Melton Borough Council

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Cabinet

9 February 2022

Report of: Councillor Ronnie de Burle - Portfolio Holder for Corporate Governance and Resources

General Fund Revenue Budget 2021/22 and Medium Term Financial Strategy 2022/23 to 2025/26

Corporate Priority:	All
Relevant Ward Member(s):	All
Date of consultation with Ward Member(s):	N/A
Exempt Information:	No
Key Decision:	No
Subject to call-in:	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. In respect of 2021/22 General Expenses budget, an underspend of £230k is forecast for the year primarily due to the full £362k covid contingency fund not being utilised in its entirety. The financial impact of Covid on the Council's finances in 2021/22 prior to any covid funding is forecast to be £442k. Due to the ongoing pressure and uncertainty relating to the Council's future finances it is recommended that this underspend be used to increase the General Expenses working balance in line with the recommendations made by the LGA when they undertook their recent financial resilience review. With regard to Special Expenses Melton Mowbray an overspend of £10.5k is forecast.

1.2 The 2022/23 draft budget has been prepared based on the Council's approved Corporate Strategy 2020 to 2024, and takes into account the ongoing implications arising from Covid, including estimated income losses. 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 some vacancy management savings proposals. Due to the finance settlement, primarily the additional year of New Homes Bonus, and allowing for the growth and vacancy management savings proposals, there is

a surplus on general expenses. It is proposed that this surplus be added to the Regeneration and Innovation Reserve to enable investment in key activities to support projects that will result in economic growth, commercial return or support inward investment, as well as support development and implementation of service improvement and innovation. The details of the proposals are set out within the report alongside the risks and assumptions associated with the budget estimates.

1.3 Taking into account the uncertainty regarding local government funding and recovery of income levels lost as a result of Covid, the report also includes forecasts of the Council's financial position for the next 3 years, supported by a sensitivity analysis. The report demonstrate the potential wide ranging impact for 2023/24 onwards, with the anticipated business rates baseline reset a particularly significant factor, alongside uncertainty over the level of any transitional protections. Subject to what transpires, the forecast ranges from a position of financial stability, at the more optimistic end, to one where considerable savings may be required should a more pessimistic outcome occur. This demonstrates the importance of the council's financial sustainability programme which would ensure preparedness for such eventualities.

1.4 As previously reported, reserves and balances have been depleted over recent years, however the position has improved over the last two years. Capital resources have continued to decline although the asset development programme is aimed at addressing this. Specific revenue reserves also continue to decline primarily the business rates equalisation reserve which has been used to mitigate the impacts arising from covid. General revenue reserves have however increased with the Corporate Priorities Reserve increasing due to underspends in 2020/21 and also the Working Balance set to increase as the Council responds to the LGA review and proposals to increase this with forecast underspends in 2021/22. However, despite the improved position, the relatively low level of revenue and capital reserves remain a concern as highlighted by the latest CIPFA financial resilience index and the LGA review and the council will need to continue to manage its finances prudently and effectively.

2 Recommendations

That Cabinet:

2.1 **Note the year end forecast and financial position for the General Fund and Special Expenses for 2021/22.**

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:**

a) **The proposals for General Expenses and Special Expenses Melton Mowbray as set out in Appendix B (i) and (ii) and summarised in section 4.5 be approved for inclusion in the 2022/23 budget resulting in the estimates set out in Appendix C;**

b) The revenue budget for 2022/23 for General and Special Expenses as set out in Appendix C be approved resulting in an overall council tax increase of £5, the individual council tax levels being as set out in para 4.5.5;

c) Any surplus against the target working balance on General Expenses at 31 March 2022 is transferred to the General Expenses Working Balance and any shortfall is made up 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 Special Expenses Melton Mowbray Working Balance back to the target;

d) Members note the changes made to the risk categorisation of budgets as set out in para 4.6.2 and Appendix E;

e) That a new General Property Repair Fund be established using the residual balance on the Waterfield Leisure Centre Income Smoothing Reserve with delegation provided to the Director for Growth and Regeneration in consultation with the Director for Corporate Services to access the reserve to meet unexpected repairs and maintenance needs that arise during the year that cannot be met from existing revenue budgets.

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 2022/23 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 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 2021/22

4.1.1 The forecast year end position for General Expenses is in an underspend of £230k prior to any additional pressures/savings 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 2020/21. The key variances that make up this underspend are:

Spending Reductions

- **Covid Leisure support** (£51k) **–** predicted deficit of £10k which has been impacted by the recent pool closure and associated loss of income offset by the application of sports England grant support £61k
- **Case Management** (£19k) **–** vacancy savings.
- **Cattle Market** (£26k) – income expected to exceed budget, mainly due to animal auctions.
- **Waste Management** (£30k) **–** additional income linked to the LCC street sweeping contract bulkies and bin re-placements due to change in trends during the pandemic.
- **Environmental Maintenance** (£16k) **-** vacancy savings.
- **Waterfield Leisure Centre** (£12k) – Car park refunds to users of the service are not as high as previously anticipated. This is net of income which is also down.

Spending Increases

- **Rent Rebates and Rent Allowances** (£34k) – Based on mid-year subsidy.
- **People Directorate** (£22k) **–** Printing and Software Charges
- **Car Parks** (£239K) – Income shortfall due to usage being down. Car parking income £216k of shortfall and off street parking PCN £18k.
- **Development Control** (£90k) **–** Additional employee costs due to a combination of wage inflation as a result of appointing more experienced staff at higher level through recent recruitment, additional agency staff and recruitment.
- **Homelessness** (£22k) – Increased B&B charges, staffing costs and additional software costs. The overall position is reduced by income from various sources including full use of the homelessness reserve.
- **Building Control** (£16k) **–** Contributions to the current partnership arrangements of £11k will be required and additional employee costs.
- **Pay award** (£80k) – Latest negotiations are showing an expected 1.75% increase.
- **Parkside** (£26k) – Variations in service charges to partners.

4.1.2 The forecast year end position for Special Expenses Melton Mowbray is an overspend of £10.5k. This is primarily due to:

- £1.5k WAN costs at the Edge childrens centre
- £9k cemetery lodge loss of income, council tax liability and utilities invoices received due to vacant property.

4.1.3 There are small under/overspends on Parish Special expenses which due to the low taxbases will have an impact on the 2022/23 budget and council tax proposed.

4.1.4 Covid has continued to impact on the council's finances for the year primarily in terms of income shortfalls which are anticipated to continue into 2022/23 and potentially beyond. A summary of the forecast impact on the council's finances due to Covid is set out below.

Summary Financial Impact	**Amount £'000**
COVID Spent / Impact	£15k
Net Income losses in year	£221k
Net leisure Impact	£206k
	£442k
Less Income cover scheme and other covid grants	(£328k)
Net Impact of COVID	**£114k**
Covered by:	
Covid Tranche 5 funding	(£213k)
Overall net COVID impact	(£99k)

4.1.5 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 it should be recognised that this is due to the Covid contingency not being fully utilised and had this not been in place an overspend would now be forecast. 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 providing quality services in line with expectations. With the uncertainty regarding the council's future financial position, primarily due to the loss of key income streams and future government funding, budget holders have been urged to exercise restraint to enable any underspend to be utilised to either provide support for future years or to increase the reserves as recommended in the LGA financial resilience review of the Council's finances. It is proposed that any surplus over the current approved working balance at 31st March 2022 be used to increase the working Balance.

4.2 State of Melton

4.2.1 In September 2020 the Council adopted a new Corporate Strategy for the period 2020-2024. The Corporate Strategy sets out the Council's focus and aspirations for this period. Following public consultation and engagement with our stakeholders and partners, the Council agreed a clear vision and ambition for Melton and the people who live and work

here. We established a set of six priorities which seek to respond to the issues that matter most to local people.

- Excellent services positively impacting on our communities
- Providing high quality council homes and landlord services
- Delivering sustainable and inclusive growth in Melton
- Protect our climate and enhance our rural, natural environment
- Ensuring the right conditions to support delivery (inward)
- Connected with and led by our community (outward)

Whilst strategies should be long term, they must always be kept under regular review. As part of our Performance and Risk Framework, the State of Melton 2021 Report established the starting point for an annual process of reflection, review, and refinement. The State of Melton Report includes key information to support Councillors and Officers as they consider which areas of our strategy need a particular focus at any given time. By using this document at the outset of the budget setting process, it will allow the Council to consider how most effectively to use and reallocate resources to areas of greatest need. It will also help us to check that nothing is missing from our strategy and that it stays relevant and maximises impact. A copy of the State of Melton 2021 can be found at Appendix A.

4.2.2 A state of Melton Debate was held with Members on 4th October 2021. Members received a presentation from officers and were given an opportunity to reflect on the State of Melton report and share their views on what areas either within Melton or within the Council should be areas of focus or prioritisation as part of the budget setting process, including identification of savings proposals. Members were asked to consider:

- Community / Council issues the Council should focus on (including as part of the budget process)
- Areas to influence (not directly in our control)
- Areas where savings / income generation could be explored

A briefing was also provided to Parish councils on 18th October 2021.

4.2.3 As a result of this debate Members considered there needed to be greater focus on the following areas:

- **Young people**: a clear and appealing offer / strategy for young people to encourage the to stay or to return to Melton
- **Living and Ageing Well / Healthy Life Expectancy:** a clear offer / strategy for residents to support them to age well
- T**own centre and promotion of the area**: an appealing, attractive, and accessible town centre. Promotion and marketing of what is on offer
- **Car Parking**
- **Supporting businesses to grow**
- **Climate and Environment:** embedding into all that we do
- **Housing:** making sure the borough has the right housing in the right location – with the right tenures

Officers will be working to develop specific actions to develop each of these areas.

4.3 Key Budget Principles for 2022/23

4.3.1 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 need to increase the working balance for General Expenses to the upper level of the amount identified through the risk assessment from the current target level of £640k to £1m;
b) The target working balance for Special Expenses Melton Mowbray be retained at £50k;
b) No inflation be provided for in the 2022/23 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 2% for salaries. Pay progression across the scales has been provided for with the establishment budgeted for in full, but no budget provided for recruitment costs;

c) That a balanced budget be set for 2022/23 using specific reserves where appropriate and seek to avoid any draw on the Corporate Priorities Reserve.

4.4 Local Government Finance Settlement 2022/23

4.4.1 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.

4.4.2 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. 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.

4.4.3 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 was again delayed and a further 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. A spending review was announced in October 2021 which provided for additional funding for local government with the detail of how this was to be distributed to be set out in the finance settlement. The provisional settlement was announced on 16th December 2022. The final settlement is not expected until late January /Early February 2022 and will need to be received before the council tax is formally set by Council.

4.4.4 The key elements set out in the 2021 provisional finance settlement are as follows:

a) Business Rates - The Settlement Funding Assessment used to calculate retained business rates was as expected. Following an assessment the Leicestershire business rates pool is continuing for 2022/23 based on an estimated £10m benefit to the area in 2021/22;

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;

c) Rural Services Delivery Grant - The Efficiency for SPARSE services grant has been confirmed as continuing in line with that received in 2021/22 for Melton this is provisionally confirmed as £191k;

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 previous consultations to remove NHB funding from 2021/22 onwards. As part of the 2021/22 settlement the Government extended the NHB scheme for a further one off year in 2021/22 with these payments not forming part of any legacy payments. For 2022/23 the government has again extended the scheme for a further year on the same basis. As such Melton will receive a one off payment for new homes built over the previous year in 2022/23, but these will not form part of any future legacy payments. In addition Melton will also receive the anticipated residual legacy funding from previous years. With our increased housing growth over the past year for Melton this results in a final NHB payment for 2022/23 of £521k. The Government has stated previously the intention to consult on the future of a new housing incentive with the aim of moving to a new more targeted approach that rewards local authorities that are ambitious in delivering homes.

g) Lower Tier Services Grant - The government provided a new one year only un-ringfenced Lower Tier Services Grant in 2021-22, which allocated £111 million to councils with responsibility for services such as homelessness, planning, recycling and refuse collection and leisure services. This was intended to ensure that no council – either upper or lower tier – would have less funding available in 2021/22 than the previous year. The

allocation for Melton in 2021/22 was £57k. This grant has again been provided for a further year and the amount for Melton in the provisional settlement is £60k.

h) 2022/23 Services Grant **-** An additional grant has been awarded in 2022/23. This grant is for 2022/23 and is to fund general responsibilities. This grant includes funding for local government costs for the increase in employer National Insurance Contributions. For Melton the grant is £92k.

The Government has stated that the priority in the settlement is "stability in the immediate term" with a more fundamental review of local government funding starting in 2022. The Government will consult the sector in 2022 about "updating the system". This is what used to be known as the Fair Funding Review. DLUHC officials have clarified that this is likely to encompass a response to the review of New Homes Bonus. They were less clear that business rates reset would be in scope however it is expected that this will still be addressed. In general, we can expect there to be a comprehensive review of the distribution of local government funding. There will be transitional protections to accompany any funding reforms. Any reset of business rates represents a key risk for the Medium Term Financial Strategy (MTFS). Whilst longer term financial risks remain the additional funding provided to the council through the finance settlement has enabled the council to set a balanced budget with minimum savings options as well as enabling reserves to be increased and funding to be set aside for investment in core priorities.

4.5 Proposed Budget 2022/23

4.5.1 The proposed budget for 2022/23 is set out in Appendix B and is summarised in the table below:

Proposed Budget 2022/23	**£000**
General Expenses	
Net Cost of services-Updated Base Budget	7,799
Proposed Growth (Appendix Ci)	20
Proposed Vacancy Savings (Appendix Cii)	**-65**
Proposed Net Cost of Services	**7,754**
Non Service Related Budgets	-2,737
Business Rates Equalisation Reserve	-262
Net Expenditure	**4,755**
Net Expenditure Met by:	
Non Domestic Rates	-845
Council Tax Collection Fund Surplus	-27
New Homes Bonus	-521
Council Tax	-3,721
Corporate Priorities Reserve – Non Recurring Cost	-25
Surplus to be transferred to the Regeneration and innovation Reserve	**-384**
Special Expenses Melton Mowbray	
Net Cost of Services-Updated Base Budget	599
Proposed Growth	20
Non Service Related Budgets	-86
Net Expenditure	**533**

Net Expenditure Met by:	
Council Tax	-478
Special Expense Reserve	-55
Surplus/Deficit	**0**

4.5.2 The budget for 2022/23 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.

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

General Fund Growth Proposals	**£000**
Increase to the Council's Health and Safety Officer post by 0.2FTE from 0.5 to 0.7. This is to acknowledge the wide ranging issues across the organisation with regard to Health and Safety. The Increase in the established post will allow more effective and focused management of the Health and Safety agenda	7
Make current fixed term 0.5 FTE climate change Officer post permanent (19k impact from 2023/24). Funding was secured in 2021/22 for a 12 month temporary post of Climate Change Officer. The post is 1FTE, funded as a joint post by O&WBC and MBC, with each Council funding 0.5FTE. This proposal relates to securing additional funding to allow for the Climate Change Officer post to be made permanent. This will allow the Officer to pursue longer term, strategic projects with a view to supporting (and making a reality) the Council's target to become carbon neutral by 2030.	7
Continuation of the enhanced Christmas lighting provision in the town centre following the procurement of the new contract. This would mean the current enhanced offer of additional lighting in the market square, two new cross street hanging lights and 2 additional lamppost lights on Burton Street that has been in place since 2020 would continue.	6
Total Growth Proposals	**20**
General Fund Non Recurring Vacancy Management Savings Proposals	(65)
Special Expenses Non Recurring Growth Proposal Appointment of a consultant to support the necessary work on the expansion of cemetery provision within the borough.	20

4.5.4 Regarding savings options for 2022/23. Given the ongoing uncertainty regarding local government finance, the Council has prudently continued to develop its financial sustainability programme, and throughout the year work has been ongoing to develop savings and

efficiency options so any deficits which emerge can be addressed appropriately. Given the positive financial settlement the need for immediate, short-term savings has diminished and therefore only vacancy savings are proposed. Officers are however working in a number of areas currently to reduce costs, whilst protecting priority services. These include;

- undertaking a procurement to identify a new provider to run the country park café with a view to maintaining community benefits whilst reducing costs,
- discussions with the BID regarding our partnership in relation to the Christmas light switch on event and tourism expenditure to maximise impact and remove unnecessary duplication and costs,
- working with Biffa to ensure additional support continues to be provided to vulnerable people but that legacy arrangements for those who no longer need it ceases.
- Reduction in conference, seminars and subscription costs.
- Discontinuing engagement toolkit
- Planned cessation of the sidings car parking lease at Parkside due to escalating costs and move to hybrid working
- Termination of separate lifeline (Timesage) website and greater efficiencies from Harborough contract

These efforts will continue and the more favourable finance settlement has created a window where the Council can explore financial sustainability in a more strategic way, rather than having to react to events. Key components of the Council's future financial sustainability will relate to service transformation and the Council's asset development programme. Proposals to inject resources in these areas will be considered and brought forward shortly so the Council can ensure the required pace to deliver.

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

a) That the Council sets a £5 overall council tax increase. General Expenses has been set at an increase of 2.85%, Sproxton, Gaddesby and Frisby Special Expenses at the level required to balance the budget, Special Expenses Melton Mowbray a nil increase 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 Cii, 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 continue to be affected by Covid, in addition to assumptions over the level of interest from investments. The actual position could differ significantly from that estimated;

e) Estimated retained business rates income has been based on the Council's estimated 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 impacted by Covid and therefore continues to carry more risk and uncertainty for 2022/23. A business rates equalisation reserve is held to smooth out some of these implications between years and £262k is included in the budget for 2022/23 to cover the estimated deficit on the NNDR collection fund. Based on the forecast for 2021/22 this will put the estimated balance at 31.3.23 below the recommended level (£250k to £300k) for this fund;

f) Provision has been made for repairs to council assets based stock condition surveys that have been undertaken with essential repairs only being provided for due to affordability. Due to the need to ensure future repairing liabilities are affordable it is proposed that any underspend within the revenue repairs and maintenance budget be utilised to create a property repairs and maintenance fund. Whilst this is unlikely to meet all future repairs it will provide some mitigation for future repair costs from existing base budgets;

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) No contingency has been included in the budget for 2022/23;

i) Any further surplus over the approved working balance at 31st March 2022 will be used to increase the working balance with the aim to increase this to £1m in line with the LGA financial resilience review recommendations. For Special Expenses Melton Mowbray any surplus/deficit is transferred to/from the Special Expenses Reserve balance;

j) The budgeted surplus on the general expenses be transferred to the Regeneration and Innovation Reserve to enable investment in key activities to support projects that will result in economic growth, commercial return or support inward investment as well as support development and implementation of service improvement and innovation. This is in line with the policy for this reserve.

4.5.6 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 2021/22** **%**
General Expenses	192.20	2.85
Special Expenses - Melton Mowbray	52.57	0
Special Expenses – Sproxton Nos. 2 & 4	59.99	-1.65
Special Expenses - Frisby	17.61	12.62
Special Expenses - Gaddesby	18.78	-54.06
Average	5.00	2.35

4.5.7 For information, a summary of the parish precepts received to date is set out at Appendix D, although it should be noted that some of the formal notifications for these are still awaited. These continue to be chased up and of course will need to be available in time to feed into the council tax calculations for the Council meeting on 24th February 2022.

4.6 Budget Monitoring

4.6.1 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.

4.6.2 The categorisation of the various services has been reviewed for 2022/23 and is set out in Appendix E. Following consultation with the Senior Leadership Team changes have been made to the risk profile with building control income being amended to reflect the new service arrangements, Leisure added with the change to the lease with the provider which introduces a profit sharing arrangement in place of the previous fixed management fee as the service recovers from the Covid pandemic. Parkside and Phoenix House income has been removed as there is stability in the building regarding the tenants in occupation.

4.7 Financial Projections for Future Years

4.7.1 The estimates in Appendix B contain forward projections for the financial years 2023/24 to 2025/26 as set out below. This is based on the estimated likely position for these future years. The uncertainty regarding future government funding is the main factor which results in a forecast deficit position. This estimated likely position assumes a mid point in terms of funding between a worse case scenario of a full baseline reset and removal of NHB and a best case scenario of the retention of current funding levels.

Budget Forecast	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£000	**£000**	**£000**	**£000**
General Expenses				
Net Cost of Services	7,754	8,100	8,443	8,711
Non Service Related Budgets	-2,999	-2,738	-2,738	-2,769
Net Expenditure	**4,755**	**5,362**	**5,705**	**5,942**
Net Expenditure Met by:				
Non Domestic Rates	-845	-872	-889	-907
Council Tax Collection Fund Surplus(-)/Deficit	-27	20	0	0
New Homes Bonus	-521	0	0	0
Council Tax	-3,721	-3,862	-4,012	-4,164
Use of Reserves	-25	-80	0	0
Surplus(-)/Deficit for the Year	**-384**	**568**	**804**	**871**
Special Expenses Melton Mowbray				
Net Cost of Services	619	599	599	599
Non Service Related Budgets	-86	-86	-86	-86
Net Expenditure	**533**	**513**	**513**	**513**
Net Expenditure Met by:				
Council Tax	-478	-488	-497	-507

Contributions to/from (-)Special Expense Reserve	-55	-25	-16	-6
Surplus(-)/Deficit for the Year	**0**	**0**	**0**	**0**

4.7.2 Without the outcome of the funding review, coupled with the uncertainty regarding the recovery of core income streams due to Covid, it is extremely challenging to project the Council's financial position into these later years. As such sensitivity analysis has been undertaken and for information best and worse case scenarios of the potential surplus/deficit for future years set out below. This shows that should current external funding levels be retained and there be no business rates baseline reset the council will remain broadly in a balanced budget position, however should there be a baseline reset, NHB removed and no transitional relief then the council would have significant deficits to cover. The reality will of course be somewhere between these two extremes:

	2023/24	2024/25	2025/26
Potential Surplus (-)/Deficit	£000	£000	£000
Best Case Scenario	-6	88	55
Worse Case Scenario	1,154	1,457	1,585

4.7.3 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 2022/23 followed by further overall increases of £5 to 2025/26;
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 council tax growth have been based on the housing growth figures provided by the local plans team;
d) It has also been assumed Rural Services Delivery Grant will continue at it's 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;
e) No allowance has been made for future NHB payments or any replacement housing incentive growth in the absence of any information.
f) The scenarios provide for different assumptions regarding other forms of government funding from business rates retention and the lower tier services grant which range from being retained at their current level to their complete removal with the expected level being an average of the two extremes;
g) No adjustment has been made post 2022/23 for Covid related expenditure with income from leisure provision estimated to be restored by the end of 2023/24 and car parking

income remaining in a reduced position based on 2022/23 estimates of a 23% reduction.

2023/24 and 2024/25

f) 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. No allowance has been made for any new burdens payment in respect of the introduction of food waste collection due to the level and method of distribution not being know.

4.7.4 In recognition of the future uncertainty and future financial projections which could result in considerable savings having to be identified at the most extreme to an almost a stable position at the most optimistic level, as well as the need to continually review the service offer against priorities and value for money a Financial Sustainability Programme continues to be progressed. This will consider a range of areas where efficiencies can be made or income generated in sufficient time to inform the 2023/24 budget. This will include such areas as regeneration and asset maximisation.

4.8 Reserves

4.8.1 A Statement of Revenue and Capital Reserves is attached at Appendix F. The key reserves set out in this statement which are affected by the 2022/23 funding proposals are summarised below.:

	Corporate Priorities Reserve	General Reserve Special Expenses	General fund Working Balance	Regeneration and innovation Reserve	Business Rates Equalisation Reserve
	£000	£000	£000	£000	£000
Actual Balance 1.4.21	1,181	380	640	282	3,133
Estimated net change 2021/22	0	-41	230	-191	-2,750
Estimated balance 1.4.22	1,181	339	870	91	383
Proposed Movement in Reserves 2022/23	-25	-55	0	384	-262
Estimated Balance 31.3.23	**1,156**	**284**	**870**	**475**	**121**

4.8.2 The figures set out in the statement at Appendix F are based on the following assumptions:

a) The capital programme and the movement in the reserves and balances is as reflected in the budget;
b) Any surplus due to an underspend against the working balance on General Expenses at 31 March 2022 be used to increase the working balance nearer to a new target level of £1m and for Special Expenses Melton Mowbray any surplus/deficit be transferred to/from Special Expenses Reserve;
c) 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. Based on the forecast for 2021/22 this will put the level of this reserve below that recommended.

4.8.3 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 G.

4.8.4 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 2022/23 the budget follows the principle set of balancing the budget without utilising these reserves to protect the Council's future financial sustainability.

4.8.5 Following the end of the 10.5 year Leisure contract there is a balance of £190k remaining on the Waterfield Leisure Income Smoothing Fund. This fund was established to smooth out fluctuations in the annual management fee that arose when there were estimated repair needs at the centre. A residual balance has arisen due to the disruption caused to the payments due as a result of the Covid pandemic. A new arrangement is in place for the contract extension and therefore this fund is no longer required for its existing purpose. Due to the pressure on asset maintenance needs, of which the leisure centres are a key element, it is recommended that this residual balance be transferred to a new general property reserve with delegation provided to the Director for Growth and Regeneration in consultation with the Director for Corporate Services to access the reserve to meet unexpected repairs and maintenance needs that arise during the year that cannot be met from existing revenue budgets.

4.8.6 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. COVID-19 has had an impact on the 2022 resilience index, and CIPFA state it should therefore be viewed in the context of this having been a transitional year. The index continues to illustrate the financial resilience of authorities during the pandemic but figures on reserves have been affected by a series of coronavirus-

related payments at the very end of the financial year. The key messages for Melton 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 has improved its financial sustainability measure and is shown as being of a lower risk than previously years due to an improvement in the level of reserves held and the ratio of these in comparison to the Council’s net budget. Some of this improvement was due to the Council’s approach to address the previous reduction in reserves by reducing reliance on them, but also the increase in reserves due to the temporary increase as a result of covid payments made at the end of 2020/21 this was highlighted by CIPFA and affected most authorities. It is likely that this has a disproportionate impact on this Council due to the relatively low level of reserves compared to other council’s in the comparator group.
b) 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 low level of interest payable compared to net expenditure. high levels of interest received compared to interest payable. Melton’s position compared to other councils in this group has worsened and is now at a higher risk. This is due to income from fees and charges reducing significantly in 2020/21, due to covid, by a greater proportion to net revenue expenditure than other comparable councils. In addition, the additional grants received due to covid and the way these were prescribed to be accounted for has reduced net expenditure thereby increasing the proportion of interest paid in comparison. So previously the lower risk presented by less reliance on government grants due to income from independent sources being a high proportion of net revenue expenditure shows the risk this presents when these income streams are reduced. The change in risk resulting from interest payable in proportion to net expenditure is primarily due to the impact of covid and reduces the value of the comparison of this indicator.
c) 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.

4.8.7 In terms of what this means for Melton with regard to its financial strategy it confirms the progress made in reducing the requirement to draw on the reserves is the right one and has reduced the council’s risk in comparison to other similar councils. The impact of Covid on year end balances across all councils has reduced the reliance that can be placed on the resilience indicators in this regard. However, the council has certainly made progress and the proposed budget for 2022/23 makes considerable progress in this area. The proposal to increase the working balance from the forecast surplus at the end of 2021/22 as well as no proposals to draw on unearmarked reserves in 2022/23 will put the council’s reserves in a much healthier position. This demonstrates the Council is addressing the concerns raised in previous years. The proposals set out in the budget also respond to the need as recommended by the LGA financial resilience review to increase the general fund working balance to circa £1m to provide a higher financial contingency due to the risk posed by the relatively low level of reserves. 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 it's low level of capital receipts and the ongoing need to invest in existing assets that have needs identified through 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. Stakeholder consultation has been undertaken with specific groups impacted by the proposals. Proposals have also been consulted on with business ratepayers.

6.2 The State of Melton debate held on 4th October provided all members the opportunity to engage in service delivery options early in the process and the views and ideas raised in this meeting are being taken forward by Directors as part of service planning and delivery. A briefing on the State of Melton was also made to parish councils.

6.3 The Scrutiny Committee has considered the budget proposals and the outcome of their consideration is set out elsewhere on the agenda. All members were invited to the Scrutiny committee. Prior to this formal meeting a Budget Scrutiny Workshop was held consisting of a number of members drawn from the Scrutiny Committee.

6.4 Members at the Budget Scrutiny Workshop were supportive of the growth bids being proposed. They were keen to see additional cemetery provision progressed for which there is a growth bid, as well as continued investment in tourism to better promote the borough, and the development of asset management plans in order to maximise the return from assets held. Members were keen to examine some service areas to ensure value for money and this would form part of scrutiny work plan proposals. With regard to capital plans members were supportive of proposals and sought assurance over associated procurement to ensure value for money for work undertaken.

6.5 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 24th February 2022 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 2022/23.

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 continue to be impacted in 2021/22 by covid and this is likely to continue into 2022/23. Similarly there are items of expenditure being incurred in 2021/22 which are assumed to cease in 2022/23. Further assumptions have had to be made in bringing together the estimates for 2022/23 and these are set out elsewhere in the report along with the key risks set out in Section 14 alongside some elements that were not finalised at the time the budget produced for this report. As the Council moves forward there is a need to address the challenges that the council could face in the future in balancing the budget and it should be noted that the vacancy management savings proposed for 2022/23 relate to non-recurring vacancy management savings which if these do not continue would increase pressure on the budget. However the uncertainty associated with the funding of local government from 2023/24 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 2022/23 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. As highlighted earlier as a result of the LGA financial resilience review this minimum level is proposed to be increased. A statement of the reserves is attached at Appendix F. 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 in the past used 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 2023/24 onwards and the failure to return to income levels 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 in the context of the stock condition surveys mean only essential repairs can be undertaken. The level of the reserves against the future financial uncertainties and capital requirements therefore 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 vacancy 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 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 and additional responsibilities not covered by new burdens funding).	Very High	Catastrophic	High Risk
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 car parking and leisure.	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	High	Critical	High Risk

	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, changes to baseline assumptions.			
5	Projections for Housing growth used to calculate council tax are inaccurate.	Low	Marginal	Low Risk
6	Any bi-elections are not budgeted for resulting in an overspend or savings having to be made elsewhere to cover	Significant	Marginal	Medium Risk
7	The loss of Northamptonshire Welland procurement partners are not replaced by other councils resulting in reduced income over that budgeted for.	Low	Marginal	Low Risk
8	Homelessness costs are unable to be contained within budget as a result of rising need.	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.	Significant	Critical	Medium Risk
10	Inflation provided for is insufficient for contractual and pay increases particularly in light of rising prices in some areas such as fuel and CPI.	High	Critical	High Risk
11	Insurance contract ends in 2022 and procurement results in higher costs than budgeted for.	Low	Critical	Medium Risk
12	The long term use of the children's 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
14	Further reductions in retained business rates arise or further collection fund	Significant	Critical	Medium Risk

	deficits arise which cannot be met from the reduced business rates equalisation reserve due to its forecast level being below the recommended minimum.			
15	Inflation runs higher than that contained in the budget causing pressure on costs that cannot be met form the budgets set.	High	Marginal	Medium Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				1
	5 High		15	2,4,8, 10,13	
	4 Significant		6,12	9, 14	
	3 Low		3,5,7	11	
	2 Very Low				
	1 Almost impossible				

Risk No	**Mitigation**
1	As a corporate risk this is being managed with a full action plan in place. 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, cost of services and resources available. 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 and a move to increase the level to the higher end of the risk assessed range, 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 fair funding 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 transformation.
2,3,4,5,6,7,8,9,10,11,14,15	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 and some specific reserves that could be used for some areas of pressure, 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.
12	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 special expenses.
13	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

Appendix A – State of Melton Report

Appendix B – Summary of Committee Estimates

Appendix Ci – Growth Proposals

Appendix Cii – Vacancy Saving Proposals

Appendix D – Parish Council Precepts

Appendix E – Risk Assessment of Budgets

Appendices F and G – Statement of Revenue and Capital Reserves and Purpose and Future Intentions of Reserves

Report Author:	**Dawn Garton**, Director for Corporate Services
Report Author Contact Details:	01664 502444 DGarton@melton.gov.uk

Chief Officer Responsible:	**Dawn Garton**, Director for Corporate Services
Chief Officer Contact Details:	01664 502444 DGarton@melton.gov.uk