

Subject:	2021/22 Council Budget and Medium Term Financial Strategy	Status:	For Publication
Report to:	Council	Date:	24 February 2021
Report of:	Head of Finance	Portfolio Holder:	Resources
Key Decision:	<input checked="" type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	General Exception	<input type="checkbox"/> Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required:	No	Attached: No
Biodiversity Impact Assessment	Required:	No	Attached: No
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RECOMMENDATIONS

Cabinet recommends Council approve:-

- 1.1. A revenue budget for 2021/22 of £8.903m, as detailed in this report.
- 1.2. A Council Tax increase of 1.99% which equates to a rate for Band D for 2021/22 of £285.13.
- 1.3. Use of £606k from the Business Rates Retention reserve to support the 2021/22 revenue budget.
- 1.4. The proposed fees and charges attached as Appendix 1.
- 1.5. The technical resolutions necessary to give effect to these budget proposals attached as Appendix 4.
- 1.6. The proposed £100k contribution to Rossendale Leisure Trust funded from the Council's Covid LA support grant allocation.

2. PURPOSE OF REPORT

- 2.1 The purpose of the report is to enable the Cabinet to review and recommend to Council the proposed revenue budget and level of Council Tax for 2021/22, together with implications for the council's Medium Term Financial Strategy. This is an opportunity for Overview & Scrutiny to identify and comment on any of the Cabinet's budget proposals.

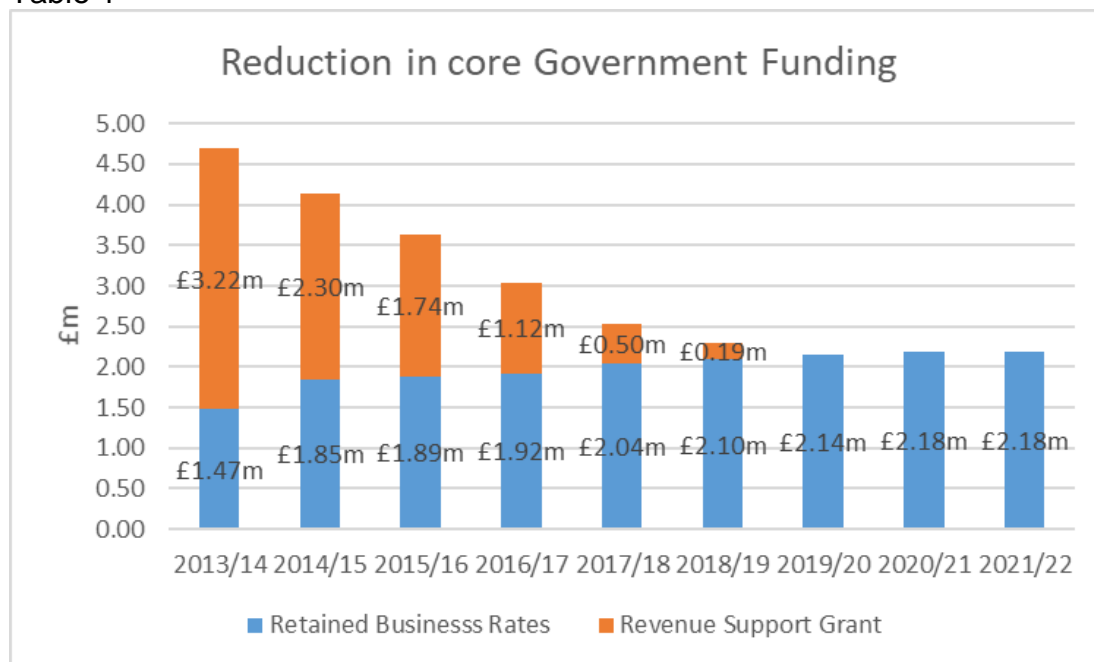
3. BACKGROUND

- 3.1 The budget process is a key element of the council's strategic planning process. It is part of the service and financial planning approach adopted by the council, is a means of ensuring that resources are best placed to enable the council to deliver its corporate priorities expressed in the Corporate Plan.
- 3.2 Previous budget reports have set out the level of uncertainty associated with any forward projections with Government funding. This uncertainty remains given the one-year funding settlement from the Government for 2021/22. During 2020, the Government was expected to conclude a longer term Comprehensive Spending Review, the Fair Funding Review and the

review of the Business Rates Retention Scheme, for implementation during 2021/22. However, due to the Covid pandemic this has been delayed until 2022/23. The outcome of the reviews has the potential to significantly impact on the council's future funding.

- 3.4 For a number of years the council has continued to reduce its net revenue expenditure in line with its own efficiency agenda and the impact of the Government's changes to local government financing over both recent years and the changes proposed for the future. This has resulted in all borough councils now being reliant on the income they generate from their own locality, be it from residents, visitors, property, and/or businesses. The graph below demonstrates how core Government funding for Rossendale has reduced over the period 2013/14 to 2021/22, with Revenue Support Grant ceasing from 2019/20.

Table 1



- 3.5 During 2020/21 the Government announced a wide range of funding programmes in response to the Covid pandemic. This has included financial support for the council which has partly helped in compensating for lost income. This has had an impact on the 2020/21 revenue budget and is likely to do so for the 2021/22 budget, although the exact scale of impact is currently unknown.

3.6 2021/22 Provisional Finance Settlement

The provisional one year only Settlement Funding Assessment for 2021/22 was announced on 17th December 2020. The key messages arising from the settlement are:

- Up to 2% maximum annual increase for Council Tax without triggering a local referendum.
- Confirmation that the NNDR baseline funding will be the same as 2020/21 (no inflationary uplift), and previously earned New Homes Bonus.
- New Homes Bonus payments will be made in 2021/22 for one year only, however legacy payments will still be made for earlier year allocations.
- Announcement of a new funding stream for 2021/22 only 'Lower Tier Services Grant'.
- 'Local Council Tax Support grant' to be provided to authorities in recognition of the increased costs of providing local council tax support following the pandemic.

- f. 'Covid-19 Expenditure Pressures Grant' to cover increased expenditure due to the pandemic.
- g. 'Local Tax income Guarantee for 2020/21' the Government will compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020-21 as a result of the pandemic.
- h. The Lancashire Business Rates Pool is likely to continue in 2021/22.

3.7 The Medium Term Financial Strategy

Taking into account the impact of finance settlement, including an annual increase in Council Tax of 1.99% per annum, the 2021/22 net budget estimates, resources and future forecasts are as follows:

Table 2

	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000
Original Budget Estimates	9,006	9,087	9,159	9,418	9,703
Budget Proposals		(184)	(336)	(442)	(449)
Budget Estimates		8,903	8,823	8,976	9,254
Estimated Funding:					
Council Tax (+1.99%)	5,769	5,811	5,927	6,046	6,167
Council Tax - growth in base 0.5%	-	-	29	58	174
Collection Fund Surplus - Council Tax	69				
Lower Tier Services Grant	-	93	-	-	-
NNDR (Business rate: Base Line Funding)	2,180	2,180	2,224	2,268	2,313
New Homes Bonus	302	213	42	-	-
NNDR Retained / Pooling	686	606	200	200	200
Resources	9,006	8,903	8,422	8,572	8,854
Surplus / (further savings required)	(0)	(0)	(401)	(404)	(400)

3.8 Changes in the base budget costs between 2020/21 and 2021/22 are as follows:

Table 3

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Forecast Changes	£000
2020/21 Base Budget	9,006
Employment Costs (Pay Award & Increments)	188
Contract Inflation	47
Savings/Increased Expenditure (pension additional years)	(8)
NET Revenues & Benefits Contract savings	(31)
Staff Savings	(52)
Increased Rental Income (Futures Park Plot 5 & Plot 1)	(196)
Increased Pre-Planning Income	(26)
Bus Station Net Cost	43
Empty Homes Scheme	300
Increased Loan Interest	16
Net Interest reduction	60
Change to treatment of MRP	(260)
2021/22 Original Budget	9,087

The Minimum Revenue Provision (MRP) movement shown above is a result of a change in the way it is calculated further detail can be found in section 2.4 of the Treasury Management Strategy.

3.9 The budget proposals for 2021/22 onwards are set out below:-

Table 4

Budget Proposals	2021-22	2022-23	2023-24	2024-25
	£'000	£'000	£'000	£'000
Whitaker Museum - reduction in support post Lottery bid	0	50	50	50
CLAW - Grant / Efficiencies	0	0	50	50
Trade Waste net increased income	10	20	30	30
Bulky Waste proposed fee increase	13	14	18	18
Operations: increased productivity	20	40	60	60
Household Bin Cleaning	0	5	10	10
Garden Waste enhanced service/growth	50	50	50	50
Environmental Health - Fixed Penalty Income	15	15	15	15
Fees and charges: annual increase by at least inf'n of 2%	7	14	21	28
Staffing and related savings (Vacancy Savings etc)	109	138	138	138
Increased Commercial Rental Income	0	20	20	20
IT Efficiencies	10	20	30	30
Contingency	(50)	(50)	(50)	(50)
Total	184	336	442	449

There are some key and challenging projects above not least: Operations commercial activity/increased productivity and the staffing and related savings. The above proposals include a £50k contingency allowance in case of any delays in implementation.

3.10 Impact on reserves

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As shown in Table 1, after the implementation of the Cabinet proposals there is still a funding gap. This is shown in the table, below. The table also shows the potential impact on the unringfenced reserves if no further savings/increased income are found:

Table 5

Use of Reserves if no further savings implemented		2020-21	2021-22	2022-23	2023-24	2024-25
	£000	£000	£000	£000	£000	£000
Funding gap		(0)	(0)	(401)	(404)	(400)
Use of Reserves	Opening Balance					
Transitional Reserve	780	0	0	401	379	0
General Fund Reserve	1,000	0	0	0	25	400
Reserve Balance	1,780	1,780	1,780	1,379	975	575

The table demonstrates an annual deficit from 2022/23 onwards. In the immediate period this can be funded through the use of the Transitional reserve and latterly the General Fund reserve.

The total value of the Transitional Reserve was £1.7m at 31st March 2020. In November 2020 Cabinet approved the use of £950k of this reserve to fund the Empty Homes scheme. This is factored into the table above. Wherever possible the Empty Homes expenditure will be capitalised and thus funded from capital receipts or prudential borrowing, this will reduce the call on the Transitional Reserve.

The General Fund reserve is in reality the Council's Minimum Working Balance, this is a requirement of Sections 32 and 43 of the Local Government Finance Act 1992 which requires local authorities to consider the establishment and maintenance of reserves. These can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but legally remain part of the General Fund.

In support of this requirement, and as part of the development of the budget for 2021/22, an assessment has been carried out to establish the minimum level of the General Fund Working Balance for this Council. Based on this assessment it is recommended that the minimum working balance should remain at £1.0m. At this level it represents circa 3% of the council's gross revenue expenditure.

- 3.11 Table 5 demonstrates that if no further savings/efficiencies/income generation schemes are implemented by the end of 2024/25 the Transitional Reserve will be exhausted and the General Fund Reserve will have £575k remaining. The figures above do not include any impact that may arise from the 2020/21 close down.

In addition to the above reserves the council also holds a Local Business Rate Retention reserve. At 31/03/2020 the balance of this reserve was £2,640m. The Business Rate Collection Fund annual surpluses and deficits along with the Small Business Rate Relief Section 31 grants, are set aside in this earmarked reserve to smooth peaks and troughs in

the business rate receipts over the life of the forecast. It is estimated that £686k of this reserve will be used in 2020/21. In addition this report requests the use of £606k in 2021/22. The forecast also estimates the use of £200k pa of this reserve from 2022/23 to 2024/25. Further information on reserves can be found in Appendix 2.

4. Council Tax for 2021/22

4.1. Cabinet will make its final recommendation for Full Council to approve on 24th February 2021. Other precepting authorities will announce their Council Tax changes as follows:

- Lancashire County Council – 11th February 2021
- Lancashire Fire & Rescue – 2nd February 2021
- Lancashire Police & Crime Commissioner – 11th February 2021
- Whitworth Town Council – 28th January 2021

4.2. The current Band D Council Tax for 2021/22 and the previous change across Rossendale is as follows:

Table 6

Precepting Body	% Increase	2020/21	2021/22	Increase £	% Share
		Band D £	Band D £		
Rossendale BC	1.99%	279.57	285.13	5.56	14.0%
Lancashire County Council	1.99%	1,277.69	1,305.55	27.86	64.0%
LCC Adult Social Care	2.00%	122.63	150.64	28.01	7.4%
Combined Fire Authority *	1.99%	70.86	72.27	1.41	3.5%
Police & Crime Commissioner *	7.09%	211.45	226.45	15.00	11.1%
Total (Excl' Whitworth)	3.97%	1,962.20	2,040.04	77.84	100.0%
Whitworth Parish Council	0.00%	25.81	25.81		
Total Whitworth Parish	4.91%	1,988.01	2,065.85		

* At the time of publication the proposed increase has not yet been approved.

4.3 Council Tax Base

Despite the number of new homes in the borough increasing by 123, the Council Band D Tax base has decreased by 255 properties - 1.24% to 20,380 Band D equivalents. The reduction is due to the increase in Local Council Tax Support claimants resulting from the Covid pandemic.

The Government has announced funding for lost Council Tax income as a result of the increase in Local Council Tax support claimants, due to Covid. This will be paid directly into the Collection Fund in 2021/22. Any variation through actual billing will be reflected in the Collection Fund. Future estimated increases in the Council Tax have been assumed at 0.5% c102 Band D equivalents. The Local Plan target is 212 pa (albeit there is no Band D equivalent published).

4.4 The draft budget book for 2020/21 (based on the above) is included at Appendix 3. The key assumptions are:

1. Budget estimates:

- a. Annual pay award 2% 2021/22 for staff earning below £24k, 2% pa 2022/23 onwards for all staff – (1% for all staff equates to c.£60k, inclusive of on costs).
- b. An annual staff vacancy saving of £200k pa – a £50k increase (included in Cabinet savings proposals) on previous assumptions.
- c. Pension costs for future service now at 17.6% of gross pay the cost of which is fixed for the three-year period of the Lancashire Pension Fund's Triennial Review. The Council took advantage of the full three-year prepayment option in April 2020.

2. Council tax to increase by 1.99% (previously 1.99% in February 2020) with growth in the tax base of 0.5% pa.

3. The Government's provisional settlement (December 2020) confirmed the NNDR baseline funding and New Homes Bonus payment.

4. NNDR:

- a. The benefits of the 2021/22 pooling arrangement are forecast to contribute a further £1m surplus to reserves of which £541k will be used to support 2021/22 expenditure. This is based on the outcome of previous years and known growth.
 - b. However, beyond 2021/22 the outlook is extremely uncertain as 2022/23 should see the introduction of the Government's own proposals for the 75% retention of business rates. The MTFS does assume a continued retained gain of £200k pa less than previous assumptions of £1m. Given the Government's previous consultation on business rates retention and the future Fair Funding review, this assumption continues to have some risk as the 2022/23 and future position could be that all or some greater proportion of growth, previously gained over the last 5, years will be taken away from council.
5. New Home Bonus legacy payments ceased being earned in 2018 and ends in 2022/23.

4.5. Fees and charges

The annual budget requires that any changes to the council's fees and charges be approved by members. Unless there is commercial justification not to increase fees or an alternative statutory regulation, the proposal is to increase all fees and charges by the greater of 2% or CPI. This is an increase of 1% on the amount previously approved by the council. The November 2020 consumer price index published annual inflation at 0.6%. A full list of fees (including previous year comparisons) are included at Appendix 1.

5. Bridging the council's future funding gap

5.1. The council continues to face a funding gap for the future. Therefore the council should continue to give consideration to:

- The future levels of Council Tax
- Maximising the returns from business rates revenue
- The council's ability to support non-statutory activities and partner/community organisations
- The future quality and standard of statutory service provision
- Any future efficiencies within services and ensuring support services are appropriate
- The council's ability to exploit new commercial and revenue generating opportunities
- Treasury management initiatives and maximising the strength of the council's balance

- sheet resources
- Ensuring any contract renewals are to the best advantage of the council

5.2 Section 25 report

As part of the final recommendations to Full Council Section 25 of the Local Government Act (2003) places a requirement on the Chief Financial Officer of each local authority to advise councillors during the budget process on “the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed financial reserves”, which includes a financial resilience statement. This provision is designed to ensure that members have information which will support responsible financial management over the longer term. The full section 25 report can be found at Appendix 2.

6. RISK

In managing the council's budget the council is seeking to manage the following larger scale risks.

- 6.1 **Council Tax:** In setting the 2021/22 budget members should continue to plan and give due regard to the continued financial challenges over the medium term. In particular, members should be aware of the future implications for the council's financial resources of any council tax freeze or any increase below the Governments' referendum trigger of the higher of £5.00 or 2%.
- 6.2 **Reserves:** Members should note that the budget proposals include the use of £541k from the Business Rates Retention reserve. The unringfenced reserves are the Transitional and General Fund reserves. The 2021/22 budgets do not include any reliance on the use of these reserves. This is however, a one off over the medium term and is mainly as a result of the Government's delay in implementing a new national 75% NNDR/Business Rates local retention scheme. An ongoing reliance on reserves to manage the medium term budget is unsustainable and this will require the council to seek future savings and income generation which members will need to support.
- 6.3 **Resources:** In previous years, financial pressures have been reported namely the impact of the reduction in the annual value of New Homes Bonus (now c. £213k pa from a previous peak of c. £1m pa). 2018/19 was the final year for legacy based NHB calculations. However, the impact of the Fair Funding review and the Business Rates reset now planned for 2021/22 will have an impact on the council's future resources the size of which is as yet unknown.
- 6.4 **Funding gap:** The medium term financial forecast indicates an underlying deficit of c.£0.40m (subject to the assumptions noted above and before future savings initiatives). Members must continue to give due consideration as to how they are to bridge this annual deficit going forward, in order to produce legally balanced budgets for the future.
- 6.5 **NNDR arrangements for 2021/22:** As a result of the Covid pandemic the Government's planned introduction of a new national 75% retention scheme has been further deferred until 2022/23. The arrangements for 2021/22 are therefore the same as 2020/21. The council remains a member of the Lancashire Business Rates Pool which means the council retains 40% of all business rates income and avoids the direct payment of a 50% levy on any end of year surplus. This is beneficial for the council's budget position and the council should continue to lobby for the retention of this model.

- 6.6 **Fair Funding Review:** As noted above this was due to be published in time for 2021/22 financing arrangements however due to the Covid pandemic this has been postponed. The implications for this Council are in the main the impact on our share of Business Rates and in particular the setting of tariffs and our baseline funding.
- 6.7 **Pay:** In the Autumn Spending Review the Government announced a one-year pause on public sector pay increases for staff earning over £24k pa. For 2022/23 and beyond the assumptions are set at 2% pa (plus increments). The budget also assumes, as in previous years a saving as a result of natural staff turnover and the vacancy saving this creates. In previous years this has been set at £150k pa, this year Cabinet are proposing to increase this to £200k pa. Whilst this is a challenging target, it is achievable and will be closely monitored.
- 6.8 **Empty Homes Scheme:** The project continues to have a significant adverse impact on the council's financial position. In 2020/21 the council faced several legal claims which have led to the increased budget requirement. The project team continue to closely monitor the scheme, manage the project risks and challenge the claims where possible thereby reducing the scale of the liability, but the scale of this is very limited given the overall scale of both current works and the nature of the property leases. The Council has included both a revenue and capital provision in the MTFS until the end of the scheme. The scheme is due to end in December 2024.
- 6.9 **Covid-19:** Covid has placed additional challenges on the council's finances and this is anticipated to continue into 2021/22. The scale of these are unknown and therefore difficult to manage. The council is likely to suffer from reduced income from Council Tax, Business rates and fees and charges. The Government has provided the council with £1.219m in 2020/21 to support continued delivery of services, along with a further £415k promised as part of the 2021/22 funding settlement. The Government has also stated it will cover 75% of the council's irrecoverable Covid losses in respect of Business Rates, Council Tax and Fees & Charges. In addition the council has received various grants to deliver specific Covid related services. The scale of future Government Covid funding is largely unknown and if all additional costs are not covered in 2021/22 this would have an adverse impact on the budget.
- 6.10 **Rossendale Leisure Trust:** Covid has had a significant impact on the leisure/culture sector, severely impacting the Leisure Trusts' financial position. The Trust has a level of reserves which has helped cushion the full impact in 2020/21. However, these are now exhausted. There has been limited Government support for leisure trusts. The Trust has received some business grants and has bid for financial support from the National Leisure Recovery fund (although the outcome of this is currently not known). The council is also proposing to support the Trust with a £100k contribution from the local authority support grant mentioned above. The full scale of the Trusts' losses are currently unknown as it is dependent on the length of the pandemic. The Trust and the council need to continue to work together to control the losses wherever possible. This is a risk for the council in that it provides the day-to-day cashflow for the Trust, and also in respect of the ongoing delivery of leisure services across the borough. It is critical that the Trust remains financially sustainable and financially independent of the council.
- 6.11 **Corporate Risk register:** The register already includes risks around the MTFS, the County Council Budget, Covid-19 and the Leisure Trust. Previous assessment resulted in the MTFS being a "red" risk. In November 2019 the rating was assessed to be "amber". However, it is now recommended that members reconsider the suitability of the current risk rating in light of

this current MTFS update and it is proposed to return to “red”.

7. FINANCE

- 7.1 The key financial matters are dealt with throughout this report. The decision to increase Council Tax is a Member decision. In making their decision Members should give consideration of the deficit facing the council over the medium term. Given the council's future deficit an increase of 1.99% in Council Tax is strongly recommended by the s.151 officer. Any change to Council Tax below the maximum allowed, has an ongoing and cumulative negative impact on future year resources.
- 7.2 The council continues to face a funding gap challenge despite the savings and income generation work already completed this year and in previous years. The council has a statutory duty to produce annually a balanced budget and it is legally bound to find a solution to the future funding gap. There are also some higher risk assumptions in the forecast. Ultimately the use of reserves to balance the funding gap, although legal, is both finite and financially not a sustainable approach to managing the budget in the long-term.
- 7.3 Given the 2021/22 cost base and the financial gap over the longer term that council needs to continue develop plans to reduce its net cost base in order to avoid reliance on limited reserves and to deal with the future resource deficit. The key messages for the medium term continue to be:
- Council must continue to increase Council Tax in line with the Government's maximum thresholds
 - Council must give further consideration to either reduce costs or increase revenue
 - The introduction of the national “75% Business Rates Retention Scheme” as from 2022/23 and the results of the Fair Funding review could materially impact negatively on the council's current share of annual business rates

8. LEGAL

The council must calculate and approve its Council Tax Requirement annually for the forthcoming financial year in accordance with s32 and s43 of the Local Government Finance Act 1992 (LGFA 1992). Section 25 of the Local Government Act (2003) also requires the officer having responsibility for the administration of the council's financial affairs, to report to the council on the robustness of the budget estimates and adequacy of financial reserves when determining its budget requirement under the Local Government Finance Act 1992. This report discharges this responsibility.

9. POLICY AND EQUALITIES IMPLICATIONS

The Equality Act (2010) requires the council to have due regard in the exercising of its functions to eliminate discrimination, advance equality of opportunity and foster good relations between people who share a relevant protected characteristic and those who do not share it. Equality impact assessments will be carried out where necessary on any savings proposal. The duty to inform, consult or involve requires that the council must involve communities and those directly affected at the most appropriate and proportionate level in 'routine functions, in addition to one-off decisions.' Consultation took place with:

- Cabinet and Management Team - December 2020
- Members - December and January 2021
- Public (via the council's website) – January 2021
- Overview & Scrutiny - 1 February 2021

10. CONCLUSIONS

The financial position for the council, like all local authorities, is challenging. The council is proposing to set a revenue budget for 2021/22 of £8.903m.

There are a number of significant risks outside the council's control which remain a major concern: Covid, the uncertainty of the Fair Funding Review and the Business Rates scheme from 2022/23 onwards, also the still unknown impact of Brexit. The council must remain focused on identifying and delivering further savings and income in order to ensure annual balanced budgets over the immediate and medium term. It must also ensure that all its budget resource allocations are directed to the core functions of the council and that the use of its resources drives the delivery of the council's Corporate Plan priorities.

Background Papers	
Document	Place of Inspection
Previous updates to the MTFS	Rossendale Borough Council website
Government's Financial Settlement	DCLG website