

# COUNCIL

16 FEBRUARY 2021

## REPORT OF CABINET

### A.1 EXECUTIVE'S PROPOSALS – GENERAL FUND BUDGET AND COUNCIL TAX – 2021/22

(Report prepared by Richard Barrett)

#### PART 1 – KEY INFORMATION

##### PURPOSE OF THE REPORT

To present to Council the Executive's General Fund budget proposals including the Council Tax for District and Parish / Town Council Services for 2021/22.

##### EXECUTIVE SUMMARY

- The information and recommendations set out in this report reflect the financial forecast considered by Cabinet on 29 January 2021, along with the subsequent changes agreed by the Portfolio Holder for Corporate Finance and Governance in-line with an associated delegation.
- The delegation referred to above was agreed by Cabinet on 29 January 2021, which also included the approval of the 'technical' appendices and resolutions required to be presented to Full Council to enable it to consider and agree the level of Council Tax and Budget for 2021/22
- The limited number of changes required are set out further on in this report, which together reduce the forecast deficit for the year to **£1.049m**, a reduction of **£0.178m** compared with the **£1.227m** deficit position considered by Cabinet on 29 January 2021.
- The revised deficit of **£1.049m** will be funded by drawing money down from the Forecast Risk Fund in-line with the long-term forecast approach.
- As recommended by Cabinet on 29 January 2021, the Executive's budget proposals set out a Band D Council Tax of **£177.64** in 2021/22, an increase of **£5** (2.90%), with a Council Tax requirement of **£8.604m**.
- Taking into account the changes to the budget required since Cabinet met on 29 January 2021, the total net General Fund revenue budget for 2021/22 is **£7.617m** along with a General Fund capital programme totalling **£0.816m**.
- The budget recommended by Cabinet for approval by Council includes only the District and Parish elements of the Council Tax rather than those from the major precepting authorities. The formal approval of the 'full' Council Tax levy for the year, including the precepts from Essex County Council, Police and Fire, is delegated to the Human Resources and Council Tax Committee which is due to meet on later in February 2021.
- As agreed by Council back in November, a council tax discount policy for young people leaving care has now been finalised. The policy, which is set out in **Appendix L** was endorsed and recommended to Full Council for formal adoption by

## **RECOMMENDATION(S)**

- a) That having had regard to the Chief Finance Officer's (S151 Officer) report on the Robustness of Estimates and Adequacy of Reserves in accordance with the requirements under Section 25 of the Local Government Act 2003, and having taken account of any responses to the budget consultation process the Council approves the budget proposals (based on a £5 Band D council tax increase for district services) and agrees:
- i) That the total General Fund net revenue budget for 2021/22 be set at £7.617m (a council tax requirement of £8.604m excluding parish precepts);
  - ii) that the General Fund capital programme be approved totalling £0.816m in 2021/22;
  - iii) the detailed General Fund budget for 2021/22 as set out in Appendix D;
  - iv) the calculation of the Council's Council Tax requirement, Special Expenses and Parish/Town Council precepts, as set out at Appendix F;
  - v) the Council Tax for District and Parish/Town Councils' services as at Appendix I and that these are the amounts to be taken into account for the year in respect of the categories of dwellings listed in different valuation bands; and
  - vi) that subject to the above, if budget adjustments are required following the late notification of external / grant funding, then in consultation with the Corporate Finance and Governance Portfolio Holder, budgets are adjusted accordingly with no net impact on the overall budget or capital programme set out above.
- b) That the council tax discount policy for young people leaving care, as set out in Appendix L be approved.

## **PART 2 – IMPLICATIONS OF THE DECISION**

### **DELIVERING PRIORITIES**

The forecasting and budget setting process will have direct implications for the Council's ability to deliver on its objectives and priorities. At its heart, the 10-year approach to the forecast seeks to establish a sound and sustainable budget year on year through maximising income whilst limiting reductions in services provided to residents, businesses and visitors.

### **FINANCE, OTHER RESOURCES AND RISK**

#### **Finance and other resources**

The financial implications are set out in the body of the report.

Although the availability of financial resources is a key component in the delivery of services there will also need to be appropriate input of other resources such as staffing, assets and IT.

## Risk

There are significant risks associated with forecasting such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process. There are a number of areas that could lead to additional expenditure being incurred, such as: -

- Economic environment / instability;
- Emergence of additional cost pressures;
- Changes to the local authority funding mechanisms such as the Government's fairer funding review that is proposed;
- New legislation placing unfunded duties on the Council or reducing the level of the Council's core funding;
- Local or national emergency;
- Income is less than that budgeted for, including business rate income retained locally.

COVID 19 has introduced a number of risks to the Council's financial position, which cut across many of the specific issues highlighted above. The underlying forecast remains based on relatively conservative estimates with no optimistic bias included. Although the potential impact from COVID 19 has been reflected in the forecast position where possible, the long-term impact and the speed and scale of the wider economic recovery remains uncertain.

One of the primary risks introduced by the COVID 19 crisis is the potential impact on key income streams for the Council such as from Council Tax, Business Rates and general fees and charges. In respect of the first two items, the estimates for 2021/22 reflect the potential impact. In respect of the third item, it is very difficult to forecast the level of impact and how far it may continue into 2021/22. Therefore, it is not proposed to make changes to the underlying income budgets but underwrite this specific risk by refocusing an existing reserve for this purpose. This is felt to be a pragmatic approach given any changes in 2021/22 are likely to be temporary with income expected to return to pre-COVID 19 levels in future years. Therefore 2021/22 should be seen as a transitional year, a position that will be kept under on-going review as part of in-year financial performance reports.

The specific risk to income budgets should be seen as separate from the underlying risk to the forecast, which are underwritten via the Forecast Risk Fund. As previously discussed, the Council's ability to financially underwrite the wider forecast is an important element of the 10-year plan. As with any forecast, some elements of income and expenditure will be different to that forecasted. It is fair to say that many may offset each other over the longer term. However, an update against the two important aspects to how this is being managed are as follows:

- 1) **£3.253m** has already been set aside within the Forecast Risk Fund to support the budget in future years. This money is available to be drawn down if the timings within the forecast differ in reality and the net position is unfavourable compared to the forecast in any one year. Based on the proposed budget, **£1.049m** will be drawn down from this reserve in 2021/22, a reduction compared with the **£1.227m** presented to Cabinet on 29 January 2021. Although the forecast has been significantly impacted by COVID 19, as reflected in **Appendix A**, annual surplus balances are still expected to remain within this reserve over the remaining life of

the forecast.

- 2) The forecast will remain 'live' and be responsive to changing circumstances and it will be revised on an on-going basis. If unfavourable issues arise, that cannot be mitigated via other changes within the forecast then the forecast will be adjusted and mitigating actions taken. Actions to respond will, therefore, need to be considered but can be taken over a longer time period where possible. In such circumstance, the Council may need to consider 'topping' up the funding mentioned in 1) above if required. This may impact on the ability to invest money elsewhere but will need to demonstrate that its use is sustainable in the context of the ten-year forecast.

The long-term approach to the forecast therefore provides flexibility to respond to risks such as those presented by COVID 19. For instance, the savings target has been 'relaxed' for 2021/22. However it must be highlighted that the savings target set out in the forecast will still need to be delivered in the longer term but it needs to remain flexible and react as a counterbalance to other emerging issues and it is therefore accepted that this figure may need to be revised up or down over the life of the forecast.

It is important to continue to deliver against the forecast to build confidence in the longer-term approach. This will therefore continue to need robust input from members and officers where decisions may be required in the short term or on a cash flow basis.

Another aspect to this approach is the ability to 'flex' the delivery of services rather than cut services. As would be the case with our own personal finances, if we cannot afford something this year because of a change in our income, we can potentially put it off until next year. There is a practical sense behind this approach as we could flex the delivery of a service one year but increase it again when the forecast allows.

In addition to the above, it is important to note that the Council has already prudently set aside money for other significant risks in the forecast such as **£1.758m** (NDR Resilience Reserve) and **£1.000m** (Benefits Reserve), which can be taken into account during the period of the forecast if necessary. The Council also holds **£4.000m** in uncommitted reserves, which supports its core financial position.

## LEGAL

The arrangements for setting and agreeing a budget and for the setting and collection of council tax are defined in the Local Government Finance Act 1992. The previous legislation defining the arrangements for charging, collecting and pooling of Business Rates was contained within the Local Government Finance Act 1988. These have both been amended as appropriate to reflect the introduction of the Local Government Finance Act 2012.

The Local Government Finance Act 2012 provided the legislative framework for the introduction of the Business Rates Retention Scheme and the Localisation of Council Tax Support.

The Calculation of Council Tax Base Regulations 2012 set out arrangements for calculation of the council tax base following implementation of the Local Council Tax Support Scheme. The revised arrangements mean that there are now lower tax bases for the district council, major preceptors and town and parish councils.

The Localism Act 2012 introduced legislation providing the right of veto for residents on excessive council tax increases.

Under Section 25 of the Local Government Act 2003, the Chief Finance Officer (S151 Officer) must report to Council, as part of the budget process, on the robustness of estimates and adequacy of reserves. The proposed approach can deliver this requirement if actively managed and will be an issue that remains 'live' over the course of the forecast period and will be revisited in future reports to members as the budget develops.

In respect of special expenses that form part of the budget setting process, expenditure is classed as a Special Expense if it satisfies the requirements of the Local Government Finance Act 1992, Section 35. The only category relevant to this Council is contained within Section 35(2)(d) relating to concurrent functions with Parish and Town Councils. Under the Local Government Finance Act 1992, the Council must identify as its Special Expense, proposed expenditure on those functions which the Council performs in part of the district but which Parish or Town Councils perform elsewhere in the District. If, in the Council's view, a special expense should properly be charged over the whole of the district's area, the Council may pass an express resolution to this effect (known as a **contrary resolution**).

In order for expenditure to be a Special Expense, there are two conditions that must be fulfilled:

1. Expenditure is estimated to be incurred by the District Council in the whole or part of its area on the provision of a function;
2. Expenditure on the provision of the same function is to be incurred by at least one parish/town council elsewhere in the district.

***The proposals set out in this report are in accordance with the Council's budget and policy framework.***

#### **OTHER IMPLICATIONS**

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

**Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

There are no other implications that significantly impact on the financial forecast. However, the ability of the Council to appropriately address such issues will be strongly linked to its ability to fund relevant schemes and projects and determination of the breadth and standard of service delivery to enable a balanced budget to be agreed.

An impact assessment will be undertaken as part of any separate budget decisions such as those that will be required to deliver the necessary savings.

Special expenses are based on the principle of ensuring there is equality across the district in levying Council Tax to residents based on services and facilities provided by Town and Parish Councils in specific areas that are also provided by the District Council.

## PART 3 – SUPPORTING INFORMATION

### 2021/22 BUDGET PROPOSALS

On 29 January 2021 Cabinet considered the following report:-

#### **A.8 LATEST FINANCIAL FORECAST / FINAL GENERAL FUND BUDGET PROPOSALS 2021/22**

*It was resolved that:*

- (a) the latest financial forecast set out in Appendix A to item A.8 of the Report of the Corporate Finance & Governance Portfolio Holder, along with the savings and cost pressures set out in Appendices B and C respectively to that report that form the firm proposals for the 2021/22 budget be agreed and that therefore it is recommended to Full Council that a Band D Council Tax for district services of £177.64 for 2021/22 (a £5 increase), along with the associated council tax requirement of £8.604m be approved.*
- (b) the Portfolio Holder for Corporate Finance and Governance be authorised to agree the ‘technical’ appendices and resolutions for the budget proposals for recommending to Full Council on 16 February 2021;*
- (c) in consultation with the Leader of the Council and the Corporate Finance and Governance Portfolio Holder, the Chief Executive reports directly to Full Council in respect of the formal resolutions necessary to implement the Executive’s budget proposals along with any late information or notifications received from the Government;*
- (d) in respect of the Treasury Strategy 2021/22, the Portfolio Holder for Corporate Finance and Governance be authorised to approve the draft Strategy for consultation with the Resources and Services Overview and Scrutiny Committee; and*
- (e) the council tax discount policy for young people leaving care, as set out in Appendix D to the aforementioned report, be endorsed and recommended to Full Council for formal adoption.*

In respect of item (b), the next section of this report sets out the changes that have been required to the forecast, with the associated recommendations above and appendices attached forming the ‘technical’ and formal budget resolutions required to be considered by Full Council to determine the level of Council Tax and Budget for 2021/22. As agreed in (a) above, the Band D Council Tax for district services of **£177.64** for 2021/22 (a £5 increase), along with the associated council tax requirement of **£8.604m** remain unchanged and therefore also form part of the recommendations above.

This report has been approved by the Portfolio Holder for Corporate Finance and Governance in line with the delegation agreed by Cabinet on 29 January 2021.

In respect of item (e), further details are set out in a separate section further on in this report, with the policy set out in **Appendix L**.

### CHANGES SUBSEQUENT TO THE CABINET’S PROPOSALS OF 29 JANUARY 2021

There has only been a limited number of changes since 29 January, which are highlighted in **Appendix A** and summarised below:

- **Growth in Business Rates - Inflation – income of £0.041m has been removed from the forecast. (Line 3 – Appendix A)**
- **Growth in Business Rates / Council Tax – general property growth – additional income of £0.154m has been included in the forecast. (Line 4 – Appendix A)**

Following the completion of the final business rate ‘property base’ calculations for 2021/22, the above two changes have been required. In terms of business rate inflation, the Government have ‘frozen’ the business rate multipliers for 2021/22 so there will no longer be a CPI uplift in income receivable.

In terms of the second adjustment set out above, after taking into account various factors including the on-going impact from COVID 19, there is an expected overall increase in underlying income of **£0.154m**. Excluding the impact of COVID 19, the increase would have been larger, so in effect COVID 19 is reducing growth in business rates rather than producing an overall negative position at the present time.

- **Collection Fund Surpluses b/fwd – A deficit of £6.018m has now been included in the forecast (Line 5 – Appendix A)**
- **Specific Changes in the use of Reserves – use of reserves has increased by £6.045m (Line 14 – Appendix A)**

The above two changes largely offset each other as they reflect the accounting treatment of the COVID 19 business rate reliefs provided by the Government during the year.

The Government have reimbursed the Council for the ‘cost’ of providing the reliefs and this funding has to be recognised in the 2020/21 accounting year rather than paid into the collection fund to offset the reduced income as reliefs are applied. Therefore, the collection fund will temporarily show a large deficit that has to be accounted for in 2021/22. The deficit will be eventually be ‘cleared’ by carrying the grant money receivable from the Government in 2020/21 forward into 2021/22.

The small difference between the two figures above relates to the most up to position in respect of Council Tax, where a surplus of **£0.027m** is expected to remain on the collection fund at the end of 2020/21.

Further details will be provided in the financial performance report for quarter 3 where the corresponding impact in 2020/21 will be highlighted.

- **Inflation – Employee Costs – expenditure has been reduced by £0.029m (Line 9 – Appendix A)**

This small adjustment reflects the final salary estimates for the year.

- **Other Adjustments – expenditure has been reduced by £0.009m (Line 17 – Appendix A)**

This small adjustment primarily reflects the changes in recharges between the General Fund and HRA that have now been finalised.

As set out in **Appendix A** the above adjustments reduce the overall deficit for the year to **£1.049m** (from £1.227m reported on 29 January 2021).

At the time this report was printed, the final grant settlement had yet to be confirmed by the Government. It is acknowledged that the Council may still receive notification of amended / additional grants from the Government or other funding bodies. A recommendation is set out above that provides a delegation to include such amounts in the budget as necessary.

As previously reported, in a change from previous years, fees and charges are now agreed separately by the relevant Director / Portfolio Holder.

However they continue to be reviewed within the framework of the financial forecast and therefore they will be considered against the following key principles:

- general inflationary increases where possible or lower where appropriate / justified
- amounts rounded for ease of application, which may result in a slightly above inflation increase.
- on a cost recovery basis as necessary
- reflect statutory requirements.
- increases where market conditions allow
- to meet specific priorities or service delivery aims / objectives

Although they are now agreed separately, a full schedule of fees and charges will be provided to members. It was initially expected to provide this information as part of this report but some fees and charges still remained subject to approval, so it has not been possible to provide a full schedule at the time of printing this report. No changes to the forecast / budget are expected to be required in 2021/22.

## GENERAL FUND BUDGET SUMMARIES

The 2021/22 revenue budget and capital programme are summarised below. In respect of the revenue budget, this is based on a Band D Council Tax increase of £5 (2.90%) for this Council's services in 2021/22.

**Table 1 – General Fund Revenue Budget**

	2020/21 Original £m	2021/22 Original £m
Net Cost of Services	19.337	19.172
Revenue support for capital investment	0.267	0.059
Financing items	(3.472)	(4.973)
<b>Net Expenditure</b>	<b>16.132</b>	<b>14.258</b>
Net Use of Earmarked Reserves*	(1.550)	(6.642)
<b>Total Net Budget</b>	<b>14.582</b>	<b>7.616</b>
Business Rates ( <i>excl. S31 Govt. Grant funding</i> )	(4.438)	(4.599)
Revenue Support Grant	(0.429)	(0.431)
Collection Fund (Surplus) / Deficit*	(1.361)	6.018
<b>Council Tax Requirement (for Tendring District Council)</b>	<b>8.354</b>	<b>8.604</b>
Parish Precepts	2.046	2.101
<b>Council Tax Requirement (as per Requisite Calculations)</b>	<b>10.400</b>	<b>10.705</b>

\*The significant changes between years reflect the accounting treatment of business rate reliefs, which is set out earlier in this report.

**Table 2 – General Fund Capital Programme**

	2021/22
	£m
<b>EXPENDITURE</b>	0.816
<b>FINANCING</b>	
Government Grants	0.757
Direct Revenue Contributions	0.055
Earmarked Reserves	0.004
<b>Total Financing</b>	<b>0.816</b>

## ROBUSTNESS OF THE ESTIMATES AND ADEQUACY OF RESERVES

Appendix K sets out the Chief Finance Officer's (S151 Officer) report on the Robustness of the Estimates and the Adequacy of the Reserves as required by section 25 of the Local Government Act 2003.

Taking into account all the relevant issues the estimates can be considered as robust and are supported by adequate reserves.

The formulation of the budget for 2021/22 is set against the context of the longer-term forecast. Taking the proposed position for 2021/22 into account the most up to date

forecast of the expected annual position for each remaining year of the forecast is as follows:

<b>Year</b>	<b>Net Budget Position (including adjusting for prior use of reserves to balance the budget)</b>
2022/23	£1.098m deficit
2023/24	£0.866m deficit
2024/25	£0.630m deficit
2025/26	£0.388m deficit
2026/27	£0.142m deficit

**Appendix A** sets out the estimated surplus within the Forecast Risk Fund over the same time-period, with annual surplus balances still expected to remain within this reserve over the remaining life of the forecast.

Although the figures set out within the table above will change as part of updating the forecast on a regular basis during 2021/22, there have been no issues arising that indicate that the long-term approach is unsustainable. Against this background and as discussed previously, it may not be possible to avoid or mitigate adverse issues, such as cost pressures, over the remaining years of the forecast. However, the level of savings required will need to continue to act as the 'safety valve' with the overall position being subject to further updates as part of reporting the quarterly position going forward.

#### **COUNCIL TAX DISCOUNT FOR YOUNG PEOPLE LEAVING CARE**

As agreed at Full Council on 24 November 2020, a policy has been developed to enable council tax discounts to be provided to young people leaving care. The policy was approved by Cabinet at its meeting on 29 January 2021 for recommending to Full Council.

The policy is set out in **Appendix L** and enables support to be given to young people leaving care until the age of 21 and will be backdated to 1 April 2020. The policy is consistent with the policies introduced by other Essex Local Authorities.

The cost of this scheme is not expected to have a major impact on the overall council tax base, but it will be kept under review this year. It is important to highlight that the full cost of providing these discounts will not fall to the Council alone, as the major preceptors have committed to meet their share of the cost based on a pro-rata amount equal to their element of the overall council tax bill.

Council tax discounts are considered by Full Council in November each year, and subject to approval of the policy set out above, this discount will 'automatically' be included in this annual review process going forward.

#### **BACKGROUND PAPERS FOR THE DECISION**

Working papers held in accountancy

#### **APPENDICES**

**Appendix A**                      **Financial Forecast 2021/22**

**Appendix B**                      **Net Savings 2021/22**

<b>Appendix C</b>	<b>Cost Pressures 2021/22</b>
<b>Appendix D</b>	<b>Detailed General Fund Revenue Estimates (based on new directorate structure), Capital Programme and Reserves 2021/22</b>
<b>Appendix E</b>	<b>Special Expenses 2021/22</b>
<b>Appendix F</b>	<b>Requisite Budget Calculations 2021/22</b>
<b>Appendix G</b>	<b>Calculation of District and Parish / Town Council Taxes for All Areas 2021/22</b>
<b>Appendix H</b>	<b>Precepts on the Collection Fund 2021/22</b>
<b>Appendix I</b>	<b>District and Parish/Town Council Tax Amounts 2021/22. (excludes Council Tax amounts for County, Fire and Police services 2021/22 which will form part of the final Council Tax setting process via the Human Resources and Council Tax Committee)</b>
<b>Appendix J</b>	<b>Calculation of Estimated Surplus on the Collection Funds for 2021/22</b>
<b>Appendix K</b>	<b>Chief Finance Officer's (S151 Officer) report on the Robustness of the Estimates and the Adequacy of the Reserves</b>
<b>Appendix L</b>	<b>Care Leaver's Council Tax Discount Policy</b>