

2021/22 Budget Update

Report of the Finance Portfolio Holder

Recommended:

1. That the savings options, income generation proposals and budget pressures, shown in Annexes 1 – 3 to the report, be noted.
2. That the forecast budgetary impact of coronavirus, shown in Annex 4 to the report, be noted.
3. That the budget position for 2021/22 and Medium Term Financial Forecast, shown in Annex 5 to the report, be noted.

SUMMARY:

- This report updates Cabinet on changes to the 2021/22 budget forecast since the Medium Term Financial Strategy was presented in December. This includes; the provisional Local Government Finance Settlement, New Homes' Bonus provisional allocations, the impacts of coronavirus and changes to revenue savings and pressures.
- It also provides an updated Medium Term Financial Forecast covering 2021/22 to 2023/24.
- In order to achieve a balanced budget, it will be necessary to close the remaining gap of £577,100 before figures are finalised in February 2021.

1 Introduction

- 1.1 The initial budget strategy and forecast for 2021/22 were presented to Cabinet on 2 December 2020.
- 1.2 Since that time, work has been carried out to revise the current year estimates, prepare original estimates for 2021/22 and update the Medium Term Financial Forecast.
- 1.3 The purpose of this report is to;
 - Provide the latest available information on the provisional Local Government Finance Settlement and how it affects Test Valley.
 - Review the impact that coronavirus is expected to have on Council budgets in the current year and 2021/22.
 - Provide an update on the latest savings options, income generation proposals and revenue pressures.
 - Update the Medium Term Financial Forecast after considering the above.

- Outline the remaining stages of the budget process.
- 1.4 Assuming no changes to the figures presented in this report, the Council has to close a gap of £577,100 in order to achieve a balanced budget for 2021/22.

2 2020/21 Revised Forecasts

- 2.1 Work is progressing well in preparing the revised forecasts for 2020/21. Some of the more significant factors, including the estimated impact that coronavirus is expected to have on forecasts, are explained below.
- 2.2 The original budget for 2020/21 assumed there would be no change in the level of general reserves. This remains the same and general reserves are expected to remain at £2.6M at the end of the year.
- 2.3 Cabinet received a mid-year budget monitoring report on 4th November that highlighted significant budget variances in the first half of the financial year. The report identified net additional costs of £508,000 in Services and a £98,000 reduction in income from cash investments to the end of September.
- 2.4 It is anticipated that the effects of coronavirus will result in a net deficit on the revenue budget when the revised forecast is completed. Provision for funding this deficit will be identified when the final figures are prepared in February.

Coronavirus

- 2.5 Coronavirus has had a major impact across the budgets of all the Council's services. The impacts of lost income and increased costs experienced to date and forecast to the end of the financial year are shown in the following table.
- 2.6 Please note that these figures were prepared before the Prime Minister's announcement on Monday 4 January 2021.

	£'000
Additional expenditure (contractual commitments; remote working infrastructure etc.)	1,671
Reduction in budgeted income (car parking; leisure facilities; planning fees etc.)	4,305
Total Pressure on 2020/21 Budget	5,976
Government Grant received in four tranches	(1,571)
Sales, Fees & Charges scheme	(2,098)
Coronavirus Job Retention Scheme	(187)
New Burdens Grants	(308)
Net Pressure on 2020/21 Budget	1,812

- 2.7 The above table includes the impact on general fund income and expenditure. It does not include impacts from the Collection Fund (Council Tax and Business Rates) as the accounting arrangements require that any variances in the current year are not accounted for until 2021/22 or later.
- 2.8 The government has recently announced a separate funding scheme that will help Councils cover the cost of irrecoverable Council Tax and business rates losses. Details of how this fund will operate are awaited; however, the Council's provisional allocation under this scheme is £95,000.

Service Estimates

- 2.9 Detailed work on preparing the revised forecast for all Services is progressing well. Whilst final figures are not yet available, it is clear that there will be some areas where savings have been achieved in the year that can offset the above forecast deficit.
- 2.10 These variances are primarily in salaries savings arising from vacancies and transport costs due to very limited amounts of travel being undertaken in the year. Current indications are that this variance will be in the region of £600,000.
- 2.11 Taking the combined forecast impact of coronavirus and the provisional service estimate figures, it is expected that there will be a revenue pressure of £1.2M in the year.

3 2021/22 Budget Forecast

- 3.1 As part of the budget setting process for 2021/22, work has been undertaken to separate the estimated effect that coronavirus will have on service budgets in the short term from the underlying budget gap that needs to be closed to set a sustainable budget.
- 3.2 Final decisions on the budget will not be made until February 2021 when the overall budget will be set. This report shows separately the current position of these two areas insofar as the budget setting process has developed to date.

Impact of Coronavirus

- 3.3 The table in paragraph 2.5 shows the expected impact that coronavirus will have on the Council's budgets in 2020/21. In most cases, the additional costs of responding to the pandemic have been incurred in the current financial year. However, there are some costs that will continue into 2021/22 and there will be a number of income streams that will continue to be affected.
- 3.4 The following table shows the net deficit that is currently forecast for 2021/22 as a result of coronavirus. More detail is provided in Annex 4. It is assumed that any impacts of coronavirus will affect 2021/22 only. If long-term changes to the base budget are required, they will be considered in the MTFS update next autumn.

	£'000
Net service pressures	2,249
Less: Tranche 5 of government support to local authorities	(533)
Less: Lower Tier Council Services Grant	(574)
Less: Estimated sales, fees & charges claim for Q1 2021/22	(374)
Estimated net pressure arising from coronavirus	768

- 3.5 The budget pressures largely continue to reflect the position in 2020/21, with the biggest factors being reductions in parking income, leisure-related income and building control fees. There are some compensating savings relating mostly to reduced travel costs and savings in supplies & services.
- 3.6 The government has announced a fifth tranche of non-ring-fenced funding to help reduce the effect of coronavirus on local authorities' budgets in 2021/22. The provisional allocation for TVBC is £533,000.
- 3.7 The LGFS included a new Lower Tier Services Grant, with a national budget of £111M. Its purpose is to ensure that no local authorities see a reduction in their core spending power following the LGFS. This isn't strictly new funding to support local government as it has been funded from undistributed amounts of New Homes Bonus. It is expected that this will be for one year only. As it is not a sustainable source of income, it is being shown as netting off the impact of coronavirus rather than being used to close the budget gap for next year.
- 3.8 It has been announced that the sales, fees & charges compensation scheme will be extended to 30 June 2021. The figure in the table is the amount of the claim that is forecast to be made for the first three months of the year.
- 3.9 Savings Options, Income Generation Proposals and Budget Pressures

This report identifies a number of savings, increased income streams and budget pressures. These have been identified by Heads of Service, budget holders and Service Accountants as the estimates for next year have been progressed.

Annex 1 shows the savings options that have been proposed. The total of these items is £95,300.

Annex 2 follows the same format as Annex 1 and shows income generation proposals with a total annual income of £111,500.

Annex 3 shows the total growth requirement in budgets. The total amount identified is £862,400 which is partly offset by draws from ring-fenced earmarked reserves of £234,700. The net pressure included in Annex 3 is £590,400.

3.10 Budget Forecast 2021/22

As with the revised forecast figures for 2020/21, the original estimate figures for 2021/22 are being worked on and there may be further changes before the final budget is presented in February.

When the budget forecast was presented in December 2020 there was a budget gap of £688,000. The current budget estimates include some major variances and shows that the gap has reduced to £577,100. A reconciliation of the movement in this gap is shown in the table below.

	£'000
Budget gap per November report	688
Lower tax base than forecast – para 3.13	56
Government grant to offset impact of increased Council Tax Support – para 3.13	(95)
Increased Council Tax Annexe Discount grant	(58)
Increase in retained business rates income – para 3.14	(168)
Reduction in inflation assumption – para 3.16	(231)
Savings proposals – Annex 1	(95)
Income generation proposals – Annex 2	(111)
Pressures – Annex 3	591
Current Budget gap	577

There are a number of factors that will impact on the completion of the estimates for 2021/22 that still retain a degree of uncertainty. These are discussed in the following paragraphs along with explanation of the figures shown in the table.

3.11 Local Government Finance Settlement

The provisional Local Government Finance Settlement (LGFS) was announced on 17 December 2020 and has provided the headline grant figures that the Council can expect to receive in core funding in 2021/22.

The Medium Term Financial Strategy presented to Cabinet on 2 December made assumptions about the Finance Settlement. The impact of any changes needed to those assumptions is explained in the following paragraphs.

3.12 Council Tax Increase – Referendum Threshold

The Budget Strategy assumed that the Band D level of Council Tax would increase by £5 from £146.41 to £151.41 for 2021/22. The details in the provisional settlement confirm that a £5 increase for 2021/22 would be allowable and would not trigger a referendum.

When the Cabinet next meets on the 10 February, the final Local Government Finance Settlement figures will have been announced. Members will then have the opportunity to consider options for Council Tax levels to recommend to Full Council on the 26 February.

As in previous years, no Council Tax referendum principles will be applied to parish and town councils.

3.13 Council Tax Support (CTS) Scheme

A report elsewhere on this agenda recommends that the current CTS scheme is continued into 2021/22 with modifications only in respect of inflationary uplifts. There is also a recommendation that any changes to allowances or income thresholds announced by the government during the year can be incorporated into the scheme.

One of the reasons for this is that the trend over recent years of a reducing CTS caseload has been reversed by the effects of the pandemic. It is likely that the caseload will continue rising over the next year, particularly when the coronavirus job retention and self-employed income support schemes are withdrawn.

The amount of CTS that is included in the estimates has a direct bearing on the amount of Council Tax that is forecast to be collected – the greater the amount of CTS in payment, the fewer effective properties there are to collect Council Tax from.

The Head of Finance and Revenues has set the tax base for 2021/22 at 50,316, which is 406 less than the 50,722 that was assumed in the MTFs. The overall number of properties in the borough has increased over the past year, but the effect of that increase is partially offset by the additional cost of the CTS scheme.

The government has recognised the rapid growth in CTS claims across the country and has announced a grant scheme with a national budget of £670M aimed at helping Councils maintain CTS to their most vulnerable households. The provisional allocation for this Council is £94,828.

Exact details of how this grant should be used have not been released. This report assumes it can be used to offset the additional cost of the existing scheme and it is therefore shown as being set against the budget gap for 2021/22.

3.14 Localisation of Non-Domestic Rates (NDR)

The Business Rates Retention Scheme was introduced in 2013/14. This scheme incentivises local authorities to deliver growth in NDR by enabling them to retain a share of income collected above a pre-determined baseline level.

The table below shows how the baseline level was originally determined in 2013 and how it has increased, broadly in line with inflation, over the intervening years. The provisional LGFS has frozen the baseline at 2020/21 levels and reflects the announcement that the provisional multipliers used to calculate NDR bills will also be frozen in 2021/22.

	£	Comments
Area Business Rates	44,475,312	Average collectable over last 2 years
Less: Govt. share	<u>(22,237,656)</u>	Represents 50% of amount collectable
Local Business Rates Baseline	22,237,656	Represents 50% of amount collectable
TVBC BR Baseline	17,790,125	
Less: Tariff paid to Govt.	<u>(15,709,857)</u>	
TVBC Baseline Funding 2013/14	2,080,268	Represents 80% of above figure
TVBC Baseline Funding 2014/15	2,120,774	Retained share of Business Rates
TVBC Baseline Funding 2015/16	2,161,298	
TVBC Baseline Funding 2016/17	2,179,309	Retained share of Business Rates
TVBC Baseline Funding 2017/18	2,223,802	Retained share of Business Rates
TVBC Baseline Funding 2018/19	2,290,611	Retained share of Business Rates
TVBC Baseline Funding 2019/20	2,343,104	Retained share of Business Rates
TVBC Baseline Funding 2020/21	2,381,281	Retained share of Business Rates
TVBC Baseline Funding 2021/22	2,381,281	Retained share of Business Rates Provisional share of Business Rates

Work is being carried out to estimate levels of income, appeals by ratepayers, discounts and reliefs, collection rate changes due to coronavirus etc.. By the end of January 2021, it is hoped that the Council will have a better understanding of the likely financial position compared with the baseline funding announced by the Government shown above.

The increased certainty in the provisional LGFS of the baseline level together with a stabilisation of receipts in the current year has led to an increase in the forecast amount of retained business rates income that can be included in the budget for 2021/22 and amounts to £168,000.

There is expected to be a full re-set of the Business Rates Retention Scheme that may come into effect from April 2022. The Council has benefitted from the accumulated growth in rates income since 2013; however, there remains a risk that this growth will be lost depending on how the re-set is undertaken. For that reason, all accumulated business rates growth is shown as income for 2021/22 only with only the baseline figure shown in the medium term.

3.15 Revenue Support Grant

Revenue Support Grant (RSG) is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the LGFS.

Test Valley Borough Council's RSG was reduced to £nil in 2019/20. Using the formulae to determine RSG levels, the Council would have a negative RSG. The budget strategy assumed that the government would continue to meet the cost of the negative RSG and the draft LGFS includes this commitment.

For this Council, the actual and provisional figures are as follows:

2013/14	£3.127m
2014/15	£2.445m = 21.8% reduction year on year
2015/16	£1.696m = 30.6% reduction year on year
2016/17	£1.012m = 40.3% reduction year on year
2017/18	£0.417m = 58.8% reduction year on year
2018/19	£0.056m = 86.6% reduction year on year
2019/20	£Nil = 100% reduction year on year
2020/21	£Nil
2021/22	£Nil

3.16 Inflation

As work has progressed on the preparation of the detailed estimates for 2021/22 it has been possible to reassess the amount of inflationary pressure on the Council's budget for the year.

Inflation levels are very low at present, with CPI at 0.3%. Forecasts published on gov.uk suggest that this will increase during 2021 closer to the target level of 2%.

Taking the above into account, the total amount of inflation required in the budget for 2021/22 has been reduced by £231,000.

3.17 Investment Income

The income that the Council earns from its investment portfolio is dependent on three key factors; the prevailing base interest rate, the level above or below the base rate that the Council can invest at and the size of the investment portfolio.

The MTFs took into account the reduction in the base interest rate to 0.1% earlier in the year. The prospects of an increase in this base rate over the medium term are low, therefore there is no change to the estimated investment income for 2021/22.

3.18 New Homes Bonus

When the Budget Strategy was presented in December, the forecast income from the New Homes Bonus (NHB) in 2020/21 was £1.575M. The provisional figures for 2021/22 have now been announced and the Council can expect to receive £2.568M – some £993,000 more than forecast.

The total of £2.568 confirms the known legacy payments from previous years of £1.575 and introduces a new year 11 payment of £993,000. At the time the Budget Strategy was written it was unclear whether there would be a continuation of the scheme into 2021/22 beyond the legacy payments already committed.

The provisional LGFS makes clear that the year 11 payment will be for 2021/22 only and that there will be no ongoing legacy payments in the medium term.

This grant will be transferred into the New Homes Bonus reserve where it will be used in accordance with the Budget Strategy.

4 Medium Term Financial Forecast

- 4.1 The Medium Term Financial Forecast has been updated to reflect the above changes and the latest version is shown in Annex 5. The position in respect of 2021/22 is addressed in section 3 above.
- 4.2 The figures for 2022/23 and 2023/24 assume that all savings to close the remaining budget gap for 2021/22 are sustainable and will continue in the medium term.
- 4.3 Current forecasts indicate a deficit of £1.697M in 2022/23. A further £300,000 is then expected to be needed to close the forecast budget gap for 2023/24.

5 External Consultation on the Budget

- 5.1 The Council consulted the Test Valley business community through the Hampshire Chamber of Commerce (to which branches in Andover, Romsey and Stockbridge belong or are affiliated) and the Federation of Small Business which has strong links with Test Valley.
- 5.2 The responses are generally supportive of the approach taken to setting the budget for 2021/22 and recognise the particular difficulties that are currently being faced.
- 5.3 The responses focus on the Council's interaction with the local business community and the support that the Council can provide, both in terms of the grant schemes that are operated and as a leader for change – particularly to help small businesses develop online capacity.
- 5.4 Looking forward, the responses encourage the Council to show leadership in the delivery of the Masterplans to deliver the needs of businesses of the future, including flexibility, connectivity, community and skills.

- 5.5 There was also positive feedback for the way in which the Council has managed the various grant schemes that the government has introduced in response to the pandemic.

6 The Next Steps in the Budget Process

- 6.1 The Budget Panel of the Overview & Scrutiny Committee will review the latest budget forecast at its meeting on 11 January 2021. Any recommendations from the panel will be considered by OSCOM on 20 January, whose recommendations will be considered by Cabinet on 10 February when the final budget report will be presented.
- 6.2 The final budget will be considered by Council on 26 February.

7 Risk Management

- 7.1 A risk assessment has been completed in accordance with the Council's Risk management process and has identified some significant (red and amber risks). These are detailed in the Medium Term Financial Strategy report presented to Cabinet on 2 December 2020.

8 Resource Implications

- 8.1 The resource implications of the 2021/22 budget process and the Medium Term Financial Forecast have been discussed throughout the report.

9 Equality Issues

- 9.1 This report is for information purposes, so the Council's EQIA process does not need to be applied.

10 Conclusion and reasons for recommendation

- 10.1 This report provides an update on the budget strategy that was approved in December 2020. It takes into account the latest developments that will affect the budget process and forecasts a budget gap of £577,100 for 2021/22.
- 10.2 The final budget report will be presented to Cabinet on 10 February 2021.

Background Papers (Local Government Act 1972 Section 100D)

None

Confidentiality

It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.

No of Annexes:	5	File Ref:	N/A
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(Portfolio: Finance) Councillor M Flood

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Report to:	Cabinet	Date:	13 January 2021
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