

North Somerset Council

Report to the Council

Date of Meeting: 12 January 2021

Subject of Report: Medium Term Financial Plan & Revenue Budget Update

Town or Parish: All

Officer/Member Presenting: Richard Penska, Head of Finance & Property and Ash Cartman, Executive Member for Finance & Performance

Key Decision: N/A

Reason: Council Decision

Recommendations

Council is asked to note:

- i. The update budget projections as at the end of December 2020 within the Medium Term Financial Plan (MTFP), following the announcement of the Spending Review and the Provisional Local Government Finance Settlement,
- ii. The next steps and timescales for finalising the MTFP and setting the 2021/22 revenue budget,
- iii. The alternative budget proposals or items which will be presented to the meeting for discussion and consideration within the 2021/22 budget.

1. Summary of Report

Reports to the Executive over recent months have provided details of the council's MTFP forecasts for the period 2021 to 2024, which have taken account the anticipated levels of resources available as well as the projected increases in cost and demand for services and indicative savings plans which will be required to deliver a balanced budget.

This report updates the MTFP resource forecasts for changes that have occurred to previous planning assumptions as a result of the Provisional Local Government Finance Settlement, which was announced on 17 December, and also advises on a series of other changes to the council's MTFP modelling, and the revised budget gap.

As in previous years the financial impacts of the council's capital programme decisions and treasury management policies will be fully integrated within the revenue budget report which will be presented to the Executive on 3 February 2021, although separate reports

covering both of these areas in detail will be presented to the Executive at the same meeting.

The context of delivering this MTFP remains turbulent with the economic impacts of the COVID pandemic and Brexit uncertain. As expected the Local Government settlement only provides certainty for one year and as a consequence the MTFP only reflects a robust position for 2021/22.

2. Policy

The MTFP is a core strategic document that supports the delivery of the council's Corporate Plan which outlines the key priorities for residents and businesses within our communities. The MTFP itself describes the council's current and projected financial position and compares these to the anticipated resources available. It highlights the key risks inherent within the budget planning process and incorporates a range of financial strategies to address these.

There is a legal requirement to produce a robust revenue budget for the 2021/22 financial year along with relevant council tax bandings and rates, and these will be recommended for approval by Council in February 2021.

3. Details

3.1. Updated resource assumptions

3.1.1 Government funding

The council's MTFP resource forecasts currently contain a range of assumptions in respect of anticipated grant allocations and although the majority of these were broadly aligned to the details released within the Provisional Local Government Finance Settlement announced on 17 December 2020, there was a change to one of the existing grants, meaning that the MTFP resources table will be updated for the following item;

- New Homes Bonus (NHB) grant – the data tables show that the council will receive £260k more grant than anticipated as the government has extended the funding stream for a further year however, the guidance notes clearly indicate that this additional funding is for one year only, and the NHB allocation for 2021/22 will not attract any legacy payments. The government has set out its intention to hold a consultation on the future of the New Homes Bonus, with a view to implementing reform in 2022/23.

Funding allocations for grants such as the Revenue Support Grant, Improved-Better Care Fund, Troubled Families and Homelessness remain unchanged.

In addition to the NHB grant extension, the government also confirmed several major **new** grant funding streams although they have been clear to stipulate that these are 'one-off' in nature and so will not continue into future years. The council's resource forecasts will be updated to reflect the following items;

- Social Care Grant - the government has confirmed there will be an additional Social Care Grant of £300m nationally for adult and children's services, which is in addition

to all existing social care funding continuing in 2021/22. Of this £300m, £60m will be distributed on the basis of the adult social care relative needs formula, with £240m used to adjust for the funding that could potentially be raised through the adult social care precept in 2021/22. The council's share of the additional grant for 2021/22 is **£706k**.

- Lower Tier Services Grant – the government has announced a new £111m lower tier services grant to those councils who provide services such as homelessness, planning, recycling and refuse collection and leisure. The government has indicated that £86m of this will be allocated to district councils and unitary authorities in line with their shares of the settlement funding assessment criteria, and the remaining £25m will act as a floor and will be allocated to district councils to ensure that no council sees its core spending power reduce next year. The council's share of the additional grant for 2021/22 is **£213k**.
- Covid-19 un-ringfenced funding – the government has announced a new funding package of £1.55bn to meet expenditure related pressures linked to the pandemic which may continue into next year. The provisional settlement shows that this funding has been distributed using the Covid-19 relative needs formula, which includes population and deprivation factors, as well as an area cost adjustment to account for the differing costs of delivering services across the country. The council's share of the new grant for 2021/22 is **£4.975m**.

Continued Covid pressures are currently a key feature within the council's MTFP risk register and so an equivalent sum will be included within the revenue base budget as a one-off growth item, to enable spending to be incurred in the new year should the need arise. This means that no specific proposals will be included within the budget at this time however, the council recognises that the funding does provide some degree of mitigation for Covid risks although the extent to which is uncertain as the effects of the pandemic continue to evolve.

- Covid-19 funding for local council tax support scheme costs – the government intends to distribute £670m of funding to councils in recognition of the increased costs of providing local council tax support and other help to economically vulnerable households following the pandemic.

It is anticipated that the funding will meet the additional costs associated with increases in local council tax support caseloads in 2021/22 although as the funding is not ring-fenced to the collection fund, it can be used to provide other support to vulnerable households, including through local welfare schemes. The council's share of this grant for 2021/22 is **£1.922m**.

As with the previous Covid grant noted above, the council's MTFP will be updated to reflect an equivalent cost pressure to ensure that the funding is held for its intended purpose and not allocated to other pressures.

- Covid-19 funding for collection fund losses – the government has announced plans to introduce measures to compensate councils for 75 percent of irrecoverable business rate and council tax losses, in a similar way that it has in the current financial year for income losses relating to sales, fees and charges. Funding will be applied to councils when losses are calculated and crystallised at the end of the financial year, rather than allocated as a specific sum at this time. The council's

MTFP will be updated to reflect indicative funding of **£1.242m** in each of the 3 years of the Plan.

Other areas to note within the provisional settlement announcement include;

- **Adult Social Care Precept** – the government has extended councils ability to increase their council tax by an extra 3% through the continuation of the Adult Social Care Precept, which could be spread over 2 years if needed. Given the council's low tax base and the scale of the financial challenges across the period of the MTFP, it is proposed that the council's financial modelling be updated to reflect a Precept of 3% which would realise additional resources of approximately **£3.3m**.
- **Council Tax Thresholds** – unitary and county councils, London boroughs, the GLA and fire and rescue authorities will be able to increase their core Band D council tax up to a maximum cap of 2% in 2021/22, to ensure that the Band D keeps pace with other inflationary measures. In North Somerset Council, an increase of 1% would broadly equate to approx £1.1m using the tax base. The council's MTFP currently reflects a general increase of 1.99% meaning no change to current assumptions.

Other thresholds are in place, e.g. police and crime commissioners will be able to increase their precept by up to £15 per year. District councils will be able to increase their council tax by 2% or £5, whichever is the higher. There remain no referendum principles for mayoral combined authorities or town and parish councils.

- **Public Health Grant** - The settlement includes no information about the national total, or individual council allocations, of the public health grant for 2021/22. The Local Government Association has called on government to provide councils with clarity on the funding available in 2021/22 as a matter of urgency as the current delay to the announcement is making it extremely difficult for councils to plan effectively at a time when public health services are vital to the fight against Covid-19.
- **Business rates and business rates retention** – the government advised that it will revisit the reform of the local finance system, taking into account work related to business rates and the longer-term funding solution for adult social care. There will not be a re-set of the baseline for business rates in 2021/22, and the multiplier will be frozen, although councils will be fully compensated.

3.1.2 Council Tax Base and Income

Before setting its council tax charges, the council has a statutory duty to set its tax base between 1st December and 31st January each year, ahead of the following financial year.

The tax base is required to be based on the valuation list on a 'specified day' of the previous year, i.e. 30 November 2020 and information must be passed to the Town and Parish Councils and other major precepting bodies in order that they may calculate their own precepts. Precept information from these bodies is requested by the end of January in order that the full figures can be shown in the Council Tax Setting report presented to Council in February.

Under the regulations the council tax base is the aggregate of the 'relevant amounts' calculated for each valuation band, multiplied by the authority's estimated collection rate for

the year. The relevant amounts are calculated as the number of chargeable dwellings in each band shown on the valuation list on a specified day of the previous year, adjusted for the following:

- the number of discounts and reductions that apply to those dwellings,
- the number of new properties expected to become taxable over the 16 months from the specified day on a pro rata basis,
- the estimated collection rate applied to cover collection risk factors

The council's estimated collection rate for the year is 98.5%, this being an allowance which takes into account potential adjustments and movements within the calculations in respect of the phasing of house-building timescales, discounts, as well as collection levels.

The proposed tax base for 2020/21 is 78,738.9 chargeable 'Band D' properties, which is a net reduction of 446.2 Band D equivalent properties from the previous year.

The net reduction in the tax base has been derived from the following movements:

- increase in number of chargeable Band D properties as a result of housing growth,
- increase in number of Band D properties in receipt of discounts and exemptions; and,
- a negative adjustment in the estimated council tax collection rate

3.2. Other changes to the MTFP

3.2.1 Spending commitments and growth pressures

- **Pay inflation** – the current MTFP modelling included a growth pressure of £1.9m in respect of 2.75% inflation on the council's pay budgets and also the planned rises in pension costs. The Spending Review 2020 announced that a pay freeze would be applied across elements of the public sector workforce which would clearly impact on this sum. However, the council is required to follow the National Joint Council (NJC) terms and conditions in respect of setting and agreeing pay levels, who have yet to determine a pay increase for 2021/22. At this time it is proposed that the council's MTFP be updated to reflect provision equivalent to a 2% pay award, thereby reducing the growth requirement by **£129k**.
- **Risk** - when drafting its MTFP and associated financial strategies the council must ensure that the budgets it sets across the period of the Plan are robust and based upon accurate levels of service-related activity, and that key risks are identified, assessed and mitigated either through specific provision, or through the ability to drawdown funding from reserves.

Given the volatility evidenced over the course of the past year, and the continued uncertainties within the future outlook, the council proposes to set-aside **£500k** as a provision towards MTFP risks associated with rising levels of demand, income losses not covered by the Covid sales, fees and charges income loss scheme, and delays in the delivery of MTFP savings plans.

- **Transformation** – savings plans totalling £7.5m have been included within the MTFP for next year, and a large proportion of these relate to transformational related activity. In order to deliver these plans within the required timescales the council recognises that additional capacity is needed and so **£483k** will be included within the budget to fund these costs.

- **Covid pressures** – as noted above new funding has been allocated for Covid related spending pressures and so a growth item of **£4.975m** will be added to the council's corporate budgets for next year to allow for potential costs.
- **Capital investment proposals** – the council's MTFP has yet to include any financial implications which may arise from the strategic asset management planning works which are being undertaken by consultants Arcadis however, the council recognises that a degree of borrowing will need to be drawn down over the period of the Plan to fund required levels of investment in both existing and new assets. It is proposed that the MTFP be updated to reflect an initial **£150k** of revenue related costs, linked to capital programme investments in the 2021/22 financial year, although clearly noting that this sum would rise to £1.1m in later years when a proportion of the debt is required to be repaid along with the full-year of interest costs.

3.2.2 Investment in new priorities

In addition to covering core budgetary pressures and service needs, the Executive has also expressed their intention to incorporate more resources into the budget for next year to fund new investment in their changing priorities over the period of the MTFP. It can be seen from the modelling of resources above, that some elements will be recurring and included within the base budget going forwards, whilst other elements have been reflected within the MTFP for specific timeframes.

This dual approach to financial planning enables funding of both one-off spending proposals, at the same time as introducing key priorities into the budget from 2021/22. The Executive are aware of the overall budgetary constraints and the "one-off" nature of the Government Settlement and are keen to provide necessary investment into priority areas. This strategy also provides an opportunity to monitor and reflect on the effectiveness of this temporary investment before they are considered for incorporation into a future budget on a permanent basis, should resources allow at that time.

At this time it is proposed that the draft budget for next year be updated to reflect **£1.1m of additional "one off" investment** to fund the following areas, or themes, with further and more specific detail being released and included within the final draft budget proposals presented to the Executive at the meeting in February;

- £150k - children's services, including delivery of the Ofsted action plan. Areas currently under consideration include improvements at family hubs to ensure that the equipment and environment is more appropriate and suitable for all age groups, as well as provision for more support and advice.
- £150k – climate emergency and green recovery has been a key focus of the council since it declared an emergency in early 2019, since that time resources have been allocated to fund a fixed term officer post - this proposal would increase the funding available to the service and enable specific investments or larger scale projects to be scoped and external grants to be levered through submission of external bids.
- £100k – covid recovery, business, tourism and culture support – investment proposals in this area would enable the council to provide targeted support to businesses and assist in delivery of their covid recovery plans, as well as facilitating

the implementation of the council's cultural strategy plans, which would see a short-term pump-priming investment potentially unlocking the roll-out of a 10-year strategy.

- £200k – active travel, parking and highways. Investment in these areas would provide additional support and capacity to deliver a range of outcomes relating to parking and highways activity, as well as enabling investment in key place-making projects to be accelerated and therefore support economic well-being.
- £200k – recovery support for vulnerable adults, which could include specific proposals relating to housing support for those who may have complex mental health issues where homelessness legislation does not apply, as well as other service-related improvements or projects.
- £300k – one-off Covid recovery investments – wide-ranging resource which aims to provide targeted investment in areas which would stimulate recovery or provide communities with a much-needed improvement in their environment, for example, improvements to public rights of way, enhancements to public realm, community facilities, or increase in apprenticeship employment.

3.2.3 Savings proposals

All aspects of the MTFP continue to be reviewed and assessed to ensure that the draft budget is robust and that savings plans are fully supported and deliverable. It is proposed that the savings values are reduced by £324k to remove potential items which were not sufficiently scoped.

3.3. Updated revenue budget forecast

The updated information received during December has been incorporated within the council's MTFP revenue budget forecast and a summary of the movements is shown below.

	£000	£000
Revenue budget gap reported to Executive, December 2020		3,293
Changes in resources;		
- council tax income – 3% adult social care precept	-3,300	
- grants – NHB extension, new Social Care, new Lower Tier Services	-1,179	
- grants – Covid pressures	-4,975	
- grants – Covid collection fund losses	-1,242	
- grants – Covid council tax support	-1,922	
- collection fund – council tax support costs	1,922	
		-10,696
Changes to spending plans;		
- Covid pressures	4,975	
- Funding for risk mitigation and transformation	983	
- Change in pay inflation	-129	
- Funding for capital investment (£150k, rising to £1.1m)	150	
- Funding for new one year investment proposals	1,100	
		7,079

Changes to savings proposals		324
Revised revenue budget gap for 2021/22		0

3.4. Proposed timetable and next steps

The council is required to set a robust revenue budget for 2021/22 and approve its council tax by the 11th March 2021, and the proposed timetable is as follows:

What	When	Who
<i>Update on resources and MTFP planning assumptions and consideration of Alternative budget proposals</i>	12/1/2021	Council
Completion of Budget consultation and engagement	Jan 2021	Members, stakeholders, equalities groups
Recommend a budget and council tax levels to Full Council	Feb 2021	Executive
Approval of 2021/22 revenue and capital budgets and council tax levels	Feb 2021	Council

3.5. Alternative budgets

As is the current practice the Executive will consider alternative revenue budget proposals which are put forward by opposition groups. It is proposed that these are presented at the Council meeting in January 2021, so that all Members can note the details and the Executive can consider whether they wish to incorporate any items within the final draft budget to be presented at its meeting in February 2021.

4. Consultation and Engagement

The government, through its legislative framework, clearly expects that local authorities will be able to demonstrate that they have in place mechanisms to ensure that 'representatives of local people' are being appropriately informed, consulted or involved in services, policies or decisions that affect or interest them.

There are many aspects of service delivery which impact on our residents, customers and other stakeholders and members of the public, and so we recognise that it is our responsibility to ensure that any changes we make to them through the budget, need to be considered and consulted upon. Failure to do so adequately could result in aspects of the budget being subject to legal challenge.

Publication of the council's draft budget along with details of the core assumptions, planned budget changes for both additional costs and the proposed savings plans supports the objective of the Executive to be as transparent as possible.

A detailed engagement plan has been drawn up to support the MTFP process and aspects of the Plan have already been delivered, with further actions following throughout January. Feedback from all budget consultation and engagement will be included within the final

draft budget report which is due to be presented to the Executive at the meeting in February 2021.

5. Financial Implications

Financial implications are contained throughout the report.

6. Legal Powers and Implications

The Local Government Act 1972 lays down the fundamental principle by providing that every local authority shall make arrangements for the proper administration of their financial affairs, although further details and requirements are contained within related legislation. The setting of the council's budget for the forthcoming year is an integral part of the financial administration process.

7. Climate Change and Environmental Implications

Climate and environmental related implications continue to be at the forefront of our thinking when considering the underlying Corporate Plan and service policies and priorities, as well as detailed investment and savings options.

Energy and climate change issues were identified as a key theme within the council's Transformation Programme and workshops have been held to shape and formulate the key components necessary to achieve desired objectives. The council recognises that further investment is required in this area and has included provision within the new investment proposals as described in para 3.2.2.

It is anticipated that the council may also identify resource allocations within the draft capital programme for 2021/22, or look to scope specific projects or initiatives for this area, further details of which will be included within later reports.

8. Risk Management

In setting the revenue and capital budgets, the council must take into account the known key financial risks that may affect its plans and these will either be explicitly provided for within the base budget or be offset and held against the unallocated contingency budget or the council's general fund working balance.

The council's Section 151 Officer has led work over recent months to assess and review these items, which are held in the MTFP risk register. Para 3.2.1 above advises that the council will seek to increase the provision within its contingency budget by £500k to help address some of the inherent risks and uncertainties reflected within the latest financial modelling forecasts.

A more detailed assessment of the risk and robustness of the final budget will be included within the February report considered by the Executive.

9. Equality Implications

In considering its vision, ambitions and financial planning the council should be mindful of its Public Sector Equalities Duties to have due regard to the need to:

- eliminate unlawful discrimination
- advance equality of opportunity; and
- encourage good relations between groups.

As per previous years, we will undertake thorough Equality Impact Assessments, (EIA), for all significant budget savings plans. Summary EIAs have been placed on the council's website during December 2020 with detailed EIAs for specific proposals being published in early January 2021. The council's equalities stakeholder group will also consider these assessments during January 2021.

10. Corporate Implications

The Corporate Plan and MTFP are vital tools to help align effort across the organisation and ensure that services are all pulling in the same direction. With continuing financial pressures and demands for services, it is essential that the councils' limited resources continue to be prioritised and allocated in line with the identified priorities.

11. Options Considered

Options and considerations within the council's MTFP processes are described throughout the report.

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Appendices:

None

Background Papers:

MTFP & 2020/21 Budget Setting Reports (Executive & Council – Feb 2020 to Dec 2020)
Budget Monitoring Reports (Executive - June-December 2020)