

Revenue Budget and Council Tax Proposals 2021/22

Report of the Finance Portfolio Holder

Recommended:

- 1. That the Revised Forecast for 2020/21 as set out in Column 3 of Annex 1 to the report be approved.**
- 2. That the Savings Options, Income Generation Proposals, Revenue Pressures and Covid-19 impacts as set out in Annexes 2 – 5 to the report be approved.**
- 3. That subject to recommendation 2 above and taking due regard of the Head of Finance & Revenues' comments in Annex 9, the budget for 2021/22 as set out in Column 6 of Annex 1 be approved.**
- 4. That subject to recommendations 2 and 3 above, the revenue estimates for each Service contained in Annex 8 to the report be approved.**
- 5. That a Council Tax Requirement for 2021/22 of £9,573,702 be approved.**
- 6. That a Special Expenses Levy of £333,348 be made in respect of the area of Andover to cover the cost of maintaining burial grounds, sports grounds and playgrounds.**
- 7. That a general precept of £7,492,556 be levied for the year 2021/22.**
- 8. That the Medium Term Forecast contained in Annex 7 to the report be noted.**
- 9. That a Band D Council Tax excluding Parishes and Special Expenses of £148.91 in 2021/22 be approved – an increase of £2.50 on 2020/21 levels.**
- 10. That a draw of £18,700 from the Collection Fund Equalisation Reserve, as detailed in paragraph 4.7, be approved.**
- 11. That a draw of £141,700 from the Budget Equalisation Reserve, as detailed in paragraph 4.11, be approved.**
- 12. That delegated authority be given to the Head of Finance & Revenues in consultation with the Leader, Finance Portfolio Holder and the Chief Executive to make changes to the budget following Cabinet to take account of new issues, changes to figures notified by Parish Councils or any late changes in the final Local Government Finance Settlement.**

Recommendation to Council.

SUMMARY:

- This report presents proposals for the final Revenue Budget and Council Tax for the financial year 2021/22.
- The report takes into account the previous budget information and options for changes in service delivery that were presented to the Cabinet in December 2020 and January 2021.
- The headline financial figures in the report are :-
 - ◆ Band D Council Tax (excluding Parishes and Special Expenses) to be increased by £2.50 to £148.91.
 - ◆ Revenue savings proposals totalling £197,000 – Annex 2.
 - ◆ Income Generation proposals totalling £111,500 – Annex 3.
 - ◆ Additional spending pressures on services of £622,000 – Annex 4.
 - ◆ Net pressures due to COVID on services of £1.049M – Annex 5.
 - ◆ The final recommendations arising from this meeting for the Budget and Council Tax for 2021/22 will be considered by Council on 26 February 2021.

1 Introduction

- 1.1 The Cabinet considered the Budget Strategy for 2021/22 in December 2020. The report showed a best, middle and worst case scenario of the budget gap the Council expected to face for 2021/22.
- 1.2 An update of the budget forecast was presented to Cabinet in January 2021 in light of the provisional Local Government Finance Settlement and further work that had been carried out to identify the savings necessary to balance the budget for 2021/22.
- 1.3 This report presents the proposals for the 2021/22 Revenue Budget and Council Tax to be considered at this meeting before a final recommendation is made to Council.

2 Background

- 2.1 This report deals with the overall revenue budget and council tax for the Borough for the 2021/22 financial year. The key issue that needs to be considered is how to set a balanced budget with due regard to:-
 - The estimated cost of providing existing services at their current levels
 - Managing service delivery where external grant funding has reduced considerably
 - Predictions of a sustained low level of investment income
 - The level of savings to be taken into account in setting the budget
 - The availability and use of balances to support revenue spending
 - The level of Council Tax to be set for the Borough of Test Valley
 - The impact on budget projections for the medium term, and
 - The ongoing impact of Covid-19.

- 2.2 It is impractical to examine every possible permutation of the items set out above and therefore, this report sets out a specific budget proposal for debate that incorporates all of these items and takes into account discussions that have been held with the Leader and Portfolio Holders.
- 2.3 The following sections provide more detailed information on the final budget proposals that have been put forward. They compare the figures to those presented to Cabinet on 13 January 2021.

3 2020/21 Revised Forecast

- 3.1 The original budget for 2020/21 included no draw from the General Fund reserve in the year. This is the core fund that enables the Council to respond to emergencies and unexpected costs that may occur during the year. The General Fund balance is expected to remain at £2.6M at the end of the year.

Coronavirus

- 3.2 The budget update to Cabinet on 13 January 2021 identified a net pressure due to Covid-19 on the 20/21 budget of £1.812M. This estimate was prepared before the Prime Minister's announcement on 4 January 2021.
- 3.3 The figures have been updated to take account of the anticipated impact of the current lockdown and the full year estimates are shown in the following table.

	£'000
Additional expenditure (contractual commitments; remote working infrastructure etc.)	1,671
Reduction in budgeted income (car parking; leisure facilities; planning fees etc.)	4,633
Total Pressure on 2020/21 Budget	6,304
Government Grant received in four tranches	(1,571)
Sales, Fees & Charges scheme	(2,204)
Coronavirus Job Retention Scheme	(187)
New Burdens Grants	(308)
Net Pressure on 2020/21 Budget	2,034

- 3.4 The above table includes the impact on general fund income and expenditure and is reflected in the revised forecast shown in the annexes to this report. It does not include impacts from the Collection Fund (Council Tax and Business Rates) which are accounted for under separate arrangements.

- 3.5 The government has announced separate funding schemes for irrecoverable losses in Council tax and business rates for 2020/21. These will be calculated from statutory returns at the end of the financial year and any amounts due reflected in the outturn reports with a recommended transfer to the collection fund equalisation reserve. This will help offset the estimated collection fund deficits that are accounted for in the general fund in 2021/22 (see paragraphs 4.18 – 4.24 for additional information).
- 3.6 To offset the impact of the Covid-19 related business rates reliefs that have been given in the collection fund, the Government has given local authorities additional S31 grants in the year which are accounted for in the general fund. The current estimate for the Council is £6.874M. This is accounted for in the general fund in 2020/21 whilst the resulting share of the deficit in the collection fund will not be accounted for in the general fund until 2021/22. The final figure will be calculated at outturn, and the full amount received from S31 grants in relation to the Covid-19 business rates reliefs will be recommended to be transferred to the Collection Fund Equalisation Reserve to offset the deficit in 2021/22.

Service estimates

- 3.7 Detailed work on the revised forecasts for all services has been finalised, and show an estimated £661,000 positive variance, primarily from salary and transport savings.
- 3.8 Taking this into account with the forecast pressure due to Covid-19, it is expected that there will be a net pressure of £1.373M in the year.
- 3.9 This can be fully funded from the Collection Fund Equalisation Reserve. However, the final recommendation will be made to Cabinet in the Revenue Outturn report in May 2021 when the final position is known.

4 2021/22 Budget Proposals

- 4.1 Annex 1 sets out the proposed budget for 2021/22. The figures shown take into account changes in the detailed estimates arising from the budget process together with the savings options and budget pressures set out in the annexes to this report.
- 4.2 The Net Cost of Services shown in Annex 1 includes some items of expenditure, such as depreciation and capital grants, that do not form part of the Council Tax calculation. These charges can vary significantly and distort the figures shown against each Service. Annex 6 shows the same figures as Annex 1 with these items removed.
- 4.3 Annex 8 sets out a summary of the estimates by main service area. The figures in Annex 8 exclude capital financing charges and are reconciled to the summary shown in Annex 6.

Overall Budget

- 4.4 All of the changes outlined in this report are reflected in the figures shown in Annex 1 which represents the proposed budget before the Cabinet. The Net General Fund Requirement is £5.887M and the Council Tax Requirement is £9.574M.
- 4.5 The budget gap shown in the January budget update was £577,100. Since then, there have been a number of movements, and the gap has now been closed. A summary of the movements is shown in the following table.

	£'000
Budget Gap per January report	577
Additional savings (see Annex 2)	(102)
Additional pressures (see Annex 4)	32
Covid pressures (see Annex 5)	1,050
Additional income from retained Business Rates Income (see para. 4.6)	(1,531)
Deficit on 2020/21 Council Tax Collection Fund (see para. 4.7)	19
Draw from Collection Fund Equalisation Reserve (see para 4.7)	(19)
Additional investment income	(27)
Lower income than forecast from Council Tax	126
Reduction in income from the Andover Special Expenses levy	17
Draw from Budget Equalisation Reserve (see para 4.11)	(142)
Final Budget Position	0

- 4.6 Work has continued during January to calculate the impact of the Business Rates Retention Scheme. The budget for 2021/22 now includes an estimate of additional income from this source totalling £1.531M (see paragraphs 4.18 – 4.24 for further details).
- 4.7 The Council's share of the estimated deficit on the Council Tax collection fund for 2020/21 is £18,700. It is recommended to make a draw from the Collection Fund Equalisation reserve to fund this.
- 4.8 Additional investment income of £27,400 is expected following further work on the estimated cashflow position throughout the year.
- 4.9 The reduction of £2.50 in the anticipated Council Tax increase has resulted in a reduction in forecast Council Tax income of £125,700.

- 4.10 The calculation of the Andover Special Expenses Levy is discussed in paragraph 4.34.
- 4.11 The above adjustments have resulted in a deficit of £141,700. It is recommended to draw this from the Budget Equalisation Reserve.

Project Enterprise

- 4.12 Project Enterprise was established in 2014 to increase the income generated by the Council from its investments and reduce its reliance on the Government's Revenue Support Grant.
- 4.13 Since 2014, the Council has invested in a number of properties that have sought to generate additional revenue income. This additional income has been generated by investing the cash reserves held by the Council in projects that will yield greater returns than the current cash investment portfolio.
- 4.14 The amount of investment in completed projects is currently £28.064M. This excludes investment in development projects which generate a capital receipt and a small ground rent. Net rental income from these completed investments is forecast to be £1.931M in 2021/22. This represents an average return on investment of 6.9%.
- 4.15 In contrast, the Council's cash investment portfolio is forecast to generate an average return of 0.42% in 2021/22. Had the Council not purchased the additional properties and left the investment in cash reserves, this would be expected to generate £117,900 in 2021/22.
- 4.16 Income from Project Enterprise investments is therefore expected to be £1.813M greater than would have been achieved by retaining the balances in cash.
- 4.17 Some of the income generated from the completed investments is used to replenish the Capital Receipts Reserve over the lifetime of the investment. For 2021/22, £481,000 is included within the Transfer to Capital Balances line in Annex 1 for this purpose. The remainder of the income will be used to support Council services.

Business Rates Retention Scheme

- 4.18 The Government introduced the Business Rates Retention Scheme in 2013. It is a complex scheme with baseline assessments, top ups and tariffs, levy payments and safety nets.
- 4.19 If this was not complicated enough, the Government has introduced a further layer of complexity in awarding S31 grants to offset the impact of policies aimed at protecting small businesses. This can create apparent surpluses or deficits on the Council's Collection Fund and corresponding deficits or surpluses in the General Fund and volatility in yearly cashflows.

- 4.20 The Head of Finance & Revenues has delegated authority (in consultation with the Finance Portfolio Holder) to approve the annual National Non Domestic Rates returns to Central Government. In so doing, this effectively sets the initial shares of income to be allocated to the main preceptors and the Government from the Collection Fund.
- 4.21 Due to the impact of the Government awarding additional business rate reliefs in 2020/21 as a result of Covid-19, the NDR collection fund is estimated to be in deficit of £17.703M at the end of March 2021. The Council's share of this deficit is 40% which equals £7.081M. This will all be taken into the general fund in 2021/22 and offset by a draw from the Collection Fund Equalisation Reserve. As detailed in paragraphs 3.5 and 3.6 above, the Council will receive a grant to cover 75% of the irrecoverable loss as well as S31 grants to cover the Covid-19 reliefs which will be transferred in to Collection Fund Equalisation Reserve to fund the draw in 2021/22.
- 4.22 It is estimated that income due to the Council in each of the next 3 years will be as per the following table:

	2021/22 £'000s	2022/23 £'000s	2023/24 £'000s
Business rates income	5,042	2,405	2,405
Section 31 grants *	1,868	0	0
2020/21 deficit on collection fund	(7,081)	0	0
Draw from Collection Fund Equalisation Reserve	7,081	0	0
Provision for levy payable to government	(2,025)	0	0
Renewable energy rates 100% retained	398	414	414
Total income from business rates retention scheme	5,283	2,792	2,842
Less income from business rates retention scheme included in January report	3,752	2,814	2,814
Increase / (reduction) in retained income from business rates retention scheme	1,531	(22)	(22)

* assumes Section 31 grants are rolled up into the baseline business rates income from 2022/23.

- 4.23 This income is built into the Medium Term Forecast. It is extremely vulnerable to both the level of appeals that may occur as a result of the 2017 revaluation exercise and the reset of the Business Rates Retention Scheme which has been delayed until at least 2022/23. The Government maintains the power to take away all of the accumulated growth in income generated since 2013.
- 4.24 The estimates for 2022/23 and 2023/24 are a reasonable worst case scenario and exclude any growth in income above the baseline settlement figure and any transition or damping arrangements. The Council maintains a Collection Fund Equalisation Reserve to mitigate this volatility.

Draws from Reserves

- 4.25 Draws from reserves are expected to be for one-off or specific expenditure. No further general draws from reserves, other than highlighted in paragraph 4.11, are budgeted in 2021/22 to close the overall budget gap.

Local Government Finance Settlement

- 4.26 Full details of the *Provisional* Local Government Finance Settlement were given in the Budget Update report to Cabinet on 13 January and are not repeated here. The *Final* Local Government Finance Settlement has not yet been released but no significant changes are expected from the Provisional Settlement.

Robustness of Estimates and Adequacy of Revenue Reserves

- 4.27 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Head of Finance & Revenues) to report on the robustness of the budget estimates and adequacy of reserves at the time the Council is deciding the level of Budget Requirement and Council Tax for the forthcoming year. This is shown in full detail in Annex 9.

Council Tax

- 4.28 The Medium Term Financial Strategy and budget update report in January 2020 were based on an assumption that Council Tax would increase by £5 in 2021/22.
- 4.29 This was based on a continuation of Government policy assuming that local authorities will put up their council tax by the maximum they are allowed each year to sustain the core spending power and in light of the anticipated budget gap being faced for the coming year.
- 4.30 Following completion of the estimates and, in particular, finalising the income that will be retained from business rates in 2021/22 it is possible to reduce this increase to £2.50.
- 4.31 This means that to continue delivering the full range of services, the Council will need to use £141,700 of its earmarked reserves to set a balanced budget for the coming year. However, this also acknowledges the great financial strain that many households are currently facing and this reduction, though relatively small, can only help.

- 4.32 For 2021/22 it is recommended that the Band D Council Tax charge is increased by £2.50 from £146.41 to £148.91.
- 4.33 Under delegated authority the Head of Finance & Revenues, sets the Council Tax base for the forthcoming financial year. The Council Tax resolution is reported directly to Council for consideration with the budget proposals.

Andover Special Expenses Levy

- 4.34 The Andover Special Expenses Levy is recalculated on a triennial basis. In years between recalculations, the charge is increased in line with the main TVBC precept, subject to specific amendments that may be required in that period.
- 4.35 The last recalculation was undertaken as part of the budget setting for 2020/21 in February 2020 (see Annex 9 to budget report, Cabinet 12 Feb 2020).
- 4.36 Following a review, the contribution towards the maintenance of public halls (£21,800 in 2020/21) will be removed from the levy with effect from 1 April 2021. This has been made possible due to a sustainable and rent-paying community use, in the form of the I Can Therapy Centre, being found for the previously under-utilised Rendezvous facility in Andover.
- 4.37 The result of this change is to reduce the equivalent levy charge from the £21.12 that was charged in 2020/21 to £19.79 per Band D property.
- 4.38 This is recommended to be increased by 1.71% in line with main TVBC Council Tax to give a charge of £20.12 per property, a reduction of £1 from the 2020/21 level.

5 Medium Term Forecast and Beyond

- 5.1 Annex 7 sets out the Medium Term Forecast for the General Fund budget up to the 2023/24 financial year. The figures shown in Annex 7 are reconciled to the revenue summary shown in Annex 6.
- 5.2 In order to maintain a balanced budget, current forecasts indicate a deficit of £2.561M in 2022/21 increasing by £307,600 to a deficit of £2.869M in 2023/24. This is the level of cumulative savings needed to close the forecast budget gap and assumes a full reset of business rates takes place from April 2022 in which all accumulated growth is lost without damping or other transitional protection.
- 5.3 Work to identify options for Councillors to consider meeting these savings targets will flow from the Corporate Challenge process which will commence in the summer. An initial forecast for 2022/23 based on a best, middle and worst case scenario will be presented to Cabinet in November 2021.
- 5.4 Looking further ahead, financial forecasts become less certain, but it is inevitable that, with fewer opportunities to make savings and efficiencies, pressure will increase on the Council to use its reserves to ensure financial stability.

- 5.5 Clearly, other factors will come into play, e.g. a move to 75% retention of Business Rates, uncertainty over interest rates, Government policy and finance changes, the effect of Covid-19, but Cabinet is encouraged to keep this longer term uncertainty in mind when recommending a sustainable level of Council Tax for 2021/22 to Council.

6 Corporate Objectives and Priorities

- 6.1 The Budget encompasses all elements of the Council's activities and therefore contributes to all the Council's Corporate Objectives and Priorities.

7 Consultations

- 7.1 Consultation on the Budget has been carried out with the Leader, Deputy Leader, individual Portfolio Holders, Overview & Scrutiny Committee, Local Business groups (as detailed in the report to Cabinet in January 2021) and Heads of Service.

8 Risk Management

- 8.1 A risk assessment has been completed in accordance with the Council's Risk Management Methodology and has identified significant (Red or Amber) risks as detailed in paragraph 2.5 of Annex 9.

9 Equality Issues

- 9.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination or negative impact have been identified, therefore a full EQIA.

10 Conclusion and reasons for recommendation

- 10.1 This report is the culmination of a process that started in the summer of 2020. It shows the savings and additional income that have been identified to enable the Council to propose a balanced budget for 2021/22.
- 10.2 If approved, the recommendations of this report will be considered by Council on 26 February 2021.

Background Papers (Local Government Act 1972 Section 100D)

1. "Provisional local government finance settlement: England 2021 to 2022" - MHCLG Consultation December 2020

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:	9	File Ref:	N/A
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Report to:	Cabinet	Date:	10 February 2021