



**Policy, Finance and
Development
Committee**

**Tuesday, 02 February
2021**

**Matter for
Information and
Decision**

Report Title: Draft Budget 2021/22 & Medium-Term Financial Strategy

**Report Author(s): Stephen Hinds
(Deputy Chief Executive / Section 151 Officer)**

| | |
|--|---|
| Purpose of Report: | The purpose of the report is to advise the Committee of the projected General Fund base budget position for 2021/22 based upon the Local Government Finance Settlement. The report also asks for consideration of a Capital Programme for 2021/22 (excluding carry forwards from 2020/21). |
| Report Summary: | <p>The report outlines the financial position for the final year of the single year local government settlement that ends in March 2022. The Council is proposing to produce a balanced budget, however there are significant risks relating to its achievability.</p> <p>The report also highlights some of the risks that the authority may encounter in a post-2022 environment with particular reference to the future of Local Government funding.</p> <p>Due to the significant risks regarding funding post 2021/22, the strategy for this period will only relate to costs, rather than anticipating Central Government funding mechanisms.</p> |
| Recommendation(s): | <p>A. That the Committee recommends in principle to Council the overall draft Medium Term Financial Strategy and budget for 2021/2022, subject to a further report to Council on 18 February 2021 (including the recommendations in paragraph 3.9 regarding charging commercial rates for car parking and implementing the most budget appropriate service delivery method for refuse and recycling); and</p> <p>B. That the Committee approve the levels of reserves (as outlined at paragraph 5 of the report).</p> |
| Responsible Strategic Director, Head of Service and Officer Contact(s): | <p>Stephen Hinds (Deputy Chief Executive) (0116) 257 2681 stephen.hinds@oadby-wigston.gov.uk</p> <p>Comie Campbell (Interim Financial Services Manager) (0116) 257 2713 Comie.Campbell@oadby-wigston.gov.uk</p> |
| Corporate Priorities: | An Inclusive and Engaged Borough (CP1) Effective Service Provision (CP2) Balanced Economic Development (CP3) Green & Safe Places (CP4) Wellbeing for All (CP5) |
| Vision and Values: | "A Strong Borough Together" (Vision) |

| | |
|--|--|
| | Innovation (V4) |
| Report Implications:- | |
| Legal: | There are no implications arising from this report. |
| Financial: | The implications are set out in the report. |
| Corporate Risk Management: | Decreasing Financial Resources (CR1) Effective Utilisation of Assets/Buildings (CR5) Regulatory Governance (CR6) Organisational/Transformational Change (CR8) Economy/Regeneration (CR9) |
| Equalities and Equalities Assessment (EA): | There are no implications arising from this report. EA not applicable. |
| Human Rights: | There are no implications arising from this report. |
| Health and Safety: | There are no implications arising from this report. |
| Statutory Officers' Comments:- | |
| Head of Paid Service: | The report is satisfactory. |
| Chief Finance Officer: | As the author, the report is satisfactory. |
| Monitoring Officer: | The report is satisfactory. |
| Consultees: | None. |
| Background Papers: | None |
| Appendices: | <ol style="list-style-type: none"> 1. Capital Programme New Schemes (2021/22) 2. Fees & Charges (2021/22) |

1. Introduction

- 1.1 In February 2020, the Council approved a Medium-Term Financial Strategy (MTFS) that was based upon a single year settlement, and no indication of how the remaining years funding from central government would materialise.
- 1.2 Work has been carried out since then, to ensure the Council can produce a balanced budget for 2021/22, without making cuts to frontline services. Officers have also worked hard to mitigate the impact of both the provisional 2021/22 Single Year Local Government Finance Settlement and the COVID-19 Pandemic, which saw both significant increases in costs due to additional responsibilities and incredible reductions in some of the Council's funding streams.
- 1.3 There has been no confirmation on the future funding of local government, although it is known that there will be changes to Business Rate Retention and the Fairer Funding Model. It is hoped that the Council will have clarification on this by the summer of 2021.

2. Medium-Term Financial Strategy (MTFS)

2.1 The MTFS has the following objectives:

- Show how resources support the Corporate Plan;
- Provide a platform to support the decision-making framework;
- Enable the Council to be a proactive organisation;
- To be an enabler, giving indication to the need to revisit and revise priorities;
- Ensure sustainable services and reserves are at sufficient levels;
- Enable development and improvements to our customers experiences;
- Hold a working balance to help manage unexpected occurrences;
- To be responsive and able to manage changing risks and needs;
- Support the Council's service and strategies; and
- Provide indications of future local taxation levels.

2.2 Pressure continues to increase on local authorities to find further savings in their expenditure on service provision and to look for alternative sources of income as funding from central government continues to reduce.

2.3 The Government has assumed that local authorities will increase their Band D Council Tax by the maximum amount possible. For 2021/22, this was £5 and for the figures in this report, these are also based upon the maximum increases.

3. Revenue Budget

3.1 The General Fund Budget for the financial year 2021/22 is summarised in the table below. Further details to changes to individual services' budgets will be found in the annual budget book and the MTFS update issued in February 2021. The budget takes into account key assumptions that are set out later in the report.

(Continued overleaf)

3.2 Budget Summary

| 2021/22 | |
|----------------------------|----------------|
| Budget Summary | £'000 |
| Total Revenue Budget | 7,305 |
| Central Government Grant | 0 |
| Other Government Grants | (2,370) |
| Retained Business Rates | |
| Council Tax Surplus | |
| Collection Fund Deficit | 200 |
| New Homes Bonus | (195) |
| Net Revenue Budget | 4,940 |
| Transfers to/from Reserves | (580) |
| Savings schemes | 0 |
| Council Tax | (4,110) |
| Funding Gap | 250 |

3.3 The budget shows that the authority is unable to produce a balanced budget for 2021/22. The budget originally utilised almost £300k of reserves for 2021/22, with mitigating action meaning that an additional £300k will be taken from reserves in 2021/22 to bridge the budget shortfall.

3.4 There are a number of key assumptions that were made in drafting the MTFS, being:

- Council Tax increase of £5 at Band D;
- Staff cost inflation of 2%;
- Inflation - Contractual 3.6%, General 0%;
- Interest Rates - reflect the recent increase in Bank of England Base Rates;
- Staffing turnover factor of 5%;
- Central Government funding as per settlement agreement - 2021/22; and
- A 98.5% Council Tax Collection Rate.

3.5 In the current climate, revenue growth budgets have been restricted and constrained to areas considered unavoidable, such as changes in legislation, meet statutory duties and reflect market pressures. The table below highlights the areas of significant changes, corrections and adaptations that have materialised in increased costs to the Council since the last MTFS was set in February 2020 (£30k and above i.e. items that are the equivalent to the average cost of a member of staff including on-costs).

| Item | Amount | Reason | Consequence if not addressed |
|----------------------------------|---------|--|-------------------------------------|
| Interest Received | £70,000 | Reflects amount Council could afford to invest | Deliberate over-inflation of budget |
| Planning Application Fees | £59,000 | Reduction in anticipated application fees | Deliberate over-inflation of budget |

| | | | |
|----------------------------------|----------|--|---|
| Long-lasting COVID Impact | £600,000 | To mitigate against the medium term impacts of COVID across the Councils budgets and services. | Deliberate under-estimation of the impact of COVID during 2021/22. Increase pressure on limited reserve pool. |
|----------------------------------|----------|--|---|

- 3.6 Whilst the government has given over £200k in a one-off COVID mitigation payment for 2021/22, this was announced prior to both the Tier 4 restrictions within the Borough and the third National Lockdown that followed. Whilst the authority cannot directly allocate pressures from COVID to budgets, it is able to estimate the impact on a Council-wide basis. Placing this as a contingency budget, it can be drawn down as appropriate, and can also be mitigated if any future government funding is confirmed.
- 3.7 As reported in previous MTFs reports, the scale of funding cuts and the increased pressures on local authorities meant that significant financial savings are required. It should be recognised that significant work had been carried out by Officers to ensure that these pressures were mitigated as far as possible, however, further significant work still needs to be undertaken to ensure the Authority has a balanced budget given the continual financial uncertainty of Local Government Funding. Couple that with the devolution agenda, the COVID-19 Pandemic and Local Government reorganisation, these pressures have grown, and in spite of this the focus has been on protecting front-line services, whilst enabling a prosperous Borough to live and work, and so this remains the case.
- 3.8 The aim of the Authority is to provide improved levels of service, whilst reducing costs and this is recognised in the savings already allocated to 2020/21 and assisting in reducing the budget deficit. The table below lists all of the significant savings the Council has in place, or increased levels of income, that affect the 2020/21 budget (above £20k).

| Additional Income/Savings in addition to those outlined in the MTFs for 2021/22 | | |
|--|--|---|
| Utilise the full Selective Licensing Income for 2021/22 | The remaining £400k of Selective Licensing income was budgeted to be spread over the next 4 years. Due to the financial pressures, it is needed to be utilised in its entirety in 2021/22, meaning a total of £400k being taken from reserves. | £300,000 (one off) |
| Efficient Investments through active treasury management | Implementation of active treasury management. | Built into the MTFs as part of this paper. Income total £20k. |

- 3.9 There is currently a budget shortfall for 2021/22 of approximately £250k. It is not deemed appropriate, or fiscally responsible to balance this shortfall with further support from reserves in addition to the current support. Therefore, it is recommended that the following policy decisions are made, enabling immediate and future commercial income to be generated:

Commercial Charging Regime for Council Car Parks

As detailed in the commercial report in 2017, applying competitive charging on the Council's car parks should be implemented. It was estimated in that report that circa £200k per annum would be raised. Given the current climate, a prudent estimate of the income would be somewhat lower for 2021/22 – estimated at circa £150k, increasing in the following years. Charging would need to be in force from 1st April 2021 to maximise income opportunity and mitigate risk.

Cost effective Refuse and Recycling

Refuse and Recycling collection is one of the most expensive services the Council operates, which is currently at the "Gold Standard" comprising of weekly collections. It is recommended that the service is reviewed to cost weekly vs. fortnightly, in-house vs. outsourced and combinations thereof, and that the most appropriate level of service vs budgetary position is implemented during 2021. Whilst any changes to the service would have limited revenue impact on the 2021/22 budget, a small amount helps mitigate risks, and will help balance future revenue budgets.

- 3.10 Without the above recommendations being approved, there will need to be a further detailed review of the forthcoming years of the original MTFS period, assessing the collective impact of meeting the budget from reserves and delivery of services. Following on from the review of Nottingham City Council in December 2020, there are lessons to be learnt for all local authorities, and the need to address issues rather than relying on one-off fixes is a paramount need.

4. Capital Budget

- 4.1 The 2021/22 Capital Budget is summarised below. New schemes for 2021/22 include the provision of Modular Homes Development (£3.8m) and the Oadby Pool (£6.415m) which will both eventually be self-funding. Other major new schemes include the Public Wi-Fi expansion and AQM (£113,356), Sports Facility Improvement programme (£220,000) and the Oadby Cemetery – 'The Biere House' structural repairs (£20,000).

| Fund | Total 2021/22 |
|-------------------------|--------------------------|
| | £000's |
| Housing Revenue Account | 1,500 |
| General Fund | 10,729 |
| Total Programme | 12,229 |

New schemes for the year total £12.229m.

A complete list of Capital Schemes is included in **Appendix 1** to this report.

- 4.2 Funding for the programme is likely to be as follows:

| Funding | £000's |
|--------------------------|---------------|
| Borrowing (General Fund) | 10,386 |
| Grants and Contributions | 57 |
| S106 Open Spaces | 220 |

| | |
|-------------------------------|---------------|
| S106 Funding Interest Reserve | 41 |
| Match Funding Reserve | 16 |
| Usable Capital Receipts | 9 |
| Major Repairs Reserve | 1,500 |
| Total | 12,229 |

4.3 Current 2020/21 Capital schemes to be carried forward will be assessed and brought to members after the year end.

5. Reserves

5.1 The Local Government Act 2003 requires the Council's Section 151 Officer to report on the robustness and sustainability of the estimates included in the budget and the adequacy of the reserves for which the budget provides. The Council's policy is to carry out an annual review of all reserves as part of the budget-setting process. This review includes identifying the reserves purpose and advising the appropriate level for each reserve. This work is being undertaken and will be completed when the draft budget is put to Council in February 2021.

5.2 Additionally, the Section 151 Officer has reviewed the level of General Fund Balances. The Council has, historically, utilised reserves to balance the budget, with a significant depletion of reserves between 2014/15 and 2017/18 and this is a trend that cannot be reintroduced. The 2021/22 budget utilises them for specific purposes – in addition to the Selective Licensing income. Given the current financial uncertainty, the Council needs to maintain and potentially increase its reserve base to mitigate against such uncertainty, build resilience and help fund future development.

5.3 It is the opinion of the Section 151 Officer that General Fund Reserves should:

- Not drop below 10% of net expenditure;
- Not be used to plug budget gaps; and
- Be used to mitigate against unforeseen risks.

5.4 Therefore, the Council's General Fund Balance should be in excess of £700k. Members will note that it is best practice to only use reserves in support of one-off revenue items and support capital expenditure. Reserves are not used to support ongoing revenue expenditure. You will note in the table below, the General Fund Reserve will decrease by £250k in 2020/21 – this is to mitigate the projected shortfall in the 2020/21 budget.

5.5 General Fund Reserves Summary Table

| 1 April 2020 | Type of Reserve | 1 April 2021 | 1 April 2022 |
|---------------------|-------------------------------|---------------------|---------------------|
| £000's | | £000's | £000's |
| 1,003 | General Fund Reserve | 753 | 753 |
| 3 | Other General Reserves | 3 | 3 |
| 2,195 | Earmarked Revenue Reserves | 2,195 | 1,796 |
| 3,201 | Total Revenue Reserves | 2,951 | 2,552 |
| 1,022 | Capital Reserves | 1,022 | 1,022 |
| 1,132 | Capital Grants Unapplied | 1,086 | 1,086 |

| | | | |
|--------------|--------------------------------|--------------|--------------|
| 5,355 | Total "Usable" Reserves | 5,059 | 4,660 |
|--------------|--------------------------------|--------------|--------------|

5.6 Whilst the earmarked reserves fund looks relatively healthy in 2021/22, almost £1m of that is restricted in its use, with £461k relating to Section 106 monies, and £500k in investments generating a revenue return. The figure at 1st April 2022 reflects the planned use of reserves as per the MTFS, plus the initial pressures if not address by accepting recommendations. This would leave a figure of around £800k of usable earmarked reserves (which itself is an optimistic estimate, anticipating all of the Selective Licensing Income is collected before the end of the financial year).

6. 2022 and Beyond

6.1 As mentioned earlier in the report, Local Government is in the dark with respect to funding post the 21/22 financial year. You may recall a similar statement in 2020. And in 2019. And in 2018. The current sticking plaster approach of single-year settlements for local government gives authorities no ability to plan for anything beyond a year. This leaves organisations in a conundrum - second guess the future and appear a genius or a buffoon, meaning other than major capital works, the organisation can be considered reactionary, or stick to what is known. What this organisation has developed over the years is structures and service delivery that is fluid and flexible, presents excellent value for money and is able to address challenges as they arise. COVID-19 is an excellent example of how the Council was able to adapt within days, with no cessation of service provision. Whilst this put incredible pressures on Officers to deliver, they did, and much of the work delivered is held in high regard – the Community Hub being an excellent example. That is why this budget is based upon what we know, what we need, and the ability to deal with elements of uncertainty.

6.2 That being said, the Government is adamant that the "Fairer Funding" scheme (or its equivalent) will be live in 2021, meaning a medium term settlement in the offing in 2022/23 onwards. However, due to the fluid nature of the information, we do not have a strong idea as to how this will directly affect the authority. However, as is usually the case, district authorities will be worse off.

6.3 It would be remiss to issue a report that did not acknowledge that the Council would have funding pressures irrespective of the potential settlement. It is therefore prudent to outline the 2021/22 – 2022/23 budget at cost, utilising a "standstill" funding regime.

6.4 Utilising this methodology, and the general lack of direction given currently regarding funding, the authority based upon the following criteria would have a budget shortfall of circa £400k in 2022/23, and a further £250k in 2023/24.

- A 98.5% Council Tax Collection Rate
- Council Tax increase of £5 at Band D;
- Council Tax base increase 1.5% for 2020/21 and 2021/22;
- Staffing costs inflation of 2%;
- Inflation - Contractual 3.6%, General 0%;
- Interest Rates - reflect the recent increase in Bank of England Base Rates;
- Staffing turnover factor of 5%;

6.5 This "standstill" model allows for us to identify further areas of work to address these issues, particularly surrounding income generation and this is an area that the authority will work on to ensure balanced budgets for both of these years.

7. Risk Assessment and Management

7.1 Oadby and Wigston Borough Council has a commitment to managing risk and its exposure to the various risks it faces. Key to the management of this risk is identifying operational risk when we are developing our service plans, as well as taking a holistic and strategic view when considering the risks at a corporate level. The Council has a strong record of financial management, but further improvements were recommended by both our Internal and External Auditors to continue in this manner, and to reduce the impact of financial risks to the Authority. Therefore, changes have been made to the budget setting process (including regular and detailed updates throughout the year) but also changes need to be made as to how we monitor and manage risks.

7.2 The more fundamental financial risks over the next two years have been highlighted below and have been ranked (Red/Amber/Green) according to their likelihood of occurrence and the potential scale of their impact. The first square indicates the current risk rating.

7.3 Formula Central Government Funding

2022

As detailed earlier in the report, whilst we have relative certainty for 2021/22 in the provisional settlement, it still remains unclear as to exactly how funding will work from 2022/23 and beyond. The details surrounding the removal of deprivation from the funding block is positive news for the Council, there is no indication that this will show an increase in our "real" cash funding levels. Obviously, the factors that impact on the amount of monies available to local authorities depends on the Treasury's decision on how much Local Government is funded in total, and then how that funding is allocated to pressures and priorities such as Social Care. Blended with this is NNDR. NNDR is the primary means of funding local government, and the mooted 100%/75% retention schemes have yet to materialise, and local authorities' are left in the relative dark. New Homes Bonus is still due to disappear at the end of the 2021/22 financial year. However, there is hope that the authority may still receive "Returned New Homes Bonus" monies (£50k-£90k) from 2022/23 – 2025/26, however this is yet to be confirmed.

7.4 Income Generation

2022

2023

The Authority currently has limited streams of income generation. Work is being carried out to identify ways of maximising our income streams - ranging from the potential for charging for discretionary services to generating new business streams to supplement income. Local authorities need to become more commercial in their thinking and operating as the creation of income will enable service protection and improvement. The authority has been successful with the implementation of its Garden Waste Scheme. However, Government and legislature has clamped down on the "commercial investment market" in which so many authorities derived. Given our limited asset base, projects such as the regeneration sites (Oadby Pool, Paddock Street, South Wigston etc....) could provide much needed revenue and capital income; however, this will not come "online" until 2023 at the earliest. As mentioned earlier in the report, low risk income generation, through Car Parking charges and charging commercially competitive rates for our services is paramount.

7.5 Review Service Delivery

2022

2023

The authority always aspires to provide "Gold" levels of service across all areas – this includes Refuse and Recycling, Community Support, Health and Wellbeing and Housing to name a few. To continue this model leaves the organisation financially open to risk. The Council should review the levels of service against funding available to ascertain appropriate levels of service. A more difficult challenge would be to look at the viability of providing

Social Housing, and what is the best method of providing the service whilst both reducing the financial burden and improving service levels.

Thought also needs to be given to working across strategic alliances in delivering services and driving down costs.

7.6

Resources

2022

2023

Staffing resources are a key requirement in delivering services and enabling the authority to meet its Corporate Plan targets. It is getting increasingly hard to recruit to key roles in local government, and due to the size and geography of the borough, this recruitment is becoming increasingly hard. Throughout 2020, the good will of the staffing resource has meant that the authority has been able to deal with COVID-19 and deliver to the Corporate Plan, and this is mainly due to thousands of hours being written off. Unless the organisation is appropriately resourced, adequately remunerated and developed, the organisation will not only struggle to achieve their goals, but will find it harder to recruit – each increasing the financial pressures on the organisation to cover these gaps.

7.7

Budget Assumptions

2022

2023

Various models were developed to ascertain risks the authority would encounter outside of its direct control, such as changes to funding, unforeseen incidents and reduced income streams. This budget has been based upon a realistic assumption, where the impact on the original base budget is in excess of £700k. Other models (Best Worst Case and optimistic) saw budget pressures of over £1.2m and £400k respectively. Again, if decisions are not made regarding income generation in the forthcoming months, the authority will not have the ability to deal with any variation to forecast.

7.8

Regeneration Schemes

2022

2023

One key item to note is the risk of failure to deliver our regeneration schemes. If Members wish to pull back on the regeneration schemes, these Capital Schemes will then not meet the eligibility of capital spend, and all costs incurred to that point will need to be funded by revenue, having a three-fold impact:

1. Stagnation in the Borough – failure to meet our corporate plan and encourage people to live and work in the Borough, including encouraging outside investment
2. No capital receipts or revenue income streams
3. Revenue impact of having to retro-fund failed capital schemes.

8. Housing Revenue Account

8.1 The HRA Dwelling rent increase and associated services offered to tenants for 2021/22 is proposed to be 1.5%. This is in line with prescribed government rent legislation CPI+1% for September 2020. The CPI figure at September 2020 was 0.5%. The 2021/22 HRA average weekly rent would be £78.70. The 2021/22 HRA budget has been updated to reflect this increase.

9. Treasury Management Policy

9.1 The Council is required annually to approve a range of Treasury related strategies and statements. These documents will provide the Council with the governance required to enable the effective management of its cash balances; investment and borrowing activity and other treasury related business. This will be updated to reflect the budget proposal

10. Proposed Scales of Fees & Charges 2021/22

- 10.1 The Council charges for a number of its services that are provided to the public. All fees and charges are reviewed on an annual basis as part of the budget process. Charges that are set by the Council are increased in line with inflation. They will be uplifted by the Consumer Price Index at September 2020 which was 0.5%.
- 10.2 When setting fees and charges, the following factors are taken in to consideration:
- Statutory obligations;
 - Policies and objectives of the Council;
 - Inflation and relevant indices;
 - Local market research and competition (where relevant);
 - The impact of price changes on activity level of demand;
 - Changes in taxation;
 - Budget position and any associated gap;
 - The cost of providing the service.
- 10.3 **Appendix 2** shows the current and next year's proposed charges together with any specific explanation of the change to any individual charge. A summary of changes by service area has been provided.