

Gloucester City Council

Meeting:	Cabinet	10 February 2021
	Council	25 February 2021
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
Contact Officer:	Jon Topping, Head of Policy and Resources	
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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. Budget Book	
	6. Fees & Charges	
	7. Budget Consultation	

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** to **RECOMMEND** to Council that:

(1) the proposals for the 2020/21 budget included in this report be approved

(2) it be noted that consultation has been undertaken on budget proposals.

2.2 **Council** is asked to **RESOLVE** that:

(1) the proposals for the 2020/21 budget included in this report be approved

(2) it be noted that consultation has been undertaken on budget proposals.

3.0 BUDGET ASSESSMENT OF THE SECTION 151 OFFICER

3.1 In accordance with Section 25 of the Local Government Act 2003 the Chief Finance Officer (Section 151 Officer) must report on the following matters:

- 1) the robustness of the estimates made for the purposes of the calculations, and
- 2) the adequacy of the proposed financial reserves.

3.2 The Head of Policy & Resources as Section 151 Officer confirms the robustness of the calculations and the adequacy of the proposed financial reserves.

4.0 Introduction

4.1 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.

4.2 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 where such savings are consistent with, or support, the Corporate plan; and
- ensure capital financing is established at a level that maintains ongoing robustness in the capital programme.

5.0 The Local Government Finance Environment

5.1 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 consider any alterations that may be required as a result of changed circumstances. The Money Plan covers a five-year period up to 2025/26.

5.2 Local Government continues to face a tough financial outlook, with funding pressures set to continue.

5.3 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.

5.4 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 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)

- 5.5 It was announced that this would be a review covering one year only, the financial year 2021/22. This is fundamentally a roll forward of the current settlement with a new three-year Spending Review now expected next year, alongside 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.
- 5.6 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.
- 5.7 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.
- 5.9 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. To protect the Council of the implications of the full spending review a Business Rates reserve was put in place and it is expected that a significant draw on this reserve will take place in 2022/23.

Local Government Finance Settlement 2021/22

- 5.10 The provisional Local Government Finance Settlement 2021/22 was announced in the middle of December. The final Settlement is expected imminently, and officers will update Members verbally if the final settlement differs substantively from the provisional figures. This announcement was in line with the previous SR20 announcement and is a one-year settlement as expected.

There were some changes for the Council in the announcement and these are detailed below:

- Lower Tier Services Grant of £0.157m for 2021/22, this grant is not expected to be recurring.
- Additional one-off New Homes Bonus of £0.608m

As these monies are non-recurring it is recommended these are placed into earmarked reserves. Section 14 details expected reserves position for the Council.

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

- 5.11 In addition to the core spending elements additional COVID-19 support was announced as follows;

- Further details of the additional of COVID support funding for 2021/22. As with support received in the current year this represents un-ringfenced grant support for additional COVID costs incurred. MHCLG has indicated that they are aiming to make payments to local authorities in April 2021. For Gloucester the figure is £0.743m.
- Council Tax Support Grant - The government has indicated that it is providing this to broadly meet the additional costs associated with increases in local council tax support caseloads in 2021/22.
- Local Tax Income guarantee – this scheme is intended to fund 75% of irrecoverable losses in council tax and business rates and will be accrued in the 2020/21 financial year. Payments will be expected in January 2022 and it is expected this will be a complicated calculation at the end of this financial year.
- Sales Fees & Charges – it has been confirmed the current 75% compensation scheme for losses as a result of COVID-19 will be extended into the first quarter of 2021/22.

5.12 The settlement continues 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
- Retained Business Rates

The SFA also provides detail on the level of Tariff on retained business rates and the Safety Net Threshold.

The council will expect to receive £0.087m RSG in 2021/22.

Instead of cutting all SFA by a set percent, Government consider 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.

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.

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

New Homes Bonus (NHB)

NHB is expected to reduce from £0.803m in 2021/22 to £0.020m in 2022/23. As previously highlighted the 2021/22 allocation includes £0.608m of non-recurring grant.

The draft Money Plan presented to members in December recommended that this is placed in an earmarked “Budget Equalisation Reserve” to protect the Council from the potential longer-term impacts of COVID-19 and support the ongoing recovery from the pandemic.

With the uncertainty regarding the recovery from the pandemic, this reserve will further protect the council against future uncertainties including potential long-term impacts on the sources of income through Fees & Charges.

6. Business Rates Retention

- 6.1 The plan includes a target retained business rates retention estimate for 2021/22 which may be further impacted by the COVID-19 pandemic. Appendix 1 includes the current estimated retention level. If this estimate is incorrect the Business Rates earmarked reserve will be drawn upon to ensure required levels are in place.
- 6.2 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.

7. General Fund Revenue Budget - Principles and Key Assumptions

- 7.1 The principles underpinning the proposed revenue strategy are:
- i. Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources;
 - ii. No long-term use of balances to meet recurring baseline expenditure;
 - iii. 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.
 - iv. 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.
 - v. Year on year savings targets where required to be met by ongoing efficiency gains, income generation and service transformation.
- 7.2 **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
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%

8. Revenue Budget Increases

Pay and Prices Increases

- 8.1 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% considers 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.

- 8.2 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.
- 8.3 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.
- 8.4 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.
- 8.5 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

- 8.6 Cost pressures and savings are included in **Appendix 2** and total a net income of £0.157m
- 8.7 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.
 - Reduced Planning Fee Income
- 8.8 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.

9. Efficiency Savings/Income Generation

- 9.1 With the inclusion of settlement figures for 2021/22 and the assumption of further formula grant reductions over the life of the plan, further efficiencies over the life of the plan will be required.
- 9.2 The 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 balance the budget over the life of the plan and maintain the General Fund at the recommended level.
- 9.3 The generation of additional efficiencies in 2021/22 reduces the requirement in subsequent years.

10. Overall Costs

- 10.1 The total costs of the Council (the "Net Budget Requirement") over the five-year period of the Money Plan change from £13.755m in 2021/22 to £13.639m 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 efficiencies.

10.2 Summary budget pages for each service are detailed in **Appendix 5**.

11. Revenue Funding

Retained Business Rates / Revenue Support Grant

11.1 Our current grant from Government for 2021/22 comprises two formula driven components - Revenue Support Grant (RSG) and a retained Business Rates target.

11.2 The council will expect to receive £0.087m RSG in 2021/22.

New Homes Bonus

11.3 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.

11.4 The Council is expected to receive New Homes Bonus in 2021/22 of £0.803m, reducing to £0.020m by 2022/23.

Council Tax

11.5 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.

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

12.0 General Fund Balance

12.1 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.

12.2 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.

12.3 In the financial year 2021/22 it is proposed to increase the General Fund by £0.123m

13.0 Capital Programme and Capital Financing

13.1 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.

13.2 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.

- 13.3 The capital programme assumes most of the 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.
- 13.4 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.
- 13.5 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.
- 13.6 **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.

14.0 Earmarked Reserves

- 14.1 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

- 14.2 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.
- 14.3 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.

14.4 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.

14.5 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	(0.400)	0.018	0.200	0.218
Business Rates Reserve	0.974	0.000	0.974	(0.500)	0.474
Environmental 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
Property Sinking Fund	0.000	0.300	0.300	0.800	1.100
Budget Equalisation	0.000	0.000	0.000	0.600	0.600
Total	4.033	0.482	4.515	0.750	5.265

15.0 Alternative Options Considered

15.1 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.

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)	
<ul style="list-style-type: none"> ▪ Employee-related costs will be more than assumed ▪ Other costs will be more than assumed 	Risk Score	6	<ul style="list-style-type: none"> ▪ 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			
<ul style="list-style-type: none"> ▪ Pension fund contributions will be higher than expected. 	Risk Score	8	<ul style="list-style-type: none"> ▪ 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
<ul style="list-style-type: none"> ▪ Planned budget reductions will not be achieved 	Risk Score	8	<ul style="list-style-type: none"> ▪ 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
<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, 	Risk Score	4

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)
			or contingency arrangements agreed	

20.0 People Impact Assessment (PIA):

20.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact; therefore, a full PIA was not required.

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