

Meeting:	Overview & Scrutiny	7th December 2020
	Cabinet	9th December 2020
Subject:	Money Plan 2021-26 & Budget Proposals 2021/22	
Report Of:	Leader of the Council & Cabinet Member for Performance and Resources	
Wards Affected:	All	
Key Decision:	No	Budget/Policy Framework: Yes
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Appendices:	1. Money Plan 2021/22 – 2025/26 2. Budget Pressures & Savings 3. Budget Efficiencies & Savings Programme 4. 2021/22 – 2025/26 Capital Programme 5. Draft Budget Summary	

FOR GENERAL RELEASE

1.0 PURPOSE OF REPORT

1.1 To review the Council's Draft Money Plan for recommendation to Council.

2.0 RECOMMENDATIONS

2.1 **Cabinet** is asked to **RESOLVE** that:

- (1) That the assumptions contained in the Council's draft Money Plan from 2021/22 to 2025/26 and revisions to the draft revenue budget be approved.
- (2) That the uncertainties regarding future incomes, as shown in this report and Appendix 1, and the need to update the Draft Money Plan when there is more certainty regarding Central Government financing, be noted.

3.0 Introduction

3.1 The Money Plan sets out the Council's strategic approach to the management of its finances and presents indicative budgets and Council Tax levels for the medium term. It covers the General Fund Revenue Budget, the Capital Programme and Earmarked Reserves. It also comments on the significant financial risks facing the Council in the forthcoming years and explains what the Council is doing to reduce those risks.

3.2 The main objectives of the Money Plan are to:

- explain the financial context within which the Council is set to work over the medium term;
- provide a medium term forecast of resources and expenditure;
- identify the financial resources needed to deliver the Council's priority outcomes, in line with the Council's plan;
- achieve a stable and sustainable budget capable of withstanding financial pressures;

- achieve a balanced base budget, minimising the use of balances to meet recurring baseline spending, with the General Fund balance being maintained at a minimum of 10% of net expenditure by the end of the plan period;
- where possible, additional investment and spending decisions will be made to reflect Council priorities and strategic commitments, with disinvestment and budget savings being made in non-priority areas; and
- ensure capital financing is established at a level that maintains ongoing robustness in the capital programme.

4.0 The Local Government Finance Environment

- 4.1 The Council's Money Plan provides the framework within which revenue spending decisions can be made over the medium term. It is reviewed and updated on an annual basis to take into account any alterations that may be required as a result of changed circumstances. The Money Plan covers a five-year period up to 2025/26.
- 4.2 Local Government continues to face a tough financial outlook, with funding pressures set to continue. The Local Government Finance Settlement in recent years has seen unprecedented reductions in formula grant.
- 4.3 The COVID-19 pandemic has introduced considerable risk and uncertainty into the Money Plan and will be a key feature of this plan and work undertaken by the Council over future months. The response and recovery have seen reductions in income as well as increased costs. The Money Plan and budget for 2021/22 will look to place the Council in a strong position to support the recovery within the City.
- 4.4 The Council's Revenue Budgets for 2021/22 and Capital Programme will be presented to full Council in February 2021 for approval.
- 4.5 On the 25th November the Chancellor in order to prioritise the response to Covid-19, announced the Spending Review 2020 (SR2020). It was decided to conduct a one-year Spending Review, setting resource and capital budgets for 2021-22. The government has been clear that it would keep plans for the Spending Review under review given the unprecedented uncertainty of Covid-19.

The one-year SR2020 and the forthcoming settlement have been drawn up in unique circumstances. The primary aim, throughout this challenging period, has been to ensure councils have the resources and stability to continue to provide vital public services and tackle the pandemic. Some key areas announced in the Spending Review were:

- Core Spending Power forecast to increase by 4.5%, this however is mostly driven by assumed increases in council tax and social care precepts, so is likely to benefit Upper Tier authorities more.
- £300m additional social care grant plus announcement extension £1bn announced in 2021/21.
- Additional COVID19 support for 2021/22 including £1.55bn for additional spending pressures and extension of income recovery (Sales, Fees & Charges) for the first quarter of 2021/22.
- Additional Council Tax Hardship support as a result of COVID19.
- Continuation of New Homes Bonus for a further year but without legacy payments
- Business rate multiplier freeze (local authorities will be fully compensated for this impact)

The implications on the Council will be better understood upon receipt of the provisional Local Government Finance Settlement in the middle of December.

- 4.6 It was announced that this would be a review covering one year only, the financial year 2021/22. This will fundamentally be a roll forward of the current settlement with a new three-

year Spending Review now expected next year and still likely to undertake the Fair Funding Review and Business Rates Retention review. This will be a full spending review in 2021, reviewing public spending and setting multi-year budgets.

- 4.7 The funding position for local authorities for 2022/23 onwards remains uncertain. Central Government is carrying out a “Fair Funding Review” which aims to set out the basis by which funding is allocated across the country between Councils from 2022 onwards. This process will not generally be about redistributing Government grants, as this now forms only a small part of national funding, but about setting the baselines which determine how much local business rates may be retained in each area. These baselines are also due to be reset in 2022.
- 4.8 The impact of COVID-19 on Business Rates and Council Tax (The Collection Fund) is expected to have a significant impact on the balance of the Collection Fund. In recognition of this the Government has stated that Councils will be able to spread the impact on the Collection Fund over three years to reduce the impact on Councils revenue budgets. It should be noted that this will not reduce the deficit just the change period it is recovered. It is not possible to make a definitive estimate at this stage of what the impact upon the Council will be.
- 4.9 In previous Money Plans it has been assumed that the growth from business rates will be removed as part of Fair Funding Review. With the expected reduction in Business Rates and Council Tax as a result of COVID-19 it is highly probable that funding for Gloucester will reduce. For the purpose of this draft plan a reduction has been assumed to account for the impact of COVID-19.
- 4.10 As a result of this uncertainty the draft Money Plan assumes that in 2021/22 a one off draw from the Business Rates Reserve will be required.

Local Government Finance Settlement 2021/22

- 4.11 The Local Government Finance Settlement 2021/22 is not expected until the middle of December. For the purpose of the draft Money Plan the following assumptions have been made;
- Continued flexibility for District Councils to increase Council Tax by £5 a year or 2% whichever is the greater.
 - Proposed retention of New Homes Bonus, with no change to the baseline. This is expected to be a one year only retention and any benefits will not be included in future legacy payments

Longer term spending decisions on local government funding will be made in the 2021 Spending Review.

- 4.12 The settlement is expected to continue to use the ‘core spending power’ measure. Core spending power is made up of the following elements;

Settlement Funding Assessments (SFA)

This is made up of:

- Revenue Support Grant

The SFA is expected to detail level of Tariff on retained business rates and the Safety Net Threshold.

Instead of cutting all SFA by a set percent, Government take into account the ability to raise Council Tax locally. There are four key variables:

- Funding reductions
- Split of reductions between tiers
- Council Tax Base

- Council Tax Rate

Council Tax Requirement (CTR)

The core spending power assumes district councils will increase Band D Council Tax by whichever is the greater of £5 or 2%. The plan assumes an increase of £5 until a 2% increase is greater than £5.

New Homes Bonus (NHB)

NHB is expected to reduce from £0.976m in 2020/21 to £0.195m in 2021/22.

In 2020/21 the Council received an additional one off £589k of NHB, this was placed into specific earmarked reserves. It is not expected that this will reoccur in 2021/22 however if this was to be case it is recommended that the Business Rates reserve is returned to previous levels to protect the Council on the potential longer term impacts of COVID-19 on the collection fund as highlighted earlier in the report.

- 4.13 It also recommended if funding in the financial settlement is higher than forecast that a Budget Equalisation Reserve is established to further protect the council against future uncertainties including potential long-term impacts on the sources of income through Fees & Charges.

5. Business Rates Retention

- 5.1 There is a reduction in funding estimated for 2021/22 which is the expected impact of the COVID-19 pandemic. The detailed picture will not be known until early 2021 and will be reported to members when available, and as part of the final Money Plan approved by Council in February.
- 5.2 The Gloucestershire authorities have agreed to continue the pooling arrangements during 2021/22. This scheme increases the business rates retained locally by reducing the levy that is payable to Central Government. The Council do reserve the right to withdraw from the pool if the Local Government Finance Settlement makes pooling economically unbeneficial for the Gloucestershire councils.

6. General Fund Revenue Budget - Principles and Key Assumptions

- 6.1 The principles underpinning the proposed revenue strategy are:
- Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources;
 - No long-term use of balances to meet recurring baseline expenditure;
 - Resources will be targeted to deliver Corporate Plan priorities and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.
 - Maintaining the General Fund balance at approximately 10% of net revenue budget. This assumes a minimum level of £1.4m by the end of the plan.
 - Year on year savings targets where required to be met by ongoing efficiency gains, income generation and service transformation.
- 6.2 **Table 1** below, lists the major **assumptions** that have been made over the five years of the strategy:

Table 1	2021/22	2022/23	2023/24	2024/25	2025/26
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Council Tax base growth	0.0%	0.75%	0.75%	0.75%	0.75%
Council Tax inflation	£5	£5	£5	£5`	£5
Interest Rates (Earned)	0.75%	1.00%	1.25%	1.50%	2.00%
Inflation – Pay	1.00%	2.00%	2.00%	2.00%	2.00%
Inflation – contracts	2.50%	2.50%	2.50%	2.50%	2.50%
Inflation – other income	2.50%	2.50%	2.50%	2.50%	2.50%

7. **Revenue Budget Increases**

Pay and Prices Increases

- 7.1 A 1% pay award allowance has been included in year one of the plan and 2% across the remaining years of the plan. The assumption of 1% takes into account that employees on lower salaries are expected to receive an increase. It should be noted that pay awards in Local Government are covered by collective bargaining between employers and trade unions and is not subject to direct control from Central Government. However, it is reasonable to assume that Local Government will mirror what happens in the rest of the public sector.
- 7.2 In addition to the increases to reflect employee pay awards, provision has also been made to meet ongoing additional payments to the pension fund required from the employer to recover the deficit.
- 7.3 The pension fund is subject to a triennial actuarial valuation, the most recent of which has been undertaken by Hymans Robertson LLP during 2019, on behalf of Gloucestershire County Council, the pension fund administrator. As a result of the triennial valuation the actuary has confirmed that increase to the council's contribution can be frozen. This still assumes that the council will be fully funded in line with the current strategy of 17 years.
- 7.4 Prices inflation has been included on selected non-pay items, namely contractual obligations. All other inflationary increases are expected to be absorbed within base budget which represents a real time reduction through efficiency gains.
- 7.5 Prices inflation is included on selected fees and charges at 2.5% for each year of the plan. It should be noted that no increase on income has been assumed in 2021/22 for Cultural Services as the impact of COVID-19 will see at best recovery to the position pre-pandemic.

Cost Pressures and Savings

- 7.6 Cost pressures and savings are included in **Appendix 2** and total a net income of £0.257m
- 7.7 Significant cost pressures that have been highlighted through budget monitoring are highlighted at **Appendix 2**. Some key pressures are highlighted below:
- Alignment of Waste and Streetcare budgets.
 - Additional contract inflation
 - Commissioning & Transformation
 - Alignment of IT budgets.
- 7.8 The budget savings identified in **Appendix 2** for 2021/22 relate to several areas where actions undertaken by the Council have led to savings or income growth. Some of the key areas are highlighted below:
- City Plan
 - HKP Savings
 - Commissioning & Transformation
 - Management Contract for Caridas House & Priory Place.

8. **Efficiency Savings/Income Generation**

- 8.1 With the inclusion of assumed settlement figures for 2021/22 and the assumption of further formula grant reductions over the life of the plan, further efficiencies may be required.
- 8.2 The expected impact of COVID-19 has unfortunately returned the Council to the position of having to find further efficiencies and savings in both 2021/22 and 2022/23. Appendix 3 provides details of proposed measures for 2021/22 to enable the Council to balance the budget.
- 8.3 The generation of additional efficiencies in 2021/22 reduces the requirement in subsequent years.

9. Overall Costs

- 9.1 The total costs of the Council (the "Net Budget Requirement") over the five-year period of the Money Plan change from £13.805m in 2021/22 to £13.631m in 2025/26. Any further spending pressures identified in addition to those detailed in **Appendix 2**, over the five-year period of the Money Plan, will need to be funded by additional savings.
- 9.2 Summary budget pages for each service are detailed in **Appendix 5**.

10. Revenue Funding

Formula Grant / Localised Business Rates / Revenue Support Grant

- 10.1 Our current grant from Government for 2021/22 comprises two formula driven components - Revenue Support Grant (RSG) and a retained Business Rates target.
- 10.2 The council will expect to receive £0.087m RSG in 2021/22.

New Homes Bonus

- 10.3 New Homes Bonus is a grant that is effectively a reward for increasing the number of residential properties within an area. With the current uncertainty regarding funding we still await announcement as part of the Spending Review on the future of this grant.
- 10.5 The Council is expected to receive New Homes Bonus in 2021/22 of £0.195m, reducing to £0.020m by 2022/23.

Council Tax

- 10.6 The Local Government Finance Settlement includes Council Tax Requirement (CTR) as part of the Councils 'Core Spending Power'. CTR is assumed to grow as part of the settlement as follows:
- an average growth in Council Tax Base, based upon the years 2013/14 to 2015/16,
 - increased by an assumed growth based upon CPI at an average of 1.75%.
 - assumed increase of £5 or 2% whichever the greater

Therefore to maintain CTR in line with Government assumptions the minimum year on year increase should in line with bullet points above.

- 10.7 The Money Plan assumes an increase in Council Tax of £5.

11. General Fund Balance

- 11.1 The estimated level of the general fund balance in each financial year is shown in **Appendix 1**. The General Fund level is above the minimum required level by the end of the Money Plan.
- 11.2 It should also be noted, that although £1.4m is considered an appropriate level of General Fund balances to retain each year, the position should be reviewed if the Council delivers a budget surplus at year end.

11.3 In the financial year 2021/22 it is proposed to increase the General Fund by £0.160m

12.0 Capital Programme and Capital Financing

12.1 The key financial details on capital expenditure and financing in the revised money plan for the 5 years from 2021/22, are shown in detail at **Appendix 4**, and summarised below:

1. Capital programme expenditure of £15.041m (£8.218m in 2021/22). Key projects include: Development of Kings Square; Kings Walk improvements, Railway Station Improvements and High Streets - Heritage Action Zone project.
2. Capital financing comprises grants, Capital receipts and borrowing.

12.2 Kings Square is a key deliverable in the overall Kings Quarter regeneration programme. The regeneration of Kings Square is key to delivering the assumed income growth in Kings Walk Shopping Centre and will enhance the opportunities to deliver new income streams in future phases of the Kings Quarter development. The investment in the square will be financed as part of the overall capital programme.

12.3 The capital programme assumes the majority of capital financing will be funded through the use of current and expected future capital receipts, where these are not available it will be met from external grants and borrowing. The future financial commitments will be approved based on specific income generating, or revenue saving business cases to fund the cost of the borrowing. The main exceptions to this policy will be essential works on the Council's buildings and ICT systems, which will result in a reduced maintenance liability or potential increase in asset value and ensure delivery of the Councils transformation programme.

12.4 Wherever possible and desirable, additional one-off capital investments on a business case basis will be made, providing corporate objectives are delivered, and financing is available and affordable within existing budgets, or preferably with the provision of a "spend to save" revenue saving on existing budgets.

12.5 The strategy on borrowing is to ensure that any borrowing is only undertaken on a business case basis, and is affordable and paid off over the life of the asset.

12.6 **Appendix 4** shows the proposed capital budgets for 5 years from 2021/22 incorporating any carried forward capital budgets and new, approved schemes. The capital programme will be updated for any future additions, such as Kings Quarter further development, subject to the required level of approval being made.

13.0 Earmarked Reserves

13.1 The Council has limited earmarked reserves with the balance at 31 March 2020 being £4.033m, consisting of;

• Insurance reserve	£0.010m
• Historic buildings reserve	£0.053m
• Portfolio reserve	£0.060m
• Shopmobility reserve	£0.029m
• Members Allocation reserve	£0.001m
• Repairs reserve	£0.103m
• Land Liability reserve	£1.000m
• Regeneration reserve	£0.023m
• VAT Shelter reserve	£0.418m
• Business Rates reserve	£0.974m
• Trading Development reserve	£0.050m
• Land adoption reserve	£0.827m
• Community Builder Reserve	£0.054m
• Planning Grant reserve	£0.035m

- Flooding Works Reserve £0.010m
- Coach Meet & Greet Reserve £0.004m
- Lottery Reserve £0.020m
- Great Place Reserve £0.093m
- Museum Reserve £0.305m
- EU Exit Reserve £0.017m
- Recovery Reserve £0.100m

13.2 Where earmarked reserves are not ring fenced for a specific use, then if necessary, these reserves may potentially be used to support the General Fund.

13.3 The Council does face significant uncertainty from 2021/22 and it is expected there will be a significant reduction in retained funding from business rates either through reset or the impact of the COVID-19 pandemic. The Council will need to ensure there is sufficient funding in the Business Rates reserve to offset this. The plan assumes £1m will be drawn from this reserve.

13.4 During 2021/22 the Council will also draw on earmarked reserves in continuing delivery of agreed programmes. However, it is prudent and sensible to return and increase the level of earmarked reserves to protect the Council going forward particularly in these uncertain times.

13.5 The table provides a forecast position on earmarked reserves:

Reserves Forecast	Balance at 31/03/2020	Transfers 2020/21	Forecast 31/03/2021	Transfers 2021/221	Forecast 31/03/2022
	£m	£m	£m	£m	£m
Historic Buildings Reserve	0.053	0.000	0.053	0.000	0.053
Portfolio Reserves	0.060	0.000	0.060	0.000	0.060
Members Allocation Reserve	0.001	0.000	0.001	0.000	0.001
Shopmobility Reserve	0.029	0.000	0.029	0.000	0.029
Regeneration Reserve	0.023	0.200	0.223	(0.100)	0.123
Insurance Reserve	0.010	0.000	0.010	0.000	0.010
Land Adoption Reserve	0.827	0.000	0.827	0.000	0.827
VAT Shelter Reserve	0.418	(0.300)	0.118	0.200	0.318
Business Rates Reserve	0.974	0.250	1.224	(1.000)	0.224
Land Liability Reserve	1.000	(0.100)	0.900	0.000	0.900
Repairs Reserve	0.000	0.039	0.039	0.000	0.039
Community Builder Reserve	0.054	0.054	0.000	0.000	0.000
Planning Grant Reserve	0.035	0.000	0.035	0.000	0.035
Flooding Works Reserve	0.010	0.000	0.010	0.000	0.010
Meet and Greet Reserve	0.004	0.000	0.004	0.000	0.004
Lottery Reserve	0.020	0.000	0.020	0.000	0.020
Great Places Reserve	0.093	0.000	0.093	0.000	0.093
Museum Reserve	0.305	0.000	0.305	0.000	0.305
EU Exit Reserve	0.017	0.017	0.034	0.000	0.034
Planning Appeals Reserve	0.000	0.050	0.050	0.000	0.050
Recovery Reserve	0.100	0.000	0.100	0.000	0.100
Marketing Reserve	0.000	0.200	0.200	(0.200)	0.000
Homelessness Reserve	0.000	0.100	0.100	0.000	0.100
Communities Reserve	0.000	0.030	0.030	0.000	0.030
Climate Change Reserve	0.000	0.100	0.100	(0.050)	0.050
Total	4.033	0.156	4.189	(1.150)	3.289

14.0 Alternative Options Considered

14.1 The Council must set a balanced budget in time to start collecting Council Tax by 1st April 2021. Alternative proposals put forward for budget savings will be considered as part of this process.

15.0 ABCD Implications

15.1 There are no ABCD implications as a result of this report.

16.0 Financial Implications

16.1 Contained in the body of the report.

17.0 Legal Implications

17.1 Legislation places a duty on the Council, as the Billing Authority, to calculate its budget requirement for 2021/22. The Council also has a statutory requirement to set a balanced budget.

18.0 Risk & Opportunity Management Implications

18.1 Covered in the report. The budget is prepared based on the information available at the time of writing. The budget pressures facing the Council have, as far as possible, been built into the budget.

18.2 The risks are set out more fully in the report but in summary centre around the continuing economic situation and the impact this is likely to have on the public sector, driving changes to Government funding in future years and the level of the Council's spend from 2021/22 onwards.

18.3 In addition to the risks identified in the report, a list of additional identified risks for both the Draft Money Plan and the Budget for 2021/22, along with the mitigations is also shown below:

Risk Identified	Inherent Risk Evaluation (scale 0-16?, where 16 represents highest risk)		Proposed measures	Residual Risk Evaluation (scale 0-16?, where 16 represents highest risk)	
▪ Employee-related costs will be more than assumed ▪ Other costs will be more than assumed	Risk Score	6	▪ Figures based on known commitments and estimated future costs. Any further pressures will need to be matched by additional identified savings.	Risk Score	4
		8			4
▪ Pension fund contributions will be higher than expected.	Risk Score	8	▪ The financial plan will continue to be reviewed and updated annually for a five year period, based on known changes and informed by the most recent actuarial triennial valuation.	Risk Score	4
▪ Planned budget reductions will not be achieved	Risk Score	8	▪ Close monitoring of budgets will be carried out in each financial year. ▪ Continuous monitoring of service pressures and ongoing focus on preventative support.	Risk Score	6

Risk Identified	Inherent Risk Evaluation (scale 0-16?, where 16 represents highest risk)		Proposed measures	Residual Risk Evaluation (scale 0-16?, where 16 represents highest risk)	
<ul style="list-style-type: none"> ▪ Income from fees, charges and other sources will not be as high as planned 	Risk Score	12	<ul style="list-style-type: none"> ▪ Close monitoring of income budgets will be carried out in each financial year. 	Risk Score	8
<ul style="list-style-type: none"> ▪ Timing of Capital Receipts will be later than anticipated or lower than estimated ▪ Timing of Capital payments may be earlier than estimated 	Risk Score	8	<ul style="list-style-type: none"> ▪ Close monitoring of the timing and payments of capital expenditure/income will be carried out in each financial year. Alternative savings will be identified, or contingency arrangements agreed 	Risk Score	4

20.0 People Impact Assessment (PIA):

20.1 People Impact Assessments will be carried out for each line of the budget savings, to ensure that all relevant considerations are taken into account.

21.0 Other Corporate Implications

1. Community Safety
None
2. Environmental
None
3. Staffing
None
4. Trade Union
Ongoing discussions with the Trade Union on both the money plan and budget represent a key element of the overall consultation process.

Background Documents:

Money Plan 2020-25, February 2021