

Allerdale Borough Council

Executive – 25 November 2020

Budget Strategy 2021-22

Portfolio holder	Councillor Jim Lister Portfolio Holder for Finance and Legal
Report from	Catherine Nicholson Head of Financial Services
Wards affected	All
Is this a key decision	Yes

1.0 The reason for the decision

- 1.1 This Budget Strategy sets out the guidelines for preparing the 2021-22 Budget. The Strategy takes account of current and future financial issues and sets out assumptions and initial proposals for delivering a balanced budget in 2021-22.

2.0 Recommendations

- 2.1 That the significant financial challenges that the Council faces be noted
2.2 To note the planning assumptions for building the 2021-22 budget
2.3 To undertake a public consultation on budget proposals

3.0 Introduction

- 3.1 This report is the first of the Council's budget setting process for 2021-22 onwards. It sets out the financial pressures that the Council is likely to face in the coming years and suggests an appropriate strategy to ensure that this authority remains financially stable over the long term.
- 3.2 The budget setting process is an ongoing annual exercise that determines the financial plans for current and future years and is informed by the Council's priorities as set out in the Council Plan. It is informed by the latest information from Government and from the discussions in the budget review meetings with the Portfolio Holders and Heads of Service.

- 3.3 In respect of the Council's finances, it is important to understand the impact that the Covid-19 pandemic has had. In March 2020, the Council approved a balanced budget for 2020-21, but the onset of the pandemic has had a far reaching and detrimental impact on the Council's expenditure, income from sales, fees and charges and funding from council tax and business rates. Income streams, such as car parking, rents, planning and building control have all been interrupted.
- 3.4 The challenge for the remainder of this financial year and for 2021-22 will be for the Council to regain the lost or deferred income to avoid placing an additional burden on the people and businesses of Allerdale while, at the same time, attempting to manage its finances effectively.
- 3.5 This impact of the pandemic is monitored and reported to the Ministry of Housing, Communities and Local Government on a monthly basis.
- 3.6 The Government has provided a package of support measures to support local authorities, details of which include: -
- Four tranches of funding worth £1.659 m to support expenditure pressures in 2020-21
 - Support for reductions in Sales, Fees and Charges income, with the Government covering 75% of losses beyond 5% of planned income, estimated to be worth £1.2m
 - Phased repayment of Collection Fund deficits over the next 3 years. Government has given a commitment to determine what support is needed to help councils meet the pressures of irrecoverable tax income at the Spending Review
 - Exceptional Support at an individual authority basis for those with unique circumstances
- 3.7 The implications of the pandemic for our budget for 2021-22 and later years are significant. In some areas, these pressures will continue although the precise impact will only become clear over time when the full economic impact is known. This is likely to have a significant bearing on funding from business rates and impact on council tax collection and housing benefit awards, particularly following the ending of the Government's Job Retention Scheme.
- 3.8 The impact of the second wave of Covid-19 will also have an impact on expenditure and income streams. It is fair to say that planning local authority budgets has never been undertaken in such an uncertain period and there are a range of unknowns which will impact on the budget.
- 3.9 The Covid-19 pandemic has introduced considerable risk and uncertainty into the budget setting process and will be a key feature of both this report and the work over the next few months. The budget strategy and work on setting next year's budget will seek to place the Council in a strong financial position to support the recovery of our borough.

4.0 Background

- 4.1 The financial strategy over the last few years has worked well in delivering a balanced budget whilst managing the significant reductions in government funding. There is a well-planned approach to budget setting and the budget process considers: -
- The Council's priorities – what does it want to do, to what standard and what results does it want to achieve.
 - The level of funding anticipated from Government.
 - Income that can be generated through fees and charges, such as new and increased prices.
 - The levels of balances required for financial prudence and to proactively manage the Council's risks.
 - The methods of service delivery that will deliver value for money.
 - Stakeholder consultation.
- 4.2 The timetable this year has been shortened and the revenue and capital budget proposals are scheduled to be presented to Executive on the 8 February and then onward for approval by Council on 17 February 2021. It is likely that the developing financial position around Covid-19 will mean that there is greater variation than in previous years.
- 4.3 The Council has been under financial pressure before the Covid-19 pandemic. It has been well reported that we have experienced substantial reductions in Government funding in recent years, in line with the Government's austerity programme.
- 4.4 Over recent years the Council has gone through a number of budget saving and transformation programmes in order to close the budget gaps. The 2020-21 budget anticipated a medium-term budget gap of around £2 million in a pre-Covid-19 world.
- 4.5 The pandemic has had a significant financial impact on the Council and our residents and businesses. The extent of the impact of Covid-19 upon the Council's finances for 2020-21, let alone 2021-22 remains uncertain.
- 4.6 Beyond the implications of Covid-19, the future for local government funding remains very uncertain, with no information available on funding from April 2021 onwards. The current 4-year Comprehensive Spending Review (CSR) period came to an end in 2019-20, with the CSR 2020 delayed until the autumn of 2020 because of Covid-19.

- 4.7 It has now been announced that there will be a one-year Spending Review, to be announced on 25 November. The spending round will inform the local government finance settlement and therefore the shape and size of any core central government funding to Allerdale BC remains unknown at this time.
- 4.8 In addition, the Government has previously announced a few significant policy changes for local government funding including: -
- National move to 75% Business Rates Retention
 - Resetting of baselines – impact being loss of growth accumulated since 2013-14
 - Fair Funding Review – to examine relative needs and allocation of resources
- 4.9 The timing of the implementation of all the above remains unknown, but again it is now thought to be more likely that the above policies will be deferred for another year.

5.0 Budget Strategy Assumptions

Council Tax and Business Rates

- 5.1 There is a level of uncertainty around both council tax and business rates. The collection rates are on a downward trend and significant shortfalls can be expected on both Council Tax and Business Rates. The size of these shortfalls still cannot be estimated with certainty.
- 5.2 The impact of Covid-19 on the council's Council Tax income could manifest from the ending of the furlough scheme and increased unemployment from an economic downturn – which could result in more council tax support claimants and non-payment by those not in receipt of council tax support. This could also impact on business rates income should there be an increase in business failures during this time.
- 5.3 Small businesses who have this year been eligible for the retail, leisure and hospitality rate relief may find themselves facing significant issue next year, as this relief is due to end and they will be expected to start paying rates again.
- 5.4 Under the current business rates retention scheme, 40% of business rates (NNDR) collected is retained by the Council. The remainder is paid to Central Government (50%) and Cumbria County Council (10%). The scheme also provides that certain sums are to be treated as being outside the scheme and retained in their entirety by the Council. The Council is also able to retain the growth in the local share of business rates subject to the payment of a levy to central government designed to prevent disproportionate increases in the Council's funding as a result of growth in business rates income.
- 5.5 The amount of business rates income available to the general fund and considered when setting the budget is based on an estimate made in January preceding the start of the financial year. This estimate of business rate income reported in the government return NNDR1, also determines how much the Council must pay to central government and the County Council during the year.

- 5.6 Local authorities have the option of working with neighbouring authorities to form a business rates pool. Allerdale has been part of the Cumbria Business rates pool since its inception and has expressed its intention to continue in this pool for 2021-22.
- 5.7 The reductions in income from central government funding means that there is now an increased importance on Council Tax as a means of raising income. This means that the decisions taken now in relation to Council Tax levels are critical to the delivery of a sustainable MTFP.
- 5.8 In terms of Council Tax assumptions, these will be reviewed given the impact from Covid-19 on collection rates in the current year. The MTFP assumed that there would be growth in the Council Tax base and that Council Tax would be increased (subject to guidance around referendum limits).

Pay and Price Inflation

- 5.9 The budget will be prepared on a standstill basis in that no price inflation will be added other than to contractual commitments to pay and annual inflationary increases such as contracts and software licence agreements.
- 5.10 The local government pay award has recently been agreed for 2020-21 at 2.75% for all pay levels. As with many other factors, there is no indication as to the level of pay award from 2021 onwards. Although inflation in the wider economy currently remains low it seems reasonable to assume that the pay award will be at least 2%.
- 5.11 The Office for National Statistics (ONS) published the September CPI and RPI figures on 14 October 2020. The CPI rate in September was 0.5% up from 0.2% in August. These figures are generally used as the basis for uprating of some welfare benefits.

Fees and Charges

- 5.12 Budget holders are required to review the fees and charges as part of the budget setting process to ensure that they are set at an appropriate level and that charges are transparent and show a clear methodology for their increase.
- 5.13 Whilst the focus is on the level of charge made for services, budget holders are encouraged to review and understand the cost drivers within their service as cost control is an integral part of the annual review of fees and charges.

Local Government Pension Scheme (LGPS)

- 5.14 An actuarial review of the local government pension scheme was undertaken in 2019 with a revised funding schedule included in the current MTFP. The assumptions around employer contributions will not be updated until the conclusion of the next actuarial review which will commence in 2022.

6.0 Updated Medium Term Financial Position

- 6.1 This report has identified some specific risks around the financial impact from Covid-19 and the Council's funding from Government. It is probable that the Covid-19 pandemic will continue to have some impact on the Council's finances in 2021-22 and beyond.
- 6.2 This is due to the economic outlook, limited information around likely levels of Government funding and support and the longer-term changes from the fair funding review and the business rates retentions scheme.
- 6.3 Following the revised budget and the expectations of the provisional local government finance settlement, the updated MTFP is as set out below, and estimates a starting budget gap of £955k next year.
- 6.4 This is the starting point for the next round of Budget Review Meetings, which will be commencing this month (November).

MEDIUM TERM FINANCIAL PLAN

Revenue Budget	2020/21*	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000
Base Budget	11,449	12,388	12,533	12,565
Change in salary costs - recurring	177	218	199	191
Capital financing costs		87	(7)	0
Recurring growth	1,278	340	340	340
Recurring savings	(516)	(500)	(500)	(500)
Recurring (base) budget	12,388	12,533	12,565	12,596
Change in salary costs -non-recurring	(203)			
Non-recurring growth	4,447	200	200	200
Non-recurring savings	(985)	(50)	(50)	(50)
Net Service Expenditure budget	15,647	12,683	12,715	12,746
Expenditure on earmarked priorities	1,475	0	0	0
Proposed budget (excl. parish precepts)	17,122	12,683	12,715	12,746
Parish Precepts	2,458	2,458	2,458	2,458
Proposed Budget (incl. parish precepts)	19,580	15,141	15,173	15,204
Less: Planned use of earmarked balances	(1,475)	0	0	0
Net Budget Requirement	18,105	15,141	15,173	15,204
Funding	2020/21*	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000
Revenue support grant	199	200	200	200
Rural Services Delivery Grant	326	326	326	326
New Homes Bonus	606	202	111	0
Council tax – Allerdale only	5,400	5,400	5,400	5,400
Council tax – parish element	2,458	2,458	2,458	2,458
Collection fund surplus/(deficit) - Council Tax	21	0	0	0
NNDR funding	6,112	5,600	4,500	4,500
NNDR - Collection fund surplus/(deficit)	138	0	0	0
Covid-19 Emergency Funding	1,594	0	0	0
Covid-19 Income Guarantee	1,218	0	0	0
Release of Earmarked Reserves	0	0	0	0
Use of general fund balances	0	0	0	0
Total funding	18,072	14,186	12,995	12,884
Funding Gap	33	955	2,178	2,320

*revised budget

7.0 Implications and Impacts

7.1 Other risks to the Council include, but are not limited to, the following specific areas:

- Brexit – the impact of the UK leaving the European Union is difficult to quantify. There could be an impact on a range of council services, funding streams and Treasury management activity that will need to be factored into the budget planning over the coming weeks
- Economy – there are a number of income streams that are linked to economic performance, including fees and charges, commercial rental income and treasury management. A significant downturn in the economy could reduce the amount of disposable income available to residents and businesses, erode investment performance and reduce the value of commercial property and rentals
- Housing market and Regeneration schemes – there could be an impact on a number of key strategic sites across the borough and it will be important to continually assess the financial viability of schemes to ensure that they are able to deliver the required outcomes.

7.2 Finance/Resource implications

As set out in the report

7.3 Legal and governance implications

There is a statutory requirement to set a balanced budget

7.4 Increasing satisfaction and service

The budget is set to support the Council in achieving priorities through the Council Plan and to facilitate control of expenditure on its activities.

7.5 Equality impacts

As part of the budget growth and savings bids process.

7.6 Health and Safety impacts

The budget contains provision for the Council to discharge its obligations under health and safety legislation, and to maintain a reserve in order to manage risks.

There are also risks that the Council will not be able to operate within agreed budgetary provisions, but this can be minimised by the financial monitoring process and by the prudent policy on the level of reserves and balances.

7.7 Health, wellbeing and community safety impacts

As part of the budget growth and savings bids process.

7.8 Environmental/sustainability impacts

As part of the budget growth and savings bids process.

Appendices attached to this report

Appendix number	Title of appendix

Background documents available

Name of background document	Where it is available
Budget working papers	Finance team working papers

Report author and contact officer

Catherine Nicholson
Head of Financial Services
Catherine.nicholson@allerdale.gov.uk
01900 702503
07483 030422