

**REPORT OF THE CHAIRMAN, FINANCE AND MAJOR CONTRACTS
MANAGEMENT COMMITTEE****BUDGET UPDATE REPORT****Purpose of the Report**

1. The purpose of this report is to provide an update on the Council's current financial position and to set out the actions being taken to update the Medium-Term Financial Strategy for 2020/21 to 2024/25.

Information**Financial Context**

2. It is important to note that this Budget Update report has been compiled at a time when the Council is continuing to respond to the unprecedented consequences of COVID19. A large number of services, resources, functions, plans and programmes have been re- and de-prioritised as the Council has had to respond to a rapidly changing and fluid situation that has included the regular provision of new guidance and legislation.
3. The monthly financial monitoring reports that have been reported to the Finance and Major Contracts Management Committee have clearly set out the implications of the COVID19 emergency and the Council's response to it. Significant reviews have taken place, and continue to take place, looking at variables such as additional costs, lost income, impact on savings plans, use of reserves, cash flow, capital programme, capital receipts as well as additional grants received from Government in order to assess the impact upon the Medium- Term Financial Strategy.
4. The culmination of this work will feed into the budget setting process and will be reported to the Finance and Major Contracts Management Committee and subsequently to Full Council in February 2021.
5. There is extreme uncertainty in government funding for 2021/22 and beyond due to the cancellation of the Autumn Budget, the awaited outcome of the Spending Review and the ongoing financial impact of COVID19. Even without the COVID19 crisis the Council continues to operate in a challenging financial landscape with funding to local

authorities expected to undergo fundamental structural changes over the next few years. Now that the main Government Grant, the Revenue Support Grant, has all but disappeared, it was anticipated that the outcomes from the Fair Funding Review and the Business Rates Retention Review would have been implemented in 2020/21. This would have provided local authorities with much needed certainty and stability regarding their longer-term funding position. The impact of the COVID19 crisis has pushed these outcomes out into future years.

6. At the same time as the COVID19 crisis and the delayed transition to a more self-sufficient funding position, many Council services continue to experience increasing demand. Many of these services are those directly affected at the most vulnerable in society, especially in Children's and Adult's Social Care.
7. These demand issues alongside the delayed move to a new Business Rates Retention system, the delayed Fair Funding Review, the delayed Adult Social Care Green Paper, the continuing impact of COVID19, Government funding uncertainty overall and any implications that may arise as a result of the Brexit negotiations make the current financial position challenging for all local authorities.
8. Following the Local Government Settlement announcement which is expected in December, the Medium-Term Financial Strategy (MTFS) will be updated and reported to Full Council as part of the 2021/22 Annual Budget Report. At that stage, despite having a clear view of the funding for 2021/22, funding for the final three years of the MTFS will remain unclear. This will continue to be the case until announcements regarding the longer-term future of local government financing are made.
9. The February 2020/21 Budget Report to Full Council forecast a budget shortfall of £28.3million for the next three years once all the identified savings were taken into account. This shortfall included all of the budget pressures (inflation and costs) and reductions in grant funding alongside the savings identified. This financial position is shown in Table 1 below:

Table 1 – Three Year Financial Forecast

	2020-21	2021-22	2022-23	2023-24	Total
	£m	£m	£m	£m	£m
Year on Year Savings requirement (February Report)	19.9	10.4	3.9	-	34.2
Change in Pressures and Inflation	20.2	8.9	6.7	21.3	57.1
Increase Contingency for Pressures Risk	2.0	0.1	-	-	2.1
Change in Pay / Pension Related Inflation	(0.5)	(0.6)	(0.6)	3.6	1.9
Committee Approved Efficiencies	(2.1)	(1.1)	(0.3)	-	(3.5)
Changes to Base Budgets	(4.5)	(0.4)	-	0.1	(4.8)
Change in Government Grants	(40.5)	0.6	0.3	(1.8)	(41.4)
Use of / Contribution to Reserves	9.5	(17.8)	5.0	3.3	-
Increase in ASC Precept / Council Tax	(7.5)	-	-	(8.4)	(15.9)
Change in Council Tax Base assumptions	0.1	(0.2)	(0.2)	(4.9)	(5.2)
Change in Council Tax Surplus / Deficit	0.4	0.6	-	-	1.0
Other Corporate Adjustments	3.0	(0.5)	0.1	0.2	2.8
Revised Gap	0.0	0.0	14.9	13.4	28.3

10. A further update on the Council's Medium-Term Financial Strategy was reported to the Finance and Major Contracts Management Committee in July 2020. This report set out the financial impacts of the Council's response to the COVID19 emergency, the impact upon the Medium-Term Financial Strategy and the actions being taken by the Council.
11. The refreshed MTFS reflected, as a result of COVID19, estimated shortfalls against Council Tax and Business Rates collection rates although the Comprehensive Support Package to Local Government announced in July 2020 provided the ability for Authority's to spread the likely deficit over the following three years. It also estimated that there may be an on-going impact on both Council Tax and Business Rates of a reduced tax base due to, for example, increased Council Tax discounts, slowdown of new housing developments and a general reduction in the physical premises required by businesses.
12. Since the report in July the Financial Resilience Group has continued to review all aspects of the Authority's finances in order to update the MTFS and in particular has:-
 - Reviewed additional Government grants including Test and Trace, COVID-19 funding tranche 4, Outbreak Management Tier 3 allocation, Infection Control funding and LRF grant.
 - Submitted the first claim for lost Sales, Fees and Charges (SFC) as a result of the pandemic (second claim due in December)

- Reviewed all Council reserves and identified those available to support temporary finance issues such as shortfalls in Council Tax and Business Rates.
- Collated and submitted the monthly Government DELTA returns detailing the latest estimated additional costs in respect of COVID-19.
- Reviewed pressures and inflation bids from Departments

The Council's Current Financial Position

13. As reported to Finance and Major Contracts Management Committee in November 2020, the Council is reporting a forecast underspend of £2.5m in the current financial year. This position has been only been achieved as a result of significant COVID19 funding being made available from Central Government.
14. As part of the budget setting process, Departments have been asked to justify existing pressures and inflation that are approved in the current approved MTFS. They have also been asked to consider uncertainties remaining around a number of areas that have not previously been reflected in the budget planning assumptions. The total increase in pressures and inflation bids received by Departments can be seen in the revised MTFS in Table 2 with further detail available in Appendix A.
15. It is important to note that these pressure and inflation estimates are subject to change and will be reviewed in the light of further announcements on, for example, the National Living Wage and the final Local Government Settlement as well as updated Looked After Children estimates and the overall financial position of the Council.
16. With the significant level of savings that continue to be made by the Council there is a subsequent risk that non-delivery of these savings will place additional pressure on future year budget plans. Officers continue to monitor the deliverability of individual savings schemes and targets as part of the budget monitoring process. The progress of the Council's current savings programme is reported to the Improvement and Change Sub-Committee on a regular basis. Any amendments to these savings are subsequently reported to Finance and Major Contracts Management Committee for approval and the MTFS is adjusted accordingly. Again, these issues will continue to be reviewed and will be formally approved as part of the Annual Budget report to Full Council in February 2021 where necessary.
17. It is anticipated that savings and efficiencies will be identified and approved through Service Committees. These efficiencies will be reflected in the MTFS as part of the Annual Budget Report to Full Council in February 2021. A number of efficiency savings will emerge that will be reflected in the Budget report to Finance and Major Contracts Management Committee in February.
18. The Council will continue to update its MTFS to reflect changes in pressures and savings as they are approved throughout the year as well as all other assumptions held. The current MTFS is shown in Table 2 below:

19. Table 2 - Revised Medium-Term Financial Strategy at November 2020

	2021-22 £m	2022-23 £m	2023-24 £m	Total £m
Year on Year Savings requirement (Feb Report)	-	14.9	13.4	28.3
On-Going Funding Issues from COVID19:				
CT/BR Deficit 2020/21 spread over 3 years	3.3	-	0.1	3.4
Provision for Deficit	(3.3)	-	(0.1)	(3.4)
Potential Tax Base Erosion	10.0	(5.0)	(5.0)	-
Emerging Pressures	9.1	8.8	4.6	22.5
Capital Programme slippage	(0.4)	0.4	-	-
Use of Reserves	(10.0)	5.0	5.0	-
Revised Gap	8.7	24.1	18.0	50.8

NB: For the report to Full Council in February 2021 the MTFS will be extended to four years.

Finance Planning

20. Variations in the current financial year will continue to be monitored through the usual budget monitoring process.
21. In addition, as part of the budget setting process, base budgets will continue to be reviewed and all of the financial planning assumptions that underpin the MTFS will be reviewed. All changes will be detailed in the Annual Budget Report to Full Council in February 2021.
22. Previously reserves and balances have been used to allow time for more transformative approaches to be developed and implemented. Reserves provide a short-term fix but their use only delays the time when a permanent solution needs to be found. The Council also needs to maintain an appropriate level of reserves to guard against unforeseen events. A review of reserves has been undertaken with the principle being adopted that they should be used only to help resolve temporary budget issues. In this case, due to the pandemic, this would relate to council tax and business rates, both in deficits and longer-term yield. As such the MTFS model above assumes the deployment of £15m of reserves over the coming two years to match the potential reduction in council and business rates base. This will be subject to review when considering the full impact upon our tax base will not become known until after the 15th January next year.
23. When the MTFS was approved in February 2020, a 1.99% increase to Council Tax was built into 2020/21 and each of the subsequent three years.
24. At this stage we have not been notified of the Council Tax referendum limits and options around ASCP. Policies around these areas will be reviewed, alongside other

assumptions in the MTFS, and detailed in the 2021/22 Budget Report to Full Council in February 2021.

25. The key dates in the run up to the Annual Budget Report are as follows:-

25 November 2020	Spending Review Announcement
December 2020	Local Government Provisional Settlement
After 15 January 2021	Receipt of Tax Base /Collection Fund Information from Districts
January 2021	Final Local Government Settlement
8 February 2021	Annual Budget Report to FMCM Committee
25 February 2021	Annual Budget Report to Full Council

26. In February 2021, the Finance and Major Contracts Management Committee will review the budget following the final Local Government Finance Settlement and grant announcements, in advance of Full Council setting the budget on 25 February 2021.

Other Options Considered

27. This report provides an update of the Budget together with confirming the approach to reviewing the budget for 2021/22

Reasons for Recommendations

28. To inform members of the financial landscape and budget position; to seek approval for the measures set out in the review of the budget for 2021/22.

Statutory and Policy Implications

29. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

It is recommended that Members:

- 1) Acknowledge the difficult circumstances within which the Council is operating.
- 2) Agree that due to the significant financial challenges the Council continues to develop the measures set out in this report.

Nigel Stevenson

Service Director – Finance, Infrastructure and Improvement

Financial Implications (NS 20/11/20)

The financial implications are set out in the report itself.

Constitutional Comments (KK 17/1/20)

The proposals in this report are within the remit of Finance and Major Contracts Management Committee.

Background Papers Available for Inspection

None

Electoral Division(s) and member(s) Affected

All