

Draft Budget 2021-22 for Pre-Scrutiny

Summary: This report presents for consideration the draft 2021-22 budget. It is being provided to the Overview and Scrutiny Committee for initial consideration and discussion ahead of the final budget papers being presented to Cabinet and Full Council in February 2021.

Options considered: The Council is required by law to set a budget in advance of the financial year. The report to Full Council will present options for budget setting with respect to Council Tax and other items.

Conclusions: The Council is required to agree a budget in advance of each financial year. This is done in February of each year at Full Council, after meetings of Cabinet and Overview and Scrutiny. To aid the Committee, an early draft of the Budget is presented here for scrutiny and discussion.

Recommendations: **It is recommended that the Overview and Scrutiny Committee note the contents of the report.**

Reasons for Recommendations: To support the work to prepare the budget for the 2021-22 financial year

LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW

(Papers relied on to write the report, which do not contain exempt information and which are not published elsewhere)

Pixel MTFP Model, 2020-21 Budget Monitoring Reports

Cabinet Member(s)	Ward(s) affected
Cllr Eric Seward	All

Contact Officer, telephone number and email:
Lucy Hume, lucy.hume@north-norfolk.gov.uk, 01263 516246

1. Introduction

1.1 This report presents an initial draft of the 2021/22 revenue budget for consideration and discussion by the Overview and Scrutiny Committee and includes a high level General Fund Summary along with an updated position in terms of reserve movements and Capital Programme. Members should treat the figures as draft and provisional at the present time.

1.2 The appendices of this report are as follows:

- A – General Fund Summary
- A1 – Subjective Variance Analysis
- B – Budgets by Service Area and Variance Analysis
- C1 – Capital Programme
- C2 – Capital Bids
- D – Reserve Statement

2. Draft Budget 2021-22

2.1 General Fund (Revenue and Capital)

The Provisional Local Government finance settlement was laid before Parliament on the 18th December 2020. This has resulted in the following variances in funding since the last update to the Committee on the draft budget in November as part of the savings workshop.

Table 1	Nov 2020 Projection (£)	Provisional Settlement Figure (£)	Variance (£)
Revenue Support Grant	(89,799)	(90,295)	(496)
New Homes Bonus	(586,071)	(722,562)	(136,491)
Rural Services Delivery Grant	(483,771)	(507,661)	(23,890)
Lower Tier Services Grant	0	(137,353)	(137,353)
Total	(1,159,641)	(1,457,871)	(298,230)

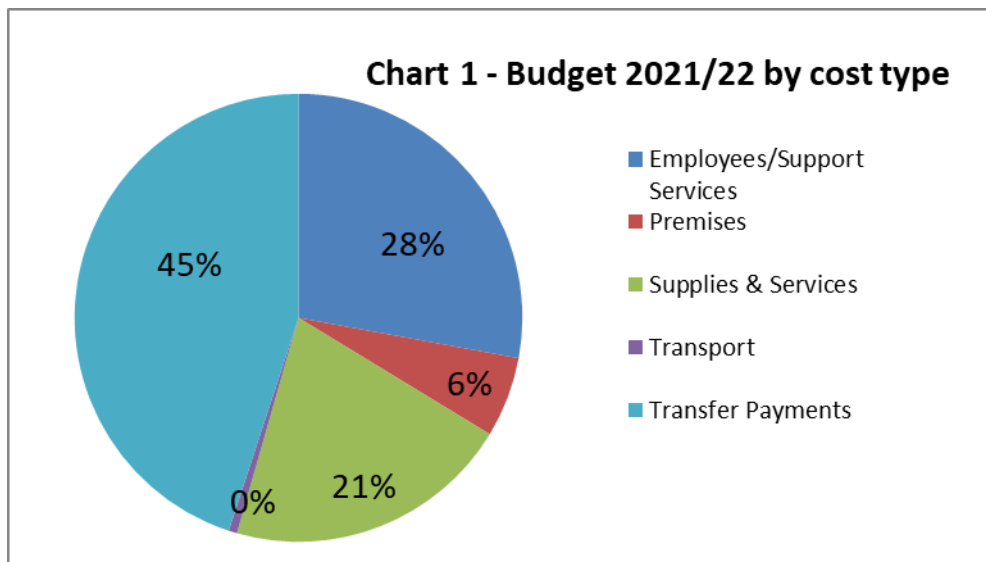
Revenue Budget

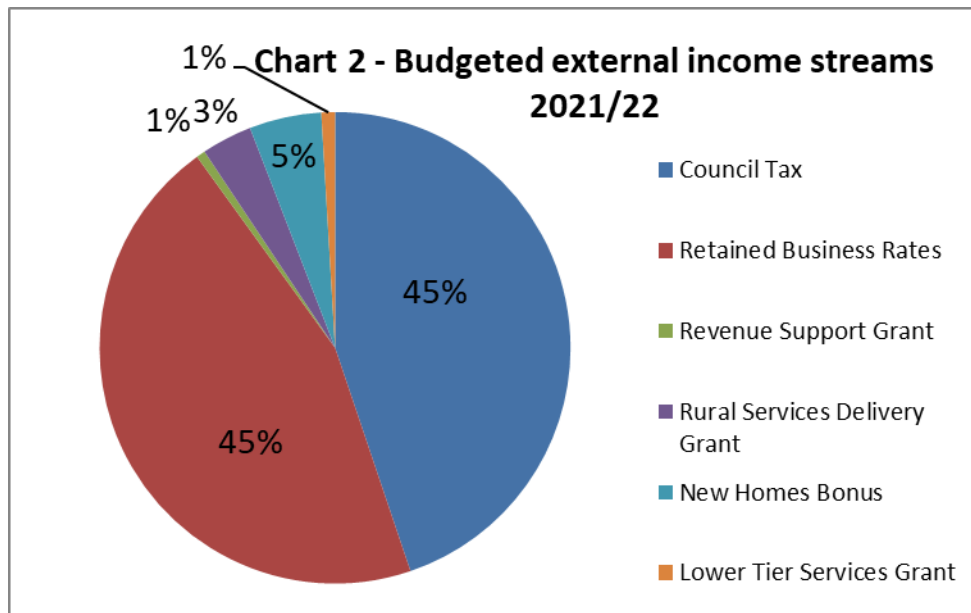
The draft Revenue budget as presented is balanced, and is shown in summary in the table below. Growth bids for extended service provision were not invited as part of the budget setting process.

Table 2 – Current forecast 2021/22

	£000
Total District amount to be met from Government Grant & Local Taxation	14,620
Less:	
Revenue Support Grant	(90)
Business Rates Retained & S31 Grant	(6,611)
New Homes Bonus	(723)
Rural Services Delivery Grant	(508)
Lower Tier Services Grant	(137)
District call on Collection Fund – excluding Parish Precepts	(6,551)
Surplus	0

Chart 1 shows a summary of the Budget broken down by cost type, and Chart 2 shows the proportions of different income streams which make up the Council's external income budgets.





Appendix A1 provides a variance analysis compared with the 2020/21 base budget and a summary of the main movements in Net Cost of Services across the standard expenditure headings, with notional charges being shown separately. Appendix A1 also contains a high level variance analysis based on the movements within the Net Cost of Services excluding notional charges. Appendix B shows movements by service area.

Savings

A savings review process is now being undertaken. Staff and Members have provided suggestions and ideas for which the feasibility, costs and benefits are being assessed. These will be presented for discussion and consultation where appropriate as part of the budget setting process for 22/23, which will start shortly.

Reserves

The current position and forecast on the General and Earmarked Reserves is attached at Appendix D. The statement provides the latest proposals for use of reserves in the current financial year along with the budgeted movements in 2021/22, and proposed movements in the following three financial years. The current recommended minimum balance on the general reserve is £1.9 million.

The Council holds a number of 'useable' reserves both for revenue and capital purposes which fall within one of the following categories:

- General Reserve
- Earmarked Reserves
- Capital Receipts Reserve

The General Reserve is held for two main purposes:

- to provide a working balance to help cushion the impact of uneven cashflows and avoid temporary borrowing
- a contingency to help cushion the impact of unexpected events or emergencies

As part of setting the budget each year the adequacy of all reserves is assessed along with the optimum level of general reserve that an authority should hold. The optimum level of the general reserve takes into account a risk assessment of the budget and the context within which it has been prepared.

Earmarked Reserves provide a means of building up funds to meet known or predicted liabilities and are typically used to set aside sums for major schemes, such as capital developments or asset purchases, or to fund restructurings. A number of contingency reserves are also held by the Council to reduce the impact on Council Tax payers of future uncertain events such as business rate appeals or clawback of benefit subsidy.

All reserves, general and earmarked, are reviewed as part of setting the budget for 2021/22, with a view that where commitments have not been identified and funds or reserve balances are no longer required these are re-allocated to specific reserves to address other requirements as applicable.

Use of reserves to balance a budget provides only a short term solution as the funds can only be used once. They can however be used to smooth the impact of funding gaps over the short to medium term and to allow for planning and implementing projects and work streams that will deliver a longer term financial benefit through reduced costs and/or additional income.

Similarly, reserves can be used to fund one-off costs for projects that will deliver a longer-term benefit. For example the use of the Restructuring and Invest to Save reserve to fund one-off restructuring costs, where a restructuring will deliver a longer term saving for a service and for some of the implementation and project costs for the Business Transformation programme that will deliver future savings. The use of reserves in this way will be considered as part of the full business case for individual project proposals, taking into account the payback period of the project along with indirect financial implications, for example, reduced balances available for investment and the associated loss of investment income.

The Capital receipts Reserve consists of capital receipts from the disposal of assets and land and is used to fund the capital programme. Capital receipts can not ordinarily be used to fund revenue expenditure.

The current draft budget predicts a fall in the levels of Reserves held from £18.8m to £14.5m by April 2025.

Capital

The capital programme shows what the Council intends to spend on purchasing new assets and improving its existing ones over the next three years. As capital expenditure is incurred, a source of finance must be identified. This can be done through capital receipts, grants and other revenue resources or alternatively through borrowing.

Any expenditure that is financed through borrowing increases the Council's 'Capital Financing Requirement' (CFR). Each year a revenue charge (one that impacts on the bottom line of the budget) called the Minimum Revenue Provision (MRP) is made to reflect the funding of the CFR by the taxpayer, it is required to be set aside to cover the repayment of debt caused by the need to borrow for capital purposes. As the need to borrow increases, the CFR and MRP also increase. If the Council has sufficient cash resources to meet the expenditure, it will not be necessary to borrow externally and cash balances can be used to cover the expenditure. This is referred to as 'internal borrowing' and attracts an MRP charge in the same way that external borrowing does.

Any new projects included in the programme in the future will need to be financed by MRP if no capital resources such as capital grants or capital receipts from future asset sales are available. Alternatively existing revenue reserves could be used to finance these projects through a revenue contribution to capital (RCCO) which would avoid the need to make an MRP charge.

Future external borrowing is assumed to finance a portion of the Sheringham Leisure Centre replacement project and could also be used to finance future capital projects. Short-term borrowing rates are currently very low, meaning it may be preferable to undertaking long-term borrowing at the current time.

An updated capital programme can be found at Appendix C1 which shows slippage in schemes to future years. The new proposed capital bids can be found within Appendix C2 and will be discussed and considered as part of the budget setting process in February.

2.2 Assumptions and sources of uncertainty

Brexit – A Brexit deal has now been done, eliminating the risk of no-deal which would have had a negative impact on the Council. Officers will work on assessing the impact of the agreed deal on our cost base.

COVID 19 – The pandemic has resulted in increased costs and lost income to the Council in the current financial year. It is not possible to predict what levels of restrictions and social distancing might be in place over the 21/22 financial year. Heavier restrictions represent a risk to the draft budget figures, particularly in the areas of car parking, trade waste, leisure and investment income. The economic effect of COVID 19 is likely to be felt for many years. We have reduced our expected income from investments accordingly, but if the economy is slower at recovering than predicted, this represents a risk to that forecast over the Medium Term.

Local Government Reorganisation – Devolution and Local Government Reorganisation as recently been back on MHCLG’s agenda. The Secretary of State for Communities and Local Government has confirmed that this has been put on hold while authorities are dealing with the COVID 19 pandemic, and it is unclear when it will return or in what form.

Business Rates – Business Rates continue to be a large source of uncertainty. The Government has previously committed to a fundamental review of the Business Rates system. This has been ongoing since 2017 and has been stopped and started multiple times due to Brexit and COVID 19 responses taking priority. The Government has announced their hope that the new rates retention system will be in operation for the 22/23 financial year. A large portion of the Council’s income comes from retained Business Rates, so any change to the system could have significant consequences for our budgets in future years. The income from the current system is shared on the basis of 50% being returned to Central Government, 40% being retained by NNDC with 10% going to the County.

New Homes Bonus – An additional one-off year of New Homes Bonus payments were announced as part of the Provisional Settlement, but the scheme has not been extended. The final year of legacy payments from the scheme will be 22/23, and following that the funding will reduce to zero. The Government have announced that they will consult on a replacement scheme shortly. New Homes Bonus represents a significant portion of funding for District Councils, so officers will work with Government to ensure that we are not worse off under any new scheme that is proposed.

Fair Funding of Local Government – The Fair Funding Review has been postponed until the 22/23 financial year due to COVID 19. Officers expect a consultation to be forthcoming around the time of the Final Settlement. At this time, it is not known if the previous work done on this review will be carried over, or if it will be started from scratch. This work will reset all the formulas that underpin funding from Government, so will have a huge bearing on the projected budget figures over the Medium Term. Officers will continue to lobby Government to ensure that as much as possible the Council is not worse off under a new scheme of funding.

Pay – A 2% increase in pay budgets has been assumed when preparing these draft budget figures.

Council Tax – This draft budget currently assumes a Council Tax increase of £4.95 on a Band D property for the District’s element of the Council Tax. This increases the District element from £153.72 to £158.67. This is a decision for Full Council and will be made in February when the budget is finally set. The Medium Term forecasts assume a £4.95 increase on a Band D property in each year of the forecast. The Government sets the referendum principles, and any changes to these represents a risk to these figures.

2.3 Medium Term Forecasts

As part of this draft budget, projections for future years have been provided. These forecasts must be treated with caution. The Spending Review and subsequent Provisional Settlement covered one year only – the 21/22 financial year. This means that assumptions have had to be made around

Government Funding for the remaining years of the Medium Term forecast. These have the propensity to change dramatically as new settlements are announced. The sources of uncertainty which affect the Medium Term are discussed in more detail in section 2.2.

2.4 Items to be confirmed

Some items of expenditure and income have not yet been finalised. These figures will move until the budget is finally set at Full Council in February. The Council tax budget for the District Council can be confirmed after the 15th January, when the estimated surplus or deficit on the Collection Fund is calculated. The Council Tax budget for the Parish and Town Councils can be confirmed following receipt of the remaining precepts.

The senior management restructure has not yet been factored in, as, at the time of writing, not all appointments into the new posts had been made.

The Final Local Government Finance Settlement will be laid before Parliament in February. Until that time allocations of Government funding are provisional and subject to consultation.

At the Provisional Settlement, a £15m pot was announced which would be delivered to Councils in order to help them finance the implementation of the recommendations from the Redmond Review of Local Government Finance and Audit. We have yet to see the formal allocations of this pot, so as yet this has not been factored in. We expect this to, at least partly, be offset by additional expenditure.

3. Corporate Plan Objectives

- 3.1 This report supports the Financial Sustainability workstream of the Corporate Plan. For a Council to be financially stable, it must be able to produce a balanced budget for each financial year and provide Medium term forecasts to aid future planning.

4. Conclusion

This report presents a draft budget for the 21/22 financial year and projections for future years for consideration by Overview and Scrutiny. The draft budget is balanced in the year 21/22, with projected budget deficits in future years. The sources of estimation and uncertainty have been laid out in the report, and any deviation from the assumptions that have been made will cause figures to change. There will be some movement in these figures as the Council Tax and Business Rates budgets are finalized.

5. Medium Term Financial Strategy

The implications for the Medium Term Financial Strategy are set out in the report. With funding levels continuing as projected, we are expected to be dealing with deficits in the years going forward. These projections are regularly reviewed in light of Government announcements and consultations.

6. Financial and Resource Implications

The draft budget as presented is balanced. No front line services have been reduced and there have been no unplanned drawdowns from Reserves to balance the draft budget. Future years projections are still showing a deficit, so work will need to be done imminently to close those future gaps.

7. Legal Implications

The Council has a legal obligation to set a balanced budget in advance of each financial year. This is scheduled for February 2021.

8. Risks

The sources of estimation and uncertainty have been laid out in the report. The key risks are around these, as any changes to these circumstances, and the wider economy, will have an impact on the Council's balanced budget.

9. Sustainability

There are no sustainability issues as a direct consequence of this report

10. Equality and Diversity

There are no equality and diversity issues as a direct consequence of this report.

11. Section 17 Crime and Disorder considerations

There are no Section 17 Crime and Disorder considerations as a direct consequence of this report.