

Recommendation of the Performance and Audit Scrutiny Committee: 28 January 2021: Delivering a Sustainable Medium-Term Budget

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| Report number: | CAB/WS/21/005 | |
| Report to and date(s): | Cabinet | 9 February 2021 |
| | Council | 23 February 2021 |
| Cabinet member: | Councillor Sarah Broughton Portfolio Holder for Resources and Performance Telephone: 07929 305787 Email: sarah.broughton@westsuffolk.gov.uk | |
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Decisions Plan: The decision made as a result of this report will usually be published within 48 hours. This item will be referred to Council for a final decision as part of the budget setting process and is, therefore, not subject to call-in. This item is included on the Decisions Plan.

Wards impacted: All wards

Recommendation: That subject to the approval of Council as part of the budget setting process, the proposals as detailed in Section 2 and Table 1 at Appendix B of Report number: PAS/WS/21/003, be included in the medium-term financial plans.

1. Context to this report

- 1.1 At its meeting on 30 July 2020, Report number: [PAS/WS/20/012](#), the Performance and Audit Scrutiny Committee (PASC) supported Cabinet with the next steps and principles for future financial planning across the medium term. The approach was designed to enable the council to respond effectively to changing circumstances while maintaining a medium-term focus on the council's financial sustainability.
- 1.2 The Committee on 19 November 2020, the Committee supported the key budget assumptions underpinning the 2021 to 2022 and medium-term budgets for West Suffolk Council.
- 1.3 Report number: PAS/WS/21/003 presented to the Committee on 28 January 2021 provided an update on those key budget assumptions as a result of both the provisional settlement announced on 25 November 2020 and the detailed budget process undertaken by service areas supported by their finance business partners during November and December 2020.
- 1.4 The report also set out the scale of the financial challenge for West Suffolk Council for 2021 to 2022 and the medium-term, and the plans to address those financial challenges in enabling the council to meet its statutory responsibility to set a balanced budget for the forthcoming year. The proposals set out in the report would feed into the main budget setting report due to be considered by Council on 23 February 2021.
- 1.5 **Extract from Report number: PAS/WS/21/003 (Section 2 and Appendix B: Table 1)**
 - 1.5.1 **2. Proposals and key budget assumptions**
 - 2.1 We will not understand the full impact of COVID-19 on the financial position of the council for a long time, especially as we are still in the pandemic, and it is likely to continue to come in phases particularly while the vaccine is still being distributed. Through the 2021 to 2022 budget process we will establish the key assumptions to build the foundations of our financial projections. However, our approach needs to be flexible and responsive to the COVID-19 recovery. Therefore, we will constantly review these assumptions, in response to further data and intelligence to feed into the quarterly 2021 to 2022 monitoring reports.
 - 2.2 Changes to the key budget assumptions proposed in the development of the 2021 to 2022 budget and medium-term plans and the rationale behind those assumptions are as set out below. The financial implications of those assumptions compared to the position set out in the PASC report on 19 November 2020, Report number: PAS/WS/20/019, are set out in section 3 below.

Government funding

- 2.3 As part of the response to the COVID-19 pandemic the Government has confirmed that the planned reforms to local government finance relating to the Fairer Funding Review and 75 per cent Business Rates Retention will no longer be implemented in 2021 to 2022.
- 2.4 On 21 October 2020, the Chancellor Rishi Sunak MP, announced his decision to conduct a one-year spending review in order to prioritise the response to COVID-19, and the Government's focus on supporting jobs. The outcome of this one-year Spending Review 2020 was announced on Wednesday 25 November 2020. The Spending Review itself contained a large number of measures in response to the financial impacts of the COVID-19 pandemic that relate to local government.
- 2.5 The impact of this has now been received through our provisional financial settlement for 2021 to 2022 and is discussed in more detail in **Appendix A**. The financial implications of the provisional settlement for West Suffolk are generally positive and an additional £700k benefit for 2021 to 2022 is included in table 1 at **Appendix B** of this report.
- 2.6 The financial impact of the COVID-19 pandemic has introduced considerable uncertainty in predicting the Government's approach to financial resources for local government in future years. Therefore, the resource assumptions from April 2022 should be treated with caution and will be updated as we go through future budget setting processes and further Government announcements are made.

COVID-19 impact

- 2.7 It is difficult to predict the financial impact of COVID-19 on the council's medium-term plans. We don't know how long the tiering system and associated social distancing rules will be in place, nor how long and what shape recovery will take thereafter. Even with the roll out of the vaccination programme what and how long the recovery will be is uncertain and throughout this time the council will, no doubt, be called upon to continue playing its part in reducing the spread of infection. The detailed work through service budget reviews has identified various recovery timescales in 2021 to 2022 and as a general assumption we are working to pre-COVID 19 level budgets from April 2022 in our medium-term plans.
- 2.8 For 2021 to 2022 the budget process (through the service budget reviews) has proposed we set aside £1.2 million (net impact but before use of COVID grant) to address potential future COVID-19 impacts. This assumes that any further lockdowns within quarter 1 of 2021 to 2022 and any significant impact beyond that first quarter will come with associated COVID-19 funding from central Government and extension to the income loss support scheme. This £1 million COVID-19 impact provision will sit corporately and will be monitored through the quarterly budget monitoring process and vired out to service areas

accordingly when actual impact takes place. This means that budgets will be reported for 2021 to 2022 assuming recovery will take place in-year.

- 2.9 This £1.2 million COVID provision will be further supplemented with the £0.8 million balance of the £872,000 COVID grant announced in the provisional financial settlement and proposed to be set aside in a COVID reserve. Further analysis is taking place and will be reported in the main budget report at the February Council meeting when the Section 151 Officer will also report on the adequacy of these two amounts and the role of the council's general fund in managing the overall financial implications of COVID-19 in 2021 to 2022. However, we know that so far funding for dealing with COVID-19 or loss of income does not cover the full amount and during the pandemic the council has and will continue to play its part which comes with additional capacity and cost challenges.

Other Budget changes

- 2.10 A detailed review of the 2021 to 2022 budget assumptions has now concluded and the significant changes have been drawn out in Table 1 at Appendix B of this report. There is expected to be a greater level of volatility in our income assumptions given the relationship between recovery and income generation for the council. This volatility will need to be closely monitored and reflected in the Section 151 report to members on the robustness of estimates and balances as part of the budget process. For this reason, there has been very limited, if any, growth in those already assumed income assumptions for 2021 to 2022.

Replenishment of the general fund balance and review of earmarked reserves

- 2.11 As part of the current year's 2020 to 2021 financial forecasts and associated financial impact of COVID-19, it is anticipated that approximately £1.4 million (an additional £0.2 million from the previous November PASC report due to further lockdowns) will be utilised from the council's general fund balance (contingency fund). The general fund balance will need to be replenished, recognising that the fund provides an essential contingency for in-year budget variations so plans for its replenishment will need to feature within the 2021 to 2022 budget.
- 2.12 A detailed review of all the council's earmarked reserves is in progress and will feed into the Section 151 Officer report to members on the robustness of estimates and balances as part of the budget process.

These changes are set out in Table 1 below (Appendix B):

| Proposed key budget assumption changes | 2021 to 2022 | 2022 to 2023 | 2023 to 2024 | 2024 to 2025 |
|---|---------------------|---------------------|---------------------|---------------------|
| | £000 | £000 | £000 | £000 |
| Savings requirement - February 2020 budget process | 696 | 1,077 | 1,390 | 1,816 |
| Assumption changes/pressures | | | | |
| Changes in Income expectations | | | | |
| Increased car park income at country parks, offset by impact in the transfer of management responsibilities and associated income stream for Robert Boby Way BSE | (12) | (12) | (12) | (12) |
| Increase in rental income from industrial units linked to Council portfolio | (56) | (56) | (56) | (41) |
| Increase in rental income from town centres linked to Council portfolio | (43) | (44) | (44) | (44) |
| Reduced assumptions around Planning Application Fees, reflecting historical trends | 116 | 116 | 116 | 116 |
| Re-profiling of income expectations for vehicle workshop opening and service offer | 100 | 0 | 0 | 0 |
| Reduced income expectations from refuse recycling performance payments, linked to demand | 29 | 29 | 29 | 29 |
| Reduced expectations (reversal of Feb 2020 increase) from Solar Farm income as a result of current market rate values. Spike in income in 2019/20 linked to market values considered to be a one off. | 180 | 180 | 180 | 180 |
| Increased Feed-in tariff income as a result of energy saving initiatives | (13) | (13) | (13) | (13) |
| Reduced cash investment income as a result of lower market rates (linked to base rate) | 90 | 90 | 90 | 90 |
| Salary and staff-related changes | | | | |
| Pay inflation (See report PAS/WS/20/019 for further details) | 300 | 306 | 312 | 318 |
| Other employee changes, offset by reserve changes below. Linked to Housing and Homelessness posts primarily - funded then by government grant | 270 | 228 | 237 | 246 |
| Reserve funding of employee changes | (462) | (324) | (324) | (333) |
| Investing in our growth agenda capacity - last year of funding 2021 to 2022. (See report PAS/WS/20/019 for further details) | 0 | 795 | 812 | 829 |
| Changes in Expenditure Budgets | | | | |
| Increased bank charges as a result of end of discount period | 25 | 25 | 25 | 25 |
| Increased trade waste tipping charges as a result of inflationary rises and alignment to income assumptions | 50 | 138 | 162 | 185 |
| Increase in Waste and Street Scene Agency Staff for 2021/22 | 72 | 0 | 0 | 0 |
| Additional waste service delivery costs - Investment in new Haverhill Waste Transfer Station project | 150 | 150 | 150 | 150 |

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| <u>Proposed key budget assumption changes</u> | 2021 to 2022 | 2022 to 2023 | 2023 to 2024 | 2024 to 2025 |
|--|--------------------------|---------------------|---------------------|---------------------|
| | Pressure/(Saving) | | | |
| | £000 | £000 | £000 | £000 |
| Changes in Expenditure Budgets | | | | |
| Increase in Spare Parts linked to Vehicle Workshop | 20 | 20 | 20 | 20 |
| Change in funding for Private Sector Renewal Grants, now funded from capital Disabled Facilities Grant allocation | (100) | (100) | (100) | (100) |
| Savings in Anglia Revenues Partnership running costs, linked to saving initiatives and expansion of the enforcement service to cover Civil Parking Enforcement | (103) | (133) | (114) | (114) |
| Housing Benefits | | | | |
| Housing Benefits decrease in overpayments recoverable linked to the roll out of Universal Credits and additional upfront checks in applications. | 384 | 375 | 367 | 359 |
| Use of Housing Benefits Equalisation reserve to offset above | (286) | (200) | (108) | 0 |
| Rent Rebates increase in subsidy received | (98) | (94) | (89) | (84) |
| COVID-19 | | | | |
| Net changes/pressures as a result of COVID-19 - see paragraphs 2.7-2.9 of main report | 1,173 | 92 | 0 | 0 |
| Fund pressure relating to Non-HRA Temporary Accommodation from COVID-19/Homelessness reserve | (184) | (92) | 0 | 0 |
| Projects | | | | |
| Net savings from revised project borrowing assumptions - relates to various projects | (148) | (134) | (139) | (144) |
| Collection Funds (See report PAS/WS/20/019 for further details - values updated to reflect latest position) | | | | |
| Council Tax 2020/21 collection fund deficit (3 year spread) | 40 | 30 | 30 | 0 |
| Council Tax Base Reduction | 247 | 257 | 266 | 276 |
| Business Rates 2020/21 collection fund deficit (3 year spread) | 5,619 | 5,426 | 5,426 | 0 |
| Additional S31 grant received in 2020/21 and set aside in reserve to fund deficit | (5,619) | (5,426) | (5,426) | 0 |
| General Fund Replenishment - 2020/21 expected deficit | 1,424 | 0 | 0 | 0 |
| Settlement (See Appendix A for details) | | | | |
| Use of New Homes Bonus including additional sum for 2021/22 put into Strategic Priority and MTFs reserve (See report PAS/WS/20/019 for further details) | (700) | (487) | 0 | 0 |
| Use of Business Rates Retention Scheme Growth - 2020/21 only. Value of scheme uncertain beyond April 2022. (See report PAS/WS/20/019 for further details) | (1,550) | 0 | 0 | 0 |
| Revenue Support Grant rolled forward for one year | (200) | 0 | 0 | 0 |
| Rural Services Delivery Grant rolled forward for one year | (181) | 0 | 0 | 0 |
| Business Rates Retention Baseline Funding frozen for 2021/22 | 77 | 78 | 80 | 81 |
| Lower Tier Services Grant new for 2021/22 | (193) | 0 | 0 | 0 |
| LA COVID-19 Support Grant further tranche for 2021/22 | (872) | 0 | 0 | 0 |
| Contribute LA COVID-19 Support Grant to reserve to be available for impact of COVID-19 beyond £1m provision | 872 | 0 | 0 | 0 |
| Local Council Tax Support Grant new for 2021/22 | (216) | 0 | 0 | 0 |
| Additional Town and Parish Council Support for 2022/23 | 65 | 0 | 0 | 0 |
| Estimated Sales, Fees and Charges Compensation for the first quarter of 2022/23 | (220) | 0 | 0 | 0 |
| Other minor budget changes | (34) | (85) | (75) | (52) |
| Net Balance | 709 | 2,212 | 3,192 | 3,783 |

- 1.6 The Performance and Audit Scrutiny Committee considered the report including the proposed key budget assumptions and did not raise any issues to be brought to the attention of Cabinet.
- 1.7 The Performance and Audit Scrutiny Committee has put forward a recommendation as set out on page one of this report.

2. Alternative options that have been considered

- 2.1 Not applicable.

3. Consultation and engagement undertaken

- 3.1 Not applicable.

4. Risks associated with the proposals

- 4.1 Not applicable.

5. Implications arising from the proposals

- 5.1 Financial:

See Report number: [PAS/WS/21/003](#)

6. Appendices referenced in this report

- 6.1 [Appendix A](#) - Spending review and provisional settlement update
[Appendix B](#) - Table 1 – Key budget assumption changes.

7. Background documents associated with this report

- 7.1 Report number: [PAS/WS/21/003](#)