REPORT 6

HARBOROUGH DISTRICT COUNCIL

URGENT REPORT TO THE CABINET MEETING OF 30 NOVEMBER 2020

PUBLIC REPORT: Y

EXEMPT REPORT: N

Report Title	Budget Setting Principles: Budget 2021/22 and Medium-Term financial Strategy (2022/23 to 2024/25)
KEY DECISION	No
Report Author	Clive Mason – Chief Officer: Finance & Assets
Purpose of Report	To highlight to members the budget setting process and get agreement on key principles to support the development of Budget for 2021/22 and the Medium-Term Financial Strategy (2022/23 to 2024/25).
Reason for Decision	To support the development of the Budget and Medium-Term Financial Strategy.
Portfolio (holder)	Cllr James Hallam – Portfolio Holder for Resources
Corporate Priorities	YOUR COUNCIL: creative, proactive, and efficient CO 08 – Deliver financial sustainability for the future
Financial Implications	These principles will set the foundation for the setting of the 2021/22 budget and the MTFS. Although, these principles are more prudent that in previous budget-setting rounds, they are complementary to the Councils service transformation endeavours through the Budget Challenge 2025 process.
Risk Management Implications	These principles will help to mitigate the risk of excessive inflationary impacts with the Councils service delivery model.
Environmental Implications	There are no direct environment implications arising from this report.
Legal Implications	This report supports the Chief Financial Officer in meeting his statutory responsibilities in respect of the proper administration of the Councils financial affairs [s.151 of the Local Government Act 1972].
Equality Implications	There are no direct equality implications arising from this report.
Data Protection Implications	There are no direct data protection implications arising from this report.
Consultation	Cabinet
Background Papers	None
Appendices	Appendix 1: Budget Challenge 2025: Facing the Future – Tranches 1 to 3

	Appendix 2: Virements to Finance the Local Plan Appendix 3: Budget Principles for the 2021/22 Budget and MTFS (2022/23 to 2024/25)
Recommendation	To approve the: • virement and budget changes, noted at **paragraph 3.2 (**and **Appendix 2),** in respect of the Local Plan. • budget principles that are summarised in **Appendix 3.**

1 Introduction

1.1 As reported to Council in February 2020, the Council is facing a considerable budget challenge next year and over the medium-term; the forecast budget gap is £4m for 2021/22 rising to £4.2m by 2024/25. This is summarised in **Table 1**.

Summary of Current Medium-Term Financial Strategy					**Table 1**
Current Year 2020/21 £		**Budget Year 2021/22 £**	**Medium-Term Financial Strategy 2022/23 £**	**2023/24 £**	**2024/25 £**
14,334	**Cost of Services**	**14,697**	**14,493**	**14,690**	**14,672**
	(Net Expenditure)				
0	Contribution to Reserves	450	278	0	0
	Corporate Funding				
(3,622)	Busiiness Rates (NDR)	(3,529)	(3,557)	(3,578)	(3,633)
(2,670)	New Homes Bonus	(1,125)	(556)	0	0
(134)	Other Grants	(134)	(134)	(134)	(134)
0	Fair Funding Adjustment	0	86	172	257
(6,068)	Council Tax (a)	(6,284)	(6,502)	(6,722)	(6,944)
(12,494)	**Total Corporate Funding**	**(11,072)**	**(10,663)**	**(10,262)**	**(10,454)**
1,840	Potential Budget Gap	4,075	4,108	4,428	4,218
(1,840)	**Reserves Used to Meet Budget Gap**	**(4,075)**	**(4,108)**	**(4,428)**	**(4,218)**
0	**Net Budget Position**	**0**	**0**	**0**	**0**

NB. This table is demonstrating the annual budget gap; it is not demonstrating a "balanced budget".

1.2 To meet this challenge the Council has commenced a Zero-Based Budgeting exercise, known as Budget Challenge 2025 (BC25). The aim of this programme is to deliver a sustainable budget over the Medium-Term Financial Strategy (MTFS), with the Council reducing its reliance on reserves by transforming the way that the Council delivers its services. The expectation is that, by the end of the BC25 programme the Council will have reviewed all services and agreed a series of business plans that will delivery services in a significantly different way – but within an affordable and sustainable way.

2. Budget Challenge 2025 - impact on the 2021/22 Budget Setting Process

2.1 The Budget Challenge process consists of 3 Tranches of review and these are shown at **Appendix 1**. Tranche 1 is underway, and the results of the review are expected to be included in the 2021/22 Budget Setting Report that members will be considering in the New Year. The anticipated budget changes that will result from the service transformation will be "hard-coded" into next year's budget and the MTFS with the expectation that services will then deliver the transformation that will be required.

2.2 Obviously, Tranches 2 and 3 will not be included as the conclusions of these reviews will not be reached until after the 2021/22 budget (and MTFS) is approved by Cabinet, and then Council in February 2021. This means, that to meet the statutory requirement of setting a balanced budget for 2021/22, it is likely that the Council will still have to approve the use of reserves to meet any forecast budget gap. However, as the findings of Tranches 2 and 3 become known and are implemented, it is anticipated that the reserves that will needed will be less than that approved. Therefore, it is recommended that in respect of next year's budget and the MTFS, that the:

Strategic Budget principles will be:

1) To maintain, within expected service constraints, service expenditure within the approved net expenditure envelope.
2) To ensure that over the medium term, financial sustainability can be achieved.

3 Budget Inflation & Growth

3.1 In any budget setting process, it is necessary to set-out the inflation principles within which certain aspects of the budget will be set. Considering the financial challenge that the Council faces the inflation principles that will be applied this year, and over the MTFS period, will be considerably tighter when compared to those of previous budget rounds; these are discussed in detail below. This "tighter" approach is necessary to help mitigate cost inflation and ensure that the limited financial resources available to the Council are used in the most effective way possible.

Income

3.2 **General Service Income**; it is recommended that all service income relating to fees and charges is routinely increased by RPI going forward, with the rate set as that prevailing as at the end of October the preceding year (for the 2020/21 budget and MTFS, this will be 1.1%). On this basis, it is expected that this change is likely to generate additional income of £28k per annum. The only exceptions to this standard application of RPI is:

- a report on Car Parking pay & display tariffs and permits has been made by the Car Parks Working Group and as such members will receive a specific proposal in due course.
- the Garden Waste service is being reviewed as part of BC25 so members will receive a specific proposal in due course.

Budget Principle:
3) General Service Income: to be increased by 1.1% for 2020/21 and over the MTFS period.

Costs

3.3 **Pay Inflation**; the Council is part of national pay-bargaining and the pay settlement for 2020/21 was 2.75%. Current pay modelling is showing that private sector pay has, since the onset of the Covid-19 pandemic, shown a reduction of around 3.2% (ONS). The government is expected to restrict public sector pay over the medium term and therefore pay inflation of 2.5% is recommended for next year and over the MTFS period.

Budget Principle:

4) Pay Inflation: to be increased by 3.2% for 2020/21 and over the MTFS period.

3.4 **Pay Oncosts**; as an employer the Council is required to charge oncosts for National Insurance and Pension. In respect of:

- National Insurance this is set nationally and for budgeting a standard rate of 13.8% is used.
- Pensions, the Council is part of the Leicestershire Local Government Pension Scheme and is in the first year of the triennial valuation period; the employers oncost rate is 31.4%.

It is recommended that both the National Insurance and Pension oncosts rates are applied for next year and over the MTFS period.

Budget Principle:

5) Pay Oncosts: National Insurance and Pensions Oncosts to be increased by 13.8% and 31.4% for 2020/21 and over the MTFS period.

3.5 **Vacancy Factor**; the Council includes a Vacancy Factor within its budget. This currently stands at £120k and represents 2% of the staff salary budget. Vacancy Factors are a standard means of securing savings within the salaries budget by reflecting the time between a “Leaver” leaving and a “New Starter” starting. However, the current rate is based on a “rule of thumb”; therefore, at this time it is not considered prudent to increase the Vacancy Factor beyond the £120k until a more scientific approach can be determined. If this is to change for the 2021/22 budget and the MTFS, this will be reported to members in January.

Budget Principle:

6) Vacancy Factor: to be maintained at £120k for 2020/21 and over the MTFS period. This is subject to further review and if a change is needed, this will be reported to members in January 2021.

3.6 **General Service Inflation**; previously the Council has set a general service inflationary rate of 2%; unfortunately such an approach effectively builds unplanned growth into the budget and compounds a worsening budgetary provision over the medium-term. It is recommended that this practice is no longer continued and general service inflation is set at 0%. This effectively means that services will have to meet inflation from within their approved budgets (and is an accepted means of cost-control); however, the only exception to this will be the FCC contract. This is the Councils single largest contract, and it is imperative that the structural element of this budget is maintained as there is a risk of significant cost increase when the contract is relet in 2025. For the FCC contract there is a strict RPI based formulae and it is recommended that this formula is followed for next year and over the MTFS period.

Budget Principle:

7) General Service Inflation: to be set at 0%, except for the FCC Contract that will be increased in line with contractual inflationary commitments.

3.7 **General Service Growth**; the assumption is that there will not be any general service growth over the medium term. The only growth that will be permitted will be approved via the BC25 process.

Budget Principle:

8) **General Service Growth*****: there will not be any general service growth, except that identified via the Budget Challenge 2025 process.***

3.8 **Local Plan**; currently the Council does not have a budget for the Local Plan but as this is a predictable and known event (i.e. it is part of the "usual" business cycle for a Council with responsibility for local planning policy) best practice will be for the Council to establish a "sinking fund" to meet the cost of developing a Local Plan. This fund will be established as an Earmarked Reserve and will receive annual revenue contributions. When it is necessary for the Council to meet Local Plan related costs, these can then be drawn-down from the earmarked reserve. This approach de-risks the development process for the Local Plan and allows the Council to plan more effectively for its Local Plan.

3.9 In respect of the next Local Plan, the Planning Policy Team currently consider that a new Local Plan will be needed by April 2024 and currently estimate that the cost of a new Local Plan will be £1.1m. At this time, the Council has £224k set-aside in an Earmarked Reserve to meet future Local Plan expenditure, so it is recommended that for the 3-year period 2021/22 to 2023/24 that the Council establishes an annual contribution of £292k. To meet the "no-growth" commitment noted in 3.7, the Chief Officer; Planning & Regeneration has identified a number of service savings and he plans to transfer budgets within his service area to provide the necessary funding for the Local Plan; aggregated together this will provide the £292k to meet the required annual contribution and details are shown in **Appendix 2**.

Non-Service Funding & Related Indices

3.10 **Non-Domestic Rates** (NDR, or Business Rates); the Council is currently part of the Leicestershire Business Rates Pool and to date has generated additional retained business rates of £29.6m for the County, which has been paid to the Leicestershire LEP. Of this, approximately £8.4m relates to receipts from the Harborough area that would otherwise have been paid over to the government (this is based on the pooling arrangement since 2015/16).

3.11 However, in respect of the Councils own NDR, it is recommended that the Council continues with its prudent approach of only budgeting for NDR receipts at the baseline, with any increases only based on the governments annually set NDR multiplier. The reason for this is that this provides a more stable stream of funding from which it can more sustainably deliver services. Any “growth NDR” that occurs due to membership of the Pool should then be “earmarked” for local economic, community and infrastructure development. It should be noted that the multiplier will not be known until the provisional financial settlement is announced later in the year.

Budget Principle:

9) **Non-Domestic Rates*:***

- **i)** ***the NDR income stream will be inflated by the government’s stipulate multiplier.***
- **ii)** ***Any income growth that exceeds this income stream is earmarked for local economic, community and infrastructure development.***

3.12 **New Homes Bonus** (NHB); the Council has until now kept all NHB in its base budget. The current allocation and future years legacy payments are shown in **Table X** below.

<table>
<tr><th colspan="3">Withdrawal of New Homes Bonus</th><th>Table X</th></tr>
<tr><th></th><th>2020/21
£000</th><th>2021/22
£000</th><th>2022/23
£000</th></tr>
<tr><td>Profile of NHB Receipts</td><td>2,670</td><td>1,125</td><td>556</td></tr>
<tr><td rowspan="4">Reduction between years</td><td colspan="2">(1,545)</td><td rowspan="2"></td></tr>
<tr><td colspan="2">-58%</td></tr>
<tr><td rowspan="2"></td><td colspan="2">(569)</td></tr>
<tr><td colspan="2">-51%</td></tr>
<tr><td>Reduction between 2020/21 and 2022/23</td><td colspan="3">(2,114)
-79%</td></tr>
</table>

3.13 Although this has allowed the Council to continue to provide the highest level of services to its local community; it is recommended that the Council starts to withdraw this funding from its base on the basis shown below.

- 2021/22: 60% (£675k) to remain within base.
  40% (£450k) allocated to earmarked reserves (commercial investment)
- 2022/23: 50% (£278k) to remain within base.
  50% (£278k) allocated to earmarked reserves (commercial investment)

3.14 It should be noted that at this time the Government has not informed local government of any extension to the NHB scheme; consequently, the Council is expecting that 2022/23 will be the last year of NHB. As consequence of the Covid-19 pandemic, the Government has announced a 1-year spending review. Local Government financial commentators currently have mixed views on whether the spending review will roll-over NHB for one further year. If however, a 1-year roll-over does occur and the 2021/22 allocation exceeds the currently expected allocation of £1.125m; it is recommended that the excess over-and-above the £1.125m is removed from the base and that 100% is allocated to earmarked reserves but divided as follows:

- 50% to support local economic, community and infrastructure development.
- 50% to support commercial investment.

Budget Principle:

10) **New Homes Bonus*:***

- **i)** ***the NHB income stream to mirror the profile as noted in paragraph 3.12.***
- **ii)** ***if the government does extend/roll-over the NHB scheme, any excess over-and-above that at (i) or (3.12) above is allocated to an earmarked reserve, divided on a 50:50 basis, between support to:***
    - ***local economic, community and infrastructure development.***
    - ***commercial investment.***

Fair Funding

3.15 Fair Funding (FF) is a government led initiative to develop a new funding formula. Its intention is to rebase local government funding to enable a more equitable distribution of centrally allocated funds; primarily via the business rate system. It is anticipated that FF will have a negative impact on the midlands and more southern councils and current modelling is showing a worsening funding settlement over the medium-term. In addition, it is expected that the government will "reset" the NDR baseline. However, because of Covid-19, the government has delayed FF until at least 2022/23. In anticipation of potential negative FF impacts, it is recommended to include a prudent "negative funding adjustment" within corporate funding for the following years:

- 2021/22 Nil impact.
- 2022/23 £86k
- 2023/24 £172k
- 2024/25 £257k

Budget Principle:

11) **Fair Funding*: to help mitigate the future impact of Fair Funding (& the NDR "reset"), to include a negative funding stream of Nil, 2021/22; £86k, 2021/22 and £172k, 2023/24.***

Collection Fund (Surplus)/Deficit

3.16 In January each year the Council is required to calculate its estimated share of the Collection Fund as at the forthcoming 31st March. If it is a surplus, this increases the funding available to the Council, but if it is a deficit this is an additional funding pressure.

3.17 As a consequence of Covid-19, the Council is currently modelling a deficit of £894k; however a definitive surplus or deficit cannot be calculated until January due to the inbuilt volatility within the Collection Fund account (i.e. an individual or businesses ability to pay). However, the government announced on the 5th November 2020 that it had laid before Parliament the

"Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020" [2020 No.1202]
These regulations give effect to the three year phasing (spreading) of local tax deficits which was announced by the Secretary of State on 2 July 2020. The advantage of this "spreading" is that:

- It reduces the immediate financial burden of the deficit onto one year.
- As time progresses, the deficit may be mitigated by increases in collection rates from previous years.

Budget Principle:

12) Collection Fund (Surplus)/Deficit: the Council will spread any forecast Collection Fund Deficit for 31st March 2021 over the following 3 years; 2021/22, 2022/23 and 2023/24. If the 31st March 2021 forecast was a surplus, this will not be spread.

Council Tax Base

3.18 The Local Government Finance Act 1992, as amended, requires the Council to fix the Council Tax base for 2021/22 between 1 December 2020 and 31 January 2021. The calculation will be prepared in accordance with the Regulations 'Local Authorities (Calculation of Council Tax Base) Regulations 2012 (SI: 2012/2914)' which came into force on 30 November 2012, to enable local authorities to calculate the tax base for the financial year 2021/22. The Council Tax Base is defined as the number of Band D equivalent properties in a local authority's area. An authority's tax base is considered when it calculates its council tax. It is calculated by adding together the "relevant amounts" (the number of dwellings) for each valuation band, then multiplying the result by the Council's estimate of its collection rate for the year. In 2020/21 there was an overall increase in the council tax base, although some individual parishes tax bases did decrease. This will be reported to members as part of the usual budget setting cycle.

4 Legal Issues

4.1 This report supports the Chief Financial Officer in meeting his statutory responsibilities in respect of the proper administration of the Councils financial affairs [s.151 of the Local Government Act 1972].

5 Resource Issues

5.1 Resources are detailed in the main body of this report. These principles will set the foundation for the setting of the 2021/22 budget and the MTFS. Although, these principles are more prudent that in previous budget-setting rounds, they are complementary to the Councils service transformation endeavours through the Budget Challenge 2025 process.

6 Equality Analysis Implications/Outcomes

6.1 There are no direct equality implications arising from this report.

7 Risk Management Implications

7.1 Reserves are the Councils primary means through which it can manage service risk. The recent Covid-19 crisis is the clearest example of this. However, even in such extreme situations it is essential that there is clear governance through the use of its reserves.

8 Consultation

8.1 There are not direct consultation requirements arising from this report.

9 Background Papers

9.1 Noted in the summary at the start of this report.

9.2 The management of reserves is a key element of ensuring that the Council achieves its responsibilities under S.151 of the Local Government Act 1972.

10 Resource Issues

10.1 Resources are detailed in the main body of this report. It must be recognised that Reserves move on an ongoing basis – to work effectively they should be organic in nature. Consequently, reserves movements and actual holdings reported at budget setting for the forthcoming year can change only a few months later when the accounts are produced for the previous year. Also, during any given year, reserves should move to reflect an organisations current financial position i.e. as Net Expenditure changes, so should the General Fund (Unallocated) Reserve.

11 Equality Analysis Implications/Outcomes

11.1 There are no direct equality implications arising from this report.

12 Risk Management Implications

12.1 These principles will help to mitigate the risk of excessive inflationary impacts with the Councils service delivery model.

13 Consultation

13.1 There are not direct consultation requirements arising from this report.

14 Background Papers

14.1 Noted in the summary at the start of this report.

REPORT 6

Appendix 1

Budget Challenge: Facing the Future		
Tranche 1 September to November 2020	**Tranche 2 January to March 2021**	**Tranche 3 April to June 2021**
Operational Services	Legal & Democratic Support	Corporate Support
Customer Services JCExecs, LGA Subs, Corp Activity JCExecs, HDC Co.	ICT CO (151), Assets, Int Audit, GoS Facilitie Management + Public Realm	Finance Revs & Bens HR & Training
Housing & Homelessness	Strategic Planning/Policy	Communication
Grants, Parishes, Comm Safety	Economic Strategy/Development	CCTC, Control Centre
CO, Communities	CO, Economic Strategy Talent	Recreation
Community Partnerships	Plan - Growth	CO, Legal & Dem
	Building Control	Register of Electors
	Development Control, Enforcement	Elections
	HIC	Car Parking, Lightbulb, Env Health, Licensing

Appendix 2

Budget Adjustments needed to Finance Local Plan

Cost Centre			Original Budget	Budget Transfer	Revised Budget
			£	£	£
	Planning Policy	10112	247,110	(500)	246,610
	Env Enhancements/ Conservation	10013	7,650	(7,400)	250
Economic Development	Potential	10015	93,900	(20,000)	73,900
	Location	10206	298,520	(10,000)	288,520
	Talent	10233	130,000	(110,000)	20,000
Strategic Growth Team		10211	180,842	(120,000)	60,842
Enforcement		10084	25,963	(9,100)	16,863
Planning Enforcement		10151	212,880	(15,000)	197,880
Local Plan Annual Contributions Budget		New Code	0	292,000	292,000
Net Budget Impact			**1,196,865**	**0**	**1,196,865**

Appendix 3

Budget Principles for the 2021/22 Budget and MTFS (2022/23 to 2024/25)

Report Paragraph Reference	**Budget Principles**	
Strategic Budget Principles:		
2.2	1	To maintain, within expected service constraints, service expenditure within the approved net expenditure envelope.
2.2	2	To ensure that over the medium term, financial sustainability can be achieved.
Service and Corporate Budget Principles:		
3.2	3	**General Service Income**: to be increased by 1.1% for 2020/21 and over the MTFS period.
3.3	4	**Pay Inflation**: to be increased by 3.2% for 2020/21 and over the MTFS period.
3.4	5	**Pay Oncosts**: National Insurance and Pensions Oncosts to be increased by 13.8% and 31.4% for 2020/21 and over the MTFS period.
3.5	6	**Vacancy Factor**: to be maintained at £120k for 2020/21 and over the MTFS period. This is subject to further review and if a change is needed, this will be reported to members in January 2021.
3.6	7	**General Service Inflation**: to be set at 0%, except for the FCC Contract that will be increased in line with contractual inflationary commitments.
3.7	8	**General Service Growth**: there will not be any general service growth, except that identified via the Budget Challenge 2025 process**.**
3.11	9	**Non-Domestic Rates:** i) the NDR income stream will be inflated by the government's stipulate multiplier. ii) Any income growth that exceeds this income stream is earmarked for local economic, community and infrastructure development.
3.14	10	**New Homes Bonus:** i) the NHB income stream to mirror the profile as noted in paragraph 3.12. ii) if the government does extend/roll-over the NHB scheme, any excess over-and-above that at (i) or (3.12) above is allocated to an earmarked reserve, divided on a 50:50 basis, between support to:

		• local economic, community and infrastructure development. • commercial investment.
3.15	11	**Fair Funding:** to help mitigate the future impact of Fair Funding (& the NDR “reset”), to include a negative funding stream of Nil, 2021/22; £86k, 2021/22 and £172k, 2023/24.
3.17	12	**Collection Fund (Surplus)/Deficit**: the Council will spread any evaluated forecast Collection Fund Deficit for 31st March 2021 over the following 3 years; 2021/22, 2022/23 and 2023/24. If the 31st March 2021 forecast was a surplus, this will not be spread**.**