

Report to Executive

**Agenda
Item:**

**A.2
(a)**

Meeting Date: 13 January 2021
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Recorded in the Notice Ref: KD.25/20
Within Policy and Budget Framework YES
Public / Private Public

Title: BUDGET UPDATE – REVENUE ESTIMATES 2021/22 TO 2025/26
Report of: CORPORATE DIRECTOR OF FINANCE & RESOURCES
Report Number: RD 52/20

Purpose / Summary:

This report provides an update to RD32/20 and RD42/20, with a summary of the Council's revised revenue base estimates for 2020/21, together with base estimates for 2021/22 and forecasts up to 2025/26 for illustrative purposes. Potential new spending pressures, bids and savings are also considered in this report. It should be noted that the figures in this report are indicative but now incorporate the provisional finance settlement received on 17th December.

Recommendations:

The Executive is requested to:

- (i) note the revised base estimates for 2020/21 and base estimates for 2021/22;
- (ii) note that the estimates in the report are provisional and will be subject to the confirmation of the final Local Government Finance Settlement in January/February 2021;
- (iii) note the current MTFP projections and the outstanding issues, which will continue to be updated throughout the budget process and be incorporated into the Executive's budget proposals tabled at the meeting, if available;
- (iv) note the budget pressures, bids and savings which need to be taken into account as part of the 2021/22 budget process.

Tracking

Executive:	13 January 2021
Scrutiny:	n/a
Council:	2 February 2021 (Budget Resolution)

1. INTRODUCTION

- 1.1. This report considers the revised base estimates for 2020/21 together with the estimates for 2021/22 as previously outlined in reports RD32/20 and RD42/20. The report also sets out any known revisions to the Medium-Term Financial Plan (MTFP) projections.
- 1.2. The base estimates have been prepared in accordance with the guiding principles for the formulation of the budget over the next five-year planning period as set out in the following Policy documents that were approved by Council on 8 September 2020:
 - ◆ Medium Term Financial Plan and Charging Policy
 - ◆ Capital Strategy
 - ◆ Asset Management Plan
- 1.3. Members should be aware that there are a number of significant factors affecting the budget that are currently unresolved. In particular, the following are key to the budget process and details on these will be considered as the budget process progresses:
 - Ongoing impact of COVID-19;
 - Local Government Finance Settlement – final confirmation due in January/February 2021;
 - Further expected changes in government grant e.g. New Homes Bonus, Housing Benefit Admin Grant;
 - Future borrowing requirements;
 - Commercial and investment opportunities.
- 1.4. The report draws on information contained in a number of reports that are either considered elsewhere on this agenda or have been considered previously by the Executive.
- 1.5. Decisions will need to be made to limit budget increases to unavoidable and high priority issues, together with maximising savings and efficiencies, and potential use of reserves, to enable a balanced budget position to be recommended to Council in February 2021.

2. SUMMARY OF BASE BUDGET ESTIMATES

- 2.1. The base estimates are calculated on the assumption that core services will continue at approved levels incorporating decisions agreed by Council as part of the previous year's budget process and including all subsequent decisions made by Council.

2.2. The table below sets out the base level General Fund requirement for 2020/21 and 2021/22 with projections to 2025/26. The 2020/21 variance reflects the use of earmarked reserves approved since the MTFP was approved in September.

Table 1 – Base Budget Summary

	2020/21 Original £000	2020/21 Revised £000	2021/22 Original £000	2022/23 Proj £000	2023/24 Proj £000	2024/25 Proj £000	2025/26 Proj £000
Net Base Budget Parish Precepts (PP)	14,653 688	17,532 688	12,753 705	12,594 723	12,960 741	13,183 760	13,670 779
Total	15,341	18,220	13,458	13,317	13,701	13,943	14,449
Original MTFP Projections	15,341	17,972	13,176	13,205	13,494	13,707	13,949
Variance	0	248	282	112	207	236	500
Analysis of Variance:							
Sands Project			282	112	207	153	345
Developer Contributions			0	0	0	83	155
Non-Recurring:							
Planning Services Reserve		(23)					
Revenue Grants Reserve		286					
Cremator Reserve		(24)					
Building Control Reserve		9					
Total Variance	0	248	282	112	207	236	500

2.3. The revised estimates for 2020/21 will be recommended to Council as part of the budget process.

3. OUTSTANDING KEY ISSUES

3.1. Government Settlement Funding Assessment

The Council receives core funding allocations from the Government in relation to Business Rates Baseline Funding and other specific grants. The figures incorporated into this report now reflect the provisional funding settlement for 2021/22 with a more detailed report of the impact considered elsewhere on the agenda (RD55/20). **Final figures will be available following the consultation process which concludes on 16th January 2021.**

3.2. Retained Business Rates and Council Tax

The reforms of the Retained Business Rates Retention Scheme have again been deferred and as a result of this deferral, the MHCLG has decided not to revoke the existing legislation governing pooling arrangements, and therefore the Council is able to continue to be a member of the Cumbria Business Rates Pool for 2021/22, subject to the agreement of all participating members. The financial aspects of continuing with the Pooling arrangements for 2021/22 are set out further in this report.

The Government has proposed that the referendum limit will remain for Council Tax increases, however, District Councils will be given the option of raising Council Tax by the greater of 2% or £5. This will be subject to final confirmation in January/February 2021.

3.3. Pay Award 2021/22

The MTFP currently assumes a 2% pay award increase from 2021/22 onwards; with the agreed pay award for 2020/21 being 2.75%. However, the Spending Review in November 2020 outlined plans to freeze public sector pay for public sector workers earning over £24,000. Those earning below this threshold will be guaranteed at least a £250 increase. There is also an exemption from the freeze for doctors and nurses. Therefore, there is likely to be a small saving on the amounts included in the MTFP. A decrease of 0.75% equates to a saving of £100,000 per annum.

3.4. Resource Assumptions

The current resources projections assume:

- A £5 (Band D equivalent) Council Tax increase for 2021/22 onwards.
- A Council Tax Surplus for 2021/22 onwards of £50,000. **Under statute, this figure cannot be calculated until 15 January and further information on the effect any changes will have on the budget will be provided when available.**
- Retained business rates for 2021/22 reflect the provisional local government finance settlement received in December 2020 and for future years are assumed at the Baseline level with an inflationary increase, with an additional sum to be achieved through growth/section 31 grants and from the benefits of Pooling in 2021/22;
- An assumed tax base of 34,911.93 for 2021/22. **The final tax base for 2021/22 will not be available until mid-January and further information will be provided when available.**
- Parish Precepts are currently being collated but the estimate for 2021/22 is for a total of £705,000. **The actual Parish Precept requirement for each**

Parish will be incorporated into the Executive's budget proposals tabled in January.

For information, broadly:

- Each 1% (£1.95) movement in Council Tax impacts on the Council by £67,000
- Each £35,000 increase or decrease in expenditure impacts on the Council Tax requirement by £1.

4. POTENTIAL NEW SPENDING PRESSURES/BIDS

4.1 In light of the current position in the MTFP, there are some potential new spending pressures and bids that need to be considered.

There may be other pressures on the revenue budget as highlighted within the revenue monitoring reports, which may have a recurring impact; however, officers are reviewing the existing base budget provisions to ensure that the services can be provided within these budgetary provisions and also contribute towards the savings target.

Detail		2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Recurring						
Leisure Contract	4.2	617	198	2	2	2
Energy Monitoring System	4.3	3	3	3	3	3
Replacement of Flare Data Management System	4.4	0	16	16	16	16
Industrial Estate Income	4.5	55	55	55	55	55
Pay Award	4.6	93	93	93	93	93
Project Officer Posts	4.7	132	132	132	132	132
Total Recurring Pressures		900	497	301	301	301
Non Recurring						
City Centre Properties Income	4.8	190	190	190	190	0
Digital Marketing Officer	4.9	27	0	0	0	0
Budget Savings	4.10	500	0	0	0	0
Total Non Recurring Pressures		717	190	190	190	0

4.2 Leisure Contract Variation – Additional Expenditure - £617,000 recurring bid reducing to £2,000

This relates to additional subsidy to the Leisure provider agreed as part of the Sands project by Council in July 2019.

4.3 Energy Monitoring System – Additional Expenditure - £3,000 recurring bid

This is the annual maintenance cost of a new energy monitoring system that is included as a new capital project. The system will allow the Council to monitor and manage its energy usage across its properties and will help to deliver commitments around becoming carbon neutral as well as generating a recurring saving of approximately £20,000 per year.

4.4 Replacement of Flare Data Management System – Additional Expenditure - £16,000 recurring bid from 2022/23

This is the annual cost associated with a new Data Management system to be used by Regulatory Services. The capital costs are included in the Capital report considered elsewhere on this agenda.

4.5 Industrial Estate Income – income shortfall £55,000 recurring

To recognise the shortfall of income from industrial estates in line with the Council's asset disposal programme.

4.6 Pay Award – Additional Expenditure - £93,000 recurring

The 2020/21 pay award was higher than that included in the Medium-Term Financial Plan. This pressure recognises the increased cost of the 2020/21 pay award on the overall wage bill.

4.7 Project Officer Posts – Additional Expenditure - £132,000 recurring

The Council has some significant capital schemes in the pipeline, e.g. new leisure facilities, civic centre refurbishment, Borderlands projects etc. This pressure is therefore to provide dedicated experienced officers who can manage these projects.

4.8 City Centre Property Income – Income Shortfall - £190,000 reducing to £0 non-recurring bid

To recognise the loss of rental income from City Centre properties; with the assumption that this funding gap will be replaced by funding received from the Borderlands Project.

4.9 Digital Marketing Officer – Additional Expenditure - £27,000 non-recurring

This is to create a fixed term role with the use of a capacity funding bid (£20,000) to lead on engagement through social media and digital channel. The role will continue to develop innovate approaches to engagement and consultation for the key strategic projects and new strategies/policies.

4.10 Budget Savings £500,000 non-recurring

This is a non-recurring pressure to fund and re-profile part of the savings requirement from additional income from the Government Settlement Funding Analysis in 2021/22 (see para 5.6 for revised savings targets).

4.11 COVID-19

Members will be aware that there are a number of income streams that are reporting variances against projected levels in the current financial year and there may be other cost pressures or savings which may have a recurring impact; many of these are in relation to the ongoing COVID-19 pandemic and the impact it is having on Council services. These shortfalls are being reported to MHCLG on a monthly basis to ensure that government is aware of the losses being incurred. It is likely some or all of these pressures may continue into 2021/22, but these are being closely monitored and dialogue is ongoing with MHCLG to ensure that any losses are recovered where possible through grant or compensation from central government.

As part of the provisional finance settlement the Council has been allocated an additional un-ringfenced grant of £616,032 in 2021/22 to manage the immediate and long-term impacts of the pandemic; however current estimates indicate that the additional costs/income shortfalls could be in the region of £1.1million in 2021/22. The sales, fees and charges income support scheme will also be extended until June 2021, and a local tax income guarantee scheme for irrecoverable losses this year (2020/21) to help compensate councils for lost council tax and business rates income has been announced. A Local Council Tax Support Grant (LCTS) of £154,735 has also been announced as part of the provisional finance settlement.

4.12 Climate Change

The Council's update Local Environment (Climate Change) Strategy will be subject to a report to full Council in the Spring of 2021 following the usual consultation process; the Strategy will be supported by an action plan for addressing climate change issues as well individual actions required by the Council for reducing the its own carbon footprint. The Council is committed to becoming carbon neutral in the future and there may be a requirement for significant investment in achieving this goal, with recovery through the achievement of efficiency savings and/or by maximising any external grants and contributions available to support the strategy and action plan through the Council's Funding Strategy. However, any carbon reducing schemes will initially have to be funded from resources currently contained with the Council's existing Revenue and Capital budgets; with any new climate change initiatives, following the formal adoption and approval of the Local Environment (Climate

Change) Strategy, being supported by robust business cases with a cost benefit analysis provided.

As well as the base budgets used to support the Environmental Quality function (£232,700), the revenue budget also includes a proposal in relation to an Energy Monitoring System outlined at 4.3 above which will enable the Council to have closer scrutiny of the energy it uses which should help to reduce its climate footprint. The Council has also introduced a concept of fleet challenge, with all vehicle replacements being subject to a review and options undertaken on the type of replacement vehicle, currently within existing budgets.

5. SAVINGS AND ADDITIONAL INCOME PROPOSALS

5.1 Further savings/additional income have been identified in the budget process for 2021/22 as follows:

Detail	Note	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Changes to Funding						
Business Rate - Additional Growth	5.2	(1,200)	0	0	0	0
Business Rate - Baseline Income	5.2	178	4	4	4	4
Business Rate - Multiplier Grant	5.2	(174)	0	0	0	0
Total Changes to Funding		(1,196)	4	4	4	4
<u>Savings Proposed</u>						
Capacity Funding Bid	5.3	(20)	0	0	0	0
Energy Savings	5.4	(20)	(20)	(20)	(20)	(20)
Treasury Management	5.5	(315)	(280)	(355)	(327)	(317)
Budget Savings	5.6	0	(200)	(200)	(200)	(200)
New Homes Bonus	5.7	(137)	0	0	0	0
Rural Services Delivery Grant	5.8	(193)	0	0	0	0
Lower Tier Services Grant	5.9	(389)	0	0	0	0
Total of Savings		(1,074)	(500)	(575)	(547)	(537)
Total Recurring		(335)	(500)	(575)	(547)	(537)
Total Non-Recurring		(739)	0	0	0	0

5.2 Business Rates

- Pooling**

It is recommended that the Council continue to be part of the Cumbria Pooling arrangements in 2021/22 now that the MHCLG has agreed not to revoke the current legislation, and all participating members have initially agreed that the

pool continues in its current format. Whilst the MHCLG has also confirmed the continuation of Cumbria's Business Rate Pool for 2021/22, it is integral to the provisional settlement, so pool members have 28 days (from 17th December) to decide whether they formally wish to be designated as part of the pool. This continues to be discussed and analysed at the Cumbria Wide Chief Finance Officer meeting who are meeting early in the new year to finalise arrangements. A potential additional sum of £1,200,000 is factored into the budget as a result on a non-recurring basis.

- **Baseline and Multiplier Compensation**

The Business Rate baseline allocation for 2021/22 shows a reduction when compared to the MTFP assumptions. The Council will however also receive a compensation grant in respect of the business rate multiplier change.

5.3 Digital Marketing Officer – Additional Income - £20,000 non-recurring

This is the use of a Capacity Funding bid to support the creation of the Fixed Term post for a Digital Marketing Officer as outlined in 4.9 above.

5.4 Energy Monitoring System – Saving - £20,000 recurring

This is the annual expected saving from the installation of a new energy monitoring system that is included as a new capital project in RD43/20.

5.5 Treasury Management

Treasury Management projections have been updated to include updates to the Capital programme (contained elsewhere on this agenda) and updated for interest rate forecasts. This projection includes the potential impact on reserves for all the pressures and savings contained in this report together with the updated borrowing costs for the capital programme.

5.6 Budget Savings – Saving - £200,000 recurring from 2022/23

The original MTFP included a recurring savings requirement to be found by 2021/22 of £1million rising to £1.850million in 2023/24. This additional saving requirement (& non-recurring pressure) will reduce the savings needed for 2021/22 to £0.500million with the total savings required increasing to £2.050million by 2023/24 (£0.700million in 2022/23 and £0.850million in 2023/24). Savings will need to be identified by a combination of reviewing:

- base budgets and specifically, non-staffing budgets such as transport costs, supplies and services costs;
- reviewing recurring grants receivable that are not budgeted;
- reviewing discretionary services and payments to third parties;

- service and efficiency reviews

5.7 New Homes Bonus

Draft New Homes Bonus figures have also been included in the provisional settlement announcement. The national baseline for housing growth remains at 0.4% for 2021/22 below which allocations will not be made. The settlement provides an indication of the overall allocations the Council can expect to receive from New Homes Bonus and the updated figures (reported elsewhere on the agenda) are included in the table above.

5.8 Rural Services Delivery Grant

The technical consultation issued by the MHCLG recognises the additional cost pressures in rural areas and proposes to increase the Rural Services Delivery Grant (RSDG) by £4million, taking the total to £85million in 2021/22. This amounts to a one-off grant of £192,800 for the Council in 2021/22 and has been confirmed in the provisional settlement figures.

5.9 Lower Tier Services Grant

The Government is proposing a new un-ringfenced Lower Tier Services Grant in 2021/22, which will allocate £111million to local authorities with responsibility for lower tier services (e.g. homelessness, planning, recycling and refuse collection and leisure services). This amounts to a one-off grant of £388,800 for the Council in 2021/22 and has been confirmed in the provisional settlement figures.

6. PROJECTED IMPACT ON REVENUE BALANCES

- 6.1 It should be noted that if all of the potential new Savings and Spending Pressures were accepted then reserves may fall below acceptable minimum levels over the five-year period.
- 6.2 The general principles on each of the Reserves are set out in the Medium-Term Financial Plan. In terms of meeting ongoing revenue expenditure, the general guiding principle which Council approved is that:

‘Wherever possible, reserves should not be used to fund recurring expenditure, but that where it is, this should be made explicit, and steps taken to address the situation in the following years’.

- 6.3 The Council’s current levels of balances are set out in **Appendix A** and include any impact of the proposed pressures and savings outlined in this report. The Projects Reserve will be used as a first call for any projected revenue budget deficit however,

maintaining the current level of reserves is dependent upon the achievement of the transformation savings. A risk-based review of reserve levels has been undertaken and shows that the minimum level of General Fund Reserves should be £3.1million due to uncertainties around future funding from Business Rates; however, this level will be reviewed during this budget process.

Summarised Position	2020/21 Original £000	2020/21 Revised £000	2021/22 Original £000	2022/23 Proj £000	2023/24 Proj £000	2024/25 Proj £000	2025/26 Proj £000
Total Projected Expenditure	14,653	17,532	12,753	12,594	12,960	13,183	13,670
Total Projected Resources	(14,653)	(17,532)	(12,220)	(12,544)	(12,874)	(13,210)	(13,552)
Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending	0	0	533	50	86	(27)	118
Less:							
New Saving Proposals							
- Recurring	0	0	(335)	(500)	(575)	(547)	(537)
- Non Recurring	0	0	(739)	0	0	0	0
- Business Rates	0	0	(1,196)	4	4	4	4
(See Para 6)							
Add:							
New Spending Pressures							
- Recurring	0	0	900	497	301	301	301
- Non Recurring	0	0	717	190	190	190	0
(See Para 5)							
Potential Budget (Surplus) / Shortfall	0	0	(120)	241	6	(79)	(114)
Potential (Surplus) / Shortfall Analysis:							
- Recurring	0	0	(132)	96	(184)	(269)	(114)
- Non Recurring	0	0	12	145	190	190	0

7. SUMMARY FINANCIAL OUTLOOK AND BUDGET DISCIPLINE 2021/22 to 2025/26

7.1 The current budget projections for the next five-year period are challenging and continue to show the requirement for substantial savings to be achieved in order to

enable the Council to contain its ongoing commitments, notwithstanding the on-going impact of COVID-19, within available resources over the lifetime of the MTFP.

- 7.2 Notification of Government general and specific grants is received on an individual basis late in the budget process which makes forward planning difficult. The impact of a further one-year settlement for 2021/22 also adds to the challenges of securing a balanced MTFP.
- 7.3 In terms of expenditure pressures, again notwithstanding the impact of COVID-19 on the Council's budgets and economic recovery in general, the significant issue affecting the budget is the uncertainty regarding local government funding in terms of business rate retention and any burdens which may transfer as a result.
- 7.4 The deferral of the Fair Funding Review and the Business Rate Retention Reviews increases the uncertainty in terms of future funding especially from 2022/23 onwards; however, the scope to remain within the Cumbria Pooling arrangements for 2021/22 (if all participating authorities agree) may provide an opportunity, albeit temporary, in terms of increased financial support to the revenue budget from pooling and growth.
- 7.5 The City Council needs to establish as part of its budgetary process the financial discipline to be followed by member and officers in the ensuing financial years, and the Executive made recommendations in this respect in December.
- 7.6 Under section 25 of the Local Government Act 2003 the Council's S.151 Officer is required to prepare a statutory report which considers the robustness of the estimates and the adequacy of reserves and which determines levels of borrowing.

8. RISKS

- 8.1 As outlined above the Council has a statutory responsibility to set a balanced budget and failure to do this could lead to unfunded financial pressures on the Council.

9. CONSULTATION

- 9.1 The Business and Transformation Scrutiny Panel considered the Executive's budget proposals issued for consultation at their meeting on 7 January 2021, and their views are considered elsewhere on this agenda. Public consultation has also taken place between 14 December and 11 January and the budget resolution taking into account any consultation feedback will be tabled by the Executive on 13 January.

10 RECOMMENDATIONS

10.1 The Executive is requested to:

- (i) note the revised base estimates for 2020/21 and base estimates for 2021/22;
- (ii) note that the estimates in the report are provisional and will be subject to the confirmation of Final Local Government Finance Settlement in January/February 2021;
- (iii) note the current MTFP projections, which will continue to be updated throughout the budget process as key issues become clearer and decisions are taken;
- (iv) note the budget pressures, bids and savings which need to be taken into account as part of the 2021/22 budget process;

11 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

11.1 To ensure that a balanced budget is set.

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Appendix A – Council Reserves

Appendices

attached to report:

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS:

Legal – The Council has a fiduciary duty to manage its resources properly and for the benefit of its community. In doing so it is required to take account of the advice it receives from its Corporate Director of Finance and Resources. The Council must have a balanced budget to deliver its services and also achieve and sustain an appropriate level of reserves.

Property Services – There are no Property implications

Finance – contained within the body of the report

Equality – This report raises no explicit issues relating to the public sector Equality Duty.

Information Governance – There are no information governance implications.

COUNCIL RESERVES

Analysis of Council Reserves	Outturn 31 March 2020 £000	Projected 31 March 2021 £000	Projected 31 March 2022 £000	Projected 31 March 2023 £000	Projected 31 March 2024 £000	Projected 31 March 2025 £000	Projected 31 March 2026 £000
Revenue Reserves							
General Fund Reserve	(3,100)	(2,502)	(2,622)	(2,381)	(2,375)	(2,454)	(2,568)
Projects Reserve	(907)	0	0	0	0	0	0
Carry Forward Reserve	(654)	(632)	(632)	(632)	(632)	(632)	(632)
	(4,661)	(3,134)	(3,254)	(3,013)	(3,007)	(3,086)	(3,200)
Flood Reserve	(1,948)	(4)	(4)	(4)	(4)	(4)	(4)
Building Control Reserve	(100)	(91)	(91)	(91)	(91)	(91)	(91)
Cremator Reserve	(1,080)	(1,135)	(785)	115	115	115	115
City Centre Reserve	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Revenue Grants Reserve	(1,939)	(1,209)	(1,209)	(1,209)	(1,209)	(1,209)	(1,209)
Planning Services Reserve	(196)	(205)	(205)	(205)	(205)	(205)	(205)
Apprentices Reserve	(78)	(78)	(78)	(78)	(78)	(78)	(78)
Waverley Viaduct Reserve	(30)	(30)	(30)	(30)	(30)	(30)	(30)
Prosecutions Reserve	(36)	(36)	(36)	(36)	(36)	(36)	(36)
Total Revenue Reserves	(10,073)	(5,927)	(5,697)	(4,556)	(4,550)	(4,629)	(4,743)
Capital Reserves							
Usable Capital Receipts	0	0	0	0	0	0	0
Unapplied capital grant	(136)	(112)	(112)	(112)	(112)	(112)	(112)
Lanes Capital Reserve	(75)	(90)	(105)	(120)	(135)	(150)	(165)
Total Capital Reserves	(211)	(202)	(217)	(232)	(247)	(262)	(277)
Total Usable Reserves	(10,284)	(6,129)	(5,914)	(4,788)	(4,797)	(4,891)	(5,020)
Other Technical Reserves (i)	(90,488)						
Total All Reserves	(100,772)						

(i) These reserves are of a technical nature and are not cash backed (i.e. they are not available either to fund expenditure or to meet future commitments.)