

Cabinet

10 September 2020

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Budget Projection and Strategy 2021/22

Final Decision-Maker	Cabinet
Portfolio Holder(s)	Cllr. Tom Dawlings, Finance and Governance
Lead Director	Lee Colyer, Director of Finance, Policy and Development
Head of Service	Jane Fineman, Head of Finance and Procurement
Lead Officer/Report Author	Lee Colyer, Director of Finance, Policy and Development
Classification	Non-exempt
Wards affected	All

This report makes the following recommendations to the final decision-maker:

1. That Cabinet reaffirm their support for the Budget Strategy; and
2. That consultation relating to the budget should be undertaken in three phases: an initial phase to gather the views of residents and businesses on potential areas for savings and optimising income; a second phase to be undertaken by Overview & Scrutiny/Cabinet Advisory Board; and a third phase in December and January to consult on the impact of proposals following the publication of the Draft Budget and Medium-Term Financial Strategy.

This report relates to the following Five-Year Plan Key Objectives:

- A Prosperous Borough
- A Green Borough
- A Confident Borough

The Council's budget involves the allocation of financial resources to deliver the Council's Key Objectives.

Timetable

Meeting	Date
Management Board	12 August 2020
Discussion with Portfolio Holder	18 August 2020
Overview and Scrutiny Committee	24 August 2020
Cabinet	10 September 2020

Budget Projection and Strategy 2021/22

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report outlines the assumptions that have been built into the proposed budget for 2021/22 and provides projections for the next five years.
 - 1.2 The report has been written during an unprecedented time as the country continues to feel the impact from the Covid-19 pandemic. The health and economic situations remain uncertain and the budget approach needs to remain flexible to respond to events.
 - 1.3 Taking into account three months of outturn, government support and the economic recovery the current in-year budget gap is £1.8 million (£8m in June 2020) and the projected budget gap for 2021/22 is £3.5 million (£6m in June 2020) assuming no government support.
 - 1.4 The Medium-Term Financial Strategy (MTFS) projections assume that annual council tax will increase by £5.00 for 2021/22 which would increase the daily rate from around 50p to 52p. For subsequent years the council tax strategy is for the charge to increase annually by the 'cap' which agrees with the assumption central government has made regarding the level of funding the Council will have available.
 - 1.5 In 2020/21 the Council again set a budget without the need to use general reserves. The Council will need to deploy a different strategy for 2021/22 due to the impact of the Covid-19 pandemic. The Government has been clear that councils should avoid drastic budget decisions and should utilise their remaining reserves and capital receipts. Further Government financial support for Local Government is expected to be set out when the Spending Review is published in the autumn of 2020.
 - 1.6 This report will enable Directors/ Heads of Services to begin the service planning process and to develop proposals with their respective portfolio holder(s) for savings, changes to service delivery and to optimise income.
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2. INTRODUCTION AND BACKGROUND

- 2.1 In February 2020, the Council approved the budget for 2020/21 along with an update to the Medium-Term Financial Strategy 2017/18 to 2021/22 which provides the financial resources to deliver the Strategic Plan.

Local Government Funding

- 2.2 The Government's four-year funding settlement came to an end in 2020 and the council is financially self-sufficient. The ability to fund local services is now dependent on growing the local economy and sharing in the proceeds of business rates growth.

- 2.3 The Government has postponed the planned Fair Funding Review and is now expected to announce a multi-year settlement as part of the Spending Review.
- 2.4 The Government has also postponed the review of the New Homes Bonus (NHB) scheme and it is expected that existing earned awards will be paid and the award for 2021/22 (Year 11) will again be for a single year rather than the four years set out within the original scheme.

Demand

- 2.5 Demand for Council services continues to increase, the latest Borough resident population is 118,846 (source: MHCLG 2020 Projections). Inflationary pressures also add to the demands on the Council's financial resources along with the on-going response to the Covid-19 pandemic.
- 2.6 Historically, the Borough has had one of the lowest levels of unemployment in the country and the lowest levels of deprivation in the county (Source: MHCLG Average Indices of Multiple Deprivation Score 2019). The 2019 Resident median weekly earnings show the borough to have the second highest in the county at £693.70 per week (Source: ONS). National surveys consistently name the borough of Tunbridge Wells as amongst the happiest and best places to live.
- 2.7 However, the statistics are likely to be masking an impending shift in the financial circumstances of the Borough from the Covid-19 pandemic. Whilst the Borough has been very resilient in previous recessions, the severity of this recession is likely to reduce the disposable income of residents and increase demand for council services associated with Housing and Council Tax Support. Early indications are that employment centres and destination towns such as Royal Tunbridge Wells are likely to be disproportionately affected and unemployment has already increased from one to four per cent with further increases likely as the furlough scheme comes to an end.

Need for Growth

- 2.8 The Government has been clear that local government has a key part to play in the local economic recovery and delivering growth. To incentivise councils to deliver growth the Government has developed two schemes which financially reward those areas that deliver growth, which are:
- Business Rate Retention Scheme (BRRS) for encouraging new businesses and expansion of existing. Local government will receive 50 per cent of net business rates and it is still the long-term intention of the government to move towards 100 per cent retention provided primary legislation is in place. The growth share at 50 per cent is shown below:

	Net Share of Business Rate Growth
	%
District Councils	40
Kent County Council	9
Kent Fire & Rescue Service	1
Total	50

- Kent is operating as a business rate pool which further helps to retain a greater share of business rates growth with Kent. It is not clear at this time whether this will be the best approach for 2021/22 as some businesses will struggle to survive due to the Covid-19 pandemic. The Council has been prudent by not including the proceeds from business rates growth within its base budget. This provides the Council with options as to how the proceeds of growth can be reinvested into services.
- New Homes Bonus (NHB) encourages new housebuilding and bringing empty properties back into use. However, from April 2020 the NHB incentive was significantly diminished following the Government's decision to divert funds into adult social care. NHB will only be paid for one rather than four years and the first 150 homes will not count. This Council currently receives £1.160 million in NHB (the third lowest in Kent). The Council took a prudent decision in 2020/21 to not include any NHB in the base budget and to transfer any award to reserves. This provides the Council with much needed flexibility to help with the setting of the 2021/22 budget.

Local Government Funding Reform

- 2.9 The government had previously stated its commitment to proceeding with a Fair Funding Review, a reset of the Business Rates Baseline and a move to 75 per cent Business Rates Retention, all to be implemented by April 2020. This was delayed for 2020/21 and has now been postponed. Further details are expected to be set out in the Spending Review in Autumn 2020.

Business rate review

- 2.10 A review of business rates was previously announced by the Government in the Spring 2020 Budget. The effect of Covid-19 on the economy and on business rates has made fundamental any change to business rates – or even replacement with a different business tax – much more likely. Responses on proposals for the multiplier and reliefs are required by 18 September 2020 (for an interim autumn report) and on the remaining questions by 31 October 2020 (for the review's conclusions in spring 2021).

Business rate revaluation

- 2.11 The next revaluation was going to take effect on 1 April 2022 (based on a valuation date of 1 April 2019). A postponement of revaluation was announced

in May 2020. The latest Government statement confirms that the next revaluation will take place a year later, on 1 April 2023, and it will be based on property values as of 1 April 2021 “so that it better reflects the impact of Covid-19”.

- 2.12 The Local Government Association (LGA) will be submitting evidence and arguing for a system that raises sufficient resources for local priorities in a way that is fair for every resident and which gives local politicians all the tools they need to be the leaders of their communities.

Collection Fund

- 2.13 At a recent Communities and Local Government Select Committee, ministers indicated that there will be a scheme to fund losses in council tax and business rates. The Secretary of State said, “When information is clearer about the scale of the losses of income with respect to council tax and business rates, if necessary, we will implement a similar mechanism to the one we have seen with respect to income losses”. According to the local government minister, “the principle has been accepted by the Treasury and I think that should reassure authorities that are concerned about council tax or business rates losses that there is serious protection on offer and that will be becoming fully clear in short order”.

Comprehensive Spending Review 2020 (CSR20)

- 2.14 The Chancellor has launched the 2020 Comprehensive Spending Review, which will report in the autumn and will set out the Government’s revenue spending plans for 2021-22 to 2023-24 (and capital plans to 2024-25).
- 2.15 No “spending envelope” has been set by the Chancellor in advance of the spending because of the “unprecedented uncertainty” caused by Covid-19. He has, however, “confirmed that departmental spending (both capital and resource) will grow in real terms across the CSR period”.
- 2.16 On the face of it, this suggests that there will be no return to austerity but the redirection of resources within the public sector means that there will still be cuts in lower-priority services. The Chancellor refers to the “tough choices in other areas of spending” and that “departments have been asked to identify opportunities to reprioritise and deliver savings”. Local government will certainly not be immune to these cuts, although we should expect funding increases (alongside reform) in adult social care.
- 2.17 The LGA in their submission will be asking the Government to use the Review as an opportunity to provide councils with long-term financial sustainability, alongside a decentralised and locally-led fiscal and policy framework. This will provide local government with the funding and freedoms to deliver a long-term transformation of the economy, communities and the environment.

Local Government Review

- 2.18 The gravity of the situation is that the Government will need to provide substantial funding to maintain essential local government services and to

enable local responses to the lingering pandemic. It has been shown that this type of emergency is better managed locally as it is in most parts of the world. To do this will require local government to be adequately funded and empowered to respond at pace based on local circumstances.

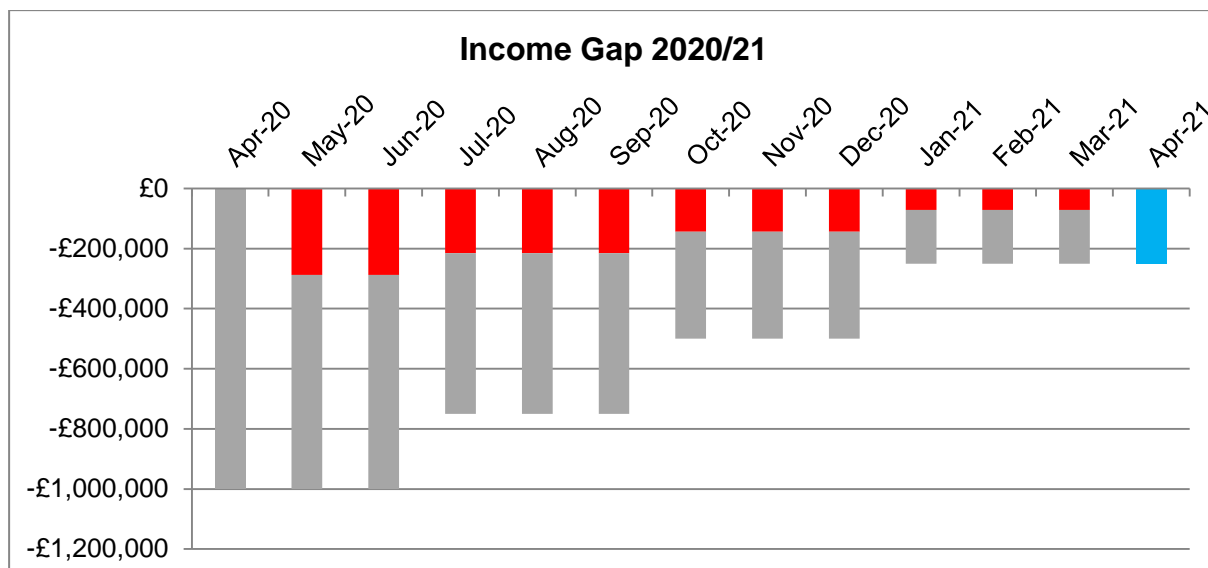
- 2.19 The government has confirmed that it will be publishing a White Paper on 'devolution and local recovery' this autumn. Government ministers have been clear that the Paper will include "a clear, ambitious strategy for strengthening our local institutions with many more elected mayors and more unitary councils following in the footsteps of Dorset, Buckinghamshire and Northamptonshire so that we can remove the complexity of governance and reduce costs to the taxpayer". It may well be that future funding settlements are linked to both local government reorganisation and the government's 'levelling up' agenda.

Solvency

- 2.20 It is vital that the Council remains solvent to ensure the delivery of essential local services. There are huge financial pressures across Local Government and there are consequences for the sector as a whole if councils start to issue s114 notices (Under the Local Government Act 1988 the Chief Finance Office can issue a report to, in effect, raise the alarm that the financial resources available are not sufficient to cover expenditure). All district councils within Kent are in broadly similar financial positions, but the urgency and quantum of the pressures is more acute amongst councils with social care responsibilities.
- 2.21 The inter-dependency is more profound in two-tier areas such as Kent which currently has a combined funding gap of £200 million. It has been reported that the country's largest shire county council Kent County Council (KCC) is facing significant financial challenges with an in-year funding gap of £50 million and a potential medium-term budget gap of £130 million. The closure of these funding gaps is dependent upon decisions by the Council in September 2020 and a favourable outcome from the Spending Review in the Autumn of 2020.
- 2.22 The relevance to this Council is that should KCC enter financial difficulty then this will have an impact on all district councils within Kent regardless of their individual circumstances.

Budget Strategy

- 2.23 The Budget Management Quarter 1 2020/21 report elsewhere on this agenda sets out the approach to manage the in-year budget deficit with further revisions at each planned quarterly report to Cabinet.
- 2.24 The projected budget deficit for 2021/22 is predominately impacted by the income from sales, fees and charges as the graphic below shows how financial self-sufficiency has led to a reliance of local income.



2.25 The projections show the expected level of government support in grey and that each quarter the economic recovery is expected to reduce the quantum of lost income. There is still projected to remain a net reduction in income over that within the Medium-Term Financial Strategy of £250,000 per month which equates to £3m for 2021/22 without further government support.

2.26 The package of Government support is only confirmed up to March 2021. The Council will need to plan for the possibility that further Government financial support is not forthcoming and that the economy does not recover to pre Covid-19 levels. In a similar way to the approach of managing the in-year deficit, a series of scheduled reports will provide an update to the projections (taking account of financial outturns, economic data and Government announcements) and enable flexibility in approach to a fluid situation.

2.27 There remains a deficit forecast for 2021/22 of £3,564,000 which, if left unmanaged, would need to be funded from reserves. In normal times the use of general reserves is unsustainable over the longer term which led Cabinet in 2012 to set a definition of a balanced budget as follows:

“Where ongoing expenditure is met from fees, charges, government grant and council tax with only the use of earmarked reserves being used to meet one-off priority expenditure.”

2.28 However, the Country and Local Government is in the grip of an unprecedented national emergency for which reserves are available to be called upon. When the circumstances allow, reserves will need to be replenished. Mindful of the Council’s responsibility under the Civil Contingencies Act 2004 and the possibility of further emergencies the balance in the General Fund will remain above £4 million.

2.29 The table below summarises the forecast subjective budget variances for 2021/22 over the current years base budget:

	£000s
Employment Costs	447
Transport	0
Premises	35
Business Rates	43
Supplies and Services	0
Contracts	198
Sales, Fees & Charges	3,000
Financial Adjustments	40
Additional Council Tax Income	(199)
Collection Fund	0
Additional subsidy required for the Assembly Hall	TBC
Additional subsidy required for Leisure Centres	TBC
Use of Reserves	0
Spending Review	0
Funding Gap	3,564

Significant Areas of Uncertainty

2.30 With the country reportedly facing the greatest recession in 100 years and the pandemic health emergency continuing to loom large for some time, there are some sectors of the economy which may never recover. Three pressing issues for the Government and the Council which will require local decisions if the services are to operate as intended include:

- Leisure Centres – These were closed following the Government instruction in March 2020 and, with the collapse of income and significant fixed costs, the sector is facing a precarious future. The ability to open is subject to strict health precautions which can be revoked at short notice and it is very uncertain what demand will exist to use indoor services. A separate report is expected on the provision of leisure centres within the Borough; the financial consequences have not been included at this time.
- Theatres - These were also closed following the Government instruction in March 2020 and with the complete loss of income the sector also faces a precarious future. The Government's original plan for reopening the economy stated that, "it is likely that reopening indoor public spaces...may only be fully possible significantly later" than other locations including outdoor spaces. It has subsequently announced that indoor performances can take place subject to the success of pilots. Even if these pilots are successful, the conditions under which theatres may be required to re-open may not be economically viable and producers (who book many months in advance) are understandably reluctant to commit in such uncertain times.. A separate report is expected on the timing and function of reopening the Assembly Hall Theatre. The financial consequences have not been included at this time.

- Construction Projects – Additional costs from Brexit, Covid-19 and inherent risks have pushed up the costs and lengthened delivery times of major construction projects. The Amelia Scott project has also been affected by some of these sector-wide cost pressures and a separate report is due to address these challenges. The financial consequences have not been included at this time.

Council Tax Strategy

- 2.31 One source of funding for the provision of local services is council tax. This Council has historically had a policy of very low council tax levels and the strategy is for council tax to increase up to the threshold for triggering a referendum.
- 2.32 The projections assume that council tax will increase by the referendum 'cap' of £5 per year which would increase the daily rate from 50p to 52p. For subsequent years, the council tax strategy is for the charge to increase annually by the 'cap' which agrees with the assumption central government has made regarding the level of funding the Council will have for the term of this Parliament.
- 2.33 Due to the financial pressures affecting households' disposal income there will be no assumption of an increase in the tax base. This will help to absorb the costs of an increase in Council Tax Support Claims.
- 2.34 Any reduction in collection rates will be managed through the Collection Fund in association with the proposed Government flexibilities regarding end of year deficits.

Capital and Revenue Reserves

- 2.35 The Medium-Term Financial Strategy maintains the following as an adequate level of reserves:

	Minimum
General Reserves (Revenue)	£3.0 million
Capital Receipts	£1.0 million

- 2.36 The reserves and balances are currently forecast to meet the above levels although maintaining this position relies on delivering not just a balanced budget in 2021/22 but a sustainable budget for the future.
- 2.37 In addition to the revenue and capital budget, the Council has earmarked reserves which form part of the Budget and Policy Framework and are available to fund the specific purpose of the reserve in accordance with the virement procedure rules. The projected balances of these reserves are shown below and assume that the revenue budget is balanced from 2022/23 without further utilisation of reserves.:

	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
	£000's	£000's	£000's	£000's	£000's	£000's
General Fund	4,090	4,090	4,090	4,090	4,090	4,090
Earmarked Reserves	11,261	9,987	8,681	8,206	7,731	7,231
2020/21 Budget Deficit	0	-1,856	-1,856	-1,856	-1,856	-1,856
2021/22 Budget Deficit	0	0	-3,564	-3,564	-3,564	-3,564
Capital Grants & Contributions	1,802	1,802	1,802	1,802	1,802	1,802
Capital Receipts Reserve	1,000	2,570	1,000	1,000	1,000	1,000
Amelia Scott Capital Receipt	3,076	6,131	6,131	6,131	6,131	6,131
Amelia Scott Capital Spend	0	-6,131	-6,131	-6,131	-6,131	-6,131
Total Reserves	21,229	16,593	10,153	9,678	9,203	8,703

2.38 The Council does not have any external debt but with borrowing costs reducing to record low levels the s151 Officer has the flexibility to take advantage of this situation and borrow as an alternative to utilising capital receipts.

Exiting the European Union

2.39 On 23 June 2016, the United Kingdom of Great Britain and Northern Ireland voted to leave the European Union. The impact of this decision is likely to be significant but at this time it is difficult to quantify how this will affect this Council's ability to plan and deliver its priorities.

2.40 As the Government confirms more information over the coming months and years then this will be analysed and further reports provided of the implications on this Council's priorities and ability to deliver services locally.

3. AVAILABLE OPTIONS

3.1 The budget-setting process is well rehearsed and has largely been successful in delivering a balanced budget and engaging with the public. There may be other alternatives but ultimately the Council must produce a budget which meets its statutory responsibilities.

4 PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 This report starts the formal budget-setting process which will be informed through consultation and research. Decisions on priorities and services will be communicated on a regular basis.

5 CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The Council already has a wealth of information from previous budget consultation exercises and residents' surveys, the most recent being undertaken in 2019/2020.
- 5.2 Early public engagement is essential to arrive at suitable feedback which can be developed in time to be incorporated within the budget. Information will be placed on the Council's website along with articles in Local which allows members of the public, staff and businesses to provide their ideas for how to reduce spending and optimise income while protecting the quality of public services.
- 5.3 The Overview and Scrutiny Committee/ Cabinet Advisory Board will continue to provide a good source of challenge in developing the budget and to the level of service provided.
- 5.4 The above will form an overall picture of prioritisation. Cabinet proposals for savings and growth can then be tested through consultation in December when the draft budget will be placed on the Council's consultation portal.

6 NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 This report sets out the mechanism by which Cabinet will evolve its service and budget strategy. The report and recommendations will be subject to comment by the Overview and Scrutiny Committee/ Finance and Governance Cabinet Advisory Board and further reports to Cabinet in due course. The draft budget proposals will be considered by Cabinet in December and published onto the consultation portal. Final proposals for the budget will be agreed by Cabinet in February and proposed for approval by Full Council in February 2021 as set out in the appended timetable.

7 CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Legal including Human Rights Act	The Five-Year Plan and budget form part of the Council's Policy Framework.	Legal fee earner
Finance and other resources	This report forms part of the Council's Budget and Policy Framework.	Head of Finance and Procurement
Staffing establishment	Where savings proposals impact on staff then this will be managed in accordance with Human Resources policies.	Head of HR
Risk management	An assessment of the risk factors underpinning the budget will accompany the final budget report. The Strategic Risk Register also includes a risk on funding	Head of Audit Partnership

	streams which is being monitored by Cabinet and the Audit and Governance Committee.	
Environment and sustainability	The budget has regard to the environmental sustainability priorities within the Five-Year Plan.	Sustainability Manager
Community safety	The budget has regard to the community safety priorities within the Five-Year Plan.	Community Safety Manager
Health and Safety	The budget has regard to the Health and Safety obligations and priorities within the Five-Year Plan.	Health and Safety Advisor
Health and wellbeing	The budget has regard to the health and wellbeing priorities within the Five-Year Plan.	Healthy Lifestyles Co-ordinator
Equalities	Changes to service delivery may impact on equalities; however, heads of service will ensure that an equality assessment is in place where this has been identified.	West Kent Equalities Officer

8 REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Five Year Budget Projections
- Appendix B: Budget Timetable

9 BACKGROUND PAPERS

None