in some important areas.

2.2 This movement is summarised in Table 1 below:

Table 1 – 2021/22 Draft Budget Gap Reduction – Round 2		
Movements	Notes	Amount (£k)
21/22 Budget Shortfall (Cabinet Report 29/10/20)		3,012
Further Net Cost Pressures identified	6	128
Net write back of annual salary increment further to the funding review		(207)
Pay award provision (LA award not set centrally)		50
Vacancy management factor		(150)
Property Maintenance specific projects review (see para 4.4)		(246)
3 weekly waste savings (Oct-Mar)		(75)
Leisure centre dual use recharge		(20)
Revised HRA Recharges		9
Treasury Update	4	(105)
Minimum Revenue Provision (MRP) reduction		(136)
EMR Amendments	6	
NNDR Smoothing Reserve		(450)
EMR Surrender Review		(224)
Property Maintenance Annual Provision Forfeit		(182)
New Homes Bonus	3	124
NNDR - 21/22 deficit	1	400
Council Tax Forecast Adjustment	2	(76)
Income Protection Scheme (Apr-Jun)	1/5	(220)
Collection Fund Protection Scheme	1	(350)
Funding Settlement 17/12/20		
Lower Tier Services Grant		(179)
NHB (increase from £777k to £959k = £182k - see note)	3	(182)
Rural Services Delivery Grant increment		(23)
Covid 19 Non Ring-fenced Grant		(408)
Draft Budget Gap for 2021/22 (Cabinet)		490

Table Notes:	
1	These lines are particularly subject to a financial health warning. They are the best estimates of the s151 officer based on the advice received from central government at the current time. Any adverse movement in these numbers will require support from general fund reserves in order to balance this budget.
2	<p>The total budgeted Council share of Council Tax Net Collectable Debt is included in this budget at £6,114,620. This based on a collection rate of 96%. The increment of £76k in this round of the budget draft represents an increase in the collection rate from 95% to 96%. In non Covid times the collection rate would be expected to be 98%. If a collection rate of 98% were applied to this draft, the Net Collectable Debt would rise by £127,400 to £6,242,020.</p> <p>The Funding Settlement has also confirmed that Councils may increase Council Tax by 1.99% or £5. The benefit arising to MDDC from this increment is £24k. Subject to Council approval, round 1 of the budget already included an increment of £5 (Band D increases to £213.84), so no further amendment is required.</p>

3	The Funding Settlement announced an increase to NHB funding and an extension to the scheme for another year. MDDC will therefore receive an additional £182k in 2021/22. New Homes Bonus has the benefit of being available for revenue or capital expenditure and so on receipt are moved to reserves to be drawn down upon in due course according to requirement.
4	This reflects a reduction in interest payable partly offset by an decrease in interest receivable further to an update of spending plans and recognition of falling interest rates.
5	The Funding Settlement also announced an extension to the Income Protection Scheme (IPS) for 3 months. The 2020/21 year scheme compensates for 75% of calculated losses. Details of the extended scheme will be published in June 2021.
6	"Further Net Cost Pressures Identified" includes net reduction in EMR utilisation of £58k.

3.0 Funding Settlement Impacts

- 3.1 It was confirmed that Councils could raise Council Tax by 1.99% or £5 whichever is higher. As the £5 allowance was already included in budget draft round 1, this confirms that treatment. The additional funding accruing to MDDC from this dispensation is £24k.
- 3.2 A new Lower Tier Services Grant has been introduced - £111m of which MDDC share is £179k. This partly in response to the current circumstances and there is no guarantee that it will be ongoing.
- 3.3 New Homes Bonus grant has been revisited with a total allocation in England of £196m. MDDC will receive an additional £182k in 2021/22 ie total £959k. This scheme had previously been scheduled to end in 2023/24. However, the Government has now set out an intention to hold a consultation on the future of the New Homes Bonus, with a view to implementing reform in 2022/23.
- 3.4 The Rural Services Delivery Grant will be £85 million in 2021/22. This is an increase of £4 million compared to 2020/21. The Government is minded to retain the current method of distributing the grant ie the bottom line to MDDC is an additional £23k over round 1 (which was set up par with 2020/21).
- 3.5 Government has released a series of tranches of non-ring fenced Covid 19 grants to allow Councils to counter the impacts of the pandemic. The first was released in March 2020 and the total to date is £1.2m. A further tranche of £1.55 billion has been announced to meet expenditure pressures in 2021/22, distributed using the "COVID-19 Relative Needs Formula." Hence, this Council's share will be £408k.
- 3.6 The Government has proposed a continuation of the Sales, Fees, and Charges compensation scheme for the first three months of 2021/22 and to use a quarter of each council's 2020/21 budgeted income as the baseline from which to assess losses. Using this basis a prudent estimate of £220k receivable has been included in this round.
- 3.7 The Income Compensation Scheme for 2020/21 is now live. The first return has been submitted and £530k received in response. The second return was due on 23 December with £740k under claim. Prudent interpretation of the guidelines which accompany this scheme indicate that MDDC will receive

c£1.6m. However this will not be confirmed until the final reconciliation which was scheduled for May 2021.

- 3.8 The Funding Settlement also shared details of how losses in scope of the guarantee to compensate for 75 per cent compensation of irrecoverable 2020/21 business rates and council tax losses will be measured. Whilst there is no explicit mention of this scheme applying to 2021/22, it is conceivable that support will be forthcoming to alleviate pressures arising here.

4.0 Other Impacts

- 4.1 Recent confirmation that the public sector pay rise for next year would be limited to a £250 increment for those earning less than £25k gives a strong indication how the Local Authority settlement will be made. As such the 2% provision made in round 1 has been reversed (whilst providing for the £250 uplift where applicable) reducing the gap by £207k. However, in recognition that Local Authority rises are settled independently of the public sector generally, provision is made for a reduced settlement.
- 4.2 A £150k provision is also made to accommodate a vacancy management factor. Indeed, services often hold open vacancies whilst they evaluate their ongoing requirement and of course, the recruitment process has its own lead time. In many ways therefore, this is simply formal recognition of current practice.
- 4.3 In round 1 the net collectable debt for Council Tax was based on a collection rate of 95%. Recent collection performance suggests this is slightly pessimistic. Hence this rate has been raised to 96% resulting in an additional £76k funding to MDDC. NNDR numbers remain subject to revision when the NNDR1 form is completed in January. This will then be available for the final draft of this budget.
- 4.4 The Council has a 30 year cyclical programme of essential property maintenance. This contributed £830k of cost to the round 1 draft. After close scrutiny, it is felt that elements of this programme can be delayed until future years. This has benefited the gap by £246k although there are caveats due to the safety implications. As this expenditure will still need to be incurred, it is not an overall saving and will not be a benefit during the period of the MTFP.
- 4.5 Transition to 3 weekly waste collection is estimated to save this Authority £150k per year along with environmental benefits – not least increased recycling. MDDC are initiating a 3 month trial in June which, if it is subsequently rolled out, would save c£75k next year.
- 4.6 Further MRP savings of £136k are recognised further to a review of finance leases, with part of the benefit relating to the delay in the implementation of International Financial Reporting Standard 16 – Lease Accounting (IFRS 16).
- 4.7 Falling interest rates and an update of the Council's borrowing requirement, particularly in the light of 3 Rivers' aspirant activity have reduced net cost by £105k.
- 4.8 Further cost pressures of £128k include confirmation of the terms of the Climate and Sustainability Specialist role and a rework of expected Covid 19

income losses due to the impacts of the November lockdown on their recovery, along with numerous smaller budgetary refinements.

- 4.9 A review early this year of EMRs held, highlighted some small areas where they were not required and so available for release. Recognising these now has funded £224k of deficit.

5.0 Capital Programme

- 5.1 A revised version of the capital programme is included in appendix 3. This includes the latest data in respect of 3 Rivers Development Limited with those items subject to approval noted accordingly.

6.0 Conclusion

- 6.1 Along with many Local Authorities, the financial challenges facing this Council are immense. A difficult position with significant uncertainties surrounding future funding, has been compounded by the need to maintain essential services whilst losing critical income streams.

- 6.2 There has been some recognition of this from Government and it has contributed to substantial progress being made in reducing the budget gap for 2021/22 to £490k. This does however, represent a significant remaining challenge.

- 6.3 Councils, however, need clarity and certainty about how all local services will be funded over the next few years and beyond. Next year we need a multi-year settlement which must reflect an understanding of the lasting impact the COVID-19 pandemic has had on both service demands and revenue raising.

- 6.4 Moving forward Members and officers need to look to the pressures over the next few years reflected in our MTFP and our need to address ongoing pressures which cannot be satisfactorily addressed by the one-off use of reserves.

- 6.5 In order to conclude the statutory budget setting process, this updated draft budget position will go through Cabinet, another round of PDG's, Scrutiny, and a final meeting of the Cabinet before being agreed at Full Council on the 24 February 2021. During this period officers will continue to identify and examine further savings possibilities that can reduce the current budget gap.

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Background Papers: Provisional Settlement Email
LGA Provisional Local Government Finance Settlement 2021/22 On the Day Briefing

Circulation of the Report: Leadership Team, Cabinet Member for Finance, and Group Managers