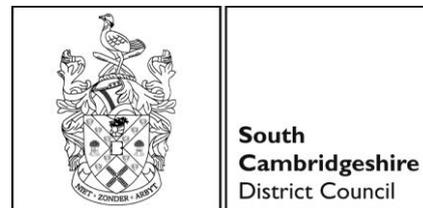


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11 January 2021

To: Chair – Councillor Grenville Chamberlain
Vice-Chair – Councillor Judith Rippeth
Members of the Scrutiny and Overview Committee – Councillors
Anna Bradnam, Dr. Martin Cahn, Nigel Cathcart, Sarah Cheung Johnson,
Graham Cone, Dr. Claire Daunton, Dr. Douglas de Lacey, Peter Fane,
Jose Hales, Geoff Harvey, Steve Hunt and Dr. Richard Williams

Quorum: 5

Substitutes:	Councillors Heather Williams, Mark Howell, Sue Ellington, Bunty Waters, Gavin Clayton, Henry Batchelor, Dr. Ian Sollom, Eileen Wilson, Clare Delderfield, Deborah Roberts and Alex Malyon
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Dear Councillor

The attached is item 5 of the agenda for the next meeting of **Scrutiny and Overview Committee**, which will be held as a Virtual meeting online on **Tuesday, 19 January 2021 at 5.20 p.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution ***in advance of*** the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Yours faithfully

Liz Watts

Chief Executive

The Council is committed to improving, for all members of the community, access to its agendas and minutes. If you have any specific needs, please let us know, and we will do what we can to help you.

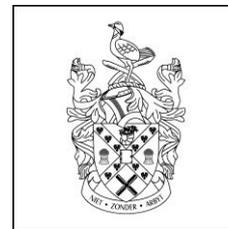
Agenda Supplement

5. **Summary General Fund Revenue Budget 2021/2022**
Appendix B of the report will follow.

Pages
1 - 32

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Agenda Item 5



South
Cambridgeshire
District Council

REPORT TO: Scrutiny & Overview Committee 19 January 2021

LEAD CABINET MEMBER: Councillor John Williams,
Lead Cabinet Member for Finance

LEAD OFFICER: Peter Maddock, Head of Finance

Summary General Fund Revenue Budget 2021/2022

Executive Summary

1. To consider the summary General Fund Revenue Budget for 2021/2022 and to recommend the Revenue Budget to Council.
2. This is a key decision because it results in the authority incurring expenditure which is, or the making of savings which are, significant having regard to the Council's overall budgets.

Recommendations

3. **The Scrutiny & Overview Committee is requested to consider and comment on the report that invites Cabinet, at its meeting on 3 February 2021, to:**
 - (a) **Take into account the detailed budgets presented at Appendix B, and summarised at Appendix A, with an estimated General Fund Gross Operating Expenditure for 2021/2022 of £70.727 million, estimated Gross Operating Income of £49.109 million and estimated General Fund Net Operating Expenditure of £21.618 million;**
 - (b) **Acknowledge the key factors which have led to the proposed General Fund Revenue Budget, with service pressures summarised at Appendix C and offsetting efficiency savings/policy options summarised at Appendix D;**
 - (c) **Acknowledge that the 2021/2022 General Fund Revenue Budget gross expenditure is covered by forecast income sources (assuming no change in Government grant) and, therefore, any addition(s) to expenditure that are made by the Cabinet or Council will need to be met from the General Fund Balance;**
 - (d) **Approve the 2021/2022 General Fund Revenue Budget taking into account the statement by the Chief Finance Officer on the risks and robustness of the estimates as required under Section 25 of the Local Government Act 2003 (reproduced at Appendix F);**
 - (e) **Set the Council Tax Requirement for 2021/2022 at £9,994,789;**
 - (f) **Approve an increase in the District element of the Council Tax of £5 per annum, giving an average Band D Council Tax of £155.31, plus the relevant amounts required by the precepts of the Parish Councils, Cambridgeshire County Council, Cambridgeshire Police & Crime Commissioner and the Cambridgeshire Fire Authority;**

- (g) Authorise the Head of Finance, on the basis of the proposals set out in the report, to prepare the formal Council Tax Resolution for presentation to Council at its scheduled meeting on 23 February 2021;
- (h) Approve the estimates of the amounts required to be made under the Non-domestic Rating (Rates Retention) Regulations 2013 as set out in paragraphs 34 to 37;
- (i) Approve the acceptance of any grants made during 2021/2022 by the Government under Section 31 of the Local Government Act 2003 in respect of Business Rates;
- (j) Approve the use of the additional income from the Business Rate Pool, estimated at £1,100,000 in 2021/2022, for transfer to the established Renewables Reserve for priority projects;
- (k) Subject to any changes to the recommendations above, recommend to Full Council:
 - (i) The 2021/2022 General Fund Revenue Budget based on known commitments at this time and planned levels of Service/functions resulting in a Budget Requirement of £21.879 million;
 - (ii) The District Council Precept on the Collection Fund (Council Tax Requirement) of £9.995 million in 2021/2022 (based on the Provisional Government Settlement) and a Band D Council Tax of £155.31.

Reason for Recommendations

4. To enable the Cabinet to recommend to Full Council the 2021/2022 General Fund Revenue Budget.

Details

(A) Prospects for Local Government

5. This report sets out the draft revenue budget proposals for 2021/2022 that have been prepared in the context of a significantly changing financial landscape for local government, particularly the significant scrutiny and changes to how local government is funded and the detailed provisions of the Local Government Finance Settlement. In addition, consideration has been given to the impact and severity of COVID-19, the consequent speed of UK economic recovery and the impact of the Government support packages introduced to help Councils respond to the Coronavirus pandemic.
6. It had been expected that, following the one-year spending review for 2020/2021, the Comprehensive Spending Review would be held in 2020 and would apply from April 2021. This was to include major changes in local government funding itself with the planned increase in local business rate share to 75% (from 50%), a business rate baseline reset, a Fair Funding Review, and other changes to key funding streams, such as social care and New Homes Bonus. The Government, however, confirmed on 21 October 2020 that there would be a one-year spending review for 2021/2022 in order to prioritise the response to COVID-19 and to outline measures to drive economic recovery. The Comprehensive Spending Review – which was due to be delivered in the autumn – will now be held in 2021 and will apply from 1 April 2022.

7. A detailed refresh of the Medium Term Financial Strategy (MTFS) was considered by Cabinet, at its meeting on 7 December 2020, and this provided (i) an assessment of the resources available to the Council over the medium term and (ii) an assessment of spending pressures based on existing levels of service delivery and known policy/legislative changes. The determination of the 2021/2022 revenue budget has, therefore, been informed by the MTFS financial forecasts, together with established and effective budget monitoring arrangements that have created a sound foundation for the management of the Council's financial resources.
8. The financial landscape requires a reliance on an effective budget strategy and sound medium-term financial planning to ensure that the Council's limited resources are targeted to priority services and outcomes.

(B) Economic Outlook

9. The economic landscape has changed immensely in the last 12 months, initially as a result of the uncertainty over the withdrawal process from the European Union, and recently the financial challenges as a result of the Coronavirus pandemic (COVID-19) which has had an impact on the Council's planned income and expenditure. The Government introduced a number of measures that sought to help businesses survive the crisis caused by the Coronavirus pandemic, including loan guarantees for bank lending, payment of business grants and the expansion of retail relief reducing the business rates liability for many businesses. A support package was also introduced to help Councils respond to the Coronavirus pandemic and to ensure financial sustainability in the future.
10. Inflation used to drive expenditure and income assumptions in revenue budget planning have been based on the Bank of England and Office for Budget Responsibility (OBR) forecasts; the percentage applied in the MTFS and in the proposed budget is 2.5% for employee related costs and 2% for other costs reflecting the Government target for the Community Price Index (CPI). In terms of current economic performance, inflation (measured in terms of CPI), was recorded at 1.1% in June 2020 and 0.7% in September 2020, below the Bank of England's target of 2%.
11. The Council lends its cash balances externally on a short-term basis, with a view to generating a return that can be spent on delivering council services whilst managing both security and liquidity of the cash. In response to the emerging crisis interest rates were cut globally with banks seeking to provide liquidity through the purchase of financial assets. In the UK itself, the Bank of England cut the Base Rate initially on 11 March 2020 to 0.25% (from 0.75%) and subsequently it was reduced further on 19 March 2020 to a record low level of 0.1%. It is expected that rates will remain at low levels throughout the remainder of 2020/2021 and during the financial year 2021/2022. The anticipated path of any base rate change reflects the fragility of the recovery and this will continue, therefore, to have a direct impact on the investment return achieved by the Council.
12. Short term loans were used during 2020/2021 to fund lending to Ermine Street Housing and to fund other items in the Capital Programme and it is anticipated that external borrowing will be required during 2021/2022. The unexpected increase in Public Works Loan Board (PWLB) interest rates, by one percentage point from 8 October 2019, was reversed on 26 November 2020 to coincide with the introduction of new borrowing restrictions that prevent access to PWLB loans for investment in commercial assets primarily for yield. The impact of these changes has been considered as part of the annual review of the Capital, Investment and Treasury Management Strategies. For budgeting purposes, available interest rates have been factored into the borrowing cost projections associated with the capital programme.

(C) Budget Formulation

13. In looking specifically at the 2021/2022 Revenue Budget, the Council needs to be mindful of the financial backdrop and will need to ensure that any proposals, in particular around efficiencies and policy options, need to be realistic and above all sustainable. The financial landscape will, therefore, require reliance on an effective budget strategy and sound medium-term financial planning to ensure that the Council's limited resources are targeted to priority services and outcomes.
14. The Revenue Budget has been prepared in accordance with the Council's MTFs approved by Cabinet on 7 December 2020. The clear message is that budget setting and medium term financial planning will be tough over the duration of the MTFs (to 2026) and, as such, the financial objectives identified at paragraph 57 below have helped guide the budget process. In determining the 2021/2022 revenue budget, due and proper regard has been given to its ongoing sustainability and the observance of a number of overarching principles. This has involved:
 - (a) An overall commitment to endeavour to increase annual income sources and reduce annual expenditure without materially reducing front line services provided by the Council;
 - (b) A comprehensive review of the base budget to provide greater assurance for the future. The review has been based upon regular established monitoring processes, and has incorporated a review of the alignment between the original budget and service activity;
 - (c) The commitment, in response to the financial challenges, to an ambitious 4-year plan to transform service quality, realign financial resources to business plan priorities and improve customer service.
 - (d) A positive commitment to achieve better value for money for the service areas whilst maintaining quality, accessible front line services and the adoption of a Value for Money Strategy by the Cabinet on 4 September 2019.
 - (e) The continued review and tight control of the capital programme given the impact of borrowing on the revenue budget.
15. The resulting draft 2021/2022 revenue budget sets out the Council's finances and the efficiencies required to produce a balanced budget in the light of the ongoing reduction in Government grant funding and other pressures.
16. In preparing the budget for 2021/2022 a detailed revised estimate for 2020/2021 has also been prepared taking into account the changes to expenditure and funding as a result of COVID-19. The two key effects to the General Fund are the increased expenditure that has been caused by the pandemic and lost service related income due to the various lockdowns and resulting downturn in activity.
17. Additional expenditure is expected to exceed £2 million and, therefore, an increase in service costs of this magnitude is expected but also the government support in the form of additional grant has increased similarly so the overall effect on Council finances is expected to be broadly neutral. So effectively whilst the amount to be met from Government Grants and Taxpayers has increased so has the available amount for financing from Taxation and Grants.

18. With regard to lost service-related income the government have introduced an income compensation scheme and this is effectively replacing income that would have been received from customers. The compensation scheme is based on a formula such that the Council will need to bear some of these losses with around 70% being recoverable from the scheme.
19. The other difference within both revised 2020/2021 and original 2021/2022 compared to the 2020/2021 original budget is the inclusion of the pension adjustments. Accounting requirements are such that the pension costs recognised in the net cost of services should be the value of the pension fund related to those employees delivering the services rather than the actual contributions to the fund in relation to those employees. The effect of this is to increase the net cost of services but reverse the effect out within net operation expenditure.

(D) Provisional Settlement – Funding Sources

20. The 2020 Spending Review, announced on 25 November 2020, confirmed that Core Spending Power for local government was expected to increase by 4.5% in cash terms. In addition, it was confirmed that there would not be a reset of the business rates baseline in 2021/2022. The provisional finance settlement announcement, on 17 December 2020, made no significant changes to the funding allocations compared to 2020/2021. Whilst this benefits the Council in 2021/2022 compared to existing MTFS forecasts, in overall terms there are very significant risks to the funding level from 2022/2023 for District Council's with the expectation that the Council will lose a significant share of its funding as a result of the funding changes – the expected, but deferred, business rate baseline reset could be particularly damaging. There is, however, likely to be some form of damping support from 2022/2023, although it would be phased out over time.
21. The key headlines in relation to the Provisional Local Government Finance Settlement are as follows:
 - (i) Council Tax referendum principle of the higher of 1.99% or £5 per dwelling for 2020/2021.
 - (ii) Continuation of the existing Business Rate Retention Scheme for a further year, with 100% business rates pilots continued for a further year. The Spending Review also confirmed that a fundamental review of the Business Rates Retention System would report in Spring 2021. The Cambridgeshire Business Rates Pool was also confirmed for a further year.
 - (iii) An additional one-off grant for 2021/2022 of £113,000 called the Lower Tier Services Grant this is un-ringfenced.
 - (iv) Continuation of the Rural Service Grant of £131,000 for a further year in recognition of the additional cost of providing services in sparse rural areas, pending implementation of the Fair Funding Review;
 - (v) Continuation of New Homes Bonus (NHB) for a further year, a provisional allocation of £1,184,000 has been made for 2021/2022, with no new legacy payments. There remains a clear indication that NHB will be replaced with details subject to usual consultation processes during 2021.

22. The spending power of the Council, based upon the provisional settlement, can be summarised as follows:

	2020/2021 £'000	2021/2022 Provisional £'000	Change %	2022/2023 £'000
Settlement Funding Assessment (SFA):				
- Business Rates Baseline	2,647	2,647	2%	2,699
- Revenue Support Grant (RSG)	-	-	-	-
Total SFA – Per 2020/2021 Settlement	2,647	2,647	2%	2,699
- Rural Services Grant	131	131	2%	-
- Lower Tier Services Grant	-	113	100%	-
New Homes Bonus (NHB) Grant	2,768	2,172	11.9%	478
Council Tax Income	9,562	9,995	4.5%	10,424
Core Spending Power	15,108	15,058	0.3%	13,601

23. While the level of Settlement Funding Assessment (SFA) for 2021/2022 remains stable as a result of the one-year settlement that has been announced, there remains considerable uncertainty relating to the SFA for 2022/2023 and beyond. The outcome of the Fair Funding Review, a probable baseline reset (and potential review of the Business Rate Retention system), and a review of NHB create further uncertainty.
24. The key elements of local government funding, some of the assumptions made for the period from 2022/2023 and local prospects were outlined in the refresh of the MTFs reported to Cabinet on 7 December 2020. These are outlined in more detail in the “Funding the Budget Requirement” Section below.

(E) Spending Baseline, Spending Pressures and Savings

25. The table below sets out headline movements from the 2020/2021 approved budget. Detailed analysis by service area is outlined in **Appendices A and B**.

	Increased Resource £m	Reduced Resource £m
Resources	£m	£m
Council Tax	482,000	-
Business Rates	-	2,491,000
Rural Services Grant/Lower Tier Grant	113,000	-
New Homes Bonus	-	575,000
Net increase in Resources	595,000	3,066,000

	Reduced Spending/ Funding changes	Increased Spending
Spending	£m	£m
Chief Executive		8,000
Finance Service		1,433,000
Shared Waste and Environmental Services		1,386,000
Housing Services		1,004,000
Planning Services		700,000
Transformation Services	90,000	
HR & Corporate Services	29,000	
Interest Payable	653,000	
Investment Income	1,354,000	
Other Levies & Contributions	576,000	
Capital Financing & MRP	4,492,000	
Contribution to Earmarked Reserves		1,421,000
Contribution to General Fund	1,229,000	
Spending differences between 2020/21 and 2021/22	8,423,000	5,952,000

26. The most significant of these are set out below:

- (a) The “Net Increase in Resources” is set out in more detail at Section “G” below (paragraphs 33 to 45). The increase in Council Tax is based upon a £5 increase on 2021/2022 levels.
- (b) Spending pressures and growth bids were originally considered by Cabinet, at its meeting on 7 December 2020, and have subject to further refinement. These are summarised at **Appendix C** and include the following:
 - Housing services – this relates to the cost of ongoing resource needs to respond to the obligations of the Homeless Reduction Act, particularly in relation to preventing homelessness, addressing the many complex cases and minimising expenditure on expensive forms of temporary accommodation (such as bed and breakfast).
 - Commercial Property Management – the creation of core professional capacity in the organisation to manage the increased property portfolio and to undertake essential feasibility studies and due diligence checks in relation to commercial investment projects.
 - services – this predominately relates to the provision of additional corporate fraud resource and training to support the commitment to protect public funds, the provision of essential ICT capacity, and additional capacity to strengthen the Finance Service.
- (c) Pay and prices incorporate a pay increase of 2.5% and an assessment of contracted service inflation.
- (d) Funding changes (e.g. incorporating the additional S31 grants related to business rates and additional income from the Council’s investments).
- (e) Capital financing charges to support the forward capital programme (see separate report on the agenda).

(f) Savings proposals are set out in more detail at Section F below (paragraphs 24 to 28) and **Appendix D**.

27. It has been established practice, since 2020/2021, to maintain a prudent level of revenue contingency to enable unforeseen and "one off" needs (i.e. having no long term ongoing revenue commitment) to be considered for funding during the financial year. The draft 2021/2022 revenue budget maintains the sum of £250,000 for this purpose, which represents approximately 1% of the net operating expenditure.

(F) Proposed Savings

28. The Council has embarked on an ambitious 4-year plan to transform service quality, realign financial resources to business plan priorities and improve customer service.

29. A range of savings proposals, including income generation opportunities, were originally considered by Cabinet at its meeting on 7 December 2020 and covered the period from 2021/2022 to 2024/2025. These have been subject to further refinement and consultation with stakeholders and the schedule of proposals, at **Appendix D**, have been included in the 2021/2022 Revenue Budget.

30. The profile of savings is influenced by deliverability and lead in times and an analysis by years is shown by workstream below (excluding HRA related savings):

Workstream	2021/2022		2022/2023		2023/2024		2024/2025		Total
	£000s	%	£000s	%	£000s	%	£000s	%	£000s
Workforce Operating Model	0.560		0.080		0.080		0		0.720
Alternative Ways of Working	0.205		0.010		0		0		0.215
Business & Growth	1.350		2.750		0.628		0.562		5.290
Managing Demand Better	0.277		0.019		0.019		0		0.315
TOTAL	2.392	37	2.859	44	0.727	11	0.562	8	6.540

31. There continues to be, in addition, a great deal of work undertaken, in consultation with Heads of Service on budget challenge, in order to identify other savings on budgets sufficient to reduce the level of costs to the level of resources available, or to ensure that budgets are appropriately aligned. This has resulted in budget adjustments being made in the context of maintaining the relationship between resource allocation and the Council's Business Plan priorities.

32. In relation to partnership arrangements, a "recharge model" was introduced in 2020/2021 for existing shared services in order to ensure that recharges are fair and consistently applied and that taxpayers in one area are not subsidising services provided in another. This resulted in an adjustment in the level of recharges and this has been factored into the revenue budget.

(G) Funding the Budget Requirement

33. Funding the Budget Requirement incorporates:

- (i) Revenue Support Grant/Business Rates
- (ii) Other Specific Grants
- (iii) Council Tax

(i) Revenue Support Grant/Business Rates Retention

34. The Business Rate Retention Scheme (BRRS) was introduced in April 2013 to provide Councils with stronger financial incentives to support property development and boost the economy in their local area. It means that Councils bear a proportion of the real-terms change in business rates revenues in their area: gaining when revenues grow in real terms, losing when they fall. The proportion was initially set at 50% across England. In two-tier areas, like Cambridge, 40% is retained by the District and 9% is retained by Cambridgeshire County Council and 1% by the Cambridgeshire Fire Authority. Subject to the broad review of business rates, which will be consulted upon during 2021, it is now expected that the introduction of the new funding model for Local Government, predicated on changes to BRSS to enable a 75% retention of Business Rates, will be introduced effective from 2022/2023 and this will influence the forward financial forecasts. It is expected that most, if not all of the 25% increase, will go to authorities with adult social care responsibilities.
35. The Provisional Local Government Finance Settlement was announced on the 17 December 2020 and sets out the Council's SFA for 2021/2022. This is identified in the table below, together with the other factors relevant to determining the Business Rates Yield for 2021/2022:

	2020/2021 £'000	2021/2022 Provisional £'000	Change %	2022/2023 £'000
Settlement Funding Assessment (SFA):				
- Baseline Funding Level	2,647	2,647	0%	2,699
- Tariff	26,482	26,482	0%	27,012
- Business Rates Baseline	29,129	29,129	0%	29,711
- Section 31 Grants	3,006	2,659	-11.5%	-
Total SFA – Per 2021/2022 Settlement	2,647	2,647	0%	2,699
Safety Net Threshold	2,449	2,449	0%	-
Levy Rate (p in £)	£0.50	£0.50		£0.50

36. Specifically, in relation to the preparation of the 2021/2022 Revenue Budget:
- (a) The net Business Rates Yield has been estimated at £93.142 million for 2021/2022 as set out in **Appendix E**. The Council's share of this together with the deficit set out in Appendix E equates to £31.675 million compared to a Business Rates Baseline of £29.129 million as set out in the table above. The forecast is based on the number and rateable values of non-domestic properties currently shown in the valuation list. The Business Rates forecast is predicated on the following assumptions:
- Where growth or decline in the tax base, i.e. new developments, can be predicted with reasonable certainty this is reflected in the forecast yield.
 - There will be no significant changes to the overall value of reliefs, e.g. empty property rate relief or charitable rate relief over the course of the financial year.

- (b) The Council is entitled to a number of Section 31 Grants in relation to Business Rates to compensate for yield that is foregone due to national government policy, for example, the extension to eligibility for Small Business Rate Relief. These Section 31 Grants are included within the Council's net expenditure (at Appendix F).
 - (c) One of the key issues in relation to forecasting the Business Rates Yield is the volatility arising from settlement of valuation appeals. This needs to be considered in terms of previous "2010 List" and the current "2017 List". Nationally the estimated eventual loss arising due to appeals is 4.7%, based on analysis of appeals since 2017 under the new Check Challenge Appeal process a reduction in this level was seen. However, there is expected to be an increase in appeals going forward in part due to the pandemic it is therefore felt that the national rate of 4.7% should be applied in respect of the appeals provision.
 - (d) There is also significant concern around the long-term effects of the pandemic and how business rates income will be affected in terms of the ongoing need for businesses to retain property to operate and how much debt will eventually turn bad due to business failures.
37. Under the business rates retention scheme local authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area. The Council successfully applied to be the lead authority of a consortium which also includes Cambridgeshire County Council, Peterborough City Council, Fenland District Council, East Cambridgeshire District Council and Cambridgeshire Fire Authority. The formal designation of the pool was confirmed on 18 December 2019 and was introduced on 1 April 2020. The Pool has also been re-designated to continue in 2021/22. It is estimated that the Council will benefit from an additional income in excess of £1.1 million during 2021/2022 and, in line with established policy, it is proposed that the sum continues to be transferred annually to top up the Renewables Reserve to fund priority projects determined by the Council.
- (ii) Rural Services Grant
38. The Council currently receives a Rural Services Grant in the sum of £131,000 in recognition of the additional cost of providing services in sparse rural areas. This has been confirmed to continue into 2021/2022 before being phased out.
- (iii) Lower Tier Services Grant
39. This is a new one-off grant of £113,000 provided to lower tier authorities to support service provision and is un-ringfenced.
- (iv) New Homes Bonus
40. The New Homes Bonus (NHB) is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas; it is based on the amount of extra Council Tax revenue raised from new-build homes, conversions and long-term empty homes brought back into use. NHB funding is currently based on the following:
- (a) NHB is payable on housing growth over a threshold of 0.4% of the Tax Base;
 - (b) Payments are based on a rolling 4-year period.

41. Housing growth has been significant for this Council area and, as such, the Council has benefited from high levels of NHB. The Government has, however, stated its commitment to review NHB; this is bad news for the Council, as the Council has been a major beneficiary of the grant, receiving a peak of £5.2 million in 2016/2017. Initial reforms have, however, already reduced payments year on year with £2.768 million received in 2020/2021. The 2020 Spending Review, announced on 25 November 2020, confirmed that NHB would continue for a “further year with no new legacy payments”. The sum of £2.192 million has been included in the 2021/2022 revenue budget and it is now anticipated that the last NHB payment will be made in 2022/2023.
42. In previous years, 30% of NHB has been set aside as a contribution to the Greater Cambridge Partnership (GCP) Investment and Delivery Fund but, given the NHB reforms and the forward financial forecasts, the level of contribution has been re-assessed in negotiation with partners and, for 2021/2022, only 10% of NHB receipts has been set aside as a contribution to the GCP Investment and Delivery Fund.

(v) Council Tax

43. Council Tax has been the most predictable and stable element of Local Government funding, although COVID-19 has created a whole new level of uncertainty. This source of income is predicted to yield £9.995 million in 2021/2022 based upon an assumed £5 increase in Council Tax (the maximum level permitted by Government) and an increase in tax base based upon the latest estimates of housing growth.
44. The Local Government Finance Act 1992 requires the Council to set its Council Tax Base for the ensuing financial year by 31 January preceding the start of the new financial year and to notify precepting bodies of the Tax Base that will apply to their area. The Council Tax base for the financial year 2021/2022 has been set at 64,353.80 Band D equivalent properties (an increase of 1.15.% (736.20) compared to the 2020/2021 Tax Base of 63,617.60).
45. The proposed increase in Council Tax for 2021/2022 is 3.4%. This proposal equates to an increase of £5.00 on the average Band D property giving a Council Tax of £155.31 based upon the 2021/2022 Council Tax base of 64,353.8 Band D dwellings. The proposed 3.4% increase in Council Tax, results in a total yield from Council Tax of £10.143 million (including £0.113 million Collection Fund surplus and £0.035 million from the council tax sharing agreement).

(H) Review of Reserves

46. A detailed review of Reserves has been made as part of the budget setting process and a separate report is included on the agenda for the meeting.

(I) Capital Programme

47. A review of the capital programme has been undertaken in conjunction with lead officers to ensure that proposed investment is prudent, sustainable and affordable and a separate detailed report to the Cabinet proposes a revised profiled capital programme. The Capital Financing implications of the proposed capital programme are reflected in the proposed General Fund Revenue Budget. In the event that all changes are approved, and the latest forecast capital receipts are forthcoming, a forecast borrowing requirement of £266.888 million will be needed to support the total capital programme to 2025/2026.

48. The revenue implications of the Capital Programme have also been taken into account in the draft 2021/2022 revenue budget and are detailed at **Appendix A**.

49. In determining the 2021/2022 revenue budget, annual contributions to the following Reserves established in 2020/2021 have been made:

(a) Repair and Renewal (Equipment & Plant) Fund: An annual revenue contribution of £250,000 to this Reserve for the purpose of defraying expenditure to be incurred from time to time in repairing, maintaining, replacing and renewing IT equipment and operational building plant and equipment belonging to the Council.

(b) Software Fund: An annual contribution of £250,000 to this Reserve for the purpose of defraying expenditure to be incurred from time to time on IT replacement software solutions.

(c) Property Investment Reserve: An annual contribution of £200,000 to this Reserve for the investment and refurbishment costs above and beyond tenant repairing lease obligations (e.g. investment to encourage improved re-letting terms). This could include upgrades to improve environmental standards.

(J) Fees and Charges

50. An annual review of fees and charges has been made as part of the revenue budget process in order to determine the non-regulatory fees and charges to be set by the Council for the provision of services from April 2021. A separate report was considered by Cabinet agenda at its meeting on 7 December 2020 and the additional income from the revised fees and charges (albeit marginal) has been included in the draft 2021/2022 revenue budget.

(K) General Fund Revenue Budget Summary

51. The 2021/2022 General Fund Revenue Budget Summary is detailed at **Appendix A (blue page)** and the following is relevant:

(i) Revenue Support Grant (RSG) and Business Rates

These figures reflect the provisional Settlement for 2021/2022. Any adjustment (dependent on its effect) will be reported to Council on 23 February 2021.

(ii) Council Tax Collection Fund Balance in aid of Council Tax

The Council's share of estimated Council Tax surplus as at 31 March 2021 has been determined by the Head of Finance and totals £0.113 million.

(iii) Net District Requirement from Council Tax

After allowing for the increase in the Council's Taxbase, the average Band D Council Tax will be **£155.31**.

(iv) District Precept on Collection Fund

In accordance with legislative requirements the District Precept on the Collection Fund will include Parish Precepts when known.

52. **In pursuance of Section 25 of the Local Government Act 2003 the Chief Finance Officer is required to make a statement on the robustness of estimates and the adequacy of Reserves in relation to the Council's budget calculations. Provided Members fully take into account the risks that are outlined in the report at Appendix F, I can confirm that Directors/Heads of Service are satisfied with the level of budgets put forward for 2021/2022 relating to their respective service areas although it must be recognised that the budget allocations in 2021/2022, and the future prospects for service delivery, will be challenging and that pressures and constraints during the next financial year will be inevitable.**

Options

53. There are options to remove or add items to the budget but, based on previous Cabinet decisions and the detailed discussions held with spending officers, the General Fund Revenue Budget as presented includes all items required to deliver council services and member priorities. The gross expenditure is covered by forecast income sources (assuming no change in Government grant) and, therefore, any addition(s) to expenditure that are required will need to identify matching savings and/or additional income if the proposed level of Council Tax is not to change.

Implications

54. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Policy

55. The MTFS, approved by Cabinet on 7 December 2020, identifies that the Council will ensure that annual ongoing General Fund revenue expenditure can be covered by annual income sources across the MTFS period in order to ensure a continuously stable financial base for the provision of Council services and functions. In doing so, the Council recognises that any significant use of reserves to fund ongoing expenditure commitments is unsustainable in the medium term.
56. The MTFS identifies that a prudent level of revenue contingency will be maintained to enable unforeseen and "one off" needs (i.e. having no long term ongoing revenue commitment) to be considered for funding and, in this regard, the proposed General Fund Revenue Budget includes a revenue contingency of £250,000.
57. In accordance with the MTFS, the following financial objectives have guided the formulation of the 2021/2022 revenue budget:
- A sustainable medium term financial plan that allows the achievement of the Council's key objectives;
 - Realistic levels of year on year spending which are supportable via annual income streams and do not require the use of general reserves to support recurring expenditure;
 - General reserves should be maintained at all times at or above the agreed minimum level;
 - Constraining annual Council Tax increases to an acceptable level;

- The pursuance of “invest to save” opportunities with a financial return on the investment in transforming activities over an acceptable payback period;
- A commitment to explore income generation opportunities and to maximise income from fees and charges;
- A commitment to maximise efficiency savings;
- The continued review and control of the Capital Programme given the impact on borrowing (see separate report on the agenda).

Legal

58. The Council is required by law to set a balanced revenue budget each year. There are two specific dates in relation to budget and Council Tax setting that are required by statute to be achieved. Firstly, it is a requirement that each local authority approves its Revenue Budget by 28 February each year for the forthcoming financial year. Secondly, a billing authority (i.e. this Council) is required to set the Council Tax for its area by 11 March each year for the forthcoming financial year.
59. It is a legal requirement (under Section 25 of the Local Government Act 2003) that before approving the ensuing year’s Capital and Revenue Budget, the Council are required to receive and take into account a report of the Chief Finance Officer (Head of Finance) on the robustness of the estimates leading to the Council’s Council Tax requirement and the adequacy of financial reserves. This needs to cover issues of affordability (having regard to Council Tax implications), prudence (having regard to Council policies/strategies) and sustainability (having regard to forecast annual expenditure and income). This report is attached at **Appendix F**.

Financial

Budget Overview

60. The proposed 2021/2022 revenue budget is set out in the table at **Appendix A**.

Government Funding Settlement

61. This report is based on the Provisional Government settlement relating to the revenue support grant and business rates redistribution. The consultation on the proposed settlement ended on 16 January 2021 but the final settlement has not yet been formally confirmed. It is, therefore, recommended that:
- if the Government grant were increased it is recommended that the balance would be transferred to the General Fund Reserve;
 - if it is reduced that this be the first call on the general contingency.

Parish Council Precepts

62. Parish Councils had until 31 January to notify the Council of their precepts for the forthcoming year and, as such, the total of the precepts will be reported directly to Full Council on 23 February 2021 as part of Council Tax Resolution.

Risk

General

63. The Revenue Budget for 2021/2022 has been prepared on a prudent basis but there are risks which may affect the budget. These risks include the following:
- The extent of service pressure being higher or lower than anticipated.
 - The delivery of planned efficiency savings.
 - Unforeseen costs during the year which may exceed the provision in the general contingency of £250,000.
 - The economic situation is either better or worse than anticipated with fluctuations in income sources (NB: This affects capital financing costs and fees and charges).
 - Increases in inflation above those known or expected at this time.
 - Member aspirations regarding service levels.
 - The impact of changes in legislation.

It is also critical that the budget setting timescale is followed to ensure that statutory deadlines are complied with.

Specific

64. When the Council considers each revenue service and function budget endeavours are made to identify potential risks. Inevitably, during the year, some of these risks will occur and impact on the budget by either requiring further expenditure or by reducing the Council's budgeted income. The budget process has identified a number of service specific risks relating to the range of District Council Services and related budgets. An overall assessment of risk and an assessment of the robustness of estimates are set out in **Appendix F**.

Environmental

65. There are no environmental implications arising from this report.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Budget Report – Report to Cabinet: 3 February 2021/Council: 23 February 2021
- Capital Programme Update and New Bids – Report to Cabinet: 7 December 2020
- 2020/2021 Revenue & Capital Budget Monitoring – Report to Cabinet: 7 December 2020
- Medium Term Financial Strategy – Report to Cabinet: 7 December 2020

Appendices

- A Revenue Budget 2021/2022: Summary
- B Revenue Budget 2021/2022: Detailed Budgets (To Follow)
- C Service Pressures Taken into Account
- D Service Efficiencies/Income Generation Opportunities
- E Business Rate Yield Estimate 2021/2022
- F Revenue Budget: Risks and Robustness

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Appendix A

GENERAL FUND ESTIMATE SUMMARY

2020/21		2021/22 Budget			
Original Estimate	Probable Outturn	Note	Gross Expenditure	Gross Income	Net Expenditure
£ 000's	£ 000's		£ 000's	£ 000's	£ 000's
760	854		1,087	(319)	768
2,610	3,776		27,184	(23,140)	4,044
1,370	1,239		1,560	(316)	1,244
1,616	2,102		5,714	(3,094)	2,620
7,253	8,416		16,367	(7,728)	8,639
2,594	2,371		2,710	(206)	2,504
3,988	5,726		10,099	(5,411)	4,688
0	0				0
20,191	24,484	Net Corporate Expenditure	64,721	(40,214)	24,507
250		Contingency and unallocated	347		347
20,441	24,484	Net Cost of Services	65,068	(40,214)	24,854
(4,537)	(4,214)	Income from Investments (a)		(5,891)	(5,891)
1,271	712	Other Levies and Contributions (b)	695		695
2,128	751	Interest Payable (Inc. HRA) (c)	1,475		1,475
(1,074)	(2,840)	Depreciation Reversals & Other Adj.		(3,004)	(3,004)
2,075	870	Minimum Revenue Provision	1,362		1,362
3,977	3,264	Revenue Contributions to Capital	2,127		2,127
24,281	23,027	Net Operating Expenditure	70,727	(49,109)	21,618
1,451	3,303	Contribution to/(from) General Fund	222		222
(1,382)	(1,150)	Contribution to/(from) Other Reserves	39		39
24,350	25,180	To be met from Government Grants and Local Taxpayers	70,988	(49,109)	21,879
Taxation and Grants					
(11,791)	(10,699)	Business Rates inc Section 31		(9,300)	(9,300)
(9,661)	(9,661)	Council Tax		(10,143)	(10,143)
(2,898)	(4,820)	Other Government Grants		(2,436)	(2,436)
(24,350)	(25,180)	Total Taxation and Grants			(21,879)

Notes:-

(a) This includes Rental income from the Councils Commercial Portfolio and Interest Receivable from Ermine Street Housing and Other Counterparties.

(b) This includes the Drainage Levy and Contributions to the Combined Authority and Greater Cambridge Partnership.

(c) This Includes all Interest payable by the General Fund for both external borrowing and Investment Income passed to the Housing Revenue Account (HRA).

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Summary of Service Pressures/New On-Going Funding Bids

New Revenue Budget Bids: Staff Related	Ongoing £ pa
<p>Corporate Fraud:</p> <ul style="list-style-type: none"> Fraud Team Leader/Administrator Post (1 FTE) <p>To support the commitment to protect public funds and resources, funds are required to support a restructure which will include the additional resource to replace an existing Fraud Officer post with a new post of Fraud Team Leader and a part-time administrator.</p>	25,000
<p>Housing Function – Homelessness:</p> <ul style="list-style-type: none"> Housing Advice & Options [3 FTE] <p>Three additional posts were created within the Housing Advice and Options service in 2017/2018 to manage the additional demands placed on the Council by the introduction of the Homelessness Reduction Act. These were initially on fixed term contracts, which have been extended and funded through a government grant (Flexible Homeless Support Grant).</p> <p>It is evident that these posts are essential on an ongoing basis to respond to the obligations of the Homeless Reduction Act, particularly in relation to preventing homelessness, addressing the many complex cases and minimising expenditure on expensive forms of temporary accommodation (such as bed and breakfast). The posts include a Complex Case Officer (37 hours), Housing Advice Officer (30 hours) and Housing Advice Assistant (37 hours).</p>	120,000
<p>Finance Function – Accountancy:</p> <ul style="list-style-type: none"> Chief Accountant [1 FTE] <p>There is a need to increase capacity in the Finance Service and across the Council by the creation of a Deputy Section 151 Officer post.</p> <ul style="list-style-type: none"> Financial Reporting Team [1 FTE] <p>It is proposed to provide apprentice support for the Accountancy's financial reporting team. Core duties would be to support the transaction processing and reconciliations. The apprenticeship is for a 2-year term, however, the proposed post is permanent.</p>	72,000 19,000
<p>Commercial Development & Investment:</p> <ul style="list-style-type: none"> Resource Capacity [1.5 FTE] <p>It has been necessary to review the size and composition of the Investment Team based upon the increased portfolio (and significantly increased rental income), activity levels and core workload. The emphasis has been to ensure a minimum staffing structure consistent with the ambitions and priorities in the Investment Strategy, supplemented by external support to deal with variable activity levels and the need for essential professional support. It is now proposed that new posts should be established.</p>	76,000
TOTAL:	£312,000

Summary of New On-going Funding Bids:
Non-Staffing Related

New Revenue Budget Bids: Non-Staff Related	Ongoing £ pa
<p>Corporate Fraud: Training</p> <p>There is a need for a training budget to ensure that team members are able to carry out their duties as effectively as possible.</p>	8,000
<p>Transformation: IT Microsoft Agreement</p> <p>The current Microsoft Agreement was negotiated by the Crown Commercial service (CCS) in March 2018 on behalf of all local authorities and is referred to as the Digital Transformation Arrangements (DTA). The DTA agreement expires in March 2021 and, while it is strongly expected the CCS will negotiate a similar deal, it is possible that costs will be higher. It is also expected that additional features will be available, as recently evidenced with the NHS agreement.</p>	13,000
<p>Transformation: Data Centre Support</p> <p>The proposal is for 24/7 support of the Data Centre environment that will ensure the correct specialised support available when required and improved resolution times.</p>	10,000
<p>Commercial Development & Investment: Operational Costs</p> <p>This is a budget for the cost of feasibility studies and other reports relevant to the property portfolio, some of which will be abortive.</p>	50,000
<p>Land Drainage</p> <p>The allocation of additional funding for land drainage, including gullies, watercourse and flood defence works.</p>	50,000
TOTAL:	£131,000

Overall Total **£443,000**

Value Attributable To:

General Fund	£284,000
Housing Revenue Account	£39,000
Earmarked Reserves (Homelessness)	£120,000

Service Efficiencies/Income Generation Opportunities: 2021-2025

Theme 1: Develop a Workforce Operating Model		Timeline/Saving			
		2021/2022 £	2022/2023 £	2023/2024 £	2024/2025 £
1	Undertake a thorough review of processes across the organisation to identify potential changes to workforce deployment and a more efficient senior management structure, targeting a saving of £600,000 per annum by 31 March 2024. (* proposals approved by Council in May 2019)	£170,000 *	£100,000	£100,000	-
2	A package of measures responding to the anticipated shortfall in income for planning applications and land charges. Measures are focused on (i) reducing contract/agency staff costs associated with reductions in anticipated application numbers (including legal costs) and in line with service improvements/efficiencies, (ii) the re-profiling of spending on the Joint Local Plan/AAP to reflect the new Local Development Scheme, (iii) improved cost recovery and management of discretionary services – including to partners; and (iv) the consolidation of costs in the Business Support team. The package builds upon the existing savings commitments in the 2020/2021 MTFS.	£394,000	-	-	-
3	Rationalise processes and budgets to focus on efficient service delivery and effective resource deployment, including a review of:				
	(a) the HR function following the implementation of a new Human Resource Information System, including an extension of self-service arrangements.	£50,000	-	-	-
	(b) the arrangements for the commissioning of external Graphic Design requirements.	£10,000	-	-	-
	(c) An in-house road litter picking service (reducing the need for contractors), including the recruitment of an additional operative to focus on "A" road picking - with a saving of £45,000 in contractors fees offset by the estimated cost of the operative at £25,000.	£20,000	-	-	-

Theme 2: Alternative Ways of Working		Timeline/Savings			
		2021/2022 £	2022/2023 £	2023/2024 £	2024/2025 £
4	Using digital methods of communications to increase customer self-service and remote access through the continued implementation of the "One-Vu" customer portal project.	£80,000	-	-	-
5	Following the introduction of 'Council Anywhere', and the increased opportunity for remote working, to reduce unnecessary travel to meetings. The Council achieved a £50,000 saving from mileage claims in the first 6 months of 2020/2021, of which 50% relates to the General Fund	£25,000	£10,000	-	-
6	Discontinue the use of the Council 0345 number. Currently a charge is made to the customer and the Council for use of this number; there is no financial saving to the customer over the use of this number as opposed to the normal 01954 South Cambs number but discontinuing the use of the 0345 number would save the charge to the Council.	£100,000	-	-	-

Theme 3: Business and Growth		Timeline/Savings			
		2021/2022 £	2022/2023 £	2023/2024 £	2024/2025 £
7	Implementation of the Investment Strategy (subject to Council approval on 28 November 2019) by pursuing, subject to business case justification, commercial investment opportunities.	£1,282,000	£2,725,000	£603,000	£562,000
8	To review Planning Performance Agreements and processes to reduce the current subsidy provided to those who undertake major developments.	£30,000	-	-	-
9	Expand and grow Commercial waste service.	-	£25,000	£25,000	-
10	To undertake a review of the Ermine Street Housing recharge model.	£3,000			

11	To consider prevailing fee scales and income generation opportunities for regulatory services, including:					
	(a)	A review of the charging policy that applies in respect of the licensing function, with provision for safeguarding training and DBS checks for Taxi Drivers.	£30,000	-	-	-
	(b)	The development of a commercial model for the building control service to generate additional income from consultancy services.	£5,000	-	-	-

Theme 4: Managing Demand Better			Timeline/Savings			
			2021/2022 £	2022/2023 £	2023/2024 £	2024/2025 £
10	To review the commercial waste collection service, including:					
	(a)	Increasing the current charge of £35 for an additional green bin for the collection of garden waste by £5 per year over the next 3 years to bring in line with charges applying at other local Councils (£50). The first green bin would remain free of charge for all households	£19,000	£19,000	£19,000	-
	(b)	Rebalancing the waste collection rounds to make it possible for three rounds to be completed with Driver and only one loader.	£38,000	-	-	-
	(c)	Improvement and better routing of small mini-freighter rounds serving hard to reach areas and farms mainly.	£15,000			
	(d)	Realising a saving on fuel costs due to improved routing and reduction of a fleet vehicle.	£20,000			
	(e)	Realising a saving by removing an existing trade round and redistributing the work to the remaining trade rounds.	£15,000			
11	Review of all council tax exemptions/discounts using data matching techniques (countywide project).		£35,000	-	-	-

Theme 4: Managing Demand Better		Timeline/Savings			
		2021/2022 £	2022/2023 £	2023/2024 £	2024/2025 £
12	To pursue, in line with the Business Plan Theme “Green to Our Core”, the following specific investment opportunities:				
(a)	Energy efficiency and green energy measures at South Cambridgeshire Hall, including Ground Source Heat Pump, solar canopies in the car park, internal LED lighting upgrades, electric vehicle charging points and chiller modifications and enhancements.	£80,000	-	-	-
(b)	Installation of roof-mounted solar panels at Waterbeach Depot.	£5,000	-	-	-
(c)	The installation of LED footway lighting throughout the District and consequent impact on maintenance and energy costs.	£50,000	-	-	-

Total Estimated Savings	£2,476,000	£2,879,000	£747,000	£562,000
Value Attributable to General Fund	£2,392,000	£2,859,000	£727,000	£562,000
Value Attributable to Housing Revenue Account	£84,000	£20,000	£20,000	-

Business Rates Yield

Appendix E

	Total	Central govt.	SCDC	CCC	Fire
	1	0.5	0.4	0.09	0.01
	£	£	£	£	£
NNDR YIELD ESTIMATE 2020/21					
Share of Collection fund					
Net yield (after reliefs and provisions)	95,008,079				
Less					
Transitional Payment Protection	41,688				
Cost of collection	- 240,278				
Yield from renewable energy	- 764,626				
Enterprises	- 902,941				
Yield for distribution	<u>93,141,922</u>	46,570,961	37,256,769	8,382,773	931,419
Add					
Cost of collection			240,278		
Yield from renewable energy			764,626		
Enterprises			902,941		
Designated area relief		- 223,869	223,869		
Total Income from rates yield	<u>95,049,767</u>	<u>46,347,092</u>	<u>39,388,483</u>	<u>8,382,773</u>	<u>931,419</u>
Estimated Surplus / (deficit) from 2021/22	<u>- 19,284,286</u>	<u>- 9,642,143</u>	<u>- 7,713,714</u>	<u>- 1,735,586</u>	<u>- 192,843</u>
	<u>75,765,481</u>	<u>36,704,949</u>	<u>31,674,768</u>	<u>6,647,187</u>	<u>738,576</u>

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REVENUE BUDGET RISKS AND ROBUSTNESS

In pursuance of Section 25 of the Local Government Act 2003, the Council's designated Head of Finance (Chief Finance Officer) is required to make a statement on the robustness of estimates and the adequacy of Reserves in relation to the Council's budget calculations.

The economic landscape has changed immensely in the last 12 months, initially as a result of the uncertainty over the withdrawal process from the European Union, and subsequently the financial challenges as a result of the Coronavirus pandemic (COVID-19) which has impacted on the Council's planned income and expenditure.

The relevant issues in relation to the 2021/2022 budget are as follows:

Estimates

1. The formulation of the budget has allowed for best estimates of the commitments necessary to maintain service levels and these have been reviewed and refined throughout the process. Service Areas have engaged in a robust challenge of, and determination of, the 2021/2022 budgets being tabled for their respective service areas. This has enabled a good understanding of budget issues faced, thus improving the prospects of budget compliance.
2. In determining financial forecasts and specifically the 2021/2022 budget, regard has been given to (i) the impact of the Government support package that was introduced to help Councils respond to the Coronavirus pandemic and to ensure financial sustainability in the future and (ii) the actual experience of the Council in the year to date. Specifically, the forecasting and budgeting seeks to provide best estimates for Council Tax and Business Rates Yield, service-related income and any additional expenditure based on assumptions in relation to both the duration and severity of COVID-19 and the speed of recovery.
3. The determination of the 2021/2022 revenue budget has been informed by established and effective budget monitoring arrangements that have created a sound foundation for the overall management of the Council's financial resources. This provides the basis for the monitoring of compliance with the efficiency assumptions built into the revenue budget and has also enabled budget pressures to be identified, managed, and appraised as part of the 2021/2022 budget setting process.
4. The budget has been prepared in accordance with the Council's Medium Term Financial Strategy (MTFS) and the following financial objectives, as part of the Revenue Budget Strategy, have helped guide the budget proposals:
 - (a) A sustainable medium term financial plan that allows the achievement of the Council's key objectives.

- (b) Realistic levels of year-on-year spending which are supportable via annual income streams and do not require the use of general reserves to support recurring expenditure.
 - (c) General reserves should be maintained at all times at or above the agreed minimum level.
 - (d) Constraining annual Council Tax increases to an acceptable level.
 - (e) The pursuance of “invest to save” opportunities with a financial return on the investment in transforming activities over an acceptable payback period.
 - (f) A commitment to explore income generation opportunities and to maximise income from fees and charges.
 - (g) A commitment to maximising efficiency savings.
5. As part of the overall budget strategy, the Council has sought to protect front line service budgets. This has included a review of service delivery options and emphasis on the optimisation of corporate budgets and the continuation of a service transformation programme developed in 2019/2020 as part of a 4-year plan to transform service quality, improve organisational productivity and improve customer services. The programme is aimed at delivering Council services more efficiently and in a more convenient way for the public.
6. The formulation of the budget has allowed for best estimates of inflation and applied at a level to reflect efficiency requirements. In this regard, general inflation has been provided at 2% on certain budgets (such as contract costs) and, in relation to staff costs, an allowance has been made for incremental shift. An inflationary allowance of 1% has been made for transport costs, 2% for non-domestic rates and up to 2.5% for energy costs.
7. It is important to acknowledge that there are risks inherent in the budget estimates and these include specific areas set out below, with an attempt to quantify them where possible:
- (a) Pay inflation for local government employees in 2021/2022 has been constrained in line with Government expectations, and an allowance of 2.75% has been made. Should the final employers’ settlement be in excess of this, and the Council reviews its local scheme, an additional cost would be incurred (every 0.5% on pay would equate to around £130,000 on staffing costs).
 - (b) Inflation on specific contracts has been allowed at a rate of 2% and, in some cases, this will require robust contract negotiations. The timely review of business requirements in relation to contracted services should, however, reduce the risk of an increase in some contact values in excess of the budgetary allocation made.

- (c) Interest is allowed for as both an income item (on daily balances for example) and as an expense (on borrowing for capital for example). The Bank of England cut the Base Rate initially on 11 March 2020 to 0.25% (from 0.75%) and subsequently it was reduced further on 19 March 2020 to a record low level of 0.1%. Consequently, the rates available to investors continue to be exceptionally low and the budget assumptions are based on a 0.1% interest rate. From a borrowing perspective, it has been necessary to consider the implications of the changes to the rules affecting local authorities borrowing from the Public Works Loan Board introduced by HM Treasury from 26 November 2020. The main purpose of the change is to restrict the ability of local authorities to borrow for pure investment in commercial property.
 - (d) Given the current economic outlook there is a risk that the forecast level of income budgeted in 2021/2022 in some areas (e.g. planning income, land charge fees) may not be achieved. The determined budget has, however, been prepared having regard to income trends which should reduce the risk involved. With any downturn in the economy there is a possibility that benefit caseload will increase and, though an increase in numbers receiving Universal Credit would see cases transfer to the Department of Work and Pensions, Council income could still be impacted, and debts would become more difficult to collect.
 - (e) In terms of benefits, the increased stringency of the subsidy claim audit increases the risk of subsidy being withheld and this may require additional resources to be deployed on quality assurance.
 - (f) There are a number of budget reductions proposed within the budget as part of the Transformation programme over the next four years; every attempt is being made to prioritise services, and to streamline processes to avoid an adverse impact on service delivery, but there is a risk that there will be as yet unpredicted impacts on services.
 - (g) It is possible that some of the proposed reductions may not be achievable or may not be achievable in the time frame anticipated, potentially leading to the need for other reductions, budget overspends, or the use of contingency funding. These areas will be kept under review as part of the established budget monitoring arrangements.
 - (h) It is proposed to maintain the Contingency at £250,000 as part of its risk mitigation strategy reflecting (i) the challenges faced by local government at this time and (ii) general appreciation of budget risks.
8. In determining the 2021/2022 revenue estimates, regard has been given to its ongoing sustainability and the observance of a number of overarching principles. This has involved:
- (a) An overall commitment to endeavour to increase annual income sources and reduce annual expenditure without materially reducing front line services provided by the Council.

- (b) A preparedness to consult service users and providers to ensure that services can be remodelled and tailored within acceptable tolerances.
 - (c) A comprehensive review of the base budget to provide greater assurance for the future. The review has been based upon regular established monitoring processes and has incorporated a review of the alignment between the original budget and service activity.
 - (d) The identification, as a result of (c) above, of service pressures and endeavours to make adequate provision in the 2021/2022 base budget.
 - (e) The provision of funding to support Business Plan priorities.
 - (f) Continued review and tight control of the capital programme given the impact of borrowing costs on the revenue budget.
9. In terms of the capital programme, regular assessments need to be made to ensure that schemes and costs meet the test as to what can be classified as Capital Expenditure. In addition, the long-term affordability of the capital programme has been reviewed and this has resulted in proposals for a revised and reprofiled programme, including priority for invest to save proposals and prudent allocation of grant and other income to reduce borrowing costs.
 10. In submitting the 2021/2022 revenue budget for approval, regard has also been given to issues of affordability (having regard to Council Tax implications), prudence (having regard to Council policies/strategies) and overall sustainability (having regard to forecast annual expenditure and income).

Reserves

1. The Council's Revenue Reserves and Provisions are held to fund specific initiatives or held to cover unforeseen events within the Council's prudent financial management arrangements.
2. The Council, as at 1 April 2020, held a Bad Debt Provision to a value of £2.9 million and Revenue Reserves of £41.763 million of which £**.* million was earmarked. The balance of £**.* million represents the General Reserve and working balance. An annual review of Reserves has been carried out as part of the budget process and a number have been re-aligned or combined. The overall level is significant and accords with the optimum level required calculated on a risk basis. A process exists to regularly refresh the risk assessed level of General Fund Reserve having regard to the needs and risks of the Council on an ongoing basis.
3. The Council's MTFs requires that the Revenue Reserves and Provisions be reviewed on an annual basis. A detailed review of each Reserve and Provision has, therefore, been undertaken to determine whether they are still needed for the purposes outlined and they are at the correct level to meet this requirement.

4. Consideration has also been given to future service needs and risks as part of the 2021/2022 revenue budget determination process and this has identified a number of Reserves that need to be released, replenished, or combined. This includes a number of existing Reserves where the balances remaining at 31 March 2021 can be released and transferred to the General Reserve.
5. In reviewing Reserves, due regard has been given to professional guidance. Since 1992 the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Authority Accounting Panel (LAAP) has issued LAAP Bulletins to local authority practitioners. These Bulletins provide guidance on topical issues and accounting developments and when appropriate provide clarification on the detailed accounting requirements.
6. Based on an assessment of the risks facing the Council, including transformation, demographic and transition factors and past experience of budget pressures, the schedule of Reserves that are proposed to be retained is considered appropriate, but should be subject to review to ensure that excessive balances are not maintained. Some of these reserves can only be used for specific purposes, but others could be called upon if necessary and so provide additional flexibility.
7. In view of the unsettled economic background, and significant changes that will impact upon medium term finances (such as the localisation of business rates), it is recognised that there is an ongoing need to review and establish a level of reserves which allows the Council to withstand the financial impacts of future developments, unanticipated or otherwise, at a local or national level.

Conclusions

1. The process for the formulation of budgets provides a reasonable assurance of their robustness.
2. The level of the Reserves is sufficient to provide a working balance to cushion the impact of unexpected events or uneven cash flows (general reserves) and funds to meet known or anticipated liabilities (earmarked reserves).
3. It is recognised that the financial pressures facing the Council are not going to ease over the medium term. The economic situation, coupled with a downward funding trajectory outlined in the spending review, will require the Council to put in place sustainable budget proposals in order to set a balanced budget.
4. In addition, there are going to be a number of changes in how local government is funded over the medium term, in particular the Business Rates Retention Scheme and the Fair Funding Review. This reshaped funding landscape has the effect of increasing financial uncertainty and risk and the Council's financial resilience will depend upon appropriate mitigating actions ranging from effective financial control, a clear financial strategy and strong financial governance. The ongoing assessment of the Council's financial resilience, including the sufficiency of Reserves, will form a major element of the Council's response to this new financial landscape.

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