



# General Fund Revenue Budget 2021/22 and Medium Term Financial Strategy 2021/22 to 2024/25

<b>Corporate Priority:</b>	All
<b>Relevant Ward Member(s):</b>	All
<b>Date of consultation with Ward Member(s):</b>	N/A
<b>Exempt Information:</b>	No
<b>Key Decision:</b>	No
<b>Subject to call-in:</b>	No Not key decision

## 1 Summary

- 1.1 The Council monitors budget and service performance on a continuing basis with regular reports provided to Cabinet. For the whole of the current financial year, the Council has been responding to the Covid pandemic which has had a significant impact on both increased expenditure to support priority community and business needs, and lost income. As a consequence the forecast overspend against approved budgets is £2.01m but this has been mitigated by additional Government funding to the sector and efforts to curtail expenditure in non-priority areas. Whilst the potential for additional expenditure to support the pandemic response remains, the Council is now forecasting a General Fund underspend for 2020/21 of £206k and a Special Expenses underspend of £4k.
- 1.2 A portion of forecast underspend has been taken into account when setting the 2021/22 budget with the remainder being proposed to be added to the Corporate Priorities Reserve. It should be recognised that this underspend is likely to be required to continue to support Covid recovery and response for both businesses and the community.
- 1.3 The 2021/22 draft budget has been prepared based on the Council's approved Corporate Strategy 2020 to 2024 and takes into account the implications of Covid in both responding to the crisis as well as the steps required to recover. It allows for an overall increase in council tax of £5 across all Council funds in line with the Government's referendum limit. A

number of items of growth are being put forward along with savings proposals. The proposals made result in a balanced budget with no draw on the council's Corporate Priorities Reserve. The details of the proposals are set out within the report alongside the risks and assumptions associated with the budget estimates.

- 1.4** As previously reported reserves have been depleted over recent years but over the last two years the position has stabilised. However, the relatively low level of revenue and capital reserves, remain a concern as highlighted by the latest CIPFA financial resilience index which has not been subject to a recent update. This is particularly the case when considered alongside the uncertainty regarding the funding of local government finance from 2022/23 and the ongoing risks as a result of Covid.

## **2 Recommendation(s)**

**That Cabinet:**

- 2.1 Note the year end forecast and financial position for the General Fund and Special Expenses for 2020/21.**
- 2.2 Delegate authority to the Director for Corporate Services to make any amendments necessary to the estimates prior to their submission to Council for approval as a result of changes to the final finance settlement over the provisional.**
- 2.3 Recommend to Council subject to any amendment arising from the **final finance settlement that:****
- a) The proposals for General Expenses and Special Expenses Melton Mowbray as set out in Appendix B (i) and (ii) and summarised in section 4.4 be approved for inclusion in the 2021/22 budget resulting in the estimates set out in Appendix A;**
  - b) Delegated authority be given to the Director for Corporate Services to release the funding for the growth items for town centre improvements, place survey and discretionary council tax support subject to the conditions set out in para 4.4.4;**
  - c) The revenue budget for 2021/22 for General and Special Expenses as set out in Appendix A be approved resulting in an overall council tax increase of £5, the individual council tax levels being as set out in para 4.4.6;**
  - d) Any increase or shortfall against the target working balance on General Expenses at 31 March 2021 is transferred to/from the Corporate Priorities Reserve and for Special Expenses Melton Mowbray any surplus/deficit be transferred to/from the Special Expenses Reserve thereby bringing the actual balance back to the target;**
  - e) Members note the changes made to the risk categorisation of budgets as set out in para 4.5.2 and Appendix D.**

### 3 Reason for Recommendations

- 3.1 The Council, having set a Budget at the start of the financial year, needs to ensure the delivery of this Budget is achieved. Consequently, there is a requirement to regularly monitor progress so corrective action can be taken when required, which is enhanced with the regular reporting of the financial position.
- 3.2 To propose to Council a General Fund budget and level of council tax for the 2021/22 financial year which takes into account the proposals set out in the approved Corporate Strategy. The proposals take into account the net expenditure that the Council expects to spend in the next financial year to deliver services to our customers. The report also includes recognition of efficiencies secured and details of the funding and income received to support these services to ensure a balanced budget is proposed.
- 3.3 The Council also holds a number of reserves which can be drawn upon to fund future expenses. The level of reserves is considered within this report, as is the future outlook for spending in the years ahead in order for the Council's future financial resilience to be considered as part of the proposals.
- 3.4 Cabinet and Council are required to consider and approve the General Fund Revenue Account budget proposals in order to set the budget and council tax for the forthcoming financial year.

### 4 Main Considerations

#### 4.1 Forecast Year End Position 2020/21

- 4.1.1 In February 2020 the Council set a balanced budget with expectations of net General Fund expenditure for 2020/21 totalling £5.095m. The impact of the pandemic on the Council's focus and expenditure throughout the financial year has been significant and this and the forecast year end position is summarised in the table below. This has been compiled on the basis of the 'best estimate' of income and expenditure for the year provided by budget holders and includes approved supplementary estimates.

#### SUMMARY OF 2020/21 FORECAST YEAR END POSITON

Funding Position	Comments	Amount
Forecast gross overspend across services before savings and income received due to Covid	Income shortfall – £1.104m Direct Covid spend - £0.837m Savings not achieved - £0.070m	£2.011m
Less Tranche 2, 3 and 4 grants	Unringfenced grant provided by government to support Covid expenditure pressures	(£0.675m)
Less Income cover scheme	Anticipated government grant to be received to meet 75% of a portion of income shortfalls relating to Covid attributable to eligible income streams	(£0.654m)
Less other COVID grants	The council has received a number of other government	(£0.455m)

	grants for specific Covid support	
<b>Net overspend after grant funding</b>		<b>£0.227m</b>
Service areas savings	In year / one-off savings identified to help mitigate the financial impact	(£0.433m)
<b>Net underspend</b>	<b>After taking into account all Covid grant support and in year savings identified</b>	<b>(£0.206m)</b>

4.1.2 The forecast year end position for General Expenses is in an underspend of £206k. prior to any carry forward into 2021/22 and any additional Covid pressures which may emerge between now and the year end. This takes into account approved contributions from the reserves, supplementary estimates, and approved carry forwards from 2019/20.

4.1.3 The gross forecast position before government support and in years savings are taken into account is a £2.011m overspend. This is made of two main elements being that of additional expenditure relating specifically to Covid of £837k covering areas such as increased B&B charges in support of homelessness and financial support to the leisure provider. The other key element is the lost income totalling £1.104m from a number of key income streams, again predominantly attributable to Covid, the main elements of which are highlighted below:

- Council tax summons fees (£60k) – as a result of Covid, the courts are not operating for council tax summons cases. Therefore, the recovery of legal fees for costs incurred for issuing summons won't be achieved;
- Waterfield Leisure Centre (250k) Loss of Management Fee income as a result of Covid19 following closure of leisure centres;
- Car Parks (£460K) Income shortfall including season tickets and enforcement;
- Development Control (£109k) income shortfall on planning fees;
- Building Control (£35k) income shortfall;
- Industrial Units (£23k) shortfall on rental income due to vacant units;
- Investment Income (£57k) – due to reduction in interest rates investment returns are expected to be reduced.

4.1.4 The council has received grant funding from Government but this isn't sufficient to meet the full impact of all additional expenditure or lost income due to Covid; as outlined in the table above. This leaves a shortfall of funding which the Council has had to manage internally. Through robust budget management across the Council, discussions between Cabinet and officers identified in year savings totalling £433k to help mitigate the financial impact and ensure the immediate risk to the Council's finances was addressed. This included but not limited to freezing a number of vacant posts, not completing works to the town centre, and not undertaking planned training for staff and Members and has not been without challenge; ultimately impacting on what the council can deliver when the demands placed upon us have never been so great. Overall, through this effort a forecast

underspend position of £206k is now predicted due to effective and prudent management of the budgets throughout 2020/21.

4.1.5 With the receipt of the additional government funding and the resulting reduced risk of a large deficit, which was the concern early in the crisis, consideration is being given to the areas within the council that now need additional support. This will either be to support the community or businesses through the ongoing response but also through recovery. Efforts are being made to support services address any backlog in work and there are service areas where officers will need to start taking leave that has accrued and additional resources will therefore need to be deployed into these areas. The forecast underspend will be utilised, where necessary, to support these ongoing needs. Key examples are the need to continue the ongoing support for business grants which is taking up considerable resources as well maintaining the Council's community hub. Additional resources are also being deployed to support Covid compliance activities and it is anticipated this will need to continue and in some areas extended for the reasons set out above.

4.1.6 The forecast year end position is only an indication of the actual position at year end and budget holders can only spend at this level if they seek approval through virements and supplementary estimates. Whilst the forecast for General Expenses is showing an underspend, and additional resources may be deployed to support priority needs and Covid response, given the potential ongoing impact of Covid on the Council's finances, where further savings from non-priority areas can be identified they will be. The Senior Leadership Team continues to monitor budgets closely on a monthly basis and will ensure the balance is struck between protecting organisational resilience and supporting our communities. It is proposed that any surplus or deficit over the approved working balances at 31<sup>st</sup> March 2021 be adjusted by transfers to/from the Corporate Priorities Reserve.

4.1.7 The general position of Special Expenses Melton Mowbray is relatively stable given the majority of budget costs relate to the established recharge process. In terms of 2020/21 a minor underspend has been forecast of £4k relating to reduced contract spend at the Children's Centres. Any actual surplus/deficit at the year-end will be transferred to/from the Special Expenses Reserve.

## 4.2 **Key Budget Principles for 2021/22**

4.2.1 A number of key principles have been considered as part of the budget setting process some of which were considered as part of the previously approved Medium Term Financial Strategy (MTFS) and these are set out below:

- a) The retention of the target working balances for General Fund Expenses of £640k, for Special Expenses Melton Mowbray of £50k and £750k for the Housing Revenue Account;
- b) No inflation be provided for in the 2021/22 budget at service budget level, other than fees and charges which has been provided for at the rate of 3% unless adjusted for known cost increases by budget holders, and only an increase of £250 per annum for salaries below £24k in line with the announcement in the Government Spending Review 2020. Pay progression across the scales has been provided for;
- c) That a balanced budget be set for 2021/22 using specific reserves where appropriate and seek to avoid any draw on the Corporate Priorities Reserve.

## 4.3 **Local Government Finance Settlement 2021/22**

- 4.3.1 The finance settlement sets out the centrally allocated resources for all councils which are allocated within the context of the spending review. A Settlement Funding Assessment is awarded which consists of a Revenue Support Grant (which Melton no longer receives) and a Baseline Funding Level which is used to calculate the level of business rates that can be retained from that estimated to be collected locally. The settlement also provides the information on the level of other specific grants a local authority will receive for the coming and potentially future years as well as setting out the level of council tax that can be set without triggering a referendum.
- 4.3.2 In 2016 the government set out its intention to move to multi year settlements to provide certainty to councils over future levels of funding and a four year settlement was announced covering the period 2016/17 to 2019/20. Consultation papers were then issued with the 2019/20 finance settlement relating to the long standing review of local government finance. This covered proposals for a full business rates baseline reset meaning any growth retained since the business rates retention system was introduced in 2013/14 would be lost. Consideration of how the split of business rates was to be made between lower and upper tier authorities; with the concern being that the funding pressures of upper tier authorities would result in a greater share allocated to this class of authority. Uncertainty was also raised regarding how business rates relief will be accounted for which is a concern for rural districts where a larger proportion of businesses are eligible for small business rate relief. Alongside the business rates reform, other funding streams were also announced for review, including consideration regarding the costs of rurality and the future of New Homes Bonus. Whilst any changes to these funding streams have the potential to impact on the council and therefore create a degree of uncertainty, it is also unclear how any damping mechanism would work and over what time period in order to mitigate the impact on any individual council in the early years. This review was expected to be completed in time for the 2020/21 finance settlement.
- 4.3.3 In August 2019 the Chancellor announced that the more fundamental review had been delayed and instead there would be a one year spending review for 2020/21. This was followed by a spending review announcement, a subsequent technical consultation paper and the general election. As a result of Covid the long awaited review of local government finance has again been delayed and again a one year settlement for 2021/22 was announced with further uncertainty of when the review would be complete and when and if multi year settlements would commence. The final settlement is not expected until mid to late February 2021 and will need to be received before the council tax is formally set by Council.
- 4.3.4 The key elements set out in the 2020 **provisional** finance settlement are as follows:
- a) Business Rates - The Settlement Funding Assessment used to calculate retained business rates was as expected. There is an impact on the 2021/22 budget over the Medium Term Financial Strategy due to Covid as a result of allowances for bad debts and lower growth. Proposals were contained in the **provisional settlement relating to support for irrecoverable debts which is in the form of a technical consultation document**. Support will be provided for losses using a comparison between original returns to government setting out estimated business rates collection for the 2021/22 compared to the actual position at the end of 2020/21 with 75% of the loss being provided for over the next three financial years. As such the basis of the calculation is still being examined and the level of support will not be known until the end of the

financial year. It is likely that some impact is also felt in 2020/21. The council does hold a business rates equalisation reserve which is used to minimise the impact between years and this can be used to some extent to cushion this reduction although the resources are finite and should business rates not recover they would be exhausted over time. Through utilising this reserve any change over the budgeted figures once this is worked through would not impact on the bottom line. Following an assessment the Leicestershire business rates pool is continuing for 2021/22, which, whilst retained sums will be lower than previous years, there will still be a sizeable benefit to Leicestershire as a whole;

- b) Council Tax - The settlement has confirmed, in line with previous years, that there will be no change to the referendum criteria, in that district Councils will only be allowed to increase council tax by up to 2% or an overall increase of up to £5 for a Band D property. Also contained within the settlement is additional support in 2021/22 to compensate all authorities for the expected higher cost of Local Council Tax Support provided to residents in 2021/22 which results in a lower level of council tax being collected. The funding will be un-ringfenced and can also be used to provide other support to vulnerable households, including through local welfare schemes. For Melton this is £51k in total. A growth proposal has been submitted for a portion of this grant, which subject to other preceptors committing funding pro rata to the council tax proportions, could be used as a discretionary support scheme. The government has also announced, as part of a **consultation paper**, the details of its proposed scheme for compensating for irrecoverable local taxation losses. Similar to the business rates scheme the calculation for this is proposed to be based on returns submitted after the year end and will allow 75% of losses from council tax collection to be spread over 3 years;
- c) Rural Services Delivery Grant - The Efficiency for SPARSE services is continuing with an increase in the total funding available and the methodology for distribution remaining unchanged. For Melton this is **provisionally** confirmed as £191k, an increase of £9k over that received in 2020/21;
- d) New Homes Bonus (NHB) - 2017/18 saw significant changes to the calculation of NHB with the government reducing legacy payments from 6 to 5 years in 2017/18 and to 4 years in 2018/19 onwards. In addition local authorities whose housing growth is less than 0.4% receive no NHB payment; otherwise authorities will only receive the payment on amounts over the 0.4%. The Government outlined proposals in a consultation last year to remove NHB funding from 2021/22 onwards. However, given the events of Covid resulting in a delay to the Fair Funding review the Government have extended the NHB scheme for a further one off year. Melton will receive a one off payment for new homes built over the previous year but these wouldn't form part of any future legacy payments. Melton will continue to receive legacy funding from previous years up to 2019/20 (2020/21 NHB payments were also a one-off payment) with all NHB payments ending in 2022/23. For Melton this results in a NHB payment for 2021/22 of £280k, which is then phased out with a final payment of £82k in 2022/23. This is circa an extra £127k in 2021/22 compared to the previously approved MTFS. The expectation is the loss of NHB funding will be returned in the new local government funding regime in order to ensure local authorities aren't any worse off collectively. The method of distribution between classes and individual authorities is though currently

unknown and therefore the impact explicitly on Melton under these potential new arrangements remains unclear. The Government is intending to consult on the future of the housing incentive in the new year with the aim of moving to a new more targeted approach that rewards local authorities that are ambitious in delivering homes, and which is aligned to other measures concerning planning performance. The anticipation is this will be implemented in 2022/23;

- e) Redmond Review - In response to the Sir Tony Redmond review into audit and transparency of council financial reporting the government is providing councils with an additional £15m in 2021/22 to implement Sir Tony's recommendations for strengthening the local audit system. This includes supporting councils to fund external auditors and to produce an easily accessible annual statement of their service costs. **Allocations are expected to be un-ringfenced and announced early spring which will be too late for incorporation into the budget.** The implications from this review will be considered by the Audit and Standards committee at the appropriate time once the recommendations are accepted or otherwise by the government;
- f) Tranche Five Covid Funding - A further amount of un-ringfenced grant funding to provide support for the first quarter of 2021/22 has been provided. Tranche 5 will distribute a further £1.55bn and the amount for Melton is £213k and is to provide support for additional costs arising as a result of Covid. At this stage it is considered this will be the last tranche of Covid funding;
- g) Lower Tier Services Grant - A new one year only un-ringfenced Lower Tier Services Grant in 2021/22 has been provided which will allocate £111 million to councils with responsibility for services such as homelessness, planning, recycling and refuse collection and leisure services. The allocation for Melton is £57k.

#### 4.4 Proposed Budget 2021/22

4.4.1 The proposed budget for 2021/22 is set out in Appendix A and is summarised in the table below:

<b>Proposed Budget 2021/22</b>	<b>£000</b>
<b>General Expenses</b>	
Net Cost of services-Updated Base Budget *	6,183
Proposed Growth (Appendix Bi)	125
Proposed Savings (Appendix Bii)	-101
<b>Proposed Net Cost of Services</b>	<b>6,207</b>
Non Service Related Budgets	-1,161
Business Rates Equalisation Reserve	-193
<b>Net Expenditure</b>	<b>4,853</b>
<b>Net Expenditure Met by:</b>	
Non Domestic Rates	-997
Council Tax Collection Fund Deficit	42
New Homes Bonus	-280
Council Tax	-3,567
Carry Forward From 2020/21	-36
Regeneration and Innovation Reserve - Linked to Growth	-15
<b>Surplus/Deficit for the Year</b>	<b>0</b>



<b>Special Expenses Melton Mowbray</b>	
Net Cost of Services-Updated Base Budget	607
Proposed Growth/Savings	0
Non Service Related Budgets	-103
<b>Net Expenditure</b>	<b>504</b>
<b>Net Expenditure Met by:</b>	
Council Tax	-474
Special Expense Reserve	-30
<b>Surplus/Deficit for the Year</b>	<b>0</b>

\* includes estimated Covid expenditure, lost income and Covid contingency offset by Government grants including Tranche 5 funding, income compensation scheme, local council tax support.

4.4.2 The budget for 2021/22 has been prepared on the basis of maintaining services at their agreed levels except where the Council has already agreed to a change in which case any change in cost has been incorporated into the base budget. The proposed budget aligns with the Corporate Strategy approved in September 2020. Assumptions have been made regarding the ongoing impact of Covid on expenditure, but more importantly on income streams and when they are likely to return to pre Covid levels, and where exact amounts are not yet known, the level of government support. Utilising the Tranche 5 Covid funding, a contingency has also been set aside to accommodate unexpected Covid related expenditure and lost income not already contained in the budget.

4.4.3 A number of growth and savings proposals have been put forward for consideration in respect of General Expenses as set out in Appendix B. These have been incorporated into the budget and MTFS as set out in Appendix A and the above table and are summarised below:

<b>Non Recurring General Fund Growth Proposals</b>	<b>£000</b>
Place Survey to be completed in 2021/22 to support priority 6 within the Corporate Strategy. This is a biennial survey and will allow the direction of travel to be seen on a range of consultation areas with the previous survey undertaken in 2019 used to develop the corporate strategy.	15
Essential upgrades to the Council idox computer software which supports a wide range of service areas including planning.	20
To support the next stage of the Melton / Nottingham Rail Service connectivity project linked to the Restoring Your Railway Ideas Fund. Melton will be the lead authority for the £80k project with a £50k grant and a £15k contribution from Charnwood BC leaving £15k to be funded from Melton. This can be funded from the Regeneration and Innovation Reserve.	15
Deferred from the 2019/20 budget as a consequence of the Covid pandemic, this will fund public realm Improvement works for town centre area. Work streams will include improvements to street furniture, planting and other options to ensure the town centre remains an attractive place to visit and shop and is best placed to support the recovery process. It will also fund the	50

consolidation of existing regeneration and asset development plans into a refreshed and consolidated Town Centre strategy and masterplan; supporting longer term recovery	
Recognising the increased financial hardship being felt by many residents work with other preceptors to set up a discretionary council tax relief fund to support those residents struggling to pay.	25
<b>Total Growth Proposals</b>	<b>125</b>
<b>General Fund Non Recurring Savings Proposals</b>	
Freeze vacant project officer post for 2021/22. This will reduce the capacity for the team to provide support to services with regard to project and programme work. With the current programme of projects across the council the main area to be affected will be the growth and regeneration team. This will mean managers in these service areas will need to undertake their own project management work and follow the council's project management framework without central support. Whilst any reduction in capacity will have an impact, officers are confident this risk can be managed.	37
Freeze the vacant Economic Development officer post. The impact will be mitigated by the creation of a business support post that will focus specifically on business engagement and on supporting businesses during the pandemic and during the recovery process. It is expected that this post will be funded through the Additional Restrictions Grant allocation the Council received from Government in November 2020.	37
Freeze vacant neighbourhood support officer post. This will have a minor impact on the delivery of services to the priority neighbourhood areas and reduce capacity for resident engagement and community safety management.  This resource is though only one of a number now supporting this agenda and a second neighbourhood support officer role has recently been recruited to, and will be supplemented further through the establishment of the Council's new tenancy services function and wider Housing and Communities team. The Council will also shortly be considering a refreshed Community Safety Strategy and therefore whilst any reduction in capacity will have an impact, the Council retains sufficient resources to maintain its commitment to be more community focussed and undertake greater levels of engagement.	14
<b>Total Non Recurring Savings</b>	<b>88</b>
<b>General Fund Ongoing Savings Proposals</b>	
Remove provision to support delivery of the work force strategy which has been used for the development of a jobs website to support the recruitment and selection process with an aim of encouraging people with the right skills and talent to apply to work at Melton. Due to the low value of the budget, the progress already made and based on historic expenditure this will have minimal impact.	6
Deletion of post of Building Control Apprentice from staffing establishment. This post hasn't been filled since inception and therefore minimal impact on	7

service delivery and equalities is expected if this post is removed. Service resilience will be provided by the Partnership arrangements which, whilst a more costly approach, are triggered infrequently.	
<b>Total Recurring Savings Proposals</b>	<b>13</b>
<b>Total of all Savings Proposals</b>	<b>101</b>

4.4.4 It should be noted that expenditure for the following growth proposals will not be incurred until certain conditions are reached as set out below:

- a) Town centre improvements and place survey – once it is considered that the council’s finances for the year are stable and that the impact of Covid is able to be covered by existing budgets;
- b) Discretionary council tax support – subject to other preceptors funding the initiative in line with council tax proportions.

4.4.5 All service budgets and projected income streams have been subject to scrutiny by both the Senior Leadership Team and considered by the Scrutiny Committee. A number of principles and assumptions have been applied when preparing the summary set out in Appendix A as follows:

- a) That the Council sets a £5 overall council tax increase. General Expenses has been set at an increase of 4.22%, Sproxtton, Gaddesby and Frisby Special Expenses at the level required to balance the budget, Special Expenses Melton Mowbray a reduction of 8.78% in order to bring the overall level to £5;
- b) The approved establishment has generally been budgeted for in full, except for those specific posts set out in the list of savings in Appendix A, but no provision has been made for recruitment costs or savings as a result of any vacancies other than those included in the savings proposals;
- c) The capital programme as set out elsewhere on this agenda is approved. The revenue implications of which have been considered when preparing the budget;
- d) Assumptions have been made in respect of a number of service related income streams some of which are currently significantly affected by Covid, in addition to assumptions over the level of interest from investments. The actual position could differ significantly from that estimated. Those services that continue to be particularly affected are retained business rates, building control, development control, car parking, and industrial unit rents. The first quarters fees and charges income is covered by the extension to the governments income compensation scheme but this does not cover all income streams only those eligible and only over 75% of 95% of the income lost;
- e) Estimated retained business rates income has been based on the Council’s **NNDR1 form (Non Domestic Rating Income Calculation and Estimate of Collection fund Surpluses and Deficits)**. As experience has shown, the actual amount can vary significantly in and between years as a result of levy calculations. In addition business rates liability and collection is heavily impacted by Covid and therefore carries more risk for 2021/22. The settlement provides for government support for a portion of reduced business rates collected and will be based on the year end return to government. Therefore the actual amount of support cannot be calculated until after

the end of the financial year. A business rates equalisation reserve is held to smooth out some of these implications between years and £193k is included in the budget for 2021/22 to cover the estimated drop in net rates retained, however, once the support from government is known the actual contribution will be adjusted accordingly;

- f) Estimates of maintenance requirements for Council assets is based on best estimates provided by the property team, with an increase factored in for 2021/22 based on actual costs in previous years. As set out in the Council’s capital strategy, full stock condition surveys are required and are essential in order to assess the ongoing impact on both revenue and capital budgets. These are planned for the coming year;
- g) Assumptions have been made regarding grant income and charges for services provided by other partners, where certainty surrounding these costs and income, have not yet been provided;
- h) A contingency has been included in the budget based on the tranche 5 funding provided in the settlement to cover any expenditure or income loss over that already provided for;
- i) A portion of the forecast general expenses underspend in 2020/21 has been budgeted to be carried forward into 2021/22. Any further surplus or deficit over the approved working balances at 31<sup>st</sup> March 2021 is adjusted by transfers to/from the Corporate Priorities Reserve and for Special Expenses Melton Mowbray any surplus/deficit is transferred to/from the Special Expenses Reserve balance.

4.4.6 The proposals and assumptions set out above result in the proposed Council Tax levels for each fund as set out below.

Fund	Council Tax at Band D	Change over 2020/21
	£	%
General Expenses	186.87	4.22
Special Expenses - Melton Mowbray	52.57	-8.78
Special Expenses – Sproxtton Nos. 2 & 4	60.99	-8.31
Special Expenses - Frisby	15.64	-19.63
Special Expenses - Gaddesby	40.87	-13.53
Average	212.64	2.41

4.4.7 For information, a summary of the parish precepts is set out at Appendix C.

## 4.5 Budget Monitoring

4.5.1 For the purpose of budget monitoring, services are designated as one of three categories which determines the level and frequency of budget monitoring.

These are:

- a) High risk and complex budgets.
- b) High risk budgets.
- c) Lower risk budgets.

4.5.2 The categorisation of the various services has been reviewed for 2021/22 and is set out in Appendix D. Following consultation with the Senior Leadership Team changes have been made to the risk profile with sports and legal fee income being removed from the list as the levels are at a low level and therefore do not pose such a risk. Repairs and maintenance has been added as a result of overspends in previous years and the growth in the budget being restricted due to affordability.

#### 4.6 Financial Projections for Future Years

4.6.1 The estimates in Appendix A contain forward projections for the financial years 2022/23 to 2024/25. This is based on the estimated likely position for these future years. Without the outcome of the funding review, coupled with the uncertainty regarding the recovery from Covid particularly regarding income streams, it is extremely challenging to project the Council's financial position into these later years. The figures should therefore be taken with some caution and it is not advisable to make future policy or service decisions, at this stage, based upon them. Rather what they represent is the potential gap in funding the Council will face should the Fair Funding review including any business rates baseline reset and growth incentivised funding fail to adequately compensate for the funding previously received. If this happens the Council will have to address this funding gap through efficiencies and other savings. The figures contained in Appendix A are summarised below with a comparison to the proposed budget for 2021/22 as set out above.

<b>Budget Forecast</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>General Expenses</b>				
Net Cost of Services	6,207	6,363	6,572	7,040
Non Service Related Budgets	-1,354	-1,261	-1,276	-1,301
<b>Net Expenditure</b>	<b>4,853</b>	<b>5,102</b>	<b>5,296</b>	<b>5,739</b>
<b>Net Expenditure Met by:</b>				
Non Domestic Rates	-997	-488	-498	-508
Council Tax Collection Fund Deficit	42	20	20	0
New Homes Bonus	-280	-82	0	0
Council Tax	-3,567	-3,705	-3,842	-3,981
Carry Forward From 2020/21	-36	0	0	0
Use of Reserves	-15	0	-80	0
<b>Surplus(-)/Deficit for the Year</b>	<b>0</b>	<b>847</b>	<b>896</b>	<b>1,250</b>
<b>Special Expenses Melton Mowbray</b>				
Net Cost of Services	607	607	607	607
Non Service Related Budgets	-103	-103	-103	-103
<b>Net Expenditure</b>	<b>504</b>	<b>504</b>	<b>504</b>	<b>504</b>
<b>Net Expenditure Met by:</b>				
Council Tax	-474	-493	-513	-534
Contributions to/from (-)Special Expense Reserve	-30	-11	9	30
<b>Surplus(-)/Deficit for the Year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

4.6.2 In drawing up this projection a number of assumptions have been made regarding service expenditure and income following discussions with budget holders, and scrutiny by the Senior Leadership Team. Some of the key assumptions that have been made in preparing these forward projections as follows:

### **General**

- a) That an overall increase in council tax of £5 will be set in 2021/22 followed by further overall increases of £5 to 2024/25;
- b) The expected position is based on the current level of service provision with assumptions incorporated regarding general inflation changes to prices and pay, pension costs and income streams and estimated changes in demand. No allowance is made as part of the projections for the delivery of savings or income generation which would require a change to service levels/policy. This is to enable the true surplus/deficit to be identified that will require management intervention in order to address the position;
- c) Growth projections for residual NHB and council tax growth have been based on the housing growth figures provided by the local plans team based on the current grant criteria;
- d) The full extent of any financial impact arising from Welfare Reform including Universal Credit has not been allowed for due to insufficient information;
- e) It has also been assumed Rural Services Delivery Grant will continue at its current level with no adjustment made to what may arise from the fair funding review and any potential acknowledgement of rurality as a spending pressure;
- f) No adjustment has been made post 2021/22 for Covid related expenditure continuing or for any reduction in income as a result of this with these being restored in 2022/23 with the exception of leisure provision where this is estimated to be restored by the end of 2023/24.

### **2022/23**

- g) Due to the fair funding review and review of business rates, the outcome of which is now delayed, the projection has been made based on reasonable assumptions. The projections, therefore, include the phasing out of the NHB grant as set out by the government, and an estimate in 2022/23 of what business rates retention could look like based on the information available. It is anticipated that the Council will benefit from some form of housing growth incentive in the future however no allowance has been made for this due to the lack of information. Therefore it is important to note that the position shown represents the worst possible position in relation to the loss of NHB and the resetting of the business rates baseline. In addition the 2021/22 proposed budget includes a draw on the business rates equalisation reserve of £193k which is not allowed for in 2022/23. No allowance has been made for any damping/transitional relief again due to the lack of information;

### **2023/24 and 2024/25**

- h) Specific allowances have been made for the transfer of the land charges service to the Land Registry in 2024/25, the potential introduction of mandatory food waste collection from 2023/24 and the recovery of the management fee for leisure which has been affected by Covid. The projections have been subject to sensitivity analysis which shows that any changes in the assumptions primarily relating to income, staffing costs

and government grants could significantly alter the forward projections both positively and negatively.

4.6.3 In recognition of the potential budget gap and the need to continually review the service offer against priorities and value for money a Financial Sustainability Programme is being initiated following the budget. This will consider a range of areas where efficiencies can be made or income generated in sufficient time to inform the 2022/23 budget at an early stage. This will include such areas as regeneration and asset maximisation.

## 4.7 Reserves

4.7.1 A Statement of Revenue and Capital Reserves is attached at Appendix E. The key reserves set out in this statement which are affected by the 2021/22 funding proposals are summarised below. In addition to these amounts the Council retains its working balances of £640k for General expenses and £50k for Special Expenses Melton Mowbray:

	Corporate Priorities Reserve	General Reserve Special Expenses	Regeneration and Innovation Reserve	Business Rates Equalisation Reserve
	£000	£000	£000	£000
Actual Balance 1.4.20	1,071	348	327	712
Estimated net change 2020/21	-75	4	-243	-59
Estimated balance 1.4.21	996	352	84	653
Proposed Use of Reserves 2021/22	0	-30	16	-193
<b>Estimated Balance 31.3.22</b>	<b>996</b>	<b>322</b>	<b>69</b>	<b>460</b>

4.7.2 The figures set out in the statement at Appendix E are based on the following assumptions:

- The capital programme and the movement in the reserves and balances is as reflected in the budget;
- Any shortfall against the target working balance on General Expenses at 31 March 2021 be adjusted by transfers to/from the Corporate Priorities Reserve and for Special Expenses Melton Mowbray any surplus/deficit be transferred to/from Special Expenses Reserve;
- Transfers are made from and to the business rates equalisation reserve in order to mitigate the financial implications between years of the levy payments and collection fund surplus/deficits. This follows the establishment of a reserve at the end of 2014/15.

4.7.3 With regard to the revenue reserves the council has three main categories. These are either 'earmarked'; for a specific purpose, 'general'; where the use is flexible and 'working balances'; which are in effect a contingency for unforeseen but risk assessed events. A

brief description of the purpose and future intention with regard to each reserve and provision held by the Council is set out in Appendix F.

4.7.4 In relation to the non-earmarked, general reserves, they are available to support a range of projects which may be required for the Council to deliver, as well as being available to support capital expenditure should that be necessary due to a low level of capital receipts being held. The reserves have in recent years been utilised to support non recurring expenditure in support of structural changes; though the Corporate Priorities Reserve level has stabilised. If the council's financial position should worsen and further savings in net expenditure are required which have a lead time to achieve it will be necessary to draw on these again until alternative savings or income are identified and delivered. In 2021/22 the budget follows the principle set of balancing the budget without utilising these reserves to protect the Council's future financial sustainability.

4.7.5 CIPFA (the Chartered Institute of Public Sector Finance and Accountancy) have issued a Financial Resilience index for all councils which is available publicly. This is in response to concerns regarding the viability of councils. It is suggested that Chief Finance Officers should comment on the results as part of their statement on the adequacy of the reserves as part of their budget reports. The latest version of the index has been delayed due to incomplete data as such the key messages for Melton from the previous version published are as follows:

- a) Compared to other district councils, and particularly similar district councils classed as being our "nearest neighbours" in terms of comparability, Melton is shown as being of higher risk due to our level of reserves being comparatively lower. When tracked over 3 years Melton has been using its reserves at a comparatively faster rate than other similar authorities and district councils. As set out elsewhere the council has been addressing this and the proposed budget does not draw on non earmarked reserves for any recurring or non recurring expenditure in 2021/22. Updated figures have not been provided by CIPFA in 2020 which is likely to be due to the volatility caused by the use of reserves to finance Covid costs however the position for Melton has stabilised over the last two years;
- b) Melton is at a low risk compared to similar authorities and other districts as a result of having no general fund debt and therefore no interest being payable;
- c) Melton was previously shown as being at a lower risk compared to similar authorities and other districts as a result of generating a high proportion of income from fees and charges and council tax which we retain control over. However the impact of Covid has highlighted that such income streams are also subject to risk when faced with such a crisis as Covid;
- d) Melton is at a lower risk compared to similar authorities and other districts as a result of having lower business rates growth. The implications being that with this source of funding being at risk of the baseline being reset, above which a portion of growth is retained, Melton has comparatively less to lose than other councils.

4.7.6 In terms of what this means for Melton with regard to its financial strategy it confirms the need to reduce the requirement to draw on the reserves. The principle of not drawing on un-earmarked reserves for 2021/22 despite the pressures of Covid supports this need. This demonstrates the Council is addressing the concerns raised in previous years. It does though also need to be recognised that should these reserves deplete further, the ability to support the financial implications of change and transformation from reserves – e.g. costs arising from changes to staffing structure - will be more difficult and such costs



will have to be met from within the annual revenue budget. This would therefore require sufficient savings to be made in year or income generated to meet these costs. Should reduced funding from central government result in savings and efficiencies having to be made then there is a high risk that reserves would need to be drawn on to support the associated one off costs of achieving these. As is already recognised the council has limited reserves both allocated and unallocated and therefore investment in capital and revenue projects that reduce net revenue spend though reducing costs or generating income should be the greater priority. Whilst not covered by the resilience index, as set out in the capital strategy, the Council is vulnerable due to its low level of capital receipts and the ongoing need to invest in existing assets that have needs identified through outstanding stock condition surveys. If assets are not identified for sale that will generate additional receipts that can be invested elsewhere -opportunities for which are limited - then the council will need to identify revenue it can use to fund such capital expenditure directly or to fund the costs of borrowing. The council has an asset development programme which is progressing and this should lead to the realisation of capital receipts which would be available for asset improvements or investment elsewhere for a revenue return.

## **5 Options Considered**

- 5.1** It is a requirement to set an annual budget and consider the impact on the Council's reserves and balances. The options contained within the budget have been subject to scrutiny and reflect the feedback given.

## **6 Consultation**

- 6.1** Public consultation has been undertaken in relation to the proposals set out within the Corporate Strategy and the outcome reported as part of the approval of the strategy in 2020.
- 6.2** The Scrutiny Committee has considered the proposals set out in the Corporate Strategy and the budget proposals and the outcome of their consideration is set out elsewhere on the agenda. All members were invited to the Scrutiny committee and prior to this an all member briefing was held for members to receive prior information on the budget and provide comments.
- 6.3** Budget holders, managers and staff have been engaged at various stages in the process as the budget has been developed.

## **7 Next Steps – Implementation and Communication**

- 7.1** The recommended budget and council tax proposals will be presented to the Council meeting on 24<sup>th</sup> February 2021 alongside the council tax calculations including the various preceptor amounts as required by the regulations set out in the Local Government Finance Act 1992. Following their approval the budget book and council tax invoices will be finalised and raised. The budgets set will be monitored and reported on as appropriate during 2021/22.

## **8 Financial Implications**

- 8.1** Section 25 of the Local Government Act 2003 imposes a duty on the Chief Finance Officer to report formally to council on the following:
- a) The robustness of the estimates utilised to set the Council Tax;
  - b) The adequacy of the proposed financial reserves.

**8.2** With regard to the robustness of the estimates, by their very nature estimates are not factual they are the best estimate of the likely position taking into account the various risks associated with items of income and expenditure. One of the key areas of risk with regard to the robustness of the estimates relates to the assumptions made regarding the ongoing financial impact of Covid. A number of income streams are assumed to return to pre Covid levels from 1.4.21 and whilst the Government's income compensation scheme is extended into 2021/22 this is only for the first quarter and only covers 75% of 95% of lost income. Similarly there are items of expenditure being incurred in 2020/21 which are assumed to cease in 2021/22. Planned efficiency savings have been built into the estimates and these will need to be achieved if there is not to be an overspend on the budget. Further assumptions have had to be made in bringing together the estimates for 2021/22 and these are set out elsewhere in the report along with the key risks set out in Section 14. The inclusion of a contingency in the budget utilising the Tranche 5 Covid funding offsets this risk and assists greatly with the robustness of the estimates. As the Council moves forward there is a need to address the challenges that continue to be faced in balancing the budget however the uncertainty associated with the funding of local government from 2022/23 does support a cautious position being taken at this time until the financial future is more certain. Subject to these concerns the S151 Officer has confirmed that she is satisfied with the robustness of the 2021/22 base budget.

**8.3** With regard to the adequacy of the reserves the council does review the level of general fund working balances required based on an assessment of risk, which is the minimum required, on an annual basis. A statement of the reserves is attached at Appendix E. In recent years it has been a challenge to maintain spend within budget with increasing limited financial capacity to meet unexpected overspends in year. In addition the council also has a history of using reserves in year to fund unexpected or additional planned events. Should the changes in assumptions regarding the future financial position, in addition to the uncertainty regarding the outcome of the funding review affecting 2022/23 onwards and the return of income levels to that achieved pre Covid, result in deficits being realised this would mean the council having to utilise these reserves to either invest to save or to balance the revenue budget until savings are identified or to fund any one off costs of delivering against savings plans. In such an event such limited reserves would quickly be depleted. The council's low level of capital receipts are also a concern which due to the outstanding stock condition surveys are difficult to quantify in the capital strategy. The level of the reserves against the future financial uncertainties and capital requirements remains a concern.

**Financial Implications reviewed by: Director for Corporate Services**

## **9 Legal and Governance Implications**

**9.1** Under section 151 of the Local Government Act 1972 a local authority has to make proper arrangements for the administration of its financial affairs.

**9.2** The Chief Finance Officer has a personal duty under the Local Government Finance Act 1988 (section 114A) to make a report to the executive if it appears to them that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure.

- 9.3 Under section 28 of the Local Government Act 2003 a local authority has to review its budget calculations from time to time during the financial year and take appropriate action if there is any deterioration in it's budget.
- 9.4 The Council is required under statute to fix the level of council tax for 2021/22 by 11 March 2021 and in order to do so will have to agree a balanced budget by the same date taking into account a range of factors, including consultation feedback, and decisions must also be taken in accordance with the Council's duties under the Equality Act 2010.
- 9.5 The budget approval process is separate from individual decisions which would be incidental to the budget setting process. Legal implications will continue to be considered in implementing budget proposals.
- 9.6 Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities issued under the Local Government Act 2003 provides assurance that the council's investments are, and will continue to be, within its legal powers.

**Legal Implications reviewed by: Monitoring Officer**

## 10 Equality and Safeguarding Implications

- 10.1 When considering the MTFs, and any savings and investment proposals, the Council must have due regard to the public sector equality duty (PSED) contained within section 149 of the Equality Act 2010 which requires the Council to have due regard in it's decision-making processes to the need to: eliminate discrimination, harassment, victimisation or other prohibited conduct, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't.
- 10.2 Should it be considered that elements of the budget proposals may have equalities issues then these have been considered by the service area and assessed accordingly. The equalities aspect for each growth and saving proposal has been considered and none are considered to require a full impact assessment.

## 11 Community Safety Implications

- 11.1 Individual budgets will have links to community safety issues as a core service area of the Council.

## 12 Environmental and Climate Change Implications

- 12.1 Individual budgets will have links to environmental and climate change across the council and will be incorporated into the budgets being proposed.

## 13 Other Implications (where significant)

- 13.1 There are no other implications to those set out elsewhere within the report.

## 14 Risk & Mitigation

Risk No	Risk Description	Likelihood	Impact	Risk
1	Failure to secure financial stability in the medium term. (This is a corporate level risk and is the overall risk arising	Very High	Catastrophic	High Risk

	from a number of high level risks associated with financial sustainability including the lack of certainty regarding the future level of government funding for local authorities).			
2	Assumptions around demand and usage resulting in fees and charges and other income not being achieved including the recovery from the impact of Covid in areas such as planning fees, building control fees, property rents and service charges, cattle market and car parking.	High	Critical	High Risk
3	Grant incomes for supporting service delivery are withdrawn or reduced over that budgeted for; funding is provided in areas such as benefits administration, sports commissioning homelessness.	Low	Marginal	Low Risk
4	Assumptions made for retained business rates aren't achieved resulting in reduced income over that estimated. This could be the result of less growth, changes in reliefs and discounts over that estimated, closure of businesses, successful and backdated appeals being higher than estimated, successful claims for material change of circumstances due to Covid, changes to baseline assumptions.	High	Critical	High Risk
5	Projections for Housing growth used to calculate the New Homes Bonus and council tax are inaccurate.	Low	Marginal	Low Risk
6	Target savings included in the revenue budget are not achieved.	Significant	Marginal	Medium Risk
7	In the absence of stock condition surveys the cost of works needed to assets exceeds the budget. In addition any stock condition surveys undertaken impact negatively on the revenue budget.	High	Critical	High Risk
8	Despite the increase to the budget in 2021/22 homelessness costs are unable to be contained within budget as a result of rising need and residual impact of Covid.	High	Critical	High Risk

9	As a result of the impact of Covid on the economy there is an increase in bad debts that need to be written off and provisions need to be increased as a result.	High	Critical	High Risk
10	Inflation provided for is insufficient for contractual increases and the actual pay award is higher than that indicated in the spending review.	Low	Critical	Medium Risk
11	The leisure service struggles to return to pre Covid levels resulting in pressure in 2021/22 to continue to subsidise the service or risk closure. In addition the terms of the contract extension to run from April 2022 for 2 years is on less favourable terms due to the decline and risk in the market.	Significant	Critical	Medium Risk
12	The long term use of the childrens centres could impact on the current allocation of costs between general and special expenses impacting on the net position of either fund at a level which is difficult to support without identifying savings elsewhere.	Significant	Marginal	Medium Risk
13	Depletion of the Council's capital resources increases the need to borrow for any capital spend which will impact on the revenue budget with any borrowing costs needing to be met and this increases pressure on revenue spend elsewhere.	High	Critical	High Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				1
	5 High			4,7,8,9,13	
	4 Significant		6,12	2,11	

	3 Low		3,5	10	
	2 Very Low				
	1 Almost impossible				

Risk No	Mitigation
1	<p>As a corporate risk this is being managed with a full action plan in place.</p> <p>Mitigation includes priorities agreed through corporate strategy, maximising partnership working to deliver better outcomes at reduced local cost, regular review of MTFS, well informed public and members around priorities, regularly review risk associated with partnership projects and funding, risk assessed working balance which takes into account potential fluctuations of income and expenditure levels against budget, MTFS is subject to sensitivity analysis, ongoing review of any changes in government funding, ongoing consideration to be given to public consultation to ensure the proposals are understood within the context of the financial position, regular liaison and lobbying of government and other groups to recognise the need for funding for Covid and business as usual costs through fair funding review, savings options are identified, prioritisation of spending plans that generate savings in return, consideration of options for reducing failure demand e.g. prevention and demand reduction through service redesign.</p>
2,3,4,5,6,7,8,9,10	<p>Robust budget monitoring processes in place which are risk assessed to enable potential overspends to be highlighted at an early stage so corrective action can be taken to curtail expenditure elsewhere to offset such losses and shortfalls. The council does hold unearmarked reserves, albeit these are limited, and should be taken in the context of the future significant cuts that are set to continue and the recent draw on these.</p>
7	<p>Prioritise asset conditions surveys and subsequent analysis so the repairs and maintenance needs can be assessed and the impact incorporated into the capital strategy and revenue budget and MTFS to be weighed and assessed against other priorities.</p>
2,8,9	<p>An unringfenced grant has been provided for 2021/22 and this is being set aside to provide a contingency against the ongoing financial impact of Covid.</p>
11	<p>Work with the leisure provider to identify ways the financial risk to the Council can be mitigated and the service remains operational at an affordable cost.</p>
12	<p>Ensure the business case for Phoenix House and subsequent use of the Childrens' Centres as an alternative venue for those displaced considers the ongoing revenue implications on both the general and</p>

	special expenses.
<b>13</b>	Prioritise identification of assets for sale in order to realise capital receipts to use to fund capital spend elsewhere.

## **15 Background Papers**

**15.1** There are no background papers.

## **16 Appendices**

**16.1** Appendix A – Summary of Committee Estimates

Appendix B- Growth and Savings Proposals

Appendix C - Parish Council Precepts

Appendix D - Risk Assessment of Budgets

Appendices E and F - Statement of Revenue and Capital Reserves and Purpose and Future Intentions of Reserves

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