

CABINET

20th August 2020

REPORT OF THE LEADER OF THE COUNCIL

BUDGET AND MEDIUM TERM FINANCIAL PLANNING PROCESS 2021/22

EXEMPT INFORMATION

None

PURPOSE

To seek agreement to the Proposed Budget and Medium Term Financial Planning Process for General Fund and the Housing Revenue Account for 2021/22.

RECOMMENDATION

That the proposed process for the General Fund and Housing Revenue Account Budget and Medium Term Financial Planning Process for 2021/22 be adopted.

EXECUTIVE SUMMARY

Council, on 25th February 2020, approved a 3 year Medium Term Financial Strategy for the General Fund with a Council Tax increase of £5 for the year – in order to continue to deliver those services essential to the Local Community.

With regard to the Housing Revenue Account, a 5 year MTFS was approved by Council including significant investment in Regeneration projects to meet future housing needs and sustain the HRA in the longer term.

When the budget and MTFS were approved, future levels of funding for the Council were uncertain pending the most significant changes in Local Government funding for a generation. The reforms were planned to be in place by 2020/21 but were deferred until 2021/22. The Government has confirmed that the longer-term reforms for the local government finance system (including the move to 75% Business Rates Retention and Fairer Funding Review of Relative Needs and Resources) will be deferred again as a result of the COVID-19 Pandemic, although no timescales have been released. In addition, the next planned national Business Rates Revaluation, planned for 2021 will take effect from 2023.

On 21st July 2020, the Chancellor launched the 2020 Comprehensive Spending Review (CSR). The Review, which will be published in the autumn, will set out the government's spending plans for the parliament. It will set UK Government departments' resource budgets for the years 2021/22 to 2023/24 and capital budgets for the years 2021/22 until 2024/25, and devolved administrations' block grants for the same period.

Due to unprecedented uncertainty, the Chancellor did not fix a set spending envelope, but confirmed that departmental spending (both capital and resource) will grow in real terms across the CSR period and that the government will deliver on the commitments made at Budget to level up and invest in the priorities of the British people. Given the impact COVID-19 has had on the economy, the Chancellor was clear there will need to be tough choices in other areas of spending

at the review. As part of their preparations for the CSR departments have been asked to identify opportunities to reprioritise and deliver savings. Departments will also be required to fulfil a series of conditions in their returns, including providing evidence they are delivering the government's priorities and focussing on delivery.

The Government has said it will keep an open dialogue with the local authorities about the best approach to the next financial year, including how to treat accumulated business rates growth of £2m p.a. (pending the planned business rates baseline reset) and the approach to the 2021/22 local government finance settlement. It is also the Government's intention to look again at the New Homes Bonus for 2021/22 and explore the most effective way to incentivise housing growth. They planned to consult widely on proposals prior to implementation. In the longer-term, the Government remains committed to reform and wants to take time to work with local authorities to make sure that the approach is right.

As a nation we are likely to feel the consequences of the COVID-19 pandemic, and the measures to contain and mitigate its effects, for years, and possibly decades, to come.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on the Council's finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and income budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension.

In light of the projected impact of COVID-19 on the Council's Medium Term Financial Strategy, an immediate suspension of all non-essential spending was approved by Cabinet on 9th July and that Managers review their budgets and identify all non-essential spending for 2020/21 as part of the quarter 1 projections at 30 June 2020 - and approval sought for the budget to be revised to remove these.

No one can know what the effect of the COVID-19 crisis will have on the economy and ultimately the impact for the Council's finances. It will be many months before we have a clearer idea on how the economy has responded to the recovery process – including any lasting effects for individual businesses and their employees. Social distancing measures will remain in place for the foreseeable future – impacting mainly on the Council's ongoing income receipts.

Measures taken to control COVID-19 are leading to heavy economic losses and this has and will continue to affect collection rates, as some individuals and businesses experience financial effects of the pandemic. The uncertainties created by the pandemic have also significantly increased volatility and uncertainty in markets. This applies not only to non-current operational and non-operational property assets held by authorities, but also to investment properties, financial assets and many assets held by pension funds.

Financial resilience is and has been the key requirement for local authorities at any time, but in the current crisis it has assumed unprecedented importance. Perhaps the biggest difficulty with the pandemic is that there is no certainty about time

scales; it is impossible to draw any conclusions about how long the effects will last.

During the crisis the Council has lost income which will significantly impact on the potential sustainability of the organisation, as will be the case across many Local Government organisations. Whilst the full extent of this cannot be known at present it will be necessary for the Council to take an accelerated approach towards the development and implementation of an effective sustainability strategy. This must be linked to an overall vision for the organisation.

The Council remains committed to promoting and stimulating economic growth and regeneration; meeting our housing needs; creating a vibrant town centre economy and protecting those most vulnerable in our communities. The Council is responding to these challenges by considering the opportunities to make further savings and /or grow our income. We are ambitious with our commercial view and will continue to work hard to identify income streams that enable us to continue to meet the needs of our residents.

More than ever, we recognise that our financial capacity will be less than in previous years which means that we will need to maintain our approach to innovation, collaboration and transformation. So, not only will the Council seek investment from businesses and developers, but the Council itself will explore viable and sustainable investment opportunities using all returns to support public services.

We continue to invest in our teams, transform our processes and ensure our technology infrastructure is fit for purpose. We have identified a number of opportunities to improve customer access to information and services as well as our engagement with our citizens and the way in which we manage our data and information.

Linked with this, the 'Delivering Quality Services' project continues to review processes and demand, with the aim of re-designing processes to meet changing customer expectations and making the best use of technology to deliver efficient and effective services to the customer, including self-service and digital functionality.

This approach will change the organisation and how it works; will require Members to put evidence and insight at the heart of our decision making to ensure that we are transparent about the rationale for our decisions and plans; will involve managed risks and will sustain essential services critical in supporting the most vulnerable in our communities at a time when demand is increasing and resources reducing.

Corporate Management Team (CMT) and Cabinet review the most up-to-date budget forecasts on a quarterly basis, and discuss the delivery of the planned savings to support our Medium Term Financial Strategy (MTFS).

As part of the budget process, Policy Changes are required in order to amend base budget provision. As grant and other income levels are reducing, where increased costs are unavoidable then managers should identify compensatory savings. Where savings are identified they must be accompanied by a robust implementation plan. Robust business case templates will have to be submitted to Cabinet and CMT for all Policy Change submissions (Revenue and Capital).

The attached Project Plan at Appendix A lists the stages, deadlines and the responsible officers for the production of the budget and medium term financial

plan. Appendix B contains an outline of the process whilst Appendix C shows the flow of key stages over the process period.

Budget Consultation

Consultation has been planned to gauge residents', businesses' and other core stakeholders' views on areas of spending or where targeted savings could potentially be made.

The consultation, detailed at **Appendix D**, will be carried out through 3 online surveys. A survey that is tailored for businesses, a full survey aimed at residents and a survey that is tailored for the voluntary and community sector.

The online residents survey will be promoted using social networking/media sites and through email contact databases. The business survey will be promoted through business social networking sites and business email contact databases. The voluntary and community sector survey will be promoted through email contact databases.

Timetable

Significant milestones in the process, detailed at **Appendix A**, are planned as:

- a) Consultation process - results to Cabinet 12th November;
- b) Base budget and technical adjustments to Cabinet 3rd December;
- c) Cabinet to consider Council Taxbase calculation on 3rd December and Business Rates Forecast on 21st January;
- d) Cabinet proposals to a Leaders Budget Workshop 2nd December;
- e) Provisional RSG settlement assessment to Corporate Management Team and EMT in December;
- f) Joint Scrutiny Committee (Budget) to be held on 27th January 2021;
- g) Final Budget and Medium Term Plan reports to Cabinet 18th February 2021;
- h) Budgets set at Council 23rd February 2021.

It should be noted that the complexity of some of the issues and the reliance on the Government for Business Rates Retention and RSG data to report might mean that some reports have to be treated as urgent items and/or are considered at a later meeting.

Members are asked to endorse the process to be followed.

OPTIONS CONSIDERED

None

RESOURCE IMPLICATIONS

There are no financial or resource implications arising from the implementation of the Budget and Medium Term Planning Process.

LEGAL/RISK IMPLICATIONS

It is considered that a Medium Risk to the achievement of the planned timetable exists due to the potential for a delay in the:

- Provision of information from managers; and
- Publication of the Local Government Finance Settlement information for each individual authority by the Ministry of Housing, Communities & Local Government (MHCLG).

There also remains a high degree of uncertainty arising from the most significant changes in Local Government funding for a generation - arising from the Fair Funding Review, review of the Business Rates Retention (BRR) scheme, reset of the Business Rates baseline, Spending Review 2020 and the ongoing uncertainty over the funding for the New Homes Bonus scheme - as well as other changes arising from the Government's Welfare Reform Agenda.

While we are aware of these forthcoming change, little to no information is available on the potential impact for individual Councils' finances.

The Key Risks are:

- The effect the COVID-19 crisis will have on the economy and ultimately the impact for the Council's finances. It will be many months before we have a clearer idea on how the economy has responded to the recovery process – including any lasting effects for individual businesses and their employees.
- Impact of uncertain economic conditions, following the decision to leave the EU & the COVID-19 Pandemic – it is suggested that, given the uncertainty, we should focus on a clear plan to balance the next 3 years' budget position for the General Fund (5 years for the HRA);
- Delivery of the planned Commercial Investment Strategy actions and associated improved investment returns of 4% p.a. arising from the investment of £24m from the capital receipt received over the period 2016 – 2018 from the sale of the former golf course (to support the MTFS in the long term);
- Challenge to continue to achieve high collection rates for council tax, business rates and housing rents – in light of further austerity, economic conditions and uncertainty.

There also remains a high degree of uncertainty for 2021/22 arising from:

- The Government's **Fair Funding Review (FFR)** of the distribution methodology including:
 - changes to the needs assessment (which will determine each Council's share of the national funding for Local Government – it is likely that this

will reflect the impact of Social Care demands and that funding will be redistributed to Unitary and County Councils to the detriment of District Councils);

- treatment of relative resources (to determine how much each Council can fund locally through income from fees and charges and council tax);
 - any transitional arrangements to protect Councils from significant reductions in funding – and the impact from their unwinding.
- **Spending Review 2020 (SR20)** – where the total spending allocation for Government Departments will be set – including national control totals for Local Government spending. It will set UK Government departments’ resource budgets for the years 2021/22 to 2023/24 and capital budgets for the years 2021/22 until 2024/25, and devolved administrations’ block grants for the same period.
 - The ongoing **review of the Business Rates Retention (BRR) scheme** – the Government announced that Councils will be able to retain 75% of business rates collected rather than 100% as previously planned with work progressing on the design of the new system including the impact of ‘rolling in’ grants such as Housing Benefit administration and New Homes Bonus;
 - The planned **reset of the Business Rates baseline** for each Council and redistribution of the growth achieved since 2013 (of over £1m p.a.);
 - Uncertainty over the ongoing funding for the **New Homes Bonus scheme**, local growth in housing numbers and share of the national pool (including potential increases to the ‘deadweight’ for which Councils no longer receive grant).

In addition, the next national **Business Rates Revaluation**– with latest indications that the Government will also aim to introduce a **centralised system for business rate appeals** at the same time to cover future changes arising from the next valuation list.

While we are aware of these forthcoming changes, little to no information is available on the potential impact for individual Councils’ finances. **There is a high risk that this will have a significant effect on the Council’s funding level in future years.**

We will therefore need to consider the approach to forecasting and planning for these uncertainties balancing the risk to the MTFs against the need for savings and potential service reductions.

REPORT AUTHOR

Stefan Garner, Executive Director Finance, Telephone: 01827 709242
Lynne Pugh, Assistant Director Finance, Telephone: 01827 709272

LIST OF BACKGROUND PAPERS

Corporate Vision, Priorities Plan, Budget & Medium Term Financial Strategy 2020/21, Council 25th February 2020.

APPENDICES

Appendix A

Project Plan for the Budget and Medium Term Financial Planning Process for the year 2021/22

Appendix B

Outline of the Budget and Medium Term Financial Planning Process

Appendix C

Flowchart of the Budget & Medium Term Financial Planning Process

Appendix D

2021/22 Budget Consultation

This page is intentionally left blank