

## REPORT 2

### HARBOROUGH DISTRICT COUNCIL

### REPORT TO THE CABINET MEETING OF 8 FEBRUARY 2021

**PUBLIC REPORT:** Yes

**EXEMPT REPORT:** No

<b>Report Title</b>	<p><b>Final Budget 2021/22 &amp; the Medium-Term Financial Strategy (2022/23 to 2024/25)</b></p> <p><b><i>"Committed to Financial Sustainability &amp; Resilience to enable Community Investment".</i></b></p>				
<b>KEY DECISION</b>	Yes				
<b>Report Author</b>	Clive Mason, Director; Finance & Fixed Assets				
<b>Purpose of Report</b>	<ul style="list-style-type: none"> <li>For Cabinet to consider the comments, questions, and response on the proposed 2021/22 Budget &amp; Medium-Term Financial Strategy (2022/23 to 2024/25) from the Performance Scrutiny panel on 28<sup>th</sup> January 2021 along with responses received from the public.</li> <li>For Cabinet to recommend the 2021/22 revenue budget and capital programme to Council.</li> </ul>				
<b>Reason for Decision</b>	The Council must set a balanced budget by the end of February 2021. The duty to recommend a budget to the Council rests with the Cabinet.				
<b>Portfolio (holder)</b>	Councillor James Hallam; Finance				
<b>Corporate Priorities</b>	<table border="1" style="width: 100%;"> <tr> <td colspan="2" style="background-color: #d9d9d9;">YOUR COUNCIL: creative, proactive, and efficient</td> </tr> <tr> <td style="background-color: #f4b084;">CO 08</td> <td style="background-color: #f4b084;">Deliver financial sustainability for the future</td> </tr> </table>	YOUR COUNCIL: creative, proactive, and efficient		CO 08	Deliver financial sustainability for the future
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<b>Financial Implications</b>	This report presents the Council's proposed 2021/22 revenue and capital budgets across all its activities, including the use of reserves. And proposes a Medium-Term Financial Strategy for the period 2022/23 to 2024/25. The financial implications of these proposals are given throughout the report.				
<b>Risk Management Implications</b>	An overall assessment of the robustness of the budget estimates, the adequacy of reserves, and the key financial risks to the Council has been undertaken by the S151 Officer and is presented in <b>Appendix 2</b> of this report.				
<b>Environmental Implications</b>	None				
<b>Legal Implications</b>	The Council is required to consult on its budget prior to formulating its budget requirement. The Council is also legally obliged to set a balanced budget by the end of February 2021. The Council is scheduled to approve the budget on 22 <sup>nd</sup> February 2021.				
<b>Equality Implications</b>	None				
<b>Data Protection Implications</b>	None				

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<b>Consultation</b>	<p>Consultation was undertaken over the period from 20<sup>th</sup> January 2021 to 7<sup>th</sup> February 2021 with:</p> <ul style="list-style-type: none"> <li>• Trade Unions.</li> <li>• Local Businesses.</li> <li>• General Public.</li> <li>• Parishes and Town Councils.</li> <li>• Residents and Members Newsletters.</li> <li>• The Performance Scrutiny Panel on the 28th January 2021.</li> </ul>																	
<b>Background Papers</b>	<p>Draft Budget 2021/22 &amp; the Medium-Term Financial Strategy (2022/23 to 2024/25) considered by Cabinet on the 19<sup>th</sup> January 2021.</p>																	
<b>Appendices</b>	<ul style="list-style-type: none"> <li>• <b>Appendix 1:</b> Changes Between the Draft 2021/22 Budget &amp; MTFS (2022/23 to 2024/25) and the Final 2021/22 Budget &amp; MTFS (2022/23 to 2024/25)</li> <li>• <b>Appendix 2:</b> Consolidated Final 2021/22 Budget &amp; Detailed Medium-Term Financial Strategy (2022/23 to 2024/25)</li> <li>• <b>Appendix 3:</b> Summary of Budget Consultation</li> </ul>																	
<b>Recommendation</b>	<p>That Cabinet:</p> <p><b>A.</b> recommends to Council the approval of:</p> <p>All of the following, pending any update as a consequence of the Car Parking Fees &amp; Charges report elsewhere on the agenda.</p> <ul style="list-style-type: none"> <li>• The Reserves Strategy (<b>Appendix 2</b>, Annex A),</li> <li>• The Fees &amp; Charges Schedule (<b>Appendix 2</b>, Annex B); including the delegation to the Deputy Leader/Portfolio Holder for Resources, in consultation with the S.151 officer to vary Fees &amp; Charges throughout the year, with retrospective reporting to Council, and the</li> <li>• Consolidated Final Budget 2021/22 and Medium-Term Financial Strategy (2022/23 to 2024/25) at <b>Appendix 2</b>.</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;"></th> <th style="width: 15%;">Report</th> <th style="width: 15%;">Appendix</th> </tr> </thead> <tbody> <tr> <td>○ In respect of the 2021/22 Final Budget, this includes a</td> <td></td> <td></td> </tr> <tr> <td>▪ Budget Requirement of £13.8m</td> <td style="text-align: center;">3.2 (i)</td> <td style="text-align: center;">1.6.1</td> </tr> <tr> <td>▪ Council Tax Requirement of £6.3m</td> <td style="text-align: center;">3.2 (i)</td> <td style="text-align: center;">1.6.1</td> </tr> <tr> <td>▪ Increase in Council Tax of £5/maximum permitted</td> <td style="text-align: center;">3.2 (i)</td> <td style="text-align: center;">1.6.1</td> </tr> </tbody> </table>				Report	Appendix	○ In respect of the 2021/22 Final Budget, this includes a			▪ Budget Requirement of £13.8m	3.2 (i)	1.6.1	▪ Council Tax Requirement of £6.3m	3.2 (i)	1.6.1	▪ Increase in Council Tax of £5/maximum permitted	3.2 (i)	1.6.1
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	<p>i.e. the Band D charge will increase to £172.97 (2020/21: £167.97).</p> <ul style="list-style-type: none"> <li>▪ Capital Programme totalling £3.4m,</li> <li>▪ with a revenue contribution of £856k.</li> </ul>	<p>3.11</p> <p>3.2 (Table 2)</p>	<p>1.5.1</p> <p>1.6.1</p>
	<ul style="list-style-type: none"> <li>○ In respect of the Medium-Term Financial Strategy, this includes by 2024/25 a: <ul style="list-style-type: none"> <li>▪ Budget Requirement of £10.9m.</li> <li>▪ Council Tax Requirement of £7.2m.</li> <li>▪ Proposed increase in Council Tax of £5 (and for each year of the MTFS).</li> <li>▪ Capital Programme totalling £1.1m,</li> <li>▪ with a revenue contribution of £1.2m.</li> </ul> </li> </ul>	<p>3.2 (ii)</p> <p>3.2 (ii)</p> <p>3.2 (ii)</p> <p>3.11</p> <p>3.2</p>	<p>1.6.1</p> <p>1.6.1</p> <p>1.6.1</p> <p>1.5.1</p>
<p><b>B.</b> notes the comments of the Director, Finance &amp; Fixed Assets in respect of the “Robustness of the 2021/22 Budget and Medium-Term Financial Strategy 2022/23 to 2024/25” (para 5) and <b>Appendix 2</b>, Section 5).</p>			

### 1. INTRODUCTION

1.1 At the 19<sup>th</sup> January 2021 Cabinet meeting, Cabinet approved the Draft 2021/22 Budget and Medium-Term Financial Strategy (2022/23 to 2024/25), in summary this includes for:

i. **Services,**

- net expenditure of £13.6m, net contribution from reserves of £586k and a Budget Requirement of £13.0m.
- by 2024/25, the Medium-Term Financial Strategy (MTFS) is showing a Budget Requirement of £10.7m,
- a Capital Programme of £3.4m for 2021/22, decreasing to £1.1m by 2024/25; with net capital financing (MRP) of £857k and £1.2m, respectively.

ii. **Corporate Financing,** for 2021/22;

- the receipt of £2.9m in grant, reducing to £134k by 2024/25.
- Non-Domestic Rates of £3.5m, with a marginal rise to £3.6m by 2024/25.
- a net surplus on the Collection Fund of £285k, and the spreading of a deficit position of £516k for the following two-years.
- an increase in the Council Tax of £5, with a similar increase for each year of the MTFS thereafter.

iii. **Reserves,**

- the establishment of a 20% minimum level of reserves for the General Fund (Unallocated) Reserve,
- the establishment of new series of strategic earmarked reserves and a reallocation of balances,
- for 2021/21, the application of £2.7m from general reserves to finance the estimated budget gap, net down by a series of contributions to reserves (totalling £2.1m) for various grants the Councils expects to receive during the year.
- By 2024/25, the “modelled” required general reserves contribution would be £3.3m; by 2024/25 the Council has insufficient reserves to meet this requirement.

iv. **Risk,** that the Council is facing a significant budget challenge; but it has in place a programme of service reviews (Budget Challenge 2025) that is planned to be completed by the summer of 2021 and aims to deliver a financially sustainable and resilient Council over the medium-term.

**2. BUDGETARY CHANGES BETWEEN THE DRAFT AND FINAL 2021/22 BUDGET AND MTFS (2022/23 TO 2024/25).**

2.1 Since the January Cabinet, there have been some changes to the Budget and MTFS, a detailed profile of the changes is shown in **Appendix 1** and summarised in Table 1 below. In effect there are two sets of changes:

Changes between Draft 2021/22 Budget & MTFS (2022/23 to 2024/25) and Final 2021/22 Budget & MTFS (2022/23 to 2024/25)	Table X			
	Budget 2021/22 £	Medium-Term Financial Strategy 2022/23 £	2023/24 £	2024/25 £
Changes in Service Costs and Income	(20,000)	(20,000)	(20,000)	(20,000)
Changes in Capital Financing	0	10	(215,000)	0
Changes in Non-Service Funding	(227,520)	79,491	77,817	(191,543)
<b>Additional Reserves Contribution Required</b>	<b>(247,520)</b>	<b>59,501</b>	<b>(157,183)</b>	<b>(211,543)</b>

**i. Changes in Service Costs and Income**

This change represents additional annual income from the Building Control service.

**ii. Changes in Capital Financing**

Further fine-tuning of the Capital Programme as a consequence of the new Minimum Revenue Provision policy.

**iii. Changes in Non-Service Funding**

In the Draft Budget 2021/22 & MTFS report that was reported to Cabinet in January; the amounts included for Lower Tier Services Grant (LTSG) and the Collection Fund (Surplus)/Deficit have changed. In respect of the:

- **LTSG**; more granular information has been established for this grant. It is now expected that the Council will receive £251k rather than the £300k previously reported. The consequence of this change is a reduction in the amount being allocated to reserves.
- **Collection Fund (Surplus)/Deficit**; the Draft Budget report included a £285k surplus for 2021/22 and a £516k deficit for the following two years. For the Final Budget, the surplus for 2021/22

has reduced to £10k and the following years deficit has increased to £804k. This is primarily due to making increased provisions for bad debts and appeals in the final business rates calculations. Both changes are caused by the uncertainty of COVID and

- the impact they will have on the ability of the Council to collect outstanding NDR debt, and the
- expectation that there will be an increase in businesses making appeals, to the Valuation Office Agency (VOA) to have the rateable value of their properties reduced, due to the changed circumstances of the business that COVID has brought about.

The consequence of this change is a net reduction in the amounts being contributed to reserves in 2021/22 and an increased contribution from reserves to meet the future deficit. However, this deficit will be mitigated by the inclusion of grant from the Tax Income Guarantee Scheme, which will compensate to some extent the NDR Deficit (in total £905k). It is estimated that the deficit of £804k will reduce to £503k.

### 3. FINAL BUDGET 2021/22 AND MEDIUM-TERM FINANCIAL STRATEGY (2022/23 to 2024/25)

3.1 The Councils Budget (and MTFS) is made up of several constituent parts; each of which is not mutually exclusive and therefore it is imperative that they are agreed together. This Consolidated Final 2021/22 Budget & Detailed MTFS (2022/23 to 2024/25) is shown at **Appendix 2** and is made-up of the following:

1. Strategic Budget Summary
2. Operational Revenue Budgets and Medium-Term Financial Strategy
3. Capital
4. Fees & Charges
5. Robustness of the 2021/22 Budget and Medium-Term Financial Strategy  
Annex A – Reserves Strategy  
Annex B – Fees & Charges

#### **Strategic Budget Summary**

##### Revenue Budget

3.2 The **Consolidated Final 2021/22 Budget and Medium-Term Financial Strategy** is summarised in **Table 2** below; a detailed analysis showing the movements between the Draft and Final Budget and MTFS is shown in **Appendix 2** (Section 1).

Summary Consolidated Final Budget 2021/22 & MTFS (2022/23 to 2024/25)	Table 2				
	2020/21	2021/22	2022/23	2023/24	2024/25
	Incl CV19 £000	£000	£000	£000	"Ideal" £000
<b>Net Cost of Services</b>	15,759	12,741	12,611	12,567	12,832
Capital Financing	1,043	856	912	969	1,168
<b>Net Expenditure</b>	<b>16,802</b>	<b>13,597</b>	<b>13,523</b>	<b>13,536</b>	<b>14,000</b>
Reserves Contributions to Support Services	(237)	(2,435)	(3,059)	(3,239)	(3,130)
Other Net Reserves Contributions	(2,166)	2,677	(342)	(503)	0
<b>Net Reserve Contributions</b>	<b>(2,403)</b>	<b>242</b>	<b>(3,401)</b>	<b>(3,742)</b>	<b>(3,130)</b>
<b>Budget Requirement</b>	<b>14,399</b>	<b>13,839</b>	<b>10,122</b>	<b>9,794</b>	<b>10,870</b>
Total Grant	(8,331)	(7,551)	(3,579)	(2,960)	(3,702)
<b>Council Tax Requirement</b>	<b>6,068</b>	<b>6,288</b>	<b>6,543</b>	<b>6,834</b>	<b>7,168</b>

3.3 The key messages to note in respect of the Final 2021/22 Budget and Medium-Term Financial Strategy (2022/23 to 2024/25) are as follows:

i. **Final 2021/22 Budget**

- **Net Expenditure** of £13.6m, a reduction of 19.1% compared to 2020/21 (including CV19)
- **Budget Requirement** of £13.8m, a reduction of 3.9% compared to 2020/21 (including CV19).
- **Council Tax Requirement** of £6.3m, this reflects an increase of £5 compared to 2020/21.
- **Net Contribution from General Reserves** of £242k; on a gross basis, there is a:
  - £2.4m contribution from reserves to support the delivery of services during 2021/22, and a
  - £2.7m contribution to reserves for the various grants that the Council will receive during 2021/22.

ii. **Medium-Term Financial Strategy, by 2024/25 a**

- **Net Expenditure** of £14m, a slight increase of 3% compared to 2021/22.
- **Budget Requirement** of £10.9m, a reduction of 21.5% compared to 2021/22.
- **Council Tax Requirement** of £7.2m, this reflects an annual increase of £5 in Council Tax for each year of the MTFS and a gradual increase in the Council Tax Base over the period.
- **Net Contribution from General Reserves:** For 2024/25, if the Council had sufficient reserves it would require a total reserves contribution of £3.1m to “balance”.

3.4 Detailed operational budgets are shown in **Appendix 2**, Section 2. **Table 2** below shows a detailed subjective analysis of the Budget for 2021/22:

Subjective Analysis for the 2021/22 Budget		Table 3		
2020/21 Net £000	Subjective Analysis	2021/22		
		Expenditure £000	Income £000	Net £000
9,928	Employees	9,839	0	9,839
1,444	Premises	1,733	0	1,733
150	Transport	128	0	128
9,160	Supplies & Services	8,592	0	8,592
2,500	Third Party Payments (*)	2,431	0	2,431
120	Transfer Payments	110	0	110
20	Housing Benefit	8,078	(8,040)	38
(10,031)	Fees & Charges, Rental Income etc	0	(10,130)	(10,130)
<b>13,291</b>		<b>30,911</b>	<b>(18,170)</b>	<b>12,741</b>

**NB.**  
\* mainly payments to other local authorities for various services

## Reserves

- 3.5 The Council's Constitution is silent about whether reserves are a constituent part of the Council's Budget, consequently the conclusion is that they are not. However, contributions to the budget will be part of the budget as they are a source of finance.
- 3.6 To introduce some control around reserves management, in November Cabinet approved a new Reserves Strategy (this is shown in **Appendix 2**, Annex A). As well as the strategy itself, Cabinet approved a new set of reserves:
- General Fund (Unallocated) Reserves; that a minimum level of reserves be established at 20% of Net Expenditure (Net Expenditure being the total of service and capital finance)
  - The establishment of a new set of strategic Earmarked Reserves.

The revenue reserves that are now going to operate from April will include:

- General Fund (Unallocated) Reserves This unallocated reserve will be used to maintain effectively funds to meet unforeseen events. IT will be actively maintained at 20% of Net Expenditure.
- Budget Surplus Reserve This is a consolidation reserve, through which amounts above or below the 20% of the General Fund (Unallocated) Reserve will be passported to either services or to Earmarked Reserves.
- CV19 Internal Recovery Reserve A reserve to "ring-fence" revenue resources to meet future costs/income losses in respect of the Coronavirus Pandemic.
- Projects, Risk & Smoothing A reserve to provide revenue resources to finance projects, known service risks and funding for future known service costs (i.e. Local Plan).



- Capital & Contracts A reserve to provide revenue resources to meet known future capital costs and contractual commitments
- Transformation A reserve to provide revenue resources to meet the costs of future transformation that will result from the Budget Challenge 2025 and/or Change Programme.
- Community, Economic & Infrastructure A reserve to provide revenue resources to enable investment in community, economic and infrastructure activity.
- Commercial Investment A reserve to provide revenue resources to fund commercial investment.

Impact on Reserves of the 2021/22 Final Budget and MTFs (2022/23 to 2024/25)

- 3.7 Surpluses (or deficits) in funding are adjusted via contributions to or from reserves; in the Summary Consolidated Budget shown at **Table 2** this is shown against the line entitled “Net Reserve Contributions”.
- 3.8 **Table 4** below summaries the impact of the 2021/22 Final Budget and MTFs on the Councils reserves position, which is shown in detail in **Appendix 2**, Section 1.

Summary Reserves Statement for the Consolidated Final Budget 2021/22 & MTFs (2022/23 to 2024/25)				Table 4	
All numbers as at 31 March of each year	2020/21	2021/22	2022/23	2023/24	2024/25
	Incl CV19 £000	£000	£000	£000	£000
<b>General Fund (Unallocated) Reserve</b>	2,882	2,719	2,581	2,607	820
- Reserves at 20% of Net Expenditure	Yes	Yes	Yes	Yes	No
<b>Earmarked Reserves</b>					
Budget Surplus	0	0	0	0	0
CV19 Internal Recovery	947	1,074	454	0	0
Projects, Risk & Smoothing	316	919	618	316	0
Capital & Contract	403	403	403	403	0
Transformation	2,000	2,000	2,000	0	0
Community, Economic & Infrastructure	2,411	847	847	623	0
Commercial Investment Reserve	1,890	3,128	788	0	0

- 3.9 In the Final Budget 2021/22 and MTFs (2022/23 to 2024/25), the Council is forecasting a balanced budget for 2021/22, but only with the use of reserves. In respect of the MTFs, the council continues to maintain its 20% minimum level for the General Fund (Unallocated) reserves until 2023/24. However, in 2024/25 the budget gap of £3.13m cannot be financed without using some of

its General Fund (Unallocated) Reserve; the amount remaining is £820k which is significantly less than is 20% threshold (which for 2024/25 is £2.8m)

- Budget Gap: £3.130m
- Reserves Used to Finance Budget Gap:
  - General Fund (Unallocated) Reserves £1.787m
  - Earmarked Reserves £1.343m
- **General Fund (Unallocated) Reserves Remaining £820k**

➤ *Using Reserves*

3.10 It should be noted that if the Council chooses to use reserves to meet a revenue budget gap this must be viewed as short term bridging finance. Alternatively, if reserves were viewed as long term investment finance, they would award Councillors on how they could invest in their communities as shown in (i) to (iii) below. However, when reserves are needed to meet ongoing revenue budget gaps; this choice is removed:

- invest in the local community; this is likely to bring long term community benefit.
- acquire or enhance assets; this is likely to reduce the cost of Council infrastructure or indeed enable the development of new local infrastructure, or
- invest in opportunities that could either generate income or reduce expenditure and therefore the overall net expenditure of the Council.

### Capital

3.11 The detailed capital programme is shown at **Appendix 2**, section 3 and is summarised in **Table 5** below. Members should note that the programme for 2021/22 is £3.4m, this is a significant reduction in the capital programme compared to previous years due to the removal of the Naseby Close, De Verdon Road and the Commercial Property Acquisition projects, along with the delay in the Market Harborough Leisure Centre scheme. The programme itself reduces to £1.1m by 2024/25.

Summary of the Capital Programme				Table 5	
	NEW BUDGET YEAR 2021/22	MTFS			Total Capital Programme
		2022/23	2023/24	2024/25	
		£	£	£	
<b>Capital Projects Approved in previous years (either commenced or to start)</b>					
CCTV	20,000	20,000	20,000	20,000	80,000
Harborough Innovation Centre	20,000	20,000	20,000	50,000	110,000
Market Hall	138,000	0	0	0	138,000
Housing & Homelessness Schemes	400,000	600,000	0	0	1,000,000
Lightbulb (Disabled Facilities Grants) & Other Social Services	418,000	420,000	420,000	420,000	1,678,000
Leisure, Open Spaces & Play	740,000	5,150,000	550,000	200,000	6,640,000
Corporate Buildings	331,000	122,000	100,000	50,000	603,000
Car Parks & Similar Facilities	0	400,000	400,000	0	800,000
Capital Works-S.106	250,000	250,000	250,000	250,000	1,000,000
ICT & Transformation	195,000	75,000	75,000	75,000	420,000
	<b>2,512,000</b>	<b>7,057,000</b>	<b>1,835,000</b>	<b>1,065,000</b>	<b>12,469,000</b>
<b>New Capital Proposals</b>					
ICT & Transformation	280,000	150,000	100,000	0	530,000
Lifeline	40,000	0	0	0	40,000
Environmental	59,000	0	0	0	59,000
Lutterworth Town Centre Heritage Action Zone	530,000	0	0	0	530,000
	<b>909,000</b>	<b>150,000</b>	<b>100,000</b>	<b>0</b>	<b>1,159,000</b>
<b>Total</b>	<b>3,421,000</b>	<b>7,207,000</b>	<b>1,935,000</b>	<b>1,065,000</b>	<b>13,628,000</b>
<b>Sources of Finance</b>					
External Funding & Grants	1,571,000	720,000	720,000	720,000	3,731,000
Capital Receipts	816,000	3,650,000	450,000	50,000	4,966,000
Service Charges	61,000	6,000	6,000	17,000	90,000
Direct Revenue Financing	250,000	150,000	100,000	0	500,000
Unsupported Borrowing (MRP)	723,000	2,681,000	659,000	278,000	4,341,000

## Special Expenses

- 3.12 Special expenses are applied when Harborough District Council provides a service in a parish (or unparished area) which is provided in other parishes by a town or parish council. Special Expenses are paid to the District Council for; cemetery provision, allotment provision, Harborough in Bloom, Harborough Town Centre Support (including specified events), parks and recreation grounds, memorial gardens, bus shelters and space considered to be in the public realm.
- 3.13 Special expenses have been calculated in accordance with the current policy. The table below shows the special expenses for 2021/22 which will be incorporated into the Council Tax calculations:

**Special Expenses by Parish 2021/22**

	Total Charge 2021/22	Current Charge 2020/21
	£	£
Blaston	329	247
Foxton	2,168	1,963
Great Bowden	5,760	4,754
Great Easton	5,250	4,614
Lutterworth	41,847	41,847
Market Harborough	453,038	477,672
Saddington	3,270	3,456
Thurnby & Bushby	35,338	36,038
Broughton Astley	13,876	13,876
Fleckney	1,172	1,172
Great Glen	3,311	3,311
Scraptoft	5,391	5,391
	<b>570,750</b>	<b>594,341</b>

**4.0 Fees & Charges**

- 4.1 Fees & Charges for the forthcoming year, these are shown in the schedule at **Appendix 2**, Section 4/Annex D. The main changes in Fees & Charges between 2020/21 and 2021/22 is an increase of 1.1% increase except for:
- those Fees & Charges that are controlled by statute,
  - Car Parking, and
  - those addressed via the Tranche 1 review of Budget Challenge 2025.

**5 ROBUSTNESS OF THE 2021/22 BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY 2022/23 TO 2024/25**

- 5.1 The Council's Responsible Finance Officer (s.151) is required to make a statutory statement in respect of the Budget and Reserves (s.25, LG Finance Act 2003) and a detailed commentary is shown in **Appendix 2**, Section 5. This commentary addresses the risks that both the Council and the wider local government community face at this challenging time, including the impact of the Coronavirus pandemic. In addition, sensitivity analysis is applied against these risks and their impact on General Fund reserves is assessed. In summary, the key findings are:
- In 2021/22 the budget requirement is £13.8m, this is only achieved with a net contribution to Reserves of £242k. However, this net contribution needs to be looked at on a gross basis because it "masks" the contribution required to support the delivery of services:
    - To support the delivery of services, a contribution from Reserves is required of £2.4m.

- But due to the amount of grant that the Council will receive next year, and its policy to use this grant for future investment or support its ongoing CV19 response, it is required to make a gross contribution to reserves of £2.7m
- ii. The Council maintains its 20% minimum level of reserves for the General Fund (Unallocated) Reserve up until 2023/24, but in 2024/25 the Council it is forecasting a net reserves position of £820k, which is 71% below the 20% minimum level (£2.8m).
- iii. The sensitivity analysis has shown that for 2021/22 the Council has sufficient reserves to meet a range of sensitivity scenarios. However, over the MTFs period significant financial challenge will be encountered by 2024/25.
- iv. Because the Council continues to have a budget gap for each year of the MTFs (next year and the subsequent three years) it cannot be considered self-financing. However, with the continuation of the Budget Challenge 2025 programme, it is hoped that this objective will be achieved.

➤ *Self-Financing*

5.2 In respect of the Council becoming self-financing [5.1 (iv)], this objective is currently not met because of the ongoing annual funding gap; which over the MTFs is currently averaging £3m per annum. Although there are still 2 further tranches of BC25 to be undertaken; a gap of £3m should be considered challenging – the impact of this is that it denies members choices in how they can invest resources in their communities.

5.3 Consequently, it is imperative that all Councillors remain open to further significant service transformation and are likely to have to make challenging choices in the services that are offered to our residents and the business community. It is likely that this will be a mix of:

- i. **providing services to lower standards.** Local Authorities are proud of delivering high quality services to their communities; however, quality comes at a cost and in the end, councillors may have to consider and element of reduced service provision.
- ii. **stopping services.** It is likely that some services will have to stop to enable the delivery of core “last resort” services.
- iii. **curtailment of capital investment.** Unfortunately, at this time the Council is not capital rich, and it therefore must provide significant revenue finance for its capital programme. Councillors may have to consider not undertaking some capital investment.
- iv. **increasing fees & charges.** The budget includes proposals to fees & charge i.e. garden waste and annual inflationary increases to general fees and charges – but clearly these are insufficient to meet the Councils current net expenditure. Councillors must be open to increasing other specific areas of income e.g. Car Parks. In this area

alone, with only a relatively modest increase this could generate for the Council significant additional income.

- v. **further increases in Council Tax.** The MTFS has been modelled to include annual £5 increases in Council Tax. If the Council chooses not to increase its Council Tax annually in the years after 2021/22, this will have a structural impact on future income of the Council.

However, in respect of commercial investment Cabinet should note that such activity has now been significantly curtailed by government so it should not be seen as the opportunity it once was. The government has imposed new controls on borrowing from the Public Works Loans Board in that if the Council has anywhere within its capital plans any commercial (for yield) investment; access to PWLB finance will not be possible – and this would also bar the Council from borrowing for non-commercial development i.e. all capital investment must have a clear purpose that is not predicated on income generation (for yield).

- 5.4 Considering all the factors noted within the “Robustness” statement in respect of the 2021/22 Budget, it is considered that the combination of the:

- Councils commitment to continue to find service efficiencies via the Budget Challenge 2025 programme,
- the direction of travel in relation to governance,
- the clear indication to invest in services,
- it is prudent position relating to income recognition, including raising Council Tax to the permitted maximum, and

....the budget proposed for 2021/22 should not give Members any significant concerns over the Council’s financial position.

- 5.5 With regard to the MTFS (2022/23 onwards):

- New Homes Bonus will have been removed as a source of central government funding by 2023/24;
- The Council is expecting a negative impact from the Fair Funding Review, although this has been delayed until 2022/23. However, the Council has mitigated some potential risk from this review by including a negative funding adjustment;

....but the Council is, currently, facing a significant financial challenge over the MTFS period. This is discussed earlier in this report, but it is necessary to reiterate that the Council must transform its delivery model to ensure that it can deliver financial sustainable services and be financially resilient.

5.6 With regard to:

- i. **Service Transformation;** the Council continues with its Budget Challenge 2025 programme; this is discussed in detail in the Draft Budget report that was presented to Cabinet in January. However, with Tranches 2 and 3 expected to report their transformational savings by the summer of 2021, it is hoped that these two tranches will develop fundamental transformation proposals. It is expected that these proposals will impact on all aspects of service delivery; ranging from how the Council delivers its front-line services, supports these services, and delivers democracy.
- ii. **Coronavirus Pandemic;** the Council continues to be impacted by the Covid-19 pandemic, and it is expected that the economic impact will continue to be felt well into 2021/22. The government has provided some advance financial support; in respect of;
  - CV19 Emergency Funding Tranche 5 and the Local Council Tax Support Grant, the Council is expecting to receive £330k and £100k respectively and is included within the budget,
  - the Tax Income Guarantee Scheme; Sales, Fees & Charges Compensation Scheme and Sports Compensation Scheme; for these grants, no amount has been included in the budget as amounts are not known.

In addition, the Council is taking proactive action to mitigate the impact of CV19 on some of its more strategic income streams (Interest & Investment Income and Planning Income).

The Council continues to monitor the impact of CV19 and will report on the financial impacts as part of the normal reporting cycle.

5.7 As a cautionary commentary, because the Council does have a significant budget gap it is imperative that the Council agrees transformational decisions that will enable it to continue to provide economical, efficient, and effective services to its community. However, if Councillors are not mindful of the financial journey still to be undertaken, it should be noted that as the MTFs currently stands that the Council will be facing a Section 114 notice sometime before 2024/25 (i.e. the year that the Council goes into a negative reserve position). Consequently.....

### 5.7.1 What is Section 114 of the Local Government Finance Act 1988?

*114(3) The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.*

CIPFA has issued a bulletin entitled “balancing local authority budgets” and a copy is available from the Director; Finance & Fixed Assets.

In summary, a s.114 notice is issued when it appears that the Council will no longer be able to meet its financial commitments – and it is the Chief Financial Officer (CFO) who would issue it. The consequences of the issuing of a s.114 notice is that all discretionary spend is halted (i.e. that spend that is not subject to legal contract).

The current MTFS is showing that this position is reached in 2024/25; so a s.114 notice would expect to be issued sometime during 2023/24.

### **Conclusion**

To balance a budget is a complex and continuous activity and Councils must ensure they have good financial planning in place supported by active monitoring and review. However, unexpected budgetary pressures may occur that result in an unbalanced budget. Realigning the budget requires good communication and financial control. It is the:

- “direct” responsibility of the CFO to ensure that the budget is balanced but they cannot work in isolation. The CFO must be supported by the chief executive and the leadership team. However, it is also the,
- “indirect” responsibility of the Council to ensure that it supports the delivery of services that are:
  - Economically viable,
  - Efficiently run, and
  - Effective at meeting their aims and objectives.

And in a fast-changing, fiscally constrained environment it does require a Council to be entrepreneurial, inspirational, and collaborative so it can deliver customer centric services. To achieve this it must:

- maximise its sources of income (Council Tax, Fees & Charges),
- deliver the right services to a standard that is effective (minimal), and
- have at its core an ethos of financial sustainability and resilience, transformation, and continuous improvement.

## **6. Legal Issues**

- 6.1 This report supports the Council in its statutory responsibilities in respect of delivering a balanced budget (s.32, 43 & 93, Local Government Act 1992) and supporting the Responsible Financial Officer in meeting his statutory responsibilities in respect of the proper administration of the Councils financial affairs (s.151, Local Government Act 1972).



### 7 Resource Issues

- 7.1 The financial implications have been shown within the main body of this report; these are in respect of both revenue and capital budgeting, and reserves management. With the continuation of the BC25 programme, there is the potential for changes in establishment and where such changes may occur, they will be managed via the Councils human resource policies.

### 8. Equality Analysis Implications/Outcomes

- 8.1 The equality implications arising from each of the BC25-Tranche 1 reviews includes appropriate equality implications.

### 9. Risk Management Implications

- 9.1 Specific risk issues, and associated sensitivity analysis are presented throughout this report and appendices; including the Responsible Financial Officers commentary in respect of the “Robustness of Reserves” as s.25, Local Government Act 2003.
- 9.2 Although the Council can present a balanced budget for 2021/22; it can only do this by a significant use of reserves. However, it cannot provide a balanced budget for the entire period of the MTFs (i.e. 2021/22 to 2024/25). Further, to balance the latter years of the MTFs the Council has had to apply all its general revenue reserves which would leave it exposed to significant challenge from various stakeholders, including the potential risk of contravening Section 114 of the Local Government Act 1988.
- 9.3 To mitigate this risk, the Council has commenced a significant budget challenge process (BC25), which is discussed, extensively, earlier in this report. The first tranche of service reviews were extensively discussed in the Draft 2021/22 Budget and MTFs (2024/25) that was presented to Cabinet in January and is discussed further in **Appendix 2**, section 1; also included within the budget are some significant current and future budget pressures and the future impacts of government grant changes.
- 9.4 The results of Tranches 2 & 3 of BC25 are expected to be known by the summer of 2021; these should (and all things being equal) have a direct benefit on both the Councils revenue budget and reserves position. However, the services within Tranches 2 & 3 must continue to be innovative like those in Tranche 1 to ensure that they deliver cost-effective future service delivery models that aim to deliver savings of 30% (compared to 2020/21). Only through strong adherence to the principles of Zero-Based Budgeting will the Council achieve financial self-sustainability and resilience.
- 9.5 It should be noted that not all income streams have been reduced to reflect the implications of any legacy CV19 issues; by way of example this includes Car Parking and Leisure.

### 10 Consultation

10.1 The Council has consulted with:

- Trade Union; via the Council's Human Resource Team
- Businesses; via the Council's business newsletter and social media channels
- Public; via the media, the Council's website, and social media (and printed copies are available upon request)
- Parish and Town Councils; via the Council's Parish Liaison Team,
- Residents and Members Newsletter, and the
- The Performance Scrutiny Panel on the 28th January 2021.

10.2 The Conclusions of the consultation are shown in **Appendix 3**.

### 11 Background Papers

11.1 There are no direct background papers for this report. However, the Council's website shows the earlier Draft 2021/22 Budget and MTFs (2022/23 to 2024/25) and the government website does show the financial settlement.

Changes between Draft 2021/22 Budget & MTF5 (2022/23 to 2024/25) and Final 22021/22 Budget & MTF5 (2022/23 to 2024/25)															Appendix 1
Portfolio	Service	Cost Centre	2021/22			2022/23			2023/24			2024/25			Reason for Change
			Draft Budget £	Final Budget £	Change £	Draft Budget £	Final Budget £	Change £	Draft Budget £	Final Budget £	Change £	Draft Budget £	Final Budget £	Change £	
<b>Change in Service Costs &amp; Income</b>															
	Planning, Environment & Waste	Building Control	5,361,999	5,341,999	(20,000)	5,229,999	5,209,999	(20,000)	5,099,999	5,079,999	(20,000)	5,049,999	5,029,999	(20,000)	* Additional Income from Building Control
	<b>Total</b>				<b>(20,000)</b>			<b>(20,000)</b>			<b>(20,000)</b>			<b>(20,000)</b>	
<b>Change in Capital Financing</b>															
	Change in Capital Financing		0	0	0	911,523	911,533	10	1,184,160	969,160	(215,000)	0	0	0	* Fine-tuning of new "Minimum Revenue Provision" Policy
	<b>Total</b>				<b>0</b>			<b>10</b>			<b>(215,000)</b>			<b>0</b>	
<b>Change in Non-Service Funding</b>															
<b>Earmarked Reserves Contributions</b>															
	- Earmarked Reserve: CIR (to) [Lower Tier Services Grant]		300,000	250,981	(49,019)	0	0	0	0	0	0	0	0	0	* Changes in Earmarked Reserve Contributions reflecting changes in Lower Tier Grant allocation
	- Earmarked Reserve: CV19 Support (to) [CF Surplus]		85,783	10,439	(75,344)	(516,167)	(502,583)	13,584	(516,167)	(502,583)	13,584	0	0	0	* Changes in Earmarked Reserve Contributions reflecting changes in Collection Fund (Surplus)/Deficit
	- Earmarked Reserve: PR&S (to) [Local Council Tax Support Scheme]		0	904,650	904,650	0	0	0	0	0	0	0	0	0	* Allocation of Tax Income Guarantee Scheme to Earmarked Reserves
	- Earmarked Reserve: CE&I (to) [CR Surplus]		199,503	0	(199,503)	0	0	0	0	0	0	0	0	0	* Removal of Earmarked Reserve Contribution
<b>Grant Funding</b>															
	Non-Domestic Rates (NDR)		(3,529,000)	(3,756,520)	(227,520)	(3,557,000)	(3,779,059)	(222,059)	(3,578,000)	(3,801,733)	(223,733)	(3,633,000)	(3,824,543)	(191,543)	* Additionl NDR Receipts
	Lower Tier Services Grant		(300,000)	(250,981)	49,019	0	0	0	0	0	0	0	0	0	* More detail grant information established after Draft Budget Report published.
	Tax Income Guarantee Scheme		0	(904,650)	(904,650)	0	0	0	0	0	0	0	0	0	* Receipt of Tax Income Guarantee Scheme
	Collection Fund (Surplus)/Deficit		(285,286)	(10,439)	274,847	516,167	804,133	287,966	516,167	804,133	287,966	0	0	0	* Draft Budget Surplus/Deficit calculated based on November collection forecasts; Final Budget calculated on updated December collection forecasts.
	<b>Total</b>				<b>(227,520)</b>			<b>79,491</b>			<b>77,817</b>			<b>(191,543)</b>	
<b>Total Changes in Revenue Budget</b>					<b>(247,520)</b>			<b>59,501</b>			<b>(157,183)</b>			<b>(211,543)</b>	
<b>Reconciliation of Changes in Reserves Contributions, Draft to Final Budget/MTFS</b>															
	<b>Draft Budget Reserves Contribution to Support Services</b>				<b>(2,682,475)</b>			<b>(2,999,119)</b>			<b>(3,395,903)</b>			<b>(3,341,148)</b>	<b>(12,418,645)</b>
	Net Change in Budget				247,520			(59,501)			157,183			211,543	556,745
	<b>Final Budget Reserves Contribution to Support Services</b>				<b>(2,434,955)</b>			<b>(3,058,620)</b>			<b>(3,238,720)</b>			<b>(3,129,605)</b>	<b>(11,861,900)</b>

